

# Forecasting Office Amenities of the Future



or complex, business-related jobs (e.g., information technology workers), high performers are eight times as productive as average workers, according to a recent McKinsey study.<sup>1</sup> As such, employers have taken aggressive steps to attract and retain talent in an increasingly competitive labor market. The quality of the work environment has become a vital recruiting tool, creating what amounts to an amenities arms race for office developers and owners. For instance, in years past, 2% to 4% of a building's square footage was dedicated to amenities space, but this figure has doubled for recent developments. Standard amenities such as food, fitness, and conference rooms have been augmented with modern features, such as rooftop bars, amphitheaters, and even doggie day-care centers, geared toward the millennial generation's proclivity for social and flexible workplaces—given that millennials will account for 75% of the workforce by 2025.

Forward-thinking real estate professionals can reasonably anticipate certain office amenities of the future by analyzing a combination of millennials' preferences, innovative workplace design elements, and emerging market trends. In fact, we would argue that some of tomorrow's office features will reflect the maturation of the millennial cohort (the oldest of whom will be 45 years old in 2025) while also pushing the boundaries of traditional office real estate.

### Breaking Barriers

Millennials seem to have embraced entrepreneurship at a much younger age than previous generations, preferring to work for small businesses or create start-ups of their own.<sup>2</sup> This trend has revealed itself in the emergence of coworking space, where 78% of the occupants are under 40 years old, according to some estimates. This group has shown a penchant for working remotely and sharing office space. It is reasonable to assume that some of their businesses will eventually transition from the incubation phase and ultimately outgrow the coworking space. When this happens, millennials will likely value flexibility, ease of use, and speed to market as it relates to the commercial real estate (CRE) industry. A traditional office scenario, however, calls for a five- to ten-year lease commitment, approximately one to two months of lease negotiation, and up to six months of construction buildout. Therefore, a CRE solution that fills the gap between



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1. Scott Keller and Mary Meaney, "Attracting and Retaining the Right Talent," McKinsey & Company, November 2017.

2. "America's Voice on Small Business: Generational Views on Entrepreneurship and Small Business," white paper, America's SBDC and the Center for Generational Kinetics, May 2017.

coworking and traditional office space will likely be a popular alternative in the years ahead.

What does an alternative solution look like in practice? Standardization will be critical, starting with the leasing process, which should entail fewer documents and shorter lease terms, potentially shaving months off negotiations and saving thousands of dollars in attorney fees for both the landlord and the tenant. What many describe as “hackable” space (an environment that allows users to adapt and customize without assistance from facilities teams) will drastically reduce construction costs and eliminate the permitting process, which is typically two to six weeks. The availability of temporary space to accommodate unexpected growth will also be critical to entrepreneurial businesses as they evolve. Many tenants, especially smaller companies and start-ups, will likely value turnkey solutions that can accommodate every aspect of space needs, including the intermediate phase between coworking and standard office space.

### Workplace Wellness

Nearly 72% of millennials say they exercise at least one day a week, appearing to care genuinely about their overall health.<sup>3</sup> Indeed, many employers already encourage a healthy lifestyle, primarily focused on work-life balance, nutrition, and fitness, as these elements have been shown to both increase productivity and reduce health-care costs. In the future, however, the concept of wellness in the workplace will take on a much broader meaning, to include how a building’s environment can impact the health of its tenants.

This holistic approach to wellness includes several factors. Indoor air quality, for example, is two to five times worse than outdoor air quality, according to the EPA, which can lead to serious health effects, such as headaches, nausea, and allergic reactions. Advanced HVAC systems can automatically push fresh air into workspaces upon detecting elevated carbon dioxide levels.<sup>4</sup> Lighting conditions have been found to influence em-

ployees’ circadian rhythms; dynamic lighting systems can improve workers’ productivity.<sup>5</sup> Moreover, millennials report depression at a higher rate than any previous generation, and enhanced building features such as quiet zones or meditative environments promote more-mindful workplaces.<sup>6</sup> Eventually, in the same way tenants recognize a building’s LEED certification for its environmental performance and sustainable design, they will likely recognize wellness amenities for improving the overall health of a building’s occupants.

### Smart Space

According to a recent survey by Dell and Intel, 82% of millennials said the quality of available technology in the workplace would influence whether they would accept a job.<sup>7</sup> Employees’ experience is not limited to their office suites, so it may become increasingly important for an entire building (including all common areas) to reflect a commitment to technology. Furthermore, the workforce of the future, and consequently the office workplace, will be at the forefront of the fourth industrial revolution, which is the emergence of next-generation technologies such as genetics, artificial intelligence, robotics, nanotechnology, 3-D printing, and biotechnology, according to the World Economic Forum.<sup>8</sup>

These emerging technologies will be ubiquitous in the workplace of the future. For example, there will be approximately 6 billion smartphones worldwide by 2020, up nearly 50% since 2016.<sup>9</sup> Many office buildings today, however, have poor cellular reception or even no connectivity in such places as elevators, garages, and sublevels (which is often where conference centers are located). Recent advancements in mobile technology (such as distributed antenna systems and emerging smart-cell coverage) promise to offer internet connectivity across every square inch of a property. Machine learning already reduces energy, water, and maintenance costs in commercial properties. In fact,

3. American Psychological Association, “Stress and Exercise,” *Stress in America*, 2013.

4. “Volatile Organic Compounds’ Impact on Indoor Air Quality,” Indoor Air Quality, US Environmental Protection Agency.

5. Vivian Giang, “How Lighting Affects the Productivity of Your Workers,” UNC Kenan-Flagler Business School, September 11, 2017.

6. Matt McCreary, “Depression and Work: The Impact of Depression on Different Generations of Employees,” white paper, Morneau Shepell.

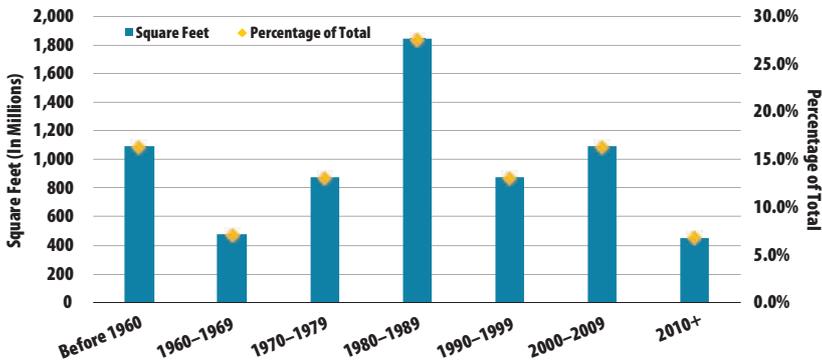
7. Penn Schoen Berland, “Dell & Intel Future Workforce Study Global Report,” July 2016.

8. *The Future of Jobs: Employment, Skills and Workforce Strategy for the Fourth Industrial Revolution*, World Economic Forum, January, 2016.

9. “More than Six Billion Smartphones by 2020, IHS Markit Says,” news release, January 18, 2017.

10. Ionescu et al., “Penetration Testing a Building Automation System,” IBM Security, February, 2016.

**Exhibit 1: US Office Square Footage by Vintage**



Source: CoStar

Note: Office properties more than 50,000 square feet

## Conclusion

Amenities such as those geared toward an office property’s functionality, wellness capabilities, and technology infrastructure could hold considerable value in the future for tenants, given that their employee base will be heavily skewed toward the millennial generation. Although investors have become more data driven in recent years and are often perceptible at identifying what building features outperform in particular

Google used artificial intelligence to reduce power consumption in its data centers by 15%, potentially saving hundreds of millions of dollars.

Security, both physical and cyber, currently ranks as one of the top threats to businesses today, and this threat is likely to escalate going forward. Biometric access systems (including fingerprinting and facial recognition) are already used in certain secure facilities in place of employee badges, and artificial intelligence will be vital in preventing building systems from being hacked, which is currently a severe vulnerability for many properties, according to IBM.<sup>10</sup> Indeed, some of these features are too expensive for widespread use today, but in time, they will become more affordable, and tenants will likely gravitate toward buildings that can accommodate these features as they become more widely accepted.

## Tenant Considerations

To be clear, many of these office features are still considered to be on the cutting edge, and few buildings currently meet these requirements. In fact, obsolescence is an issue in the office sector today, as 63% of all office properties in the US were built more than 20 years ago (Exhibit 1) and are typically not competitive for tenants looking to create a best-in-class workplace experience (barring significant renovation or repositioning). A similar gap in quality will likely remain—and may well grow—between new and old properties, causing tenants to face many of the same challenges they do today when trying to find modern and efficient buildings with high-quality blocks of contiguous space that can help attract and retain talent.

markets, rarely do developers introduce new or groundbreaking features without significant buy-in from tenants via build-to-suit or substantial pre-leasing. Hence, tenants will have an opportunity to participate in the future of workplace design in their respective markets.

Predicting how quickly these amenities will gain widespread adoption is difficult, but such changes should accelerate over the next decade considering that millennials will have an increasingly significant presence within the labor force and, in many cases, will be the business owners (lessors) or primary decision makers. Higher construction costs associated with modern office space will undoubtedly be a factor as well; however, employers appear willing to pay a premium in exchange for an increase in their ability to attract and retain talent. In the end, the office features of tomorrow will emerge as a collaborative effort between landlords and tenants, both of whom will be peering into their respective crystal balls while trying to predict which building amenities will help differentiate them in an increasingly competitive marketplace. ■

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