

Property trusts: What could go wrong? (Part 5 – Future of workspaces)



MAY 2017

This is the fifth and final part in our series on “Property trusts: What might go wrong”

Take a look around you. If you’re at work, perhaps you can see the physical evidence of what many property trust investors are fretting about – empty desks.

With more people working from home and hot-desking now common, there’s a view that the modern office is changing in a way that might be far better for employees than for commercial property investors.

It’s certainly true that the rows of desks that echo the typing pools of the past are on their way out. Employees prefer the flexibility of working from home, or the local café, and if they do come into the office, they don’t much care about not having their own desk. Employers, meanwhile, are keen to lower rental costs. Is this marriage of convenience a genuine threat to AREIT investors?

It’s certainly true that a shift is underway. In most companies, office utilisation rates don’t rise above 60-70%¹. But it’s the nature of offices that are changing, not their overall size. Remote working, advancing technologies and the need to deliver a pleasant, engaging environment to attract and retain high value employees are driving change in two ways.

Hot-desking – where employees share desks with others and are not assigned a permanent desk – is the first. It can reduce a tenant’s space requirements significantly, especially for companies with employees that spend a good deal of time on the road.

This can have a cost benefit but can also lead to employees becoming more distrustful of colleagues with fewer work-based friendships and a lower perception of management.

As Graeme Ditchburn, Academic Chair of Organisational Psychology told *The Conversation*, “Frequent desk relocations can also waste time and generate additional work, and the noise associated with more open work spaces can increase distraction, mental workload, fatigue and stress, all of which can negatively impact productivity.” *The Journal of Applied Ergonomics*, meanwhile, found hot-desking did not improve co-worker friendships and that “perceptions of supervisory support decreased”.

The adverse impact on culture has meant hot-desking’s impact on office space has been limited. Instead, activity-based working (ABW), where employees work flexibly in a range of different workspaces during the course of a day, is gaining popularity.

With separate areas for team meetings, chill-out zones, personal workspaces, refreshments and brainstorming sessions, ABW delivers the collaboration and interaction employees desire, with the ability to avoid unwanted social interaction when necessary.

Medibank Private’s new offices in Docklands, Melbourne, are a good example. Featuring a “demonstration kitchen for cooking classes, sports courts for lunchtime basketball, soccer and tennis matches,

outdoor terraces and quiet areas,” according to *News.com.au*, the aim is to keep employees healthy and happy with 26 varieties of work settings.

Taking things to the next level is Flight Centre new global headquarters in Brisbane, which features slides, massage and spray tanning rooms, along with meeting rooms shaped like airliners, hotels and buses. As is the case with many large employers nowadays, showers, gym and bike parking facilities are also provided. These diverse work spaces give employees control over how and where they want to work.

With the growth of start-ups and small businesses, the need to provide flexible office space has also increased. This is especially true in a market such as Sydney where vacancy rates are expected to be as low as 3.5%² by the end of 2018. *Wework*³ is a good example of a business tapping into this opportunity. They occupy the Dexu owned 5 Martin Place Building in Sydney and have been taking up space from tenants who are downsizing and converting it into award-winning designed office space that caters for teams of any size with a range of pricing plans.

ABW workplaces are not cheap, nor are they necessarily smaller. But they can help to attract and retain talent, increase collaboration and innovation and enhance employee wellbeing. These are valuable benefits appreciated by companies, especially in the technology, finance and professional services sectors, where ABW does not typically lead to a reduction in a tenant’s space requirements.

ABW tenants demand a building that offers quality services such as those provided by Medibank Private and Flight Centre along with high sustainability levels (NABERS rating, high energy efficiency) and convenience. As a result, most ABW workspaces are located in the heart of Australia’s largest cities.

For commercial property investors, this is good news. The expensive fit outs can lead to longer term leases, offering more rental security to the landlord and its investors. And demand for high quality buildings in the CBDs of Sydney and Melbourne is outstripping supply, as *The Australian* and *Australian Financial Review* reports. Despite major new developments in both cities, demand for highly quality office space is actually increasing.

So while hot-desking and ABW are changing the way office space is used, the impact on tenants’ overall space requirements has been limited. There may be fewer desks in the modern office but the space released is being used to create more engaging, lively, collaborative spaces for employees.

For investors in high quality developments in Australia’s largest cities, as is the case with APN Property’s AREIT Fund, these changes aren’t the threat they’re made out to be.

1 JLL Activity Based Working

2 *Colliers* May 2017 – When will the Sydney CBD Office market achieve equilibrium

3 <https://www.wework.com//sydney-NSW>

This article has been prepared by APN Funds Management Limited (ACN 080 674 479, AFSL No. 237500) for general information purposes only and without taking your objectives, financial situation or needs into account. You should consider these matters and read the product disclosure statement (PDS) for each of the funds described in this article in its entirety before you make an investment decision. The PDS contains important information about risks, costs and fees associated with an investment in the relevant fund. For a copy of the PDS and more details about a fund and its performance, visit our website at www.apngroup.com.au.

APN Property Group

A specialist real estate investment manager

We actively invest in, develop and manage real estate and real estate securities on behalf of institutional and retail investors. APN's approach to real estate investment is based on a 'property for income' philosophy.

Established in 1996, APN's listed on the ASX and manages \$2.4 billion (as at 31 December 2016) of real estate and real estate securities. APN trades on the ASX under the code 'APD'.

Contact us

APN Property Group Limited

Level 30, 101 Collins Street,
Melbourne, Victoria 3000

Investor Services Hotline 1800 996 456
Adviser Services Hotline 1300 027 636

Email apnpg@apngroup.com.au
Website apngroup.com.au