

## TABLE *of* EXPERTS

# A New Dynamic

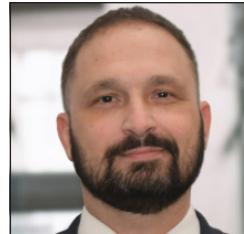
## Landlords and tenants face new opportunities and challenges as employees return to the office

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Fromm Family Foods corporate HQ, Mequon. A Stephen Perry Smith Architect's project. Furniture provided by Brothers Interiors. Photo by Ryan Hainey, courtesy of Brothers Interiors.

### Moderator



**JIM VILLA, CAE**

**Chief Executive Officer of the Wisconsin Chapter of NAIOP, the Commercial Real Estate Development Association**

Jim Villa is an experienced public policy and economic development professional and serves on the Boards of Directors for MHS Health Wisconsin, Visit Milwaukee, and the Wisconsin State Fair Park Foundation.

As Milwaukee's central business district emerges from the pandemic, both building owners and tenants are rethinking the office and what they need in terms of space. With many employers now embracing a mix of remote and in-office working arrangements, there could be fundamental changes in the way downtown buildings will be utilized. The Milwaukee Business Journal recently sat

down with a panel of experts in order to better understand where the central business district office market may be headed and what landlords and tenants are thinking about as they prepare to sign or renew leases.

**JIM VILLA:** Now that Milwaukee is opening up, what is your sense of the pandemic's impact on Class A, Class B and Class C office buildings in the central business district?

**IVAN GAMBOA:** We are starting to see a lot more traffic downtown and larger corporations are enacting their return-to-work policies. We're seeing landlords of Class A properties scrambling to make the changes necessary to make the tenants comfortable, including new protocols for elevators and common areas. Landlords of Class B and Class C properties are making improvements to their HVAC systems and restrooms – again to make tenants comfortable.

**BENJAMIN JUECH:** I think Class A buildings are going to have to get a bit more aggressive with their lease terms, but the upgrades those buildings inherently have will continue to make them attractive. I think Landlords of Class B and Class C office space will need to significantly invest in tenant amenity spaces and interior finish upgrades to attract office tenants throughout the downtown and suburban markets. If those investments are not feasible, a conversion to residential may be the best and highest use.

**RICHARD DONNER:** I have been a little surprised by how quickly things have returned to normal, which may be a testament to how effective the vaccines have been. As we get back to a new normal, I think Class A space is going to have to be more flexible. They are going to have to become destinations with a purpose, with more amenities and collaborative areas, so that people will want to come into the office. Destinations to meet coworkers, get inspiration and exchange ideas, rather than just to sit at a desk. I agree that conversions to residential will continue, but I think there will continue to be a market for Class B and Class C space for small businesses with just a handful of employees.

**GAMBOA:** The winners in the Class B space will be the building owners who have low leverage. They can be the most aggressive with their lease rates, provided they have the financial reserves necessary to make the improvements tenants require.

**JUECH:** Pre-pandemic, the central business district had momentum. Class A suburban buildings had to create

The experts



### RICHARD W. DONNER

**Shareholder in Reinhart  
Boerner Van Deuren's  
Real Estate Practice**

Rick's practice focuses on governmental relations, zoning, land use, property tax, eminent domain and other aspects of real estate development. He represents local, regional and national developers, as well as owners, lenders, borrowers, municipalities and individuals.



### IVAN GAMBOA

**Senior Vice President of  
Commercial Lending, Tri  
City National Bank**

After more than 15 years in multiple roles at the bank, Ivan now focuses his time on business development while also serving on the bank's loan committee. Ivan has a true passion for neighborhood development.



### BENJAMIN JUECH

**Executive Vice President,  
Coakley Brothers and  
Brothers Interiors**

For the last 13 years, Ben has been guiding clients in the transformation of their environments. He leads service teams for interior design, construction, new furniture, moving, and storage in a way that supports clients' unique needs.

incentives to keep tenants from moving. We furnished a lot of amenity spaces – things like cyber cafes, for example – that were created in underutilized suburban office space. I think downtown building owners will need to do the same thing.

**VILLA:** What has been the impact on projects currently under way or in the planning stages?

**GAMBOA:** Right now, planning for new projects is very limited except for medical offices. The office projects moving forward are corporate headquarter relocations or expansions, but there are not a lot of developers looking to start new office projects anytime soon.

**JUECH:** We are seeing some of the projects that had been delayed come back, mostly among smaller businesses and manufacturers. Because we

continue to be in a very volatile job market, a lot of employers see the need to invest in their office in order to make it a destination that will attract and retain employees.

**DONNER:** Early in the pandemic we saw expansion and relocation projects postponed or terminated. Our sense now is that things are starting to come back online, but it is early. The job market, the need to recruit top talent and figure out what the post-Covid norm for offices is going to look like are the really big keys to this equation. I think the instinct for a lot of our clients is to focus their efforts on retaining and gaining new employees, but what that is going to look like in terms of office space is still being sorted out.

**VILLA:** How has the pandemic changed the concept of what an office needs to be and how do you

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think that will impact design and leasing decisions?

**JUECH:** Even with all of the remote working that occurred during the pandemic, the need for an office remains quite strong. People need to have that diverse social interaction that humans miss with the work-from-home environment. I think the office is going to become more experiential and less a place to house workers. On the leasing side, I think the focus is going to be on creating a technology-enhanced experiential place that supports collaboration and social interaction. There will be more flexible workspaces that support people dropping in and out of the office.

**GAMBOA:** During the pandemic, a lot of employers learned to use technology to manage their workforces. As workers come back to the office, I think employers

will beef up their technology in collaborative spaces and conference rooms to allow a mix of in-person and virtual collaboration. But I also think there will continue to be a need for private offices. There will be a mix of private and collaborative spaces, and the pandemic's effects are still shaping that mix.

**DONNER:** The changes will vary by sector. I think professional services firms will continue pretty much like they did with a somewhat altered work practice. Employees may work remotely some days, but there will still be a traditional office structure with separate offices. Technology-based businesses, on the other hand, may shrink their office spaces. I think there also will be some universal changes. For example, I think all employers will continue to focus on technology and employee safety.

**VILLA:** One trend we saw prior to the pandemic was a shift toward collaborative spaces and away from offices or cubicles. Do you think this trend will continue or will end-users revert to a preference for personal spaces?

**JUECH:** I think this trend will continue, but more importantly to designing for a client's culture. Employee preferences are also much more important. What we hear from them is that they want to get away from assigned workstations. I think for many employers, offices will have more hoteling or touchdown stations for people to do deskwork when they do come into the office. And I think there also will be private zoom rooms and lounges.

**GAMBOA:** Because of the labor shortages and turnover we are seeing in a lot of industries, companies have a strong desire to retain their workforce. As a result, the focus of office design is going to be to attract and retain their workforce, which means employee preferences will have a dominant role. We are in a state of transition right now, so the story isn't completely written yet.

**DONNER:** The workplace plays a significant part in how people perceive a business. It is part of the first impression people get when you are interviewing and affects whether they want to work for you. Perceptions matter, and I think that will drive design moving forward.

**VILLA:** In what other ways did the pandemic accelerate, stall or otherwise change the trajectory of trends in office design?

**DONNER:** Organizations were already starting to shrink their footprint before the pandemic. Law firms, for example, have been eliminating their law libraries, which took up a huge chunk of space, because that information is

available digitally. The idea of downsizing, however, was accelerated by the pandemic. People started asking, "Do I need one desk for every employee?"

**GAMBOA:** Given the uncertainty in the office market, several landlords I have talked with are taking a keen eye to reducing operating costs. They are installing LED lighting. They are improving their HVAC systems - both to improve air quality and lower energy costs. In short, landlords are looking for ways to reduce expenses both to make their buildings more attractive to tenants and to reduce the risk of increased vacancies.

**JUECH:** A decade ago or so, buildings were getting LEED certifications to achieve environmental sustainability. But what subsequent research discovered was that while LEED benefitted the environment, it didn't always impact the employees working within the buildings. Before the pandemic, WELL building certifications focused on windows, natural light and using plants, water and natural elements as one way to connect office workers with nature. This was becoming more common before the pandemic and I think that will continue. Another thing that has been interesting to me is the misnomer that it was young people who did not want to come into the office. What we found at our company, and what a lot of research has borne out, is that the people that value the office more than anyone, are the younger professionals that companies rely on for growth and innovation. The office is their desired place to achieve that.

**DONNER:** I agree. It is the people who have a family and have been here for a while that want more flexibility in working from home. Younger people want collaboration and socialization, and that is as important as formal training in developing employees.

**VILLA:** Do you think there will be a re-imagining of Class B and Class C office



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space if companies elect to downsize or at least not grow their existing office space?

**GAMBOA:** To be successful, Class B and Class C space will need to be in great locations that work for the tenant – whether it is visibility or proximity to other clients. If a company just needs space and first impression is not important, they will be looking for the cheapest space they can find and that will favor Class B and Class C office space that are not highly leveraged.

**JUECH:** We have seen a lot of great examples of office buildings being converted to residential. I think residential conversions are a positive way for buildings to be re-imagined. It will lead to more density, which will lead to the need for more office space down the line.

**VILLA:** There was a considerable number of lease extensions due to the pandemic. How will the expiration of those lease extensions, combined with normal lease maturities, impact the market?

**GAMBOA:** Because many tenants who had their leases expire during the pandemic opted to do a shorter extension, we expect to see a lot of lease maturities at the end of this year and into 2022. That will basically affirm that the tenant is in the driver's

seat. They will have leverage to either negotiate even better terms with their existing landlords or they will find new space in other buildings.

**DONNER:** I do think it will be a very interesting 12 to 18 months, because many companies may take the opportunity to downsize and reduce their operating expenses. I agree that it will be a tenant's market, but landlords have a certain way that they like to do things and they may not be as flexible as tenants think the market demands.

**VILLA:** How do you think Milwaukee's central business district is positioned coming out of the pandemic relative to other cities?

**DONNER:** I think Milwaukee is really well positioned. It is perfectly sized and has a much better work-life balance than bigger cities like Chicago or New York City. In Chicago, coming into the office three days a week instead of five days a week is huge given the size of the city and the length of the average commute. Milwaukee benefits from being smaller and more accessible. It is well-positioned to adapt to a mix of remote working and people coming into the office.

**JUECH:** I concur. Our natural resources, our lakefront, our great restaurants, sports and the arts will pull people to the central business district. And the momentum we had pre-pandemic is being enhanced by new projects

like Milwaukee Tool and the Couture.

**GAMBOA:** Exhibit number 1 is the Deer District and the success that it has had. It has helped to demonstrate that all of the investments that have been made in the central business district over the last 10 years or so are doing well.

**VILLA:** Our members have shared similar tales about the trends going into the pandemic being accelerated. Were you seeing any trends that were not on the horizon before the pandemic?

**JUECH:** Prior to the pandemic, there was a butting of heads between the philosophies of in-office and remote working. As a result, I don't think offices were really set up to accommodate a combination of the two. The pandemic has changed all of that.

**GAMBOA:** HVAC systems used to be an afterthought for tenants. Now, they are a top priority. I talked to an owner who has an office building where you can open the windows. Before the pandemic, no tenant ever asked him about the windows. Now, it is the best amenity they have.

**VILLA:** What are the one or two most important things tenants and building owners should be thinking about as we emerge into the post-pandemic office era?

**JUECH:** I think there is going to be more focus on health, wellness, safety and work-life balance. People are more interested in how things are designed and constructed to support health and wellness. That includes the furniture and the materials that are used. I think there is also going to be more employee input in office design.

**GAMBOA:** From a building owner's perspective, I think it is important to have a solid team. Invest in relationships with property management and leasing teams so that you can anticipate changes and trends in the industry. You should have a great financing partner that understands that things change. And be very thoughtful on your capital expenditures to make sure they will be relevant in the years to come.

**DONNER:** Tenants are going to be focused on recruitment, development and retention of employees. As we discussed before, younger employees want collaboration and socialization, while older employees want more flexibility. From the landlord's perspective, it is really a changing landscape. As Ivan said, they need to have relationships with property managers, leasing teams and financial teams. They also have to be as flexible as possible to make their buildings a destination where employees want to be, and that means doing some things that they would not have considered five years ago.

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