

BOMA INTERNATIONAL COVID-19 COMMERCIAL REAL ESTATE IMPACT STUDY

EXECUTIVE SUMMARY: FALL 2020

Insights from a nationwide survey of 3,010
office space decision-makers & influencers

Introduction

BOMA International, in conjunction with Brightline Strategies and Yardi, conducted a nationwide study to gauge tenant sentiments relating to COVID-19, its impacts on their businesses, their attitudes towards the physical work environment and office space decisions going forward, as well as assess the financial and operational implications for commercial real estate owners and operators.

The study, the first in a three-part series, was fielded from Sept. 1 – Oct. 31, 2020, among more than 3,000 office space decision-makers and high-level influencers from across the country. The aggregated data were then segmented and analyzed by industry, company stage of growth, office size, rent rate, renewal date, asset class, location and other key demographic tenant characteristics.

This executive summary contains select insights from the wide-reaching study. See why perceived value of physical office environments remains strong despite the pandemic's broader transformational effects, what will change in terms of size, use and design of workspaces as a result of COVID-19, and how commercial operators can increase renewal likelihoods and mitigate risk going forward.



**About the BOMA
COVID-19 Tenant
Impact Study**

When:
September – October 2020

Where:
Nationwide sample
(N=3,010 office space
decision-makers
and influencers) with
oversampling across top 20
U.S. markets

*Executed in conjunction with
Brightline Strategies, with
sponsorship from Yardi*

Optimism in the Office Sector

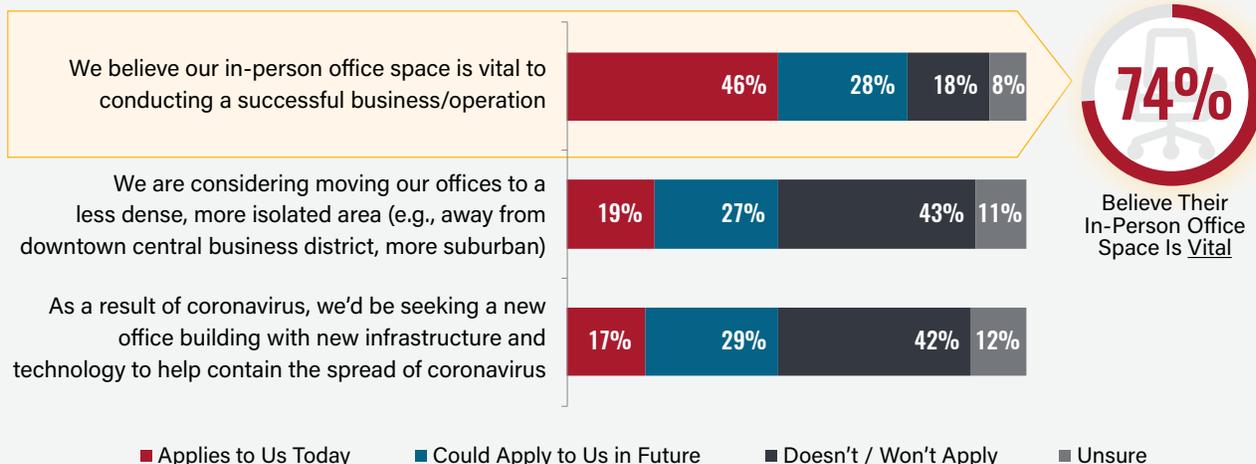
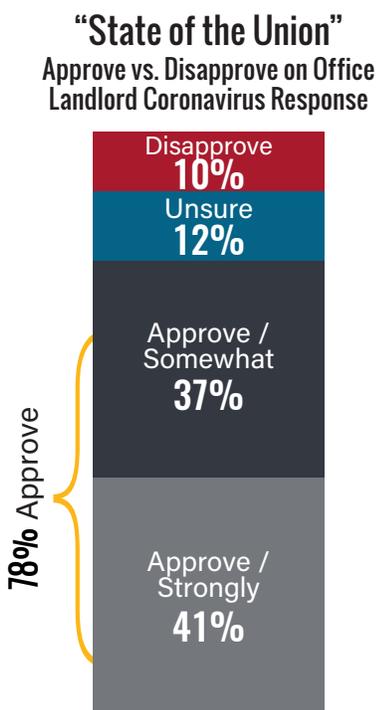
While tenant decision-makers are split on the handling of the coronavirus pandemic in the U.S. (44% think the country is on the wrong track, while 37% say it's moving in the right direction), a large majority of respondents (78%) approve of office landlord coronavirus response.

Commercial office decision-makers and high-level influencers continue to see and forecast significant value in on-site business operations, particularly as relates to collaboration, coaching and culture. A strong majority (74%) believe their in-person office space is vital to conducting successful business.

Promisingly, 34% of respondents say they are seeing more value in their physical office space than they were before the pandemic, with 36% unsure and 30% seeing less value.

And 41% see more value in employee collaboration, networking and coaching conducted in offices than they did before the pandemic, with another 41% seeing about the same value as before and only 17% finding less value in in-office interactions.

Without any mention of operational changes resulting from COVID-19, 55% say they plan on renewing their lease. Another 34% are unsure, while 10% say they're not planning to renew their lease. As shown in the renewal forecast later, the number of tenants planning to renew is malleable and prone to increase more than 10% with positive landlord response to the pandemic.



Headwinds: Space Reassessments & Operational Shifts

While COVID-19 health concerns and impacts are near universal, the economic impact on office tenants is significant as well, in turn affecting workplace planning. More than 6-in-10 tenants (63%) say clients have canceled projects or reduced business with them, or could in the future, with a similar share saying they've experienced at least a 25% dip in revenue relative to forecast. As a result, just under half are — or could be in the near-term — struggling to meet payroll and pay off-ice rent on time.

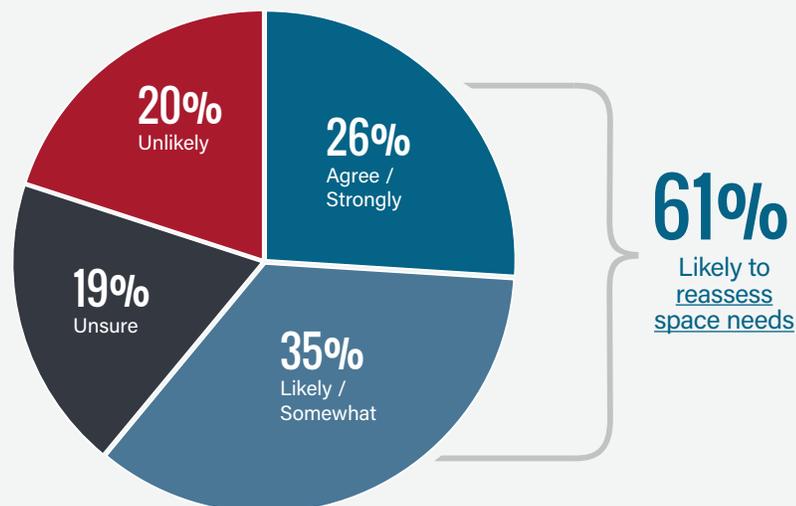
Almost two thirds of tenant decision-makers (65%) believe the coronavirus is a transformation

or inflection point for the workplace. This transformation is likely to impact both tenants' use of and expectations for commercial office space.

Space reassessments

Whether reducing square footage, reorganizing layouts to accommodate social distancing or expanding their footprint, 61% of decision-makers across all size segments say they will reassess their space needs because of the pandemic. This percentage is driven most by larger tenants and those paying higher rent-per-square-foot prices. Another 19% are unsure, resulting in an 80% majority eyeing potential changes.

LIKELIHOOD TO REASSESS SPACE NEEDS BASED ON CORONAVIRUS BASED ON BUSINESS IMPACTS FROM COVID-19?

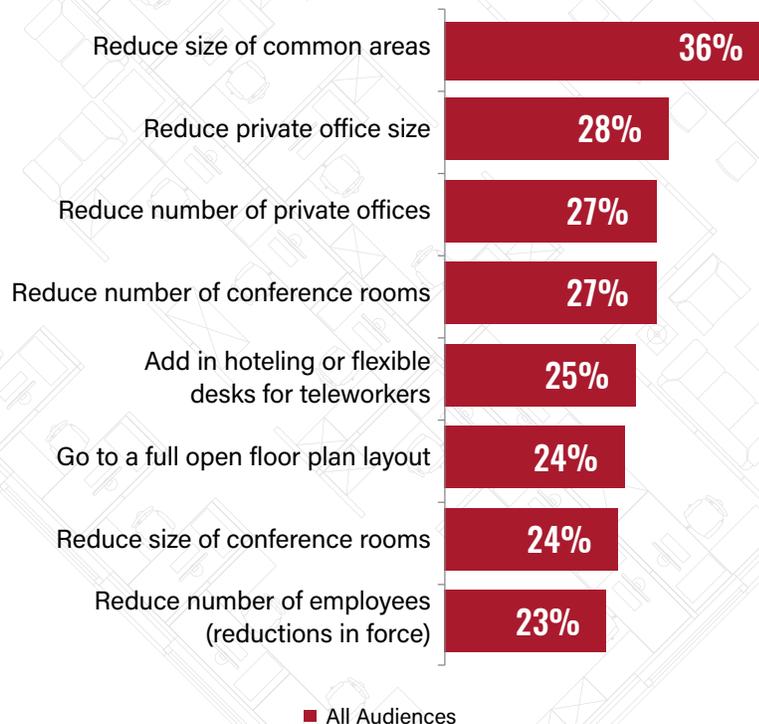


Q: How likely are you to reassess your space needs based on business impacts from the coronavirus/ COVID-19 public health emergency (e.g., based on more teleworkers, revenue declines, etc.)?

Tenant views on how they will achieve space efficiency are diffuse. Reducing the number and size of private offices as well as reducing common areas resonates strongly with all groups. Those

with higher revenues are more likely than other groups to consider novel approaches like hoteling desks for flex workers and going to a fully open floor plan.

CHANGES TO CREATE SPACE EFFICIENCY BY 2020 PERFORMANCE



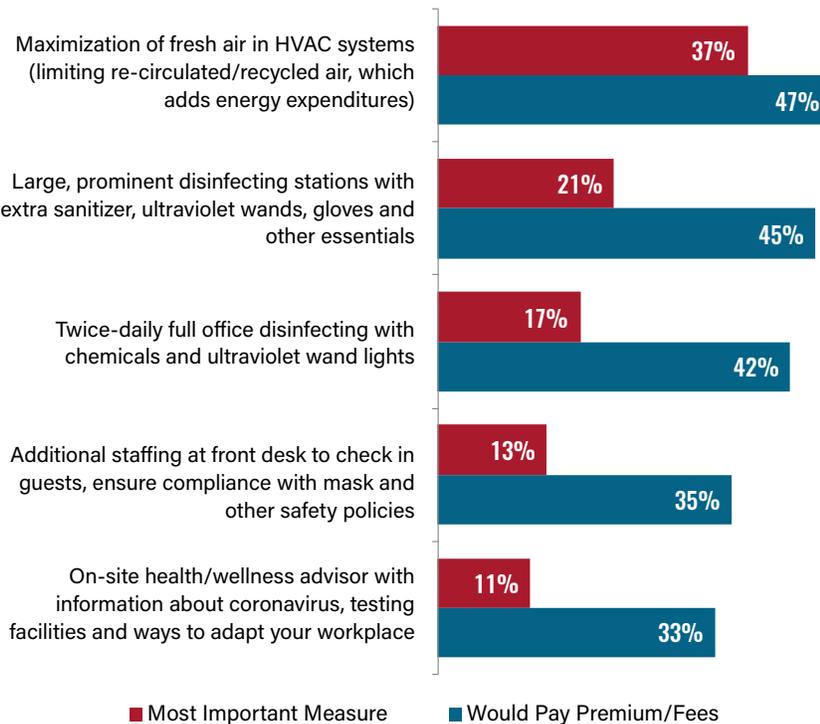
Operational shifts

When it comes to returning to the office safely and sustainably, 80% of study participants support universal mask wearing. Many tenants expect to see operational shifts from landlords as well, with some willing to pay a premium for new safety measures.

Maximization of fresh air leads the way as the “most important” measure for property owners/operators to adopt. More than 4-in-10 respondents would pay additional fees for disinfecting stations and twice-daily full office disinfecting. Additionally, 57% see complimentary access to vacant office space/flex space for social distancing measures as positive.

NEW MEASURES AND PROGRAMS

Overall Preference (Most Important Change) vs. Likelihood to Pay Rent Premium/Fees

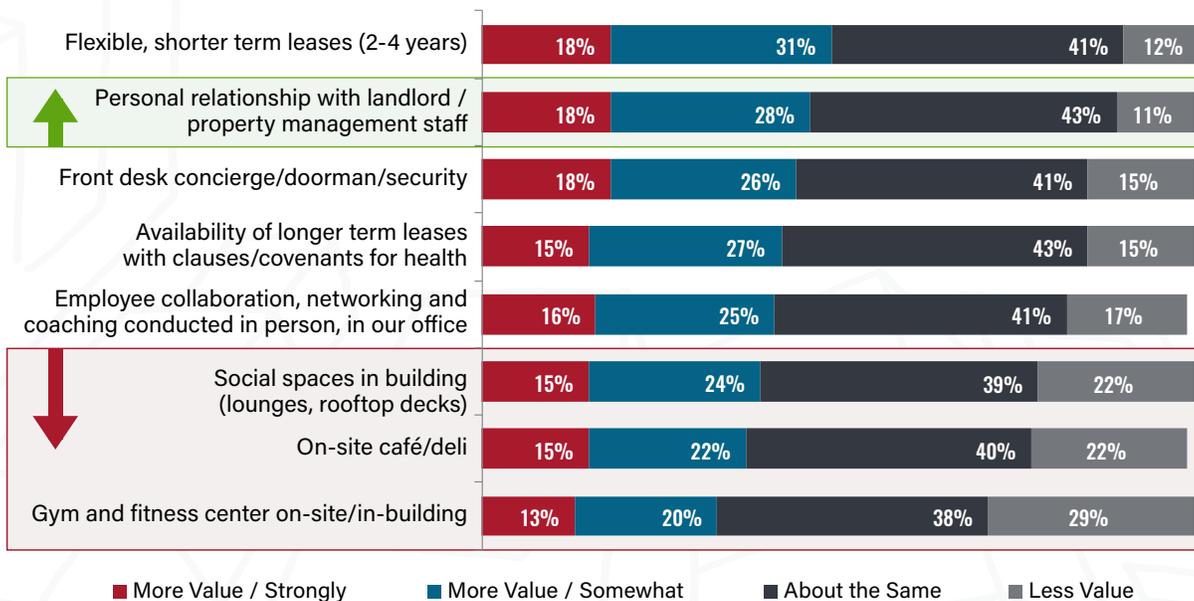


Going forward, the perceived value in amenities is changing too. There is less focus on traditional built-ins, like onsite gyms and cafes.

Almost half are seeing more value in personal relationships with their property management company/teams.

AMENITIES / FEATURES VALUE FOR TENANTS POST-COVID

All Audiences



46%
Office Tenants Seeing More Value in Personal Relationships w/ PM Staff



Office Tenants Seeing Less Value in Traditional, Built-In Amenities

■ More Value / Strongly ■ More Value / Somewhat ■ About the Same ■ Less Value

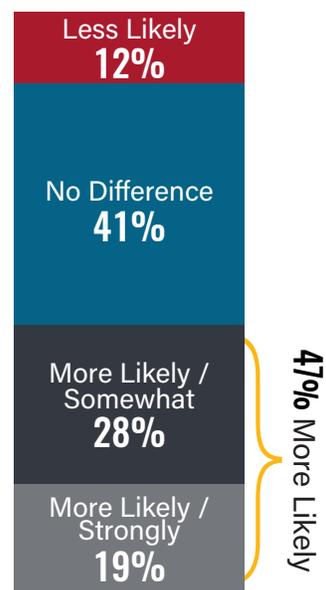
Renewal Forecast

Regardless of the intention to grow or reduce leased space, tenant intention to renew with their current owner/operator is a key barometer on the state of office. As stated earlier, 55% of respondents plan to renew their leases, unsurprisingly lower than the Brightline Strategies six-year national index of 78%.

Encouragingly, nearly half of respondents say their landlord's response to the pandemic has made them more likely to renew their lease (vs. 41% no difference and 12% less likely).

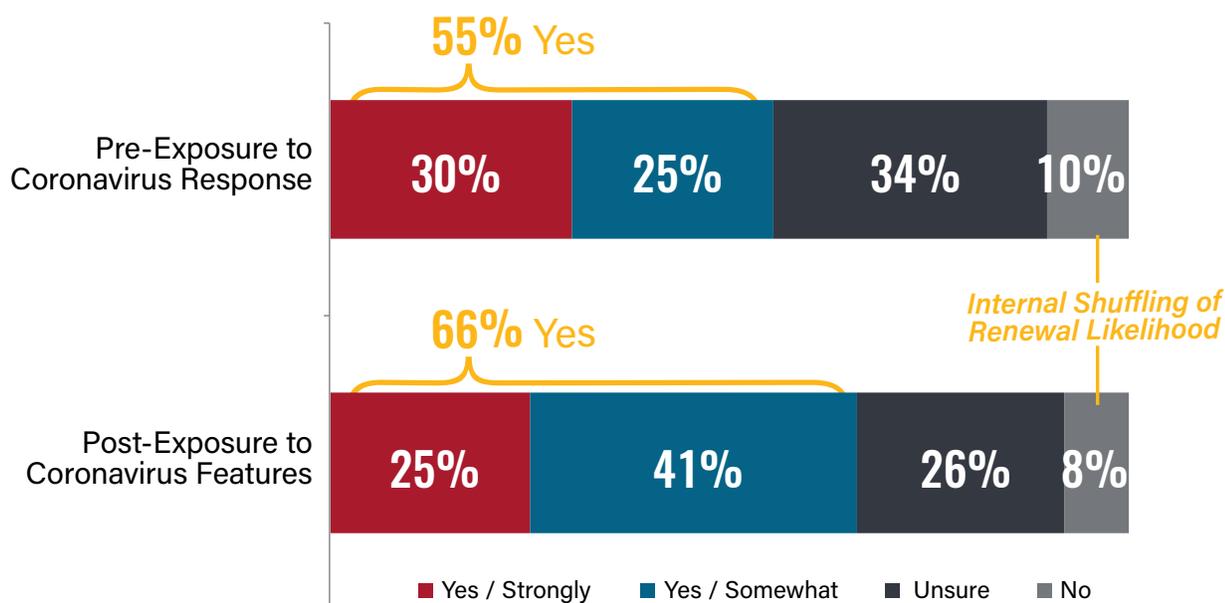
The likelihood to renew increases 11 points – rising to 66% – if properties implement operational changes including new services, features and physical spaces in response to the pandemic. This uptick indicates a true inflection point, showing that a change in operations helps assure and retain tenants.

Impact on Renewal ROI on Coronavirus Response Measures



LIKELIHOOD TO RENEW BASED ON LANDLORD/OPERATOR RESPONSE

If Your Property Implemented Features Discussed



Renewal timing

Across all tenants and renewal horizons, the study found that 43% are likely to reduce office size/square footage. Further, those with office space renewals in the next six months to two years are most actively reassessing space needs. Within this 18-month period, 25% of

tenants across the country are likely to reduce their office footprints. As such, commercial office owners and operators should be proactive in engaging these tenants early about upcoming renewals given their space reassessment and reduction likelihoods.

SPACE REDUCTIONS BY RENEWAL HORIZON (Relative and Absolute Space Reductions)

By Renewal Time Horizon	All	< 6 Months	6 – 12 Months	1 – 2 Years	3 – 4 Years	4+ Years
Reassessing Space Needs or Unsure	80%	74%	85%	84%	84%	73%
Reduction Among Those Reassessing or Unsure	54%	43%	60%	63%	60%	41%
Reduction as a Percentage of All Tenants	43%	32%	51%	53%	50%	29%
Percentage of Tenants Reducing Square Footage at Each Renewal Period	-	2%	9%	14%	9%	9%
BELOW DATA REFLECTS SPACE REDUCTION AS A PERCENTAGE OF ALL TENANTS IN EACH RENEWAL SEGMENT						
Reducing <10%	8%	2%	10%	11%	8%	5%
Reducing 10-25%	16%	10%	20%	22%	16%	9%
Reducing 25-50%	12%	8%	13%	14%	14%	9%
Reducing 50-100%	8%	12%	8%	5%	12%	7%

Recommendations for Commercial Operators

Survey responses reflect a strong opportunity for renewal growth — despite the pandemic — if operators communicate well, grow tenant relationships and invest in the changing processes and technologies most desired by tenants.

Increase tenant communications

Consistent communication throughout the pandemic is cited as a contributing factor to strong landlord approval and increased loyalty. Rating message effectiveness, 65% found value in messaging from landlords that centers around investments to keep tenants safe. In terms of communication channels, 63% of respondents rated periodic email updates and digests reviewing policies, procedures and new building features as most effective, followed by creating a formal return-to-work guide and enhancing signage around the property.

Be proactive about renewals

Survey responses indicate that the intention to renew is malleable and can be influenced by owner/operator actions in the here and now. By the end of the questionnaire, 66% say they would be likely to renew their lease if proactive measures are taken. Start by identifying tenants who are most likely to make space reductions (those with a renewal horizon between six months and two years), then create an outreach plan.

Identify operational opportunities

In addition to heightening cleaning procedures and amplifying a safe return-to-work narrative, consider how else you may be able to adjust operations to meet shifting tenant expectations and stay competitive. How can you repurpose vacant or underused communal areas? Can you offer coworking space or flexible leasing? Do you have technology that allows tenants to reserve and/or track the use of shared facilities?

Contributing Factors to Strong Approval / Increased Loyalty



79%

Landlord is communicating “just the right amount” about Coronavirus (vs. 11% “too little”)



#3

Ranking of “Safety and Security” as a reason to pick one property over another (25% “Most or 2nd Most Important Factor”)



46%

Tenant decision-makers seeing more value in personal relationships with landlord/property management staff

Conclusion

Physical office space and its resiliency as a durable, in-demand asset class is at an inflection point. It's clear that most respondents see office space as vital to operating their business. However, how much space, how it's utilized and who occupies it will evolve as owners/operators and tenants get more creative on the new normal of office going forward. While COVID-19 continues to be a disruptive force for the office sector and its tenants, the perceived value of the office as a key ingredient of business success remains strong.

Learn More

The results shared in this executive summary are part of a larger, longitudinal study series that began in August 2020 and will conclude in winter 2021. For additional information and insights, please contact covidstudy@brightlinestrategies.com.



ABOUT BOMA INTERNATIONAL

Founded in 1907, the Building Owners and Managers Association (BOMA) International is a federation of U.S. local associations and global affiliates. The leading trade association for commercial real estate professionals for more than 100 years, it represents the owners, managers, service providers and other property professionals for all commercial building types, including office, industrial, medical, corporate and mixed-use. BOMA International is *the* partner individuals in the commercial real estate industry choose to maximize value for their careers, organizations and assets. Its mission is to advance a vibrant commercial real estate industry through advocacy, influence and knowledge. For more information, visit boma.org.



ABOUT YARDI

Yardi develops and supports industry-leading investment and property management software for all types and sizes of real estate companies. Established in 1984, Yardi is based in Santa Barbara, CA, and serves clients worldwide. The Yardi corporate motto is to take care of our clients, take care of our employees, take care of our communities, stay focused and grow. Yardi uplifts the industry and the people in it through charitable grants and philanthropic efforts. For more information on how Yardi is Energized for Tomorrow, visit yardi.com.



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Brightline is a research and advisory services firm for the high-stakes business of real estate development, marketing and management. For more than 20 years, we have helped some of the most recognized names shape their development, programming, positioning and management strategies; mitigate risk; drive demand, preference, loyalty, and premiums; and expand portfolios across markets and borders. To deliver outsized returns in today's hyper-commoditized real estate environment, you have to know what matters to whom and how to capitalize on it in the right way to grow NOI, enhance asset liquidity and maximize investment returns. For more information, visit brightlinestrategies.com.