STRUTT & PARKER

PROPERTY FUTURES II

OFFICE FUTURES: WORKSHIFT

CONTENTS

WELCOME

In many respects the offices we work in today are not so different to those that emerged in the post-war period, when the service economy replaced manufacturing as the primary employer and driver of growth in developed economies.

On taking a closer look, evidence of an incremental evolution in design, work practices and technology emerges. The office has evolved from a place for employees to come and use fixed capital equipment such as fax machines, desktop computers and fixed landlines; often in isolation and with a specific definition of employees' workspace. To a more flexible model, where the capital equipment is increasingly mobile and offices are becoming more orientated to maximising employee interactions.

Today, the focus is turning to the impact of office space on employees, specifically their happiness, or 'wellness,' and levels of productivity. Employment costs for most companies vastly outweigh the costs incurred in renting and fitting out office space, so it would make sense to make sure that office space is helping employees to work at their best. For some occupiers, this idea is already at the forefront of their minds, and workplace practices; however, for many it is not.

STEPHANIE MCMAHON
HEAD OF RESEARCH

The key motivation of this research is understanding what employees want. McKinsey's famous term the 'war for talent', is important across the business world, but in London it is fundamental. In a city with rapidly rising demand from businesses and employees, yet - due to an inability to construct sufficient housing to keep pace with demand - one facing increasing concerns over its affordability, attracting employees is absolutely vital. Attracting employees without having to continually inflate wage bills perhaps even more so.

Our survey of London's office workers looks at the way they work, what they use to work and what working environments and facilities are important to them. It also incorporates their views on location; understanding what factors are most significant when considering a location's appeal.

Perhaps few businesses are likely to rip up their property strategy today based on what its employees think, there are too many other factors at work. But as employers seek to win the war for talent, we can expect to see a long-term shift toward meeting the workplace needs of human capital. It is the most expensive after all.

METHODOLOGY

The Office Futures: Workshift survey was conducted from 8 January to 20 January 2016. The survey of 1,000 respondents was conducted by OnePoll, with the sample consisting entirely of full-time office workers based in Greater London. The Sample section at the back of this report breaks down the respondents' characteristics in detail.

Throughout the report the terms 'respondents', 'employees', 'office workers' and 'staff' should all be taken as referring to the full sample.

The report also outlines the results of a sub sample within the main sample, called Future Leaders. This group represents 210 employees, all earning over £35,000 per annum and aged between 18 and 34 years.

The survey data contained within represents a small portion of the data available. Strutt & Parker can provide detailed data to interested parties upon request.

EXECUTIVE SUMMARY

This report details the findings of our survey of London office workers' preferences in terms of how they work, the environment they work in and what they think makes an attractive office location. Combined with other research and data we have distilled the information into the expected impact on occupiers' future behaviours and strategies. Whilst in the longer-term laying out what the implications might be for investors and developers.

HOW WE WORK

For most employees 'private desk-based work' remains a key task – listed by 74% of respondents as a regular activity. This would suggest amongst all the talk of co-working and collaboration that we should not lose sight of what 'work' actually is. Our data also showed 'formal meetings' remained a typical task/activity for 33% of workers. Looking forward, 25% of respondents listed 'informal/collaborative meetings' as a typical activity. We don't have the historic data for comparison, but intuitively predict that this is now becoming a larger part of the activities that an office needs to support.

In terms of technology, our survey shows that 18-34 year-olds already use laptops and mobiles more than their older peers – 46% listing the 'mobile phone' as a key work tool, compared to 37% of 35-54 year-olds. This is in spite of the fact that they are in part restricted by what their employer provides them with. Furthermore when we only look at younger workers earning over £35,000 per annum (our Future Leaders sample), we find that 67% of them list their 'mobile phone' as a key work tool, followed by 61% for 'laptops'.

THE OFFICE ENVIRONMENT

When ranking office features, 'personal workspace' led the field with 70% of respondents listing it as important to them (having had a maximum of three choices). A result not surprising having discovered earlier in the survey that 'private desk-based work' was the most important work task. 42% of employees rated 'staff breakout/coffee areas' as important, ahead of 'design quality' (37%) in third. Although we know occupiers are improving these staff areas; we would challenge whether it is to the extent required by their staff.

When given the opportunity to select their ideal work environment, workers demonstrated a wide range of preferences. In terms of outright first preferences 'home' received 31% of the vote, with 'cellular/private offices' in second, with 24%. Only 23% of respondents listed 'open-plan offices' as a first preference despite it being the dominant form of office layout in the UK. Perhaps given the spread of first preferences, occupiers could be thinking about a greater variety of environments within the office allowing employees to work where suits them best?

OFFICE LOCATION

Considering employees' views on locations, our data shows 'commuting time' to be the most significant factor in an office location's attractiveness – 80% of those surveyed listed it as one of up to three important factors. The next highest score went to 'food and drink options', with 45%. In contrast the option in third place, 'shopping options', scored just 27%. Interestingly when we broke the data down to the Future Leaders sample we found 'commuting time' to still be the most important factor at 72%, but 'food and drink options' came a close second, scoring 65% of the vote.

CONCLUSIONS

For occupiers the challenge going forward will be to provide space that is both flexible and diverse, but also gives employees areas where they can do focused, concentration-dependent, work. In the past the emphasis has been on using 'flexible' working to reduce costs. As the onus moves to employee wellness (and by inference retention and recruitment), using flexible working to increase productivity and happiness will be more important. Technology has a key role to play, taking away the comfort of fixed-desks will need to go alongside the rollout of high-quality, well-connected, mobile work tools.

Investors will continue to seek income security and protect capital values. But will have to increasingly face off against rising demand for flexibility. Occupiers have demonstrated a willingness to pay a premium for space that both meets their physical and technological demands, and is able to flex in line with their changing business needs. Reconciling the two will be challenging, but, as we discuss later on, not impossible. Revisiting the conventional wisdom around the best office locations may also be required; with connectivity and food offer comfortably outweighing all the other factors in terms of employee preference.

1 HOW WE WORK

1 HOW WE WORK

In this first section, we look at what employees do in their day-to-day lives, what they use to work, and what work may look like over the next decade.

In determining what the future office may look like, we began by asking our panel what tasks they spent most of their time at work doing. They were presented with a range of choices and asked to list up to three that represented their most typical activities.

The results show (see Figure 1) that despite increasing focus on offices as collaborative environments, private desk-based work remains the primary task for employees – with 74% of respondents listing it as one of their three daily work activities. For 23% of staff private phone calls remain a typical activity.

Formal meetings also endure as a key part of the office fabric, with 34% of employees listing it as a typical task. The data seems to suggest that employees' activities today are perhaps not quite as radically different to the past as some literature would have us think. We need to be careful when considering the 'future office' that we remain cognisant regarding the tasks that the workforce needs it for. A quarter of employees listed informal/collaborative meetings as an integral part of their daily activities. Although we don't have an historic comparison, we would suggest that this kind of work has increased across the business world over the past 20 years. One question is whether our workspace is providing for this, and to what extent it may need to adapt in the future.

Video/phone conferencing also proved important for a significant minority, with almost a fifth listing it as a key task. Video conferencing itself has been slow to catch-on, with it perhaps not offering enough of a leap from phone conferencing for businesses to take on the additional costs. This may change in the not too distant future, with the increasing viability of 'telepresence' and, in the longer-term, 'immersive telepresence' (virtual reality) allowing meetings conducted from afar to be as productive as those in person.

A big question is whether given the continued dominance of private desk-based work, our current workspace is catering properly for employee needs. For example, assigned open-plan seating remains the majority workspace

FIGURE 1

What do you typically spend the most time doing whilst at work?

% of respondents choosing (maximum three choices)

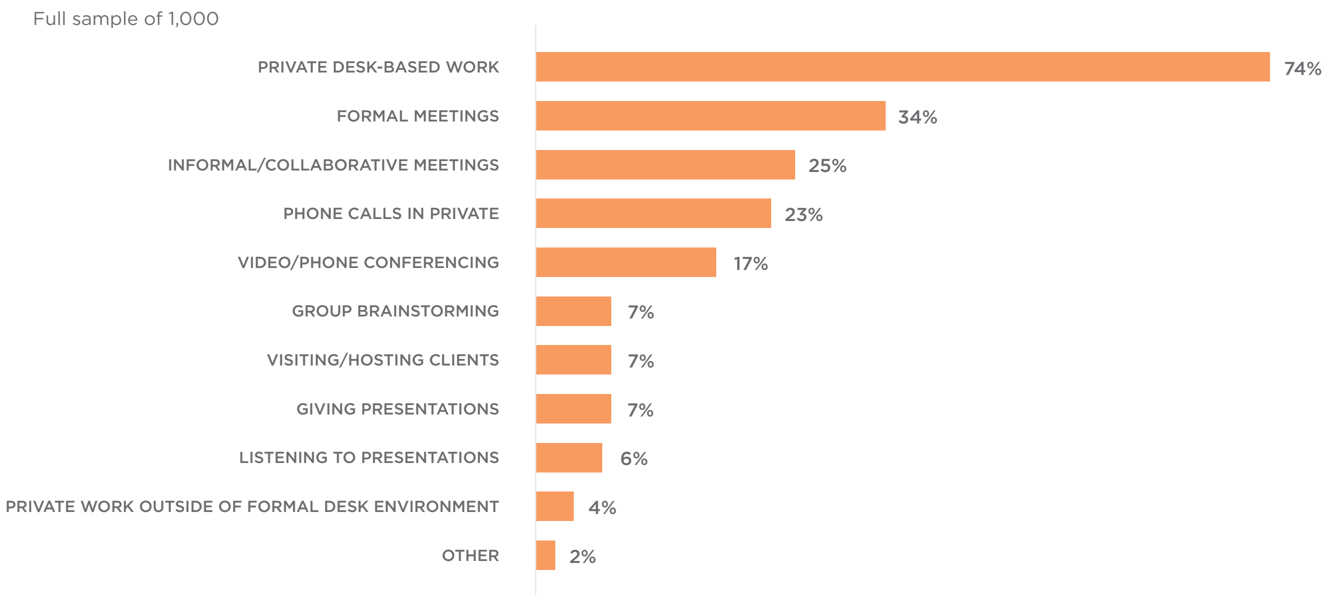
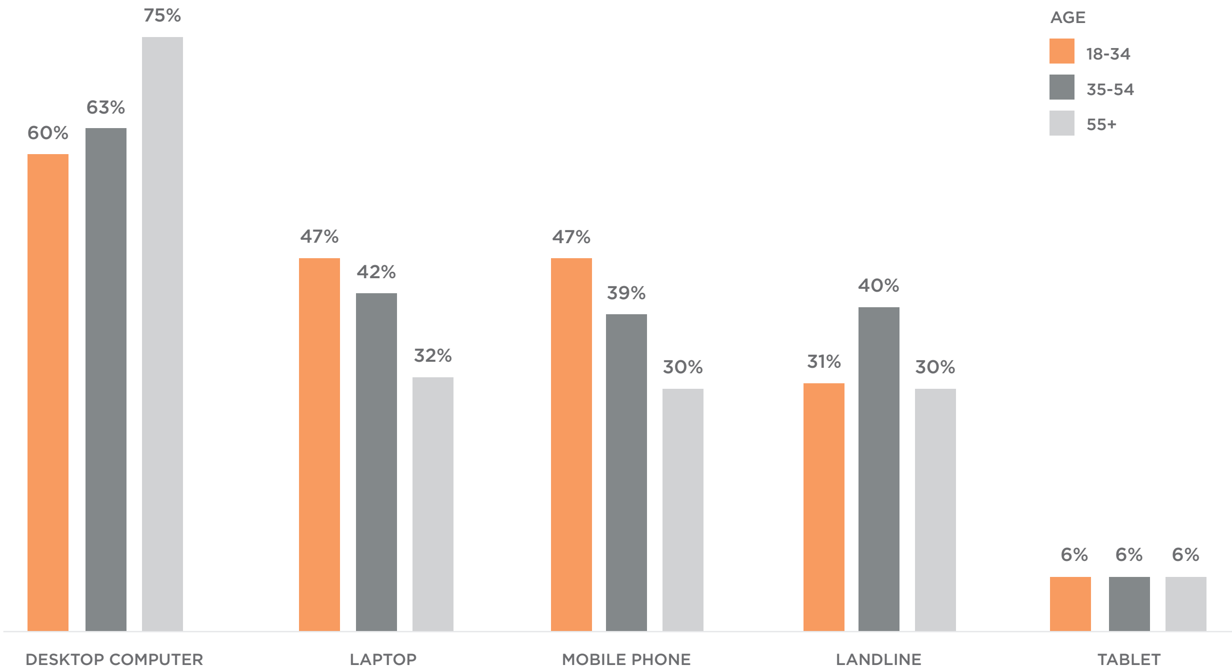


FIGURE 2

Which of the following do you think are most important in enabling you to do your job?

% of respondents choosing (maximum three choices)

Full sample of 1,000



in UK offices[1]. Given our results and a growing body of evidence questioning the impact on productivity of open-plan working; perhaps the time has come to reconsider whether open-plan offices are the best option for staff?

The following section will explore this issue in more detail.

Figure 2 looks at what key work tools employees use in their daily work lives. The desktop computer remains dominant for most staff, yet that other 'fixed' office asset the landline, is now less important than the laptop or the mobile phone.

When splitting the data by age group the younger segments are already using mobile work tools more than their older counterparts. Given that this question was focused on what people were using, as opposed to want to use; we might also surmise that, given complete autonomy, they would be making even greater use of mobile work tools.

The data does demonstrate that the tablet remains a niche tool. Perhaps as much about the availability of a specifically work-orientated product, as it is about employee preference or the willingness of employers to invest in the provision of such assets.

Taking the analysis further, Figure 3 focuses on a subset of our sample, 210 18-34 year-olds who earn over £35,000 per annum – our Future Leaders. Their work tool use provides us with an interesting insight into what the future may look like. They use mobiles and laptops even more than the wider 18-34 year-old sample, with desktops being pushed to third and landlines being fairly irrelevant.

This 'liberated' mobile workforce has been spoken of for some time, without it becoming a reality. However, our data would suggest that we may have finally reached an inflection point whereby mobile working becomes the norm for many employees; affecting a fundamental shift away from 'fixed' desktops and landlines. This would have a profound impact on many occupiers, their occupational strategies, and internal and external design of office buildings.

Indeed, we are already seeing an increasing occupier focus on building connectivity; with those buildings able to demonstrate strong credentials, leasing better than their counterparts. Occupiers routinely deploy Wi-Fi to enable staff to roam, albeit entirely wireless offices remain a rare occurrence. Concerns over security and reliability still being a major issue for most businesses.

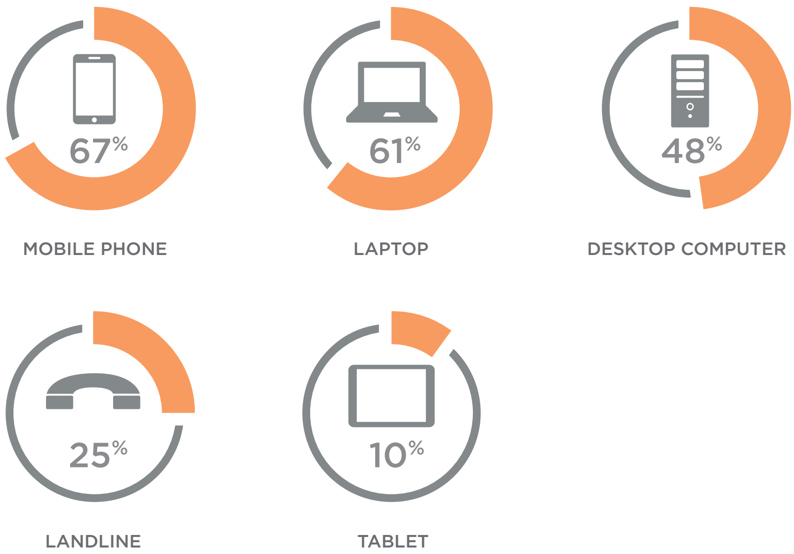
1 Making the business case for wellbeing. Morgan Lovell.

FIGURE 3

Which of the following do you think are most important in enabling you to do your job?

% of respondents choosing (maximum three choices)

Future Leaders sample of 210



Historically, staff came to the office in order to use the 'fixed capital equipment,' such as the desktops and fax machines that their employer provided for them. The question we need to ask is: "in a world where the labour and capital input are both mobile, what role could the office be playing?"

The remainder of the report will come back to this question. What is not in doubt is the limit on structural change in workplace practices presented by established business culture. Presenteeism remains an issue in the way staff are viewed and assessed at many companies. Companies in general like to see their workforce on the 'factory floor'. As with most structural change the various elements - demographics, technology and culture - shift incrementally, before hitting an inflection point and becoming the norm.

The easy availability and low cost of many technology solutions today is, however, speeding up change and allowing employees to drive best practice dynamically from within. For example, Dropbox, a web-browser based file sharing application, is being increasingly used by employees to enable their own flexibility in terms of document sharing, management and access. The same could be said of Google Drive. Yet these applications may not meet firms' security requirements, and as such may be proscribed in their entirety due to security concerns. The interplay between giving employees flexibility and freedom in their work practices and employers' concerns around measuring employee outputs and maintaining security will be a key part of the evolution of work practice in the office.

KEY TAKEAWAYS

- Despite hype around co-working and collaboration, private desk-based work remains the dominant task in the office.
- Informal/collaborative type work is now the norm for many employees; however, formal meetings remain a key part of the working day.
- Mobile work tools are becoming dominant amongst the younger cohort, with 'fixed' office assets such as desktops and landlines no longer vital.
- The flexibility and mobility of the workforce will increase at the speed at which corporate culture allows it.

KEY STATISTICS

UK OFFICES HAD A MEAN WORKPLACE DENSITY IN 2013 OF 10.9 M^2 NIA, DOWN FROM 11.8 M^2 IN 2009.

Occupier Density Study 2013. British Council for Offices.

53% OF EMPLOYEES ARE DISTURBED BY OTHERS WHEN TRYING TO FOCUS.

42% USE MAKESHIFT SOLUTIONS TO BLOCK OUT DISTRACTIONS IN THE WORKPLACE.

2013 Gensler Workplace Survey.

BY 2019, WIRED DEVICES WILL ACCOUNT FOR 19% OF INTERNET TRAFFIC, AND WI-FI AND MOBILE DEVICES WILL ACCOUNT FOR 81% OF INTERNET TRAFFIC. IN 2014, WIRED DEVICES ALREADY ACCOUNTED FOR LESS THAN HALF OF INTERNET TRAFFIC, AT 39%.

Cisco VNI Global IP Traffic Forecast, 2014–2019.

WHAT IS LI-FI?

- Li-Fi is a wireless technology similar to Wi-Fi that allows data to be sent at high speeds using visible light communication (VLC). Invented by Professor Harald Haas from the University of Edinburgh, Li-Fi has several advantages over Wi-Fi.

- Li-Fi allows for greater security on local networks as light cannot pass through walls, which also means there is less interference between devices. Perhaps the most significant advantage is the speed that the technology offers. Researchers have achieved speeds of 224 gigabits per second in lab conditions.

- A major concern over the use of Wi-Fi networks in the office is security. The use of Li-Fi technology could assuage their concerns and potentially herald, finally, the age of the wireless office.

2

OFFICE FEATURES AND WORKSPACES

2 OFFICE FEATURES AND WORKSPACES

In this section we look at what office employees consider to be the key features in their office; and what work environments they would prefer, given the choice.

As we stand today, many office occupiers have already well-realised the influence on the workforce of their office space. Design, communal areas, and coffee machines all stand much improved. Occupiers in the creative and tech industries have often taken things far further, especially with regards to design quality (or quirkiness) and in-house leisure amenities.

That said, there are two key issues outstanding. One, outside of much publicised occupier attempts at creating great space for their employees, a large chunk of office space in the UK remains a secondary business concern for its occupiers, with little understanding of its impact on productivity and wellness. Two, even where active attempts at improvements have been made, often too much focus has been on superficial design issues, games rooms and so on. These are not negatives in their own right, but if they distract from genuine staff wellness and productivity issues, then they become part of the problem.

Figure 4, shows the results to our question asking employees what they considered the most important office features. They were given nine options (including 'none of the above'), and able to pick a maximum of three.

The results are clear on employee priorities: personal workspace is listed by over two-thirds of employees as essential to them, well ahead of the other options. This raises a fundamental question: are occupiers putting enough effort in to making this factor work well for their employees? Or with the focus on breakout areas and design, has a key factor been overlooked?

These results chime with our survey results on work tasks – which had confirmed that private desk-based work remains the dominant task in the workplace.

FIGURE 4

Which of the following office features are most important to you (whether they are present in your current office or not)?

% of respondents choosing (maximum three choices)

Full sample of 1,000

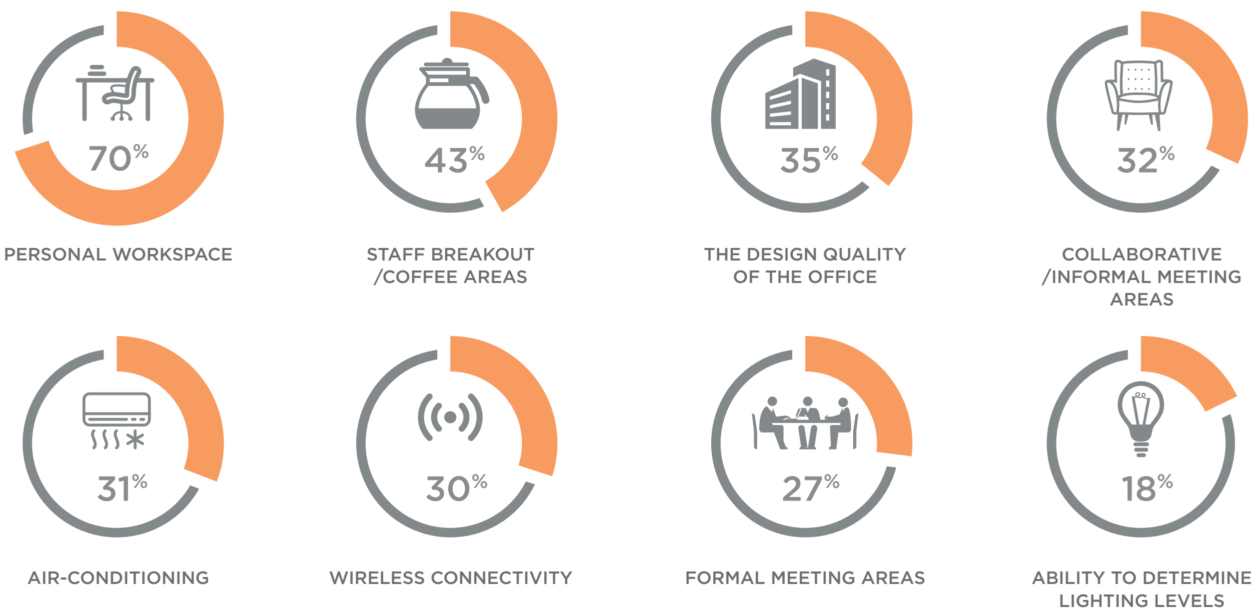
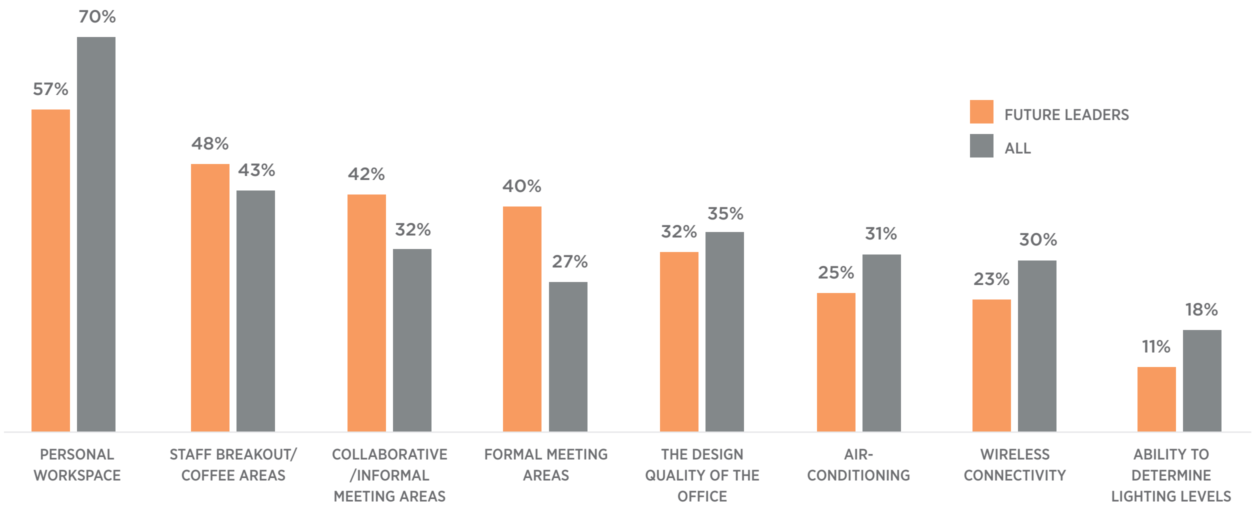


FIGURE 5

Which of the following office features are most important to you (whether they are present in your current office or not)?

% of respondents choosing (maximum three choices)

210 Future Leaders vs. full sample of 1,000



Another standout issue that we can draw from the data is the importance of staff breakout/coffee areas. In many firms these are already of a high quality, but for others they remain an afterthought. Even where occupiers have provided a high quality staff breakout area, it may often not be in the occupier's best space; many lack natural light, for example.

The other issue for these areas is that they do not often fit well with our thesis that the office is a space to gather, exchange ideas and innovate – without the limits imposed by fixed equipment. As they stand today, they act as a brief escape from the fixed desk-style environment, and little more. But in the new flexible office could they not form part of the workspace fabric, being usable for a certain kind of informal meeting, and a place for staff to genuinely remain in, work in and interact in, as opposed to just pass through?

The other options within the survey all received less support, but were still important to a significant minority of our sample. Design quality was still, for example, a top three feature for over a third of respondents.

In Figure 5, we benchmark the office feature priorities of our overall sample, against the preferences of our 210 Future Leaders. For our Future Leaders, personal workspace still remains the priority. Emphasising the extent to which younger staff are also focused on their own work area. A pointer to the future comes from the fact that they exhibited a notably stronger preference for communal work areas, both formal and informal. This would suggest that employers will need to focus more closely on such areas as time goes by, and these workers become even more important to their organisations.

Figure 6 (overleaf), shows the results from our question looking at what type of workspace respondents would prefer as their predominant place of work, during a typical working week. They were given five options and asked to rank them from first to fifth choice.

Overall, cellular/private offices received the most positive response, with an average ranking amongst respondents of 2.63. Closely followed by home working, on 2.64. Open-plan offices were only the third-ranked option, scoring an average ranking of 2.8; despite being the main form of office space in the UK. The cluster of rankings around the average, three, suggests none of the options were universally popular.

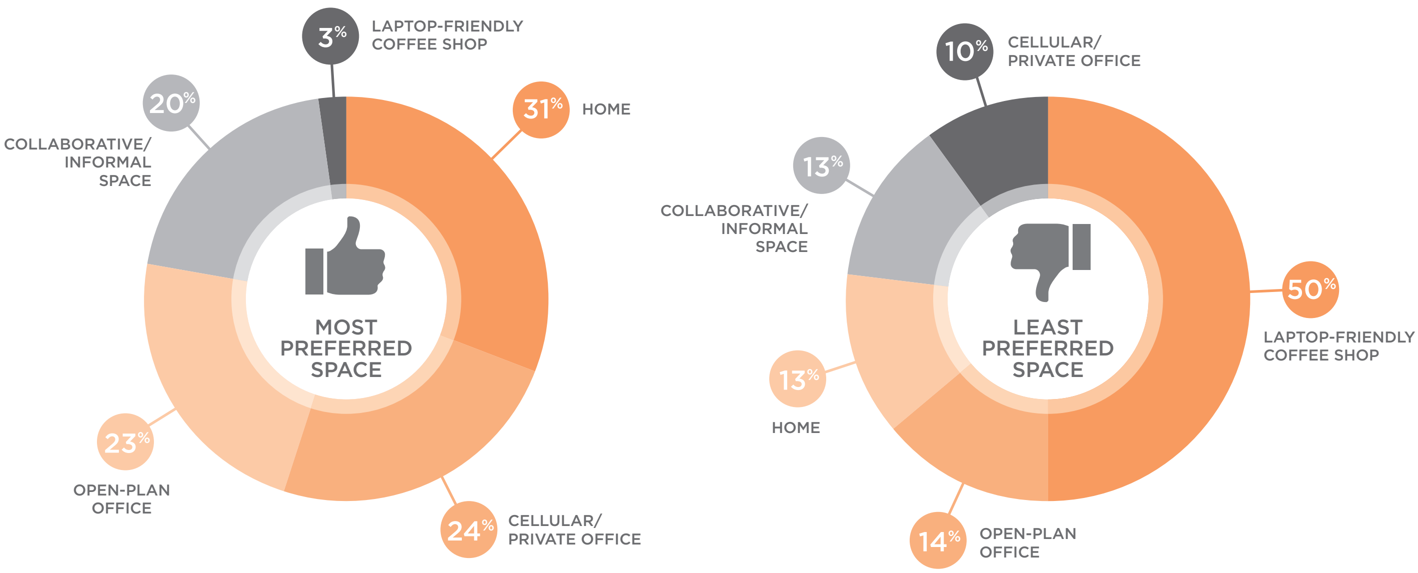
The relative lack of support for the open-plan office environment is at first slightly surprising, but perhaps it shouldn't be. Our other survey data has highlighted that employees' main office task is private desk-based work, and that their personal workspace remains the most important feature of an office to them. So perhaps a form of workspace that is both high-density and lacks privacy is not the most constructive space for employees to work privately in.

Other than the continuing importance of private workspace to people, what the results tell us is that employees have a wide diversity of workspace preferences. Figure 6 shows, for example, first preferences amongst employees being fairly evenly distributed amongst the four main workspace environments. 23% of employees still favour the open-plan office as their main place of work, for example. Clearly the workforce's desire for this 'workspace diversity' is not mirrored by the office landscape at present - one designed to reflect a far more homogenous workforce.

FIGURE 6

Assuming you had the choice to determine your own work environment, please rank the following options in order of preference as your main place of work during a working week.

Full sample of 1,000



We have also found that analysing the data based on age does not deliver radically different results. In other words this is a trend that cuts across received wisdom regarding the differences between the generations. What is more significant is personality. For example, studies[2] have shown that introverts prefer working in private or home offices, whilst extroverts prefer small shared offices .

A number of forward-thinking companies are already driving 'workspace diversity' via their use of 'activity-based working', a workplace strategy whereby there are no fixed desks, and employees' tasks during the day determine what areas of the office they work in. Key to this is the provision of a range of spaces within an office designed for specific tasks e.g. 'quiet zones' for 'quiet work.' This workplace strategy has been found to be very effective, as exemplified by our case study on the law firm Fieldfisher in Section 4.

Looking forward, office occupiers are facing pressure to deliver a more variable suite of workspace options from two sources. The need to provide workspace to fit, and maximise the productivity of, certain tasks – 'activity-based working'. And the need to provide a variety of work environments to meet the needs of employees with various personalities, and different ways of working on the same task. Achieving this 'workspace diversity' is manageable for larger firms' HQs, but less so for their satellite offices, and certainly a very tricky proposition for SMEs. Those investors able to assist in this transition will find their space in high demand.

2 Type and work environment. OPP. 2015

KEY TAKEAWAYS

- Amidst the focus on new ways of working, we are in danger of forgetting the importance of personal workspace and privacy to employees.
- Breakout areas will need to be viewed as part of the 'office fabric,' and be of a standard and location that encourages staff to remain there and interact, collaborate and innovate.
- Employees' workspace preferences are diverse, and driven by both personality and task. Providing true 'workspace diversity' that caters to the needs of staff and maximises their productivity is the big challenge for an industry that has come to depend on the open-plan office as a kind of 'catch-all' office solution.

KEY STATISTICS

SOFTWARE COMPANY AUTODESK IS SAVING $1 MILLION EVERY TWO YEARS DUE TO THE ENVIRONMENTAL DESIGN OF THEIR ACTIVITY BASED WORKING UK HEADQUARTERS.

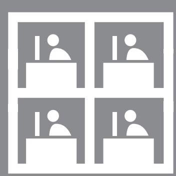
Activity Based Working Checklist 2015. Morgan Lovell.

BASED ON HARMSEN TILNEY SHANE'S RESEARCH INTO THE WORK ENVIRONMENT, 'QUIET SPACE' IS ONE OF THE TOP THREE UNDER-SUPPORTED WORK SETTINGS FOR 31,738 RESPONDENTS (2014-16).

Harmsen Tilney Shane Support Index. 2016.

BASED ON A GLOBAL SURVEY OF 1,865 EMPLOYEES ACROSS NINE COUNTRIES, THE ECONOMIST INTELLIGENCE UNIT FOUND THAT '*THE ABILITY TO CONCENTRATE ON WORK*' WOULD HAVE THE GREATEST IMPACT ON WHETHER RESPONDENTS WOULD ACCEPT A JOB FROM A POTENTIAL EMPLOYER (FROM A CHOICE OF FIVE OPTIONS).

Mobility, performance and engagement - How CIOs can contribute to business performance by shaping the employee experience. Economist Intelligence Unit. 2016.



THE IMPORTANCE OF INDOOR ENVIRONMENTAL QUALITY

Based on the occupant survey database from Center for the Built Environment (CBE), empirical analyses indicated that occupants assessed Indoor Environmental Quality (IEQ) issues in different ways depending on the spatial configuration of their workspace. Enclosed private offices clearly out-performed open-plan layouts in most aspects of IEQ, particularly in acoustics, privacy and the proxemics issues. Benefits of enhanced 'ease of interaction' were smaller than the penalties of increased noise level and decreased privacy resulting from open-plan office configuration.

Workspace satisfaction: The privacy-communication trade-off in open-plan offices. Journal of Environmental Psychology. Kim, J., and R. de Dear. 2013.

3

OFFICES AND THE URBAN REALM


ORDER
HERE

3 OFFICES AND THE URBAN REALM

What factors are most important in determining an office location's attractiveness to employees?

Much research on the 'future office' is based on offices' physical form and the workstyles occurring within. The locational attributes that make an office attractive are perhaps less tackled in the way of quantitative research into what employees' priorities actually are.

Figure 7 outlines the locational attributes employees consider important. Our respondents were asked to pick a maximum of three options.

Commuting time is the most important factor, with 80% of employees listing it as a priority. Although perhaps an obvious outcome, the extent to which it trumps other factors raises interesting questions. In London, for example, some of the most established office markets are not necessarily the best connected ones. Indeed, we are already seeing the impact that transport connectivity can have, with headline rents in King's Cross of £80 per sq ft. already exceeding those in more established locations.

The other standout result is the importance of food and drink, ranking well above both shopping and services in terms of employee preference.

Of further note is the lack of interest amongst employees for collocating to their industry peers. Firms in similar industries have long clustered together to benefit from agglomeration economics – the idea that they can benefit from network effects and economies of scale by operating in close proximity to customers, suppliers and competitors. However, we are seeing substantive evidence in the London office market of this theory starting to break down. Firms are increasingly leaving established industry clusters as they seek a combination of new, affordable modern offices, well developed public transport links and attractive public realms.

FIGURE 7

Which of the following factors are/would be the most important to you when determining an ideal work location?

% of respondents choosing (maximum three choices)

Full sample of 1,000

FIGURE 8

Which of the following factors are/would be the most important to you when determining an ideal work location?

% of respondents choosing (maximum three choices)

210 Future Leaders vs. full sample of 1,000

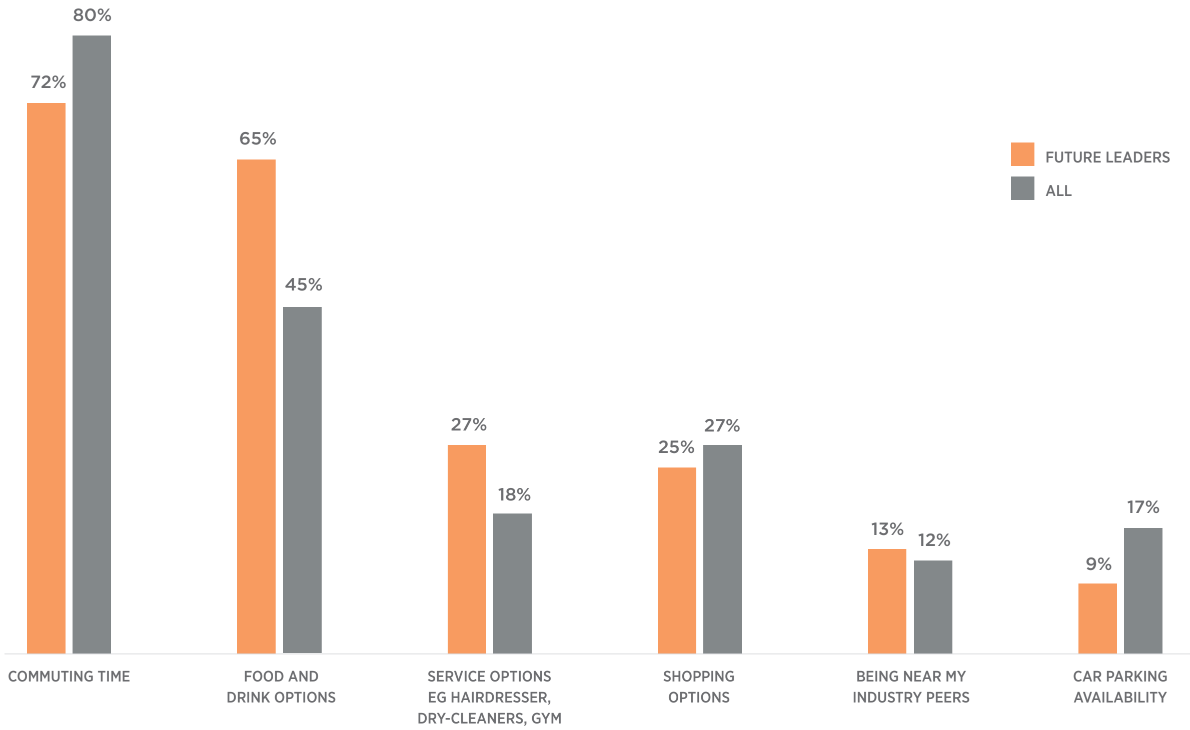


Figure 8 shows the location priorities of the 210 Future Leaders against the wider sample. Although broadly in tune with the overall sample, they differ in one crucial aspect – they are huge 'foodies.' Almost two-thirds listed food and drink options as a top priority, compared to 45% in the overall sample. For them food was seen as being almost as important as commuting time.

It has been recognised for some time that food is now a major part of UK culture. The data, however, does provide evidence of both its genuine importance to employees, and the extent to which it now ranks alongside other factors. Indeed, according to Google Trends the term 'foodie' barely existed before 2011; from which point the 'foodie' consumer group has grown to be a major influence on consumer markets.

Our analysis would suggest that occupiers seeking to win the 'War for Talent' would be well placed to prioritise good eating and drinking options. Likewise for investors and developers seeking to attract occupier demand, and drive rents, the food offer has become an issue of considerable importance.

Their task, though, is made more difficult by the fact that 'foodies' are driving not only a significant improvement in the UK and London eating out offer, but also significant structural change. Often the most dynamic and most popular parts of the London dining scene are not fixed space restaurants, but more market-like environments serving 'street food'. They cater for the new consumer need for an always changing, high-quality food offer; and due to the use of market stalls, or vans, can do it at far lower cost, to consumers for whom the food quality is far more important than the setting. For occupiers and investors, staying on top of this swiftly changing market will be key to success.

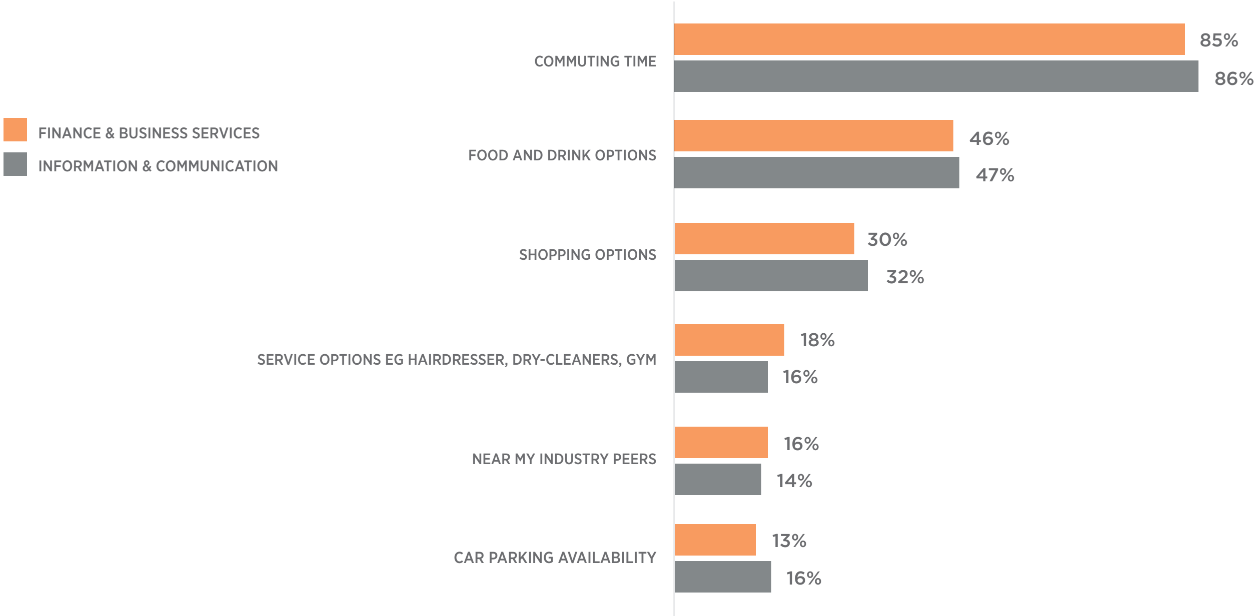
Our Future Leaders differ from the main sample in one other subtle way: ranking services options as being more important than shopping. This aligns with what we are seeing in the retail market, with comparison shopping becoming less dominant on the high street; online shopping having provided such an effective alternative.

FIGURE 9

Which of the following factors are/would be the most important to you when determining an ideal work location?

% of respondents choosing (maximum three choices)

Full sample of 1,000



Much industry discussion concerning the future office has focused on tech and media employees, and the type of office space and locations needed to attract them. Figure 9 shows the locational preferences of the 220 Finance & Business Services employees in the sample against the 148 Information & Communication employees. Interestingly, the data shows that there is little difference in their priorities, and, as with the overall sample, employees from neither sector view being near their industry peers as particularly important when forced to choose between that and other factors.

Looking forward, our data would suggest that the evolution of London's business demography will continue apace in the coming years. Occupiers are already demonstrating their willingness to move to emerging locations, such as King's Cross and London Bridge; attracted by the combination of transport links; attractive public realm and an exciting eating out offer. As the talent war heats up, and occupiers look to manage office costs without sacrificing connectivity and eating out options, we should expect new locations that meet these expectations to continue to compete aggressively with London's traditional business districts.

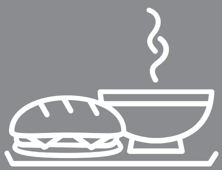
KEY TAKEAWAYS

- Connectivity is by far the most important factor for employees, posing questions for the current pecking order of location in the London office market.
- Food and drink options are fundamental to winning the 'war for talent'. The market is transforming rapidly, however, and poses a considerable challenge for the traditional investment model.
- Being in close proximity to industry peers is important to only a minority of employees; further advances in the trend are likely, with signs the breakdown of industry clustering in London is already apparent.

KEY STATISTICS

RESEARCH FROM THE OFFICE FOR NATIONAL STATISTICS HAS FOUND A NEGATIVE CORRELATION BETWEEN COMMUTING TIME AND HAPPINESS AND LIFE SATISFACTION, AND A POSITIVE LINK WITH ANXIETY.

Commuting and Personal Well-being, 2014. ONS



92.9% OF UK ADULTS CLAIM TO EAT OUT FOR A MEAL OR SNACK, UP ONE PERCENTAGE POINT SINCE Q4 2014 AND FOUR POINTS COMPARED TO Q4 2013. THE INCREASE IN PARTICIPATION HAS BEEN DRIVEN BY A GROWING PROPORTION OF THE POPULATION EATING OUT FOR LUNCH AND DINNER.

EatingOut Panel Q4 2015. M&C Allegra Foodservice.

BETWEEN 2014 AND 2017, THE TWO FASTEST GROWING FOODSERVICE SEGMENTS ARE EXPECTED TO BE 'BRANDED EMERGING FAST FOOD' AND 'STREET FOOD & MOBILE VANS', GROWING BY 14% AND 11% PER ANNUM RESPECTIVELY.

Future Food Service Trends. Allegra Strategies. June 2014.

LONDON'S TOP TEN TRANSPORT HUBS

EXITS AND ENTRIES (MILLIONS)

STATION/S	TOTAL	TRAIN (2014/15)	TUBE (2015)	DOCKLANDS LIGHT RAILWAY (2015)
Waterloo (inc Waterloo East)	202.2	107.1	95.1	
Victoria	168.2	85.3	82.9	
King's Cross and St. Pancras	153.0	59.6	93.4	
Liverpool Street	136.9	63.6	73.3	
London Bridge	121.5	49.5	72.0	
Stratford	109.5	31.0	61.4	17.1
Oxford Circus	92.4		92.4	
Bank & Monument	88.3		57.5	30.8
Paddington	85.4	35.7	49.6	
Euston	85.1	43.0	42.2	

Sources: ORR, TFL
Notes: Train figures are for year to 31 March 2015

4

CASE STUDIES

FIELDFISHER

NUFFIELD HEALTH

CASE STUDY

ALTHOUGH THE OFFICE IS PREDOMINANTLY OPEN-PLAN IT IS ALSO FITTED WITH 'QUIET SPACES'.

OVERVIEW

Fieldfisher is a major UK and European law firm, practising across the globe and employing over 400 lawyers. In 2014, having decided to consolidate their London staff into one office, the firm moved to a brand new 85,000 sq ft. office at Riverbank House in the City of London. The move was the culmination of significant preparatory work, with a number of key objectives to fulfil:

- Increase connectivity within the firm, to provide better opportunity for information sharing and collaborative working.
- Provide high quality work, communal and client areas, not only to provide better facilities, but also to be more consistent with market perception of Fieldfisher as a leading law firm.
- Reduce the amount of space used by the firm whilst, at the same time, improving the working environment.
- Deliver an impressive building in a location that is accessible to both staff and clients.

INITIAL PLANNING AND RESEARCH

Well in advance of their lease breaks on their previous building, Fieldfisher appointed Harmsen Tilney Shane, a commercial interior design consultancy, to provide advice on the office move. This forward planning was a fundamental element of the success of the project.

The use of Harmsen Tilney Shane's Activity Support Questionnaire, an internal employee engagement survey, was key to understanding, in detail, the business, and the way staff were working. Moving from a very private, cellular, office environment to an open-plan one necessitated evidence that would support a different way of working, and deal with preconceptions and concerns over a move to an open-plan environment. Through the use of extensive data on how their previous building was being used and occupied supported the case for more flexible and open-plan working. It also enabled Harmsen Tilney Shane to assuage concerns over noise and the loss of privacy.

Apart from research-based evidence supporting the move, a considerable lead-in time was vital in winning the 'hearts and minds' of partners and staff. The partner at Fieldfisher leading the move project undertook around eight presentations to partners and staff over an 18 month period. These started with the conceptual (before a building had been identified), became more detailed when a building shortlist had been drawn up and became very bespoke once Riverbank House had been identified as the new building. Harmsen Tilney Shane also installed a mock-up of the new workplace, giving staff the chance to experience the physical manifestation of the new workplace prior to the move. Crucially, Harmsen Tilney Shane were able to collect invaluable staff feedback, which led to design adaptations and changes.

THE MOVE AND NEW OFFICE

Fieldfisher moved into its new offices in May 2014, consolidating staff from its two offices in Aldgate (comprising 135,000 sq ft. over thirteen floors/parts of floor), to a new 85,000 sq ft. office over three floors (two work floors and one floor dedicated to client meeting areas and rooms).

Although the office is predominantly open-plan, it is also fitted with 'quiet rooms' for staff to use for internal meetings, long telephone calls and work requiring concentration. Unlike 'quiet spaces' in many offices, these are spread throughout the office floors in order to maximise their accessibility fieldfisher harmsen tilney shane

and use. The open-plan environment itself was also adapted to assist in minimising the noise and distraction concerns typical of these environments. Acoustic treatments were applied to the floor, partitions; ceiling and storage units in order to soften the noise in the office.

Having a dedicated 'client floor' has enabled Fieldfisher to create an impressive and highly functional area for clients. The arrival point and client suite provides flexible meeting, conference and entertaining spaces with spectacular views over the Thames and London's Southbank.

Parallel to the office move, Fieldfisher made a significant investment in new technology. Reliable wireless connectivity combined with cordless phones and laptops means staff can seamlessly switch between the different work evironments available to them according to the task at hand.

The office also incorporates a bespoke modular workstation system. This allows the different business streams within Fieldfisher the flexibility to use and configure areas in different ways fitting their particular culture and way of working. The Activity Support Questionnaire undertaken at the start of the process was fundamental in understanding how different some of the teams' work styles and working patterns were. It also provide a very high degree of 'future-proofing' in that an entire floor area can be reconfigured over a weekend, enabling the Fieldfisher to evolve its space as their needs change.

64% OF STAFF FILLED IN THE ACTIVITY SUPPORT QUESTIONNAIRE PRIOR TO RELOCATION

A REDUCTION IN LEASED SPACE OF 37% WITH NO IMPACT ON STAFF HAPPINESS AND PRODUCTIVITY

ONLY 68% OF FIELDFISHER'S SPACE WAS BEING UTILISED PRIOR TO THE MOVE.

FULFILLMENT OF CLIENT OBJECTIVES

Following the move, all of Fieldfisher's objectives were fulfilled. The larger open-plan floorplates, combined with the provision of private rooms, have been pivotal in allowing the firm to be more collaborative – whilst not sacrificing the ability to work privately when necessary. At the same time, staff and clients have responded positively to the new HQ, and its improved location. Most importantly, the firm's overall space has reduced significantly whilst, at the same time, the quality of that space has improved immeasurably. This is to the benefit of its staff and its clients.

The firm could have been more ambitious in terms of removing partitioning altogether, increasing further connectivity and collaboration. However, an element of compromise was necessary in order to allay concerns about the move from cellular to open-plan. However, it was necessary to make this compromise in order to win 'hearts and minds'. Given the flexibility of the furniture, some groups within the firm have moved to 'trading-floor' style open-plan. It is possible, as the firm evolves, others will follow suit.

The partner leading the project's 'top 3 tips' in relation to such a move are:

- Plan early and get the best professionals on board (space planning and agency).
- Keep communicating with the wider management and staff.
- Be bold and retain space flexibility.

CASE STUDY

THE RESEARCH INTO THE EXISTING WORKPLACE, PRIOR TO THE MOVE, WAS VITAL IN TERMS OF DETERMINING THE DESIGN OF THE NEW OFFICE.

OVERVIEW

Nuffield Health is the largest not-for-profit healthcare provider in the United Kingdom. Established in 1957 the charity operates 31 Nuffield Health Hospitals and 77 Nuffield Health Fitness & Wellbeing Gyms. In 2013 the charity moved into new 42,000 sq ft. offices in Epsom, from similar sized offices in New Malden. The new office being designed based on prior workplace analysis, and incorporating a number of key objectives:

- Nuffield were keen for the office to embrace the idea of 'wellbeing' and more specifically for it to play a major role in improving staff productivity.
- The other key target was moving away from a traditional fixed-desk workstyle, to an agile working model incorporating a variety of work settings, allowing staff to choose their work environment based on the task at hand.
- A workplace designed to enable the full utilisation of both desk and meeting space.

INITIAL PLANNING AND RESEARCH

The project kicked off with Nuffield Health's relocation consultants, Morgan Lovell, carrying out a detailed workplace analysis gathered via qualitative and quantitative methods including staff interviews, utilisation studies and workshops.

The research into the existing workplace, prior to the move, was vital in terms of determining the design of the new office. Including staff in this process being fundamental, especially given the radical shift in workplace design and practice that Nuffield Health was keen to implement. For example, the initial work highlighted the fact that larger meeting rooms were underutilised and that some 10 person rooms were regularly used for small one to one catch ups – not an efficient use of space.

Staff consultation identified outside space as a key concern for staff, with many suggesting an interest in outdoor space that could be used to both relax and work in. Whilst Nuffield Health felt that this would also fit in well with the overall brand and how they wanted to be perceived.

In any office move, a staff engagement process is vital. In order to ensure the maximum organisational performance from their new office, Nuffield worked with Morgan Lovell to develop an end to end communication and change management programme to embed the cultural changes needed for their new way of working.

THE MOVE AND NEW OFFICE

After extensive pre-relocation consultation - and the identification of a new, similar-sized, site - Morgan Lovell worked alongside Nuffield Health to implement the new office strategy.

Nuffield Health Morgan Lovell

KEY TO IMPLEMENTING THE NEW AGILE-WORKING MODEL WAS THE INTRODUCTION OF HOT-DESKING.

Key to implementing the new agile-working model was the introduction of hot-desking, but, rather than having staff fret over the loss of dedicated desk space, they have been provided with a variety of other complementary workspace options to enable them to tailor their environment to the task at hand. For example, they have access to both more informal workspaces – where they can work privately or collaborate with others; private booths – for focused work; and separate facilities for private phone calls.

A significant rethink was done to counter the poor utilisation of meeting room space. The new office includes more informal spaces for staff to catch up and also a variety of different sized meeting rooms for more formal team meetings. In addition, a fully equipped tech bar and staff café, complete with an impressive community wall of eight 55” screens connecting staff to the wider Nuffield Health community, were created.

Employees’ desire for better outdoor space was met by the introduction of a courtyard area available to staff to both work on their laptops, weather permitting, and to unwind and relax during breaks.

SATISFACTION WITH SUPPORT FOR TAKING A BREAK WENT UP TO 84% (FROM 50%)

EMPLOYEES ARE 51% MORE SATISFIED WITH SUPPORT FOR HOSTING VISITORS, CLIENTS AND CUSTOMERS.

SATISFACTION OF SUPPORT FOR INFORMAL, UNPLANNED MEETINGS HAS GONE UP 40%.

FULFILLMENT OF CLIENT OBJECTIVES

Nuffield Health is now well-established in its new offices, having achieved its objectives of creating a dynamic, flexible office, supportive of staff productivity and wellbeing, and making fully use of space. Specifically, the new way of working, with staff given choice in terms of work environment, has led to a perceived 30% increase in productivity. Whilst thanks to the more flexible meeting room and informal space configuration, utilisation has improved and employees feel more supported in having informal meetings. Finally, the move has helped to dramatically improve employees’ sense of pride in the office; 91% now being proud to show visitors the new office, up from only a third previously.

IMPLICATIONS: OCCUPIERS

As Future Leaders are able to exert increasing workplace influence, the pressure on occupiers to provide adequate mobile work equipment will intensify. Many of this demographic use their personal mobiles for work, as opposed to the ones provided, due to the latter's inability to live up to expectations.

Staff breakout/coffee areas will continue to merge with the office fabric, becoming a fundamental part of the workspace; as opposed to a simple and separate functionary space.

For most businesses fully wireless offices will not be an option for some time to come. Connectivity and security concerns will necessitate a mixed model of wired and wireless connectivity.

The long march towards the wireless office has begun, however. Occupiers will continue to increase their focus on buildings' quality of connection; and demand more 'plug and play' infrastructure.

There will be an increasing focus on making informal/collaborative areas 'fit for work'. Design will remain important but will be superseded by a desire to maximise employee productivity.

Larger occupiers will be able to create diverse, flexible environments within their leased space. For smaller occupiers, or satellite offices, they will want landlords' help in creating that same environment.

London's workers are not easily distinguished by the sector they work in. Young workers in the finance sectors are often the same as tech workers. They will want the same flexibility and the same focus on creating an environment they feel productive in.

London's businesses will continue to show their willingness to shift away from traditional business districts. Transport connectivity and eating options will be key in driving rental growth in winning locations.

OCCUPIERS FACE THE PROBLEM OF SQUARING THE CIRCLE

Occupiers are under pressure from multiple directions. In winning the war for the best talent in London, they are seeking to deliver office space of the right quality, in the right location, with a variety of work areas to meet the personalities and tasks of their workforce. At the same time, they need to manage real estate costs. More pertinently they need to manage leasing commitments. With the exception of major HQ space, in many cases five-year plus lease terms no longer match well with the ebb and flow of modern business. Flexibility can partly be met through serviced offices or co-working hubs. Over longer time periods, though, for many firms this is not ideal. Specifically, the need to pay a significant premium for short-let serviced space and the inability to manage the location and workspace for the workforce. Both point towards a new model for the modern multi-let office which accommodates high density core space, and flex options for the multitude of other tasks today's workers are required to undertake.

IMPLICATIONS: INVESTORS

Office lease lengths in London have now reached an average 6.3 years[3] in length. Landlords have been given a reprieve from further declines, in part because of the rise of serviced offices providers, such as The Office Group and WeWork, who have been leasing increasing quantities of space in London.

Multi-let office buildings offer the clearest opportunity for landlords to both preserve existing lease structures, and offer occupiers the flexibility they crave. A possible model would be a 'core and flex' model, whereby tenants rent a fixed square footage over the lifetime of a lease, and over the same lease period have the right to a certain amount of bookable space on a 'flexible floor,' space that can be booked by the hour, or week. This solution protects average lease lengths, whilst allowing tenants to flex their space requirements effectively over the time of a lease.

Investors will need to think increasingly carefully regarding what makes a winning location in London. The urban renewal of transport hubs such as King's Cross and London Bridge, and the development of new business and transport hubs such as Stratford, is transforming occupiers' choice of locations. Not to mention the fact that access to superfast broadband is a growing consideration.

Investors will need to consider whether they want serviced office intermediaries to continue to collect the premiums for taking and managing short lease risks. And whether the lease covenants they are receiving in return represent sufficient compensation. In seeking to protect the existing investment model – and not give up the rewards stemming from providing flexibility to tenants - landlords may wish to innovate within existing lease structures.

Companies such as Hubble in the UK, and LiquidSpace in the US, are gaining ground as online platforms for occupiers to rent out desk space they don't need or, vice versa, rent additional space at short notice. This will require developers and investors to increasingly consider the divisibility of office floors, and whether they are easy for occupiers to rent out whilst protecting privacy and security. More flexibility around alienation provisions will also be required to satisfy tenants' desire to ensure they can take advantage of this increased flexibility.

The food offer is now fundamental to an area's attractiveness to occupiers. Investors face the added complication that the sector's structure is changing rapidly, with Street Food becoming a growing part of a good mixed offer.

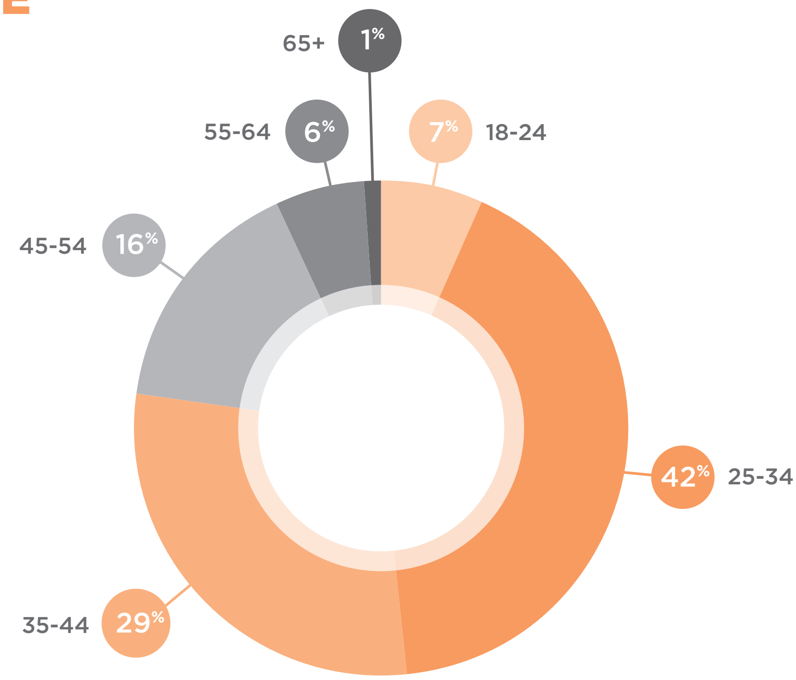
3 UK Lease Events Review 2015. MSCI/Strutt & Parker

INVESTORS WILL NEED TO BE INNOVATIVE TO MEET OCCUPIERS' DEMANDS WHILST PRESERVING INCOME SECURITY

The results of our employee survey, and the inferred impact on long-term occupier behaviour, throw up a number of challenges for investors. A continuing occupier drive for flexibility in both lease terms, and within them, is obvious, what is less so is how investor's respond. Due to valuations, covenants and income security there is an obvious desire to protect the traditional investment model of longer leases, but also an understanding of the premiums to be earned from letting on a short-term basis. It is our view that investors with large multi-let buildings or estates are in a unique position to capitalise. Specifically, their scale enables them to explore the opportunity to provide the high density core space plus a flex model for the further uses. In addition, the results highlight the need to locate alongside the food and leisure options desired by today's workforce over and above shopping and networking.

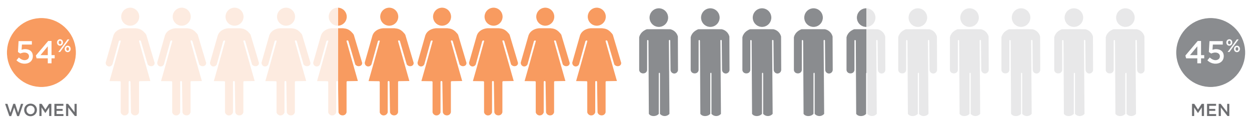
THE SAMPLE

How old are you?

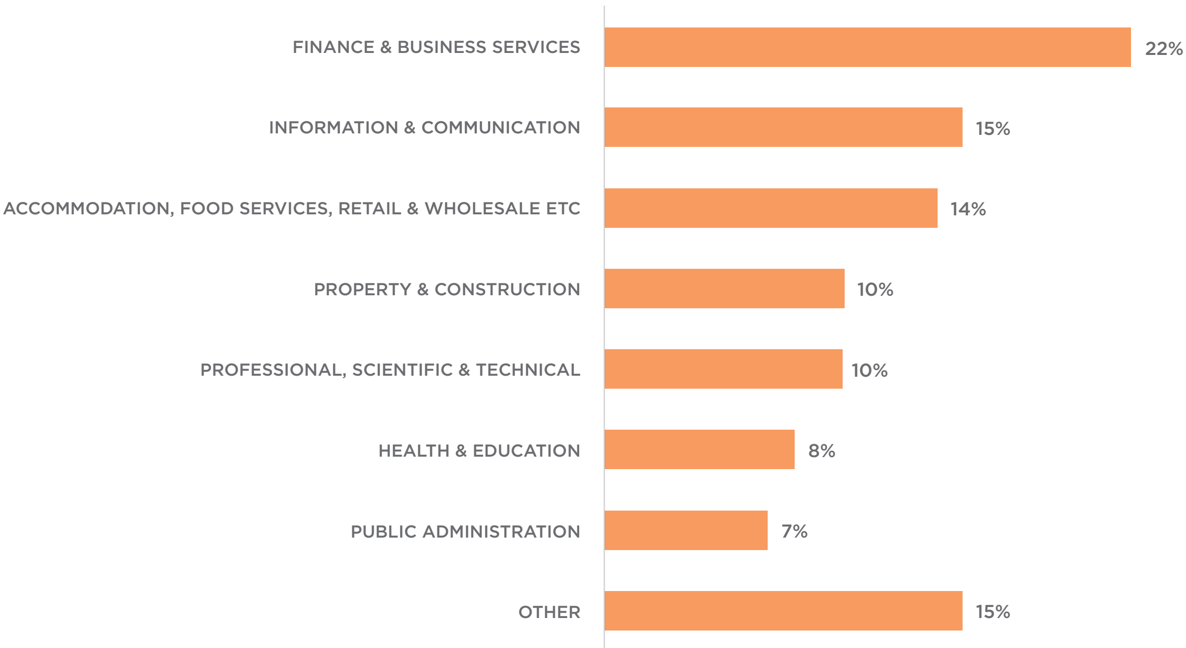


What is your gender?

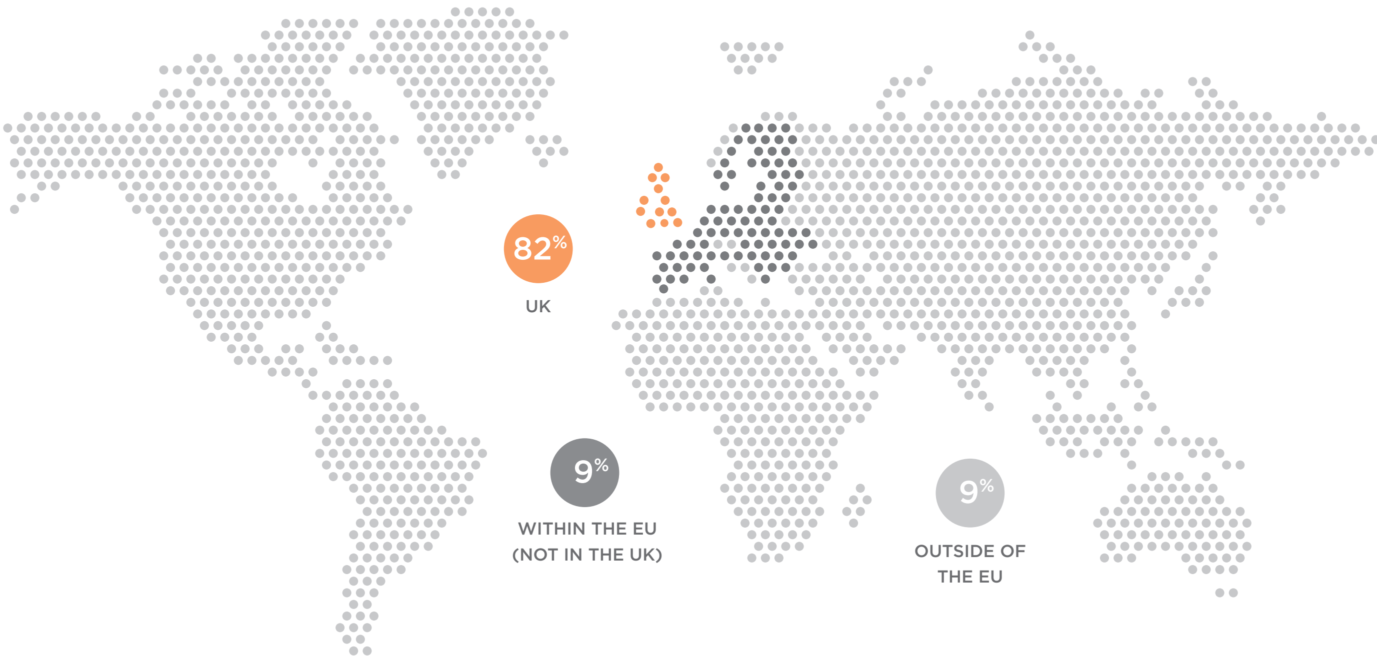
(1% prefer not to say)



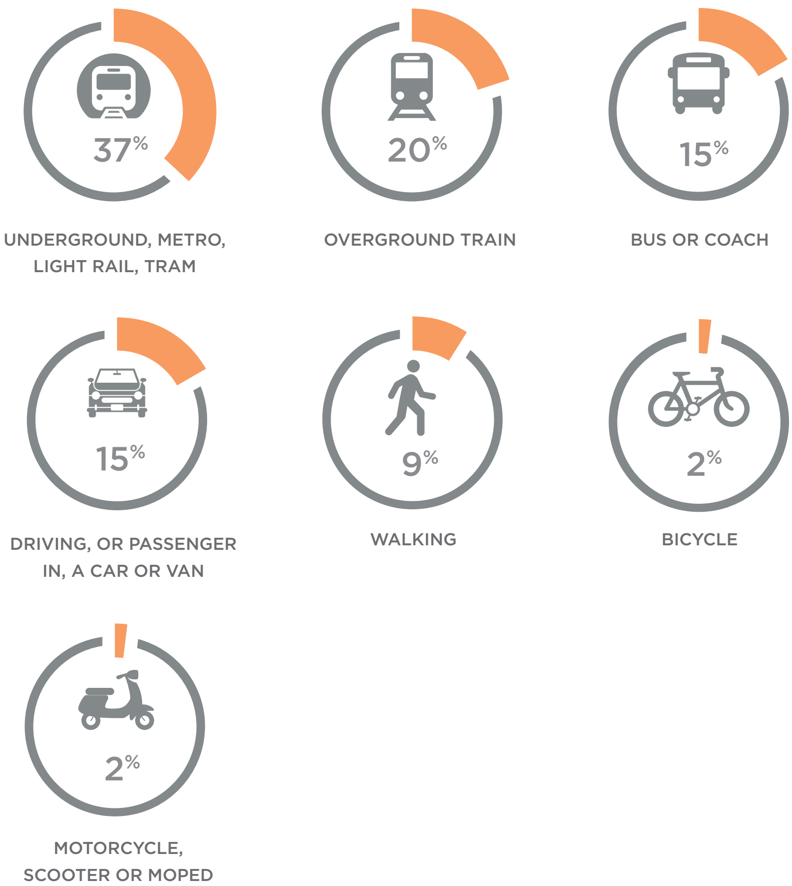
What is your industry of employment?



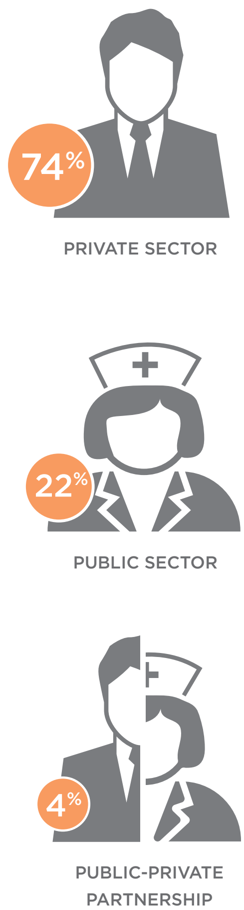
Where were you born?



What is typically your main method of travel to your regular office location?



Do you work in the private or the public sector?



CONTACTS

A DIFFERENT APPROACH TO HARNESSING INSIGHT.

Research at Strutt & Parker is about understanding the markets, knowing what the trends are, and identifying and monitoring those drivers that will impact property over the short, medium and longer term.

A flexible team, we are focused on the vital insight necessary to assist our clients across all our market areas, from commercial to farming and land management, development, consultancy and residential.

We are different from the traditional property research model in two key ways. The first is that, instead of a group comprised of specialists, we have taken an alternative and holistic approach with each of us working across all sectors, allowing us to spot convergence and divergence between property asset types. Secondly, we partner with best-in-class specialist research groups to ensure we are always open to new ideas, learning new tools and delivering the excellence our clients deserve.

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