

London is hotting up....

Will London become too overheated for the Smaller Occupier?

It has been reported that Central London occupiers may face a 13m sq ft shortfall of office space in Central London by 2018. With anticipated demand reaching 23m sq ft in 2018, only 10m sq ft is currently set to come to market.

Avison Young being a member of the Federation of Corporate Real Estate Advisors can report the collective results of a knowledgeable group of Corporates, Central Government representatives and Corporate Real Estate advisers; that in 2018 smaller occupiers in Central London will be threatened by rising rents, a changing workforce and challenged margins.

'.....companies need to act fast to properly understand their business, their staff and stakeholders, define their space requirements and agree a new occupational strategy. Amongst the solutions are decentralising but with a "small" or "sales" office in London. Working from home is also definitely in the mix.'

For the Occupier

We believe that London will remain the dominant force that it is today in spite of the rising rents and supply shortfalls. However we are likely to witness a polarisation between the higher margin businesses in Central London that will stay, and the lower margin organisations that will have to decentralise. The lower margin businesses simply will not be able to afford the property costs and increased labour costs.

For the Landlord

Landlords and developers now have an opportunity to fill the office space shortfall, as is evident from the high number of current pre-lets. The space shortfall will continue to drive interest from occupiers in areas beyond the core areas, pushing the boundaries and creating development opportunities in areas such as Shoreditch and Clerkenwell, further east to Mile End and south to Elephant & Castle and Battersea.

Serviced Offices

The serviced office market is maturing at an even faster rate with a vast range of operators offering varying qualities of product, flexible packages and rates. Prices can vary from £450 to £1,200 per person per month dependent upon location. Landlords are now embracing the serviced office operators who are often the first

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tenant to take space in new developments which are due to be multi let. The serviced office suite operators are being seen as “incubators” in buildings where proactive asset management is essential in driving investment values. There are healthy returns to be made by landlords who ‘JV’ with operators, plus there is the added benefit of having a ready-made source of growing companies who could take a traditional lease.

Central London serviced offices are likely to become more and more accepted by the larger companies adopting a “decentralised” strategy, where they will require a flexible ‘touch down’ location for meetings and/or a London sales presence.

What Should Be Done?

More ‘change’ is on the horizon. Here’s a quick reminder:-

- 2015 economic growth is predicted to slow to 2%-2.3%
- Salary increase for better talent will be above inflation
- A recent Kingston Smith survey confirmed that in the media sector the plcs were doing fine
- In the same survey the big independents were also doing well
- Smaller companies are generally having a tougher time
- Property/accommodation costs are rising and will continue to rise.

So What’s the Message? As a small business employing less than 200 people – ignore the signs at your peril. Even as a larger organisation, if margins are traditionally tight then all things being equal they are not going to get any better. Now’s the moment to challenge what you have always done. Innovative thought is needed to keep up with the changing times.

What is Avison Young Doing?

Rather than focus on property transactions, our business consulting team is working with our clients to challenge and re-shape their businesses in readiness for the next 3, 5 and 10 years. In some cases even with an eye to a “Sale”. Our team has lots of ideas and experience and this, combined with our clients’ knowledge, is making for some interesting strategies and solutions.

If you’d like to know more about the background then please do not hesitate to contact any of our Principals on +44 (0)20 7101 0200.

Avison Young is the world’s fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its principals. Founded in 1978, the company comprises 1,600 real estate professionals in 60 offices, providing value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-family properties.

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