PODCAST TRANSCRIPT

Remote Work + Office Space

On this episode of First State Insights, Ryan Conner, Principal with Tactix Real Estate Advisors, speaks with Troy Mix, Associate Director of the University of Delaware's **Institute for Public Administration** (IPA), about how increased levels of remote work may impact the demand for office space. Topics covered in this October 29, 2020 interview include how companies and organizations are reconsidering their space needs in light of remote work, forecasted changes in the commercial real estate sector, and prospects for Delaware's economic recovery from the pandemic.

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Serving and Adapting to Tenant Needs

(**2:09 Start Listening Here**)

Troy Mix: Ryan, thanks a lot for joining me today.

Ryan Conner: Thanks for having me, Troy. Looking forward to it.

Troy Mix: As I was showing you, the Harvard Business Review's [November-December 2020] cover story, **"Our Work From Anywhere Future."** I didn't plan this, but it was well-timed for conversation with you because, as I understand it, a lot of what you do is concerned [with] where people choose to work, how they situate their office when they go to work, or maybe not go to work as the case might be. I wonder if you could get started by just kind of telling us about what you do at Tactix, and what that looked like in February 2020 and how that shifted come mid-March.

Ryan Conner: Sure. Well, I know your listeners can't see me, but I am sitting in my office for what it's worth. Socially distanced, of course, and I think I'm the only one here, but nonetheless I'm here. Tactix is a commercial real estate advisory and brokerage firm. We represent companies in all industries, organizations, nonprofit institutions, healthcare, and higher ed with their real estate decision-making, essentially. Now there's a lot of companies out there, including in Delaware, that do what we do. What makes us unique is that we only ever represent the user of the space. We say we're a tenant representation firm who represents tenants. Now, it's a bit of a misnomer because some of our clients do own the space they occupy. But what we don't ever do is represent landlords or investors in real estate. We believe there's a conflict of interest when you represent both in the same market, [so] we've decided to represent only the tenant side of the business. A couple projects in Delaware that we've done that your listeners might recognize: we represented Incyte when Incyte relocated out of the experimental station and into…what I remember as the Wanamaker department store. I think it had a second life as an office building for Accenture after that, but [I] represented them when they took that as their global head office and laboratory headquarters. CSC's new building [at the intersection of] Centerville Road and 41. We represented CSC when they consolidated a bunch of lease locations into what…is their new world headquarters. And other law firms and accounting firms and stuff throughout mostly Northern Delaware.

Troy Mix: Up until February that's what you're doing. How did that hit you in mid-March in terms of you going to the office or not, and how you're dealing with tenants?

Ryan Conner: Well, I can tell you that everyone was really busy in early 2020. The economy was booming. Companies were growing, and they were more liberal in the amount of space they were taking. It was a pretty "frothy market," I'll call it. Obviously when COVID hit in mid-March, things came to a screeching halt. And frankly, continuing today, they're still pretty paralyzed. Most of corporate America got thrust overnight into this work from home paradigm and remarkably have been very successful doing it. We don't do much retail, but obviously the retail and the hospitality industries have been hit very hard. I guess I'm fortunate that I don't do a lot of retail right now. But yeah, I think companies have realized that perhaps they don't need as much space as they did prior. Now, I think a lot of what's happening is an acceleration of a phenomenon that was already taking place—more flexible work schedules, more efficient space utilization, leveraging technology better. Yeah, my day-to-day in early 2020 was helping companies grow, helping them [proactively] address lease expiration dates, strategizing on where they want to be and how they want to best utilize space. And now it's a lot of handholding. It's approaching landlords about rent relief due to both government shutdowns, and also just the mere fact that they're not using the space that they are obligated to pay for. And helping companies think about even post-COVID, what's the future office space for them

[and] do they need all of what they have? Can they get a lot more efficient? Do they want to implement work from home policies? And then [what are] the cultural impacts of all of these decisions? We're all kind of learning on the fly right now.

Shifting Perspectives on Office Space Needs

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Troy Mix: You're talking about tenants that might've had certain needs in mind in kind of a booming time. Now you're doing a lot of hand holding, helping them think through their needs. Could you give us a sense of a couple examples…of companies that might've been thinking one thing and now they're evaluating, shifting to another solution for the short- or long-term?

Ryan Conner: I can. Yeah. And they kind of run the gamut. Here's two on polar opposite ends of the spectrum. One of my clients is actually a Delaware-based company that also has a location in Philadelphia. The Philadelphia office is kind of a newer office, it's a growing office, it was an exciting environment. They always dealt with this kind of internal second-class citizen dynamic, where the people in Delaware were maybe insecure or jealous about the folks in Philly who just seemed to be more trailblazing, or use the adjective you want. As soon as they went remote and started working remotely across the entire organization, that second-class citizen dynamic went away almost overnight. Kind of ironically, it brought the company together. So what they're talking about potentially doing now is getting rid of both offices and establishing a hub somewhere that is very small. This benefits them financially because they reduced…real estate costs dramatically. It also eliminates this kind of tension between the two locations that really aren't that far apart, and maybe even serves them functionally because it allows them to come together for meetings, for town halls, for client pitches, perhaps. Into one location only as needed. So that would be a reduction [of] probably 70 to 80 percent of their real estate footprint.

I have another client who is a tech-oriented company. They compete with Silicon Valley companies. By comparison, their real estate costs are dramatically less than their competitors. They have a really deeply-ingrained culture. They had this huge cafeteria that's the beating heart of the company, and they claim that a lot of the best, most innovative ideas, and their best collaborations have come out of that space within their office. They said that they're willing to—and they have a lease expiring soon—they're willing to take up to 50 percent more space—so add 50 percent to their real estate overhead—if it means that their employees feel more comfortable coming back to the office because they'll have more space to not be close to everyone.

Troy Mix: To collide, well not collide, but be in the same spot.

Ryan Conner: The opposite of collide, collide but within 10 feet of each other. So two polar opposites, but they really want people to come back to the office. The first company really is encouraging them never to come back to the office.

I have another nonprofit client who called yesterday and said—who also has a lease expiring very soon, so they have to address this in some capacity. They said, "we don't know what our needs are because we just surveyed our staff, and 70 percent of them said that they never want to have to come back to the office." Everyone's trying to figure out what the future holds right now.

Forecasting Commercial Real Estate Trends

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Troy Mix: Right. And as you said, that kind of runs the gamut. You're in the role of serving tenant needs, trying to find a space that works for them. Others in the real estate sector are [serving] different needs, trying to maximize the space amount, for example. As your team looks at those scenarios that run the gamut, what kind of things are you forecasting about how your sector might change and how the work you do might change?

Ryan Conner: It's a good question. And there's a lot of talk. There's a lot of webinars. There's a lot of zoom calls. There's a lot of articles. Some well-written, some not, that are pontificating about the future. If anybody tells you that they know what the future holds, they're either lying to you or there somebody's paying them to tell you that. I think there's consensus that corporate America is going to use less space in the future, right? Again, I don't think that's a rule that applies to everyone equally, but I think you're going to see a pretty significant give-back of commercial office space in the future across the country. Now, when that happens is interesting because a company who is in the middle of a lease term doesn't really have that opportunity until their lease starts to come due, right? So it's not going to happen quickly.

What you are seeing already is a big glut of sublease space in the market. Companies are saying, all right, I really probably only need half of this. Let me put the balance on the market to see if there's any takers. That space typically trades at a discount to market. And as that space comes on the market, it starts to compete with all the direct space that's coming on the market, which is going to drive costs down. Now I think, in the real estate advisor/broker industry, you're going to see some thinning of the ranks. Some people who just got into the business are going to have a real hard go of it, and they

might realize they can't make a living doing this. There's a lot of barriers to entry in what I do that are time-consuming and costly, right? And then there's the more mature population of people who do what I do, they might think this is an opportunity to get out early. I definitely think you're going to see a consolidation in terms of the number of people who do this, but also the companies who compete with each other every day, I think, are going to start to consolidate as well. The landlord community and the lender community that supports it is going to have to rethink how you underwrite commercial real estate deals, both lease transactions and acquisitions of new assets, because you're going to gravitate to a tenant base who wants shorter-term, more flexible commitments. Right now, real estate commitments are pretty long-term endeavors. I think you're going to see the industry start to get away from that slowly but surely.

Commercial Real Estate and Recovery in Delaware

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Troy Mix: Thinking about the real estate sector a little more broadly, but focused on Delaware, which—you grew up in Delaware, right? You've lived and worked there for a while and still do work there, clearly.

Ryan Conner: Born and raised, as you know we went to graduate school together, I was at Delaware as an undergrad as well. My family is still there...I spend usually a couple of days a week there.

Troy Mix: Every place is going to be thinking about economic recovery now, or, in the next several months. Nobody knows exactly how it'll play out. But if you think about the real estate sector and particularly looking at offices, where do you think some of the items are that should be top-of-mind for policy makers, or for people in the industry, to correct issues that might've been created during pandemic or that were kind of pre-existing?

Ryan Conner: Delaware is doing a lot of things right, right now. I love the focus on logistics. I think that's really kind of the future. There's a big project in Philadelphia that you might know about, which is the old Philadelphia energy solutions refinery. Prior to that, it was the Sunoco refinery. There was a major, couple hundred-million dollar redevelopment plan proposed to change that refinery by redeveloping into a logistics hub, which everyone around here is really excited about. Amazon seems to love Delaware, so that must mean something. And I think in terms of office, I think another thing Delaware is doing really well that's exciting is the life science community. I think not only is it burgeoning in Philadelphia and in Delaware, but it's also somewhat work-from-home immune. If there's a laboratory component to it, you really can't do that from anywhere or from home. You need

physical space to do it. I think there's opportunity in Delaware too. I've been saying for a while that I think a lot of the old obsolete office product in downtown Wilmington in particular, needs to be re-envisioned, even incentivized to be re-envisioned. Perhaps now, the repurposed use for that could be lab space. You have a lot of old buildings that are old-style construction, meaning that they're very thick slab floors, concrete frame. They're not built as—I don't want to say cheaply—but [not as] efficiently as new office buildings are built today. There/s an example of this in Philadelphia, in the Curtis Publishing building, which is at 601 Walnut Street in Washington Square, that we actually put the first life science company in that space. It's a company called InVax. It's a geo-blastoma cancer research company that came out of Jefferson. What they loved about that building was it had the infrastructure for all of the needs that a life science company needs, like venting and stabilized floors because they don't like vibration. I think there's a potential opportunity in Wilmington to repurpose some of those old office assets into life science communities. That's part of what the problem Delaware has now, is it's a supply and demand problem. There's a major lack of lab space throughout Northern Delaware. Perhaps people could look at repurposing some of that space into—you kind of kill two birds with one stone, right?

Troy Mix: When we get a vaccine and it's safe to be in places where we're not as socially distanced, when there's more than one employee in the office at one time for you. How often do you think you'll be in the office? I mean, you said you were kind of a nomad before, but do you think that'll change, coming back?

Ryan Conner: If I were to predict it, I think that we'll go back to normal, pretty much. Again, everybody in my office is kind of, not all over the place, but it depends on what you're working on, where it is in the process or in the cycle. You know, at any given time, I could have five projects that are on West Market Street in Philadelphia. I'm going to be in my office a lot. I'm currently working on a couple of projects in Wilmington, so I was down there this week, but that's kind of random. But, I think the daily ebb and flow of people using our office and us coming together as a company, and even making the space available to the public, whether it's a nonprofit we support or having training sessions or educational activities in this space. I think that we'll pretty much go back to normal for us. But there's plenty of companies like us, that it could never be the same.

Troy Mix: As you think about how that plays out, kind of at a statewide scale, or even just a city scale, that's going to be different for every organization. That's going to have impacts on companies, industries, households, eventually. What kind of brings you hopefully some positive thoughts, about how Delaware can navigate its way through that? I mean, what gives you hope that they're going to be able to come together and find a better path forward as all this churn goes on?

Ryan Conner: I don't know that I know the answer other than it's been through struggles before. I mean, Delaware was pretty dramatically impacted by 2008 and 2009, as was Philadelphia. Look, there was so much momentum leading into February, right? The restaurant scene in Wilmington was just really exciting. There were exciting things going on at the Riverfront. The office market in the New Castle County suburbs outside of the CBD was the tightest I had ever seen. There's success stories in Middletown, even downstate some of the health care institutions are real economic drivers for housing and other amenities that will follow. That's another example of the Riverfront. Like we always wanted amenities down there. Iron Hill came down, Joe's Crab Shack came down. But until the housing came, the retail didn't really come. I think there's a chicken-or-egg issue there with Delaware and some of the more rural communities as well, but it's got all of the characteristics for a recovery. It has to be patient. It has to figure out what its unique differentiators are. And have a big vision. Like, don't be afraid to put a package on the table for a game-changing type, like an Amazon-type opportunity, because there's a concern about some short-term tax revenue that the state or city won't see. I think having a bold big vision could go a long way in a climate like this.

Troy Mix: Well, there's going to be hopefully plenty of room for those big visions. Hopefully some of those materialize and play out over the next couple of months and years as we make our way back. It's great to see, as you said, Amazon showing a lot of interest in Delaware even this week. Those are positive signs. I appreciate you sharing your thoughts on the way back and talking today about what you see in the real estate market. Thanks a lot for joining me, Ryan.

Ryan Conner: Yeah, no, I appreciate you having me on. We're in uncharted waters. But with any kind of time like this, there's a lot of excitement too, on how you can impact and adapt to the future. I know we're excited about it.

Troy Mix: Thanks again, Ryan, take care.

About Tactix Real Estate Advisors and Ryan Conner

Tactix Real Estate Advisors is one of the Delaware Valley's fastest-growing commercial real estate brokerage firms, and Ryan's practice is solely focused on representing tenants and other end-users of commercial real estate with leasing, acquisition, and disposition strategies. Ryan's real estate career started as a graduate intern with the Riverfront Development Corporation of Delaware. He earned an undergraduate degree from the University of Delaware (UD) along with a Master of Public Administration degree from UD's Biden School of Public Policy & Administration.

About First State Insights

First State Insights is a podcast presented by the University of Delaware's Institute for Public Administration (IPA). Tune in for information, perspectives, and analysis—"IPA"—on public policy, management, and community and economic development in Delaware. Visit IPA's SoundCloud page to see a full list of episodes, or search for "First State Insights" to listen wherever you get your podcasts.

This episode is presented as part of the Future of Remote Work series. This series of articles and interviews seeks to shed light on remote work trends; explore implications for businesses, communities, and policymakers; and spur conversations aimed at making this emerging reality work well for Delaware. Listen to all episodes in the series on the Future of Remote Work playlist on SoundCloud, and consult the IPA website for remote work news and articles.