

Collaboration and Productivity in the Workplace

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Consumer Price Index (CPI-U):

+0.5% in Jul. 2011

-0.2% in Jun. 2011

+0.2% in May 2011

Source: www.bls.gov

Unemployment Rate:

9.1% in Jul. 2011

9.1% in Jun. 2011

9.2% in May 2011

Source: www.bls.gov

The Fed (U.S.) Prime Rate:

3.25% Aug 9, 2011
(The Current U.S. prime rate)

3.25% Dec. 16, 2008

4.00% Oct. 29, 2008

Source: www.wsjprimerate.us

This is the continuation in a series of articles focused on the changing work environment and the utilization of space. This paper follows up on the changing workplace demographics (see Tenant Talk Issue 105) and dives into how technology is changing the way employees interact. These changes create an urgent imperative for organizations to modify the way office space is designed so that the space provides employees with the ability to be more collaborative (both inter-personally and through technology) and to create space that leads to higher performance and increased productivity--all vital factors for organizations looking to achieve competitive advantages as well as sustained business growth and profitability.

Collaboration, teamwork, knowledge sharing, etc., remain key areas of focus for leading companies because of the proven positive business outcomes that result. Flat organizations continue to replace hierarchical ones, because collaborative environments are more effective than those that promote individual achievement. A collaborative, team-oriented culture is the future of the workplace and any work environment that increases the opportunity for workers to come together will increase their productivity and allow for greater personal growth and development that leads to improved learning, faster decision making and more innovation.

Although most workers feel and believe they need to work together and partner with others to get work done efficiently (a message they also continuously hear from their leadership), their work environments (conceived, designed and built for a different operating model) are typically not conducive to that thought process. For example, an often heard frustration is the inability to get a conference room for teams to meet. This is an outdated approach. Creatively designed space which encourages collaboration and team work has proven to be successful in

engaging employees and driving high performance which is very different from the traditional office-cubical-conference room setup that does not foster interaction amongst employees. One of the changes that will have to occur for true work collaboration leading to higher performance is a strategic shift in corporate thinking in how space is designed, organized and ultimately built.

Another complicating factor to consider is the distributed and/or alternative workplace and how to effectively bring collaboration into an environment that is forcing its workers to be outside of the office. This reality is also being driven by changing employee demographics where younger populations are the norm and these workers have very different expectations for how to most effectively and efficiently reach goals faster. Technology is enabling this trend—iPads and smart phones are beginning to displace even the laptop (itself a disruptive technology of the past decade or two); video conferencing (often on these same devices) no longer requires video conference rooms; social media is the preferred method of communication for large and growing portions of the employee base, etc. As companies continue to push for cost reductions there will be continued pressure to reduce the amount of space by leveraging technology. And younger employees are demanding more of a voice in where, with whom, and how they work. Organizations will have to involve their employees in creating solutions that meet these expectations as well as foster collaboration. To gain maximum advantage from space utilization corporate real estate managers need to re-evaluate how work gets done, who is doing it, where it's being done and involve their employee teams in the evaluation and development process of space utilization and design. If collaboration in the workplace is the goal then companies will need to collaborate with their employees to create the best possible work environments that ensure business success.

OFFICE MARKET – FIRST QUARTER 2011

Market	Class A Vacancy %	Class A Asking Rents	Total Net Absorption
Atlanta	21.8%	\$22.95	401,463
Boca Raton	18.0%	\$33.12	38,005
Boston	14.2%	\$34.43	562,186
Chicago	19.7%	\$24.40	695,933
Cleveland	16.6%	\$21.36	193,961
Dallas	20.4%	\$23.02	222,114
Denver	15.1%	\$23.64	329,201
Detroit	21.9%	\$21.52	(99,877)
Houston	14.8%	\$29.15	659,603
Los Angeles County	16.7%	\$35.04	395,988
Miami	21.3%	\$36.31	8,899
New York – Midtown	9.0%	\$77.59	148,579
New York – Downtown	11.8%	\$43.10	229,567
Oakland - CBD	13.5%	\$29.76	(116,801)
Orange County	22.3%	\$25.92	576,337
Philadelphia	14.2%	\$28.62	21,406
Phoenix	28.7%	\$24.02	297,749
Portland	14.4%	\$22.93	(36,352)
San Antonio	17.2%	\$26.28	52,530
San Diego	17.0%	\$30.36	340,176
San Francisco	13.7%	\$36.89	271,790
San Jose	25.1%	\$35.52	432,743
Overall U.S. Market	17.1%	\$31.06	12,005,000

Vacancy: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year. Office rents are reported full service where all costs of operation are paid for by the landlord up to a base year or expense stop.

Net Absorption: The net change in physically occupied space over a period of time.

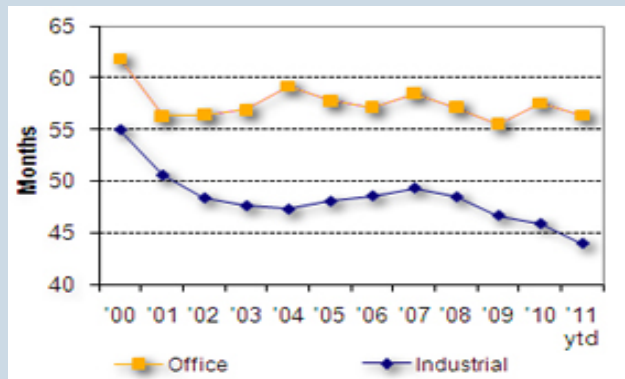
FORECAST

This may be one of those rare occasions when the performance of the office market says more about the economy than vice versa. Despite soft economic data in recent months, tenants absorbed space at a respectable clip in the second quarter, driving down the vacancy rate by 40 basis points to 17.1 percent. The office market is a lagging indicator, so this improvement could be related to the stronger labor market early this year, and it could be short-lived. But many economists still think a second-half pickup is possible, which would sustain the office market recovery. Like the economy and the labor market, the office market is recovering slowly. Look for the modest pace of recovery to continue through the remainder of this year.

Average Lease Term

Average lease terms remain low by historic standards for both office and industrial space. The average industrial lease term year-to-date has dropped to a decade low of 44.0 months. Third-party logistics firms have been most active recently, and they prefer shorter-term leases that co-terminate with their logistics contracts, often three years. The average office lease term of 56.3 months is the second-lowest level of the decade, slightly above the recession year of 2009 and tied with the recession year of 2001. The trend toward shorter-term office leases may be driven by the preferences of both tenants and landlords. Businesses have been reluctant to hire and to tap into their cash reserves, and shorter lease terms fit with this conservative mindset. For their part, landlords aren't anxious to sign long-term leases until rents start to firm, which hasn't happened yet in most markets. Now is a good time for tenants to sign longer-term leases if they feel confident in their revenues and if they can convince their landlords.

Source: Grubb & Ellis



For more information on the Tenant Advisory Group or how we might assist your organization, please contact:

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