

What can Ricky Gervais teach us about the modern office?



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Ricky Gervais' award-winning UK mockumentary *The Office*, saturated with cringe-worthy, side-splitting moments, was set in the outer-London suburb of Slough.

The painfully dull Slough and the fictitious Wernham Hogg Paper Company were a natural fit. But if you were in any doubt, the dehumanising blandness of the building featured in the opening credits, accompanied by a soundtrack of ringing phones, clicking keyboards and banal water cooler chat, resolved it. This was the office where souls went to die.

How times have changed. When the first series was broadcast 15 years ago, offices had already shaken their utilitarian feel. Now they're designed to spark creativity and collaboration rather than kill it. The bigger question for investors is what this means for commercial property.

Working Monday to Friday at an allocated desk during traditional business hours is no longer the norm. With employees striving for a better balance between their work and personal lives, and technology allowing us to work anywhere, flexible work is now mainstream. Whether it's working from home, part-time employment, or job sharing, the explosion of flexi-work is a boon for employees and employers.

High calibre staff are in short supply. Flexible working arrangements and smarter workspace design can help employers attract and retain the best talent. Best of all, they can also reduce rental costs to tenants due to increased occupation density. Although this does not necessarily mean lower rent to the landlord as rental rates per square metre rise.

With fewer full time office-based staff, the amount of space a business requires is shrinking, delivering terrific cost savings. But what does this mean for office landlords? Does the rise of flexi-work culture mean the end of the office?

Not at all. Buildings are more important than ever but are adapting to new demands. Breakout areas, hot-desking, quiet zones, napping pods, breakfast bars, meditation bays, cooking stations and standing meeting bars are now de rigueur. The drab work stations of *The Office* are fading fast. Along with single occupancy offices (with a door that closes!), they're now as rare as the Filofax.

The new workspace is sophisticated and stylish, blurring the lines between work and play. Employees enjoy a more informal, diverse environment and the employer benefits from the improved collaboration these spaces encourage.

It's a key point. Employers have moved away from a piece work mentality, recognising the importance of workers interacting with one another, not just by email or phone but face-to-face. Clever workspaces that encourage communication, idea generation and problem solving greatly enhance productivity. For organisations to remain competitive and attract and retain the best talent, high quality space in premium locations is mandatory.

Apple's recent move to Martin Place, Mirvac's new Sydney building, and Medibank Private's health themed campus in Melbourne are just a few examples of workspace design setting the new standard. Meanwhile, a spate of tech companies flocking to prime Sydney CBD locations reflects the changing face of the office market. In the last 24 months Twitter, Amazon, Dropbox, Expedia and LinkedIn have taken up more than 23,300 sqm in the city's heart.

It's not difficult to see why. A vibrant local environment abuzz with retail, nightlife and dining options, plus good travel links, is attractive to employees. It's also the reason why you won't find the UK outposts of Silicon Valley anywhere near Slough.

How is this affecting the local office markets? The table below shows the impact in the major cities of the region. Over the past 15 years, vacancy rates have remained strong (equilibrium is generally considered to be around 8% whereby demand approximately matches supply), however, rental growth has increased substantially.

	Sydney	Melbourne
Vacancy		
2002	7.70%	6.09%
2016	7.69%	8.06%
Rental growth		
2002	1.54%	(1.33%)
2016	9.46%	8.85%

Source: JLL data

Affordable inner city accommodation will always have a place as it suits base tenant demand, however, if you're an investor in commercial property in an outpost of one of Australia's smaller cities, with poor transport links and unrenovated space, you might be in trouble. But if you're in top quality CBD office space in Sydney and Melbourne you have nothing to fear, and potentially much to gain from the changing office environment. Also,

Property trusts, or Australian Real Estate Investment Trusts (AREITs) as they're also known, own some of the highest quality office towers in Australia. For example, LinkedIn, Expedia and Twitter moved to 1 Martin Place and 2 Park Street, both which are owned by Charter Hall and Dropbox leased 5 Martin Place which is owned by Dexus property group.

With the office market comprising 20% of the AREIT sector, focussed primarily in Sydney and Melbourne, a vacancy rate of just 7.69% and 8.06% respectively suggests that the dour offices of Slough and the Wernham Hogg Paper Company are long gone.

In their place are in-demand, beautifully designed workspaces that support productivity, health and enjoyment. That doesn't sound like a bad place to invest now does it?

"You will never work in a place like this again. It's brilliant. Fact. And you'll never have another boss like me, someone who's basically a chilled-out entertainer." (Season 2, Episode 1). If David Brent¹ thought the office environment of 2001 was "brilliant", we can only imagine how he would have loved the smart workspace design of today.

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¹ David Brent was the boss and lead character in The Office, played by Ricky Gervais.

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