

# Q AND A

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HOW MUCH  
OFFICE SPACE  
SHOULD TENANTS  
LEASE IN A HYBRID  
MODEL?

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This is the question hotly debated by tenants following the pandemic, as remote and hybrid work has taken hold in offices across the U.S. There is no one answer to this question. As such, the amount of office space a tenant should lease in the hybrid model warrants careful consideration and study. The amount of space leased is the key determinant of the cost of real estate. The organization's culture and the tenant's carbon footprint are also significantly impacted. Strategists inside or outside the organization must do the work to be able to answer the question for a particular tenant. Here is a list of questions that should be asked and answered to support the conclusions and decisions about the amount of space a tenant should lease in this new era.

#### **Q | WHAT IS THE TENANT'S TRUE OCCUPANCY LEVEL?**

**MC |** Let's be honest. While data reported by Kastle Systems may show that occupancy levels in the U.S. on average are back to 50% of pre-pandemic levels, what is not being reported is that pre-pandemic occupancy levels were generally at 60-70% of capacity, meaning current occupancy levels are actually at 30-35% of capacity (headcount of the office). According to Kastle, on Mondays and Fridays, occupancy across U.S. office markets falls substantially lower. This means tenants are often leasing more space than is used

or needed on a weekly or daily basis. To help determine true occupancy, each tenant should review its own data since January 2022 – the date people generally stopped wearing masks. To do this, the tenant can use its actual card swipe data or, if accurate card swipe data is unavailable, employee server pings to see how many people were in the office each day. This process allowed one tenant to significantly reduce its dedicated office space while providing more collaboration and meeting space. By reducing its overall footprint, the tenant will save millions of dollars in rent and other occupancy costs during its lease term and reduce the amount of energy being wasted to heat and cool empty office space. What's more, the overall space reduction and increased collaboration space should result in more employee interactions, information sharing and idea generation.

#### **Q | IS IT REALLY NECESSARY TO HAVE DEDICATED SEATS AND OFFICES?**

**MC |** Do all workers need or warrant a dedicated seat or office, or would some workers be best supported in a more fluid non-dedicated office environment? The occupancy data discussed above is most beneficial when names and titles are revealed. With names and titles, the data will allow a tenant to assess which positions and people do not require a dedicated

seat or office to be productive. This exercise may enhance an organization's culture. Flexibility on where people work is a highly valued benefit, as many surveys have shown, and a non-dedicated workplace will almost certainly allow a tenant to shrink its office space significantly.

#### **Q | IS THE LOCATION IMPACTING OFFICE OCCUPANCY?**

**MC |** Commuting time has a large effect on office attendance. This is true at all levels, especially senior levels. Survey results reported increased productivity (i.e., more hours worked) during the pandemic when commuting was eliminated. To determine the impact of commuting on a tenant's office occupancy, the tenant should map employee residence zip codes. Mapping employee residence zip codes by title would further enhance the data. Anything that reduces commuting time, such as a centralized location for the employee base, proximity to public transportation, adjacent/well-priced parking, streamlined security systems, and, yes, a hybrid office model, will support employee productivity.

#### **Q | ARE THE TENANT'S SENIOR LEADERS COMING IN?**

**MC |** Senior people working from the office is a huge draw for junior people. That is an exciting way to learn, get assignments, hear commentary and strategies and

watch behaviors that impact professional development. If senior leaders are not in the office, rank and file employees may wonder “Why go in at all?” Identifying opportunities to increase senior level attendance is critical to increasing overall office usage. The performance objectives and location of the clients and direct reports of each senior leader may shed light on why the senior leader is not spending more time in the office.

#### **Q | HOW TIGHT IS THE TENANT’S LABOR MARKET?**

**MC |** In a tight labor market, most employers are cautious about demanding a high level of return to the office. In that environment, it would be important to understand employee preferences for working remotely, as well as the employee preferences for a dedicated seat. Many surveys have identified the perceived value of a flexible work environment by today’s workforce, across all generations. Some employees may prefer to give up a dedicated seat or office in exchange for the flexibility to work remotely some or most of the time. Some individuals have even said they would give up a certain amount of compensation for the flexibility of where to work each day. Other employees have relocated their primary residence to another state, while still being a part of the office from which they came. All those individuals

may be prime candidates for a non- dedicated seat or office.

#### **Q | IS PRODUCTIVITY CORELATED WITH BEING IN THE OFFICE? IF SO, FOR WHICH JOBS, AND FOR WHICH JOBS IS BEING IN THE OFFICE NOT REQUIRED?**

**MC |** A CEO recently commented that one third of his corporate headquarters’ workforce





will be 100% remote going forward and only come in on occasion for meetings. If collaboration is important to employee development and idea generation, employers may consider hybrid officing by teams, all-employee meetings, celebrations, and other ways of getting people together to elicit top performance by the workforce, recognizing that it may not be daily.



**Q | HOW IS THE SPACE USED BY PEOPLE WHEN THEY ARE IN THE OFFICE?**

**MC |** Where do the employees sit when they come into the office? One technology company was experiencing a full lunchroom but empty workstations. As a result, they decided to mothball two of their office floors and introduce lounge and other alternative seating on the remaining office floors. This matches up with one of the big U.S. consulting firms that counts every seat in the office for seating capacity, not just the offices and workstations, knowing that people tend to meet in groups and teams when they are in the office, rather than using the office for individual heads-down work.

**Q | DOES THE SIZE AND DESIGN OF YOUR OFFICE SPACE SUPPORT THE DESIRED COMPANY CULTURE?**

**MC |** Legacy office space design is almost certainly out of step

with any hybrid work model. Moreover, if a tenant is swimming in space, it is virtually impossible to enhance the culture. A common observation is that lower office occupancy begets even worse overall attendance! A compressed footprint may be the first step or linchpin to enhancing culture through office space.

**Q | DOES YOUR OFFICE HAVE THE TECHNOLOGY REQUIRED TO THRIVE IN A HYBRID MODEL?**

**MC |** With some people in person, some on zoom, some in conference rooms, and some spread throughout the office, good technology that “just works” when you enter the room is crucial. Wi-Fi needs to work well everywhere. Conference rooms need to equally include both remote and in-person attendees with good visibility, voice, and presentation tools. Reservation systems need to be intuitive and seamless.

**Q | IS MORE OFFICE SPACE REALLY NEEDED TO ACCOMMODATE EMPLOYEE GROWTH?**

**MC |** As one senior vice president in charge of real estate noted, an increase in non-dedicated workspace is anticipated in the future and therefore an increase in the office space is not expected within the next 10 years, even with a growth in headcount. In case more space is

needed in the future, expansion rights can be negotiated into a tenant’s lease. Moreover, tenants can find ways to increase seating and private office capacity within the space by repurposing underutilized areas as needs evolve.

**Q | WHAT DOES IT ALL MEAN FOR THE SIZE OF THE OFFICE REQUIREMENT?**

**MC |** If the hybrid model of office occupancy is here for the foreseeable future, determining the right amount of office space to lease is of the utmost importance. Many tenants will find that downsizing may create opportunities to re-invest in new approaches to enhance productivity, collaboration, and culture. It takes courage and conviction to make office space decisions. The data and the answers to these questions will support the right solution.



*Ms. Copley has over 35 years' experience in tenant representation. She manages client relationships, leads portfolio strategic planning, and negotiates large complex transactions for her clients. Workplace considerations are a core element of her practice. Her team provides data analysis to help answer many of the questions outlined in this paper. Ms. Copley has completed over \$4B in real estate transactions in markets around the globe.*

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