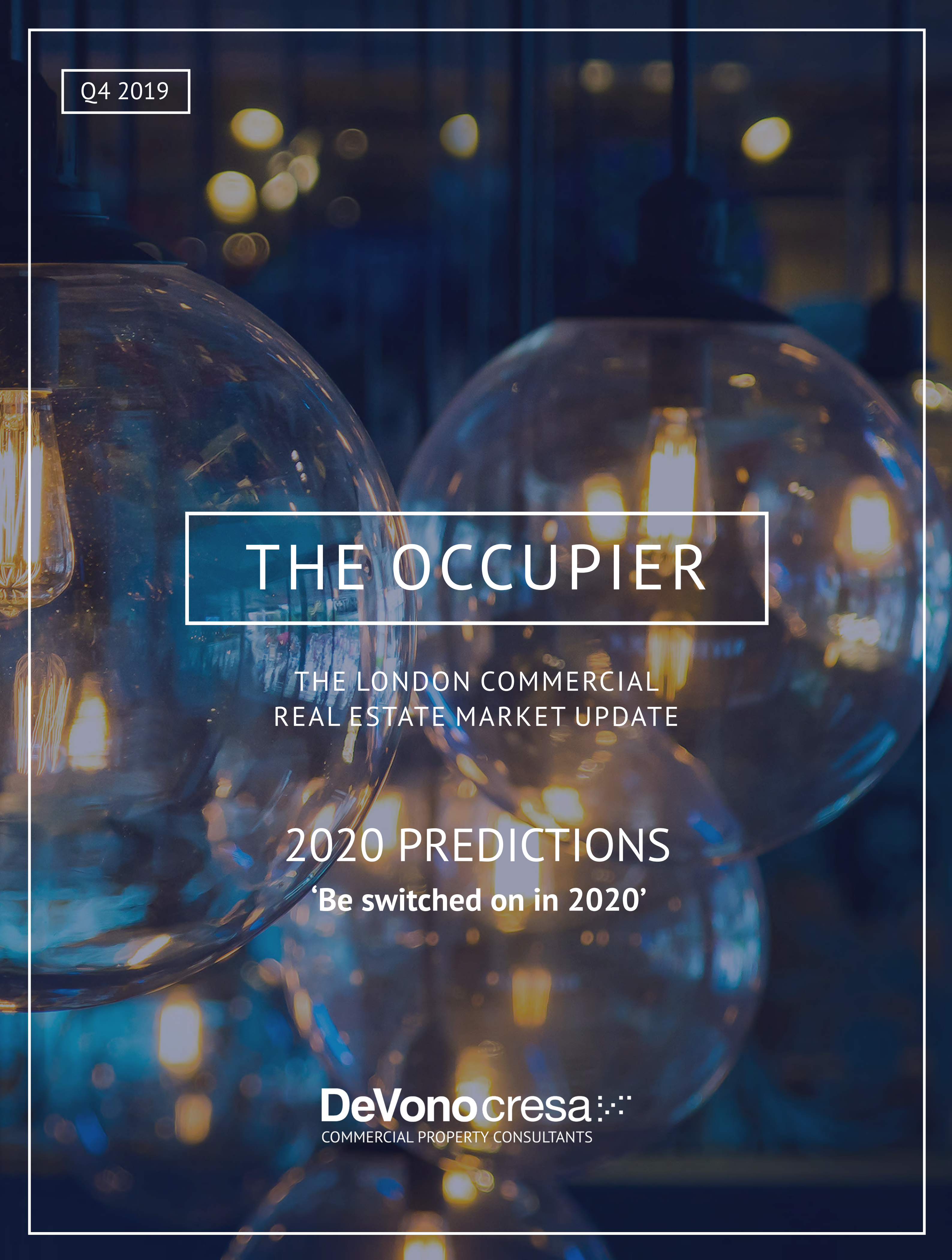

Q4 2019

THE OCCUPIER

THE LONDON COMMERCIAL REAL ESTATE MARKET UPDATE

2020 PREDICTIONS

‘Be switched on in 2020’

DeVono cresa
COMMERCIAL PROPERTY CONSULTANTS

WHAT’S INSIDE

2020 PREDICTIONS

Welcome to the latest edition of *The Occupier*

In this edition, following the success of our predicting skills in 2019 (9 out of 10), the team here at DeVono Cresa bring you 10 predictions that could influence the real estate market and decision-making in 2020.

What seems like a hangover from 2019, political and economic uncertainty continues to bubble away, causing a headache for businesses up and down the country. Despite Brexit having occured, the rollercoaster ride looks set to continue as international trade becomes the next point of debate. Meanwhile, 2020 is expected to be the year in which many people will demand action to be taken against climate change, prompting businesses of all sizes to take steps in order to make a difference. Yet, it is the tenant experience that dominates our predictions. The competition to win tenants is high, but the service, relationships and ultimate experience can often be low. 2020 could well be the year of where attention is shone on the tenant!

As our first report following the year-end, we take this opportunity to review the London office market in 2019, and what a year it was. Tenant demand for office space was high, the squeeze on availability is a little bit tighter, both of which mean the shifting dynamics will indeed impact the market for the year ahead. An increase in rents and difficulty in matching requirements will hinder those businesses navigating the current real estate market.

We also showcase our recent work with the children and young people’s mental health charity, YoungMinds. We discuss their search for its new HQ and subsequent design and fit-out by our in-house design and build studio, Dthree.

Please do get in touch if you have any feedback on this edition or suggestions for the future.

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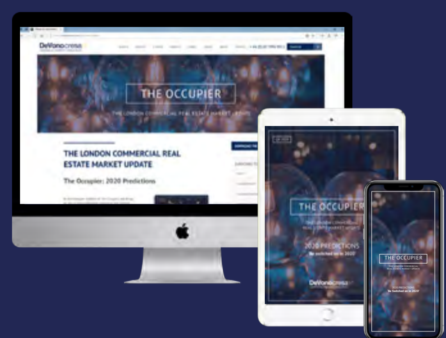

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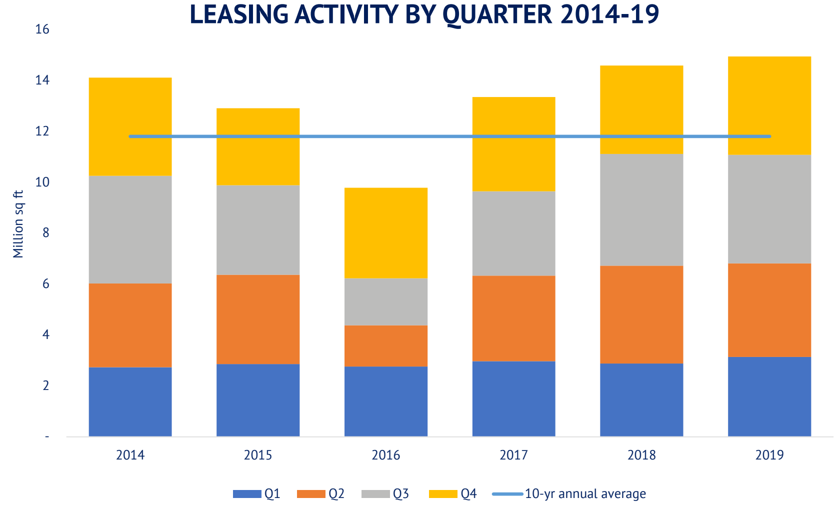
2019 LONDON OFFICE MARKET REVIEW

2019 was a significant year for the London office market, a year in which corporate uncertainty remained high. Despite this, businesses continued to commit to London office space. Here is our review of the year.

HIGH PERFORMANCE IN 2019

CENTRAL LONDON OFFICE MARKET: LEASING ACTIVITY BY QUARTER 2014-19



The London office leasing market has once space let during 2019 reaching 14.9 million sq ft. This not only represents an increase on the previous year and an increase on the long-term annual average (3% and 27% respectively), but more importantly, it highlights a level of confidence that businesses continue to have by securing an office footprint in the capital.

SPACE LET IN 2019 REACHED 14.9M SQ FT

Our latest research shows that a final push in leasing before the year was out resulted in 3.9 million sq ft of office space being let across Q4. Whilst this figure is shy of the previous quarter, it is the third highest quarterly total in the past five years. This could suggest that businesses have set aside their uncertainties on the political and economic situation. However, in practice caution is very much prevalent when real estate decisions are taken.

SPACE CONTRACTION OR BETTER USE

Further analysis of our data shows that the number of occupiers committing to space rose to 577 in Q4, the highest number of businesses leasing space in a single quarter in over 15 years. This surpasses the most recent high of 536 in Q1 2011. Whilst this is another encouraging sign of business commitment, it does show that the average size of space leased across the year has contracted to 7,700 sq ft. This equates to an 8% reduction on the average deal size in 2018 and sinking below the 8,000 sq ft for the first time since 2012.

577 OCCUPIERS IN Q4
(the highest number in 15 years)

	WEST END	MIDTOWN	SOUTHBANK	CITY	DOCKLANDS	CENTRAL LONDON
Average deal size, 2019 (sq ft)	5,910	6,500	4,500	8,800	26,860	7,700
Long-term average, 2009-18 (sq ft)	6,030	7,255	8,300	10,650	21,600	7,900

The decline in the average size becomes more acute when reviewing the various business sectors who have leased space in 2019. In particular, the average size of space let by the media sector was 4,730 sq ft, 53% down on the long-term average of 8,900 sq ft. Likewise, the average space taken by the technology sector has also narrowed, albeit by just 11% to 8,370 sq ft. The dominant financial sector has also been leasing less space at 10,300 sq ft, which represents an 8% drop on the long-term average.

On face value, the tightening of the average deal size could indicate a less than favourable leasing trend, yet it is worth reiterating that the number of firms taking space in 2019 has increased. The smaller average footprints could for some have been influenced by the political and economic uncertainty. Yet other factors which are at play and we believe are playing a greater role include the increase in the use of technology in the workplace, introduction of more agile working practices, or even moving certain functions out of London. These are all impacting leasing requirements and ultimately decisions.

SUPER SIZED DEALS ARE STILL HERE

The frequency of super-sized deals (over 100,000 sq ft) have remained relatively high in 2019 with 13 lettings totalling 2.3 million sq ft. This is compared to 17 such deals in the previous year, the volume of which equated to 2.9 million sq ft.

Notable deals include BT's pre-let of 1 Braham Street, taking the entire office space of 328,065 sq ft. This transaction marks a significant shift for BT, who have resided at their current address opposite St Paul's for close to 35 years. The move 2 miles east will provide a catalyst for greater staff engagement on the new space and enact wider business transformation. Close by in the City the technology giant, Apple has leased approximately 156,000 sq ft at London's newest skyscraper, 22 Bishopsgate. This is in addition to their 2016 letting of 465,000 sq ft at Battersea Power Station, where the firm is expected to move in during 2021.

The super-sized deals should not be viewed as just another corporate relocating, but as market shifters. These firms create ecosystems with like-minded companies from local amenities through to other occupiers wanting to be in proximity. Also, invariably the buildings that are leased are new developments and to achieve tenants of the calibre of Sony and Diageo, it gives a boost and drive that a scheme sometimes needs.

The impact of pre-letting (or early-letting) of new schemes, whether by a super-sized or mid-sized deal is now filtering through to tenant choice. Such deals accounted for 3.4 million sq ft in 2019. The third year in a row of above average level of pre-letting (2.1 m sq ft). This is leading firms of all sizes and all sectors to commence their property searches earlier, which is applying pressure on the upcoming supply pipeline.

LARGEST LEASING DEALS IN 2019

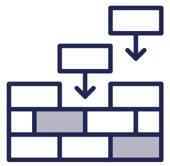
COMPANY	BUSINESS SECTOR	BUILDING	MARKET	SIZE (SQ FT)
European Bank for Reconstruction and Development	Financial	1 Bank Street	Docklands	360,000
BT Group Plc	Telecoms	1 Braham Street	East Fringe	328,000
WeWork	Serviced Offices	25 Churchill Place	Docklands	287,415
Uncommon	Serviced Offices	81-87 High Holborn	Midtown	186,280
Apple	Technology	22 Bishopsgate	City	156,440
Facebook	Technology	10 Brock Street	West End	145,000
Diageo plc	Corporate	14-18 Great Marlborough Street	West End	129,245
Sony Music	Media	S1 Handyside Street	West End	124,600
Monzo Bank Limited	Financial	5 Appold Street	City	122,320
Brewin Dolphin Limited	Financial	25 Cannon Street	City	116,110

GRADE A MOMENTUM

Whether it is existing, under construction, refurbishment or even proposed schemes, the leasing momentum for best quality stock has continued throughout 2019. Grade A space amounted to 49% of the total volume of take-up across central London, this is not just up on the previous year, but it also surpasses the long-term annual average of 43%. Accounting for 7.3 million sq ft, this is the highest volume we

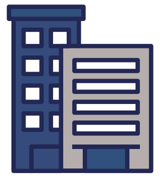
7.3M sq ft of Grade A space transacted in 2019

CENTRAL LONDON OFFICE MARKET: LEASING SHARE BY GRADE



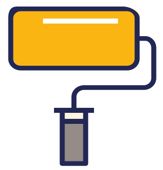
PRE/EARLY-LET

23%



GRADE A

26%



SECOND HAND

51%

have recorded in our data series.

This is a level which not only suggests that tenants increasingly favour the quality spaces, it also shows that the profile of office stock across London has changed. Despite three years of above average letting of Grade A space, tenants continue to be able to secure this level of Grade A space. The question is will momentum continue, and is there enough space out there for 2020?

It's not all about the brand spanking new space, second-hand is still the most transacted. At 7.6 million sq ft in 2019, this represents the highest volume of this grade leased since 2014.

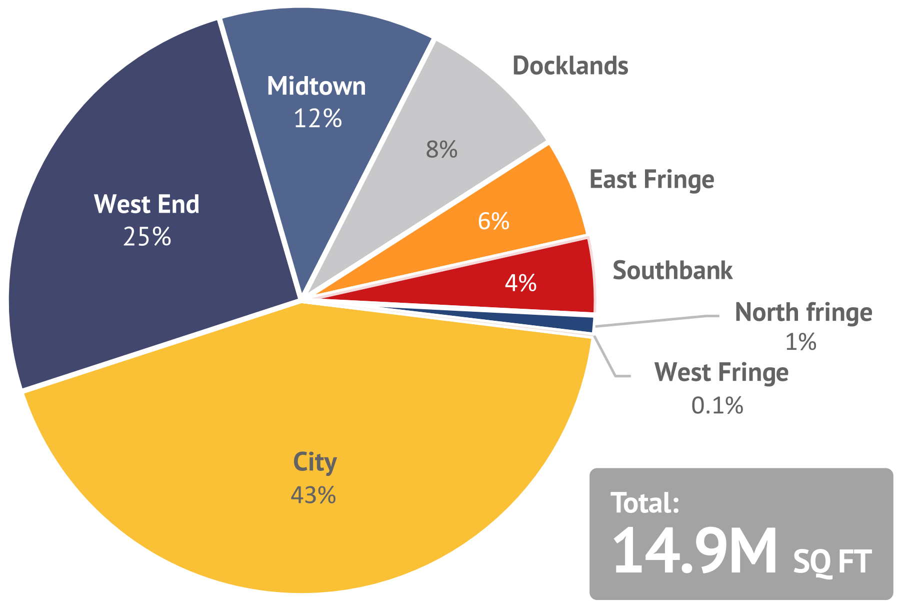
> "Second-hand space at highest level leased since 2014"

The label second-hand is an industry term, one which can sometimes be a disservice to the wide range of office space that is encompassed in this category. At the top end of this range, the quality is not too dissimilar to that of Grade A – this is increasingly being reflected in the rental level being quoted.

THE CITY, THE TENANTS CHOICE

Leasing in the City has once again achieved a new high-water mark, the total amount of office space let in 2019 reached 6.4 million sq ft, shifting out by 3% on the previous high of 2018. This represents 43% of all take-up across central London. Yet surprisingly, the number of businesses who took this space has increased significantly by 25% (on 2018) to 731 firms. We believe that the number of active firms is a good barometer to the health of the market, and like the new buildings in the City – this number has kept on rising in recent years! Not only boosting the office population but also increasing the diversity of businesses, with a growing cohort of tech firms and educational institutions now calling the City home.

CENTRAL LONDON OFFICE MARKET: LEASING SHARE BY MARKET, 2019 (%)



Grade A space in the City office market continues to be a huge draw for tenants, with 56% of space taken being of the best quality. This also includes space that is under construction or refurbishment, which at 1.4 million sq ft is down on the historic high set in 2018 but remains above the long-term annual average by half. Lettings in 22 Bishopsgate in what is the City's tallest building have buoyed the latest figures with close to 550,000 sq ft in 2019. The soon-to-complete development dubbed a 'vertical village' for its plethora of amenities throughout the building, will welcome well-known brands such as Apple and Nasdaq. Other recent tenants to sign up include US law firm Cooley, insurers Verisk and meeting/event space provider Convene. One of the largest developments to commence construction back in 2016, a 'nervy' time for developers, is proving now to be a gamble well played by delivering into a resilient market.

MOVING EAST IN THE WEST END

In the West End, letting activity in 2019 totalled 3.8 million sq ft - down by 7% on the previous high level of 2018. Whilst not pushing the needle further like the City, the West End office market is comfortably above the long-term annual average of 3.2 million sq ft.

The North of Oxford Street submarket has recorded the most activity in 2019, accounting for 19% of the total West End take-up. This signifies a shift in the centre of gravity for leasing in this market, where in 2018 the Victoria submarket topped the list with a 22% share. In fact, areas such as King's Cross and Paddington have equally seen a demotion in the share of leasing, down to 12% and 5% respectively. The reduction in availability levels and a limited list of schemes in which to pre-let have both influenced the location of leasing. Not all West End submarkets have recorded a drop in activity – Soho, St James's and Knightsbridge have all seen its volume of let space increase in 2019.

> "Shift in the centre of gravity for leasing in the West End"

STEADY PACE IN MIDTOWN

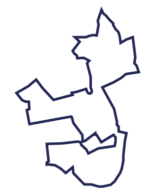
Office leasing across the Midtown market in 2019 fell to 1.8 million sq ft, down by 6% compared with the 2018 total, which itself was down on the previous year. Despite the decrease in 2019, the market is keeping a steady pace as it remains above the long-term annual average of 1.6 million sq ft. Notable transactions stem from the serviced office providers. It appears Midtown was the target last year to increase coverage as the sector accounted for 28% of the leasing. One notable deal was by the operator Uncommon who took 186,000 sq ft on High Holborn.

The Professional sector are the second biggest sector taking office space in Midtown, including DeVono Cresa client Deloitte LLP who have acquired 76,200 sq ft in 66 Shoe Lane. The deal sees the development scheme become fully let by Deloitte having already pre-let the upper floors in 2018.

TENANTS DOCKING IN DOCKLANDS

The Docklands office market experiences extreme highs and lows in letting activity from one year to the next. 2019 is one of those high years with 1.26 million sq ft and is the highest level of leasing since 2008. Albeit this record is by a whisker (4%) as 2016 was 1.21 million sq ft. Nevertheless, leasing in and around the wharf has been robust, largely due to two super-sized deals. The European Bank of Reconstruction & Development took 360,000 sq ft on Bank Street in the first half of the year. After the summer, WeWork acquired 287,000 sq ft at 25 Churchill Place, taking the space that the European Medicines Agency had to vacate following the relocation to Amsterdam as a result of Brexit.

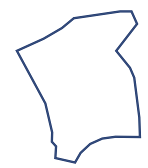
2019 LETTING ACTIVITY



3.8M SF

IN THE **WEST END**

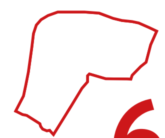
⬇ 7%



1.8M SF

IN **MIDTOWN**

⬇ 6%



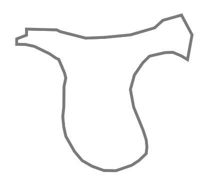
643K SF

IN **SOUTHBANK** IN 2019

6.4M SF

IN THE **CITY**

⬆ 3%



HIGHEST LEVEL OF LETTING IN **DOCKLANDS** SINCE 2008

1.3M SF

WHICH SECTOR LET OFFICE SPACE IN 2019?

FINANCIAL FOOTPRINT

The Financial sector has cemented its position as the most active for leasing in 2019, with a 24% share. This level of activity is up from the 18% recorded in 2018 and just pips the long-term annual average of 23%. In previous editions of *The Occupier,* we have highlighted how the sector has countered the expectations of downsizing or even departure of firms as a result of Brexit. The latest data confirms this and in fact shows that the sector has further entrenched its position.

> “Financial sector leasing up - with 24% share”

The future of the financial industry in the UK is still subject to negotiation and will be a key talking point in phase II of Brexit. However, we should not forget that financial businesses wishing to operate in a post-Brexit Britain may need a base here in the UK, akin to those who want to operate in the EU. In doing so, they will be joining a diverse range of firms who have leased space in London during 2019, from the traditional to the new kids on the block, domestic and overseas, through to the boutique and corporates. The likes of which include Monzo Bank, Nationwide Building Society, NIBC Bank NV and NASDAQ to name a few.

FLEXING THE REAL ESTATE MUSCLE

Over the past few years, serviced office providers have been snapping at the heels of traditional business sectors, scooping up space at a fast pace. The quest for ultimate coverage has seen them account for 17% of take-up in 2019. Placing them ahead of the technology sector in terms of market share.

Despite the boardroom turmoil that beset the flexible leasing giant WeWork in the summer, the operator still leased an additional 29 sites adding approximately 750,000 sq ft to their portfolio – albeit the majority of these were in the first half of 2019. Another operator who has notched up double figures is Knotel, taking 14 sites. Not quite at the same volume as WeWork, but their leasing spree have significantly increased their coverage across London. Our data shows that the marketplace for flexible leasing got that little bit more crowded in 2019, as 32 unique operators leased space in 2019. More choice for tenants, more competition for the providers.

TECH FIRMS

The technology sector is a key part of the London economy. Funding into the sector in 2019 increased by 87% to $9.7 billion according to research by the Mayor of London's promotional agency London & Partners. This increased investment into high growth businesses is helping to support firms from start-ups to established brands. However, office leasing activity by technology firms in 2019 accounted for 13%, down from the 15% in 2018. In real terms the volume of space leased has stagnated.

> “32 unique operators leased space in 2019”

Whilst this is not indicative of technology firms snubbing London as an office location, it does beg the question, where are all the tech workers going. Though technology firms have not increased their share of leasehold space in 2019, they may well be opting for more flexible options. The technology sector has for a long time been a proponent of agile working practices, this is potentially now translating into reduced footprints.

However, having said that the tech giants have been active once again. Both Apple and Facebook have both taken 100,000+ sq ft spaces in 2019 and with Amazon reportedly on the hunt for more space in London we don't expect the larger firms to shy away from leasing in the future.

RECRUITERS SIGN UP FOR MORE SPACE

A deeper dive into our data has highlighted an increase in the volume of office space recruitment agencies have leased in 2019. Just over 260,000 sq ft was acquired by 45 recruitment businesses, representing a 238% increase on the same period in 2018 (down from 49 firms). Recruiters are in expansion mode.

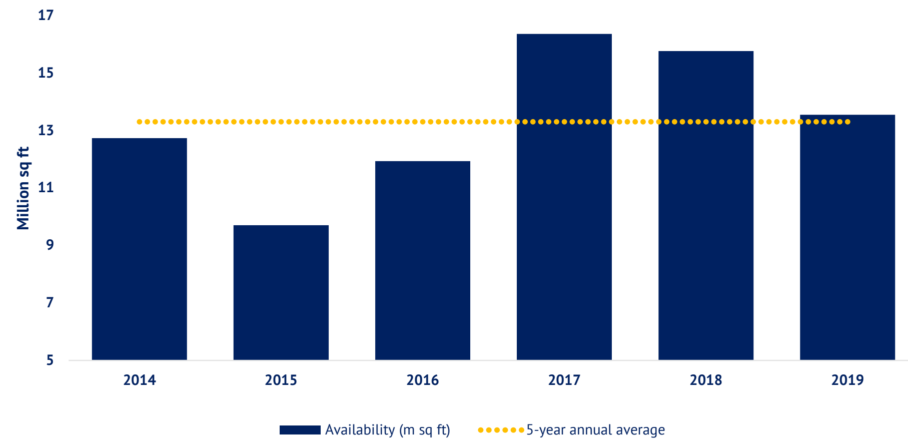
An active jobs market and employment at its highest level since the 1970's makes for a competitive landscape for recruiters. Our research shows that businesses in this sector have taken an average 5,772 sq ft – double the size of that was taken in 2018.

WHAT A DIFFERENCE A YEAR MAKES

AVAILABILITY LEVELS TIGHTEN

Office availability across central London fell by 14% over the course of 2019, to 13.6 million sq ft. Now at its lowest level since Q4 2016, representing an availability ratio of 5.5%. The culmination of three years' worth of robust demand has seen the amount of available office space being chipped away at, more recently with the volume of second-hand space. However, the overall total could be interpreted as still being high, but when looking at the individual submarkets there is quite clearly a squeeze in some locations, one which will impact tenant choice over the course of 2020.

CENTRAL LONDON OFFICE MARKET: AVAILABILITY 2014-19



In the City office market, 4.7 million sq ft was available at the end of 2019, a reduction of 17% over the course of the year. Similarly, this level is also at its lowest level since 2016. Our analysis shows that it is the drop in second-hand space that has significantly contributed to the overall picture, now at 2.8 million sq ft representing a 50% difference to the end of 2018. Bucking the downward trend is the amount of Grade A space that is available, having ticked upwards by 42% to 1.9 million sq ft.

> **13.6M SQ FT**
> OF AVAILABILE SPACE IN 2019

The availability of office space in the West End at the beginning of 2020 stood at 4.9% of the market, dipping below the 5% mark, which equates to 3.3 million sq ft. This represents a decrease of available space by a third since the recent peak in Q1 2018. Like the general picture across central London, it is the movement of second-hand space that has been mainly contributing. In one year, the level has dropped by 19%, leading to a further squeeze on the choice for tenants in what was already a tightening market.

A deeper dive into the data shows that Soho, St James's and Victoria have seen the greatest squeeze in availability levels with falls of 26%, 36% and 41% respectively. Of the eight submarkets that make up the West End, two have seen an increase in space since the end of 2018 – King's Cross (16%) and Knightsbridge (24%).

As you have probably ascertained from the availability narrative in the West End and the City, other submarkets are equally experiencing downward pressure on the volume of available space. The Southbank and Docklands have both seen double-digit drop in availability, with the latter now dipping just below the 2 million sq ft level for the first time since Q2 2017. The Midtown market has seen a reduction from Q3 to Q4 by 8% to 2.0 million sq ft, yet over 2019 the difference has just been 1%. Not all markets have seen a decrease and the fringe markets to the west, north and

	WEST END	MIDTOWN	SOUTHBANK	CITY	DOCKLANDS	CENTRAL LONDON
Availability (million sq ft)	3.3	2.0	0.8	4.7	1.9	13.6
% Change Q4 2018 to Q4 2019	-18%	-1%	-19%	-17%	-14%	-14%

east, and have all seen an increase on the year – 11%, 8% and 4% respectively.

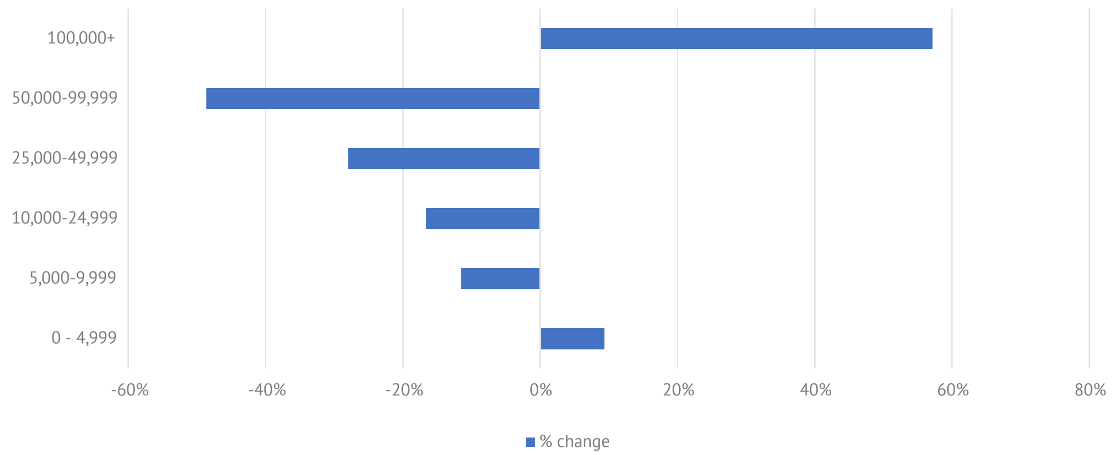
The reducing level of available office space across the central London market has become more pronounced in 2019. The total of 13.6 million sq ft to many people outside of the industry could seem quite a lot and give the impression of a market awash with space. However, most businesses looking for space usually have a location in mind before any search. It is then that reality of the reduced number of available spaces becomes evident. Then factor in the size requirement and the field of candidates contracts further.

The overall number of available spaces surprisingly has not changed from Q4 2018 to Q4 2019. What has shifted is the number of spaces in different size ranges. The average deal size in 2019 was 7,700 sq ft and it is the 5,000 - 9,999 sq ft range that has seen decline of 12%. However, it is the larger size ranges that have seen the greatest declines, especially the 50,000 - 99,999 sq ft range, which has seen the number of available spaces reduce by nearly half in a year. Whilst the number of spaces on the market fluctuates, our assessment of the data indicates that tenants who have current requirements for spaces between 25,000 sq ft and 100,000 sq ft will feel the squeeze more than others.

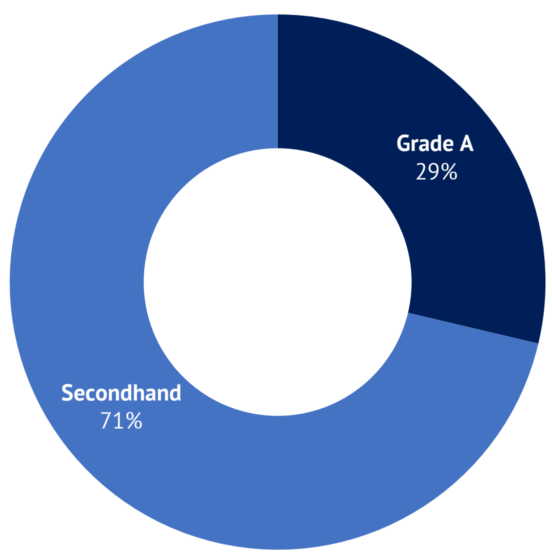
We have seen an increase of 9% in the number of spaces available sub-5,000 sq ft. At the other end of the scale, 100,000+ sq ft spaces have increased, yet despite the large percentage movement this number has only just broken into double figures.

On average, 1,500 businesses lease space across central London each year, highlighting the intensity of the competition for space. Factor in another 100 businesses who secure space ahead of construction/refurbishment completion adds further complexity for those tenants with open requirements. There is no indication that availability levels will increase significantly in 2020, in fact we expect to see further reductions. With high demand, and low supply another factor to these dynamics is a shift in rental levels – and not downwards!

CENTRAL LONDON OFFICE MARKET: CHANGE IN NUMBER OF AVAILABILITIES BY SIZE RANGE, Q4 2018 - Q4 2019



CENTRAL LONDON OFFICE MARKET: AVAILABILITY BY GRADE, Q4 2019



AVERAGE DEAL SIZE IN 2019

7,700 SF

8% DOWN on 2018

RENTAL PRESSURE

Prime rental growth across all central London submarkets amounted to an average of 3% in 2019. This mirrors the same average growth rate as in 2018, however the significant shift in the dynamics of supply and demand is starting to put upward pressure on rents, more noticeable in the highly sought-after locations.

Prime Grade A rents in the City East submarket covering the Aldgate and St Katharine Docks area increased by 13% in 2019, to £65.00 per sq ft. This was the big biggest rental movement recorded in 2019. Led by the delivery of new buildings to the market, it is not expected to see such level of growth in 2020. Double-digit growth of 11% was recorded for Grade A rents in the Docklands market, now at £52.50 per sq ft. Both these rental levels set new highs for these areas. Whilst not a new high, prime rents in the City core have nudged up to £70.00 per sq ft. This is the first time since 2017 that this level has been achieved. Elsewhere, in the City market the outer fringe areas of Clerkenwell/Farringdon and Old Street have both realised more growth over the year – 3% and 7% respectively. Both of which have turned the dial higher and set new rental levels akin to those commanded in districts of the West End.

Mayfair and St James's continue to take the top spot at £120.00 per sq ft, this represents a 4 % increase over the year. Other West End submarket movers include Grade A rents in King's Cross/Euston climbing by 3% to £80.00 per sqft and Paddington also increasing by 3% to £77.50 per sq ft. Whilst prime Grade A rental growth has been recorded in only 3 out of the 8 West End submarkets, we expect this to change in 2020, as the volume of available space continues to tighten.

Both the Southbank and Midtown have seen prime Grade A rents step up by 4%, and are now level pegged at £72.50 per sq ft. Yet a dearth of available prime space in these markets will see further pressure to increase in 2020, but equally should spur on developers to kick-start new development.

CITY PRIME RENTS UP TO

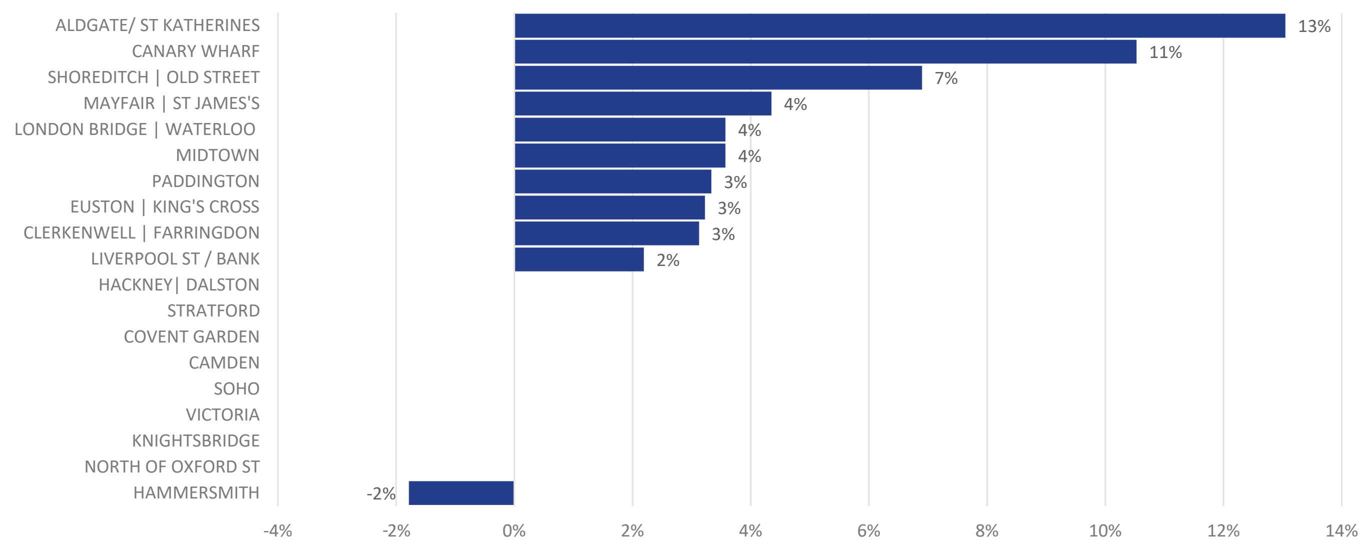
£70 PSF

3%

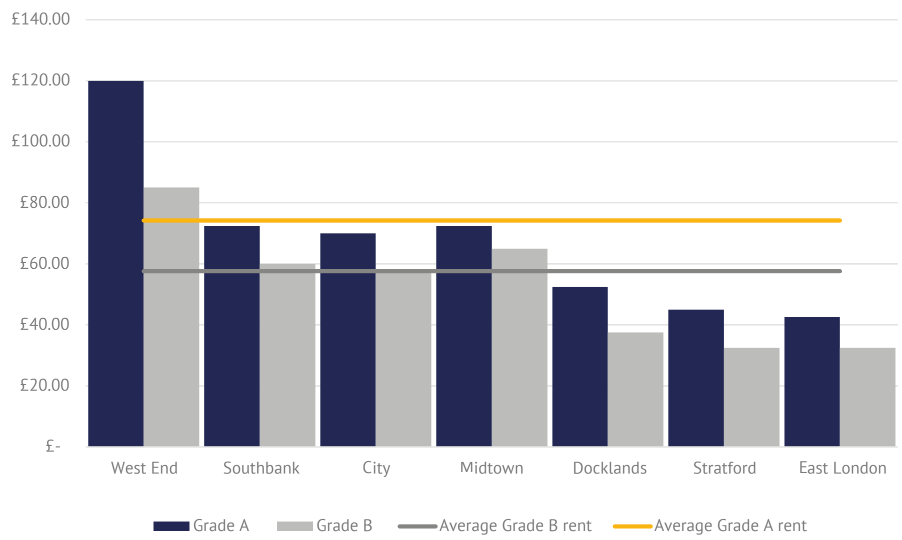
AVERAGE GROWTH IN GRADE A RENTS IN 2019

UP 2% on 2018

CENTRAL LONDON OFFICE SUBMARKETS: PRIME GRADE A RENTAL CHANGE, 2018-2019



CENTRAL LONDON OFFICE SUBMARKETS: PRIME GRADE A & B RENTS AND MARKET AVERAGE



There was a noticeable shift in prime rental levels in 2019 with Grade B space. As highlighted in our Q3 edition of The Occupier. At year-end, Grade B rents moved out on average by 2%, with Midtown having the greatest rise of 13% to £65.00 per sq ft.

In the West End, the traditional submarkets of Mayfair/St James's, North of Oxford Street, Soho and even King's Cross/Euston have ratcheted up 3-4% of Grade B rental growth. The majority of submarkets are expected to succumb to more growth in the year ahead. As the pace of demand and volume of availability diverge, rental increases become inevitable.

20:20 VISION FOR 2020

Since the results of the EU referendum were announced in 2016 the start to a new year has been viewed with much apprehension by the business community. Lack of clarity and direction of Brexit, the impact it would have on workers, the bottom line or even how far in the future could plans be made, impacted confidence levels. This year the certainty is that Brexit has now happened, but that does not spell the end to the process. The rest of 2020 will see the UK's future relationship with the EU be the main discussion point. The conclusion of which will affect the way we trade, work, travel, study, and reside with our EU neighbours.

Our research has shown that businesses across London have been more than resilient to the murkiness of recent politics, with leasing levels above average for the past three years. We don't expect to see the degree of interest in London offices to dissipate over the course of this year, but satisfying requirements in a supply constrained market will no doubt make it more difficult to secure the right space, at the right time, at the right price. As such tenants with a renewed level of confidence will have their focus beyond 2020 or even 2021, commencing property searches at an earlier stage. Ramping up the competition for both current and future spaces, making the navigation of the market a little trickier for tenants.

EXCLUSIVELY WITH DEVONO CRESA

AVAILABILITY OPPORTUNITIES

As part of our full portfolio of services, DeVono Cresa has a team dedicated to disposing of occupiers' space. Here is a selection of the currently available disposals, across London's most sought after locations.

ONE BARTHOLOMEW, EC1 — 19,451 SQ FT

RENT: Upon Application | RATES: £22.00 PSF | SERVICE CHARGE: £10.00 PSF

20 WOOD STREET, EC2 — 12,885 SQ FT

RENT: Upon Application | RATES: £29.00 PSF | SERVICE CHARGE: £12.00 PSF

35 PARK LANE, W1 — 4,779 SQ FT

PASSING RENT: £83.15 PSF | RATES: £48.57 PSF | SERVICE CHARGE: £19.67 PSF

THE WALBROOK, EC4 — 7,685 SQ FT

RENT: £57.50 PSF | RATES: £21.66 PSF | SERVICE CHARGE: £10.96 PSF

1 ST MARTIN'S LE GRAND, EC1 — 8,136 SQ FT

PASSING RENT: £41.00 PSF | RATES: £19.20 PSF* | SERVICE CHARGE: £10.00 PSF

HARLING HOUSE, SE1 — 1,591 SQ FT

QUOTING RENT: £57.50 PSF | RATES: £14.38 PSF | SERVICE CHARGE: £9.52 PSF

HARLEQUIN BUILDING, SE1 — 7,302 SQ FT

PASSING RENT: £53.40 PSF | RATES: £19.75 PSF | SERVICE CHARGE: £10.49 PSF

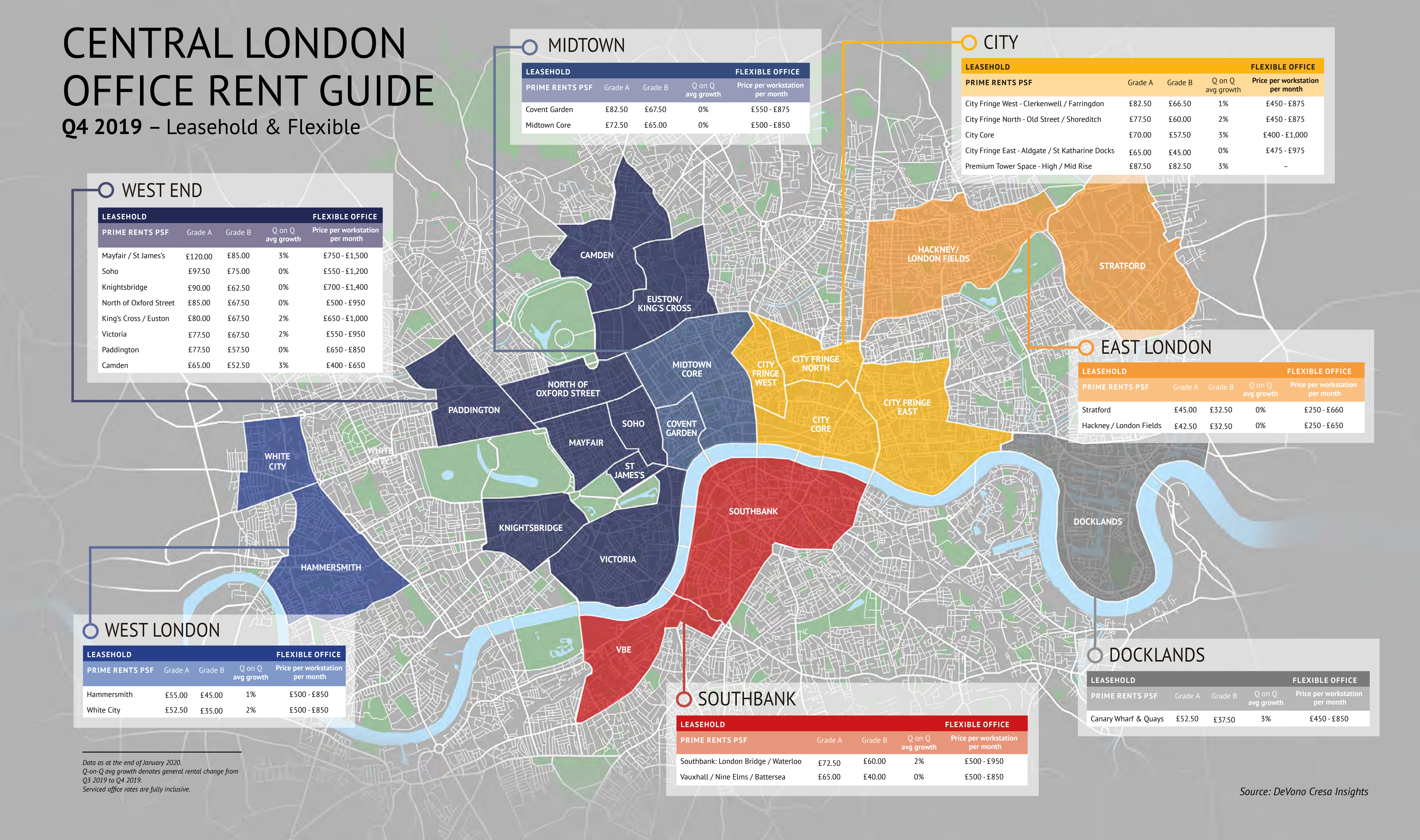
To arrange a viewing or to discuss your lease disposal requirements, contact David Barrington – Head of Disposals.

Call 020 7451 1332, email db@devonocresa.com or view the full disposals details and brochures at devonocresa.com.

David Barrington
Head of Disposals
db@devonocresa.com

CENTRAL LONDON OFFICE RENT GUIDE

Q4 2019 – Leasehold & Flexible



MIDTOWN

LEASEHOLD				FLEXIBLE OFFICE
PRIME RENTS PSF	Grade A	Grade B	Q on Q avg growth	Price per workstation per month
Covent Garden	£82.50	£67.50	0%	£550 - £875
Midtown Core	£72.50	£65.00	0%	£500 - £850

CITY

LEASEHOLD				FLEXIBLE OFFICE
PRIME RENTS PSF	Grade A	Grade B	Q on Q avg growth	Price per workstation per month
City Fringe West - Clerkenwell / Farringdon	£82.50	£66.50	1%	£450 - £875
City Fringe North - Old Street / Shoreditch	£77.50	£60.00	2%	£450 - £875
City Core	£70.00	£57.50	3%	£400 - £1,000
City Fringe East - Aldgate / St Katharine Docks	£65.00	£45.00	0%	£475 - £975
Premium Tower Space - High / Mid Rise	£87.50	£82.50	3%	-

WEST END

LEASEHOLD				FLEXIBLE OFFICE
PRIME RENTS PSF	Grade A	Grade B	Q on Q avg growth	Price per workstation per month
Mayfair / St James's	£120.00	£85.00	3%	£750 - £1,500
Soho	£97.50	£75.00	0%	£550 - £1,200
Knightsbridge	£90.00	£62.50	0%	£700 - £1,400
North of Oxford Street	£85.00	£67.50	0%	£500 - £950
King's Cross / Euston	£80.00	£67.50	2%	£650 - £1,000
Victoria	£77.50	£67.50	2%	£550 - £950
Paddington	£77.50	£57.50	0%	£650 - £850
Camden	£65.00	£52.50	3%	£400 - £650

EAST LONDON

LEASEHOLD				FLEXIBLE OFFICE
PRIME RENTS PSF	Grade A	Grade B	Q on Q avg growth	Price per workstation per month
Stratford	£45.00	£32.50	0%	£250 - £660
Hackney / London Fields	£42.50	£32.50	0%	£250 - £650

WEST LONDON

LEASEHOLD				FLEXIBLE OFFICE
PRIME RENTS PSF	Grade A	Grade B	Q on Q avg growth	Price per workstation per month
Hammersmith	£55.00	£45.00	1%	£500 - £850
White City	£52.50	£35.00	2%	£500 - £850

DOCKLANDS

LEASEHOLD				FLEXIBLE OFFICE
PRIME RENTS PSF	Grade A	Grade B	Q on Q avg growth	Price per workstation per month
Canary Wharf & Quays	£52.50	£37.50	3%	£450 - £850

SOUTHBANK

LEASEHOLD				FLEXIBLE OFFICE
PRIME RENTS PSF	Grade A	Grade B	Q on Q avg growth	Price per workstation per month
Southbank: London Bridge / Waterloo	£72.50	£60.00	2%	£500 - £950
Vauxhall / Nine Elms / Battersea	£65.00	£40.00	0%	£500 - £850

Data as at the end of January 2020.
Q-on-Q avg growth denotes general rental change from Q3 2019 to Q4 2019.
Serviced office rates are fully inclusive.

Source: DeVono Cresa Insights

2020 PREDICTIONS

A new year and a new decade – welcome to 2020. Political uncertainty, environmental concerns and rising costs are not the best way to start the year off. Nevertheless, these are significant factors that we expect to impact the office market.

Our set of predictions are wide ranging, but all could influence the real estate market and business decision-making in 2020.

1

THE MERRY-GO-ROUND OF POLITICS CONTINUES TO IMPACT DECISION MAKING

The latter part of 2019 became a watershed moment for UK politics and Boris Johnson. Since becoming Prime Minister in the summer of 2019, Johnson had been unable to push through his Brexit proposals. A division within parliament and between the two main political parties meant proceedings had reached an impasse. A December general election was called, with the Conservative Party winning an overwhelming mandate. After a three-year journey and three Prime Ministers, the UK is no longer a member of the European Union (EU). True to Boris Johnson's slogan, 'he got Brexit done'. However, this does not signal the end of the merry-go-round of politics, 2020 will see the government embark on Phase II – the trade talks and outlining of the future relationship with the EU.

NEXT PHASE OF BREXIT & TRADE

The UK is currently in a period of transition with the EU until the end of 2020, with both sides hoping to reach an agreement by that time. The negotiations are expected to cover all matters of trade, which touch on parts of the economy as diverse as the financial sector and as emotive as the fishing industry, to name just two. Movement of people, services and goods will be the backbone of the talks. However, the short timeframe for such deliberations are a cause for concern, and uncertainty amongst businesses is expected to rise again. Whilst our research shows that businesses have been resilient when making real estate decisions through Phase I, the impact of Brexit on specific industries will now gain greater scrutiny throughout the year.

Yet, a trade agreement with the EU is one of many that the UK government is hoping to secure in 2020. The US, the Commonwealth and China are all on the list too, yet a backdrop of tense trade battles in 2019 will make for a less than smooth path. Even though trade between the US and China is normalising there are many more obstacles along the way, not least of all if the UK adopts Chinese 5G technology and the arguments surrounding its suitability from a security standpoint. However, should the government be successful in achieving agreements with nations around the world, it is expected to give the economy, albeit towards the end of the year, a boost into 2021.

CONTAINING CONTAGION

There are other factors at play that may derail economic growth, impacting businesses both domestic and international.

The Coronavirus is one such issue, affecting global trade, travel and tourism. The rapid spread of the virus within China and the subsequent health warning by the World Health Organisation will have a significant impact on the global economy. The last such global health scare on this scale was the SARS epidemic, also originating in China back in 2002. However, the dependency on Chinese manufacturing and products from mobile phones to clothing back then was considerably less than it is now. Containing the virus will be imperative for global economic growth, but it will come at a price. Not least of all in the UK with a reduced number of tourists and business events.

It is not just the recent virus outbreak that threatens people and businesses alike. The continued unrest in the Middle East and tensions between the US and Iran have the potential to escalate, which could further impact oil trade and subsequent prices. Ironically, in the same vein climate change is another equally derailing factor, with varying degrees of national, corporate or even individual support ahead of a UK led COP26 summit at the end of the year. The inbox for any political or even business leader for 2020 is full and wide-ranging.

FOUR MORE YEARS

It's election year in the US. President Donald Trump is vying for his second term in office. Having recently avoided being removed through impeachment, Trump will head into the 2020 elections galvanised. His win in 2016 resulted in a clear split in the US population; expect this to rear its head once more. How a second win will impact businesses here in the UK is not yet clear. As election season kicks into full swing, we will get a better measure from his electioneering and rhetoric. as to the likelihood of a US-UK trade deal. Conversely, with no clear winner in the Democrat nominee race thus far, what a non-Trump presidency would look like is a distant reality at this point.

Whilst not on the same scale as the US elections, in the summer of 2020, London is also heading back to the polling booths to elect its Mayor. The London mayoralty is currently held by Sadiq Khan; a position of considerable sway not just at a local level, but also nationally and internationally. The economic contribution of London to the UK is vital. Ensuring that this is preserved through trade agreements and future relationships around the world will be key for the next Mayor. On the ground, supporting the growth of existing and emerging business districts will be important for London to compete with other cities around the world and the UK. 2020 looks set to be an eventful year for economic growth. Here in the UK, businesses have so far navigated Brexit, economic sluggishness and political upheaval, rather well. It seems whatever 2020 has in store, firms will prepare accordingly. We do not expect business uncertainty levels to dissipate this year and caution regarding real estate decisions will prevail.

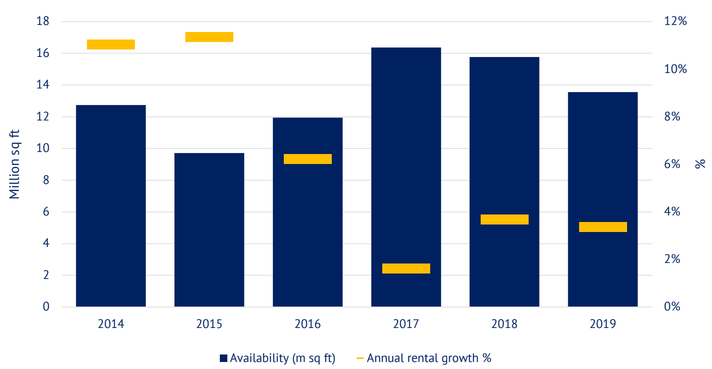
2 LONDON OFFICE RENTAL GROWTH TO INTENSIFY IN 2020

For the past couple of years tenants on the hunt for space across central London have benefitted from several factors including high levels of availability, new development schemes, and landlord uncertainty regarding Brexit. It is these that have allowed the negotiating power to rest in the hands of the tenant. However, in 2020 we expect this to start to shift back towards landlords as upward pressure on rents intensifies and incentive levels begin to contract.

The divergence of falling availability and strong demand has reached a point in some districts where there is only one direction for rents to go, that is up. Whilst the average growth rate for prime rents in 2019 was relatively conservative at 3%, areas such as Clerkenwell, Farringdon, King's Cross and Paddington have gone beyond this pace and set new record rental levels. Predominantly spurred on by new and sometimes taller buildings, for which a premium is sought for both, the rental tone and expectations have risen accordingly. Whilst this is generally anticipated for areas of redevelopment, the latter part of 2019 has seen increased pressure on rents and incentives in traditional office locations such as the City, West End and Midtown where the squeeze on available space has become more acute.

The current supply-demand dynamics mirror those that occurred in 2015. Two-years of above average level of leasing contributed to a 14% drop in availability. A drop that rapidly continued throughout 2015 and led to an average prime rental growth of 11%. Rental movement in 2015 for some locations took a significant step-change. This is especially the case in areas such as Aldgate where prime Grade A rents increased by 56%. Other examples include King's Cross and Midtown where prime rents rose by 14% and 13% respectively. Even in the traditional submarkets of Mayfair the rental level jumped by 14% to £130.00 per sq ft. These were indeed market shifting increases in pricing, ones which to some extent are already factored into current levels, despite the few occasions of discounting in the intervening years.

CENTRAL LONDON OFFICE MARKET: AVAILABILITY & PRIME RENTAL GROWTH RATE



Fast-forward to January 2020 and we have a similar scenario starting the year off with a 14% fall in availability. So, equally are we to expect to see the same level of increase in prime rents over the coming year?

Whilst the historical pointers indicate that the coming year could see strong growth in 2020. We believe the strength of this growth will be tempered by the fact some locations have already realised punchy increases and incentives have yet to be reined in by landlords. Taking this into account and appreciating that business confidence may still be shaky until Brexit Phase II has been concluded, our expectation of rental growth is an average of 5% across central London submarkets in 2020.

> "5% predicted average rental growth in 2019"

Whilst our predicted average growth rate appears to be just a notch above what we have seen in 2019, we are mindful of the increases that have already been recorded in some submarkets.

The attraction to the best-quality space, willingness to secure it by paying top rents has seen businesses go earlier than needed to beat the competition. Add in the weight of demand in recent quarters it has meant that the pace of pressure on rents has already been exacerbated and we will likely see movement in the first half of the year. Single-digit growth will still push Grade A and B prime rents further into new rental territory for some fringe locations and strengthen rents in more traditional ones.

3 THE TENANT EXPERIENCE TO TAKE CENTRE STAGE

In 2020, we expect to see a renewed focus on the experience that is provided to tenants. This is to say that landlords and developers will increasingly recognise how providing the best space and service can and will lead to a superior customer experience.

What a business wants or even expects from their office space is increasingly changing. Whether that is the way we work, client entertainment, free time or even how we socialise out of work hours. The list of 'must-haves' and 'likes' is considerably different to that of ten or even five years ago. As discussed, in previous editions of *The Occupier,* the voice of the workforce has got louder, not least of all with regards to input on the office and its environs.

Whilst the primary function of the office remains the same, the way in which we undertake such work can take on a variety of formats. Increased corporate and personal agility demands different workspaces not just in the demise of the office. The way in which we interact with our colleagues and clients is also shifting and becoming less formal. The opening of communal areas such as receptions to provide meeting spaces or workstations is one way in which landlords have started to respond. Heavily influenced by serviced offices, landlords are also expected to feature more flexibility in their buildings to cater for different tenant needs.

PLACEMAKING ALL BUILDINGS

Placemaking is a concept that has generally been used in relation to curating largescale redevelopments whether it is residential, commercial or both. However, landlords and developers should take on more of these principles and apply them to their buildings, whether it is for the smallest or largest scheme. Providing amenities in the office building or local vicinity are key elements of the tenant experience.

One example of this is British Land's current redevelopment of 100 Liverpool Street. In its previous guise, the building was very much a corporate office building with a small parade of shops at the lower level. When new tenants move in late

100 Liverpool Street
www.broadgate.co.uk

2020, the experience will be significantly enhanced. In addition to the high-spec, high design-led office space, tenants will have access to a substantial uplift in retail provision, restaurants peppered throughout the building including the landscaped rooftop. Whilst this is part of British Land's own wider Broadgate scheme, which has enabled them to change the public realm and footprint, the principles and aspirations of such a redevelopment are clearly experiential led. Elements of which could be incorporated into a good proportion of buildings around central London or any UK city.

A TOOL FOR TALENT

The workplace is no longer viewed as just a part of a company's operation, it is widely seen as a key tool deployed in the competition for attracting and retaining top talent. Whilst the design and function of the workplace can contribute a great deal in achieving recruitment goals, they can be boosted by an enhanced experience. The difference between taking a job could be down to the number eateries or bars in the local vicinity. It could also be the provision of green or quiet spaces. Wellbeing, both in and out of the office has increased in importance and recognition.

RELATIONSHIP BUILDING

Whilst some of these elements are outside a landlord's control, it could merely be a case of having an active landlord in the local community, in partnership with its tenants to helps curate a local area, thereby enhancing the tenant experience.

A landlord is often seen as that person/entity who is visible at the beginning of a lease and at the rent review and expiry. A non-transactional relationship should be sought in order to achieve the maximum out of the office. Working in tandem will enhance the experience for both parties. Time and energy invested in such relationships will lead to improving the 'tenant offer' and in-turn increasing the let-ability of schemes now and in the future.

4 THE GREEN AGENDA SET TO INFLUENCE TENANT DECISIONS

A myriad of freak weather events, flooding, droughts, fires and rising sea levels have all been beamed onto our TVs, highlighting the reality of global warming and climate change. In 2019, the recognition that the world is in the grips of a climate emergency increased and was thrust into the consciousness of everyday citizens. As such we expect that 2020 will see the wider green agenda influence real estate decision-making not just by property developers and landlords but by tenants also.

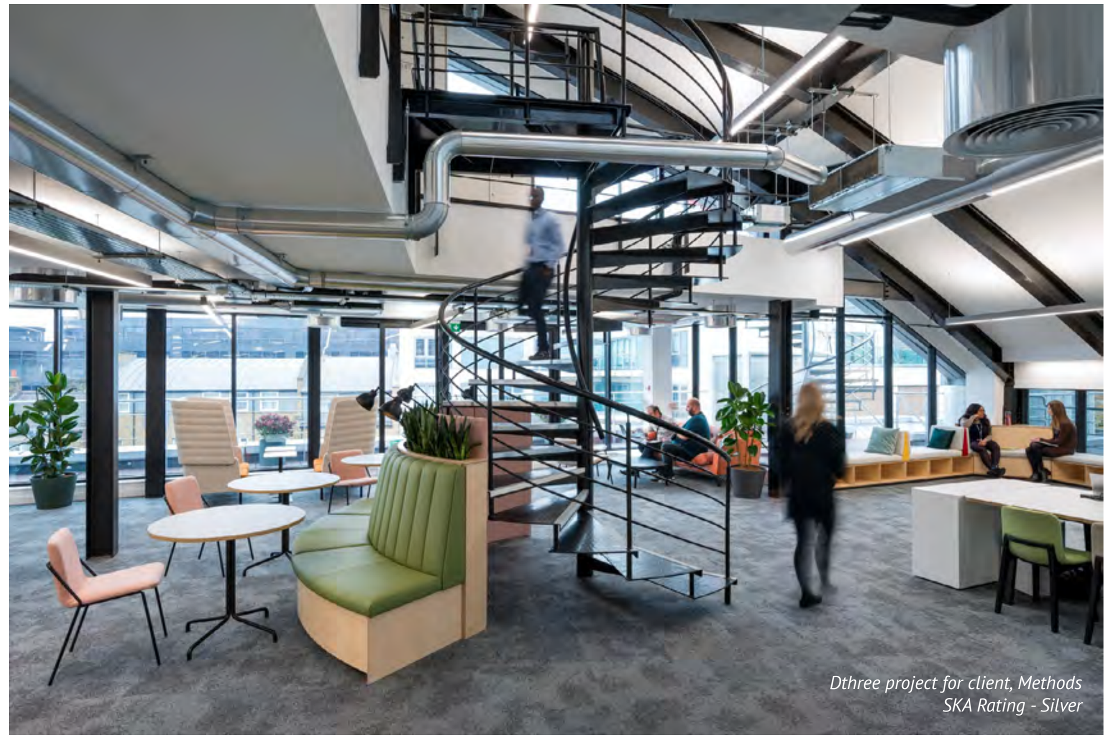
Since the discovery of damage to the world's ozone layer in the 1980's, climate change has been a prominent topic. Countries, corporates and people around the world have strived to wean themselves off a reliance on carbon, all at varying degrees of commitment and success. With global temperatures increasing at a greater rate, protests and activism ramped up in 2019. From occupying streets in major cities, to the walk-out of students in schools, the calls for action have grown louder. Businesses however large or small will find it more difficult to shy away from doing their bit, especially in the workplace.

CORPORATE RESPONSIBILITY

Terms such as Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) are ways in which a company can clearly outline the steps it is taking to have a positive impact on its employees, clients and the environment. More importantly, reporting their progress against the set goals. Whether it is a simple case of improving recycling provision within an office or ensuring that power supplies are derived from renewable sources, small steps can be taken to make a big impact.

However, the increased scrutiny on this subject is likely to move the scale of contribution further up both an individual's agenda and that of the business. Expectations from staff and clients to take not only bold steps but to prove it as well, will grow in importance. Reducing the corporate carbon footprint has until now been about achieving carbon neutrality, the urgency for change has shifted the dial, now it is about going carbon negative.

GREEN FIT-OUT



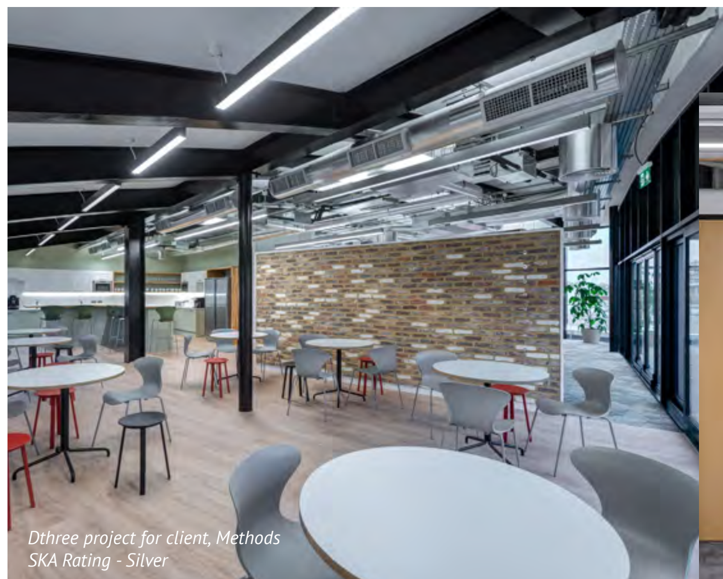
Dthree project for client, Methods
SKA Rating - Silver

For several years, the real estate industry has made inroads into developing sustainable office buildings through use of new technology, materials and construction processes. This will continue as more and more developers ensure that their schemes adhere to tighter environmental regulations and seek to achieve accreditation such as BREEAM, LEED or SKA ratings.

Whilst a blank canvas presented to tenants could well achieve its green credentials, a subsequent fit-out could negate them. The use of unsustainable materials and practices will go long way to undermining the base build. As a result, tenants will have a greater expectation that a fit-out will be sustainable and be environmentally responsible through design, construction and use. Fundamentally using less and less one-use materials.

TENANT CHOICE

The influence of the green agenda on tenant decision-making with regards to the workplace looks set to grow. Whether it is the initial choice of office building/workspace, the choice of design and build plans through to the type of paint used, a business's commitment to the cause will manifest itself in many ways. Reducing the corporate impact on the environment will filter through the entire supply chain, the office should be seen as a facilitator to change rather than a contributor.



Dthree project for client, Methods
SKA Rating - Silver

5 A REGIONAL 'OFFICE' RENAISSANCE

Office leasing activity across regional cities has been robust in 2019. The high level of demand is expected to further fuel a renaissance for office locations outside of London over the coming years, as businesses both domestic and global eye the benefits of the regions.

In 2019, leasing activity totalled 780,095 sq ft across Birmingham city centre, representing a 3% uplift on the previous year. Similarly, Manchester city centre take-up in 2019 surpassed its long-term average by 23% to total 1.4 million sq ft, and in Leeds demand for office space grew 7% to 743,192 sq ft. These volumes indicate the buoyancy of the top three office markets outside of London. Behind these numbers are some significant deals listed below.

BIRMINGHAM

- Platform 21, Stephenson Street: 110,800 sq ft leased by UK Government as a regional hub
- WeWork lease 3 spaces totalling 232,500 sq ft as the flexible office provider expands its coverage

MANCHESTER

- 125 Deansgate: 117,030 sq ft leased by Spaces, the flexible office provider as expansion space
- Amazon take 92,000 sq ft on Hanover Street, its first office outside of London to house its software and research development teams
- GCHQ, the government intelligence unit lease 63,000 sq ft on Albert Square, to tap into the burgeoning student population

125 Deansgate, Manchester
Source: www.glennhowells.co.uk

LEEDS

- Sky Betting & Gaming have pre-let 136,000 sq ft at 4 Wellington Place in order to consolidate operations
- BSKYB have taken 31,000 sq ft on Whitehall Road
- Channel 4 have pre-let 26,000 sq ft on City Square to house its new corporate HQ that will move from London. They have taken an additional 11,700 sq ft on West Gate, Grade Street

Businesses that have chosen to lease office space outside of London include HSBC that opened a new HQ in Birmingham in 2018 – out of the capital. Similarly, Barclays Bank who moved several hundred jobs out of London to be based in Birmingham. Channel 4 is currently doing the same with its move to Leeds, and banking giant Goldman Sachs is looking at moving its technology division northwards to either Birmingham or Manchester. UK cities are no longer viewed as the back-offices for corporate UK, and London is no longer viewed as the only place to get jobs in certain sectors.

The regional office markets have several key attributes that appeal to businesses. The rental difference between space in London and other UK cities possibly being the most appealing. Prime rents in Manchester and Birmingham can be between £32.00 and £36.00 per sq ft. This is nearly half of what is asked for in the City of London market. Whilst appealing, it is not the only factor. The access to talent is a growing need for businesses and with some of the largest student populations outside of the south east of England, cities in the Midlands and the North have such a talent pool. Access to housing (relatively affordable) is also a driver for firms that look to the regions, giving the optionality for its workforce to get on the housing ladder or have shorter commutes and access to countryside – all of which can be more easily achieved out of London.

The latest raft of deals is also seeing the growth of serviced/flexible provision by the large operators such as WeWork and Spaces branching out of their preferred London submarkets. Such moves indicate they are hoping to get ahead of the curve of their competitors, but more importantly follow occupier trends towards flexibility.

Whilst much of the narrative of this prediction majors on businesses looking outside of the capital to house its office functions, it should equally be viewed as regional office markets are continuing to grow their appeal, their office base and becoming more relevant to firms of all sizes and sectors.

6 TECH IN THE WORKPLACE - WHERE NEXT?

It is hard to believe that the World Wide Web (WWW), or the internet in its current form was not mainstream until 1995. In December 2019, internet sales accounted for 21% of all retail sales, triple of that recorded 10 years prior. The first iPhone was not launched until 2007 – 2.2 billion have since been sold. Our adoption and subsequent reliance on technology has influenced every part of our lives, whether we see it or not. The pace at which technology has impacted the workplace is equally as fast and transformative, changing not just how we work, but what work we do and from where we do it. 2020 will be no different with regards new technologies, but what do we expect to be the game changers for the workplace.

Smart tech gains traction with tenants – Smart technology and its use within a building and workspace is not a new concept. But the take-up of this technology to date has generally derived from large corporates, developers and a few of the tech-savvy flexible office operators. We expect this to turn mainstream this year as confidence in the benefits, whether its cost, effectiveness or the usability, increases. The connection to lighting, heating, water, electric and air conditioning systems and personalising the output, not only improves energy efficiencies but can also improve the wellbeing of staff. Increased use of similar technologies in the home environment has given rise to businesses having the belief to explore and embrace.

Operational analytics to aid office design – with the world connecting via technology like never before, the capturing of data through our various devices such as smartphones, laptops or even key passes, means that the office design process will be more widely influenced by data and interpretation than the opinions of stakeholders. The improvements in technology and accessibility means it is even easier for us to utilise smart technology, online surveys, and feedback tools and apps to track movement and habits across an office. All of which will feed into an initial design of a new space or can help support the function and flow of an existing space. The workplace is a treasure trove of data on how a business functions, now is the time that trove is opened and used.

5G has arrived – the next generation of mobile connectivity which provides faster speeds and greater reliability for mobiles phones and other devices was partially deployed in 2019. Full coverage across the UK has not yet been achieved and to-date only two operators can offer the service. It is currently the larger cities such as London, Cardiff, Birmingham and Manchester that only benefit from being switched on. Yet, the impact that 5G can have on a business has possibly been underplayed in contrast to personal benefits gained by video streaming, gaming or general online activity. The arrival of 5G can give businesses increased reliability of working wirelessly, remotely, increased productivity, and in some cases achieve cost savings. 2020 is expected to be the year that the business community benefits from this additional network capacity.

Automation and Artificial Intelligence – Manual inputting and analysis of data can be labour intensive and prone to human error. We work in a world where data and information are a core part of a business, whether its budgets or expenses, project management or manufacturing, the streamlining of day-to-day processes through automation are surely to be

welcomed by businesses. Some industries such as the professional sector have been resistant to change – adding the personal touch is seen as the value-add. However, the ever-increasing sophistication of software for almost all business sectors is revolutionising the workplace. Taking it one-step further and introducing artificial intelligence (AI) to automation processes could achieve further business efficiencies and competitive advantages. These changes in the workplace are not designed to downsize the workforce, they are to provide the opportunity for workers and businesses to concentrate on the human aspect of a job. We expect that 2020 will see an increase in sector specific technology applications to modernise and improve the workplace and its jobs.

Technology in the workplace and its subsequent impact on real estate is evident in the amount of office space that businesses take, more importantly how they then use the space they have. The requirement to house large data rooms, archiving and in-house libraries have all waned. The increase in the use of space for people is now more of a business imperative.

7 THE RIPPLE EFFECT - THE NEXT GENERATION OF OFFICE MARKETS

Fuelled by global trade and industry, London has evolved from a collection of small villages, rippling out from Mayfair and The City to become the megacity it is today. The future of London will continue to be built on this, but as both its population and business communities keep on growing, central London is becoming crowded. So, where will the next generation of London office markets be and why should tenants be thinking of them now when they are not even built?

Canary Wharf and the Docklands is the most recognisable modern office market that has developed in recent times. Since the first office building topped out in 1990, the 97-acre estate has continued to evolve, with Wood Wharf to be its latest addition. Other areas which have firmly established themselves as core central London business districts include Paddington, King's Cross and the Southbank. Whilst developers and landlords look to develop further within these business districts, the fast pace at which new office locations have been developed over the past 30 years means that despite some still being in their infancy or still being built out, other areas are piquing interest.

The new kids on the block in terms of locations include White City, Vauxhall-Nine Elms-Battersea (VNEB) and Stratford. All three of these have been driven by the wider regeneration of the local area and investment into public transport links. The latter more famously developed as a result of the 2012 London Olympics. The speed at which these areas have not only been built out, but also attracted high profile tenants is like lightening from a historical comparison. Apple at VNEB, Publicis and Net-a-Porter at White City, TFL, The FCA, BT Sport and UCL at Stratford are just a few of the well-known names supporting the growth of these locations.

The next generation of office markets across London which are waiting in the wings for their moment to shine, continue the ripple effect out from existing markets. Where are they?

WEST LONDON

Old Oak Common – the redevelopment of the railway maintenance depot is to become a key transport hub for London and the south east. A new station will provide an interchange for HS2, Crossrail and other national rail services, creating what is expected to be one of the busiest points on the network. The recent recommitment by the Government to continue with the HS2 project is expected to spur on plans for the wider regeneration of the area. Plans which will see it bring forward not just new residential development but a new commercial district.

NORTH LONDON

Brent Cross South – An ambitious plan for a new town centre and mixed-use development close to Hendon and Cricklewood looks set to deliver 6,700 new homes and over 3 million sq ft of office space. The masterplan has a timeline of 10-15 years and with development contracts signed in 2019, enabling works are expected to start in 2020 with first buildings coming out of the ground in 2021-22. The site will incorporate a new railway station, Brent Cross – West Thameslink.

Brent Cross South
Source: Copperstones

EAST LONDON

As heavy industry moved out of London it has left behind swathes of docks, factories and warehouses in East London. Whilst residential development has driven regeneration of these areas, the commercial element has been less than forthcoming. Yet, renewed commitment and investment will see momentum gather at the Royal Albert Dock site and further progress on plans for Silvertown Quays, both of which will boast new business districts with a combined total of over 8 million sq ft of commercial space. Whilst the former has already started development and even delivered some space, the pace and quantum has been lacking. Yet improving links with Crossrail, expansion at nearby City Airport and increased frequency of river boats should give this location added credence. As for Silvertown Quays, gaining planning permission for its first phase of works is a step forward for this scheme.

SOUTH LONDON

Canada Water – A stones throw away from the established Southbank office market and in the shadows of Canary Wharf across the river, Canada Water with its excellent transport links via the Jubilee tube line and the London Overground line is set to become Zone 2's newest office location. The mixed-use masterplan that received the seal of approval in 2019 is expected to deliver up to 2 million sq ft of office space. The proximity to central London will make this an exciting opportunity for some businesses.

For tenants, why start thinking of these locations now? There are two main reasons; beating the competition and a price point.

Canary Wharf Masterplan
Source:YouTube, Wagstaffs

Research shows us that businesses of all sizes are starting searches a lot earlier than previously. Securing space ahead of the competition has certainly heated up in recent years. Businesses who may have wanted to move to the redevelopment of Battersea Power Station were beaten to the punch by Apple's pre-let of the entire first phase of the scheme. Pre-lets at IQL Stratford by TFL and FCA secured the newest buildings to greet you at the Olympic Park. Businesses especially larger ones continually assess their space plans and adjust them accordingly.

Those changes may suggest they exit a lease early in order to benefit from the new space and location. These could be gains related to personnel, productivity and/or a cost. Staff links to the physical office may be easier, access for clients may also be better. A new location out of central London could help with access to talent or housing for the workforce. The benefits to a business are not necessarily linked to the bottom line. Regardless of the drivers, the success of the new office markets in the past few years, shows that tenants are not just location agnostic but are also willing to take a punt on driving new areas of London forward.

8 EVOLUTION OR REVOLUTION OF THE SERVICED OFFICE MARKET?

The serviced/flexible office market in the UK has continued to grow at a fast pace in 2019. Flexible leasing has become an intrinsic part of the range of leasing options for tenants, regardless of size, sector or even location. However, during the summer months the corporate turmoil of WeWork threatened to derail the operations of the largest provider and subsequently placed scrutiny on a market that was already viewed by some with scepticism. Weathering the storm in 2019 the market continues to evolve, but what can we expect from 2020.

WeWork, Shoreditch

Coverage has become king for a good number of providers, keeping one eye on the jewel in the crown (London), with the other on regional expansion. However, as quickly as the market for flexible space has grown, so too has the competitive landscape, putting pressure on existing business models and future plans. As we discussed in our predictions report in 2019, the number of firms offering flexible solutions would increase further with landlords/developers launching their own products. This appears to have only further fuelled the appetite of providers. In London alone 17% of office take-up in 2019 was by operators. Just one rung behind the total leased by the financial sector.

The number of market players continues to increase but whilst that improves the choice for tenants, the pressure on the viability of each centre increases. In 2019, several centres closed in London and around the UK. Whilst not prevalent on a large scale, it does suggest operators will pay close attention to occupancy within each of their centres. This is not to say that we will not see any new entrants, we are certain that many more will launch, especially in the nascent regional city markets.

However, in the face of such stiff competition we do expect to see an element of consolidation amongst the providers. One such casualty in 2019 was Central Working, who went into administration. What was once a success story and despite a market that is experiencing high demand, it struggled to make some of its centres profitable. Whilst whole businesses failing are hopefully few and far between, it is more likely that in order to gain a little more coverage, we shall see providers acquire portfolios of centres.

The closure of centres through financial difficulties do prompt questions surrounding occupier protection. The agreements are in place between operator and tenant, yet the uncertainty arises when that operator is unable to fulfil its obligations. It is seen that the ultimate landlord could take on a duty of care. Landlords may consider taking on centres in their buildings, however, on balance most will recognise the complexity of the challenge and as a result leave it to the market to deliver. Whilst this has not happened, landlords will be sure to have made contingency plans, especially those with WeWork in their properties.

Expanding the range of flexible leasing solutions on offer to tenants will gain traction in 2020. Whilst coworking, fixed desk and managed spaces continue to form the backbone of provision, we expect to see several differentials between providers. These could include the length of terms (both long and short), greater agility across portfolio, advantageous rental incentives or more bespoke packages for different companies. We also expect some providers to go niche with their centres and products by targeting clients by size. Navigating the various products that currently exist and potentially be launched, will prove interesting for both tenants we represent and our leasing team.

What is clear is that differentiation will be an important platform for providers in 2020. In some cases, reinventing propositions with greater emphasis on value and service. The tenant / customer will be centre to any offering, in a crowded market, businesses can vote with their feet and the market has enough other options!

9 PUTTING THE SERVICE BACK INTO SERVICED OFFICES

Over the past few years, the race for space and customers has seen some operators increase their portfolio of centres but slip behind on the service offering and more importantly their relationships. 2020 should see providers refocus their operations to become more service centric. An increased competition and a growing agility from businesses will require differentiation in order to compete. We believe that 'service' can and should be that differentiator.

As with all new relationships, first impressions are important. This is true of when clients are viewing prospective offices. The serviced office centre has the potential to be the new home of this client and as such their first impressions must be satisfied. Whilst for some this could be the physical surroundings, for others it may be that initial interaction with the provider. Having a representative who can walk a group of people around a building and loosely touch on a pricing structure will not be enough for today's tenants. If you are expected to make a deep commitment both financially and operationally, you want to have the comfort of dealing with someone who is also committed. Educating and upskilling teams, giving them the deep knowledge of the building, of the tenants, the local area and the transport networks, is vital. Whilst extolling a potential list of benefits, it would also be prudent to point out any downsides. Being open and upfront at the beginning will start the relationship on the best footing.

It is often the case that when a business views a centre, it is someone else's space, or you are shown similar. This is where technology and visuals could be deployed to better aid the client experience, and ultimately secure the business. We predict to see an increase in providers using virtual touring and/or mock-up office designs to better engage with a business, rather than having to rely on imagination. One space does not fit all and listening to prospective clients and their advisors on the list of requirements will go a long way to ensuring that expectations are met upon moving in.

Businesses also want transparency from their providers, whilst agreements are relatively comprehensive, subsequent charging for additional services or requests for upgrades do little to foster good will or even better relationships. Even the knowledge of where an initial deposit is kept can sometimes give a business that piece of mind. An occupier wants to feel protected and secure in their space. As such we believe that providers will increasingly introduce their own guidelines of conduct, beyond the normal terms and conditions.

Engagement with businesses who are already in-situ is probably the easiest service win a provider could have – being available to listen to client's feedback and using it to improve not just the physical facilities, but the whole client experience from tea bags to rent payments. The sharing of good and bad practices amongst centres should be standard. When a business is put off by one experience, they are less likely to remain loyal. It is this loyalty that is currency for the serviced office operators, earning and retaining it in such a competitive market will be no mean feat.

10 INCREASING DEMAND FOR LAST MILE LOGISTICS

E-commerce in the UK has evolved at such a remarkable pace and now covers a multitude of industry sectors and products. As early pioneers of technology and retail, the UK has become the largest e-commerce market in Europe, and the third largest in the world. However, as fast as the market has grown, consumer expectations have also escalated. Demands on speed, delivery times and delivery locations have increasingly become a challenge for retailers, not least of all as the customer base is not just the home shopper, it is also businesses. The complexity increases when the volume of the two are combined and the logistics of that last mile to the doorstep becomes longer and costlier. We believe that the need for well-located logistics centres within easy reach of major cities and towns will significantly increase in 2020, prompting not just developers and retailers to act, but also the business consumer.

Many an office building can at times become like a mini depot for deliveries, especially at peak periods such as Christmas. Workers are increasingly using the office location as a delivery address and for some multi-tenanted buildings this can be quite overwhelming. Larger businesses in their own buildings with delivery areas can also be inundated. Taking the City of London office market as an example, the largest central London office market was home to 23,890 firms and 522,000 workers in 2019. Even if just 1% of this figure ordered something online and got it delivered to work, it would account for 5,222 deliveries. The impact of this demand then shifts to the roads, and with it set to increase further, firms are taking some bold steps.

22 Bishopsgate
Source: www.wired.co.uk

The most strident of moves has been by firms who have banned its workers from receiving personal items at work. Whilst for some this can alleviate the burden on the workplace, it does shift the logistics delivery elsewhere. Some larger firms or large multi-tenanted buildings are employing the use of consolidation centres outside of the centre.

One such high-profile new development that will be using a centre is 22 Bishopsgate in the City which is due to complete construction in Q1 2020. When operational, all deliveries whether it be post, food and drink, or the pair of trainers that you ordered will in the first instance be delivered to the centre. Then these will be caught up in regular deliveries to and from the centre. Whilst this example was part of the planning process for the skyscraper in order to cut down on traffic, other firms around London are also emulating this model.

With a greater awareness of the environmental and social impact of the increasing number of deliveries, we expect to see an uplift of larger businesses more willing to adopt tactics such as consolidation centres. It may even spur on the establishment of community/district schemes. Yet, availability of warehousing or suitable buildings to house these facilities have become increasingly scarce in and around our cities. As a result, values for this kind of asset for investors will improve, hopefully sparking further interest to ameliorate the last mile of for all consumers alike.

YOUNG MINDS: DESIGNING A COLLABORATIVE SPACE

YOUNGMINDS

Dthree PART OF THE DeVono cresa GROUP

In each edition of *The Occupier*, we showcase a project that encapsulates the breadth of service that the DeVono Cresa Group can provide. Here we take a look at the exciting work we undertook supporting Young Minds, which started with DeVono Cresa acquiring their new site, through to design and fit-out by Dthree.

Young Minds wanted to create a space that truly celebrated what they do and an environment where everyone, including their activists, could be together and feel comfortable. In order to achieve this, Dthree worked closely with the Young Minds team 12 months prior to their move on a workplace consultancy piece to fully understand what they needed from their new workspace. The consultancy consisted of staff engagement surveys, desktop working analysis, furniture audits and a building search analysis. Dthree's Senior Designer, Jess Willdigg and Project Director, Tom Aird talk to us about their experience working with Young Minds, and how the design enhanced the tenants experience, captured the green agenda, considered the impact of technology and the outcome of the finished product.

HOW DID THE BUILDING INFLUENCE YOUNG MINDS' WORKING EXPERIENCE?

Tom: The location was key with the staff wanting to remain within close proximity to London Bridge as most employees used this transport hub. It was also key to have good transport links to the Houses of Parliament due to the nature of the charity. We undertook various travel studies to ensure staff happiness and retention was sustained when considering all possible locations.

Jess: We space planned a lot of different spaces, one including a different floor of the building they now occupy, which they fell in love with instantly so when their now occupied floor became available, it was an obvious choice for them. We were then able to start working on the design of the space with them from the very beginning to help them create the perfect work environment for Young Minds with all their established needs accounted for.

WHAT FACTORS WHEN SEARCHING FOR A NEW OFFICE WERE IMPORTANT FOR YOUNG MINDS?

Tom: The key factor in the building search was to enable and encourage the staff to interact more. In their old space, they were split in half (albeit with a connecting corridor) but cross team interaction was minimal and therefore, a problem for Young Minds.

Jess: It was vital that the design of the space enhanced collaborative opportunities amongst the teams. Natural light was also important for their new space as they wanted an open and airy workspace that upon first impression, would instantly create a welcoming atmosphere for all their visitors and activists.

HOW DID DTHREE HELP THEM ACHIEVE THIS?

Tom: A number of test fits and design concepts were carried out across various different spaces in the London Bridge region to stress test and question their brief to ensure the space was exactly what they required now and in the future.

WHAT CONSIDERATION WAS THERE FOR FUTURE OFFICE DEVELOPMENT AND COMPANY GROWTH?

Jess: There is space for expansion regarding fitting in typical desks. As part of the brief we wanted to create a large flexible working breakout space so there is plenty of hot desk options for those that don't require standard desk space. We planned around predicted head counts and designed flexible areas as well as future proofed provisions for expansion desks which will allow plenty of growth opportunities within the space.

HOW IMPORTANT WAS A SUSTAINABLE WORKPLACE FOR YOUNG MINDS?

Tom: It was very important that the environment Young Minds work in promoted wellbeing for not just their staff but also their advocates who spend a large amount of time in the space.

Jess: Wellness was a huge focus point throughout the project, giving the team areas to take a bit of time out for themselves where they could switch off and recharge. By creating a large breakout space, this offers lots of flexibility as well as booths and a quiet room with more privacy, truly supporting the nature of what they do.

HOW IMPORTANT WAS IT FOR YOU TO CREATE A SUSTAINABLE WORKPLACE?

Jess: Being in the construction industry we are aware of the amount of waste that can be generated on sites during projects. We strongly believe as designers and project leaders that it is our responsibility to reduce this where possible and be more conscious as a team and company to improve the industry standard. This ethos was carried out on the Young Minds site both during and after construction.

HOW DID YOU WORK WITH YOUNG MINDS TO ACHIEVE THEIR BUDGET?

Tom: We were appointed early in the process so could design in collaboration with the client right from the get-go. This allowed us to research effectively and de risk the project giving Young Minds cost certainty ahead of site works by working closely with key sub-contractors to drive efficiency.

HOW WAS THE GREEN AGENDA USED IN THE DESIGN OF THE SPACE?

Jess: At Dthree, we work with various manufacturers who ensure sustainable design is at the forefront of their products. For example, the carpet we used throughout the space is made from recycled content, the paints we used are all water based so don't have as many VOC's in comparison to most commercial paints, the joinery wood is sustainably sourced, and the fabric used is from a British supplier so has a low carbon footprint and made up of natural materials such as wool.

WHAT ARE COMMERCIAL DESIGNERS DOING TO KEEP UP WITH THIS GROWING NEED?

Jess: As a designer, being mindful is vital. It is every designer's responsibility to be aware of the sustainability elements within their designs and selected products. Understanding what you can do to improve these by researching alternative products where possible and ensuring your client is aware of the improvements that can be made. Today, it is not just designers who are trying to be better, suppliers and manufacturers are also looking to improve their process and product properties, so regardless of your budget there is always something you can do to help ensure a more sustainable approach.

HOW DO YOU THINK DESIGN WILL EVOLVE TO SUPPORT SUSTAINABILITY IN 2020?

Jess: I think design will continue to evolve to support sustainability, with more and more companies looking for new ways to be sustainable in their manufacturing processes and designers becoming more aware and accountable for their designs. Although we have already seen a massive shift in this direction over the last few years, within the next 12 months we will see this continue to grow and filter down to the details of design, for example using clever joints in joinery to minimize the use of glues and adhesives.

HOW IMPORTANT WAS TECHNOLOGY TO YOUNG MINDS AND WHY?

Tom: Technology was vital in ensuring complete flexibility for Young Minds staff. As wellbeing played such a vital role in the design of the new space supporting this by offering complete flexibility for their people, was a must. Enabling their staff to drop in and work wherever they wanted within the space with seamless docking, easy to access WiFi throughout and to connect easily to all AV equipment. Having a better desk set up was also important to the client with specified task chairs and adjustable monitor arms to give their people complete control and flexibility over their own comfort.

“Design will continue to evolve to support sustainability”

HOW WILL THE TECHNOLOGY OF THEIR SPACE HELP YOUNG MINDS GROW AND PROGRESS IN THE NEAR FUTURE?

Jess: The technology used allows for greater collaboration amongst teams and departments. The staff are no longer tied to a desk, given the differing working environments available to them, which is not only great for supporting wellness in the workplace but will also improve their productivity levels and enhance their company culture across the business.

HAVE YOU NOTICED A CHANGE IN TECHNOLOGY NEEDS IN THE WORKPLACE?

Tom: Workspaces need to be more agile allowing for complete flexibility and agility more than ever. Technology needs to be seamless and intuitive in order to support this.

Jess: Everything needs to be simplified in the workplace – businesses want their staff to be able to just drop in and work without any complications – Technology is what keeps this wheel turning.

WHAT ROLE DO YOU BELIEVE TECHNOLOGY WILL PLAY IN 2020?

Tom: I'm sure VR & AR will play a further role in showcasing design work and furniture I'm sure. Lighting and ventilation will become smarter and more sustainable in the coming years and adjust to the flexing population without human control.

Jess: Technology is still very expensive, so it isn't always achievable for every client in their budgets. It would be great to see technology become more affordable and therefore accessible over the next 12 months so all businesses can benefit from it without making design sacrifices elsewhere.

HOW WAS THIS PROJECT DIFFERENT TO ANY OTHER YOU HAVE WORKED ON?

Tom: The early appointment meant we were able to design alongside the client and our suppliers from the very beginning, which in turn permitted us to provide cost certainty upfront. With more lead in time, contractors could survey multiple times allowing us to increase efficiency in delivery.

Jess: They were a great client to work with and knew exactly what they wanted from their new space due to the challenges they had faced in their previous space. We had a great rapport with them and collaborated well all the way through.

WHAT DID YOU ENJOY MOST ABOUT IT?

Tom: Seeing the huge shift in culture of the employees to work in a truly bespoke environment to their needs and that of their partners. Young Minds have an employee who occasionally requires a wheelchair and it was the first time she said she felt truly independent in an office because it was well thought-out.

Jess: The people. It was a hugely fulfilling project to be a part of and they were just a great bunch of people to work with which made the process very enjoyable and smooth.

WHAT STANDS OUT MOST TO YOU IN THEIR WORKPLACE AND WHY?

Tom: The collective expression of their culture. Having got to know them over the seven months leading to the project, I really feel it is their home and will help them grow and try different things in the years to come.

Jess: Their personal involvement with the graphics really makes the space feel like Young Minds home rather than a generic office. The involvement with the activists was hugely fulfilling and made it really special.

Visit dthreestudio.co.uk for more information.

2019 REVIEW

DeVono cresa GROUP

£41M+
Savings delivered to occupiers

166
Clients advised

Projects delivered for occupiers
256

Solutions delivered for our clients:

1.07M+ SQ FT
of leasehold space transacted in 2019

3,141
Flexible workstations acquired for clients

140K+ SQ FT
Workplaces created by our design & build team

Proud to have supported in 2019:

Investec Asset Management

BDB PITMANS

L3 Technologies

VENTURE X THE FUTURE OF WORKSPACE

TANDEM

Trustpilot

Deloitte. Digital

methods

MoneyGram money transfer

PRIVITAR

CAZOO

YOUNGMINDS

ABOUT DEVONO CRESA

COMMERCIAL PROPERTY CONSULTANTS

The workplace is under great pressure to perform and be all things to everyone – and it is our business to understand this challenge.

DeVono Cresa is the UK's leading occupier-only consultancy firm and proud to be part of Cresa, the world's number one tenant only advisory firm.

We specialise in providing real estate solutions to support our clients' complex and specific business objectives.

A significant part of our role is helping our clients to understand and define their occupational requirements. We take into account key factors including talent challenges, headcount forecasts, operational priorities and cost considerations to help craft a brief that is not only fit for purpose today, but will also deliver a sustainable occupational footprint moving forward.

We achieve this level of insight by fully understanding how your business works and where it is headed.

Our team cares about leaving a lasting and positive impact on our clients. Success is not defined by a lease or agreement being signed; it's about a culture being positively influenced, a workforce being engaged and ultimately providing a platform for future growth.

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