

# THE FUTURE OF THE WORKPLACE: SURVIVE TO THRIVE

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## FOCUS ON OFFICES

- Since the Covid-19 pandemic, office culture has changed entirely
- Charities will have varying office needs depending on their operations
- Office occupiers are now faced with challenging questions:
  - A. Should we scrap offices completely?
  - B. Should we revive the 5 day office week?
  - C. Should we adopt a flexible middle ground?

## YOUR OFFICE DECISION MAKING WILL CONSIDER:

Advantages	Disadvantages
• Human interaction	• Cost:
• Internal (and external) networking	- Maintenance
• Motivating	- Insurance
• Dedicated work space to maintain work/life balance	- Utilities when energy prices are rising
	• Presently offices may be underutilised

## OPTIONS: OFFICE OWNERS



### Option 1: Hold and occupy

- Flexible: you can continue to occupy to whatever extent you wish.
  - Avoids selling the charity's crown jewels during turbulent market conditions.
  - Potential to for property management to utilise your office in a way to help you achieve your charitable aims.
- 
- BUT leaves you open to costs: maintenance, utility, rates and insurance.
  - You will miss out on a potential cash sum or income from an office sale or letting.

## CASE STUDY



### **MORE HOUSE STUDENT HOSTEL, SOUTH KESINGTON RELIGIOUS CHARITY**

- Student centre in South Kensington
- Investigated their options – step by step
- Feasibility, condition and costs
- Availability of resources to operate the centre
- Full options appraisal and viability assessment
- Decision made to close and sell
- Freehold sold

## OPTIONS: OFFICE OWNERS



### Option 2: Retain, refurbish and hold as an investment

- Potential to use the property as an investment for the future, gaining rental income stream from letting.
- Costs of maintenance and insurance would be covered by the tenant (lease dependent).
- BUT you will then be acting as a Landlord with associated responsibilities: is this what your charity wants to do?
- You lose occupation and ensuing benefits.

## CASE STUDY



### Former office let as clinic

#### RELIGIOUS CHARITY

- Office within development of different charity owned buildings north of Notting Hill
- Investigated their options – step by step
- Full options appraisal undertaken
- Decision made to attempt to let
- Let to a cosmetic surgery operator to run as a small scale clinic with income of circa £60,000 per annum on FRI lease.

## OFFICE OPTIONS: OFFICE OWNERS

### £ Option 3: Dispose

- Gain a cash sum which could then be reinvested in either:
  - Furthering the charity's activities
  - More suitable property which would help meet the new requirements for flexibility - maybe in a location where your money goes further or in a letting
  - Pass to your charity investment fund
  - This may increase flexibility for your charity as may allow you to operate in different locations.
- Lose occupation and investment
- BUT leaves you open to costs: maintenance, utility, rates and insurance.
- You will miss out on a potential cash sum or income from an office sale or letting



## OFFICE OPTIONS: OFFICE OWNERS



### Option 4: Share

This could be in the form of:

- Traditional letting where your office is split perhaps floor by floor or into certain areas
- Ad hoc We-Work type arrangement with bookable desks
- Part of a merger, or practice for a merger with another charity, if you are considering this.

## OFFICE OPTIONS: OFFICE OWNERS



### Option 4: Share

- Avoids selling the charity's crown jewels during turbulent market conditions.
  - Flexibility of having an office space to occupy as you wish and enjoy office benefits.
  - Split maintenance and utility costs.
  - Potential for networking – perhaps share offices with charities with similar objectives.
  - Gain rental income.
  - Good for your ESG objectives – using less built space and utilities.
- 
- Lose total occupation
  - Increased administration in arrangement and finding co-occupier
  - Miss out on a potential cash sum from sale or larger income from total letting

## CASE STUDY



### Shared office space

#### Brighton Eco Centre

- Several suites of small offices (for up to 7 people) within a building with high sustainability criteria
- Permitted tenants are charities and other not-for-profit enterprises only
- Shared kitchen and outside terrace for networking with other charities
- Flexible leases available
- Similar schemes throughout the country – or, if your office will accommodate, you could create your own

## OFFICE OPTIONS: SEEKING AN OFFICE

- If you are seeking an office, the same advantages and disadvantages apply to the following options:
  - A. Buy an office
  - B. Lease office space
  - C. Share office space
- You should consider your options including your sustainability strategy, identify the level of office space and flexibility required, strategise, budget, and seek advice.

# UPDATE ON CHARITIES ACT AND OFFICE MARKET OVERVIEW

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## THE CHARITIES ACT

- Old rules..:
- Part 7, Sections 117-121 The Charities Act 2011 – charity disposals
  - Obtain advice from a Qualified Surveyor acting exclusively for the charity
  - Requirement to advertise
  - Receive best terms reasonably obtainable for the interest being offered
  - Can only use an RICS Qualified Surveyor

## CHARITIES ACT 2011 (AS AMENDED)

- New rules..:
- Simplify the process of selling property
- Widen the range of potential advisors
- Reduce burden and cost

# CHARITIES ACT 2011 (AS AMENDED)

1. Get and consider a report from a designated advisor:
  - RICS Qualified Surveyor
  - NAEA – estate agents
  - Fellows of Central Association of Agricultural Valuers
  - Appropriately qualified trustees, officers and employees



## CHARITY COMMISSION GUIDANCE CONTINUED

2. Be satisfied that the proposed terms are the best you can reasonably obtain for your charity.
  - You must:
    - Consider the report and its recommendations , including how to advertise
    - Be satisfied that the proposed terms are the best that you can reasonably obtain for the charity and
    - Include certain statements and certificates in the disposal documents

<https://www.gov.uk/government/publications/sales-leases-transfers-or-mortgages-what-trustees-need-to-know-about-disposing-of-charity-land-cc28/sales-leases-transfers-or-mortgages-what-trustees-need-to-know-about-disposing-of-charity-land>

## CHARITIES (DESIGNATED ADVISORS AND REPORTS) REGULATIONS 2023

- Revokes the former 1992 Qualified Surveyor's Report Regulations
- A report containing
  - a) Value of the land
  - b) Steps to enhance value
  - c) If and how it should be marketed
  - d) Anything else that could be done to ensure terms are best that can be reasonably obtained
  - e) any other matters which the adviser believes should be drawn to the attention of the charity trustees.

## OFFICE MARKET OVERVIEW

- Trends:
  - Flight to quality
  - Falling values – secondary stock
  - Shift to hybrid working
  - High build costs and cost of debt

## LONDON OFFICE MARKET SUMMARY



Occupier take-up was down 19% to 2.4m sq ft in Q1, the lowest since Q2 2021 and 15% below the 5-year quarterly average.



Headline Grade A rents were unchanged in Q1. Market conditions are generally unsupportive of positive rental growth this year given below average occupier demand and elevated development pipeline. However upward pressure is expected in submarkets where Grade A is especially thin.



Availability increased to 8.6% in Q1, up 0.4%-pts on the previous quarter. This increase was due to the addition of development completions delayed from last year and the addition of tenant-controlled space, some of which was originally let relatively recently.



An estimated 1.3 million sq ft of new space completed in Q1 across six schemes. There is a further 7.4 million sq ft expected to complete in 2023, around 4m sq ft of which is unlet and poses a potential short-term supply risk.



A review of London office energy performance certificate ratings highlights the scale of the challenge facing landlords to align to MEES deadlines. There are a large number of offices at risk of being stranded without significant capital expenditure to bring them up to scratch.



London office investment in Q1 was just under £1.7bn. This reflects a more than two-fold increase on the previous quarter, however, Q1 volumes were still 40% below the 5-year quarterly average. Joint venture acquisitions were commonplace this quarter as investors looked to spread risk and return.

2.4m sq ft ▼

Take-up, Q1 2023

8.6% ▲

Availability rate, Q1 2023

£1.7bn ▲

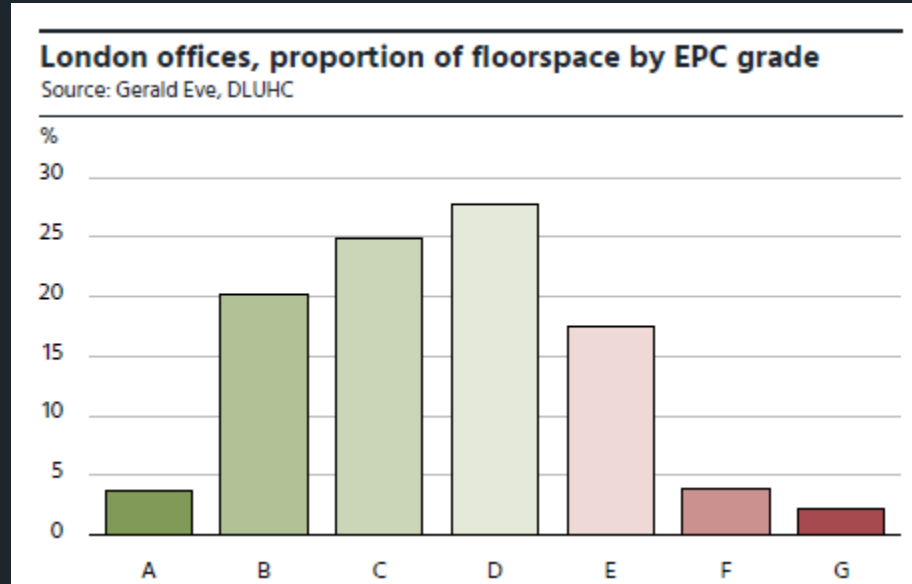
Investment volume, Q1 2023

45%

Non-compliant office stock,  
2027 MEES deadline



## LONDON – ENERGY PERFORMANCE



## SOUTH EAST OFFICE MARKET

- 18 of the key 25 office markets recorded rental growth of 5.9%
- 10% additional rental growth expected to 2025
- Secondary offices – substantial price corrections
- Key trend – occupier flight to quality/Grade A offices
- H1 2023 set for £1bn office investment (half the long term trend)
- Absence of major deals – limited opportunities in the market
- Prime office yields 5.75% - secondary 9.75%

## CONCLUSION

- Consider your options for existing or proposed property carefully
- EPCs and regulatory changes – be aware
- There are opportunities to take advantage of difficult markets
- Familiarise yourselves with your duties under the Charities Act