
Herd Mentality

By now, I'm sure we're all familiar with the adage of what it takes to survive a bear attack when you're in a group. You

don't have to be the fastest in the group – just faster than the slowest person. That “just-faster-than-you” approach seems to accurately capture the basic mindset of Office for the last 2 to 3 decades. In this particular CRE food group, there hasn't been huge incentive to be the strongest or fastest or most innovative – only the mild interest in not being the slowest. Without question, the consequences of missing the mark and getting caught in the wrong point in the cycle or location have been significant, if not catastrophic. But those outcomes have generally been viewed through the lens of an individual owner casualty rather than a sector-wide SOS moment. However, what happens to that same theoretical group when they become surrounded by a hungry pack of wolves?

Entire herd now at risk: In that historic Office world, there were cyclical and locational factors that largely offered the greatest threat to investors and owners. While these ingredients created significant risk, never has the industry found itself in the crosshairs the way it is now. Individual owners, with better analytics, asset quality or leasing in the past, simply made sure they weren't the slowest in the herd. However, in this new wolfpack attack world, where multiple factors are coming at the traditional Office world simultaneously, not just the slowest members of the pack are at risk. Suddenly, in addition to individual owners and operators needing to be prepared, there is a collective need for the industry as a whole to get on the same page soon to help protect its collective existence and viability.





No Wagyu Here: Wagyu is a beef delicacy created by raising cows that live a stress and exercise free existence, thus creating that tasty marbling effect. The herd that is capable of escaping a wolf attack with minimum loss will have to be a fit, muscled and fat-free bunch – not for the wagyu lovers. They will need a strategy for layering in smart technology, flexible offerings, on-demand services, and elite operational teams to capture the future of work that was forced into the limelight two years ago. While individual ownership groups will continue to define their own strategies with little tweaks they view as components of their competitive advantage, there should be now, like never before, a rallying cry amongst all owners that recognizes the importance for occupiers and other stakeholders to see a continued need for the Office sector.



Time is not our friend: I have beat the timing drum, like a couple of other themes, only because I have both lived and observed its increased importance. Key value driving office deals and significant NOI gains made 3-5 years from now will be the fruit of important decisions made today. “We’ll wait a little longer” will carry equally, if not more significant and lasting negative consequences. In other words, deciding that you won’t be a believer of this wolfpack conundrum until you can smell the wolves’ breath, pretty much ensures you’re likely going to be tasting your own blood at that exact same moment that breath hits you. The occupiers in your assets have a lot to figure out themselves, but they are actively digging in to make some strategic decisions of their own. I don’t recommend leaving the outcome of that decision to chance.



A new threat can initially cause some real stress because of the “new way” thinking and behaving it necessitates. But the one thing the Discovery Channel has helped illustrate is that those herds that can rally and push through that question mark moment are able to use elevated levels of alertness, speed, and agility to ultimately become a more resilient and capable group. When extinction is on the line, it is amazing the lengths to which we’ll do triage to save a given at-risk specie – calling all Office triage experts!



Sincerely,
Mike Fransen
Founder / CEO, Workng

