SPACEPOINT

London Office Update
December 2023

Contents

SPACEPOINT

“The West End is full” - Evening Standard

The Evening Standard recently reported that property giant Land Securities has declared its West End offices are “full”, stating that its overall central London occupancy rate hit 96.5%, with the West End faring even better – with 99.6% of it let – meaning that the capital’s cultural heartland was “effectively full”, at least as far as the FTSE 100 group’s portfolio was concerned. The company said it recorded a “10% increase in office attendance” in the first half, compared with the preceding six months.

Meanwhile, the latest research from real estate consultancy JLL said there was 3.4 million square feet of central London offices under offer as at the end of the third quarter.

The firm said that is 13% higher than the same period in 2022 and nearly a quarter above the 10-year average. JLL added that total demand is 11.5m sq ft – a 27% increase on the long-term average. Banking and finance have accounted for the largest amount of this, followed by professional services (26%).

British Land echoed the increasingly strong market sentiment. As the REIT announced plans for a string of major developments within the capital Bhavesh Mistry, its chief financial officer, said to CoStar News, : "The main message is we are seeing strong rental growth and that is a function of us being in the right markets and that is giving us confidence as we look ahead. We are seeing very strong operational performance, very high leasing and high levels of occupancy against the continuing challenging economic environment.”

BL surprised the market earlier in the year when it secured a £149 million payment from Facebook parent Meta to surrender the lease, equating to seven years of rent, at a building it had leased but never moved in to.

BL has now fleshed out its plans for the building. It explained that although Meta had secured an occupier to take over its lease, the REIT believes there is more value to be created by taking back the building given that market rents are now significantly higher than the rent it was paying.

Mistry added: "Meta reassessed its real estate strategy. They found an occupier to pay a rent of £70 per square feet but market rents are much higher at around £90 and then because of the likely occupier we think rents can be north of £100 per square feet.“

The distinct lack of supply and increasing demand for West End office space encouraged British Land to reject an otherwise ready-to-go tenant and instead choose to re-position the building and gamble on realising a delayed, but higher, rental value.

Get in touch if you would like further information on other London sub-markets.

Call 0203 369 9800

Companies With Flexible Working Grow Revenue Faster, US Study Finds

Revenue at companies with flexible work-from-home policies grew four times faster than those with in-person requirements, according to a new study by Scoop Technologies and Boston Consulting Group.

The survey analyzed 556 public companies that employ a collective 26.5 million people across 20 sectors and found that firms that allow their employees to either work entirely from home or pick the days they come in increased sales 21% between 2020 and 2022, whilst hybrid or full-time office policies saw revenue growth of just 5%.

Among the companies that do require office work, those that allowed just a few days in-person saw sales go up at twice the rate of those that demanded workers come into the office full-time.

The revenue growth in the survey was normalized against average industry growth rates, so the findings weren't skewed by higher-performing sectors.

One possible explanation is that flexible workplace policies allow companies to hire from a broader range of people, and to recruit more quickly.

As an example, at Allstate, a large American insurance company, remote-friendly jobs receive double the number of applications, with a total of 84% of its new employees in the U.S. in the last year don't live near a company office. The insurance giant slashed its real estate footprint by over 50% alongside its embrace of remote work.

The remote work debate has raged for years now, as workers, employers and office landlords have debated the best way to drive productivity. While office owners have stressed that in-office work is the best way to do business, employees have often balked at returning to their desks in the same way they did before the pandemic. Some sectors, like law firms, have taken a more hardline approach and mandated that their workers come back to the office.

Tech firms gave workers a lot of flexibility, but have in recent months brought workers back, with companies like Amazon, Facebook and Google mandating multiple office days per week this year. More than 3 million workers are expected to be under new office attendance mandates this year, according to JLL.

Further studies and insights are covered in our own blog post on this, found here - https://www.spacepoint.co.uk/insights/navigating-the-future-of-work-exploring-the-pros-and-cons-of-hybrid-work-for-employees-and-employers

Are you considering an office strategy for flexible working?

Call 0203 369 9800

The strategic opportunity that a lease break option presents

A mid-lease break option is not only an exit route from a property, but if the focus is to stay in the space then break clauses can often provide a potential opportunity for a Tenant to renegotiate the ongoing lease terms with their Landlord, and, if executed well, meaningful improvements and cost savings can be achieved.

The desired lease improvement that springs foremost in everyone's mind is often rent savings, though it will be unlikely to realise a reduction in the payable Headline Rent; but there are other benefits that deserve consideration. These can include requesting a return of deposit monies, contributions paid by the Landlord for office improvements can be sought, liability caps, and rent-free periods, amongst other things. Every lease is different, so a careful review will be required to identify all areas where improvements may be gained.

In order to effect successful negotiations around the forthcoming break clause, you need to ensure you have a position of leverage – a Landlord is unlikely to modify the terms to your benefit without otherwise realising a benefit themselves, or alternatively to avoid detriment to themselves. In other words, you need to either offer something in return (perhaps an extended term of tenure) or be threatening to exercise the break to relocate.

A term extension is quite straight-forward, but if you wish to realise benefits without extending your term then you need to be prepared to relocate to new premises if a better deal can be secured elsewhere.

It is imperative to understand the time scales required to effectively engage in meaningful negotiations around the break clause option. It is likely that your lease will stipulate a required prior notice period should you wish to operate your break option, with 6 months being a common notice period. Thus, you will need to have concluded your negotiations in advance of your notice period so that you are confident as to whether you should or should not break your lease.

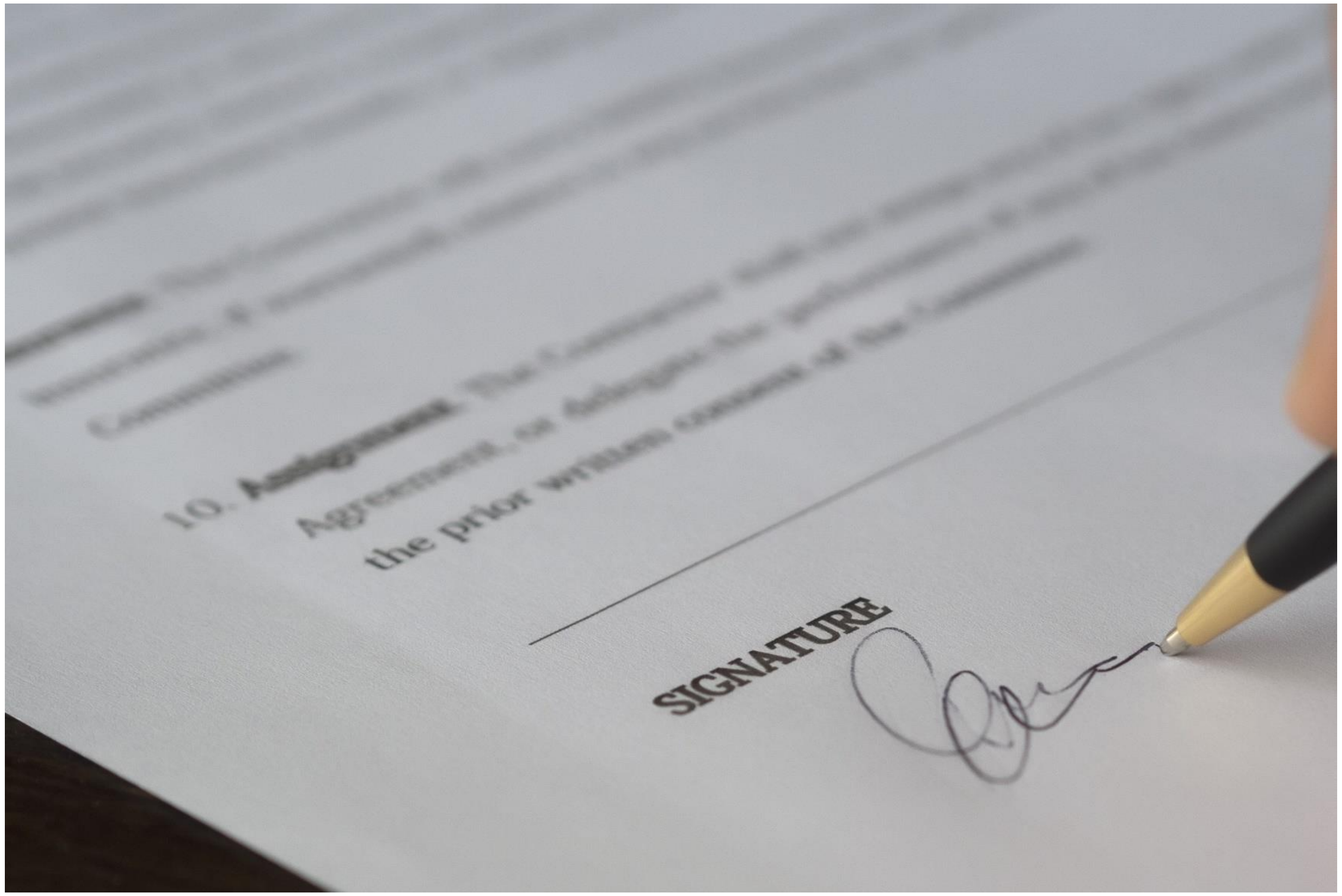
If you are successful in your negotiations, any changes achieved will need to be legally documented, which is typically by a deed of variation that will be appended to your existing lease.

If you decide to break the lease, your solicitor will advise on the process for serving the notice in accordance with your lease. This can sometimes be a complex and time-sensitive process which, if mishandled, will result in you being unable to exercise the break option!

Given the right approach, a break clause can be a strategically beneficial opportunity to obtain improvements for your continued occupation.

Are you approaching a break option in your lease?

Call 0203 369 9800



Which type of office is right for you?

Each business has differing needs and priorities for their staff and clients, and each office type offers alternative solutions to cater for those requirements:

SERVICED

Anything from 1 month to 2 years, for a few hot-desks or a large private office, but with shared facilities in common areas, including kitchen, break out space and meeting rooms

MANAGED

Usually 12 to 24 months, this model is a hybrid between serviced offices and leased offices; a private office like a lease but set up and managed by a management provider.

LEASED

Terms of 18 months to 15 years, a private office is where the ongoing management is your responsibility. These can be pre-fitted or you can design and build your own fit-out.

Serviced offices

What is a serviced office?

A simple analogy is to think of a serviced office as a hotel for businesses. You turn up, and everything you need in an office is there and ready to go. Serviced offices are fully managed, set up and equipped to enable you to start work immediately, with all costs wrapped up into one monthly bill. The concept of the serviced office revolves around a combination of hospitality and flexibility. It delivers all the office amenities required to run a business, on a contract length of your choice and served with a smile.

The benefits of serviced offices

Flexibility – you can occupy a serviced office for any period of time from a few months to a few years. As your company grows or your needs change, you will be able to scale accordingly.

Simplicity – you arrive, you plug in, and you go. The offices are fully furnished, internet is installed, and telephone can be at the ready. Set up is absolutely minimal.

Speed – as the agreement is by license rather than lease, solicitors do not typically need to be involved. This means agreements can be finalised in a few days, allowing an almost immediate move.

Low set up costs – you won't incur solicitors fees, fit out costs, there is no need to purchase any furnishings or pay any IT instalment costs. The office is plug and play. Unlike a leased office, all these aspects are already in hand.

Facility management – the operator will manage the office to ensure it runs smoothly, dealing with everything, from call handling, meeting and greeting visiting clients, overseeing the cleaning, and to supplying teas and coffees.

Leverage their portfolio – A lot of providers have multiple locations situated across London and other parts of the country, and you can use their facilities across all locations.

Will serviced suit my business?

Serviced offices appeal to companies of all shapes and sizes, from small start-ups to large corporates. Serviced really comes into its own when companies require flexibility.

Scaling companies – If your head count is expected to grow quickly and you want your office to scale in line with your headcount, then serviced is worth considering.

Start-ups – you don't have to commit to a long lease length, which will allow you to adapt with your business in which ever direction it takes.

Project space – if you only require the space to last for the duration of a certain project, that is no problem.

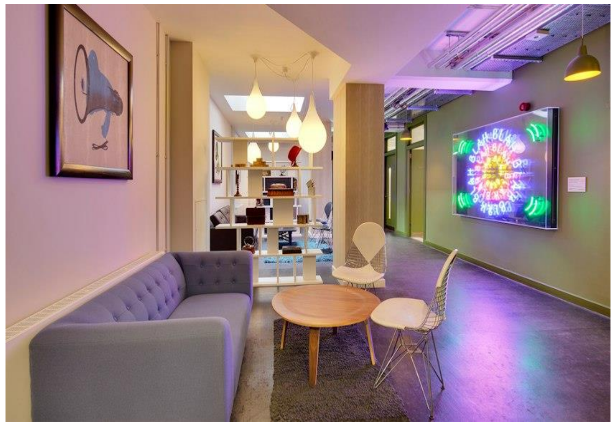
Overflow – if your current office proves to be too small but you are tied into it for another year or so, then serviced can act as excellent overflow space.

Between offices – whilst you wait for your new dream space to come to fruition, you can keep the doors open and occupy a serviced office as a stop gap.

Serviced office availability

For a bespoke search, please click here

SEARCH



Shoreditch	**Rivington Street, EC2**
Desks	12
Monthly Total	**£5,700**

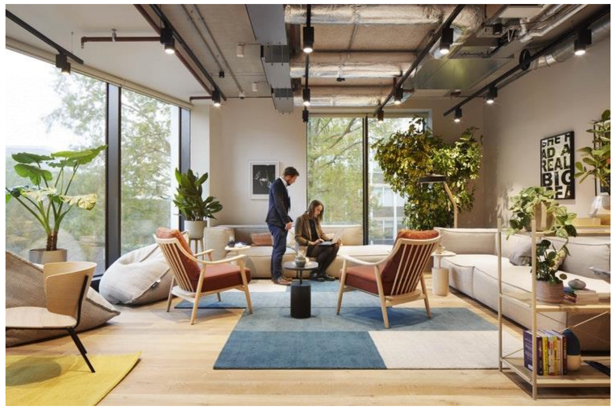
Click here for more details

Kings Cross	**One Pancras Square, N1C**
Desks	16
Monthly Total	**£17,250**

Click here for more details

Westminster	**Horeseferry Road, SE1**
Desks	14
Monthly Total	**£15,600**

Click here for more details



Borough	**Borough High Street, SE1**
Desks	30
Monthly Total	**£25,500**

Click here for more details

White City	**Wood Lane, W12**
Desks	6
Monthly Total	**£3,750**

Click here for more details

Southwark	**Southwark Street, SE1**
Desks	28
Monthly Total	**£16,800**

Click here for more details

Leased offices

What is a leased office?

A conventional leased office is the predominant method for companies occupying office premises. A company (the Tenant) will agree a lease contract to rent an office space for a period of time (usually a number of years) from a Landlord.

It is a more complex arrangement than that of the simplicity of a serviced office, but, with it, comes substantially more freedom to create exactly the space you want, as well as greater privacy, and significantly more security from a legal rights perspective.

The leased office market is comprised of:

New leases - offered by the building owner, are typically on contractual terms of 5 -20 years, and incorporating lease break opportunities within those periods. These are often presented in a condition known as CAT-A; meaning heating, lighting, ventilation and power are all supplied to the space, but the incoming Tenant will need to install their own fixtures, fittings and furnishings, etc. Although, it is becoming more frequent for Landlords to install a “speculative fit-out” (known as CAT-A+) that offers most elements of what a business may need from a space.

Sub-leases - offered by Tenants who no longer need some or all of their space. This will be an office that is typically offered with the existing fit-out in place, although larger spaces with many years left on the lease may be stripped out and offered as CAT-A space. By taking out a sub-lease, it is the current Tenant who becomes your Landlord, and they themselves retain their Tenant relationship with their original Landlord, the Superior Landlord. Sub-leases may be short term, such as 12 months, or sometimes up to 10 years.

Assignments - are existing lease contracts that are being offered to the market by the outgoing Tenant. Unlike a sub-lease, which can offer part or all of the demised area on new contractual terms, an assignment of a lease is the trading of an existing lease on its prescribed terms, though it is possible to latterly make amendments to the prescribed terms, to a certain degree. Assigning their lease, for the most part, absolves the assignor Tenant from their contractual obligations to the premises, and the assignee Tenant becomes entirely responsible. Much like sub-leases, assigned office premises are frequently offered with the existing fit-out in situ, and are often for terms from 12 months – 5 years.

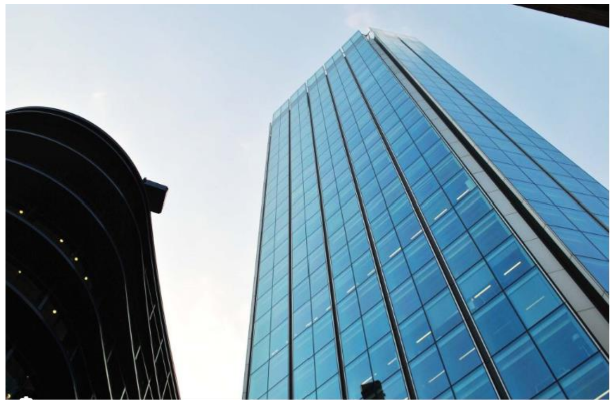
Preparing for the end of your lease:

When approaching the end of your contract in a conventional lease space, a lot of planning is required to ensure your exit from your current space and transition into your new space goes as smoothly as possible. Some elements are simply organisational good practice, but other considerations are those of your legal obligations contained within your lease which, if not appropriately managed, then it could cost your organisation significant amounts of money and turmoil.

Leased office availability

For a bespoke search, please click here

SEARCH



City	Old Broad Street
Size (sq ft)	5,671
Monthly Total	**£45,051**

Click here for more details

Shoreditch	Old Street
Size (sq ft)	5,003
Monthly Total	**£31,735**

Click here for more details

Old Street	Great Eastern Street
Size (sq ft)	2,335
Monthly Total	**£15,080**

Click here for more details

City	Lime Street
Size (sq ft)	9,189
Monthly Total	**£111,585**

Click here for more details

Mayfair	Old Burlington Street
Size (sq ft)	5,332
Monthly Total	**£61,762**

Click here for more details

Marylebone	Marylebone Road
Size (sq ft)	3,925
Monthly Total	**£38,726**

Click here for more details

Case Study

CONFIDENTIAL

Location	**Sector**
Global	Insurance

Industry-leading insurance client required strategic advice for expanding global property portfolio

Spacepoint were engaged to provide contract reviews and strategy consultancy to assist our Client towards a more efficient management of their global office portfolio.

Having experienced rapid growth through international corporate acquisitions they needed assistance to understand the various contractual obligations, risks and timings of the property contracts that were linked to the acquired businesses.

property perfected

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