JLL

What the hybrid workplace means for real estate

New ways of working require companies to rethink their portfolios

Edward Connolly and Michael Billing

Companies are welcoming people back to the office as conditions allow, but not in the same numbers as before the pandemic. The type of work that people do in the office is changing as well, causing C-suite leaders to rethink the role of the workspace in this new landscape.

As organizations map out what they want the future to look like, many will adopt a hybrid workplace model, with physical space dedicated to socialization, collaboration, in-person meetings and people management. Companies must prioritize how their space fits into a broader network of integrated services that support working from anywhere. When done correctly, organizations will see an increase in human performance, organizational resiliency and a more optimized real estate portfolio.

We expect the shift toward a hybrid workplace to lead companies to reexamine the square footage they occupy. Some companies, such as **Salesforce**, have already announced plans to trim their office space in favor of a more flexible footprint.

Despite shrinking portfolios, we believe overall real estate spending will stay relatively unchanged as companies update office spaces to accommodate new uses and attract and retain talent.

The pivot requires CFOs and other C-suite leaders to think differently about their real estate portfolios. It's not just about reducing space or assessing it based solely on cost per person or per square foot. Instead, they need to consider how the built environment adds value and invest in the footprint that best supports how work will be done.

Companies are adopting a work from anywhere philosophy

In the initial phase of the pandemic, companies cut real estate costs by prioritizing actions that led to quick results, including using government pandemic assistance programs to reduce taxes and improve liquidity. Some renegotiated leases for better terms, terminated leases or wrote off obsolete assets as part of a restructuring.

As vaccines become more widespread, companies are focusing on what their space will look like in the future. **A JLL survey of 2,000 office workers** found that in a post-pandemic world, 72 percent want to work from home an average of two days per week—more than twice as many as before the crisis. In addition, two-thirds want to alternate between different places of work, and 40 percent would like to be able to work from a third-party location such as a coffee shop or coworking space.

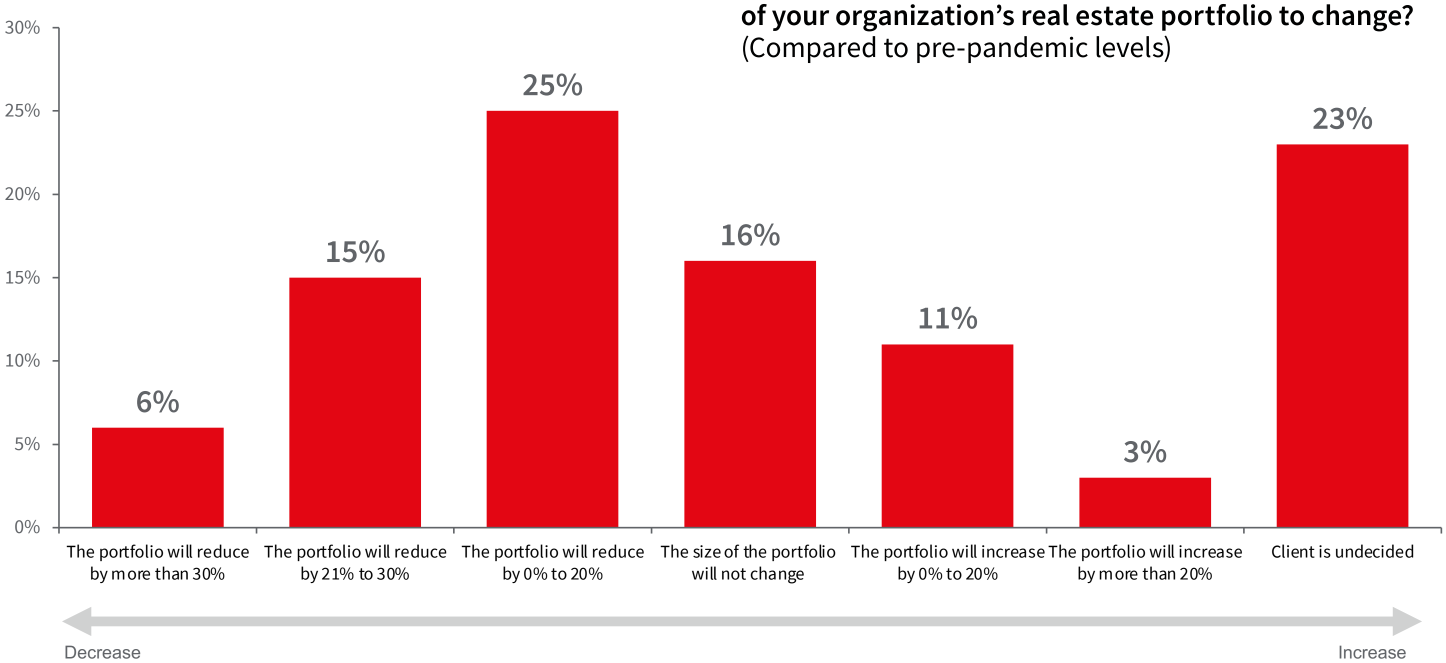
In recognition of how people want to work, and how work will get done, we expect a substantial number of companies to rethink their real estate portfolios. A separate survey of JLL clients revealed:

- 4 out of 10 expect to reduce their real estate portfolio by 30% or more over the next three to five years (see Exhibit 1)
- 16% anticipate making no changes
- 14% expect their real estate portfolios to increase
- 23% have yet to decide

Companies are still undecided about how their real estate portfolio will change

Exhibit 1

In the next 3 - 5 years, how do you expect the size of your organization's real estate portfolio to change? (Compared to pre-pandemic levels)



N=349 in February 2021

What hybrid work means for real estate

The pivot to hybrid work requires CFOs and other C-suite leaders to think differently about their real estate portfolios. The actions they could take fall into the following broad categories:

Rethink the purpose of real estate. Leaders can frame planning for a future work environment that puts people first and enhances the bottom line by considering the following questions:

- What is the organization trying to achieve, and what are the incentives for reaching those goals?
- How can real estate's objectives and incentives support the organization's broader goals?
- How does the existing portfolio meet those objectives?

One leading consumer goods corporation wanted to redefine the purpose of the office with a focus on building their business, increasing productivity and strengthening culture in order to win in the near- and long-term. A hybrid workplace model would allow them to focus on the intersection of work, the worker and the workplace. A cross-functional global team was created to develop a hybrid framework and pilot program. Through research, employee sensing and reflection, the team deployed a successful program to support employees wherever they work. Looking ahead, there are plans to maximize on the positive impact from the hybrid workplace strategy and focus on future needs.

While real estate footprint optimization is a possible outcome of a hybrid approach, reshaping the real estate portfolio can help organizations meet broader goals and objectives to set them up for success in the future of work.

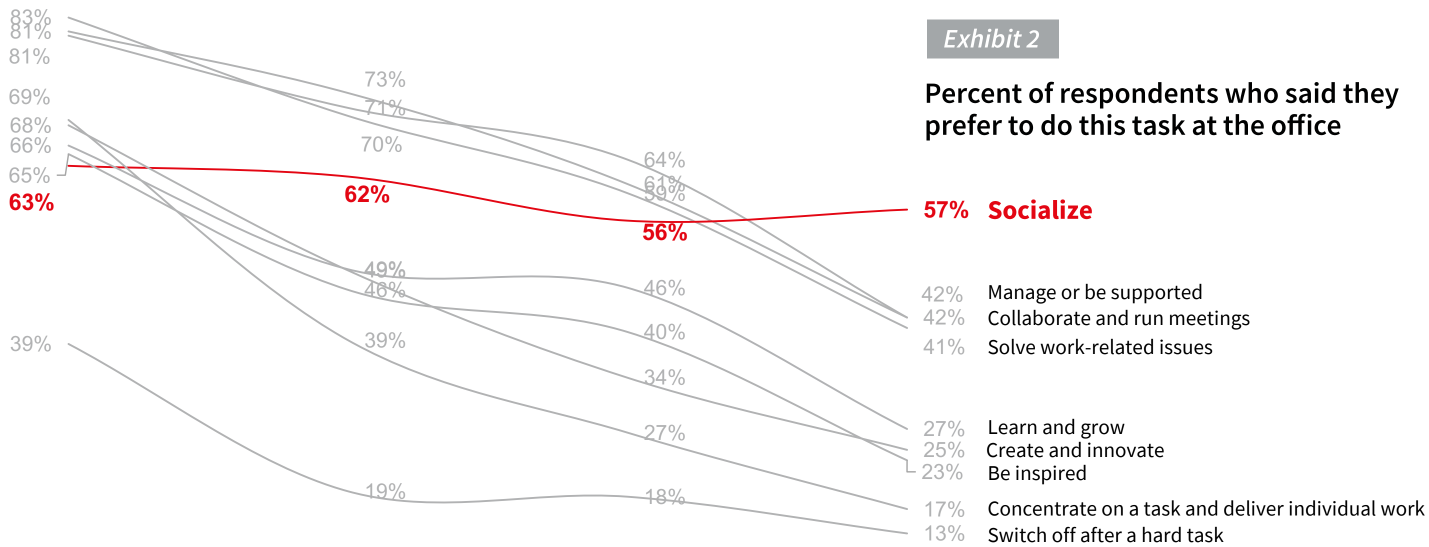
Update office space for how employees will use it in the future. Our research found that on those days when people work remotely, they prefer to do individual tasks that take concentration or inspiration, such as creating or innovating (see Exhibit 2). And on the days that they work from the office, they prefer to socialize, manage or support others, collaborate, solve work-related issues or participate in training and skill building.

Many companies will need to redo their space to support the types of activities that employees prefer to do in the office. At JLL's Chicago headquarters, for example, most of the space is dedicated to individual space or conference rooms. Collaborative work areas comprise about 20 percent of the space, but in the future, those proportions could be reversed, with most of the space reserved for collaboration, and only 20 percent set aside for individual workstations.

Socialization at the office can't be replicated elsewhere

Exhibit 2

Percent of respondents who said they prefer to do this task at the office



Expected Work From Home (WFH) frequency, post-COVID-19

34% prefer to WFH **less than 1 day** per week

32% prefer to WFH **1-2 days** per week

24% prefer to WFH **3-4 days** per week

10% prefer to WFH **full time**

Note: Respondents were asked: "After your recent home-working experience, where would you prefer to do the following tasks in the future? At home, in the office or in a third-party place?" N=2,033

Exactly how space is reconfigured depends on a company's business, culture and existing work processes. Some companies use **job personas**, descriptions of distinct employee groups with similar work responsibilities or requirements, for space planning purposes.

Occupancy planners can use artificial intelligence-based tools to manage space and assign people to work zones. For example, **Dynamic Occupancy Planning** determines the best configuration to support in-office employees on a given day.

In hybrid office models, space allocation also needs to account for distributed workforces. When leaders and teams need to come together, it might not make sense for them to go to a corporate office. They may need to have access to a collaboration space run by a third party, such as a coworking space or hotel conference room. Traditionally, a company's real estate function wouldn't pay fees for those types of spaces, but in the post-pandemic normal, spending patterns are going to shift to cover them.

Use savings from renegotiated leases to update spaces. CFOs and real estate leaders can find pockets of opportunity to fund office upgrades by negotiating with landlords eager to sign longer leases. If organizations want to pivot their portfolio and know where they want to be in the future, they can take advantage of current market trends to find creative strategies to refresh office space, including creating more collaboration space. Or they could make investments to support employees when they're working remotely, such as providing ergonomic desks or upgrading Wi-Fi connections. By pursuing a more effective real estate footprint, organizations can also invest in health and wellness for their workforce. Happy employees are good for business; every $1 spent on treatment for common mental disorders (stress, anxiety and burnout) returns $4 in improved health and productivity. One leading airline company doubled down on its commitment to employees' mental wellbeing and **developed resources and training to further support their people.** Retention is an additional benefit—when employees feel supported at work, they're less likely to leave. A hybrid work model allows companies to expand where they recruit talent, resulting in potential savings for certain roles that could be redistributed to office upgrades or programs and otherwise improve overall financial performance.

Make it a multi-function process. Getting the most value from a real estate portfolio must be a collaboration between a whole host of leadership functions including the CFO, real estate, IT and human resources. If real estate is siloed, with reallocated space viewed simply as a portfolio reduction and real estate investment, it doesn't tell the whole story. Updating space use may require substantial investments around talent and technology, which can't be done in a vacuum. Having other

C-suite leaders involved helps move the process from being purely transactional to a holistic business case where real estate is the driver.

An integrated approach to hybrid work styles and an optimized real estate portfolio is helping utilities companies boost productivity and retention of call-center staff. During the pandemic, one utility's real estate, HR and IT teams made the joint decision to close local call-center facilities for safety reasons and sent staff home to work remotely. The companies found that remote work didn't affect productivity. In fact, call-center staff retention improved because people didn't have to commute to offices that were hard to reach using public transportation, a situation that in the past had led to high levels of attrition. Attrition at one call center dropped from 50 percent to 20 percent because of remote work implemented at the start of the pandemic.

Now some of the companies are contemplating making remote work permanent. They may close local offices and retain a few larger ones close to train and bus lines for meetings and training. They could ultimately pay more per square foot for the office space, due to the larger space and technology need, but the overall value is greater. That is how CFOs should be thinking about this.

Getting started

When building a real estate portfolio for how work will happen in the future, throw away the old rule book. Organizations need to start by deciding what they need to support a hybrid workplace model and translate that into objectives that frame their office space needs. They may not end up choosing the space with the lowest rent or capitalization rates. But they'll have space that's the right fit because it allows the business to enhance productivity, attract better talent and build organizational resiliency.

Visit our website to define what a "hybrid workplace" means for your organization to foster a top-notch employee experience, optimize your portfolio for the future and identify the technology to make it all happen.