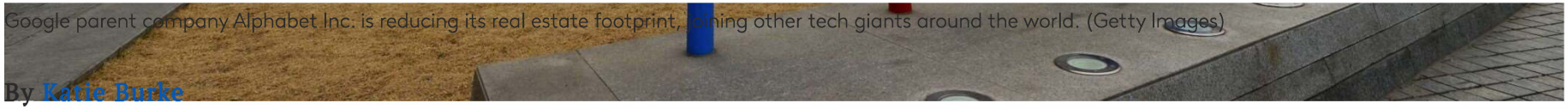
CoStar

Google Parent Prepares To Take $500 Million Hit in Move To Drop Unwanted Office Space

Alphabet Says It Aims To "Optimize Global Footprint" in Move To Curb Expenses



Google parent company Alphabet Inc. is reducing its real estate footprint, joining other tech giants around the world. (Getty Images)

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Google parent Alphabet Inc. is the latest Silicon Valley tech giant willing to pay hefty costs to shrink its vast real estate footprint.

The Mountain View, California-based company said it expects to take a $500 million hit in the first quarter this year to close offices and scrap leases as it ramps up efforts to curb expenses. Alphabet told analysts Thursday that the termination costs will coincide with a slowdown in hiring and a widespread plan to reduce the company's anticipated investments in future office space.

"We are re-engineering our cost base in order to slow the pace of operating expense growth," Alphabet Chief Financial Officer Ruth Porat said on the company's fourth-quarter earnings call. "We are meaningfully slowing the pace of hiring in 2023, [and] are optimizing how and where we work to align our office space with our adjusted global headcount outlook."

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What's more, the Google executive said, the company will "continue to optimize our real estate footprint," warning future cuts could come if the global economic outlook worsens.

The company, which posted its first drop in advertising revenue in the fourth quarter last year since the pandemic's outbreak in 2020, reported $76 billion of revenue overall during the fourth quarter, a slight increase from the same time in 2021.

In addition to the costs it expects related to exiting office space, Google said it is planning to pay up to $2.3 billion in employee severance and related charges following its decision last month to lay off about 12,000 of its employees.

'Different Economic Reality'

The Google parent is among tech companies that were caught by surprise by pandemic-related growth, hired aggressively and are now walking back investments they had made that no longer line up with their headcounts or real estate needs.

"Over the past two years we've seen periods of dramatic growth," Alphabet CEO Sundar Pichai wrote in a message to employees announcing the layoffs. "To match and fuel that growth, we hired for a different economic reality than the one we face today."

Alphabet hasn't been as aggressive as other tech giants, including Amazon and Facebook parent Meta, in walking back some of the blockbuster leases signed in the years of their pandemic-related growth. However, Porat's warning of remaining "very focused on Google's profitability," could indicate the tech giant will no longer headline some of the nation's largest office deals in the years ahead.

"Expense growth cannot be growing ahead of revenue growth," the CFO said, adding that the company is doubling down on plans to curb costs and have capital on hand in order to invest in its long-term profitability. For example, the

company expects to spend about the same in capital expenditures in 2023 as last year, but will shift away from investing in office facilities and focus more on technical infrastructure such as data centers.

Alphabet was among the tech firms that raked in record profits during the pandemic, feeding significant spikes in hiring and feeding leasing and acquisition activity in anticipation of the gradual return of its workforce to the office.

The company's global workforce now includes more than 190,234 people. It employed just shy of 140,000 people at year-end 2021.