

The Weekly Take

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Taking Care of Business: Reimagining the Office with Hybrid Work

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Spencer Levy

I'm Spencer Levy, and this is The Weekly Take. CBRE's latest Office Occupier Sentiment Surveys for Spring of 2022 are hot off the presses. Featuring data and insights into what's on the minds of tenants across the business world, the research offers powerful tools for making real estate decisions at a time of transformation for the workplace. On this episode, we continue a conversation that we began last time, with two leaders who are focused on this topic, and want to help you see into the future of hybrid work.

Julie Whelan

One of the things that our workplace team is talking a lot about right now is that if we can better create environments where people know who they're going to see when they come into the office, and can be predictable around the people that are going to be around them, then that might actually spur a faster, more sustained return to the office.

Spencer Levy

That was Julie Whelan, CBRE's Global Head of Occupier Thought Leadership, whose team published the occupier surveys. In the first part of our conversation, Julie said the data indicate that work from anywhere is here to stay. So now she'll speak to what it means for actual space demands and decisions.

Steven Davis

There's a bunch of things managers have to make work, that they didn't have to think about before. So it's made their jobs harder. And I think that gives you some insight into why, at least for the first year, year and a half after the pandemic, there was a lot of resistance from managers, sometimes senior managers, to this notion that we're going to do a lot more work remotely than we were accustomed to.

Spencer Levy

And that was economist Steven Davis, the William H. Abbot Distinguished Service Professor of International Business at the University of Chicago. He calls what we're seeing "The Big Shift": an evolution from the idea of office as a defined workplace into dynamic forms of working arrangements. We'll talk about what that means, and more. Coming up, what CBRE's Office Occupier Surveys reveal about real estate today, and transformational ideas for what lies ahead. That's right now, on The Weekly Take.

Spencer Levy

Welcome to The Weekly Take, and this week we are going to readdress a topic we've touched on before, but go really deep. Which is work from home, the future of work with two of the leading experts in the world on the topic. First, Steven Davis, Professor Davis, thanks for joining the show.

Steven Davis

Thank you, Spencer. It's great to be here.

Spencer Levy

Great to have you here. And our old friend Julie Whelan, the Global Head of Occupier Thought Leadership at CBRE. Julie, thanks for joining the show.

Julie Whelan

Thanks, Spencer, for having me.

Spencer Levy

You bet. So, Julie, Steven used the words working arrangements. And I think that's a better way to look at this than work from home because it's not all in the office or in your house. Some of it is this hub and spoke model that we've talked about before where people have this central office, and then maybe there is some flex space out in the suburbs, close to where they live. What do our surveys say about organizations moving more towards a hub and spoke approach, Julie?

Julie Whelan

We are actually not seeing, to a great degree, that organizations are looking to decentralize locations, or looking to engage in hub and spoke models. As a matter of fact, most of our clients are telling us that they are actually looking to consolidate into locations – partly for efficiency reasons, but also because if people are going to be expected to come together when they're in the office, then coming all into the same office as much as possible is probably the best way forward down the line. That being said, there are some very interesting use cases around this notion of what I would call to be a more modern hub and spoke that are emerging. And it's emerging through flexible office providers right now. So there's a handful of flexible office providers that do have scale around, certainly the U.S., and some around the globe. And what we see some large organizations doing is engaging with them for either on- demand models or all- access subscription passes to their space. Where they are allowing their employees to basically use any space of this flexible office provider that they may be engaging with around the U.S., or even around the world, as they wish. And if they use it, they pay for it, and if they don't, they don't. And the beauty of that is that after six months or twelve months, the organization can look at the use patterns and actually determine if this was a success or if they need to change their model going forward. Now that we absolutely see as something that could pick up steam down the line. But right now, it is very much being used to test the waters, and certainly not anything that we would consider to be a solid trend at the moment.

Spencer Levy

So, Professor, I'm in the real estate business, and what Julie was just saying is that employers want to give employees more flexibility in where they work, and she's also saying they want more flexible lease structures to have more of this co-working, or short term space. Is that a good thing for the organization and the employee or are there some challenges associated with that?

Steven Davis

Well, both. I mean, I see the appeal of these flexible working arrangements, if you can make it work, because even in pre-pandemic time, there's a lot of underutilized office spaces at any point in time. And if we can figure out how to make better use of the high value real estate that we have in downtown Chicago and elsewhere, over time that's great

for companies; it's great for the economy as a whole. It's a source of efficiency gains. So that's quite an interesting development to make that work. It does involve the same kind of managerial challenges we talked about before. There's a bunch of things managers have to make work, that they didn't have to think about before. So it's made their jobs harder. And I think that gives you some insight into why, at least for the first year, year and a half after the pandemic, there was a lot of resistance from managers, sometimes senior managers, to this notion that we're going to do a lot more work remotely than we were accustomed to. Partly for the reasons that we were talking about earlier. It's a very tight labor market. There's salient opportunities for workers that they didn't have before. And so you see companies are on the back to the workers side of things, forced by market realities, to adapt how their organizations operate.

Spencer Levy

Julie, in terms of people coming back to the office today, any trends you can point to in terms of which cities are doing better than others? I go to New York a lot, it seems pretty empty. But I go to some other cities that seem, including cities I've been to overseas. I was in Madrid, I was in Amsterdam, I was in Frankfurt. They were much more full in the offices, and those are major cities over there than over here. So what are some of your geographic observations about return to work today?

Julie Whelan

So, what I would start by saying is that return to office is still largely muted, compared to the activity that we're seeing in restaurants and movie theaters, certainly in airline travel, basically in all other parts of life. And the reason for that is a lot of everything that we've just been talking about. And one of the things that our workplace team is talking a lot about right now is that if we can better create environments where people know who they're going to see when they come into the office, and can be predictable around the people that are going to be around them, then that might actually spur a faster, more sustained return to the office. So there is a puzzle piece to be filled here. But what we see is that there's a lot of organizations that are really on this precipice of change right now. In terms of geography, which was your initial question, certainly, urban, gateway, coastal markets have been the most affected. They continue to be very affected and their office occupancy is in, I would say, the 25 to 30 percent range right now, based on the best data that we have available to us. Some of the markets that we're seeing that have led the way are actually the markets in Texas. Markets like Dallas; markets like Houston. A couple reasons for that could be number one, the political stance that they had around COVID generally, throughout the pandemic. But also, more so, I think because it is a drivable market, where people did not have to worry about their journey from when they left their house to when they got to the front door of their office. Which is the most unpredictable, sort of unsafe piece, of that equation of going from home to commuting into the office, to then being in the office, which is generally a controlled environment by the organization. So we have seen that those Texas markets have led the way. However, based on our survey results, we do feel that numbers across the board should really start to tick up because most of our clients are telling us that over the next year, they are really turning on plans for return to office. Now you have some of them that are saying we are being very stringent about when we expect people to be back, and the capacity at which we expect them to come back to. And by the way, most of those already say that people are back in the office and that they have resumed what they think is going to be steady-state. You have another portion that are saying, we understand that employees are not going to be able to change their routines overnight. And so we're going to give them time to change their routines. And we know that that's going to create a slower return to the office that we think is probably going to take the better part of the rest of this year to really instill these new behaviors in

our people. And so I don't think that we're going to be in a period, where even in summer, we're able to say we are now at our new normal of return to office. I think that we're going to be into 2023 before we can really determine what that new normal state is.

Spencer Levy

Well, Julie, you mentioned that people are going back to do other activities more than going to the office at the moment. Going to restaurants, going to the movies. I know I just went to the movies this weekend with my son. We saw the Batman, which, by the way, was quite good. Not quite as good as Joker or The Watchman, two other DC movies to stay within that universe, but quite good. And I was glad I was there. But Professor Davis, this brings up another "where" question. So, when you look at labor trends and say, oh, people want to work from home. Maybe they just want to work in live, work, play neighborhoods. What do you think, Professor Davis?

Steven Davis

I think there's a lot to that. It's partly for the reason Julie said, that the scariest part of the workday for people who have to commute by train or by subway or bus, is the commute. That's when they're most exposed to infection risks, for example, that they can't control. And even after we get past the pandemic, that will remain a salient concern for many people. Julie mentioned driving, you know, if you can drive your car, well you can control that. What you mentioned is, well I just live close enough to where I work. And where I do my other activities, that I can walk. And there are parts of Chicago like that. You mentioned the Fulton Market area. You know, I live in Lakeshore East, which is another area like that, it's kind of more of a highrise area, but it's a mixed use. There are big, giant office towers within two blocks of where I live. But they're also big, giant residences and there's lots of restaurants and so on. So, it's very easy to achieve the kind of lifestyle you described. When I walk around Downtown Chicago, it's not just Fulton Market, it's the mixed use residential areas that, they kind of look like they're back to normal, or something approximating normal. If you go over to the Financial District, or even if you just go over to Millennium Park, and look across the street where there are all those coffee shops and restaurants on Michigan Avenue, it's dead still. It's dead because those were places that relied very heavily on inward commuters to fill up the office towers, and to spend money at lunchtime for coffee beforehand and after work. So another solution, which I think some cities will and should gravitate towards, is more of this mixed use and less of the big, giant areas that are dedicated to large numbers of inward commuters.

Spencer Levy

Well, Professor Davis, you should know that I'm a big fan of Chicago. For everything, except for your pizza - a New York pizza is still the way to go - but we could debate that more in just a moment. So, Julie, let's talk now about the future of office. And Professor Davis pointed out mixed use; pointed out walkability. That may be true, and I talk about Better Business districts versus Central Business Districts, and credit where credit is due. I stole that term from our client Highwoods, and Ted Klinck was a guest on this show. But Julie, what about these CBD's? What about these places that are the financial districts of these cities? How do they evolve to attract people back into those districts?

Julie Whelan

Yeah, it is the million dollar question, and we have studied a lot around office demand and what's going to happen to office demand as a result of these new work patterns. And, generally, I would say the thesis that we have is that the ratio of employees to office space is forever changed. And what I mean by that is that in past cycles, you have always had a lot of new office development that's come online to be able to satisfy all the new job growth

that's happening throughout that cycle. Well, we believe going forward is that perhaps that's not the case. Perhaps we actually don't need a lot more office space. However, we do need the right type of office space. And that is going to be the trick. Is for these office buildings that have relied on long term tenants that are large, creditworthy tenants, that have been in their buildings and cut their checks, and they have driven the value of these large high rises in these CBD's. And now that tenant that has been the lifeblood of those buildings is desiring something very different in the future. They desk. They still absolutely desire office space. However, they desire landlords that are going to be partners with them on their journey of, really, their employee experience. And so what do I mean by that? Well, things like food and beverage, and fitness facilities, and green space, are, of course, very important. Those were always the bedrock of a class-A, quality office space, and they will continue to be in the future. However, there are real things that are differentiating some buildings right now. And I would argue the question of "what is a Class-A space" is even changing before our eyes right now. And some of the things that we're seeing that are emerging, they are a little bit more sophisticated. Much more operational in nature, as you speak a lot about Spencer, are things like health and wellness of employees. The number one thing in that is indoor air quality. Making sure that there is demonstrated indoor air quality that not only is present in the systems that are delivering it, but that also is visible through different technology displays that the employee is seeing as they're entering the building. Not only is that something that is a desire of employees and tenants, but it's also something that we know is going to help make them more productive in the building because their cognitive reasoning is better when they're breathing in good, healthy air. Other things like sustainability principles of buildings. You have a lot of tenants, the large creditworthy tenants, that have signed up for net-zero goals. Well, how are they going to achieve those? Buildings are a big part of that. Needing to have a landlord that is a partner on your journey to that is extremely important going forward. So there are a lot of things that are much more operational in nature, not to say even, flexibility. That's a huge thing that we're seeing as a differentiator for buildings where, yes, you may have that hundred-thousand foot tenant that's still going to come into your building. But they might want to take down sixty thousand square feet in that long term committed way. And then forty-thousand of it be a little bit more flexible in order to help them ebb and flow with the needs of their business cycle, or whatever the uncertainty is that they're dealing with. So these are very different things that are really defining what that next level of building is, that tenants are really after. And that's what these buildings in these CBD's need to do to really attract that next generation of talent.

Spencer Levy

Professor Davis, if you don't mind me saying so, one of my actual economic heroes is one of your colleagues, is Richard Thaler. Who wrote the terrific book Nudge. Which I think is one of the seminal books about behavioral economics. And the basic thesis of the book is, don't push people to do things, nudge them to do things. And that is a better way to get them to make long term change in ways that you want. Are there any lessons from behavioral economics in how we should be working with our employees going forward to nudge them to do what we deem to be the right thing?

Steven Davis

Well, Julie already describes some earlier in the show. Trying to bring workers on board with management to make this whole shift to different, or flexible, working arrangements work well. That's a key, when you basically make the workers feel empowered, and having an influence in the organization. But I also just liked another point she just made which kind of in some sense fit within the nudge category. That I hadn't really thought about before, which is, we all understand the importance of making sure that office buildings are

well ventilated now. But Julie made another point, which I thought was kind of slick, which is, you've got to do it in a way that's highly evident to the employees. So that when they walk through the door, I don't know exactly how you do that, but you see the big glass and covered ventilators. So that, even at a subconscious level, you walk into this building and you get the kind of reassurance that makes you want to come to the building. And that makes you comfortable while you're doing the work. So, those, I put in the nudge category. They're kind of gentle, almost subliminal, ways to communicate to the people that you're taking their concerns seriously when it comes to health risks.

Spencer Levy

Final question, folks. Final question now, and it's a question I ask in every show, is the crystal ball. Five years from now, please god, we're past this COVID catastrophe. We're into the new normal. Let's start with Professor Davis. What do you think is going to, almost certainly come to pass, what might not come to pass? And even though this next question might get you thrown out of the faculty lounge, New York pizza or Chicago pizza, Professor Davis?

Steven Davis

So one thing we haven't talked as much about, that I think there's a good chance that will come to pass, is there'll be a much bigger differences across organizations. And maybe even across cities as well and the extent to which remote work is a big thing. In the past, you can look across many industries that involve people in office buildings, and the norm was pretty much the same across these different industries, across these different companies. That may be breaking down. There may be some companies that really say it's vital for our organization to go back to something like four or five days a week for most of our employees. Some firms that are going almost to the other extreme. Where, I guess Facebook would be one prominent example, but that's in, kind of, the information space. But even in the financial services sector, I think you see, and the consulting sphere, you see companies taking fairly different stances as to the extent to which they're going to accommodate desires for working arrangement flexibility by their employees. So I suspect, although it's not clear that five, ten years from now, one of the chief things you'll think about are not just the salary, the health care benefits package, but even within fairly narrowly defined job categories, you might have a range of choices as to how many days a week you go into the office. And that's a differentiator among companies that wasn't really there in the past. That's a bit of an open question in my mind, but that's one possibility. As to pizza, what can I say? I'm on the same page as you. I like thin crust pizza.

Spencer Levy

So, Julie, same question to you. Five years from now, the data's all pointing in one direction, towards flexibility, towards hybrid. And I think Professor Davis used a great word, choice. What do you think is going to happen and what are you not quite as confident about?

Julie Whelan

So five years from now, I think that we are finally actually going to have real data that tells us exactly what has been successful and what hasn't been successful. We're going to have real data in terms of office utilization, because that's what many clients and occupiers are looking to do right now. Is actually put in technology that allows them to measure their space usage in a very real way. Secondly, I think that we are going to have data around what has happened around employee turnover in organizations that are applying these new policies versus those that aren't. And I think that that is all going to give us a lot more data to be able to make decisions on, based on what has worked and what hasn't. And I

also would venture to say that this whole discussion is going to become a lot more normalized. I still believe that the segregation of buckets is going to become a lot more blurred over the years. And this new way of work is going to be much more normalized in the future. Now what I would say is perhaps not going to happen as fast as the data might point to right now is the transformation of space to actually support this new way of working. I've been in this industry long enough to understand that it takes a long time to transform space. The reason being that a lot of leases are long term committed. On average, eight to ten years, and it usually takes at least catalyst activity for organizations to really implement real change in terms of their space design. So although I would like to say that space transformation is going to accelerate as a result of this, I think the jury is out as to if it really happens. That being said, I think it should, because creating the right spaces for people to be productive and engaged in is really, really important. Now, as for the pizza question, I would say neither Chicago nor New York. I'm a Boston girl and it's Pizzeria Regina all the way.

Spencer Levy

Okay, well, having had more than one excellent meal in the North End, hard for me to argue with your answer there, Julie. So thank you for that. So we have North End, Chicago and New York pizza and The Weekly Take listeners can decide for yourselves. On behalf of The Weekly Take, I want to thank two terrific guests. First, Steven Davis, the William H. Abbot Distinguished Service Professor of International Business at the University of Chicago, for joining us today. Professor Davis, thank you.

Steven Davis

Thank you. It was my pleasure.

Spencer Levy

And Julie Whelan, our old friend and colleague, the Global Head of Occupier Thought Leadership. Great job, Julie. Thank you.

Julie Whelan

Thanks, Spencer.

Spencer Levy

For more on the future of hybrid work, you can find the research we discussed, as well as more on our guests and the show, at CBRE.com/TheWeeklyTake. That includes the latest surveys from Julie and her team, of course. And if you're interested in more from Professor Davis, he and his collaborators have a website all about work from home. You'll find that at WFHResearch.com. That is WFH – as in “work from home” – research.com. Now, whether you're listening at home, or in the car or on the go, we thank you for joining us. Please share the episode, and don't forget to subscribe, rate and review us wherever you listen. We'll be back next week with veteran Wall Street executive and author Carla Harris to talk business, and about her latest book on leadership and career strategy. We'll be sitting down at an event in Nashville, Tennessee, and it should be music to your ears. For now, I'm Spencer Levy. Be smart. Be safe. Be well.