



The future of the office - part 3 : The comeback

A year ago, many office workers here in Melbourne were extolling the virtues of working from home (WFH). Now, as the world's longest locked-down city emerges from hibernation, a different sentiment is gaining traction. We've had enough of the home office and can't wait to get back to a real one.

What changed? While WFH worked in a practical sense - we sent emails, held Zoom meetings and got stuff done - we didn't really have much choice. Whether spreading papers and a laptop out on the dining room table is sustainable for employees and an optimum solution for corporates remains to be seen. I suspect it isn't.

Those stuck in small apartments and multi-generational homes with young children may agree with me. The same goes for those handicapped by poor Internet speeds and intermittent connections. Small business people may also resent the costs of establishing the technology to make WFH work and many are worried by the security considerations.

The arrangement is far from perfect and presents significant practical challenges for employees. But the period has shown that WFH is a legitimate part of a balanced business strategy, offering employees the potential of a better work-life balance.

What the new normal is remains to be seen. The office work environment is an extension of many employees social life providing a sense of belonging and more people are realising it. It's a big shift in mentality, one that inherently accepts that humans are social creatures and businesses thrive when human interactions are encouraged.

The virtual world, with all its advantages, cannot yet compensate for the benefits of simply gathering in each other's company. This is the key lesson for the sector from the pandemic, one that can be best conceptualised using the following three qualitative factors:

Collaboration

In May this year, National Australia Bank moved into its new Sydney home at the \$2 billion Brookfield Place, the first of NAB's two new corporate office buildings to open this year. The other, 395 Bourke Street in Melbourne's CBD, is yet to open.

Both offer employees modern facilities designed for the future of collaborative working and innovative thinking. "The way we work has changed and this is about creating environments that help our people bring their best to work so that we can best serve our customers," NAB group executive, people and culture, Susan Ferrier, said. "Hybrid working is the new normal for most of us with more flexibility in how we work, and our CBD offices remain crucial for collaboration and problem solving, as well as adding to the vibrant culture of Australia's two largest cities."

The results of a number of surveys reveal an improving sentiment among white-collar, CBD based workers, although working from home a few days a week remains a preference. NAB's new premises are designed to get the best of both worlds with environments specifically designed to encourage collaboration when staff are in the office. We are likely to see more of them.

Culture

Organisational culture - a set of shared beliefs, values, and traditions - clearly impacts employee behaviour. Successful businesses best achieve their corporate goals by immersing employees in their culture. This is far easier in an office, where the physical space can enable people to unite around a shared set of values.

Creativity

As the pace of change accelerates, the need for teams of individuals to collaborate increases. The pandemic has proved remote collaboration is possible but it is not optimal. Creativity is best sparked when we are in the presence of each other. Rather than a battery hen-like environment of endless cubicles, the modern office will encourage creativity. As McKinsey & Co has said, cubicle farms need to be eradicated and "offices must be places of magic".

The businesses of the past were built on economies of scale and the efficient deployment of large workforces of manual labour. The modern economy is built on the skills and capabilities of many minds working together. A far higher value is now placed on collaboration, culture and creativity as a result.

This has a number of implications for investors in the office sector:

The office is back

Dexus noted in its third-quarter commentary that, "enquiry volumes have remained buoyant, predominantly driven by the finance, government, IT and business services sectors. The path to recovery is clearer, with the return to office expected to gain momentum from early CY22." It went on to say that, "While companies will continue to experiment with different workplace models, the majority see the office as a very important part of their organisational strategy."

Mirvac echoed the sentiment. “Anecdotal evidence from our tenants suggests there is a clear motivation to return to our CBDs, and our modern, sustainable and technology-enabled CBD office assets will help us to both retain and attract employees to our workplaces.”

And Centuria Office REIT noted that “As vaccination rates rise across Australia, we expect there will be a strong return to the office as organisations and individuals alike seek to end the isolation of lockdowns and working from home.”

Furthermore, “our discussions with tenants indicate that many organisations recognise productivity that results from in-person collaboration cannot be replicated virtually, and employee isolation has a detrimental impact on an organisation’s culture and staff wellbeing.” The office is here to stay.

The office is becoming less office-like

Paperspace Asia connects designers, lighting consultants and sound engineers with companies grappling with the challenge of tight labour markets and the need to deliver an attractive working environment.

Co-founder and director Narita Cheah has said offices should emphasise “empathy and collaboration” with dynamic and purposeful workspaces, plus a culture of experimentation. “There’s been a general, larger awareness for what wellness now looks like when people return to work.”

If your office had limited access to natural daylight, chairs that gave you backache and few opportunities to gather in small groups to collaborate, that may be about to change. Building human capital is central to the future success of the office. “Can you do that with desks all over the workplace and a tiny pantry in the corner?, asks Cheah, “I doubt it.” There’s a good chance your future office will look more like your home than your home looking like an office.

Flexible working is here to stay

Offices have to become more attractive to employees because now they have a choice to stay home. HSBC Holdings, citing Colliers International data, has reported that 82% of its global workforce want to work remotely at least one day a week.

A separate CBRE survey showed a plurality seeking two to three days a week and many more surveys support this finding. WFH is not going away and that means, if companies are to secure the full benefits of in-person collaboration, they’ll have to make workplaces more attractive to come to and home offices easy to set up and fund. As Dexus said in its recent update, “While companies will continue to experiment with different workplace models, the majority see the office as a very important part of their organisational strategy.”

These three factors are already impacting office markets. Centuria Office REIT noted the growing interest in decentralised office markets, “particularly the metropolitan and near city markets” where “highly connected and affordable office space...is clearly resonating with tenants.”

It also remarked on the possibility of pent-up tenant demand as “ongoing lockdowns have had an adverse impact on tenants’ ability to contemplate and assess their

office accommodation requirements.” Once the threat of ongoing lockdowns dissipates, demand may well spike.

Research from Macquarie supports this view. Despite lockdowns impacting both cities, in the September quarter, there was 25,000 square metres of positive net absorption in Sydney and over 24,000 square metres in Melbourne. As a result, Sydney’s sub-lease space fell to 2.4% of the Sydney market compared to 3.0% in the June quarter. CBRE’s latest sublease barometer also shows office subleasing availability tightening. Both suggest business confidence is returning.

All of this suggests that the office party isn’t over and that the questions we posed in The future of the office, part 1 now have more reliable data to support our answers. Flexible working is here to stay but the office will remain central to our workplace experience.

While the sector faces a different kind of future, it is one that requires evolution rather than revolution, much less eradication. The ways in which offices are changing now isn’t so different to the regular evolutions it has undergone throughout its history. The long-feared structural demise of commercial office property is more emotion than reality.

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