FACILITIES Design & Management

10 Trends Affecting the Corporate Environment

by Jeff Waters
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Predictions for 2001 include more global outsourcing, fewer virtual offices, and facilities with enticing amenities.

Year-end routinely brings the opportunity to sit back, reflect on the past and pontificate on the future. What trends can we expect to see in the next 12 months? Speaking broadly, labor force availability, evolving corporate cultures, and the stock market are having a major impact on the location, configuration and financial structure of corporate headquarters. Lack of labor combined with demanding expectations of new entrants, less formal corporate cultures, and increased emphasis on employee needs combined with Wall Street's less than enthusiastic view of investment in bricks and mortar will have a major impact on corporate facilities design and management in the coming decade. Based on my experience, here are my predictions for corporate real estate for 2001 and beyond.

More amenities and services

While compensation and stock options will remain first on the list of why someone stays at a company or joins in the first place, amenities will become increasingly important. Fierce competition for employees will force companies to provide an ever greater array of amenities and services. For corporate headquarters with a large employee base, expect more extensive exercise facilities including pools and gyms, in addition to aerobic and weight equipment.

The cafeteria will offer a wider variety of food and beverages, be open longer, and feel more like an informal gathering place where individuals can meet casually or log-on and work on a project. Expect high quality coffee bars supplied by Starbucks that offer a greater selection of beverages and snacks.

The child-care center, routinely avoided by most corporations in the '80s and '90s, will become a key incentive for young married couples and single parents. And the corporate concierge will gain favor as busy employees seek ways to complete mundane but essential chores like picking up the dry cleaning while working long hours.

Continued growth in the west

Besides providing more amenities, those corporations seeking expansion sites will pursue locations that provide a high quality of life. In times of full employment, workers will choose where they want to live based on lifestyle decisions rather than living where they must to find employment. John Rhodes, president, Moran Stahl & Boyer, a demographics consulting firm based in Atlanta, Georgia, reports that the five fastest growing states in the past decade-with increases in excess of 20 percent-were Arizona, Colorado, Georgia, New Mexico, and Utah. Four out of five are in the West offering advantages of climate, year-round recreational activities, room to expand, and a fairly low cost of living. The next 15 states with growth of 10 to 20 percent are in the West and Southeast. The Upper Midwest and Northeast states were the slowest growing. This trend is not expected to change for

2001. Rhodes expects Las Vegas, Atlanta, Phoenix, Raleigh, Salt Lake, and Denver to be among the fastest growing cities for 2000 through 2004.

Image essential for recruiting

Compensation, location, and amenities won't be enough to attract and retain new economy labor. The image the corporation conveys through facility design will be an essential weapon in the recruiter's arsenal in the battle for labor. According to a study produced by Knoll/DYG in The Second Bottom Line: Competing for Talent Using Innovative Workplace Design, "The physical environment is one of the first points of contact a company has with prospective employees and customers." In other words, facilities are often the first opportunity for a company to make an impression-good or bad. A negative opinion conveyed by facility design can end an employee interview before it starts. A human resources executive at a high tech company with a "facilities image problem" reports that more than one prospective employee has called to cancel an interview saying, "I drove by the building last night and I decided I just couldn't work in that place."

More global outsourcing

The strong global economy will expand demand for U.S. goods and services, but the domestic labor force will be unable to produce these for a competitive price. As lack of supply continues to drive the cost of domestic technology-competent labor higher and higher, corporations will turn to global sources for specific competencies, such as India for information technology support or New Zealand for call center labor. (We're already seeing this happen at CB Richard Ellis. An organization in the Philippines provides high quality lease abstracting services at a lower cost than we can find domestically). Or, facing a shortage of domestic labor, corporations will move entire operations offshore. While moving manufacturing offshore is nothing new to U.S. corporations, pushing high tech engineering, design, and research and development overseas will be.

Flexibility is king

Business plans change direction with the speed of a candidate who's behind in the polls. As a result, the monolithic, rigid, and highly specialized corporate palace is on the endangered species list. Flexibility, i.e. the ability to respond to rapidly changing business conditions, will replace unique, inflexible, tailored, and customized edifices. The corporate campus will become the plan of choice for most corporations. Consisting of multiple interconnected buildings, the corporate campus readily responds to shrinking business plans by allowing the subleasing of a floor-or an entire building. Conversely, demands for more space are easily met by adding buildings. Gensler's design for Shaklee's new campus and Sun Microsystems' campuses in the Bay Area and northwest Denver illustrate this trend.

Buildings will be designed upside down

The emphasis on flexibility will not be limited to campus planning; it will impact the configuration of the buildings as well. Reducing the elapsed time and simplifying the process of reconfiguring office space will be critical as corporations reengineer, reorganize, and restructure while seeking to get products to market faster. Turning the building "upside down" is one way to accomplish this. While voice, data, and electrical distribution systems often are distributed above the ceiling, installing these systems under raised flooring will simplify and speed space-planning changes. Adding air distribution under the floor and incorporating damper controls at each office or workstation will not only simplify changes, it also will allow each individual to control temperature and air flow.

Other trends that are impacting the functionality of buildings include larger floor plates and deeper lease depths to encourage communications among teams, operating units and taller slab-to-slab heights to accommodate raised flooring, and indirect lighting that minimizes glare on computer screens.

What happens when the office goes wireless? First, this development is still way off. If and when it gets here, it will only affect voice and data cabling. Underfloor air and electrical distribution will still be faster and easier to modify as the office changes. Wireless voice and data will just allow change to happen that much faster.

The virtual office is not

Working virtually-from anywhere connected via the internet or email systems-will not eliminate or significantly reduce office space as was once thought. While it may be viable for sales reps or other positions that require extensive travel time away from the office, it doesn't appear to be appropriate for knowledge workers. Quoting from a report prepared by the Massachusetts Institute of Technology, "Complex knowledge still needs to be transmitted face to face. Technology does not yet have the 'bandwidth' to replace face-to-face communication. Innovation occurs through spontaneous interaction." In other words the work force still has to show up. Working from home is not the answer for most organizations.

Continued dis-ownership of corporate RE

The recent move away from ownership of corporate real estate will continue. Companies have learned that the capital tied up in real estate can be put to better use-often through investment in their core business. Real estate investment decisions are being made from a cost of capital, internal hurdle rate, or cost of debt point of view. Many corporations look for 15 percent returns or more on investments in new products. If the investment in real estate doesn't produce a similar return, corporations have learned that the money can be put to better use elsewhere.

As a result, sale/leaseback of corporate office space will continue, especially for businesses with high credit ratings that translate into attractive lease terms. In the Executive Report on Research Findings prepared by the Corporate Real Estate Portfolio Alliance, a San Francisco-based consortium of 11 corporate real estate organizations, and researchers with various areas of expertise from universities, industry groups, and corporate real estate service providers, it was reported that, "firms in high cost-of-capital industries owning more real estate than their peers produce lower returns to shareholders. Findings vary by industry, but overall a 10 percent above-average concentration in real estate translated into a one percentage point loss in annual return."

Exit strategies are essential for new facilities

A plan for how to get out is essential to get into a new facility. An exit strategy spans all aspects of facility design, location, and finance. In terms of design, a campus configuration that can be subdivided readily and that adapts to the changing needs of its occupants eases partial or entire relocation. Features that are valued in the marketplace such as raised flooring and indirect lighting-delivered for a cost within market parameters-make the facility desirable and readily marketable if the business plan changes. Location is always critical. Planning a campus that incorporates the most desirable facilities and locating it miles from mass transportation and highways or in a community without an adequate labor supply will make exiting difficult.

For many companies seeking new facilities, leasing, rather than owning, will be the preferred financial alternative. Those with high credit ratings will shift the risk to a developer, and they will maintain control by leveraging their tenancy to achieve expansion and contraction options. Synthetic lease structures will continue to be an attractive means to achieve the control afforded by traditional ownership and the financial benefits of leasing.

Corporate real estate groups will become strategic advisors

Corporate real estate and facilities departments will become strategic advisors to the business units. As corporations focus on core competencies and turn to outsourcing for non-core activities, real estate departments will move upstream to a strategic level and will continue to look to service providers for tactical activities such as acquisition and disposition transactions, and design as well as project and facilities management. Corporate real estate and facilities managers are beginning to realize that they can add significant value to the business units and the corporation by providing timely advice regarding the real estate implications of business plans. Corporate real estate and facilities departments will assume a proactive approach through initiating and integrating strategies that are in support of key business initiatives and overall corporate strategy. Their role will be one of informing, facilitating, and collaborating with business units, not one of ruling or presiding over work. While CRE will remain a centralized function, its objective is balancing corporate objectives with business unit needs while enhancing productivity and competitive advantage.

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