

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are arranged in a circular pattern, creating a sense of height and scale. The sky is a vibrant blue with scattered white clouds. A bright sun is visible in the upper left quadrant, creating a lens flare effect. The overall color palette is dominated by blues and whites.

IM, irwinmitchell

Property Trends In 2018

Survey Of Office Occupiers

Welcome

to the fifth
**Office
Occupiers**
report from
Irwin Mitchell.



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As one of the UK's leading national real estate practices, we believe it is important to keep track of occupier trends.

We want to see how our clients and other businesses feel about the properties they occupy, where they want to be located, what plans they have for the future and how happy they are with the current legislative framework. Our last full survey was just before the Brexit vote in June 2016, so we wanted to ascertain how attitudes have changed in the 18 months since.

Following on from our previous surveys, the Winter 2017/Spring 2018 survey canvassed the views of senior decision-makers at 165 companies across the UK. As well as asking their approach to taking on new space, views on the rental market and where they see the growth to be, we analysed their attitudes to the office environment and how important this is in attracting and retaining staff.

We hope you find the report interesting. If you would like to discuss any of the issues highlighted, please do get in touch.

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Key findings



89%

89% of businesses intend to **stay in the same space** in the next 12 months



Fear of a **cyber-attack** was of more concern to business than **Brexit**



36%

36% of businesses want to be near **strategic transport hubs** – now more important than city centre locations



London and the South East regained the crown as the most popular area for businesses moving or taking new space



26%

26% of businesses have used or would consider using **co-working practices**



50%

Nearly **50%** of employers said they would introduce **flexible working patterns** or provide **recreational space for staff**



67%

67% of businesses did not feel Brexit would influence their decision-making



39%

39% of businesses had no idea whether the new Minimum Energy Efficient Standard (**MEES**) legislation would impact on them



30%

There was a strong **call for upward/downward rent reviews**



65%

65% of businesses think **rents will rise in the next 12 months** – more confident than just before the Brexit vote

GDPR

Don't Be Slow Out Of The Blocks

All businesses that use personal data must comply with the new **General Data Protection Regulation** or risk fines of up to €20m or 4% of annual turnover.



Our experts can help you over the finish line.
irwinmitchell.com/gdpr-2018

Our sample

Portfolios of companies sampled:

- 85% had 1-5 commercial premises
- 8% had 6-10 commercial premises
- 7% had more than 10 commercial premises

Locations of companies sampled:

20% in Birmingham



19% in Leeds



18% in Sheffield



16% in Manchester



15% in London



12% in Southampton



Main findings

Changing premises: a cautious “staying put” approach

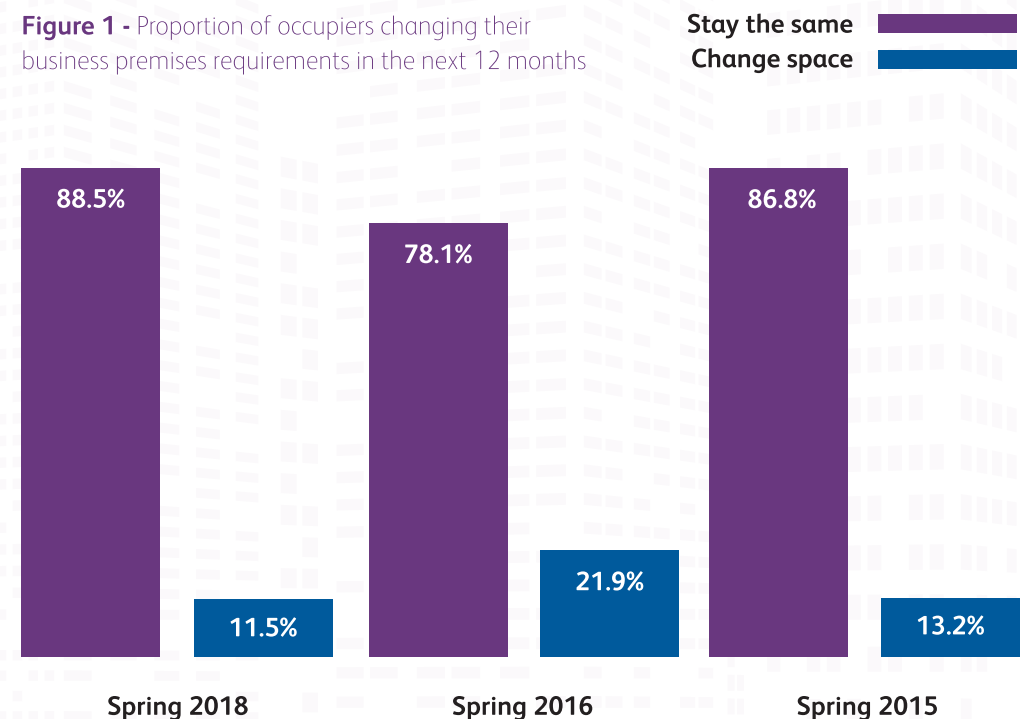
We wanted to establish to what extent economic confidence or gloom had filtered through to UK businesses. We decided to research whether businesses are still considering expansion and whether they are planning to change their business premises requirements in the next 12 months.

Despite the uncertainty there has been following the EU referendum in June 2016, confidence seems to remain cautiously positive. The vast majority of respondents (88.5 %) said they plan to stay in the same premises for the next 12 months. Of those 11.5 % planning to change, 65 % said it was to take on more space and only 5 % to reduce space. Of those taking on more space, over 90 % said it was because they were growing organically.

Whilst this is positive news, it is a decline from the results of our survey pre-Brexit vote in Spring 2016, when 22 % of companies said they planned to change space. Of those, a massive 95 % said they planned to expand into more space or relocate. Businesses seem to be staying put as they navigate the economic environment ahead.

This year, those companies who said they were relocating all said they planned to stay in the same area of the country. None said they planned to move abroad – good news for those fearing a mass exodus post-Brexit.

Figure 1 - Proportion of occupiers changing their business premises requirements in the next 12 months



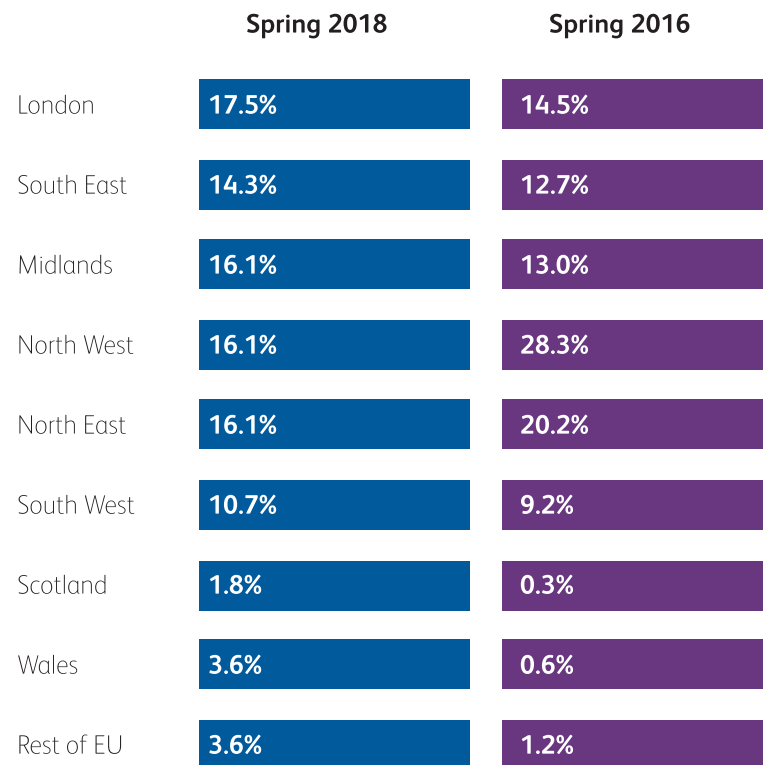
Location

We also asked about location and which region in the UK was the most attractive to businesses, should they consider moving.

London and the South East topped the poll, together scoring 31.8% of the votes, up from 27.2% in Spring 2016. There was also growth in the percentage of companies choosing the Midlands, reflecting Birmingham’s continued growth, which is now on a par with Manchester and the North East who scored higher last time.

However, Wales and Scotland polled poorly – particularly the latter, which gained only 1.8% of the vote. Few businesses stated they wanted to go abroad.

Figure 2 - Regions in the UK most attractive to occupiers



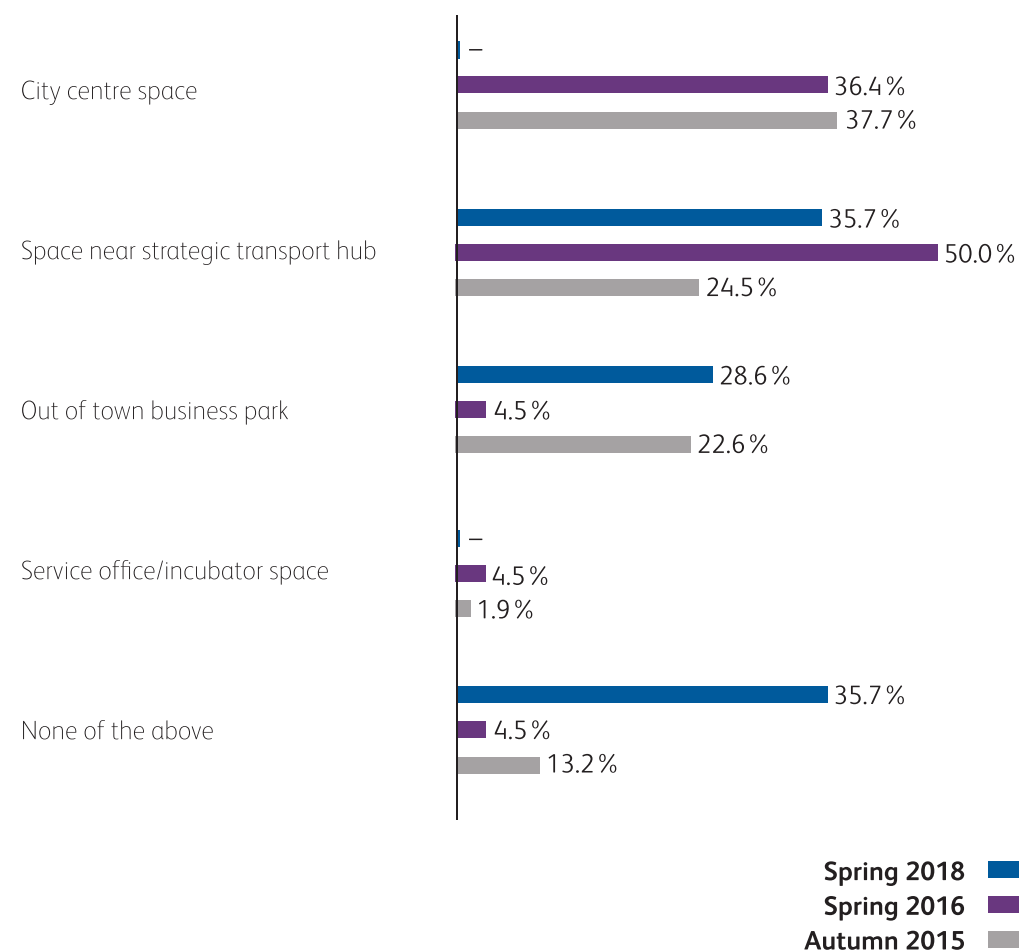
“The survey confirms the confidence that is felt in Birmingham and the wider Midlands as a result of the relocation of HSBC to Birmingham and the progress of HS2. Occupiers see the Midlands as an attractive place to be, with quick links to the capital, but at much reduced costs.”

Ben Acheson
Partner and real estate expert at Irwin Mitchell

Types of space

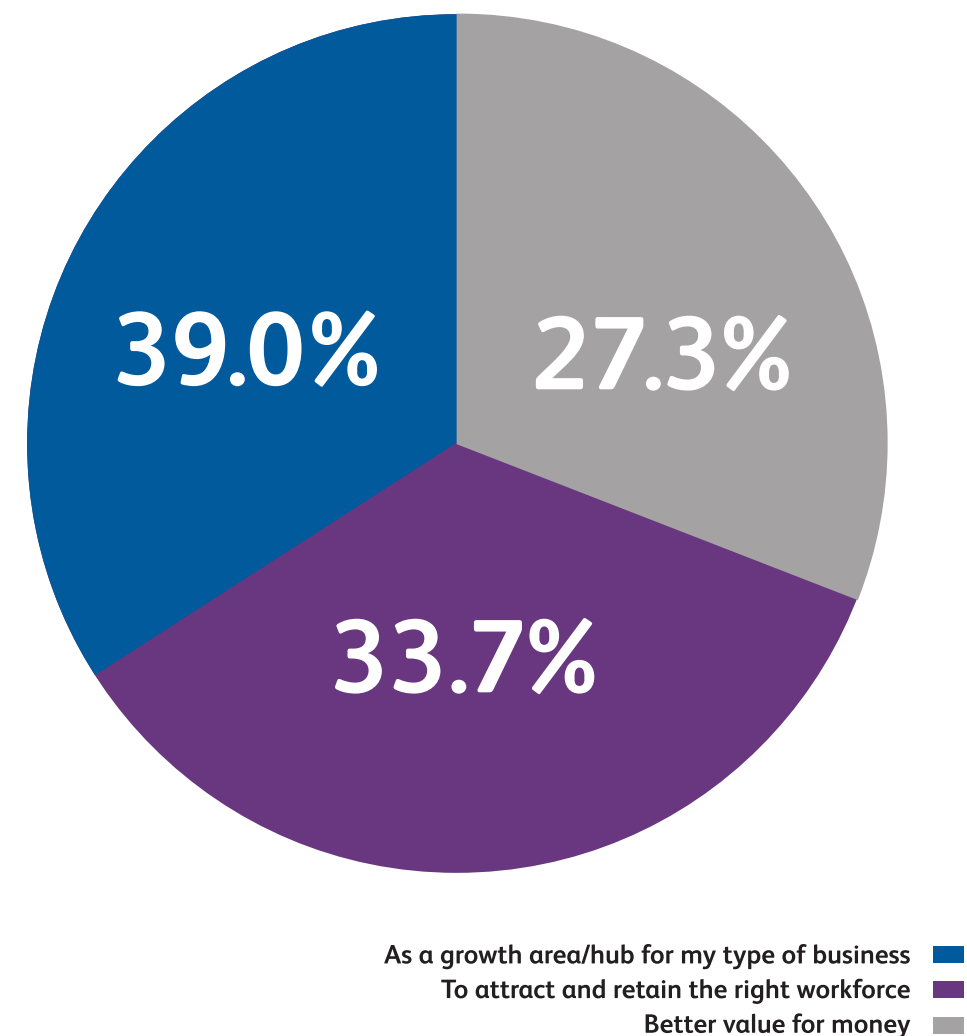
We also asked respondents which type of space they would most be interested in moving into if they were relocating. Although most office occupiers seem to be staying put, those who did say they would consider moving put being near strategic transport hubs as more important than any other factor – 36% of our survey. This perhaps reflects the success of schemes such as Kings Cross and Paddington Basin. City centre space did not get mentioned as a ‘must’ this year, with out of town business parks being much more popular.

Figure 3 - Type of space most attractive to occupiers



We then asked why occupiers found this particular space attractive. Being in a growth area/hub for the type of business was top of the list, reflecting how certain areas are increasingly being recognised as synonymous with certain types of business, such as the tech community in Shoreditch. But attracting and retaining the right workforce was not far behind, indicating how much employee wellbeing is now high on the agenda as companies appreciate the savings of keeping and attracting the best staff. Moving space just to save some costs was a lower priority.

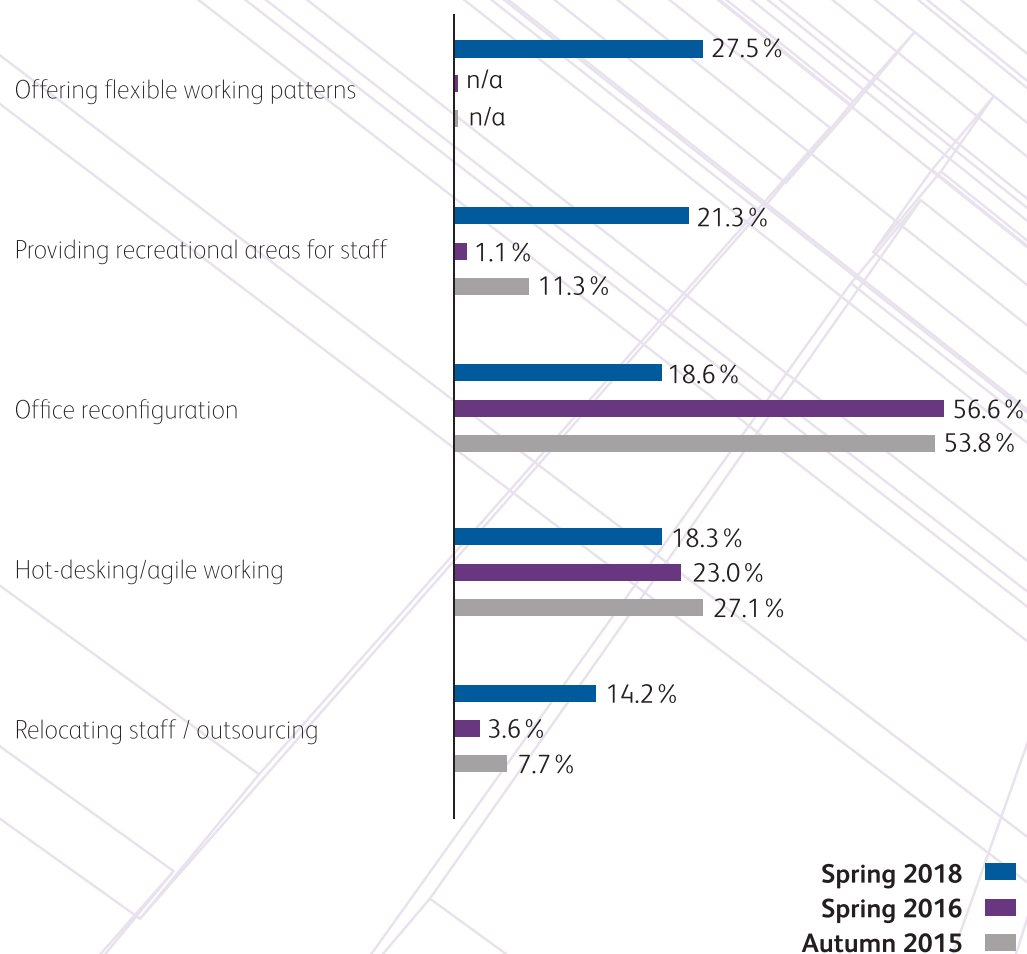
Figure 4 - Reasons for choosing space



We then asked those intending to stay in their current space which working practices they would consider implementing going forward. The most popular was offering staff flexible working patterns, such as allowing employees to work off-site or at different times of the day (for example to avoid rush hour). Close behind was recognising the need to provide recreational areas for staff.

Reconfiguring their offices and hot-desking/agile working were less important than in previous years. The results again indicate how much more focused employers seem to be in attracting and retaining the right staff and offering them the flexible working patterns that allow them to work best.

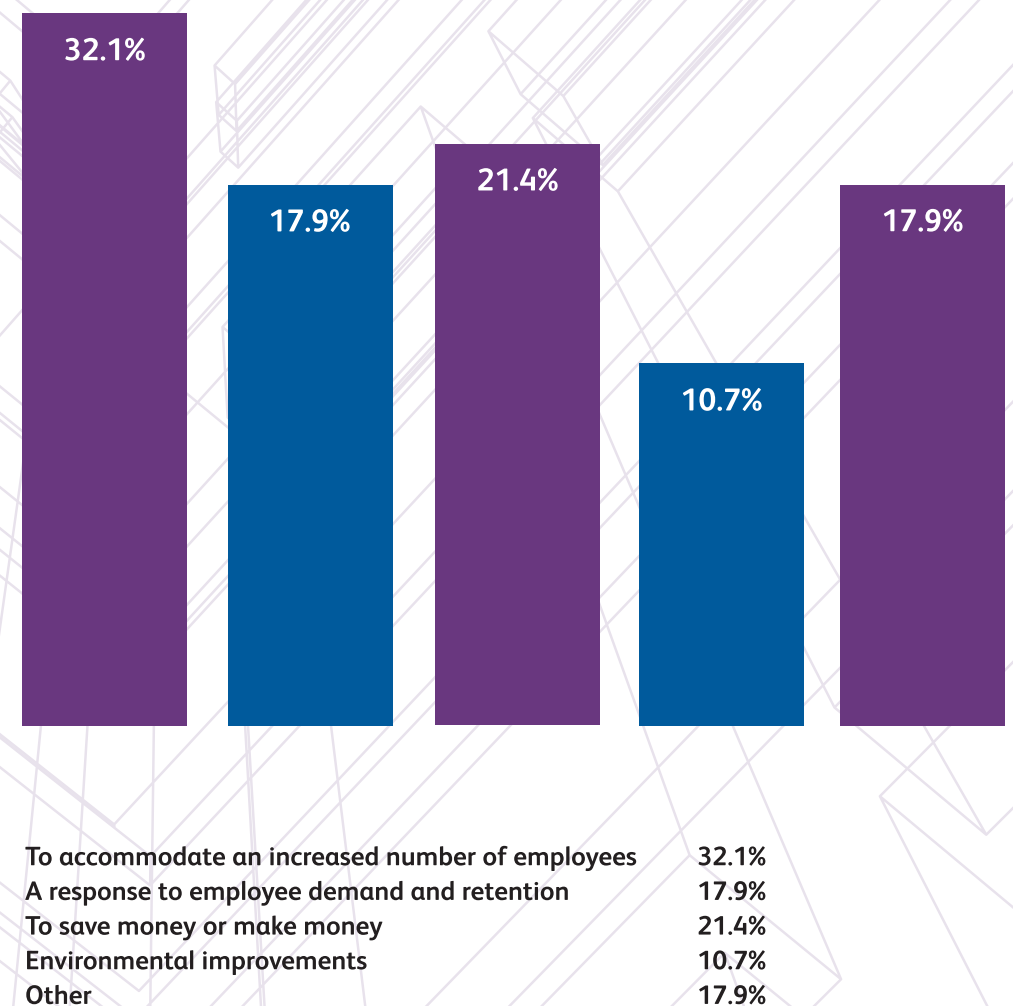
Figure 5 - Practices occupiers may consider implementing to get the most out of their existing space



We asked business what had been the main driver for this reasoning.

Over 32 % said it was to accommodate an increasing number of employees, and 18 % said they were responding to employee demand – again reinforcing that at the moment attracting and keeping staff is a key priority. One in every five realised that such initiatives could enable them to save money. Environmental concerns were considered less important this year.

Figure 6 - The main drivers for office changes





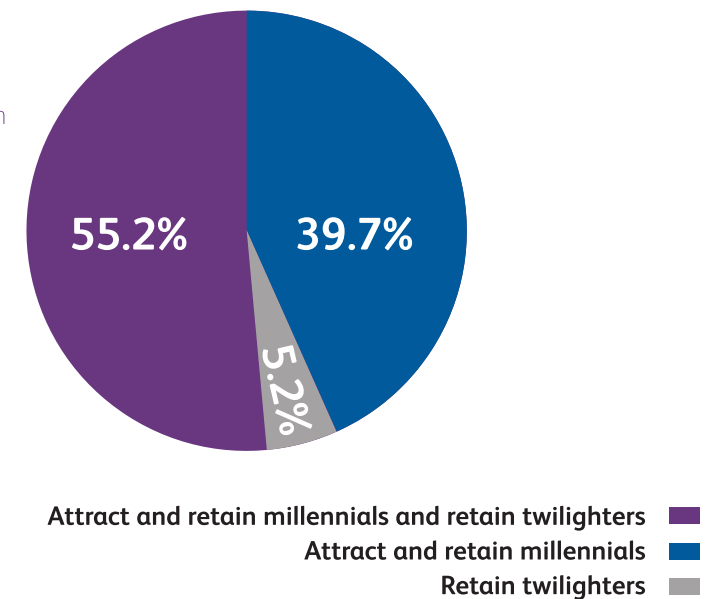
“When employers are battling to retain and recruit staff, a stylish work environment is a selling point. Agile working, light, spacious offices, space to decompress and communal areas are vital attractions in a market where employees now have choice.”

Melanie Stancliffe
Partner and employment expert at Irwin Mitchell

Retaining millennials is key

In the same vein, we asked how important it was to attract and retain millennials (a person reaching young adulthood in the early 21st century) and twilighters (older workers). Over half of our survey said it was important to retain both, but of those who had to choose between millennials and twilighters, the millennials won hands down with 40% of the vote compared to 5% for the older workers. Keeping millennials happy therefore remains key in the thinking of their employers.

Figure 7 - The main reason for employee strategies

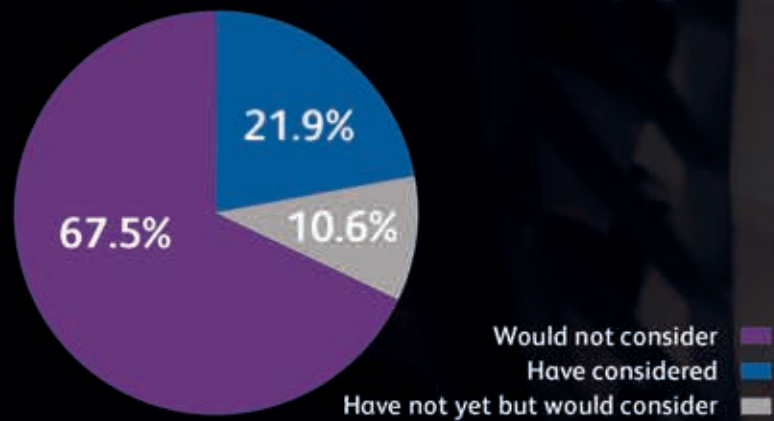


When we asked businesses what strategies they were implementing to attract and retain such staff a host of different methods were mentioned. Offering apprenticeships and development training programmes came high on the list. Linking with universities and offering internships was also mentioned. Several companies also said that they offered equal opportunities for any age and that the most important factor was to get the right person for the job. Some paid tribute to the stability of the older workers.

Sharing building space

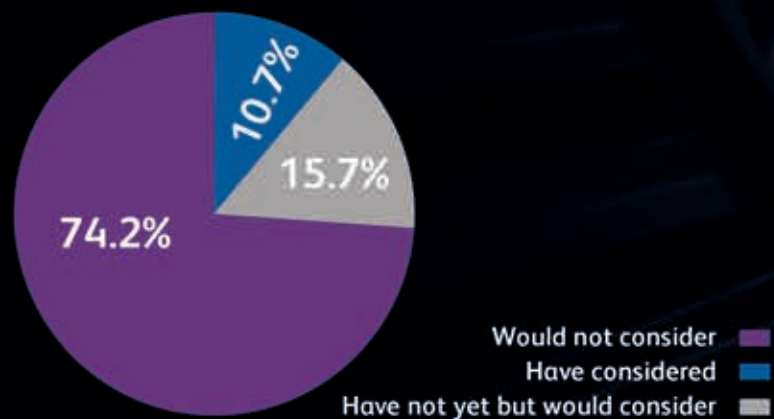
We also asked businesses if they would consider using serviced offices. Although over 67% felt this would not be right for their business, over 22% of companies said they had used serviced office space at some point, with another 10% saying they would consider it. The fact that over 32% of businesses have taken or are taking this into consideration shows this is a trend that is not going away.

Figure 8 - Attitudes to serviced office space



We asked businesses if they would consider introducing co-working practices (sharing their offices with other companies on a flexible basis with the aim to reduce costs and promote networking). Although a smaller number of occupiers have tried this so far compared to those using serviced office space, nearly 16% said they would consider this going forward. Again, the fact that 26% of businesses have considered or are considering co-working practices shows this is also a trend going forward.

Figure 9 - Attitudes to co-working



Threats to business

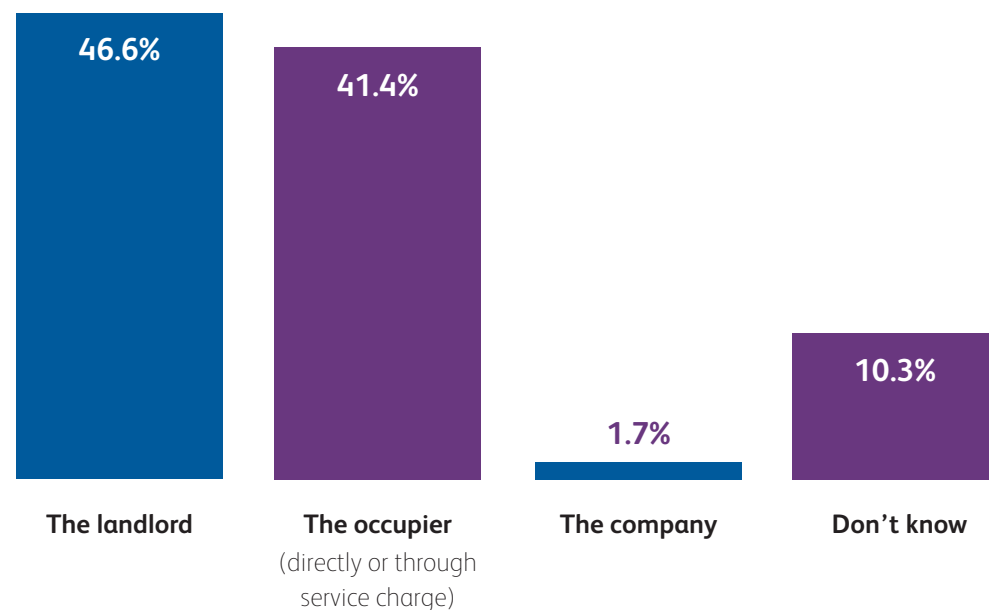
Last time we discovered that 89 % of office occupiers thought it was important to have energy efficient buildings. Only 11 % said it was not.

Given the introduction of the Minimum Energy Efficiency Standard (MEES), we now asked occupiers if this would be a problem for their buildings. As of April 2018 it is unlawful to let residential or commercial properties with a low EPC Rating of F or G.

Whilst 8 % of respondents said they knew it would be a problem, 53 % said they did not think it would be a problem and just under 40 % had no idea, highlighting a concerning lack of knowledge about the subject.

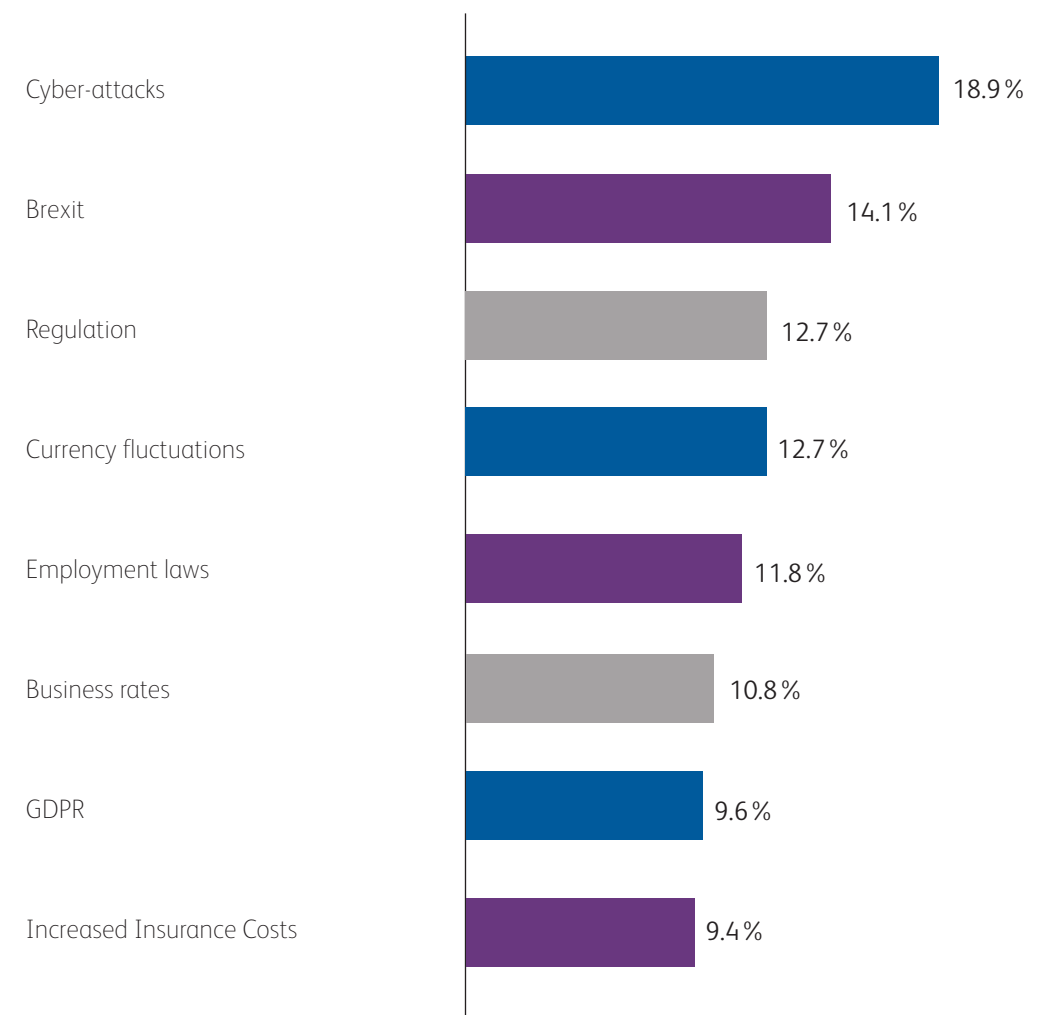
We then asked that if this was an issue, who would pay to improve the building's energy efficiency. Respondents were split, with over 46 % thinking it would be the landlord's responsibility and over 43 % thinking it would be them or their company owners. 10 % did not know. It is clear companies need better information about MEES since this should not be something landlords pass onto their tenants unless specified in their lease terms.

Figure 10 - Who should pay for compliance with MEES legislation?



We also asked businesses what they saw as the main threat to their ongoing success and growth. No one factor sped ahead, but one of biggest fears appears to be the threat of cyber-attacks, which scored higher than Brexit. Close behind was regulation, currency fluctuations and employment laws.

Figure 11 - The main threats to business growth going forward





“These results show the growing awareness and concerns around cybersecurity and data breach that are now featuring more highly in the boardroom. Whether through an internal error or malicious external attack, at some stage a business will suffer a cyber incident and security breach. It is not a question of ‘if’; it is a question of ‘when’.

“The issues are not just around the downtime and adverse PR that comes with a cyber incident, but the consequences that an organisation and its directors may be exposed to, if appropriate risk and crisis management measures are not put in place.”

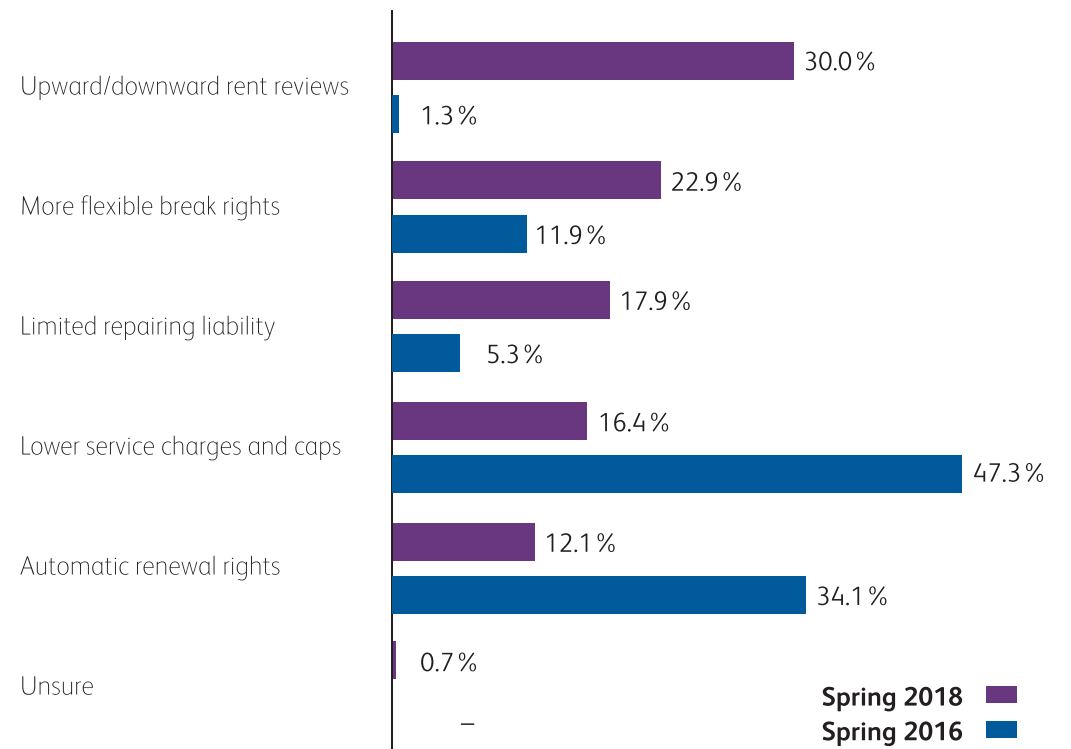
Georgie Collins
 Partner and intellectual property expert at Irwin Mitchell

Calls on landlords

In our previous surveys, business occupiers have called for more flexible lease terms, and we asked them what exactly they meant by that. The survey revealed that 30% want upwards and downwards rent reviews, whilst almost a quarter want more flexible break rights. This is a real swing from two years ago, when 47% of occupiers said they wanted lower service charges and caps, followed by automatic renewal rights, indicating a concern about security of tenure in the pre-Brexit environment.

Occupiers now seem to want greater freedom and be tied to shorter lease terms, with less liability for bills and repairs. They seem to want to be able to take advantage of new space in the market without being hindered by traditional landlord restraints. Perhaps the fear of rent rises is colouring their wishes.

Figure 14 - What occupiers would like landlords to change

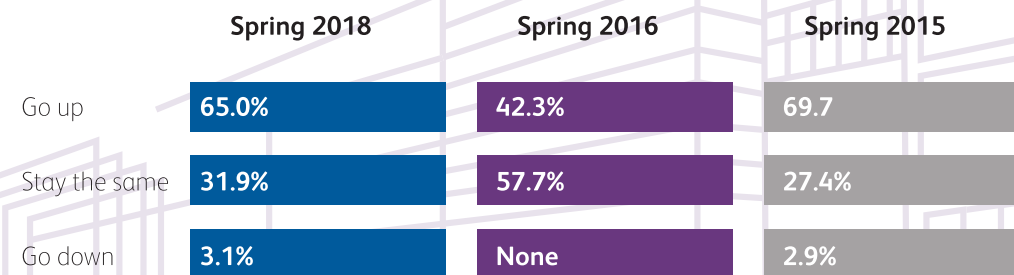


Attitudes to rents and leases

We asked our business occupiers if they thought rents are likely to rise in the next 12 months. A high 65% think rents will go up, showing greater confidence in the market than at the time of the Brexit vote, when 42% predicted a rise, and only a little less confidence than in Spring 2015.

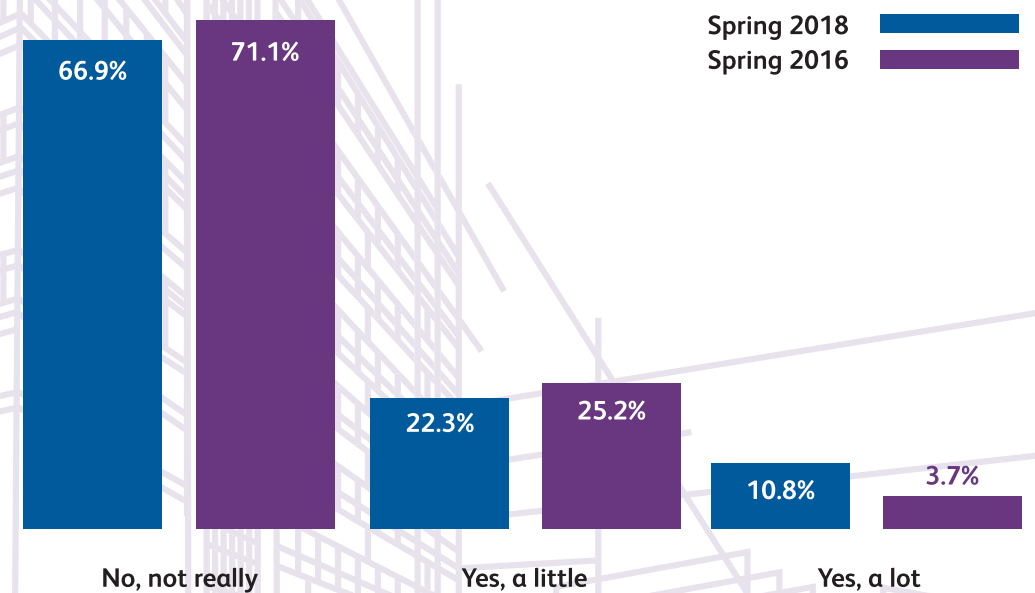
One third think rents will stay the same and only 3.1% of businesses thought that rents will go down, maybe indicating that factors such as the lack of new space in the market are overshadowing concerns over political instability.

Figure 12 - What do you think rents are likely to do in the next 12 months?



We also asked whether the thought of Brexit had impacted on business decision-making. A high 67% of companies said it had not done, only slightly less than at the vote nearly two years ago. However, one third of respondents said it had affected their thinking either a little or a lot.

Figure 13 - Has the thought of Brexit impacted on your decision-making?



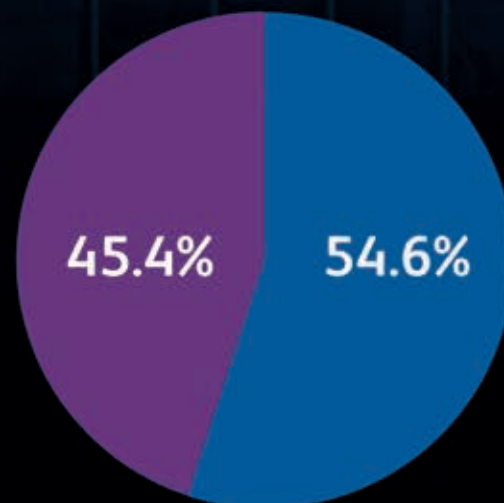
We asked those companies that had been affected by the thought of Brexit what their concerns were. Answers varied widely, with businesses stating concerns about importing and exporting, currency fluctuations, employment issues, costs and general caution due to the uncertainty of what lies ahead

Attitudes to property occupation

We also asked businesses if they owned the property they occupied. Over 45% did, while nearly 55% did not.

Figure 16 - Do you own the property you occupy?

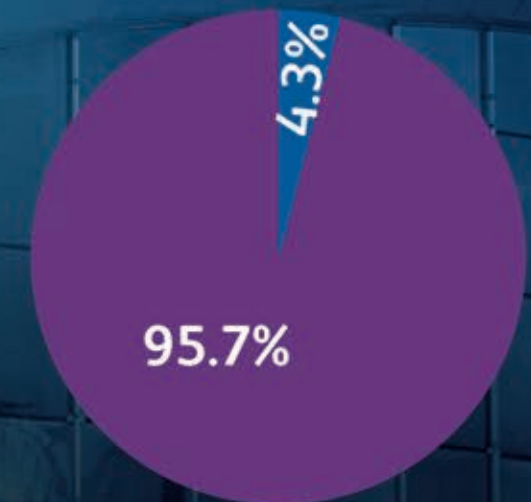
Yes
No



We also asked those that owned their properties if they saw their property as an asset or a headache. Reassuringly, over 96% of owners said they saw it as an asset.

Figure 17 - Is property ownership an asset or headache?

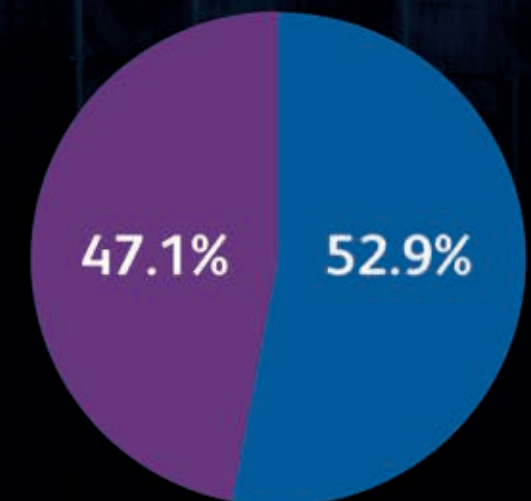
An asset
A headache



Of those who said it was an asset, just under half said they intended to work their property to help support future growth plans, indicating how businesses are aware they now need to put their bricks and mortar factors into their development and growth plans.

Figure 18 - Do you intend to work your property?

Yes
No



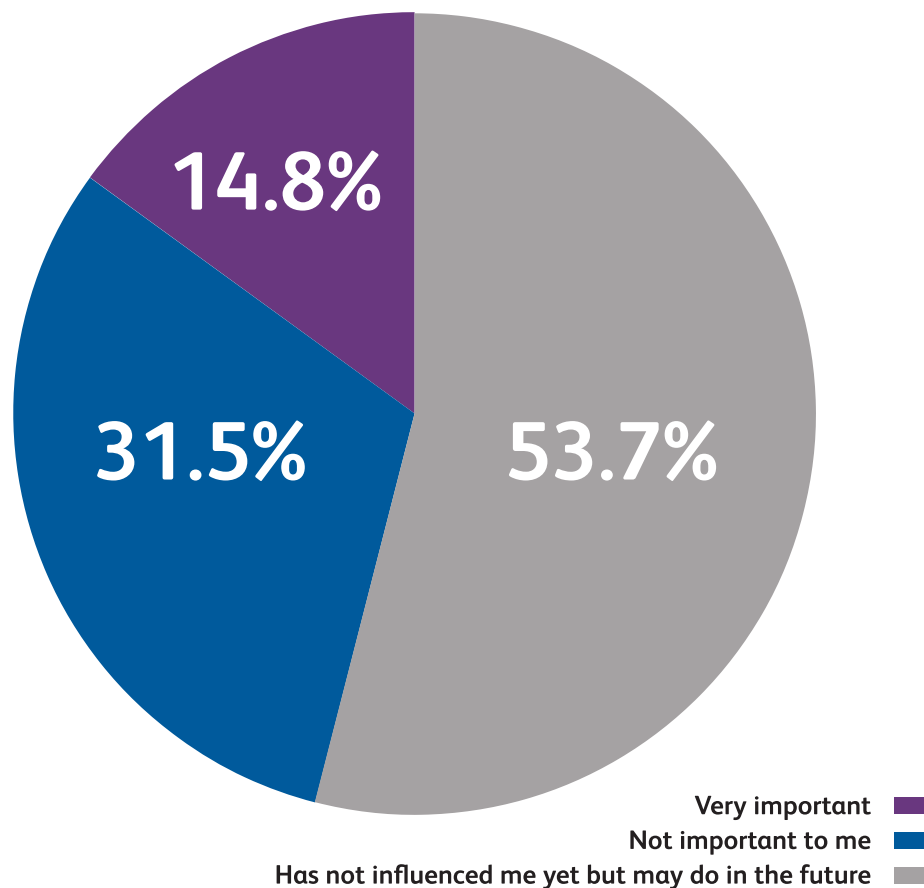
Indeed, when we asked how property owners would use their building as an asset, the most popular answers were using it as collateral with the banks for expansion, borrowing against it and in some cases renting out excess space.

Proptech

We also asked about attitudes to proptech and how important it will be for businesses to adopt 'technology-enabled solutions' for their real estate going forward.

Although nearly 15% recognised that proptech is very important, 32% said it was not important to them. However, 54% said it might well be going forward. This seems to show that businesses have an open mind and are aware that proptech may well be an increasing force in the marketplace.

Figure 15 - The importance of proptech



Conclusion

The attitude of business occupiers to their property appears to be cautiously positive at present. There is no strong move to push into new premises, with most occupiers staying put and making the most of existing space to full advantage.

There is a stronger belief that rents are on the way up. Some occupiers are therefore considering more flexible office accommodation, where they are not so beholden to their landlords on long upward-only leases.

Brexit appears to be more of a background noise than a major disturbance with more people concerned about the risks of a cyber-attack on their businesses.

London and the South East have regained the crown as the most popular places for growth, but occupiers voted to be near strategic transport hubs as opposed to be in city centres, probably because of high rents in the latter.

Businesses have put employee wellbeing higher up the agenda, and attracting and retaining staff has become a high priority, particularly to keep millennials happy.



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Our team

We understand that real estate is not just bricks and mortar. We'll take the time to understand you and your ambitions for your business – and we'll work hard to help you achieve them.

Our Real Estate team act for clients across all sectors and we have also built up teams providing specialist expertise in niche areas including: Retirement living / Strategic land and regeneration / Retail and leisure / Student accommodation / Private rental sector / Commercial investment

Our national presence means that we can understand our clients' markets from a local perspective. We'll work collaboratively with you to identify problems in advance, provide solutions, and give you our honest opinion on opportunities and risks in your market.



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