Office Property and Supply Trends

Workplace Trends Conference

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24th October 2013

RAMIDUS CONSULTING LIMITED

Office property and supply trends

(1) How much do we need?

(2) What's driving it?

(3) Where do we need it?

(4) Closing thoughts

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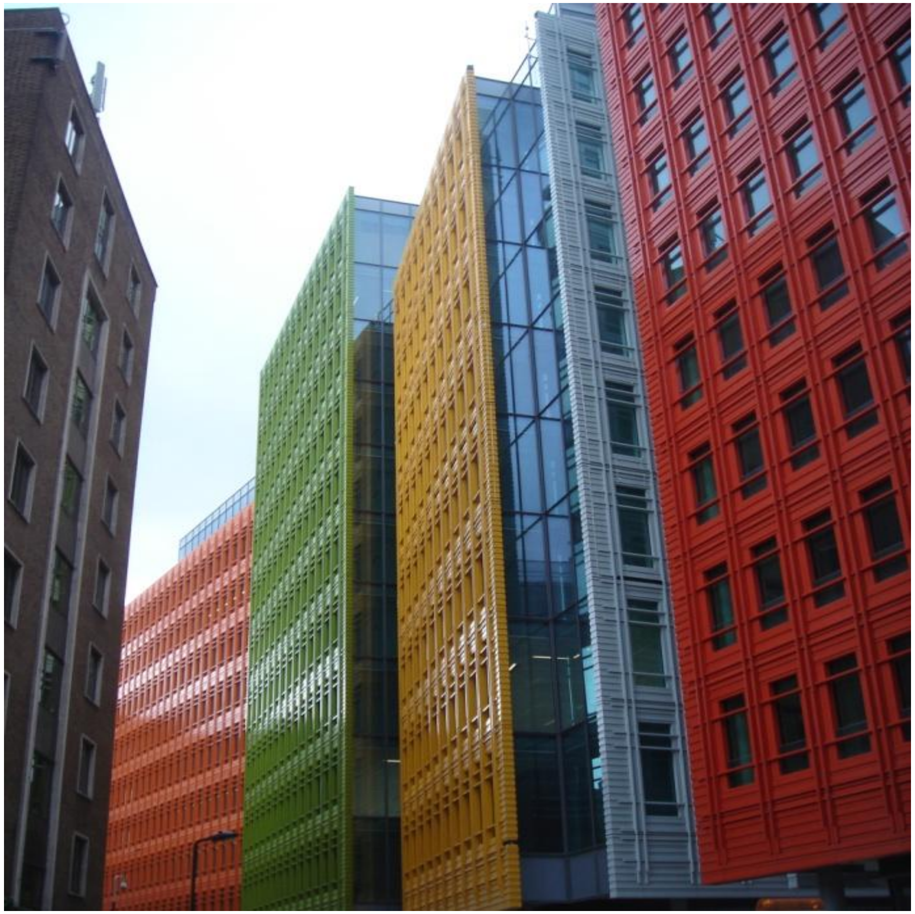
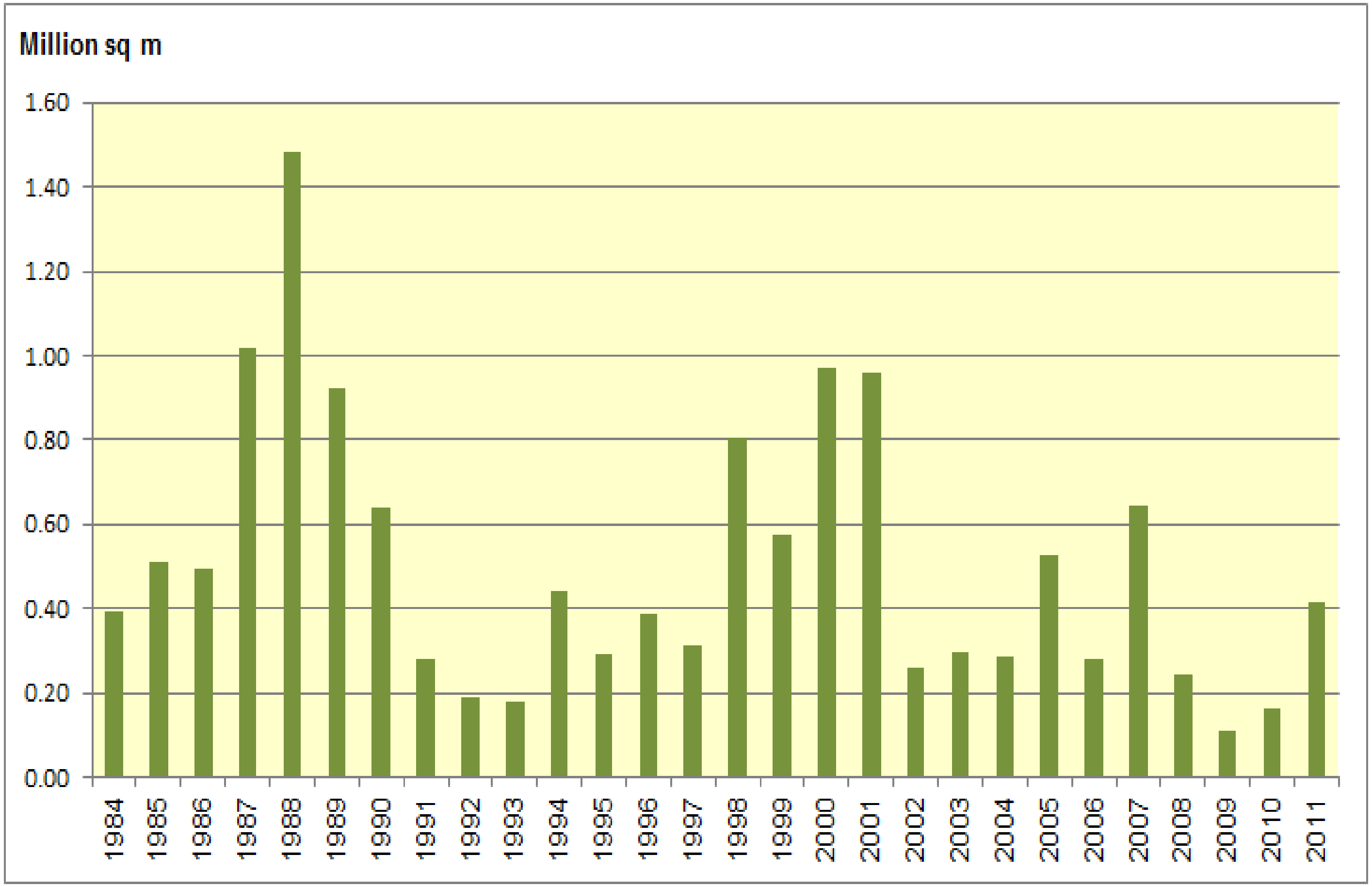
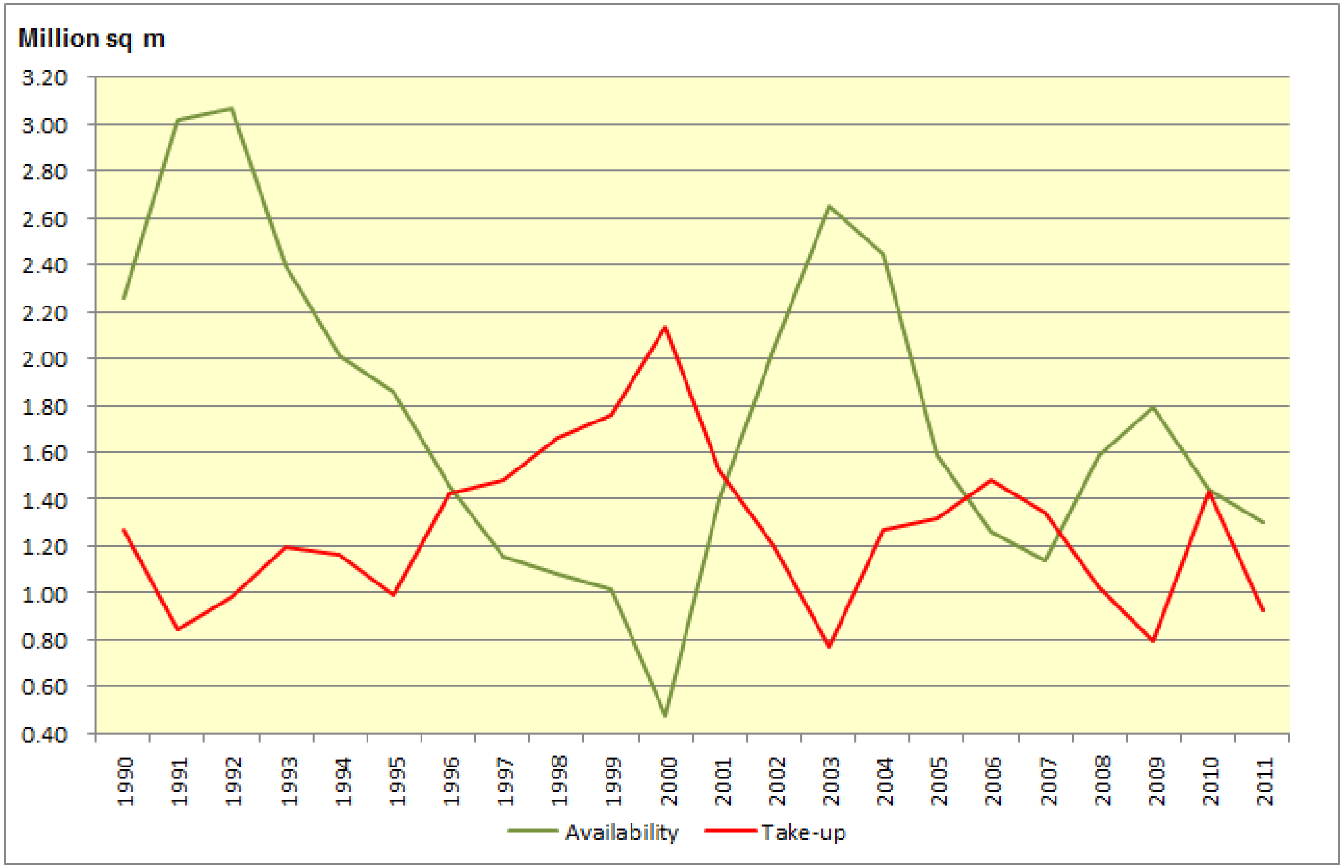
(1) How much do we need?



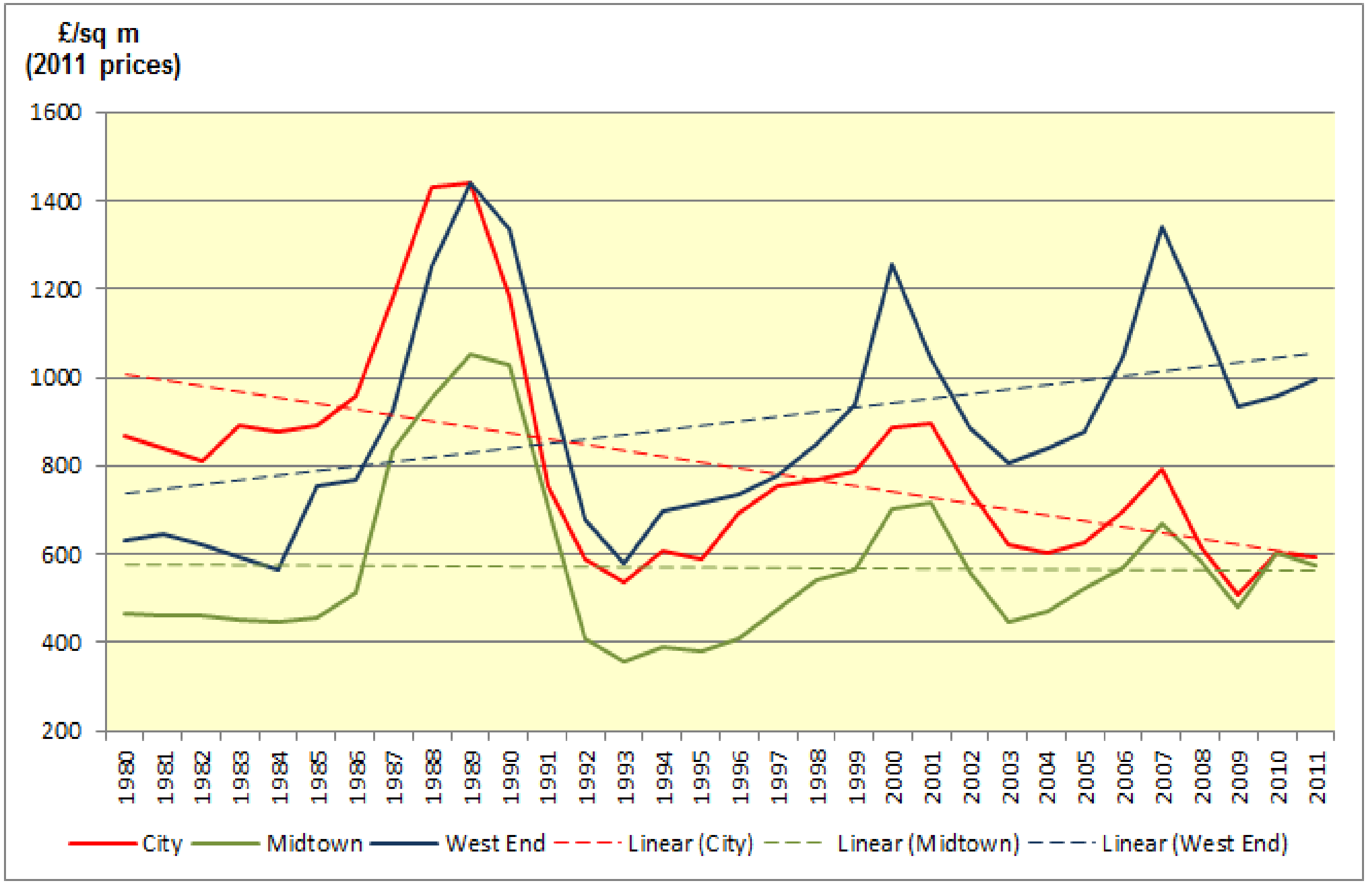
Office starts, central London, 1984-2011



Availability and take-up, Central London, 1990-2011



Central London office rents, 1980-2011



Employment forecasts by area, 2011-2031

Area	2011	2031	2011-31	% change 2011-31
CAZ	961,729	1,191,002	229,273	23.8
Inner	275,038	342,024	66,986	24.4
Outer	361,241	442,537	81,296	22.5
London	**1,598,008**	**1,975,564**	**377,555**	**23.6**

Employment and floorspace, 2011-2031

Area	Forecast 2011-31	
	Jobs	Sq m NIA
CAZ	229,273	2,476,151
Inner	66,986	723,446
Outer	81,296	878,002
London	**377,555**	**4,077,599**

Employment and floorspace, 2011-2031

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Borough	Forecast 2011-31 Sq m NIA
Camden	460,435
City	624,256
Hackney	92,731
Islington	274,208
Southwark	272,175
Tower Hamlets	346,958
Westminster	516,443
London	**4,077,599**

(2) What are the drivers?

Cyclical and structural drivers

Cyclical	Cyclical or structural	Structural
Recessionary pressure	Financial supervision?	Polycentric London
Confidence	London's reputation?	Transport infrastructure
Rent & yield adjustment	UK tax regime?	Business processes
Output-related demand fall	Demand profile?	Changing work styles
Development downturn	Office economy forecasts?	Outer London decline
Bank lending	East versus west?	Office to residential

Some current travails will pass ...
Others might stick around for a while ...
But some changes are more fundamental ....

Changes to business, and consequences for work styles, are changing the way buildings (and cities) need to function.

Polycentric London: the shifting sands of business

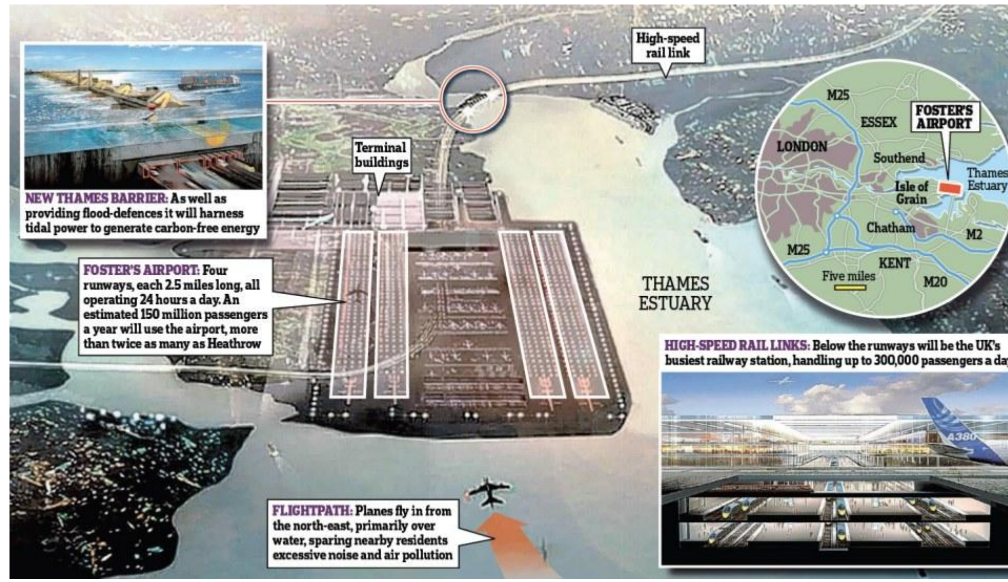
Area	Business cluster
Bethnal Green	Clothing
Clerkenwell	Jewellery
Fleet Street	Printing
Harley Street & Wimpole Street	Medicine
Inns of Court	Law
Mayfair	Private banks and property companies
North of Oxford Street	Clothing
Shoreditch	Furniture and printing
Victoria	Government, oil and engineering

Polycentric London: the shifting sands of business

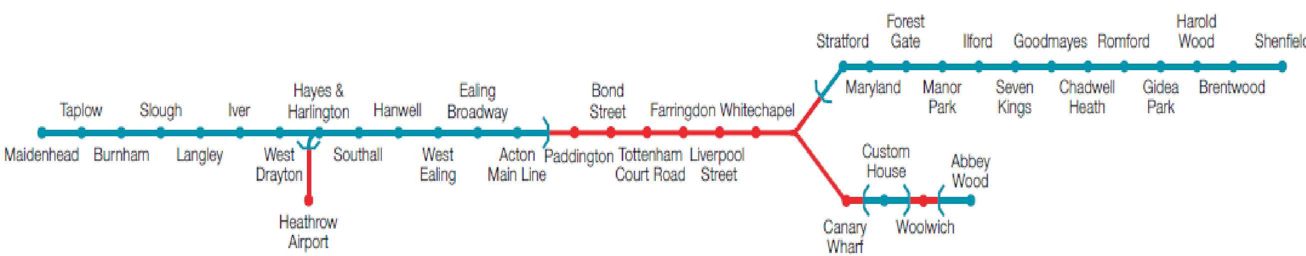
Location of advertising agencies, central London, 1918-1966

Post code	1918		1938		1951		1966	
	No	%	No	%	No	%	No	%
W1	24	6.7	48	10.1	97	40.9	151	38.0
SW1	11	2.8	40	8.4	38	8.1	30	7.6
WC1	33	9.2	63	13.2	47	14.6	54	13.6
WC2	110	30.8	153	32.1	83	19.2	71	17.9
EC1	15	4.2	17	3.6	10	3.8	14	3.5
EC2	30	8.4	29	6.1	18	4.1	15	3.8
EC3	20	5.6	11	2.3	6	0.5	2	0.5
EC4	110	30.8	111	23.0	67	15.7	58	14.6
SE1	4	1.1	5	1.0	3	0.5	2	0.5
Total	357	100.0	477	100.0	369	100.0	397	100.0

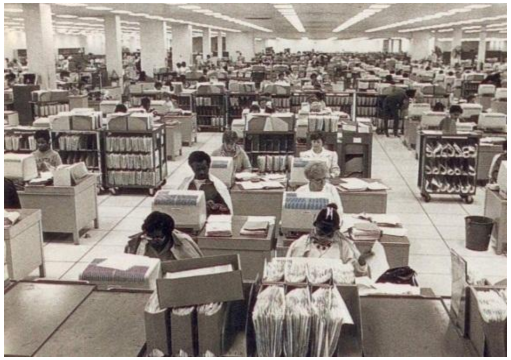
Transport infrastructure: Crossrail and Airport



By 2030, demand/capacity in public transport will be where it is today!
Crossrail will encourage workplace development at Tottenham Court Road & Farringdon.
Estuary airport could fundamentally change London's business geography.



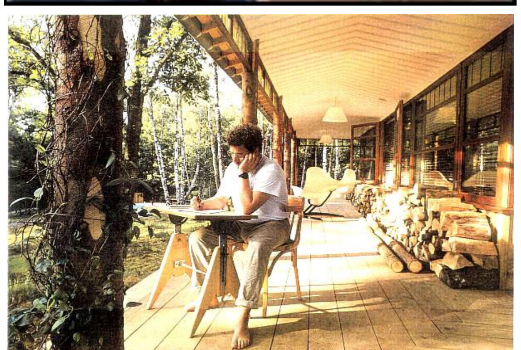
Business processes



Business will continue to evolve.
Workstyles will also evolve.

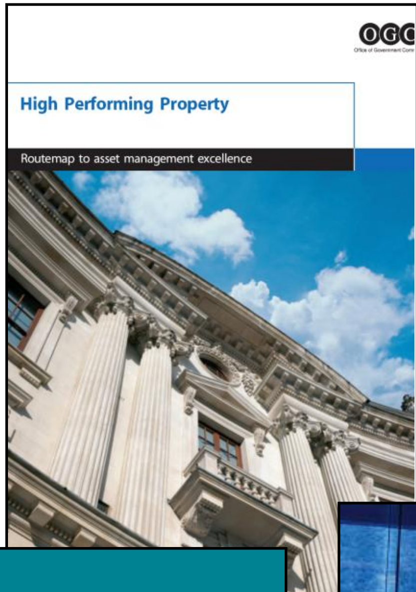
Ergo, building stock must evolve.
White collar factories into creative hubs

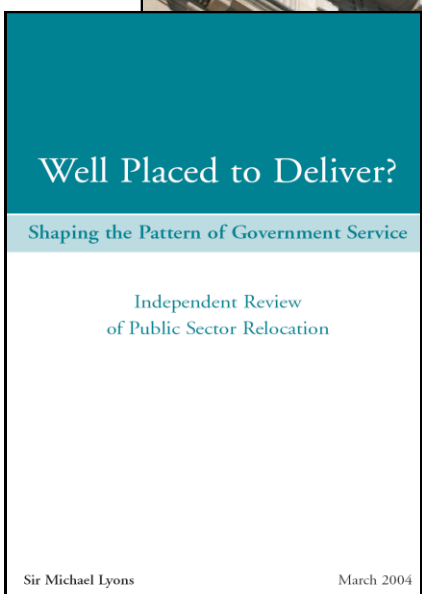
A new product?
Form: lower rise; lower spec; smaller floors; sub-divisible
Plan: open; permeable
Use: configuration; multi-let; smaller unit sizes; quasi office
Contract: short/long-term; hotel space
Management: service provision

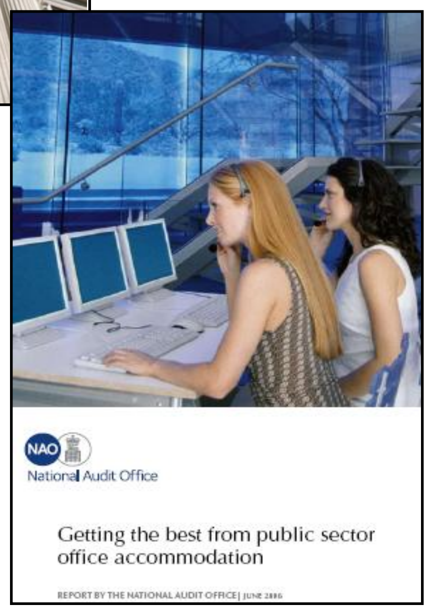


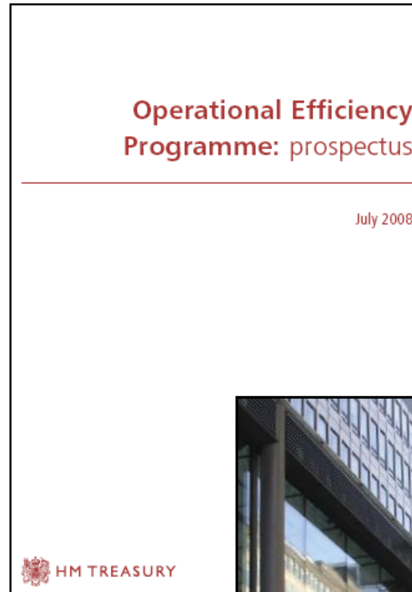
Spaceless growth
No longer "one bum = 150 sq ft"
Now "more than one bum per desk"

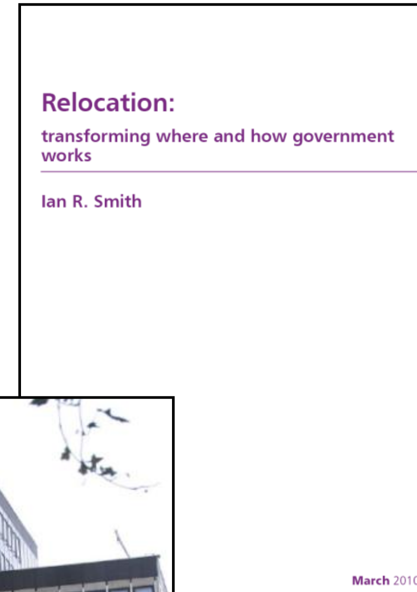
Business processes: public sector demand











Changing workstyles: old approaches not adequate

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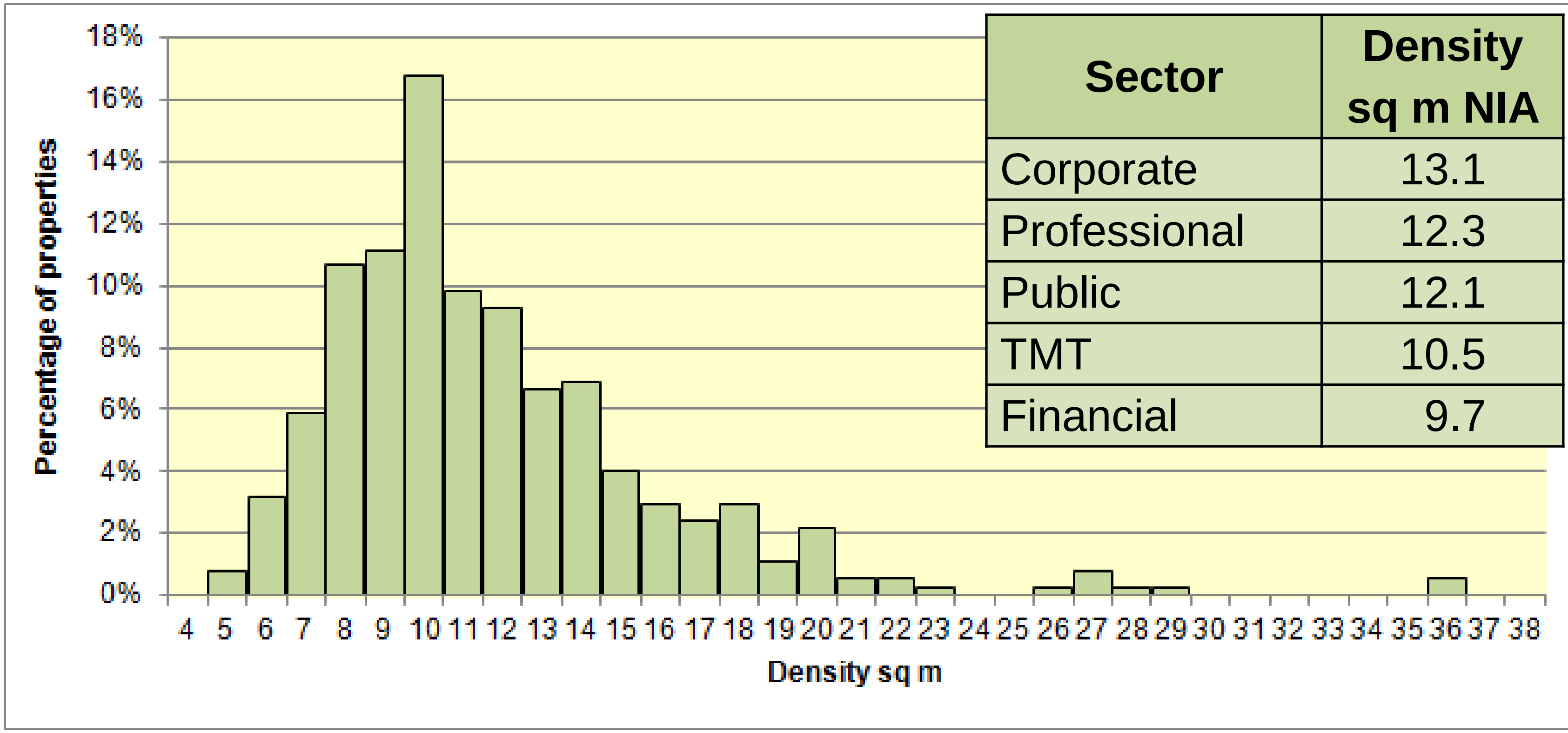
Occupancy densities, BCO research 2013

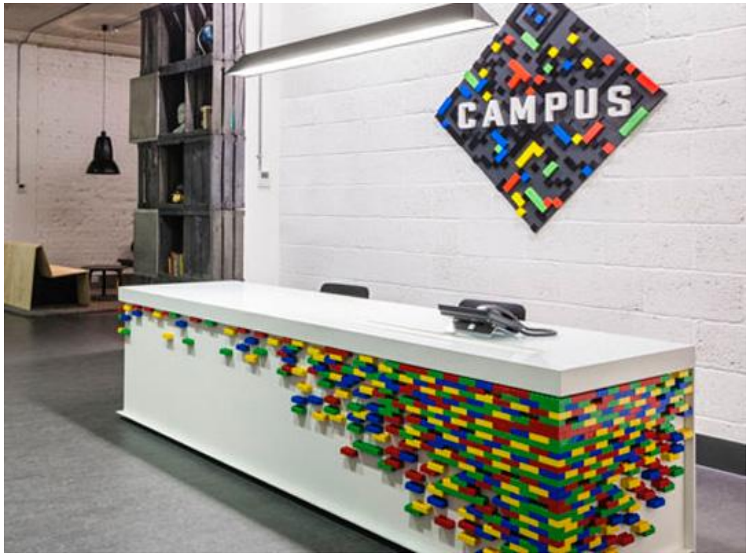


Sector	Density sq m NIA
Corporate	13.1
Professional	12.3
Public	12.1
TMT	10.5
Financial	9.7

2.5 million sq m; 381 properties; 1,331 floors

Mean: 10.9 sq m

Changing workstyles: old approaches not adequate



Co-working space in East London's Tech City.
Seven floors of flexible work space for start-ups.
Free high-speed internet and support, including mentoring programmes and networking events.

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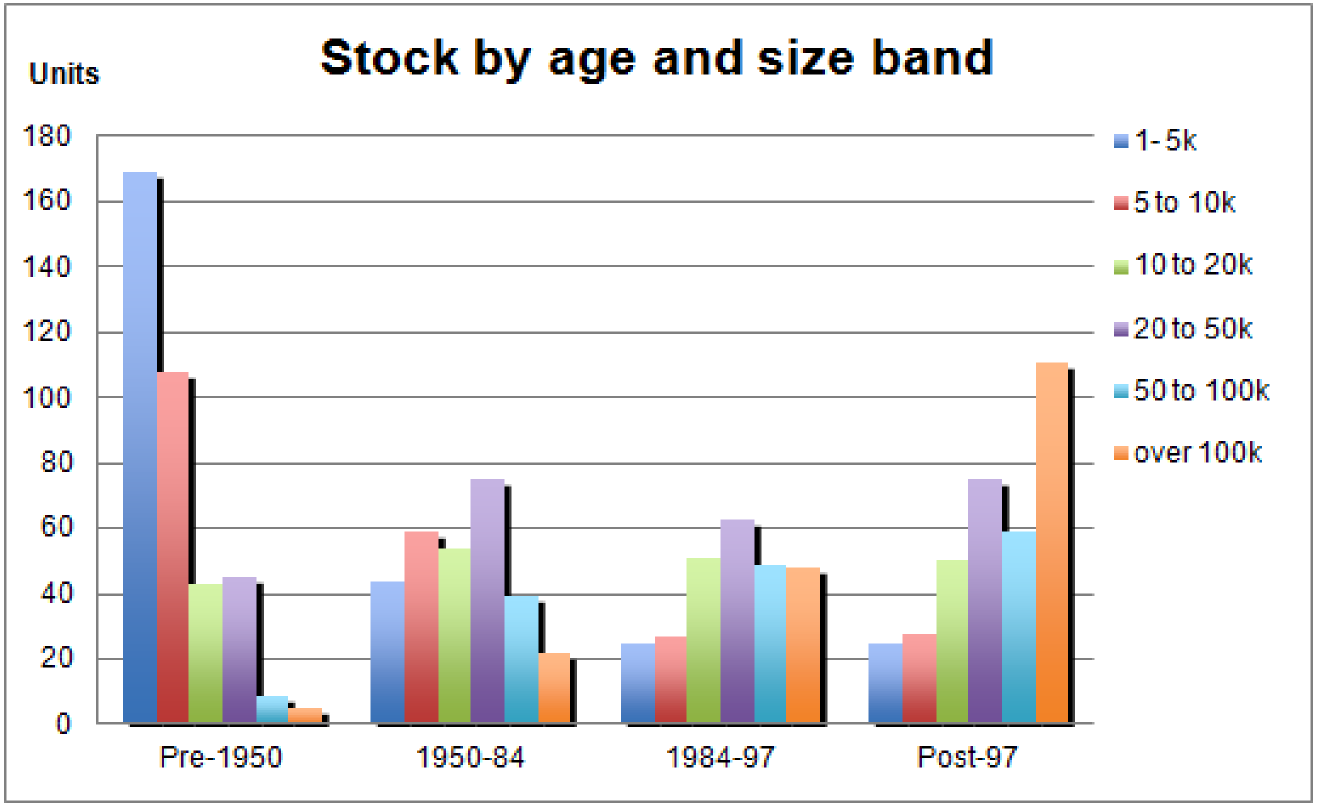
Catering for diversity: the shift to larger buildings



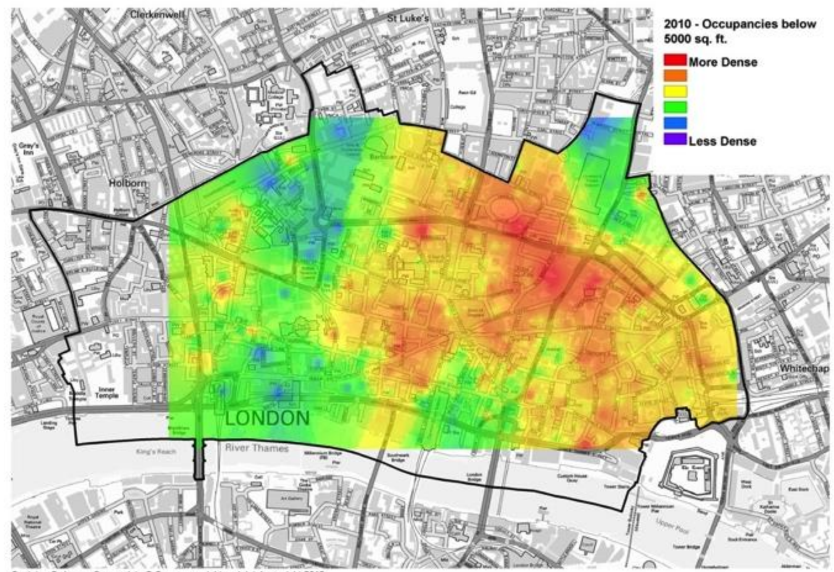
At the same time as buildings are getting larger, the average unit of occupation is shrinking ....

Catering for diversity: SMEs and SMOs

The City needs an office stock with the scale and range to meet the needs of a diverse and changeable occupier base.

City has 85 occupations over 100,000 sq ft. And 1,878 of <5,000 sq ft.

Occupations <5,000 sq ft



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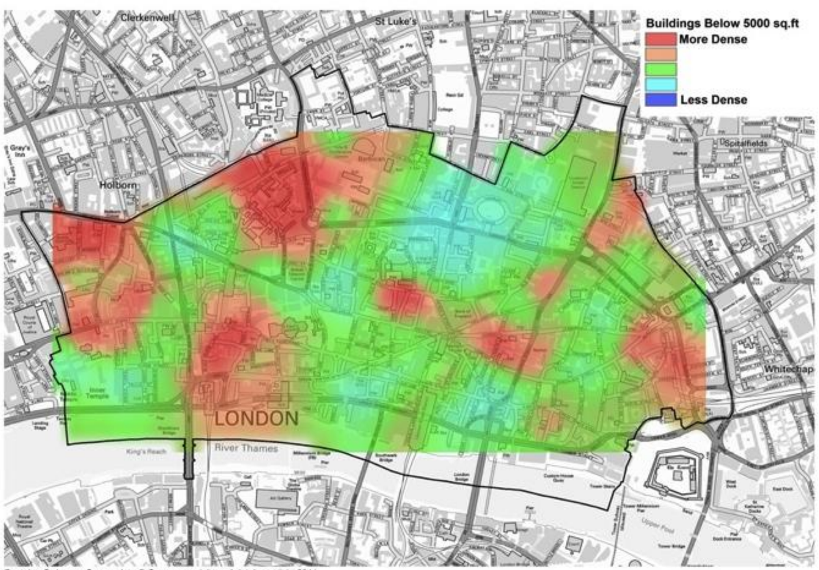
All grades, <5,000 sq ft



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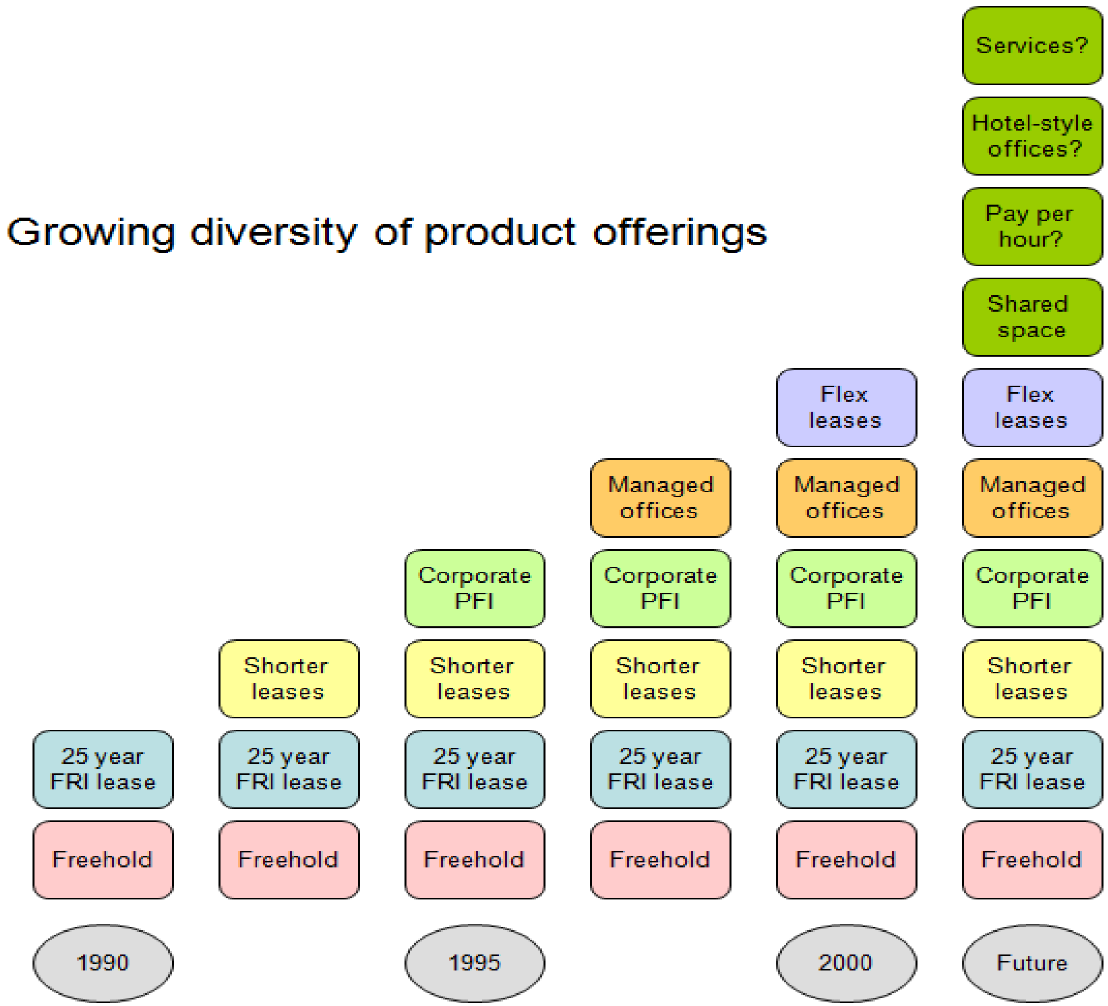
Catering for diversity: commoditisation of space



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Office to residential conversions

London B1 losses 2009-12.

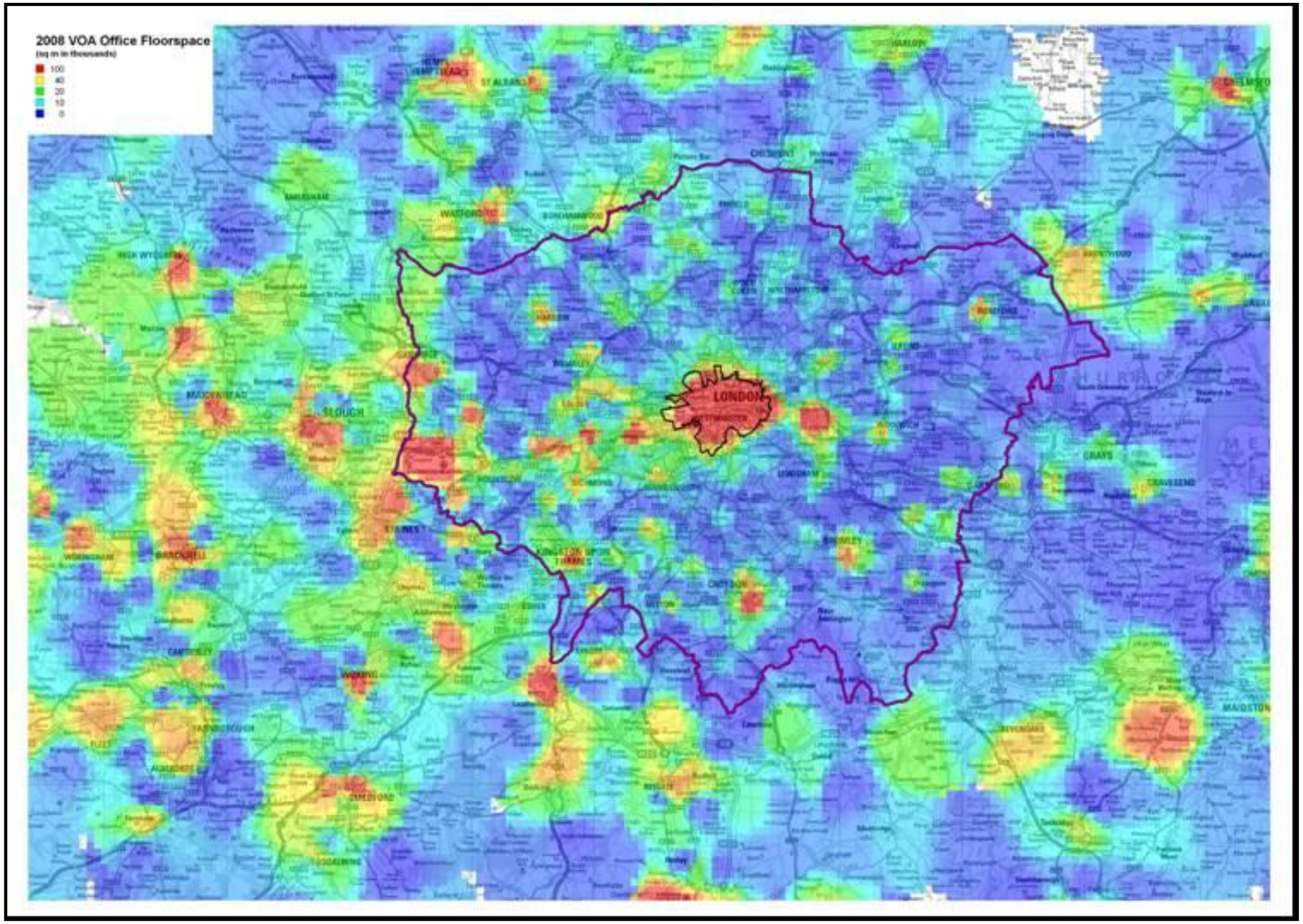
Critical for CAZ ...
... Less so for outer London

Stage	Number of sites	B1 floorspace losses (sq m)	Residential units
Completed	767	-505,800	11,400
Started	379	-515,100	13,200
Not started	1,019	-654,700	14,400
Total	**2,165**	**-1,675,600**	**39,000**

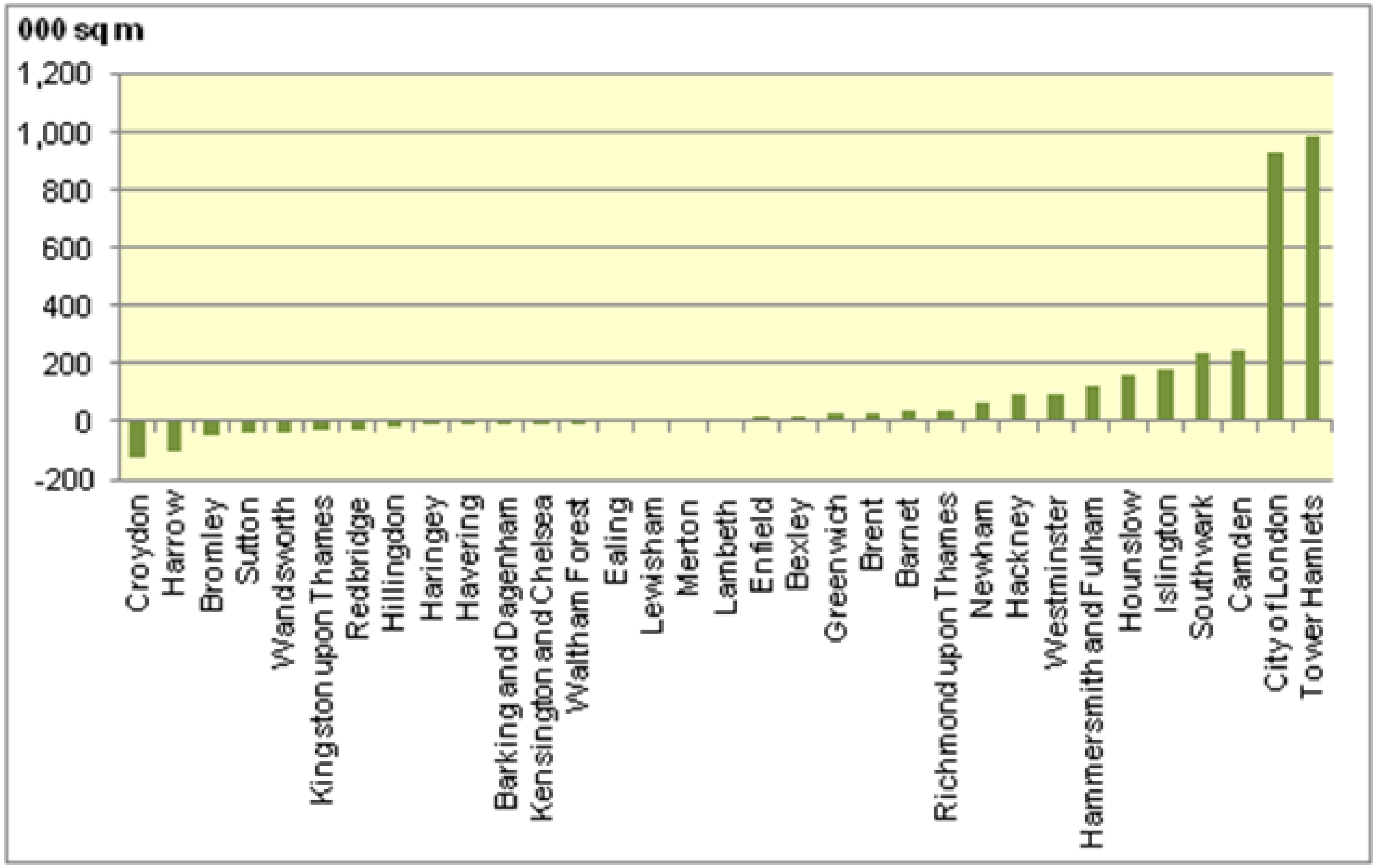
Borough	B1 floorspace losses			Total (sq m)
	Completed	Started	Not started	
Westminster	31%	19%	16%	-361,500
Tower Hamlets	7%	5%	12%	-138,200
Croydon	8%	8%	4%	-104,600
City	2%	2%	9%	-82,700
Lambeth	4%	8%	3%	-77,700
Kensington & Chelsea	2%	11%	2%	-77,200
Camden	5%	5%	4%	-76,600
Islington	3%	4%	6%	-73,000
Southwark	2%	3%	7%	-69,500
Hammersmith & Fulham	3%	1%	6%	-62,500

(3) Where do we need it?

Office density in the South East

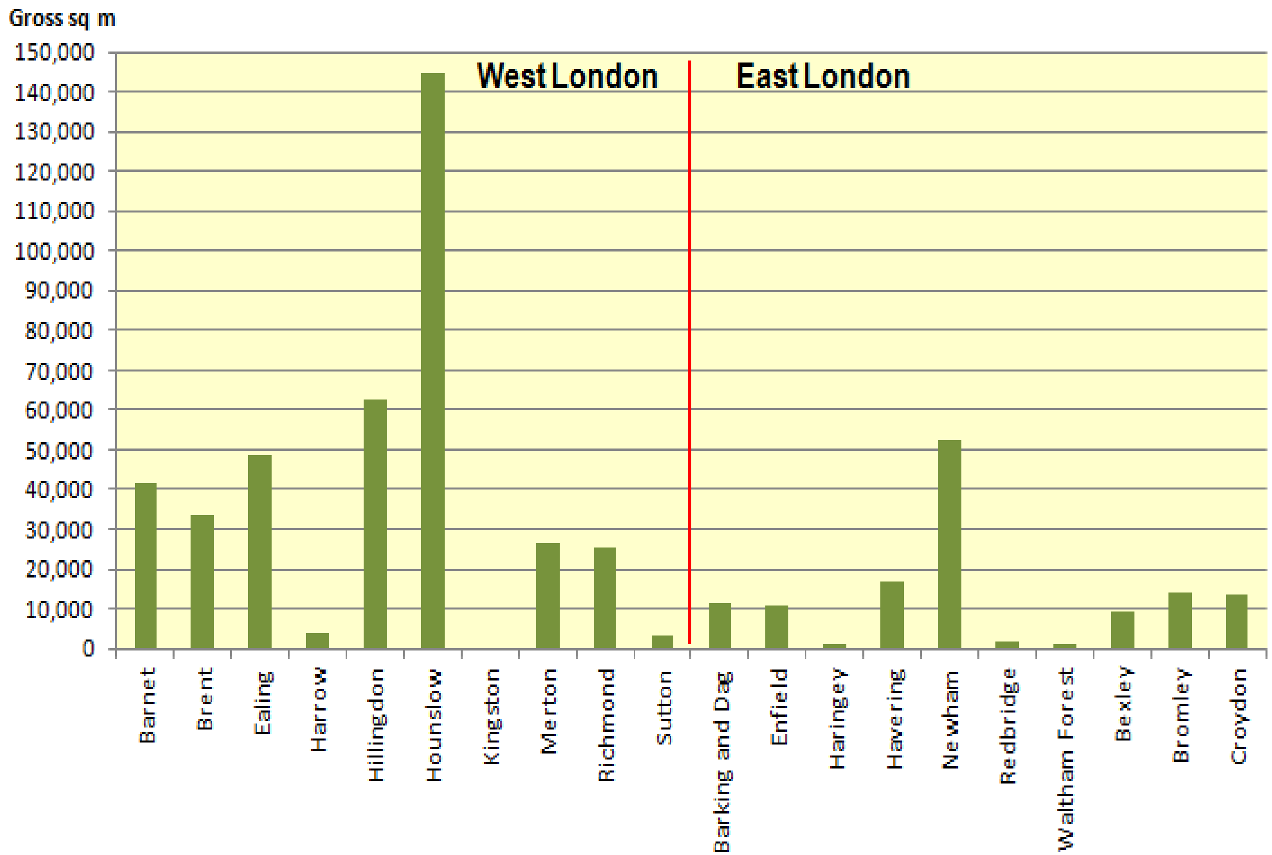


Inner and outer London: office stock 2000-12



Outer London office employment, 2001-2008, fell in 11 boroughs.

Inner and Outer London: completions 2000-08



Prior to the credit crunch, Outer London's office market performed dismally.

- In 2008, no new office buildings were built in 9/20 Outer London.
- In any of the five years up to 2008, 10-13 Outer London boroughs delivered no new office construction.

Inner and Outer London: the wider economy

Region	All employment change, 1989-2008	
	000s	%
Inner London	394	19.9
Outer London	62	4.1
Outer Metropolitan Area	449	20.3
Rest of Greater South East	561	20.7
Rest of Great Britain	1,897	13.7

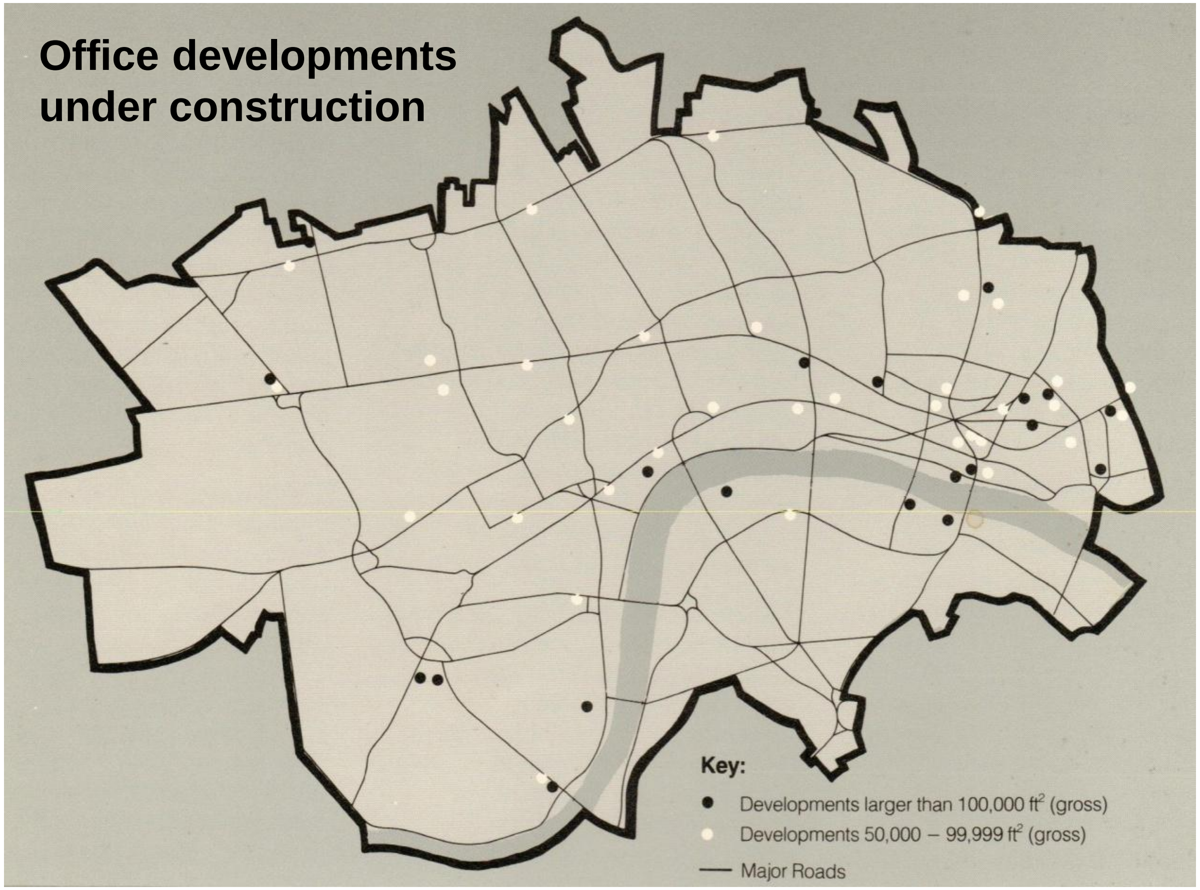
Source: LSE (2009) *London's Place in the UK Economy 2009-10*

Peak-to-peak, comparing 1989 with 2008, all employment in Outer London grew at less than a quarter of the rate of other parts of London and the Greater South East, and much slower even than the rest of Great Britain.

Monocentric London: the old market

Thirty years ago the central London office market was very simple ...

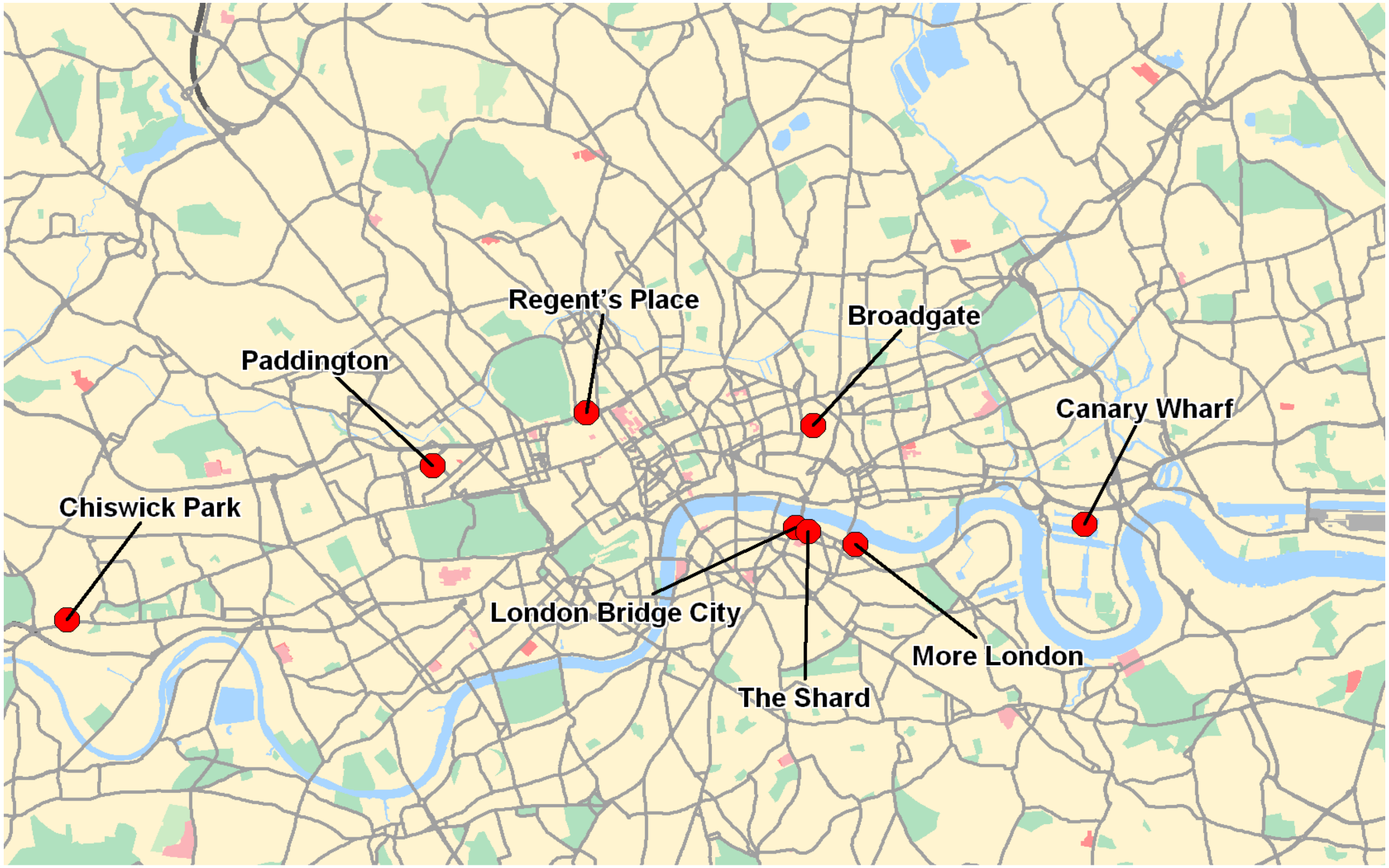
City and West End



Source: Jones Lang Wootton *Central London Offices Research* December 1983

Polycentric London: the new market

Mega schemes delivered 1985-2010



Polycentric London: the new market

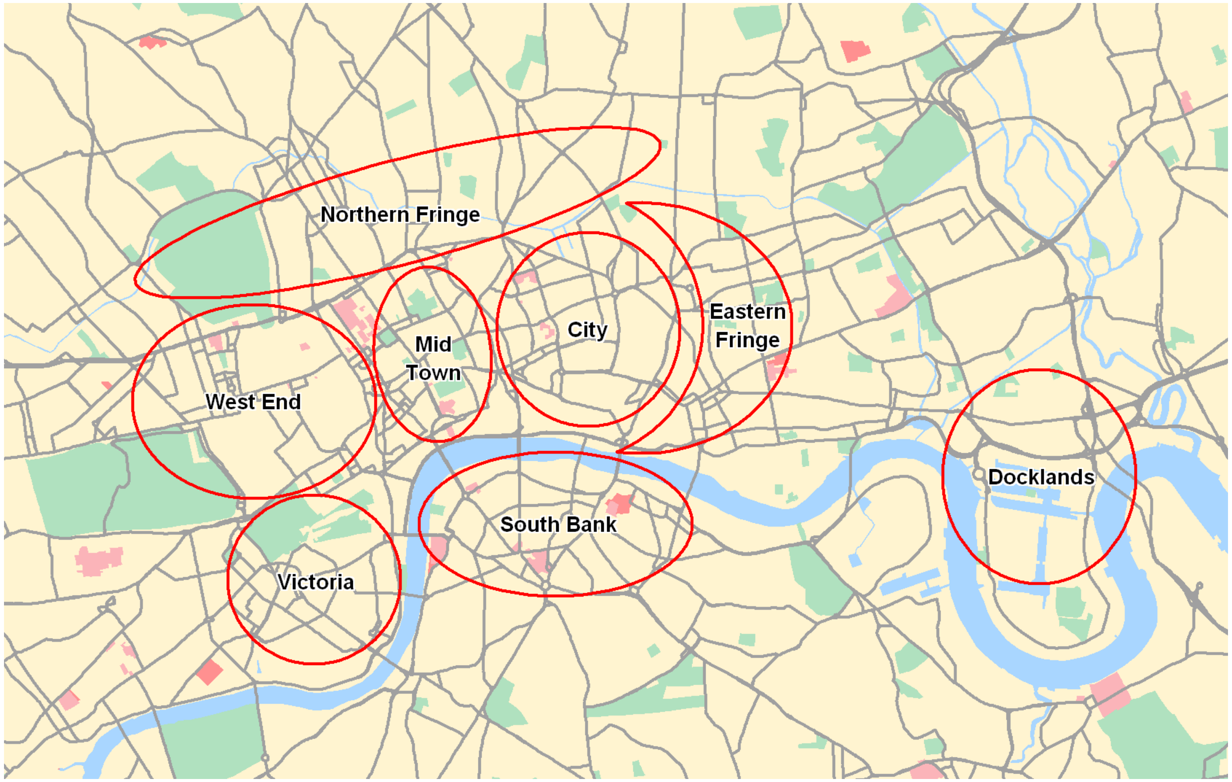
Mega schemes planned and delivered post-2010

Polycentric London: the new market

- 1985-2008, a period of massive expansion in the London office economy: 7 mega schemes delivered **2.42m sq m** delivered.
- Mega scheme completion rate over the past 25 years averaged 100,000 sq m pa.
- On average, mega schemes accounted for 25% of all development in a year.
- 14 second generation mega schemes: **3.74m sq m**.
- 54% more than 7 first generation mega schemes.
- At the same time employment forecasts suggest office jobs growing half as fast.

Polycentric London: the new market

Mega schemes planned and delivered 1985-2010



- Growing numbers of companies choosing central London over western corridor.
- Some moving in from Outer London

(4) Closing thoughts ....

Closing thoughts

Occupiers
- Structural slowdown in office economy = lower demand growth.
- Changes to business process + workstyles = spaceless growth.
- Public sector rationalisation.

Business geography
- Looser business geography, with shifting and emerging clusters.
- Further concentration of business activity in mega schemes.
- Less demand in Outer London? Less demand in West London?

Workplace
- Working practices: flexible working styles; utilisation.
- Diversity of stock (quality, size, location) for a diverse occupier base.
- Loose fit buildings: economic, lower spec, flexible space.

Closing thoughts

Property market

- Implications of the mega scheme pipeline: plenty of capacity.
- Outer London: further decline? 1960s/1970s stock a lost cause?
- More refurb and less new build?

Spatial planning policy

- Capacity is not the issue: need for more sensitive spatial policy.
- TMT: you can’t plan creativity!
- Mixed use space and how to integrate office space.

The known unknowns

- Employment forecasts and economic change?
- Hub airport strategy: potentially huge impact on west London offices?
- The impact of resi values on marginalising commercial activity?

Office property and supply trends