

Leasing, Unencumbered: New Approaches for a New Era

Texas Tower, Houston

As employee work habits are changing, the conventional office products and leasing process must also shift to support this change and deliver greater experiences, efficiency, and satisfaction for everyone.

“We’re working on a new corporate leasing model – one that is responsive to our tenant-customers’ goals and complements our conventional leasing. We are adding flexible product offerings and terms, network ecosystems across our geographic footprint, defining each assets’ ESG mission, and expanding our customer/people-centric value proposition. Our customers are using our spaces in interesting new ways, and we are trying to delight them in all aspects of the relationship.”

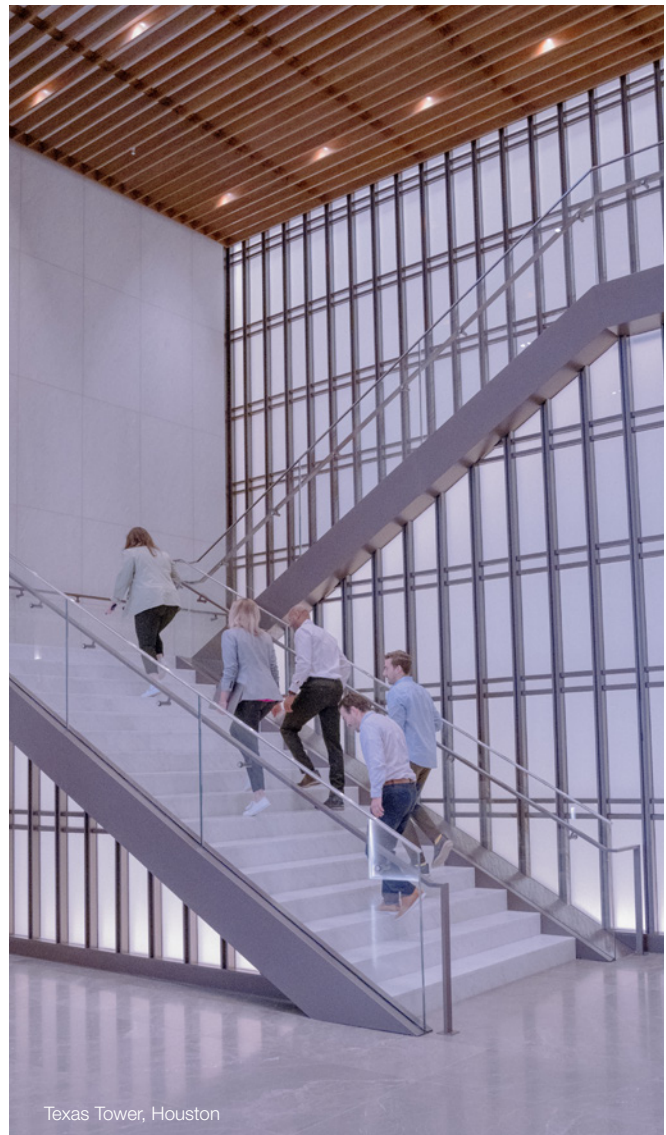
Steve Luthman, CEO Hines Midwest, Southeast & Canada

A New Focus on Utilization and Demand

Hybrid work options are transforming employee expectations—and corporate real estate norms. New ways of working and evolving employee expectations are providing both building owners and occupiers the opportunity to reevaluate their leasing practices and consider what’s working and what must evolve for the current environment.

Previously, the five-day work week enabled certainty of demand, allowing occupiers to comfortably procure the standard real estate product of a long-term lease. Occupiers now face highly variable demand overall at the organizational level as well as varied demand from business unit to business unit and city to city. **The office has shifted from an obligation to a destination, and the leasing ‘product’ should follow suit.**

As organizations grapple with fluctuating workplace occupancy, the need for real estate flexibility and agility has never been greater. The amount of space a company requires may shift by the day or the week or the month, while offices are often half-empty. Leaseholders are starting to think about their square footage differently, focusing on daily office utilization. Analyzing demand gives new insight into both how much and what kind of space a company needs, and when it needs it. A data driven understanding of workspace is more important than ever before.



New leasing strategies are on the horizon. In response to fluctuating demand, corporate tenants are looking to maximize their options with long-term, medium-term, short-term and on-demand spaces—even within a single property. Forward-looking landlords are anticipating ways to provide all types of space within a single lease agreement to make the process more efficient and better suited to the purpose-driven office of today.



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What's Changing: A Fresh Look at a Tradition-bound Process

Historically, a company would lease space to accommodate current headcount and general company growth projections. In this highly static process, the 10- to 15-year lease took months to negotiate, involved dozens of people, and was put in the drawer until a year before it was time to renew.

Today, organizations are exploring new leasing approaches to accommodate new realities. Average space utilization has declined dramatically in corporate workplaces that have embraced hybrid working. Yet, organizations also need to accommodate occasional

high-occupancy days while providing a high-quality workplace experience for all.

Flexibility is the key to meeting these competing workplace demands. Trends suggest that many corporate occupiers will reduce the square footage of their long-term office spaces, while taking steps to secure mid-term, short-term and on-demand space in their portfolios.

As a result, 10- and 15-year leases may remain the norm for headquarters space—but for less square footage than in the past. Concurrently, corporate occupiers may want their landlords to add additional space options to the conventional lease.

“Think of it like a master services agreement or another type of corporate contract, where there’s a main agreement and then contractual addenda that are added on an ‘as needed’ basis,” explains Hines’ Director of Workplace Operations Annie Draper.

According to Draper, a number of corporations want coworking spaces or short-term “swing” spaces in the same facility as their headquarters offices. “It’s a smart strategic move right now to reduce long-term overhead costs yet build in the flexibility that the occupier needs to ensure a seamless experience for their people,” says Draper.

Even before the COVID-19 pandemic-related shift to hybrid working, some major corporations had added on-demand facilities to their corporate real estate portfolios.



Their intention was to provide amenities-rich, creative spaces for project teams that would eventually disband, space in new markets they were exploring, or to provide convenient, high-quality workplaces for employees facing a long commute to headquarters.

Now, many are looking to build flexible spaces into their corporate footprints to meet their changing employee needs and expectations. Essentially, occupiers are recognizing the inefficiency of providing 100% dedicated environments to their business units and are shifting to providing a managed shared offering that lowers costs while increasing employee access and choice. Meanwhile, the competition for talent in many industries has made workplace strategy a critical talent retention and recruitment tool, and on-demand options such as coworking spaces can help provide a positive workplace experience.

How does a company create harmony in hybrid work? Hines' research into employee preferences has found that short-term space, such as touchdown and collaboration spaces in well-designed and inspiring settings, can make a difference. More casual and flexible workspaces provide an attractive alternative to the traditional corporate office, while also providing flexible, additional capacity for corporate occupiers.

Employer Concerns: Making the Right Decisions Now, and for the Long Run

The monumental shifts caused by two straight years of primarily remote work have changed the dynamic in the employer/employee relationship. Today, some organizations are forging a new path forward with a focus on hybrid work, while others are suffering from “analysis paralysis” as they consider their workplace strategies.

However, as Hines' research revealed, employers do agree on today's most significant workplace trends. For most, returning to pre-pandemic “business as usual” is not an option. Workspace needs change frequently, and companies need workplace data to understand space utilization trends. Nonetheless, the office is not dead—but it must offer a compelling experience and appealing atmosphere and offer unique benefits unavailable in a home office.

Clearly, the days of private offices for managers and “cube farms” for rank-and-file workers are long gone. The question, what elements are now essential for a productive office experience? Hines has identified five key elements of the purpose-driven office.

Of course, change is the only constant. For businesses to carry the cost of these spaces as part of their long-term lease can be costly. Few businesses need every space type every day—which is why flexible leasing is the way of the future.

5 Key Elements of the Purpose-Driven Office



Focused, quiet workspaces for solo work



Casual, short-term “touchdown” spaces



Collaboration spaces of many sizes



Larger spaces for town halls, training and events



Purely social spaces, both indoor and outdoor

The Future is Data-driven

The future of leasing is all about demand, and understanding demand—where, when and how employees are using corporate workplaces—requires data. To develop smart workplace and corporate real estate portfolio strategies, building owners and occupiers need both demographic and facility utilization information that they have not typically evaluated before.

To pinpoint who is using the facility, when, and for what purposes, many organizations, including Hines, are using sophisticated space utilization data analytics. Corporate real estate teams are gathering workplace data from security badges, Wi-Fi logins, room reservation systems, motion detectors, wireless sensors and other building sources to uncover utilization trends, and more sophisticated and standardized platforms are emerging.

Hines is starting to use this data to understand better how their clients use their buildings and amenity spaces today, what amenity and communal spaces would benefit their clients in the future, and data to help curate and personalize experiences for clients in their buildings.

“Using data to measure demand enables occupiers and owners to predict how workspace is used, work to create value, and better meet the needs of their workers,” says Brandon Medeiros, CEO of Alidade Flex. Alidade has worked with landlords and occupiers alike, helping them analyze occupancy and utilization data to better inform what type of space occupiers require and the types of products landlords should build.



Building owners also can benefit from the sophisticated use of data. Medeiros anticipates an end to the traditional “amenities war,” in which building owners seek to follow the leading competitors to offer the most popular amenities. Moving forward, Medeiros envisions more landlords following Hines’ lead to use demographic and psychographic data to customize building amenities for current and future tenants. By capturing data on whether and when amenities are actually being used, and how tenants are interacting with the building, landlords can fine-tune their strategies to attract and retain tenants, providing demand-driven customized workplace products, events, services and experiences.

“With data, building owners can align with occupiers on how to create offerings that meet their real estate goals and improve the employee experience while maximizing the actual occupancy of their properties. What’s more, the anonymized demographic intelligence gives them the insights they need to tailor their amenities for building occupants,” says Medeiros.

The New Hybrid Lease

Undoubtedly, some landlords will adapt to changing corporate needs by offering hybrid leases—all-in-one leases that combine the traditional long-term commitment for headquarters space with options for short-term and on-demand, on-site coworking space. Corporate occupiers will pay higher rents for their short-term space options, but their total expense will likely total less than the traditional lease of the past.

With greater access to data about real-world preferences, savvy landlords and brokers will take a consultative approach to help tenants refine their space requirements and secure the right mix of spaces and amenities. The corporate footprint will likely comprise three types of space:

- **Headquarters:** Core office for collaboration, building culture and providing a great experience
- **Flexible:** Auxiliary short-term and/or on-demand space for use as needed
- **Swing:** Short-term space needed during office renovations, new markets, M&A activity, or relocations

Creating a hybrid lease ultimately may become as efficient as generating as a standard short-term contract. If the tenant needs four extra training rooms for a month, for example, the space can be included as lease addendum that can be negotiated in a few short days.

In the new paradigm, benefits will accrue to all parties:

- **Tenants.** Flexibility will be built into a single lease agreement, and the corporate occupier can avoid long-term fixed expenses for short-term needs.
- **Landlords.** Opportunities to increase building occupancy by offering long-term and short-term, high-quality space options with the right mix of features, amenities and building technologies.

- **Brokers.** Lease negotiations that take two or three weeks rather than months, and deeper client relationships in assuming a more consultative role.

- **Employees.** Access to the types of workspaces, work environments and amenities they want and need.

“Everyone wins—from the building owner to the intern,” comments Draper. “It’s time for the office real estate fundamentals to shift to accommodate new levels of demand and flexibility.”

Forecasting the Future of Leasing

Ultimately, the goal is to provide engaging and productive work environments that help attract and retain tenants, while giving employers greater agility at lower cost. It’s not clear how quickly this transformation will occur, but Draper expects significant experimentation and movement over the next three to five years. **“If we’re committed to putting people in the center of the real estate equation, we need a new approach to help occupiers adapt to current realities,” she says. “Hybrid leasing has tremendous potential to simplify the future of office leasing.”** ■



What Employees Want: Harmony in Hybrid Working

Without question, the purpose of the office is changing. A Hines study of corporate enterprise employees shows that, given the option of working at home or elsewhere, employees need a reason to commute to the office. Through the mass experience of working from home over a long period of time, work/life balance and flexibility has come to the forefront of employee concerns. The office still matters, but employees want to experience the office on their own terms and in a way that works for their personal needs.

With the popularity of hybrid working, the purpose of the office is evolving. According to Hines' research, four main functions of the office provide clear benefits that draw people back into the office:

1. Learning and Progression

Employees prefer onboarding, training, and new starter experiences in the office, as well as opportunities for face-to-face connections, mentoring and greater visibility to their managers. As one research participant said, "I think learning and career progression are better in the office. While they see what I do and appreciate what I do from home, it's more tangible if I'm there, if I hand it to them or they see me doing the hard work."

2. Relationships and Interactions

Employees miss spontaneous interactions with managers and peers when they're not in the office, and meeting face-to-face can foster greater collaboration. According to one research participant, "A little face time with somebody makes it harder for someone to say 'that's your problem' online—you change the way you feel about the person when you have in-person interactions."

3. Culture and Diversity

Employees appreciate and value spaces that acknowledge, accommodate and celebrate cultural diversity as well as the organization's own corporate culture. Reinforcing culture creates a sense of community, and also can improve long-term employee loyalty. To cite one manager, "I have found myself

craving a work environment that reflects some of the life of the people who work in it. If you're not making your employees happy and understanding they are people and being respectful about that, you're not going to have happy employees or a good end product."

4. Socializing

Many workers simply miss the social aspect the office, especially as a way of bonding with their colleagues. Coming to the office can provide a natural setting for informal social moments that can strengthen relationships, teamwork and collaboration. For some employees, virtual non-work interactions are not satisfying or effective. In the words of a Hines study participant, "Virtual socializing is anxiety inducing. Honestly, I miss the casual interactions of the office."

The purpose of going into the office has been flipped on its head, from mandatory to optional. Employers now recognize that employees are looking for "a vibe" that makes the office an interesting, engaging and productive place to work. Hines has identified the characteristics that create an energizing, inspiring environment versus a dull or even depressing setting.



Positive

- Open space
- Full of people
- Fresh, new
- Serious, but not boring



Negative

- Mandated presence
- Empty
- "Old corporate"
- Not like my home