

Investa Inside

Australian Office Market Insights: Future of Work

June 2021



Foreword



As Australia emerges from the COVID-19 pandemic and focus shifts towards the rollout of vaccines, economic recovery and the re-opening of international borders - one constant has emerged. That is the indelible human need for connection.

It's clearer than ever that offices are a physical reflection of a company's culture and a place where employees can come together with a shared vision, to work on projects, learn, celebrate successes and build relationships and networks.

I believe the future looks bright for Australian office markets. The events of the past year have shown that they will continue to act as a central hub for collaboration and innovation long into the future.



Jonathan Callaghan
Chief Executive Officer



Executive Summary

The economic and social disruption created by COVID-19 has challenged Australia's office markets like never before. Having been forced into complete adoption of remote work in 2020, office-based businesses are now taking the opportunity to consider their long-term office and workplace strategy.

Office market sentiment shifted through 2020, reflecting the level of uncertainty in the outlook for the global economy and business operations.

Initial predictions of the 'death of the office' were shown to have little merit as the decision-makers of office occupancy, tenant businesses, highlighted the importance of a physical office presence to supporting business growth.

In addition to the breadth of existing research and literature on the future of work, Investa's research of Australia's major capital city office businesses reveals an overarching view that the long-term future of office work in a post-COVID world will represent a continuation in workplace evolution, not a revolution.



Future of Work by Numbers

Investa's research of Australia's major capital city office tenant businesses reveals:

- 73%** of office-based businesses consider a central location as the most significant driver of their office choice.
- 50%** of office-based businesses intend to increase the amount of collaboration space in their workplace.
- 1.9** The average number of days per week Australian office-based businesses are expecting employees to work from home.
- 89%** 89% of businesses consider employee wellbeing to be either 'extremely important' or 'very important' in impacting office workplace decisions.
- #1** Technology & connectivity is the most significant factor impacting future workplace decisions.

Five Key Office Work Themes

Investa's research has highlighted five key themes that will impact the future of office work:

- 1 Central strategic advantage.**
A central office location will continue to provide a strategic business advantage.
- 2 Business workplace planning.**
Most businesses are looking to maintain their existing office space commitment as they consider the future economic and business environment.
- 3 Flexibility in focus.**
Businesses are planning to incorporate a range of flexible work options in the post-COVID workplace.
- 4 Workplace Wellness.**
Businesses have a strong focus on supporting employee wellbeing through the workplace experience.
- 5 Technology & connectivity.**
Technology and connectivity will drive workplace strategy and design decisions.

Key Finding 1: Central Strategic Advantage

73% of businesses value a central location as the primary driver of their office choice

Location, location, location

There's no question that the experience of the office workforce through COVID-19 has highlighted the benefits for some roles and tasks of a location-agnostic office workforce.

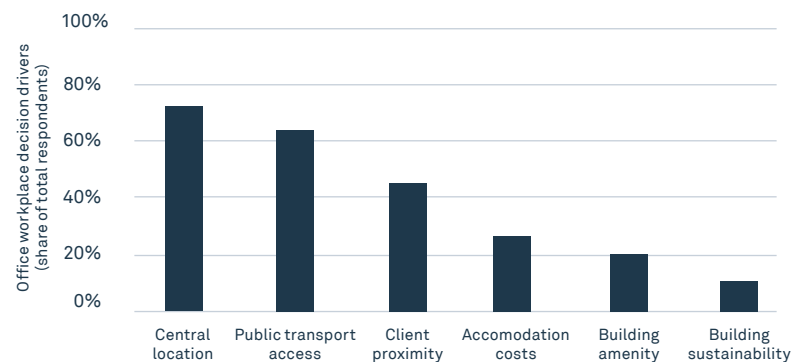
However, for the majority of Australia's office tenant businesses the old property market adage of "location, location, location" remains the critical driver of their strategic workplace decisions.

As highlighted in recent research conducted by Ernst & Young with the Property Council of Australia¹, Australia's central CBD markets remain crucial to driving long-term growth of Australia's business services economy.

Of the factors that influence a business' workplace strategy, the top three identified in Investa's Future of Work Survey all represent strong attractors to a central CBD office location:

1. Centrality
2. Public transport accessibility
3. Client proximity

Chart 1.1 Workplace Decision Drivers



Source: Investa Future of Work Survey

“CBDs have been central to national productivity, innovation and investment ... our CBDs will be critical to Australia's economic recovery.

Reimagining Our Economic Powerhouses (Ernst & Young, 2021)

¹ Reimagining Our Economic Powerhouses: How to turn CBDs into central experience districts, Ernst & Young 2021

Key Finding 2: Business Workplace Planning

Business uncertainty & workplace planning

The unpredictability of COVID-19, and uncertainty about the economic cycle, has driven a 'cautious overtone' to Australian business' strategic plans.

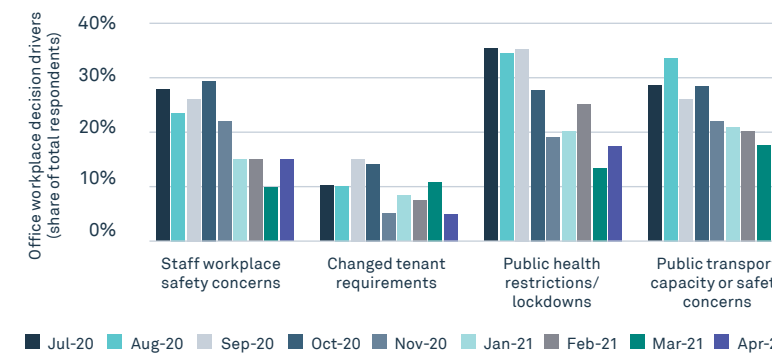
While some businesses, including Google² and Facebook have reported a commitment to permanent 'work from home' arrangements for staff, others are taking a more considered approach.

This was reflected in Investa's Future of Work Survey with 51% of Australia's office tenant businesses revealing they planned to maintain their existing office space requirements, reflecting the strategic advantage of a CBD office presence (see: *Key Finding 1: Central Strategic Advantage*).

In addition, a further 1-in-8 businesses indicated that they were unsure about their longer-term office space requirements. The confluence of underlying business caution and a strong preference to maintain a central CBD office presence has driven a leasing trend towards shorter-term lease commitments through 2020 and 2021.

51% of businesses intend to maintain their current amount of office space

Chart 2.1 Factors Impacting Australian Office Occupancy



Source: Property Council of Australia

“The best landlords are always adapting and evolving to create the best workplaces for tenants – and that means working together to turn uncertainty into opportunity.

Michael Cook, Group Executive Property, Investa

² Google relaxed its permanent 'work from home' allowance to around 20% of employees in June 2021.

³ Office Occupancy, Property Council of Australia April 2021

COVID-19 & business decisions

While the rebound in Australian economic conditions and business confidence has eased the degree of uncertainty, Australia's office occupiers remain concerned about the COVID-19 health risk³. Nonetheless, progress with the COVID-19 vaccination program is expected to further ease these concerns and support higher office occupancy.

In this regard, Australia's effective management and control of COVID-19 positions Australia's major capital cities as global leaders of COVID-normal office market conditions and trends.

“
Most workplaces were already moving towards a flexible workplace model, and as companies reset, they will do so with flexibility in mind.

Michael Cook,
Group Executive Property, Investa

Key Finding 3: Flexibility in Focus

Flexibility: A case-by case approach

Over the past year a broad range of research has analysed the benefits of office-based and home-based work. A common conclusion being that both models have their advantages, and some degree of ‘hub and home’ will be widely adopted across Australia’s office business economy.

However, business uncertainty and caution (see *Key Finding 2: Business Workplace Planning*) has deferred many long-term tenant workplace solution commitments across Australia’s office leasing markets. This partly reflects uncertainty about the potential for unintended consequences with a major shift in workplace strategy, as experienced with lower staff interaction in open-plan office workplace models⁴.

Furthermore, workplace flexibility is more complex than a decision about where office staff should work. In addition to providing appropriate workplace locations, Australia’s office-occupying businesses have identified that workplace flexibility will include a range of fit-for-purpose workspaces.

We expect office businesses will experiment over the next few years to find the appropriate mix of flexible workplace options.

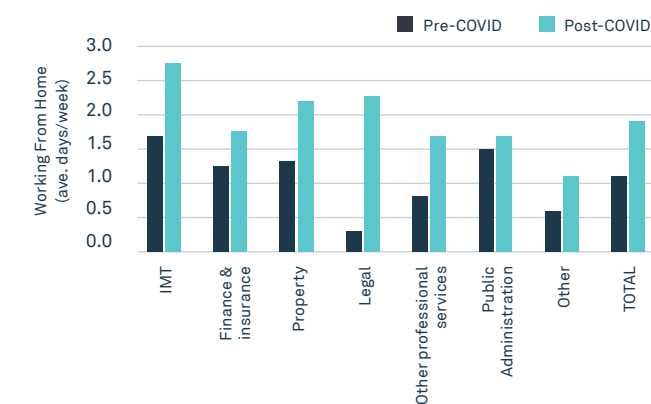
Investa’s research on flexible work trends confirmed:

1. Businesses largely offered a ‘work from home’ option to employees before COVID-19.
2. ‘Work from home’ practices for office workers will vary with the type of work performed by businesses and employees.
3. Workplace flexibility will drive a greater emphasis on office space that supports collaboration and connection across workers.

1.9

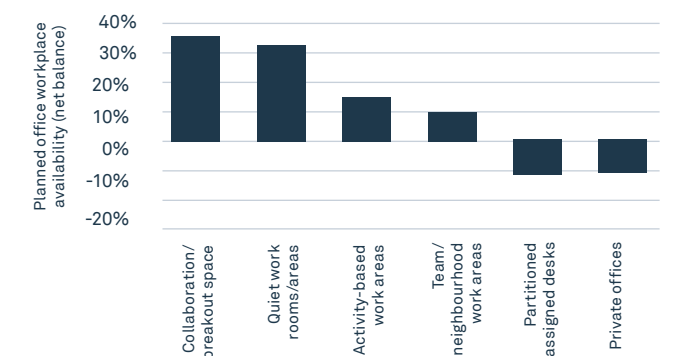
The average number of days per week Australian office-based businesses are expecting employees to work from home

Chart 3.1 Work from Home Practices & Intentions, by Industry



Source: Investa Future of Work Survey

Chart 3.2 Workplace Design Preferences



Source: Investa Future of Work Survey

⁴ *The Truth About Open Offices*, Bernstein & Waber December 2019

Key Finding 4: Workplace Wellness

89%

of businesses indicated employee wellbeing as either 'very important' or 'extremely important' to their workplace solutions



People now expect that their employer will provide a high level of amenity in their office building and support wellness. As tenants make decisions about their next office, they will be on the hunt for health and wellbeing facilities.

Melanie Hopgood-Bould, Head of Occupant Experience, Investa

Prioritising workplace wellness

Following the massive disruption to work practices from COVID-19, Australia's office tenant businesses have revealed a strong focus on the role of the office in supporting employees to perform at their best.

The experience of the past year has shown that greater workplace flexibility continues to erode the boundaries between work life and home life. Appreciating this trend, 89% of Australia's office-based business sector reported employee wellbeing as an important factor impacting their workplace decisions.

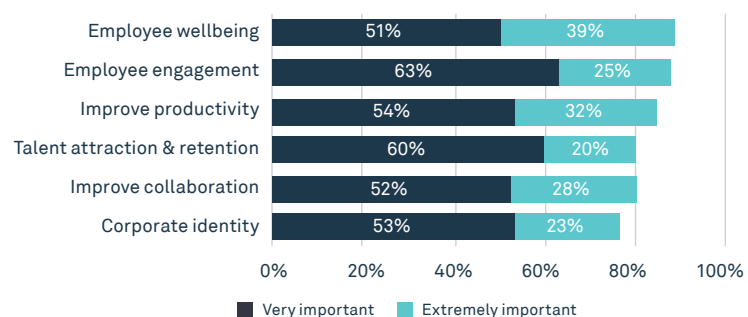
A clear message from Investa's Future of Work Survey was that Australia's offices and workplace solutions of the future will focus on improving the workplace experience for employees. Of the factors impacting office workplace solutions, employee wellbeing was reported as the most significant followed by employee engagement. Our research revealed that 80% of Australian office-based businesses that are planning to incorporate changes to their workplace design and solutions will do so soon after COVID-19 restrictions ease and office occupancy increases.

Multifactor workplace solutions

Our findings from the Future of Work Survey also revealed a wide range of drivers of Australia's office business workplace solutions.

As businesses emerge from the soft economic conditions of 2020, there remains a focus on the significance of the workplace to driving employee productivity. 32% of Investa's tenant businesses indicated that workplace solutions are 'extremely important' in driving higher business productivity. In comparison to driving productivity, office workplace solutions were seen to be a slightly less significant factor to impacting talent attraction & retention and corporate identity.

Chart 4.1 Factors Impacting Office Workplace Solutions



Source: Investa Future of Work Survey

Case Study 1: Wellness in Practice

Employee wellbeing can be improved with an active and healthy workplace

More than a place to work

Through 2020 the COVID-19 remote working experience frustrated many office workers, as the boundaries between work and home life blurred. According to Australian Bureau of Statistics data, hours worked by Australian private sector office workers increased by 3.6% or 1.2 hours/week on average through the peak of Australia's COVID-19 Lockdown restrictions in the second half of 2020.

Investa's Future of Work research found that this has sparked new conversations about the health of office buildings and encouraged office tenants to prioritise the work environment in impacting their employee's wellness.

Investa has found that the best wellness offerings combine the physical office workplace with a service offering of regular events and activities to keep office workers active and engaged. Across Investa's office buildings, this has involved combining concierge services with high standard common areas and quality end of trip facilities. In addition, Investa's occupant experience app, Insite, has integrated building services, operations and amenities with program and class offerings that turn office buildings into health and wellbeing destinations.



Physical and mental wellbeing of employees will be at the centre of tenant decision making when choosing a future workplace.

Amy Wild, Group Executive People & Culture, Investa

Measuring office workplace WELLness

The WELL Building Standard, administered by the International WELL Building Institute, is the leading global indicator of a buildings impact on human health and wellness. WELL applies the principles of wellness to the fabric of buildings across categories including air, water, nourishment, light, fitness, comfort and mind.

In addition, the WELL Health-Safety Rating provides a comprehensive indicator of a buildings operational policies, maintenance protocols and emergency plans. The rating provides a measurement of a building's health benefits, covering cleanliness, air and water quality and preparedness for emergencies.

Sally Franklin, Investa's Group Executive for Real Estate Services & Business Operations says, "A healthy building combines good design and active management with engaged tenants."

Investa's Barrack Place in Sydney's CBD was the first development in Australia to achieve Platinum-level precertification under the WELL Core & Shell rating. Investa has also achieved a WELL Health-Safety rating for its portfolio of assets owned by Investa Commercial Property Fund (ICPF) and Oxford Investa Property Partnership (OIPP).

Key Finding 5: Technology & Connectivity

66%
of businesses plan to utilise visitor management software within the next 2 years



We have sharpened our focus to carefully direct our capital towards technology and projects that will deliver a better experience for our customers. Understanding how people are working in our buildings will help us unlock value for our tenants and our investors.

Nathan Lyon, Head of Building Technology, Investa

From future trend to common practice

The test of technology and remote connectivity over the past year has been remarkably smooth. Through COVID-19 internet connectivity and online conferencing applications facilitated a continuation of office-based tasks across multiple locations.

Looking ahead, Investa's research shows that the adoption of property and workplace technologies will continue to grow as Australian businesses continue to 'return to the office'. In particular, Australia's office tenant businesses have indicated stronger demand for technologies to manage and monitor the utilisation of office space with the share of businesses planning to utilise this technology increasing from 16% today to around 40% in the next two years.

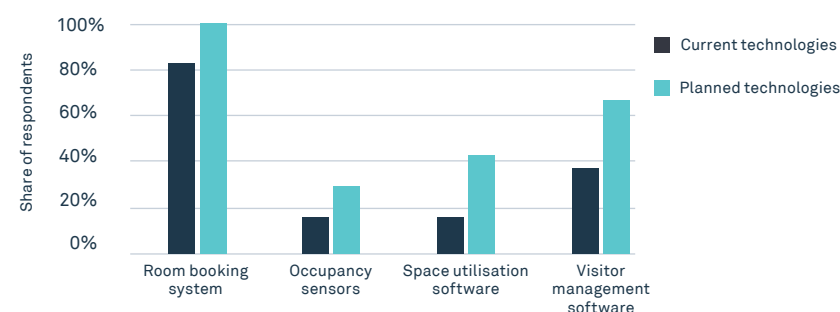
In addition to space utilisation, office tenant businesses revealed increased planned use of technology to manage the demand and flow of people through an office tenancy. Within the next two years, room booking technology is expected to be utilised by all office tenant businesses, while 66% of businesses are planning to utilise visitor management software.

Incorporating technology in workplace design

The adoption of workplace technology solutions is expected to increase as businesses 'return to the office'. While Investa's Future of Work research found technology and connectivity was 'extremely important' to impacting workplace solutions for 47% of businesses, our research also showed that workplace technology was already a part of the Australian office landscape prior to COVID-19.

In particular, room booking technology was available to approximately 84% of office tenant businesses, while visitor management was used by approximately 37% of businesses.

Chart 5.1 Current & Planned Technology Workplace Solutions



Source: Investa Future of Work Survey

Case Study 2: Technology Solutions

Space utilisation: software solutions need to start with the right hardware

Mesh sensor networks

Investa's research has revealed increasing demand from office-based businesses for technology that can monitor and facilitate managing utilisation of a tenant's office space. In addressing this office utilisation data and technology need Investa is piloting a mesh network solution, providing the communication layer for the connection of sensors.

Like any technology solution, space utilisation software needs to be paired with a compatible hardware partner. To carry this out effectively within a commercial office space a building network system that can support a 'fit-for-purpose' solution across multiple tenants is required.

In addition, technology hardware solutions that can utilise existing building infrastructure, as opposed to adding extra fixtures, wiring and access points will ease the technology infrastructure load on the physical building and enable the office to operate more efficiently and effectively.

At Investa, space utilisation technology is being piloted with a wireless mesh network solution. That is, a network of wireless occupancy sensor nodes that can be installed alongside the existing light fittings.

This approach aims to deliver a space utilisation technology solution that provides a range of benefits, including:

- Comprehensive office space coverage (ie. extends to all space covered by light fittings).
- Low-cost solution with a high level of adaptability and flexibility (ie. can be integrated with a wide range of third party sensor or software providers).
- Minimal disruption to the existing building technology infrastructure



Conclusion

COVID-19, and adoption of remote work in 2020, presented an unprecedented experience for office-based businesses and workers. However, it also provided one of the many periods of disruption and transition in the history of the office market - representing a new phase in workplace evolution.

As we emerge from the pandemic Australia's office-based businesses are taking the opportunity to review their long-term office and workplace strategy. In researching emerging themes around the future of office work and consulting with our key customers, being Australia's major capital city office tenant businesses, Investa has identified five common trends that will drive continued evolution in the future of Australia's office markets, buildings, and workplaces.

However, our research also revealed nuanced preferences and strategic plans across Australia's office tenant businesses, reflecting business size, industry sector, business function and business growth phase as well as the individual business' culture.

Office markets will undoubtedly continue to face further disruptions in future and Investa's Future of Work research highlights the importance of establishing a strategic partnership between office property owners, operators and tenants to provide future-proof office buildings and workplaces.



Investa Future of Work Survey

Investa surveyed office-based businesses in Australia's major capital city markets of Sydney CBD, Melbourne CBD, Brisbane CBD, Perth CBD and North Sydney.

The survey asked office tenant businesses about their underlying workplace preferences, strategic property and workplace drivers and planned workplace intentions.

The Investa Future of Work Survey findings represent the responses of 125 tenant business respondents, accounting for approximately 235,000sqm of leased office space (equivalent to 38% of NLA) across 21 Australian office buildings.

About Investa

Investa is a leading Australian real estate company managing more than A\$12 billion of quality office real estate. As a specialist office manager of commercial office buildings Investa manages 21 assets in the key Australian CBD markets on behalf of ICPF, Oxford Investa Property Partners (OIPP) and private mandates.

Its end-to-end real estate platform incorporates funds, asset, property and facilities management, development, sustainability, capital transactions and research.

Investa strives to create Australia's most valued working places, by delivering consistent outperformance for its investors and exceeding the expectations of its tenants and staff, while remaining an industry leader in sustainable building management and responsible property investment.

Investa Research

Investa Research focuses on understanding the drivers and analysing the movements and trends within the Australian commercial office market. The research function is fundamental in guiding group investment strategy and decision making, as well as providing a competitive advantage through insightful analysis and forecasting.

The research team publishes regular updates on the performance of the major Australian office markets, as well as occasional papers and reports examining a broader scope of topics that may be of interest to investors and other Investa stakeholders.



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