

More Employees: Fewer, More Flexible “Offices”



Lisa Dilts | Principal

Overview.

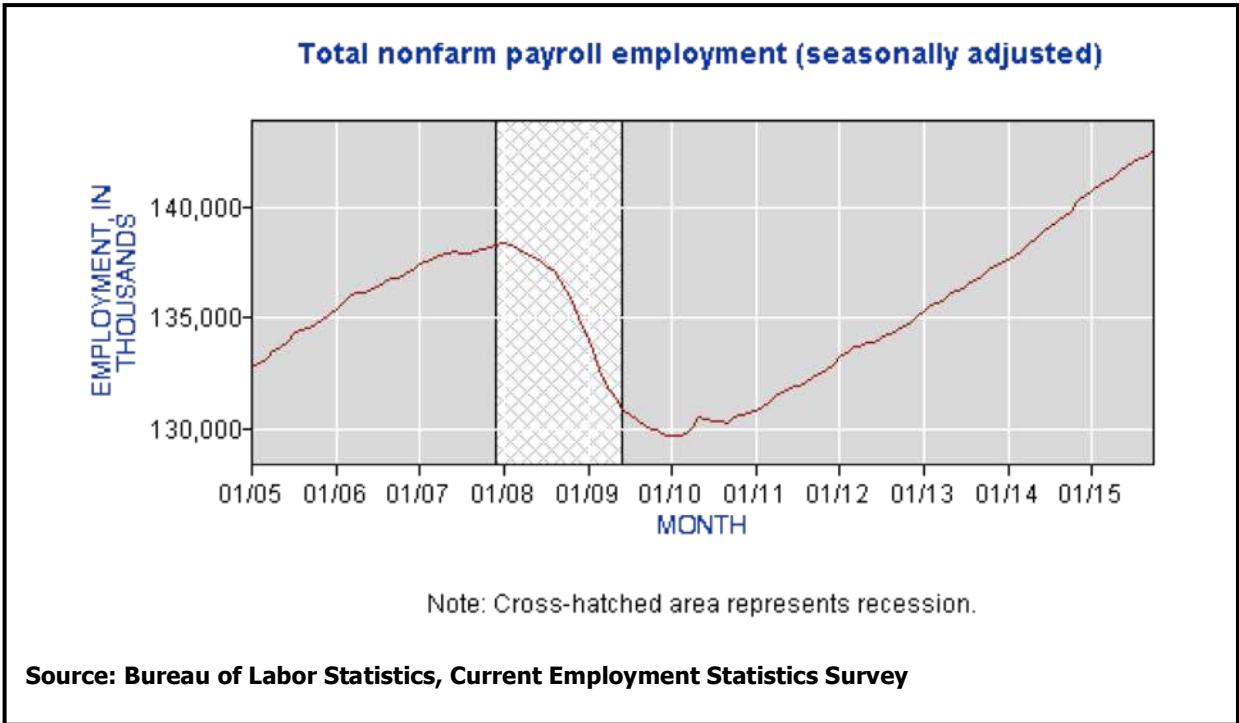
Employment is growing faster than the demand for office space. The traditional model of work is morphing to the New Economy Model of Work with employers and employees re-negotiating work hours, work sites and work spaces.

In the early 2000s, self-employed or under ten worker business establishments made up 84% of all businesses and 22% of workers. As of 2012, the same business establishments made up 90% of all businesses and almost 30% of workers.¹

Business and Employment Growth.

The 21st century has led to significant changes in the business landscape. Throughout the past decade, there has been increased innovation, more small business formations, and the development of a truly global workforce. Some of this stemmed from necessity during the Great Recession, and some stemmed from changing attitudes about job security, or lack thereof, associated with large company employment.

As of October 2015, the U.S. unemployment rate was at 5.0%, which is down from an October 2009 high of 10%. While some of this decline could (and should) be attributed to the fact that the current labor participation rate is at its lowest in 35 years, there has been employment growth post-recession. In early 2014, total employment in the United States regained its pre-Recession level.



¹ YourEconomy.org data for the United States

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Total employment in the U.S. topped 142 million in October 2015, substantially above the pre-Recession high of about 138 million, but traditional office space occupancies do not appear to have benefitted. While much of the employment gain was found in lower-wage industries or in part-time categories, there have been gains in office-using sectors as well.

The industry sectors that are traditionally known as “office-using” – financial activities, information, professional and business services – lost over 2.2 million employees from 2008-2010 according to information gathered from the U.S. Bureau of Labor Statistics [BLS].

From 2011 to 2013, these sectors have been in recovery and added 1.5 million employees, but traditional office occupancy does not appear to have benefitted.

Gap in Office Supply and Demand.

The growth in employees in office-using sectors should have translated to increased office occupancies, but the U.S. office market has experienced minimal movement post-recession.

Vacancy in Q3 2013 was at 16.9% which is not even a percentage better than the worst of the most recent cycle, when a peak vacancy rate of 17.6% was reported for three straight quarters (Q3 2010, Q4 2010, and Q1 2011)².

² McBride, Bill. “Reis: Office Vacancy Rate declines slightly in Q3 to 16.9%.” 02 October 2013. <http://www.calculatedriskblog.com/2013/10/reis-office-vacancy-rate-declines.html>

If the 1.5 million employee gain in office-using sectors from 2011 to 2013 each utilized 185 square feet of office space, the office vacancy rate in Q3 2013 should have been 14.9%, a full 200 basis points lower than it actually was.

Some of this stagnation can be attributed to employers, both small and large, cutting back on office space – as of mid-2012 the average office space per employee was 185 square feet, which is 26% less than the historical average of 250 square feet per employee³ – but this does not tell the whole story.

Clearly employment growth is not directly translating to office occupancy, and in fact, at current absorption rates, it would take six to seven years to get back to pre-recession office occupancy levels. The New Economy Model of Work is taking hold.

The New Economy Model of Work.

There are several reasons for the decline in the density of office workers in office buildings. First, employees have become workers with assignments rather than careers. Second, many workers are now contract “employees”. Third, many employees are now sole proprietors and/or free-standing entrepreneurs. The number of traditional office workers is declining as overhead expenses are slashed and technology is eliminating many traditional positions.

³ Heschmeyer, Mark. “Changing Office Trends Hold Major Implications for Future Office Demand.” 13 March 2013. <http://www.costar.com/News/Article/Changing-Office-Trends-Hold-Major-Implications-for-Future-Office-Demand/146580>

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But the New Economy Model of Work is more than overhead reductions and technology replacements. The compact between employers and employees is being fundamentally changed. Employers of the New Economy do not need employees to be “in the office”. And employees are no longer content to work in their cube and occasionally venture outside.

The new condition is increasingly one that enables workers to work anywhere while maintaining connections to everyone with access to everything they need, anywhere at anytime. Consider that both employers and their workers have access to anyone and anything at anytime from anywhere. Now that’s a *New Model of Work*.

Implications for Office Space.

With a growing number of businesses and employees adopting the New Economy Model of Work, the demand for traditional office space is declining on a per employee basis. The substitute arrangements vary within industries and occupations.

Foregoing office space altogether is a growing option. An increasing number of companies find the answer to their office space needs is to forego it all together and allow employees to work from home or some other place of their choosing.

Teleworking has increased over 40% in the last decade, primarily in government workers for cost-cutting reasons, however, much of the increase can be attributed to advancing

technologies and growing self-employment.⁴ Teleworking does not make sense for everyone, but the fact that it has continued to increase shows a clear pushback on traditional office space.

Collaborative work spaces are becoming common. Collaborative spaces take many forms. But the basic concept breaks the iron-fisted relationship between an employee and her individual office, cube or work space.

One approach is for the worker to rent space and business services by the hour in a more sophisticated setting once provided by “executive suites”. Executive suites tried to emulate the traditional office which is strategically out-of-step with the New Economy Model of Work.

The New Economy collaborative spaces are designed for the new model of work based on a worker having access to everything from anywhere at any time. Some employers have lockers for workers’ “stuff” which they retrieve when they are in the office and then find an open work station where they plug-into the network.

Another approach recognizes that where one works is becoming more transitory. Examples are Google bus, Oxford exchange, coffee house hosts for businesses [e.g., Credo, stardust,

⁴ Fox, Emily Jane. “Work from home soars 41% in ten years.” CNN Money. 04 October 2012. <http://money.cnn.com/2012/10/04/news/economy/work-from-home/index.html>

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Starbucks], and the Sarasota [FL] and Gainesville [FL] entrepreneurial hubs.

Impact of Office Space Design.

Physical office space designs have been changing. Designs are becoming more responsive to open, collaborative layouts and to the digital age. The use of Wi-Fi, cloud storage, laptops, and other mobile technologies has allowed companies to utilize shared and alternative workspaces in their office designs.

Retrofitting existing office buildings and spaces with fixed offices is rarely an option given the time, cost and effort in converting a fixed office environment into a setting suitable to contemporary workers. Previously rated “A” buildings are declining in value, especially if the technological aspects of the building have not stayed current. Existing buildings with vast open spaces work as offices in the New Economy.

Designing a new office building is difficult for different reasons. A flexible lease term, both in regards to cost and duration, is extremely important for new businesses, and few office spaces are able to accommodate or finance this arrangement.

Even if you are extremely confident in your business, when one out of five small businesses does not survive one year, and one out of two small businesses does not survive past five years⁵, it is hard to imagine signing a three or

five year lease, and even harder to imagine giving up large percentages of your revenue every month to office space.

Recognize Who the Workforce Is...and What Their Expectations Are.

To figure out what can be done about the increasingly shifting office model, we must recognize who the workforce is and what their expectations are. Currently, the workforce in the U.S. is made up of four generations. The chart below shows the labor force participation by generation, historical, current, and projected. The three big cohorts are:

- the Baby Boomers, born between 1946 and 1965,
- the Gen-Xers, born between 1966 and 1980, and
- the Gen-Y/Millennials, born between 1981 and 2000.

Millennials and Office Space.

The youngest and overall largest group of the three, the Millennials, already make up 34% of the workforce, are projected to make up over 40% by 2020, and some sources say they will make up 75% of the workforce by 2030.⁶

Millennials grew up with all things digital and do not switch technology off, both of which have huge implications for the way Millennials view work and what they want in a workplace. Flexibility, mobility, and collaboration are just a couple of the things that translate to all aspects

⁵ Small Business Administration Facts. “Do economic or industry factors affect business survival?” June 2012.

<http://www.sba.gov/sites/default/files/Business-Survival.pdf>

⁶ Mitchell, Alastair. “The Rise of the Millennial Workforce.” Wired. 15 August 2013.

<http://www.wired.com/insights/2013/08/the-rise-of-the-millennial-workforce/>

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of Millennial life, and these are qualities not designed into traditional suburban office suites.

Add on top of this are the facts that Millennials:

- do not want to be chained to a desk,
- do not plan to stay in their jobs forever (60% of Millennials are leaving their companies in under three years⁷),
- see freelancing and other flexible work in their futures, and exhibit the highest intention of entrepreneurship of any age group (an average of 27% according to the Global Entrepreneurship Monitor).

With this New Economy Model of Work, we can begin to imagine how workplaces and office spaces of the future look increasingly different.

The Gen-Xers and Office Space.

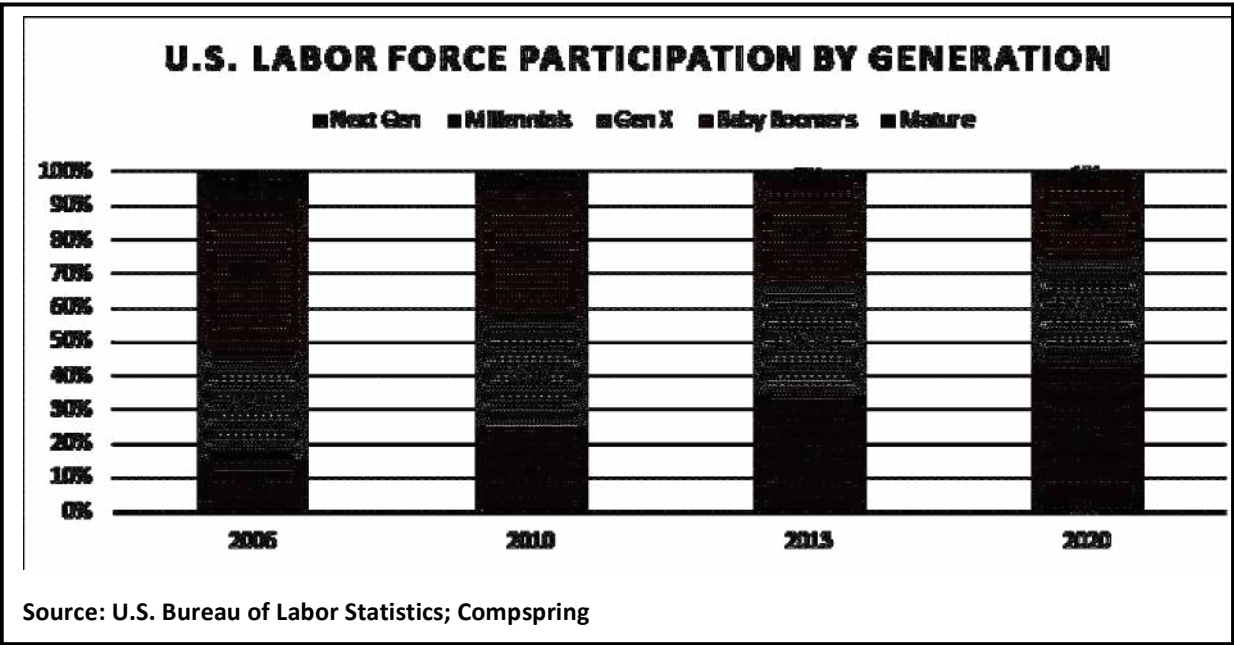
The size of the Gen-X cohort, as shown on the following chart, is amazingly stable over a fifteen year period.

They are the transitional generation that is young enough to appreciate the digital life, but old enough to not be immersed in it. They do not fully embrace the New Economy Model of Work and still associate work with a fixed place like the traditional office or cube.

Baby Boomers and Office Space.

Millennials are not the only generation impacting the future of office space, Baby Boomers, as predicted, are working longer than the typical retirement age, and for those who do retire once, or even twice, many find they are unfulfilled and enter into second, or third, encore careers.

Entrepreneurship has increasingly become the answer for Baby Boomers who want to un-retire, or who simply want to be their own boss.



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Workers aged 65+ have an entrepreneurial intention of almost 26%, a rate second only to youth aged 18-24.⁸ Since Baby Boomers have more of the capital, business experience, and connections necessary to start a new business than younger generations, they are a cohort that cannot be dismissed when thinking about the future of office space.

Trends: Work Spaces of the Future.

- The great recession spurred growth in small business due to business economics and psychological shifts among the workforce.
- This appears to be a generational shift in the model of work that will change the size, location and design of work spaces.
- The supply of office space for the traditional model of work exceeds the demand for work space for employees with the New model of Work.
- The market response to this shift on the New Model of Work has resulted in more teleworking, working in coffee shops, homes with an office and transitory collaborative space.
- Future projections show the growing gap between current supply of traditional office space and businesses’ growth of the labor force.

- Boomers are retiring and seeking out new careers. Places to accommodate those endeavors and build a sense of community are needed.
- Gen Y people as an increasing part of the labor pool are not traditional “employees”.
- Innovative spaces and places will grow to facilitate socialization and business connections while co-incubating start-ups.
- Examples of innovative formats that have begun to capture some of this demand:
 - € Oxford exchange as a case study/example?
 - € Any communities that have built office space in a non-traditional way.
 - € Office concept like Vacation Rentals by Owner may apply to business offices.

Conclusions.

1. Employees are becoming workers.
2. The nature of work is changing to a more flexible model of work that affects the hours, location and space requirements for workers.
3. The workforce is growing faster than the utilization of traditional office space.
4. Community centers, libraries and public park spaces can serve the new model of work and be an element of the city’s economic development plan.
5. New and renovated office space will:
 - Require less total and per employee square footage of private space while providing more common space.
 - Require spaces that are more collaborative, open, accessible 24/7 and sharable.

⁸ Global Entrepreneurship Monitor. 2012 United States Report. 2012. Page 33.
<http://www.gemconsortium.org/docs/download/2804>

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- Require more supportive space for workers in the form of public “hot spots”, business centers, temporary work spaces, business incubators, and meeting places.



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Lisa has over 13 years of experience in real estate advisory, working with a diverse array of clients including cities, counties, developers, national home builders, equity funds, business owners, law firms, developers, and large land owners. Prior to founding Compspring, Lisa was a Vice President at RCLCO, a nationally recognized knowledge solutions provider to the real estate industry.

Prior to RCLCO, she worked with Ernst and Young’s Commercial Real Estate Services Group, where her primary focus was valuation of commercial properties and site selection for industrial and government users.

She also worked for Beazer Homes as a Strategic Market Analyst, where she advised on land acquisitions, target market audiences, repositioning of existing communities, and expansion strategies.

Ms. Dilts is an active member of the Urban Land Institute and the National Home Builders Association. She received both of her degrees from the University of Florida; her Master’s degrees in Real Estate and a Bachelor’s degree of Design.