



DON'T GET LEFT BEHIND

ACTIVITY BASED WORKING, CO-WORKING, AND BEYOND...

JULY 2015





ABW FINDINGS

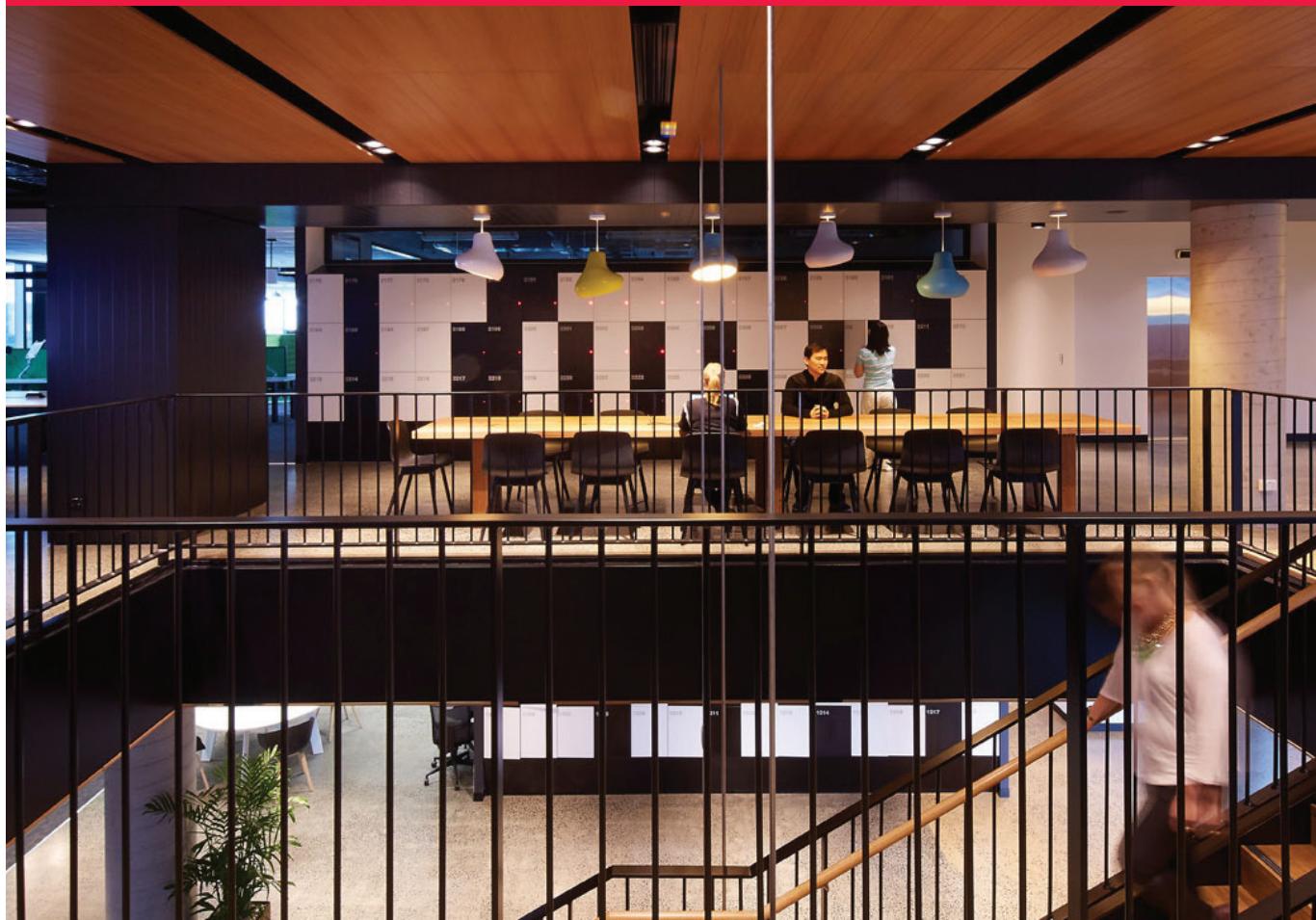


The Millennial generation will represent 75% of the workforce by 2025

The world is changing at a faster pace than ever before. Exponential technological advances in recent years, coupled with a major demographic shift which will see the millennial generation represent 75% of the workforce by 2025, means that our workforce now demands far more options for how, where and when to work.

As a result, commercial office buildings are being used in a very different way today than in the past. Static workpoints are being phased out in favour of agile workspaces for corporates, and co-working is a growing trend which has been adopted more widely in Australia (per capita) than anywhere else in the world. According to Telsyte, by 2020 66% of Australian work spaces will be a form of ABW, up from 28% today.

So what is the future of workspace, and what impact will this have on commercial real estate? In this paper we introduce the concepts of Activity Based Working (ABW) and Co-Working for the uninitiated, and discuss some of the potential impacts on commercial office buildings.



ACTIVITY BASED WORKING (“ABW”)

ABW is an alternate style of working whereby technology and behaviours enable people to choose where, when & how they will work most effectively.

Key principles include:

- Assumes not everyone will require a desk at the same time (nor possibly be in the building at the same time) and therefore work spaces can be shared
- Relies on a management style founded on trust, not traditional line of sight management.

ABW is not new, and nor is it a temporary whim. It was pioneered by Dutch Insurance company Interpolis in 1997, and since that time has been adopted and refined by many major corporations throughout Australia, including Macquarie Bank (2007), Commonwealth Bank (2010), Fujitsu (2014) pictured, Rabobank (2015), as well as property companies Goodman, GPT, DEXUS and Knight Frank.

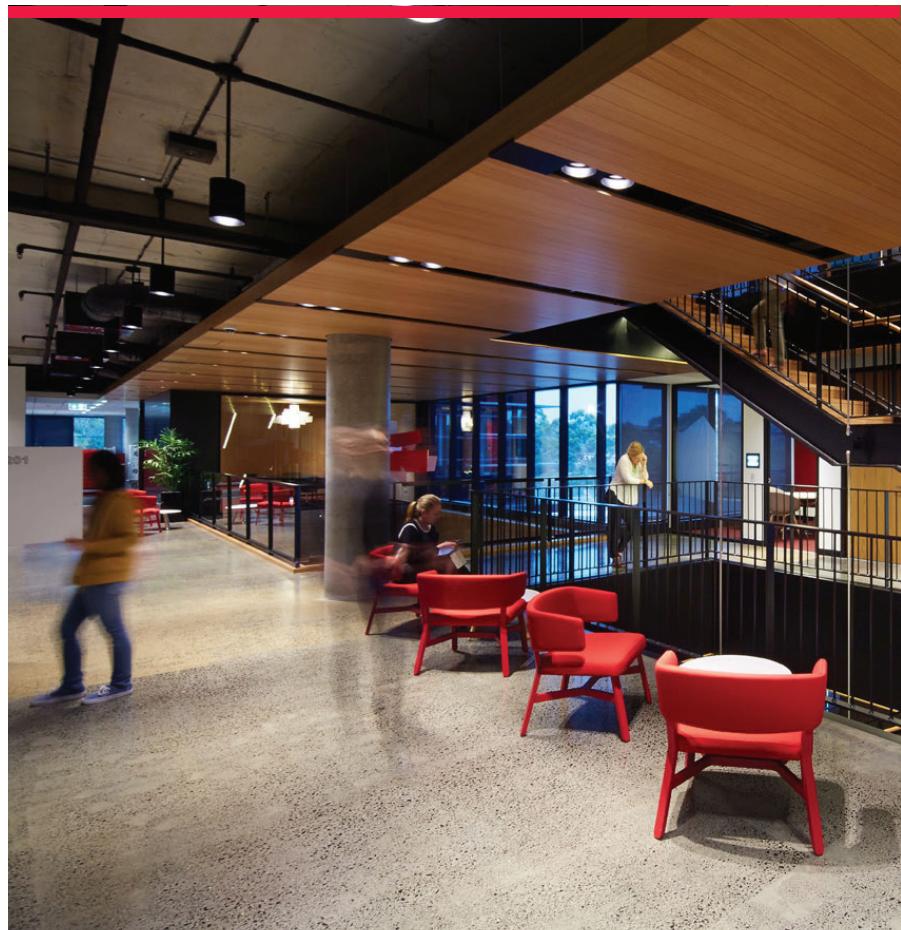
It is a common misconception that ABW is simply the modern reincarnation of hot desking, but this is far from being the case. Hot desking is the sharing of a single style of workpoint – the workstation – and the only similarity between this and ABW is the fact that individuals do not have an allocated workstation.

ABW involves the provisions of multiple variations of workpoint styles, from the traditional workstation, to quiet spaces, casual spaces, breakout areas, formal meeting rooms and open collaborative areas, and spaces shared between employees and external clients/service providers, to name a few. Generically, 4 key types of work setting must be provisioned for:

- Concentrative
- Collaborative
- Interactive
- Community

There are many benefits to ABW, and whilst these will vary from company to company, the common themes are:

- **Business** – traditional work practices and processes are re-examined and improved, leading to the business becoming more client facing and responsive



- **People** – Almost all businesses report higher engagement, productivity and collaboration
- **Property** – Substantial reductions in space (and therefore rental) and churn costs are possible
- **Response to business change** – Ability to dial up or down the assigned population for immediate capacity, without the need for physical reconfiguration of the space.

In larger organisations the reduction in the overall real estate footprint can be substantial, in some instances up to 30%, and the resulting cost reductions are of course an attractive proposition to CFOs, especially when coupled with the significant reduction in churn costs over the term of a typical lease.

The real benefits, however, lie in employee satisfaction and increased productivity. In a time when there is a genuine ‘war for talent’, an ABW workspace is an attractive selling point for prospective employees.

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CO – WORKING

In recent years the availability of private equity to fund start-up businesses, specifically in the technology sector, has improved significantly. This has encouraged a wave of start-up companies which require temporary, flexible, premises to accommodate their requirements, whilst also providing a platform for the sharing of ideas with like-minded individuals. Herein lies the demand base for Co-Working.

Co-Working providers such as WeWork, Hub Australia (pictured), Fishburners and many others provide spaces which offer short term flexible office premises for people to work independently, collaboratively, or in small teams.

Typically in fringe locations where rents are lower, these spaces provide quirky and creative environments in which start-ups and other small businesses can operate alongside other like-minded individuals within a community.

Latterly, the concept has developed and taken on wider appeal. Serviced office operators such as Regus are now providing co-working hubs in core CBD locations, and Australian property companies such as Lend Lease, GPT and DEXUS are providing their own variants of co-working spaces within their assets as a tenant amenity.

The evolution has also cycled in reverse, with the fashionable co-working hubs realising that they were losing clients whose businesses grew, and they are now providing serviced office accommodation to maintain the relationship, and of course the revenue stream.

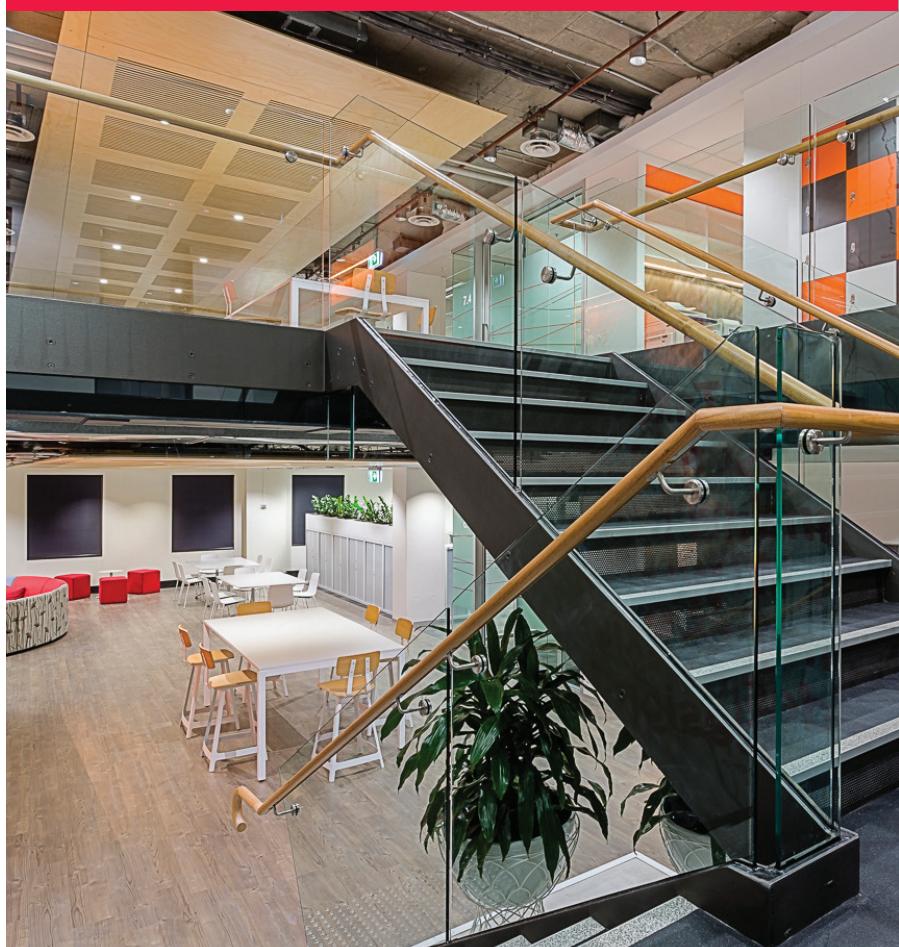
And so we see a blurring of the delineation between Co-Working spaces and serviced offices, as well as a blurring of the provider base.

Finally, we cannot ignore the impact of platforms such as liquidspace, which allow any workspace, anywhere, to be rented out on a short term basis.

Liquidspace is essentially the airbnb or Uber of commercial real estate, allowing any business to rent out surplus office space for short term occupation by a third party. The beautiful simplicity of this concept will surely mean that it is a winner.



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SO WHAT DOES THIS MEAN

The workspace shift has not impacted on every organisation just yet, and in those countries with longer lease terms, such as the UK, these changes will naturally take longer to have widespread impact.

However, in Australia ABW is here to stay, and there will be significant impacts on the commercial real estate sector as a result of workspaces being designed which:

- allow larger companies to lease up to 30% less floor space, and;
- allow them to dial up and down their workforce numbers without any need for physical alteration nor leasing of additional space.

Co-Working spaces have the potential to create an equally significant impact, as start-up's have a logical place to begin operation without the need for a traditional lease, and larger companies have flexible expansion space at their fingertips for short term projects.

One view is that these workspace trends will reduce the overall quantum of demand for leased office premises, and will also reduce the demand for reactive expansion space. Therefore a smaller, and more stable, demand for office space will result.

Another take is that the proliferation of Co-Working hubs will create new demand for office space through a new industry sector. Furthermore, with funding available for start-up businesses, and with a Co-Working 'home' in which to incubate these businesses, greater overall demand for office space will result through the generation of more business ventures.



FOR COMMERCIAL REAL ESTATE?

The impacts will only be known with certainty with the passage of time, but what we do know today is that commercial property owners must fully understand the impacts of ABW on their buildings, and how best to respond with the design of buildings which can provide the required flexibility.

One obvious change in Australia is the design of new buildings which allow for an overall occupational density in excess of the typical 1 person for every 10sqm. This is now widely accepted as being an inadequate specification, and globally buildings are now commonly being designed to accommodate 1 person to 8sqm.

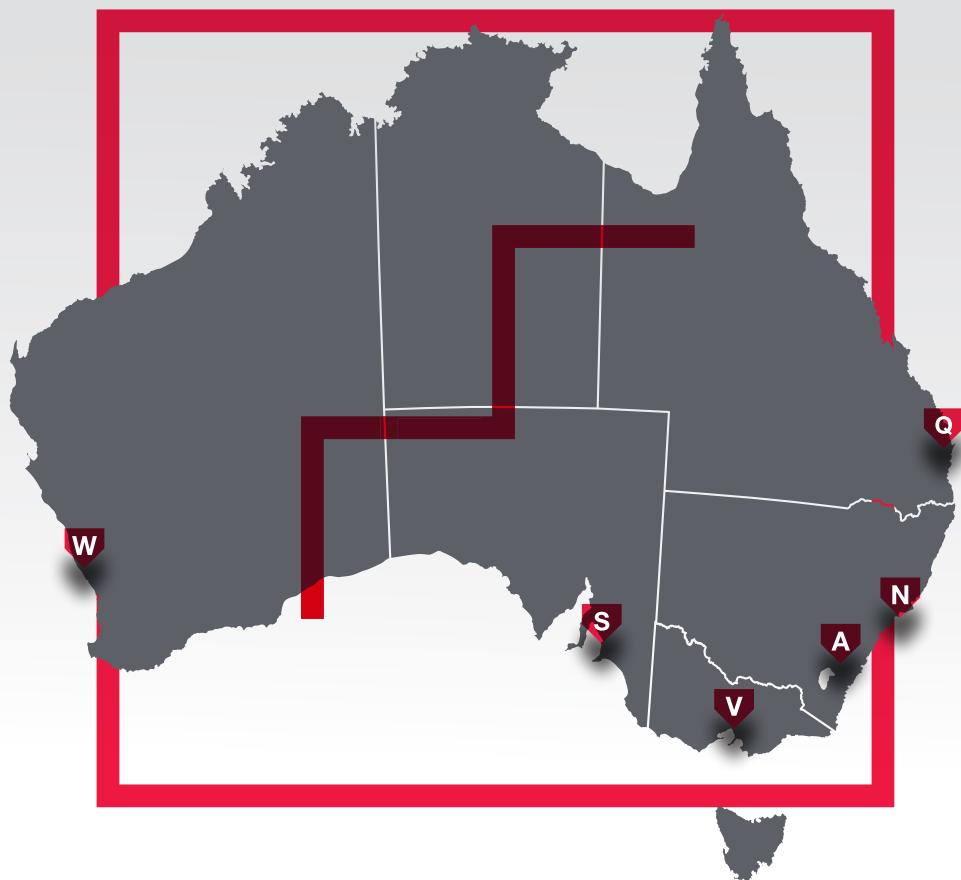
Co-working or shared spaces can be used as a valuable tenant amenity in larger buildings, with common areas being fitted out for use as short term meeting space or overflow project spaces. Whether tenants will pay for this

type of facility, or simply demand it as a building amenity, is yet to be fully tested.

Globally, co-working spaces have been proven to attract a new demographic to fringe areas of cities, making these areas fashionable, and leading to an uplift in building value. This is the so-called "Shoreditch effect", after the run down Shoreditch area of London was revitalised through a plethora of co-working spaces and the tech start-up businesses they attracted. This is likely to have a similar impact on Australia, and perhaps we will see the "Ultimo effect" in Sydney and other Australian cities.

For more information on ABW, Co-Working, or indeed any of your commercial property requirements, please contact your local Knight Frank office.

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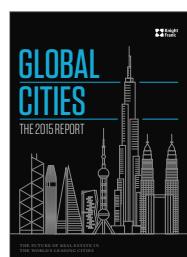
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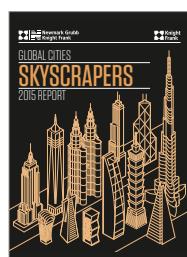
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