CASTING AN EYE OVER SHADOW space

THE SPOTLIGHT IS ON SPACE NO LONGER REQUIRED BY AN OCCUPIER ON AN EXISTING LEASE AND, AS IT COMES BACK INTO THE MARKET, IT'S CREATING OPPORTUNITY.

ONLY A COUPLE OF MONTHS AGO, Bayleys Research data showed there was an estimated 50,000 square metres of shadow space available in the central Auckland market, accounting for around 3.6 percent of existing office stock.

Lloyd Budd, Bayleys' director Auckland Commercial & Industrial, said around 10,000 square metres of that shadow space has now been spoken for, with deals at various stages of completion as *Total Property* went to print.

"It's evidence of plenty of activity in the office leasing market and clear proof that occupiers are taking advantage of the significant opportunities that exist to cement a presence in optimal locations where core needs are met," he said.

"While no-one would have wished the disruption of 2020 on anyone, it has resulted in occupiers and landlords ditching the often entrenched 'them and us' dynamics and working more strategically to partner on workable outcomes that benefit all parties."

Budd said at the start of 2020, prime office vacancy in Auckland was so low that occupiers were having to fragment their teams across floors or even buildings and often forced to spread their wings to the fringes to find suitable space to accommodate staff.

"Now, with shadow space being released by occupiers who have rationalised their footprints in line with changed circumstances and new ways of working, the bigger companies are finding that they can tick off their corporate wish-list around space and amenity in central locations that were unavailable a little over 12 months ago.

"With CBD space freeing up, and landlords looking to backfill in a timely manner, companies are often paying city-fringe rents for premium locations – although it's not always cost that is driving the decision-making."

Budd said with Auckland lockdowns effectively directing office workers to operate from home, some companies are struggling to attract staff back into the office and productivity levels and corporate culture are suffering as a result.

"We are social beings and while a level of flexibility around remote working is inevitable – and even encouraged due to changed workplace expectations – businesses are finding that having a well-located office with a high level of amenity is the carrot that brings staff back around the water cooler.

"While occupiers will naturally be hoping to reduce real estate costs, productivity is actually the bottom line that we're hearing about most often and bigger companies are prepared to pay for quality space, larger floor plates that bring teams closer with less fragmentation, and good amenity within and around the building to keep staff engaged."

"DECISIONS TO RELOCATE, DOWNSIZE, OR UPSCALE ARE ALL STRATEGIC MOVES THAT FIT WITHIN LARGER BUSINESS PLANS"

LLOYD BUDD BAYLEYS' DIRECTOR AUCKLAND COMMERCIAL & INDUSTRIAL

It is the public transport links, a park nearby for lunchtime yoga classes, the neighbourhood gym to streamline workout times, a café on site and a supermarket within walking distance that underpins a well-functioning office environment.

"In Auckland, we're seeing that an office located within easy reach of the America's Cup action is more than proving its worth as a workplace that people want to turn up to each day – rather than sitting at the kitchen table with the dog begging to be walked and the breakfast dishes staring them down."

New ways of working and the need for workplaces to remain relevant and accessible are narratives being played out around the world and is part of the larger office sector story.

In the United States, Goldman Sachs CEO David Solomon recently said that far from being the new normal, working from home was "an aberration."

The investment banking head said that while pandemic restrictions had forced large percentages of its team to work from home, for a business like Goldman Sachs which has an innovative, collaborative apprenticeship culture, it's not ideal to have the team disjointed.

Solomon used terms like "direct mentorship" and "personal connectivity" to define the company's style of working and alluded to the fact that this was being eroded by the enforced work-from-home reality.

Budd stressed that available shadow space is fluctuating all the time and occupiers have not been making knee jerk reactions.

"Decisions to relocate, downsize, or upscale are all strategic moves that fit within larger business plans," he said.

"It's not always linear, and it's not always quick.

"We have occupier clients coming to us saying 'these are the pillars of our business, this is the workplace we want for our people – what can you show us'.

"It's well-considered, concise and let's face it – it has to be to keep stakeholders happy and staff secure and confident."

For an occupier, sub-leasing unwanted space is potentially more efficient and bottom-line cost-effective than exiting a lease completely or relocating to a smaller place. It is important that contractual obligations are met and that lines of communication with landlords and property managers are kept open and transparent.

Budd said the Auckland central shadow space is putting some downward pressure on rents and is coming from various business sectors – particularly those that have been able to quickly and seamlessly switch to more-remote working models, or those that have faced significant restructuring and the subsequent reduced headcount.

There's still a pipeline of new office development stock to enter the market and hence, Budd said the fundamentals will be a moving target for some time to come.

Elsewhere around the country, Bayleys offices are reporting subdued volumes of shadow space coming to the market, with the Wellington commercial team noting minimal sub-leasing activity which they largely put down to the high proportion of Crown tenancies and growth seen across the public sectors – particularly health.

GLOBAL PERSPECTIVE

Bayleys global real estate partner Knight Frank recently released its Singapore office report for Quarter 4 2020 and noted several broad trends that are also applicable to the Auckland market.

- Shadow space is being incrementally released to the market as corporates continue to reassess how the notion of flexible working can be incorporated into its operational model
- Evaluations around the most efficient use of space continue – and are likely to do so for some time as lease terms come up for review
- Even though corporates are downscaling their core office footprints, some are utilising co-working space to allow for a more distributed workforce
- Landlords are taking a more flexible stance on leasing within their buildings and some are offering up fluid space, providing the "office as a service" model to occupiers
- E-commerce, technology and food delivery companies are absorbing a lot of the shadow space on offer.

Further, Knight Frank's *Supply and Shadows* report looking at the prime office sector in the four gateway markets of Auckland, Sydney, Singapore and Hong Kong, found that while real vacancy across the office markets varied in these locations, common themes had emerged among occupiers.

Lockdowns, travel restrictions and work-from-home dynamics have directly impacted requirements for office space. It has resulted in softer demand, a pull-back on CAPEX by occupiers who are more cautious about spending on fitouts, expansions or relocations, and a broader need for more flexible space.

SHIFTING DYNAMICS

Not all shadow space in the market is a direct result of pandemic-related footprint realignments.

In Auckland's Victoria Quarter precinct to the west of the CBD, near Victoria Park, 500-600 square metres of executive office space is available for lease on the top floor of a five-level A-grade building.

Baycorp New Zealand first moved to this building in 2014, occupying the entire first floor. In November 2019, it moved to level four taking the whole 1,720 square metre plate for its Auckland corporate base.

Nathan Cox, administration and facilities manager, Credit Corp Group, said when Baycorp was acquired by the Australian-headquartered Credit Corp towards the end of 2019, various support functions were transferred from New Zealand to Australia.

"This caused a reduction in staff numbers for our Auckland team which led to excess office space that was no longer required," he said.

"The Victoria Street location works well for the team, so we are looking to sub-lease 500-600 square metres of now-unused space which will include a large exclusive-use outdoor deck area.

"Baycorp will retain around 550 square metres for its operations and will also absorb additional common area space into its lease."

Cox said that if a prospective tenant was prepared to take over the whole floor, then Baycorp would consider a move to a smaller office in the local area.

Brendan Graves, Bayleys' associate director corporate leasing, said with businesses now appreciating more-fully the importance of well-located physical office space for a cohesive, high-performing team, this sort of shadow space is sought after.

"The fundamentals of good natural light, end-of-trip facilities, ground floor food and beverage and proximity to a high level of amenity and public transport, can't be underestimated in a market where workspace is increasingly being used to attract and retain staff," he said.

BRENDAN GRAVES, BAYLEYS' ASSOCIATE DIRECTOR CORPORATE LEASING