

the third space

It's clearly apparent that over the past decade, office landscapes have become more varied – moving away from the traditional recipe of allocated workstations, private offices and meeting rooms. Designers and Real Estate teams have become more inventive in using the 'Third Space' to offer a better variety of workspaces and settings to support employee needs.

However, in light of the recent economic downturn, has the real estate profession's approach to the Third Space altered? In the face of economic pressure, has the Third Space been demoted to an unnecessary luxury, or is it now expected to play a different role for the business? The Workplace Intelligence Unit set out to find the answer....

What is the Third Space?

The Third Space is a catch-all term to describe areas in the workplace which are not dedicated to permanently allocated workstations (1:1 workstation: employee ratio), private offices or formal meeting rooms. It is 'the space in-between' these traditional work settings, which can be used to fulfil a multitude of functions. The Third Space might include breakout areas for ad hoc collaboration, private booths for concentrated individual work, shared

or 'free address' workstations, relaxation or reception space – indeed any space which is not dedicated to allocated desks, offices or meeting rooms.

The research

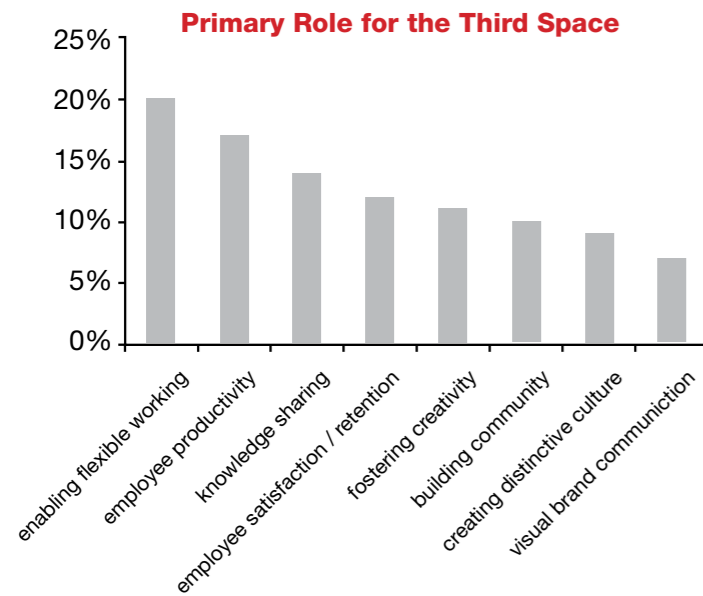
The research intentionally applied a broad definition of 'Third Space' to explore in full the wide variety of workplace strategies being employed by respondents. We hypothesised that strategies for the Third Space are now maturing and becoming more sophisticated, following years of trial and error with 'fashionable' breakout



zones, flexible desking etc. Thus, we set out to evaluate how companies are utilising the Third Space for the benefit of their business. Secondly, we aimed to explore the impact of the economic downturn on these strategies. Has the recession changed plans for the Third Space, or shifted the real estate industry's perspective on its value altogether?

Methodology

In depth interviews with, and electronic surveys, to over 100 real estate professionals, covering both public and private sector bodies and spanning Europe, the Middle East and Asia



“The first thing we say is, ‘Where is the heart of the building?’ Making social Third Space builds the strong community we rely upon”

Global Telecoms Company

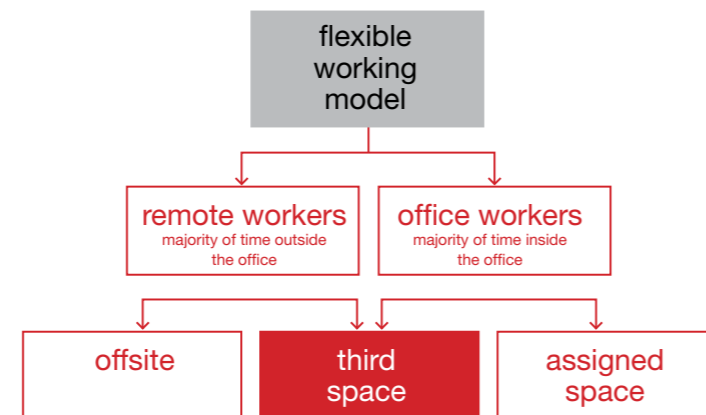
However, from this broad range of functions, the ability to enable flexible working stood out as the most valuable business contribution the Third Space can make. In addition, looking forward 10 years, 84% of respondents predicted that the ability to enable flexible working would become an increasingly important and valuable function of the Third Space.

The Third Space – the key to unlocking flexible working

The trend towards more flexible working is set to continue over the next decade.

We believe flexible working should mean employees working where and how is most productive for them and the business. However, in the past, companies have tended to focus on the growth of remote working (i.e. outside the main workplace). Going forward, companies will adopt a more holistic approach to ‘flexible working models’, putting a balanced focus on both remote working *outside* the office and flexible working *inside* the office.

The cost benefits of reducing employees’ time spent in the office are well understood, whereas the benefits of flexible working within the office are less well capitalised upon (e.g. employees working more effectively, improved knowledge sharing, fostering a distinctive culture etc.)



The Third Space – why have it?

As all real estate professionals know, every square foot of space is a costly investment that must be used wisely – so why allocate precious space to areas which were, until relatively recently, seen as unnecessary to the operation of the business?

All of our respondents agreed that “the Third Space is a valuable element of the workplace” and, on average, estimated that 11% of the floor plate in their workplace or portfolio is currently dedicated to it.

Moreover, this is expected to increase to 25% of floor space by 2020. However, 40% of respondents confessed that the Third Space is not an important consideration in their workplace strategy, often treated as a secondary objective or even an after-thought in the design process.

When asked to state the most important functions of the Third Space, it was evident that companies are aware of its broad potential. Gone are the days when the Third Space was seen purely as a cheap substitute for meeting rooms.

“The Third Space is the easiest way to dramatise our brand in the workplace, as designers have more freedom and aren’t constrained by workstation layouts”

European FMCG Company

The Third Space can offer attributes which less flexible areas of the workplace may not. For example, compared to an area of permanently allocated workstations, the Third Space generally offers an area more conducive to creative and impactful methods of brand communication. Similarly, compared to private offices or 1:1 workstations, the Third Space offers unique opportunities for building community or fostering a distinctive corporate culture.



“When our employees can match tasks, such as reading, to space, such as quiet cells, they work more effectively”

Financial Institution, Middle East

As illustrated, the Third Space is key to unlocking this more holistic, optimal approach to flexible working.

The Third Space is an asset to be utilised by both remote workers and office workers, allowing everyone to work flexibly and productively. For some office workers, that may mean spending 90% of their week sitting at an assigned workstation. For others it may mean spending 5 days a week in the office but operating on a totally ‘free address’ basis, at no point using an allocated workstation, office or meeting room.

As for the business, not only does the Third Space help fulfil the revenue generating potential of the workforce, but it can deliver cost reduction advantages.

A well-designed Third Space can open up the scope to increase remote working without damaging productivity. Increased remote working equates to lower and more efficient office occupancy.

By this we mean the total number of ‘office hours’ used by the workforce is reduced and, as employees come and go at different times, their allocated workstations can be replaced with more space efficient, shared worksettings. As a result, overall floorspace can be downsized and the associated cost benefits realised.

To conclude, it is evident that the Third Space is a crucial element of an optimal flexible working model. In fact, attempting to introduce flexible working without a strategically designed Third Space was seen by respondents as foolhardy – likely to result in an excessively rigid workplace structure which inhibits employee productivity, outweighing any short-term cost benefits with long-term damages to business performance.

So what about the recession?

Whilst respondents viewed the Third Space as a valuable workplace tool - a critical facilitator of flexible working - we tested whether enthusiasm for the concept had been able to withstand the economic pressures of the global recession. Had the balance between remote working and flexible office working shifted radically? Had the role of the Third Space become more or less critical?

There was no doubt that the real estate profession had “felt the pinch” during the economic downturn. 95% of respondents surveyed said their company had suffered financially as a result of the slowdown, with 44% having to resort to radical cost-cutting measures such as redundancies.

In terms of workplace strategy, 48% of respondents had seen rationalisation of space and 44% had seen projects go on hold. Only 7% stated that the economic downturn had had no discernable impact on their workplace strategy.

When it came to discussing the impact on Third Space not a single

company had an explicit policy to eradicate such areas in the short or long term. They all stated that the Third Space was integral to the office landscape and that aspirations to improve it would remain on the agenda regardless of short term economic fluctuations.

However, in reality it was evident that attitudes to the Third Space had been impacted to some extent.

Impact of the recession - the story in figures

- 48% of respondents rationalised space where possible
- 44% have placed projects on hold
- 30% have increased levels of flexible working
- 22% have relocated (downsizing)
- 19% have cancelled workplace projects
- 11% have an excess of space following redundancies
- Just 7% have experienced no impact on their workplace strategy

Four different approaches were apparent.

1. Slash and burn

The Third Space is being viewed by some companies as a straightforward cost reduction tool. The Third Space is designed as nothing more than a field of homogenous, unallocated hot desks with few, if any, alternative worksettings incorporated. This design has in many cases been rolled out rapidly (using existing workstations and furnishings) to accompany a hurriedly executed increase in remote working. There has been little employee engagement and indeed a cynical opportunism is apparent - the economic downturn provides an opportunity to force through unpopular policies at a



time when few employees will voluntarily leave their job. This strategy realises the short term cost efficiency benefits that the Third Space can facilitate, but delivers none of the productivity benefits. Indeed, companies adopting this model may be storing up business challenges and unforeseen costs for the future – employee disenfranchisement may lead to attrition when the job market recovers and many ‘quick-fix’ refurb tactics may prove to be a false economy, requiring replacement in the near future.

2. Deep Freeze

These companies have bold aspirations to optimise the Third Space, but the real estate team have their hands tied by budget constraints – plans to evolve the workplace and working model are frozen. The real estate team, finding themselves with a developed Third Space strategy but no budget to implement it, resort to small scale pilots and incremental alterations to the workplace and working protocols.

Whilst these modest steps in improving the Third Space are seen as “better than nothing”, they may be damaging to the team’s long term vision. The pilots inherently raise expectations amongst the work force which cannot and will not be fulfilled

in the short to medium term. The pilots are implemented using sub-optimal furniture and fittings, meaning that employees do not get a true impression of the intended plans and may reject them out of hand.

3. Wasteland

In these companies, we found that the Third Space is simply empty space. The workplace has the traditional features of allocated workstations, offices and meeting rooms – with space between these sparsely furnished or filled with empty workstations previously allocated to now redundant employees. Not a motivating environment for the remaining workforce! Interestingly, employees are adapting the Third Space organically to meet their needs. A DIY approach to break-out areas or quiet zones is being introduced for example, using existing furnishings and ad hoc partitions such as boxes. However these “DIY – worksettings” are very localised to individual teams, doing little to encourage cross-team interaction or create a sense of energy.

With no lease flexibility to restructure the real estate portfolio, and no budget to refurbish the Third Space, there was a sense that real estate teams are demoralised and simply weathering the storm, waiting to consider their Third Space strategy

afresh in a brighter economic climate.

4. The Big Picture

Several companies are managing to retain their ambitions and strategies for the Third Space despite the economic downturn. In fact, for many, the economic situation had acted as a catalyst to drive existing plans towards implementation. These real estate teams have constructed a well evidenced case to present the cost and productivity benefits of a better designed Third Space, tying it into the business working model. Whilst the business in the past may have been sceptical, the stark reality of the economic situation has provided the impetus to agree the plans quickly. In these organisations, decision makers have realised the logic of spending money on refurbishing the Third Space in order to support a productive working model and realise the financial gains from downsizing real estate. Whilst change has been promoted by economic necessity, wider business and employee benefits have also been realised thus delivering a sustainable long-term solution.

So where to from here?

The recession has undoubtedly prompted a useful evaluation of the role of the Third Space and how maximum value can be extracted from it. Ultimately, however, the benefits of the Third Space are too highly valued by real estate professionals (and indeed employees) for it to be eradicated by an economic fluctuation.

Even in those companies where it has been squeezed out of the floorplan in the hunt for short term cost gains, the long term ambition is to reinstate functional Third Space again as soon as practicable.

As flexible working models continue to become more prevalent, the Third Space will inevitably grow in importance. Going forward we expect to see it take centre stage in workplace design and strategy, recognised as the lynch pin of many companies’ working model.