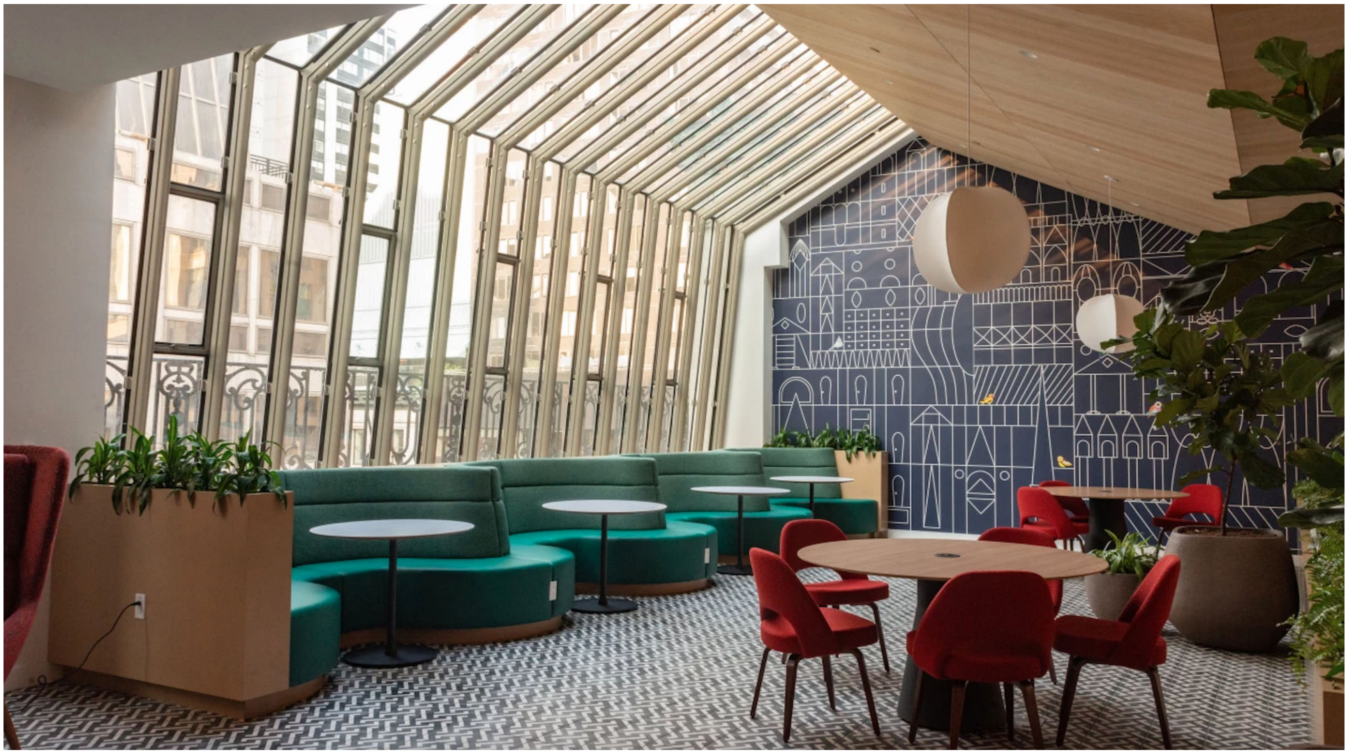
Here's How Companies Rework Smaller Offices To Adapt to Workplace Shifts

Tenants Increasingly Prioritize Collaboration Spaces To Try To Do More With Less



Amazon's repurposing of a former Lord & Taylor store on New York City's Fifth Avenue into an office included a mix of lounges, outdoor areas, huddle rooms and other gathering spaces. (Hollis Johnson/Amazon)

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The days of a nondescript cubicle and other pre-pandemic workplace features appear to be further relegated to the office market's past as companies keep redesigning spaces to be more efficient in the wake of the pandemic.

As the COVID-19 outbreak's fourth anniversary approaches, hybrid work persists as companies continue to allow staff to spend some part of the week working remotely. About 90% of companies offered a type of hybrid work arrangement last year, according to a survey by brokerage CBRE of more than 65 clients that own or occupy about 350 million square feet of office space around the world.

As a result, tenants keep shedding more unused space and revamping the offices they have left, pushing further into a trend that took shape after the pandemic hit and then solidified in the wake of layoffs and cost cuts by companies as interest rates rose. That means workplaces are heading into 2024 trying to find the balance by providing more quiet, focused spaces and blending them with a mix of communal gathering spots with comfortable chairs around beverage bars.

"What we're seeing is a slow, slow upward trajectory of people coming back into shared spaces as a lot more people in the C-suite want to get people back to the office," for some time during the week, Kay Sargent, global architecture firm HOK's director of workplace design, told CoStar News. "A lot more of our clients are realizing this might be their new reality."

Those hybrid work policies are contributing to the challenges office markets across the United States face as tenants shrink their corporate footprints and fewer employees make the daily commute into a physical workspace. New leases are about 20% smaller compared to their pre-pandemic averages, according to CoStar data, a reduction that has not only pushed the national vacancy rate up to a record 13.6% but has also meant companies are figuring out how to do more with less space.

“The demand for office space is no longer driven by the number of employees a company has,” Susan Wasmund, CBRE’s global leader of occupancy management, told CoStar News. “Instead, it’s driven by a combination of office policies and employee behaviors, which is why corporate real estate leaders are so focused on understanding office attendance and how the space is being used.”

Last year, 6% of the companies surveyed required employees to be in an office full time.

"We're starting to see the variances of work styles, and the type of company you are is determining what that path forward will be like," Sargent said of lease size and workplace design decisions. "No one size is going to fit everybody, and in fact, one size misfits almost everybody."

Reworked Formula

Office tenants used to calculate how much space they needed based on headcount. However, hybrid work has upended the standard equation, and the employees who do show up for in-person work are more likely to share spaces, according to the CBRE findings. Companies have therefore prioritized such features as lounges with communal seating, open-air meeting rooms, outdoor gathering spots or cafe-like settings.

The amount of collaborative space in a standard office climbed to 20% last year, up from the 14% reported in 2021, according to the CBRE report. As a result, companies have shrunk the amount of private spaces they have, such as offices or assigned workstations, to about 45% of their total office footprints, down from the 56% reported in 2021.

"Most organizations are a blend of both," Jenny West, Cresa's vice president of workplace and project management, said of communal and private workspaces. "Gone are the days of determining office space solely based on headcount or outdated utilization patterns. Rather than assigning a fixed desk to each employee, companies are providing office space to support various activities, experiences and mobility norms than ever before."

An employee that doesn't come into the office each day might not need their own dedicated workspace, HOK's Sargent added, and the type of space companies provide is being tailored for the type of work employees are doing when they're actually there.

"We're starting to get more in depth about the purpose behind why people are coming to the office, and we're designing for that," she said. "If you're coming in to collaborate, innovate or mentor, it's more about the shared spaces. But you still have the people doing the heads-down, concentrative work that will need a more focused environment. It has to be a balance."

Take online retailer Amazon's recently opened office in a former Lord & Taylor department store along Manhattan's Fifth Avenue. The tech giant invested more than $1 billion to acquire and renovate the historic property into an office hub with space for about 2,000 employees. Amazon requires that most corporate employees work from an office at least three days a week, and the company includes a mix of shared and collaborative spaces in the 13-story building.

The office includes a landscaped rooftop terrace with rocking chairs and a dog park, an employee cafe for morning coffee runs and impromptu meetings, several lounges and huddle rooms, and some phone booths and private office spaces for focused work.

Other companies are adopting a similar amenity-focused approach as some struggle in their attempts to get employees to return to more in-person work. Overall office attendance over the past year has remained stuck at about 50% of pre-pandemic levels across most major metropolitan areas, according to card-swipe data from Kastle Systems. That's even with employers such as the United Postal Service, General Motors, Zoom and Kroger implementing stricter mandates.

Those harsher mandates have landed alongside new workplace designs that try to make the office a place worthy of employee commutes and provide the flexibility they may not have with the space available to them at their homes.

Financial and professional services companies, for example, set aside 120% more of their office real estate space to room for amenities such as high-end fitness centers or coffee bars, according to the CBRE report.

The mentality of providing an office experience for workers rather than simply space for them to do their jobs is unlikely to fade anytime soon, CBRE predicts. More companies are expected to further shrink their office footprints with nearly 45% of those surveyed planning to decrease their portfolio by about one-third over the next three years, according to the study.