Achieving "The Great Return"
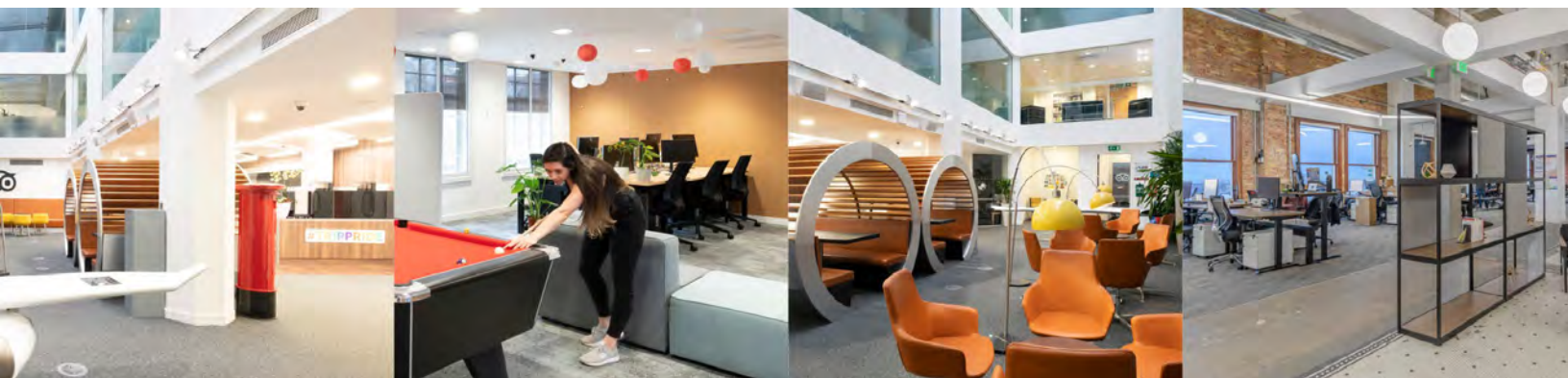
Practical steps for office owners, operators and corporate occupiers

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HinesView

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Introduction: The value at stake

The large-scale and unexpected social experiment of enforced working-from-home (WFH) has done far more than accelerate the pre-COVID trend of flexible working. It has irreversibly altered the relationship between people, work and their place of business, ultimately shaking the foundations of the status headquarters.

As a result, office design and construction – and human capital strategy – will be redefined for generations to come. People, their expectations, their aspirations and effectiveness will now inform the size and shape of the corporate real estate footprint. What may seem like a moment to reduce floor space and cut costs should be seen as a golden opportunity to embark upon a data-enabled reevaluation of company culture, identity and purpose in order to unlock the highest possible return on investment. This will empower companies to gain a more comprehensive understanding of how work is performed, what drives talent engagement and the untapped potential of the physical destination—or what we call an office.

There is true bottom-line value to be captured as well. For most corporations, cost of employee headcount is typically a 30x multiple on cost of rent. In other words, it can be twice as lucrative to increase productivity by 10% than to reduce office cost by 50%.[1]

However, what is right for one company is not right for all. Business and talent strategy, workplace agility, and cultural ethos should shape a journey to find bespoke answers that are sustainable and connected.

At Hines, we engaged over 100 occupiers from across professional services, tech, finance and life sciences over the past 12 months to learn about their perspectives and priorities. We also surveyed our own 5,000 global employees extensively across 2020 and 2021, created focus groups in which they designed the optimal office space, and studied data about how they operated inside and around the built environment.

This paper sets out a recommended recipe for determining the right post-COVID workplace approach for your work, your company and your office asset. We present a process to decide what is right for your unique situation and a range of options for future workplace models, while anchoring on the core belief that COVID has irrevocably made work and our workplaces more flexible, tech-enabled and human-centric.

> **People and their effectiveness will now inform the size and shape of the corporate real estate footprint.**

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[1] Source: JLL, September 2016

Work hasn't changed, but people, places, and technology have.

Before designing your company's unique workplace solution, recognize how the world has changed.

People | Democratization of the workforce shifts focus to human-centric work.

As COVID-related lockdowns wind down, the battle for employees has heated up. Top talent can afford to be selective and opt for jobs with attractive hybrid work opportunities, high-quality business cultures and appealing, adaptive employment policies. "Remote work is the new signing bonus," quipped a recent *Wall Street Journal* headline. Many companies that have spoken out against some degree of hybrid work have faced backlash from employees. While various studies disagree on whether or not remote working improves productivity, it is clear that COVID-19 influenced a shift toward valuing output over physical presence and toward elevating employees' voices to determine where and how they work.

In turn, COVID-19 has underscored the connection between buildings, wellness and community. As landlords and employers compete for tenants and employees, the workplaces that win will be those that view employees as people. And people need community, belonging, wellness and health beyond the physical. Workplaces that recognize this—both virtually and in person—will emerge victorious.

The pandemic also revealed the differentiating value of high-quality physical work environments: access to natural light, good indoor air quality, space for social distancing, live plants and natural décor. In some traditional offices, these had been exclusive perks and were reserved for senior leaders with large corner offices. But as the workplace becomes more democratized, top talent who have options will demand better.

Asking people what they want changes the office power dynamic. It also enables companies to design their offices around the needs of the workforce to enhance health and happiness, company engagement, business growth and output.

Place | Blurring of real estate will shape tomorrow's winning assets.

Corporate occupiers and landlords can learn from other real estate subsectors. Retailers recognized years ago that transactions can easily be moved online; they don't have to take place in physical stores. As transactions moved to the internet, new brick and mortar stores emerged, ones that focused on in-person experience and brand identity. Retailers know that physically experiencing a brand leads to more loyalty and getting a product tangibly into a customer's hands increases conversion rates. Offices can learn from this journey: although many work tasks can be completed from home, the foundations of a business—community building, employee belonging, knowledge sharing and deep apprenticeship—can happen best in person, if the physical environment is fit for purpose

The master planning of residential-led, mixed-use neighborhoods can also provide an illustrative model for workspaces. The best mixed-use developments are based on the principles of positive friction—master planning and design concepts that encourage residents to engage with one another. Similarly, the most appealing and attractive offices will deliberately create a habitat of collaboration.

Workspaces need to focus on employee experience and community building, not just getting work done. This means emphasizing adjacencies rather than destinations and incorporating positive friction to foster cohesion and connection. Winning offices will borrow conceptual ideas from retail and residential asset classes, while underscoring the importance of the central business district and high-quality, mixed-use built environments in creating the most engaging office experiences. Proximity to a vibrant CBD can offer workers social opportunities and access to essential shopping and hospitality venues in the evening.

Tech | Successfully going "phygital" will make or break the workplace of the future.

There are four areas where technology plays a key role:

Tenant and customer engagement

Data and analytics to support investment and asset management

Sustainability and performance management

Construction and smart building technology

Qualitative and quantitative data gathering will become the cornerstone of both real estate and talent strategy, informing management how the physical space responds to people's needs. Analytics will reveal how efficiently people use the building and how efficiently the building performs when it comes to lighting, air filtration, temperature control, and carbon emissions, as well as meeting room capacity, collaboration space and desk use.

Increasingly, sensors and data capture can describe much more than utilization and satisfaction. The newest space sensors can describe the nature and quality of interactions going on inside the space, while preserving employee anonymity. Are people actively collaborating? Are meetings high-energy or calm and reserved? To what extent are people cross-pollinating between departments? This type of

data helps corporate real estate and management teams make nuanced decisions about how to adjust space and nudge the delivery of people programs to help reach culture, strategy and talent goals – and ultimately help create the most positive and enabling environment for people. Data analytics only truly work, however, with large enough scale and millions of data points to allow robust pattern recognition and predictive insights. Historically, distributed ownership across real estate portfolios has been a barrier to building this level of data infrastructure. To win the "phygital" war, asset managers need consolidated digital ecosystems, both for data capture and analysis, at scale, across large portfolios.

As people return to their offices, many are discovering that their old technology setup isn't conducive to hybrid meetings, which are now the norm. Whether meetings include remote workers or not, many companies have dramatically increased their connectedness across geographies by shifting to video meetings. Getting the technology right is critical for any global company that wants to retain powerful cross-geography, real-time collaboration without depending on heavy air travel.

The "phygital" environment requires new specialized rooms so that multiple video calls are not overlapping in the same open space. It requires 360-degree cameras that track the action so that all attendees, both in person and distributed, feel they are in the same room. Overall, embracing new technology requires a learner's mindset. Companies can work through any initial awkwardness with a tone from the top that encourages learning and innovation, a commitment to transparency around data use and privacy policies, and excitement for change.

From 2D to 4D

Leadership teams, alongside Corporate Real Estate, HR/People teams and IT, must recognize that the bar for a great workplace – whether it is office-centric, hybrid or remote-centric – is higher than ever before. The 2D lens for managing commercial real estate – efficiency and cost – is no longer enough. It's a 4D world based on the heightened expectations of experience, effectiveness, efficiency and engagement.

Experience

Home is now the alternative against which all other workplaces will be benchmarked. Businesses that want the office to continue to play an important role must make the office a destination of choice, with meaningful experiences that cannot be rivaled at home.

In-office days must offer a positive experience, so map out how they will be used. For example, they could be devoted to networking events, casual open-invitation coffee chats with an expert on a given topic, or wellness-based activities. Achieving this requires thoughtful planning; many leading offices and multi-tenant buildings employ full-time "community managers," charged with creating a positive, hospitality-focused experience. Success goes deeper than simply planning an ice cream social or yoga class. True connectedness happens when people at a building engage on a human level, and then they need some way (often tech-enabled) to keep that connection going.

60%

of Americans spent their working lives at home in the spring of 2020.[2]

Here, the design of real estate can engender congruence and collaboration. For example, in the morning, the coffee bar and lounge in the mezzanine foyer could host a meet-and-greet for co-workers to catch up. In the afternoon, this room could host social events with pop-up food and drink vendors and retailers.[3] The hotelification of the workplace covers a vast spectrum of services and amenities, from healthy food choices to community activities to basic services, such as dry cleaning, parcel storage, cycle parking, child care and many more. Accordingly, the skills and capabilities required from building-level staff will expand to include concierge-level hospitality, problem-solving and experience management.

Effectiveness

It's important to differentiate between workplace productivity and effectiveness. For some job types and company cultures, productivity is the most prized indicator, which suggests that continued remote working may be the most effective path forward.

However, for those businesses that rely on complex or interdisciplinary knowledge work, their priority is effectiveness – novel ideas, divergent thinking, complex negotiations, deep relationship building – and not just daily productivity metrics. A workplace that deliberately primes collaboration, knowledge sharing and spontaneous access to leadership is good for employee learning and good for business results. There are health and environment aspects of effectiveness as well: access to natural light, tech setups with large enough monitors, sound masking, accessible exercise and leisure equipment, and healthy

[2] Source: The Economist, April 2021
[3] Sources: Pew Research Center, December 2020; Bloomberg, April 2020; Knowledge@Wharton, November 2020.

indoor air quality help each of us think more clearly and better manage our energy. Moreover, we have long known that employees with a friend at work are more likely to stay at their jobs, and tenants who have relationships with other tenants in the same building or complex are more likely to renew.[4,5] Community bonds strengthen longevity, which in turn boosts workforce effectiveness.

Any company that wants to maximize effectiveness through real estate strategy must start creating "we space," not just "me space." While it's important to measure productivity, it is equally important to focus on people's happiness, engagement and fulfillment. If people feel happy, appreciated and cared for, then naturally they will be more productive and collaborate better.

Efficiency

Cost per square foot still matters, but it's understood differently. Today's tenants seek to optimize the efficiency of the office floor by assessing which days and times it is emptiest. Are the meeting rooms being used? How can tech enable rostering, social choreography and the reduction of dead space? How can sensor analysis show not only how often spaces are being used, but what the energy levels and dynamics are within those spaces?

The focus on quality and efficiency of physical space will mean that individual members of the senior management team can no longer justify empty offices given travel schedules or ongoing hybrid working. Making optimal use of high-quality private offices requires redesign, flexible layouts and digital tools to manage capacity. Here we see the vital interplay of tech and real estate to not only optimize cost per square foot, but help occupiers ensure they are getting the value and experience they desire from their investment in a brick-and-mortar office. More quality and less overall footprint have never been more relevant than now.

Engagement

At Hines, we measure employee engagement as an index of employee satisfaction, pride in the company, willingness to recommend the company to a friend and intent to stay. For a physical workplace to be worth the tradeoffs—of commuting, family care needs and other sacrifices—it needs to promote meaningful engagement. In a survey of our own employees from March 2021, we saw that employees who were ready to return to the workplace had a higher view of their manager's effectiveness, stronger belonging with the company, stronger pride and higher intent to stay than those not ready to return. Any company wanting to encourage its workforce back to the office should start with the foundations for employee engagement and belonging. An unhappy or dehumanizing office environment will understandably drive people to prefer working from home. The whole workforce can become involved in the effort to make the office a reflection of brand, culture and identity. This will increase engagement and give people a sense of belonging. Vitally, every physical space must be purposeful and convey to talent, customers and partners what the organization authentically cares about and stands for.

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[4] Source: Gallup, January 2018
[5] Source: Forbes, October 2019

A blueprint for change

These guidelines provide a map to help businesses navigate the journey of realigning their business strategy, workforce model and their workplace design.

STEP 1	STEP 2	STEP 3	STEP 4	Throughout
Align on business and talent strategy	Objectively review the data	Articulate the purpose of your workplace	Test and re-test	Openly communicate

Step 1 | Assess business and talent strategy

Think about the nature of your business's growth. Is it inorganic, meaning that new offices will be added (and removed) to be close to changing target markets and talent pools? Is it seeking geographic expansion and rapid growth? Or do you want to project stability, market dominance, industry leadership and permanence? Understanding your growth plan will help you weigh the benefits of a flex space model versus enduring trophy and/or branded assets.

What is the nature of your talent strategy? Are you focused on nurturing long-term careers and growing entry-level talent into senior leaders? If so, opt for a head office model, which embodies a sense of belonging, provides common spaces for planned culture-building events and incorporates visual cues to teach and immerse people in company history.

Or is your strategy to consistently attract new top talent while actively managing out lower performers? Are you continually creating temporary and agile teams that can adapt to the changing business environment? If so, look to create a flexible office ecosystem that can easily be reconfigured to suit changing teams, provide functional "war rooms" and accommodate rapidly shifting workplace size.

If your top performers want to work remotely forever, how will you handle this? How will you help these employees develop their careers and professional skills over the long term? And how do these approaches fit with your overall philosophy of talent and culture management? Address these important questions first to ensure that your business and talent strategy shape your office strategy – and not the other way around.

Step 2 | Objectively review the data

Data analytics on business efficiency and productivity should drive company conversations around offices and people.

New technologies generate more accurate and insightful data and can provide companies with a more comprehensive sense of how workplaces are used. This includes information on everything from productivity to space utilization to how much coffee was being poured from the vending machine. Adopting these tools and incorporating them into strategic planning now can give your company an edge well into the future.
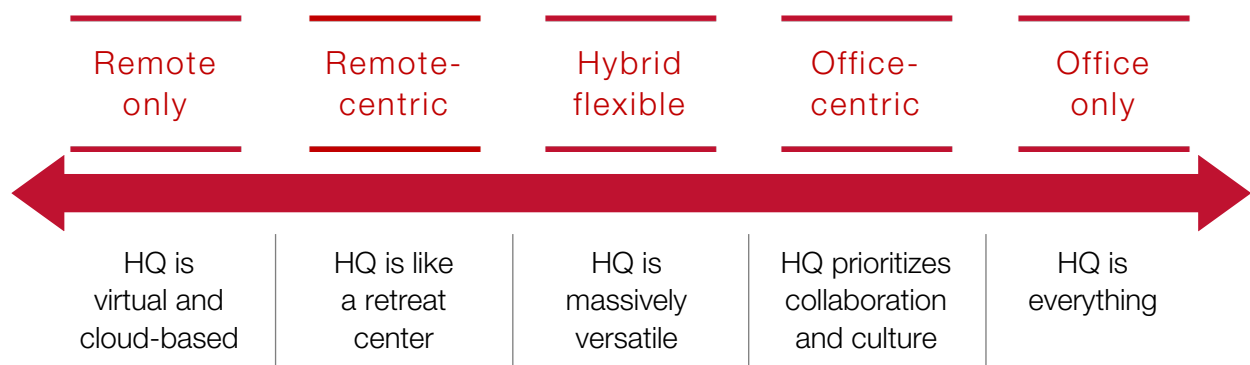
In addition, you can also poll your workforce, hold discussions with them individually and in groups, listen to their responses. Ensure you gather feedback from employees at every level, location and generation. Remember that asking for their views establishes an expectation for some degree of action. Make it clear that not everything employees ask for will be granted but be prepared to share the rationale for why you chose not to act on notable suggestions.

At Hines, for example, we conducted design thinking sessions and asked employees to imagine how they would re-design the office if they could start from a blank sheet of paper. Their ideas led to further research and development, comparison with quantitative data, and decisions on which ideas to pilot.

For each company, the data might tell a different story, and it is important to be open to what the data shows and to cast aside the old one-size-fits-all approach in favor of a one-size-fits-one ethos.

Step 3 | Articulate the purpose of your workplace

Use your business strategy, talent strategy and the results of your data analysis to clearly articulate a purpose statement for your workplace. Is your workplace office-centric, hybrid, remote-only... and why? What does this mean for how employees interact with HQ? How does this choice help you achieve your business strategy, and how is it good for your people?

Remote only	Remote-centric	Hybrid flexible	Office-centric	Office only
HQ is virtual and cloud-based	HQ is like a retreat center	HQ is massively versatile	HQ prioritizes collaboration and culture	HQ is everything

Another massively important component to articulate is the impact that your workplace has on the environment and the social community in which it resides. ESG is a part of all our futures and a growing movement of people are connecting the dots between the physical destination, its services, its contribution and impact on the neighborhood, the city and economy within which it operates.

Step 4 | Test and re-test

This is a time of continued uncertainly and innovation. Even after you've settled on a workplace purpose, the mechanics of how to achieve it will require a test-and-learn approach. Trial new systems and measure them on a consistent basis before over-committing with an investment. A test, test, test approach will drive positive transformation in an incremental way, allowing leadership and employees to join the movement. Consider the workplace and its technology enablement as software, not as a static one-off investment for the next 10 years. Be willing to pilot, experiment, learn, fail, reiterate.

At Hines, we've engaged teams and offices around the globe in various pilots of ideas surfaced by our design thinking focus groups: new configurations and technology for flexible private offices, new hybrid meeting tools, an app to plan your days in the office to coincide with others whom you want to see, new types of space sensors, etc. Only through collecting data and outcomes from these tests will we finalize which innovations truly support our workplace purpose.

Throughout | Openly communicate

To be truly effective, you should openly communicate throughout the entire change process. Employees at all levels are concerned with issues of workforce and office strategy. A lack of information during times of uncertainly only breeds anxiety.

A recent McKinsey employee survey of 5,034 full-time employees revealed that those who felt included and informed report levels of productivity five times greater than those of their peers. In addition, 47% said that a lack of a clear vision for a post-pandemic world was a cause for concern.[6]

Top-level transparency should inform a culture of communication across the business. Keep up the dialogue, share what you are learning and create forums for the youngest and most junior employees to voice their views. Four distinct generations are working together today, and over 50% are under 30 years old. All voices matter.

5x
boost to productivity when employees feel included and informed.

47%
of employees said that a lack of a clear vision for a post-pandemic world is a cause for concern.

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[6] Source: McKinsey, December 2020 – January 2021

Conclusion

WFH is no longer a "last ditch" alternative, reserved for emergencies, road warriors and extremely short-term situations. This is also not a binary dialogue of WFH versus work from office, as the new norm will consist of an ecosystem of destinations, places and settings. COVID gave employees and employers the opportunity to experience WFH as an appealing, viable, and sustainable approach. To attract top talent, companies' workspaces no longer need only to rival their competitors'. Today's office must rival employees' homes. As a result, the at-work experience must do more than contribute to employees' work output; it must also meaningfully contribute to their sense of belonging, fulfillment, professional development and even personal growth. These environments need to be flexible, healthy, and technology enabled, all while caring for the environment and community.

Companies should view this moment as an opportunity to take a step-by-step, systematic approach to rethinking the workspace. They can plan a space that embodies their particular culture, as well as their specific workforce strategy. New technological advances and design innovations can work together to create a workspace that supports their people's and their business's unique needs.

Gone are the days of "If you build it, they will come." Today's offices must be designed on the principle, "If you build purpose, you will attract."

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About Hines

Hines is a privately owned global real estate investment firm founded in 1957 with a presence in 240 cities in 27 countries. Hines oversees a portfolio of assets under management valued at approximately $160.9 billion[7], including $81.7 billion in assets under management for which Hines serves as investment manager, and $79.2 billion representing more than 172.9 million square feet of assets for which Hines provides third-party property-level services. Historically, Hines has developed, redeveloped or acquired approximately 1,450 properties, totaling over 485 million square feet. The firm has more than 180 developments currently underway around the world. With extensive experience in investments across the risk spectrum and all property types, and a pioneering commitment to ESG, Hines is one of the largest and most-respected real estate organizations in the world. Visit www.hines.com for more information.

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[7] Includes both the global Hines organization as well as RIA AUM as of December 31, 2020.

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