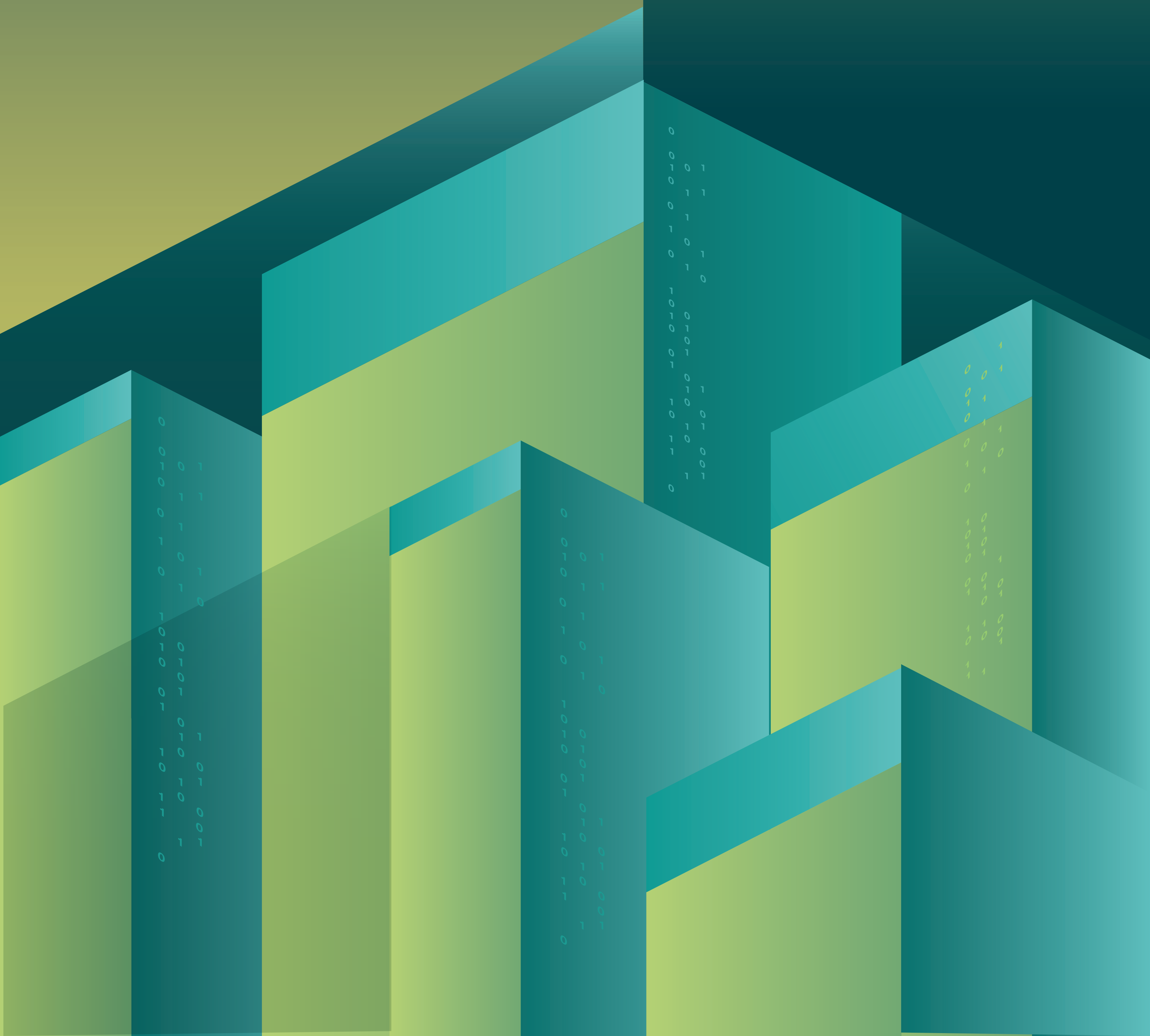
Knight Frank

UK CITIES

THEMES FOR 2022



THEMES FOR 2022

Clean, healthy and green

Sustainability will be a principal objective for organisations in 2022, with tighter regulations and reporting meaning more measurement, more management, and a shift in real estate focus. But, what will be the impact on office markets across the UK Cities?

Building a pathway for growth

The attributes of location and place can be hugely contributory in supporting the growth of an innovation ecosystem, an essential component for future real estate development. What are the foundations that enable innovation and how advanced are the UK cities along this path?

Growth in the fast lane

Cultivating business communities and harnessing the ambitions of fast growth organisations creates the potential for amplified growth and supports resilience against disruption. Knowledge intensive organisations will lead real estate requirements over the next decade, but which sectors will be at the forefront of growth?

Infrastructure – The arteries of growth

The interaction between people and technology are critically important to organisations in the realisation of ambitions. Which cities best demonstrate the principal components of this relationship?

Offices – A new sense of purpose

Most agree that the ‘death of the office’ has been greatly exaggerated, but a return to pre-pandemic working practices is also dispelled in equal measure. What is the future of the office?

Public sector push

Amid the plans for levelling up regions of the UK is the relocation of the civil service estate. The pledge is to move 22,000 civil service jobs out of London and the South East by the end of the decade, but what will be the impact of this shift on regional office markets?

FOREWORD

The pandemic of course, is far from over, but seismic shifts in climate and social responsibility, business models and technology, are just a few major challenges that organisations will need to meet in the year ahead.

Foremost, ESG will dominate corporate discourse in 2022. Mandatory disclosures are on the horizon but ahead of tighter regulation, organisational behavioural change has meant that the corporate promises of carbon reduction are integral to brand, reputation and image. Deviance or failure is costly, with corporate responsibility extending to third party relationships and significantly real estate. Scrutiny will be the order of the day in 2022.

A very interesting feature of 2021 was the proliferation of technology in both corporate structure and its role in economic growth. The switch to online offered a lifeline to organisations as the Covid situation escalated, and an accelerated push to attain digital resilience will undoubtedly be a primary goal in the coming year. The evolution of technology though is not only integral to business continuity. It supports innovation in product and service delivery and is the foundation of new industries. The growth of 5G and spread of new fibre connectivity across the UK cities will further intensify this digital revolution in 2022.

So what of the office? With technology an enabler of 'work anywhere', the pre-pandemic working model will not fit neatly into a new hybrid world. Nonetheless, after many months of remote staff working, firms are now realising the benefits of offices. Creativity, collaboration, culture and supporting staff wellbeing and development are largely unachievable without personal interaction. In 2022, spaces will reconfigure, organisational structures recalibrate, but offices now have arguably a more important role to play in business operation than before.

Undoubtedly, a cautionary undertone will accompany every business decision in 2022. Organisations will need to adapt accordingly to a rapidly changing landscape, with some challenges inherently disruptive and requiring difficult transitions. Real estate though, is sure to play both a supporting act and facilitator.

CLEAN, HEALTHY AND GREEN

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But, what will be the impact on office markets across the UK Cities?

CLEAN, HEALTHY AND GREEN

AUTHORS: EMMA BARNSTABLE, COMMERCIAL RESEARCH
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Choices made in the urban landscape over the next decade will have a significant influence on the battle against climate change. Currently, four in five Britons reside within a city region, with cities estimated to account for 70% of global emissions. The ESG responsibilities bestowed on organisations continue to grow meaning that ESG is already 'front and centre' of business strategy. The built environment is a key component in supporting the realisation of achieving net-zero.

The regulatory framework to decarbonise the real estate sector is tightening across the UK, implicating both occupiers and landlords. Organisations are being encouraged to provide greater transparency over green credentials, with disclosure of carbon emissions required through policy vehicles such as Streamlined Energy and Carbon Reporting (SECR), the Energy Savings Opportunity Scheme (ESOS), and the Task Force on Climate related Financial Disclosures (TCFD), among others. Meanwhile, review of buildings Minimum Energy Efficiency Standards (MEES) will encourage greater investment in building fabric. Mandatory requirements for Energy Performance Certificates (EPC) are tightening to a minimum B rating by 2030 in England and Wales. Additionally, NABERS will soft launch in April 2022 and capture real-time building consumption performance, leaving little room for poorly operating assets to hide. The government in Scotland has also called for industry evidence to revolutionise the regulatory framework for Scottish property. This could see the requirements of property across Scotland set on a similar pathway.

Cities will be where the climate battle will be largely won or lost

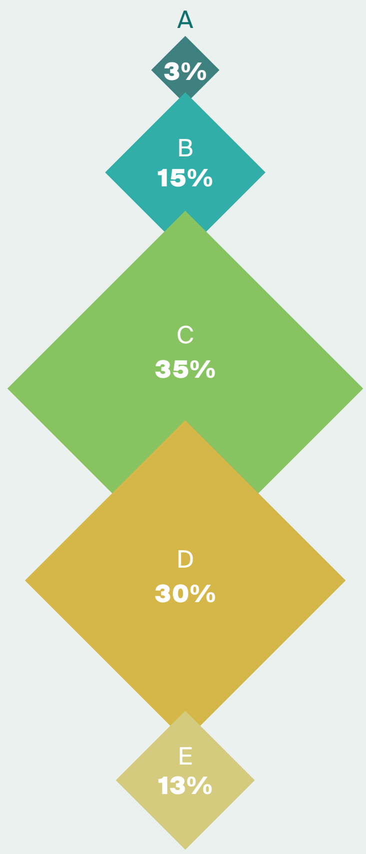
UN SECRETARY GENERAL ANTONIO GUTERRES, 2019

What is the impact for office markets across UK cities?

Improvement of energy efficiency in all commercial building stock is essential to asset viability. The incoming MEES regulations mean that improving energy efficiency is no longer a nice to have, but soon to be legal requirement. From April 2023, it will become unlawful to continue letting space with an EPC rating of 'F' or 'G', even in the middle of lease term. Landlords must act now or face increasing risk of obsolescence, with policies designed to prevent inaction. The UK government are considering enforcement of EPC 'C' by 2027, with evidence of owner action potentially required as early as 2025. These 'stepping stones' are aimed at initiating market action ahead of 2030 when 85% of commercial stock will be within the scope of new regulation versus just 10% previously.

Assessing the EPC ratings of office stock showing availability for lease across major UK city office markets outside of London reveals that 82% of those offices being marketed would not meet the 2030 target

AVAILABLE OFFICE STOCK ACROSS THE MAJOR REGIONAL UK CITIES BY EPC RATING*



Source: Knight Frank, HM Government
*England and Wales

Note: Buildings rated beyond EPC E have not been shown in the charts on this page, but are included in the analysis.

of an EPC 'B' rating. This means that just one in five offices showing availability would meet the required standard if the ruling were to be applied today.

As organisations position net zero carbon buildings at the core of strategy in greater number, competition to secure best in-class assets is sure to mean upward pressure on rents. Rent inflation is already evident in London, where highly rated buildings are achieving rental premium. A similar projection is now set for the UK regional cities, albeit escalating costs are becoming a limiting factor on development.

Organisational focus to amplify?

Prior to the Glasgow COP26 conference, the UK government confirmed that it would become the first G20 country to make company climate disclosures mandatory from 6 April 2022. This means that many of the largest UK registered companies will now be required to make public commitments to addressing sustainability. This greater scrutiny will further magnify the role of real estate and carbon footprint, with action achieved through real estate therefore, to be part of an organisational armoury for carbon reduction.

Knight Frank has analysed the office space occupied by the leading listed UK companies across the major UK office markets outside of London.

Prior to the Glasgow COP26 conference, the UK Government confirmed it will become the first G20 country to make company climate disclosures mandatory from 6 April 2022.

Key findings

Our analysis found just 20% of offices occupied by large UK listed companies in the UK regional cities hold an EPC rating of A or B.

This means that either investment to achieve improvement will increase or space moves will be initiated to prevent real estate undermining an ESG focused strategy. Every facet of the real estate ecosystem will face scrutiny and will need to target efficiencies through design, construction and operation. This means that any initiated move would gravitate toward best in class. A flight to quality will therefore be the defining theme of leasing activity in 2022.

What next?

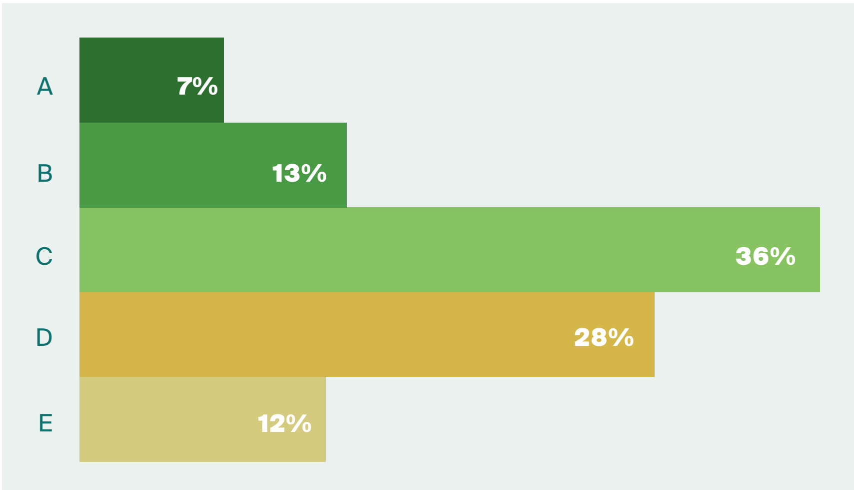
The main obligation is with the landlord so tenants should anticipate efforts by landlords to address risk on the terms of existing/ new leases. Conformity to the minimum standards is an established requirement, but landlords might consider ESG credentials as a point of differentiation and opportunity. Investing in ESG will mean a more attractive investment proposition and improve overall tenant experience.

Nonetheless, whether achieved through pursuing accredited certifications (WELL, Fitwel, BREEAM) and / or improving EPC ratings – specialist consultation is essential. A recent study by the IPF found improving EPC ratings by one grade could cost between 1-40% of the refurbishment budget, dependent on individual asset. Tenants should be aware of that upgrade works could potentially factor in pass through costs.

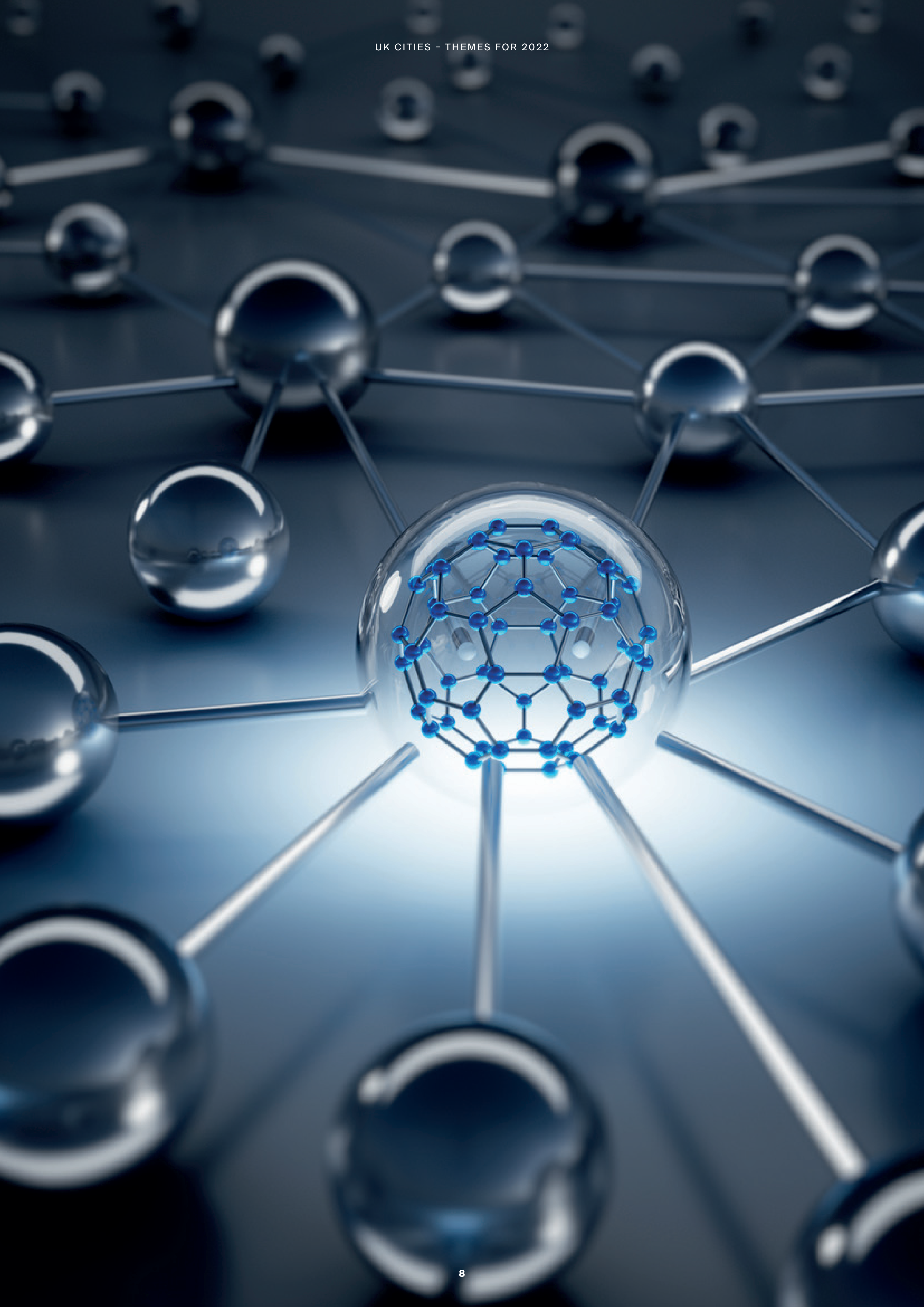
Our award winning Energy, Sustainability and Natural Resources team at Knight Frank would be delighted to provide you with clear insight, advice and help on ESG across all stages of the building lifecycle, stepping beyond compliance in support of the journey to net zero.

Our analysis found just 20% of offices currently occupied by these companies comply with EPC standards required by 2030, meaning 80% of buildings fall outside of the net zero pathway.

REGIONAL OFFICE FOOTPRINT FOR THE UK LISTED COMPANIES BY EPC RATING



Source: Knight Frank, HM Government



BUILDING A PATHWAY FOR GROWTH

The attributes of location and place can be hugely contributory in supporting the growth of an innovation ecosystem, essential to future real estate development.

What are the foundations that enable innovation and how advanced are the UK cities along this path?

BUILDING A PATHWAY FOR GROWTH

AUTHORS: VICTORIA ORMOND, COMMERCIAL RESEARCH
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One principal objective of national and city authorities in recent years has been to establish better relationships between education, real estate and industry.

The creation of a pathway from education to employment is viewed as a primary objective in helping to retain talent in the regions, encourage inward investment and aid the development of innovation clusters. Examples of collaboration between public and private organisations across the UK cities are rising, demonstrative that traditional barriers are being overcome and infrastructure is being built that is supportive of ongoing future growth.

Education is the backbone, but retention is the goal

A high quality and relevant skillset among a labour force is fundamental in determining the long-term success of a city, with the availability of the best performing graduates a key factor. Knight Frank research shows that the UK cities are producing a large number of graduates, particularly in the STEM disciplines but now crucially, retention rates are improving. The Knight Frank 2021 Student Accommodation Survey reveals higher than average graduate retention rates across the main UK cities.

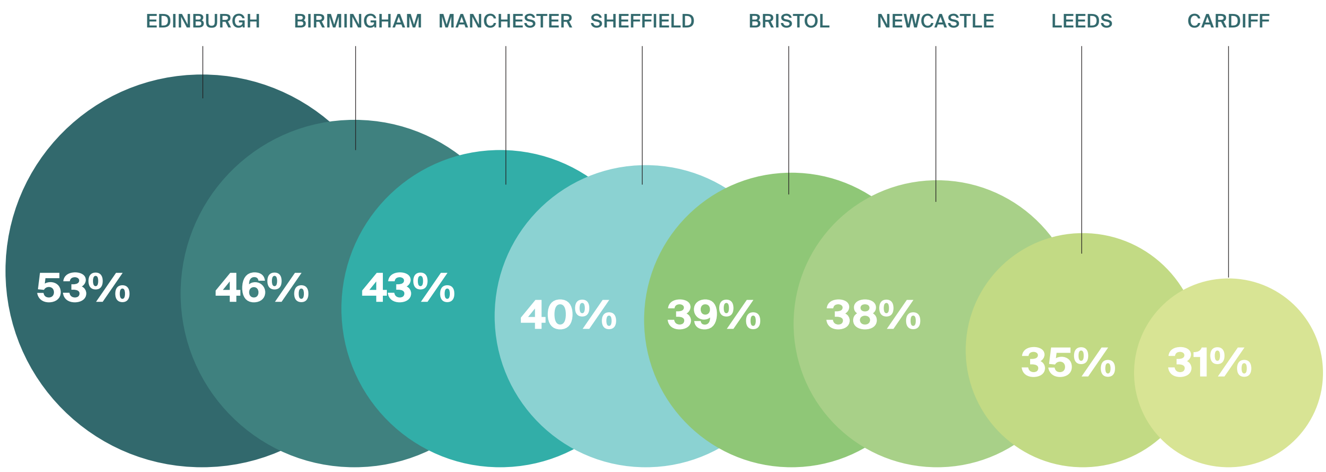
The Challenge?

The most talented individuals will only stay in the same city as their university if there are sufficient career opportunities. It is important for cities to develop a mutually virtuous community in which the local labour pool is fully invested and engaged. Talent attraction strategies must therefore cater to the needs of the innovation economy, which prioritizes creativity, entrepreneurial networks and business start-up support. This creates a “sticky” environment that encourages existing talent to stay and new talent to arrive.

Innovation: Laying the Foundations of Growth

Innovation is an essential driver of long-term economic growth required for a well-functioning real estate market, generating

% OF STUDENTS INDICATING THEY WILL STAY IN THE CITY POST-GRADUATION



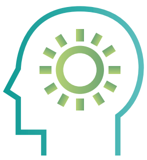
Source: Knight Frank Research

new occupier activity and attracting investment and wealth. The concept of innovation is simple. Knowledge drives innovation, innovation drives productivity, and productivity drives economic growth.

And increasingly the influence of innovation is being understood for its contribution to healthy tenant demand, robust rental levels, and healthy capital value even during times of crisis. Cambridge has set the template. Globally renowned for its university and extensive research foundation, the city has registered stable yields and rental growth during the Global Financial Crisis (GFC) and Covid-19 pandemic.

'INNOVATION' – THE CORE FACTORS

INNOVATION INFRASTRUCTURE: universities, research institutions, start-up-accelerators, and funding bodies are fundamental to innovation success. Factors such as the number of UN Sustainable Development Benchmark 9 Universities, and respective Industry Income Scores have been factored into this component; assessing how well academia collaborates with industry to monetise research and create spill-overs in the community.



MOTIVATION TO INNOVATE: quality of life factors (e.g. happiness) which contribute to retention of a highly skilled, talented, and motivated labour force.

START-UP COMMUNITY: analyses the strength of grassroots, entrepreneurial community and their activities.

Expanding on our Active Capital research, the Knight Frank UK Cities Innovation Index examines the key factors underpinning propensity to innovate, to explore which cities have strong growth foundations and the greatest prospect for achieving resilience.

UK Cities Innovation Index

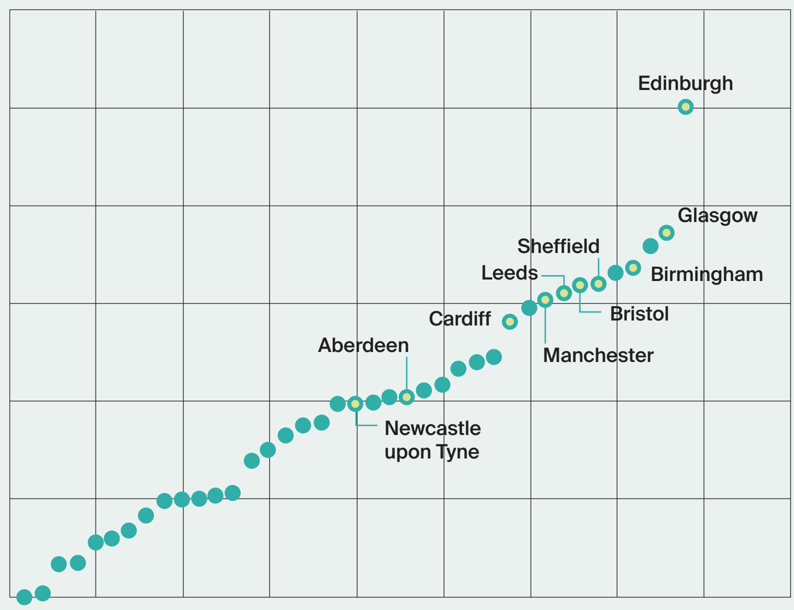
The index has combined 32 variables and over 1,200 data points across 39 major regional UK cities. Using principle component analysis, 12 metrics were identified as statistically significant drivers of innovation. These were then clustered into three core factors a) Innovation infrastructure b) Motivation to innovate; and c) Startup community, generating an overall innovation score and rank.

Key Findings

Overall, Edinburgh topped our UK cities index by considerable margin, thanks to its innovation infrastructure providing excellent academic foundations. It possesses two globally renowned universities (University of Edinburgh and Edinburgh Napier) benchmarked against the Sustainable Development Goals 9 and 11, indicating high level of patent generation, spin off company formation, and high research income from industry. Alongside this, it has a high number of research institutions and biomedical funding bodies such as Welcome Trust Centre for Cell Biology and Royal College of Physicians, attracting significant investment (ca. $3bn since 2015).

Glasgow ranked 2nd, again with excellent innovation infrastructure, with three universities benchmarked against global standards (Glasgow Caledonian, University of Strathclyde, and University of Glasgow). It also possesses a strong start-up community, ranking highly across national rankings of entrepreneurial ecosystems. Individually, Newcastle scored highly in terms of its innovation infrastructure, with a high number of research institutions located in the city, attracting funding of ca. $1.4bn since 2015.

UK CITIES INNOVATION INDEX: OVERALL INNOVATION SCORE



Source: Knight Frank Research

GROWTH IN THE FAST LANE

Cultivating business communities and harnessing the ambitions of fast growth organisations creates the potential for amplified growth and supports resilience against disruption.

Knowledge intensive organisations will lead real estate requirements over the next decade, but which sectors will be at the forefront of growth?

GROWTH IN THE FAST LANE

AUTHORS: JENNIFER TOWNSEND, COMMERCIAL RESEARCH
DAVID PORTER, MANCHESTER COMMERCIAL

Innovation is essential in the pursuit of commercial success, with real estate central to creating the right conditions for new ideas to take root and flourish.

An understated attribute of the office is its role in the creation of business communities, both within the immediate building envelope and as part of a wider cluster. This is particularly true of centres of high knowledge and research which thrive on innovation and a highly skilled labour force. Understanding the evolutionary direction of existing sectors and also the growth potential of newly forming companies, is critical in identifying the structure and scale of future occupational demand in the UK cities. But with a new industrial revolution firmly underway, the landscape is increasingly blurry.

What sectors offer the greatest potential over the next cycle?

A detailed review of 25 local UK economic recovery plans reveals that Life Sciences, Technology and Creative are the most referenced sectors in the identification of drivers of future economic and jobs growth. Life Sciences and Technology are also the highest ranking for UK enterprise R&D expenditure, value of venture capital funding and number of European patent applications. Advanced Manufacturing and Engineering, Automotive, Aerospace and Energy sectors also ranked well, albeit the impact of expansion of these sectors would influence not just demand for offices but many other real estate asset classes.

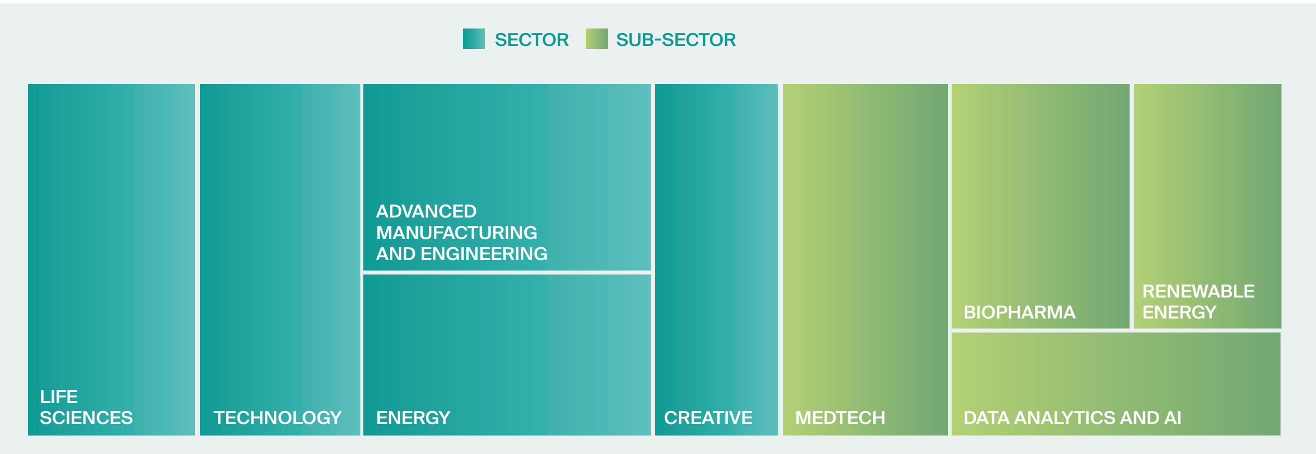
Thematic investment – where a range of companies who have traditionally been either direct competitors or operated in entirely different segments of the economy, have formally collaborated to tackle big challenges and themes – featured strongly.

Emerging themes include healthy ageing, smart cities, future mobility and the transition to net zero. Indeed, sectors relating to a carbon neutral and sustainable economy were referenced directly in 20 of the 25 economic recovery plans. From a real estate perspective, we are starting to see the development of innovation clusters centred on these thematic areas. A good example can be drawn from Newcastle's innovation district, which is tackling healthy ageing, being home to the National Innovation Centre for Ageing. SPARK in Cardiff illustrates this developing, with its focus on tackling societal challenges including decarbonisation.

New sectors, new business structure, new spaces?

In order to capture the opportunity and secure high-growth tenants from knowledge and

LOCAL ECONOMIC RECOVERY PLANS AND INDUSTRIAL STRATEGIES



Source: LEP or city council websites. We studied 25 economic recovery plans and industrial strategies that cover the UK's major office markets.

innovation intensive sectors, there are some further considerations that the supply side will need to take into account. Companies specialising in Life Sciences for example gravitate towards developments that create, curate and cultivate a collaborative ecosystem either around specific themes, ideas or life sciences specialisms. These ecosystems are often anchored by universities, research institutions and increasingly research-intensive hospitals. Furthermore, the shift towards more computational research and development will see an increase in the need for more conventional office space in city centre locations. However, these offices will need to provide ultra-fast and high volume data connectivity as a pre-requisite.

The influence of technology is inescapable. The technology sector today seems to be a catch all term with multiple definitions. Its constitution varies but typically will include tech titans, tech derivations of traditional sectors, creative and sub-divisions of the pure IT sector. A fourth wave of technological innovation is creating new sub-sectors, with examples being artificial intelligence, quantum computing and augmented reality.

The principal real estate considerations are broad and often bespoke, however, the central theme is flexibility in order to accommodate project teams, coupled with high performance and resilient digital connectivity capabilities to ensure speed and consistent service delivery.

What new sectors will emerge?

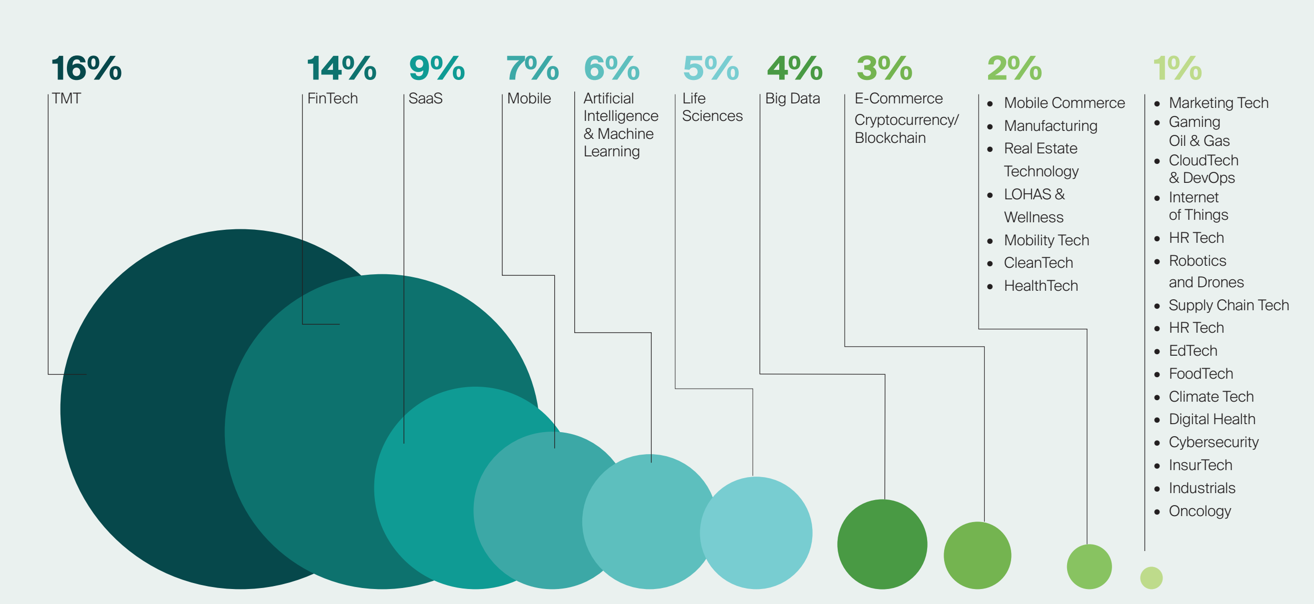
New sectors, economies and corporate collaborations are rapidly emerging to tackle today's pressing social and environmental challenges. Greater awareness and investment is now targeting sectors relating to a carbon neutral and sustainable economy for example. This has the potential to underpin substantial jobs growth and, hence, new demand for office space. According to Bruntwood SciTech, the UK's transition to Net Zero will create more jobs in the Science and Technology sector than any other industry, delivering 65% of all roles – or some 365,000 jobs – by 2050.

Furthermore, occupier demand will derive from companies across all sectors embedding ESG into their business strategies. This will lead to a major re-set of real estate portfolios. Organisations will target buildings that reflect and help achieve ESG ambitions as increasingly ESG is associated with brand values. Buildings with superior ESG credentials and a strong sense of purpose and community will therefore command a greater level of demand.

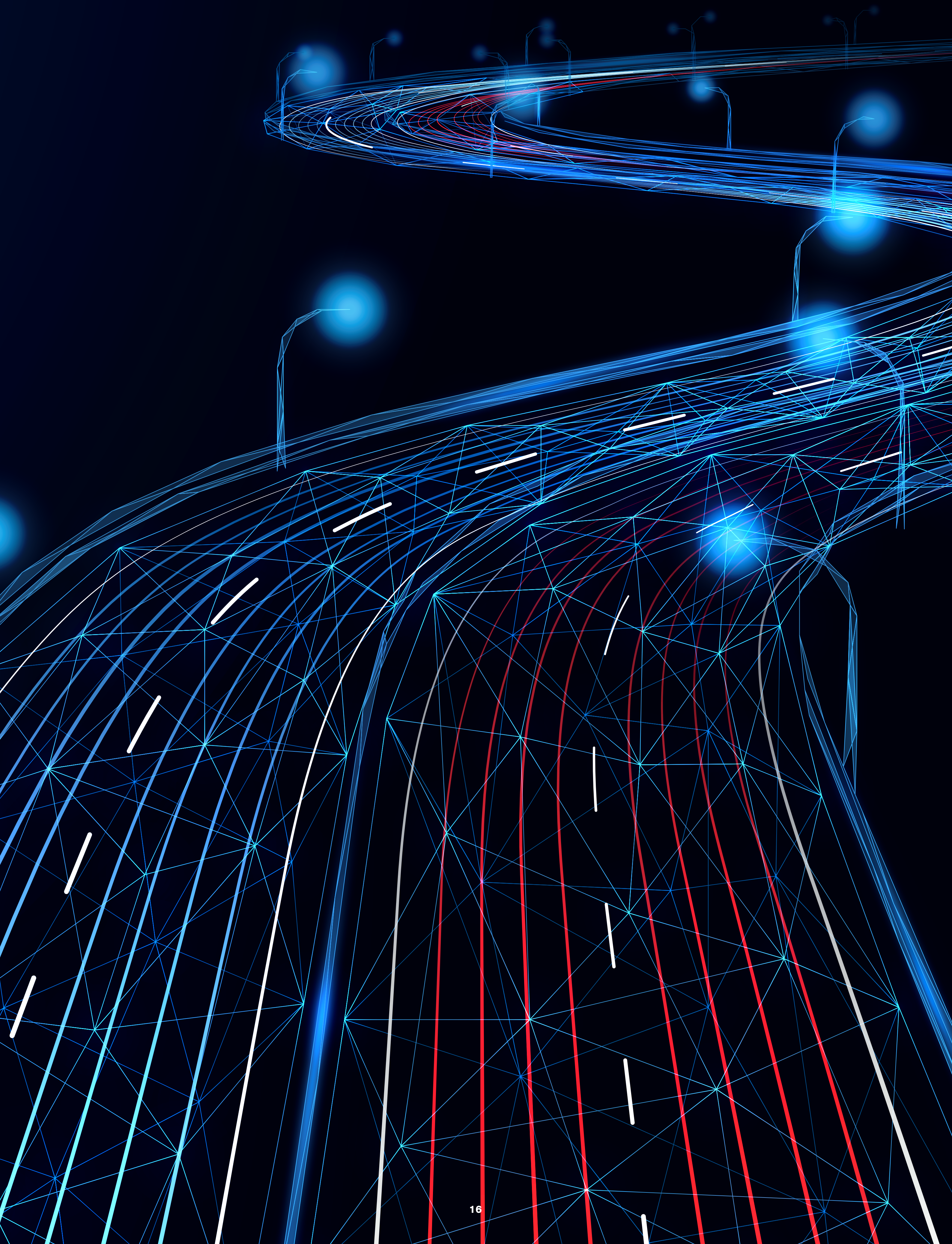
Concluding

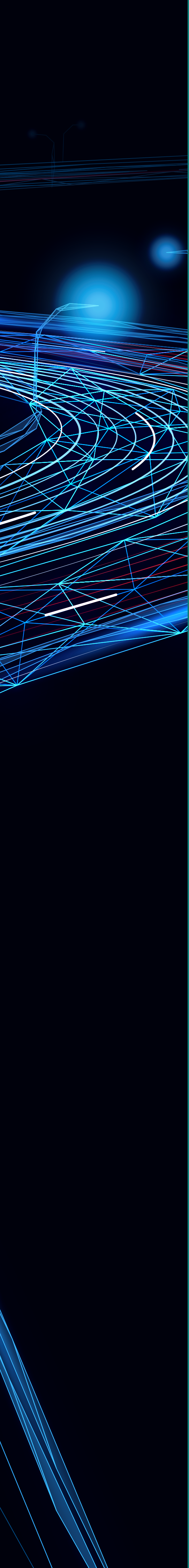
Innovation and knowledge intensive sectors are becoming an increasingly important source of office demand across the UK cities markets. The supply-side is reactive and adapting to this new dynamic, with the creation of imaginative work spaces increasing in the quest of capturing the next business of tomorrow. In practice this is meaning flexible, collaborative, amenity rich spaces with superior ESG credentials in locations that offer deep talent pools and strong connections to knowledge and research institutions. Business is changing at rapid pace, with advanced technology adoption at the heart of future competitiveness. The real estate of cities will need to stretch its horizons to stay relevant.

UK VENTURE CAPITAL FUNDING 2018-OCTOBER 2021 BY VERTICAL



Source: Knight Frank Research





INFRASTRUCTURE – THE ARTERIES OF GROWTH

The interaction between people and technology are critically important to organisations in the realisation of ambitions.

Which cities best demonstrate the principal components of this relationship?

INFRASTRUCTURE – THE ARTERIES OF GROWTH

AUTHORS: DARREN MANSFIELD, COMMERCIAL RESEARCH
JAMIE PHILLIPS, BIRMINGHAM COMMERCIAL

Connectivity underpins all aspects of the efficiency and prosperity of a city. The degree of accessibility of a location is proven as a vital component that supports economic and social development.

The employment potential of a city is dependent on the extent of the talent pool it is able to draw from. The ease of travelling to a location significantly impacts access to local talent and the number of people willing to consider an area for work purposes. Accessibility is therefore fundamental for job creation, widening talent supply and ultimately boosting the potential for inward investment.

The role of digital connectivity most recently, has also grown in stature. Digital infrastructure is a key element of the future workings of a city, with harnessing the power of data in particular, an objective that appears on every local plan. Creating an extensive and resilient digital network has become a primary goal of both central and local authorities, with the UK Government committing in the 2020 Spending Review to investing £5bn in a 'Gigabit-capable' broadband rollout by 2025.

But has the pandemic sped up the urgency?

Covid-19 has forced organisations across the spectrum to re-evaluate both near and long-term business strategy. Central to the debate has been, and continues to be, the role of the workplace. Leveraging digital services during the pandemic protected the workforce and maintained business continuity. As greater freedoms are realised though, firms are understanding the shortcomings of operating remotely from the workplace long term, but equally are needed to prepare for the next 'black swan' event.

The role of digital connectivity most recently has also grown in stature. Digital infrastructure is a key element of the future workings of a city, with harnessing the power of data in particular, an objective that appears on every local plan.

The sharp rise in employees working, learning and socialising online during the pandemic offers first hand evidence of how vital digital connectivity is to business survival and the future direction of business focus. People are now connected to real time information every minute of every day and equally require immediate service. The objective moving forward will therefore be to achieve a frictionless interrelationship between people and technology to improve service delivery and ultimately bolster operational resilience.

So what will future business strategy entail?

While every business is different, organisations will seek to reinvent and redefine working practices by utilising the positive aspects of hybrid models. The way firms consider spaces, meetings, travel, events and importantly, the work/ life balance of employees will be foremost. Flexibility and inclusivity will be primary. This shifting dynamic brings greater consideration of the connectivity attributes of specific locations, both physical and digital.

Our unique research explores the connectivity attributes, both digitally and physically, across the key markets outside of London and SE region. In its creation, we examined 17 metrics across 39 locations, generating over 800 data points which were equally weighted to assess the digital and physical strengths of each location. These include:

DIGITAL

Fibre availability, capacity and performance. Mobile network capabilities and proximity to data centre services. Whilst the importance of each component will be weighted differently according to organisation, each play a key role in creating a resilient digital platform and therefore shaping future business strategy.

PHYSICAL

Access to labour. The accessibility of a location remains vital to fully leveraging the availability of skilled staff and also tapping into the next wave of new talent. We have explored the demography of each location using defined travel times.

The sharp rise in employees working, learning and socialising online during the pandemic offers first hand evidence of how vital digital connectivity is to business survival and the future direction of business focus.

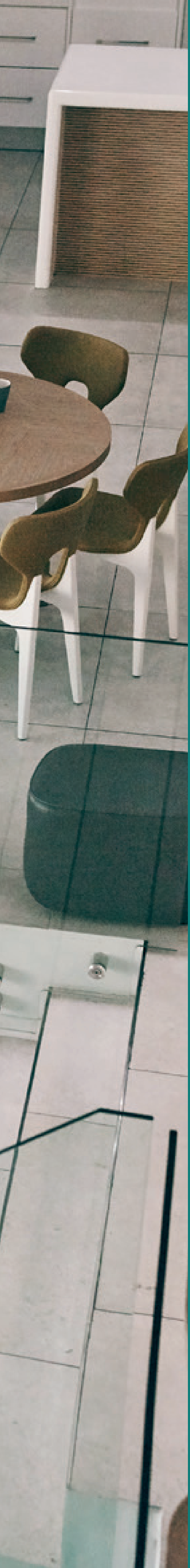
Without doubt, the world of work is changing. Next wave technologies are emerging and the war for talent intensifying. This will not only change the future form, function and location of the workplace it will alter how we interact, move around and do business.

Investment is ongoing in support of the UK Governments ambition to create a 'world class' digital infrastructure. Currently, the UK performs well on digital connectivity measures compared to other countries, but the advancement of new technologies is quickening. Forecasts indicate that business transformation spending will increase by 15% in 2022. Consequently, business focus on the digital connectivity capabilities of cities will intensify in unison. Significantly, firms are looking beyond digitalisation as just a survival mechanism and are increasingly accelerating the role of digital or digitally enhanced service offerings. The rollout of new and more extensive networks of full fibre and 5G networks underpin these ambitions of growth.

Without doubt, the world of work is changing. Next wave technologies are emerging and the war for talent is intensifying. This will not only change the future form, function and location of the workplace, it will alter how we interact, move around and do business. Combining both physical and digital components provides a rounded assessment of the connectivity attributes of locations across the UK. Understanding and harnessing these two important components of the changing business landscape, will increasingly be seen as a significant area of differentiation in optimum location choice.

CONNECTIVITY RANKINGS – TOP TEN

1	Manchester
2	Birmingham
3	Leeds
4	Coventry
5	Leicester
6	Glasgow
7	Liverpool
8	Bristol
9	Preston
10	Edinburgh



OFFICES – A NEW SENSE OF PURPOSE

Most agree that the 'death of the office' has been greatly exaggerated, but a return to pre-pandemic working practices is also dispelled in equal measure.

What is the future of the office?

OFFICES – A NEW SENSE OF PURPOSE

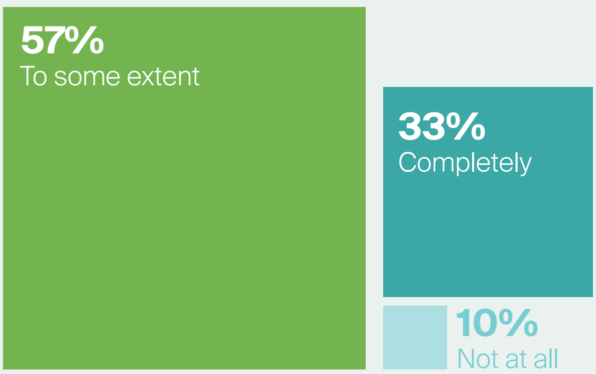
AUTHORS: DR LEE ELLIOTT, GLOBAL HEAD OF OCCUPIER RESEARCH
ANDY SMITH, BRISTOL COMMERCIAL

Covid-19 led to the reprisal of the 'death of the office' narrative. Whilst this is misplaced, the post-pandemic period will see occupiers repurpose the office in three key ways.

Nearly two years into the black swan event of Covid-19, one word is dominating the post-pandemic narrative – purpose. The virus has led individuals and companies to question their purpose. In so doing, some of the mainstays and orthodoxies of pre-pandemic life are undergoing a fundamental re-evaluation. Whether it is the structure of the working week or day, the balance between work and personal life, the effect of our working lives on our mental and physical health, the sustainability of commuting, or the office as the central place of work, all are in the analytical spotlight. This is right, proper and has precedence. History shows that when we emerge from crises – be they political, economic or health related – this process of reflection often occurs. History also suggests, however, that the result of such reflection is rarely as radical as initially assumed. Revolution tends to be avoided but so too does recidivism. What occurs instead is a process of accelerated evolution where change or re-purposing occurs with a greater pace and a more widespread application than would otherwise have been the case.

This dynamic is abundantly clear in the UK office market. The hyperbole and sensationalism of the mainstream press, who conflated a relatively short-period of enforced working from home with the long-term death of the office, increasingly appears wide of the mark. While occupiers have naturally been slower to make real estate decisions, few have taken the knife to their occupied portfolios with anywhere near the ferocity feared in the early months of the crisis. Illustrating this point, just one fifth of global CEO's surveyed by KPMG in August 2021 were planning to downsize their physical footprint, a stark contrast with the 70% who believed they would be making cuts a year prior. These results are consistent with those in the 2nd edition of Knight Frank's (Y)OUR SPACE research. That is not to suggest, however, that the form, function or purpose of the office is not subject to change. Indeed, there are three key areas of office repurposing emerging.

TO WHAT EXTENT IS REAL ESTATE REGARDED AS A STRATEGIC DEVICE WITHIN YOUR BUSINESS?



TOP 5 STRATEGIC AGENDA ITEMS THAT REAL ESTATE BEST SUPPORTS...

2020/21 survey

1	Corporate brand & image
2	Cost reduction
3	Employee well-being
4	Talent attraction & retention
5	Increased collaboration

Source: Knight Frank Research

1. A more strategic role for the office

Ninety per cent of our survey respondents regard real estate as a strategic device for their business. The office is something that supports, facilitates or portrays a wider business agenda or purpose. What is telling is this represents an increase on the 80% of respondents who believed so when we first surveyed back in 2018. Despite the recent hyperbole, the office continues to matter – having strategic purpose and significance. The top 5 strategic agenda items best supported by the office are shown below. Foremost is the role of the office in showcasing corporate brand, identity and culture. As such, the office increasingly portrays the values and purpose of the wider business, something that has been difficult to sustain during lockdowns where staff were both dispersed and remote. These five items, in particular, will be at the heart of the push by occupiers to repurpose their offices.

2. A more compelling environment AND experience

They will also lead occupiers towards a different quality of product. A flight to quality is evident across all UK cities as occupiers seek office space that is both attractive to staff and compelling relative to alternative work settings, such as home. The office increasingly needs to provide its occupants with more than they can obtain elsewhere. So the flight to quality is synonymous with a flight to amenity rich buildings, particularly related to health and personal wellbeing. Whilst a single office building cannot feasibly provide all such amenities, they can be delivered within a managed estate or within the boundaries of a micro-market. This complementarity between amenities, even if in disparate ownerships, is important and central to the workplace experience – and experience is central to the modern workplace. Building owners need to deliver workplace experiences, through a service and amenity layer which supports their customers (and their staff) in creating that all-important sense of purpose and belonging.

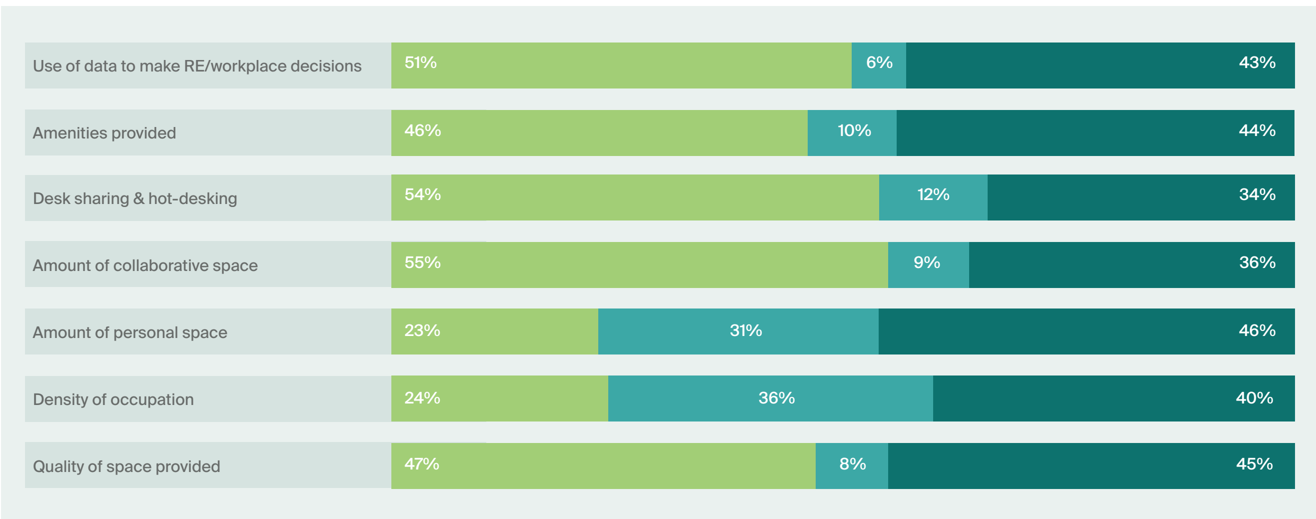
3. A more heavily utilised and productive space

Real estate typically represents the second largest cost of any occupier. At times of crisis, or in a post-crisis response, real estate has often been in the cross hairs when it comes to cost reduction. This was certainly the case in the immediate post-GFC period when there was a 'slash and burn' attack on corporate office space. The fact that this, as noted above, has not occurred in response to the pandemic is significant. It suggests that occupiers have recognised that the simplistic reduction of quantum of space is not effective and actually creates environments and experiences that are sub-optimal for staff and their productivity. It appears the approach to real estate costs is instead focused around maximising the return on investment an occupier makes when taking a lease. This supports the provision of a more compelling and attractive office, but also requires the space to be more intensely and more consistently utilised. Consequently, occupiers are reconfiguring office space towards more collaborative, shared spaces underpinned by hot-desking and desk-sharing regimes rather than the move towards more personalised space, as noted in the chart below.

The post-pandemic period does not generate the existential crisis for offices that some have predicted. It does however usher in a period of accelerated evolution, whereby business leaders seek to repurpose their office space to support wider strategic agendas, create an attractive and compelling workplace for their staff, and ensure that the investment made in that space is fully maximised. These dynamics will shape the behaviour of occupiers across the UK over the next cycle.

WORKPLACE DYNAMICS OVER THE NEXT 3 YEARS...

Increase Decrease Stay the same



Source: Knight Frank Research


DOWNING
STREET SW1
CITY OF WESTMINSTER
WHITEH
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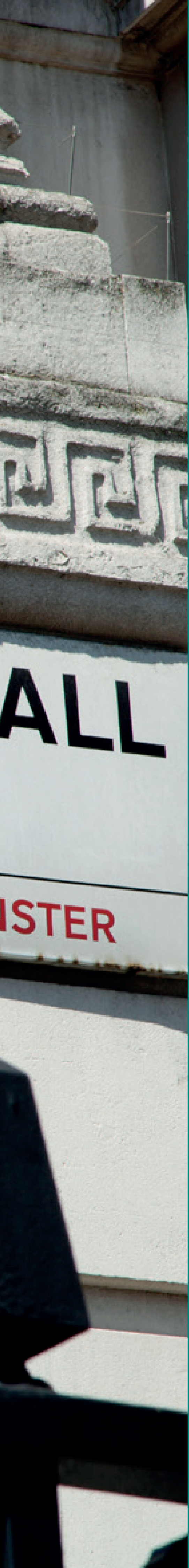

PUBLIC SECTOR PUSH

Amid the plans for levelling up regions of the UK is the relocation of the civil service estate.

The pledge is to move 22,000 civil service jobs out of London by the end of the decade, but what will be the impact of this shift on regional office markets?

PUBLIC SECTOR PUSH

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As attention turns to the recovery from the Covid-19 pandemic, the UK Government continues to reiterate its commitment to levelling up the UK and reducing geographical inequalities.

While the full complement of departmental relocation will develop over many years, the impact on office demand is already being felt and the scale of future office requirements could be significant.

At the time of writing, how this is to be achieved is unclear, with the 'Levelling Up' white paper still outstanding. The UK Government has restated however, a plan to move 22,000 civil service jobs out of London and the South East by the end of the decade. This means that roughly one in four civil service positions in London and the South East are to be re-distributed across the UK, a strategy that could have major implications for the prosperity of UK regional cities.

A greater distribution of the civil service footprint is aimed at drawing on employee talent outside London. While only 13% of UK residents live in London, two thirds of policy and senior roles are based in the UK capital. By relocating some of these jobs – particularly to other major UK cities with a strong labour resource – it will be able to draw on a wider talent pool. The labour markets of the principal UK cities capture at least a third of the UK's workforce and most have a higher-than-average proportion of residents in managerial and professional jobs, so offer a large base of well-qualified workers.

What has been announced so far?

The leading relocation announcements include bringing 200 – 300 treasury roles to Darlington. The Economic campus in Darlington will eventually house 750 officials from departments including the business, transport and homes and communities. In December 2021, HMRC selected Pilgrims Quarter in Newcastle to consolidate operations for up to 9,000 employees. Staff will move from Longbenton and Washington into the new site by 2027.

Launched in June 2021, Leeds is home to the newly formed UK Infrastructure Bank. The bank is tasked with accelerating investment into ambitious infrastructure projects, cutting emissions and supporting the levelling up agenda.

The Department for Business, Energy & Industrial Strategy (BEIS) has opened a new office at Trinity Bridge House in Salford. The new site will become the base for 420 civil servants by 2025, with plans to increase headcount to 570 by 2030. The department is in the process of relocating over 800 roles to regions across the UK. The BEIS workforce is also being grown in Birmingham and Cardiff, and expanded to new locations in Belfast, Edinburgh and Darlington. These plans will see up to 1,350 department roles housed outside London by 2025. The Home Office will develop 1,950 roles, including to a new Innovation Centre in Stoke-On-Trent, which will accommodate more than 500 roles by 2025.

What is the potential impact for the UK cities?

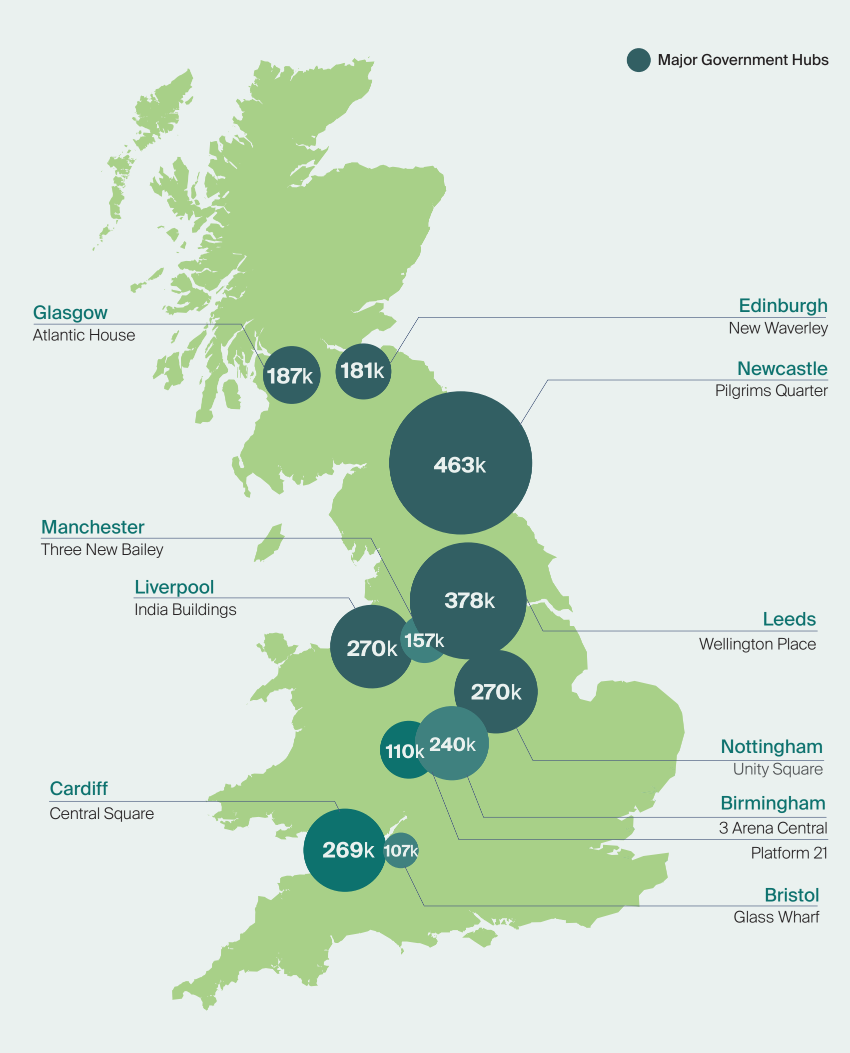
While the full complement of departmental relocation will develop over many years, the impact on office demand is already being felt, and the scale of future office requirements could be significant. Simple calculation using the average space per person required as stated in the latest 'State of the Estate report', the shifting of 22,000 roles across the UK could necessitate up to 2.1m sq ft of office space when fully realised.

The space impact on the markets in the regional cities is not as simple as a one-to-one calculation. The reason?

Some of the intended locations are already recognised government hubs, where the Government Property Agency (GPA) has been actively acquiring new space. This could mean that whilst jobs are new or subject to relocation, roles could be co-located in office space already acquired.

Even so, the relocation programme is sure to generate new requirements for office space.

MAJOR GOVERNMENT HUB ACQUISITIONS 2017-2022



Source: Knight Frank Research

ANNOUNCED ROLE RELOCATIONS SO FAR

DEPARTMENT	RELOCATING/NEW ROLES	LOCATION
MHCLG	150	Wolverhampton
Home Office	500	Stoke on Trent
FCDO	500	East Kilbride
Cabinet Office	500	Glasgow
DfT	650	Leeds and Birmingham
Home Office	850	TBC
BEIS	865	Various
HM Treasury, BEIS and DfIT	1500	Darlington
Cabinet Office	TBC	York
Defra	TBC	Cardiff, Edinburgh and Newcastle

Source: Knight Frank Research

Principally, the target locations chosen may not be able to accommodate an influx of key civil service jobs without newly built offices. Availability of high-quality stock is limited in many major UK cities, and with the GPA public in a commitment to reduce carbon footprint of estates by 50% before 2027, accommodations will need to meet the highest standards of EPC and BREEAM as well as offer superior digital and physical connectivity.

Conclusion

While relocating civil servants out of London and the South East has been an ambition of various governments over many years, the 'levelling up' agenda means it now has real priority. Real estate aside, the departmental moves will not just broaden the range of talent on offer to the civil service, but will serve to secure major employers in the subject cities. This means that the attraction and retention of talent on a regional basis will show improvement, boosted by new employment opportunities arriving, and as career pathways are established.

This will have a significant impact for real estate and present an opportunity for the UK regional office markets. Foremost, occupiers deriving from the Public Sector typically require long-term leases and are supportive of being an anchor tenant to new development schemes. The influx therefore will mean viability for some schemes. A secondary implication will be the attraction of support organisations from the private sector. Close proximity to principal clients will mean a second wave of requirements could be generated.

It will be interesting to see how plans progress over the coming twelve months and beyond. The UK Government are clearly keen to cement the foundations of economic equality and subsequently, the development of central workplaces located across the UK regions will be fundamental to its ambitions.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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