

SPACEPOINT[↑]

London Office Update
May 2024



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London industrial investment slumps – a time to buy?

>> Market Update

During the first quarter of 2024, industrial investment in London persisted at historically low levels, albeit with indications of yield stabilisation following a notable correction, which many hope will spur heightened activity for the remainder of the year.

Approximately £100 million was injected into Greater London's industrial sector last quarter, mirroring a similarly subdued performance from the preceding quarter and marking a 62% decrease compared to the corresponding period last year. The past two quarters have stood as the weakest since 2014, preceding a surge in industrial property investment propelled by e-commerce. Investment amounting to around £210 million in the six months leading up to March 2024 represents a significant 72% decline from the previous six months, marking a sharp downturn from the peak of £2.5 billion recorded in the six months to March 2022.

Despite robust market fundamentals and above-inflation rent growth, London's portion of overall industrial investment has dwindled to 7% in the last two quarters, marking its lowest level in a decade and down from an average 16% share over the past nine years.

Several factors contribute to this decline. London's low-yield industrial properties have shown particular vulnerability to rises in borrowing costs. Furthermore, escalating vacancy rates and sluggish rent growth in the capital have dissuaded investors.

Noteworthy transactions, however, in 2024 include two redevelopment ventures in March, with London Square's acquisition of an industrial site in Lambeth and Goya Hillwood's purchase of a former Babcock site in Park Royal for speculative development.

The most recent significant transaction in Greater London occurred during a comparatively active summer last year, when Valor Real Estate acquired Tera 40 in Greenford.

London has experienced notable price declines in comparison to the rest of the UK, with average yields escalating by 200 basis points since

the Bank of England commenced raising interest rates two years ago.

However, with yields now stabilising and prospects of interest rate cuts and improved economic conditions on the horizon, activity is anticipated to rise in London in the forthcoming months as investors acknowledge the city's growth potential despite the limited availability of industrial-zoned land.

For Tenant-focused, specialised advice on industrial or office space
Call **0203 369 9800**

London Industrial Yields Stabilising After a Big Correction



Source: CoStar Group, May 2024

Mental Health in the Workplace

>> Commentary

One thing the pandemic did bring to the spotlight was health and wellbeing in the workplace – and thankfully so. And since then, there's been economic uncertainty, the UK's cost-of-living crisis, and wars, all of which have far-reaching impacts on people's wellbeing.

Ultimately, a healthy workforce should increase productivity and have a trickle-down effect. According to the Mental Health Foundation: Added Value report – £225 billion (12.1% of GDP) per year is contributed to the economy by people who have, or have had, mental health problems. It's crucial that value is protected by addressing mental health issues for those at risk in the workplace and offering support. Research conducted by Deloitte has also suggested that for every £1 invested in mental health initiatives, companies can see a return of £5 in reduced absenteeism, presenteeism, staff turnover, and healthcare costs.

So, what can you do to improve the health and wellness at your firm? Here are a few good initiatives we've seen:

- Fitness & Wellness Programs: Offer onsite facilities such as gyms or access to gym classes/memberships, cycle to work schemes, run/cycle clubs.
- The physical workplace: Make the office a nice place to be. Little touches like biophilic elements, comfortable office setup, natural light, relaxation zones.
- Flexible working: Give staff the option to work away from the office.
- Employee Support Networks: Peer-to-peer support is surprisingly powerful and helps build a good sense of community and culture.
- Afterwork Socials: bring the team together to unwind.

Offering these initiatives is one thing and getting staff to engage is another, but with clear and effective communication and support, it will be possible. Involving staff from the outset and getting their ideas will help get buy-in. If staff feel listened to, engagement will rise. Most importantly, continue to get

feedback so you can continuously look to improve the ideas and increase participation and better the company culture.

Historically, Mental Health and Wellbeing was more of a taboo subject. Now the data is out there, highlighting its profound impact on individuals, workplaces, and economies alike. This shift in awareness has catalysed a movement towards prioritising mental health initiatives in the workplace, driving conversations, policies, and practices aimed at developing supportive environments and ensuring the well-being of employees.

For further guidance, a great resource would be the website of [Mental Health At Work](#)



The difference between Shell & Core, CAT-A, CAT-A + and CAT B



Education

In every industry there's always jargon, and the property industry is certainly a leader in that respect! CAT-A, CAT-A +, CAT-B, Shell & Core – what does it all mean?

The different categories refer to the various stages of the build and the level of customisation of the space.

Shell & Core

The shell and core "fit out" represents the initial phase of a building's fitting out process. It entails the completion of the building's shell, encompassing its envelope and primary structural components such as external walls, roof, windows, and doors. At this stage, only essential building services are installed, including basic electrical and plumbing infrastructure, as well as fire protection systems.

The objective of a shell and core fit out is to create a versatile and adaptable space capable of accommodating a diverse array of tenant preferences and requirements. When negotiating with a landlord for a space to lease, a CAT A and above fitout denotes the level of finish and functionality that prepares the space for occupancy.

CAT-A

CAT-A refers to the base condition of an office space as provided by the landlord, encompassing essential infrastructure and finishes required for occupancy. This standardised specification serves as a benchmark for future rent assessments and determines a tenant's responsibilities for reinstatement.

Building upon a shell and core framework, CAT-A fit outs integrate critical services like electrical distribution, lighting, HVAC systems, and basic plumbing connections. Additionally, they incorporate basic finishes such as

raised floors, suspended ceilings, and wall treatments. The aim is to establish a functional and aesthetically pleasing environment, essentially offering a blank canvas for incoming tenants to tailor the space to their specific requirements.

CAT-A+ / Plug & Play

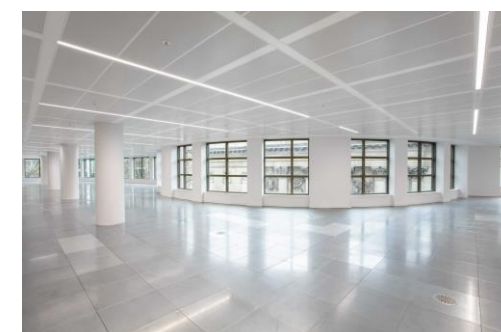
This is a relatively new category, which was greatly spurred on by Covid when landlords aimed to attract tenants to their spaces. By eliminating the tenant headache of conducting a fitout, it helped properties to be leased more quickly. Increasingly, landlords are now adopting this approach to reduce void periods. It stands a step above CAT-A, as it includes design features and configurations, albeit not as customized as CAT-B, as the design is dictated by the landlord rather than the tenant. With CAT-B, the tenant makes all the design and configuration decisions, resulting in a space that is completely tailored to their business.

Factors to consider when deciding on the category:

- Lease length of the office: If your occupancy is short-term, you are likely to spend less on the fitout to align with the lease's short duration.
- Timeframes: If you are pressed for time, securing CAT-A+ space will save time.
- Specific tenant requirements: If you have unique needs, such as requiring a soundproof recording studio in the middle of the office, CAT-B will likely be more suitable to accommodate that specific requirement.
- Cashflow: Opting for CAT-A+ removes the upfront capital expenditure for the tenant, and the cost of the fitout borne by the landlord will be recovered over the lease term.
- Quality: Taking on CAT-A+ space means you won't know the specifications of the build, and it may have been completed cheaply. With CAT-B, you have full control.

Whatever type of space you may wish to acquire:

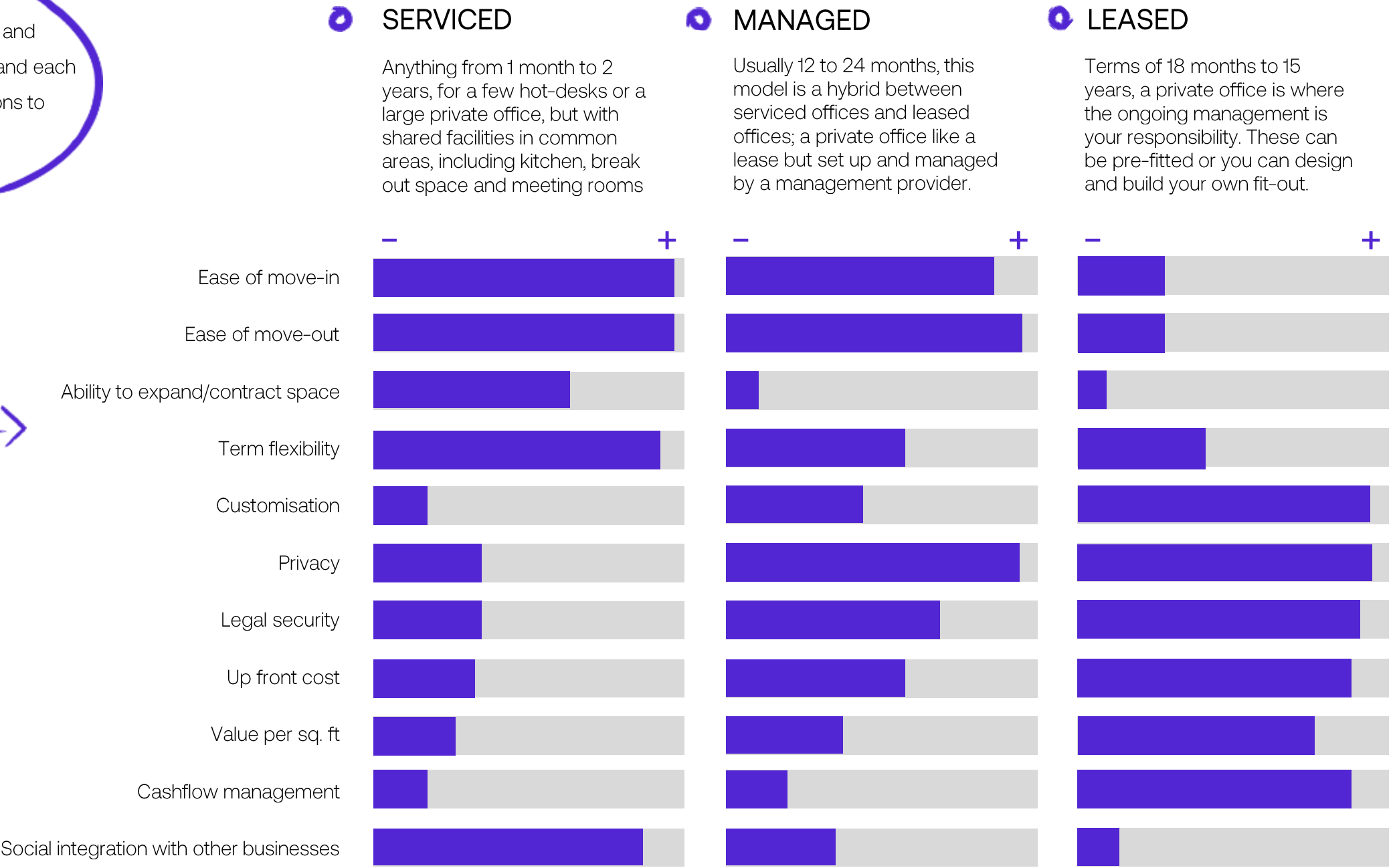
Call 0203 369 9800



Which type of office is right for you?

>> Types of office

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 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.

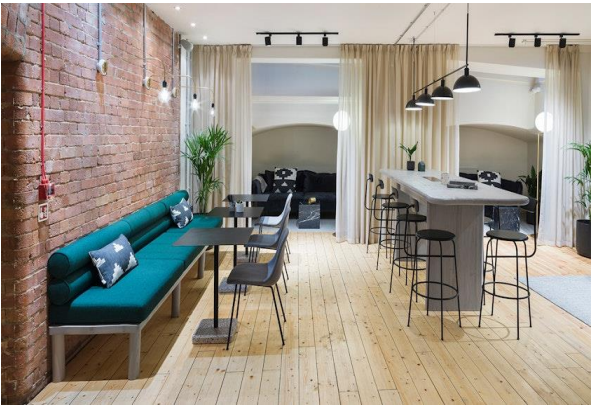
Overflow – if your current office proves to be too small but you are tied into it for another year or so, then serviced can act as excellent overflow space.

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



Farringdon **Greville Street, EC1**

Desks 2

Monthly Total £1,795

[Click here for more details](#)



Paddington **Merchant Sq, W2**

Desks 50

Monthly Total £56,998

[Click here for more details](#)



Mayfair **Mayfair Place, W1J**

Desks 15

Monthly Total £18,000

[Click here for more details](#)

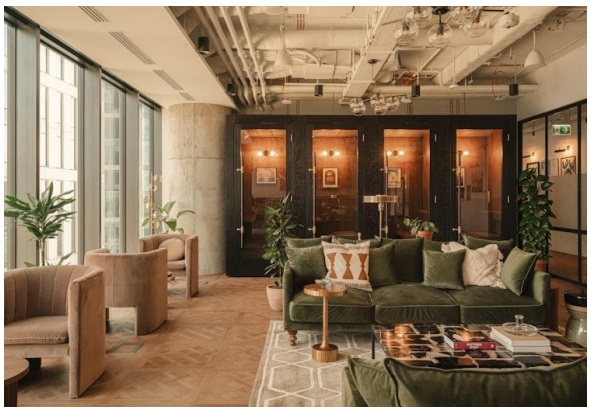


Borough **Borough High Street, SE1**

Desks 8

Monthly Total £6,200

[Click here for more details](#)



Old Street **Old Street, EC1**

Desks 24

Monthly Total £15,600

[Click here for more details](#)



Wimbledon **High Street Wimbledon, SW19**

Desks 8

Monthly Total £4,800

[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



Fitzrovia **New Cavendish Street**

Size (sq ft) 12,091 sq. ft
Monthly Total **£122,219**

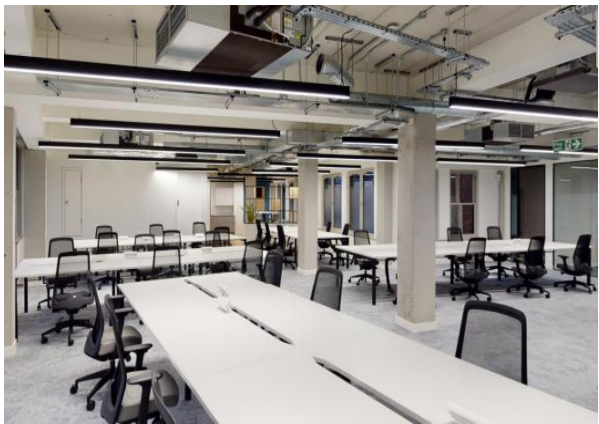
[Click here for more details](#)



St. James **Duke Street**

Size (sq ft) 4,804 sq. ft
Monthly Total **£66,884**

[Click here for more details](#)



City **Well Court**

Size (sq ft) 2,509 sq. ft
Monthly Total **£23,486**

[Click here for more details](#)



Knightsbridge **Brompton Road**

Size (sq ft) 1,950 sq. ft
Monthly Total **£17,215**

[Click here for more details](#)



Victoria **Victoria Street**

Size (sq ft) 6,164 sq. ft
Monthly Total **£63,011**

[Click here for more details](#)



Southwark **Lavington Street**

Size (sq ft) 1,797 sq. ft
Monthly Total **£18,122**

[Click here for more details](#)

Case Study



kotra

Korea Trade-Investment
Promotion Agency

Location

Covent garden

Sector

Trade Body

KOTRA is a state funded trade and investment promotion organisation operated by the government of South Korea.

KOTRA’s previous building was being redeveloped, and consequently, they had to relocate. After appointing Spacepoint, we comprehensively covered the midtown market, presenting a range of offices.

Being state-funded, KOTRA had to see a balance of properties that met certain criteria, which had to be sent to the government for approval. After a handful of viewing tours, we curated a shortlist and started negotiating on three shortlisted properties. In the end, 1 Southampton Street was the chosen property where we negotiated a very strong deal, securing above-market terms and got the landlord to make further amendments to a partially fitted floor.



propertyperfected ✓



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