

RESEARCH

Accommodation
Strategies To Reduce
Operating Costs

OFFICE AFFORDABILITY
SURVEY

Carter Jonas



“TRANSPORT INFRASTRUCTURE IMPROVEMENTS, INCLUDING THE CONSTRUCTION OF THE ELIZABETH LINE, AND HIGH RENT AND BUSINESS RATES OVERHEADS, ARE ENCOURAGING CENTRAL LONDON OFFICE OCCUPIERS TO CONSIDER LOWER COST ALTERNATIVES IN THE HOME COUNTIES.”

Real estate costs are usually the second largest overhead for a business after salary costs. Despite the fact that the workplace has evolved as a key tool for attracting and retaining staff, fostering collaborative working practices, driving innovation and achieving a competitive advantage over business rivals, decisions concerning real estate are often subject to budget constraints.

Occupiers face a dilemma when it comes to developing a real estate strategy and typically need to decide whether recruitment and staff retention are more important considerations than simply reducing real estate costs.

Despite the fact that most areas of London have witnessed declines in rents and a lengthening of rent free periods following the Brexit vote, there remains a wide disparity in rental costs between Central London

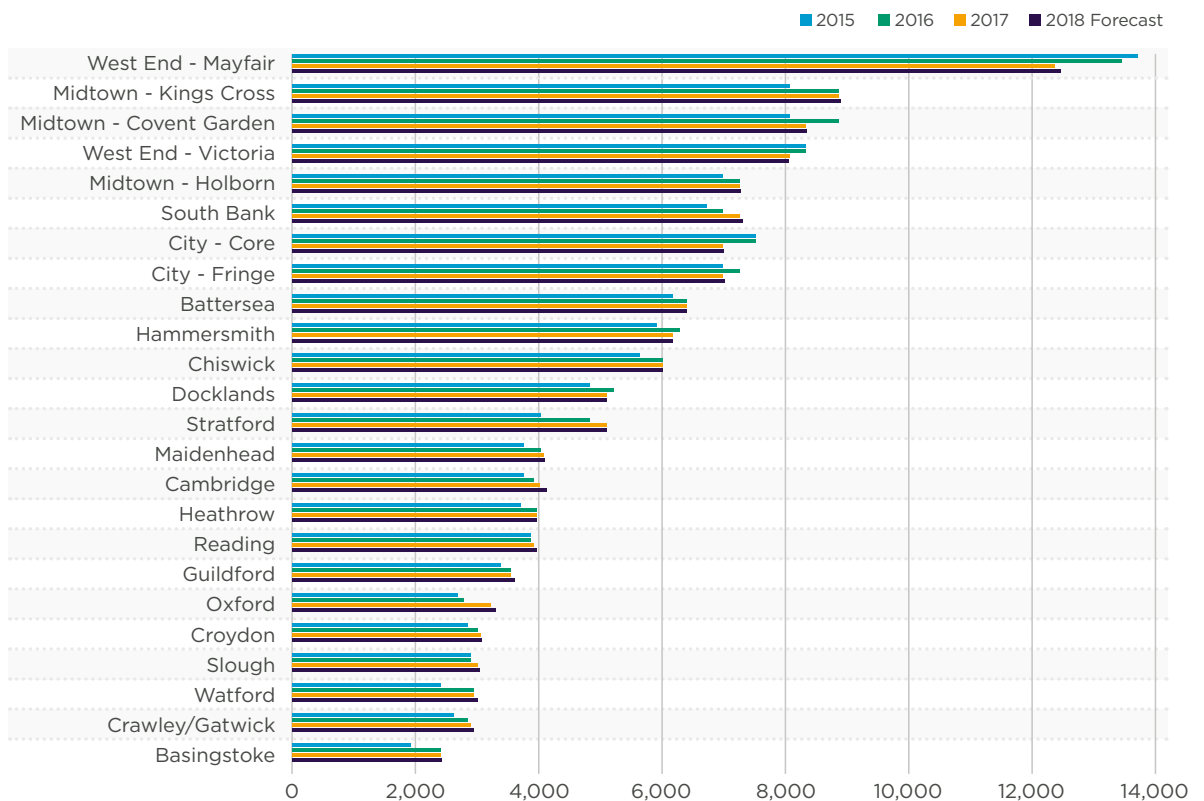
and the surrounding south eastern office markets. As a consequence, some occupiers are increasingly questioning the need to retain all of their business functions within the capital.

Many occupiers are introducing new operating practices, including agile working and hot-desking, in order to reduce their property footprint. Other strategies to reduce operating costs include the ‘spoke and hub’ accommodation model – the relocation of non-client facing functions, such as IT, HR and accounting, to lower cost locations on the periphery and the retention of core business activities within Central London.

Equally, entire business relocations from London’s central business districts are also a consideration, often making staff recruitment and retention easier in areas outside London where housing is more affordable.

Figure 1 Typical annual rental cost per workstation in London (£k)*

Source: Carter Jonas



*Costs based on new and refitted Grade A space on an annual £ per workstation basis



THE FINANCIAL CASE FOR THE SPOKE AND HUB ACCOMMODATION MODEL

An occupier in the financial or business services sector with a desk requirement of 200 can expect to pay £2.5 million per annum on rent in London's Mayfair, £1.41 million in the City core, or £1.03 million in Docklands and £0.79 million in Reading – see Figure 1 for typical annual rental cost per workstation.

However, the relocation of all business operations out of the capital is an unlikely scenario for many, especially for those businesses with an established Central London client base. The banking and financial services sectors, which are rooted in the City of London, are, for example, more likely to adopt a spoke and hub accommodation model with 'back office' functions being relocated outside London.

OFFICE SPACE AS A SERVICE/MINIMISING CAPITAL EXPENDITURE

The spoke and hub accommodation model, agile working and hot-desking should help to ease real estate costs. We are, however, also witnessing an increase in the take-up of co-working and serviced office space for businesses seeking ready

fitted out space on more flexible lease terms and where little or no capital expenditure is required.

Co-working space providers are typically 'packaging' office space as a business service and are providing work environments where occupiers can network and cross-sell their services and ideas to each other. The all-inclusive monthly rental will typically include business support services including reception and telephone answering, data/telecoms and facilities management services. Letting packages are usually monthly, quarterly or yearly although some providers are now offering co-working packages for periods of 3-5 years, where required.

The co-working model is well suited to those businesses that are cash flow sensitive such as 'start-ups' and small and medium size enterprises – negating the need to employ reception and/or office administration staff while also obviating the requirement to invest working capital in expensive office fit out, furniture and data/telecoms infrastructure. Leasing packages are also typically structured on the basis that there will be minimal or no repairing/exit costs.



“THE WORKPLACE REMAINS THE ENGINE ROOM FOR IDEAS AND COLLABORATION AND AN IMPORTANT TOOL FOR ATTRACTING AND RETAINING STAFF. FINDING SPACE THAT FALLS WITHIN BUDGET AND MEETS THE OCCUPIER'S OPERATIONAL REQUIREMENTS WILL BE THE KEY TO BUSINESS SUCCESS.”



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THE TENANT ADVISORY TEAM

Our tenant representation services include:

- Lease renewal/relocation property options cost appraisals
- Office search and relocation management
- Relocation budgeting and planning
- Lease and rent review negotiation
- Repairs/dilapidations assessment and negotiation
- Building, air conditioning and passenger lift surveys
- Business rates analysis and appeal
- Service charge audit



38 OFFICES ACROSS THE COUNTRY, INCLUDING 13 IN CENTRAL LONDON

COMMERCIAL OFFICES

- London
- Bath
- Cambridge
- Leeds
- Oxford
- Winchester

CASE STUDIES

Lease negotiations and relocations 10,000 sq ft+

43,000sq ft

UK Payments Administration
2 Thomas More Square, E1

37,000sq ft

Frank Hirth
236 Gray's Inn Road, WC1

28,000sq ft

Warner Bros/Shed Media
85 Grays Inn Road, WC1

23,000sq ft

Nursing & Midwifery Council
Two Stratford Place, E20

17,500sq ft

Hackett Limited
The Clove Building, SE1

16,000sq ft

Circle Housing
Two Pancras Square, N1

15,000sq ft

Hitachi Rail Europe
40 Holborn Viaduct, EC1

11,000sq ft

Salamanca Group
50 Berkeley Street, W1

For more data on the Central London and South East office market, co-working and conventional office space availability, rents and rent free periods and information on budgeting and planning for a lease renewal, rent review or office relocation please contact:

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