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The hotelisation of office space: New approaches to future-proofing commercial portfolios

INTRODUCTION

For many years office landlords have charged rents for the provision of standard office space on fixed terms. However, with occupiers' corporate real estate strategy now seeking greater lease flexibility; companies looking to maintain a contented and productive workforce; and employees striving for an attractive and appealing workplace experience, CBRE believes a fundamentally different approach is required.

Although some landlords are experimenting with a range of new strategies to differentiate their properties beyond the traditional selling points of specification, location and accessibility, many are still struggling to devise an effective response to the consumerisation and hotelisation of office space.

This latest report in CBRE Asia Pacific's Agile Research Series explains how this phenomenon requires landlords to adopt more intensive asset

management strategies as they transition away from being pure space providers. By adopting a more proactive approach and taking on a more service-oriented role, CBRE believes landlords can improve tenant retention, command higher rents and create future-proof portfolios.

THE EVOLUTION OF OCCUPIER DEMAND

Advances in technology, a more mobile workforce and uncertain economic growth are reshaping the business environment and transforming the occupier approach to real estate decision-making.

Although the traditional priorities of location, specification and cost remain critical, this structural shift has led to stronger occupier demand for more flexible lease terms, better quality building services and enhanced offerings and experiences for end-users.

The unpredictable business cycle and irregular headcount growth has led to the need for more short-term space as part of more nimble real estate portfolios. One consequence of this new era has been to generate robust demand for flexible space, enabling occupiers to rapidly “flex up” or “flex down” as they please.

Whereas the norm had been for tenants to commit to bare or warm shell space on conventional long-term leases, many occupiers are now seeking opportunities to supplement core portfolios with ready fitted on-demand space at short notice for variable periods.

At the same time, talent attraction and retention – particularly of the younger generation of workers - has rapidly moved up the occupier agenda. Many millennial workers are opting to find employment with companies that provide attractive and comfortable workplaces equipped with wide range of amenities, which are not necessarily similar to those provided by coworking. Older generations’ lifestyle preferences have also evolved alongside a growing awareness of work-life balance. The need to accommodate these changes has spurred many occupiers to display a bias towards leasing space in properties that provide a high-quality and well-staffed offering of amenities.

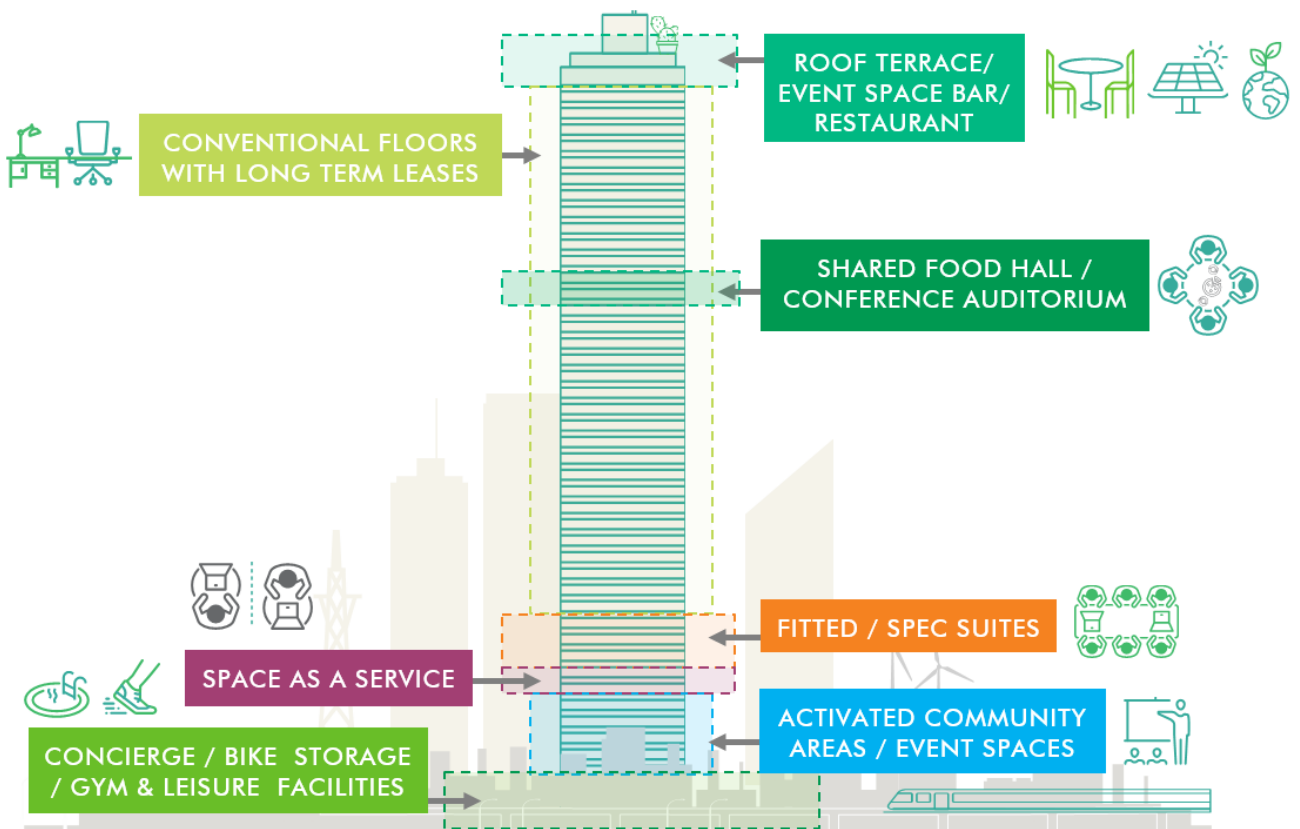
THE LANDLORD RESPONSE

As occupiers’ requirements, expectations and demands set new benchmarks, landlords cannot stand idly by. CBRE believes this new paradigm requires property owners to adopt a fundamentally different approach to leasing and asset management.

Rather than simply filling up a building with tenants on conventional long-term leases, landlords striving to achieve a competitive advantage can create a blended offering including traditional space, flexible space and turn-key solutions, all supported by a comprehensive set of amenities, leading-edge technology and personalised human-delivered services. (Figure 1).

This hotelisation of office space treats tenants as valued guests and provides commercial building occupants with the same quality of service as they would find in the hospitality sector.

FIGURE 1: THE OFFICE ASSET OF THE FUTURE



THE HOTELISATION OF OFFICE SPACE

1. Provide space as a service on demand

The obvious starting point for landlords is to capitalise on the agile space trend and create a blended space offering at the building and portfolio level.

Securing flexible space operators as tenants is the most direct approach. However, landlords must closely evaluate the profitability of individual operators and obtain greater covenant protection such as higher rental deposits and corporate guarantees.

Landlords wishing to exert greater control over their end-user profile, services and experience can create and operate their own flexible space platforms as an amenity and component of their overall portfolio.

Other options with 'hotel-like' characteristics include providing fully-fitted out "plug and play" offices that are leased to and managed on behalf of tenants. CBRE's Hana is a new flexible space offering that fits this description and also enables landlords to retain control of their assets. Some landlords are also introducing on-demand space for events and meetings.

Regardless of the way in which landlords opt to respond to the agile revolution, the solutions listed above ultimately point to the need for assets that provide a blend of traditional and flexible options enabling tenants to access a network of different space on demand.

That said, landlords must also be mindful of allocating the optimal proportion of a building to flexible space. CBRE's 2018 Asia Pacific Investor Intentions Survey found that about half of landlords and investors believed that allocating no more than 20% of a building to flexible space could enhance its value.

2. Differentiate buildings by offering curated experiences

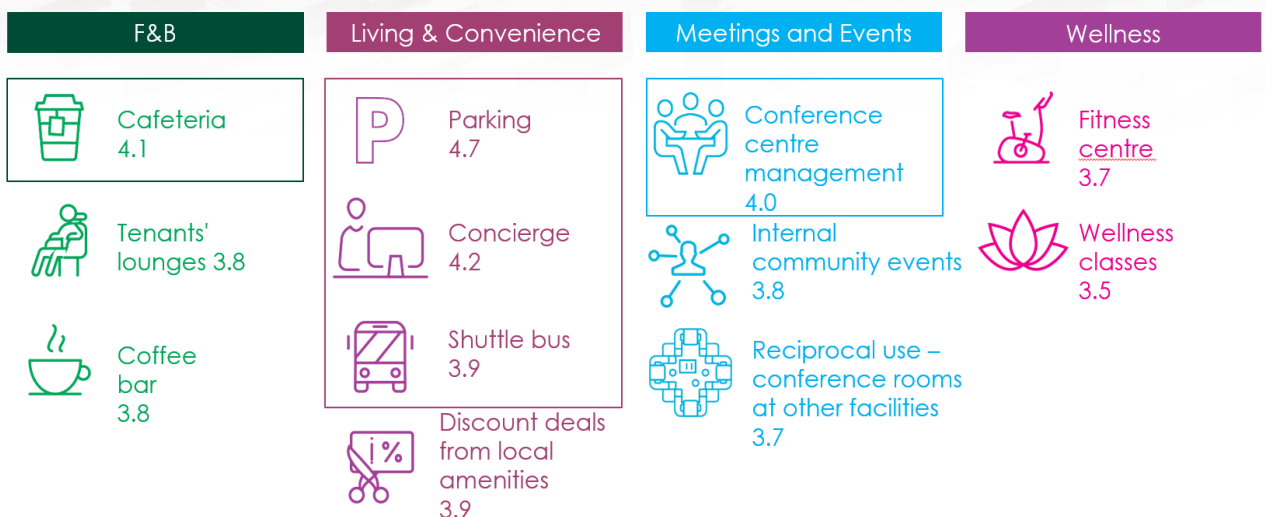
Landlords seeking to create hospitality-infused buildings should also include a broad range of amenities and supporting services. In addition to basics such as parking space and F&B, CBRE's 2018 Global Tenant Survey 2018 (Figure 2) found that office occupiers in Asia Pacific are increasingly demanding conference and meeting management services, gym and fitness spaces, and other wellness facilities.

A few progressive landlords are now offering hotel-like services and amenities such as concierge, dedicated tenant lounges and bars, on-site F&B and wellness programmes. This requires a balance to be struck between catering to tenants' higher expectations and the incremental costs associated with designing, building and managing high quality amenities.

By providing an environment in which going to work becomes a curated experience, landlords can begin to operate their offices as if it were a full-service hotel. In many respects, therefore, the landlord's primary customer is becoming the employee, and not the tenant.

FIGURE 2: AMENITIES MOST DESIRED BY TENANTS

Rated on a 5 –point scale according to the importance of the amenities listed below; 5 being the most important, 1 being the least important



3. Integrate wellness into building design

Although wellness is not a new concept in the workplace and many companies already have office wellness programmes in place, it has only recently begun to inform building design.

Building design should consider ways in which to enhance the health and productivity of occupants. While this can include the basics such as providing natural light and high-quality air, designs should ideally incorporate biophilic features to enhance the connectivity of building occupants to the natural environment through direct and indirect nature and space and place conditions.

Although obtaining building certifications such as LEED* and WELL¹ can burnish landlords' credentials as providers of space suited to occupants' wellness requirements, CBRE advises landlords to adopt a holistic approach towards creating spaces that align with tenants' wellness agenda.

4. Adopt intuitive technologies to improve tenant engagement

Technology is a key point of differentiation. Tenant engagement platforms such as Host by CBRE can help property landlords create customised workplace solutions by integrating property services and amenities with digital technology².

Host integrates technology and end-user experience features on a single platform. This enables employees to access their workplace and amenities as well as allowing organisations to administer building management requirements from a single app.

While much of the conversation around tenant engagement platforms invariably focuses on their technological sophistication and efficiency, many platforms overlook the importance of genuine human interaction, particularly regarding service delivery.

CBRE is of the opinion that for tenant engagement platforms to be truly effective, they must be integrated with people services. Well-trained and knowledgeable

experience professionals stationed on site must be responsible for creating a supportive and comfortable atmosphere; welcoming visitors; and acting as air-traffic control for all employee-facing services.

Landlords can also utilise these platforms to gather and review anonymous data related to user activities and preferences and introduce refinements to their offering to improve tenant satisfaction.

CONCLUSION

The trend towards the hotelisation of real estate requires landlords to fundamentally reassess their approach to asset management. Getting the space and services right and building-in flexibility will be key. Building design should consider future tenants' employees at the inception stage as it is they who will be the ultimate end-users.

Landlords must prepare for occupiers demanding more flexible lease terms; provide more amenities and services to differentiate their buildings; and formulate the optimum mix of traditional, flexible and turnkey space at the asset and portfolio level.

This will require a more hands-on and intensive approach, not only to achieve operational efficiency, but also to create an attractive user experience, enhanced by technology and facilitated by mobile devices.

Although this strategy will undoubtedly be easier for landlords to adopt when designing new projects, it can also be achieved in older portfolios by engaging with tenants to identify their desired features and services.

By building stronger relationships with occupiers and better meeting their needs, landlords can improve tenant retention and generate more sustainable income growth for their properties. These future-proof assets will outperform in market upcycles by attracting more tenants and commanding higher rents, while remaining preferred options for tenants in more challenging times.

* LEED, or Leadership in Energy and Environmental Design, is the most widely used green building rating in the world for all building types and all building phases including new construction, interior fit outs, operations and maintenance and core and shell. It provides a framework to assess the level of sustainability standard that the buildings can achieve.

¹ Wellness in the Asia Pacific workplace, CBRE Research Asia Pacific, September 2017

² WELL Building Standard is the prime standard which covers more than 100 features across seven core concepts for buildings, interior spaces and communities seeking to implement, validate and measure features that support and advance human health and wellness.

³ Next Generation Tenant Engagement Platforms – Blending Technology, Data and People Services, CBRE Research Asia Pacific, February 2019

TABLE 1: THE HOTELISATION OF OFFICE SPACE: NEW APPROACHES TO FUTURE-PROOFING COMMERCIAL PORTFOLIOS

Strategy	Next Steps
1. Provide space as a service on demand	<ul style="list-style-type: none"> Create a blended space offering at the building and portfolio level Enable tenants to access a network of on-demand office space
2. Differentiate buildings by offering curated experiences	<ul style="list-style-type: none"> Introduce augmented services and amenities to enhance the tenant experience These can include concierge services, dedicated tenant lounges and bars, on-site F&B and wellness programmes
3. Integrate wellness into building design	<ul style="list-style-type: none"> Provide sufficient access to natural light and high-quality air and minimise noise Adopt biophilic design principles to enhance the health and productivity of building occupants
4. Adopt intuitive technology to improve tenant engagement	<ul style="list-style-type: none"> Deploy tenant engagement platforms enabling employees to access their workplace and amenities Ensure such systems are integrated with people services provided by well-trained and knowledgeable on-site experience professionals

Source: CBRE Research, October 2019

CBRE GLOBAL RESEARCH

This report was prepared by CBRE Asia Pacific Research Team, which forms part of CBRE Global Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate investors and occupiers around the globe.

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