



# The Great Experiment: Remote Work and the New Reality of Real Estate

## Summary

There's no question the global pandemic of 2020 quickened trends of the future that were hitting the wall of the present: Employers resistant to allowing employees to work remotely suddenly had no choice as localities enacted mandatory stay-at-home measures.

Businesses migrated to remote work on an unprecedented scale - a great experiment, the ripple effects of which are many for real estate. As parts of the business world adjust to working from home, some are finding multi-year office leases may no longer be required or, at a minimum, their needs for physical space will decrease. Others are looking to downsize given the impact of the recession on revenues. What does the future hold for landlords and developers managing commercial space?

## Suburban Commercial Migration

The pandemic has accelerated a quiet yet steady suburban migration that has been underway for the last few years.

As Millennials coming of working age helped shape reurbanization in the 2000s, so will they shape suburbanization in their search for different space needs, better quality of life and better schools for the families they are starting. The so-called death knell of suburbia was never to ring; the fluctuations in urban/suburban living over the last several decades are cyclical—and COVID-19 is accelerating the cycle.

Satellite offices and suburban headquarters are two ripple effects we will see. What are the opportunities arising from them?

### SATELLITE OFFICES

As businesses streamline their urban operations and seek small offices closer to where their employees live, they will be searching for the right mix of convenience and safety—for example, strip mall-like single- or two-story buildings to which employees can drive up and walk into without having to pass through a crowded office building lobby or ride an elevator with other people.

### SUBURBAN HEADQUARTERS

Some may abandon urban headquarters entirely. Workers moving from urban areas will take their urban tastes and preferences with them. Landlords looking to support companies that want to attract and retain talent will try to understand and cater to those preferences. Suburban offices should consider:

- Building out an “amenitized” campus
- Outfitting areas for working outdoors (patios, balconies, rooftop gardens)
- Adapting larger floor plates away from open floor plans
- Building out amenities (redesigning shared spaces such as fitness centers, cafes or lunchrooms for social distancing and health safety, and providing childcare centers)

### Moving to a Hub and Spoke

With poll after poll finding that a significant percentage of workers desire work-from-home flexibility when offices reopen or will no longer accept long commutes to city centers, many businesses are tailoring their space needs and pivoting to a hub-and-spoke model, in which they downsize their urban presence and open satellite offices in suburban locations.



A dispersed client base and empty space are two ripple effects we will see. What are the opportunities arising from them?

## DISPERSED CLIENT BASE

Hub as keeper of brand + culture: Concerns about keeping a cohesive culture and identity, even brand, in a post-COVID world in which employees don't occupy the same space can be allayed by making headquarters the heart and soul of the company. For efficiency's sake, landlords making changes to their buildings should also consider changes that support companies that are seeking to solve the culture challenge.

## EMPTY SPACE

**Coworking:** COVID-19 will not be the end of coworking, but landlords will change how coworking looks. Companies will need smaller satellite spaces within cities to accommodate employees who live in urban areas and need to meet with clients or don't necessarily want to work from home. In this scenario, businesses downsize their main headquarters and lease space that has been redesigned for social distancing and contagion concerns yet boasts modern amenities and flexible lease terms (more favorable than locking in a multi-year lease).

**Competition:** Rising vacancy rates will mean competition for tenants. Landlords who take steps to address contagion concerns—offering touchless access and installing thermal cameras and HVAC systems, for example—will have an edge.

## Suburban Industrial Migration

E-commerce has transformed the industrial sector: Tenants' new needs (e.g., on-demand warehousing) altered business as usual. Now new pockets of e-commerce—like online grocery—are increasing market share; e-commerce sales are estimated to hit \$1.5T by 2025, creating demand for 1 billion square feet of industrial space, according to JLL. Leaders should consider:

- Modernizing distribution centers and locating closer to end markets to keep up with growing consumer demand
- Making new investments in areas where rapid growth in e-commerce is expected
- Locating in areas where valuations are lower than primary

or more saturated markets

Increased demand and shifting population demographics are two ripple effects we will see. What are the opportunities arising from them?

## SHIFTING POPULATION DEMOGRAPHICS

**Suburban demand:** As city dwellers seek out the suburbs, there will be a synchronous shift in the location of demand: Companies like Amazon will desire fulfillment centers located closer to the end user, for example. Industry operators should reassess their projections for where demand will be and make investments accordingly.

## INCREASE DEMAND

Creative space: Net absorption rates vary depending on the market. The global impact of e-commerce is here to stay, and landlords should consider:

- Giving prospective tenants flexibility within their lease terms to utilize industrial space according to their specific needs, which could be seasonal or based on other fluctuations in product demand
- Building out adjacent acreage, if possible
- Outfitting space with the latest digital capabilities in order to increase operational efficiencies and lower costs

This Great Experiment may prove to be a value proposition for both employer and employee, causing a shift in real estate. Employees may now see the value in shorter commutes and demand additional suburban locations to accommodate their lifestyles while employers may be willing to accommodate based on lower suburban rents and proof that everyone does not need to be in a downtown office for a business to succeed. Still, there is no one-size-fits-all solution to the future of work. The future will shift as the impacts of the global pandemic continue to unfold, but we will continue to feel the ripple effects of the Great Experiment for the foreseeable future.