TWENTYTWO

Market Research

IMPACT OF COVID-19 ON OFFICE SPACE/PROPERTY DECISIONS

June 2020

Our Insights

We really appreciate everyone who contributed to our market research and for the positive feedback we have received, as organisations of all shapes and sizes look for guidance through the COVID-19 period.

The purpose of the research was to gauge how businesses (who occupy office space) are beginning to think about their office requirements and workspace post COVID-19. We wanted to better understand from the demand side of the real estate pie how businesses are reacting to the health crisis we've been through. How did they cope with not being able to access their premises during lockdown? What property and workplace changes are they planning to make? And perhaps most importantly, will this moment in time revolutionise how businesses think about their physical presence and how their teams work or merely be an inconvenience navigated through?

The findings provide some early insights into the likely extent of change underway, recognising it is early-days. We've also added some further commentary on how we see this crisis spawning further change.

We plan to continue to engage with our wider community as we move forward and to share our collective learnings. We hope you will continue to participate.

Thanks for your support.

Dean Croucher
Principal & Managing Director

Diverse Community

We reached out to our diverse network of clients and wider community, who represent many of New Zealand's largest business across a range of sectors. The high response rate of 50% indicates businesses are genuinely interested in how others are thinking and adds robustness to this analysis.

THE RESPONDENTS

22%
1-99 employees

33%
100-499 employees

25%
500-1999 employees

20%
2000+ employees

64%
Publicly Listed/
Privately Owned

31%
Government/
Local Body

5%
Not for Profit

86%
Multi Site Occupier

14%
Single Site Ocupier

Sink or Swim?

WHAT WAS THE SUCCESS RATE WHEN ABATEMENT WAS SOUGHT?

93%

Tenants achieved some sort of rental abatement

WHAT WAS THE AVERAGE RENT ABATEMENT?

42%

Reduction/ saving in rental

The media is awash with commentary on rental abatement and related issues. And we've been very active assisting clients with these conversations and more recently, restructuring leases. Through this phase we've seen the full range of behaviours from landlords being exhibited. Those who have been proactive and those relying on the pure "contract" and perhaps ignoring the wider relationship in play.

The data shows three telling insights:

» of those who applied for support – 93% received some abatement – this shows generally good support by landlords

» the average concession offered was a 42% reduction - which is in line with the 50% rule of thumb many adopted

» 30% of private sector respondents did not reach out to their landlords.

The fact that 30% of private sector respondents did not reach out to their landlords could reflect:

» their businesses are not under financial strain – this is obviously a good news story but be aware of the lag effect now in play across many sectors

» they were potentially unaware of their options

» they thought their landlords were likely to be unwilling.

"Even if leases do not have specific abatement clauses it's important to remember a lease is a relationship as much as it's a contract. Don't be afraid to reach out and seek support.

As has been said – we are all in this together – its important landlords know how your business is coping and important they offer support where needed. There is also a lag effect emerging across many sectors, which may mean the situation changes over coming months. For some businesses abatement or support may be needed beyond the immediate lockdown period. Keeping up the communication is important."

David Lambie
Practice Lead: Advisory & Assurance, Principal & Director

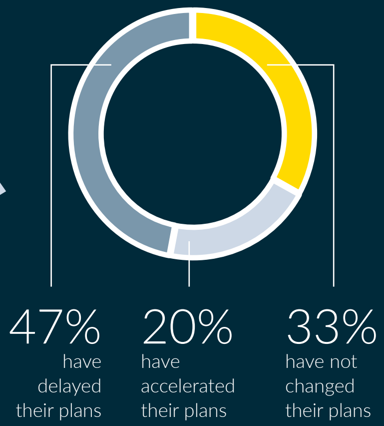
Now or Never?

Unsurprisingly, nearly 47% of respondents who were underway with projects to relocate to new premises are delaying their plans. From our experience working with clients, many are finding it difficult to keep pace with their fitout briefing and design processes. This requires the renegotiation of milestones and deliverables.

More importantly, many are taking time to take stock. Do we really need all of this space? Can we afford this capital expenditure? Can we get out of this commitment? These are all important conversations to have now.

This could lead to businesses moth-balling parts of their new workspace (to fitout later), subleasing space not needed and certainly reconsidering how the their teams will use the space and what this means for fitout and technology.

22% OF RESPONDENTS WERE PLANNING TO RELOCATE THEIR BUSINESS BEFORE COVID-19



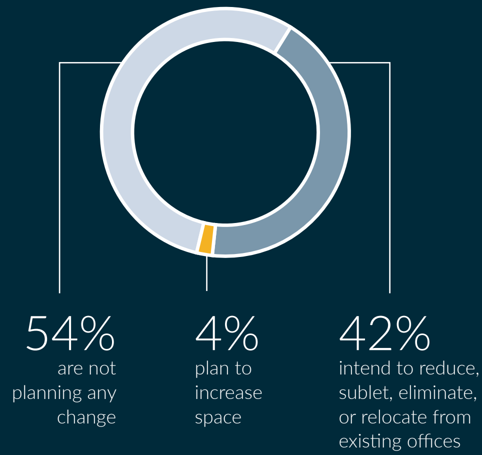
Tweak or Transform?

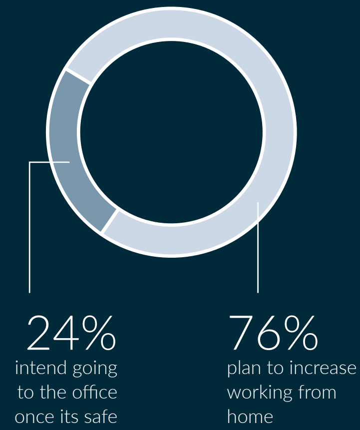
Given the financial pressure on businesses and the adaptability of teams to work remotely over the COVID-period, it is perhaps surprisingly that only 42% of the respondents indicated they will reduce their amount of office space. By contrast, 54% of respondents indicated they were likely to retain their existing space and 4% indicated they planned to increase their space. At the same time an overwhelming three-quarters of respondents indicated they expected more staff to be working from home more often.

The number of businesses predicting to reduce their footprint is a telling indicator with consequential impacts on property market metrics like vacancies and rents.

However the bigger question is for those businesses not planning any change. Can they really afford to retain their existing footprints and rental overhead when more staff are likely to be working remotely?

We know from utilisation studies pre-COVID that the utilisation of desks is typically 40-60% at any moment in time, once you account for people working remotely, in meetings, on leave, on courses etc. How long will businesses be prepared to over-provision their space, when their utilisation of that space is likely to further reduce as their teams work even more remotely and flexibly in the future?

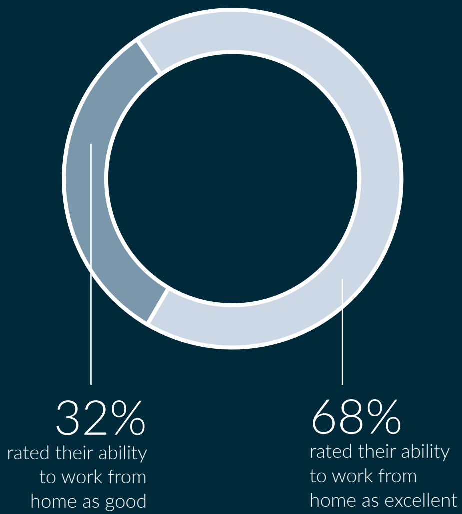




“We were looking at taking additional space, now looking at just treading water.”

“There will likely be large scale take up of greater working from home but to varying degrees by individuals...ie between 1-3 days per week from home.”

Office or Ornament?



Pre-COVID debate was raging about how best to configure spaces to balance collaboration, productivity and efficiency. We've long been sceptical of the roll-out of design-led generic solutions that focused on driving space utilisation down, at the expense of intelligent tailored solutions that create spaces to best support how teams and individuals work. While the need for tailored solutions continues, the financial impact on some sectors and the success of remote working turns the debate to also considering "what do we need the office for'"? Is it now a place for collaboration? Is it to showcase your brand? Or does it remain the core place work is done? With 76% of respondents considering encouraging work from home, what is its role moving forward?

" I think even now the evidence is clear – our people are not just going to go back to how it was before - they have realised they can work reasonably productively from home. Maybe this is about being able to control disruptions so they can focus – a constant source of frustration in the office. But there are some things that people can't do so well from home. The technology tools we have all used to collaborate with our teams have worked, but often they just don't give the same experience as a face to face interaction, especially an impromptu one. To make this disruption positive for organisations, they are going to need to stop and think what learnings they can gain from the new ways staff have been working. For the first time, there is a very real opportunity to use a people and team centric approach and workplace-specific-technology to create new workplaces that value people and support them to do great work. "

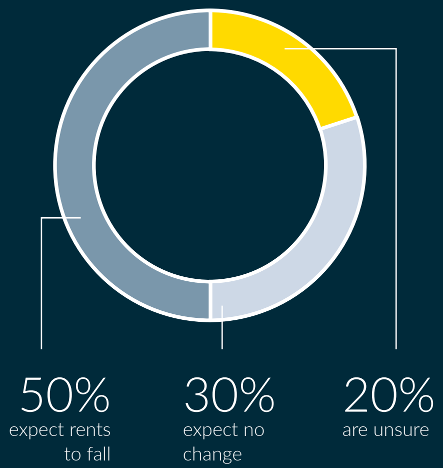
Duncan Mitchell
Practice Lead: Strategy,
Principal & Director

" While we've seen a high satisfaction with technology tools and respondents ability to work from home (68% considered excellent), the work we've been doing with clients on workplace technology and ICT systems indicates many of these systems are under huge strain. Further investment in linking up and future-proofing for the next "black swan" event is a big part of our focus moving forward. "

***Matthew Rogers**, Practice Lead: Workplace Technology, Senior Adviser*

" We are still committed to the office environment and culture, however COVID 19 has had a positive impact on some previously held views as to work flexibility and the difficulties in working from home. "

Bull or Bear?



The impact on property markets is clearly still to unfold. However the evidence from respondents indicates there is likely to be some softening of office market conditions over the coming months. 50% of respondents indicated rentals are likely to fall. Again, based on our work with clients, we anticipate increased vacancies over time as business fail or downsize or adjust the way their teams are working. This will see increased subleasing (as typically happens in a recession) and a corresponding softening of rentals for existing stock. New build rentals are unlikely to change much in our view, as these are driven by the combination of demand and development economics. While demand will soften the costs of development will remain largely the same.

The elephant-in-the-room is whether a low interest rate environment is going to re-set investors yield expectations. Lower initial yields should flow through to lower rentals for occupiers, when used to set initial rentals on a return on cost basis for new developments.

“We are already working with clients to restructure leases and to reset rentals where possible to better match business affordabilty moving forward, particularly in non-office sectors. In many cases where revenue has been significantly affected, the existing market rent is somewhat irrelevant. Both parties are trying to find a viable solution. As the months unfold, we anticipate these same conversations will be had for smaller office occupiers, particularly in service sectors affected by the wider economic downturn. These changes and increasing subleased space will invariably result in market rentals adjusting over time.”

***Rob Campbell**, Practice Lead: Portfolio Management, Associate Principal*

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