

PUBLIC NOTE

Office Space: A Brief Dose of Reality

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Are you tired of reading trend pieces about companies “upgrading” their offices to “lure” employees back?

Tenants are **gravitating** to the best-of-the-best trophy properties that are close to transit hubs and fitted with posh amenities including gyms, luxury restaurants and outdoor terraces. If workers are going to leave the comfort of their home offices, they want nice perks in exchange...

Amenities **include** access to an outdoor terrace, sweeping views... an interfaith prayer room, tech-free “reflection zones,” yoga and wellness areas...

“...innovative collaboration **spaces**, enhanced connection, state-of-the-art amenities and impactful access to greenery, promoting biophilia. The internal layouts are anchored around a number of vertical villages...”

If we’re seeing a “flight to quality” in office leasing — well, some of that happens in any downturn as rents fall. Is it happening faster in this one? Maybe. But will new buildings and amenities really “lure” employees back to the office? Is that literally what these tenants believe?

It’s hard to tell what anyone really means with this rhetoric, or how it fits in with all the “hybrid” policies and so on. I’m not trying to argue with marketing. But for any CEO who sincerely wants to prioritize in-person attendance, I have some very practical advice. It starts with my proprietary survey (TM) on what the average employee actually cares about in their office:

1. Shorter commutes
2. Shorter commutes

3. Shorter commutes
4. Dedicated private space
5. Everything else about the office itself

Why aren't you hearing more about location and privacy from all the startups, consultants and "thought leaders" trying to sell you something more complicated? The question answers itself. So let's talk about them here.

COMMUTE LENGTH

Of course there are no right answers to this, because your employees (hopefully) don't all live in the same place. But there are certainly wrong answers. And in metro areas where mass transit is an important factor, it's especially easy to underrate the commute factor in choosing an office location. It's a continuous variable, not a binary one. An older building next to the train station may be better attended than a new one even a few blocks away. And *which* station is even more critical.

So as a simple example in New York: if you think of Hudson Yards and Grand Central as both checking a "transit accessible" box, that is technically correct but you really haven't taken the subject seriously, right? There is probably no large employer in Manhattan whose workforce wouldn't have a shorter average commute into Grand Central, especially now that the LIRR will stop there.

Obviously this doesn't mean no one should sign a lease at Hudson Yards. It does mean there's a real tradeoff involved. Even an extra fifteen minutes on the train each way adds up fast, and it would take an awful lot of free yoga classes and "reflection zones" to make up for that.

And taking this a step further: for many large companies, a network of smaller suburban satellite offices is likely to have higher attendance than a single large one downtown. This is an even more awkward tradeoff, because it forces management to be specific about *why* exactly they want everyone back. Satellite offices certainly don't facilitate "in person collaboration," unless everyone on a given team happens to live in the same suburb. But if what you care about is productivity, culture, comradery, training, information security, or (let's be honest) monitoring — then a hub-and-spoke network with a smaller downtown conference center may serve those goals with cheaper real estate.

DEDICATED. PRIVATE. SPACE.

This means larger cubes or (gasp) more private offices. It probably means fewer trading desk layouts for non-traders. It absolutely means no hotdesking.

Now, if you want to add *extra* hotel desks or *incremental* shared space, I guess that can't hurt. But don't kid yourself that there's any way to *trade off* dedicated

personal space for “collaborative” or “flex” bullshit without a hit to productivity and attendance.

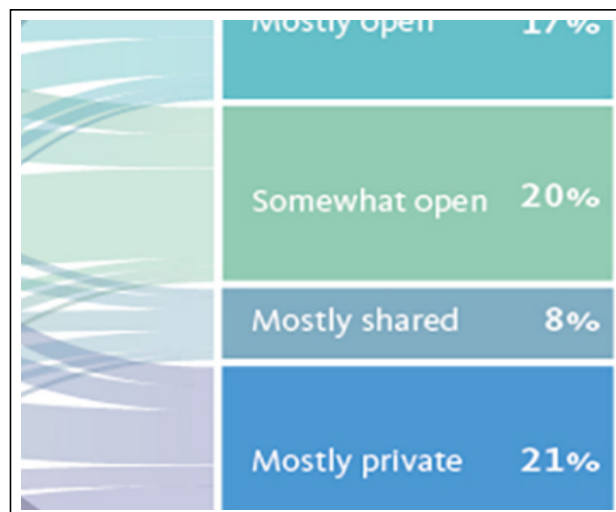
I realize no one at the top wants to hear this, but it was true before Covid and it’s true now. There is no creative layout or scheduling app that makes up for not giving employees a fixed and quiet desk where they can get real work done. And if they can’t get real work done in your office, they’ll either do it somewhere else or it won’t happen. Period.

(One corollary is that if you’re taking the hub-and-spoke approach above, you can’t do it by simply offering your employees a third party flex/coworking membership. You still need your own dedicated offices.)

EVERYTHING ELSE

Don’t get me wrong — there is some baseline level of finish and function that any professional office should meet, and there are some office buildings out there that don’t meet it. Even above that level, any added amenity may be better than nothing. But it’s a question of priorities.

What about all the industry research, like these [Gensler surveys](#) that I’ve heard quoted so much over the past year? Well, they don’t cover location / commute time, and it actually sounds like they agree with me about private space. But it’s hard to tell what’s being measured. Take these scales:



Maybe there were accompanying blueprints or photos? If not, do we know what people were visualizing with increments like “mostly shared” or “somewhat open”? Does anyone believe that if you went to someone who preferred a “mostly open” layout and offered them a private office, they would turn it down?

So I’m not saying these kinds of surveys can’t be useful directionally, but they can also function as overstuffed push polls that are easy to cherry-pick and don’t

correspond to anyone's real behavior. And they are never an excuse to ignore common sense. As another example: can you get Gen Z employees to indicate on a survey that "sustainability" is one of the "core values" that drives how they feel about their workplace? I'm sure you can. But does that mean they will actually show up at the office more often because you're in a more energy-efficient building?

Again, it's hard to tell whether anyone literally believes that kind of thing. You might say that energy efficiency is a useful goal on its own, and it's harmless to exaggerate the other benefits. But if you start taking this kind of logic too seriously, there will be almost nothing anyone can't sell you. And it's a slippery slope from harmless gimmicks to creepy dystopian stuff like isolation pods, VR helmets or "[sonic ambiance](#)."

LOL, OF COURSE THE REIT GUY IS RECOMMENDING MORE REAL ESTATE

That's not exactly what I'm saying. Even if you hold your rent budget constant post-Covid — even if you reduce it — I'm talking about the best way to allocate those dollars to maximize in-office attendance and productivity.

And look, those don't have to be your only priorities. I'm not saying that CEO vanity is the only other factor. You might favor new construction to impress clients, or to check ESG boxes. You might just want to give your employees a nicer office. Nothing wrong with all that. But if we're talking about attendance, then location should always trump "quality," and more/cheaper space is often better than less.

For what it's worth, I'm not even sure which tenant preferences are better for the office REITs, and it may vary by market. They are underexposed to the kinds of suburban buildings that would cater to satellite offices. But when it comes to the tradeoff between location and amenities in current business districts, they tend to be at the better end of the spectrum on both.

Anyway, in the long run, you are certainly not getting over on the real estate industry by downsizing to less space in a worse location at a higher price per square foot. Because the “best” space is a positional good, right? There will always be someone to define it for you so there isn’t enough of it, and someone else to build or renovate more. And then you’ll pay whatever rent makes it worth their while. And that rent is going up every day with the cost of construction, even as vacant “commodity” space piles up.

But if you want *more* space that’s good *enough* — and close enough — it has never been more of a renter’s market. So this is a good time to be as specific as possible about what you really want.

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Cover photo by [Greg Roose](#)