Halting the decline of Outer London’s office markets

Town Centre Conference, Kingston University
10th September 2012
Agenda

The rise and fall of Outer London’s office markets

With some exceptions …

What will drive demand in future?

How can town centres adapt their property stock?

Two propositions
The UK’s office economy doubled 1980-2010. FBS jobs grew from 3.5m to 6.5m
Office space grew from 45m sq m to 100m sq m
SLower growth in future for London

GLA Employment projections.

<table>
<thead>
<tr>
<th>Sector</th>
<th>2011-2031</th>
<th>2011-2036</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information and Communication</td>
<td>36</td>
<td>46</td>
</tr>
<tr>
<td>Financial and Insurance</td>
<td>-9</td>
<td>-12</td>
</tr>
<tr>
<td>Professional Scientific Technical and Real Estate</td>
<td>44</td>
<td>56</td>
</tr>
<tr>
<td>Administrative and Support Service</td>
<td>36</td>
<td>46</td>
</tr>
<tr>
<td>Public Admin &amp; Defence</td>
<td>-16</td>
<td>-20</td>
</tr>
</tbody>
</table>

Source: LOPR 2012

Forecast growth in office jobs is half the rate of previous two decades, or 25% 2011-2031, at 1.25% per annum.
Outer London office markets lag behind


<table>
<thead>
<tr>
<th>Region</th>
<th>Employment change, 1989-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>000s</td>
</tr>
<tr>
<td>Inner London</td>
<td>394</td>
</tr>
<tr>
<td>Outer London</td>
<td>62</td>
</tr>
<tr>
<td>Outer Metropolitan Area</td>
<td>449</td>
</tr>
<tr>
<td>Rest of Greater South East</td>
<td>561</td>
</tr>
<tr>
<td>Rest of Great Britain</td>
<td>1,897</td>
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</tbody>
</table>

Source: LSE (2009) *op cit*

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.
Office jobs declined in 11 Outer London boroughs

In the period 2001 to 2008 - a period of strong economic growth and corporate expansion - office employment fell in 11 Outer London boroughs.

Source: GLA Economics
In 2008, no new office buildings were built in 9 of the 20 Outer London boroughs. In any of the 5 years leading up to 2008, between 10 and 13 of the Outer London boroughs delivered no new office construction.

The situation was particularly acute in the East London boroughs.
Change in office stock in Outer London, 2000-2008

11 boroughs lost office stock between 2000 and 2008
<table>
<thead>
<tr>
<th>Sub-region</th>
<th>Total GVA 2009 (£m)</th>
<th>Change on 2008 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London</td>
<td>186,243</td>
<td>1.8</td>
</tr>
<tr>
<td>Inner London – West</td>
<td>122,214</td>
<td>1.5</td>
</tr>
<tr>
<td>Inner London – East</td>
<td>64,029</td>
<td>2.3</td>
</tr>
<tr>
<td>Outer London</td>
<td>83,419</td>
<td>-2.0</td>
</tr>
<tr>
<td>Outer London – East and North</td>
<td>22,089</td>
<td>-2.1</td>
</tr>
<tr>
<td>Outer London – South</td>
<td>20,348</td>
<td>-1.7</td>
</tr>
<tr>
<td>Outer London – West and North West</td>
<td>40,981</td>
<td>-2.2</td>
</tr>
</tbody>
</table>

Source: ONS/GLA Intelligence Unit, 14 Dec 2011
Why the decline in demand for Outer London offices?

• Erosion of property cost advantage between central and Outer London, as mega schemes offer an alternative.

• Changes to salary cost differential – the disappearance of Central London weighting

• Changing work styles – the shrinkage of the back office, or relocation to Bangalore or Glasgow not Outer London.

• Falling public sector demand – retrenchment and rationalisation will leave much more office space redundant.

• Outmoded physical environment – much of the stock is tired and poorly maintained, a vicious cycle of decline.
Strength in West and South West

Employment rates, London boroughs, 2009
Strength in West and South West

Average annual % change in employment rates, over two economic cycles

4 boroughs grew in both cycles: Harrow; Hillingdon; Kingston; Merton and Richmond
7 boroughs declined in both cycles: Barking & Dagenham; Bexley; Brent; Croydon; Enfield; Hounslow and Waltham Forest.
Concentration of office space to the west of London

Source: Ramidus Consulting
Skewed distribution of office value across the South East
What next for Outer London?

• The changing geography of London

• The key trends likely to influence demand for commercial property in Outer London.

• Forecasts of sectors most likely to grow.

• Nature and type of property that will meet their needs.
London’s east west balance

Crossrail will be operational in 2018

Infrastructure investment is a key determinant of future value.

Crossrail will reinforce the east west axis in London with implications for Outer London markets.

Other initiatives also reinforce the east west bias such as HS2; new university campuses for Imperial and UCL.

Some tip the balance to the east - the Olympic Park and proposals for an Estuary airport.

By 2030, demand/capacity in public transport will be where it is today!
Key trends to drive demand?

• Changes in working practices: enabled by IT and mobile communications: the opportunity to organise work, and the physical environments in which it takes place, differently.

• Workforce demographics: more women; more part-timers and more people staying in the workforce for longer: all trends which are forecast to continue.

• Cultural and policy shifts: encouraging more entrepreneurship and growing emphasis on sustainability, mixed use walkable communities.
Projected employment growth in London

London Employment Forecasts by Sector, 2010-2031

% change

Source: GLA Economics
Findings of a multi-client study in West London concluded:

“Very diverse occupiers for whom traditional sheds are an inappropriate product.”

“These companies, many providing support services to other companies, are set to grow in number as London’s service economy grows.”

“There are significant gaps between the nature and demands of the businesses and the property that is generally available to them.”
… so who occupies the sheds?

A surprising array of businesses that contradict the term ‘industrial estate’:
- Film production
- High tech printing
- Interior design
- Mail management
- Music instrument hire
- Packaging
- Photography
... so who occupies the sheds?

And another unpromising estate ...

Audio visual equipment hire
Clothing and fashion
Computer systems and support
Electrical services
Film editing
Food production
Garage retail
Graphic design
Graphic design
Mail order
## Occupier types in multi-client study

<table>
<thead>
<tr>
<th>Cash and carry</th>
<th>Recording equipment repair</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audio visual equipment installation</td>
<td>Short-run digital printing</td>
</tr>
<tr>
<td>Design and manufacture of applied arts</td>
<td>Specialist provider of gift wrapping</td>
</tr>
<tr>
<td>E-trading</td>
<td>Wine importer</td>
</tr>
<tr>
<td>Event catering</td>
<td>Manufacture of sweets</td>
</tr>
<tr>
<td>Freight forwarding</td>
<td>Oriental food supplier</td>
</tr>
<tr>
<td>Graphic design</td>
<td>Maintenance contractor</td>
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</tbody>
</table>
And who do they employ?

Many involved in “clean” processes and have different servicing demands. Many employ staff for whom a typical shed environment is inappropriate.

<table>
<thead>
<tr>
<th>White collar</th>
<th>Technical/craft</th>
<th>Manual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>Art and design</td>
<td>Deliveries</td>
</tr>
<tr>
<td>Customer support</td>
<td>Display and demonstration</td>
<td>Driving</td>
</tr>
<tr>
<td>Finance and legal</td>
<td>Electronics</td>
<td>Food preparation</td>
</tr>
<tr>
<td>Management</td>
<td>Engineering</td>
<td>Machine operation</td>
</tr>
<tr>
<td>Purchasing</td>
<td>Graphic design</td>
<td>Security</td>
</tr>
<tr>
<td>Sales &amp; marketing</td>
<td>Repair and adaptation</td>
<td>Storage</td>
</tr>
<tr>
<td>Software development</td>
<td>Technical support</td>
<td>Till operation</td>
</tr>
</tbody>
</table>

Space adaptations in response to the profile of staff employed. Several employ a high proportion of professional, skilled and technical staff. Such staff have higher expectations of their workplace.
Many businesses are occupying functionally inappropriate buildings, and this is partly related to a lack of appropriate supply at an affordable price.

Most companies occupying hybrid office/industrial space are SMEs, often owner managed. … part of a dynamic sector of the economy, and .. the focus of government initiatives to pump prime economic growth …

providing appropriate physical infrastructure for this integral part of the economy could become more important.
“A quick tour around a sample of London’s industrial estates will soon reveal the typical mismatch between car travel and parking provision. This raises the question of whether spatial policy could be more directive in encouraging hybrid uses into sites better served by public transport.”

LOPR 2012
“one critical area for policy consideration is how hybrid uses might be more simply integrated into high streets (where access is better than industrial estates). This could be particularly important for Outer London where … there are particular issues relating to the structural decline of traditional office activities.”

LOPR 2012
The proposition: smart sheds

Demand
• A new type of business using industrial property.
• Attracted by low cost and scope for flexible usage.
• Many are tolerating sub-optimal conditions.
• Cost-conscious product, acceptable to white collar staff.

Viability
• Opportunity to re-package secondary industrial space.
• Or to adapt vacant high street property.
• Adaptations to physical environment are low cost.
• Management services create scope for added value.
• Within existing portfolio or in open market.
Shed occupiers: what kind of space do they need?

Key design criteria
- Environment for clean processes, white collar work and direct sales.
- External environment attractive to service-based businesses.
- A management regime better than in the traditional shed
- Space that is flexible and easy to adapt.
- Depth of around 13-18m to cater for most needs.
- Mixture of single and double height space.
- Perhaps two-thirds of the space at 4.5m high.
- One third at 6-8m for storage, studios, production, and so on.
- Building security, access and parking all important issues

Source: Ramidus Consulting
Brand differentiators

- Central facilities bureau
- Attractive public space/amenities
- Sense of security
- Car parking or public transport
- Financial support
- Community co-operation
- Occupier forum
- Partnership
- Waste management
- Simplified leases/licence agreements
- Identify with a business cluster
The proposition: workplace clubs

Demand
• Small businesses without a physical base
• Occasional working from flexible base for corporates
• Near or post retirement age consultancy
• Working close to home but not in the home
• Lifestyle working to combine with other interests
• Reduced travel time and cost – sustainability.

Viability
• Re-use high street retail units, upper floors or backland.
• Adaptations to physical environment are low cost.
• Network or franchises create scope for added value.
• Co-locate with other uses such as gym; coffee shop; book shop; adult education space; community space.
• Need concentrations of workers – population density.
The proposition: workplace clubs

• Desk spaces; meeting rooms; break out areas
• On demand, drop–in; or reserve online
• Tiered annual subscription or membership rates.
• Fit out to feel dynamic; energetic, business-like.
• Brand fit out to different target markets
• Atmosphere encourages networking.
• Salon or coffee house – linger; chat; contemplate; debate; people watch.
• Equipment available as central resource.
• Forum events; business breakfasts; café facilities; bicycle racks; TV with news feed
• Co locate with leisure facilities, discount membership?
To sum up ….

- Continuing decline of Outer London office markets
- Infrastructure investment reinforces an east-west axis with emphasis on the east
- Outer London centres have a role in providing new kinds of workspace
- There will be a need for a new hybrid office/industrial space
- There will be a need for walkable shared office spaces