

OFFICES, THE COMMERCIAL SECTOR AND “NORTH-SHORING”

Date: 20th January 2020
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INTRODUCTION

North-shoring – the term used to describe shifting operations from the South to the North in what was originally a bid to save money – is a growing trend among London firms. Historically, the business case for moving work from London to the north was centred on cost-cutting. High levels of competition in the south for resources (including property) and labour has translated into higher operating costs for businesses, providing a strong incentive to move certain functions ‘up north’.

In the City of London average rents in Q2 2019 were £69.5 per sq ft for prime commercial office space . Rents were even higher in the West End where the average rent was £112.5 per sq ft . However, in Manchester and Leeds prime rents in the city centres were £36 per sq ft and £30 per sq ft respectively during the first half of 2019. For firms looking to maximise cost-savings, major northern cities are highly attractive destinations.

However, there are clear incentives beyond cost. From an employee’s perspective, relocating operations to the cities of the Northern Powerhouse can mean better commutes, more affordable housing and improved prospects of home ownership, as well as access to a vibrant and attractive lifestyle. The trend has also helped companies adopt a more efficient business model and enabled many to maximise their UK footprint cost effectively.

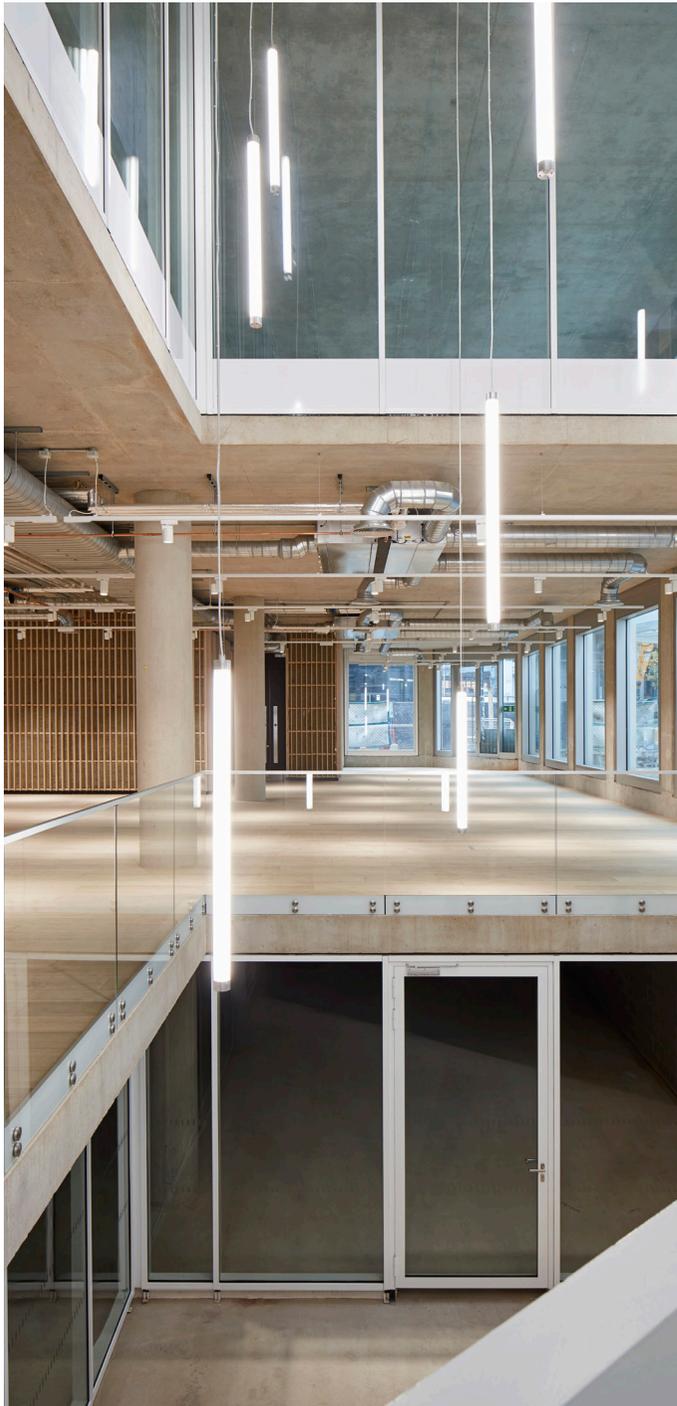
Business expansion and spiralling costs in London have prompted many firms to adopt a ‘hub-and-spoke’ business model, whereby a hub is retained in London but northern spoke offices are established not only capitalise on lower rents and labour costs, but also to benefit from access to a highly educated workforce,

a wide talent pool and better access to new markets across the North. In the past, international businesses in particular have been cautious about north-shoring due to concerns over whether there would be sufficient talent available. Regardless of how cost-effective it has been, this caution meant that north-shoring has been more of a trickle than a torrent. But concerns over access to talent have been alleviated in recent years. For example, graduate retention in Manchester is now second only to London at 51.5%, and with four universities accommodating a student population of approximately 100,000, labour supply is no longer seen as a major deterrent .

In Leeds and Manchester, Gardiner & Theobald has seen an increase in the number of businesses relocating, driving the office market forwards. Recent data shows that office take-up in the Northern Powerhouse is increasing year-on-year.



1. <https://www.statista.com/statistics/873480/london-office-cost-of-rent/>
2. <https://www.statista.com/statistics/873480/london-office-cost-of-rent/>
3. https://www.savills.co.uk/research_articles/229130/289726-0/market-in-minutes--manchester-offices---summer-2019
4. https://www.savills.co.uk/research_articles/229130/276937-0/market-in-minutes--leeds-offices---february-2019
5. <https://www.egi.co.uk/news/what-northshoring-has-done-for-manchester/>
6. Knight Frank’s ‘Regional Cities Office Market Review 2018’



This regeneration has already encouraged businesses such as the BBC, Channel 4, Amazon and HMRC to either relocate or add a 'northern offering' to their operations. In the case of Channel 4, their new national HQ will be based in Leeds whilst retaining a presence in London. A tongue in cheek banner adorning what will be Channel 4's new national HQ depicted a genuine viewer complaint: "Didn't think Channel 4 knew there was life outside the M25". Helping to dispel the notion that the media industry can be too London-centric, Channel 4 will take part of the Majestic Building in the heart of Leeds, within class-leading Grade A office space. G&T has been acting as Employer's Agent and Cost Manager on behalf of the client City Square Developments and has also provided Principal Designer & CDM Consultancy services and supported the developer in the procurement of the contractor Sir Robert McAlpine. The building is currently being redeveloped and is due to open in 2020.

In Manchester, 80% of companies listed on the FTSE 100 have offices in the region with more expected to come. In addition, the Government is incentivising the growth of new companies, particular SMEs, in the northern regions. Small firms have been promised £100m worth of business loans to generate new enterprises. As a result, the demand for office space in the north is growing.

Gardiner & Theobald is providing Cost Management, Project Management and Employer's Agent services on over 3m sq ft of commercial office space in the North of England (examples of which can be found in the case studies we reference). Due to the inability of commercial office supply to keep up with demand, rents are on the rise and companies have been forced to maximise their existing floor space. It is now increasingly common in the north for offices to feature flexible working environments with 'hot-desking' and 'co-working' spaces.

"As the number of relocations to and level of investment in office space in the North continues to grow, G&T has helped an increasing number of clients manage their workplace transformation plans in a way that maximises value. We are currently helping clients deliver new office space which will house occupants such as Channel 4, HMRC, Leeds Building Society, Booking.com and Gazprom, whilst also delivering many other high-quality CAT A buildings such as Wellington Place in Leeds, and Spinningfields and Noma in Manchester."

Matthew Mills, G&T Partner

In recent years we have also seen a greater focus on the wellbeing of office workers. The basic provisions for Building Research Establishment Environmental Assessment Method (BREEAM) are being enhanced to include the provision of on-site facilities and amenities, which will allow occupiers to attract and retain the best workers. The All Work & Social operated XYZ Building in Manchester's business district of Spinningfields is a good example of how this is being addressed. The provision of a gym, dedicated cyclist ramp, café and co-working space, along with a roof terrace shows how developers are increasingly sacrificing lettable space to ensure they attract high profile tenants. The re-emergence of public realm as part of commercial developments demonstrates how Local Authorities are addressing the shortfall and working with the private sector in order to increase public space. Good examples of this can be seen at Sadler's Yard in Manchester (within the NOMA development), as well as Sovereign Square and Wellington Place in Leeds.

The increasing popularity of the North has meant that commercial office space has grown significantly in northern cities. Take-up of commercial office space in Manchester for example reached a five-year high in the first half of 2019. Figures released by Colliers International show that 806,024 sq ft of office space was taken up in Manchester's commercial property sector in the first half of 2019. This represents a 54% increase on the long-term average.⁸

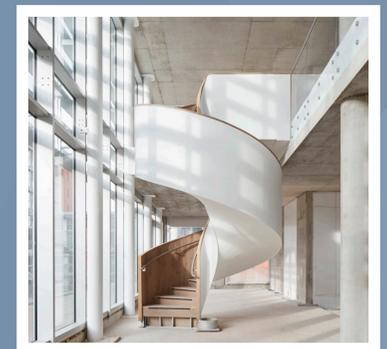
According to Deloitte's 2019 Manchester Crane Survey⁹ there are 14,480 residential units (across 48 developments) under construction. And although residential delivery in the next three years is expected to exceed the combined delivery from the previous 10 years, current residential housing supply in the city lags behind commercial supply. Consequently, it is estimated that by 2022, residential delivery will only meet 25% of annual demand.¹⁰

Leeds is also reaping the benefits of this renewed focus on the North but supply of office space (Grade A in particular) has not been able to keep up with

demand. Office take-up in the first half of 2019 was 436,312 sq ft - 41% above the same period in 2018 and 62% above the long-term half-year average¹¹. However, supply has fallen every year since 2015 and total supply now stands at around 700,000 sq ft – the lowest on record¹². Leeds has a growing reputation as a digital hub and has the potential to draw large-scale relocations. In the year to August 2019, tech jobs in Leeds increased by 46%¹³ so it's unsurprising that co-working space is experiencing strong demand. Such spaces are well-suited to the collaborative and innovative culture of new tech businesses so it's likely co-working space in the city will continue to grow in the coming years.

Although the market is moving to address the imbalance between supply and demand of commercial office space, a significant gap remains. The current imbalance is causing commercial rents to rise and rent-free periods to fall. If commercial office supply can catch up with demand in the major northern cities, the residential market is also likely to benefit as a result of stronger demand for build-to-rent developments.

High central London rents have helped make the North an attractive option for businesses. As the benefits continue to stack-up for both companies and employees, the commercial and residential sectors in the Northern Powerhouse cities will reap the rewards.



8. <https://www.selectproperty.com/2019/09/investment-manchester-commercial-property-continues-rise/>
9. <https://www2.deloitte.com/uk/en/pages/real-estate/articles/manchester-crane-survey.html>
10. <https://www.selectproperty.com/2019/09/investment-manchester-commercial-property-continues-rise/>
11. https://www.savills.co.uk/research_articles/229130/287329-0
12. https://www.savills.co.uk/research_articles/229130/287329-0
13. <https://leeds-list.com/discussion/how-the-digital-sector-in-leeds-has-changed-over-the-past-10-years/>

CASE STUDIES

MEPC is bringing over 1.5m sq ft of premium office space, retail, leisure and residential accommodation to Leeds City Centre.

MEPC has worked closely with Leeds City Council to include large areas of public realm to provide excellent outdoor facilities for the building occupants and wider public.

Deemed the new urban quarter of Leeds, Wellington Place has already attracted esteemed tenants, including Sky, HMRC, Allianz, Ministry of Justice and Squire Patton Boggs. The Government is also north-shoring around 6,000 HMRC staff to [7&8 Wellington Place](#), taking approximately 378,000 sq ft upon completion in what is believed to be the biggest ever office pre-let on record in Leeds.

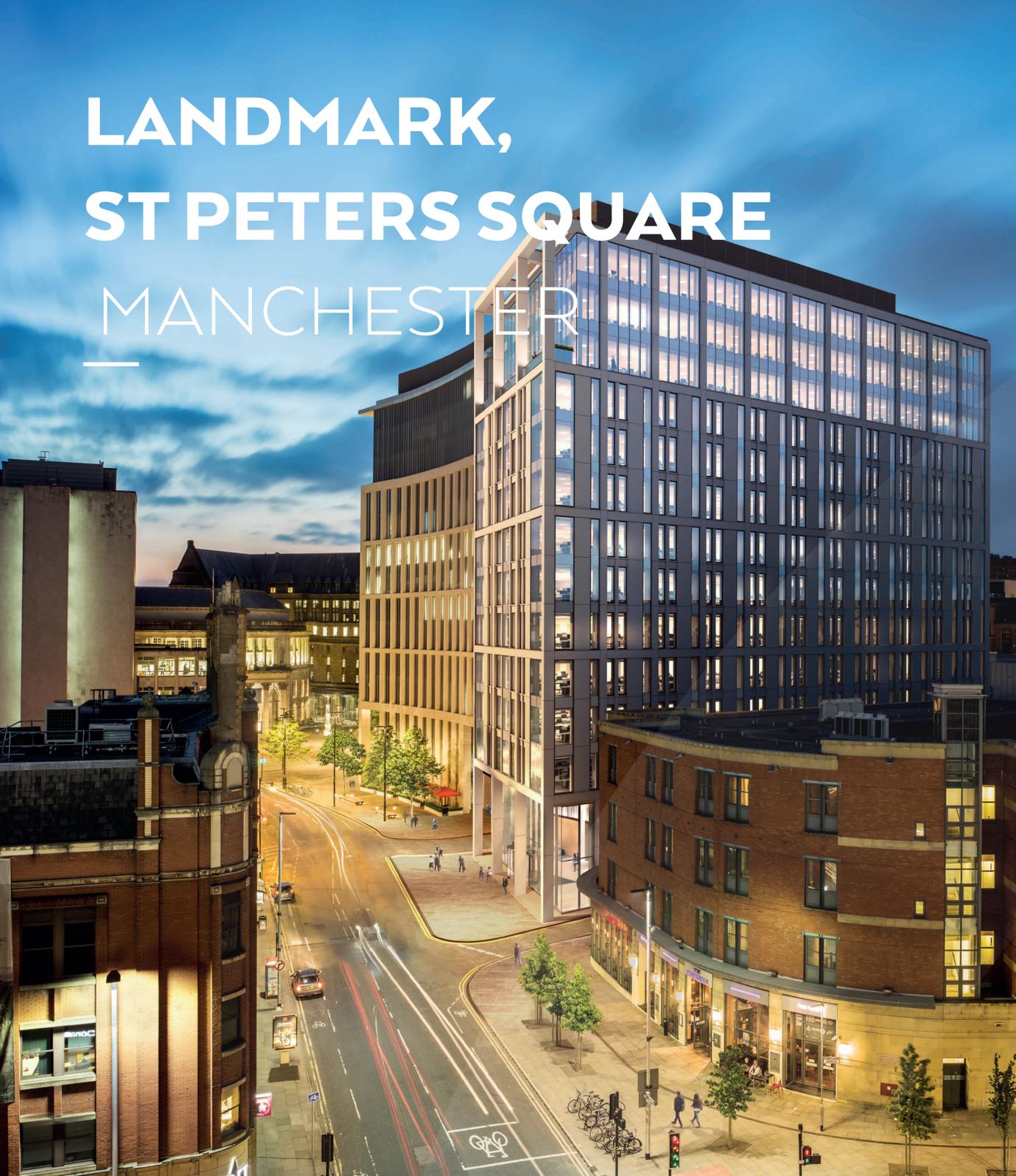
G&T has been advising on the scheme since 2008, providing Employer's Agent and Cost Management services on Buildings 3,4 and 7/8. G&T also provided the same roles for the fit-out of Building 5 for the Ministry of Justice, who moved into their new office in the summer of 2018.



WELLINGTON PLACE LEEDS



LANDMARK, ST PETERS SQUARE MANCHESTER



CASE STUDIES

Manchester City Council has significantly invested in the transformation of St Peter's Square – a once-neglected space within the Civic Quarter of the city. The investment has helped pave the way for over 500,000 sq ft of new Grade A office space within a well-connected, public open space.

The success of the improvements to the public realm and quality of the new offices has helped attract tenants such as KPMG, Ernst & Young, DWP and DLA Piper.

Further development is nearing completion with [Barings' Landmark offices](#), due for completion in early 2020. The scheme, which is part of the City Council's Masterplan, will provide 180,000 sq ft of prime office space over 14 floors and is set to achieve BREEAM 'Excellent' and EPC 'A' ratings.

G&T has provided a range of services to the project, including Cost Management, Project Management and Consultancy services. G&T has also acted as Employer's Agent and Principal Designer & CDM.

Business expansion and north-shoring have fuelled demand for offices such as the Landmark in major Northern cities leading to a supply/demand imbalance. However, expected completions for 2019 and 2020 should help ease some of the supply pressure experienced by the market in recent years.



CASE STUDIES

This development, led by Ask and Patrizia, is a great example of brownfield regeneration. The 20-acre former gas works site is now a successful mixed-use development approximately 10 years after development began.

The 2018 Framework Update masterplan envisages around 2.47m sq ft of commercial office floorspace within First Street Central. 350,000 sq ft of office space has already been delivered at No.1 and No.8 First Street and is now occupied, with plans to develop the remaining plots well underway. Linking all this together is a high specification public realm and open space.

G&T provided Cost Management services on 8 [First Street](#) – a Grade A, BREEAM Excellent office space development providing 170,000 sq ft of modern open plan work space over six floors.



FIRST STREET MANCHESTER

