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Being an Owner
Occupier – A Golden
Egg or an Albatross?

MCM ROUNDTABLE DISCUSSION.
Q4 2019.





In October 2019, MCM hosted a roundtable discussion with a leading group of property experts:

Sarah Lodge, Programme Director – easyJet.

Ian Jones, Director of Facilities – ITV.

Richard Proctor, Head of London Tenant Representation – Knight Frank.

Chris Betts, Real Estate Consultant – Peabody.

Paul Gray, Chief Operating Officer – National Gallery.

Seth Cooper, Director – Opera.

Jon Race, Managing Director – MCM

Ken Giannini, Director – MCM

We talked about the highs and lows of owning your own corporate real estate, and tried to answer the question put to the group at the beginning:

Is owning your own corporate
real estate A Golden Egg or
An Albatross??

The pros and cons of being an owner-occupier.

Decision making and ease.

We set posed a theory, that owner-occupiers struggle to get board approval for major capital expenditure. Whereas with leasing, there are natural lease breaks that make this discussion easier as the C Suite expect to budget for change at lease break time. Is this still the right location for us? Do we need more or less space? Is it time to refresh our image? Do we adopt new workplace strategies?

The general consensus, however, was that actually it is more flexible and easier to get the go ahead from the board for projects as owner occupiers because you control all of the approval process. No need for landlord approvals and negotiations and often no lawyers and maybe even no agents to slow things down.

This also stirred up conversations around the ease of making structural, or even simple design changes.



As an owner-occupier, if the will and budget are there, things can move quickly. With a landlord in control, there may be less flexibility. Even with the thumbs up, a refurb can take forever. There was a general feeling of dissatisfaction with landlords even though the property world talks about “space as a service” the service is still not up to the same speed and quality of care as that provided by owner occupiers.

It was pointed out early in the discussion that actually there are very few large-scale owner occupiers (several were around the table) as the availability for large sites and the desire to fund and develop and to own was unusual. In fact, most of the businesses that own their buildings in London are only in 5,000 to 15,000 sq ft. it was pointed out.

Some exceptions were for organisations with unique facility needs such as studios or labs.

The building as an asset.

The conversation moved to discuss other benefits of ownership. One of the main arguments for, was that property is an appreciating asset generally and good for the balance sheet. Also, refurbishment is an investment. With leaseholding, it can feel like upgrading for the landlord's benefit.

Even so, it was agreed that property investment isn't straightforward.

“People talk about buying up properties to put them on their balance sheet, and the money they spend on it adding to their asset. But that hasn't materialised. We haven't seen a surge of companies buying property.”





Leasing is here to stay.

It was not all doom and gloom for a leasing model, however.

One of the group talked about office ownership and an emphasis on revenue generation as an excuse for inaction. “The business takes priority, so the offices are forgotten.” Inward real estate investment may not always have the top priority.

Large companies may own one or two flagship buildings, but most will also have leased property that can flex with their business. As one of the group put it, “Organisations that have thousands of people, sometimes need to contract at the drop of a hat. If they own all of their property, this just wouldn’t work.”

Equally, what happens when a company that owns a large asset suddenly expands? There’s the danger that they become disconnected. Being spread across multiple sites. Something we’ve seen happen to many large organisations.

“There’s a danger of anchoring yourself to a location that’s wrong for you as your business evolves or the location evolves.” The examples of Kings Cross and Shoreditch evolving as creative hubs and tech hubs for London were noted. If you want to be there, leasing is just about the only opportunity.

The rise of the flexi-working space.

Picking up on earlier conversations about convenience and speed and dissatisfaction with traditional landlords and leases, the conversation turned to the co working growth phenomenon.

The next best option to owning is to have a part of your portfolio of space as Flexi-space or co-working. It appears to be much more than a passing trend. Yes, you have to pay a premium, but the positives can outweigh this one obvious negative.

Co-working means total flexibility. Organisations can come in and walk straight out whenever they want. And they don't have to deal with dilapidations.

“Landlords taking months over legals and fit-out approvals taking forever; all that's doing is playing into the hands of the co-working, serviced office market. What we're telling landlords, project managers and even the lawyers, is that if you don't shape up, no one under 20,000 sq ft is going to do a conventional deal again.”

Even the big players are getting in on the act. As one of the group said, “If you have a few thousand staff in a building with a 10-year lease and need to flex 1% up or down every year, the fit-out costs alone are horrendous.”

What we're seeing more of, is what's referred to as 'core and flex'. If a business knows they need 50,000 sq ft, but sometimes need to stretch to 80,000; they'll take 50,000 on a 10-15 year lease and the rest on a flexible basis.

Large organisations are taking on leases in buildings but insisting that the landlord lets some floors to a flexible office space provider. This gives them the ability to expand or contract and access amenity space instantly.

MCM did some research on flexible spaces recently. The statistics are impressive.

In London alone, there are around 1,100 sites and 412 operators offering co-working or flexible office space. This equates to over 13 million sq ft. 5% of the entire leased space in London. And all of the operators say that there's room for growth.



“ Flexible working has disrupted the market, which is a good thing from an occupier’s perspective. And I think it’s here to stay.

In summary.

So, what was the consensus? **Owning is a Golden Egg and not an Albatross, if your organization is fortunate to own.**

But, as this option is less likely with most corporates, then the advent of flexi leases is here to stay and will provide some of the advantages of convenience, quality services, and flexibility that owners enjoy.

If you want to know more about the topics discussed here, please get in touch.



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