



# The New Paradigm: Defining Your Future Criteria



**July 2020**

*In the first part of this series, “The New Paradigm: Office Space Occupier Decision Making Criteria in the Post-COVID-19 World,” we examined the changing criteria and rebalancing of criteria that occupiers may evaluate in decisions impacting real estate in the post-COVID-19 environment. With this second installment, we provide survey questions and checklists that occupiers may utilize to define their optimal real estate portfolio and office solutions. As with the previous paper, five subject areas are explored, including Real Estate Strategy, Labor Strategy, Workplace Strategy, Technology Strategy and Risk Mitigation Strategy.*

## **Real Estate Strategy**

COVID-19 will change the expense profiles and operational requirements of real estate for every organization. A key strategic question for an organization regarding its real estate is:

- What role does the office serve in your business? This strategic question is the starting point for several layers of additional questions.

As leadership articulates its vision for the role of the office, additional diligence is required to understand the “how” and “where” of an organization’s real estate:

- Where should the company utilize space? This will impact labor strategy and technology strategy.
- How should the company utilize space? This will impact workplace strategy and technology strategy.
- How should the company control/finance its space? This will impact financial and operations strategy and risk mitigation strategy.

On a tactical level, additional questions may include:

- Has COVID-19 impacted your budget such that you will allocate more/less of the budget towards real estate?
- How does this change in budget impact your existing portfolio?
- How does this change in budget impact your future portfolio?
- As you assess your portfolio strategy, can you separate your portfolio into long-term, medium-term and short-term spaces, and can you apply a different real estate financing solution for each group?
- Are there different levers you can pull to produce savings, as the previous levers of increased density and increased occupancy percentage are no longer available?
- Are there quick-win opportunities that make long-term strategic sense?

**savills.us**

## Labor Strategy

Organizations are seeing a broad spectrum of labor-related impacts due to COVID-19. On one hand, you have many employers and employees who are ready to get back to the office. For others, there has been a recognition that some functions do not need to occur in the office, or for that matter, within the metropolitan area that has traditionally served as the company's labor market. For many organizations, labor represents 65% of their overall costs, so evaluating real estate decisions within the context of the organization's labor strategy can yield significant savings through real estate cost and labor cost arbitrage.

With the shift in labor dynamics, a checklist of items or questions that a company may ask to help determine its needs moving forward may include:

- This period of remote work has created a better understanding of what functions and roles need to physically sit together to maximize productivity and innovation. Companies will most likely want to look to reconfigure their workforces, especially in high-cost markets, to both:
  - (1) ensure that the most competitive and sophisticated roles are in competitive locations, and
  - (2) capitalize on any wage arbitrage for roles proven to be geographically mobile.
- The competitive landscape is going to change within each metropolitan area, especially considering industry and long-term economic impact.
  - How can companies remain aware of the post COVID-19 distribution of old and new key talent poachers?
  - How are companies changing location/commute protocols?
  - Will work-from-home policies going forward positively or negatively impact recruitment/retention?
- Could organizations benefit from the ability to hire and work with people irrespective of their locations? Can you build on the current telework moment to achieve that?
- Residential patterns are starting to shift in markets with higher density and reliance on mass transit. These cities are beginning to see a rise in suburban interest, especially for young couples/families who were the driving forces of urbanization trends.
  - For current urban office users, will this pandemic provide validation for companies to add a smaller suburban site, or will partial work-from-home mitigate extended commutes?
  - How can an organization create a competitive advantage that aligns with the changing interests of its employees?
- Mass transit is likely creating a bottleneck as employees come back to work. Walking and biking accessibility have proven even more advantageous during this pandemic, specifically for health reasons.
  - How can a company optimize its location/amenities to suit these commuters?
- As the traditional real estate lever of increased density is unavailable, and many functions within an organization can be performed remotely, what alternatives are acceptable to the organization regarding a remote workforce outside of the traditional geography of the company?
- How will employees' career trajectories be managed in the absence of daily in-office contact with management, especially for those positions in which some employees are remote and some are in the office?

## Workplace Strategy

For the past twenty years, workplace environments have been defined by increased density. Through the shift of downsizing "me" spaces and increasing "we" spaces, organizations have promoted a more collaborative work environment in a smaller footprint. Density has increased at a quicker pace than the increase in rental rates, creating cost saving arbitrage opportunities as the reduction in square footage

## **The New Paradigm:** Defining Your Future Criteria

---

leased outweighed the increase in per square foot rental rates. These occupancy cost savings have allowed companies to continue to invest in new workplace environments in buildings more suitable for the desired workplace and labor environment.

The uncertainty of this moment offers an opportunity to revisit some basic assumptions about how offices function – what benefits are derived from offices and what benefits can be achieved outside of the office environment. Spaces exist in order to enable employees, yet employees are doing many things in the digital world that were previously thought to require physical space. Given this “pause,” it is worth asking where real estate fits within the set of tools you offer to employees, and how you might shift practices toward those that serve both people and businesses better.

The installed base of office space has been designed to promote “connected work” (collaboration) while also providing individual workspaces for “singular work” (heads down work). Given the success of working from home on singular work, how will this impact space needs going forward? To obtain a complete picture of a company’s workplace of the future, the company will need to deconstruct the individual functions performed within the office and then reconstruct the new office environment taking into consideration the changes put in action by COVID-19.

Some questions to explore with your team:

- What does the physical environment mean to your people? Which elements are being missed? Which could be conveyed at a distance?
- How has working remotely impacted productivity? How has working remotely impacted culture?
- How can your organization demonstrate care? The feeling that the employer cares about the employee is the most important driver of satisfaction and engagement.
- What have you learned about the team’s ability to deliver work while remote? Are there roles or parts of the organization that could remain distributed?
- How will management of remote teams work when employees are allowed back into the office?
- Is it time to reevaluate real estate and travel policies as they relate to corporate values around environmental sustainability and social responsibility?
- How could your organization take advantage of both traditional and coworking space in the future, allowing people to use spaces closer to their homes?
- What is your approach to engagement and change management?

Considering these questions will encourage you to reinvent your workplace concept. It may open up possibilities that you haven’t considered and prepare your organization to be more resilient. Even if you imagine a return to the pre-COVID-19 status quo, giving spaces a rethink confers long-term benefits. Our goal should not be to go back to the way things were – the winners in the next era of business will be the ones who learn the most from this transition, rather than trying to return to what was before.

## **Technology Strategy**

Leading an organization through high-speed technology-driven transitions prior to the pandemic was challenging under the best conditions. Technology strategy has evolved from managing support functions efficiently to investing in innovative ways of harvesting big data to create new product offerings for clients and customers where they are – on mobile devices.

The COVID-19 crisis acts as an additional catalyst to speed up adoption of tools and new ways of working that will now be the standard for “normal.” Technology strategy must continue to contemplate and incorporate lessons

## **The New Paradigm:** Defining Your Future Criteria

---

learned from these behavioral shifts to be effective. All occupiers have some level of self-generated data; utilizing a technology tool that structures and enriches this data set will be a valuable component of future planning initiatives.

Along with the reevaluation of workplace strategy and labor strategy, a reevaluation of technology will be undertaken, as technology will drive many of the workplace and labor related decisions. This reevaluation includes:

- Assessment of current state, and
- Identification of what's working and what's not working.

Upon completion of the current state analysis, an organization may look to redirect to new realities, rebound to the future and accelerate. These steps answer the following questions:

### **Redirect to new realities:**

- Who are the clients/stakeholders (external/internal) you will be expected to support as new realities are realized over the coming months/quarters?
- What critical commitments exist to support stakeholders as you transition through the current crisis to new realities?
- How can you spend smarter, mobilize and simplify the organization and be agile and resilient enough to gain advantage during rebound scenarios?
- How can you realign resources to reduce risk and prepare for future crises?

### **Rebound to the future:**

- Where is your organization's ambition and source of competitive advantage in the new reality?
  - How has this shifted, and how can you help accelerate the transition and prepare the business for these new ambitions?
- What investments are over- or underweighted against what you believe clients/stakeholders will notice and value in the future?
- Where should you reallocate investment, budget, people and other resources toward these future opportunities?

### **Accelerate:**

- What are the new technologies that will become the foundation for future growth or business performance?
- How will you organize and lead teams to transition to the new realities?
  - Will you up-skill existing teams, tap into non-traditional workforce options, forge new partnerships?
- Where are the opportunities for product or service innovation based on new technology capabilities, business models and channel engagement?
- How can you utilize technology tools to quickly and efficiently explore cost savings or operating efficiency gains?

## **Risk Mitigation Strategy**

Some of the most visible real estate outcomes from the COVID-19 pandemic are the responsibility of occupiers to pay rent for space that they were unable to use, responsibilities relating to indemnifications and lack of control of operating expenses related to the office space. Legacy real estate contracts placed the risk of the pandemic onto occupiers, with little or no relief provided through interruption of services, casualty, indemnification, insurance or access provisions. Going forward, changing these responsibilities will be important negotiating topics for all occupiers.

## The New Paradigm: Defining Your Future Criteria

---

- A lease should provide for a rent abatement in case of government-mandated closure or substantial restriction on occupancy not arising out of breach or default by the tenant.
  - Unless the landlord is at fault, it would be appropriate to consider a partial abatement (share the pain) or a waiting period.
  - A tenant that is likely to be exempted from the order (such as a newspaper) but elects to close anyway would want the provision to address this situation as well.
  - The phrase “substantial restriction on occupancy” reflects that occasional access, or access to maintain equipment, may be exempted from the order.
  - An optimal solution would be a provision that also covers a government-mandated maximum headcount or density reduction.
- Occupiers will try to scale back the broad indemnity clauses typically found in most landlord forms which often require the tenant to indemnify the landlord from claims by tenant employees and visitors. In most states, the workers’ compensation law prevents an employee from suing an employer for workplace injury. Therefore, an employee who contracts a disease such as COVID-19 might sue the landlord and allege that the damage was caused by conditions in the building. In such a case, a landlord with a typical broad indemnity clause in its lease form will be entitled to indemnification from the tenant. Note that a company which owns its own building does not have this exposure because in such a case there is no 3<sup>rd</sup> party in title to whom the owner-occupant will have given a broad indemnity.
- All utilities should be metered so that a tenant who is not in occupancy automatically pays less.
- Tenants should have the right to engage their own contractors for supplemental cleaning or even to take over base building cleaning and receive a rent credit.
- Tenants should have the right, when not in occupancy, to discontinue or reduce base-building cleaning and receive a rent credit.
- If, as a result of a pandemic, the landlord enhances building services, such as lobby body-temperature testing or additional cleaning, the operating expense base year (if applicable) should be revised upward to reflect what the cost of those services would have been during the base year.
- The lease should provide that, in case of a pandemic, the periods for tenants to exercise certain rights should be extended. For example, a lease audit right could expire.

## Key Take-Aways

COVID-19 has created disruption on a massive scale. Through the wreckage that the virus has caused rises a unique opportunity to reevaluate how organizations perform their missions and the resulting impact on their real estate. Through a thorough evaluation of an organization’s priorities, a new operating model will emerge. With this new operating model, a new real estate strategy and process will be born. Answering the questions posed above will provide a strong foundation to understand an organization’s real estate needs going forward.

---

By **Joseph Learner**

[Click here to view  
Joseph Learner’s profile.](#)

---

At Savills, we help organizations find the solutions that ensure employee success. Sharply skilled and fiercely dedicated, our integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, capital markets, project management, workforce and incentives strategy and workplace strategy and occupant experience, we’ve boosted the potential of workplaces around the corner, and around the world, for 160 years and counting. Amplify the power of your people.

savills.us

