# A Pivotal Shift; Leveraging
for Advantage

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Timing is everything. Power lies in knowing that the moment has come—a pivotal shift that profoundly affects the present and will define the future. The current global financial crisis has forced such a moment and caused an accelerated pace of change that promises huge opportunity for those who understand its significance early on. Trends cautiously eyed by some and enthusiastically embraced by others in recent years will come into their own, reshape the way we work and live, and support a variety of agendas—economic, demographic, social, creative, and technological. By necessity, the workplace will be rethought, reconfigured, and rebuilt to greater advantage and profitability. Smart companies and corporate real estate (CRE) decision makers who understand the implications for their portfolio, workforce, and bottom line will plan tactically and leverage opportunities for a bright future well ahead of the curve.

Lost revenue and massive layoffs have taken their tolls on CRE portfolios. Recent vacancy rates have accelerated. What was once an asset has become a liability as workspace becomes under used or simply not used at all. Although each company's position is unique and some firms continue to expand, the pressure to maximize shareholder value, increase productivity, and squeeze additional savings out of corporate portfolios remains. With leaner budgets and fewer resources many firms must do more with less to realize profits, pursue innovation, and support a vibrant business culture. Trends and realities that have long pushed against the traditional workplace subtly and not so subtly will now be acknowledged, evaluated, and adapted to reshape the workspace and the way we work for immediate and future benefit.

With real estate costs typically the second largest item on the expense sheet, right after labor, smart companies will assess their workspace and business goals from every possible angle to take advantage of coming changes. To use a metaphor: A hurricane has severely damaged the old house and immediate action is required to make it livable again. There's no point in just patching it up and hoping it stays together through the next trauma. This is the time to rebuild, plan for, or implement all those innovative and ultimately cost saving features that must be dealt with anyway if the house is to meet construction standards and serve well into the future.
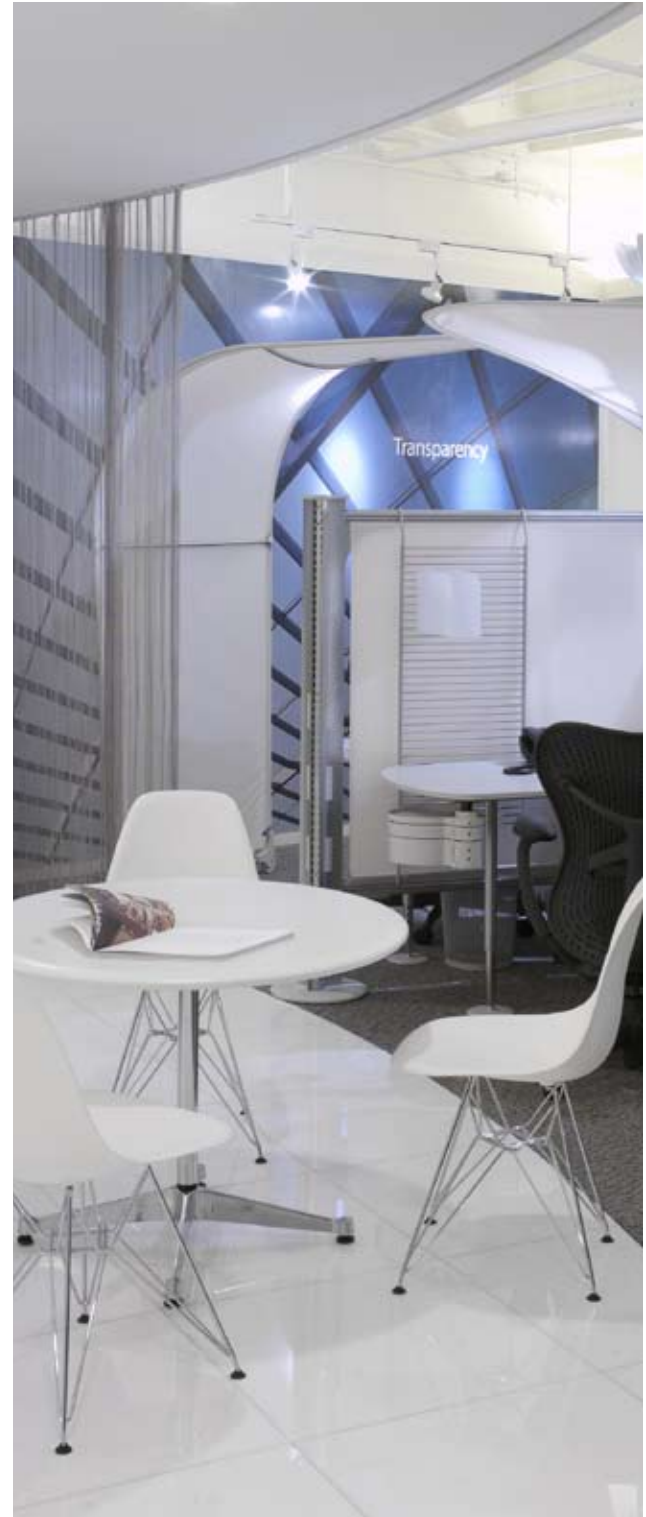
Training Center, Shanghai

Despite great uncertainty about the Obama administration's priorities and what they will bring, change is certain. Most companies, now in a holding pattern likely to continue well into 2010, will work to reestablish their assets and seek smart but controlled growth after the dust settles. They will strive to avoid financial risk and over-commitment by consolidating their real estate holdings and remain cautious with a sharp eye on shifting priorities to stay competitive. Success will depend on flexibility and a holistic approach. Comprehensive strategic planning that identifies options, opportunities, and obstacles from every aspect of the workplace must be implemented for quick maneuvering with tactical cunning to adjust, change course, and take advantage of sudden opportunities as they arise.

What are the factors and realities that companies need to understand and leverage to cut their losses, rethink the workplace, plan strategically, and profit? What changes must be made and why? How do companies successfully determine and control the appropriate action for their unique situation?

Today: The Workspace and the Workforce

A workplace reduced in size and staff as a direct result of the global financial crunch must provide new efficiencies for a smaller staff that works smarter to keep up the company's momentum and profitability. Multi-tasking—already on the rise as technology enables employees at all levels to do more for themselves—will be front and center. Employers will look to knowledge workers with a range of skills to tackle a variety of business challenges. The workspace will need to support many skill sets and multifunctional capabilities with ease and agility.

The workforce, now distinctly multigenerational, represents an unprecedented diversity of work styles and mind-sets that signal a pronounced social shift involving four generations: Veterans (pre 1944); Baby Boomers (1944-1964); Gen Xers (1964-1984); and Millennials (1978-1995). Moreover, there is a gender shift. For the first time in history, more women than men are graduating from college each year in the United States with career expectations, and more women are migrating here in search of career opportunities. These shifts in the demographic composition of the workplace will result in employees that are more accustom to multi-tasking from various locations as they seek greater work-life balance.

The **Veterans,** now mostly retired or moving into retirement, play a diminished role in the workplace by virtue of their dwindling numbers. Yet their legacy—traditional hierarchical work style, respect for authority, work as a duty, fixed hours, retirement benefits—is still a factor in the workplace. This leaves the Baby Boomers, Gen Xers and Millennials as the key players. Although many of the Baby Boomers are looking towards retirement, some anticipate another 20 years in the workforce. The Gen Xers, the smallest in size of the three

Photograph by David Wakely

Touchdown area, High Tech Firm, San Francisco

generations, will move into management as the Baby Boomers retire, and the first wave of Millennials, the youngest group, are just beginning to let their influence and impact be known.

Gen Xers, the original latch-key kids of working and often divorced parents, are, by necessity, independent and self-reliant. Believing that their parents "lived to work," they intend to "work to live" and were the first to demand a work to live environment, inaugurating the work/life balance initiatives corporations are having to address more often today. Pragmatic and flexible, they are not impressed with structured work hours and have a casual approach to authority. They are tech-savvy—one could easily say that this generation was at the forefront of the technology revolution—and equate the office with a connection to resources. Although they tend to focus on self-advancement and change goals to suite that end, collaboration is important to them. As the Baby Boomers move into the first stages of retirement, this generation is moving into management and key leadership roles.

The Millennials, true children of the digital age, have an intuitive feel for technology and multitask by nature. As masters of instant communication and social networking, they are natural collaborators, prefer to work in teams, readily share information, seek feedback, and want to participate in decision-making.

They also expect to customize their work life just like they customize their world at every turn—from websites, to cars and clothing. They intend to shape their job, their hours, and workspace to fit their life and for personal fulfillment. They are committed to a work-life balance. The Millennials will build a greener planet (sustainability is not an option of them, it is a cause, a given) and give back to the community with a social consciousness. But they are willing to work hard. A more meaningful role or entrepreneurial opportunity in the workplace is a key driver among the Millennials. According to Kelly Services' international workplace survey, 51 percent of those surveyed are prepared to accept a lower wage if their work contributes to something more important or meaningful.

Growing up against a background of faltering corporate accountability, failing social commitment, and increasing global terrorism, younger workers have seen whole companies evaporate along with their grandparents' pension, and just witnessed the stunning collapse of multiple corporations long considered impregnable pillars of the free market. Not surprisingly, the corporate ladder with its promises, restrictions, tarnished credibility, and way of working holds little attraction for them.

On the other hand, the **Baby Boomers** have been through tough times before, but nothing like this. Conditioned by the benefits and liabilities of corporate life and a structured workplace, fixed hours, and a private, standard-issue cube or

For this headquarters project, a flexible non-hierarchical plan with workstations for all (including executives) replaces a more traditional plan and will accommodate future growth. Areas that would have been corner offices in the past have become teaming areas, like the one shown above. An attractive open cafe (below) provides one of many amenities to support the organization's employee sensitive culture.

office, they are coping with their own disillusionment and, in many cases, significant personal financial loss. They will now postpone retirement, at least for a while, to stay in the workforce, rebuild their assets, and preserve their legacy. Some may move towards a soft retirement within 18 months of recovery and strike a balance between work and personal time to become the largest distributive workforce to date. A flexible work structure in a multi-tasking environment will remain a challenge for many and technology will continue to be an acquired skill. However, the emphasis Gen Xers and Millennials place on collaboration creates an opportunity for cross mentoring that allows Baby Boomers to advise and pass on their valuable knowledge and experience, and in turn benefit from their younger colleagues' innovative, technology driven, and fresh approach to the workplace. Plus, a sustainable environment with natural light and improved air quality along with ergonomic features will contribute to their health and well being.

Going forward: Design; Globalization; Sustainability; Infrastructure/Security; Planning

How will the design and use of the workspace impact CRE and create solutions that meet everyone's varying needs and expectations?
Companies rebuilding or modifying their work environments with an eye on the next generation of workspace will continue to move away from dedicated offices and workstations. More free-flowing environments will blur the lines between work and private life. We've done a great job bringing the office into the home, but will now bring elements of the home into the office. The office will become a collaboration center, the "living room" of the company. Informal seating areas that emulate living areas, or, as at home, dedicated rooms to support specific tasks, will be increasingly common corporate interiors. These features will give employees a sense of ease and comfort and help create work-life balance. Large expanses of open workstations will convert to more cellular areas that address the privacy and acoustical concerns traditional open plans don't effectively address.

The term "office" as we know it—the primary place where you go to do work—will become obsolete. It will be a place for collaboration, face to face encounters, knowledge sharing and bonding to build company culture. Joe Wallace, CEO, Preferred Group, says, "Workers don't want dedicated office space at all. They just want a place where they can go." Creating attractive, energizing, and engaging spaces to foster interaction will convert the office to a hub, offering a variety of different spaces customized to meet specific needs, as well as multiple options for quick discussions and decision making, like stand-up, on–the-go meeting spots to complement the lounge furniture already a feature of the

Since 80 percent of the staff at Booz Allen Hamilton's Chicago location work outside the office, their new workspace is smaller, more cost-efficient and incorporates a hoteling model. Features supporting flexibility include wireless connectivity for a smooth transition from remote to on-site work and an electronic concierge and lockers (shown above and below).

Photographs by Nick Merrick/Hedrich Blessing

office. Changeable panel heights, workspace configuration options, and automated sit-to-stand work surfaces will allow workers to further customize the space they use.

With technological advances that allow workers to truly work remotely—anywhere, anytime, with swift and secure access to networks and a faster process for scanning documents into the system—the significance and size of the office will diminish and work will be done in a variety of places including the home, client touchdowns and community centers. Technology will provide access and flexibility in time and space, and will also reduce travel and paper consumption.

Research shows that workspace is empty on average 50-60 percent of the time; we are spending all those real estate dollars for space that is under utilized. But a flexible workspace that allows for cost-efficient modifications, easy reconfigurations, and multi-functional capabilities can maximize real estate usage, create savings, and reduce the risks of space dependency. Flexibility will also free up space for enhanced amenities that younger workers expect, including fitness centers, social areas, cafés with healthy menu options, concierge services, and quiet zones—perks that all generations, in fact, can appreciate. Joe Wallace notes, "We think quality of their experience in the office is resonant. These are knowledge workers…it's going to put a premium on energizing places to work. People respond to better quality environments."

Many employees struggling with the current economy see working from home as a career limiting disadvantage. As a result, an increasing number of mobility workers are coming into the office with the belief that they must be seen and physically present to demonstrate their diverse skills sets and value. This is a temporary anomaly, even though management has historically opposed working off-site on the premise that one can't measure the productivity of a worker who is not in the office. But just because it's not possible to see someone doesn't mean they aren't productive or that they can't be managed. There are too many factors in support of working remotely to stem the tide of this trend and, as Tom Doherty, a principal at WB Engineers | Consultants PLLC notes, "Change is going to continue to accelerate, but peoples' effectiveness will be measured by how they manage relationships and connectivity." Going forward, working remotely will be fundamental to the workplace. The nature of each employee's work and management's skill in determining what is needed for the firm to do business and meet its goals will determine the required mix of remote work and time at the office for each employee.

Future of Work, a research program focused on enhancing both individual and organizational productivity while reducing the cost of workforce support (www.thefutureofwork.net), has identified the following potential work distribution: 40 percent in corporate environment; 30 percent at home; and 30 percent in other locations (such as community based centers). As

Motorola's Government Affairs Office in Washington, D.C. is a marketing center designed to support interactive knowledge-based work styles. As an idea center and a creative and dynamic workplace, it attracts new talent. Since employes often work remotely, there is a greater emphasis on group areas and less on traditional workstations. These features demonstrate a paradigm shift from traditional government affairs offices to a more flexible and innovative workplace.

Photographs by Ron Solomon

the role of the office changes, community based centers that offer the complete services of an office but are located close to residential areas will expand in response to the increased need to reduce real estate costs (which may be tied to commuter costs, see below) and provide greater flexibility, more work-life balance, reduced carbon emissions and commute times. These community based centers will also allow even small companies and independent consultants to enjoy the services, staff and facilities available to larger corporations without the cost. Temporary office space businesses like Regus are creating "variable office space" facilities that support an organization's needs but charge by the hour to provide the ultimate flexibility in CRE without long-term leases and the problem of capacity issues.

What about globalization?
A significant number of U.S. companies have expanded their business into other markets worldwide. In the near term that expansion will slow in response to reduced consumption brought on by the global recession and the social and political pressures to increase hiring domestically as opposed to abroad. An additional factor is the anticipated reduction in overseas tax credits. However, this is a temporary slowdown and globalized services will increase for the long term. Companies will take a more strategic approach focused on better cost value from planning guidelines, and broader based purchasing programs that are also flexible to local cultural needs and building standards.

How will sustainability impact real estate needs?
Legislation and a socially-conscious younger generation are pushing the sustainable movement, even though the rough economy may slow its progress. The introduction of stimulus funding for energy efficiency will not only be a tremendous force toward getting us back on track in many arenas (specifically the federal portfolio), it will also catapult us forward. The American Recovery and Reinvestment Plan (ARRP) alone allocates $6.7 billion to the renovation and repair of federal buildings, with a focus on increasing energy efficiency and conservation and an emphasis on the adaptation of existing buildings and their infrastructure.

The current administration has set the goal of reducing greenhouse gas emissions 80 percent by 2050 and introduced the possibility of environmental legislation to control and offset emissions. With this legislation, organizations will be asked to report emissions from their facilities and from their employees' and suppliers' commutes. Corporations will be held accountable for their share of the carbon footprint and required to either eliminate it or pay for its offset. They will, however, find that reducing commuting time will offer another benefit: increased productivity. For example, the average commute in Washington, DC is 30 minutes, which equates to 60 minutes of lost production time every day per worker, or 250 hours annually–more than six weeks of time that could be used for

Photographs by David Wakely

A renovation for a San Francisco consulting firm consolidated space to reduce real estate and operating costs, while decreasing environmental impact. In response to staffs' passion for sustainability, every effort was made to salvage existing systems and materials, including lighting, ceiling, doors, drywall, glazing systems and aluminum architectural screen elements. Close to mass transit, the firm declined to lease any parking in the building and instead offers bicycle racks and shower facilities.

work is spent on the road. And that same commute creates emissions annually that companies will be charged for.

Consider the following information from the U.S. Census Bureau and the International Facility Management Association.

- Average commuter = 24.4 miles at $.55 a mile = $13.42 each way per driver for al total of $6,722.50 annually;
- Add in the average parking cost per car of $2,880 annually;
- Add lost production time of 250 hours spent on the road at the average hourly rate of $24.25 (based on the national average income of $50,233.00) = $6,037.62.

Then add in the cost for real estate:
- Average square feet per person is 200 x average rent of $30 per RSF + average operating cost of $10 per RSF = $8,000 annually;
- Plus the average cost of furniture and IT per employee of $5,000 annually.

Sources: www.census.gov and www.ifma.com

At these rates for an employee to come to the office every day costs an annual average of $28,640.12 in real estate expense, lost production time and commute cost. Now add in the cost to offset emissions which are typically calculated in five different categories: building energy use, data center energy use, fleet vehicles, employee travel, and employee commutes.

With theses considerations in mind, companies will look for ways to revamp their infrastructure to yield greater energy efficiency and will seek options to reduce commute times, limit their real estate holdings and improve sustainability—especially if given incentives to do so. By employing conservation and smart design practices for the use of space (telecommuting, hoteling, creating hubs and engagement centers, client touchdowns, community centers, etc.), they will be able to reduce their carbon emissions and defray the cost of offsets. To calculate an individual's or organization's carbon footprint visit www.terrapass.com.

Nevertheless, the current state of the economy will temporarily slow the push toward sustainable initiatives as companies that want to be green find themselves unwilling or unable to undertake that task at this time. There is also the expectation that sustainability will be woven into design and construction costs, just as the Americans with Disabilities Act (ADA) was after its initial year of implementation. The impact of implementing sustainable initiatives will diminish as the design industry works to seamlessly integrate sustainable solutions into standard design practices, as it has integrated code and ADA compliance.

Photograph by Eric Laignel

Open corridor with flexible seating, The Dinex Group, New York

What about infrastructure and disaster preparedness?
Going forward, companies will have to consider the needs of an aging inventory of physical properties neglected for the past two decades for a variety of reasons: a shift in focus to ADA compliance; the need for building security; and the current economic crisis. Even if a space is leased and the responsibility falls to the building owner, few tenants will want to occupy a space during an infrastructure upgrade which is typically an invasive process that disrupts the workplace.

Because there are so many available properties, many companies may choose to relocate rather than take on the challenge to modernize. They might also consider third market or satellite locations which will allow them to spread their knowledge base, increase security, and reduce operating costs.

In addition, an increasing number of companies now realize the need to go beyond just creating secure buildings. The events of the past decade—9/11, Hurricane Katrina, and the current economic downturn—have shown that the real threat to continued operations is a lack of preparedness for natural and man made disasters. Developing contingency plans to sustain business in the event of a disaster will become a priority that affects real estate.

Being prepared must ensure the survival of people, but going a step further with proper contingency planning will ensure the continuity of operations. Initiatives proposed by the U.S. Department of Homeland Security's Ready Campaign include the following:
- Assess your company's functions on both internal and external levels. Which staff, materials, procedures, and equipment are completely necessary to keep the business operating?
- Identify your suppliers, shippers, resources and other businesses you must interact with on a daily basis; keep a list with contact details in an emergency supply kit and at an off-site location.
- Develop a continuity of operations plan should your place of business become inaccessible.
- Plan for payroll continuity.
- Define crisis management procedures and individual responsibilities in advance.
- Review your emergency plans annually.

(See www.ready.gov/business/plan/planning.html)
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What about planning and the CRE team?
To make informed decisions that minimize loss and maximize profits, a company needs to know where it stands, even if it's on shaky ground; understand its goals or targets; identify opportunities and obstacles; allow for maneuverability without penalty; and chart a course with an appropriate contingency plan(s) for swift action and execution when an opportunity

THINGS TO RETHINK

o Consolidate real estate holdings to limit risk.
o Remain flexible; don't get locked in.
o Consider shorter rent terms instead of owning property.
o Renegotiate leases to get better terms.
o Seek green leases and services.
o Employ green practices and policies where feasible.
o Relocate to more remote sites for security, cost, and quality of life.
o Address the needs of an aging inventory of physical properties or relocate rather than take on that challenge.
o Provide alternative officing solutions.
o Become less place dependent.
o Work remotely.
o Focus on the space needs for networking, collaborating and teaming.
o Provide a variety of spaces for interaction and quick meetings.
o Allocate space based on function and flow and less on hierarchy.
o Reduce files and paper usage.
o Make the office a collaboration center.
o Provide cellular areas for privacy.
o Provider a higher degree of customization for staff.
o Emphasize views not just access to daylight.
o Provide amenities (fitness center, healthy cafeteria options, concierge services, quiet zones, etc).
o Provide more home-like settings for work-life balance.

presents itself. Tactical plans carefully thought through and appropriately vetted will allow companies to take advantage of anticipated and unexpected windows of opportunity. According to Jane Kuehn, Senior Project Manager, Computer Sciences Corporation, "There's a greater level of scrutiny and lots more discussion and validation. And that's good. We're reinventing our process." Organizations that are over-extended will need to focus on stability and reduced risk, but others will have a chance to capitalize on the unusual opportunities the current market is creating.

The importance of real estate will increase and the role of the CRE team will change. As emphasis is placed on real estate solutions the importance of the team will be elevated. More and more CRE teams will consolidate their services and operations into a global management team with guidelines and pre-negotiated contracts for goods and services that eliminate reinventing the wheel and provide speed to market solutions. CRE teams—historically in a service providing mode—will likely be asked to change their mission. Going forward, they will regulate and control real estate for cost savings, appropriate workplace diversity and innovation, consistency, and accountability.

Evaluation Processes: Adjustments for Advantage

What changes must be made, and why? How does a firm determine the appropriate action for its unique situation? Since real estate costs are a big item on the expense sheet, a company must understand both its current situation and where it needs—and wants—to be. An assessment of the overall portfolio, space utilization (including workflow), space requirements, current costs, and business goals is a prerequisite.

A holistic approach is essential. It's important to remain open to the many possible avenues that could lead to a positive result for the organization's use of real estate, resources, and facilities. Every aspect of the infrastructure, all workplace requirements, and human requirements should be considered without a bias for any one specific agenda. A professional strategist, whether internal to the organization or brought in from the outside, should be engaged as a partner and team member. A strategist will be uniquely sensitive to the interconnectedness of diverse factors that impact business success and will have the experience to recognize hidden costs savings and options often missed. By analyzing every aspect of a business, beginning with its overall business goals, human resources, technology, human capital, management, workflow, real estate, and communication, a strategist can advise the right approach and steps a company should take to move towards greater effectiveness and success. Using a holistic approach will help the team identify new ways to manage, allocate, and design space, improve operations,

POTENTIAL OPPORTUNITIES CHECK LISTS

What steps can you take to make better use of space and increase utilization?
o Revisit space standards and reduce allocation per person.
o Increase the number of off-site workers.
o Reduce desk to staff ratio.
o Grow within existing space in lieu of expansion.
o Relocate individual space for more collaborative areas.
o Omit vacancies.
o Reduce redundant space.
o Share amenities space with other tenants.
o Reduce or compress filing and storage space.
o Eliminate conference and training areas and rent as needed.
o Verify rentable square footage.

Strategies for growth or to shed excess space via subleasing or turning space back over:
o Eliminate excess space.
o Consolidate locations.
o Sublease.
o Sell/lease-back.
o Renegotiate lease terms and square footage, and extend lease.
o Buy out lease and relocate.

Reduce occupancy cost:
o Increase utilization and shed excess space.
o Separate meter utilities.
o Employ energy efficiency.
o Relocate storage and file areas to low rental spaces or reduce by scanning or better file management.
o Package services.
o Reduce services.
o Reduce number of suppliers.
o Look for economic incentives.
o Reduce redundancy.

mitigate potential risks, enhance the organization's culture, and provide overall cost savings.

Advanced portfolio planning combined with comprehensive strategic planning allows an organization to identify the right time to make tactical changes for the greatest results with the least investment. Significant portfolio occurrences, such as lease expirations, staff relocations or consolidations, energy upgrades, and building infrastructure renovations, may be the ideal trigger points to initiate additional needed workplace modifications. By anticipating and aligning these events, companies can minimize work disruption and build positive staff support for change.

A knowledgeable team with the right tools and a careful process is required for this undertaking. Regardless of the approach an organization takes to planning, consider these steps for a positive and successful result:

• Know or determine the company's goals—from the short-term to the long-term and realistically assess where it stands today.
• Outline what approaches might work for the company's business and culture, and what kind of results to expect.
• Socialize the planning effort. Let staff contribute input and help them understand the options being considered.
• Formulate guidelines for a long-term plan, defining the points where tactical change can occur.
• Measure actual changes for effectiveness when they occur.
• Revisit the plan to make adjustments as market, business, and other factors change.

Conclusion

An irrevocable shift of historical magnitude, a pivotal change, has occurred. Like all significant change it comes at a moment preceded by a combination of elements, precursors that make the timing inevitable. The multiple factors—economic, technological, demographic and cultural—now shaping the workplace have been working towards this moment for quite a while and will continue their work going forward. The work-place will be distributed among locations remote and near; accessible and flexible in time and space; collaborative and interactive; customizable and easily reconfigurable; innovative and competitive; sustainable, healthful and work-life oriented; non-hierarchical; and certainly profitable. It will perform as it has never performed before, but there will be growing pains as the shift proceeds. The implications are readily apparent. Smart companies will recognize this compelling opportunity to rebuild and reposition the workplace for optimum performance and gain. Acting wisely with a carefully honed tactical approach such organizations will lead the evolution towards a new way of working.

PROJECT CHECK LIST

o Set project expectations for your team so that everyone is on the same page and holds the line on the budget.
o Involve the design team early in the project to confirm real estate needs and establish a strategic plan.
o Review existing base building conditions before a lease is signed, and negotiate.
o Integrate existing design features such as gypsum board ceilings and lighting.
o Reuse existing furniture where possible.

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