BLACK CREEK® GROUP

Market Insights

GETTING BACK TO WORK

Four reasons why office real estate will likely continue to be essential

When the coronavirus (COVID-19) pandemic triggered nationwide stay-at-home orders, millions of Americans left their offices behind and shifted to working from home.

This raised the question: are offices a thing of the past? Although there have been plenty of challenges in adjusting to a work-from-home culture — from technology hurdles to endless Zoom meetings to balancing work with caregiving and homeschooling — employees and employers settled into new routines out of necessity. Now, many companies are beginning to consider the cost savings and potential efficiencies of keeping certain employees working from home permanently.

Many employers experienced relative success with their work-from-home experiments. As stay-at-home requirements ease, some office-based employees may now have the option to continue to work from home either permanently or part-time. However, a number of emerging trends suggest most employees eventually will be (and more importantly, want to be) returning to the office and most employers will continue to see value in office settings that foster collaboration and culture.[1] In fact, we believe that resumed collaboration in an office setting may provide companies in certain knowledge-based industries a competitive advantage over their peers that choose to continue to keep employees at home.

Employees overwhelmingly want to be back in the office post-pandemic[1]

1. People Need People

70% of employees want to be in the office most of the week[1]

People inherently are social creatures that crave and thrive off interaction and community. After spending several months working from home full time, surveyed employees have indicated that they overwhelmingly want to return to the office, albeit with changes that address physical distancing and sanitization concerns. Seventy percent of U.S workers want to be in the office for the majority of the week (three to five days a week), while only 12 percent prefer to work from home full time.[1]

The top reason for this preference? Other people. More than half of the employees surveyed said collaborating with others is more difficult and staying up to date on others' projects is harder when working from home.[1] This is especially true in jobs that place a premium on company culture, require creative interactions, and provide mentoring and training. Further, there tends to be a diminishing return on productivity and engagement when work is done in isolation for extended periods of time. Work becomes increasingly routine, as opposed to being proactive and strategic.[2] Another surprising trend, the digitally savvy Millennials and Gen Zs surveyed were less productive and less satisfied working from home than older generations as they found it difficult to avoid distractions, maintain work-life balance and advance their careers.[1]

THE TOP REASON EMPLOYEES WANT TO COME TO THE OFFICE: THE PEOPLE[1]

Employees see the office as most important for what's hardest to do at home: socializing and connecting.

1	Scheduled meetings with colleagues	54%
2	Socializing with colleagues	54%
3	Impromptu face-to-face time	54%
4	To be part of the community	45%
5	Access to technology	44%

2. Will Companies Need More Office Space per Employee? Our Answer: Yes

Companies will likely require more square footage per employee to allow increased social distancing

Over the last decade leading up to the outbreak of COVID-19, companies were moving toward more open work environments, with abundant common areas and amenities. Due to smaller workstations and a concentration on shared space, square footage per employee had decreased by about 12 percent, from 242 square feet to 214 square feet per employee.[3] Looking forward, while businesses may have fewer employees in the office at one time should flexible work schedules increase, companies are likely to need more space per employee due to social distancing requirements.

Offices will likely see physical reconfigurations that facilitate new interior pathways, increased barriers between workers, reimagined common areas, more space between employees, additional sanitization stations and targeted responses to evolving technology. In the end, the combination of fewer employees in the office at one time coupled with the need for more space per employee may not have much net impact on a company's total office square footage needs.

3. Location, Location, Location

High-quality suburban locations or lifestyle-driven cities will likely be attractive destinations for companies

COVID-19 may impose considerable challenges for office properties located in expensive, high-density, high-tax central business districts (or large downtowns). Big-city office towers, with high rents and elevators packed full of workers who rely on public transportation may no longer hold as much appeal post-pandemic. Larger tenants may respond by moving to a hub-and-spoke model. This would allow them to reduce their concentration of employees in one central location and instead, spread employees out among multiple smaller office buildings, often without increasing costs.[4] High-quality suburban, boutique properties should become increasingly appealing given they are closer to where most employees live and would allow for easier work-from-home access and less reliance on crowded public transportation.

Lower cost-of-living and lower-tax cities with significant concentrations of creative workers such as Denver, Charlotte, Atlanta, and many Texas and Florida metropolitan regions may also draw businesses away from high-cost, high-tax cities like New York, Chicago and San Francisco. Just as employees may seek a balance of work environments (including office, home and shared meeting spaces), companies may establish workplace ecosystems, with a variety of locations and experiences to support convenience, functionality and well-being.

4. The Office Real Estate Market is Potentially Positioned for Stability

We expect long-term lease structures will continue to shield the office sector from significant near-term vacancies

Within commercial real estate, property sectors with shorter-term leases such as hospitality,[5] along with high traffic, enclosed properties such as shopping malls, have been most impacted by COVID-19, with quick drop-offs in rent collections.[6] Yet, collections for high-quality office properties remain relatively strong, given that most companies are committed to contractual obligations under long-term leases.[6] Some office tenants may prefer to avoid signing new long-term leases in the immediate future due to economic uncertainty. But, weighted average lease terms of five to 10 years within the office sector are unlikely to change materially because of the cost of tenant improvements incurred upon signing or renewing a lease, the majority of which is typically funded by landlords.[3]

The Case for Office Optimism

Office real estate will likely continue to evolve in the wake of the pandemic and beyond. That said, companies can be expected to place increased importance on less concentrated office buildings that are closer to employee residences, thereby increasing productivity and engagement without reducing the bottom line.[4] Investors owning multi-tenant office buildings that provide flexible configurations in desirable, lower cost-of-living cities or suburban markets should benefit as a result.

ABOUT BLACK CREEK GROUP

Black Creek Group, LLC (Black Creek Group) is an experienced real estate investment management and development firm that has bought or built more than $21 billion of investments over its more than 25-year history.[7] Find out more about our commercial real estate investment opportunities.

Learn more at BlackCreekGroup.com

[1] Source: U.S. Work from Home Study, Gensler, May 2020.
[2] Source: The Future of Work Isn't Fully Distributed or Remote, Lisa Picard, May 2020.
[3] Source: CoStar Advisory Services, March 31, 2020.
[4] Source: The Office Hub and Spoke Model is Coming, Globest.com, June 2020.
[5] Source: COVID-19 Implications for Commercial Real Estate, Deloitte Insights, May 2020.
[6] Sources: NAREIT; CoStar Advisory Services, June 2020.
[7] As of March 31, 2020.

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TL-4743-0720C 0721