



Activating Office Building Common Spaces for Competitive Advantage

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Introduction

Office building owners have found that to remain competitive in today's marketplace, they must enliven their buildings by offering more amenities and adding vibrancy to the common areas. Some have introduced a range of new amenities, including outdoor workspaces and food trucks, and they have also programmed areas with happy hours, featured speakers and other activities. The common element in these amenities is that they all “activate” the common spaces by creating opportunities for socialization among tenants and the opportunity to work in areas beyond the tenant's suite.

Years ago, many amenities such as rooftop terraces and large, conference-grade facilities were built out, paid for and used exclusively by a tenant. With the rise of the sharing economy and the realization that many of those spaces sat idle for much of the time, tenants recognized that the costs and benefits did not pencil out. Employers needed such spaces in their building to attract knowledge workers, but they were willing to share them with others to avoid shouldering the entire cost. Thus began the shift in the design, ownership and management of those spaces from tenant to owner. This study examines how the shift is impacting office buildings, what amenities are being provided, how common spaces are being activated and who is paying for it.



Kitchen in the Innovation and Design Building, Boston, Massachusetts. ©Jasper Sanidad

Important to understanding this trend is a distinction between “amenities” and “activated spaces” in office buildings. Amenities are generally physical locations or setups — such as Wi-Fi-enabled outdoor seating areas or lounge space in lobbies — that provide the means for work and socialization among tenants. Activated spaces are essentially sites where programming is provided for tenants to enjoy — for example, food trucks in the parking lot, art exhibits, holiday breakfast in the lobby, or an instructor-led meditation

class in the yoga room. The surveys and interviews conducted as part of this study indicate properties that offer alternative places to work and facilitate more socialization among building tenants are more competitive in today's marketplace.

The NAIOP Research Foundation engaged Harvard University professors Richard Peiser, Ph.D. and Raymond Torto, Ph.D., to conduct a study on the activation of common areas in office buildings. The study examines the following:

- New and different types of amenities that owners are including in buildings, their locations within the building, what they cost and how they are funded.
- Programming or social gatherings in building common areas, the types of activities offered, their frequency, what they cost and how they are funded.
- Whether coworking space is becoming an amenity owners must offer in their buildings so that tenants can, for example, use the facility for occasional overflow situations, thus enabling tenants to lease less space directly from the owner.



International Business Consulting Firm Flexible Workspace, Boston, Massachusetts. ©Andrew Bordwin

Methodology

The methodology for this study consists of two distinct online surveys and follow-up telephone interviews, as well as a review of recent literature related to the subject. Members of the NAIOP Research Foundation Research Committee generated a series of questions that they asked the authors to address (see Appendix A for the NAIOP Research Committee's core questions). After conducting background research, the authors developed an online survey that was sent to NAIOP members (see Appendix B for the complete survey results).

The NAIOP members who responded to the survey and took part in the interviews were selected because they are experienced with and well aware of the issues surrounding newer amenities, referred to as “communal amenities” in this report.

Each survey consisted of 17 questions that addressed the importance and frequency of offering amenities that activate spaces; the types of amenities offered; the industries and types of tenants that are most or least responsive to additional amenities; how amenities are paid for; the kinds of active programming that are being offered; the areas in the building in which amenities work best and trends in coworking spaces. Although coworking could be treated as a topic in itself, it is discussed here as one of the communal amenities, playing an important role in the increased socialization occurring in today's office buildings.

The NAIOP Research Foundation sent two similar but distinct surveys, one to developers, investors and operators (referred to as “owners” in this report) and another to brokers and architects (referred to as “service providers” in this report). These professionals were located in the United States and Canada. Respondents were asked in which geographic markets they were active and whether their buildings were primarily located in urban or suburban locations. Responses were tabulated for each group and are expounded upon in this report.

The survey asked if respondents were willing to be interviewed by telephone. Almost half agreed and, on the basis of those replies, the authors conducted 24 telephone interviews that elaborated on responses to the online survey (see Appendix C). The interviews consisted of questions exploring what amenities were most widespread in each market represented, how much space was dedicated to common areas, wherein the building the spaces were located, how much (if any) additional income the owner received, how much it cost to deliver the amenities and the frequency and types of programming. A series of questions addressed coworking spaces. Coworking questions dealt with how much space was allocated, whether the space was managed in-house or by third parties, how critical coworking was to tenants and whether coworking was a fad or a long-lasting trend.

What We Learned

The market for office space has changed in recent years, with tenants demanding a more space-activated workplace to appeal to well-educated and highly-skilled millennial and knowledge workers,¹ such as data analysts, product developers, planners, programmers and researchers. While these types of workers are often satisfied with more compact workspaces in less square footage, they are believed to seek a more interactive, collaborative and socially vibrant office environment, rather than an isolated individual office. Because of this trend, interior office build-outs that have largely been developed since the Great Recession have featured open plans with fewer private offices, typically (but not always) resulting in less square footage per employee. However, to attract and retain these types of employees, employers seek out space in buildings that provide key amenities and vibrancy. The effect of the Great Recession, combined with the reduced amount of space used per employee, has decreased demand for office space and resulted in an intense competition for tenants.

The architectural and design firm Gensler has examined trends in office space and concludes that the way to be competitive is through design. The firm sees today as a time of “profound change in how design supports work in all its varied forms.” Gensler sees demand for new kinds of real estate products “that are a reflection of new and more collaborative ways of working.”²

Academic research shows that business sectors requiring knowledge and expertise that are not easily acquired or transferable depend on a highly specialized labor force and seek open build-outs and amenity-rich workplace solutions that appeal to such workers. Those firms seek space density to deliver better collaborative environments, unlike process-based work environments, which drive workplace solutions to higher density simply to lower employers’ costs. Hence, one would expect that knowledge-based industries would be more focused on building design and amenities. The survey results support that view.

It is clear from the research that there is a revolution in attracting and retaining human capital. Employers need quality labor and brainpower, and the tools that employers need to attract such labor and brainpower have changed over the years. In the past, the way to attract human capital was to offer more relaxed working conditions, including casual dress codes, flexible working hours, the ability to work from home and so on. Those benefits no longer provide a competitive advantage because they are now the norm.

The competition for human capital has moved to another dimension — the workplace. For office space to be competitive in the current market, the space must stand out; it must have amenities that enliven the workplace and create the elusive concept of community.

Demand for Activated Common Areas

The research conducted for this report explored the demand for new amenities and programming, including what types of tenants are most likely to seek such amenities, how deep the demand is and whether activated amenities are necessary features in today's market or just added luxury. The surveys and interviews reveal that employers are looking for amenities that create a comfortable environment for their employees. They believe the best talent wants to work for a company that values its employees' well-being as well as the quality of employees' work. Competition for talent today is so fierce that many companies are pushing landlords to offer unique design and amenities to help them attract and retain skilled employees.

Building owners surveyed for this report believe they need to activate common areas first and foremost to attract and retain tenants. Activated common areas, such as lobbies or the entire first floor of an office building, outdoor patios, rooftop gardens and other outdoor spaces, create more vibrant buildings as people move from place to place. Such ambiance is important for many tenants — especially those in high-tech and knowledge-based industries.

The vast majority of those surveyed — 91 percent of the owners and 81 percent of the service providers — believe that adding special amenities increases a building's leasing velocity but not necessarily its rental rates. As indicated in Table 1 tenants want more vibrant office settings, according to survey respondents, primarily for attraction and retention of employees.

Table 1
Why Tenants Want More Vibrant Office Settings

Reason	Respondents who rated feature as "Very important"	
	Owners	Service providers
Attract and retain employees	91%	92%
Have happy and productive employees	78	81
Encourage socialization and collaboration among employees	65	78
Enhance corporate brand or image	63	68
Encourage employees to work in office rather than remotely	38	24
Encourage socialization and collaboration among all building tenants	24	22

Note: Percentages do not add up to 100 as respondents were asked to check all that apply. Not all responses are reflected in this table. For additional information regarding responses, see Appendix B.

Responses from the telephone interviews provided further insights. One respondent pointed out, "A lot of the people working in our buildings have very limited break times and opportunities, so it is important to provide them with an escape for those few minutes they do have; a coffee place is important to attract talent." The consensus is that younger workers demand

these kinds of engaging amenities and that such amenities are essential for owners to attract tenants.

A distinction in the importance of amenities can be made between “pitching” the space to a prospective tenant and actual usage. For instance, one owner noted that space for outdoor activity was very important during the pitch, but the space was not necessarily used as much as one would expect. Nevertheless, the facility had to be available 24/7.

A broker in San Francisco noted that the right amenities could accelerate lease-up but cautioned that amenities do not necessarily lead to higher rents. In some ways, these amenities can be perceived as concessions that make the tenant “less price sensitive.” In contrast, another observer said that the right communal amenities will enable lease-up with rents that are 10 to 15 percent higher than comparable buildings without them.

Tenant Types Seeking Activated Space

Because today’s employers use amenities and vibrant office environments to help recruit and retain quality personnel, the survey probed to find what types of tenants perceive such environments to be important. Not surprisingly, the types of industries in which special amenities are very prevalent include technology, information and media, and arts and entertainment (Table 2). The survey indicated that activated common areas are least desired by tenants involved in manufacturing and natural resources, and in construction. The survey did not delve into the reasons for the disparity among industries or tenants, but general knowledge of the relative economic growth rates of these industries seems to explain the disparity well. The stronger the growth rate of the industry is, the more competition for labor and the greater the demand for amenities in a property.

Table 2 Prevalence of Desire for Vibrant Office Building Environments by Tenant Type (Owner Survey)			
Tenant type	Very prevalent	Somewhat prevalent	Not at all prevalent
Technology	91%	9%	0%
Information and media	83	14	3
Arts, entertainment, recreation	66	31	2
Retail	42	38	19
Professional services	35	59	6
Construction	29	49	22
All tenants	21	75	4
Finance and insurance	20	71	9
Education, health services	34	49	17
Manufacturing, natural resources	10	36	54

Note: Percentages do not add up to 100 as respondents were asked to check all that apply. Not all responses are reflected in this table. For additional information regarding responses, see Appendix B.

A property owner noted, “We’re seeing traditionally conservative companies in Nashville completely change their build-out to accommodate millennial talent with open layouts, partial open ceilings, stained concrete floors and more casual collaborative meeting spaces.”



Brightcove Headquarters, Boston, Massachusetts. ©Jasper Sanidad

An owner from Vancouver, British Columbia, commented, “We are constantly looking for new ways to up our game and appeal to a wider array of workers. Being in a city with a burgeoning tech scene, this is proving to be an appropriate marketing technique.” He went on to caution, “One challenge is not alienating the established worker, which has not been a major challenge yet, but at some point, I imagine they will start to feel like they are not the priority.”

Attracting and Retaining Talent

The survey comments and interviews reflect that employers desire more than the traditional office amenities. Specifically, there is a demand for more lively environments that attract and retain skilled talent. Commodity space has fallen out of favor among most employers, and to remain competitive, owners must offer unique amenities and enliven the public spaces of their buildings. One respondent summed up the survey results, saying: “Building owners are changing the game to provide more than just traditional space.” Most of the rationale centers on “catering to millennials.” It is the unanimous view of surveyed building owners that the goal to establish “vibrant office building communities” would not be short-lived but would continue into the future.

The consensus is that providing activated spaces has become a necessity, not a luxury. There is intense competition among building owners for high-tech and knowledge-based tenants who tend to employ more millennials. Many amenities are becoming the rule rather than the exception in urban buildings and premier suburban buildings but much less so in buildings where the lowest rent is paramount. Overall, owners who were interviewed

indicated that activated spaces are more common in urban areas, which attract millennials, than in suburban markets. One owner from Toronto explained, “The suburban market is behind but follows suit to stay competitive. Cafeterias are prevalent in the suburban market due to lack of food access. The urban core is close to professionally managed gyms, so you’ll sometimes see a deal with the local gym for employees, but on-site gyms are less common.”

Traditional Amenities, Communal Amenities and Programming

Creating vibrancy by reenergizing formerly underused common spaces and offering unique amenity areas can attract and retain employees, but it is ultimately about market differentiation and the greater profitability gained by being more competitive. Tenants want more than the conventional amenities such as basic fitness centers and small cafeterias. Office building amenities are shifting from utilitarian and single-use purposes to aesthetically pleasing, vibrant, shared spaces that elevate employers’ and office properties’ profiles. More vibrant lobbies and common areas contribute to community by creating a populated atmosphere that makes the office distinctive and a place where people enjoy spending time.

Many tenants have employees with flexible schedules who like a more open and collaborative workplace so that when they are in the office they can review materials in person. Tenants are looking for amenities that create comfortable, lively environments and greater well-being for their employees, such as athletic facilities, cultural activities and opportunities for socializing to de-stress.



Potamus Trading Headquarters, Boston, Massachusetts. ©Garrett Rowland

Table 3 distinguishes traditional and communal office amenities and also lists some of the programmed activities that study participants mentioned. Traditional amenities are usually in fixed spaces and generally have been offered for decades. Tenants have come to expect these amenities; they are

no longer considered novel and, in some markets, are waning in popularity. They were built to be used for a single purpose and, for the most part, did not encourage social interaction among the building tenants. The advent of the sharing economy and the changing demographics of the contemporary workforce catalyzed the implementation of communal amenities: new ways for employees to work, socialize and maintain health. Tenants and employees, as demonstrated by the survey results, are drawn to communal amenities, which are considered unique and increasingly are becoming a requirement for prospective tenants and employees. Building owners are adding further vibrancy by providing programming in either traditional or communal settings.

<div>Table 3</div> <div>Traditional Amenities, Communal Amenities and Programming</div>		
Traditional amenities	Communal amenities	Programming
Bike storage	Bike repair	Art installations
Cafeteria	Climbing wall	Barbecues
Child day care	Coworking space	Coffee and tea in common area
Fitness facility	Garden plots	Complimentary snacks
Shower rooms, lockers	Kayak docking and rental	Film screenings
Walking and running trails	Lawn and table games	Fitness classes
	Outdoor kitchens	Food trucks
	Outdoor social or workspace	Forklift “rodeo”
	Pet day care, pet pen or dog park	Guest speakers
	Rideshare or lifts to public transit	Happy hour
	Self-playing piano	Stair climbing day
	Shared conference rooms	Wine bar
	Sports equipment	Yoga or meditation instructor
	Wi-Fi in building and outside	
	Yoga, meditation or prayer room	

Location of Amenities

Office buildings are using amenities as key design features to appeal to tenants and prospective tenants. One way amenities play a more important role than they did in the past relates to their location in the building. No longer relegated to the basement or dark interior spaces, amenities today are featured in lobbies or other areas where they are highly visible to prospective tenants and are more accessible to users. They are often made even more visible and welcoming with glass walls, and they may be adjacent to outdoor space for improved access, views and natural light.

Gone are the days of the formulaic approach when gyms and food vendors were placed in the basement, where rents were the lowest. Instead, owners are finding that to remain competitive, some areas of the building that traditionally garnered solid rents must be “sacrificed” and dedicated toward common uses.

The survey inquired, “In what areas of the building are you locating these types of amenities?” The answers were distributed widely, with the building’s lobby receiving the most votes, followed by outdoor areas. The attraction of the lobby as a location was based largely on its central and accessible location and its role in making a first impression for the property. Visibility of amenities to the street emerged as a plus. Table 4 provides information gathered from the surveys and interviews, as well as the literature review, about the most popular locations for amenities.

Table 4 Most Popular Places for Amenities (Multiple Sources)	
Location	Description
First floor	The lobby level is the most visible and most preferred location for nearly all amenities, from coffee bars and lounges to game areas and gyms. The lobby level is also desirable for conference facilities and coworking areas.
Outdoor spaces	Outdoor spaces are suitable for seating areas, party and event spaces, green space for relaxing, pet walking and general walking and running paths.
Rooftop locations	Rooftops can be attractive for seating, green space, games and special events.

Paying for Amenities

Vibrancy will cost, and who pays for it is not clear. When asked how much tenants will pay for amenities, interviewees gave responses that ranged from zero to 5 percent more in rent, or \$2 to \$6 more per square foot. Some respondents said amenities are a necessity for which owners can no longer charge extra, while others made distinctions by location. For example, one interviewee said, “In the suburbs, we do not charge for any of it.”

A building owner in Washington, D.C., said that an office with a lobby or common area in the atrium, a fitness center and a conference center might secure rents of \$53 to \$55 per square foot annually versus \$48 to \$49 per square foot without similar amenities. A New Jersey broker stated that for millennials, these amenities are now expected. However, “Tenants with a majority of employees over the age of 40 will pay from 50 cents to \$1 per square foot more, but that’s it.”

An owner in suburban Boston could not see his tenants paying a premium for amenities except in top-tier buildings, but he did find amenities helpful in attracting health service tenants. “With the rest,” he said, “you will lose

your shirt.” He noted that tenants in the suburbs will pay \$1.50 to \$2.00 per square foot more in rent if they need to attract professionals in their 30s. “It is hard to hold on to younger people. They want to be in the city, not the suburb.”



Charles River Associates Offices, New York, NY. ©Andrew Bordwin

How much do amenities cost the building owner? One building owner in Minneapolis said, “It is tough to answer, but it’s a small number.”

The suburban Boston owner estimated his firm spends between \$2.0 million and \$2.5 million on the build-out of amenities in a 1.2-million-square-foot building that include fitness centers, showers and cafeterias. Furthermore, in a 200,000-square-foot building, he subsidizes a cafeteria for \$50,000 per year, translating to roughly 30 cents per leasable square foot. Other cost estimates were \$80 to \$90 per square foot for the build-out of a conference room and up to \$150 per square foot for a Wi-Fi lounge.

An owner in Washington, D.C., estimated the cost of constructing a high-end bike storage and repair room at \$150,000 to \$200,000, locker rooms and fitness facilities at \$150 to \$200 per square foot, and shared conference rooms at \$100 to \$300 per square foot. Another owner observed that common space used to take up about 15 percent of the total area of a building, and now it consumes roughly 19 to 20 percent. The operation cost for such facilities is \$6 to \$10 per square foot. He said, “Tenants like having conference rooms in communal areas, but they don’t pay rent for it.” An architect in Albuquerque, New Mexico, estimated the cost of amenities at less than \$1 per square foot.

Participants were asked how these amenities are being paid for, and most of the owners and service providers (88 percent and 70 percent, respectively) said that the costs are being rolled into common area maintenance (CAM) costs. Higher rental rates are the second most common way of covering these costs, as shown in Table 5. Although there is widespread demand for these amenities, there is no one answer or formula explaining how much they cost or how they are paid for, making them difficult to quantify.

Table 5
How Survey Respondents Are Paying for Traditional and Communal Amenities

Source of funds	Owners	Service providers
Common area maintenance	88%	70%
Increased rental rates	66	68
Lease or outsource to third-party provider	21	32

Note: Percentages do not add up to 100 as respondents were asked to check all that apply. Not all responses are reflected in this table. For additional information regarding responses, see Appendix B.

The telephone interviews indicate that it is not easy to raise rents above market levels if a building has provided amenities, but it is clear that “rent resistance” is lessened by the addition of attractive amenities, which tenants perceive, to some degree, as concessions to their leases.

Programming Common Spaces

While nontraditional amenities such as shared conference rooms and building-wide Wi-Fi are part of the changes being introduced by owners, the most innovative amenities require the active programming of common areas in office buildings. The notion of bringing people together through music and food is not new. But doing so in an office lobby is indeed innovative. If one thinks of the lobby as the town square of the office building, programming it and other public areas with activities that attract people seems like a natural thing to do.

Just over half of the owners surveyed indicated that they do provide some programming or social activities for tenants. The consensus is that programming is becoming a necessity for tenants, especially those with millennial workers. These activities are usually located in visible places, and the lobby area is considered the ideal space. Respondents indicated that coordination and management of these functions depends on the details of the function and that the activities must be exciting and relevant to the people in the building. According to an owner in Atlanta, “The amenities must be operated by experienced, compelling groups who provide meaningful service and aren’t just a temporary filler.”

A high number of respondents — 87 percent — indicated that they were currently offering, or planning to offer, programming and activities. The owner survey indicated that landlords are offering a variety of programming, from fitness classes to happy hours (Table 6). Frequency varies, depending on the kind of event, such as holiday events held a few times per year to events held two or three times per month. A San Francisco owner said his firm provides “a ton of events, including concerts, races, fairs and more.”

Table 6
Most Popular Programming

Type of programming	
Happy hour, social events for tenants	64%
Fitness classes	59
Art installations in lobby and circulation areas	56
Rideshare, lifts to public transportation	50
Guest speakers	36
Film screenings	16

Note: Percentages do not add up to 100 as respondents were asked to check all that apply. Not all responses are reflected in this table. For additional information regarding responses, see Appendix B.

In general, the respondents agreed that programming should be frequent — from daily to two or three times a month — and should not be limited to just holidays. The types of activities differ from season to season, with more barbecues held in the summer and health and wellness events, such as yoga and stair day (when building tenants are challenged to climb the stairs instead of using the elevator), featured in the winter. One architect said, “Programming generally doesn’t vary throughout the year — people want it year-round.”

One leasing adviser in Vancouver, British Columbia, stated, “There is a desire to move toward more programming. In the summer, there are more outdoor activities such as a band at lunch hour, and Ping-Pong outside in a plaza shared by three or four buildings. It’s tough in the winter, though. Lobbies aren’t built for large events. Cafeterias are a bit of a stretch. Tenant appreciation days (e.g., ice cream socials) have been going on for years. There’s a desire to be more social and not a ‘stone-faced’ landlord. They want to put a friendly face on the landlord stigma and build community within buildings. The building should be more than somewhere to work.”

In Toronto, an owner noted, “Smaller tenants want more programming. Barbecues are more prevalent in the suburban setting. In the urban core, it might be a happy hour or an art exhibition. There’s generally more collaboration today between landlord and tenant. It’s a retention strategy.”

In Georgia, an architect offered that small-scale activities happen daily and that most activities are geared toward satisfying the tenant. He went on to say that lobbies used to be quiet, gallery-like places, but today they are designed differently, enabling them to accommodate “more activities, such as meetings, discussions and e-business.”

Concerning who should manage activities and which ones are most cost-effective, a Minneapolis building owner said, “The property manager should handle the programming, and the activities that have the broadest reach — that is, draw the most people — are most effective.”

A property owner in California noted, “All activities we are providing are cost-effective. It’s better to hold the activities by our own managers than by a third party because it creates a sense of intimacy in this way. Programming is all about building a sense of community. Light snacks do not cost much.”

Building owners were asked how they are paying for programming and most indicated that it was covered by CAM budgets, as shown in Table 7.

Table 7 How Survey Respondents are Paying for Programming		
Source of funds	Owners	Service providers
Common area maintenance	82%	67%
Increased rental rates	57	55
Lease or outsource to third-party provider	30	42

Note: Percentages do not add up to 100 as respondents were asked to check all that apply. Not all responses are reflected in this table. For additional information regarding responses, see Appendix B.

One Los Angeles building owner said, “All [programmed activities] are cost-effective. Our buildings have the highest rent in the area because of the programming that creates a sense of community. It makes tenants want to stay and renew their leases. So the costs are built into the rent. You cannot separate the cost and how you drive profit from it.”

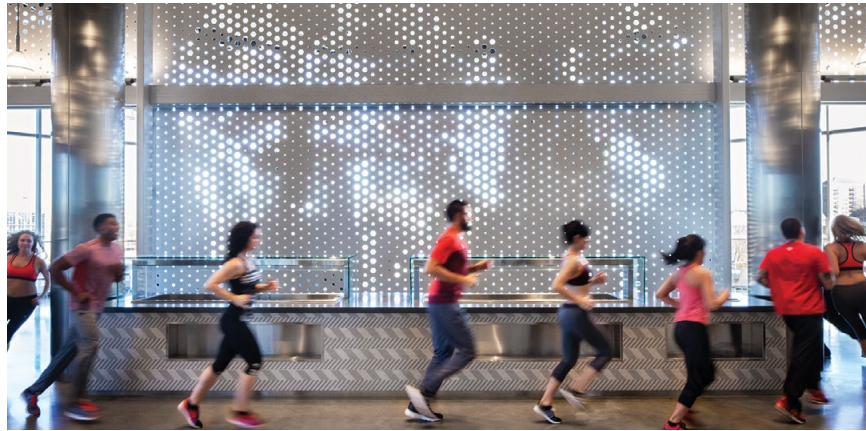
However, the owner of a building in Chicago noted that he cut out programming because the cost is passed through as an operating expense and he views it as dishonest to use tenants’ money for programming. “Most people like programming, but it’s not honest.” His firm will do something for tenants in special cases like Blackhawk-themed cookies after the Stanley Cup win. “It all comes down to personal relationships, not being a cruise director.” This owner could see programming happening in large buildings (800,000 square feet or more), where the benefits are meant to make up for the hassle of working in a very dense project.

For those not yet offering space-activating programming, survey participants were asked about their plans. Happy hours and social events ranked at the top, along with fitness classes and activities in the lobby.

Managing Programming

Although traditional facilities such as cafeterias and larger gyms are generally operated by a third party in a clearly designated area, oversight of temporary activities occurring in common spaces of the property will vary. These sporadic activities can be carried out directly by property managers, or they can be outsourced to a third party, with property managers overseeing or providing general coordination. In either case, programmed activities do require involvement by property management personnel, and the level of involvement will vary.

A broker in Northern Virginia agreed that in his market, weight rooms are usually unmanned, but higher-end gyms with towel service in higher-class urban offices will require operators. In-house property managers are often the ones who coordinate shared conference centers. Another Northern Virginia broker noted that a first-class property manager can be the in-house handler of amenities and programming. One owner said that in-house management of all amenities is his firm's current method, but his firm is considering hiring a third party and paying for the service by charging tenants a small user fee. In some cases, the amenity — especially a gym or coworking space — is leased to the management entity.



New Balance Headquarters, Boston, Massachusetts. ©Andrew Bordwin

The Amenities That Matter Most

Survey respondents gave a variety of answers about the amenities that tenants and owners were seeking. The responses depended on the occupation of the respondent (service provider or owner) and the trends in the respondent's market. The following section details some of the highlights from the surveys and interviews.



Anchor Centre Lounge, Phoenix, Arizona. ©Mark Boisclair.

One building owner in San Francisco saw demand in multitenant office buildings for bike storage and repair, shared space for meetings and events, and shower and locker facilities. The owner added, “You’ll also sometimes see coffee and tea in the lobby, collaborative coworking space, pet daycare and food trucks, which are nice but not easy.” A broker in New Jersey declared that amenities are less prevalent in more suburban markets, but she does see suburban building owners providing access to outdoor space, cafeterias, fitness facilities and showers and lockers.

Underscoring the importance of outdoor spaces, a California architect said, “Outdoor space is very important and exists in almost every project. Patios and roof-decks are more prevalent in urban markets. Tenants also value private patios that are only accessible to tenants.” An owner from Minneapolis stated, “We feel strongly about access to outdoor space, as well as common amenities that allow people to congregate and collaborate.”

“We are seeing a move toward more tenant interaction and community building. Lounge areas, game areas, happy hours, fitness centers, conference centers, etc. are all commonplace now,” said a broker from California.

Programmed activities in coworking facilities, such as lectures and happy hours, have added such an enriching dimension to the workplace that those types of functions are now being requested by many building tenants, not just those located in coworking facilities. Thus, owners are being encouraged — even required — to offer those types of activities in their buildings or to create some relationship with a coworking operator or third-party provider, to make those activities available to building tenants.

A few owners find that providing access to a coworking facility inside their building makes their property more attractive to tenants who may need temporary access to additional office space for “surge” situations, such as accountants conducting audits or summer interns working on projects.

The value of offering space in the coworking suite to building tenants was not recognized by a large number of respondents, but those who did see its value were enthusiastic. They believed that offering such flexibility for tenants who needed space on an occasional basis would increase the likelihood that those tenants would choose a building with coworking facilities rather than one without them.

Owners that have secured tenants by offering them access to the coworking facility believe it provides a very real concession to tenants by giving them the option of additional work space on an as-needed basis.

A respondent commented, “I don’t think that access to games and a bar serving alcohol are the key amenities. Rather, having different seating groups, fast Wi-Fi, a coffee bar, connections to retail and views to active sidewalks are more important.” Quality food and a diversity of food offerings — food that creates a buzz — were also seen as an important amenity.

The availability of functional, sleek and technologically sophisticated conference rooms is an amenity that is gaining favor. One company providing this service on a third-party basis for office buildings is New York-based Convene, whose services include meeting and event venues with technology, food and production services.

One Northern Virginia broker said that garden plots, pet day care and meditation lounges are not advantageous: “Fitness centers are nothing new, but the latest trend is conferencing centers and tenant lounges. There’s a shift to open offices and ‘free address’ environments in which employees do not necessarily have assigned seats. The environment outside the four walls of the office is more and more important. Sometimes you need a private place for a phone call or a meeting.”

A developer in Seattle noted that, “Day care has largely gone away because people prefer it to be closer to home.” She went on to say that contrary to what most survey respondents and interviewees indicated, in Seattle, “Fitness isn’t important anymore because everyone has their own gym. However, showers and lockers remain very important even without a gym because people run at lunch, bike to work, go elsewhere after work.” She doesn’t see pet day care in Seattle because people bring their pets into work to roam around the office.

On a different note, a Los Angeles building owner wrote that, “The most important [amenities] are the telecom support–video conference rooms and spaces with a sense of community (shared spaces such as lobby, rooftop and patio). Not significant: unmanned pet pens.”

A California-based developer stated, “We are developing a 540,000-square-foot speculative office project in Orange County ... that will offer hundreds of comfortable common-area seating options within the building and a two-acre courtyard. The unique amenity areas have been designed to be fully activated and include indoor and outdoor 4,000-square-foot bridges that connect the buildings on multiple floors, an outdoor amphitheater, covered seating to serve the on-site restaurant (with happy hour capabilities), indoor and outdoor conference rooms, a fitness center and an indoor–outdoor great room, among others.”

One interviewee cautioned that **too many technical offerings could draw random individuals into the building to use the common space**, so striking a balance is important. A San Francisco–based broker said, “We provide technological amenities in conference rooms but not in common areas. We don’t want people to hang out in common areas, especially people from outside. There’s a difference between ‘active’ and ‘hanging out.’”

A broker in Boston cited amenities he saw frequently appearing in common areas, including charging stations for electronics and large-screen TVs for news broadcasts and presentations during public events. In fact, those two offerings were widespread among the owners interviewed.



Fort Mason Center, San Francisco, California. Image courtesy of Kārlis Dambrāns, Wikimedia Commons

In Chicago, an owner invested in two buildings near O’Hare International Airport, adding a Wi-Fi lounge, an outdoor patio, bike storage, a cafeteria, a gym, showers, lockers and child care. “Food trucks are popular. Larger projects also can support fitness facilities with programmed classrooms where tenants would pay a subsidized fee.”

Although many owners enable caterers to set up bars and serve alcohol for special events, few serve alcohol on an ongoing basis, citing restrictions relating to liquor licenses. The emphasis instead is on creating and activating common spaces for collaborating and connecting.

Coworking Space as a Building Amenity

The Commercial Real Estate Terms and Definitions glossary published in 2017 by the NAIOP Research Foundation defines coworking space as, “workspace offered for lease for short-to long-term periods in a communal setting.” Unlike a typical office environment, the coworkers are usually not employed by the same organization, although several employees of the same organization may occupy a small office or shared desk space. Coworking arrangements are typically attractive to work-at-home professionals, independent contractors, startup companies and people who travel frequently. They also provide overflow space for companies seeking to accommodate temporary workers or visitors. A coworking environment facilitates social interaction among a group of people who are working independently, but who generally share entrepreneurial values and are interested in the synergy and potential business opportunities that can occur serendipitously among professionals.

Forty-six percent of the owners surveyed indicated that they offer or are planning to offer coworking facilities in their buildings (Table 8). Concerning operation of the coworking facility, among those that responded, third-party operators are used by 29 percent of the group and 21 percent indicated that the coworking facility is operated directly by building management. The notion of an owner operating a coworking facility on his or her own is relatively new. However, there are instances in the market, though not in this study, of owners building out speculative suites with a range of seating options, from bench seating to private offices, often located off of the lobby, which some of the survey respondents might consider owner-operated coworking space.

Owners were asked if they believed a coworking facility was needed in each building to keep it competitive, and a plurality (49 percent) said no.

Interestingly, service providers were more bullish about the coworking concept than owners, with 60 percent indicating that coworking facilities were in place or planned among the owners with which they work. Additionally, 38 percent of service providers indicated that owners would indeed need to offer coworking facilities in their buildings to stay competitive, compared to just 21 percent of owners. Brokers and architects are tasked with keeping owners apprised of new trends, so their perspective about this topic may indicate its importance in the future.

Table 8
Prevalence, Operations and Competitiveness of Coworking Facilities

	Owners	Service providers
Do you offer or are you planning to offer coworking facilities?		
Yes	46%	60%
No	43	27
How is the facility operated?		
Directly by building management	35	27
Leased to operator	49	67
Is a coworking facility necessary to keep a building competitive?		
Yes	21	38
No	52	38
Maybe	27	24

Note: Percentages do not add up to 100 as respondents were asked to check all that apply. Not all responses are reflected in this table. For additional information regarding responses, see Appendix B.

Asked whether coworking space is essential, a team of brokers interviewed in Northern Virginia said that it depends on the specific submarket and that owners should offer “at least one communal space or else you’ll miss many deals.” A property owner in Toronto agreed that the need for coworking space varies, saying, “It falls between critical and nice to have. It’s a value-add.” In general, both owners and brokers agreed that coworking space is not essential, but it does help lease a building, especially in major urban centers.

Interviewees were split on the question of whether coworking space was needed in every building as a way to keep the building competitive. One Boston broker noted, “It is better [in the same building] because it can provide additional services to people in those office buildings.” However, a San Francisco broker said, “It is sometimes a negative if my building has a coworking place, because the turnover is high.”

Amount of Space for Coworking

When survey participants were asked how much of a building’s space should be allocated to coworking, responses ranged from 2 to 5 percent, but in large buildings, the range was up to 10 percent. An architect in Southern California said that for WeWork,³ the largest coworking owner in the United States (now international), the space allocated was currently occupying a maximum of 10 percent of the office building’s total square footage and that owner-built communal space was less, perhaps 5,000 to 10,000 square feet. A Washington, D.C., building owner believed that coworking space in a building with total square footage of 100,000 to 200,000 should be about 3,000 to 5,000 square feet.

A San Francisco property owner said, “You might dedicate one-half or two-thirds of a 40,000-square-foot lobby to a communal work environment. At 181 Fremont Street, the 40th floor is dedicated purely to coworking. One World Trade Center in New York City also did that with a third-party operator.”

The Future of Coworking

During the interviews, participants were asked if they believed the concept of coworking was a fad or a long-lasting trend. One New Jersey broker believes that coworking is here to stay. An Albuquerque, New Mexico, architect said that coworking is not yet in his market, but he believes it is a long-lasting trend.

Respondents also addressed the amount of coworking space being leased in the market. A broker in Northern Virginia, referring to the quantity of coworking space in the market, believes that the pendulum has swung too far and will move back to the middle. He noted that there is a 90,000-square-foot WeWork coworking office in Tysons Corner, but he anticipates a reduction in the future. “They’re not that different from Regus⁴ except that now it’s cool and they serve beer.”

A Chicago building owner stated that coworking is attributable to a demographic bulge, and he doesn’t see it taking over. “On large leases, there’s no demand to collaborate with people from another company. The Wi-Fi lounge is better, because it’s an alternative to working at your desk and can be used for small team meetings.”

A Washington, D.C., building owner disagreed. “A tenant lounge or coworking area allows smaller tenants to lease less space. It gives workers another place to congregate, sometimes with other tenants. People host interviews there, get coffee, have small meetings. There is bookable and nonbookable space in the same area. Residential and hotel concepts are coming into the office.”



WeWork Chelsea, New York, NY, image courtesy WeWork

A broker in Atlanta believes that coworking is growing too fast now. “Providers like WeWork have only operated in a good economy. Their main users are startups. It’s hard to know what would happen in a bad economic environment.”

In general, coworking is a more significant trend in major cities than in smaller ones. In smaller California markets where coworking is not a trend, one owner said, “Tenants like to socialize with other people in common spaces and mingle with others when they are not working. But when it comes to work, they still want their privacy. However, we do see more people working in multiple spots in the building, such as in the lobby, outdoor space, etc.”

Managing Coworking Facilities

When asked how coworking facilities should be operated, most interviewees recommended third-party operators. In Boston, a broker noted, “Third party is absolutely better. Owners are not equipped to operate coworking. It’s a totally different business. Coworking is more of a service model.”

A leasing advisor in Vancouver, British Columbia, took exception. He noted that in the Vancouver market, most commercial buildings are owned by institutions that have the resources to manage coworking facilities directly. He added, “The Vancouver market doesn’t have many headquarters — it’s a branch office market, and tech startups are starting to drive the market, which is a natural fit for coworking, so it could take off in Vancouver. Tech startups tend to go into more B and C class office buildings or formerly industrial spaces, and that’s where the growth is. Landlords want to tap into that. Traditional tenants don’t value coworking, but the startups absolutely do.”

Underscoring the notion of direct management, a property owner in Toronto observed that some bigger owners are starting to offer coworking spaces that they manage themselves. Another owner said that her firm features both styles of coworking (third-party managed and owner provided). “Coworking provided directly by the landlord is growing,” she explained. Sometimes it’s an informal lounge setup on the roof-deck or in the lobby.”

Owners leasing to coworking operators will need to consider the needs of key industries in the submarket in question and the type of operator that will serve them well. As some coworking brands gain prominence, will it be necessary to feature a top-tier coworking operator to anchor a Class A building? Currently, WeWork is the dominant operator, but the field could become crowded with others trying to fill demand. Other issues that will also need to be addressed: Do coworking operators see owners as their competitors? What arrangements can be made with coworking operators so their tenants can become building tenants? Should owners make presentations at seminars sponsored by coworking operators to explain the lease process to startup companies? Should a transitional lease be developed that gives preferred terms to coworking tenants moving directly to leased space?

Another model is for the building owner to own and manage the coworking facility as a separate branded entity. At the 2017 NAIOP Forums Symposium, held in Indian Wells, California, a developer from upstate New York, noted that his company purchased the franchise rights to Serendipity Labs in his region. One upside to owning and directly operating the facility was that his firm could control the coworking centers in the buildings that it owns. He indicated that his ability to manage the calendar and schedule of the facility enables him to offer access throughout the year to direct building tenants as a perk or concession to their lease. A potential tenant who is offered “elbow room” on an as-needed basis in the building where the company leases will likely lease there instead of with a competitor who does not offer that flexibility.

Additional Thoughts

Urban or Suburban?

No direct question was asked regarding activation of buildings in urban versus suburban settings, but reading between the lines, it is clear that it is occurring in both settings. It follows that suburban landlords are being asked to modify their buildings and campuses to a greater degree than their urban counterparts because buildings situated along traditional urban street grids typically draw vibrancy from the street and the neighborhood. However, as noted throughout the study, activation of lobbies and rooftops is occurring in major urban markets such as San Francisco, Los Angeles, Chicago and Washington, D.C. Such buildings can generate a vibe and be perceived as “cool,” which helps them stay competitive.

Fad or Trend?

Activation of common areas in office buildings is a relatively new phenomenon, and it remains to be seen if this change will carry forward. A suburban Boston building owner believes that space-activating amenities are here to stay, but not for the whole market. He believes that only suburban buildings in the top tier of rents need these amenities. For other buildings, space-activating amenities are simply not cost-effective. “Owners must be careful where they choose to upgrade their buildings with new amenities. For it to work, the building needs a good location near transit.”

He elaborates, “Tenants won’t pay way above market rent for amenity-rich space, except in places like Silicon Valley or Cambridge, Massachusetts. But elsewhere, owners need to compete at market rates. When renovating buildings, it is nice to have a water wall or green wall or attractive artsy walls. They give a spark to the lobby. Stadium seating around a waterfall is also appealing and energizes the lobby space.”

“Overall, common spaces started out social,” noted an architect working in Southern California. “Now it’s about how to meaningfully work outdoors. Tenants want to be able to work in many spaces and places and with different people. The workplace has become so intense, people need human

interaction and refreshment, not just technology. They're looking more for wellness and an improved quality of life in the office space."

"In summary, 'location, location, location' is turning into 'amenities, amenities, amenities,'" said a New Jersey broker. "The suburban markets need to bring their buildings up to Class A status with as many amenities as make sense — it will be money well spent. They can't maintain a sleepy corporate campus identity. They need a version of a downtown to attract tenants, ideally within a quarter mile of transit."

A broker in Northern Virginia stated, "The trend in amenitized office buildings won't go away anytime soon. Billions are spent every year to reposition buildings. Collaboration at work is somewhat here to stay, but too much collaboration is not a good thing, and tenants are beginning to push back on extreme collaboration conditions."

"These amenities are really important," said a Washington, D.C., building owner. "You must know your market and demographics well. New construction is easiest because you're already targeting those willing to pay the highest, so you're incentivized to go over the top and be on the cutting edge. You should find a balance between where to spend on amenities to get the most bang for your buck. It's a fun art form. And you're seeing hotel and residential concepts making their way into the office. There's more cross-collaboration, and tenants are receptive."

An owner in Los Angeles stated, "What distinguishes us is that these amenities can be used by our tenants and make them feel they are the owner of the space. For example, every building has space where music is played, but in our building, if you are the first person in the room, you can choose the music to play. It doesn't cost extra money, since we buy the same speaker and use Bluetooth technology. But we can think of the ways to involve tenants and make them excited about it. I think real revenue generation is the concept of shifting from cost per square foot to cost per employee."

Conclusion

This study has identified that vibrant office settings are being sought by office tenants, especially those in the high-tech and knowledge-based sectors. Thus, owners are activating communal spaces in their buildings by offering nontraditional amenities such as game areas, lounges and shared conference rooms and by featuring programming, such as happy hours, lectures, music, and health and wellness activities, to draw tenants from their suites. These settings and activities provide alternatives for employees so they can take a break from work, work in a different setting and interact with members of the larger building community. These opportunities enable the employee to recharge and potentially to be more productive. Building owners have indicated that traditional amenities, new amenities and programming must be offered to remain attractive to tenants and beat the competition.

Competition in the office market was once primarily determined by location, transit access and parking space availability. While those factors are still critical — as are rental rates, availability of contiguous block sizes and concessions such as free rent and tenant improvements allowances — tenants seem to be less focused on the exclusive offerings available to them inside their private suite and more focused on shared offerings in the building.

With the rise of the sharing economy and the realization that many expensive amenity spaces sit idle for much of the time, employers have begun to recognize that there are less expensive options. They need facilities such as rooftop terraces to impress clients and retain employees, but they are willing to share such amenities with other tenants to avoid paying for them directly. Thus the design, management and cost of these facilities have begun to shift from the tenant to the owner. Add intense competition for highly skilled knowledge workers, and a new competition has emerged in which commodity office space remains vacant while well-designed, amenity-rich space is leased.

Next Steps

Research on the current state of office building amenities and activating common spaces is still in its infancy. The questions addressed here focus on how prevalent these amenities are, who is demanding them and how owners are responding. Further research is needed to delve more deeply into which amenities are most cost-effective and where and for what types of tenants they are most important. Although the interviews relating to the actual costs and benefits of different amenities provide some insight, the need for more data stands out if the costs and benefits are to be better quantified and evaluated. Further research is needed on activating common areas to determine which approaches are most effective and which types and frequency of programming make the greatest difference to office leasing, turnover and rents.

This is a time of rapid change for office buildings. A better understanding of the changing role of amenities and common spaces is critical if developers and service providers are going to stay out in front of the evolution.



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