

focus



Long live the home office?

The return to Alert Level 4 lockdown has seen the majority of the workforce resume working from home, which, once again, brings the future of the office back into the spotlight. There has been much discussion around what offices will look like in a post-COVID-19 era, with many predicting a reduction in demand for office space. While we believe there will be a change to the way we work, we still see a future for the office in the modern workplace.

...flexibility and agility have been corporate real estate buzz words for the last decade...



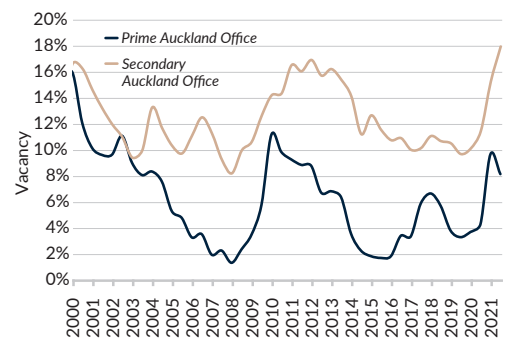
What was the trend before the pandemic?

The way we use office space has been by no means static. Cubicles, open plan, pods, hot desking, co-working, and now hybrid working. Flexibility and agility have been corporate real estate buzz words for the last decade. Prior to the pandemic, many employers had already begun to adopt more flexible working arrangements as a way of attracting and retaining talent.

Volatility in office vacancy is generally driven by demand and supply. Changes in supply can materially change a market. For example, the new 180 metre PwC Tower at Commercial Bay added 40,000m² to the Auckland office market. Businesses' demand for space is closely aligned to the performance of the economy. For example, Auckland prime office vacancy reduced to less than 2% in the lead up to the Global Financial Crisis

before ballooning to more than 10% as the crisis unfolded. During the pandemic vacancy jumped largely due to new supply being added, before starting to reduce as the economy rebounded.

AUCKLAND PRIME OFFICE VACANCY



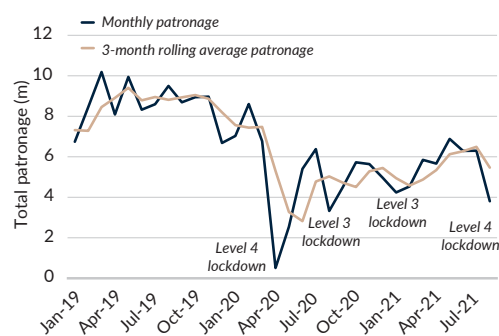
Source: CBRE

What have we seen since the first lockdown?

The idea that working from home (or using the acronym *du jour* 'WFH') was the 'new normal' took off immediately after lockdown. Vodafone introduced free-range working allowing employees to choose where and when to work, call centres were shifted to home offices permanently, ANZ reduced its Auckland office foot print, and travel and tourism businesses looked to sub-lease some of their space.

Since then workers have returned to the CBD, albeit, it hasn't yet got back to pre-pandemic numbers. In Auckland, foot traffic data from Heart of the City showed visitation in July had recovered to 76% of previous levels, public transport usage was back up to around 70%, while Precinct Properties estimates office visitation across its portfolio had bounced back to 90%.

AUCKLAND PUBLIC TRANSPORT PATRONAGE



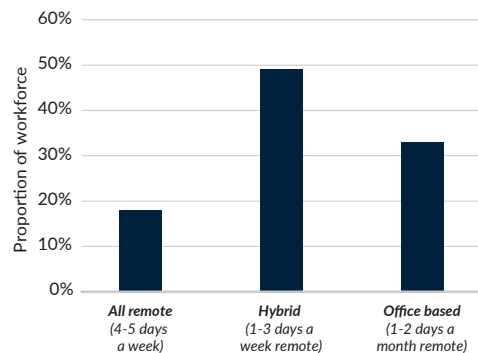
Source: Auckland Transport

The leasing market is now moving again and there has been a preference for location, quality, and amenity. Hub and spoke (a head office with regional support offices) looks to be being replaced with hub and home, likely supporting demand for premium CBD office but reducing demand in the suburbs.

An at-home workforce does make it challenging to on-board new employees, collaborate across teams, and establish a strong company culture. Internationally, large tech companies, who most would expect to be embracing working from home, have reconfirmed that an office remains key to their operations. Software Company Atlassian has committed to a new A\$1b+ headquarters in Sydney's CBD – "Even with a highly distributed workforce, we'll need a place to come together". Google is also asking workers to return to the office, citing human interaction as a building block for innovation.

Additionally, home offices potentially present a weak point in terms of security. Slow internet connections, unsecured wifi networks, and even nosy neighbours looking in the window all present risks. The required investment in IT may outweigh the benefits.

HOW FREQUENTLY CAN EMPLOYEES WORK REMOTELY IN THE FUTURE?



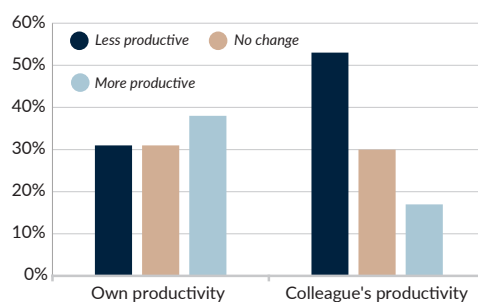
Source: CBRE

Are we really as productive working from home?

The great unknown of WFH is productivity. The first Level 4 lockdown was a novelty; there was a sense of everyone pitching in for the greater good. There have been numerous articles written about the increase in productivity from WFH. However, productivity can be hard to measure, particularly for office workers, as there are generally no widgets to count.

Survey data does provide some insight. Colliers International asked office workers if their WFH productivity was either lower, the same, or higher. They then asked the same office workers to gauge the productivity of their colleagues on the same scale. In aggregate, respondents determined their own productivity was broadly unchanged but that their colleagues had become a lot less productive. Which results do you think are most likely to be more honest?

ARE YOU AND YOUR COLLEAGUES LESS OR MORE PRODUCTIVE AT HOME?



Source: Colliers International

What do workers want?

There are plenty of headlines around companies asking for staff to return, but an often-overlooked factor in the return to the office debate is where employees want to work.

The shift to WFH hasn't been plain sailing. In a recent SEEK survey, 40% of New Zealanders said they would have liked more mental health support during COVID-19, and over half of the

...the death of the office has very likely been exaggerated...



respondents in a McKinsey study said they were feeling burnt out. There is an expectation when WFH (and even more so in lockdown) that we are always available, causing a shift in the work life balance towards work. Until the dust of lockdowns settle, we are unlikely to know exactly what employees want, but workers may prefer the more defined separation of work and personal life that the office provides.

Does more flexibility for workers translate into lower office demand?

A CBRE survey from late 2020 highlights that employees will return to the office, but probably not every day of the week. Prima facie, allowing working from home two days a week is a 40% reduction in office demand. The reality is more nuanced, with a key consideration being the peak number of staff in the office. For example, one can imagine working from home on Monday and/or Friday would be quite popular. This means that Tuesday through Thursday, staff numbers in the office and therefore office space required remains broadly unchanged. Add in a likely desire for more space between desks, a decline in hot-desking, and greater room set aside for collaboration and meetings, and you can imagine a situation where some employers may require a larger office footprint.

So where to from here?

The death of the office has very likely been exaggerated. We believe that high quality, digitally integrated offices with good amenities will continue to be in high demand. Offices will need to adapt to the shift to a hybrid work force, with greater demand for things like collaborative spaces. The office environment has always been evolving – the impact of COVID-19 is just the latest iteration.

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