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Office buildings: Where we go from here - by Jonathan Avery

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Trying to understand where we have been since Massachusetts declared a State of Emergency on March 10th and the Federal Government declared a State of Emergency on March 13th, is a serious challenge. These declarations were followed quickly with stay-at-home advisories, together with a series of orders, advisories and suggestions which lead to a virtual shutdown of our economy. The speed and extent of this virtual closure of our economy brought unimagined changes on both economic and personal levels. The impact on real estate in the short term is now becoming apparent – 10 weeks into the COVID-19 pandemic crisis. The effect is just now showing up in the data.

Massachusetts has been particularly hard hit with nearly twice the national average of COVID-19 cases. The Boston Federal Reserve reports there have been 14 times more unemployment claims during this period than when compared to the similar time frame during the Great Recession. The Bureau of Labor Statistics estimates a 16% loss (426,100) in non-farm employment in April. The fallout from these facts combined with the closing of schools and colleges, many small businesses, and the travel industry will have a long lasting impact on the Massachusetts economy.

The effects of the shutdown on a number of major sectors – restaurants, retail, travel, hotels – are severe. The economy experienced a historic constriction during a two week period in March. Restaurants closed for indoor dining on March 17th and by April 3rd there was an 85% drop in hotel occupancy and Logan Airport, from a practical stand point, closed.

Initially, the focus was on dealing with the impact of the virus, as it had to, from a healthcare perspective. As the shutdown procedures began to show progress in decreased infection and death rates, there was some relief from the lockdown. However most companies, large and small, were figuring things out. Work from home procedures are clearly effective and keeping many professional, office and even distribution activities at high levels. One thing becoming increasingly clear is that the transition back to the office will be a slow one. The office environment will be different in many ways. The pace of this transition will be slow and uneven. Many companies have already made it clear that they will likely not open up their offices until at least September and others, not until 2021. Many employees are expressing concerns such as safety of mass transit, availability/safety of childcare, and testing capabilities in the workplace. The resolution of these concerns is not yet clear. Several things are beginning to be apparent. Working from home will increasingly be a viable and in many cases efficient option. There will likely be a return of the suburban office setting as a viable alternative to working in urban office settings. Flexible work schedules and rotating use of office space will be applied as a means of lowering the employee density.

So what does this mean for the future of office properties? In the short term a number of retrofits and procedural changes will take place. Retrofits will likely focus on reducing the number of high frequency touch surfaces, social distancing, and interior layout redesign. The use of electronic keys/fobs and automatic door opening devices will become widespread. Relocating interior partitions, plexiglass dividers and reduction or elimination of open office group collaboration spaces will be needed. Elevators by their nature provide limited addressing of distancing requirements. The

solution is to severely limit the number of passengers allowed on at a time. This may contribute to use of staggered workhours in order to move employees to their offices in a somewhat efficient manner.

In many ways, the existing lobby security check-in procedures can be adapted to address such things as occupancy limits in buildings, health screening and enforcing distancing. Increased ventilation and air purification are substantially more complicated and expensive challenges. This set of issues will certainly be incorporated into the design of new buildings and major renovations.

It is clear that the office building as we have known it is not dead but must adapt to a new set of realities and user requirements. The financial impact will be substantial in terms of capital expenditures, rent levels, vacancies and operating expenses. How these new realities and requirements will impact values is uncertain. Who bears the burden will play out over time.

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