


Centuria

Guide to commercial office investment

Matching accommodation to
changing tenant demands

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Office real estate – whether held in an A-REIT, directly, or in an unlisted structure – is an attractive option for income focused investors seeking potentially long-term, stable, income-generating investments, as office real estate can provide access to high quality tenants such as government and blue-chip corporates who deliver secure income streams, while the properties are generally positioned in highly desirable locations.

The need for office

The pandemic and the resulting lockdowns and social restrictions have made us all realise that no matter how much technology we have, nothing beats human interaction. As a result, it is becoming increasingly apparent that many organisations recognise the productivity that results from in-person collaboration, and that employee isolation has a detrimental impact on an organisation's culture and staff wellbeing.

The ability to connect with people and the ability of teams to work together in an ad-hoc fashion, cannot be replicated virtually and no industry can expect to maintain its professionalism without the collegiality that comes through the combination of shared professional experience and incidental serendipitous contact. This is why an office or centralised workspace remains key to innovation, productivity and culture.

Benefits of working from the office:

Maintaining professional relationships with stakeholders and colleagues.

Executing workstreams that require person to person contact.

Establishing work life and personal life separation.

Increasing structured and unstructured collaboration.

Promoting unscheduled interactions and idea generation.

Facilitating on-boarding, mentoring and cultural frameworks.



Challenges of working from home:

Social isolation and mental health impacts.

Inequitable workplace environments.

Potential distractions at home.

Additional home office costs.

Diminished cultural, management and team engagement.

Reduced work life and personal life separation (risk of overworking).





What to look for

Like every offering, understanding the customer is the key to success and office real estate is no different. For many businesses, attracting and retaining the right staff is a challenge, and employers are motivated to make themselves an attractive employer. Therefore, everything which employees expect from their workplace, employers look for in their next office. Buyers, investors and landlords therefore should carefully consider what really matters in the office real estate market and be guided by what tenants want.

Changing expectations and priorities in people's lives and work, and different models and approaches to business, can alter what's desirable from an office property. Currently, we believe tenants are increasingly seeking enhanced flexibility from higher quality accommodation in new-generation buildings that provide sustainable and efficient design, improved amenity and competitively priced accommodation. Furthermore, there is increased demand to be located in areas that provide short commutes to improve employee satisfaction and attract the best talent.

Flexibility

For tenants, nothing is more certain than change and tenants are increasingly demanding more flexibility from their office spaces to navigate an unpredictable and disruptive business market. The challenge for owners is how to provide flexibility in a fixed asset.

We often think about flexibility in terms of the basics – lease terms, floor and core design and base-building amenities. While these are important to get right, tenants are increasingly demanding things like coworking*, and on-demand^ spaces to satisfy their changing organisational needs. As a result, the delivery of flexible workspaces requires a combination of quality buildings and experienced, innovative management.

The key to flexibility is balance. Buildings that generate tenant demand are flexible enough to suit a range of tenants while also allowing tenants capacity to establish their own brand and sense of identity. The upshot is that if owners get the balance right, tenants are willing to pay more for the space they occupy.

*Coworking is an arrangement in which workers of different companies share an office space, allowing convenience through the use of common infrastructures, such as equipment, utilities, and receptionist and custodial services, and in some cases refreshments and parcel acceptance services.

^On demand spaces or 'Third Space' is the provision of shared workspace facilities such as meeting rooms, board rooms, conference facilities or 'town hall' meeting space.

Commute

A key contributor to employee satisfaction is the length and quality of their work commute, and there is correlation between commutes, employee productivity and retention. The impacts of COVID have accelerated this and there is now a strong employee preference towards reducing time lost commuting to the workplace.

As a result, employers (tenants) can increase the job satisfaction of their employees by locating to areas with good transport links or closer to their employees' homes, reducing the time spent commuting and/or enhancing the ability to cycle, run or walk to work.

Further, employers choosing an office near excellent transport links could attract employees from a wider geographic area, increasing the employer's chances of getting the staff they want, as a location close to public transport could make the difference between employees choosing to work for one organisation over another.

So, when selecting an office property, it is becoming increasingly important to select a location close to reliable transport links. Accessible metropolitan markets are becoming a more desirable tenant choice as they can offer shorter and less congested employee commutes when compared to other CBD or suburban locations. Monitoring future changes in transport infrastructure may also create investment opportunities as access to new or improved transport links can materially improve the desirability of an office location.





Amenity

Where people work isn't just about work – the ability to do all life's other jobs is also crucial. People want a workplace which helps them achieve more, rather than less, balance in their lives. Employees can spend so much time at work that they need to be able to run the other parts of their life close to where they work. Locating an office close to shops, bars and restaurants, childcare, exercise options, healthcare providers, banks, beauticians, and any other services people regularly need to fit into their lives, is another key to employee satisfaction, and consequently desirable office real estate.

The building form itself is also important in providing tenant amenity. Once considered to be factors entirely unconnected with work, health and wellness have grown in importance as part of a more holistic understanding of wellbeing. Many of the amenities that employees expect are tied to improving their health and wellbeing.

So what does this mean for owners? In general terms, seeking buildings that have been designed with natural light, enhanced air quality and better services in mind – services such as change rooms, bike rooms, gymnasiums, sports courts, outdoor meeting spaces, parkland and prayer facilities.

Quality management is also a key contributor to tenant amenity. Many tenants are now seeking parcel reception and delivery services, share car facilities and concierge services meaning the capability of building management becomes an important component in the delivery of tenant amenity.

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FURTHER INFORMATION

For further information on Centuria's property offerings and to aid your clients in their property investing decisions visit centuria.com.au or speak to a member of our property team on **02 8923 8923**.

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