

# Millennials Drive Decision-Making



In the fast-growing TAMI industries, it pays to think young when anticipating office tenants' priorities for space, design and location

CBRE's new renovation of its Saddle Brook, NJ office provides both an enhanced work environment for employees and a live case study for the firm's corporate clients.

They may not yet represent a majority of office-using employees, but it's predicted that they will by 2030. Certainly in the key growth sectors—notably the TAMI segment, comprised of technology, advertising, media and information businesses—they're the workers that employers want to attract and retain. "They" are millennials, and their priorities largely drive today's decision-making on office space, on the part of both tenants and the building owners that bring them in.

**By Paul Bubny**

To some extent, millennials—by one definition, those born between 1981 and 2000—have already begun to climb into the driver's seat on setting priorities for office tenants. "The oldest millennials are approaching their mid-30s, so many are definitely in a position to start making decisions on office space," Ada Healey, vice president of real estate at Seattle-based owner/developer Vulcan Inc., tells

REAL ESTATE FORUM. This assumption of authority by younger workers is occurring even as, “for the first time in the US, there are four generations in the workforce,” she observes.

The millennial generation represents 36% of US employees today; by 2030, they’ll comprise three-quarters of the workforce. “As a result, the millennial generation does have a significant impact on decisions about location, office layout, design and amenities,” Healey says. “Even though many offices employ people who fall into each of the four generations, it’s millennials who are the rising sector” and who continue to pave the way for office design.”

A similar theme was sounded by veteran developer John Kilroy Jr. at a recent IREM Orange County Signature Icon luncheon event in Southern California. The chairman, president and CEO of Kilroy Realty Corp. told attendees that it’s not wise to overlook the

tastes, demands and desires of millennials when developing or buying office properties. “Millennials will represent 70% of the workforce in the US before long,” he said. “If you don’t think about what the millennials want, you’re in trouble.”

Kilroy Realty is focused on five West Coast markets that have long been epicentres of technology and media: San Francisco, where the company is headquartered; the Bay Area; Los Angeles; San Diego; and Seattle. Within those markets, Kilroy told his audience, the company focuses on three key elements: location in terms of convenience to public transportation and 24/7, live/play/work environments; physicality in terms of a property’s appeal to millennials; and last, but certainly not least, yield.

That, in turn, dovetails with Healey’s observations on the needs of employers that hope to attract those millennials. “Real estate decisions regarding office space are also being driven by fierce competition for employee recruitment and retention,” she says. “Tech companies want to operate efficiently, but also want their work environments to appeal to today’s worker.”

That has implications both for the neighborhood surrounding that office space as well as for the space itself. “You need to be located around a real work-live atmosphere,” Christian Donin, managing director at Chicago-based GlenStar Properties, told GlobeSt.com, FORUM’s sister publication, earlier this month. GlenStar had just signed its first tech tenant, Punch Interactive, to 23,401 square feet at GlenStar’s 55 East Monroe in the city’s East Loop.

Donin told GlobeSt.com’s Brian Rogal that as Punchkick, a mobile marketing specialist, was on its second or third tour of the property, he felt that GlenStar was “losing traction” with the would-be tenant. “I sat down and typed out a list of restaurants located within just two blocks.” When he coupled that list with the huge food court in the 55 East basement, the proximity of fitness centers and other neighborhood amenities, Donin was able to demonstrate the diversity of options in the East Loop, especially when compared to River North, Punchkick’s current location.

“Once you get a couple of these firms in your building, you validate yourself as an attractive place for others to locate,” Donin told GlobeSt.com, calling the Punchkick lease a “watershed deal.” To attract more high-tech firms to 55 East, GlenStar is planning to add a number of amenities demanded by many of the younger workers that staff the high-tech world. The company has begun constructing, for example, a 4,000-square-foot bike room at the property.

Tech is not the only tenant sector gravitating toward the so-called creative office format. “More traditional industries, such as banking and law firms, are also increasing the amount of space that promotes collaboration and flexibility in work styles,” says Healey.

This past July, CBRE Group Inc. released a report showing that on average, office space is

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occupied only about 48% of the time, a result of the increasing mobility of today's modern workforce. Accordingly, many of the more traditional firms with an eye toward developing a creative workplace strategy are eliminating the traditional cubicle environment and executive offices in favor of shared workspaces.

"We are seeing office tenants across all industries focusing on space optimization, increased collaboration, enhanced culture, employee wellness and the ability to attract, engage and retain top talent," Gary Baragona, director of research and analysis for CBRE, said last year. "More and more, we are seeing work environments with open seating, collaborative workspaces, focus rooms, learning corners and socialization areas."

To that end, CBRE has been eating its own cooking, so to speak, as demonstrated by the renovation of its Saddle Brook, NJ offices, announced earlier this month. The redesign incorporates elements of Workplace360, the company's workplace strategy initiative. For example, workstations at the Saddle Brook office are equipped with adjustable-height desks that allow employees to either stand or sit; the window line was freed up to provide more daylight access across the floor; and various wellness initiatives are being offered, including free gym memberships, health and nutrition workshops, group exercise programs and treadmill desks.

The Workplace360 revamp serves a dual purpose. "By implementing wellness programming and creating completely untethered access to technology in our offices, we enhance the way we work internally, while serving as a live case study for our corporate clients in New Jersey," says Jeff Hipschman, senior managing director for CBRE New Jersey. "We gain a firsthand perspective that allows us to provide better workplace insights, and our clients can visit us to experience the trends and strategies we recommend to them."

One strategy that tenants have made a priority on their own for the past few years, and will likely continue for the foreseeable future, is economizing on space. "Tenants want to fit more people into the same square footage," Dan Granot, principal with Atlanta-based Joel & Granot, an Atlanta brokerage affiliated with GlobeSt.com Thought Leader CORFAC International, said in a video interview at the SIOR Spring World Conference, held in Las Vegas in late April. Over the past decade, the average square footage per employee has declined by as much as half.

"Many more companies are having modular floor plans as opposed to the hard-wall offices that we're used to in the old economy," Granot said in May. But it's not just a matter of putting a big squeeze on employees. "We're seeing a lot more open space and a lot more collaborative space," he said. "People are working all over the office; it's not just designated to one area. People are working in the break rooms; they've got lots of couches. Everything is built around trying to have people collaborate and work together."

For owners of office buildings, the tenant trend toward downsizing per-employee square footage is less dire than it seems. "Overall, people are still compressing their space from a rentable square footage area, but not nearly as much as you may think because of the large increase in collaborative space," said Granot.

Marcus Rayner, founder of Cresa New York, the New York City

division of national tenant rep firm Cresa, tells FORUM that space compression comes with strictures. "There's a limit to how much you can actually squeeze," he says.

"We've moved in the past five to 10 years from 250 to 300 rentable square feet per person down to 150," says Rayner. "With the tech companies, it may be lower. You need a lot more fresh air and air conditioning throughout the space to accommodate that sort of density." Further, he says, "You need amenities, you need conference room space, you need breakout space."

Property-level infrastructure issues also come into play. "There's a limit on the number of people you can have on the floor, because of fire codes and because you need to provide a certain number of bathroom facilities" for a given number of employees, says Rayner. Also, "the air conditioning, certainly in older buildings, may not be sufficient to cool the density that you're trying to achieve."

To that end, Healey says, "We've also seen an overall increased desire for fresh air and natural daylight. Millennials are increasingly aware of the natural environment and doing their part to combat climate change." As a result, they're attracted to buildings that are LEED certified or otherwise designed and operated with sustainability in mind.

That's not invariably the case outside the millennial generation, though. A May survey of real estate executives in New York City by accounting firm Marks Paneth LLP found that only 15% believe their tenants see a property's environmental sustainability as "very important."

On the other hand, 60% of the Marks Paneth survey's respondents believe tenants will be looking for sustainable design within the next three to five years. However, sustainability came in behind moveable walls and open office plans, which 64% of survey respondents said will be sought-after elements in the near future. Nearly half (48%) said office tenants will be looking for outdoor spaces, and 39% said they'll want bike racks.

Healey acknowledges that although using flexible workspaces and open floor plans can increase productivity, communication and overall employee satisfaction, "it doesn't work for everyone. There have also been reports of employee dissatisfaction with an open office plan, citing an inability to concentrate, increased noise levels, lack of privacy and even increased susceptibility to spreading illnesses between employees."

Many tenants, she adds, now find that "that different age groups value different things in an office. While the open office plan may be needed to recruit Gen X and Gen Y, individual offices are needed to retain people as they age." Ultimately, though, "the reduced area per employee appears to be here to stay."

For tech firms and other office-using sectors in an increasingly cloud-based environment, a building's connectivity is another key concern. Speaking from the perspective of a hypothetical tenant, Rayner says, "Ideally, I want the best connectivity. I understand that it may not be in the buildings that my employees want to be in or the most attractive locations."

He notes that in a market such as Manhattan's Midtown South, which has become such a hotbed of the tech industry that it's often nicknamed Silicon Alley, the quality of connectivity theoretically should be more of an issue than it is. "Because the markets have



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Vulcan Inc.

improved so quickly, the landlords are under no pressure to upgrade their infrastructure to improve that connectivity,” says Rayner.

Tenants in the new economy also factor in rents when making decisions on location. Just as Lower Manhattan has seen a migration of tech firms from Midtown South, arguably the tightest office submarket in the US with 7.5% vacancy and comparable year-over-year increases in asking rents, so the East Bay has benefited from tenants moving across the bay from tech-heavy San Francisco for similar reasons. Citing figures from Cornish & Carey Commercial Newmark Knight Frank, the *San Francisco Business Times* reported in May that more than 40 tenants have relocated to East Bay cities such as Emeryville, Berkeley and Walnut Creek. “The spillover is materializing,” Bill Nork, senior vice president and managing director with Cornish & Carey, told the newspaper. “Before, it was a trickle, not a torrent. Now, it’s a steady stream.”

The wants and needs of TAMI tenants are evolving rapidly enough that in the nation’s fastest-growing tech market, Cushman & Wakefield has launched C&W TechBeat, a website that will serve as a tool for both tenants and owners in Manhattan’s three main submarkets. “This tells owners what a tenant’s hot-button issues might be and it shows what stage a technology firm might be in, allowing landlords to tailor leases,”



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square feet per person down to 150. With the tech companies, it may be lower.”

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Cresa New York

senior director Jamie Katcher told GlobeSt.com earlier this month. “We’re in such early stages of the growth of this sector, so we need to embrace it and we need to align to the sector’s business drivers.” The site will be updated regularly with new statistics, industry information and a “tech tenants on the move” feature.

And whether tenants are in one of the TAMI industries or an old-economy sector, it’s a safe bet that they’ll be on the move. A Cassidy Turley report notes that across the US, “demand for office space, as weak as it has been throughout the current recovery, has actually exceeded new supply for two straight years. The trend towards space efficiency will continue in 2014, but stronger job creation will keep demand above new supply for at least one more year.”

Assuming that the current rate of absorption prevails, Cassidy Turley says, “Vacancy levels will decline to equilibrium in most markets by the midpoint of 2014.

In half of the country—mostly in energy and tech markets—the pendulum has already shifted from a rent-declining tenant’s market to a rent-rising landlord’s one. By the second half of next year, the majority of the country will see rents pushing upward.” ♦

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