

Office Quality Audit 2020

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1 Introduction

Watts Property Consultants Limited has been instructed by the States of Guernsey, acting by and through the Development & Planning Authority Committee (hereinafter referred to as “the Client”), to undertake an audit of the existing office portfolio in St Peter Port, Guernsey.

The aim of the audit to establish a database of all office accommodation located within the St Peter Port Main Centre and Main Centre Outer Areas, as defined by the Island Development Plan (2016) (IDP). In addition to cataloguing the location and approximate size all office properties, each office building will also be considered against predefined criteria to establish the quality of accommodation provided.

It has been agreed the audit will comprise a three stage process:

» Stage 1

A review of the draft quality criteria from the States of Guernsey run workshop in 2019.

» Stage 2

A survey of all existing offices within the St Peter Port Main Centre and Main Centre Outer Areas. The data to be collected is determined by the criteria established as part of Stage 1.

» Stage 3

A peer review of the research findings, from which any feedback will be considered and summarised when finalising the report for publication.

This report will address Stage 1 by outlining the criteria Watts Property Consultants Limited will apply when determining the quality of an office and will also set out the proposed methodology for undertaking this exercise.



2 Policy Context

Guernsey's finance sector is the central pillar of Guernsey's economy. This sector together with the supporting business services and legal sectors account for a quarter of all employment and contributes in the region of £1.3bn to the economy. This equates to approximately 44% of the Island's economic output¹.

Given the importance of Guernsey's office stock to the economy, it is unsurprising that when projecting demand for offices in the future, the Employment Land Study (ELS) 2014 found there will be a continued and growing demand for offices over the life of the IDP.

The Strategic Land Use Plan

The Strategic Land Use Plan (SLUP) which was approved by the Client on 30 November 2011, directs that office uses should be focused within and around the Main Centres. It also identifies office sector requirements can be met through a combination of primary offices (including large floorplate) on new sites focused in the Main Centres and at Admiral Park, together with the refurbishment and redevelopment of older office stock to create modern accommodation.

The Island Development Plan

To reflect the strategic direction of the SLUP, the IDP was adopted in November 2016. Its approach is to focus office use in the Main Centres where there are existing clusters of offices. It also recognises the need for large floorplate office accommodation and has allocated an Office Expansion Area at Admiral Park, for floorplates over 1000m² and identifies Regeneration Areas and Harbour Action Areas as key locations for new office accommodation.

For smaller premises under 205m², the IDP acknowledges almost half of the existing offices in 2012 had a floor area of less than 250 square metres, much of which is likely to be tertiary space. The IDP therefore takes a flexible approach and allows change to alternative suitable uses which would support the vitality and viability of the Main

¹ Guernsey Facts & Figures, 2018



Centre. It also provides flexibility and addresses an oversupply of mainly tertiary, small office space.

The change of use of larger substandard office premises to other uses, subject to demonstrating certain criteria, can also be considered under the IDP policies. The IDP however generally supports the retention of office accommodation that is capable of meeting modern requirements. It should however be noted it may not always be possible to bring secondary accommodation up to the level of primary due to construction techniques. Instead, refurbishment programmes can achieve the highest end of secondary accommodation which is still beneficial to meet some business needs.

According to the Employment Land Study Update Report 2018, most of the office accommodation is in St Peter Port (70.4%) with only a minor concentration in the Bridge, St Sampson. Given St Peter Port is the primary location for offices within the Island, our Audit will focus on the St Peter Port Main Centres only.

Covid-19

The outbreak of Coronavirus (COVID-19), declared by the World Health Organization as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Market activity is being impacted in many sectors and travel restrictions have been implemented by many countries.

Although, at the time of writing, Guernsey is Covid-19 free, it has not been immune to its affects. As part of the planned phased exit from lockdown, the States of Guernsey has published a ‘Revive and Thrive’ Recovery Strategy. This sets out the steps on how Guernsey will not only recover economically within the next three years but improve on where it would have been. In setting out its vision, the strategy states,

“We will work in partnership to recover our economic prosperity, build on our inclusive community values and capitalise on our many strengths to make Guernsey a safe haven based on sustaining health, wealth and community.”



This Strategy will seek to build a more sustainable economy, growing new sectors but also address pressing social and environmental issues. It will deliver improved infrastructure through major investment, in turn supporting local industry, and will also look to improve our health, wellbeing and build on the strong sense of the Island's community.

One of the short-term actions laid out in the Recovery Strategy include:

- Investment in the regeneration of the seafront enhancement area, our built infrastructure and critical national infrastructure

It also highlights how the IDP will be utilised as a tool to meet the strategy's objectives and secure the outcomes the community needs. Guernsey's office stock will therefore have a part to play in the Island's recovery which may include helping to attract new businesses to the island, growing existing business and supporting the exploration and development of new economic opportunities.

It is therefore important to have a better understanding on the amount and quality of Guernsey's office stock, so informed strategic and policy decisions can be made.

3 Criteria and Definitions

Reflecting the Strategic Land Use Plan (2011), Policy MC4 of the IDP states, Guernsey's office stock comprises three categories:

- Primary** – recently developed or refurbished to modern standards
- Secondary** – older purpose built offices or converted buildings that may be capable of being refurbished or redeveloped to modern standards
- Tertiary** – existing offices resulting from the conversion of units of accommodation such as retail which may never meet modern standards.



Although there are no universally agreed definitions for Prime, Secondary and Tertiary offices, these categories are widely known and used amongst industry professionals to describe office accommodation in any given location.

In order to differentiate between offices falling into the Prime, Secondary and Tertiary sectors, rental value is the primary factor considered. The reason for this being the rent achieved considers all the factors affecting a particular property. This will include location, condition and specification.

Indeed, on 5 March 2019, the Planning Services together with Business, Innovation & Skills hosted a Workshop with representatives from commercial agents and commercial organisations on island. The Workshop sought to gain qualitative feedback on the performance and effectiveness of the IDP policies relating to the office, industry and storage/distribution sectors. As part of the Workshop, a consultation into the quality of office accommodation in Guernsey was undertaken and it was discussed as to how they could be defined in terms of quality.

From the Workshop, Prime, Secondary and Tertiary were highlighted as the most suitable categories to describe Guernsey's office stock and rent levels were highlighted as a possible consideration. Other criteria included location, car parking, design/specification and lease terms, a summary of the consultation and the criteria discussed is provided in in Appendix I.

By assigning appropriate rental ranges to each sector, by nature, we should encapsulate all the criteria raised during the workshop to that particular sector. This is because ultimately price is driven by quality. This is outlined below:

Prime

Prime offices are those properties which typically occupy the best locations, have the highest specification and therefore **command the highest rents**.

In Guernsey, Prime properties are typically regarded as the newly constructed or recently **refurbished, purpose built offices**. As such, they have been completed in line



with more modern building techniques and exhibit the latest trends in office design. They will have all, if not most, of the following features:

- Full access raised floors
- Suspended ceilings
- Modern lighting (typically LED)
- Air-conditioning systems
- A high proportion of fenestration as a result of modern building techniques and design. Floor to ceiling glazing may therefore be prevalent to maximise natural light levels.
- Passenger lift access
- Onsite car parking
- Sea views

Prime properties tend to occupy **central locations** within St Peter Port's town centre, generally around the lower half of St Julian's Avenue and Gategny Esplanade (as per the plan provided in Appendix 2) and are therefore close to the amenities it has to offer. This includes the public long stay car parks at North Beach and Salerie Corner. Such locations include the lower half of St Julian's Avenue and Gategny Esplanade. Admiral Park is however an exception as it accommodates some of the Island's newer and larger office floor plate developments, as per the plan provided in the Appendix 3.

By virtue of Prime properties having the latest and highest specification, it can be argued, any **larger floor plate**² office building constructed **post the year 2000** can be classified as Prime. This is due to the change in style of construction when new office developments at Admiral Park (Trafalgar Court, Dorey Court and Martello Court) set a new standard for offices in Guernsey.

² Although the IDP classifies large floor plate buildings as being over 1,000 sq m (10,764 sq ft), larger floor plate is regarded as being in excess of 4,000 sq ft for the purpose of this report.



As they also occupy the best locations, headline rents for Prime office buildings are above the market average and are generally **in excess of £35.00 per sq ft³**. Such properties will therefore tend to attract the higher quality tenants who are prepared to agree to **longer leases between 10-15 years**.

Secondary

Although Secondary offices tend to occupy central positions within St Peter Port's town centre, there is no specific location in which they are clustered. They also form part of Guernsey's first generation of offices and would have typically been constructed between **1970 and 1999**. Alternatively, they may be larger period residential properties which have since been **converted and/or extended** to provide office accommodation.

Although they are older than those categorised as Prime, they are likely to have been **refurbished within the last 20 years**. This generally follows the developments at Admiral Park which resulted in a movement of some of the larger tenants from the centre of St Peter Port. As these tenants vacated poorer buildings, landlords often found themselves having to refurbish the accommodation so they could improve their offering and compete for new tenants.

However, as the structures are built using older building techniques, Secondary properties may not have the benefit or ability to accommodate all the features highlighted under Prime offices above. Alternatively, the specification may be older or of a poorer quality equivalent. For example, sound attenuation may not be to as high a level and rather than full access raised floors, the property may have perimeter trunking. This could be due to reduced ceiling heights and reduced building spans which negate the need for raised access flooring.

Given the reduced specification, Secondary rents are lower than those commanded by Prime offices. In Guernsey, Secondary headline rents tend to be an **average or near**

³ The Workshop described prime rents as being £40.00 psf plus. We have however reduced this to £35.00 psf plus to encompass those buildings which we consider prime but the passing rents are lower than £40.00 psf.



market average between £25.00 and £35.00 psf and tend to command **medium length leases between 5-9 years**.

Tertiary

Tertiary offices will generally be those properties suitable for smaller tenants only and in need of refurbishment. They will often be dated and will lack many of the features typically found in either Prime or Secondary sectors. They are also located in peripheral locations or above retail units and may be of a more cellular arrangement rather than offering open plan accommodation.

Given the poorer specification and potentially more peripheral locations, Tertiary office accommodation **commands the lowest rents** in the market and will normally be **below £25.00 psf** and attract **shorter leases between 1-4 years**.

As build costs in Guernsey are high and rents for Tertiary offices are low, owners of Tertiary office buildings may not be able to upgrade the accommodation as the required investment may not justify the potential return. They are therefore **unlikely** to have been refurbished or benefitted from significant investment **within the last 20 years**, unlike those offices within the Prime and Secondary sectors.

Summary

To summarise the above, the estimated rental value will be the primary factor considered when assessing whether an office is Prime, Secondary or Tertiary. Although we have focused on the rent (as it encompasses and considers all the other factors which will affect the quality of an office), we have also considered other characteristics of each sector. These are outlined below:



Prime

- **Commands above market average rents (£35.00 psf plus)**
- Purpose built office accommodation
- Constructed post the year 2000
- High specification as listed above
- Located within St Peter Port's town centre around the lower half of St Julian's Avenue, Glatigny Esplanade or Admiral Park
- Typically offering larger floor plates of 4,000 sq ft plus
- Commands longer lease lengths, generally between 10-15 years

Secondary

- **Commands average or near average market rents (£25.00 to £35.00 psf)**
- Purpose built office accommodation constructed between 1970 and 1999
- Alternatively, converted or extended buildings
- Generally providing office accommodation within an older structure
- Refurbished in the last 20 years or is capable of being refurbished
- Average specification, where it will have only some of the features found in a Prime office
- Located within St Peter Port's town centre
- Commands lease lengths, generally between 5-9 years

Tertiary

- **Commands the lowest rents in the market (below £25.00 psf)**
- Tendency to be suitable for tenants with limited budgets
- In need of refurbishment
- Basic specification which may also be dated, with no significant investment for 20+ years.
- Lacks many of the features typically found in either Prime or Secondary offices
- Located in peripheral locations or above retail units
- Commands lease lengths, generally between 1-4 years



It should be noted the Workshop also discussed the green credentials of a building and whether this would have an affect on how an office building is classified. The Workshop concluded although desirable, green credentials are not essential in determining the quality of an office. We agree with this position as “environmentally friendly” buildings, with established carbon performance ratings are not common in Guernsey. As such, market trends have yet to be established. The lack of choice in office accommodation also means green credentials are not currently prioritised by a potential occupier.

It should however be noted that whether a property is considered to be Prime, Secondary or Tertiary may not always be clear cut and there will always be an element of subjectivity when deciding which sector it falls within. There will therefore undoubtedly be anomalies and any outliers will have to be considered on a case by case basis.

4 Proposed Methodology

In order to categorise St Peter Port’s Main Centres office stock, outlined below is our proposed methodology:

- ▮ The Client is to provide Watts Property with a full list of properties which have been classified as offices for Tax on Real Property (TRP) purposes. This list will be taken from the Cadastre and will include the TRP units.
- ▮ The TRP units will be provided as this is based on the gross external area of a building. Watts Property will therefore be able to analyse and summarise its findings whilst calculating the estimated amount of office stock within each sector.
- ▮ Where available, Watts Property will provide the client with net internal areas, the standard basis for calculating floor areas when dealing with office accommodation.



- ▮ In terms of categorising the office stock, Watts Property will adopt Prime, Secondary and Tertiary as its categories.
- ▮ Watts Property will review the list provided and will label each property as either Prime, Secondary or Tertiary. This initial review will be undertaken by considering the property's estimated rental value.

To confirm, the estimated rental value is the primary consideration as it is a proxy of all other factors (location, condition and specification).

- ▮ As Watts Property cannot assume the list of offices is complete. As part of the review, we will also add any missing office properties, including those which are publicly owned and utilised as office accommodation (as publicly owned buildings do not pay tax on real property, they will not be included in the list).
- ▮ Although the estimated rental value will be Watts Property's primary consideration, we will take the other criteria into consideration and this will assist us in highlighting any anomalies.
- ▮ Where there are anomalies, rationale will be provided to explain the reasoning behind its categorisation.

We should highlight the audit will provide a snapshot of St Peter Port's office accommodation as of a particular point in time. The current response to COVID-19 means we are faced with an unprecedented set of circumstances on which to base a judgement. Therefore, as the market evolves and reacts, the estimated rental values and other criteria considered may need to be reviewed and amended over time.

5 Findings

In accordance with the methodology outlined above, the office audit was undertaken in 2020 and we found there to be **251 properties** offering office accommodation within St Peter Port's main outer boundary line.



Having considered each individual building's estimated rental value, they were categorised as Prime, Secondary or Tertiary buildings. A summary of our findings is provided below:

Sector	No. of Buildings	Area (sq ft)
Prime	11	522,813
Secondary	80	983,157
Tertiary	160	602,038
Total	251	2,108,008

The findings have also been plotted onto plans to spatially illustrate where the buildings are located. The plans provided illustrate their location in terms of their designated sector (Appendix 4) and estimated rental levels (Appendix 5).

6 Peer Review

On Wednesday 25 November 2020, a further Workshop was held with representatives from commercial agents and commercial organisations in attendance. As part of the Workshop, the findings of the Office Audit were presented, and feedback sought on the methodology and criteria applied.

During the Workshop, the methodology was approved by those in attendance.

There was however a suggestion by one of the commercial agents that the rental threshold for the Secondary sector should be reduced from £25.00 - £35.00 psf to £22.00 - £35.00 psf. Having considered the suggestion further, we believe the bracket should remain unaltered. The reasons for this are as follows:

- ▮ a further review of both the Secondary and Tertiary buildings has been undertaken and none were considered to be incorrectly categorised.
- ▮ during the workshop, no rationale was provided to support the amendment of the rental brackets



- the estimated rental values applied are headline rents.

With the above in mind, the findings were finalised and adopted.

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Appendix I

<i>Possible Criteria</i>	<i>Primary</i>	<i>Secondary</i>	<i>Tertiary</i>
Age of building	Built post c.2000-2002	Built c.1985 - 2002	Built before 1985
Location:	<ul style="list-style-type: none"> Narrow corridor in St Peter Port - Lower half of St Julian's, Glatengy Esplanade, towards Admiral Park (North) (SPP) ; or Proximity to similar uses; Proximity to clients; and, With sea views if possible (especially for high net worth individuals). 	<ul style="list-style-type: none"> No specific location. Delegates considered the building specification rather than their location defined them as secondary. 	<ul style="list-style-type: none"> No specific location
Car parking	<ul style="list-style-type: none"> Parking provision would ideally be on site or in close proximity Ideally access to guaranteed parking 		
Design	<ul style="list-style-type: none"> Purpose built - Adaptability of volume and space Good specifications - Floor to ceiling heights (ideally 2.7m clear); Air conditioning; Good lighting (recessed); Raised access flooring etc Suggested that BCO 'Category A' standard with some variations should be used Facilities to promote health and wellbeing of staff important including outside environment of office 	<ul style="list-style-type: none"> Still purpose-built but perhaps not as well equipped as primary offices. For example air conditioning will not be at an optimal level, but it will still be adequate. Tend to be cellular rather than open plan rooms Original construction may constrain potential to upgrade to primary 	<ul style="list-style-type: none"> Office buildings that have been converted from a previous use Often located in historic buildings Do not offer much flexibility to alter / improve
Green credentials	<ul style="list-style-type: none"> Desirable not essential due to lack of choice 		
Lease terms	<ul style="list-style-type: none"> Same terms for new build and refurbishments Generally 10-15 years Rent levels- currently £40+ per sq. ft. Break terms around 6 years Other terms dependant on negotiation but generally free periods sought to avoid double rent by tenants 	<ul style="list-style-type: none"> Lower rent than primary offices- Rent levels are on average between £20 and £30 per sq ft Commercial agents tend to apply further degree of flexibility in the terms of the lease 	<ul style="list-style-type: none"> Lower rent than secondary offices- Rent levels on average to be c.15 per sq ft Commercial agents tend to apply further degree of flexibility in the terms of the lease More amenable to requests for scaled floor rents or shorter term leases.

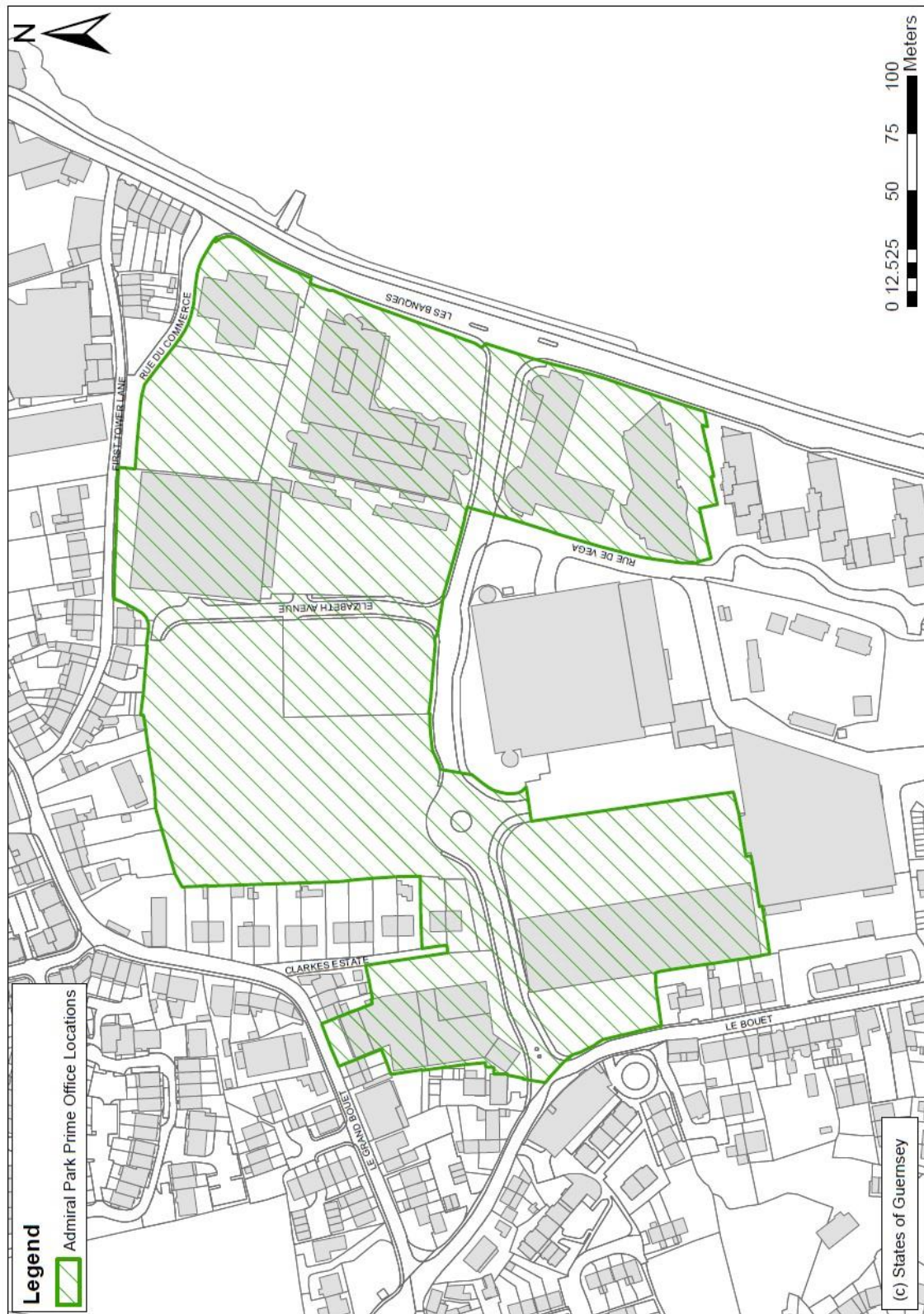


Appendix 2



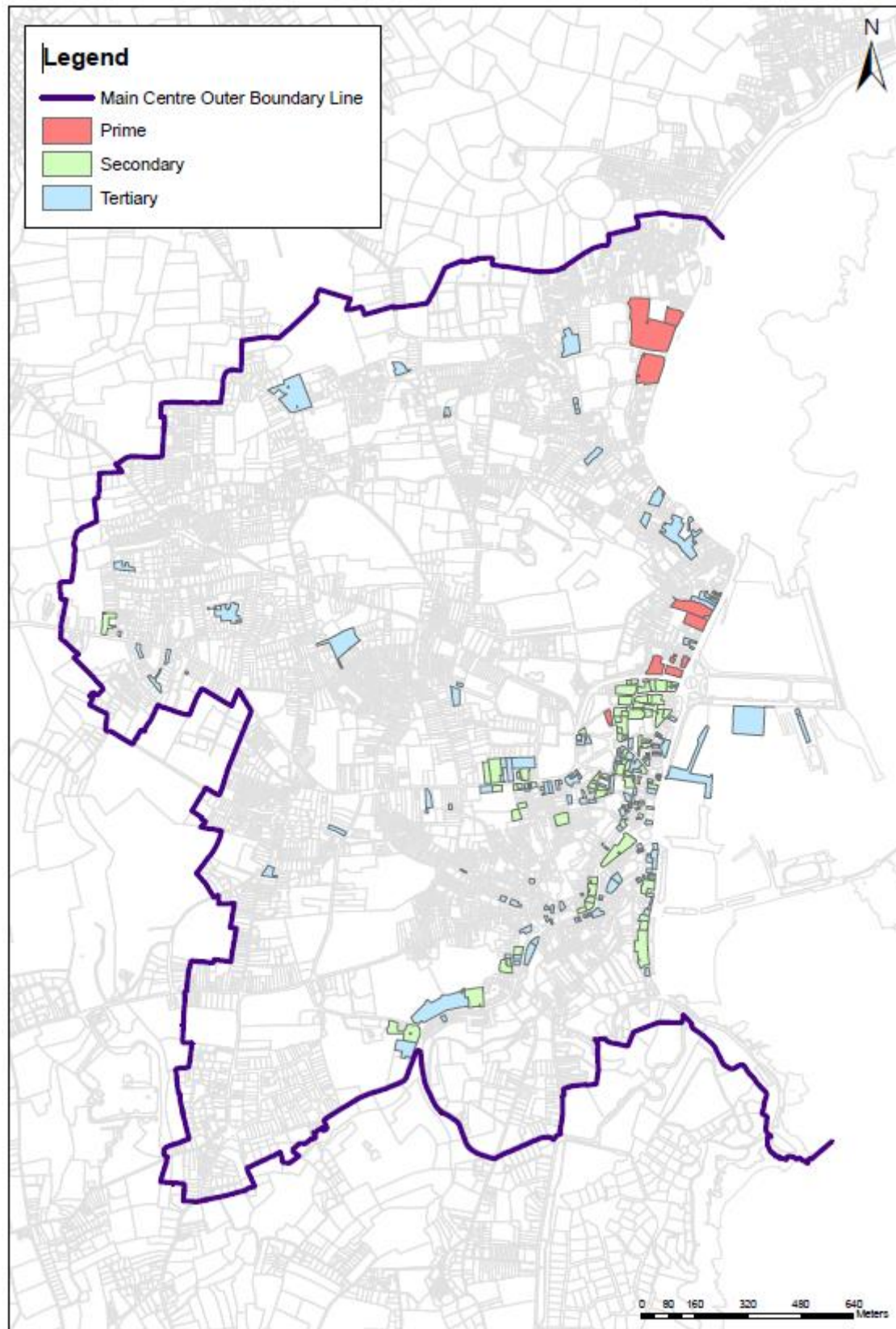


Appendix 3





Appendix 4





Appendix 5

