

# New era of space thrift threatens CBDs

## Property observed

Robert Harley

The new austerity in the federal and state public services is about to become another headache for the owners of Australia's office towers.

The shakeout in banking and financial services, and the high-profile empty work stations left behind, grab the headlines.

But the slow rationalisation in public service demand, through thousands of staff cuts and better use of space, is just as important in the longer term.

In Brisbane, Premier Campbell Newman has anchored his plans for the waterfront on a public service move to new office towers.

In Sydney, the Property Asset Utilisation Taskforce, chaired by Geoff Levy, is working on a strategy for the better utilisation of government assets.

Before the end of the year, Levy and his team should have plans to better house the NSW government's substantial CBD workforce, including some options for its high-profile space in Governor Phillip Tower.

In Perth, the West Australian government has considered plans to leave some of its CBD space to the high-paying mining sector and move to the suburbs.

Since 2009, the federal public service has had clear instructions to better use its office space.

Nothing happens quickly. It's not top of mind for the political masters. Many departments are locked in to long-term leases.

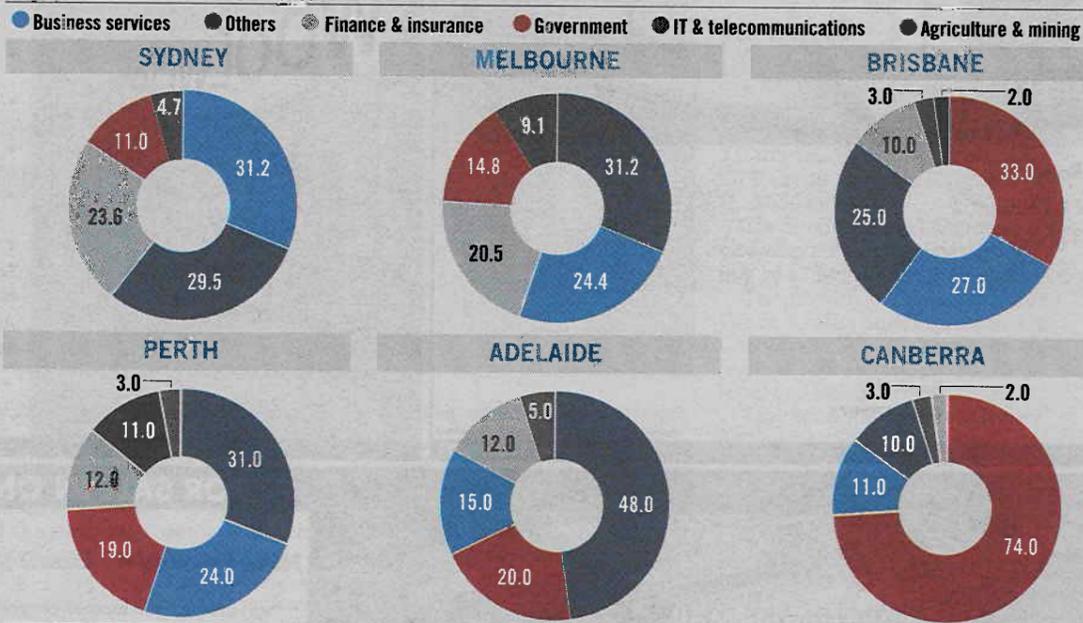
But the big trend is clear. Government is not going to be a driver of office space demand.

Which is important, because on Colliers estimates, government occupies around 25 per cent of all CBD space, and, as today's graph shows, a much higher ratio in Canberra, Adelaide, and Brisbane.

Colliers National director of research, Nerida Conisbee, says government CBD demand is

## Office workers

Employment in Australian CBDs, by type 2012 (%)



SOURCE: COLLIER'S INTERNATIONAL

contracting. Public sector employment will fall in the CBDs in 2012 and 2013, according to Deloitte Access Economics. And the recovery, in 2014 and 2015, will be modest.

Conisbee says the decline over the next two years will be driven by the desire of both state and federal governments to stay in surplus and maintain their AAA credit rating.

"Job cuts are a relatively easy way for them to do this," she says.

"This has obvious flow-on impacts to office markets with government tenants likely to look to sub-lease space in some buildings."

To date, those job cuts have been pretty modest.

In Canberra, the federal public service has earmarked 1200 job cuts over the next 12 months, according to Jones Lang LaSalle's managing director in the ACT, Andrew Balzanelli.

Many will come from natural attrition, some will come from a

reshuffling of departments, and others will flow from voluntary redundancies.

"When both sides of Parliament talk of cutting jobs, people get the jitters," says Balzanelli.

"We have seen a slowdown in demand. Departments are looking at less space, at efficiency dividends and at value for money."

"There has to be a justification to move; departments have to demonstrate they are moving to better buildings with better efficiency and better energy ratings."

However, Balzanelli says deals have been done, particularly to consolidate organisations like the Department of Human Services, the Department of Infrastructure and Transport, and Comcare.

Overall office vacancy in Canberra has actually fallen in the past year, from 13 per cent mid-2011 to 10.8 per cent in March, according to Jones Lang LaSalle.

But a city with 10 per cent of its office space vacant is hardly in the best of health.

Effective rents have dropped, says Balzanelli, and secondary buildings will suffer.

But new projects, offering new levels of work space efficiency, can still attract top rents – if any government organisation is bold enough, or well enough funded, to make the move.

Efficiency, the need to use space as well as the private sector, is the biggest challenge to government office space demand, not the immediate cuts to numbers.

Government is notoriously inefficient. Floors are left empty and key dates for rent renewals and renegotiations are missed.

Outsourcing can eradicate some blunders but it's not the main game. Overall, a public service floor simply does not have as many bums on seats as a private sector floor.

The first Australian Government

Office Occupancy Report found that in 2009 only 27 per cent of the government's 613 office tenancies met the target work place density of 16 sq m per occupied work point.

The median at the time was over 20 sq m per work point. State governments, if they counted, would be higher. Larger private space users would be much less.

Global workplace strategist, James Calder, says the public sector has fallen significantly behind the private sector in both efficiency of their space use – at around 15-20 plus sq m per person compared with 10-12 sq m per person in the private sector – and in effectiveness.

"Major corporates such as the retail banks have some of the best work places in the world whereas there are very few examples of good public sector work places, except maybe Brisbane City Council and CH2 in Melbourne," Calder says.

But the change is happening. Jones Lang LaSalle's head of government business, Andrew McColl, says the amount of space being taken by Commonwealth departments is under greater scrutiny than ever before.

Government is even considering activity-based working (ABW), he says. "That is where they will get the maximum future efficiencies."

Such a move, to a work place without defined desks like Macquarie Group's new office in Sydney, would be radical.

Yet when the Department of Human Services moves to its new building in the Canberra suburb of Greenway, a small portion will be set aside for ABW. The Victorian government has also trialled ABW.

Conisbee says any move to ABW by government would be a risk for Australian CBDs.

"A move to ABW has been estimated to decrease total occupied space by tenants by 30 per cent. Given the high proportion of space that the government sector occupies, a wholesale move to ABW would have a significant impact on total occupied space," she says.

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