

BUSINESS CASE SERIES

Space Efficiency

Optimizing space utilization in offices to cut down occupancy costs

The Changing Workplace

We live in a fast-paced world and the needs of employees and organizations are continuously changing. As companies become more flexible, office utilization continues to drop. This poses one of the biggest challenges for corporate real estate and facilities managers: optimizing the space in company buildings, while creating appealing workplaces for employees. We'll look at the different approaches corporations can take to increase the efficiency of their offices and outline how these changes can be implemented.

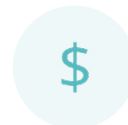
Over the last decade, many began working from home, flexibly, or in activity-based workplaces. Covid-19 only accelerated this change and the numbers continue to shift faster than ever. A study on utilization conducted by [JLL](#) showed that even pre-pandemic, the average office was 40% underutilized. Throughout the pandemic, underutilization rates sky-rocketed to 80%.



Companies are becoming more flexible, creating major challenges for CREMs



Pre-pandemic, 40% of office space was underutilized, with the rates raising to 80% during Covid-19



Average occupancy cost per workplace in London is USD \$22,665 per year

For many organizations, offering a central and engaging location for employees to work and collaborate is critical in the war for talent. However, physical office space in cities is very expensive. For example, [Cushman & Wakefield's](#) study shows that the average occupancy cost per workplace in London is USD \$22,665 per year.

Calculating Savings Potential

When calculating your company's savings potential, there are two options: either reducing the space or increasing the utilization within the same space. For example, in an office with 1,000 desks and a 48% utilization rate, giving up 200 workspaces at \$22,665 each would result in a direct savings potential of \$4,533,120. On the other hand, if the same company is growing, they can allocate more people to the same office, increasing the utilization to 60%. No additional space needs to

be rented, instead the efficiency of the existing office improves. Since 120 more seats will be used without renting new space, this would result in \$2,719,680 savings potential. [Biogen](#) was able to bring in an additional 140 employees to the existing 450 without adding new office space by increasing the desk-sharing ratio based on objective data-insights. As a result, space efficiency was improved by 30% and resulted in USD \$2,500,000 of savings.

		Workspaces	Utilization	Calculation	Yearly savings potential
Reduce Space	old	1.000	48%	200 x \$22,665	\$4,533,000
	new	800	60%		
		Utilization	Workspaces	Calculation	Yearly savings potential
Same Space	old	48%	480	(600-480) x \$22,665	\$2,719,680
	new	60%	600		

Saving Costs in Your Organization

There are three options to realize cost savings through space efficiency. The best choice will depend on your company's current situation and timeline:

Same Space	Reduce Space	Combination
In the event of growth or reorganization, assign teams and employees to the office to increase utilization in the existing space	Terminate the lease agreement	Consolidate different underutilized office buildings into one head office
<i>Higher efficiency by increasing workplace utilization</i>	<i>High rental savings and efficiency by decreasing total office space</i>	<i>Higher efficiency by increasing number of employees and high rent savings</i>
	OR	
	Sublet unused space to other tenants or businesses	
	<i>Rental income and potential benefits of collaboration with new tenants</i>	

The most convenient time to improve space efficiency is when a lease is ending. Nonetheless, the options above highlight that companies also have the chance to save costs when they own their buildings or are tied to long-term contracts. [Swiss Post](#) demonstrates how options can be combined

to reduce space while optimizing the sharing ratio in the new headquarters. When analyzing their data over time, they even identified the potential to further consolidate buildings and, in the end, the company realized cost-savings of 15-20%.



Increase or Decrease Space

Continuous measurements to make ongoing decisions to increase or decrease space



Terminate Lease

Terminate the lease agreement or sublet the existing space to save rental costs



Optimize Current Space

Increase the utilization rate, optimize current space and avoid additional rental costs

Increasing Space Efficiency: High-Impact Decisions

Despite the benefits, many companies hesitate to take action to improve office space efficiency. The main reason for this is the lack of objective and reliable data on workplace utilization. Without this, CRE leaders cannot have a clear understanding of how buildings are utilized. A lack of data also makes it difficult to convince stakeholders. At the same time, they are caught between management's demands to increase efficiency, and the employees who require the right amount of space.

Having the facts and figures on hand is crucial when arguing your case in front of management, consultants and other employees. Basing decisions on continuous and long-term measurements ensures that workers' needs are considered throughout the process. Additionally, implemented changes can be verified over time, and adjustments can be made to increase overall space efficiency while meeting every party's needs.

Key Takeaways

Most office buildings are underutilized and there are different actions that can increase space efficiency and help realize significant savings. Yet, CRE is in a tough spot. A CFO may focus on reducing space as much as possible, while HR and individual teams plead for more desks. The push and pull of different departments and a lack of reliable data can make it impossible to draw clear conclusions.

The solution is real-time utilization data. This will provide an overview of your company portfolio and help you make decisions with confidence. Ongoing measurements allow companies to validate changes and further improve configurations in a flexible working environment. This way, sustainable, long-term transformations can be made to benefit the company both financially and culturally.

Locatee is the leading workplace analytics solution that transforms data into insight.

Want to know more about analyzing and interpreting workplace patterns in your office?

Reach out to the Locatee team; we look forward to hearing from you.

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