

THE NEW APPEAL OF SUBURBAN OFFICES



HOW NEW ZEALAND'S SUBURBAN OFFICE MARKET STANDS TO CHANGE THANKS TO PANDEMIC-DRIVEN FUNDAMENTALS.

AS THE REALITIES OF THE ALTERED commercial property landscape due to COVID-19 take hold, the workplace and how we access it, is also changing.

In some instances, these changes were already underway and were a natural progression of more flexible ways of working regardless of a pandemic disruptor.

Technology, a more diverse workforce, a flight to quality, global marketplaces and changing expectations of the property requirements of businesses were all having an impact on the space dynamic for companies and office-based operators.

There was never a “one size fits all” template in the office market and that’s what has kept the sector interesting in recent years.

What does seem apparent is that those

businesses that embrace new ways of working and leverage technology will thrive in the post-COVID economy.

Some companies, such as social sharing entity Pinterest from San Francisco, said in analysing its workplace in a post-COVID world, it is specifically rethinking where future employees could be based, saying “a more distributed workforce will give us the opportunity to hire people from a wider range of backgrounds and experiences.”

This emphasis on “more distributed” is a trend that is being seen in New Zealand, too, as corporates and larger businesses opt to positively fragment their physical space footprint beyond the CBDs.

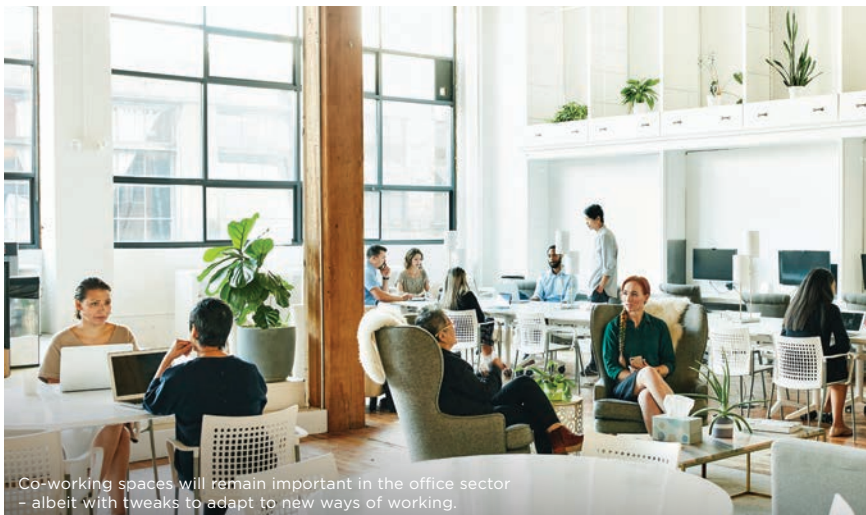
It may be time for the suburbs and city fringe locations in this country to really shine and in turn, bring a new dynamic for neighbourhoods and communities away

from the CBD and for business owners to approach culture and collaboration within office environments in a different way.

Lloyd Budd, Bayleys’ director Auckland commercial and industrial, says COVID-19 is tangibly accelerating new ways of thinking in the office sector in New Zealand – both in terms of location and design.

“Some of these changes were in varying stages of formulation and implementation pre-pandemic, but I believe that the way offices are designed and how occupancy costs are approached will now be forever transformed as a result of the different dynamic we are seeing.

“Just what the office sector will ultimately look like is yet to be established and as property specialists, we’re still working out what that might mean for



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landlords, tenants and owner-occupiers.”

Budd says the opportunity for suburban office locations to thrive has never been better.

“Larger companies and businesses with scale are proactively looking to the core + flex model of office space with a consolidated central location supported by smaller satellite flexible spaces that can expand and contract to cater for varying staffing and work flows.

“Those businesses with a core + flex model in place, will be able to have different teams working safely from different premises for a far more efficient use of time and resources should other disrupting events occur in the future.

“Many office-based businesses operate on a project basis rather than an office hours basis, and so can accommodate flexible ways of working in the suburbs – with one upside being fewer cars making the commute in and out of CBDs.”

Budd says when prescribed as a health response, sending staff home to work was a sink or swim situation – but he believes work-from-home as a broad operational office business model will not become our new workplace normal.

“We are social beings and if we’re isolated in our homes – even with the best technology and support – there’s just not the same capacity to build culture and be inspired.

“Face-to-face interactions drive innovation and connection and no amount of video link meetings from home will achieve that in the same way.

“There’s also physical work space health and safety concerns, potential for security or confidentiality breaches and likely productivity drains in working from an often-busy home situation.

“I think businesses will have work-from-home as a backup plan and to



The Wellington CBD office sector is largely underpinned by Crown tenancies and so far there has not been evidence of flight to the suburbs.

allow flexibility in certain situations, but not as a broad-stroke mandate.”

In Auckland, Bayleys Research has shown that the overall vacancy and available office space has reached its highest level since 2015, so there’s definitely change in the office sector air as office tenants consider their space demands.

Budd says the learnings from COVID-19’s shakeup will change the sorts of offices that we’ll see emerging with much smarter models gaining traction – particularly in those buildings that have larger floor plates.

“We could see one floor plate divided into multiple ‘tribes’ or pods with different ways of working taking place within each.

“It’s going to be about reacting and adapting in ways that make the physical space work more efficiently, for greater productivity and happier teams.”

Co-working spaces will remain important in the office sector – albeit with tweaks to adopt to new ways of working such as digital memberships, more meeting spaces, project rooms and shorter term options.

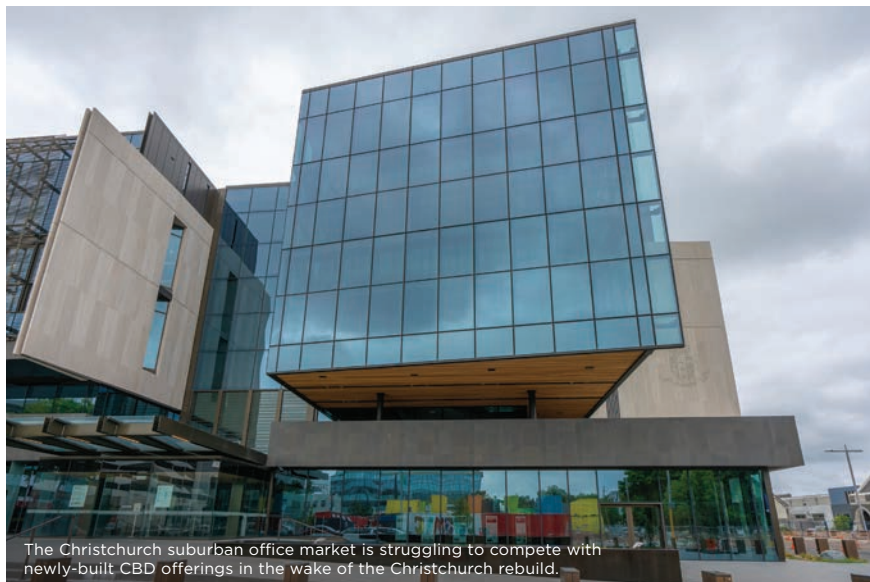
“It’s a proven model that works well for agile businesses that need to adjust and adapt to varying workflows and people requirements quickly and efficiently.

“But increasingly, the core + flex model is hitting the right note with office businesses that are recognising the productivity, convenience and bottom-line benefits of having bases spread geographically to cater for evolving teams and fluctuating volumes of work.”

The core + flex model can be seen as a viable alternative that falls between working from home and being based in a centrally-located office with large overheads and unwieldy space credentials.

Specialist KiwiSaver provider, AMP Wealth Management New Zealand recently announced that it is seeking to exit its premises in the Auckland and Wellington CBD’s and accelerating plans to adopt fully flexible working on an ongoing basis.

AMP surveyed its people and the majority said their ideal work setting is a combination of working from home and the office. Hence, AMP intends to move into new, smaller collaboration and



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LUKE FRECKLINGTON, BAYLEYS’ OFFICE LEASING SPECIALIST

meeting-based premises outside the city centres with the reduction in office space and travel requirements supporting its sustainability targets.

Budd says a move to suburban office space in smart mixed-use precincts could see the revitalisation of retail and hospitality in those areas.

“I believe we could see stronger, more consolidated neighbourhoods where a real village atmosphere prevails.

“Perhaps micro-communities could evolve within a commercial strip or shopping centre with a mix of office space, boutique or niche retail and hospitality such as a whisky bar for after-work drinks, a classy hairdresser or barber premises, a tailor, a farmers’ market-type store with artisan suppliers or the like.

“It’s an opportunity to redefine the look, feel and service offerings that suburban locations offer.”

In Wellington, Bayleys’ office leasing specialist Luke Frecklington says although corporates and government departments are re-evaluating office space requirements, the suburbs are not seeing a lot of activity – yet.

“Given that the country’s capital is heavily underpinned by Crown tenancies which tend to be more conservative and

less agile than the private sector, there has not been evidence of flight to the suburbs.

“I think the office sector in general is slightly more sheltered in Wellington because of the government sector presence and we’ve only seen a small amount of activity in the sub-lease market to date.

“What has been happening for some time now, though, is the Crown securing space in the Hutt Valley and on the Kapiti Coast to provide ‘resilience space’.

“This will provide a place of work should a natural disaster compromise the ability to commute to the CBD from outlying areas – or for a workplace closer to home for times like the COVID-19 situation when a health response dictates it.”

Frecklington says the likes of Porirua and Petone have seen successful co-working operations open and evolve and the COVID situation has not appeared to dim this niche market.

“Culture and productivity would appear to be the main things that businesses want to foster and retain through times of change and anything that facilitates that, is being explored.

“The only businesses that can easily downsize their current office premises in response to changing business fortunes are those that are coming up to the expiry of their lease and we are yet to see much in the way of sub-leasing or assignment happening.

“However, once the wage subsidies end, it could be a different story and landlords are unlikely to be in a position to subsidise rents any more – or for any longer – than they already have.”

In Christchurch, senior director of Bayleys Christchurch, Campbell Taylor, says the suburban office market is struggling to compete with newly-built CBD offerings in the wake of the Christchurch rebuild.

“The pull of the CBD is proving too strong for many Canterbury businesses

who see inner city office space as preferable to that in the suburbs.

“It comes down to an oversupply situation whereby leases within the campus-style suburban office parks, that were vital when the CBD was essentially flattened, are coming to an end and a lot of businesses are intending to go back to the revitalised city centre.

“The very real challenge for the Christchurch office market is a population one – we need more people here.”

Taylor says if ex-pats are lured home on the back of the global COVID sting, the suburban office market may find favour again among those who have tired of the city life and want to work closer to home and be in the suburbs.

“However, when we talk suburban offices in Christchurch, it’s quite a different ball game to Auckland as most suburbs are only around 12 minutes to the CBD – so the travel equation is not as critical.”

If it solely comes down to bottom lines and balance sheets, Taylor says the differential between CBD and suburban office space may be the decider.

“CBD space that was once hovering around the \$420/sqm level is now around the mid-\$300s/sqm mark, while suburban office premises can be as low as mid-\$100s/sqm.

“Add in the fact that within the suburban office parks there’s usually plentiful cheap parking, lower overheads and supporting amenities such as childcare facilities and cafes, and the proposition can really make sense for those operators who do not require large floor plates right in the city centre.

“I think the COVID lockdown scenarios showed that essentially, if required, an office-based business can work from pretty much anywhere as long as there is robust technological capability and strong processes in place.”

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CAMPBELL TAYLOR, SENIOR DIRECTOR BAYLEYS CHRISTCHURCH