

RETAIL

Covid changed how we think of offices. Now companies want their spaces to work as hard as they do

PUBLISHED WED, MAR 10 2021•11:23 AM EST UPDATED WED, MAR 10 2021•12:46 PM EST



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KEY POINTS

One year after many office workers were sent home due to the Covid pandemic, executives face big questions about how much space is truly needed.

REI has laid out concrete plans for fewer days in the office and ditched a plan for a centralized corporate campus.

Most executives agree there are advantages to both working in an office and working from home. As Americans return to work, they likely will be doing a little bit of both.

Office landlords are hoping to see vacancies dwindle and leasing transactions pick back up. They are touting the office as a



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The Recreational Equipment Inc. (REI) headquarters stands in Kent, Washington, U.S., on Wednesday, March 4, 2020.

Chona Kasinger | Bloomberg | Getty Images

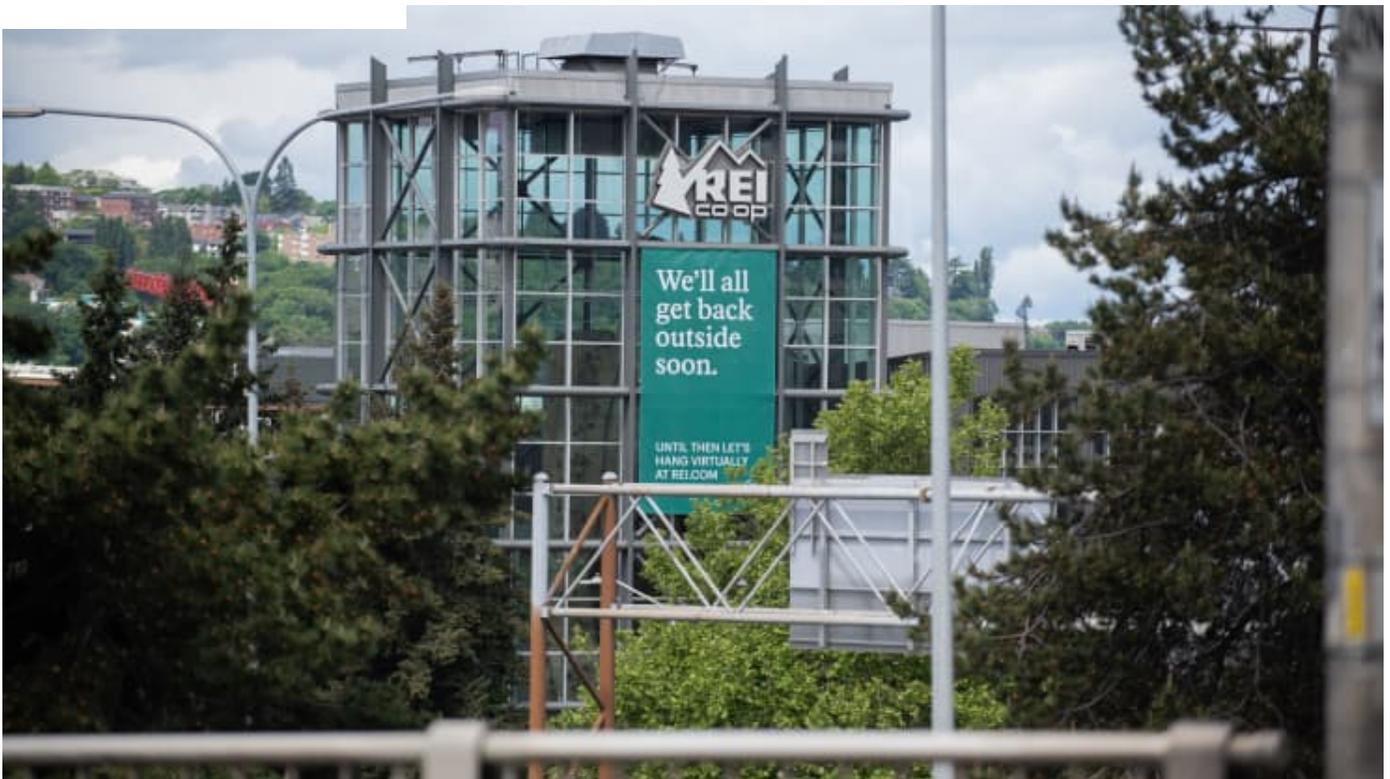
Last August, REI listed its newly built corporate headquarters in Bellevue, Washington, for sale without ever even moving into the building.

It marked a stunning reversal. In 2016, when REI announced plans for the campus, it said it would create a gathering place to foster creativity and bring together thousands of employees. But with many of its employees working remotely because of the pandemic, the outdoor recreation retailer decided to put the 8-acre complex on the market. It quickly pivoted its plans for office space to incorporate smaller, satellite locations throughout the Seattle suburbs.

The Bellevue building was sold to [Facebook](#) by September. And in February, REI announced its first satellite office in Issaquah, Washington — a nearly 70,000-square-foot building that can hold up to 400 people and is surrounded by hiking trails, lakes and parks. The company is also testing a model that allows employees to work from home for up to five days each week.

“We want to create an environment that’s very flexible for our employees,” said Chris Putur, REI’s executive vice president of technology and operations. “We were amazed in 2020 at how incredibly agile and innovative and productive the team could be.”

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The Recreational Equipment Inc. (REI) flagship store stands in Seattle, Washington, U.S., on Thursday, May 14, 2020.

Chona Kasinger | Bloomberg | Getty Images

REI's blueprint for its future workplace is just one story in a bigger shakeout happening in the commercial office market.

One year after many companies sent office workers home to help prevent the spread of Covid-19, corporate leaders are still grappling with how to safely reopen work spaces. They face even bigger questions about how much office space they really need and what incentives they might require to lure people back. Many have learned over the past 12 months that their employees can work from just about anywhere. So that means the office must serve a much more compelling purpose: A hub for collaboration that can't be accomplished virtually and a place to retain and train an

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“If you look back, maybe a decade or two decades ago, the workplace was a means to an end,” said Sanjay Rishi, CEO of the real estate services firm JLL's corporate solutions business in the Americas. “Now, workplaces are becoming as much an end in themselves, because ... everybody is aspiring to get something more out of the workplace.”

While a number of companies are using the health crisis as an opportunity to get out of leases, some are bucking the trend. Tech companies in particular have been gobbling up office space. That's despite many of them being first to embrace the remote-work lifestyle. They're taking advantage of suppressed rents and more flexible lease terms. Many of these businesses also view the office as a perk to lure top talent in the coming years.

[According to a report by CBRE](#), tech companies were the leaders in



activity by square footage. [Amazon](#), Facebook, [Apple](#) and [Google](#) all [added office space in New York City](#) in 2020, mostly during the pandemic.

“There will be organizations that will look at their [office] portfolio and look at rationalizing some level of that,” JLL’s Rishi said. “But we see this as a trend of dynamically allocating space, and then better managing that space.”

A slow and staggered return

Some employees are more eager to return than others, [craving moments](#) **BREAKING NEWS** [cooler](#) talk or post-work happy hours. Others have adjusted to their work-from-home setups and don’t miss the anxiety-ridden office commutes.

Most executives agree there are advantages to both. As Americans return to work at a staggered pace, plans may favor a hybrid model.



“Most organizations recognize that there is a shift in the way work is going to get done,” said Julie Whelan, head of occupier research for the commercial real estate firm CBRE’s Americas division. “They have recognized it, and no matter how traditional they are about their views, they understand that there is going to be a level of flexibility that they now have to contend with, in terms of office planning.”

For now, though, Whelan noted that most executives seem to be holding off on announcing sweeping plans and detailed timelines to bring people back. There are a few outliers, however, such as Tiffany’s new parent **BREAKING NEWS** ary started bringing the jeweler’s workers in the U.S. back to the office for two days per week.

In January, CBRE polled 40 of its office clients, which collectively span 245 million square feet of office space globally and found 9% of businesses had already, slowly started bringing people back to work — using socially distanced floor plans, temperature checks, reservation systems and other precautionary measures.

Twelve percent planned to do so during the second quarter, and 21% during the third quarter. Forty percent of respondents still had no plans to return to the office, as of January, CBRE said.

Many business leaders are still monitoring the rollout of Covid vaccinations. President [Joe Biden](#) said earlier this month that the United States is “on track” to have [enough vaccines for every adult](#) by the end of May. They also are taking into account lifestyle changes that might have

[new pets](#), more time spent outdoors, and people relocating from [populous urban areas to the suburbs](#), where there's less access to public transportation.

“We’re looking at how we can leverage technology, so that those who are physically not present can have the same immersive experience as those who are present [in the office],” REI’s Putur said. “We really want to find a way. And we’re going to try different methods, and I’m sure it’s going to evolve.”

Currently, about 25% of employees across the country are going into  Castle Systems, an office security firm that pulls data **BREAKING NEWS** buildings in the U.S.

Employees wear protective masks at a JLL office in Menlo Park, California, U.S., on Tuesday, Sept. 15, 2020.
David Paul Morris | Bloomberg | Getty Images



Of course, that number has ebbed and flowed with the state of the pandemic. Office visits cratered last March and into April, Kastle found, as the health crisis took hold all over the country. They slowly inched up from then, but took another tumble around Thanksgiving, as infections surged over the winter holidays. This year, visits have since been ticking back up — particularly so in Texas, which is [likely due to the eased pandemic-related restrictions](#) in the state and lesser reliance on public transportation, Kastle said.

When less is more

BREAKING NEWS As offices, decisions to permanently trim space will stem from many different motivations. Some companies may need to cut costs, or will have fewer corporate workers. Others are pledging to merge teams from different buildings to encourage cross-collaboration.

The upscale clothing retailer [Ralph Lauren](#) announced in February it will be cutting as much as 30% of its corporate real estate in North America, to “embrace new ways of working.” Similarly, [CVS Health](#) said it will slash its office space by 30%, as part of a cost-saving initiative.

[Nordstrom](#) said it chose not to extend a lease at one of its office towers in downtown Seattle, taking into account the personal preferences of its workforce and the state of its business.

“While we will not be a fully remote headquarters, it’s clear remote work can and should continue to play a part in how we operate,” the Seattle-based department store chain said.

Old Navy is also vacating the apparel brand's headquarters in the San Francisco area to move in with its parent, [Gap Inc.](#), just a few neighborhoods over. The company said the move should allow it to foster a stronger culture of collaboration, by mixing employees across its clothing brands.

Office owners coax tenants back

Office owners, eager to get people back to their desks, mostly expect a wave of businesses to return by late summer. Brokers say they have conducted more tours of office buildings since the new year started, [reports](#) such as Manhattan.

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Last year, transaction activity largely dried up. JLL [tracked](#) 125.6 million square feet of newly leased office space last year in the U.S., a 47.3% decline from 2019. Total vacancy was at 17.1% by year-end.

[Boston Properties](#) Chief Executive Owen Thomas said he expects there will be a “much more intense return” to the office by the start of summer and an even bigger return by Labor Day. Boston Properties is one of the largest owners of so-called Class-A office space in the country.

Thomas said not many of the real estate investment trust's tenants have made major overhauls to their spaces. Instead, he said he's seeing more “cheaper and more interim measures,” such as adding plexiglass barriers and spreading desks apart, buying contact-free hand sanitizer machines and even sensors that allow for doors to open and shut automatically.

Senior human resources and financial executives say work will be hybrid, with both work from home and some return to offices part of a new normal, and figuring out how to relieve employee stress and isolation are

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“There will be more spacing requirements, particularly for employees that have been pressed closer and closer together,” Thomas said. “I don’t think that’s going to work going forward. Even if the virus has been largely eradicated.”

“Employers are also going to have much more collaboration space, for people to eat and collaborate, because I think there’s going to be a lot more of that that goes on in the office,” he added.

Related Companies, a New York-based real estate developer of office, retail and residential spaces, is eyeing unique perks to entice tenants. It’s launching an outdoor workspace program for its four office towers at Hudson Yards, where tenants can book spaces outdoors with Wi-Fi for meetings and calls. Related has also partnered with Mount Sinai Health



Making tough choices

Some workers just want more certainty.

Last March, Melissa, a 32-year-old employee for a retailer's e-commerce arm, was living in a studio apartment in the New York area with her then fiance, also 32, when both of their offices closed their doors. As stressful as squeezing into a 600-square-foot space with her partner was, the couple successfully worked from home together until June, said Melissa, who asked to keep her last name and place of work private.

She and her now-husband opted not to renew their studio lease and landed a one-bedroom in Brooklyn over the summer, hoping for a swift return to work in the fall. But that still hasn't happened, and the one-bedroom has quickly grown to be too small, too, Melissa said.

"Talks of even going back to the office — who knows?" she said, adding that she's heard little from her employer on the issue.

"What do we do now? Our lease is up again in June. Should we stay? Or should we just take the plunge and move to the suburbs?" she said. "If they don't get us back in the office soon, I'm going to have to make life decisions."

VIDEO 03:48

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