




A NEW VIEW OF CORPORATE REAL ESTATE, POSTPANDEMIC

With billions already spent or planned on offices, companies are looking to change up the whole “workplace ecosystem” that fits the new normal.





The problem:

Organizations want to rationalize their real estate holdings to accommodate more remote work.

Why it matters:

Corporations have invested billions of dollars toward putting offices in major cities and regions to attract talent.

The solution:

Create a workplace ecosystem strategy that offers talent flexibility while maintaining organizational culture and employee engagement.

When a diversified global bank went looking for a new head of enterprise services, it wanted someone who could optimize its real estate portfolio. The bank, with hundreds of branches and offices in the United States, felt it needed to refresh its location strategy, geographic spread, and square-footage needs in relation to recruiting and retaining new talent. The goal was to identify where jobs needed to be located and whether they needed to be in an office, a step that could mean disposing of some offices and finding others on a huge scale.

But here's the twist: the bank hired the new executive into the position in February, setting this plan in motion well before the coronavirus forced most organizations in the US out of their offices and into remote work. "Since we were already looking to optimize our real estate footprint, the pandemic accelerated our portfolio transformation," says the new hire, who officially started her new job from her home office in late March, less than two weeks after the pandemic shut down most of the country. "Creating a more flexible



and agile footprint to reflect new ways of working, selling, and interacting for our employees was already near the top of my agenda, but we never anticipated that we would need to adapt this quickly.”

Companies looking at ways to reconfigure real estate assets is not new. What’s new is that the surge in remote work resulting from the pandemic—and the relatively stable level of productivity and engagement in the transition from office to home—has got them rethinking it literally from the ground up. Morgan Stanley expects to operate with much less real estate in the future, for instance, and Twitter employees now have the option of working from home forever. Experts say virus-induced circumstances, from social-distancing requirements and more flexible scheduling to fears of crowded public transportation systems and cost cuts to offset the financial damage, likely mean fewer campus-like headquarters centralized around major metropolises.

Cameron Scott, a principal in Korn Ferry’s Global Real Estate practice, says COVID has fundamentally changed how leadership views real estate. “Instead of having to defend a real estate investment, now the idea of having real estate or office space at all has to be defended,” she says.

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Ever since workplaces began responding to COVID, there have been many grand proclamations about the demise of the office. Yet a recent report by investment managers at

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MetLife projects occupied office space will grow at an annual compound rate of 1.4% over the next decade, in-line with the historic 1.5% average. Or, as Toby Dodd, New York Tri-State Region president for the commercial real estate services firm Cushman & Wakefield, puts it, “The office isn’t going anywhere, it just has a new purpose.”

To be sure, Dodd’s firm suggests that, post-pandemic, the office will comprise one leg of a workplace ecosystem that will also include the home, coworking spaces, and even cafés, libraries, and public spaces. Cushman & Wakefield estimates 50% of the workforce will utilize this new ecosystem, under which the office becomes a destination akin to a cultural center, where colleagues and teams can connect, create, innovate, and learn together.

The shift in mindset among organizations and leaders to this new view of the office cannot be overstated. For decades, leaders held tight to the idea that work meant being in the office, servicing clients meant traveling to see them,

and effective management could only happen face-to-face. It took the pandemic a matter of weeks to deliver on the long-delayed work-from-anywhere promise of technology.

Case in point: the technology company NVIDIA. Mike DeMuro, NVIDIA's vice president of real estate and site services, concedes that the organization wasn't a fan of remote work prepandemic. That's one of the reasons—growth and talent needs being the other two main drivers—the company's real estate footprint swelled to roughly 80 locations around the world, totaling about 5 million square feet. NVIDIA takes a hybrid approach to its real estate assets, owning some space while leasing others. It has a main headquarters in Santa Clara, California, and a few other major regional locations, but the majority of its offices are small spaces outside of major cities that house between 100 and 500 people.

Rather than thinking in terms of expanding or contracting space, however, DeMuro says now the philosophy is about getting the most out of NVIDIA's current space. "It used to be

that if you had 250 people in a space for 300, you'd have to get more space because you were growing," says DeMuro. "It's not about that now."

In fact, it's almost the opposite. Instead of finding space to accommodate 300 people, companies can maximize the use of a 150-person space by "hoteling" staff, an industry term for providing shared spaces with no designated offices or desks because workers come in on a rotating schedule. Similarly, companies can look to condense space in areas where they have more than one office, opening up the opportunity to cut lease costs.

But this kind of retrofitting of space isn't just about saving money, says Dan Pulver, a senior client partner in Korn Ferry's Real Estate and Infrastructure practice. It's about adjusting to a new way of working where offices act as collaborative environments where teams can come together for a day-long project sprint and then disband for another team to hold a client presentation the next day. "The trend will impact the tail end of the portfolio," says Pulver.



What to Watch for in Corporate Real Estate

As organizations begin reopening and the economy moves to stability if not recovery, a clearer picture of the outlook for corporate real estate is emerging. Here's what we are seeing:

Location Strategy

From a central headquarters and satellite offices to a hub-and-spoke approach, organizations are evaluating where they need a physical presence and where they don't.

Growing Without Growing

Instead of increasing square footage, organizations will use flexible work schedules and shared spaces to accommodate a greater number of people without growing the real estate footprint.

Talent Matters

Leaders are looking for ways to use real estate assets to create more meaningful employee experiences, stronger engagement, and well-being to attract and retain talent.

Cities Matter, Too

Despite proclamations of their demise, major cities are still vital to corporate branding and talent recruiting efforts. Not unlike in past crises, they will rebound if not emerge stronger postpandemic.

Bigger but Smaller Portfolios

Organizations aren't going to buy or lease additional space to account for social distancing and other safety measures. But organic growth will dictate the need for more space. Net-net, the expectation is that real estate portfolios will be bigger than they are now but smaller than they would have been.





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“There will be a less compelling reason to hold onto small service offices in nonstrategic locations.”

More bluntly, companies will expand and contract in locations based on what talent finds desirable, which explains why MetLife and others are projecting steady and continuing growth in corporate real estate over time. As DeMuro says, “In five years, our portfolio will be bigger than it is now but smaller than it would have been because work from home allows for optimization.”

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Before the pandemic, in cities across America—and around the world—new office towers were

being erected and old office towers were being demolished or retrofitted for the modern workplace. Amazon, of course, set up a second headquarters in Virginia. Bank of America and JPMorgan Chase began erecting new skyscrapers in Manhattan. COVID isn’t all of a sudden going to force these companies or the hundreds of others doing the same in Atlanta, Chicago, Dallas, Dubai, London, Singapore, and other major global cities to just leave. “Companies have made huge commitments and investments to be in certain cities,” says Dodd, who has overseen corporate real estate portfolios in six different countries.

In many ways, corporate real estate has been here before. Despite predictions, corporations didn’t flee major cities after 9/11 or the recession; after a slight downturn, real estate emerged even stronger. Part of the reason is that talent, particularly young talent, wants to be in cities. In fact, Pulver says the new constructions and retrofits already underway in major cities could end up being a recruiting and retention tool for corporations. For one thing, these new offices can embed social distancing and other safety precautions into the design layout. They can also build in more collaborative spaces for employees to come together, addressing concerns about how



to maintain corporate culture and employee engagement in a predominantly remote-work world.

“Innovation and creativity happen when people can build personal connections,” says Pulver. “Finding ways to design offices to create more meaningful employee experiences, stronger engagement, and well-being will be key to attracting and retaining talent.”

One of the ways organizations can do that is with the buildings themselves, which are being designed or retrofitted with the technology, sustainability, and wellness features that make coming into an office desirable. Many of these new buildings offer large, open-air public spaces and contactless tech features, such as paying in advance via an app for food, drinks, and newsstand items so employees can simply grab and go. “With COVID, the gap between buildings that can provide wellness environments and those that can’t is wider,” says Dodd.

Through that lens, Korn Ferry’s Scott says real estate post-COVID could be seen not only as a cost opportunity but a competitive advantage. “Organizations can use this environment to better connect the dots between workplace strategy, affordable footprint, and talent acquisition and retention,” she says.

For more information, contact:

Dan Pulver at dan.pulver@kornferry.com

Cameron Scott at cameron.scott@kornferry.com

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