Taking stock: secondary opportunities and the agile future

An academic research survey conducted by Northumbria University
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Research USP

Our rationale

• We try and shine a light on these parts of the property market that no one talks about: the biggest parts

• We ask the following question:
  - Why, when we build buildings to last forever, are they regularly obsolete in a matter of years?

• We argue that:
  - Office development and market conventions need to embed the concept of agility in order to benefit from the new economy
The Research

Our data base contains:

<table>
<thead>
<tr>
<th>Space Type</th>
<th>(Millions)</th>
<th>(Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Space</td>
<td>92 m sq m</td>
<td>1 bn sq ft</td>
</tr>
<tr>
<td>Industrial space</td>
<td>323 m sq m</td>
<td>3 bn sq ft</td>
</tr>
<tr>
<td>Retail space</td>
<td>181 m sq m</td>
<td>1 bn sq ft</td>
</tr>
</tbody>
</table>

• Our sample, based on 27 locations (15 m sq m/163 m sq ft), represents approximately 16% of total office stock in the UK

• Therefore, the findings only represent the tip of the iceberg in relation to commercial office vacancy in the UK
Within our 27 towns and cities surveyed...

- Over 29m sq ft of offices are empty
- This equates to a vacancy rate of 18%
- Approximately 26m sq ft of this space is secondary
- This equates to 90% of all vacant stock
- The real vacancy rate could be nearer 50% due to:
  - hidden vacancy
  - empty property rate avoidance
  - grey space
The Value of Secondary Office Vacancy

- Landlords are missing out on ~£325m in rent per year
- Landlords are paying ~£158m in holding costs per year
- A compound loss of ~£480m per year
- This would represent a ~£4.8bn loss over the next decade

* Within the 27 towns and cities covered in this research
Secondary Opportunities

- Tenants want less space, more from it and on their own terms.

- 34% of secondary office vacancy was constructed during the post war period and 37% during the 1960’s and 1970’s.

- Both eras of construction and their associated locations offer opportunities for the new economy.

- They often share:
  - prominent locations
  - buoyant underlying rental levels
  - transferable identity based on rich cultural history
  - good accessibility in terms of public transport and road network
  - walkability to nearby amenities
Key Challenges

• The world of work has changed forever: How can existing office stock respond to this situation?

• How can traditional market conventions, such as methods of valuation, be revised to account for new market conditions?

• How can we make sure that our towns and cities have an appropriate mixture of use and supportive infrastructure?

• What is the solution to this situation: How can office designers, developers, financers, landlords and government remove inertia and capitalise on the agile future?