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# NAIOP

COMMERCIAL REAL ESTATE  
DEVELOPMENT ASSOCIATION



# Life Sciences Real Estate Surges Amid Pandemic

Investment pours into the sector as the world seeks vaccines and treatments for COVID-19.

## At a Glance

- Life sciences have seen tremendous investment during the COVID-19 pandemic.
- The life science industry tends to cluster in geographic areas that are close to major research institutions.
- Many life science facilities require higher ceilings and more infrastructure for air systems and plumbing. ■



Getty Images

Life sciences real estate can include lab spaces that are highly complex to build and maintain.

■ By Trey Barrineau

**Life sciences real estate** was performing well before the COVID-19 pandemic struck earlier this year. For example, CBRE's "U.S. Real Estate Market Outlook 2020" notes that the sector (including medical office) accounted for an annual average investment of \$18.7 billion from 2014 to 2019.

However, the challenges and opportunities presented by the public health crisis have boosted interest and investment in the sector at a time when other areas of commercial real estate such as retail and office have struggled.

"If you look at activity from February through May, the repurposing of resources, the new companies that were formed and the investing that went into COVID therapies and treatments, it brought a lightning bolt of energy to the entire industry," **Chris Haskell**, Ph.D., head of Bayer's West Coast Innovation Center in San Francisco, said during a recent webinar for NAIOP's San Francisco Bay Area chapter. "It's an immediate call to purpose."

According to Crunchbase, a service that provides information about public and private companies, investors poured \$16.55 billion into the biotech and life science sector in the first half of 2020. By comparison, \$13.4 billion flowed into the sector during the same period in 2019.

Life sciences also gets significant funding from the federal govern-

ment. For example, California's life sciences industry received more than \$4.95 billion from the National Institutes of Health in 2019, with \$1.87 billion of that flowing into the Bay Area, said **Rebekah Studer**, leasing manager with Phase 3 Real Estate Partners in the San Francisco Bay Area. She moderated the recent life sciences webinar for NAIOP's San Francisco Bay Area chapter.

"This has really helped drive the pace of innovation in the region," she said.

### History and Overview

**Geoff Sears**, a partner with Wareham Development in San Rafael,

California, said the life sciences industry in the Bay Area has evolved far beyond the early research into recombinant DNA that companies like Genentech pioneered in the 1970s.

"Forty years ago, people didn't understand it," he said during the NAIOP San Francisco Bay Area webinar. "There were lots of movies about Frankenstein bugs that were invented in a lab and were going to kill the planet. Even in this area, it was an industry that sort of hid. It grew up in places that were off the radar, like old industrial areas that had lost their purpose. But nowadays people are much more aware of it. People understand its benefits

### Types of Life Science Tenants

**During a recent webinar** for NAIOP San Francisco Bay Area, **Gregory Theyel**, director for the East Bay Biomedical Manufacturing Network, described the six major sectors in life sciences.

**Biotech firms:** Use living material to make products, including drugs.

**Pharmaceutical companies:** Make drugs from chemicals.

**Medical device manufacturers:** Design and build products that are inserted into the body, such as pacemakers.

**Medical equipment manufacturers:** Design and build products for use by health care providers. This includes diagnostic equipment, treatment equipment, life-support equipment and lab equipment.

**Digital health care:** Products where medical science intersects with software, sensors or wearable devices.

**Genomics:** "The study of all of a person's genes (the genome), including interactions of those genes with each other and with the person's environment," according to the National Home Genome Research Institute. ■

generally, and right now because of COVID, I think there are a lot of real estate people thinking ‘this is it.’ ”

**Gregory Theyel**, Ph.D., director for the East Bay Biomedical Manufacturing Network, told webinar attendees that the life sciences/biomedical industry can be divided into six subsectors — biotech, pharmaceuticals, medical devices, medical equipment, digital health care and genomics. (See box, page 57.)

Theyel said each subsector has different real estate requirements. For example, a medical device company is usually more of an assembly line with clean rooms, while pharmaceutical and biotech companies are much more focused on laboratories, which typically require four times as much space per person as offices.

By contrast, Theyel said digital health care and genomics companies have much smaller footprints.

“They are as much like tech companies as you can get,” he said. “They need desk space and computing power.”

Sears said the industry can be financially risky because there is a high failure rate for any single idea, and it can take years before achieving profitability.

“There are a lot of players in the business,” he said. “Some are very large companies with capital resources. But many of them are



Specialized equipment and plumbing are part of many life sciences facilities.

Getty Images

funded externally, fueled with money from venture capitalists. These companies grow if people are willing to fund their ideas.”

Theyel said patience is a major requirement for potential life science landlords.

“These companies can take a long time to get revenue,” he said.

“They’re not companies that are going to need a lot of space overnight. They’re capital-intensive, so they have a lot of equipment needs. It’s a different type of company.”

However, Theyel noted that the variation across the biomedical industry provides a range of leasing and investment opportunities.

“It’s a big umbrella,” he said. “Maybe the better way to see it as a real estate person is to think about what my property is best for under-

neath that larger umbrella. Maybe it’s not biotech or pharma. Maybe it’s digital health care, which is as tech as you can get. Or it could be medical devices, which is assembly in a clean room.”

### Workforce and Locations

Employment in the life sciences sector has been strong, even at the height of the pandemic. According to research from Newmark Knight Frank, the life sciences workforce only fell 2.5% from February to April 2020, compared to a drop of 14% for the U.S. workforce as a whole during that time. Before the pandemic, employment in the life sciences sector increased 19% between 2010 and 2019. Nationally, overall employment grew 16% during the same period.

Sears said the life sciences work-

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force is among the most highly educated in the world.

“These aren’t necessarily like computer science majors coming out of college who can add value to an app company,” he said. “We’ve had tenants with 70% of their employees having doctoral degrees. So that’s a very high-value staff.”

Areas in close proximity to life science research institutions also tend to have higher concentrations of jobs in the field. It’s an example of the cluster development theory described by Harvard Business School Professor **Michael Porter** in a 1998 article in the Harvard Business Review.

“Clusters are geographic concentrations of interconnected companies and institutions in a particular field,” Porter wrote. “Clusters affect competition in three broad ways: by increasing the productivity of companies based in the area; by driving the direction and pace of innovation, which underpins future productivity growth; and by stimulating the formation of new businesses, which expands and strengthens the cluster itself.”

JLL’s “2020 Life Sciences Real Estate Outlook” shows that Boston, San Francisco and San Diego are the leading life sciences clusters in the U.S. Together, these three areas accounted for 70% of all venture-capital investment in life sciences in the country in 2019. They are home to major research institutions that feed into the local life-sciences workforces — MIT and Harvard in Boston; UC San Francisco, Stanford and UC Berkeley in the Bay Area; and UC San Diego in San Diego.

“Those institutions are producing

## Safety When Returning to the Lab

**While many corporations** have seamlessly transitioned into working from home during the COVID-19 pandemic, the shift has not been possible for scientists who work in laboratories. Equipment, safety measures and team collaboration can’t be replicated virtually.

Until a vaccine is widely available, social distancing is officially the “new normal” for public interaction in labs and life sciences facilities. Employees should follow the basic protocols that are familiar to everyone by now — maintaining at least six feet of distance from others, lower maximum occupancies, alternating shift schedules, one-way movement through workspaces with separate entries and exits, enhanced cleaning protocols, and the addition of hand sanitizer stations. Touch-free automation of doors and digitalizing more processes can also limit the chance of virus spread through hand-to-hand contact.

Inherently, laboratories are most efficient with a high-density open floor plan that is flexible and configured to encourage collaboration. This is especially true as the ratio of work that happens in the “lab” vs. outside of the “lab” shifts because of innovation in computational technology and software, as well as for safety concerns. In response to this shift, the collaboration and heads-down workspaces are just as important as the labs for the enterprise’s success. Research groups often meet in conference spaces and huddle rooms to facilitate cooperation, and casual “drop in” team meetings have become the norm in recent years.

To lessen the chance of a supply chain disruption during a possible second wave of coronavirus outbreaks, small conference rooms can be converted into storage spaces to stockpile chemicals and gases that are important to research initiatives.

Once immediate needs are addressed, property owners and their COVID-19 response teams can begin to contend with long-term changes, such as modifications to mechanical systems and improving air quality to ensure that air systems don’t do more harm than good.

Laboratories generally have ventilation systems that can provide high airflow rates with 100% outside air and no recirculation. These systems can be paired with high-efficiency particulate air (HEPA) filtration to enhance dilution rates, so infected air doesn’t spread. To further contain spread, ultraviolet light (UVC) placed high in a room can kill airborne coronaviruses that are structurally similar to COVID-19, according to a recent study by Columbia University. Putting UV lights into a duct system is less effective, however, and requires a much higher wattage and an extended length of ductwork. Ultraviolet germicidal irradiation (UVGI) should also be considered in high-occupancy spaces, but the devices need to be carefully placed to avoid direct exposure to skin and eyes. ■

**Mark Jensen** and **Brent Amos** are principals in the Science + Technology Studio at design firm Cooper Carry.

the people fueling the businesses, and the businesses depend on them,” Sears said. “Often coming out of academic institutions, they want to work in places where there are lots of other scientists that create a community with a campus feel.”

### Not a Typical Office Building

While demand is surging for these spaces, developers should understand that many life science buildings are complex structures that can be costly to build and operate. A 2018 report by JLL’s Boston

office noted that lab construction costs in that market can range from \$350 to \$1,325 per square foot. According to JLL, construction considerations include 14-foot floor-to-floor heights to accommodate the mechanical, plumbing and fire protection systems that labs require. Additionally, life science buildings may need thicker floor slabs to support heavy research equipment.

“The research buildings that we build are very different from office buildings,” Sears said. “They have a huge amount of infrastructure capacity under the hood in terms of air movement, heating and cooling. The buildings are machines that our tenants use as a key part of their business as opposed to just a conditioned bubble where their employees work. The machine needs to keep running, and a lot of office buildings just aren’t going to work that way.”

HVAC is one of the biggest considerations in life science facilities, both for initial construction and ongoing energy usage. Most labs have single-pass HVAC systems that pull outside air in and exhaust it for health and safety reasons. Many require a minimum of six air exchanges per hour with continuous exhaust ventilation. Labs might also require humidity and temperature to stay within specific ranges.



HVAC systems in a life sciences cleanroom must meet strict standards, including HEPA filtration.

Getty Images

Because of the huge demand for life sciences spaces right now (**see box on facing page**), many developers are looking to convert office space to labs. While that can be a successful strategy, it requires a lot of experience, Sears said.

“It can be done, but it’s not easy even for people who are pretty experienced,” he said. “I think there’s a reason that the few companies that work in this space do so in a very focused way with a pretty broad portfolio of buildings, because it’s very hard to do one off.”

Haskell said choosing the wrong landlord could potentially have trickle-down effects on the research that’s done in a building.

“When we were looking for spaces, we looked at some that were a lot

cheaper and were not life science landlords,” he said. “I think there’s some risk in going with a crossover landlord or someone trying to repurpose space. In particular, when a company conducts animal studies, these are really sensitive to external environments. If you get a landlord who doesn’t understand these things, it can impact your science in a way that you have to live with for a long time. Having experience and working with life science companies is really important.”

### Looking Ahead

Theyel said reshoring was happening in life sciences before COVID-19 hit, but the pandemic has accelerated it.

“I’ve seen a real rush to shorten supply chains, to bring produc-

**JLL’s “2020 Life Sciences Real Estate Outlook” shows that Boston, San Francisco and San Diego are the leading life sciences clusters in the U.S. Together, these three areas accounted for 70% of all venture-capital investment in life sciences in the country in 2019.**

**Most labs have single-pass HVAC systems that pull outside air in and exhaust it for health and safety reasons.**

**Many require a minimum of six air exchanges per hour with continuous exhaust ventilation.**

tion back to the U.S.," he said. "Some of it is because it can't get done somewhere else, but mostly because of the feeling of vulnerability that COVID has brought forth. This industry is really what I call a high-value industry. The manufacturing that occurs isn't just a pass-through. The manufacturing adds significant value through the processing of the components. In addition, the need for knowledge workers enables it to stay in the Bay Area."

Sears said another area with big potential in the future is personalized medicine and self-therapies.

"People will be making drugs specifically for one individual, so it's on a much smaller scale, he said. "You're not making millions of pills. You're making medications designed for specific people."

Theyel said that could mean much smaller manufacturing facilities located closer to demand.

"Instead of scaling up, you're scaling out," he said. "You're scaling to cover more people in more locations." ■

**Trey Barrineau** is the managing editor of Development magazine.

## The Formula for Life Sciences' Growth

During NAIOP's CRE.Converge Virtual 2020 in October, **Rob Griffin**, U.S. head for capital markets at Newmark Knight Frank, discussed the stratospheric growth in life sciences.

"I have been in the market for 35 years and I have never seen the wind at the back of an asset class more than it is in life sciences right now," he said.

Early players in the sector have benefited from strong demand amplified by the COVID-19 pandemic. For example, Griffin said one of his company's clients recently sold a life science property for 22 times the cost of their initial investment, while another company sold a life science property for a \$200 million profit.

According to Griffin, some of the trends his company is seeing in the laboratory market include:

- Strong tenant demand.
- No rent erosion and rent growth.
- Many companies are working 24 hours a day, seven days a week in order to respond to the COVID-19 crisis.
- "Conversion mania" with life sciences tenants looking into properties that can be quickly remade for their purposes.

"In the last 18 months, our firm has sold 15 million square feet of life science sites to be built," Griffin said. "There's not a lot of supply over the next couple of years, especially 2021 and 2022, and a lot of the supply is spoken for."

In recent years, there has been about 2 million square feet per year of demand, and closer to 1 million square feet of absorption. Griffin said his company expects those numbers to flip in 2021. The most

recent trend is the movement of life sciences to suburban areas.

The demand has been surprising and fierce, according to Griffin.

"Anything that has a life science flavor right now is very, very highly sought after," he said. "The new money in the field is really active and aggressive and not willing to lose."

Between January 30 and July 30 of this year, Griffin said his company did \$3.5 billion in trades, and most of it has been in life sciences or industrial.

"One of the reasons people have courage to buy and convert is because tenants are so urgently looking for space," he said.

Life sciences tenants are looking for projects that can be ready without delay. That often makes conversions more attractive than new construction.

"It's a great asset class to be in," Griffin said. "There are some great opportunities for great returns, especially if you can find conversion deals closer to where people want to be. Certainly, I think this will be an asset class that stands on its own for a long time."

The stock market is noticing, too. The Wall Street Journal reported in July that Alexandria Real Estate Equities Inc., the largest life-sciences REIT in the U.S. (and NAIOP's 2019 Developer of the Year), raised \$1.1 billion through a new share offering.

"It was the largest equity offering in the company's history, the tightest pricing (in the last 10 years) and massively oversubscribed," **Joel Marcus**, the company's founder and executive chairman, told the newspaper. — Marie Ruff ■



# Opportunities in a Post-Pandemic World

Discussions at NAIOP's CRE.Converge Virtual 2020 revealed optimism for the future despite current challenges.

## At a Glance

- Retail is in a period of transition that will require creative thinking from businesses and developers.
- E-commerce should continue the strong performance that's been seen during the pandemic.
- Office space could be redesigned in the future to accommodate social distancing and more teleworking. ■

During the second quarter of 2020, total retail sales fell 8.1%, the largest decline since the global financial crisis in 2009.

Getty Images



■ By Marie Ruff, Betsy Rosso, Linda Strowbridge and Brielle Scott

The COVID-19 pandemic has created challenging conditions for commercial real estate, particularly for speculative projects and for sectors that are more exposed to cyclical risk. However, it has also created opportunities, particularly as the economy emerges from the crisis.

Both aspects of the pandemic were a major focus of discussion during NAIOP's CRE.Converge Virtual 2020, held in October.

## A Period of Transition for Retail

Compared to industrial activity this year, "it's been a tougher year overall in retail, although it shows signs of great activity lately," said **John Morris**, executive managing director, Americas industrial & logistics and retail leader at CBRE. "In late September we saw the best transaction week we've had since last year."

**Wade Achenbach**, executive vice president of portfolio management for Kite Realty, explained that not all retail is created equal. While already struggling shopping malls were hit hard by COVID-19 closures, open-air shopping centers were performing at their peak before the pandemic and continue to have the highest small-shop occupancy in the history of the sector.

However, during the second quarter of 2020, retail trade was among the hardest-hit areas by U.S. annualized GDP growth, according to

CBRE research. Total retail sales fell 8.1% in that quarter, the largest decline since 2009 during the global financial crisis.

Approximately 9,000 national and large retailers announced bankruptcies this year, part of a longer-term restructuring of the retail business — the number was twice that in a year just five years ago, according to Morris. CBRE research shows the early economic recovery as V-shaped with retail sales bouncing back before plateauing, driven by the e-commerce surge and economic stimulus.

"This is definitely a period of transition," Morris said. "It's also a period during which changes are very local, very market-driven, very region by region, city by city, urban vs. suburban."

The future of retail is "retail reimagined," Morris said, with retailers using multiple channels to provide customers the ability to shop, experience and return products anytime and anywhere.

CBRE's "retail reimagined" concept leverages data to make smarter decisions — viewing retail stores and distribution facilities holistically, not as separate entities, in order to build optimized, aligned networks. CBRE asserts that successful omnichannel strategies are designed around the customer while also adapting to specific market conditions and scenarios.

## E-Commerce Boom

The brightest spot in retail since the start of the pandemic has been the explosion in e-commerce activity.

"If there was a person who had not shopped online before the pandemic, that person doesn't exist now," said **Rene Circ**, senior managing director and COO of GID Industrial at GID Investment Advisers LLC. He noted that e-commerce sales grew by 44.5% year over year in the second quarter of 2020 and now make up 16.1% of total sales. Even brick-and-mortar retailers are relying more heavily on e-commerce to sustain themselves.

"What we've seen over the years is an extreme change when you're talking about what distribution networks look like," said **Matt Powers**, executive vice president of retail and e-commerce distribution with JLL. Ten years ago, most retailers had a dedicated distribution network in place. The standard has been set for next-day and same-day service, and for companies to maintain market share, they have to meet that demand.

Over the past 10 years, many big retailers have made plans to meet increasing e-commerce demand. However, the rush of pandemic-related orders overwhelmed them.

"As good as the plans were that those companies made, those companies are at volumes three or four times what they'd usually see on

certain items,” said **Chuck Graefen**, senior director of distribution support with KeHe Distributors. “In February, March and April, we saw incredible volumes. You couldn’t forecast anything in March and April.”

While things have leveled off, Graefen said they’re still seeing twice the normal volume for certain items, causing his company to adjust constantly.

“COVID has accelerated (companies’) five- to 10-year plans to two- to three-year plans,” Powers said.

And while some retailers see their brick-and-mortar store footprint as an opportunity for a last-mile hub, panelists pointed out that those stores are built only to house in-store inventory, not significant amounts of stock.

“So just because you have a store in downtown Chicago, that doesn’t mean you have a fulfillment center in downtown Chicago,” Powers said.

One challenge for e-commerce is that the industry is changing so quickly, it’s forcing tenants in distribution centers to change just as rapidly, said **Adon Panattoni**, CEO of Panattoni Development Company.

“You’re trying to get in front of opportunities as a developer/investor,” he said. “An eight-acre site you thought would work a few years ago now doesn’t work anymore.”

Another challenge for industrial developers and investors has been securing the community support needed for a successful project. Entitlements are critical.



Getty Images

E-commerce sales grew by 44.5% year over year in the second quarter of 2020 and now make up 16.1% of total sales.

“When they hear about a distribution center, they think of a 1970s-era truck terminal with constant traffic,” said Powers.

The speakers agreed there is an opportunity for the development and brokerage community to convince local governments that these facilities can benefit communities.

“I’ve seen positive headway in a lot of communities, but it’s going to take a concerted effort,” Powers said.

Labor is another major issue for e-commerce.

“Retention is the No. 1 challenge in our company,” Graefen said. “That’s part of why we’re investing so much into automation. We’re also modifying the amenities in our buildings to make them more appealing to today’s workforce.”

## Changes in Office Designs

The pandemic has accelerated several trends in office design that had started to emerge before 2020. Those include touchless technologies and health-conscious design.

“On the design side, we are seeing clients who were just starting construction saying, ‘Time out, I want touchless toilets,’ which by the way are very expensive, ‘I want touchless doors,’ which are also expensive, ‘I want to crank up the mechanical system, I want UV everywhere,’” said **John Adams**, Southwest regional managing principal at Gensler. One client “completely redesigned the cafeteria so you don’t have to touch anything. You get your food delivered to this little cubby that opens up on its own. It will be really interesting see best practices develop.”

Tenants’ desire for improved air quality is stoking interest in indoor-outdoor workspaces, said **Robert Paratte**, executive vice president for leasing and business development at Kilroy Realty Corp. Those spaces include sheltered balconies or rooftop decks that are the size of conference rooms, as well as building lobbies and meeting rooms with large windows that can be opened.

The need to provide cleaner air, less dense environments and other measures to prevent disease spread

is also prompting developers to rethink some design fundamentals, such as how many elevators should be included in a new high rise to safely and efficiently move workers to their offices.

## Future Demands for Office Space

While workers' reactions to the sudden shift to remote work are mixed, CRE.Converge panelists agreed that 2020 has made one profound change to American work culture: The 9-to-5 workday is part of the past.

"Employers have learned through this crisis, and I think it's good that people don't want to work 9-to-5. I think that was generational," said **Kevin Smith**, executive managing director at Cushman & Wakefield.

Big tech companies started the trend of allowing talent to alter their working hours to match the times when they could be most creative and productive, as well as accommodate other aspects of their lives. Expanded technology adoption and this year's crash course on how to telework has convinced other Americans and their employers of the benefits of a nonconventional work schedule.

As a result, CRE owners will need to adjust building operations to accommodate longer arrival and departure windows, and longer stretches of the day when tenants will need full building services.

All of 2020's turmoil, however, has not halted demand for office space. In Gensler's "U.S. Work From Home

## Realities of the Infill Market

**The flourishing e-commerce sector** is driving demand for industrial space, and that demand is now extending from the massive, port-side logistics facilities to last-mile distribution centers tucked into communities. A panel discussion at CRE.Converge Virtual 2020 dissected some of the opportunities, challenges, tenant needs and emerging trends in the bustling niche of infill, industrial developments.

**Infill environments pose extra challenges.** "The environmental aspect of infill redevelopment is always there, and it has to be part of your core competency," said **Drew Hess**, regional senior vice president for Duke Realty. In addition to thoroughly identifying and remediating environmental issues, developers must also be ready to address uncertainties and challenges involving entitlements, utilities and other site issues.

**Developers need to be good neighbors.** Although residents are often pleased to see jobs created by these facilities and are willing to accommodate some changes to their communities, developers need to engage extensively with neighborhood groups and work to address their major concerns, such as traffic, noise and sightlines.

**Templates can be challenging, flexible and small.** The facilities that many tenants want on infill sites can also be challenging from a financial perspective. Increasingly, companies (other than Amazon) that are looking to set up a last-mile center want a 100,000- to 150,000-square-foot facility with 25-30 docks and excess parking — in other words, a comparatively small building with significant functionality and a fairly large site.

**Yard space is prime.** Faced with increased needs to park trucks and trailers, tenants seek out facilities with ample yards. In some instances, tenants will compromise on the age or location of the facility in order to get sufficient yard space. In other facilities, owners are netting increasingly healthy lease fees per parking stall or square foot of yard space.

**Costs and leases keep rising.** The demand for more distribution facilities, especially near population centers, has driven land prices higher and challenged developers to secure sites. Even brokers who quietly approach landowners in hopes of securing off-market purchases have often found themselves facing competitive bids. The other side of the balance sheet, however, is also increasing. Lease rates, especially on the West Coast, are continuing to climb, and tenants are willing to pay higher rates for highly desirable facilities that can be built quickly.

**There is wisdom in not developing.** Many cities have ample stock of under-demolished, under-utilized real estate that could, in theory, be used for infill development. However, sometimes the smartest business move is to leave the property alone. "Sometimes you can't replicate these Class B and C facilities," said **William Lu**, senior vice president at CenterPoint Properties. For example, his company purchased a 1 million-square-foot facility from JC Penney in Los Angeles with the intention of redeveloping it. "But we were able to get a much better return by just re-leasing the building the way it is and cleaning it up a little bit," he said.

**Prepare for a greener future.** While the adoption of electric vehicles for personal or corporate use is still an emerging trend, some industrial developers are already outfitting new properties to support electric vehicle chargers and onsite renewable energy generation. ■

By **Linda Strowbridge**



## Steve Forbes Sees Reasons for Optimism in CRE

In a special CRE.Converge Virtual 2020 keynote exclusively for NAIOP National Forums members, **Steve Forbes**, chairman and editor-in-chief of Forbes Media, shared some reasons for the commercial real estate industry to be optimistic about the future.



**Big changes in health care.** Forbes sees more specific-purpose offices, not just open space, but geared to biosciences and health care. In health care, there is a continued push for transparency, more competition from new online health companies, and the proliferation of price-comparison tools for common procedures.

**A renaissance of small-business formations.** This used to be a great source of strength in the U.S., and it added vibrancy to the economy, he said. In recent years, startups were reviving until the pandemic hit. Forbes said the biggest number of startups by ethnic group came from the Latino community — they have established about three times as many startups as any other group. For the first time in decades, there's been a real pickup in business start-ups by Black entrepreneurs, too. "Once they're out of the home, (small businesses are) going to want space — it might not be much, but they will want space."

**Cheaper, safer energy sources.** "What if the energy cost for your building was little to none?" Forbes said. He outlined two new sources of energy that will become cheaper and more widely used in the next decade: Molten salt nuclear power and nuclear fusion power. He called them "safer, more easily scalable and far more versatile" than the options used today. ■

By **Brielle Scott**

Survey 2020," 70% of respondents said they wanted to work three or more days per week in their employer's office. Meanwhile, market activity this year has demonstrated employers' continued interest in securing prime office space.

"We have seen during the COVID period some major leases signed on behalf of tech firms," said **Kevin Bender**, managing director at JLL. "As we hear of so many tech firms looking at long-term incorporation of some of these work-from-home strategies, at the same time, they are being very opportunistic in real estate deals."

In addition to securing expanded or choice space, tenants are looking to execute certain strategic goals. Some companies, for example, have

decided to split their operations among multiple properties to accommodate employee preferences for work locations, to take advantage of tax opportunities, or to mitigate against business interruptions. That trend is creating opportunities for some suburban locations and smaller cities. Meanwhile, demand for office space in major urban centers persists.

"Companies are locating in urban areas because that's where the talent is," Paratte said.

As long as young, highly educated employees from top universities want to work in the city, companies will continue to locate there. Paratte said Kilroy interviewed some of its clients about their location preferences.

"The feedback was interesting," he said. "They said they are looking at some suburban locations due to some employee requests to do so. But some recent graduates may not want to work in suburban locations."

**Al Pontius**, senior vice president, national director, office and industrial divisions with Marcus & Millichap, pointed to the choices that millennials are making as the largest segment of this cohort moves into their 30s and begins to establish families.

"As much as anything, this is a demographic discussion," he said. "Your residential market is in many ways a forward indicator of what we might expect in office's future — affordability, value and convenience — I am going to argue that these are now showing up more extensively in a suburban format."

Pontius also said that offices will face some challenges in the one-to-two-year horizon. However, he also noted "the arguments are pretty powerful that office is going to be back."

Citing Gensler's "U.S. Work From Home Survey 2020," he noted that just under half (44%) of workers surveyed do not want to work any days at home at all. Pontius pointed out that there are a lot of people who don't have a perfect at-home work environment and want the ability to go into the office to work. ■

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