



CORPORATE THINKING ABOUT OFFICE SPACE: THE EMPLOYEE-FOCUSED WORK ENVIRONMENT

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TABLE OF CONTENTS

At a Glance	1
Background on Office Space and Office Work	3
Section One: Rapidly Changing Corporate Real Estate Philosophies	4
Section Two: New Workspaces	8
Section Three: Considerations for Office Building Investors and Managers	16
Section Four: In Summary and Looking Forward	20
Section Five: Selected Bibliography	21

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At a Glance

Banks, accounting firms and other more traditional corporations have begun to make fundamental changes to their corporate workspaces, joining the technology companies that were pioneers in breaking away from the traditional office mold a decade ago.

The pace of corporate workplace change is accelerating with potential opportunities and implications for office building owners and managers. The following are three principal reasons why the transformation is happening: .

1. **Demographic change** – a new cohort of workers and managers are bringing new types of corporate cultures as well as introducing innovative ideas about workplaces. Moreover, there is a shift to an employees' market as the baby boom generation reduces their workforce participation.
2. **Technology change** – superior, portable technologies have emerged in the past few years; these support more mobile, dispersed, fluid and global patterns of work than was possible even a decade ago.
3. **Transformations to the nature of work** – The maturing of the knowledge economy, with intellectual and creative activity as key aspects, requires new, more employee focused workplaces in order to maximize productivity.

Section One of this report examines how these three factors have created an irreversible foundation that will change how corporations use office space over the next 10-20 years. To further illustrate why organizations are changing — or will change — their workplace strategies, we also examine the emerging evidence of a productivity gap in some sectors.

In Section Two we examine how different companies and industries are changing their workspace philosophy. A crucial change is that many managers now first seek to meet employee needs and increase worker productivity. Real estate costs are often becoming a second tier consideration. **Intriguingly in doing so many companies have actually found real estate cost savings. They also report the emergence of “greener workspaces”** that use less energy and paper. Because many companies are gaining competitive business advantages from their new workspaces, their competitors are often forced to make changes as well.

Third and finally, we detail the potential implications of new styles of corporate real estate for owners and managers of office buildings over the next 10–15 years. Location considerations, environmental sustainability, and building image are among the growing priorities that many corporations will have in the future.

Determining the Value of Corporate Real Estate

Measuring the overall “value” of leased and owned real estate expenses remains difficult. However, in recent years, some companies have developed ways to estimate improvements to corporate productivity from office space change. As the larger accounting firms and banks (with thousands of employees) continue their workplace transformations, they are able to notice changes in absenteeism, attraction and retention rates, as well as the pace of project and assignment completion before and after workplace changes.



This report came together through the cooperation of many corporate real estate executives, workplace design firms, and other corporate real estate analysts who generously offered their time for interviews. A variety of published reports, sourced in our notes, helped to supply additional information and broaden our understanding.

We would especially like to thank Andrew Liang of DGEW, Margaret Serrato of TVS Interiors, James Williamson and Lila Leiserowitz of Gensler, Trex Morris with Ernst & Young, as well as several corporate workplace executives who wish to remain anonymous. Speaking with these individuals was fascinating. They were excited about the changes they are facilitating for their clients or corporations (and their workers) and extremely knowledgeable about the relationship between workplace, productivity, and corporate strategy.



BACKGROUND ON OFFICE SPACE AND OFFICE WORK

“The emphasis is shifting from left-brain metrics like square feet per person to right-brain metrics that focus on how the workplace enhances people’s ability to generate compelling new services and products.”

- Barbara Dunn, Gensler

For at least 25 years, many economists, human resource professionals and other experts have been predicting a radical change to work places, primarily because of technological change. Personal computers combined with instant voice or data communications options make it theoretically possible for many people to work from anywhere.

Years ago many experts predicted that more flexible work arrangements, such as telecommuting, would become the norm by now. Some even anticipated the end of the office building as everyone worked remotely from rural enclaves.

Yet, office buildings have remained as important as ever. Somewhat unexpectedly, gathering people together has become even more crucial to many organizations than it was 20 or 30 years ago — whether in the service economy or the newer and expanding knowledge economy (or hybrids of the two styles).

In addition, the nature of the work people do in office space has changed. In the past, “service work” occupied most office space: people processing forms, answering phones, typing documents, and similar activities. Insurance companies, banks and governments are examples of organizations collectively employing millions of people doing this type of work. Service work today is more automated and utilizes more technology. Theoretically many tasks employees do could be outsourced or done remotely from a worker’s own home. However, for security reasons and other considerations, this is not done. Service work remains labour intensive and will continue to require office space, although less dominant as an office space user than in the past.

At the same time, the knowledge economy continues to grow in significance, both as an office space occupant and economic driver. By knowledge economy we refer to industries such as software programming, engineering, management consulting, and the like that sell products or services created from the brain power of their employees. To maximize innovation and productivity, these companies generally need their employees to combine ideas in formal and informal ways.

Evolution of Work-Styles

Industrial Economy – based on manufacturing, assembly lines and making people conform to the work patterns of machines.

Service Economy – based on organizing data and its products. Bureaucratic structure with distinct hierarchies of workers, supervisors, managers, directors, etc. Workforce housed in office space, but patterns are often similar to assembly lines.

Knowledge Economy – based on ideas and innovation; enhanced by instant access to information and global communications. Knowledge work is highly fluid across time zones and cultures and tends to be based on collaboration and somewhat flat management structures.



SECTION ONE: RAPIDLY CHANGING CORPORATE REAL ESTATE PHILOSOPHIES

Although office space remains crucial to the success of both the service and knowledge economies, new more employee-focused approaches to office space and corporate real estate are far more common in the knowledge economy sector.

Finding talented employees today can be more difficult and costly than acquiring good real estate. Office space costs — despite often being the largest single expense besides people — can be less than 5% of the costs of salaries, for example.

Despite this, many companies resisted (or still resist) changing their approach toward corporate real estate selection. Real estate costs are much easier to measure and therefore control than human resources considerations. Reducing the square footage per person can be an impressive statistic to show owners or shareholders. Quantifying the impact of space decisions on worker productivity is challenging. However, the evidence is growing of its impact on everything from attracting and retaining a workforce to their productivity as well as to the message real estate sends to employees and the public.

Thus, although price per square foot in selecting a location and building out office space is still important to employers, many other aspects are included in the decision making framework. A shift toward employee focused real estate decisions is becoming irreversible owing to a confluence of other shifts happening in the economy and society: demographic change, technological advancement, and the increasing role of innovation in driving urban, national and regional economic growth.

Here we explain how these trends are setting the foundation for workplace change and therefore office space decisions.

Demographic Changes

Broad-based demographic shifts in society are helping to generate new philosophies about office space in many industries as well as contribute to a new managerial will to implement them.

First, pre-baby boomers and older baby boomers are retiring or reducing their workforce participation while younger generations are moving up quickly in their careers. As individuals from new generations have entered the workforce and risen to positions of authority, they have often introduced new approaches to workplace organization including using technology differently, creating new layouts, and generating new workplace cultures.

Second, because there are fewer younger workers, a skilled labour shortage is building in many industries. This makes the productivity of each worker that much more important as well as makes attracting and retaining people more crucial to organizational performance.

Third, it is well documented that younger generations think and work differently. They are often more accustomed to collaboration, comfortable with technology and demanding of work-life balance than previous generations. Younger generations are often considered to be more self-centred; true or not, because of the talent shortage, employers are more open to their requests than they were to younger employees a generation ago.

Accounting giant Deloitte and Touche, for example, says that 2/3 of its employees are Generation X or Y (i.e. born after 1965).



Fourth, part demographic change and part cultural transformation — women are now highly represented in knowledge economy jobs and management. Women earn 55% of both bachelors and masters degrees in the US, for example. Some workplace analysts believe that the female style of working, which tends toward collaboration and cooperation and is highly communicative (and beneficial for knowledge economy work), is also supporting a shift toward a more open, transparent and collaborative workplace (literally and figuratively).

Technological Advancement and Adoption

Technology is at the forefront of creating new ways to organize workspace. In addition, as technology advances the costs of mobile and wireless computers, telephones and other devices continue to decline. Meanwhile, generational changes have brought in more people — both decision makers and the general workforce — who have high comfort levels with technology, making them quicker to embrace new devices.

In the 1980s and 1990s, early desktop computers tethered people to desks. Telephones and networked computers required each person to have an assigned seat and workstation. Computer programmers, graphics designers, and other creative types also required the horsepower that only a desktop machine could offer. Until recently, it was expensive and slow to store all software applications and personal data on a network server, which would allow for access from anywhere and thereby making work and workers more mobile. Today, laptop machines can offer sufficient computing power for the needs of most workers. Meanwhile, shared servers can offer access to databases and other communal files with similar speed as accessing one's own hard drive, whether from home, the office or even a continent away.

The Service Economy and Workplace Change

In the service economy many companies have a relatively easier time attracting and retaining staff, although this varies by city and industry. Salaries are also often lower making it less essential to achieve the highest possible productivity from each person. Nevertheless, looking ahead, some service economy companies will likely re-examine their workplace decisions to address productivity issues including illness and absenteeism as well as, in some places and industries, attracting and retaining staff.

Today technology enables many people to work from anywhere — whether it be in a boardroom, company cafeteria, the airport, the metro or at home. In many organizations, workers are encouraged to choose the most appropriate and effective setting for what they need to accomplish — important in this new era of knowledge-based work.

The Growth of Nomadism

Nomadism: "Combines the autonomy of telecommuting with the mobility that allows a gregarious and flexible work style."

"James Ware, a cofounder of the Work Design Collaborative, a small think-tank, says that nomadic work styles are fast becoming the norm for "knowledge workers." His research shows that in America such people spend less than a third of their working time in traditional corporate offices, about a third in their home offices and the remaining third working from "third places" such as cafes, public libraries or parks."

Source: "Nomads at last (A Special Report on Mobility)." The Economist. 12 April 2008.

¹ Barber, Christine and Roger Yee, "Brave New Workplace." Knoll Research. 30, August. 2007 <<http://www.knoll.com/research/brave.jsp>>. The authors cite figures from the National Centre for Education Statistics.



The Knowledge Economy has Changed the Nature of Office Work

Creativity, collaboration and innovation, as well as differentiation from competitors are tasks assigned to office workers today, whether they are lawyers, engineers, architects, programmers, accountants or support staff for these firms.

In many industries today, much of workers' time is spent collaborating with others — on the phone, in conference rooms, or in informal settings. Separating people into cubicle or office silos can impair collaboration and therefore decrease creativity, productivity and innovation. As detailed later in this report, many office workers with private offices are rarely in them.

Finally, for many companies work is now national or global — with teams cooperating across the country or worldwide. As a result, workers often need to work unusual hours to account for time zones, making it essential that buildings and workplaces can accommodate them. Many firms and workers also need access to video conferencing technology that facilitate global face-to-face collaboration without the costs and time of plane travel (and its ecological impact).

Mobile Technology in Action (from Fortune Magazine)

"If you worked at Capital One, you'd probably be working in your car, at your kitchen table, or even in the waiting room at your dentist's office. You'd have a company laptop, BlackBerry and iPod, and when you did want to go to any Capital One office from Boston to Kansas City, you'd be walking into an open-plan space with no walls, where you could choose to plunk yourself down at a desk, in a booth, on a couch, or in a special "quiet zone" designed to eliminate distractions."

Project manager Sue Sunday explains the benefits to her: "I like being able to work from home at 6 a.m. before the baby wakes up, drop her off at day care, then stop at the gym."

Source: CNNMoney.com

New Corporate Attitudes

A new generation in charge along with new technological possibilities and newer types of results needed from employees is supporting a variety of workplace changes.

Whether at banks, accounting firms or innovative software companies, many senior executives now recognize that the collective workforce wants to be productive and successful. Therefore, the role of the workplace is to enable people to excel in and enjoy their careers as this will ultimately drive profitability.

Measuring Productivity Improvements

Productivity is hard to measure, so workplace design and consulting firm Gensler has launched a new, indirect approach. In 2007, they initiated a survey that examines components of a typical knowledge economy worker's activities and asks employees to state their perception of the role of their workspace in enabling them. This is important because salaries can dwarf real estate costs, therefore the top priority for many firms right now is to design and implement new types of workplaces that will make employees more productive.

Employees of firms working with Gensler are asked a series of questions before and after workplace change related to the following activities:

- Focused work
- Collaborative work
- Learning
- Socializing



Real Estate Executive Titles

One intriguing piece of evidence demonstrating this change in attitude linking real estate strategy and decision making are the new titles of individuals responsible for securing corporate office space. A decade ago (or even just a few years ago), the typical title would be “Vice President of Corporate Real Estate.” Today, key “real estate” people within a company often have more people centred titles or titles reflecting the interconnections between workplaces, innovation and employee performance:

- Bill McGowan is the Chief Human Resources Officer and Executive Vice President of People and Places at Sun Microsystems.
- Joel Ratekin at Capital One is the Director of Workplace Strategy and Innovation.
- Mark Golan of Cisco is the Vice President for Connected Real Estate (and until recently was the Vice President of World Wide Workplace Resources).
- Bank of America has a new role of “Corporate Workplace Executive” in each of its three divisions with a mandate to understand the workplace needs of employees in their division and provide solutions.

Chain of Command

Additionally, in the past the real estate function typically reported to the Chief Financial Officer (CFO). Today, it is becoming common for the Human Resources department to house the workplace strategy or real estate function — and if real estate remains under the CFO umbrella, the human resources department tends to have a place at the real estate decision-making table. Indeed, design consultants at places like Gensler will strongly encourage any clients who normally do not have their human resources department involved in real estate decisions to invite them to participate.

Costs versus Value

The traditional approach to securing corporate office space tended to center on costs, with issues like location and building quality or overall space image often given a more secondary consideration. The new approach tends to be more comprehensive than in the past, and based on broader corporate goals and needs. Costs are not irrelevant, but examined in a broader context.

When he works with clients, Andrew Liang of the design firm DGEW uses a three-part equation:

- **Effectiveness:** toward achieving business goals like productivity, attraction and retention of staff, etc.
- **Expression:** what message the space sends to employees about corporate culture and company values as well as what message external clients and business partners receive
- **Efficiency:** costs, square footage required, etc.

These three E’s provide a useful framework for understanding workplace change and the connections between business strategy and the workplace – and will be flushed out in the case studies below.



SECTION TWO: NEW WORKSPACES

Case Study One: Leading Edge Technology Firms

Large technology companies like Google, Cisco Systems, Sun Microsystems and others have recently been re-thinking their office space. Most of these firms' workplaces came about ad-hoc during periods of rapid growth in the past 5-10 years. They often simply took over leases and layouts from firms going bankrupt and moved people in without detailed consideration of the workplace. Because these companies tended to have philosophies about casual work environments and had employees who needed to collaborate extensively, they did implement some changes to their workspaces compared to other companies — such as fewer people in private offices and more communal spaces for informal collaboration and socializing. Yet their workplaces generally remained based around assigned cubicles, desks or offices.

One reason — besides frantic expansion — for the lack of innovation, until recently, was that many workers at these firms required powerful computers and internet connections, which meant desktop machines networked with cables to central servers. This tied workers to specific desks and limited room for new approaches.

According to the Economist (August 30, 2007 edition), Google grew from 2,292 employees in June 2004 to 13,786 workers in June 2007.

Technology has progressed and now enables more mobility. Moreover, these larger technology companies have had time to mature and grow the sophistication of their human resources and real estate teams. They now also have the ability to take time to study how their employees work and carefully re-design their workplace. Being profitable (yet dependent upon constant innovation to maintain that success) affords them the opportunity to experiment with workplace change, which is important in maintaining a competitive advantage.

The Productivity Gap

Although challenging to measure, evidence is mounting that inadequate workplaces are contributing to lost productivity in both the knowledge economy and service economy.

For example, in 2006, Gensler (a large, global workplace design firm), surveyed over 2000 workers across a multitude of office-based companies in the United States. Over 90% of respondents stated that their workplace affects their productivity and the competitiveness of their company. Yet 46% of these workers did not see workspace improvement as a priority for their employer.

Gensler further asked workers how much more productive they would be with better air, lighting, workspaces, etc. The average response was 21% more effective.

If better workspaces help employees generate more creativity and innovation, and help the company attract the world's best and brightest, then it will likely become a top priority of many more companies in the coming years.



Cisco Systems

Cisco Systems recently completed a new concept workspace prototype for its general administrative division at its San Francisco Bay-area headquarters campus. This group previously worked in a building with a mix of private offices and large cubicle layouts. **In its pre-planning research, Cisco's Work Place Resource team (WPR) noticed that an average of 65% of the time, people were not at their assigned office or cube.** Instead they were either out of the office on official duties (perhaps meeting with staff in another Cisco building), or more likely collaborating with others, whether formally in a conference room or informally in a hall or eating space.

An average occupancy of only 35% of assigned spaces is a very inefficient use of corporate real estate. Indeed as Mark Golan at Cisco has noted, *"It's insane. Not only is it wasteful, it doesn't suit the needs of your workforce."* (See adjacent box on low office utilization)

To design the new space, the WPR team interviewed the initial 140 employees involved and observed how they worked. They determined that employees needed to be enabled to work wherever they felt was most productive for the tasks they were doing. As a result, almost all employees were made "mobile," with notebook computers and a flexible telephone system. Only a select few administrative positions kept assigned workstations. Everyone else works wherever they deem is best for what they need to do. Mark Golan compares this new approach to home: "You don't go home to a cubicle," he says; "you move around the house depending on what you're doing."

The new Cisco workspace offers:

- Individual workstations in informal areas (where chatting quietly is allowed and even encouraged). Employees can dock their laptop into a station with a large monitor, keyboard and mouse, and program the phone to their number.
- Individual workstations in quiet areas where people can go when they need a place for intense concentration. There are typically no phones in these areas, but docking stations for laptops are provided.
- Formal collaboration spaces: rooms with closed doors, tables, speaker phones, and video conferencing. Rooms vary in size — some have moveable walls so they can be one large room or 2-3 smaller ones. Individuals needing privacy for a phone conversation will also use these rooms.

Low Office Utilization is Common

- Cisco found assigned workspaces empty 65% of the time.
- Hewlett Packard found offices vacant 50% of the time.
- Capital One found an average of 40% of assigned workspaces vacant at any given time. Some people only used their office 5% of the time.
- Bank of America has noted office usage rates as low as 14% in some workplaces.
- An Accenture survey found 75% of offices often sat empty.

Significance

The lack of employee utilization of their assigned space provides further evidence that this style of workplace organization is not practical for some types of work typical office employees do today.

Low office usage rates also have an environmental cost as these empty spaces must be heated, cooled and sometimes even lit despite being empty.

- Informal collaboration areas. Often soft seating on wheels, mobile tables, moveable privacy screens — workers can create the space they need on the fly.
- Personal lockers for employees to put their belongings (purse, gym bag, etc.) as well as personal file cabinets for those who need to store records.

Employee response illustrates **effectiveness** from the three E's above:

- Even if they didn't consider it to be "perfect," the majority of employees reportedly preferred the new environment.
- Cisco reports that employees like being able to work where they want as well as the openness of the layout with abundant natural light. Most appreciate the opportunities for more cross-organizational collaboration with individuals from other departments. Workers also particularly like working with cutting-edge technology.
- Cisco also monitored time to complete projects and noted a 24 to 31% reduction in the time workers needed to get input from their managers or peers, resulting in less time consumed while waiting for decisions.
- Some workers did have more trouble adjusting. Employees who work with more paper found it challenging to change their work-style toward reducing paper and filing everything at the end of the day.

Following the change in workplace, Cisco surveyed employees. Fifty percent said that their efficiency had improved. Although a glass-half-empty perspective would suggest this was low, one could alternatively argue that few companies would reject an initiative that saved money and made half their people more efficient and productive (assuming the other half were as productive as before, which other survey results suggest was the case).

Real estate results at Cisco illustrate **efficiency** of new office space:

- **Space savings:** Using this new system, 140 people came to work in an area that would only hold 88 under the old fixed-office-and-cube style. Cisco claims that up to 200 workers could be housed here, however we believe this claim should be taken with caution as we are concerned that there would not be sufficient seating options for everyone to sit where they need to be for maximizing productivity with this many employees in the space designed for 140 (see Section Three).
- **Lower build-out-costs:** Using wireless internet instead of hard-wiring computers meant a savings of \$800 per employee on jacks and cables.
- **Lower costs of additional workers:** Due to the flexible nature of the space, Cisco can add more employees with minimal expenses.
- **Greener work environment:** Cisco has found that its mobile workplace generates less paper waste. Because workers cannot let paper pile up on a desk, they have to file it, recycle it, or take it home at the end of the day. This has lead most people to re-think their printing habits. Also, because workers bring their laptops everywhere, including to formal meetings, they can read agendas or access and share documents on their own screens on the fly. There is no need to print hard copies.



More on Cisco

Under the leadership of their workplace guru Mark Golan, Cisco Systems has been proactive at documenting and publishing the results of their workplace changes. Numerous reports can be accessed at:

http://www.cisco.com/web/about/ciscoitatwork/case_studies/real_estate.html

http://www.cisco.com/web/about/ciscoitatwork/case_studies/real_estate_dl2.html

In addition, a Google search of keywords “Cisco” and “Golan” and “workplace” will reveal dozens more independent articles detailing Cisco’s workplace transformations.

Case Study Two: The “Big Four” Accounting/Consulting Firms

Employees at companies such as Ernst and Young, Deloitte, Accenture, and PricewaterhouseCoopers often spend considerable time at client offices. This creates special office space needs as well as unique workplace reorganization opportunities.

These large accounting firms face a talent shortage in many cities and are preparing for a worldwide competition for quality people, driving a sense of urgency in using the workplace to attract and retain talent and make them as productive as possible. Their consultants are typically either auditors or do tax work. Auditors often work collaboratively, while tax specialists work more independently (although will consult with others on occasion).

Expression

Accounting firms are concerned about the image projected to employees as well as to clients.

As Deloitte and Touche reports, keeping all generations content as employees — but especially appealing to those born after 1965 (2/3 of their workforce) — requires more creativity than in the past. Simply offering a large farm of generic cube hotel spaces for workers to use when at the home office is not likely to make workers feel appreciated or as if they belong to a worthwhile corporate culture (even if it might be efficient in terms of real estate usage).

In their efforts to attract and retain talent, these accounting firms now want to create a corporate “place” where employees feel they belong and want to come when not at a client site. They are therefore striving to offer a comfortable work environment with options for social interaction as well as meaningful professional collaboration and learning.

Ernst and Young started implementing a new workplace style in 1996, and has gradually been rolling it out worldwide. In the United States, in 10 years, about 70% of offices follow the new model according to Trex Morris, Vice Present and Americas Director for Real Estate Services. Typically, upon lease expiry they look to reorganize the workplace, which is why conversion to the new format is taking time (accounting firms often sign 10-15 year rental agreements).



The Building Selection

Accounting firms prefer A-class office space, downtown in an area with good amenities nearby ranging from high end restaurants to casual cafes and food courts. Health clubs and daycares nearby are also desirable as is access to transit, giving employees an option not to drive. To attract and retain clients, as well as employees who are increasingly concerned about environmental impact, there is a growing preference to be in ecologically responsible buildings (such as LEED certified buildings) whenever possible, however this is balanced against locational considerations.

Accounting firms often want naming rights on their building. Because they want to differentiate their brand and service, they will seek an office building with some distinct architectural characteristics, which could be ecologically-based.

Effectiveness of the Accounting Firm Real Estate Approach

Accounting firms have shifted toward making most consultants and executives fully mobile, given they spend so much time away from the office. However, they also want their office to be an attractive, comfortable and worthwhile place for employees to be when not with clients. Consultants can reserve private offices for head-down work or client meetings. These companies also offer a variety of non-reserve “touch down” workspaces, some of which encourage informal discussion and collaboration (such as workspaces styled around a coffee-bar), and others designed for focused individual work. Small conference rooms are also typically available.

Most consultant employees have the option to work anywhere and everywhere as appropriate: at home, at the client’s site or at the firm office. Most have access to video conferencing technology, whether in shared spaces or, for some executives, in their own offices. One reason for the video conferencing investment is to reduce air travel for cost and ecological footprint reasons.

In terms of space use, Morris says that Ernst and Young’s office space works out to about 130 square feet per person employed out of that office. Because most consultants are not there at any given time, the open and flexible concept plan actually results in a spacious work environment for those at the office on any given day.

As offices change over to the new layout, employee response to the more mobile approach is typically favourable. Morris believes that having a consistent national standard also helps employees accept and adjust to the new arrangements. Meanwhile at Accenture, even the CEO does not have his own office, but also works as a mobile employee from shared spaces – further supporting the flexible, mobile corporate culture.

Flexible Real Estate and Flexible Employment Policies

Deloitte has been publicizing its flexible work policy designed particularly to retain female employees long-term. It allows for extensive (unpaid) leaves to raise a family, providing the employee with the opportunity to retain their accounting designation through courses and seminars for which Deloitte pays. It also encourages women to return part time after having children.

A flexible workplace and making employees mobile makes it easy to accommodate a team of part-time employees alongside full time workers, whereas assigned desks can become costly and cumbersome.

As more workers demand better work-life balance, there is a synergy with this style of workplace organization, contributing to its likely longevity in the 21st century.

For more information:

<http://www.deloitte.com/dtt/article/0,1002,cid%253D81696,00.html>



Real Estate Implications (Efficiency)

Trex Morris of Ernst and Young reports that real estate is now only the firm's third largest expense, after salaries and technology. Looking ahead, the relative importance of real estate expenses may decline for other accounting firms, if they have not already, as they review real estate options; nevertheless, weight will continue to be given to costs per square foot considerations within this broader context.

Case Study Three: Banks

Large banks in North America and around the world are changing their workplaces, supporting more flexibility and mobility for employees — particularly those whose positions involve considerable time away from the office visiting internal or external clients.

Somewhat different from the approach taken by the accounting firms and technology companies, the banks' studied for this report have been giving employees the choice of having their own assigned office or being mobile with the technology and authority to work from anywhere as appropriate. They can choose to telecommute regularly or occasionally, work from a variety of formal and informal shared spaces at the main office or a branch office. Or, they also can choose a desktop machine and assigned space instead.

The banks are also generally newer to experimenting with their workspace philosophy in this way. Bank of America launched its prototype program in 2005, Capital One slightly earlier, and these are the best documented transformations. From anonymous conversations with other bank executives we know several large Canadian banks have begun this workplace change as well, also giving employees a variety of workplace options.

At the urging and under the leadership of Chief Human Resources officer Matt Schuyler (also in charge of real estate), Capital One launched its Future of Work (FOW) project at its Virginia headquarters in 2004. It hoped that 1/3 of employees would agree to go mobile. Instead, 80% selected this option. Even senior executives — including Capital One Chief Information Officer Gregor Bailar and Schuyler himself — left their private offices for shared space (which includes a special open concept executive area, which has apparently significantly decreased the need for formal executive meetings as issues can often be resolved as they emerge). This also expresses the image that executives are a team and not silos.

In October 2006, Capital One launched the same program on a more national level. As detailed in Fortune Magazine (which ranks Capital One as one of the best places to work in the US), employees now receive notebook computers, Blackberries, and iPods (the latter for downloading audio courses, tapes of CFO updates to shareholders, etc.) and can work from anywhere.

No Generation Gap?

At one large banking firm, an executive told us that there was no generational difference in terms of who chose to go mobile. 1/3 were Generation X, 1/3 Generation Y and 1/3 Baby-Boomers, roughly reflecting the bank's employee base (note: baby boomers employed here may be the younger end of the generation).

In fact, as reported by consultants at several workplace design firms, individuals most likely to resist mobility were not baby boomers — but employees of all generations who had recently been promoted to a position with a private office.

Some workers felt a long-sought goal was being stripped away, while others felt insecure in their new role and wanted the office as a sign of authority.



Measuring Efficiency and Effectiveness

Employee satisfaction had risen 41% as of January 2007 according to internal Capital One surveys.² Sixty-five percent of employees at Capital One reported being more productive. One reason is that it is easier to confer with colleagues as needed, reducing time waiting for meetings and in formal meetings. The IT department alone reported a 40% improvement in project delivery times following the switch to the new work environment.³

Real Estate Impacts

Although both Bank of America and Capital One have stressed that employee happiness and productivity were the motivating factors behind the changes, they have seen real estate cost savings:

- Capital One now has 1,200 people based out of a building that used to house 650. Because so many employees are not there at any given time, this reportedly does not create a “crowded” feeling.⁴ (See our comments in Section Three on this claim.)
- Although they have not released figures, Bank of America reports both reduced real estate costs and operating costs at workplaces with mobile employees.

Ecological Impacts and Expression

Overall image is crucial for the banking industry. The use of office space is part of their internal and external branding and their need to appeal to both customers and employees as a responsible corporate citizen. Therefore they are predisposed to occupy ecologically-certified buildings. In fact, the Bank of America is building the first LEED Platinum building in North America for its global headquarters in New York.

Other Types of Companies: General Trends and Different Choices

It should be noted that we profiled three industry types who are making significant workplace changes in response to demographic change, the competition for talent, and the increased need for collaborative work in their knowledge economy activities. However, not all industries face these challenges or requirements and therefore will not require wholesale workplace change, or it will be far less urgent. Though, there are also trends which are of equal significance across a variety of industries.

For example, talented educated people today often want to work in “green” environments, for their better air and light as well as for moral reasons. To better attract and retain employees, there may be a shift toward ecologically sustainable buildings, and, at minimum, offices that provide workers with better access to natural light, which also reduces corporate energy costs. Reducing the quantity of empty private offices also reduces corporate environmental impact; office buildings are a large generator of pollution. Moreover, a mobile workforce can also reduce commuting time and therefore carbon dioxide emissions.

²Information on Capital One access at: <http://money.cnn.com/galleries/2006/fortune/0612/gallery.bestcos.askannie/index.html> (August 31, 2007).

³Wailgum, Thomas, “New Wireless Networks and Devices Create More Productive Workforce,” *CIO* August 15, 2006.

⁴Durfee, Don, “Take My Desk, Please: By rethinking office design, companies are cutting real-estate costs by nearly half.” *CFO Magazine* (October 1, 2006) accessed at http://www.cfonet.com/printable/article.cfm/7960833/c_7988452?f=options (August 31, 2007).



The Service Economy Remains Important

Employees at many companies, or even divisions of certain industries (such as banking), still do “service economy” work – processing forms, answering customer service calls, etc. A mobile workforce and unassigned workspaces may not always be appropriate in these cases.

Compounding the issue is that service economy companies (or service-based divisions of other firms) may face employee shortages in cities with low unemployment rates. Therefore, human resources departments needing to attract and retain staff and improve productivity may still introduce some modest workplace changes — such as giving workers more access to natural light and fresh air. This could result in a relocation to a better building, or in the redesign of their existing workplace.

Further, service economy corporations may become as sensitive to ecological sustainability and corporate responsibility codes as knowledge economy companies are, thereby encouraging their relocation to “green” buildings and/or working with their landlord(s) to improve their existing buildings.

Companies will Choose Hybrid Workplaces

We anticipate that many companies will note the advantages of a mobile workforce and offer a wide variety of formal and informal workplaces for employees that encourage collaboration. Yet, they will not want to end the era of private offices. For example, engineering firms may have a significant number of employees who need to spend over 50% of their time doing intense individual concentration, yet who also need to collaborate and “bounce” ideas and problems off colleagues in formal and informal ways. Engineers also often need to keep models, papers, and other objects handy. Some will need to visit client offices or work sites. Therefore a combination of a private office, a variety of collaborative spaces, and mobile technology and work options may be the most appropriate workplace organization. The result would be more square feet per person than the average company.

Software development is another industry that may still have a need for assigned work stations with high powered desktop computers (and for the video game production sector, multiple computers for developing to the different video game platforms such as Nintendo, X-box, etc.). These companies also need collaboration space and informal social space. Some use over 250 square feet of office space per person as a result.

Smaller Companies / Tenants

More research is needed into how smaller office tenants approach their space, and whether they are changing and if so at what extent. For example, the relative weight of real estate costs to salaries and technology may typically be higher for some smaller tenants than for the larger ones profiled here. As a result, smaller tenants may look to less expensive locations that are not in the downtown core or prefer to locate in a “B” or “C” class building versus an “A” class building. As well, cost decisions may impact the level of improvements a smaller tenant will choose to build-out their space.



SECTION THREE: CONSIDERATIONS FOR OFFICE BUILDING INVESTORS AND MANAGERS

Owners and managers of office buildings should expect many tenants to adopt some version of the mobile workplace approach by 2020. In a survey by CoreNet Global, 20% of large companies anticipate having 25% to 50% of their employees working in unassigned spaces by 2010. By 2020 the majority of large companies are expected to have adopted the unassigned approach according to CoreNet.

In addition, we can expect that preferences for ecologically certified buildings (such as LEED or BOMA GO-Green) will increase. Additionally, for productivity as well as ecological reasons, maximizing the use of natural light and fresh air will be important. Landlords will also need to show that they are investing in a property to promote broader sustainability initiatives.

The Question of Square Feet per Person

Certainly, some companies have reduced their square footage per person by making their workforce mobile and offering employees more flexibility. However, the story is more complex. We don't expect significant declines in real estate usage by industries profiled here.

First, from our interviews it seems that this new approach has often simply allowed for expansion room without leasing more space, allowing the tenant to stay rather than move to a new building.

Second, our research has also uncovered a number of employee complaints about not being able to sit where they need to in order to be productive because space is full. This suggests that companies offering flexible seating may need more workspaces of all types so workers always have a choice.

Third, because real estate costs for many companies remain a fraction of employee costs, the ability to grow a workforce quickly and keep everyone happy and productive is expected to become increasingly more important than marginally saving on rent.

Fourth, technology such as video conferencing plays a factor. Nila Leiserowitz of Gensler believes that within a few years more employees at some companies will video conference on their laptop computers as easily as they talk to the employee next to them. This will generate noise. As a result, even in shared work areas there may be a need put more space in between workers, again raising the square feet needed per person.

Fifth, not all companies embrace mobility. Many companies, industries or divisions within them will not shift to the mobile workforce and flexible workplace because there is no compelling reason to do so. For example, it may not be appropriate in service economy workplaces, as opposed to knowledge economy workplaces.

Sixth, workplaces which combine mobility and/or flexible space with assigned seating utilize more square feet per person. Because of the clear productivity advantages of a mobile workforce and a flexible workplace with a variety of seating options for many types of jobs, some companies will look to incorporate this into their existing assigned office culture. The result will be significantly more square feet per person as each worker may have an option to sit in their private office or an open area or a small conference room.



Location

Regardless of whether companies fully embrace a mobile workforce, we expect location consideration trends to be similar. In their effort to attract and retain staff, as well as appear ecologically responsible, many companies will want to locate in downtowns and town centres with access to a variety of amenities as well as transit. A representative for one large multi-national firm interviewed stated that because his company has hundreds of locations around the world, he worried that a policy of locating in suburbs could be seen as supporting urban sprawl and increased automobile usage, whereas locating near downtown transit hubs as a general policy can be promoted as more ecologically responsible.

For mobile employees, having the company office near cafes, restaurants, and other areas where they could also work or socialize has attraction and retention benefits, as well as productivity advantages (it's more efficient for employees to be able to grab lunch at a variety of places outside the office tower door than to climb into cars and drive to a restaurant). With numerous cafes now offering free wireless access, such amenities nearby also offer added places for employees to work.

Suburban Options – Still Very Logical

Many companies will continue to find suburban office spaces most appropriate. For some, it places them closer to certain clients. Others find the larger floor plates more adaptable to the special layout considerations or unique uses. The suburbs also can offer less expensive space that will allow for a combination of private offices and a variety of informal, communal workspace options. Really big employers find certain economies of scale in housing all employees in a suburban, campus like setting. Indeed, for some the similarities to a university campus help to attract recruits after graduation.

Sustainability and Being Green

For both practical and philosophical reasons, more corporations will pursue occupancy in green buildings — however location may trump a LEED or BOMA-certified building for the reasons mentioned immediately above. One could argue that the right location could reduce energy consumption and carbon dioxide emissions as much as being in a green building (which could happen to be further from where employees need or want to be).

For productivity reasons, many companies will look for buildings that maximize natural light which reduces energy consumption and is easier on employees' eyes. They will also want good air quality with windows that open or HVAC systems with higher refresh rates as poor air tends to reduce productivity as well as increase absenteeism from illness.

In addition, many employees are aware of the advantages of fresh air and natural light for their own professional productivity and personal health. Attracting and retaining this more informed cohort may require more attention to ecological details. Specific evidence of tenant awareness in this regard is the growing number of companies which are incorporating sustainable components into office improvements. Some even intend to secure LEED for Commercial Interiors (LEED-CI) which provides a blueprint for creating an environmentally friendly and healthy space; thus, demonstrating outward evidence of their commitment to sustainability. Actions by tenants are being complemented and encouraged by the efforts of a cadre of Canadian real estate owners who are making efficiency and sustainability features a part of overall property business plans.



Technology

Many tenants will want to build strong wireless networks within their office space. Although perhaps at an increased expense, they may look for raised floors and/or higher ceilings to accommodate the technology required. Many tenants will also want mobile technology such as cellular phones to work well in lobbies and elevators. People can spend a lot of time waiting for an elevator and some will want to take advantage of that time by returning phone calls or reading e-mails.

Increased global connectivity means more companies may need occasional access to video conferencing to speak with clients or their own offices in other cities. They may look to landlords to provide a shared board room with state-of-the-art video conferencing capacity — at least for now while the technology is costly.

Transitions will be Gradual

For the next 10–20 years, there will be companies and industries with differing philosophies regarding their workplaces. Those struggling to compete for creative, knowledgeable people — and ensure that they are working as productively and happily as possible — will likely look to shift toward the mobile workforce, offering a higher variety of workspace options in their corporate offices but fewer assigned spaces.

Companies that have numerous employees fulfilling “service economy” roles, such as forms processing, may see few advantages to altering their workplace. However even these companies may feel compelled to take steps toward more sustainable corporate choices, including their real estate choices. Moreover, if they face employee shortages, such companies may consider changing the workplace to make it more attractive and compelling to current and potential employees.

At Negotiation Time

Tenants will be looking at the overall value of their real estate decision. A small difference in their total real estate costs may not be as important as location and building sustainability. Once a company has built out a space that works, they will be less likely to examine relocation as this will disrupt productivity.

New Role for Landlords and Leasing Reps

Landlords and leasing representatives will need to fully understand their tenant client. Their real estate decision will increasingly be based on broader corporate philosophies and human resource needs. A company's workspace will need to reflect overall corporate goals, company image, their needs and productivity.

Fully understanding tenant clients also means recognizing which companies may be looking for the opportunity to remake their workplace (for example, a branch office of a multinational accounting firm that is still using an older “assigned space” model).

At Lease Expiry

Companies wanting to implement a new, unassigned and mobile workplace may tend to relocate at lease expiry in order to create the new space separate from the existing work environment and limit the “down time” in the transition. Building managers and owners may want to be prepared for an increase in real estate relocations in the marketplace during a broad-based corporate trend toward transitioning to a new workspace to encompass the new work-style.

However, managers and owners can also be proactive. Landlords who communicate regularly with their tenants may be able to offer tenants options to reconfigure space without departing the building. For example, if another tenant moves out, before re-leasing that space it could be used as a temporary space while new space is built, or the vacated space could become an existing tenant’s new floor with a new workplace design.

18 York Street, Toronto, Ontario

To be developed by GWL Realty Advisors, on behalf of bcIMC Realty Corporation, 18 York is a good example of the today's leading edge technology designed into a LEED certified office building. The design uses new green technologies to maximize tenant efficiencies and more importantly offer flexibility. The demands of and on technology are ever-changing. 18 York will meet the challenge with column-free floor plates and raised floors with under-floor HVAC that do not limit the office layouts of the future. Energy-efficient building systems will be both environmentally responsible and help tenants to minimize their occupancy costs, while maintaining a high level of comfort with optimal densification.





SECTION 4: IN SUMMARY AND LOOKING FORWARD

Corporations are changing their approach to managing real estate. With demographic change creating a talent and worker shortage, attracting and retaining employees and increasingly their productivity has become a primary focus.

A series of synergies have emerged in recent years that are providing a foundation for new attitudes toward corporate office space. Demographic change is bringing both a talent shortage and new generations into the workplace with different ideas. Mobile technology advances mean that many employees can work from anywhere. **However, the rise of the knowledge economy – dependent upon talented people collaborating to create innovative products and ideas – will require workers to spend considerable time at their workplace.**

Intriguingly, by focusing on creating a workplace to fulfill human resources goals of attracting and retaining workers, some companies have found that they can decrease their environmental footprint and grow their workforce more easily without fretting about where each new employee will sit.

Companies and industries will work with this new corporate workplace reality in different ways:

- The accounting, banking and technology companies profiled here selected a mobile workforce with few assigned offices or workstations.
- Other companies will offer a hybrid of the older style of assigned spaces combined with mobile technology and flexible seating areas allowing people to choose to be in their office, collaborating, at a client site, or even working from home.
- Organizations not operating in the knowledge economy may not see a reason to change their workplaces that have functioned effectively for decades — unless an employee shortage causes them to use their workplace setting to attract and retain staff.

Owners and managers of office buildings can position themselves for the changes coming in several ways:

First, they should look to understand the broader corporate needs and goals of their major tenants. This will allow them to anticipate tenant requirements and even pro-actively offer solutions — such as swing space that will allow a tenant to remake their workspace without relocating.

Second, they should be aware that many tenants will be most interested in broader corporate objectives and values. To that end, landlords should market better air quality, natural lighting, and locational advantages, as these increasingly are more important to tenants.

A Final Thought on the Future

We also expect that landlords may want to create “third places” for their tenants. These are semi-public places such as a café that provides both freelancers and mobile employees an alternative place to work for a few minutes or few hours.

Having a public or even semi-private third place for the employees of tenants in the building could be a powerful selling feature for building owners in the future. With the right tenant mix, a space for informal communication and idea sharing and cross-pollination of ideas could increase productivity. Having the chance to meet people outside the company can also create the social ties that help retain people, make them happier, and improve their performance.



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