

THE CONSEQUENCES OF REMOTE WORK

The first hint came in August 2020 when Pinterest terminated its lease (490,000 square feet) in an office tower under construction in San Francisco by paying \$89.5 million to the landlord. More recently, Allstate Insurance announced plans to sell its corporate headquarters campus in Northbrook, Illinois, to a Nevada-based industrial developer. The property, which includes 1.8 million square feet of office space on 232 acres, is selling for \$232 million for redevelopment into a 3.2 million square foot logistics center. The buyer was quoted as saying that “turning a suburban corporate headquarters into a logistics center is a sign of the times, where the COVID-19 pandemic has made remote work and online shopping the new normal.”

Many articles have appeared on the subject of remote work, none better than a piece in *The New Yorker* (September 27, 2021) entitled “Is Going to the Office a Broken Way of Working?” The author contends that the pandemic simply accelerated a shift well underway from the “factory-office model” to a remote-first organizational structure. While the technology to facilitate remote work has long existed in the form of personal computers, cellphones, and internet connectivity, a dose of direct experience was needed to upend traditional business practices.

From a company’s standpoint, the attraction of remote working is the potential to recruit and retain the best talent (no matter where they live), while saving on occupancy costs. Employees clearly embraced the concept once the pandemic forced widespread exposure to at-home work. A recent Gallup poll showed that 91 percent of people who work at least partly remote “are hoping their ability to work at home persists after the pandemic.” A further finding was that 54 percent prefer a hybrid model, 37 percent would like to exclusively work remotely, and only 9 percent want to return to the office full-time.

The growing interest in remote work has real implications for the office market, which is already reflected in rising vacancy rates, negative absorption, and a surge in sublet space. Change creates opportunity, so savvy investors and developers will explore ways to capitalize. Three fundamental avenues exist: 1) repositioning existing office buildings by making physical modifications and possibly including more shared or flex space; 2) re-purposing distressed office buildings into other uses; and 3) redevelopment.

Of course, this may be much to do about nothing. Only time will tell whether this shift in work habits has a lasting impact, but it certainly feels consequential.

COVINGTON'S TIME TO SHINE



Thirty miles east of Atlanta along Interstate 20, the City of Covington has experienced a wave of investment in recent years. Increased demand for industrial space, Georgia's booming film industry, and existing companies in expansion mode are all contributing to the area's growth. Our firm has been working in the market area the past two years and has enjoyed witnessing this evolution firsthand. Below is a list highlighting some of Covington's recent big wins.



Rivian recently announced the *single largest economic development project in state history*. The company will invest *\$5 billion* in a new electric vehicle campus that will create roughly *7,500 jobs*.



SKC, which currently employs 331 people, plans to expand on land next to its current facility. The company will invest more than *\$473 million* in the new semiconductor chip manufacturing facility and create more than *400 additional jobs*.



Takeda, a biopharmaceutical company that currently employs 1,400 people, is planning a major expansion that could add *2,000 jobs*. The average wage is currently *\$80,000*.



Lidl is investing *\$100 million* in a Georgia regional distribution center that will create *270 new jobs*.



Three Ring Studios opened in 2020 and is already expanding its film campus. Upon completion of its Phase II expansion, the facility will contain 425,000 SF of production space and 100,000 SF of office space, making it one of the largest film studios in the state.



Facebook has plans to continue expanding its \$2.4 billion data center at Stanton Springs. Facebook recently announced plans for its next phase, a *\$42 billion investment*. Total employment should reach *200-500 people*.



Battery Resourcers will invest \$43 million to open a battery recycling plant in an existing 154,000-square-foot building. The facility will be the largest of its kind in North America and is expected to create 150 jobs.



Covington Town Center is a major mixed-use development underway that will include *350 multifamily apartments, 270 rental townhomes, a Publix-anchored shopping center, and three hotels*.

CLIENT'S CORNER

Our firm worked on a variety of different assignments in 2021, three of which are described below.

- ❖ For the last year, we have worked closely with a suburban city and its downtown development authority (DDA) in order to develop a strategy for revitalizing the city's downtown. After studying existing conditions in the downtown and surrounding area, we successfully marketed a city-owned site to an apartment developer, identified neglected properties for the DDA to acquire, and continue to serve as a sounding board for ongoing issues.
- ❖ We were hired by a family in Covington that owns a shopping center that was 67% vacant, with 19 acres of undeveloped land wrapping around the improved property. After conducting a highest and best use analysis and preparing an investment strategy for both properties, we were retained to market the land for sale and provide ongoing advisory services for revitalizing the shopping center. The 19-acre site sold to an apartment developer in December, and we are currently finalizing a lease for a significant portion of the vacant big box in the shopping center.
- ❖ Our firm was retained by the owner of a medical office building in downtown San Antonio that was suffering from a high vacancy rate. The property was also improved with a surface parking lot that had redevelopment potential due to its location in an emerging downtown neighborhood. Our role was to evaluate the property and market in order to formulate the optimal investment strategy for this asset.

To monitor key economic and housing indicators, please visit our website. As always, your thoughts and feedback are encouraged.

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