

Case Study: New York City Office Space Optimization

An Operational Excellence in Government Success Story

Jane Wiseman
Ash Center for Democratic Governance and Innovation
Harvard Kennedy School

July 2017



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EXECUTIVE SUMMARY

In 2016, the Ash Center for Democratic Governance and Innovation at Harvard Kennedy School received funding from the Laura and John Arnold Foundation to launch the *Operational Excellence in Government Project*. The goal of the project is to identify and celebrate operational efficiency successes across state and local government via the project website at <https://www.innovations.harvard.edu/opex>. The site makes available for the first time from a single searchable portal 30 existing studies of government efficiency.

This case study of right-sizing the New York City real estate portfolio is one of three that provides a detailed look at an outstanding example of success in achieving operational excellence in government. The purpose of the case studies is to explain the implementation steps, the key challenges, and the driving factors for success. With this work, we hope to reduce the cost of identifying opportunities for efficiency and cost savings across all layers of government, and to accelerate the transfer and deployment of these successful cases.

The economic downturn of 2008 hit powerfully in the nation's financial centers. Within a year, New York City government had suffered significant decreases in tax revenue. The Bloomberg administration, under the leadership of Deputy Mayor for Operations Stephen Goldsmith, sought ways to close the financial gap. Goldsmith turned to operational efficiency as a strategy for finding savings, and set out to study the ways the city could use shared services to improve quality while reducing cost for the administrative support functions of city government. The report, "Maximizing Efficiency in NYC Government: A Plan to Consolidate and Modernize Back-Office Operations," identified efficiencies in technology, human resources, revenue collections, the fleet of city vehicles, and the real estate portfolio. In total, the shared services efforts outlined in the report saved the city \$100 million.

This case study describes, for the first time, efforts by the deputy mayor for operations and his team to optimize the city's real estate portfolio. New York City government employees occupy 300 million square feet of offices, schools, police and fire stations, warehouses, and the like. There had never before been an effort to view the entirety of the space as an asset that could be allocated more efficiently. Rather, over

time, individual departments had independently acquired or leased the space they needed, predominantly with their own usage standards.

By implementing the recommendations in the report, real estate was viewed as a city asset and was managed as a portfolio for the first time. In the first three years of this effort, the city reduced office space by 400,000 square feet and saved \$15 million in annual rent occupancy cost. Additional savings in energy costs totaled \$4 million as the footprint shrank. While New York City is far larger than most other American cities, and while other cities may have lower real estate costs in general, there remain key insights from this project that could be valuable across state and local government, including:

- **Put someone in charge.** New York City had never before had a single person responsible for the real estate portfolio, and naming a chief asset management officer meant there was someone responsible for right-sizing the portfolio. Leadership was essential to the continued focus on measurement and consistent follow-up with departments to achieve results.
- **Rely on data.** To manage the portfolio, the first step was determining how much space was being paid for and how much was being used. This set a baseline that enabled tracking both goals and savings and established a common understanding of the metrics for measuring progress.
- **Rethink how much office space is needed.** The efficiency review found that city workers occupied almost twice as much square footage per employee as private-sector employees (290 square feet versus 176 square feet). A mandatory use of private-sector standards for open-plan office space for new office buildouts significantly shrank square footage, while bringing city employees in closer alignment to efficient and modern private-sector practices.
- **Rethink storage.** Walking around to look at the real estate identified inefficiencies — a closet full of never-used typewriters, conference rooms that could not be used because they had become storage space for water bottles, offices converted to paper file storage, and outdated computers and phones that filled an entire floor in an office building just to avoid the cumbersome process of sending them to surplus. Switching to offsite records storage, converting paper

files to electronic ones, and switching to filtered instead of bottled water for new offices significantly reduced storage needs.

- **Do not pay for vacant space.** At the time of the project, New York City was paying occupancy costs for desks that were vacant, a full 13.6 percent of all desks. Reducing the vacancies saved \$13 million.

The pages that follow describe the work of a small, highly talented team of city employees who used a rigorous data collection process, best practice benchmarking, and fresh perspective from the private sector to significantly decrease operational costs to the city by right-sizing the real estate portfolio.

NEW YORK CITY SNAPSHOT

Population: 8,550,405
City Employees: 250,000
2018 Budget: \$85 billion

BACKGROUND: THE OPPORTUNITY FOR GREATER EFFICIENCY IN GOVERNMENT REAL ESTATE MANAGEMENT

City halls, state houses, schools, libraries, and police and fire stations are some of the more visible properties used by government to serve the public. But there are countless other types of buildings owned or rented for government purposes such as call centers, garages, and equipment storage facilities, as well as the program management, budget, policy, administrative, and legislative offices of government. All told, government offices account for 31 percent of the total office space footprint in the country. And yet, seldom is the use of that real estate truly optimized. Often excess space remains in a government real estate portfolio simply because of inertia, and space is underutilized because there is little or no incentive to modernize or right-size.

Many of the studies of government efficiency identified by the Operational Excellence in Government Project recommend ways to reduce the cost of real estate for government. For example, Louisiana estimates it can save \$9 million a year by increasing office-space efficiency through spatial consolidation and applying best practice private-sector space usage standards. Wisconsin estimates it could save \$5.6 million by renegotiating state office-space leases at preferable rates.

One of the most dramatic examples of success in optimizing a real estate portfolio occurred in New York City beginning in 2009. That success case is described

NEW YORK CITY REAL ESTATE: AT A GLANCE

- 300 million square feet of total city-occupied space, including office buildings, warehouses, police precincts, and schools
- More than 75,000 New York City employees work in office space that occupies over 19 million square feet in 250 buildings
- In the first three years of this effort, the city reduced office space by 400,000 square feet and saved \$15 million in annual rent occupancy cost

below, along with advice for governments seeking to optimize their own real estate portfolio. New York City is one of the largest municipal governments in the country, and a location where real estate costs are expensive, so the savings in this project are greater than what could be expected in other jurisdictions. However, the approach and the ability to realize savings are transferrable across state and local government.

PROJECT BEGINNINGS

When the 2008 financial crisis hit, the impact was particularly severe in financial centers such as New York City. All across city government, there was a need for belt-tightening, and then-Mayor Bloomberg set out to improve operational efficiency and create economies via shared services across a variety of government functions.

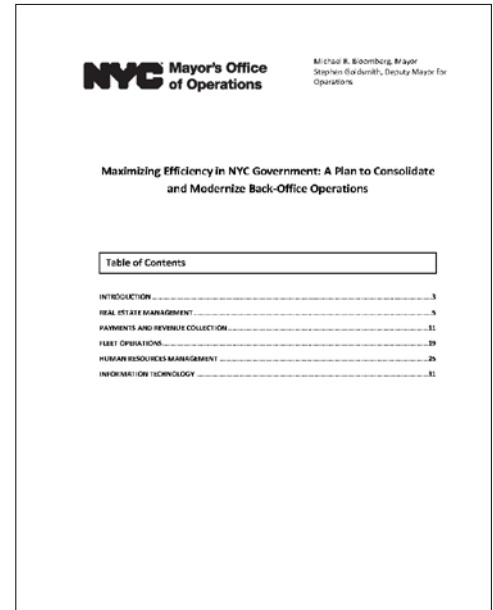
As Bloomberg’s deputy mayor for operations, Stephen Goldsmith led a citywide assessment¹ of opportunities for achieving operational efficiency by leveraging shared services. The report, “Maximizing Efficiency in NYC

Government: A Plan to Consolidate and Modernize Back-Office Operations” (pictured at right), identified five priority areas for improved efficiency: real estate, fleet management, revenue collections, human resource management, and information technology.

One key recommendation was to reduce the cost of occupancy for the city’s office space footprint. The effort addressed the necessary size for the city’s real estate footprint, the optimal configuration of that space, and examined options for consolidation and more cost-effective facilities management. The goal was to create an office real estate portfolio that was appropriately sized to city needs and to institute clear governance to better utilize space, with the potential to save \$36 million a year. The cost of occupancy was one of several administrative and operational functions of city government explored as part of an effort to use shared services to drive down cost and

maintain or improve quality.

Describing the rationale for taking on the cost of occupancy, Goldsmith said, “The cost of occupancy, like the other shared services the mayor’s office of operations took on, had grown over time without a set of controlling principles or tight management. Working conditions for employees had worsened while costs



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— Stephen Goldsmith

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RESULTS ACHIEVED

In the first three years of this effort, the city reduced office space by 400,000 square feet and saved \$15 million in annual rent occupancy cost. A mandatory use of open-plan office space for new office buildouts significantly shrank square footage, while bringing city employees in closer alignment with efficient and modern private-sector practices. Square footage was further reduced by the city through reductions in the amount of storage space used. A savings of \$4 million a year in energy costs was achieved because of the lower footprint of office space.

This success has been embedded in city operations across mayoral administrations and the city continues to report on the performance goal “Consolidate and reduce city office space” in the annual Mayor’s Management Report² (MMR) using the metrics created in response to the 2010 efficiency report recommendations. The most recent MMR indicates that the Department of Citywide Administrative Services (DCAS), the responsible agency, “continues to review opportunities in DCAS-managed properties to support the most efficient use of city-owned space.”

WHAT MAKES IT INNOVATIVE

This project stands out for its boldness in questioning the status quo, using data, and gaining fresh perspective from private-sector benchmarks.

Looking at the amount of square footage per employee had never been done before. Challenging the status quo and upending years of tradition is not an easy task, but the team responsible for optimizing the city’s real estate portfolio gathered data and then asked a set of exploratory questions, such as:

- How many offices need to have walls?
- If the mayor does not need a private office, then why do you?
- What configurations of office space best promote productivity and collegiality?
- Why can't agencies share large meeting and conference spaces instead of each managing its own (sometimes in the same building)?
- Does the city get the full benefit of office buildings it owns?
- Who should maintain and manage city office space?

Asking these and other questions was both provocative and productive. The senior leader responsible for the efficiency effort, Deputy Mayor Goldsmith, noted at the time, “The Bloomberg administration is the gold standard for innovative governance — always willing to try bold solutions to complex, entrenched challenges.”

IMPLEMENTATION OVERVIEW

Implementation began as a result of the efficiency report and the shared services efforts undertaken by the Office of the Deputy Mayor for Operations, which included a total of 37 recommendations across five categories. Figure 1 below illustrates the timing and impact of each of the seven real estate management category recommendations. Implementation details and composition of the team, implementation steps, and next steps can be found in the following sections.

Figure 1: Timing and Impact of Real Estate Management Recommendations

Preliminary Recommendations		Anticipated Impact						
		Improve Operational Efficiency	Improve Accountability	Leverage Technology	Improve Governance	Improve Customer Service	Potential Cost Savings	Date to Be Completed
1	Reduce the city's office space by 1.2 million square feet and \$36 million in annual expenses	✓					\$50M	06/2014
2	Create a citywide strategic space planning unit	✓	✓	✓	✓		E	06/2011
3	Institute and publish citywide office space utilization performance indicators	✓	✓	✓			E	03/2011
4	Create dashboards for agencies and oversight entities to access real estate information	✓	✓	✓		✓	E	06/2011
5	Implement a system of accountability for, and formalize the assignment of, city-owned space	✓	✓		✓	✓	E	06/2012
6	Develop a real estate customer service strategy		✓	✓	✓	✓	E	06/2011
7	Reduce storage in office spaces to improve operational efficiency	✓		✓			E	06/2014

E – Efficiencies will be gained but are not currently quantifiable

“Potential Cost Savings” represents cumulative cost savings over the next four fiscal years

This chart is adapted from the “Maximizing Efficiency in NYC Government: A Plan to Consolidate and Modernize Back-Office Operations” report.

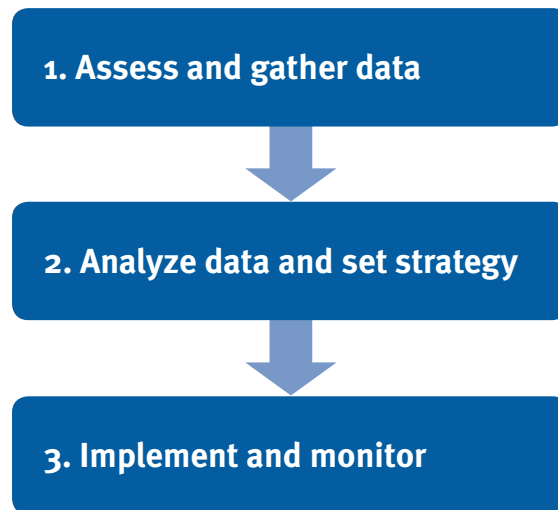
The team. The effort was completed entirely by a small team of city staff. The multiyear project began as part of the efficiency report written by the deputy mayor for operations and his team. Senior Advisor to the Deputy Mayor for Operations Theresa Ward was responsible for the research and action plan for real estate. To fully execute the recommendations in her report, Ward became the city’s first chief asset management officer and was part of the leadership team at the city’s agency responsible for real estate, the Department of Citywide Administrative Services (DCAS).

The group consisted primarily of Ward, one deputy, and a group of agency staff who volunteered to help in the data collection stage. They named themselves SPACE, for Strategic Property Alignment for Citywide Efficiency. In addition, as the project progressed and departments took on their real estate optimization efforts, each department leader became a de facto part of the implementation and monitoring team.

Implementation steps. The task of optimizing the city’s real estate portfolio addressed seven specific recommendations from the efficiency report, addressing both the size of the real estate footprint and how it was governed — strategically, with numbers, and using comparison benchmarks across departments for improved equity.

The process of implementing these recommendations consisted of three major steps, as described in Figure 2 below.

Figure 2: New York City Real Estate Optimization Implementation Steps



Step one: Assess and gather data. The first step was to assess the current environment through a survey and then via on-site verification of survey data.

Each department received a survey asking them to inventory their square footage, their number of employees, the number of occupied and vacant desks, and the square footage used. The response rate to the survey was impressive, no doubt in part

because of impending budget cuts and because the request had come from the Office of the Mayor. Over 50 city agencies responded to the survey, which counted almost 80,000 desks, and identified almost 10,000 of them as vacant (12.5 percent).

Site visits to a sample of city office buildings confirmed the data provided by departments in the survey. The core team recruited almost 50 volunteers from across city departments to help with the on-site visits to verify survey results. Volunteers were assigned in teams of two to walk the square footage and photograph and count what they saw. Volunteers received training in advance to know what to look for and how to count a vacant desk (is there a computer, are there any personal effects, etc.). Volunteers then reported their findings using a SurveyMonkey form.

What they found was space that was not optimized — boxes of paper records filling offices, giant bottles of water stored in what should have been a conference room, etc. Many of the city office buildings in lower Manhattan are in neighborhoods that command high rents for office space, making these situations a very expensive and inefficient use of the space.

Most of the data was accurate, but there were some instances of departments trying to make vacant desks appear occupied so that they would not lose space. The on-site visits counted 22,000 desks, and just over 3,000 were identified as vacant (13.6 percent). The volunteers also noticed a great disparity of quality in the workplaces, sometimes in the same building. In one instance, the volunteers found employees were crowded together while one floor away there was plenty of available space.

A surprising finding from the on-site surveys was the challenge of e-waste. The city surplus process was so cumbersome that outdated computers and telephones were stacked up, sometimes taking up a part of an entire floor. Or an entire office. On one site visit, a volunteer asked someone to open a closet. The manager could not find the key so the volunteer waited. And when the door was opened, much to everyone's surprise because no one had been in there in years, was a stack of brand new IBM Selectric typewriters!

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Step two: Analyze data and set strategy. The result of the survey and walk-throughs was a report that described the 300 million square feet of real estate occupied by city employees spanning office buildings, warehouses, police precincts, schools, and various other types of buildings. One key finding of that report was that office space was the most expensive real estate in the city portfolio, at a cost of \$365 million for leased space and \$70 million for the operating costs of city-owned space as of 2009.

The survey identified \$13 million in cost for vacant desks. The report also identified leases that were in need of renegotiation to achieve market-rate cost savings.

The survey found that most city office space was designed decades ago when typical office size was larger, with an average of 290 square feet per employee. Using private-sector standards, and allocating additional space to team and collaboration spaces, the study showed that the average square footage per employee could be reduced to 176, for a significant citywide space savings. This recommended new configuration of space, consistent with private-sector best practice, was codified in official city policy as an open office space plan.

The new open space guidelines governed all new office construction or remodeling, as well as new lease negotiations and all lease renegotiations or renovation projects. The guidelines applied to office space, so agencies with hearing rooms or medical and other client interaction set targets for reducing the footprint of employee office space, rather than client-facing spaces. Given how long a time horizon would be required for change related to long-term leases, the approach was to give priority to buildings with a high degree of vacant space, a high average square footage per employee, and a lease that was up for renewal.

Leading by example, the new open office plan and lower square footage standard was applied initially to the mayor and his team. By 2012, over 725,000 square feet of city office space had been converted to open plan using the space guidelines and another 650,000 was underway.

Step three: Implement and monitor. The report called for the creation of a new entity in city government to oversee the entire real estate portfolio. This entity would produce an annual report and would create a public dashboard of efficiency metrics and customer satisfaction results with a goal of continued improvements in operational efficiency. To carry out this recommendation, Theresa Ward was appointed the city's

first chief asset management officer, and became part of the leadership team at the Department of Citywide Administrative Services (DCAS), the agency responsible for all city real estate operations.

As chief asset management officer, Ward was responsible for managing and monitoring implementation of the square footage reductions across city departments. She managed 15 million square feet in 55 city-owned buildings, and an additional 15 million square feet of leased space occupied by city agencies. She worked with the team at DCAS to develop a list of individual “transactions” that would achieve the mayor’s space and cost reductions. Transactions included lease renegotiations, terminations, consolidations, and dispositions. Cost savings and staff to implement were estimated for each transaction.

These 100+ transactions were reported on every week by departments to DCAS. Ward created metrics that city departments were measured on as they moved to optimize their use of office space, tracking the average square feet of office space per employee across departments, something never done before in New York City and even today rarely done in government. She achieved results by continuously measuring progress, collaborating closely with the Office of Management & Budget (OMB), and offering support and advice to departments that needed it as transactions progressed. Ward and her team worked hand in hand with department leaders on their space reduction goals, helping them to reduce their real estate portfolio. They reviewed metrics on a quarterly basis and met weekly when there was a transaction (such as a lease change) in process. There was some flexibility in working with departments, but as Ward said, “Rentable square feet (RSF) could be adjusted based on the layout of a particular building but the agency client was always squeezed by DCAS and OMB to get the space tighter.”

**DEPARTMENT SUCCESS:
HUMAN RESOURCES ADMINISTRATION**

One city department that was particularly successful in reducing its office footprint was the Human Resources Administration (HRA), responsible for all health and human services programs and supports for vulnerable populations. That department is the largest lessee of city space, with approximately one-third of all city office space. The leader of HRA at the time, Robert Doar, fully embraced the open plan layout and the effort to consolidate office space. Doar sought to use space more efficiently and worked with DCAS on a number of efforts, including a consolidation of two offices into one new space that followed the open office plan guidelines. Due to the sheer size of the department, with millions of square feet of office space, even incremental changes in policy there had significant impact as they were applied across the city.

You have to continue poking no matter what the career civil servants tell you is not possible. Because you can improve, and we did.

— Theresa Ward

Surprisingly, DCAS was, at the start of the project, one of the less efficient departments in its office space utilization. As Ward notes, it was at first, a “Do as I say, not as I do situation.” Ward

recommends that after initial assessment, “You have to continue poking no matter what the career civil servants tell you is not possible. Because you can improve, and we did.”

DCAS ended up responsible for one of the outstanding examples of reclaimed space. After careful analysis, they realized they could streamline their office footprint and give up space in expensive lower Manhattan. Moving out of this space allowed other agencies to move into the building, saving the city considerable operating cost.

To facilitate a reduction in the amount of real estate devoted to storage, Ward implemented a strategy of storing records offsite and promoting that via strong messaging to departments. One simple way to decrease the need for storage was the switch to filtered water in the water fountains of new buildings, i.e., no more giant water bottles clogging up conference rooms. Another method was to push the use of electronic scanning rather than paper filing to store documents, particularly at the time of office moves. The team found that part of the reason people were storing boxes of files was there was nowhere to send it — there was a warehouse but it was full. Some offices were drowning in paper records before the move to electronic storage. Ward assisted the Department of Records and Information Services (DORIS) to identify improved space utilization opportunities that allowed more agency records into its existing footprint of storage space as well as procuring third-party storage providers.

The project was not without early detractors entrenched in the status quo. To address opposition, the team framed choices for managers in such a way that they embraced a lower real estate footprint. For example, when realizing the cost of 25 empty desks was the same as the salary of one teacher or police officer, department leaders began to buy in to the idea of rationalizing space as a way to protect their staff from layoffs.

Next steps. Once the real estate portfolio had been right-sized, the team turned their attention to ways to further advance efficiency. For example, they looked at whether

it was more cost-effective to own or lease the occupied office space. They also examined the maintenance of those offices to determine whether it was optimal to have city staff or contractors manage the maintenance of facilities. Reflecting on how the reduction of the city’s real estate footprint fit into the overall real estate efficiency context, Stephen Goldsmith said, “The success of the effort didn’t stop with right-sizing the real estate portfolio. Rather that was the first step in a sequence of questions, the answers of which were designed to lower the cost of occupancy, which included as next steps addressing questions about whether the city should rent or own and how best to manage and maintain real estate it retained.”

In addition to the right-sizing of office space, Mayor Bloomberg found ways to generate revenue via business use of municipal buildings. For example, the sale of the first two floors of a municipal building in Brooklyn netted the city \$10 million³ while bringing shops and restaurants into the city office building and helping with the revitalization of a commerce corridor in that neighborhood of Brooklyn.

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KEYS TO SUCCESS

Municipalities interested in optimizing their real estate portfolio can learn from the experience of New York City. Stephen Goldsmith and Theresa Ward shared the following observations and advice for others:

- **Leadership matters.** Mayor Bloomberg established himself in an open space work environment and put his senior team of deputy mayors all around him in a bullpen, which set a powerful and visible example. Leading by example was one way to demonstrate that the mayor was serious about a new approach to space. This was important given how entrenched some government agencies can be about how hierarchy translates into additional office space.

- **Hire a chief asset management officer.** The position of chief asset management officer was created because of the recommendation to right-size the real estate portfolio. Theresa Ward moved from the office of the deputy mayor for operations to the DCAS to complete the implementation of the real estate portfolio recommendations she had developed. Being part of the organization tasked with managing real estate for the city meant that she was positioned to create a lasting infrastructure that could span mayoral administrations.
- **Work incrementally.** One strategy the team implemented was to set standards for new offices that were being built. When building a new office, a department had to embrace the open plan work environment without individual offices, with open work spaces, and with huddle rooms for meetings. This significantly reduced the footprint of those new office spaces, while making only a gradual change to the overall footprint. This incremental approach also meant that the transition to less space and fewer walls was first experienced by those who were also getting brand new spaces with modern amenities.
- **Rely on data.** The project was successful in part because of how objective the measures were. Presenting data on their real estate footprint and its costs in comparison to benchmarks to the leadership in a city department was persuasive in getting their buy-in for change. As Ward says, “It all starts with gathering a little data to use to get buy-in from the highest levels.”
- **Focus on something that is easy to measure, like rentable square feet (RSF).** Rentable square feet are how landlords set prices for leases, so it’s an accessible metric for managers who are renting the space. As a direct driver of cost, focusing on RSF per employee was a key to the success of the project. Comparing RSF across departments pointed out the wide variation not only across departments, but also sometimes on different floors of the same building. Measuring provided the opportunity to drive toward greater equity across departments and offices.
- **Partner with finance.** Support from the city’s budget office (OMB) was critical to the success of the project. Given their role in overseeing the budgeted cost of real estate for the departments, OMB was a powerful partner in encouraging departments to plan smaller spaces when making a new office move or

undertaking an office renovation. With OMB as a partner on financing of new office space, the DCAS team was able to gain greater efficiency than if the project had been undertaken by DCAS alone.

- **Work with collective bargaining.** The move to an open space work environment standard could have generated a series of fights as every new office space opened. Yet, because the team proactively reached out to the unions and negotiated a bit to ensure non-hierarchical space layout guidelines, the union endorsed the new standard, significantly accelerating the process of adopting the open office environment.
- **Expect resistance.** Whatever agency is currently managing real estate in government will likely feel that an effort to challenge the status quo is an affront to their reputation and a criticism of their work. Expect this, and work to develop a positive attitude. By embedding Ward as the chief asset management officer inside the agency responsible for real estate in the city, she was able to become part of the leadership team there and was able to build a shared sense of purpose for the effort. Asking provocative questions about whether agencies can share conference space will also generate resistance, so a leader needs to be able to weather some rocky times on the path to greater operational efficiency. Having the support of the mayor is helpful when challenges arise.
- **Do not waste a budget crisis.** When faced with the need to cut costs, use the opportunity to focus department leaders on the tradeoff between staff and space costs. They will most likely negotiate on space if it saves their people from layoff.
- **Be open to unexpected benefits.** While the team did not expect immediate embrace of the open workspace plan, it also did not anticipate that younger workers might like it better than the status quo. Recruitment and retention of younger workers had been an issue for the city, but an open space work environment is more appealing to younger workers, some of whom thrive in this new way of configuring government office space.

CONCLUSION

Reflecting back on the experience, Theresa Ward says, “There is tremendous opportunity in your real estate and you can always, always use it more efficiently. There isn’t anyone using their space optimally unless they just did a move and consolidation. It’s totally worth digging in.”

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— Theresa Ward

This case study was intended to provide explanation of a past success and to inspire cities, counties, and states to analyze their real estate portfolio, appoint a leader for consolidation, and achieve their own efficiencies.

NOTES

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Harvard Kennedy School
79 John F. Kennedy Street
Cambridge, MA 02138

616-495-0557
www.ash.harvard.edu

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