

Activity Based Working: Impact on the Sydney CBD Office Market



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1. Welcome and introduction

The Property Council of Australia and Jones Lang LaSalle are pleased to partner on this report into activity-based working (ABW).

It was commissioned to help:

- fill an information gap in the market about how ABW is being used and how it may be adopted in the future;
- test demand among tenants for ABW, as well as the potential of existing stock to accommodate it, and
- identify how its potential take-up will impact the demand for new office space in Sydney's CBD.

We recognise that ABW does not exist in a singular form and business will adopt aspects of ABW that best suit their business objectives.

Some things are clear. Finance and insurance companies are forecast to remain at the forefront of uptake in Sydney's CBD, where they account for over a third of occupied space.

Its embrace is also likely to be higher in Sydney than other markets, given ABW lends itself to adoption in larger workplaces and 38% of our stock has tenancy over 5,000 sqm.

There are constraints though.

Some industries have substantially less appetite than others, and new buildings more easily lend themselves to its use. Indeed, we expect a high proportion of future ABW tenancies to be in new buildings.

Under a mid-range take-up scenario, the impact is estimated to see a reduction in net absorption over the next decade of approximately 103,400 sqm – or 16% relative to the base case.

These numbers also suggest ABW will have limited influence on the future growth and supply requirements of Sydney's CBD office market.

We hope the report acts to prompt debate in the market.



Glenn Byres
NSW Executive Director
Property Council of Australia

2. Defining ABW and its uptake

2.1 What is ABW?

Activity Based Working (ABW)

ABW is a workplace strategy aimed at providing people the flexibility to undertake workplace activities in a variety of settings that best suit those tasks.

- Non-allocated seating is a feature of ABW, but not its defining feature. It is the creation of alternate work settings that differentiates ABW from hot-desking, which is non-allocated seating in a more traditional office setting.
- ABW creates spaces for intense, focussed work and formal meeting space, as well as more impromptu meetings and cross-team interaction.
- ABW aims to accommodate changes in working habits in response to technological innovation, plus social and demographic trends.

- Wireless technology and mobile devices have made inter-office mobility easier. ABW aims at unlocking productivity benefits by enabling staff to work in an environment, and with the people, that best suit the specific task at hand.
- Implementing ABW typically goes hand in hand with a substantial IT investment program.
- ABW offers organisations flexibility in their Corporate Real Estate (CRE) strategy. The non-allocated seating arrangements and the buffer that typically exists allows for more flexibility to deal with contractions, expansions and organisational restructures through a lease term.

2.2 ABW is still a concept in its infancy

ABW appears to be gaining some traction, with an increasing number of major tenants adopting the concept over the past two years and most major tenants with larger requirements at least considering an ABW solution. However, ABW is still in its infancy and the proportion of office tenants already committed to an ABW format is still very low.

Sydney has seen more tenants embrace the concept than other Australian markets, but this still only translates to just over 100,000 sqm in the Sydney CBD (or around 2% of total Sydney CBD stock).

There are also several tenants in other Sydney inner-city and suburban office markets that have adopted ABW.

Some of the major tenants that have moved to an ABW format in Sydney are outlined in Table 1. In addition to these, there have been three major pre-commitments made in 2012 to Barangaroo by Westpac (60,000 sqm), KPMG (35,000 sqm) and Lend Lease (25,000 sqm). All of these deals are expected to implement an ABW format, with KPMG already conducting an ABW trial in their existing premises to get staff comfortable with the concept.

Table 1: Sydney ABW Tenant

Tenant	Address	Market	Year	New NLA	Comments
Macquarie Bank	1 Shelly Street	CBD	2009	31,225	New building. Move was to accommodate expansion.
CBA	Darling Quarter	CBD	2011	58,000	New building with central atrium. Moved from multiple locations and contracted slightly.
GPT	MLC Centre	CBD	2011	3,700	35 year old prime building with central core. Significant contraction in space occupied.
Goodman	60 Castlereagh St	CBD	2011	2,500	Existing
Jones Lang LaSalle	420 George St	CBD	2012	3,600	New building with side core. Moved from similar area in 400 George Street.
CBRE	363 George Street	CBD	2012	2,500	Existing
Ernst & Young	680 George Street	CBD	2012	7,200	Re-configuration of existing tenancy and trial for later commitment to new space.
Dexus	Australia Square	CBD	2012	2,064	Older prime building in CBD core
Ernst & Young	200 George Street	CBD	2013	28,000	Pre-commitment to new space
Microsoft	1 Epping Rd	North Ryde	2011	2,700	
Accenture	48 Pirrama Rd	Pymont	2009	6,400	

Tenants adopting an ABW approach tend to target around 8-12 sqm per person compared to those taking a more traditional approach who target around 12-14 sqm per person.

There have also been some examples of tenants adopting ABW in other Australian markets, including:

- ANZ, who did not initially implement ABW in their 75,000 sqm headquarters in Melbourne's Docklands, but are now transitioning staff to an ABW format;
- NAB will implement ABW in its new 61,000 sqm building at 700 Bourke Street in Melbourne's Docklands that is currently under construction and due to complete in 2013;
- Suncorp are in the process of transitioning their existing premises to ABW, starting with their Brisbane headquarters, and will look to implement ABW in new office premises nationally, including their new Melbourne premises;
- BankWest implemented ABW in their new 43,000 sqm premises in the Raine Square development in Perth completed in 2011; and
- BHP implemented ABW in their 60,000 sqm commitment to the Brookfield Place development in Perth, completed in mid-2012.

ABW has also gained some traction at regional level, particularly in Singapore. A September 2012 survey of corporate real estate professionals by Jones Lang LaSalle across the Asia Pacific region found that 30% of respondents had implemented activity based work arrangements and it was working well. A survey of Australian tenants by Colliers International in September 2012 found similar results – one in three of the 300 tenants (all over 500 sqm) surveyed had implemented or were planning to implement ABW.

Despite these intentions, it should be noted that there continues to be many large commitments to new space across all markets that are not moving to ABW.

3. Survey results

To get a pulse on industry views towards ABW, Jones Lang LaSalle formally surveyed nine leasing or development managers representing major building owners with a large exposure to the Sydney CBD office market. The group jointly represents a cross section of A-REITs, superannuation funds, wholesale trusts and included a major offshore investor. In addition, we undertook further less formal consultation with tenants and industry professionals (including the views of the PCA's NSW Commercial Office Committee), and drew on several previous tenant surveys undertaken by Jones Lang LaSalle and other organisations on ABW.

3.1 General Views on ABW

Industry views on ABW remain polarised

Many industry participants have enthusiastically embraced the concept and believe its importance and impact on the market will only grow over time.

However there also remains a scepticism towards the concept. The non-believers feel ABW is a fad. As much as they recognise elements of the philosophy will have a lasting impact on the market, they do not believe the concept will survive long term. Instead, they think it will morph into something else as market conditions change.



Courtesy of Commonwealth Bank

From a tenant perspective, the evidence suggests that ABW and space utilisation is currently high on the corporate real estate agenda. According to Jones Lang LaSalle's recent biennial corporate survey 'Corporate Real Estate at a Cross roads: Cost vs Value', occupiers surveyed both in Australia and globally point to an increased focus on ABW. Of the 52 respondents surveyed, 76% stated they expected an increased focus on utilisation and density over the next three years.

Views among the investor community remain mixed. Our survey of developers and owners asked them to rate how important ABW is to their business at present on a scale from one (lowest priority) to five (highest priority), plus how important they anticipate it being in five years' time. Reflecting the disparate views on ABW, responses were relatively spread across the scale for both questions, with an average around the middle of the scale for both questions. The average response for the present was 2.8, and rose slightly to 3.2 when assessing the issue's priority in five years.

Staff feedback is generally positive

Several surveys conducted by ABW tenants suggest a high level of staff engagement in the concept and high approval levels. This is backed up by the anecdotal evidence we encountered.

Our consultation included a number of comments from staff working in ABW environments that were initially sceptical, but have been pleasantly surprised by the move and some of the positive benefits it has had on their work habits. In particular, staff members cite

the move to a paperless working environment as having a positive impact on their working habits.

From an organisational perspective, most organisations report substantial reductions in paper and energy usage after moving to ABW. For example, GPT report that their energy consumption has halved and paper usage fallen by 70% since introducing ABW. Staff surveys conducted after moves, such as those done by Goodman and Jones Lang LaSalle, suggest high engagement and staff support for ABW. The Goodman survey showed 50% of staff strongly agreed that they prefer the ABW model implemented to the old way of working and 33% agreed with the statement. The Jones Lang LaSalle survey showed 87% of staff believed (strongly agreed or agreed) the new ABW office design provides an attractive environment to work in and contributes to their productivity.

Even the most ardent of sceptics, were willing to admit that ABW has some positive aspects that tenants will embrace

Many people consulted remained sceptical about ABW and felt it would ultimately only achieve a relatively low uptake in the short-term. They generally believe that the concept of non-allocated desks will only benefit a very limited amount of businesses (and not all business functions within those organisations) and ultimately many of the claimed benefits of ABW are over-stated. However, even most of these sceptics still recognised that ABW has some positive aspects that tenants will embrace and will remain a feature of the leasing market.



Courtesy of Commonwealth Bank

Table 2 highlights some of the specific arguments articulated both for and against ABW and some other general comments that arose out of the consultation.

On average, survey responses suggested that ultimately between 20 and 25% of Sydney CBD tenants would adopt ABW

We asked respondents what proportion of Sydney CBD tenants they felt would ultimately adopt ABW. Survey responses range from 'less than 10%' to '40% to 50%' - with the average response '20% to 25%.

Respondents expected moderate to strong take-up of ABW, but did not expect the adoption of ABW to reduce the market's overall tenancy footprint. The key reasons behind this assumption are that:

- The lease expiry profile of the market means that around 15% of leases expire in any particular year and so it takes some time for adoption to gain traction even if tenants immediately embrace the concept; and
- Many businesses will choose to be relatively conservative in their initial commitment and still occupy the same or only slightly less space than they currently occupy to allow for growth.

Combining these factors means the roll out of ABW and subsequent efficiencies will be a long-term process. ABW has potential for a limited impact on the growth of net absorption over the next decade and beyond. But it will certainly not reduce the total market footprint.

Table 2: ABW: The case for and against

	True Believers	Sceptics
Non-allocated Seating	<ul style="list-style-type: none"> • Empowers staff to work in the environment that best suits the task at hand. • Fosters greater cross-team collaboration by creating an environment that facilitates interaction. • Most of the perceived weaknesses put forward by sceptics are 'pre-conceptions' that break down when people are used to working in an ABW environment. 	<ul style="list-style-type: none"> • People are creatures of habit and gravitate to the same spot, negating many of the theoretical benefits. • People ultimately value their personal space and do attach a value to 'owning' a spot within an office. • Fixed seating is the best fit for many business functions within organisations and they should not be forced into an ABW environment.
Productivity benefits	<ul style="list-style-type: none"> • Greater cross-team collaboration and the breaking of silos leads to cultural improvements and tangible bottom-line benefits. • ABW better utilises the power of recent technological innovation and portability improvements. • A paperless environment leads to more productive workers. • A generally happier workforce leads to better staff attraction and retention rates. • Happier workforce also leads to less sick days and shirking. 	<ul style="list-style-type: none"> • Perceived productivity gains are greatly over-stated and many are 'feel good' factors associated with having a new fit out, which fade over time and can be achieved in a new building without ABW. • Ultimately workers want their own space, so attraction and retention is not boosted over the longer-term and once there is a cyclical pick-up in employment, employers will want to appease workers' demands for their own space. • Productivity is potentially lost in locating people and in setting up and packing up every day.
General Comments	<ul style="list-style-type: none"> • Both advocates and sceptics agree that there is no one ABW solution and that businesses will ultimately pursue highly tailored options that suit their business. • While ABW suits business in some industries much more than others, there are functions within nearly all businesses that non-allocated seating does not suit and many businesses will ultimately accommodate this in their solutions. • A strong change management program is seen as absolutely essential in making an ABW solution work and engaging staff that may have pre-conceptions about the concept. This process requires complete buy-in from senior management. Part of this change is moving to a much more output-focused management style that gives workers the freedom to work where and when they want. • To get the most out of an ABW solution, significant concurrent IT investment is generally required. • The size of the investment being made generally lends itself to longer lease terms, while the flexibility given to deal with expansions and contractions also makes space planning easier and gives organisations greater confidence to commit to longer leases. • ABW also supports simpler lease arrangements without complex expansion and contraction clauses and this greater clarity and income security for landlords may translate to better base rent terms being negotiated by the tenant. • Some respondents felt the very specific nature of some ABW fit outs and features such as atriums and internal stair cases may make spaces harder to sub-lease in the case of more significant business contractions. 	

3.2 Uptake by Tenant Industry and Size

Not surprisingly, the likelihood of tenants adopting ABW is thought to be directly proportional to tenant size

The results of our consultation and survey clearly suggest larger tenants are most likely to adopt ABW. This is an intuitive result and very much in line with expectations and other studies and papers on the topic.

Tenants over 10,000 sqm are thought to be by far the most likely to consider ABW and tenants in the 3,000 sqm to 10,000 sqm range are also relatively likely to consider ABW. For larger tenants:

- The potential benefits of breaking down business silos and promoting cross team collaboration is greater;
- The frequency of large restructures or downsizings is greater; and
- There is more likely to be vastly differing rates of business growth across business units to manage.

Consequently, the flexibility that ABW offers to deal with these sudden changes in space requirements is a large benefit to bigger organisations in managing normal business churn.

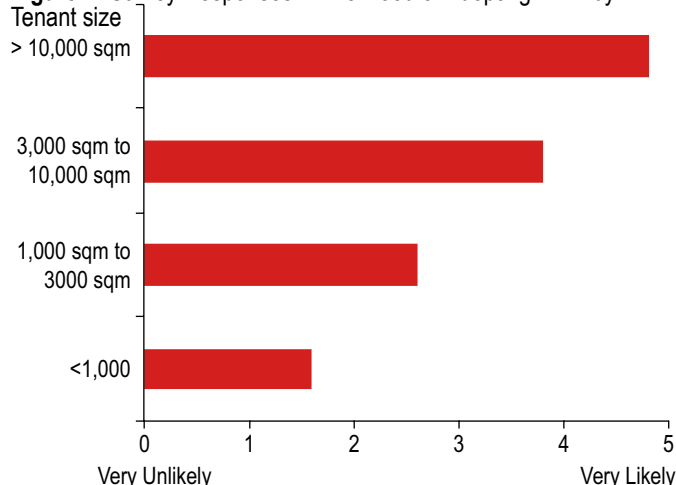
At the other end of the scale, tenants under 1,000 sqm are considered fairly unlikely to consider ABW. The risk of silos or limited cross-team collaboration is far lower. For many smaller businesses, the IT and fit out investment involved in implementing an ABW solution is potentially prohibitive. However, there is some evidence of smaller firms in creative industries, such as advertising agencies, successfully implementing ABW across tenancies less than 1,000 sqm.

Banking and Finance, IT and Accounting are seen as the industry groups most likely to adopt ABW

Banking and finance was overwhelmingly seen as the most likely industry to adopt ABW, which is not surprising since a high proportion of those companies that have adopted or are considering ABW come from this sector. Many of the functions of banking and finance workers are back-office, sales or trading focused jobs that lend themselves relatively well to non-allocated seating. The banking and finance sector is also dominated by very large organisations, so from a tenant size perspective the results are consistent.

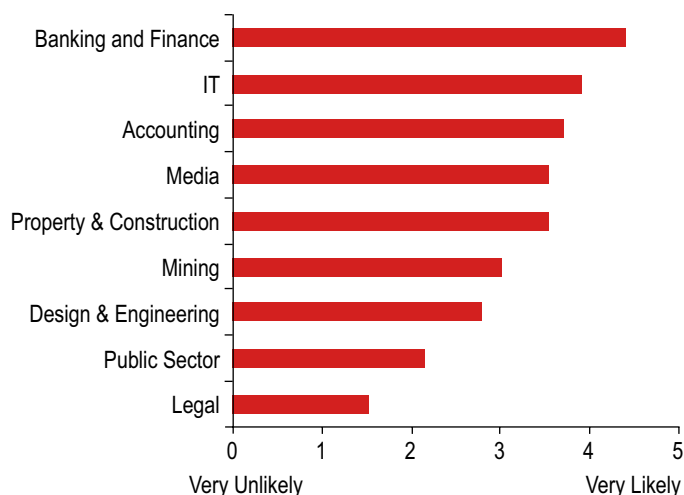
Other sectors believed to have a relatively high propensity to consider an ABW solution include **IT firms, accounting firms, media and property and construction.**

Figure 1: Survey Responses – Likelihood of Adopting ABW by Tenant size



Source: PCA, Jones Lang LaSalle

Figure 2: Survey Responses – Likelihood of Adopting ABW by Industry



Source: PCA, Jones Lang LaSalle



Courtesy of Goodman and Bates Smart Architects

Like banking and finance, accounting firms have already been prevalent among tenants that have adopted an ABW solution (or considering one). Several respondents noted that accounting firms have been adopting elements of the ABW philosophy since the mid-1990s, while the generally large size of firms in the sector lends itself to capitalising on the benefits of flexibility and cross-team collaboration. It was also suggested that the sector has a young (Generation Y-dominated) and mobile workforce that highly values more flexible working arrangements and alignment to sustainability objectives.

For the **IT and media industries**, the collaborative nature of their businesses lends itself to ABW. There is also a close alignment between ABW and the effective utilisation of technology, which is thought to be appealing to the IT sector. For **property and construction** firms, there have already been examples of tenants in the sector adopting ABW such as GPT, Goodman, Jones Lang LaSalle and CBRE. These organisations have generally been at the smaller end of the size range to adopt ABW to date, but there is clearly a motivation for these organisations to operate at the cutting edge of working environments and to use their own experience to showcase ABW to clients.

The **mining and engineering** sectors are much more mixed in their appetite to adopt an ABW solution. While some large mining tenants have adopted ABW, such as BHP in its new Perth headquarters in Brookfield Place, the sector has been expanding rapidly over recent years and has generally not looked to implement an ABW solution. In some cases, the rapid growth of resources and engineering firms has led to them taking on multiple tenancies quickly and it is likely ABW will be of greater importance down the track if they look to consolidate and find space efficiencies.

Public Sector tenants potentially have a lot to gain from ABW, but there appears some barriers to its successful implementation

The **public sector** was one sector where there were differing views, despite it being judged overall as being a potential late adopter of ABW. Several respondents noted that the incentive for governments to implement ABW is large because they are often relatively inefficient space users and in many cases under relatively intense pressure to cut costs. Nevertheless, it was widely noted that ABW would represent a significant cultural shift for many public sector organisations and that worker resistance might be high, aided by strong public sector unions. There have been recent reports of major federal and state government departments looking at initiating pilot sites to understand how ABW could work for them. Obviously moving from test pilots to large scale adoption in government can take many years.

Some respondents felt that pressure to reduce costs may ultimately see public sector tenants move to ABW, but that there is a high risk associated with ABW being implemented purely for cost savings. As such, ABW may be unsuccessful and unpopular if implemented without appropriate change management plans, IT investment or provision of enough common space. The public sector is also often subjected to restructures and can significantly change staff numbers in either direction, so ABW has potential to help manage this risk. The Commonwealth recently made a commitment to a target that 12% of federal public servants work from home or 'telework', which fits with an ABW philosophy.

Legal firms were rated the least likely to adopt ABW. The legal sector is seen as having a well-entrenched culture around a traditional paper-based work environment and one where the corner office is still seen as a status symbol. The nature of much legal work lends itself to long periods of focused work and to confidentiality concerns, which both support the continuation of an office-focused work environment for senior legal staff.

3.3 Impact of building characteristics on uptake

There are few real physical constraints on implementing ABW in existing older buildings

Developers and building owners emphatically suggested that there are few real physical constraints to implementing ABW in existing buildings and that most buildings could theoretically accommodate ABW.

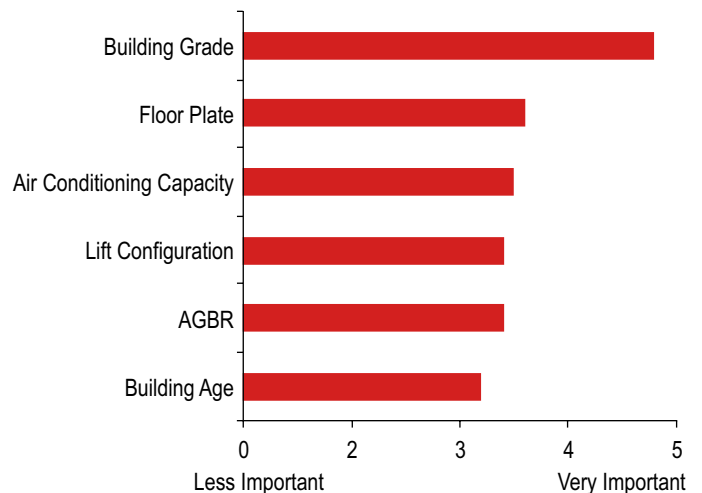
Respondents clearly recognised that larger floor plates, a side-core lift configuration, high sustainability credentials, modern air conditioning systems and wireless capabilities (all features of common in new developments) are highly desirable when considering an ABW solution. However, air conditioning and lift systems in most buildings could cope with ABW, and could be upgraded where required. Older buildings can also be retrofitted to enable wireless access and to boost sustainability credentials. Many respondents pointed to GPT's implementation of ABW in the MLC Centre – a building that is over 35-years old, with a central core and a floorplate just over 1,200 sqm.

Nevertheless, many attributes of new developments support the ABW philosophy and most new ABW activity is likely to remain in new buildings

The cost consideration of retro-fitting is also a constraint implementing ABW in existing buildings. Plus there is a tenant perception that ABW and new stock go hand in hand. As such, most respondents expect the majority of new ABW activity to occur in new, or at least modern buildings.

Respondents did believe building grade was the best indicator of what office stock is most likely to accommodate ABW. That is, while tenants may consider undertaking ABW in well-located older prime buildings like the MLC Centre, they are very unlikely to entertain undertaking ABW in a secondary property (B to D-grade property). Not only would these buildings physically lend themselves less to ABW and be more costly to retrofit, but generally the larger corporate tenants that are most likely to adopt ABW will be located in prime buildings.

Figure 3: Survey Responses – Importance of Building Characteristics to ABW Suitability



Source: PCA, Jones Lang LaSalle



Courtesy of Commonwealth Bank

4. Impact of ABW on the Sydney CBD Office market

Forecasting the eventual uptake of ABW for the Sydney CBD is inherently difficult at this early stage of its evolution. This is evident in the disparate views of survey respondents on uptake rates and the ultimate success of ABW. Consequently, we have focused on a scenario analysis approach and have attempted to model the impact on the market of these scenarios given the specific tenancy and stock profile of the Sydney CBD office market. Before reaching our scenario analysis, we have described in more detail the Sydney CBD office market in terms of the industry and size break-up of tenants and the composition of office stock.

4.1 What does the Sydney CBD tenancy profile look like?

Sydney's CBD office market is the most exposed Australian office market to the impact of ABW, with:

- A particularly **high exposure** to the **finance and insurance sector**; and
- A particular **high concentration of larger tenants**.

Our survey results clearly showed that **finance and insurance** is the industry that is most likely to adopt the ABW philosophy. By employment, finance and insurance workers make up around a third of all CBD office workers in the Sydney CBD, which compares to around 19% of workers across all the major Australian CBD office markets. Leasing data suggests that finance and insurance has consistently accounted for between 40% and 45% of gross space leased (for tenant moves over 1,000 sqm) in the Sydney CBD and over the last decade.

The next largest share (around 26%) of Sydney CBD employment is within the relatively broad categorisation of '**professional services**', which includes property services, legal firms, accounting firms, HR firms and other business service providers. Together with finance and insurance, these industries account for nearly 60% of estimated Sydney CBD employment. Across all the major CBD markets they account for 43%.

Our survey results suggested that the likelihood of embracing ABW differs greatly across sectors within professional services. In particular, law firms were seen to have a low appetite for ABW, while accounting firms and some property services firms have a relatively strong affinity.



To provide perspective on the size of the major components of professional services, we have analysed the composition of major tenant moves (>1,000 sqm) over the last 5 years. This shows that the mix is fairly evenly distributed, with legal firms (27%) contributing the most to demand over that period, followed by property companies (19%), accounting firms and business consultants (13%), while firms that do not fit into any of the specified categories also contributed 13% of demand.

Table 3: Estimated CBD Base Office Demand* by Industry (as at Q1/2013)

	Sydney CBD (% of total)	All CBDs (% of total)
Finance & Insurance	33.0%	18.8%
Professional Services	26.1%	24.4%
Information Services	7.4%	6.1%
Public Administration	6.6%	18.2%
Administration & Support Services	6.3%	4.6%
Accommodation and Food Services	3.7%	3.1%
Health Care	2.1%	4.1%
Retail Trade	2.0%	2.5%
Education and Training	1.7%	3.3%
Electricity, Gas, Water & Waste	1.5%	2.0%
Other Sectors	9.6%	12.9%

Source: Deloitte Access Economics, Jones Lang LaSalle Research

* DAE's white collar employment estimates for each industry have been adjusted by Jones Lang LaSalle to equal the estimate of base office demand across all industries.

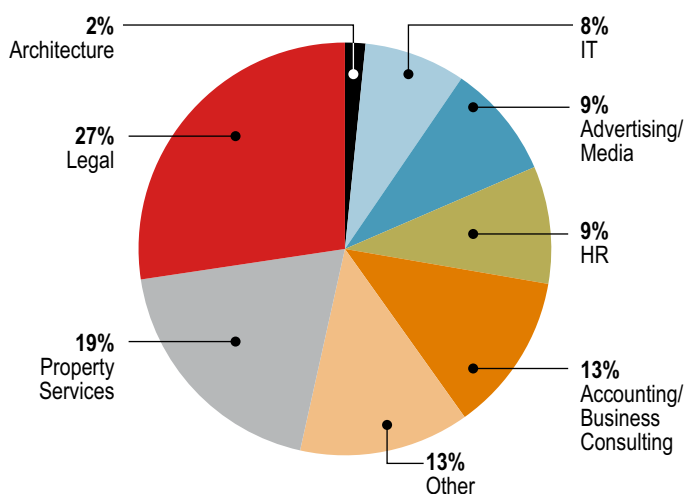
The other notable difference between the tenant profile of the Sydney CBD and other CBD markets is a **much lower exposure to public sector employment**. Public sector tenants are largely decentralised in cheaper locations across Sydney's deep suburban office market. Public servants only make up less than 7% of the estimated Sydney CBD office workforce, which compares to 18.4% across all CBDs.

Around 29% of Sydney CBD space is estimated to be occupied by tenants over 10,000 sqm and 38% by tenants over 5,000 sqm

Sydney also has a significantly higher proportion of larger tenants than most other markets (with the exception of Melbourne), due to the prevalence of major domestic and multinational corporate headquarters that it accommodates. Sydney is home to 24 of the ASX 50 companies and numerous Australian headquarters for foreign companies. The concentration towards finance and insurance companies, which have a larger average size than most sectors, also skews Sydney's tenancy profile towards larger tenants.

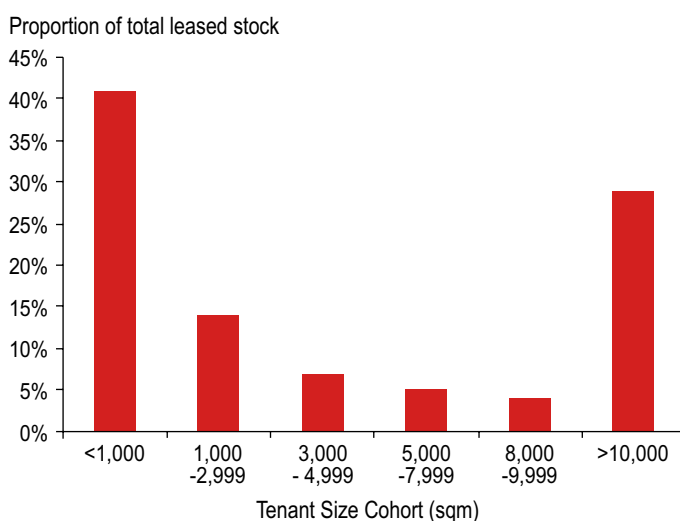
Our consultation suggests that the likelihood of a sub-1,000 sqm tenant adopting ABW is quite low and that the likelihood grows in proportion to tenant size. Around 60% of Sydney CBD floorspace is occupied by tenants over 1,000 sqm, meaning a relatively large slice of the Sydney office market is potentially open to the use of ABW.

Figure 4: Break-up of Professional Services Firms – Sydney CBD



Source: Jones Lang LaSalle

Figure 5: Sydney CBD Office Tenant Profile by Size Cohort



Source: Jones Lang LaSalle

4.2 How conducive is Sydney CBD office stock to ABW?

Around 45% of Sydney CBD office stock was built pre-1980, which compares to around 35% across all CBD markets

Sydney's CBD office stock totals just over 4.96 million sqm. Sydney is a more mature office market than most other Australian CBD markets and, as such, has an office stock profile than other markets.

Along with having a high proportion of pre-1980 stock, Sydney has relatively little 'modern' stock. Only around 17% of Sydney's office stock (or around 856,000 sqm) has been built since 2000, compared to 24% of office stock across all major CBD markets.

Our consultation suggested that age per se was not a real barrier to undertaking ABW, but ABW clearly lends itself most easily to new modern large floorplate buildings. As such, if a tenant does consider implementing an ABW solution in an older building, it is most likely going to be a quality older building and the grade of building appears a better indicator of scope for ABW than age.

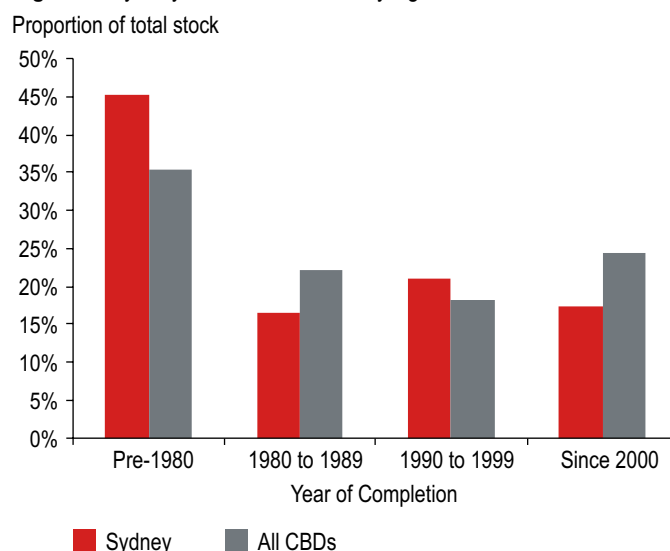
Sydney's office stock comprises around **2.71 million sqm of Prime (Premium and A-grade) stock**, plus 2.22 million sqm of secondary (B-grade through to D-grade) stock that is very unlikely to accommodate much ABW.

Table 4: Sydney CBD office stock by grade (as at Q1/2013)

Grade	Stock (sqm)	% of Total Stock	Sydney as % of all CBD markets
Premium	683,000	14%	40%
A-Grade	2,027,530	41%	28%
B-Grade	1,402,480	28%	30%
C-Grade	629,530	13%	25%
D-Grade	184,190	4%	33%
Total	4,926,730	100%	30%

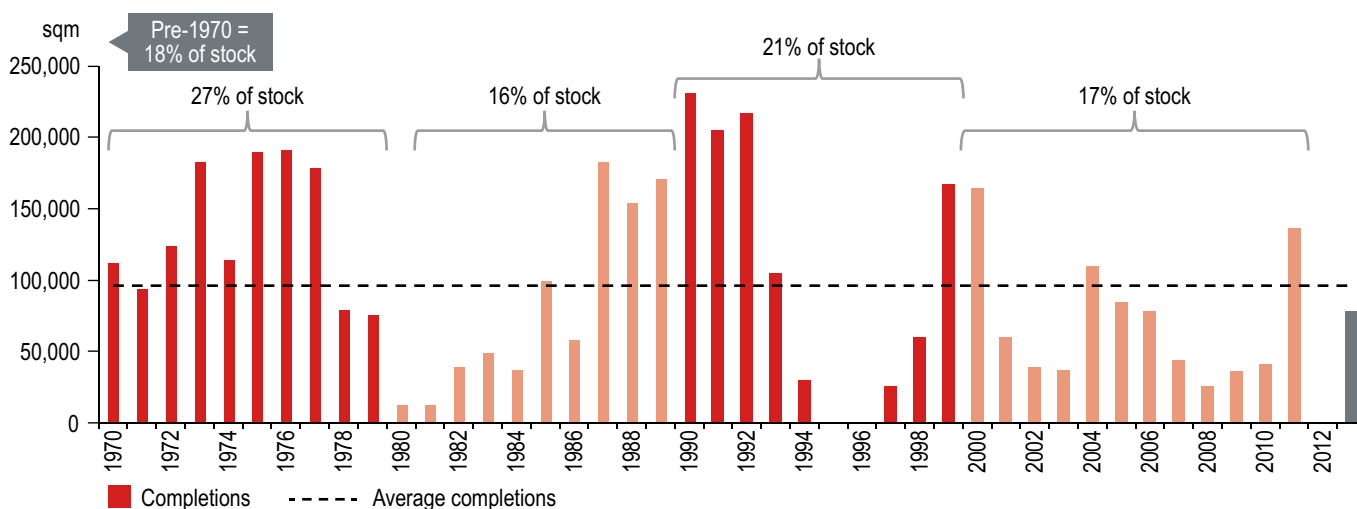
Source: Jones Lang LaSalle

Figure 6: Sydney CBD Office Stock by Age



Source: Jones Lang LaSalle

Figure 7: Sydney CBD Office – New Stock Completions



Source: Jones Lang LaSalle

Quantifying the potential capacity of Sydney's CBD office stock to accommodate ABW is a fairly subjective matter given the findings of our survey that most buildings could actually accommodate an ABW solution to various degrees. Nevertheless, in an attempt create an estimate, we have made the following assumptions:

- Tenants are very unlikely to adopt ABW in secondary buildings and we have excluded all secondary stock;
- Tenants are more likely to adopt ABW in modern office buildings, so we have included 100% of prime office stock completed since 2000 (just over 1 million sqm) and included only 75% of stock built prior to 2000 (1.74 million sqm); and
- We assume that on average moving to ABW could achieve 20% efficiencies in space utilisation.

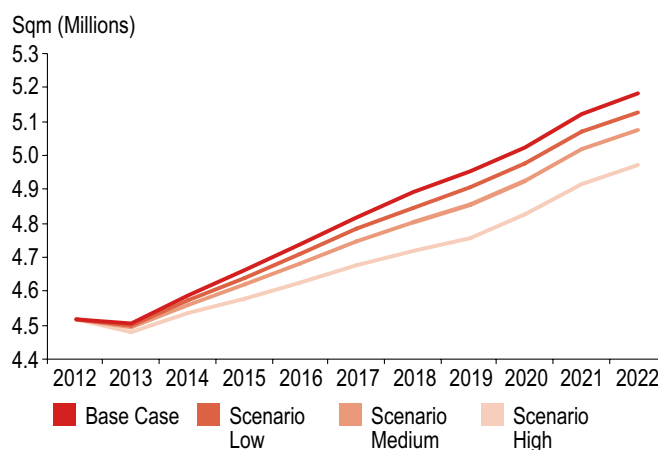
This provides a theoretical baseline of 462,000 sqm of additional capacity that could be unlocked in existing stock by accommodating ABW. However, this needs to be heavily filtered through scenarios that test its likely adoption.

In theory the capacity of Sydney's existing CBD office stock to accommodate ABW is large, but in reality ABW is most likely going to remain a driver of development rather than a drag on it

4.3 Scenario Analysis

In order to provide an illustrative guide to what the impacts of ABW on the Sydney office market could look like, we have constructed a model to test various scenarios of AWB take-up. The model is based on Deloitte Access Economics white collar employment forecasts (Q1/2013) and takes into consideration the impact of progressive lease expiry and incorporation of growth potential in tenants' initial decisions to implement ABW. A full list of key assumptions of each scenario is laid outlined in Table 5.

Figure 8: Scenario Analysis: Sydney CBD Occupied Stock



Source: Jones Lang LaSalle



Courtesy of Goodman and Bates Smart Architects

Table 5: Scenario Analysis – Key Assumptions

Scenario	Assumptions
Base Case Scenario	<ul style="list-style-type: none"> Based on Deloitte Access Economics White Collar Employment Forecasts (Q1/2013), adjusted to calculate base office demand by sector. Employment forecasts translated to office demand based on WSR = 1:14 sqm. Beyond 2021 forecast period, net absorption projections for all sectors = average of the 2012 to 2021 period.
All ABW Scenarios	<ul style="list-style-type: none"> That 15% of all leases expire in any given year. This is based on Jones Lang LaSalle's tenant expiry database. That moving to ABW has the potential to unlock space efficiencies of up to 20%. This is based on empirical evidence that traditional allocated seating environments are typically 30-40% vacant at any time and recent ABW moves have been based on one desk to 0.75 staff or 0.8 staff and still allowed for some moderate expansion in staff numbers. We used 20% to allow for the expected provision of more common areas. We assume that half the efficiency benefit (10%) is realised upon commencement of ABW. This is in recognition that many organisations will be conservative and start at a ratio of almost one desk to one staff member initially and allow for growth. Realisation of further efficiency gains is based on employment growth and the need to accommodate growth.
Scenario 1: Low	<ul style="list-style-type: none"> Finance and Insurance take-up = 15% Professional Services take-up = 10% All other sectors take-up = 5% Overall ABW take-up ≈ 10%
Scenario 2: Medium	<ul style="list-style-type: none"> Finance and Insurance take-up = 30% Professional Services take-up = 20% All other sectors take-up = 10% Overall ABW take-up ≈ 20%
Scenario 3: High	<ul style="list-style-type: none"> Finance and Insurance take-up = 60% Professional Services take-up = 40% All other sectors take-up = 20% Overall ABW take-up ≈ 40%

The first point to make is that occupied stock still grows under each scenario, with the exception of 2013, which is more to do with market conditions than ABW. Even in the high ABW take-up scenario, the level of occupied stock is forecast to grow by around 10% over the decade to 2022. This compares to growth of around 15% under the base case scenario, 14% under scenario 1 and 12% under scenario 2.

The chart below and Table 6 show the difference in net absorption of space under each of the three scenarios relative to the base case of no ABW take-up. The bulk of the impact under these assumptions occurs by around 2019. Over the next decade to 2022:

- Scenario 1 (low)** has knocked off around 51,700 sqm of net absorption, a reduction of around 8% in the total expected demand over the period;
- Scenario 2 (medium)** has reduced net absorption over the period by almost 103,400 sqm or 16%; while
- Scenario 3 (high)** knocks off around 207,800 sqm from net absorption or 31% of total demand over the period.

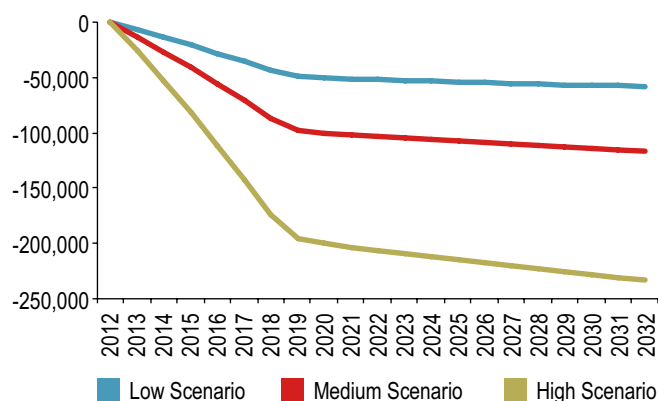
The demand assumptions used in the scenario analysis are not Jones Lang LaSalle's net absorption forecasts for the Sydney CBD

It should be noted that the demand estimates used in the scenario analysis are based on very specific employment forecasts and a simple rule of thumb in relation to workspace ratios to translate that employment into office demand. As such, the base case demand projections differ from Jones Lang LaSalle's forecasts for Sydney CBD net absorption over the next decade, because:

- Jones Lang LaSalle's forecasts are based on a more sophisticated model of the market and take into account other macroeconomic variables other than just employment forecasts;
- They take into account supply conditions in the market and the feedback of our leasing agents in relation to short-term leasing activity; and
- The forecasts account for changes in workspace ratios over time, such as that caused by ABW.

Accounting for all these factors, the Jones Lang LaSalle base case forecast for the Sydney CBD office market is currently (Q1/2013) for 53,000 sqm per annum over the next decade. This compares to the 66,300 sqm per annum of the base case demand projection, and is closest to the medium scenario output of just under 56,000 sqm per annum.

Figure 9: Scenario Analysis: Occupied Stock Relative to Base Case



Source: Jones Lang LaSalle

One final consideration is that the true rate of the impact from ABW may in reality be even slower than our modelling suggests. All the scenarios essentially assume that 'the ABW light switch is turned on' and that the proportion of tenants ultimately assumed to take-up ABW, do so from this point forward (for example, under Scenario 3 around 40% of tenants with leases expiring from this point on will adopt ABW).

In reality, adoption is more likely to resemble a technology assimilation curve; relatively flat for a period and with a sudden rapid rise in take-up as the concept gains momentum. Advocates of ABW would argue we are now nearing the steep part of the curve, but that is yet to be proven.

Adoption curves are also likely to look different under the different scenarios. For simplicity, we have not made any assumptions about rates of adoption in order to avoid adding another layer of assumptions to the model. Consequently, the result is that the ABW impact is likely to take several more years to reach its full impact. This is likely to particularly be so if the high take-up scenario (Scenario 3) plays out.

Table 6: Scenario Modelling Results

Grade	Net Absorption Next 10 years (sqm)	Difference to base case (sqm)	Difference to base case (%)	Net Absorption Next 20 years (sqm)	Difference to base case (sqm)	Difference to base case (%)
Base Case	663,100	-	-	1,250,100	-	-
Scenario Low	611,400	-51,700	-8%	1,191,800	-58,300	-5%
Scenario Medium	559,700	-103,400	-16%	1,133,600	-116,500	-9%
Scenario High	456,300	-207,800	-31%	1,017,100	-233,000	-19%

Source: Jones Lang LaSalle

How does ABW intersect with planning controls for the Sydney CBD?

In its submission to the *City of Sydney's Local Environmental Plan 2011*, the Property Council of Australia identified that the Sydney CBD has approximately 15 years of commercial office space available under existing planning controls. The calculation was based on an average net absorption of 60,000sqm per annum, which was based on the average of the previous two decades.

Our modelling of the impact of ABW suggests it will have a relatively limited impact in altering these assumptions:

- Under Scenario 1 (low scenario) – average net absorption over the next two decades is just under 60,000 sqm per annum and so it would not alter the 15 year capacity calculation;
- Under Scenario 2 (medium scenario) – the average net absorption projected for the next two decades would add one year's supply capacity to the market; and
- Under Scenario 3 (high scenario) – the average net absorption projected for the next two decades would add around three years' supply capacity to the market.



Courtesy of Commonwealth Bank

4.4 Conclusions

The impact of ABW on the Sydney CBD market is likely to be slow and relatively undiscernible from other market factors

- ABW is likely to be a trend that will increasingly have an impact on office markets across Australia over the next decade, even though **the portion of tenants that ultimately adopt ABW is still very ambiguous**.
 - **Sydney's CBD is likely to be the most exposed market nationally** to the trend, which reflects the prevalence of finance and insurance tenants in the market and of larger tenants more generally.
 - Regardless of the size of the eventual impact of ABW, the **impact will be relatively slow over a period of 10 to 15 years**.
 - Even under high take-up scenarios the impact would be a reduction in the rate of growth of the market – and **under no circumstances** would it cause a contraction in the market's footprint.
- As such, this slow steady impact will be **relative undiscernible from other market factors** over the next decade.
 - While ABW can theoretically be undertaken in older existing buildings, the concept is more **compatible with some of the benefits new modern office stock offers**.
 - Given a high proportion of future ABW tenancies will be in new buildings, it will act as an influence on development decisions.
 - ABW will sit alongside sustainability as a factor that **accelerates the redundancy of older, secondary stock**.
 - This will contribute to stronger refurbishment and redevelopment of older office stock that has reached the end of its economic life, in some cases into other uses.
 - ABW will not substantially alter the amount of commercial office stock available under existing planning controls in the CBD.



Courtesy of Goodman and Bates Smart Architects

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