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COVID-19: Creating functionally obsolete office space - by Thomas Jensen

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As governments begin easing restrictions enabling non-essential workers to return to work, employers need to prepare return-to-office protocols. Employers must comply with government orders with guidance from federal, state, and local officials as the situation evolves. As companies become legally permitted to reopen and scale up operations, employers may still be exposed to legal liability if sufficient precautions are not taken. Employees may also hesitate to return if they are concerned overall conditions are not adequately safe.

Over the last several years employers continued to squeeze more workers into less office space. The average amount of square feet occupied by one office worker was 250 for several years. As of 2018, the national average was 194 square feet per employee, which is down 8.3% since 2009. The square footage per worker varies with the more expensive markets having less space per employee.

Boston-area brokers and landlords report the average office worker now occupies roughly 175 s/f. Therefore, a 100,000 s/f office building that traditionally housed 400 workers now houses 571. The roughly 40% increase in the number of people working in a building presents a challenge for landlords and employers to effectively maintain social distancing guidelines.

In addition to the overall office densification trend, many employers have chosen to place workers in shared office environments with common area congregation space. Offices with these shared common spaces are designed for group interaction. Several companies adopted these open designs without consideration of disease transmission between employees.

Microbes tend to concentrate and spread from common area surfaces such as refrigerators, drawer handles, faucet handles, push-out exit doors, and even coffee pots. It is important to remember the greatest risk is not from the building itself, but from infected employees. If one person is sick, they spread the germs through coughing and sneezing, touching surfaces, and contacting others. Even staying at their desks, germs are spread by the flying droplets that settle on surface and cause contamination. Infected employees may also be asymptomatic and unknowingly shed the virus onto their fellow coworkers. A study from the American Society for Microbiology found that a virus on a single doorknob or table in an office building could be detected on 40% to 60% of workers, visitors, and commonly touched objects within two to four hours.

These new generation office layouts may require expensive reconfigurations in order to comply with social distancing guidelines or risk liability lawsuits and employee turnover. In the interim, employers may be required to install protective barriers at workstations with the closure of common area congregation space. Office layouts designed to maximize density and employee interaction may now be functionally obsolete in the age of COVID-19.

WeWork leases roughly 1.5 million s/f with another 1.2 million s/f leased to similar operators in Boston and Cambridge (excluding the suburbs). If these facilities are required to operate at less than 50% capacity, the business model may not remain financially feasible.

Most health experts predict a second wave of COVID-19 in the fall with no working vaccine available for mass distribution until at least late-2021.

Consider that a one million s/f tower houses approximately 5,000 office workers. How can social distancing in elevators be maintained during the morning and evening commutes? Staggered work shifts would be difficult to manage between 75 to 100 companies. Are all of those companies maintaining consistent social distancing rules within their respective office areas? What about restrooms?

Companies offering workers private offices with limited common areas may have an edge in attracting and retaining employees over larger companies with shared work environments in towers. However, potential off-sets could involve companies allowing a higher percentage of their employees to work from home.

Modifications designed to reduce disease spread that are less expensive may include installing automated doors for ingress and egress into the main building, tenant suites, and restrooms and installing automated water and soap dispensers.

Others modifications may be more costly such as redesigning the HVAC systems to reduce spread of viruses and bacteria from coughing or sneezing employees.

Attention needs to be paid identifying potential obsolescence in the layout of tenant suites, new common area standards, and potentially larger vertical circulation and HVAC issues. Thoughtful attention needs to be given in cash flow projections regarding tenant renewal assumptions, downtime between tenant turnovers, and the appropriate new and renewal tenant improvement allowances. In addition, there will likely be a substantial increase in cleaning/janitorial and management expenses.

Moving forward, appraisers need to take into consideration the various forms of obsolescence created by the COVID-19 pandemic in office properties through identification, determining whether the issue is curable or incurable, and considering the use of capital deductions and extraordinary assumptions.

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