



P R A G M A

Commercial Space in Office-Led Developments

Introduction

Commercial space at office-led developments, which typically accounts for only a small proportion of total space, can provide an important revenue stream.

Creating highly visible ground floor units in locations where there is significant daily footfall makes an appealing proposition for occupiers, particularly for food and beverage operators. Getting the amount, size and use of commercial units right has the potential to create a competitive tension amongst occupiers and generate the ability to maximise direct rental income.

Ways of working have, however, altered significantly in the last two years, and enticing workers back to the office is now the primary concern of workplace occupiers, regardless of location or sector.

Though hybrid working has impacted the overall performance of commercial space, given the respective values in office-led developments, it is the impact on the strength of demand for office space that is most significant. No demand from employees means no demand from employers, which in turn, means no value in the entirety of the development.

In this thought piece, we look at how you can use commercial space to entice people back to the office, and the potential to use commercial space to engage an additional audience to a development, beyond only those people who work in the building.



Using Commercial Space To Get People Back To Work

Landlords and developers of office-led developments are increasingly seeking strategies for their commercial space that focus less on the maximisation of direct income. Instead, they are seeking ways in which commercial space can help create a compelling reason for employees to return to the office and a point of difference to entice their employers to choose their asset over the other office-led developments available.

In determining the most appropriate strategy for commercial space, consideration must be given to two key factors:

- 1. The physical location of the development in question**
- 2. The focus of the landlord and the occupier's ESG strategy**

The ability or inability to entice a non-worker population and the focus on particular social or environmental targets will significantly impact the creation and delivery of the most suitable commercial strategy.

Pragma has worked on a range of office-led developments globally where the location of the asset provides the potential to engage a wider audience.

Whether it be nearby residents, workers from the wider area or proximity to transport hubs and tourists, the ability or inability to engage with a wider audience is a key determining factor in an asset's commercial strategy.

Engagement of a wider audience can draw footfall, vibrancy and commercial performance that augments that generated by employees alone, helping to create an environment that has more appeal to employees, employers and occupiers of commercial space. Similarly, a wider audience can either extend the hours of trade (i.e. early morning to late-night demand) or extend the number of days per week in which customers are available.

This generates a weekend economy to augment the weekday-based demand that employees alone would bring.

Examples of this include Kings Cross, where Granary Square and Coal Drops Yard have been utilised by Argent not to maximise commercial income but to create a distinct proposition at Kings Cross - one that has both the accessibility and security required to make it a viable location for employees to come to work, but also one that has the environment, range of services, brands and a reputation that actively compels employees to return to the office.



CASE STUDY

The Department Store, London

The Department Store, Brixton offers a diverse commercial strategy to engage the local community and, in doing so, making a vibrant, compelling space for workspace occupiers. The design of the space has been informed by the existing fabric and layers of history. Facilities for the public to access include a restaurant and bar which doubles as social space including two private dining spaces, an events space for talks, exhibitions, installations, photo shoots and pop-up events; a vinyl records store, café, post office and “Canova Hall” which is an all-day hangout including workspace with food in the day, cocktails and DJs at night,



Key Points To Consider In Your Workplace Strategy

and brunch for locals at the weekend.

How to demonstrate the value of office space is a key question on the mind of industry leaders at present, along with consideration of how much space is needed and whether permanent space is needed at all.

To help with this dilemma we use our experience in developing compelling positioning strategies for retail and leisure businesses

and apply them to the office environment.

The last two years have taught us that it is no longer a given that people will work from the office, and so to attract and retain the best staff a strategy is required which combines the best elements of flexibility, efficiency and one which also celebrates company culture.

We work with leaders to understand their vision for office space from a commercial and cultural perspective, and balance that against the requests from employees for increased provision for wellbeing, sustainability and productivity

Three things typically come together to make the working experience better for users:

Technology

There are two broad categories of technology that impact users in different ways. First there are the behind-the-scenes systems such as building automation systems and building backbone IT infrastructure. Environmental sensors might measure building occupancy or CO2 levels and feed that information back into a central control system that can notify building management and, in some cases, even the users themselves.

At the front end there are technologies that users of the space need to interact with daily such as AV equipment in meeting rooms.

Operations

This is not just the servicing of the space but also encompasses how users are expected to behave when, for example, they attend meetings or invite visitors to the office. Often introducing the technology improves the way the space is serviced. It allows users to have visibility and information about the building and what is happening within it. Increasingly people from hotel management backgrounds are being hired to manage office spaces, rather than simply managers of maintenance, security and cleaning crews, adding to the overall user experience.



Managers of space have typically focussed closely on technology to provide a successful hybrid working experience. Increasingly important is examining where the front and back end meet and allowing users to customise their working environment, such as an app that allows users to alter lighting levels.

Design

The look, feel and usability of the space needs to hit the right note on three levels. It needs to express the company culture and core business, secondly it has to function well and meet users' day-to-day needs, finally it needs to propel innovation and create opportunities for business growth.

Companies must research how these three elements come together for each of their teams and then the organisation as a whole in order to develop the most compelling workplace story on the financial and emotional value of the office.

Location Impact On Amenities

Amenity provision and overall positioning of an office-led development will change depending on its location. In the past, many office buildings were light on amenities relying on nearby tenants, retail and community infrastructure to support employees. While this is still an option for buildings in busy city centre locations, competition for tenants in today's market means all building owners are at least considering repositioning the existing offering, if not giving it a complete overhaul. The approach to office space has changed radically and the physical and virtual environment needs to keep up.

Strategies include reassessing both the permanent and seasonal amenity provision, including the elements that make it commercially successful. This is where the location becomes particularly relevant. In city centre locations the positioning means making your offering



competitive against the many other options tenants and visitors might have – for example, providing overflow co-working space and meeting spaces. Boardrooms, for example, are typically the least utilised of all office space types, thus many corporates are looking to divest themselves of these highly inflexible, legacy spaces. If the landlord can provide well-serviced, nicely designed interesting alternatives for larger meetings that are then used by a number of tenants or outside parties, it benefits both people and the business.

Decentralised locations are faced with different opportunities and challenges regarding what can be provided that will make both companies and their staff want to commit to the commute. Access to transportation links and providing mitigation for gaps (such as shuttle buses) will be the first step to making an attraction appealing.





CASE STUDY

Nike World Headquarters, Oregon

Located on a 400-acre campus in Oregon, the site houses 11,000 employees with 75 buildings including the Nike Sport Research Lab and the Nike Museum, three fitness centres and facilities for athlete training, as well as sports fields, track and running paths, and an Olympic-sized swimming pool.

Facilities for staff also include mobile auto cleaning and detailing services, hair and nail salon, gift and convenience stores, cafés, restaurants, bars, physical therapy, massage, hot stone and cupping services. The property is only open to Nike employees.

Given that space is usually at less of a premium in out of town locations there is the opportunity to provide a broader range of amenities and appeal to people's primary needs, with health and wellbeing being key. Food (or a fear of lack thereof) is the number one concern of staff when any location-

based decision is being considered – variety of choices and price points are essential. People need to be allowed to enjoy nature, landscaping and greenery, without it negatively impacting circulation. For example, ensure covered walkways between buildings and to and from transportation drop off points.

Highly functioning infrastructure and optimised service levels are also critical to positioning and providing employee satisfaction. Specialist providers should be considered to ensure delivery matches the scale of ambition, to ensure the best intentions are not let down by substandard execution. Ultimately, an understanding of

both employees and the wants and needs of the potential wider audience is critical and research must be conducted to understand gaps in local provision. Climbing walls, hairdressers, childcare, gyms and swimming pools may be the unique selling point that will keep long term tenants paying high rents.



CASE STUDY

Adobe Headquarters, San Jose

At Adobe's headquarters in California the staff enjoy a lot of complementary benefits. Food is subsidised with different cafés featuring sandwiches, fresh salad bar, sushi, tacos, and falafel; the company also provides discounted massages, on-site vehicle and bicycle maintenance and dry cleaning. Other benefits include free coffee and free beer, wine, cheese plates

and arcade style basketball games every Friday; free cooking lessons for employees from the company's executive chef. There is a free wellness centre for employees with a gym and fitness classes including spin, yoga, and bootcamp, an open meditation room, mother's rooms as well as an amphitheatre with giant screen and space for 170 employees.

ESG

ESG (Environmental, Social and Governance) has risen to the top of the list of ways developers from across the world are looking to position their properties. Integration of an ESG strategy into an office-led development requires understanding of both the current ESG deliverables and how they map against future ESG aspirations. Many companies developing and investing in mixed-use and office developments have their own commitments around ESG and they may be more weighted towards the environmental or social aspects depending on internal priorities and the nature of the development.

To understand the role ESG can play in the positioning of an asset, an understanding of both historic activity and potential future goals needs to be gained, along with evidence as to what has been successfully implemented in the past and what will, in the future, be engaging towards tenants, governing bodies, and other stakeholders.

Research to discover these aims may throw up some interesting opportunities as the various occupiers of office, commercial and communal spaces will have their own priorities.

It may be that social criteria and demands rise to the fore. For example, providing public space for community activities hits a chord with both tenants and the broader surrounding demographic. Public film screenings, a market or outdoor fitness spaces could be incorporated for use by tenants and visitors. Childcare or wellness amenities may play well in delivering social value for a broad range of stakeholders.

Environmental goals maybe more prominent amongst stakeholder concerns, however, also fall into several categories. Most fundamental are those that avoid the waste of energy, water, and other resources – activities around which can not only earn environmental status but also provide commercial savings. More proactive environmental activities may speak to other core values of the development company or specific tenants. For example, incorporating renewable energy onsite, specifying recycled or renewable materials, or going beyond code for rainwater capture can be worked into “green leases” and serve as an attractor to tenants with strong environmental goals.



CASE STUDY

The Edge, The Netherlands

The Edge is a 40,000m² office building in the Zuidas business district in Amsterdam. It was created for Deloitte and was designed to consolidate staff from multiple buildings throughout the city into a single environment, and to create a ‘smart building’ to act as a catalyst for Deloitte’s transition into the digital age.

The building is shaped to utilise the sun for lighting and the façade ensures daylight

can be benefited from for as long as possible without the sun affecting internal temperatures. The south side of building is equipped with super-efficient solar panels, which provides energy for heating/cooling installation, laptops, smartphones, and electric vehicles. Two groundwater sources – one for hot and one for cold water – are pumped through with aquifer thermal energy storage pumps and pump hot or cold water depending on the temperature.

Many companies now want to go beyond simply achieving LEED and BREEAM (two of the largest environmental certification systems), which can sometimes be seen as box-ticking exercises to an increasingly discerning public, to creating a statement that is more closely aligned with their core brand values.

The most important aspect of developing an ESG strategy is that it is not only put in place, measured and monitored, but that a clear, lay-person friendly mode of communicating achievements and asks from all those involved in the process is in place, so that it does not come across as greenwashing or tokenist.

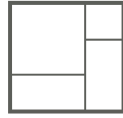
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