



THE SPACE IN-BETWEEN

NEW ZEALAND AND AUSTRALIAN OCCUPIERS AGREE THAT A CENTRALISED OFFICE IS CORE TO THEIR OPERATIONAL STRATEGIES, ALTHOUGH MANY ARE STILL GRAPPLING WITH OPTIMAL WORKPLACE FOOTPRINTS ACCORDING TO A NEW SURVEY.

THE OFFICE SECTOR IS VERY MUCH alive and kicking despite naysayers predicting it would become redundant once workers got a taste of working from home or other remote locations.

The global pandemic timeline took the office from experimentation to evaluation, to where we are now – evolution – and it’s apparent that the operating environment is an intricate matter for all segments of the business world to get right.

The (Y)OUR SPACE survey, conducted by Bayleys’ global real estate partner, Knight Frank, highlights the increasing complexity of the business environment and the critical role that real estate has

in supporting business transformation agendas over the next three years.

Globally, Knight Frank said while 50 percent of heavyweight employers with more than 50,000 staff intended to reduce office space, typically by 10 to 20 percent by 2026, most companies with up to 10,000 staff expected to increase office space.

Significant business agenda changes like expansion into new geographical markets, growth via acquisition, digital transformation and diversification into new business areas are all impacting commercial real estate strategies and decisions at a portfolio and workplace level.

Complexity and transformation are inherent across the office sector, with 39 percent of survey respondents deeming changes to the way they operate will have “high impact” ramifications for the real estate they occupy.

Bayleys’ recently appointed national head of occupier strategy and solutions, Steve Rendall says the research spearheaded by Dr Lee Elliot of Knight Frank gives global context for local businesses making decisions about their future occupancy arrangements.

“The data that sits behind the report has been invaluable for decision-makers,” Rendall says.



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STEVE RENDALL, BAYLEYS NATIONAL HEAD OF OCCUPIER STRATEGY AND SOLUTIONS

REAL ESTATE CONTINUES TO BE STRATEGICALLY IMPORTANT

Global

94%

Top 5 agenda items:

1. Talent attraction & retention
2. Increased collaboration
3. Cost management & mitigation
4. Corporate brand & image
5. Employee wellbeing

ANZ

100%

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2. Employee wellbeing
3. Talent attraction & retention
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Source: Knight Frank | Cresa 2023. N=33

“Our clients want specialist outsourced advice that solves their most complex real estate challenges, and with businesses today dealing with global volatility, tight labour markets, challenging economic conditions and changing expectations around work styles, there’s a lot to take into consideration.

“The Knight Frank research findings have been well received by our landlord and occupier clients and provide a fantastic reference point to enable them to develop their own strategies.”

Drilling down into Knight Frank’s latest global survey results, Rendall says data from 33 Australian and New Zealand (Aus-NZ) commercial real estate occupiers shows that as a region, Aus-NZ is generally very supportive of a return to the office post-pandemic.

“Office occupancy rates in New Zealand and Australia are sitting at 60 percent, albeit with significant variance across different kinds of occupiers,” says Rendall.

“That figure is closer to 90 percent in Hong Kong, China and Japan, 55 percent in France and the UK, 50 percent on the US east coast and just 30 percent on the US west coast.

“As demonstrated by that North American coast-to-coast variance, occupancy rates are heavily dictated by business type with the technology sector embracing more flexible hybrid working styles.

“Conversely, for example, professional services and financial services firms tend to be taking a more traditional approach to office attendance, mandating a minimum number of days in the office while, generally, requiring increased attendance rates over time.”

Rendall says we’re seeing this trend in New Zealand too, with more and more occupiers requiring staff to leverage fit-for-purpose workplaces that provide the infrastructure and amenity that

work-from-home environments often cannot provide.

The majority of businesses surveyed foresee hybrid as the prevailing workstyle in the next three years, with small and medium enterprises (SMEs) most likely to have an office-first or office-only strategy. Others will opt for a model where they accept flexibility around remote working, but where there is an expectation that employees will need to physically be in the office for a prescribed number of days.

“All respondents in the Aus-NZ survey group agreed that real estate is strategically important to their business with the top five reasons being increased collaboration, employee wellbeing, talent attraction and retention, cost management and mitigation and corporate brand and image,” says Rendall.

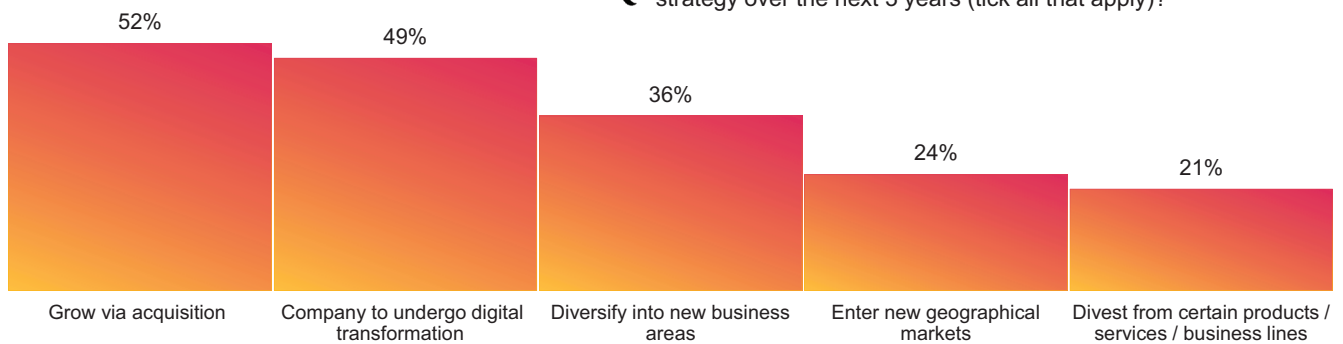
“Interestingly, in the broader international sample including Asia and Europe, they ranked talent attraction and retention and increased collaboration as the two most important drivers with employee wellbeing lower on the agenda, although still highly relevant.”

The survey showed 57 percent of Aus-NZ businesses expect to increase or maintain their real estate footprint in the next three years, with Rendall saying changing workstyles are influencing both the quantum and quality of workspace required.

“There is a balance being struck between cost and operational efficiencies and a business’s capacity to attract and retain staff, and to deliver high-quality workspace and amenity that builds team culture, that in turns delivers high revenue and profitability.

“A two-step market has emerged with minimal vacancy and rising rents for prime A-grade buildings, at the expense of the secondary office market where there is a surplus of space.”

Q Which of the following do you expect to be part of your business strategy over the next 3 years (tick all that apply)?



Source: Knight Frank | Cresa 2023. N=33

Around 80 percent of surveyed businesses say their corporate environmental, social and governance (ESG) philosophy will influence their real estate decisions in the next three years, with the flight to accredited space escalating and ESG rising up the corporate agenda in recent years.

“There is a definite shift from thinking of accredited space as a ‘nice to have’ to a ‘must have’, particularly among large corporate and public sector occupiers and this is underpinning much of the movement we are seeing in the New Zealand market,” says Rendall.

“Aus-NZ survey respondents said the main services and amenities that staff would likely demand over the coming years were cycle storage and end-of-trip facilities, food and beverage offerings – sometimes subsidised – facilities supporting employee mental well-being, gym facilities, childcare and healthcare facilities.”

Complexity has worked its way into the whole office sector, from the ground up, the Knight Frank survey found.

“There’s workplace and working style complexity, business strategy and decision-making complexity, then real estate portfolio and decision-making complexity,” explains Rendall.

“When considering the implications for investors and developers, the report suggests we are in the early part of a new change cycle.”

Partnership models are emerging, and Rendall says landlords are working more closely with occupiers to establish flexible leases with options for dropping space to allow for fluctuating staff numbers, or having access to ad hoc space when needed, and keeping doors open to change.

“Building owners are also working to establish clear pathways to capital for fitouts, and increasingly, as capital becomes more challenging for prospective tenants to provide,

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landlords are taking on the onus to create fully-fitted solutions.

“They have confidence to do this given the tight supply of quality stock and the demand for it. It is also clear that a number of deals that would otherwise have happened fail, because of inability to find capital to enable a move to occur.

“Landlords that can provide suitable incentives, support the transition process through providing fitout expertise and capability, and/or simply create the right environment before securing new tenants, have a huge advantage.”

Rendall says it is important to remember that if occupiers have too much space and wish to right-size for their needs, commercial leases do have a degree of liquidity and there are usually options available in the market to assign the lease to a new tenant, to sub-lease parts, or to negotiate a surrender of the lease.

“Occupiers need good advice in this area and that’s where Bayleys can assist.

“As leases approach renewal, early engagement is vital so that our team has sufficient time to plan for and then find options and solutions.”

Proving that evidence-based findings are a good catalyst for discussion, other areas of consideration not

covered by the Knight Frank office occupancy report were interesting to hear when presenting the findings to Bayleys’ clients.

“Concerns raised included addressing the safety and security of office occupiers – primarily in Auckland’s CBD and in relation to after-hours safety in parking buildings and public transport hubs – and what the rise of artificial intelligence (AI) might mean for the office environment,” says Rendall.

“There appears to have been an increase in central city crime and a general sense of being unsafe at certain parts and times, and with employee safety and security being vitally important to employers, these concerns are impacting occupier sentiment among our clients and influencing property decisions.

“The discussions in relation to AI have been really interesting, with the prospect of changing roles amid technological disruption giving business leaders pause for thought in relation to longer-term office occupancy projections.”

Rendall believes Bayleys’ integrated occupier strategy and solutions division will add tangible value for corporate and public sector clients that occupy real estate, but where real estate is not their core activity.

“We work to understand wider business strategy and what really matters for organisations, before assessing how real estate can contribute to strategy and organisation goals,” he explains.

“Each organisation is different, but once key strategic goals are understood (for example, in relation to employee well-being, ESG talent attraction and retention, corporate brand and image, operational functionality), the best real estate solution is often much easier to identify.”