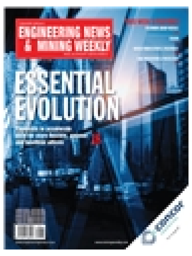
| Publication | | |
|---|---|---|
| ENGINEERING NEWS & MINING WEEKLY | | |
| Page | Date | |
| FC.18-19 | Fri 21 Aug 2020 | |


CREAMER MEDIA'S

# ENGINEERING NEWS & MINING WEEKLY

REAL ECONOMY NEWS WEEKLY

Volume 40 no 32 August 21–27, 2020
RSA – R20,00 (Incl.VAT)

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ISSN 0257-8646

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PROPERTY

# ESSENTIAL EVOLUTION

## Pandemic to accelerate push for more flexible, greener and healthier offices

MARLENY ARNOLDI | CREAMER MEDIA SENIOR ONLINE WRITER

**FLEXIBLE SPACE**
Offices of the past provided a space to work, but offices of the future will provide a place to work better

The exact impact of Covid-19 on office space is a key point of debate, but according to property stakeholders, its relevance for the immediate future of business is not, as offices will continue to be an essential part of doing business during and beyond the pandemic.

However, offices will evolve with the changing times, says real estate investment trust (Reit) Emira Property Fund COO **Ulana van Biljon**.

She believes that the new norm for offices will involve greener and healthier spaces that cost less to operate, while location preferences could also change.

Growthpoint Properties South Africa CEO **Estienne de Klerk** agrees, stating that there will be increased emphasis going forward on the design and operation of buildings for occupant health and wellbeing. "Green buildings that prioritise health factors such as good ventilation and air quality are well-positioned for the future."

Van Biljon further explains that some companies will continue to opt for centralised offices in major cities, and others will prefer suburban office parks, which will enable employees to visit the local office easily while working remotely.

"Regional offices could offer more business continuity, so we might see a trend for more smaller offices that will enable staff to move between them, depending on their requirements."

Moreover, Van Biljon says office users want their space to be productive and work for them.

"Flexi-hours and the combination of working from the office and home will increase.

"The deconcentration of staff densities could be one short-term result of the pandemic, so businesses may retain the same office space, and have some staff working at safe distances in the office while others work remotely," she explains.

Consultancy Deloitte Africa smart real estate leader Dr **Marco Macagnano** says the office is not only a destination of work, but an enabling environment that should be available to business and employees as and when they need it.

He adds that offices still offer more than a home office ever could, and smart and healthy spaces are driving market value more than ever, since these have a direct impact on productivity and businesses' bottom lines.

Macagnano states that the built environment is increasingly serving as a platform to deliver services that enable people and businesses to work, through digital infrastructure, on a pay-as-you-use consumption model. He believes that real-estate-as-a-service will continue to increase beyond Covid-19.

Macagnano further explains that despite working from home becoming the norm for businesses to ensure continuity during lockdowns and travel restrictions, about 60% of workers indicate that they would still prefer returning to the office for social contact and ease of collaboration, but with some flexibility.

"This proves that office space is still a requirement for the future business, but not in the traditional sense. The office space of the past provided a space to work, but offices of the future will provide a place to work better."

Further, Reit Redefine Properties commercial asset manager **Pieter Strydom** says there is no doubt that a section of the workforce might not return to an office desk any time soon.

However, the proliferation of co-working spaces, and their uptake by corporates and entrepreneurs, reveals some of the inefficiencies of working from home all the time and highlights the lack of social connectivity and camaraderie that an office environment provides.

"Working from home can prove to be

particularly problematic in high-density domestic settings. Moreover, collaboration, the lifeblood of innovative companies, is inefficient within remote teams, and digital connectivity is a poor substitute for face time.

"Most importantly, employees working remotely over a prolonged period and in isolation might find it difficult to remain engaged when not immersed in the company's culture and value system."

However, Strydom adds that the days of fitting as many people as possible into one location are over – office space will still be available, but not in its current format.

He believes that the future of work is going to be flexible, where employees will be afforded more freedom to choose their location of work.

Reit Arrowhead COO **Riaz Kader** echoes Redefine's view, stating that although office demand could be subdued in the short term, mostly owing to big companies downscaling and the streamlining of operations in general, it is doubtful whether most employees will work from home over the long term.

"It is difficult to build a company's culture and also introduce new employees within the business when everyone is working remotely most of the time. While we believe working remotely is suitable for conditions amid a pandemic, it is not sustainable over the long term from an operational point of view," Arrowhead notes.

Atterbury South Africa CEO **Armond Boshoff** points out that although some tenants have realised that working from home is suitable for some jobs, there is certainly still a requirement for an office and a place to meet.

He also predicts a rise in flexible workplaces and work hours, with hybrid functional spaces becoming the norm. For example, coffee shops equipping their stores with small boardrooms and teleconferencing facilities, which can be booked for meetings.

Property and property-related investment company Calgro M3 CEO **Wikus Lategan** notes that as business owners resize their office requirements to match new hybrid working environments, the need for more flexible spacing solutions will increase.

He cites a media statement released in July, in which flexible workspace investor Sisebenza founder **Andrew Robinson** stated that the flexible, co-working and shared-office market demonstrated 15% year-on-year growth rates over the past five years, even before Covid-19, accounting for 5% of all office space.

"If you want to be in business in South Africa you need to be able to adjust and pivot quickly. If one were to look at our major capitals, vacancies generally are still below 10% on average, where many world cities, especially in emerging markets, are much higher. This is owing to businesses being able to make quick changes, from shopfronts to offices, to residential, as and when needed," Lategan states.

## Leasing Flexibility

Property group Fortress CEO **Steve Brown** says that, from an office leasing point of view, South Africa's office market sector is structurally oversupplied and was so even before lockdown.

It will not be a case of businesses requiring less space after Covid-19, but rather less formal office space as we currently understand it, he adds.

"Businesses will want more flexible space and more flexibility. Long-term leases, for example, are a thing of the past. Lockdown has shown us that people are prepared to pay more for shorter-term leases and for more flexibility in lease terms."

Brown notes, however, that many businesses and sectors will need more space – not less – as those relying on high-speed Internet, for example, need many spaces that are differently configured.

"Similarly, logistics and supply businesses, as well as entertainment, content-creation and data operations all need a lot more space. Also, having hundreds of employees working from home can be very expensive from an information technology perspective."

There will be a lot of value in correctly designed office spaces offering more flexible lease terms, Brown explains.

Growthpoint head of asset management for offices **Paul Kollenberg** states that the company has received unusual requests based on innovative thinking to accommodate social distancing requirements and flexibility.

To this end, Growthpoint has introduced SmartFlex for tenants seeking unprecedented flexibility. It offers short-term leases of three to 18 months at market rentals across 28 of the Reit's buildings, mainly in Gauteng.

Additionally, Kollenberg explains that offices in amenity-rich environments are proving to be popular for enhanced Covid-19 curtailing precautions, which leads to increased uptake of office parks. For example, Growthpoint has received a request from call centres for more office space spread across two buildings in one office park to safeguard their continuity.

Further, Vukile Property Fund Southern Africa MD **Itumeleng Mothibeli** highlights that it is important for landlords to consider the convenience element of the end-user now more than ever.

"If you can provide a product that seamlessly fits in the work, live, play dynamic of your community and end-user, you will have a sustainable product," he adds.

Retail-focused Reit Liberty Two Degrees CE **Amelia Beattie** says property companies have had to adapt quickly to new demands and find ways to cut costs.

The real estate sector faces certain restrictions and difficulties during the pandemic, including deferring distributions and keeping enough liquidity to absorb unexpected economic adversities, she adds.

"With this increasingly competitive office sector further depressed by a structural oversupply, coupled with little hope for economic recovery in the short term, companies are remaining focused on servicing and retaining current tenants while exploring initiatives to attract new tenants into vacant space," Beattie points out.

Standard Bank financial sector equity research head **Bandile Zondo** says the office sector could see vacancies rise by between 6% and 7% over the next year as a result of the increasing unemployment rate. The International Monetary Fund forecasts that South Africa's unemployment rate will rise to 35%, coupled with the expected economic contraction of 8% this year.

It is likely that weakness in the office property market will prevail in the short to medium term, and that recovery in the office sector will largely depend on the State's implementing of economic growth policies, Zondo adds.

The South African Property Owners Association (SAPOA) highlights that, at the end of the quarter ended June 30, the national office vacancy rate was 12.3%, an increase of 70 basis points compared with the preceding quarter, and the largest quarterly drop since the third quarter of 2010.

"So, early indications are that demand is under severe pressure. However, the full impact of Covid-19 . . . will likely take several quarters to filter through to the office sector's vacancy rate, as leases come up for renewal while occupiers take stock of the operating models and space requirements.

"At the start of 2020, the office property sector was stuck in a protracted, bumpy cycle, but future prospects were starting to look up. However, six months into the lockdown, the vacancy rate is nearing an all-time high of 15%," SAPOA states.

The association believes that working from home, enabled by significantly improved Internet speeds over the past decade, is likely to be a feature of the South African office sector for the foreseeable future as companies weigh up the benefits against the cost of maintaining a physical office presence.

Lategan and most of the Reit CEOs are confident that the real estate sector in South Africa is agile enough to continue navigating choppy and changing waters.

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