

REPORT OF THE STRATEGIC DIRECTOR PLACE

TO THE CITY MAYOR'S REGENERATION BRIEFING

Date 28th MARCH 2022

TITLE: 100 Embankment – Flexible workspace letting

RECOMMENDATIONS:

The Deputy City Mayor is recommended to note the proposals detailed below on the terms as set out in the body of this report and on the detailed terms set out in an accompanying Part 2 report for approval elsewhere on the agenda.

- 1 Approve the letting of 28,622 sq/ft of space at 100 Embankment to the recommended party and on the terms as detailed within the part 2 report
 - 2 Note and approve that the terms provide for a capital payment by the City Council facilitate the letting and the new arrangements.
 - 3 Authorise the Shared Legal Service to prepare all necessary documentation and to take all steps which are required to give effect to the above recommendations.
-

EXECUTIVE SUMMARY:

The report outlines two proposals that by way of lease/management agreement will create a flexible workspace offer at 100 Embankment across covering 28,622 sq ft of the building . The space is across the ground and first floors plus space on the rooftop area.

The report considers two proposals as detailed in the Part 2 report from Companies who are both specialists in this area of operation and makes a recommendation as to the preferred tenant/operator with whom to move forward.

A flexible workspace offer is considered essential to assist in securing lettings within the building and to protect the City Councils initial investment to acquire 100 Embankment.

BACKGROUND DOCUMENTS: None

KEY DECISION: Yes: Required capital outlay associated with fit out exceeds £350,000

1.0 Background

1.1 The City Council acquired 100 Embankment from Ask. The building was practically completed in Summer 2020 and comprises 166,000 sq/ft of Grade A office space with a quoting asking price of circa £31.50 /sq ft

1.2 To date no lettings have been secured although interest in the property is high and there is confidence that lettings can be secured particularly given the limited availability of Grade A offices in the regional centre.

1.3 Due to the pandemic office user requirements have changed and there has been a movement towards less space being taken by larger tenants linked to accessibility to flexible working space in the same building so that tenants can better manage peaks and troughs in terms of space needs.

1.4 Given the office market and specific feedback from parties viewing 100 Embankment it is considered essential that a flexible workspace offer is introduced to help secure future lettings within the remainder of the building.

1.5 It is intended that the delivery of a flexible workspace offer at 100 Embankment will provide animation, activity and vibrancy to the reception, ground floor and roof terrace of the building in order to support and secure more traditional office occupiers in the remaining part of the building.

1.6 The City Council has received interest from two parties interested in talking a lease of space to provide this flexible office. This report details those two propositions and makes a recommendation on the preferred way forward and preferred operator

1.7 The proposal outlined in this report covers around 28,622 sq ft of the building across the ground and first floors and roof space areas.

1.8 Both propositions outlined are based on a management contract where both the Landlord (SCC) and the operator enter into a partnership agreement. Both Companies have a strong representation in this area . One has UK wide coverage whereas the other has a more limited Greater Manchester operation currently.

2.0 The case for Flexible workspace

2.1 Flexible Workspace has been a significant contributor to positive office performance across UK office markets in recent years.

The arrival of the global Covid 19 Pandemic dramatically altered the trajectory of all sectors in real estate, including Flexible Workspace. The Pandemic has undoubtedly posed a question as to how and where we will work in the future. In an increasingly uncertain world and workplace a flexible solution provides an alternative approach to traditional fixed lease arrangements .

2.2 The growth and success of Flexible Workspace operators in central Manchester/Salford is testament to the important role this sector of the market performs. Landlords have increased their exposure to Flexible Workspace in their buildings recognising occupier changing needs.

Manchester/Salford has cemented its position as the most established UK Flexible Workspace Market outside of London and there is now approximately 950,000 sq ft of Flexible Workspace in the regional centre equating to approximately 5% of the total office stock. Cushman & Wakefield forecast that over the next 10 years the market share of Flexible Workspace could increase to 15-20% of total stock as businesses continue to gravitate to the Flexible Workspace offer.

The following large operators (over 10,000 sq ft) have a Flexible Workspace offer in Manchester City Centre.

Operator	Building	Size (sq ft)
WeWork	No 1 Spinningfields	55,800
WeWork	Dalton Place	65,000
We Work	One St Peter's Square	41,471
WeWork	Hanover Building	42,269
Work Life	Core	12,692
Hana	Windmill Green	26,000
Hana	Landmark	35,000
Spaces	Peter House	65,000
Spaces	125 Deansgate	122,000
Regus	3 Hardman Street	17,000
Regus	St James Tower	25,813
I2	Chancery Place	16,000
I2	3 Hardman Square	22,000
All Work & Social	XYZ, Spinningfields	20,000
All Work & Social	Bonded Warehouse, Enterprise City	20,000
Elevate	City Tower	22,855
Orega	Piccadilly Place	12,605
Bruntwood	Bloc	20,000
Total		641,505

2.3 It is important to note that most large Grade A office buildings in the City Centre now have an element of co working space within them ranging from 10-20% of the entire building with more owners moving in this direction.

2.4 The Flexible Workspace sector continually battles the preconception that it is solely used by freelancers and SME's. All companies big and small, are now entering into a period of consultation and reflection to identify their future office needs and identify how they want to work moving forward with many opting for more flexible arrangements. Not only has the Pandemic forced us to consider the way in which we want to work longer term, but there are some other drivers for occupiers needing Flexible Workspace in the short-medium term.

These include:

- Reluctance by corporate occupier to commit to long term liabilities in current climate
- Tight business cash flows force occupiers to look at alternative routes to acquiring space, where high upfront CAPEX can be converted into monthly costs and

- The attractiveness of the Flex offer, in providing spaces that promote collaboration, a must when bringing WFH staff back into an office environment

2.5 In 2020 it was evident, that there was a noticeable increase in the number of corporate occupiers being attracted into buildings, providing a Flexible Workspace solution. In Manchester, the following Flex transaction were executed to corporate occupiers:

Occupier	Size Taken (sq ft)	Operator
Deloitte	35,000 sq ft	WeWork
HSBC	12,000 sq ft	Hana
Cinch	8,000 sq ft	Orega
Verastar	9,000 sq ft	Bruntwood
Direct Line	7,500 sq ft	Bruntwood
Dept of Sports & Culture	7,500 sq ft	Bruntwood

This trend is also being seen in other regional cities such as Birmingham, where Goldman Sachs have recently acquired 15,000 sqft at WeWork. As the office market recovers, occupiers are seeing the benefits and attraction of locating within buildings providing a Flex offer, and it is expected that this trend will continue.

Most recently, Grant Thornton relocated into Landmark, St Peter’s Square, Manchester. Pre pandemic, the business required c.35,000 sq ft however, post pandemic, their requirement reduced to 12,000 sq ft. As Grant Thornton were uncertain about their future expansion and return to work agenda, they were attracted to Landmark, as Hana, a flex operator has 30,000 sq ft of space and was able to provide future / flexible expansion space options.

2.6 Market evidence suggests that the presence of a flexible work offer in building such as 100 Embankment drives interest and lettings in the remainder of the building and both proposals refer to this.

2.7 The benefits of securing a Flexible Workspace operator at 100 Embankment, can be summarised as follows:

1. To provide, animation, activity and vibrancy to the reception, ground floor and roof terrace of the building. This will serve to enhance the viewing experience and profile of the building and improve the sense of arrival.
2. A Flexible Workspace offer will increase our ability to attract a wider variety of occupiers for the remaining space in the building, target occupiers can Flex within the building. We see that a core and flex approach will become more standardised, enabling occupiers to increase and decrease space during a lease as business drivers evolve. Anecdotal evidence from Cushman & Wakefield’s corporate occupier clients, indicates that some buildings that do not provide a Flex offering are now being discounted as long-term options. Since the beginning of the year this view has been strengthened with building requirements listing Flex operator as a “must have” for relocation requirements

3. Flexible Workspace will provide the opportunity to drive the rents with the rest of the building because of the enhance co working amenity space (reception, ground floor and roof terrace).
4. A Partnership with a Flexible Workspace operator will allow for the fit out of the Reception and roof terrace which will maximise their potential.
5. Partnership with a Flexible Workspace operator will enhance the sustainability credentials of the building; the Flexible Workspace operator will provide a programme of well being events in the communal areas of the building which will be available to all occupiers.
6. The right Flexible Operator will maximise value for both Salford City Council and the future occupiers of 100 Embankment.

It will be extremely important to choose the right co work operator to fit the quality and identity of the 100 Embankment building. The quality of the operator's fitout out will also need to match the high standards of specification in the rest of the building in order to drive rents and investment value.

3.0 Proposals from the two interested operators

This will be detailed within the Part 2 report due to commercial sensitivity reasons, although it is considered that both potential operators have the experience and expertise we are looking for an experienced operator at 100 Embankment

4.0 Financial considerations

The detailed proposals from the two interested parties will be set out within the Part 2 report . This will consider and compare the relative merits of each proposal that have informed the recommendations

5.0 Conclusions.

A flexible workspace offer is considered essential to assist in securing lettings within the building and to protect the City Councils initial investment to acquire 100 Embankment. The two offers we currently have out for prospective tenants at 100 Embankment are subject to the provision of a flex workspace offer within the building

KEY COUNCIL POLICIES: Regeneration, Business creation and Development.

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS: As a CAT A building 100 Embankment is fully compliant with building equality standards.

ASSESSMENT OF RISK: Low – whilst the proposal will require an initial capital investment from the City Council it is estimated that this will be recovered through both the operation of the arrangement and the additional lettings that the flexible workspace offer will secure

LEGAL IMPLICATIONS

To be covered in the Part 2 report

FINANCIAL IMPLICATIONS

To be covered in the Part 2 report

PROCUREMENT IMPLICATIONS

To be covered in the Part 2 report

HR IMPLICATIONS Supplied by:

There are no HR implications arising from this proposal.

CLIMATE CHANGE IMPLICATIONS

This is a CAT A building and is fully compliant with all current Building Regulation requirements

OTHER DIRECTORATES CONSULTED: N/A

Local Member Views: Not consulted

CONTACT OFFICER: Peter Openshaw

TEL NO: 07766550136

WARDS TO WHICH REPORT RELATES: Blackfriars