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DESIGN + CONSTRUCTION

How Architects and Designers Shifted Focus During the Pandemic

Emphasis on tenant amenities drove decision-making and revenue at firms

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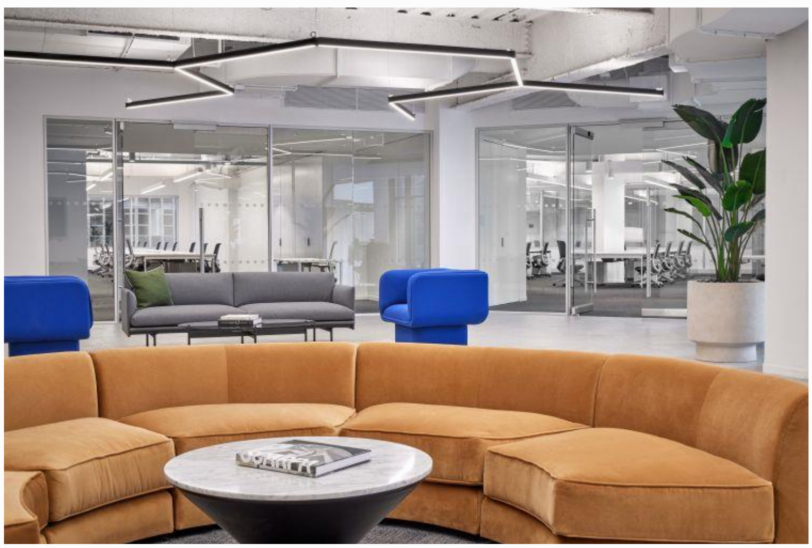

875 THIRD AVENUE.PHOTO: GLOBAL HOLDINGS MANAGEMENT GROUP

Time was when architects designed entire office buildings for owners that tenants then filled, with no thought to workers' comfort beyond maybe the restrooms and the kitchenettes.

Not anymore.

The rapid amenitization of offices since the start of the pandemic has affected not just the tenants who occupy the properties, the owners who build them out, and the various firms that service them — think everyone from cleaners to landscapers for terraces to maintenance crews for golf simulators — but another class of commercial real estate: the architects who design the amenity spaces.

The last few years have seen prominent architecture firms shift focus and resources to creating office spaces that will not only function as conventional workspaces — as they have for decades — but also act as lures to draw remote workers back.

"Absolutely," said Scott Rechler, CEO of owner and developer RXR, when asked about the need to look at the offices themselves, rather than just the buildings, in making them appealing to the workers they want back. "There's a merger going on of office, hospitality and home."

Among RXR's 30 million square feet of commercial properties, mostly in the New York area, include 75 Rockefeller Plaza, 5 Times Square, 32 Old Slip and other well-known Manhattan office towers. Rechler said focusing beyond buildings to individual space themselves was the idea behind the company's WorxWell platform, which plugs amenities into workspaces, such as kitchens, sitting areas, and other fringe benefits for workers who return.

"There are two kinds of projects going on right now," said Dan Shannon, managing partner at MdeAS Architects. "There are the ones that have thoughtfully considered this new model, and are creating partnerships that [examine] the entire work experience for the people who are coming back to the office. Then there are those who say we need to keep up with the Joneses."

There's no fine line. Some landlords, like the ones who now own the tower at 51 West 52nd Street long known as Black Rock, found themselves doing both, spending millions adding a gym/wellness center in the basement *and* fixing up the offices to appeal to a workforce that can now choose between commuting to Midtown or staying home. And that, of course, makes owning an office tower even more expensive and even harder to profit from.

For Black Rock, Shannon and the architecture and interior design firm Vocon collaborated on behalf of Harbor Group International, which paid $760 million to CBS to buy the landmarked 900,000-square-foot tower in 2021. CBS put the building up for sale following its merger with the cable television purveyor Viacom, now known as Paramount.

According to William Vazquez, HGI's senior general manager, the firm spent $36 million on "front of house," including modernizing Black Rock's lobby and whole-building amenities such as the gym, and set aside another $128 million to customize individual offices, per tenant demand.

The redesign had to be true to one of architecture's masters, Eero Saarinen, who designed the skyscraper with its distinctive offset black granite exterior columns and sunken plaza. The tower was completed in 1965, four years after Saarinen died.

Black Rock was 96 percent leased at the time it was sold, but with CBS gradually leaving — its initials are still on the entrances to the building — the tower's space was about 40 percent available just as people were learning to work from home during the pandemic.

Even so, HGI found there was demand for its offices, Vazquez said

"I don't want to say 'flight to quality' because that has become a cliché," he said. "But there is a desire for well-established, well-located buildings."
Black Rock is now 92 percent occupied, with tenants like the financial company Charles Schwab and the prestigious law firm Wachtell Lipton. Rents run from $90 a square foot around the base to $120 a square foot near the top, Vazquez said.

"There are very few projects I'm working on right now that don't involve this intense collaboration," Shannon said. "Clients are recognizing, and partners have recognized, that the idea of the shell, and somebody else puts the tenant in, is no longer viable."

Tom Vecchione, a Vocon vice chairman, said there is "a massive amount" of properties that need an overhaul, beyond the usual amenities and refreshed lobbies. Those things remain important, but the game has really become "taking a B-plus and making it an A, taking an A asset and making it an A-plus."

MdeAS was also involved with the recreation of 1 and 2 Penn Plaza, Vornado Realty Trust's signature office towers across from Penn Station and Madison Square Garden. The former is a 2 million-square-foot, 55-story skyscraper, so it is much larger than Black Rock. The firm oversaw the complete refacing of the outer façade and the window replacement program, and also rethought the tower's base, including double-height storefronts, with an eye toward making it more inviting. Partner A+1 redid 1 Penn's upstairs interiors.

"We have partnered with some of the most progressive and active of the interior architects," Shannon said. "Back in the day, we were known as core and shell architects. The developer hired us to either build a new office building, or completely rebuild an older product. And you filled the building with tenants who enjoyed the fruits of our labors. That doesn't work anymore."

In a report entitled "What's Old Is Now New Again," researchers from Cushman & Wakefield (CWK) wrote about how aged buildings have been revitalized through amenities and redesigned offices. In a section on 140 Broadway, a Downtown Manhattan office tower built in 1968, the researchers said they found that 52 percent of employees surveyed last year wanted to come into the office to socialize, compared to only 39 percent who said such a thing in 2020.

"It's so hard to quantify results when it comes to improving the tenant experience as it's so subjective," Brett Williams, a senior managing director and head of Cushman & Wakefield's tenant experience group, said in the report. "But what I can quantify is, if you're not doing it and your competition is, you're at a disadvantage."

It is, of course, not a challenge limited to Manhattan. The C&W report also identified Dallas' 1 Victory Park, owned by a fund managed by Clarion Partners, and International Plaza, also in Dallas, owned by New York-based Taconic Capital Advisors, as having received a postpandemic makeover. Both were built in this century, so a building doesn't have to be old to warrant an upgrade.

"Some of this had been happening, combined with a shift in the market before COVID," said Carlos Martinez, a co-managing director at Gensler, a global architectural firm well known for its interiors. "Landlords were realizing they could differentiate their buildings by providing [upgrades]. Now there is this desire that, if I'm going to go to the office, I really want to have something that's compelling.

"We were realizing that things were becoming much more nuanced," Martinez said of the period before the pandemic. "COVID threw us the biggest curveball. But what has come out for us is we were prepared."

At Gensler, revenue reached $1.47 billion in 2022, according to its latest annual report. It was just a tad over $1.4 billion in 2019, the last pre-pandemic year. The rise is primarily due to a rise in demand for interior work.

At 875 Third Avenue in Manhattan, a 665,000-square-foot tower that Global Holdings Management owned, managers realized that putting a lounge or a conference center in the basement wasn't going to be enough. Paul Glickman, a vice chairman at JLL (JLL) with a deep knowledge of the building, said management took the entire fourth floor, divided it into individual suites, and created amenities such as a pantry and a lounge area that were only for that floor. Heretofore, landlords had by and large added amenities for tenants in the entire building to use.

"This is a building that was built in the '80s, has been heavily reinvested in, and has kept up with technology over time," he said. "It's not a neglected building. It's actually a high-performing building."

So even relatively new buildings that have been fairly well kept up to date need extra attention to compete in today's environment, Glickman said. He also noted that the average Manhattan office building is 75 years old.

"The reality is that working away from the office during the pandemic certainly exposed uninspired, unsupported workplaces that people left," said Lenny Beaudoin, global head of workplace and design for CBRE. "Employees performed admirably during the pandemic. Forcing them to come back after they've had experience working outside the office, it's a real issue."