

REAL ESTATE QUARTERLY: Creative Differences

Open floor office layouts treasured by tech sector have tenants divided as questions mount over costs, impact on staff.

By **HANNAH MIET**

Monday, October 19, 2015



Game-Changing Interiors: John Golde, left, and David Shlomi play pingpong at the Rising Realty Partners office in downtown Los Angeles. Photo by [Ringo Chiu](#).

When an old-school office building in Los Angeles trades high these days, you don't need a crystal ball to predict what's next: some kind of "creative office" conversion.

Creative office is the latest buzz term of the commercial real estate industry, with demand for open office plans reviving Class B buildings into top-tier campuses with amenities ranging from 1980s-style game arcades to meditation chambers. And with premium offerings come premium rents.

"I don't see why anyone would want to work in (a traditional office) because it's a formation set up from a bygone era," said Christopher Rising, president of downtown L.A.'s Rising Realty Partners.

But not everyone is convinced enclosed offices will become obsolete, with recent reports citing the "tyranny," as one Bloomberg News headline put it, of the open office plan and exploring the negative effects the lack of privacy has on productivity and happiness.

Nevertheless, the open office trend has grown in Los Angeles County. There is roughly 30 million square feet of creative space in the market, roughly 10 percent more than last year, said Petra Durnin, regional director of research at Cushman & Wakefield Inc.'s downtown L.A. office. Conversions of traditional space to creative office have increased 10 percent to 15 percent annually in the county since 2011.

While 10 people will give you 10 different answers regarding the definition of creative office – we asked, and they did – the hallmarks of the trend are the eschewing of enclosed offices and cubicles for open floor plans that squeeze more employees into smaller spaces, common areas designed for collaboration and windows that let in natural light. These hallmarks are often accompanied by trending design features such as high, exposed ceilings; concrete floors; and brick walls. Among the more extreme examples at tech campuses in Los Angeles are specialized amenities such as Wi-Fi-enabled outdoor workspaces, juice bars and volleyball courts.

Given the prevalence of the hype and the resultant pushback, the Business Journal asked industry experts, tenants, developers, designers and workers about the nays and yeas of the shift toward offices that look more like bullpens than the hierarchically divided corner offices of the “Mad Men” era.

Pro: Growing Demand

The trend is driven by the technology sector and is most visible in markets where tech is king. Westside asking rents for creative office averaged \$4.24 a square foot a month in the third quarter, higher than the \$3.94 a square foot average for traditional office, said Nash Midzi, research manager in the downtown L.A. office of Avison Young. Creative rents grew 3 percent faster than traditional office rents over the past year.

The biggest tech submarket in the county is Santa Monica, where office rents have increased by almost 20 percent over the past three years.

Many fled to Playa Vista for cheaper rates, said Josh Wrobel, managing director in the downtown L.A. office of Jones Lang LaSalle Inc. But now that most of Playa Vista is built out and rents top \$4 a square foot, companies are moving in despite the rents to be part of the scene.

Lincoln Property Co. saw its i|o at Playa Vista project go from vacant to 80 percent leased in a span of 12 months. Rents rose by more than \$1.25 a square foot from first to last lease, said David Binswanger, executive vice president of the Dallas firm, which developed the property in 2010 and sold it vacant to New York’s Clarion Partners for \$133 million in 2014.

Lincoln continues to lease and manage the property, where Jessica Alba and Brian Lee’s e-commerce firm Honest Co. signed an 11-year lease in the third quarter for more than 80,000 square feet, a deal sources said is valued at \$50 million.

If Rising Realty’s PacMutual center is an indicator, there is also demand in downtown Los Angeles. Rising converted the property at 523 W. Sixth St. into a 464,000-square-foot creative campus, leased it up to 95 percent and sold it last month for \$200 million. It gets the highest rents downtown, taking in an average of \$4 a square foot, as compared with the roughly \$3.44-a-square-foot average for that area in the third quarter, according to data from JLL.

Rising’s own office at PacMutual has the bells and whistles of the creative wave. Its pingpong table is used so frequently, some workers have built up their chops and compete in outside tournaments, Christopher Rising said.

Because of the PacMutual success, historic buildings are now seen as ideal territory for creative conversions, and Rising Realty was part of a partnership that recently acquired One Bunker Hill, built in 1931, intending to complete a similar conversion. New York developer Georgetown Co. announced

last month a partnership with Hearst Corp., also based in New York, to redevelop the historic Herald Examiner Building at 1111 S. Broadway.

Michael Fischer, vice president of Georgetown, said in addition to seeing a demand, he chose a creative conversion for logistical reasons.

“You couldn’t really do traditional office in this building,” Fischer said. “This building only works for open floor plans with a lot of square footage on each floor.” Michael Soto, research manager in the downtown L.A. office of Transwestern, said a major driver of the conversion boom is the simple fact that Los Angeles is an infill market.

“L.A. is now mostly built out,” Soto said. “Landlords and developers have had to get more out of the existing building stock since land is not abundant anymore like in previous cycles. This is why functionally obsolete industrial and older Class B and C office properties are targets for creative office conversions.”

Con: Loss of Privacy

In its most extreme form, open office can mean a big room with one long bench.

“That’s the most efficient way to do it, (solely) in terms of getting the most people into a space,” said Jeff Cushman, executive managing director at Cushman & Wakefield who is leading the firm’s growth in Silicon Valley.

But a study published by organizational psychologist Matthew Davis in 2011 says office walls and cubicles give workers a psychological sense of privacy, while open offices decreased worker’s attention spans, productivity, creative thinking and ? here’s the clincher ? overall satisfaction with their jobs.

The last issue was the case for an employee of CBS Corp. who wished to remain anonymous. His company moved in May from a traditional office at the CBS Television City complex in L.A.’s Fairfax District to Worthe Real Estate Group’s Pointe tower at 2900 West Alameda Ave. in Burbank, where he said he feels trapped in the open layout, too scared to take a minute break to check his personal banking account since everyone can see his screen.

There’s also a forced intimacy. Now that he sits directly across from and next to his colleagues, he sees visually when they are angry or have been crying.

The Pointe has outdoor communal dining areas, but it is often too hot in the San Fernando Valley to use them. So people eat at their desks, inches away from one another.

“It feeds into people’s ideas about their weight because people always see what you eat and it makes people self-conscious,” the employee said. “It’s also gross, all the smells.”

Without the germ barrier of cubicle walls and office doors, viruses can spread. A study conducted by Jan Pejtersen says workers in open offices took an average of 60 percent more sick days than workers with private offices.

The risk of noise and visual distraction has also raised questions about decreased productivity. “You are visually assaulted during the day by what’s going on, what’s on other people’s screens,” said Gretchen Wahab, a principal at design firm DLR Group who leads its workplace studio and works out of its mostly open office in Santa Monica.

Because of these issues, some companies are moving toward a more hybrid configuration.

“A lot of (companies) that went completely open are now trying to bring back some of the privacy,” Jeff Cushman said. “But I am hardly suggesting we would go back to the old ways.”

Pro: More Collaboration

Some of the same studies that illuminate the negative effects of open office say that it serves its intended purpose. When the open, or creative, office idea was developed by German design group Quickborner Team, the idea was to facilitate the flow of ideas.

“Employees (in a creative office) are much more likely to communicate between departments, spark new ideas with one another and problem-solve, utilizing all relevant resources,” said Jeff Vertun of Avison Young’s national technology practice group in downtown Los Angeles.

DLR signed an 11-year lease in July for 35,400 square feet at Ratkovich Co.’s Bloc development at downtown’s 700 S. Flower St., where it will consolidate its Pasadena and Santa Monica offices. The firm’s employees are already familiar with creative office and are preparing to move next year to a more extreme version of their current digs.

“I must pop in on projects 15 times a day like a squirrel and people come to me for opinions,” said Darcy Royalty, an interior designer. “I’d be less accessible if I was sequestered in an office.”

Con: Not for Everyone

After law firm Hueston Hennigan split from Century City firm Irell & Manella at the beginning of the year and signed a lease for 21,000 square feet at PacMutual, it seemed to suggest that even law firms could go creative.

However, Hueston’s office is a hybrid format that contains both private offices and conference rooms. And with 30 employees, the layout is more sharable. But not all law firms will go there.

“Lawyers’ ethical responsibility to keep clients’ business confidential prevents us from being as cutting edge with our office space as creative (firms),” said Mario Camara, an attorney at Cox Castle & Nicholson in Century City. “We have strict restraints on our ability to communicate sensitive client info because it could be heard by anyone walking through the suite, which puts a limit on how far lawyers can go with this trend.”

Real estate firms also need privacy for reasons of confidentiality – and also competition.

“Brokers naturally want to keep what they are working on private from other brokers in the firm,” said William Robertson, senior managing director at Newmark Grubb Knight Frank’s downtown office. “You want to be in control of that information and when you share it.”

When DLR’s Royalty is designing an office space, she spends time with the company to learn its privacy needs and culture.

“Putting greens are not for everyone,” she said. “Sometimes you push the boundaries on what a company is comfortable with and then pull back a little as the design process evolves.”

Pro: More With Less

Open plan workspaces can reduce office space needs by 20 percent, said Avison Young’s Midzi. But many traditional firms are looking for ways to go smaller while still having some walls.

Newmark Grubb will soon move 60 employees from the 17,000 square feet it takes at 445 S. Figueroa St. to 13,000 square feet at the Bloc. Brokers and executives will have smaller offices, encased in glass, in the center of the space rather than along the perimeter. All other departments will be in an open office configuration.

Cushman & Wakefield, which recently merged with DTZ, is also looking for space that is more open and economical than its 601 S. Figueroa office, said John Cushman, co-chairman of the firm and father of Jeff.

“(We just) brought in 20 people from DTZ, and pretty soon we need to find a new space that fits a lot of people in more efficiently,” he said.

Cox Castle shed more than 10,000 square feet when it moved across the street from 2049 Century Park East to 2029 Century Park East. It maintained a traditional layout, but all offices, regardless of an employee’s rank, are the same size: 10 feet by 15 feet.

As firms move from a more hierarchical to a more egalitarian structure, offices will follow, Cushman said.

Con: Construction Costs

“The biggest mistake (developers) make is thinking they can do (creative office) on the cheap by just pulling out ceiling tiles and painting a wall pink,” Christopher Rising said. “It needs to create a lifestyle experience.”

Phil Friedl, senior vice president in JLL’s project and development services group, said what is labeled “creative office” can run the gamut from being cheaper to significantly more expensive than traditional office.

“True creative office,” highly amenitized campuses like i|o, are always more expensive to construct from the ground up or convert to, Friedl said.

And less is sometimes more. It costs 50 percent to 70 percent more to expose a ceiling than to tile it, because wiring and cabling must be artfully encased, rather than hidden, to preserve a clean aesthetic.

“You are putting out more capital (for creative space), but the returns are commensurate,” said David Simon, executive vice president at West L.A.’s Kilroy Realty Corp., who said rents at the firm’s Columbia Square mixed-user, which includes 180,000 square feet of creative office space, are higher than they have ever been.

Rising, however, said keeping pace with trends is more of a challenge than building costs.

“Today people want exposed brick, but we will hit a point when that’s not what people want,” he said.

“The challenge is not getting caught up in tenant allowances where you have to constantly redo the space and to convince tenants to customize in a way that will be more reusable 10 years from now.”

Next level

There’s creative, there’s traditional and then there’s straight-up futuristic. That’s the vibe at CBRE Group Inc.’s headquarters in downtown Los Angeles.

The 48,000-square-foot space at 400 S. Hope St. is a consolidation from the 62,000 square feet the firm took between its former Westside headquarters and its former regional office downtown at 355 S.

Grand Ave. With the move in 2013, CBRE switched from a traditional office setup, with 191 seats for 191 people, to a space with 168 seats for 245 workers that is entirely “free address,” meaning no assigned seats.

Departments are now called “neighborhoods,” where employees switch between 14 different types of workstations from standing desks to balance balls.

“I’m over in different neighborhoods every day,” said Lew Horne, president of the L.A. region for CBRE. Company research and employee surveys say roughly 50 percent of the company’s former space was not utilized.

“We did a pilot of how the (free-address) concept would work in a corner of our old office,” Horne said, with leadership as the guinea pigs.

In the new space, workers have animated conversations that can be seen, but not heard, inside glass-encased conference rooms.

Employees can access smaller glass offices but only for the duration of the task at hand.

The office switched to cloud-based digital storage, reducing the number of physical file drawers from 1,500 to 300. Small lockers store personal belongings. There is no sign of paper in most places.

With all the glass and without the clutter, you can see straight through to the downtown skyline from most points in the office.

Brokers show tenants rentable spaces in a submarket on a large viewing theater screen, using a technology called Google Liquid Galaxy to zoom in on skylines and see a street view.

Employees from CBRE’s Universal City office will take this concept to Caruso Affiliated’s renovation of the historic Masonic Temple at 232-36 S. Brand Blvd. in Glendale, designed by downtown L.A.’s Gensler. CBRE preleased the top five floors of the building, and is using its option to lease the third and fourth floors. The Universal City office will move Jan. 1.