

PERSPECTIVES

THE LATEST
ON UK REAL ESTATE

WORKPLACE

Wellbeing
and Flexibility
The Key Trends

LEAD STORY

A Devolution
Revolution?

**MEETING THE
CHALLENGE**

Connecting
the Dots for
UK Transport

INVESTMENT

Overseas
Capital Flows
into the Regions

ISSUE 04 | 2018

This Issue

Welcome to the 4th edition of Perspectives, a selection of articles, interviews and insight from across the UK.

We lead this issue with an in-depth review of the progress of devolution across England. Andrew Teage reviews the impacts of devolution and the potential for further cities to follow this route.

Also in this issue, Sophy Moffat and Elaine Rossall examine the changing trends within workplace exploring the effects of wellbeing and co-working on our office environments in their respective articles.

Finally, we are seeing increasing interest from overseas investors in the UK's regional markets. Peter Atkinson and Nigel Almond explore the key drivers behind this growing investment appetite.

We hope that you enjoy reading this edition. We are constantly looking for ways to improve the content, and to tailor this to meet the interests of our clients. If there is a particular topic that you'd like us to cover in the next edition, please get in contact via perspectives@cushwake.com.



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LEAD STORY

A Devolution Revolution?

The devolution map of England can be read in two ways, and the extent to which the property industry must engage with devolved administration will depend on which of the possible outcomes come to pass.



By **Andrew Teage**
Partner, Town Planning

Last May six 'metro mayors' were elected with varying devolved powers to drive growth in: Cambridgeshire & Peterborough, Greater Manchester, Liverpool City Region, Tees Valley, West Midlands and 'west of England', the latter the area around Bristol and Bath.

There is also a devolution deal with no elected mayor for Cornwall and of course an established model of mayor and devolution in Greater London.

On one reading this looks like the start of a radical change; on another it looks like the remnants of what could have been.

Rather obviously missing from the list are the Leeds and Sheffield city regions, the Newcastle/Gateshead/Sunderland area, south Hampshire, Lincolnshire, Derbyshire and Nottinghamshire and other places that once seemed poised to strike devolution deals with the government.

We could witness those with devolved powers forging ahead by using them to develop clear strategic plans, build vital infrastructure, attract investment, secure funding that is available at a City Region level and regenerate their areas so successfully that other areas feel they must seek similar powers or be left behind.

Alternatively, we could be looking at the mayors already elected as being anomalies – the survivors of a devolution process that ran out of political enthusiasm and goodwill.

Rather obviously missing from the list are the Leeds and Sheffield city regions, the Newcastle/Gateshead/Sunderland area, south Hampshire, Lincolnshire, Derbyshire and Nottinghamshire

The theory behind devolution is that local administrations know their areas better than Whitehall, and that handing control of decisions on planning, infrastructure spending and skills policy – and in some cases health services, transport services and business support – will result in decisions that are more effective and meaningful to their constituents. This will assist in the objective of rebalancing the national economy, allowing for regional differences and diversity to flourish and add value at a local level. Nationally applied initiatives from Whitehall such as Community Infrastructure Levy, Starter Homes, and the proposed standard methodology for assessing housing need have more often than not led to very different and unequal regional experiences. To reinforce this point, the Liverpool City Region Metro Mayor made the following statement to the Government as he and the other 6 regional and city-wide Mayors held their first summit in London on 1st November 2017.

“Devolution is the single most important means of achieving a more economically balanced and prosperous UK. It transfers powers, resources and autonomy to the places that will be our country's most important growth engines. It is vitally important that the Government sustains and accelerates its commitment to devolution.”



BRITAIN REMAINS ONE OF THE MOST CENTRALISED STATES IN THE WESTERN WORLD. DEVOLUTION IS THE KEY TO UNLOCKING FUTURE GROWTH AND IMPROVING PRODUCTIVITY ACROSS THE UK.
Metro Mayors National Summit, November 2017



SPOTLIGHT

**GREATER MANCHESTER'S LABOUR MAYOR
ANDY BURNHAM HAS ACHIEVED:**

1

£900m investment
fund over 30 years

2

A consolidated
transport budget

3

A **£300m**
housing fund

4

An 'earn back' fund
for infrastructure

5

Control of **£6bn**
a year health

6

Social care
spending

This is why the powers in each devolution deal differ – they are tailored to what each area needs.

Former chancellor George Osborne certainly appeared convinced of this logic and threw his weight behind the Northern Powerhouse and Midlands Engine, while inviting other areas to put devolution proposals forward.

It's probably fair to say that the Treasury's support was essential to convincing less enthusiastic Whitehall departments to commit, and that Mr Osborne's departure left devolution without an obvious government champion.

In my view, the Northern Powerhouse lost impetus from that point, however its new minister Jake Berry, whose constituency Rossendale and Darwen is not far north of Greater Manchester, provides a potential ally to Metro Mayors Andy Burnham (Greater Manchester) and Steve Rotherham (Liverpool City Region) to re-ignite the Powerhouse agenda that has been at the forefront of the national devolution movement.

Before turning to what appears to have hampered devolution in much of England – and the different situations of Scotland and Wales – let's look at what has been achieved.

The most extensive powers are those of Greater Manchester's Labour mayor Andy Burnham, who has a £900m investment fund over 30 years, a consolidated transport budget, a £300m housing fund, an 'earn back' fund for infrastructure if economic growth targets are hit, control of £6bn a year health and social care spending and other powers including bus franchising, strategic planning, adult skills budget and offender management.

Greater Manchester stole a march because its 10 councils have a long history of collaborative working across a conurbation with clear boundaries.

Their ability to point to a record of harmonious endeavours in strategic planning, infrastructure and regeneration helped to convince ministers to trust them with devolved powers.

Mr Burnham inherited Greater Manchester-wide plans for spatial planning and transport and a conurbation land commission, and so the building blocks were in place for him to drive development.

**Greater Manchester stole a march
because its 10 councils have a long
history of collaborative working across
a conurbation with clear boundaries.**



While the consent of Greater Manchester's 10 council leaders is required for mayoral decisions, Mr Burnham has a lot of personal power and he committed in his election campaign to re-writing the Greater Manchester Spatial Framework, stating that while he favoured a clear coherent plan for growth he did not favour the plan that existed, wanting more emphasis on development in town centres and to take less green belt land for housing.

He also appears to be focusing early attention on the revitalisation and reshaping of town centres, particularly those he believes the property industry has ignored.

In these actions we see both sides of the metro mayor model.

The theory is that a mayor will have the personal powers and position to 'make things happen', but those 'things' are not necessarily what the industry would have wanted.



In one major conurbation, South Yorkshire, councils split evenly between those who wanted a devolution deal for the immediate area and those that wanted one for the entirety of historic Yorkshire.

Public sector support for struggling town centres may be welcome but the hiatus caused by the sudden rewriting of an agreed spatial framework is less likely to find favour.

Other mayors have less extensive powers than those of Mr Burnham. For example, I think relations between the Councils in Liverpool City Region have historically been less harmonious than in Greater Manchester and the elected mayor, Labour's Steve Rotherham is only in the early stages of implementing his spatial planning objectives and policies. For example the sub-regional spatial strategy is only expected in 2020, the same year for which Mr Rotherham must wait before exercising his full powers. Rotherham is now 6 months into his new role and to mark this milestone he has made a number of significant statements on future key actions, including building 25,000 new homes across the region by 2022, as part of his brownfield-first approach to housing development.

There is an interesting debate to be had over the position of elected metro mayors leading devolution deals.

Cornwall is an exception due to its location and cultural identity. But elsewhere the government has insisted on mayors as a condition of agreeing to devolution.

This has in itself hampered progress since local council leaders – perhaps understandably – object to a mayor in effect taking a share of their powers and prestige.

Thus we have seen progress towards devolution halted in, for example, Greater Lincolnshire and South Hampshire partly because there was little support for mayors, while the devolution deal for Derbyshire and Nottinghamshire collapsed because of opposition from district councils.

In one major conurbation, South Yorkshire, councils split evenly between those who wanted a devolution deal for the immediate area and those that wanted one for the entirety of historic Yorkshire, while progress in the Leeds City Region has been hampered by disputes over whether districts in North Yorkshire should join.





In the North East we saw councils north of the Tyne persevering with devolution while those to the south chose not to.

If it works, devolution should see the areas with such powers grow more rapidly than others, with the result that in the coming years we might see other areas bury their various hatchets and scramble to keep up economically with the trailblazers.

In that scenario – and one can never know a future government's attitude – we could see a patchwork of devolution deals spread across England each tailored to local needs.

We do of course have working devolution models in Scotland and Wales, in neither of which does anyone seriously suggest these should be rolled back.

Devolution has proven successful there, and both have been able to demonstrate this and so gain additional powers from Westminster.

All seven city mayors (including London's Sadiq Khan) have jointly called for further devolved control over public services including skills and training and greater control over taxes and revenues.

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The central case of devolution supporters is that local control will drive faster growth.

That reasoning might well prove attractive to any government given the uncertainties of Brexit, but it necessarily means central government ceding some powers, which might be less palatable in Whitehall, although the success of Scottish Parliament and Welsh Assembly models of devolution, and the emerging positive agendas for Greater Manchester, Liverpool City Region, and West Midlands, demonstrate that there may be real value in a United Kingdom with a clear and consistent framework for devolution of specific powers. This is something that the recently released Institute for Public Policy Research paper “Priced Out? Affordable Housing in England”¹ calls for, particularly housing and planning powers being applied equally across the country.

The central case of devolution supporters is that local control will drive faster growth.

We now have seven mayors that are testing out these possibilities with some very ambitious targets for transforming their regions and rebalancing the national economy. This presents the property industry with significant opportunity to engage and deliver real and positive change in our towns and cities. This is something that Andy Burnham and his Metro Mayor counterparts consider a real possibility, stating;

“Through devolution we have the best chance we will ever get to do things differently and take control of our own future. It will be city regions working together that drive the quickest and most progressive change in the future which is why today’s meeting is so important. As we leave the EU it is vital that people here have the right skills to get on in life and drive our economy. The Government must urgently increase the speed of devolution and fully devolve skills powers and the ability to allocate the apprenticeship levy. It time to give us the tools we need to change the lives of the people we represent.”²

In his budget speech on 22nd November 2017, Chancellor Philip Hammond appeared to support this perspective, stating that;

“If we are truly to build an economy that is fit for the future, then we have to get all parts of the UK firing on all cylinders.”

HE ALSO COMMITTED THE FOLLOWING FUNDING AND SUPPORT TO BACK THIS STATEMENT:

50% of the £1.7bn Transforming Cities Fund³ allocated on a per capita basis to the six combined authorities with elected Metro Mayors. West Midlands secured the biggest allocation of £250m, followed by Greater Manchester at £243m. Liverpool City Region was allocated £134m.

The Government “will continue to work with Transport for Greater Manchester to explore options for the future beyond the Fund, including land value capture” and work in partnership to develop a local Industrial Strategy.

A £12m fund for 2018–19, and 2019–20, was made available for the Mayoral Combined Authorities, “to boost the mayors’ capacity and resources”.

On the topic of further devolution, however, the Budget kept commitments vague: “The Government will enter into discussions with the Liverpool City Region and Tees Valley to explore scope for further devolution to these areas, to promote local growth.”

To conclude, it appears as though the Government is still willing to engage in the devolution agenda and support those combined authorities with elected Metro Mayors, but how far they are prepared to entertain similar deals for other city regions remains to be seen, particularly when two of the major players Steve Rotherham and Andy Burnham reflected that on balance it was a Budget of missed opportunities. There is a feeling that the Chancellor could have done so much more to support economic rebalancing, stimulate growth and revive our cash-strapped public services.

¹ <https://www.ippr.org/research/publications/priced-out-england>

² London Summit 1st November 2017

³ The Transforming Cities Fund will address weaknesses in city transport systems in order to raise productivity and spread prosperity. It will fund new local transport links, making it easier to travel between often more prosperous city centres and frequently struggling suburbs.

Connecting the Dots

Motorways running at capacity, vital planned rail modernisations dropped and decisions on relieving overcrowded airports seemingly delayed indefinitely.

MEETING THE CHALLENGE



By **Stephen Miles**
Partner,
Development and Planning

The UK's infrastructure can frankly be an embarrassment when compared with our principal competitors and a cohesive strategy is required to deliver a sustained investment programme across the country.

On the face of it there is a fair amount of investment. If we look at the National Infrastructure Commission's delivery plan for 2016-21 we see £15bn due to be invested by Highways England to improve motorway and trunk roads with more than 100 schemes including major improvements of the A1, A14 and A303.

On rail it commits to getting High Speed 2 into construction, completing Crossrail, negotiating on how London's north-south Crossrail 2 might be paid for and built and to examining High Speed 3 'Northern Powerhouse Rail' between Leeds and Manchester.

November's Budget contained some encouraging news including a £1.7bn Transforming Cities Fund for local transport connections and specific commitments to improve the Tyne & Wear Metro, and rail and road connections in the Cambridge-Milton Keynes-Oxford corridor, itself envisaged as a major new growth area. However, local politics threatens to stand in the way of those regions who do not have an elected mayor getting their fair share.

The Budget contained two welcome assertions, which could bear fruit if ministers treat them seriously: "Good quality infrastructure is essential for the economy and productivity", and "if the UK could increase the productivity of the five biggest city regions outside of London so that they matched UK average productivity, that could increase UK GDP by £31bn a year", together with at least some steps towards this by the vital step of improving our infrastructure.

For Cambridge-Milton Keynes-Oxford it raised the interesting idea of capturing rising land values to pay for infrastructure. This reflects an increasing trend in the way that the public sector is looking to fund such projects nationwide.

In northern England, there was £300m towards ensuring HS2 infrastructure can accommodate future services developed by regional transport bodies Transport for the North (TfN) and Midlands Connect to bring more rapid journeys between Liverpool and Manchester, Sheffield, Leeds, York and the East Midlands.



Even before the Budget, the Department for Transport had announced that TfN would gain “unprecedented access to transport investment decision-making across the region”.

How this will work is unclear, though it does not mean TfN will get the range of powers enjoyed by Transport for London.

It will though be put on a statutory footing so its recommendations from its statutory transport strategy for the north must be considered by the government and it will gain powers to fund organisations to deliver projects such as regional smart ticketing, work with local authorities on road schemes and be consulted on northern rail franchises. TfN’s Strategic Transport Plan is to be published in January 2018 setting out the ‘asks’ which will hopefully put it on track to securing new resources and powers to drive the agenda across the North.

HS2, which now appears to be firmly proceeding, will undoubtedly have a major beneficial impact within the cities of the Midlands and the North. However, it will do little to improve connectivity east/west across the North or within city regions.

Journeys between Manchester and Leeds or Sheffield might look short on a map but the Pennines are in the way and road and rail routes across them are either crowded, inefficient or both.

This lack of connectivity is one of the main factors that holds back the northern economy and so could frustrate the government’s plans in its industrial strategy on improving productivity.

Some think that Northern Powerhouse Rail – connecting Leeds to Manchester among other cities across the North – is in fact even more important to the north than is HS2.

The local enterprise partnerships in Yorkshire and Lancashire are meanwhile looking at alternative trans Pennine highway solutions to relieve pressures on the M62.

The prize from such new rail and roads links is potentially large. At present in the north we have a series of cities, but if those were connected up properly we would have something on the scale of London and a very large labour market.

That then could generate the sort of economic growth and land value increases that could be captured for further infrastructure projects in a virtuous circle.

So there are things from which to take encouragement but, as I said earlier, a cohesive plan is needed for transport and one has to question whether, despite new Government funding commitments, it genuinely exists.

Last summer saw major rail electrification plans ditched by ministers including modernisations of the line from Cardiff to Swansea, the Midland Mainline and lines in the Lake District, as well as a downgrading of proposed enhancements to the Manchester to Leeds line.

£300m

IN NORTHERN ENGLAND, TO ENSURE HS2 INFRASTRUCTURE CAN ACCOMMODATE FUTURE SERVICES DEVELOPED BY REGIONAL TRANSPORT BODIES TRANSPORT FOR THE NORTH (TFN)

We have also seen quite sizeable sums invested in maintaining Highways England's strategic road network, but relatively little allocated by the government to local authority roads, which make up 98% of the network by length and on which almost all journeys necessarily start and end.

Much will depend on whether leaders of these new transport bodies are able to use their powers to the full and press for more where they are needed.

It remains to be seen if TfN can grow into a similar body for the north (or indeed Midlands Connect for its region) and whether 'transport for...' bodies will spread elsewhere.

There must be a concern that TfN essentially only has powers to draw up a strategic plan and collaborate with others. How the Government responds to the Strategic Transport Plan and the short term priorities within it early next year will be an indication of its commitment to the devolution agenda and its willingness to address the perceived imbalance in funding between the north and south of the country.

A host of other bodies – local authorities, rail operators, private bus companies, Highway England and Network Rail – all have fingers in the pie that is northern transport, which could bring either specialist bodies in harmonious collaboration around a strategy or be a recipe for stasis and buck-passing.

Indeed, since roads and railway lines do not stop at borders, the devolved administrations also have a role, with the north's existing main rail lines and roads entering Scotland, while north east Wales has expressed interest in having some status in the Northern Powerhouse.

The integrated body Transport Scotland perhaps offers a model for the English regions, dealing as it does with road, rail, air, maritime and transport policy under one roof.

Much will depend on whether leaders of these new transport bodies are able to use their powers to the full and press for more where they are needed.

It was Adam Smith's An Inquiry Into the Nature and Causes of the Wealth of Nations which first argued for public investment in infrastructure to drive economic growth. The Budget at least suggested the government has grasped the link between good infrastructure and better productivity and between infrastructure investment and improved future growth. Whether it can follow its own logic and thoroughly modernise our infrastructure remains to be seen.

CASE STUDY: BRISTOL (JAMES BLUNDELL, PARTNER)



INNER CITY

TRANSPORT

Of the UK's 10 leading cities, Bristol now stands out as one of the few cities without a mass transit system such as an underground or tram network. The long awaited "Metrobus" Phase 1 is due to open in Q2 2018 and will provide part of the solution, however there is still much to be done. In acknowledgement of the growing problem that a lack of public transport creates for the city, the Mayor of Bristol has commissioned a feasibility study to investigate the possibility and costs of delivering an underground tube network.

The increasing desire to reduce cars within the city centre (BCC/The Mayor) and alleviate congestion is a priority for the Mayor, who recognises the importance of these issues for the long-term economic prosperity of the city. Indeed, in a step to counter the number of cars within the city centre, a form of congestion charging is being proposed following the opening of the Metrobus.

Bristol draws on a wide rural hinterland, its catchment is not wholly an urban metropolis, therefore the need for some element of car-based movement is undeniable. The future for Bristol will be focused around reducing congestion and creating a sustainable and reliable network within the city.



RAIL

The arrival experience for rail passengers in Bristol is currently very poor – and has been for at least the last decade. Many of the UK's major regional city's have secured and delivered major redevelopment/modernisation of new major rail terminus (Manchester, Birmingham, Glasgow, Sheffield, Reading as examples). Undoubtedly, these improvement projects have a significant impact on the initial impression that a city has on visitors and can generate positive investor sentiment into a city and region.

The University of Bristol's acquisition of the former Royal Mail sorting office and cattle market (an area which has remained derelict for many years –

to deliver a new £300M campus focussing on digital technologies), is very positive for the Temple Quarter Enterprise Zone (TQEZ) and further strengthens the commercial case for investment into Temple Meads train station.

In terms of the wider picture, two clear priorities stand out. The first is the completion of the electrification project to Temple Meads. The project was originally meant to include electrification of the entire Great Western railway line between London, Bath, Bristol and South Wales. However, due to escalating costs and delays, the upgrades to the lines through Bristol Temple Meads and Bath have been postponed indefinitely – it is important that the project is completed in its entirety.

Secondly, there is a growing requirement for a new and resilient rail route to Devon and Cornwall avoiding the existing coastal routes. In 2014, the rail line at Dawlish was destroyed in storms and remained closed for 2 months, meaning that passengers travelling to the South West were unable to get beyond Exeter. At the time commentators estimated the loss to economy at c. £1bn. This highlights the need for a more robust network between London and the South West.

“

The aim is to have a mass transit system for the city, a mass public transit system that gets people around, connects Bristol, both physically connects people to economic opportunity in the middle of the city and all around, and one of the things we're looking at is the potential of a metro underground.

MARVYN REES, MAYOR OF BRISTOL

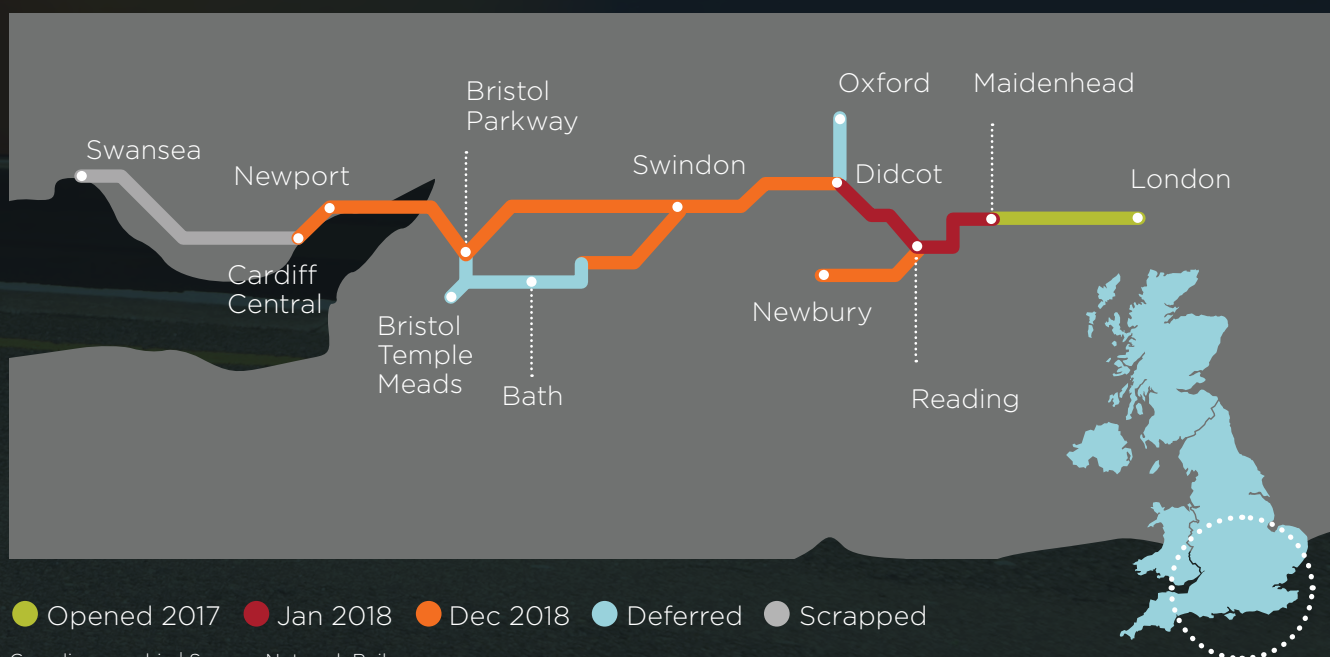


THE BIGGER PICTURE

Major masterplans are being kicked off in Birmingham, Leeds and other major economic centres on the back of the HS2 investment. The South West is not on the high speed rail radar, hence the need, in the meantime, to upgrade existing motorways and rail networks.

In the longer-term far more ambitious infrastructure projects will be needed to ensure the SW economy is protected and remains competitive and robust.

GREAT WESTERN MAINLINE



**JEANETTE EDMISTON**

Partner, Project Management
& Consultancy

**DAVID TONKS**

International Partner,
Head of Birmingham Office

Ask Our Experts

*Our panel of experts answer some of the questions
that they are most asked by clients.*

**Q & A**

If you have a question for our team, please send it through to perspectives@cushwake.com and we will endeavour to answer it within the next edition of Perspectives.



ALEX CHARLESWORTH

Partner, Project Management
& Consultancy

Q

My Accountant tells me there is no point claiming capital allowances because it will increase my Capital Gains liability when I sell the property.

A

This is not true. Claiming capital allowances does not affect the base cost for Capital Gains purposes. The sale of property represents the sale of a single asset, rather than the sale of separate property components consisting of land, building and fixtures. It is not possible to sell property fixtures separately from the building and land to which they are attached. If the property is sold at a profit, in accordance with Taxation of Capital Gains Act (TCGA) 1992., Section 41(1), no adjustment is made to the allowable cost in respect of capital allowances when calculating the chargeable gain that arises when a property is sold.

JEANETTE EDMISTON



Q

What is the biggest influence upon an occupier's decision making when acquiring space in the Birmingham City Centre office market?

A

Before I answer I make no apology for my response reading like an advert for the City of Birmingham. Other options are available.

The greatest influence upon the occupier's decision making in central Birmingham is the image that the space portrays and the message that it sends about their business. Against the backdrop of fast changing trading conditions in many business arenas, occupiers are keenly focused upon their core business and concentrating on what they are good at. The heightened awareness of brand, market positioning, client and employee perception and changes

the completion of large infrastructure projects such as Grand Central, the Metro and the runway extension at Birmingham Airport. We are also seeing the impact of HS2 in the shape of emerging regeneration schemes around Curzon Park and the future place making developments such as Smithfield ensure that the trend has momentum. High quality new residential, retail and restaurants can be found across the whole of the prime central area. The City is now a credible and competitive option in both the UK and European context as evidenced by the broad range of new employers moving into the City.



We are also seeing the impact of HS2 in the shape of emerging regeneration schemes around Curzon Park

in working practices is difficult to translate into a search criteria but such considerations are influencing the occupier's estate strategy and determining which property option best suits the occupier's requirements.

Happily for Birmingham this trend is strengthening at a time when the City is taking a huge leap forward in terms of its perception amongst employers following

Having said all of that, the traditional metrics by which property is assessed will continue to be important. Factors such as budget, location, specification and floor plate configuration all play an important part as do accreditations such as EPC, BREEAM and the more recent entrants to the market such as Wired Score and Wellness. Despite fears to the contrary, the varied supply of available space in Birmingham caters for all tastes, budgets and working environments.

DAVID TONKS

Q

From 1st April can a Landlord grant a new lease on a property with an F or G rating?

A

In England & Wales, 'sub-standard' properties with an F or G rating will no longer be able to be let under the Minimum Energy Efficiency Standards regulations on new leases or lease extensions. There is still time to act and to understand your level of exposure associated with the legislation.

Both as occupiers and investors, we urge our clients to assess their EPC ratings across their portfolio to determine which assets may be at risk both operationally and financially. Where assets are poorly rated, we advise reassessing to determine accuracy and to help understand current level of efficiency. Our Energy, Infrastructure & Sustainability team can provide guidance, analysis of your risk exposure to the regulations and begin to help you plan for compliance.

You may find that you have a requirement to invest in the property to bring up the efficiency level, for example having to upgrade the lighting to achieve an E or above. Our Building Consultancy team can advise on the technical implementation of measures to ensure maximum value and rating improvements.

Please note that these regulations differ in Scotland. We will discuss the situation in Scotland in our next edition.

ALEX CHARLESWORTH



Urban Logistics

SECTOR FOCUS

It's not often a new type of real estate demand emerges, but that is happening with urban logistics as shopping habits continue to move from high street to online.

When people buy things online they now expect to receive them as rapidly as possible – the same day if they can – and that is what retailers compete to offer.

'Urban logistics' is the final stage in the distribution of goods to consumers living in urban areas, sometimes called 'last mile delivery'.

While it is well-established that online retailers will have large warehouses around the country from which orders are dispatched, it's less understood that these goods then have to go to a secondary hub before they can be delivered to the customer's door.

There is a limit to how many large warehouses it is economic for any retailer to have and so they need local hubs to which they can send goods for their final distribution.

It is this demand which is creating potential opportunities to use brownfield or former industrial land – in particular in or within 30 minutes' drive of city centres – to become urban logistics hubs.

The challenge lies in the competition for this land as land values for urban logistics tend to be low, and therefore where planning conditions permit, a residential developer will usually trump a logistics one.

Cushman & Wakefield's recent publication, *Urban Logistics: The Ultimate Real Estate Challenge?*, revealed a huge increase in urban logistics property space is required across key centres across the UK in the next four years to meet the exponential growth of e-commerce and the resultant need for last mile delivery in cities. One of the recommendations was that local authorities should plan for urban logistics as a new factor in local land use.



By **David Binks**,
Partner, Head of UK National
Logistics & Industrial Agency

ESTIMATED

42% growth

REQUIRED FOR ALL UK
MARKETS BETWEEN
2017 AND 2021

URBAN SPACE MODEL'S

ESTIMATES OF
URBAN LOGISTICS
SPACE REQUIRED
(SQ M) FOR UK
MARKETSURBAN SPACE MODEL,
P3 LOGISTIC PARKS AND
CUSHMAN & WAKEFIELD

WAREHOUSE SPACE NEEDED M² PER WORKING DAY

2017

2021

GREATER LONDON

620,634

882,523

LONDON

264,676

376,361

MANCHESTER

42,519

60,460

BIRMINGHAM

29,459

41,889

LEEDS

26,098

37,110

BRISTOL

22,662

32,225

GLASGOW

22,279

31,680

E-commerce is reshaping shopping habits across Europe but urban deliveries are costly and account for up to half of supply chain costs, and demographic trends point to an increasing concentration of last mile deliveries in urban areas.

The Centre for Retail Research has said that online sales across Europe were €232.6bn in 2016 and are projected to almost double to €450.2bn by 2021. That is an awful lot of 'last mile' deliveries and urban logistics depots.

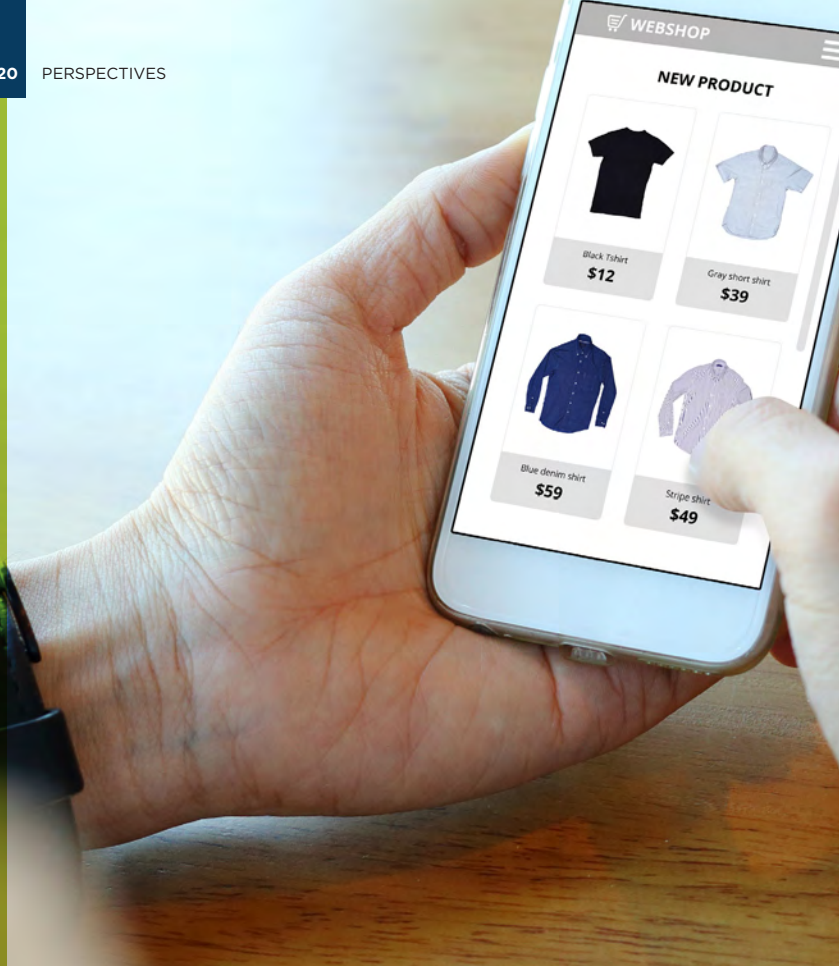
London is Europe's largest and most mature e-commerce market with a total urban logistics space requirement of almost 870,000 sq m. Other UK cities are likely to see demand rise too and there is a marked gap between demand and availability of land in the most central areas of cities, which forces distributors to look to older properties that might be converted to logistics centres.

It is possible to plan for urban logistics, and in contrast to London, Paris has done so with designated brownfield sites within its 'Peripherique' orbital motorway, with one example being at Porte de la Chapelle, just inside the perimeter motorway on former rail land to the city's north.

Demand for urban logistics sites will grow with the exponential growth of online shopping and, barring some as-yet-distant technical fix, will inevitably generate demand for depot sites in or very near urban areas.

It may be that one day drones or driverless vehicles will make such deliveries, but such technological fixes are far in the future and we must cope with the situation as it is, which is essentially that vans, or sometimes motorbikes, must operate from a delivery depot.

Since in most economically successful places these are the same sites for which housebuilders or other economic uses compete, this is not easily going to be solved unless planners show flexibility and imagination.



AMAZON LEADING BY EXAMPLE

Due to the extent of Amazon's product range, different product lines are stored in geographically diverse distribution centres across the country. A customer order of three items, could potentially be coming from distribution centres in Swansea, Daventry and Dunfermline. To avoid three separate deliveries, Amazon use a consolidation centre to combine orders prior to final mile delivery. It makes economic sense.

Whilst Amazon continues to grow its in-house final mile delivery offering, the majority of retailers outsource this process to parcel carriers such as DPD, Yodel and Hermes. These operations need sites to be able to receive goods, delivered by 40' HGVs overnight and then move them to smaller vehicles for onward dispatch to the customer within the working day. The closer these parcel hubs can be to the final delivery address, the more efficient the operation, leading to significant demand around major cities.

The parcel hub bucks the trend for high density development in locations of constrained land supply. Sites need to be able to accommodate parking for a huge number of small delivery vehicles prior to being loaded. Traditional industrial units do not have the parking capacity for this type of operation and therefore either a bespoke unit is required, or the current building stock needs to be adapted. Some online retailers have resorted to using the inside of buildings as van parking, due to a lack of external space.

There is an incentive here for online retailers too. While paying higher rents for urban logistics depots might seem unwelcome, well sited depots could allow them to compete on speed and convenience even though low profit margins make it difficult for them to compete on product price.

Another potential solution to finding urban logistics sites is perhaps the much debated future of our existing shopping centres. No-one knows for certain if the growth of online retailing will lead to a tipping point in which the high streets have little role left except for convenience purchases and personal services.

But concerns that high streets may turn into 'ghost towns' could be allayed if the space were re-used as urban logistics centres. These would not of course be shops as we know them, but would in a sense see a retail use survive in the heart of urban areas.

Whatever the solution, there will always be a need to be some form of distribution hub from which the final mile can begin, and our challenge as an industry is to deliver these.

WHAT COULD THE FUTURE LOOK LIKE?

Could the inner city warehouse of the future be a replacement for an underground car park that is no longer needed as driverless or shared conventional cars become more common?

Could the switch to electric vans help to overcome objections to urban logistics depots as supposed sources of noise and pollution?

Could we perhaps see small urban warehouses that keep a stock of frequently purchased goods based on a particular postal code's buying habits, ready for local distribution?

Could Deliveroo and Uber form part of the final mile solution for the future?



ALTERNATIVES



By **James Hanson**,
Partner, Head
of Healthcare
Transactions,
Gary Yeardley and
Sophia Sham,
Associate, Healthcare,
Valuation & Advisory

Retirement Housing

With research suggesting that by 2035, the number of people aged 75 years and over will rise from 4.9m to 8.9m and those aged 85 years and over are expected to more than double from 1.4m to 3.5m, housing aimed specifically at retired people ought to be a sector growing faster than it is, given we have a society in which people are both living into older age and surviving longer with co-morbidities.



While some will be happy to stay in their own home with homecare services, for others, the attractions of living with anything from a warden on hand to full nursing care will be considerable.

Experience from Australia, New Zealand and the USA suggests that retirement housing has untapped potential in the UK.

Some 20% of those aged 65 and over are expected to downsize in the next five years, equivalent to three million people, a trend that also releases under-occupied homes onto the market.

At present, only 3% of new-build dwellings in the pipeline are designated for elderly people's housing as is only 2% of existing stock, much of which fails to meet the expectations of retiring baby boomers, while traditional care homes struggle with adverse cost and staffing factors.

Unfamiliarity with the product is one factor that inhibits growth, and in some cases local authorities may regard applications for greenfield retirement villages as a Trojan Horse for conventional residential development, but this still looks like a market that will grow, at least at the mid-to-top end.

1

SPECIALIST RETIREMENT HOUSEBUILDERS

There are specialist retirement housebuilders, of which McCarthy & Stone and Churchill are among the most commonly known examples, who build developments for mobile and independent elderly people and provide a warden and typically no care service. Companies in this sector are growing aggressively.

Retirement properties may not keep their value though, as it's quite a niche market. Within the last twelve months, the second hand value of some retirement property has been subject to some bad press. Earlier this year, the Elderly Accommodation Counsel charity suggested that resales in some cases were reported to have lost as much as 50% in value. Some retirement developers offer an aftersales service, where they effectively act as the estate agent marketing the second hand property through their specific mediums, thus increasing the chances of them hitting the right audience when compared to a typical high street agent. This however, is not something that all developers offer, although the question could be asked whether this aftersales service could have a wider benefit to them and the prospective audience of buyers.

It's worth noting that this generally fall within planning use class C3 is the only kind of housing where discrimination is allowed regarding occupants, as while it's in the same use class as normal residential there are conditions limiting occupancy to people over a certain age.

THE RETIREMENT MARKET ESSENTIALLY BREAKS INTO THREE CATEGORIES:

1

SPECIALIST RETIREMENT HOUSEBUILDERS

2

HOUSING WITH CARE

3

TRADITIONAL CARE HOME

3m

OF THOSE AGED 65 AND OVER ARE EXPECTED TO DOWNSIZE IN THE NEXT FIVE YEARS

ONLY

0.5%

OF THE UK POPULATION LIVE IN RETIREMENT COMMUNITIES

“

In some cases local authorities may regard applications for greenfield retirement villages as a Trojan Horse for conventional residential development.

2

HOUSING WITH CARE

Next comes Housing with Care which comprises extra care housing, assisted living and retirement villages, the latter of which are more common in Australia, New Zealand or America than the UK where according to ARCO its estimated between 5 and 5.65% of the population over 65 live in retirement communities as against 0.5% in the UK equating to c 60,000 units.

These are built mainly on a for sales model to a very high quality targeting affluent people who have large homes to sell who want to live in a retirement community with amenities on site.

It's a market that should have grown faster and is attracting political support, but while some planning authorities react positively, others are rather unsure given this is neither conventional residential nor an urban extension. As such these retirement communities would benefit from their own dedicated use class for housing with care clarification that sits within C2 use class.



Housing with Care developments will see anywhere between 60 and 250 units in apartment blocks, plus some bungalows, and function as a one-stop shop where, as people become less independent, they can move from an independent home.

There has also been an issue about the willingness of elderly people to buy off plan rather than wanting to see the home complete, but they are becoming readier to do so driven by the desire to secure the 'best plot' in a market where demand outstrips supply.

Housing with Care developments will see anywhere between 60 and 250 units in apartment blocks, plus some bungalows, and function as a one-stop shop where, as people become less independent, they can move from an independent home to one where there is more care offered and finally to an on-site care or nursing home.

Accommodation is usually sold leasehold and not always with 100% of the lease being bought, which affects the return when an occupier leaves or triggers an "event fee". In some cases leasehold tenure has been criticized, with some leases containing aggressively accelerating rents,

however there hasn't yet been any reports of such aggression for retirement schemes. It is worth bearing in mind that many retirement schemes are apartments, and as such, leasehold tenure tends to be the easiest option.

These types of developments almost entirely cater to those who pay for themselves, as publicly funded fees are seldom sufficient to make investment worthwhile.

This means that most new developments are in southern England, due to its relative affluence. Development is not however exclusive to the south, as there are some very small pockets of northern England capable of meeting the required gross development values. As these northern areas are in the minority, the demand for other uses is equally as desirable and the competition for these sites can be aggressive.

3

CARE HOME

The third type of retirement housing is the traditional care home, where there are some 500,000 care beds. Worryingly, the number of beds is reducing despite rising demand because operators find socially funded fees to be inadequate, when compared with the increasing costs faced, such as; energy bills and employment costs including employer pension obligations and continuous increases in the National Living Wage.

Those at the lower end of the market, which depend on local authority or NHS funding, are experiencing the greatest difficulties. Staff are already in short supply especially registered nurses and operators can find staying in business problematic. These issues could be exacerbated if economic migrants leave the UK after Brexit or find it hard to secure permission to work here.

Care homes are typically more plentiful in affluent areas catering to the middle and upper end of this market so provision is something of a postcode lottery.

MORE THAN

90%

OF RETIREMENT ACCOMMODATION OF ALL KINDS IS RUN BY PRIVATE OPERATORS



More than 90% of retirement accommodation of all kinds is run by private operators but this remains a dispersed industry with the top 25 operator/developers representing only 30% of bed supply.

As to where to build, developers are discerning about sites. Take the example of south-west England, which has long been a popular retirement area because of its picturesque scenery and benign weather.

Sadly, for the weaker socioeconomic areas, a number of care homes have dropped out of the market, many citing underfunding and increasing costs as the root cause. As these beds are lost from the market, they are rarely replaced due to the lack of demand from providers and developers for areas largely reliant upon social funding. There are recent cases of local authorities themselves inviting tenders from providers, with the authority setting out to build and deliver a scheme themselves as an effort to increase beds in the area.

We find in retirement developments, people want to be close to amenities and some developers will only be interested in sites that are near shops and facilities and offer the level access residents will expect.

Some will do partnership deals with retailers to make sure amenities are near their site, but lack of nearby amenities can be a deal breaker for developers.

Older residents who can no longer drive will want to live on bus routes, normally in towns or on their edges.

Retirement villages, with their self-contained campus facilities can be in more remote locations, which may also be less liable to 'nimby' objections if few people live nearby.

The single bedroom sheltered home of the past no longer meets customers' needs, and those with the choice can be expected to demand larger homes with more amenities at hand.



Older residents who can no longer drive will want to live on bus routes, normally in urban areas or on their peripheries.

To conclude, the retirement and semi-independent apartment schemes are growing at pace with the continued growth from the largest builders, now competing for sites with some smaller developers and new entrants to the market. The care home development market continues its bias toward affluence and the private pay market due to inadequate state funding. As weaker care homes fall out of the market, many of which are in less affluent parts of the country, this is a concerning conclusion given the abundant and well documented need for more care provisions in all areas. Despite concern, this conclusion is not one in isolation, with many reports of an impending crisis and no quick fix solution.



Overseas Capital Flows

WHERE ARE THE KEY
REGIONAL TARGETS?

INVESTMENT

It's a common complaint that overseas investors often neglect the UK regional markets in favour of London. Over the last ten years overseas buyers have accounted for over two thirds of transactions by value across central London. Yet the opposite is true across the rest of the UK, where domestic buyers have accounted for close to two thirds of activity.

Whilst the global economy looks set to post a solid performance for 2017 and this year, the UK is struggling comparatively with higher inflation weighing on consumer spending and businesses wary of investing against the backdrop of Brexit related uncertainty and continued austerity. Confidence in commercial real estate investment markets has taken a knock across the UK, although regional markets appear to have been marginally more resilient compared to London. Annualised investment activity outside London was down just over 20% in Q3 2017 compared to the peak in mid-2015 whereas activity across Central London was close to 30% lower.

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Annualised investment activity outside London was down just over 20% in Q3 2017 compared to the peak in mid-2015 whereas activity across Central London was close to 30% lower.

PRIME YIELDS IN THE UK, AND ESPECIALLY THE REGIONS, IN THE RANGE OF

5-6%

APPEAR RELATIVELY ATTRACTIVE AND ALSO FAVOURABLE RELATIVE TO BOND YIELDS



By **Peter Atkinson**, Partner, Investment and **Nigel Almond**, Partner, Head of Data Analytics



Lower liquidity provides opportunity

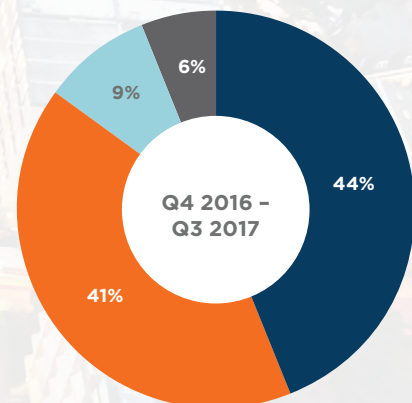
Having been the most liquid market out of 42 countries globally in 2015, the UK slipped out of the top 10 in 2016. But reduced liquidity also provides opportunity. Fewer active investors has provided a better opportunity for some to enter the market and acquire assets due to lower competition. With prime yields in a growing number of cities across Europe and globally at sub-4%, prime yields in the UK, and especially the regions, in the range of 5-6%, appear relatively attractive, and also favourable relative to bond yields.



Autonomy drives growth

Regional cities have also been increasing their profile over the past decade as more power is devolved to city regions as well as Scotland and Wales. Cities have attracted a variety of companies creating clusters for new business. Manchester has attracted media and financial services companies. Bristol now has the largest tech hub and concentration of law firms outside London, with Edinburgh having a strong hold for the banking sector despite wider headwinds in that sector. This has attracted many companies and led to the development of real estate, infrastructure and technology in these cities, which continue to grow and increase their accessibility. Equally the growth of regional airports serving a broader range of overseas destinations means these cities are more accessible to investors than in the past. It is therefore no surprise to see these regional commercial real estate markets attracting overseas capital.

OVERSEAS SOURCE OF CAPITAL INTO UK OUTSIDE LONDON AND SOUTH EAST



■ North America ■ Asia Pacific
■ Europe ■ Rest of the world

Source: Cushman & Wakefield Research, Real Capital Analytics



Diverse sources and targets

As with the overall market overseas investment, into the UK has taken a hit compared to the recent past, but nonetheless remains strong with over £10bn invested outside of London in the past year. Unlike London, where the attraction is often focussed on the modern towers, in the regional markets investment is diverse and ranges from private Chinese capital in sub £10m office deals in the North East to the very recent sale of offices in the South West for near £100m to a South Korean investor.

£3bn

FOCUSED ON
LOGISTICS

In the regions, overseas capital has targeted a broader range of property types in the regional markets. Over the past year industrial and logistics attracted the most capital (£3bn) with various US

funds acquiring a range of logistics portfolios. Retail has also been a focus with £2.4bn, predominantly on larger lots in shopping centre and retail warehouse sectors, with a further £2bn invested in offices. In fact US capital has dominated investment totalling £4bn.

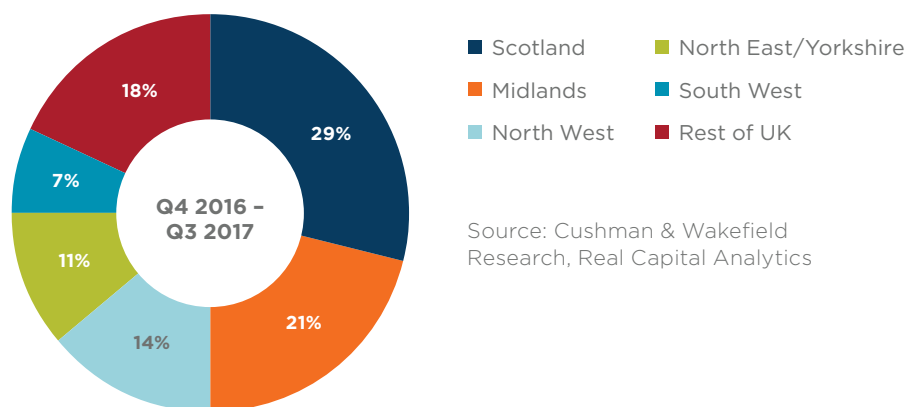
The key regional cities that have been the focus, led by Birmingham, Manchester and Edinburgh capturing near £0.8bn each in the past year alone, with Glasgow not far behind at £0.5bn.

Moving beyond the US, Singapore (£1bn) and Canada (£0.75bn) have been key sources of capital, ahead

of European sources from the Netherlands (£0.7bn) and Germany (£0.3bn), with the latter typically being major investors in the UK regions over the longer term. Whilst Hong Kong capital remains focussed on London, Chinese (£230m) and South Korean investors (£170m) have been active in the UK regions.

Despite the headwinds in the market, demand from overseas buyers still remains healthy, although the recent announcement in the budget to consult on charging capital gains tax on overseas buyers (excluding overseas pension funds) of commercial real estate could cool demand.

DESTINATION OF OVERSEAS CAPITAL OUTSIDE LONDON AND SOUTH EAST



TOP OVERSEAS REGIONAL DEALS

DATE	TYPE	ADDRESS	PRICE (£m)	YIELD	BUYER	NATIONALITY
Q1 2017	Apartment	Aston Student Villages, Birmingham	£227	5%	GIC	Singapore
Q2 2017	Industrial	Sainsburys Hams Hall, Birmingham	£103.94	5.20%	KB Financial Group	South Korea
Q2 2017	Retail	Westwood Park & Gateway, Margate	£79.85	7%	BMO Financial Group	Canada
Q3 2017	Apartment	MediaCityUK BTR, Manchester	£55	-	Atlas Residential	United States
Q2 2017	Hotel	The Lowry Hotel, Manchester	£52.8	5.75%	CDL Hospitality REIT	Singapore
Q4 2017	Office	Saltire Court, Edinburgh	£71	6.50%	Al Rashed	Saudi Arabia

Source: Cushman & Wakefield Research, Real Capital Analytics

Despite the headwinds in the market, demand from overseas buyers still remains healthy.

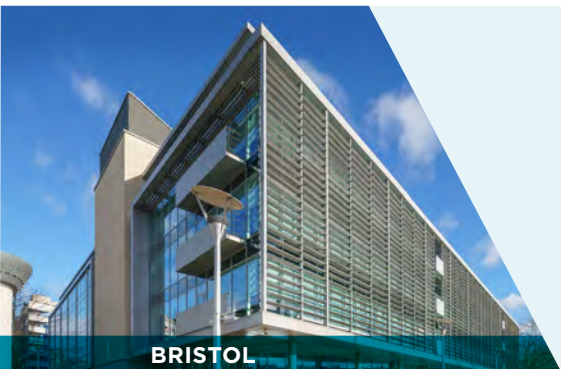
CASE STUDIES

Cushman & Wakefield recently sold Maybrook House, Newcastle Upon Tyne, to the Chinese firm Tuspark for £5.65m. The 39,945 sq ft office-led mixed-use building is the first Chinese purchase of an office building in the city. The investment demonstrates the international appeal Newcastle upon Tyne now has even for smaller lots, and Tuspark's initiative in setting up an innovation centre to strengthen

links between UK and Chinese companies is likely to bring new business opportunities from China. The sale in June 2017 preceded the September 2017 sale of the 30,000 sq ft Tyne River House in Gateshead for £3.715m to MBU Capital. Despite its modest lot size the property received a depth of international interest with investors flying in from Jordan and Turkey to inspect the property.



NEWCASTLE



BRISTOL

Cushman & Wakefield, acting on behalf of Topland Group Holdings Ltd, recently sold the freehold interest in 10 Canons Way, Harbourside in Bristol for £95.5m to a South Korean investor. This transaction demonstrates the attractiveness of the Bristol market, which continues to flourish with significant occupier demand, rental growth and rapidly reducing

supply making the dynamics for investment in the city very compelling. Bristol's growing significance with international investors continues and this represents the third significant transaction with South Korean investors we have been involved with this year.

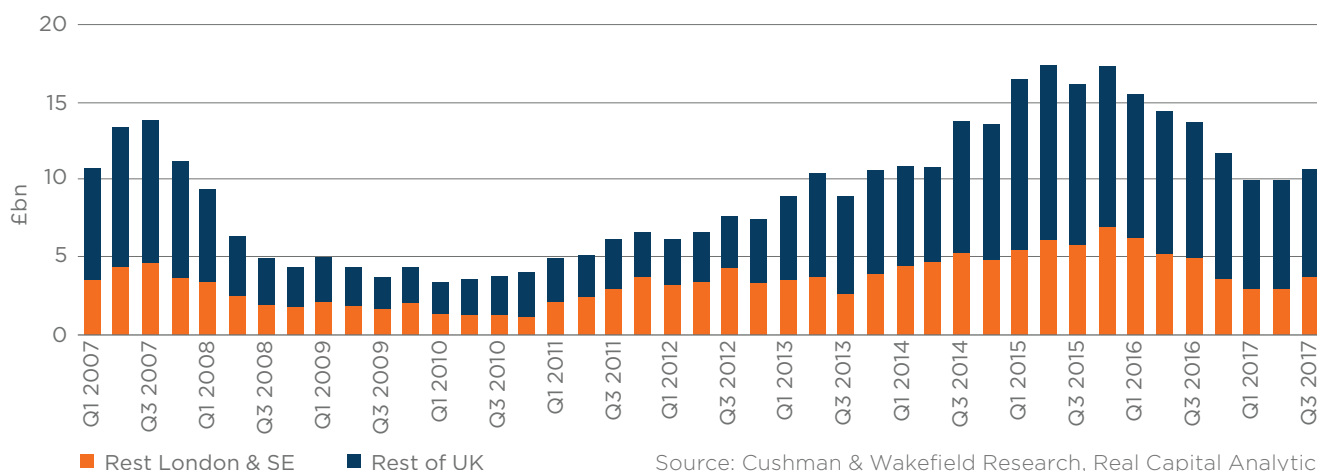
Cushman & Wakefield, on behalf of ADIA and Aberdeen Standard Investments, has successfully disposed of Saltire Court, one of Edinburgh's highest profile office buildings, to Al Rashed, a private Saudi Arabian investor, for £71m. Fronting onto Edinburgh Castle, Saltire Court is a 178,000 sq ft prime office building in Edinburgh

city centre. It is let to a number of high quality tenants including Deloitte, CMS Cameron McKenna Nabarro Olswang, KPMG and Martin Currie. The sale is further evidence of the continued attractiveness of Edinburgh to overseas investors and represents the largest multi-let office transaction in Scotland of the year to date.



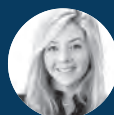
EDINBURGH

OVERSEAS INVESTMENT INTO THE UK EXCLUDING CENTRAL LONDON



Wellbeing in the Workplace

TOPICAL



By **Sophy Moffat**, Associate, Research & Insight and **Despina Katsikakis**, International Partner, Head of Occupier Business Performance

INTRODUCTION

The nature of how we work has been changing at an accelerated rate over recent years. Frontier firms have been quick to recognise the important influence that the workplace has on their ability to execute new working practices. However, this is no longer the domain of a few large companies – the ‘well workplace’ is now a mainstream concern. Consequently the workplace of the future will look radically different for some, as employers respond to a growing requirement for a work-health balance. The wellbeing industry already has a global footprint, but most corporates and property owners are still at the start of a journey to understand and interpret the implications for the built environment.



HAPPINESS COUNTS

Our wellbeing as a society is often measured through gross domestic product. As real GDP grows, so does our aggregate standard of living.

However, there are deep flaws and nuances in this approximation, not least because it does not address social or environmental factors. Consequently, economists and national leaders are increasingly

measuring the level of a country's success using new metrics, including proxies for happiness. A 2009 study on alternatives to GDP, commissioned by then French president Nicolas Sarkozy, provides challenges to our basic understanding of the importance of non-financial factors. This develops longer standing thinking, for instance the United Nations' Human Development Index and the Kingdom of Bhutan's insistence that it is out to maximize not GDP but GNH - "Gross National Happiness." More than a 'fad' this is becoming a more pervasive shift in how we categorise a successful economy - rue the industry that is not moving to address it.

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New data sets and ways of monitoring activity within the workplace expose the impact that the workplace has on staff wellbeing, retention and ultimately bottom line performance.



MISERY MATTERS

Most workers are unhappy. 76% of the global workforce report they are struggling with wellbeing, while research estimates the cost of work-related stress to be as high as US\$650 billion in Europe.

Presenteeism - when workers are present in the office but functioning at sub-optimal levels - costs businesses US\$1,500 billion each year. Corporations are understandably striving to identify links between work environments and business performance. New data sets and ways of monitoring activity within the workplace expose the impact that the workplace has on staff wellbeing, retention and ultimately bottom line performance. The relationship between 'where we are' and 'how we are' is becoming clearer, and as it does, occupiers are increasingly willing to invest in real estate to enhance employee performance.

Most of us currently work in what are essentially 'unwell' offices. Workplaces that are not 'well' impair employee performance and promote heightened absenteeism and loss of earnings. Mounting evidence all points in one direction: wellbeing in the workplace is fast becoming a strategic imperative.

So what is driving this change now? Technology has been identified as a culprit in eroding work-life boundaries. However, technology tends to be a facilitator rather than a driver. It in fact has a positive role to play in empowering employees to change the nature of their work contract. Employees will increasingly choose where they want to work and how they want to work. Technological progress has also created greater transparency and openness. It is allowing us lay bare and quantify the relationship between 'where we are' and 'how we are'. In doing so it allows us to redefine how we work and how we measure the output from our efforts. In turn it should also create new ways for us to determine the value added proposition of excellent real estate.

In the following, we explore the role of the well workplace in driving real estate value.



RETAINING TALENT

Three quarters of CEOs globally see accessing and retaining skilled labour as the biggest threat to their businesses.

Attracting talent is not easy, and losing it is expensive; anywhere from 50-200% of a lost employee's salary is spent on recruiting and on-boarding. Some banks are incurring up to US\$1 billion annually in costs associated with replacing employees. The 'well' workplace can be a valuable attraction and retention tool. A 2013 survey by mental health charity Mind found that 60% of staff were more likely to recommend their organisation as a good place to work if the employer took action to support wellbeing. Meanwhile global analysis shows that companies with satisfied, engaged workers have 25-65% lower employee turnover.



THE CASE FOR INVESTMENT

An abundance of research demonstrates links between employee wellbeing and bottom line financial outcomes.

Human happiness has been found to have large and positive causal effects on performance. Positive emotions appear to motivate, while negative emotions have the opposite effect. A study by PwC found cost-benefit ratios ranging from 2:3 to 1:10 - meaning for every US\$1 spent on promoting employee happiness, an organisation can expect to receive US\$10 in value back. Tim Munden, chief learning officer at Unilever, reinforces this. He estimates that Unilever recoups an estimated €6 for every €1 invested in wellbeing programmes across its European businesses.



WELL WORKPLACE

There are proven links between wellbeing, performance and the office.

In fact, bodies of evidence from all parts of the globe prove that well designed workplaces are critical for wellbeing. The message to the real estate and built environment sector seems clear: re-humanise spaces to improve employee performance.

1

BACKGROUND NOISE
IN OFFICES CAN LEAD
TO PERFORMANCE
DROPS OF 66%.

2

THERE IS A 10%
REDUCTION IN
PERFORMANCE IF
OFFICES ARE TOO
HOT OR TOO COLD.

3

LEVELS OF
CORTISOL, A STRESS
INDICATOR, DECREASE
SIGNIFICANTLY AFTER
20 MINUTES IN A MORE
NATURAL SETTING.

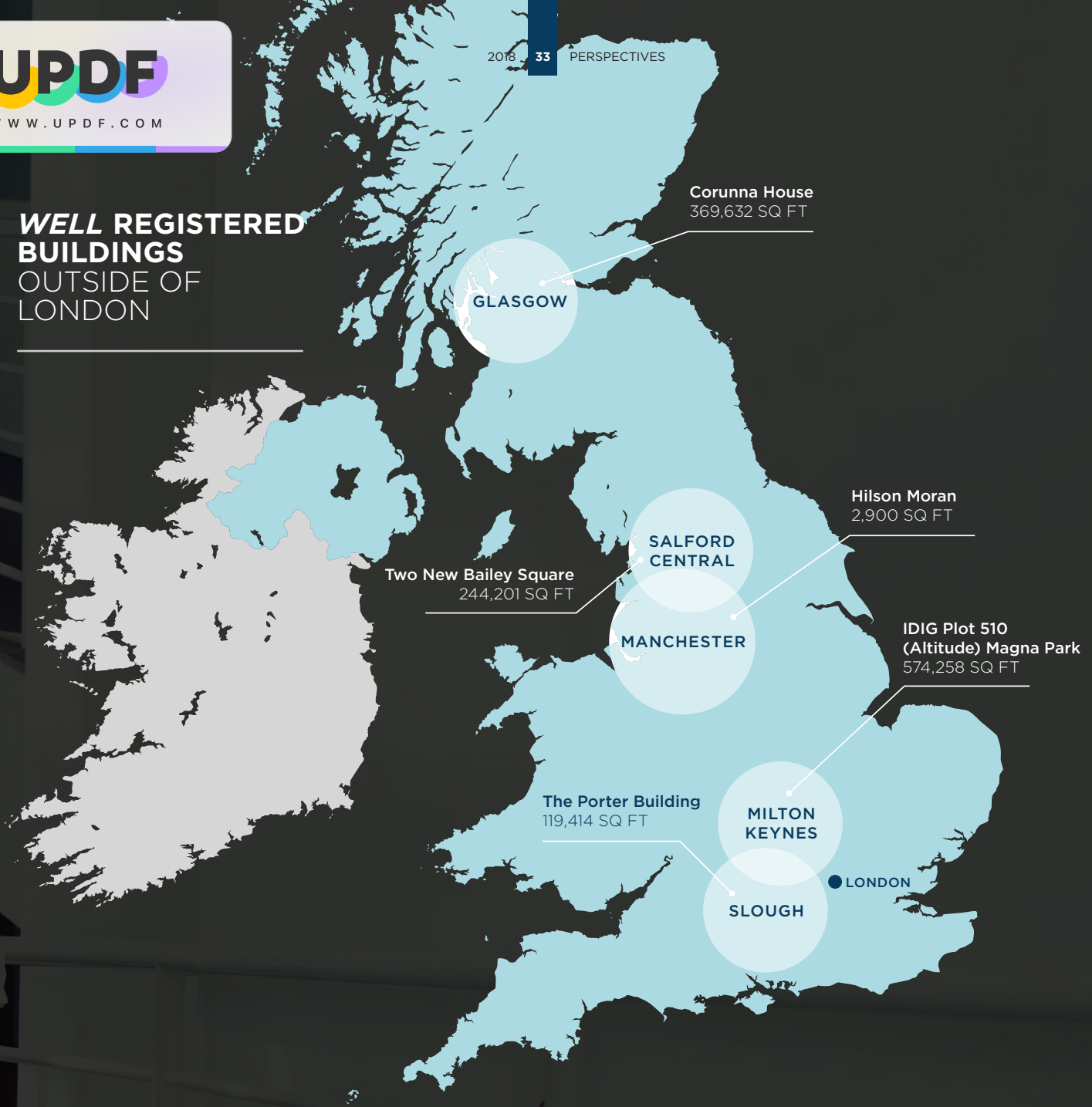
4

SEEING THE COLOUR
GREEN FOR JUST A
FEW SECONDS BOOSTS
CREATIVITY LEVELS.

5

COGNITIVE
FUNCTIONING DOUBLES
WHEN WORKERS ARE
IN WELL-VENTILATED
OFFICES.

WELL REGISTERED BUILDINGS OUTSIDE OF LONDON



WELLBEING

AS STANDARD

A number of international frameworks focus on the direct contribution of buildings to occupant wellbeing, these include:

The International WELL Building Standard™. This is the first certification to focus exclusively on wellbeing. Its compliance requirements fall into seven areas: air, water, nourishment, light, fitness, comfort and mind. Each

category is scored out of 10 and – depending on the total achieved – silver, gold or platinum certification is awarded.

Fitwel. This standard assesses building and workplace features such as the design of outdoor spaces, proximity to public transit, indoor air quality, and healthy food standards. Organisations submit questionnaire answers, with photographic evidence where applicable, to receive a rating of zero, one, two, or three stars

The World GBC's "Better Places for People" Framework. This is a three pillar framework designed to assess and quantify the health, wellbeing and productivity of

people in buildings. Firstly, there is a focus on the environment. Secondly, occupant perceptions of the environment are surveyed. Thirdly, economic factors are taken into consideration; metrics are tracked over time as improvements are made to the workplace.

While new standards and frameworks help to ensure challenging targets, and are driving progress in the field of workplace wellbeing, it is of course entirely possible to design 'well' spaces using thoughtful design concepts without completing a formal documentations system. There are many routes to wellbeing, and rather than a 'one size fits all' solution it should be presented as a universally accomplishable goal.



**THE
FUTURE**

For tenants, there are operationally driven financial incentives to occupy 'well' workplaces.

However, this should not just be an occupier focus. Investors and developers who successfully adapt their offering are shown to benefit from a tangible premium – three separate studies by the Canadian Green Building Council, McGraw Hill Construction, and the Urban Land Institute found buildings that demonstrate positive impacts on wellbeing are likely to have a higher market value.

Wellbeing in the workplace has emerged as a critical issue, because it is simply too fundamental to be ignored. It is no longer just about doing the right thing, but also about taking the commercially sensible option. Over time this argument is set to become more compelling, until well workplaces become the norm, and those that have failed to invest suffer financially.



CASE STUDY

**Skanska UK
(Doncaster)**

Skanska UK saved £28,000 in 2015 in staff costs, and reduced the green payback period of an office move from 11 to 8 years by achieving 3.5 fewer building-related sick days alongside increased employee comfort and satisfaction.

ABOUT THE OFFICE

Bentley Works is Skanska UK's Northern England hub situated in Doncaster. Skanska rebuilt the facility, which included constructing a modern 1,800m² two-story office building, and achieved BREEAM 'Outstanding'. To measure the effectiveness of the new office, employees were surveyed before and after the move to the new building and economic metrics related to sick days were collected.

Reference: From World Green Building Council: Building the Business Case: Health, Wellbeing and Productivity in Green Offices

You can download a full copy of our recent report on the subject of wellbeing and real estate at <http://www.cushmanwakefield.co.uk/en-gb/research-and-insight/2017/well-workplace>





HEALTH AND WELLBEING ACTIONS



A central light well was used to supplement natural daylight, reducing the lighting load and resulting in higher satisfaction with lighting levels



No hazardous substances were used in construction which improved background IAQ and resulted in higher employee perception of IAQ



Computer modelling was used to optimise employee thermal comfort



The office was designed to Deep Green on Skanska's environmental colour palette

EMPLOYEE PERCEPTION SURVEY RESULTS

Skanska surveyed the 110 occupants of the office on their perceptions of the indoor environmental quality before and after the move: 43 responded before the move and 59 responded after. It is clear that the new building improved the perception for most of the factors, except thermal comfort where the element of personal control had been removed in the new facility.

	PRE MOVE	POST MOVE	IMPACT
Overall office rating	58%	78%	+34%
Layout and noise	66%	72%	+9%
Indoor air quality	58%	70%	+21%
Amenities and location	44%	78%	+77%
Daylighting and lighting	55%	75%	+36%
Thermal comfort	60%	55%	-8%



OVERALL
OFFICE
RATING

+34%



AMENITIES
AND
LOCATION

+77%

TRENDING

Flexible workplace trends in the UK regional cities

The traditional office space model is being challenged as occupiers seek greater flexibility and an environment that allows them to rethink their approach to their future office needs. One way the office market is responding to this challenge is via the expansion of the flexible workplace sector.



By **Elaine Rossall**
Head of UK Offices
Research & Insight

How do serviced offices and co-working spaces differ?

Flexible workplace covers an increasingly wide spectrum of offer from traditional serviced office operators to co-working spaces. As the sector has evolved, increasingly hybrid business models are emerging.

CHARACTERISTICS OF SERVICED OFFICES AND CO-WORKING SPACE



Traditional Serviced Office

FULLY FITTED
FURNISHED SPACE,
IN SEGREGATED
OFFICES-TYPICALLY
CONVENTIONAL
OFFICE SPACE

ALLOCATED SPACE

OCCUPIED ON A LICENCE

ONE FIXED CHARGE
FOR THE DURATION
OF THE LICENCE
COVERING ALL
OPERATING
COSTS - USUALLY
ON A COST PER
DESK BASIS



Co-working Space

CLUB MEMBERSHIP

TYPICALLY OPEN
PLAN-SHARED
COMMUNAL SETTING

AD HOC AND SHORT
TERM SPACE

PRICE PER WORKSPACE-
HOURLY/DAILY/MONTHLY

SHARED SPACE-NOT
GENERALLY ALLOCATED

PROVISION OF EVENTS/
MENTORING/BUSINESS
SUPPORT

10-20% SPACE ALLOCATED
TO SOCIAL SPACE

**INCREASINGLY A HYBRID
OF THE TWO**

Where the sector is really changing from earlier generations of serviced offices is the diversification into additional services, which provides for a further revenue stream. Increasingly, flexible workplace providers are seeking to integrate vertically with other businesses and services in order to provide a wider range of benefits to their users. This marks the shift towards 'space as a service', a fundamental structural change in how we use, occupy and operate space. End users are getting something, which makes them want to stay; lifestyle locations akin to member's clubs for business with a carefully curated client base and events calendar to provide an environment for business opportunities to flourish.

Importance of the flexible workplace sector to the UK office market

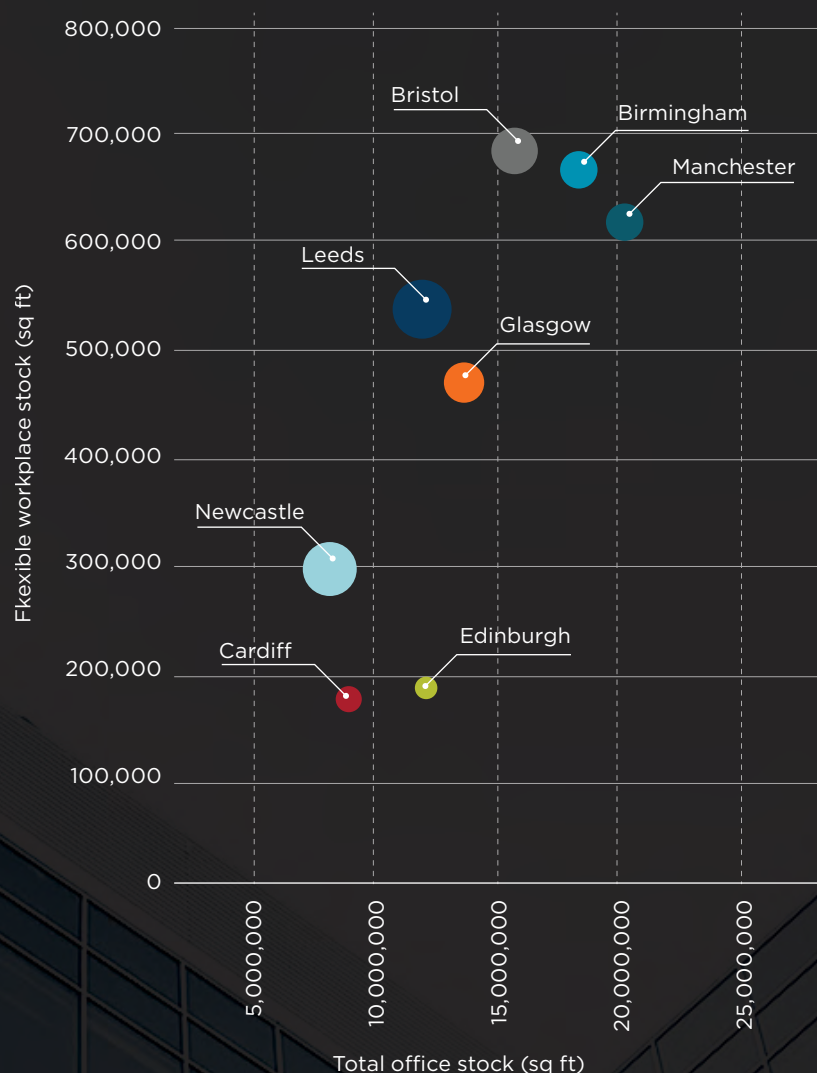
Central London is one of the largest and most mature flexible workplace markets across the world and over the last five years cemented its global position. Much of this growth was on the back of the expansion of WeWork, who were the most prolific taker of space across Central London since 2012. WeWork, who only entered the London market in 2013, leased just over 2m sq ft, while the Office Group took 700,000 sq ft.

Despite the focus on London, around two thirds of the UK flexible workplace market is located outside the capital. C&W estimate that the main regional cities¹ currently house around 3.8m sq ft of flexible workplaces within their respective city centres, and this figure almost doubles when suburban and out of town centres are included. Focusing on these CBDs, the flexible workplace sector accounts for an average of 3.2% of the total stock, which is a similar proportion to Central London (3.9%).

3.8
MILLION SQ FT
OF FLEXIBLE
WORKPLACES

¹ Birmingham/Bristol/Cardiff/Edinburgh/Glasgow/Leeds/Manchester/Newcastle

FIGURE 1: REGIONAL FLEXIBLE WORKPLACE STOCK

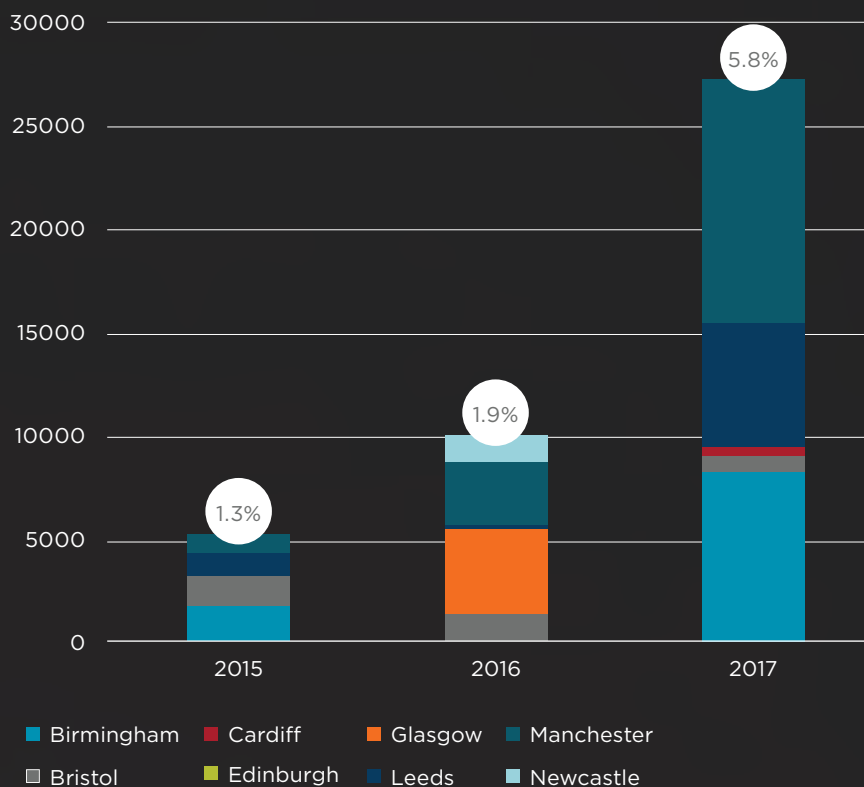


Source: Cushman & Wakefield Research and Insight

Regional flexible workplaces were slower to evolve with a heavier reliance on more traditional business centres than in Central London. This is now changing with new operators setting up centres with a greater focus on co-working and hybrid operations. New operators setting up include, Our Space² who are shortly to open two new co-working operations in Leeds and Manchester, to complement their global operations in Miami, Dubai and Hong Kong, while IWG's co-working brand Spaces has ten branches outside central London including Glasgow and Newcastle.

There are only a handful of truly national operators; Regus remains by far and away the largest operator, while of the other, large London operators, TOG only have two offices outside London and WeWork has just opened its first regional offices in Manchester. It must not be forgotten that a number of operators are active in cities outside London, preferring to concentrate growth outside the capital. Pure Offices³ for example have 20 serviced offices around the UK, while Bruntwood are a major player providing a range of options including co-working and serviced offices across their portfolio.

FIGURE 2: FLEXIBLE WORKPLACE TAKE-UP BY REGIONAL CITIES



Source: Cushman & Wakefield Research and Insight

The growth of flexible workplace is occurring across all cities in the UK, not just central London. The cities of Bristol, Birmingham and Manchester, in particular, have seen expansion in their stock of flexible workplaces, with more than 600,000 sq ft of flexible workplace within each city centre.

Without exception, operators in the regional cities stated that their market had become more competitive over the last 12 months as take-up of flexible workplace increased. Flexible workplace transactions accounted for less than 2% of all city centre lettings in the main regional office CBDs between 2012–2016 but this tripled in 2017 to almost 6.0% of take-up, largely due to WeWork's expansion into Manchester. This however pales into insignificance with Central London, where the sector accounted for 18% of leasing volumes in 2017 Q1–Q3.

² <https://www.ourspace.work/>

³ <http://pureoffices.co.uk/>





What is driving growth?

Flexible workplaces saw growth on the back of the rise in start-ups and freelancers post GFC. The shift to self-employment now seems to be a permanent feature of the UK economy rather than just a necessary reaction to economic crisis. Self-employment has grown by a quarter since 2009 to nearly five million people, and the freelance sector is one of the fastest growing sub-sectors up by more than a third since 2008. This section of self-employment-estimated at 1.91 million people in the UK- is likely to be the primary source of demand for flexible workplace.

FIGURE 3: NUMBER OF START-UPS IN KEY REGIONAL CITIES

City	Start-up ranking (excludes London)	No of new start-ups (2015)
Newcastle	10	1,260
Cardiff	5	1,800
Bristol	2	2,795
Edinburgh	1	3,055
Glasgow	8	3,185
Manchester	13	4,190
Leeds	6	4,315
Birmingham	9	7,310

Source: 2: Start-up Cities Index 2017

New working practise are also fuelling the demand for flexible workplaces up and down the country. Structural changes in how and where we work are changing the demand for traditional office space. Technology has revolutionised the way we work. It has enabled change, especially the exponential growth in the smart phone over the last 10 years, and has been a key factor in the rate of business growth and offers a great opportunity for the self-employed and for people to work on the move. See figure 3.

Flexible workplace operators are attracting increasing numbers of larger corporate occupiers into their space for longer terms. Many larger companies are examining their business models in a bid to encourage creativity by providing a more unstructured and less centrally controlled environment than their traditional business. If this source of demand picks up amongst regionally based companies then we would expect the stock of flexible workplaces to accelerate.

The future of this market in the regions

The flexible workplace is here to stay, as the world of work has fundamentally changed. A new breed of flexible operators constantly challenging the traditional business model is now disrupting the real estate industry. There is no reason to suspect that this trend will bypass the UK regional cities. There may be some operator casualties as the sector adapts to the changing occupier needs but other new operators will step into the breach, creating spaces to attract new businesses. Burgeoning knowledge economies and supportive environments for start-ups should boost future demand for flexible workplaces in the region, while in these uncertain times flexible workplaces will allow companies to flex their real estate portfolio and support future growth.

FIGURE 4: FLEXIBLE WORKPLACE TRANSACTIONS 2017

Address	City	Total SF Leased	Tenant
Quay Street, M3	Manchester	55,088	WeWork
1 St Peter's Square, M2	Manchester	41,505	WeWork
2-8 Colmore Row, B3	Birmingham	18,378	ihub
24 Mount Street, M2	Manchester	14,747	Our Space
Alpha Building, Suffolk Street Queensway, B1	Birmingham	14,200	Alpha Works
156, Great Charles Street, B3	Birmingham	76,254	Regus

Source: Cushman & Wakefield Research & Insight

This is an extract from *Continuing the Evolution of the Flexible Workplace- Opportunity or Threat?* published by C&W Research & Insight January 2018

Where To Be Seen In Edinburgh

Why stay at home? Get out and enjoy the wide variety of events and entertainment that Edinburgh and its surrounding areas have to offer over the next few months.

LOCAL LIFE



Giant Lanterns of China

1 JAN - 25 FEBRUARY

Over 450 dazzling giant lanterns will illuminate Edinburgh Zoo this winter, as the Giant Lanterns of China festival arrives in the city. Exploring three themes: China, RZSS Edinburgh Zoo, and the Royal Zoological Society of Scotland's (RZSS) worldwide animal conservation work, this will be a great family day out full of great performances and a wide variety of food and craft stalls.

edinburghzoo.org.uk/giant-lanterns



Wildlife Photographer of the Year

19 JAN - 29 APRIL

The world-renowned Wildlife Photographer of the Year exhibition will return to the National Museum of Scotland, and will showcase the very best in nature photography. On loan from the Natural History Museum in London, 100 incredible images will be displayed, presenting the beauty and drama of the natural world. The photos chosen are from a competition which received around 50,000 entries from 95 different countries.

nms.ac.uk/national-museum-of-scotland/whats-on/wildlife-photographer-of-the-year



Edinburgh Finance Conference

26 JANUARY

Edinburgh will host the Finance Conference this year, with the theme 'Uncertainty: A Catalyst for Opportunity'. Sponsored by Goldman Sachs, Citi and The Economist and with over 250 delegates attending, this conference will explore the uncertainties in the global economy and financial industry through speeches from different financial industry leaders and multiple workshops.

efconference.org



Edinburgh Mountain Film Festival

3 - 4 FEBRUARY

The Edinburgh Mountain Film Festival is returning for the 14th year, and is expected to attract up to 3,000 people. Taking place at The George Square Lecture Theatre at Edinburgh University, this annual event will have films, talks and a party for all outdoor enthusiasts and practitioners.

emff.co.uk



Six Nations Rugby Scotland 2018

11 & 24 FEBRUARY

This year's Six Nations Rugby Championship is set to be a very exciting event, as Scotland hosts rounds 2 and 3 at BT Murrayfield Stadium. Without doubt the world's greatest rugby tournament, the Six Nations will certainly bring a lot of enthusiasm as Scotland tries their luck to take the trophy away from England in one of the greatest sporting stadiums in the world.

rbs6nations.com



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Message from the Skies

01 - 25 JANUARY

Take a literary journey through the city of Edinburgh as you read a short story written by leading Scottish writer Val McDermid, projected onto buildings and landmarks around the city. Moving from location to location you will be able to discover the next part of the story while exploring the city. Each building or landmark has its own chapter which will be displayed from dusk until 10pm.

edinburghshogmanay.com/whats-on/message-from-the-skies-new-years-resurrection



Data Summit 2018

22-23 MARCH

The inaugural Data Summit will be held at the Assembly rooms on George Street and will bring together innovators and blue-chip companies for a two-day conference. At this International conference, part of DataFest17, you will be able to attend sessions on how to lead successful programmes, receive compelling examples of transformation, learn about future trends and much more.

datafest.global/data-summit

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