

LOFT OFFICE AND THE NEW GENERATION OF CREATIVE SPACES





INTRODUCTION

In recent years, we have witnessed the emergence of a new category of Office Space. Called “Creative Loft” space, this category of Office Space features expansive floor plans with large amounts of open space, often incorporating exposed duct work and sprinkler systems. These spaces are specifically designed to facilitate creative interaction—the primary value driver of a new breed of Office User. The highly-valued TAMI subset of office users—Tech, Advertising, Media, and Information tenants—prefer these spaces because these spaces enhance the TAMI business model. TAMI companies’ high profit margins and strong growth models, coupled with their strong preference for these spaces drives significant demand for these spaces.

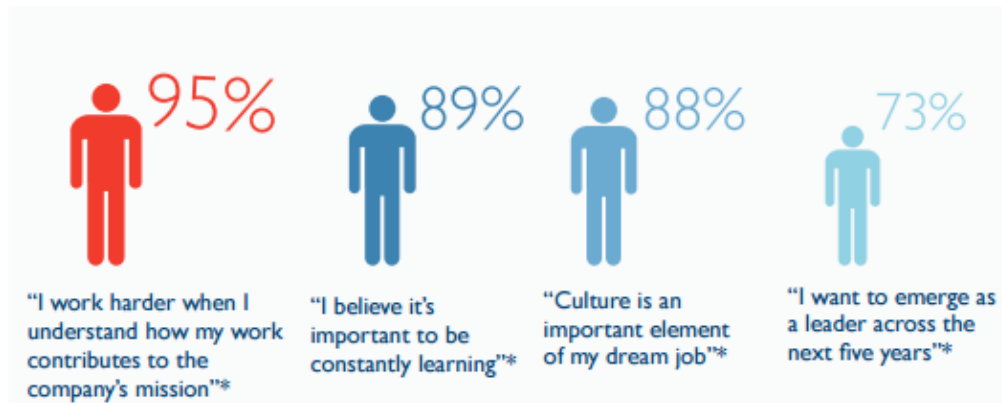
Creative Loft Office has exploded in popularity, and despite high initial construction costs, these spaces command a significant rent premium. This paper begins by defining creative loft office space and then examines its conceptual origins. The paper concludes by asking whether these spaces and tenants are here to stay, or if this new breed of space will disappear like many of the dot-com bubble tenants after the 1990s.

CREATIVE LOFT OFFICE - WHAT IS IT?

This new wave of Creative Loft Office space is designed to achieve two goals – first, due to its visually striking nature, it is designed to attract the talented workforce that TAMI companies compete over, and secondly, it is designed to enhance the creative productivity upon which those companies depend.

These spaces are characterized by large floor plates, high, open ceilings, shared collaborative spaces, and large windows. These features are designed to utilize natural light and provide a spacious feel for office users. These spaces eschew Fluorescent lights and cubicle farms in favor of low partitions and shared, “collaboration” areas. Although much more expensive to build and finish, these spaces attract premium rates from office users who value their effect on employee satisfaction and productivity. These spaces facilitate work product visibility. Workers can see how their work contributes to the company – and this characteristic drives both effort and satisfaction, which in turn drives worker retention

PERCENTAGE OF MILLENNIALS WHO AGREE WITH THE FOLLOWING STATEMENTS



Millennials have demonstrated their willingness to sacrifice compensation for flexible work hours, personal development, comfortable, aesthetically pleasing work environments, and fulfilling work. Because TAMI tenants exist in a complex and technical competitive space, talented workers are highly valued. This emphasis on worker attraction and retention drives space availability and pricing. Specifically, for established, blue chip TAMI companies, competition for talent places strong upward pressure on both TI requirements and (significantly) Rental Rates. Worker preference is an important demand driver for these spaces.

Although worker preference is one significant demand driver for these spaces, another and arguably more significant element of this new wave of open office space is its functional impact on worker productivity. TAMI companies prioritize creative throughput, and it is no accident that their work spaces are designed to encourage creativity-generating interaction. This "accidental collaboration" drives creative problem solving and these work spaces are designed to facilitate that beneficial interaction. We have discussed why TAMI companies benefit from this accidental interaction. The next section of this paper will examine how their office space helps create these accidents.



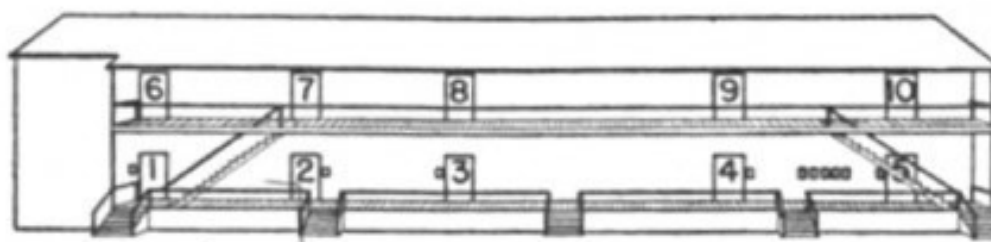


There are several key Features that make for successful Collaborative Office Space:

- Open floor plates which feature design elements such as high-traffic staircases that encourage accidental interactions;
- More common areas than are strictly necessary – multiple cafeterias, other places to read and work that encourage workers to leave confined office;
- An emphasis on areas that hold two or more people, rather than single-occupancy offices; and
- Purpose-free generic “thinking” areas in open-plan spaces which encourage workers to do their thinking in the presence of other people, rather than alone.¹

These elements literally force workers into one another, increasing the frequency of so-called “accidental” collaboration. These offices typically contain several different departments of the company in the same space, increasing the likelihood that employees with diverse knowledge bases will interact. The effect is that employees gain a better understanding of how different departments function within the context of the company. With an increased understanding of other departments’ challenges and distinct (yet related) goals, employees of organizations which occupy these spaces function cohesively. By forcing open these channels of communication, tenants in these spaces are not only more attractive to workers, they get more from the workers they do attract.

WHERE DID IT COME FROM?



Schematic Diagram of a Westgate West Building

This office space format shift has been driven by thought leaders – companies like Google, SAS, and significantly, Pixar and Apple. Before Steve Jobs brought black turtlenecks back to Cupertino, he oversaw a complete redesign of Pixar’s animation studios – a redesign which helped propel Pixar’s tremendous box office success.² Although Apple’s tightly knit software ecosystems changed how we think of man-machine interaction, the conceptual foundation behind that paradigm shift influenced what is perhaps an equally profound change in how we think about office space.

¹ Alter, Adam. “How to Build a Collaborative Office Space Like Pixar and Google” 99u, available at: <http://99u.com/articles/16408/how-to-build-a-collaborative-office-space-like-pixar-and-google>

² Since Pixar’s move to Emeryville in 2000, they have grossed over \$3 Billion, spread over 12 movies.



Although much credit goes to visionaries like Steve Jobs, Larry Page and Sergey Brin, their visions did not spring from a vacuum. This new wave of office space owes its origin to a series of social experiments in the 1940s, conducted at MIT. Psychologists Leon Festinger, Stanley Schacter, and sociologist Kurt Back explored the relationship between physical space and friendship formation. Their work found that, rather than initial attitude, it was brief, passing interaction which was most important to friendship formation. They demonstrated that it is interaction which drives friendship. Only later is attitude formed, as a result of those brief, passing interactions.

This simple experiment, with a modern twist, continues to influence office design some 70 years later. The twist is a simple premise: People from diverse backgrounds are more likely to generate novel ideas. As people with similar attitudes are more likely to work well together, it follows that people with similar attitudes but diverse backgrounds will generate novel solutions to complex problems. In order to generate the greatest volume of novel ideas, therefore, a company seeks two seemingly disparate characteristics in its workforce: A diverse background, but a uniform attitude. Creative loft office uses physical space to facilitate both of those behavioral tendencies and maximize the creative output by highly skilled individuals—as discussed earlier, a primary value driver for TAMI companies.

We have discussed why companies value creative loft office space, and how these new spaces increase worker satisfaction and productivity. We will now discuss two examples which illustrate how space can be used to achieve this desired effect.

Steve Jobs famously took three different buildings at Pixar studios – one housing the computer scientists, one housing animators, and one housing executives, and rolled them all into one giant, open building.

The central feature of this building is a giant atrium—the hub of Pixar’s campus—designed to facilitate creative collaboration. Once built, the effect was noticeable. John Lasseter, Pixar’s Chief Creative Officer commented: “Steve’s theory worked from day one . . . I’ve never seen a building that promoted collaboration and creativity as well as [Pixar’s headquarters].³⁹” Not only is the open feel of the building aesthetically pleasing, its design channels foot traffic through common corridors, forcing employees from different departments into one another during their daily work.

⁴ Pixar Headquarters and the Legacy of Steve Jobs, Office Snapshots. Available at: <http://officesnapshots.com/2012/07/16/pixar-headquarters-and-the-legacy-of-steve-jobs/>



(ATHENA HEALTH'S OFFICES IN PONCE CITY MARKET – NOTICE THE CENTRALLY LOCATED STAIRWELL AND OPEN FLOOR PLATE. [HTTPS://DZBB4SJAWLJDV.CLOUDFRONT.NET/IMAGES/GRIDFS/542B20E-2F92EA1475300D373/ATHENA_102.JPG](https://dzb4sjawljdv.cloudfront.net/images/gridfs/542b20e-2f92ea1475300d373/athena_102.jpg))

Google's New York campus utilizes a similar framework. One key feature of the design is a "150-feet-from-food" rule. This encourages employees to snack constantly – getting them out of their offices and into collaborative space. To accelerate interoffice mobility, Google built ladder chutes between floors. They encourage accidental interaction, akin to Jobs' emphasis on spontaneity. These unplanned interactions not only facilitate creative problem solving, they enhance team cohesiveness and contribute to worker satisfaction—a key value driver and retention tool for their millennial employees. This emphasis on socialization and organizational transparency may come at the expense of uninterrupted workflow. But for TAMI companies, the return is well worth its cost. This new generation of creative loft office is not merely a place to work—it is a way of working that enhances a company's competitive advantage in the new economy. Unsurprisingly, TAMI companies will pay a significant premium for these spaces.

IS IT HERE TO STAY?

The \$60,000 question, from a landlord's perspective, is whether or not this new wave of creative space is a market change, or passing fad. Certainly, the underlying fundamentals of this new tech boom are less speculative. Service based companies like MailChimp and Salesforce, business enterprise companies like Aptean, and software development companies like Soltech all generate revenue by charging directly for business-related services. No longer must companies operate at a sustained net loss to generate market share. These groups rely less on ill-defined "network effects" to drive value, and more on direct-pay methods that generate stable cash flows.

These strong fundamentals support the high TIs and long terms necessary to recoup high initial costs. They support rent growth. Because workers at these tech companies express higher preference for public transportation, these tenants are more location sensitive. Transportation demand constrains supply even in cities such as Atlanta, where relaxed zoning regulations otherwise encourage sprawl. In short, these tenants are here to stay – and rent growth for these spaces in markets from San Francisco to New York support this claim.

While not every office space can emulate Pixar's 20-acre campus, many of its concepts may be used to attract TAMI tenants looking for similar spaces in urban environments. By demonstrating our knowledge of both the why and how of creative loft office space, we can attract these highly desirable tenants. Because these environments have high up-front costs, early tenant capture provides competitive advantage when negotiating renewals. Because their fundamentals are more stable than their dot-com predecessors, those relationships will generate fiscal dividends for years to come. These companies, and their workers, value these environments because these environments make their work more rewarding while simultaneously bolstering their bottom line.



(JAMESTOWN'S OFFICES IN PONCE CITY MARKET - [HTTPS://3.BPBL0GSP0T.COM/-6FGW-GG5KR4/VI-XNJ7A1FI/AAAAAAAAOHE/MEDUOLWL72K/S1600/20141215_125314.JPG](https://3.bp.blogspot.com/-6FGW-GG5KR4/VI-XNJ7A1FI/AAAAAAAAOHE/MEDUOLWL72K/S1600/20141215_125314.JPG))





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