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FALL 2023

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dialogues

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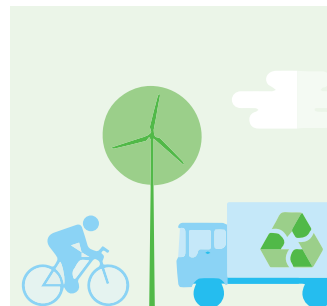
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What OFFICE tenants want

In an evolving office market, modular designs that are move-in ready, well-located and amenity-rich with high-end design can appeal to smaller and medium-sized tenants.

By Rob Naso and Anil Erdem,
BGO

With companies continuing to evolve their return to office (RTO) and hybrid work policies, employers increasingly are looking to landlords to create alluring office spaces that rebuild cultures and improve productivity lost during remote work. As evidenced by the rise in RTO mandates, even from Zoom, a company that has become synonymous with remote work, there is growing awareness of how crucial the office environment is in promoting collaboration, fostering creativity and enhancing the overall well-being of employees.

Workspaces have emerged as a critical battleground in the ongoing struggle to retain and attract talent in a highly competitive labor market. The bottom line? Buildings and businesses that offer thoughtfully designed and highly amenitized spaces that foster collaboration and facilitate flexible work arrangements are best positioned for success. And landlords who provide spaces and solutions that help their tenants succeed are best positioned to themselves succeed in a competitive market.

The current economic environment, characterized by escalating costs, fluctuating interest rates and a tight labor market, creates challenges for all organizations. According to a recent Vistage survey, 61% of CEOs say that hiring challenges are a major concern for their ability to operate effectively at full capacity.¹ And while large shares of the labor force continue to work in a remote or hybrid capacity, innovation and productivity have also underperformed in recent quarters. In fact, business sector productivity has experienced its sharpest decline on record — about 8% lower than the past three recessions' average. (see Exhibit 1)

Investing in high-end office designs, amenities and modern technologies, which play a vital role in attracting and retaining talent, boosting productivity and fostering collaboration, can be a daunting task, not to mention expensive. This is especially true for small- and medium-sized businesses that may neither have real estate experience or the resources nor expertise to design and deliver the caliber of these spaces themselves. A potential solution for this can be found in modular solutions,

¹ Joe Galvin, CEO sentiment holds with little change from Q3 [Q4 CEO Confidence Index], Vistage, January 5, 2023.
² US enterprise worker survey shows sustainability at work trends and forecast, Adobe, August 30, 2022.
³ 2023 Gen Z and Millennial Survey, Deloitte.

which allow for efficient use of resources, reducing construction and renovation costs.

Designing the modern office

Today’s employees prefer a variety of environments that nurture different types of work needs, from focus, concentration work and small group collaboration, to larger innovation and social spaces that inspire creativity, connection and personal well-being. Flexibility is a key driver in this changing landscape, and it is critical to ensure the modern office can adapt to a fluid, agile workforce. Modular design concepts — that make fully furnished, tech-equipped, move-in ready offices possible — may be a solution.

Amenities also play a vital role in crafting appealing office environments that attract, and subsequently retain, employees. They extend beyond the mere functionality of a workplace and add value by elevating comfort,

“ Sustainability and eco-consciousness rank high on the list of priorities for employees, who now actively seek workplaces that align with their values and have a positive impact on the environment. ”

convenience and overall employee experience. Wellness facilities, recreational areas and quiet zones allow organizations to cater to their physical and mental well-being.

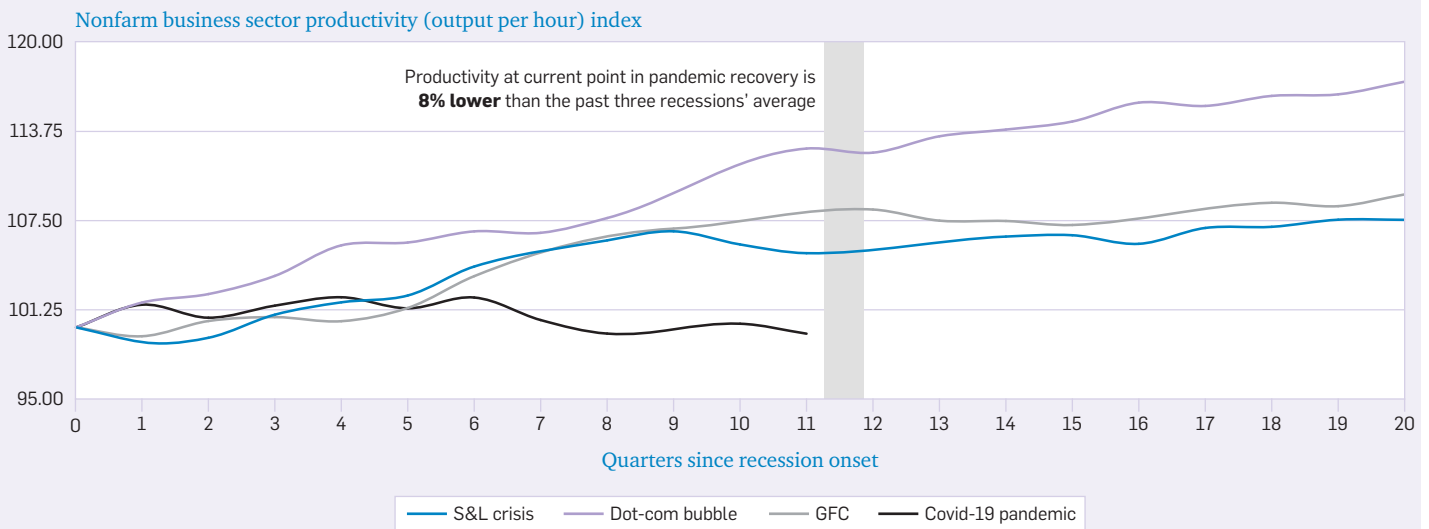
Sustainable, inclusive design

Sustainability and eco-consciousness rank high on the list of priorities for employees, who now actively seek workplaces that align with their values and have a positive impact on the environment. According to a recent study from Adobe, almost a third of US employees (32%) surveyed agreed that they would only work for an employer

that prioritizes sustainability.² This is even more true for millennials and Gen Z — Deloitte found that more than half of Gen Z (55%) and millennials (54%) research a company’s environmental impact and policies before accepting a job from them. Additionally, while a little more than half of Gen Z (55%) and millennials (53%) say they feel their employer cares about combating climate change, a combined 96% of Gen Zers and millennials are still pushing their respective companies to do more.³

Embracing sustainable and inclusive design principles can play a key role in fostering a positive workplace culture. Move-in ready offices can address these

Exhibit 1: Business sector productivity has experienced its sharpest decline on record



Source: JLL Research, Bureau of Labor Statistics.

⁴ The Economics of Biophilia, Terrapin Bright Green, 2012.

Benefits of modular solutions

Compared to traditional fixed office design, modular components offer two primary advantages. They can easily be reconfigured and adjusted to meet changing needs and support flexible work arrangements. This flexibility allows companies to adapt to the evolving preferences of their employees while ensuring cost-effective utilization of office space. It also eliminates the disruption and downtime typically associated with renovating a space to accommodate changing layouts.

From a financial perspective, move-in ready offices provide not only the security, privacy and prestige akin to a traditional private office, but also encompasses amenities synonymous with co-working spaces. These amenities could include a diverse array of areas tailored for focused work and collaborative efforts, as well as well-equipped pantries for food and beverages. Additionally, the incorporation of lockers proves to be an important and convenient feature for employees. Given the prevalence of unassigned desks in the modern workspace, lockers provide a practical means for hybrid employees to store their laptops, personal effects and more.

Similarly, the integration of adjustable sit-to-stand desks cater to the diverse needs of hybrid employees without fixed workstations while embracing inclusivity. The utilization of modular furniture also empowers companies to quickly adjust their spatial arrangements as needed, without requiring lengthy and costly permits or construction renovations.

The concept of move-in ready offices extends an opportunity to smaller businesses that might otherwise struggle to afford a functional, aesthetically pleasing and fully amenitized workspace. Now, they can enjoy all the advantages of a reimagined office, crafted for the future by the world's best architects and designers.

concerns by incorporating eco-conscious materials, energy-efficient technologies and responsible construction practices. This includes sourcing materials and furniture from organizations who share the same sustainability values and ensuring all goods are built to last.

For example, the lobby renovation of BGO's 685 Third Avenue in Manhattan, New York City prioritized impactful changes with minimal environmental impact. By blending new materials with existing ones, the project upheld sustainability, waste reduction and recycling goals. The lobby's carbon footprint was minimized by reusing marble, frosted glass and wood elements. New custom finishes were also

carefully integrated to harmonize with the old and energy-efficient lighting was installed to enhance brightness while lowering energy consumption.

The best modular design approaches also integrate biophilia — defined as the innate human instinct to connect with nature and other living beings — and natural light throughout the workspace, maximizing employee well-being. According to Terrapin Bright Green, those who experience biophilia-designed spaces may feel the benefit of lower blood pressure, a lower heart rate, expedited healing and improved cognitive performance.⁴

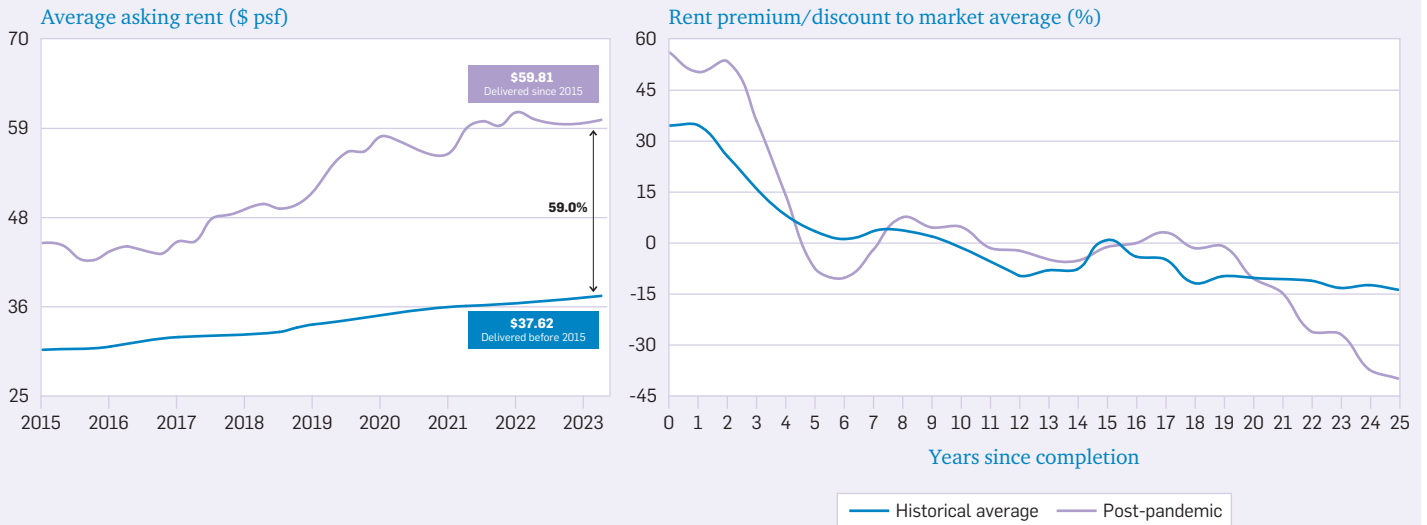
By embracing sustainable, inclusive design principles, move-in-ready offices

can accommodate diverse working styles and accessibility needs, and empower organizations to create a workplace that not only benefits the planet but also ensures employees feel valued and supported, contributing to a thriving company culture. Many of these benefits that come with intentional, employee-centric, high-end design have been out of reach for small and mid-sized business, but the move-in ready office model bridges this market gap.

Beyond functional workspace

Forward-thinking organizations understand that providing a functional workspace is just the beginning. They recognize the significance of creating meaningful experiences to enhance employee engagement, satisfaction and overall well-being. These experiences extend beyond the typical 9-to-5 work hours to include before and after work. Recognizing this, progressive landlords now go the extra mile by providing a diverse range of activities and amenities that enrich these moments. By doing so, they empower their tenants to create valuable and fulfilling experiences within the office environment, showcasing their dedication to supporting employees beyond their professional obligations.

Experiences that add value create a sense of community and work-life integration. Activities before work, such as wellness classes or meditation sessions, create a positive and focused mindset, setting the tone for a productive day ahead. Conversely, post-work events like social gatherings, workshops or clubs offer a relaxed environment for employees to unwind and build stronger connections with their colleagues, nurturing a deeper

Exhibit 2: Rent premiums for new construction remain elevated and are widening, as are rent discounts for older vintages

sense of camaraderie and belonging. During lunch breaks, providing opportunities for employees to engage in recreational activities or even attend skill-building workshops can boost morale and recharge their energy for the rest of the day. These types of experiences can help break the monotony of the workday and contribute to a more vibrant and inclusive office culture.

Agility and speed to market

The focus on speed to market in RTO strategies is important. Swift implementation of strategies enables employees to resume on-site operations promptly, ensuring seamless business continuity and minimizing potential disruptions. Landlords who assist their tenants in prioritizing speed to market demonstrate proactive responsiveness to emerging challenges, adaptability to evolving conditions, and the ability to create a conducive and secure office

environment that aligns with the needs and expectations of their workforce.

Upgrading office at an accessible price point

In today's ever-evolving office landscape, the capacity to adapt to shifting market dynamics is more crucial than ever. Business leaders face a high-stakes challenge, as they strive to meet two seemingly conflicting objectives: they must cater to changing employee demands and expectations by creating office spaces that foster productivity, align with the company's brand and mission and entice employees to work in-office. However, as rent premiums for new construction remain elevated (see Exhibit 2), this means they must also be cost-effective during a period where hybrid work remains prevalent, costs have skyrocketed and resources are constrained.

As we see this continued flight to quality, landlords need to offer creative

solutions to meet the needs of their customers in a more competitive market. In this context, landlords find themselves presented with a unique and rare opportunity to redefine their role and assist tenants in several distinct challenges, particularly those related to the evolving work patterns of their employees. Landlords and tenants alike must embrace innovative approaches to thrive in this new volatile market. Done right, modular design and move-in ready offices can empower small and medium-sized firms to transform their offices into innovative, functional and inspiring workspaces that foster productivity and employee satisfaction. ♦

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