How Safe Office Reopening Strategies Are Reshaping Leases

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Best practices for safely resuming office occupancy have far-reaching implications for new leases and renewals.

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Expanded remote work strategies will influence office leasing decisions. *Image courtesy of Rawpixel*

As businesses nationwide pursue phased reopening, a key issue for commercial real estate owners and managers is how to safely resume the use of office space. The Centers for Disease Control added significantly to conversation late last month by producing an exhaustive list of guidelines for employers, building owners and property managers.

Highlights of CDC's recommendations include ensuring that HVAC systems are working properly; bringing in fresh air where possible; implementing employee screening, social distancing and other administrative controls; and rearranging workstations, reception areas, and meeting or break rooms to promote the separation of employees.

Though CDC's best-practice pointers carry considerable weight, the federal agency has by no means cornered the market. Leading real estate advisory firms have circulated checklists, as have the American Institute of Architects and the U.S. Occupational Safety and Health Administration. While they may not rise to the level of regulations, the guidelines are certain to influence office leasing strategies and negotiations. So, too, will mandates to keep employees safe and a new, broad-based acclimation to working remotely. Exactly when they will fully manifest themselves remains to be seen.

"Right now, everyone is focusing on what to do in the current pre-vaccine environment—assuming that there will be a vaccine," said David Lipson, a vice chairman for Savills in Washington, D.C. *"But it's extraordinarily difficult to make long-term space and capital decisions, because nobody knows whether these guidelines are going to be temporary or the new normal."*

REMOTE-WORK SURGE

That said, the decade-long trend of squeezing more workers into less space was already waning before the pandemic hit and now appears to be over. Large corporations like Facebook, Twitter and Nationwide have announced intentions to institute a permanent work-from-home strategy. Seventy-four percent of CFOs plan to move at least 5 percent of their on-site employees into permanent remote-work roles, according to a recent survey by Gartner, the research and advisory firm.

Office owners and tenants are still assessing the new climate, noted Jonathon Reeser, vice president of acquisitions for Somera Road, a New York City-based investment firm that owns 20 million square feet of office properties. The new way of operating could neutralize large swings in demand for space, he added. Some workers may stay home for good, yet those returning to the office may need more space.

"At the end of the day, you may have some companies reducing size and others expanding," Reeser said. *"I don't think you can replace the collaboration that takes place in the office, so if you want all of your employees at work, you're probably increasing the amount of space per employee by 50 to 100 square feet."*

Moving workers back into a more traditional office environment may not mean returning to the status quo. At Breather, which provides flexible office space in 10 major markets in the U.S., Canada and England, leasing inquiries have doubled in the last 30 days, reported Bryan Murphy, CEO of the New York City-based organization. He foresees a hub-and-spoke workplace model emerging as office users look to preserve capital and reduce infection risk.

"Every month thousands of leases are rolling over, but we're entering a period of significant economic uncertainty and very few companies want to lock themselves into a five- or 10-year lease," he said. *"They're also concerned about bringing everyone back to a big, monolithic headquarters where an outbreak could shut down the whole office."*

GETTING BACK TO BUSINESS

Stay-at-home orders and the subsequent plunge in economic activity halted leasing activity for several weeks, but discussions are resuming, said Paul Teti, senior vice president of asset management and leasing for Columbia Property Trust, the New York City-based office REIT. He suggests that landlords which differentiate themselves and communicate effectively with tenants regarding their needs and concerns will fare best as leasing recovers. Already, however, tenants exploring extensions or new leases are focused on virus mitigation, he said.

"Every conversation is starting with, 'How are you handling the COVID crisis in your buildings, and what are you going to do going forward?'", Teti said. *"Companies want to know, 'How do I get from the street into my space safely?'"*

Indeed, lease terms related to air quality, single-occupant restrooms, separate security desks and lobbies, and other items are likely to become more common, said Michael Glatt, vice chairman & North American head of project management at Savills. Similarly, leases may include some form of rent relief if a building closes due to an outbreak.

"I'm not saying these things are going to be in every lease," Glatt said. *"But we're certainly seeing a fair share of them right now, and there's a bit of staring game going on between landlords and tenants as to what gets in."*

Fulfilling those standards is likely to require upgrades to building systems and operations. How those costs are allocated depends on current lease structures, vacancy, near-term lease rollover and other variables, Lipson said. Capital expenditures to upgrade HVAC systems may be the landlord's responsibility, for example, while existing tenants may be responsible for costs associated with rearranging their space. But tenants approaching the end of their lease term may find a more generous tenant improvement budget to rearrange or redesign their space if they commit to a longer term, he added. The sharing or allocation of those costs will be hammered out in negotiations.

"Tenants and landlords need to think these all of this through," said Sanjay Rishi, CEO of corporate solutions for the Americas at JLL. *"But when I talk to landlords, this is as much a matter of retaining and attracting tenants as it is an added cost to business and who's paying for it."*

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