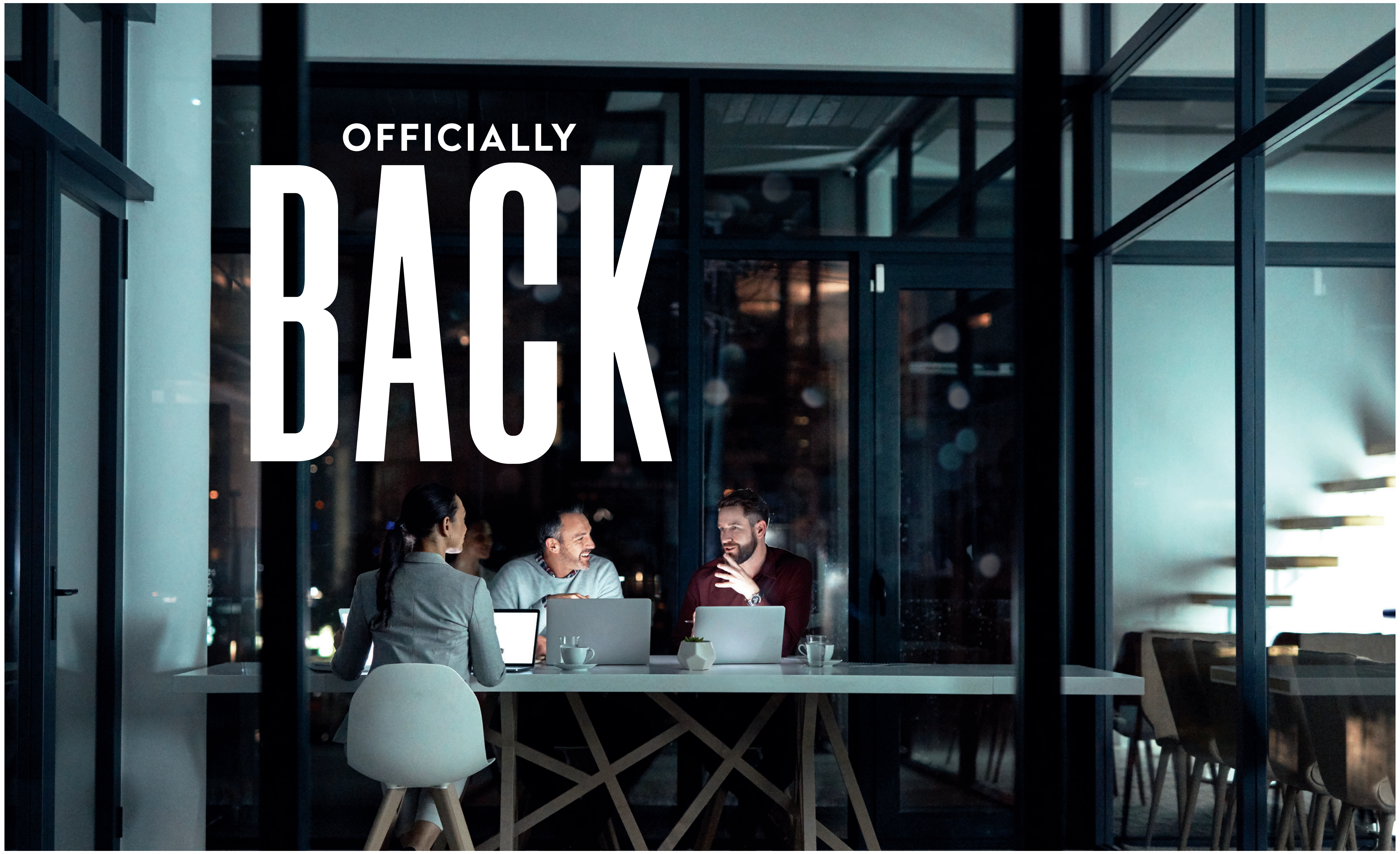
OFFICIALLY BACK



OUR OCCUPIER CLIENTS HAVE A CLEAR MESSAGE – 2023 SIGNALS A BIG-TIME RETURN TO OFFICE.

AROUND THE WORLD, THE PUSH to get workers back into the office is ramping up with global heavyweights leading the drive.

Lloyd Budd, Bayleys executive director Auckland commercial and industrial says occupier clients in Auckland are embracing this sentiment, with leasing teams busy as the sector recalibrates.

"In the US, the return to office has been led by Elon Musk at Tesla and Twitter and echoed by other major companies that perceive that having teams together under one roof is the best way to get business wheels cranking.

"Investment bank Goldman Sachs' CEO David Solomon said the office is paramount to the firm retaining its cultural foundation which centres around learning, interaction and mentoring and I concur with this thinking.

"Our occupier clients are seeking an environment where opportunity and excellence can thrive and where a culture of connection will lead to high-performing teams.

"Thrive from work is where it is at and business owners now have some confidence around this so we will see crucial decisions about office space being made."

INTERNATIONAL RESEARCH VALUABLE

Bayleys head of insights, data and consulting Chris Farhi says his team's research aligns with global thinking which pinpoints quality, amenity, flexibility, and sustainability as the defining benchmarks of a well-functioning office now and into the future.

"We are seeing divergence in prime and secondary rental levels in response to the demand for prime stock in Auckland – and around New Zealand – and inventory is constrained in the A-grade market.

"The quest for amenity continues in response to changing workplace needs, with the office needing tangible and worthwhile points of difference to attract employees back to collaborate and socialise.

"While flexible working will likely remain in one form or another, the modern high-spec'd office is pivotal for staff attraction and retention."

Flexibility is also a key word in

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the leasing lexicon with agreement structures increasingly allowing for shorter lease terms and other mechanisms that allow occupiers to respond easily to a changing market.

Additionally and importantly, Farhi says as companies shore up their environmental, social and governance (ESG) policies, sustainability is very much on the office agenda.

"There's been more up take from New Zealand organisations on green-rated buildings, and this will be heightened by company mandates around sustainability goals over the coming years."

Budd says as the flight to quality continues, there is sustained demand for A-grade office space in prime precincts like Wynyard Quarter, as evidenced by precommitments by major players in the corporate market.

"Engineering and consulting firm Beca will take 14,000sqm across five contiguous floors in Precinct Properties' new-build office space at 124 Halsey Street in Wynyard Quarter, with an expected move from its current Pitt Street headquarters in early 2025, as the drift to the west of the CBD continues," he says.

"There is a pipeline of new stock due to hit the market from 2024 and we'd expect to see more strategic moves being made by corporate occupiers."

ENHANCED PREMISES SOLUTIONS

Meanwhile, proactive landlords with buildings in pivotal city locations are responding to occupier demands for quality office space and embarking on significant refurbishment projects to future-proof their assets in a changing office market.

"We work closely with our landlord clients to help reposition assets to meet market demands through enhanced premises solutions (EPS)," says Budd.

"An example is 3 Flower Street, Mt Eden which we sold to property investment/management firm RRR in 2019, with a short term leaseback in place to Mediaworks, which has since been acquired by Warner Bros Discovery (WBD).

"We provided WBD with consultancy services including benchmark research against international best practice using Bayleys' data and insights team, and valued input from our global real estate partner Knight Frank's workplace expert, Lee Elliot.

"As the existing location ultimately suited the business, we worked with RRR and WBD to identify an EPS to make the building function better and to accommodate changing technology needs and styles of working.

"We were able to assist both sides with a balanced outcome, with WBD retained as tenant and landlord RRR having an identified way forward."

Budd says Knight Frank monitors the office market in key cities around the world and there are learnings for New Zealand from its findings.

"THE MODERN HIGH-SPEC'D OFFICE IS PIVOTAL FOR STAFF ATTRACTION AND RETENTION."

CHRIS FARHI, BAYLEYS HEAD OF INSIGHTS, DATA AND CONSULTING

"This intel is invaluable for us as it keeps us in step with global trends and in a strong position to assist all of our clients."

FORM AND FUNCTION RESET

Lee Elliot, global head of occupier research for Knight Frank says slow rates of re-occupancy and a more challenging economic and operating environment around the world point to a further resetting of the form and function of the corporate office over the next cycle.

"While the death of the office has been proclaimed on at least three other occasions during my 20-plus years of analysing work, the workplace and global office markets, I have never observed such a fierce debate about the office, its role, and its future, as that provoked by the pandemic.

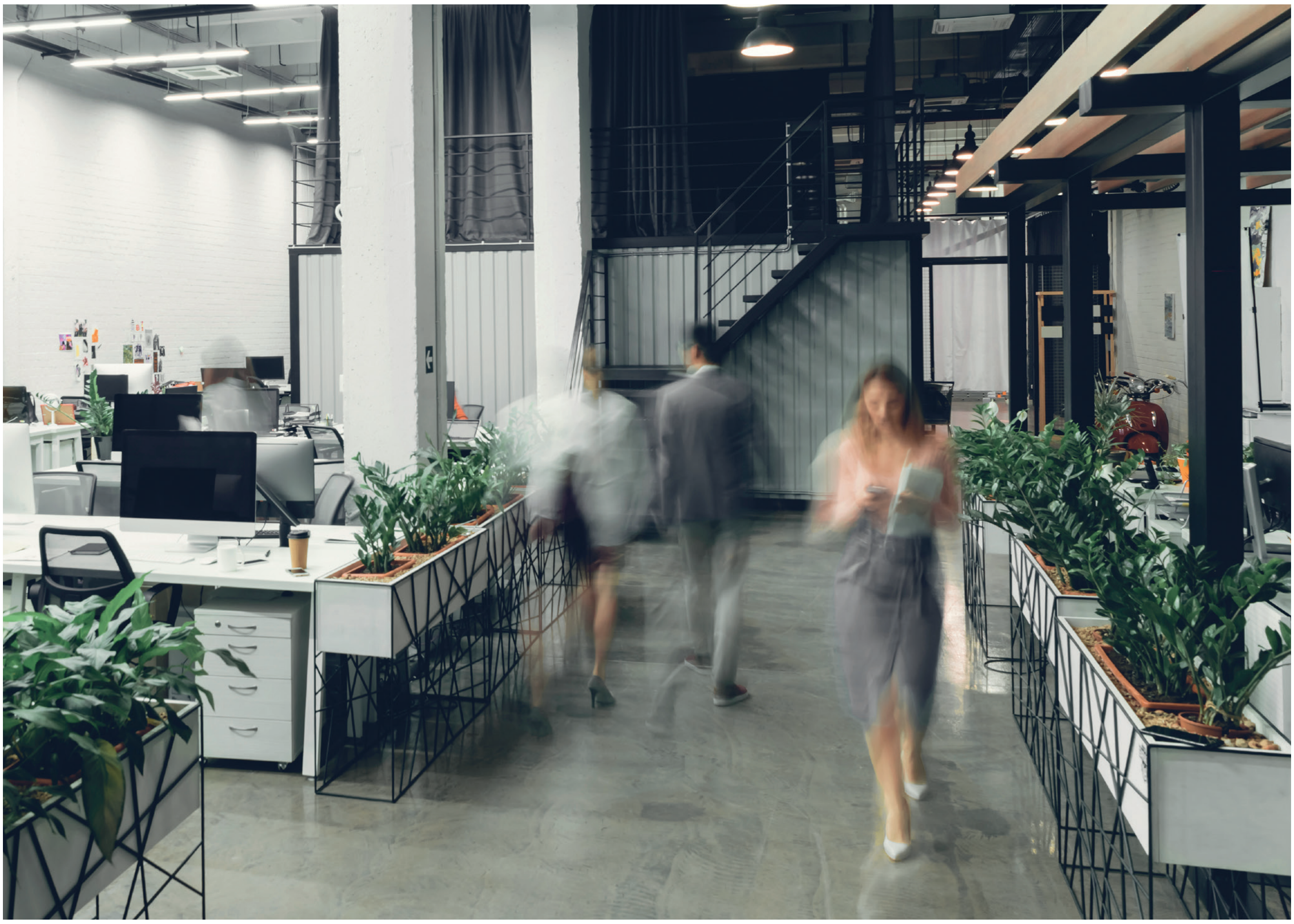
"But despite the hyperbole, offices have remained a steadfast feature of our working lives."

Elliot says the enforced work-from-home directive was the great global workplace experiment for both employer and employees, with the genie released from the 'flexible working" bottle and unlikely to ever return.

"Although the number of businesses that have actually moved towards a fully-remote model is miniscule, the broader experience gave people a taste of a more flexible workstyle with a better home-work balance.

"The muscle memory remained as lock-down restrictions steadily lifted and, aided by historically tight labour market conditions, people have had more power to demand new workstyles and greater flexibility in the 'where, when and how' of work than ever before."

From the employer's standpoint, Elliot says business leaders have taken time to evaluate the office and its role in their future growth given the varying wants, needs and demands of staff within their organisations.



"Unlike in previous periods of global turmoil, such as the global financial crisis, occupiers have not knee-jerked either in the disposal of space, the heavy reduction of their footprint or sweeping changes to the design or configuration of their office space.

"Instead, they've looked to identify true signals as to how their staff are re-engaging with the office, on what basis and for what purpose.

"This prolonged period of evaluation of changing workstyles has fuelled very limited immediate change within occupiers' portfolios or workplaces – unless lease events have forced their hand."

Heading into 2023, Elliot suggests that things may get more complex as global economic and geopolitical headwinds impact business growth with attention sharpened on productivity, organisational efficiency, and job security for workers.

"Whilst presenteeism is not necessarily the best basis on which a fuller return to the office should be achieved, it is a perfectly understandable human reaction to more straightened economic times," says Elliot.

"The pace and regularity of a return to the office could drive office occupancy levels higher than the 40 percent seen across global markets at the back end of 2022 (compared with circa 65-percent pre-pandemic).

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LEE ELLIOT, GLOBAL HEAD OF OCCUPIER RESEARCH FOR KNIGHT FRANK

"Footprint reductions might not be as heavy as initially thought on the basis that office utilisation levels may increase."

Elliot anticipates many organisations moving swiftly to an office-first stance, a dilution of the shift towards hybrid, and real estate costs coming under the microscope.

"With the lever of flexible working at business leaders' disposal, we expect cost mitigation to derive from a strategy that addresses increased utilisation of the real estate held and hence a greater return on expenditure.

"Rather than putting more people in less space, we'll see better alignment of corporate portfolios to the workstyles being advocated by the organisation, with flexible working embraced to bring order and efficiency to their formal office space."

Elliot says every organisation will shape their future office needs from a different starting point, a different pandemic experience, a different set of demands from their staff and a different end goal and those on the supply side of office space will need to be onboard.

"Organisations that have headquarters or core office facilities still configured for the traditional 40-hour week workforce will need to have a rethink.

"Today, the demand is for quality office space that gives staff a compelling reason to invest in their commute, coupled with access to amenities that underpin connection, collaboration and education.

"Office space will inherently need to have flexibility built-in to enable businesses to react and respond to changeable market conditions or emerging opportunities and further, businesses, their staff and stakeholders are ever more conscious of sustainability so a swing to environmentally-accredited space will become even more evident."