



Future-proofing the office

Will working from home reshape the role of the office? *Business News* explores the potential impact on Perth's commercial property sector as part two of the WFH Series.

INVESTMENT: Perron Group chief executive Ross Robertson (left) and asset manager Alwin Bax at Central Park's recently completed \$16 million lobby refurbishment. **Photo:** Gabriel Oliveira

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THE year to date has been an enforced crash course in flexible hours, video calls and online communication channels for most of the Perth business community.

Whether these COVID-caused working arrangements will remain after the pandemic has passed depends on who you talk to.

What is certain is that decisions yet to be made by businesses about how their employees work will have far-reaching effects in terms of property demand, asset values, leases, and rental growth.

Independent property information firm Y Research director Damian Stone admits his views are already formed.

"I've been working from home for 10 years," Mr Stone told *Business News*.

"I never want to go back to an office, so that's a little bit of bias."

Now that more people had experienced working from home, Mr Stone said, one lasting change was that businesses would likely become more accommodating of flexible working.

"I think there's going to be some model where it's four days in the office, one at home ... even then I don't think it's going to be nine to five in the office," he said.

"This isn't going to come in one wave; it will be over the years ahead.

"People will want more flexibility and shorter leases.

"And if they're going to be in the office, it's about amenity, social and collaboration, which probably leads to a flight to quality. So we'll see more pressure on older buildings."

Mr Stone said COVID-19 had not heralded the breakdown of the CBD model, but rather prompted a rethink.

One of the reasons offices would remain relevant, he said, was the fact the top 100 companies occupied more than 60 per cent of office space in the city: major corporates with national, or international, policies and procedures.

"The CBD is still going to be the [working] capital city ... a hub," he said.

"But there's going to be a definite change going forward.

"So then, what are the implications?"

Mr Stone has started to model those potential outcomes.

“ [Working from home] for many months has probably made everyone acutely aware of the value of ... office and team culture - Alwin Bax

Pointing to the latest available census data (2016), Mr Stone said 3.6 per cent of people who worked in the CBD were working from home on that day (Tuesday August 9).

Extrapolating that figure to 10 per cent, he said, could be a modest assumption for businesses going forward.

Based on office occupancy pre-COVID, Mr Stone said there were fewer than 100,000 people working in CBD office buildings.

“One in 10 people working from home on any given day is nearly 10,000 people; that’s 10,000 people not grabbing a coffee or lunch, 10,000 people not on the road or public transport,” he said.

“So do companies need as much office space?”

Mr Stone said about three years of historical office demand could be taken away if just one in 10 people worked from home.

“The worry is that is a conservative scenario, but we just don’t know yet. It’s too early to tell,” he said.

“This isn’t the end of the office, but it is a structural change in the way we work.”

Back to the office

While it’s difficult to calculate the exact number of people back at their CBD desks, some of the city’s major office occupancy numbers offer a guide.

Dexus, which owns several offices including 240 St Georges Terrace, said its Perth buildings were now, on average, 73 per cent occupied (based on pre-COVID occupancy numbers).

Dexus executive general manager office Kevin George said building tenants were likely to experiment with new workplace models, seeking to optimise the physical and virtual workplace.

“What’s become apparent through customer surveys and direct feedback is the physical workplace is a key driver of business productivity through the role it plays in facilitating culture, collaboration and innovation,” he said.

“Hiring and training were cited as being less effective when people are not physically together.”

Mr George said some of the world’s largest companies were

voting with their feet when it came to future office demand. For example, Facebook recently committed to a 68,000 square metre office in New York, despite announcing it would continue to enable its employees to work from home.

Flexibility, Mr George said, was not a new concept, but one that had evolved Dexus’s business model in recent years through the provision of its workplace and change management consulting service, Six Ideas.

Meanwhile, occupancy levels at Brookfield Properties had almost returned to pre-pandemic numbers, the company said, up from the 17 per cent occupancy it recorded in May.

The fact some multinational companies were following a global, rather than localised, return to work policy was one factor likely hindering full occupancy, Brookfield said.

“Working from home has worked surprisingly well, but doesn’t replace the office,” a Brookfield spokesperson said.

“You can’t underestimate the power of social interaction and collaboration.”

Perron Group is another believer in the future of the office, backed by its recent \$16 million investment in the refurbishment of its Central Park lobby.

Perron asset manager Alwin Bax said the building was sitting at about 60 per cent of pre-COVID occupancy levels.

In addition, he had observed a range of response plans to

COVID-19 by businesses, some with a full workforce while others were operating on a 50-50 arrangement.

Mr Bax said the recent lobby facelift was reflective of a longer-term trend that had been exacerbated by COVID: the need for collaborative workspaces enabling businesses to benefit from face-to-face time.

“Central Park, being a building that has its origins in the 1990s, it had a more traditional approach to the office work life, meaning that a lobby was an entrance place,” Mr Bax said.

“What we sought to achieve for this refurbishment was not just to contemporise the aesthetic but also to make it much more functional.”

That involved incorporating a business lounge and informal meeting spaces.

Mr Bax said while it was premature to assess the long-term impact on property values, demand for premium buildings would remain.

“I expect this has been quite a novelty for people working from home; saving that commute time and being more ‘efficient’, so to speak,” he said.

“But I think doing so for many months has probably made everyone acutely aware of the value of ... office and team culture.”

Stirling Capital is another landlord backing the office market’s future, with the revamp of its 1960s office at 3 Ord Street in West Perth.



Stirling Capital managing director Luke Reinecke said increased flexibility in the workplace had moved beyond a fad, reducing spatial requirements for some businesses and increasing demand for smaller tenancies.

To cater to that market, the business split up the floor plates at 3 Ord Street, offering tenancies under 300sqm.

That strategy had proved successful, with just one tenancy remaining for lease.

“While a majority of tenants delayed making decisions on leasing during the lockdown period, we’ve not seen a further softening of rents for buildings that are offering quality finishes and an enjoyable resident and visitor experience,” Mr Reinecke said.

“We’ve noticed an increase in enquiry for both smaller tenancies and satellite tenancies for larger companies.

“Satellite tenancies provide the ability to mitigate the kind of risk and issues created by COVID by

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Culture key for future-proofing Perth's offices post pandemic

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providing the option for multiple sites."

The popularity of satellite tenancies has further been reflected in recent movements in Perth's co-working scene.

Earlier this month, national property group Mirvac announced it had secured co-working space provider Spacecubed, and associated accelerator program Plus Eight, as the latest tenants for its Allendale Square property on St Georges Terrace.

Those groups secured 800sqm, offering more than 130 co-working desks, adding to Spacecubed's existing 6,300sqm of space across the state.

That followed the expansion of fellow flexible workspace provider, Liberty, which secured a new 600sqm location in West Perth and acquired an additional level (12) at 197 St Georges Terrace during COVID-19.

Liberty now operates more than 6,500sqm of space.

800sqm SPACECUBED ALLENDALE SQUARE TENANCY

WeWork is the largest flexible workspace provider in the CBD with a portfolio of 11,314sqm.

Activity

The full impact of the pandemic is yet to truly reach the office market, in part due to the cushioning effect of the Commercial Tenancies Code, which was last week extended to March 2021.

The Property Council of Australia's latest Office Market Report revealed Perth's overall vacancy rate for the six months to July 2020 was 18.4 per cent. This is up slightly from the 17.5 per cent recorded in February, but at the same level as July 2019.

Property Council of Australia WA executive director Sandra Brewer said although members were reporting that leasing activity and enquiry were being held back, deals were still being done.

"Broadly, members don't believe there will be a serious long-term impact on office or rental values," Ms Brewer told *Business News*.

"However, we do believe that lockdowns, COVID-19 restrictions

and the impact of those on business activity and the economy are likely to have an impact."

Significant property transactions for 2020 so far include Mineral Resources' \$60.5 million play for an office in Hersdman, and CyberCX's six-year lease at 28 The Esplanade.

"In some cases, businesses are contemplating leasing more space to accommodate physical distancing requirements to keep staff safe," Ms Brewer said.

"The idea of working in a suburban office location to achieve more flexibility and reduced commute times may be a trend to watch.

"The full consequences of the pandemic and this massive working-from-home experiment are yet to be known."

Design

Those flow-on-effects have started to more obviously materialise in the design industry, where agile and flexible workspaces have been brought to the fore, according to MKDC Design Consultants design director Kath Kusinski.

Ms Kusinski said COVID-19 had proved most companies could be more agile, in hours and working conditions, which had translated to specific design requirements.

Work styles continue to be varied, she said, with some clients preferring an activity-based working model, while others sought a 1:1 desk ratio, or a hybrid of the two.

Ms Kusinski said while there was no one-size-fits-all solution, the hospitality element had emerged as the most defining factor; and it was a trend that would continue to shape offices into the future.

"Every organisation we've dealt with has a different vision of what the office will look like for them," Ms Kusinski told *Business News*.

"But it's the hospitality provided in the office that brings staff back: hospitality exemplifies the culture and soul of an organisation."

Ms Kusinski said the design of those social spaces, such as breakout rooms, kitchens and collaboration areas, were important in facilitating the exchange of ideas and knowledge.



FLEXIBLE: Workplace designs encouraging collaboration are tipped to become even more popular post pandemic to draw people back into the office. **Photos:** MKDC Design Consultants, Robert Frith (above) and IA Design, Spacecubed

"You may be agile, continuing to work from home some days, but it is the face-to-face interaction with other people, and to some extent a feeling of accountability that people crave," she said.

"This is what the workplace provides, an opportunity to feel present and elevate the employee experience."

Mentorship was another good reason to return to work, Ms Kusinski said.

"People need mentors, and it's not just graduates, but across all ages and skill levels," she said.

"If people are siloed at home, that may not happen.

"Socialisation, mentorship and working with your peers, being able to have those ad hoc inspirational conversations around the coffee machine ... that is where the benefits of the office are."

Ms Kusinski said while there had been an uptick in interest in flexible co-working spaces, there remained plenty of demand for large floor plates with contiguous floors at the top end of the Perth market.

That demand is reflected in two projects MKDC is currently working on: a 2,500sqm new office design for an undisclosed client, and a 1,200sqm fit-out for the WA Treasury Corporation.

"There will be an increasing focus on bringing staff into the office to socialise, network and share ideas," Ms Kusinski said.

"Despite increasing agility and fast-tracked adoption of new ways of working, it hasn't taken long for companies to recognise the value of the physical workplace as an asset, not an artefact."