Building a Better Workplace
Lessons from University Investments

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Key Takeaways

- Mandates and traditional amenities have not lured employees back to offices following COVID.
- Aligning office investments with modern university facilities could boost attendance and office values by creating innovative, collaborative environments.
- Successful investments in modern learning environments suggest similar strategies could enhance office spaces for better productivity.

Since COVID, significant time and money have been spent trying to provide workers with an attractive "office experience," hoping to lure them back to office properties. Investments in amenities such as gourmet food or health and wellness facilities haven't been as successful as hoped. Only 14 percent of workers polled by CoStar felt that upgraded tenant amenities would motivate them to come into the office more frequently.

An even less successful alternative has been employer mandates forcing workers back. Not only have those not been shown to increase productivity, but many workers can feel betrayed when companies mandate a full-time return to the office, according to IT research and advisory company Gartner.

CoStar reports that U.S. office attendance stabilized at about 50 percent of pre-COVID levels in 2023. One casualty of poor attendance has been average office values, which decreased 50 percent in 2023 from their peak, according to CRED iQ data. More recently, the square footage of new leases is about 20 percent below the pre-COVID average.

Is it possible that the capital expenditures (CapEx, which, in this context, refers to investments used to build, upgrade, and maintain physical structures) being spent are not maximizing office worker attendance, productivity, and well-being? If so, targeting private-sector office CapEx to align with how funds are being spent on modern educational facilities at many American university campuses may be a more effective alternative.

Investments in state-of-the-art campus buildings designed to promote innovation and creativity are confirming that structures can positively impact people. However, CapEx invested in private commercial real estate must be spent carefully in today's environment of higher capital costs. The goal of such spending should be to provide a solid return on investment (ROI) that attracts and retains the best talent, be it students or workers.

Different personality types must be considered when creating an office environment that is engaging and productive. The concept of "splitters" versus "blenders" was discussed in a 2022 Gallup report, where splitters work best at home or in the office but want to maintain a strict schedule of hours in each location. Alternatively, blenders prefer to work at their convenience on a weekend, in the evenings, or during the early morning hours.

Many younger workers who have become accustomed to such flexibility in academic settings will prefer similar flexibility in professional arenas. If the built environment, influenced by correctly targeted CapEx, can cater to such a flexible workforce, worker performance and satisfaction should be enhanced.

An example of targeted CapEx investment in commercial leased office space is KBS Realty Advisors' $24 million upgrade of the 60 South Sixth office tower in Minneapolis. Renovations were similar to those found in many innovative universities. The retrofit was specifically designed to boost worker collaboration and productivity. Several real estate professionals in the Minneapolis market noted the growing demand for such creative workspace.

Closer to home, the six-story, 140,000-square-foot Soto building in San Antonio was completed in 2020. Specifically designed to attract office tenants looking to hire and train the best talent (see 2022 *TG* article Flight to Quality), the Soto is enjoying 95 percent occupancy. CoStar reports 76 percent occupancy in San Antonio's Class A office buildings completed since 2010.

Twenty-five of the top public and private universities based on *U.S. News & World Report* best colleges rankings were selected for an evaluation of their CapEx investment in facilities during the past ten years. The university findings were then compared to facility CapEx at the top ten U.S. employers as voted on by top university engineering students. Although relationships between the variables discussed do not automatically mean that a change in one variable causes a change in others, the analysis does show multiple parallel relationships. As more data become available, further in-depth analysis will be required to confirm any causation.

What Attracts Students?

High-performing students have been increasingly drawn to universities that offer more innovative, newly constructed facilities. Increased enrollment rates and targeted CapEx spending at public and private universities suggest investing in infrastructure may be attracting the best and brightest students. A stronger relationship was found for private schools than for public schools, although both were positively impacted.

Increased CapEx moved in tandem with improvements in student work efficiency and collaboration. The same positive relationship was discovered with higher academic achievements such as SAT scores and graduation rates. CapEx in the built environment may also enhance a student's vocational, social, financial, and physical well-being based on a positive relationship with higher graduation rates and second-year salaries. Salary levels indicate employers are willing to pay more for students from top universities, suggesting a positive ROI from university CapEx along with the student's investment in their education.

Many U.S. public universities have increased capital expenditures significantly. The *New York Post* reported that one university, the University of Kentucky, spent an astounding $805,000 per day on campus developments for more than a decade.

Corporate Findings

The relationship between investment in physical infrastructure on university campuses and improved entrance scores, GPAs, and graduation rates led to a further examination of performance measures for workers in corporate America. Several interesting parallel relationships were discovered between CapEx spending and financial metrics.

Eleven years of data were examined from the top ten most popular U.S. employers: Google, Microsoft, Apple, GE, Intel, Amazon, Johnson & Johnson, IBM, Ford, and Boeing. The companies represent industries involved in technology, consumer products, automotive, and aerospace. A consistent investment in facilities was discovered.

Growth in CapEx by Microsoft and Johnson & Johnson compared with their total market capitalization demonstrated that both have grown CapEx spending despite a higher cost of capital. Johnson & Johnson landed on *Fortune*'s list of World's Most Admired Companies in 2023 and ranked number one on the pharmaceutical industry list. In 2023, Microsoft won Best Company Compensation, Best Company Perks & Benefits, Best CEOs for Diversity, Best

Leadership Teams, Best Company Outlook, Best Engineering Teams, and Best Global Culture.

Apple is also investing in a 900,000-square-foot campus on 281 acres in Wake County, North Carolina. The $1 billion investment will bring 3,000 jobs to the state. Ford Motor Company is investing $1.8 billion in its Oakville Electric Vehicle Complex, while Amazon is spending $2.5 billion on HQ2 in Arlington, Virginia. That facility will host over 2,000 employees.

The best companies to work for are attracting the best talent, and CapEx is one contributing factor to their financial and cultural success.

What This Means for Real Estate Professionals

In his 2020 book, *Rethinking Real Estate*, author Dror Poleg noted a significant gap between the enriching experiences students receive at top universities and what they may encounter in the typical corporate office environment. The disparity may be contributing to higher turnover rates in specific job roles. To address this, corporations and commercial real estate professionals must find the right balance of a cohesive corporate culture and optimization of their office space to align with changing worker preferences.

Corporations adopting advancements found at leading universities implementing targeted CapEx should expect to hire and retain top talent in today's evolving corporate landscape. Everyone would like to have a fabulous workplace, but firms must balance the productivity of their workers against the costs of such a space. More affordable, lower-tier office space will continue to be in demand for some tenants.

Research shows targeted and thoughtful capital investment in physical office infrastructure, mirroring investment by private and public universities, can lead to enhanced employee performance and well-being. A few visionary corporations have seen the benefits of targeted facility investments, although little research has focused on their achievements. Hopefully, the broader office market will consider trends shaping the future workforce when designing, developing, and leasing office space.

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Case Study

Wayne Roberts '85 Building at Mays Business School at Texas A&M University

Private universities often come to mind first when considering state-of-the-art educational facilities. Buildings such as the University of Chicago's Charles M. Harper Center, Georgetown University's Rafik B. Hariri Building, and MIT's Lisa T. Su Building are enriching, collaborative, and visually beautiful structures worth studying. However, many public universities are embracing the notion that structures positively impact student performance as well. A new building under construction for Texas A&M's Mays Business School is a perfect example.

The Wayne Roberts '85 building broke ground on Oct. 28, 2022. Slated for completion in late 2024, the four-story 82,500-square-foot facility will house a variety of flexible spaces that will provide engaging instructional experiences and learning environments. The building will showcase how the power of targeted spending on physical structures can produce superior outcomes for both academia and private business.

"The vision for an expansion of Texas A&M's business school was an environment that promotes three themes: connectivity, creativity, and collaboration," said Bill Peel, executive director of learning environments for Mays. "The building is designed to be a reflection of how business will be conducted in the future."

A great deal of thought went into how innovative academic spaces could foster those three themes. Eight learning studios will be configured for maximum flexibility, enabling students to work in teams to solve real-world business challenges. The grand atrium will accommodate seating for up to 250 people for formal programs and speakers that can easily be reconfigured for other uses such as recruiting fairs or student events. A fast service café will offer interior casual seating for up to 50 people as well as additional seating on an adjacent patio. Collaboration Plaza will provide space for meetings and team sessions in an outdoor setting. The fourth floor will be dedicated solely to the Center for Executive Development.

The superior learning environment is intended to produce Mays graduates that perform better in today's workplace. "The building is designed to create space where collisions occur," said Peel. "Students are meant to collide with other students, faculty members, and former students. Those collisions result in conversations that create opportunities for learning."

The design was conceived after extensive facility benchmarking by Mays employees. The benchmarking involved an examination of: (1) other buildings on the A&M campus, (2) other Texas business schools, and (3) other business schools in the Southeastern Conference. Other facilities nationwide were also benchmarked, creating a library of outstanding facilities in the active learning space. The Dean's advisory board also provided access to innovative private-sector spaces developed by corporations such as Deloitte, KPMG, and commercial brokerage firm CBRE.

Three different task forces were formed during the development, with the first tackling university programming requirements for any new building on campus. The second task force worked closely with the architects during the planning and design phase while addressing overall budget considerations. The third task force was a micro-level group studying the actual learning environments.

"This last group got very granular, looking at what kind of technology to use and how interactivity could be built into the technology," said Peel. "Everything from seating, work surfaces, tables, lectern configuration, and lighting was tested and chosen."

Outside experts in technology and furnishings also worked with this group to implement what is producing positive results in both higher education and corporate learning spaces.

"What you find out in this process is facilities should no longer be a static investment that remains unchanged for 30 years or more," said Peel. "Buildings should be an envelope to be reconfigured for whatever activities are going on inside them. As times change, you want your buildings to be more agile and adaptable. When this building comes on board, Mays will be right up there with the top business school facilities across the country."

Exposure to such an advanced learning environment will produce students who have much higher expectations for their workplace facilities in the private sector.
