
2
OFFICE • OFFICE • OFFICE •
2
5
TSP

Foreword

I have mixed feelings when I look back on 2024.

In some ways it was a very good year for offices. Occupancy increased, sentiment improved and rents grew. However buyers seemed to be in 'wait and watch' mode for a second consecutive year, which led to anaemic investment activity. Occupational gains didn't lead to higher values – it felt like asset managers did the work but weren't rewarded.
The office sector needs to translate 2024's successes into momentum and confidence in 2025. It's our responsibility to prove that offices still work. The best way to do this is by operating well, marketing better, and most importantly, providing customers with data that supports the story.

In Office 2025, we take a look at key themes that emerged last year, and how responding to these trends will ensure the sector thrives in the year ahead.

I hope you enjoy the read.

Zac

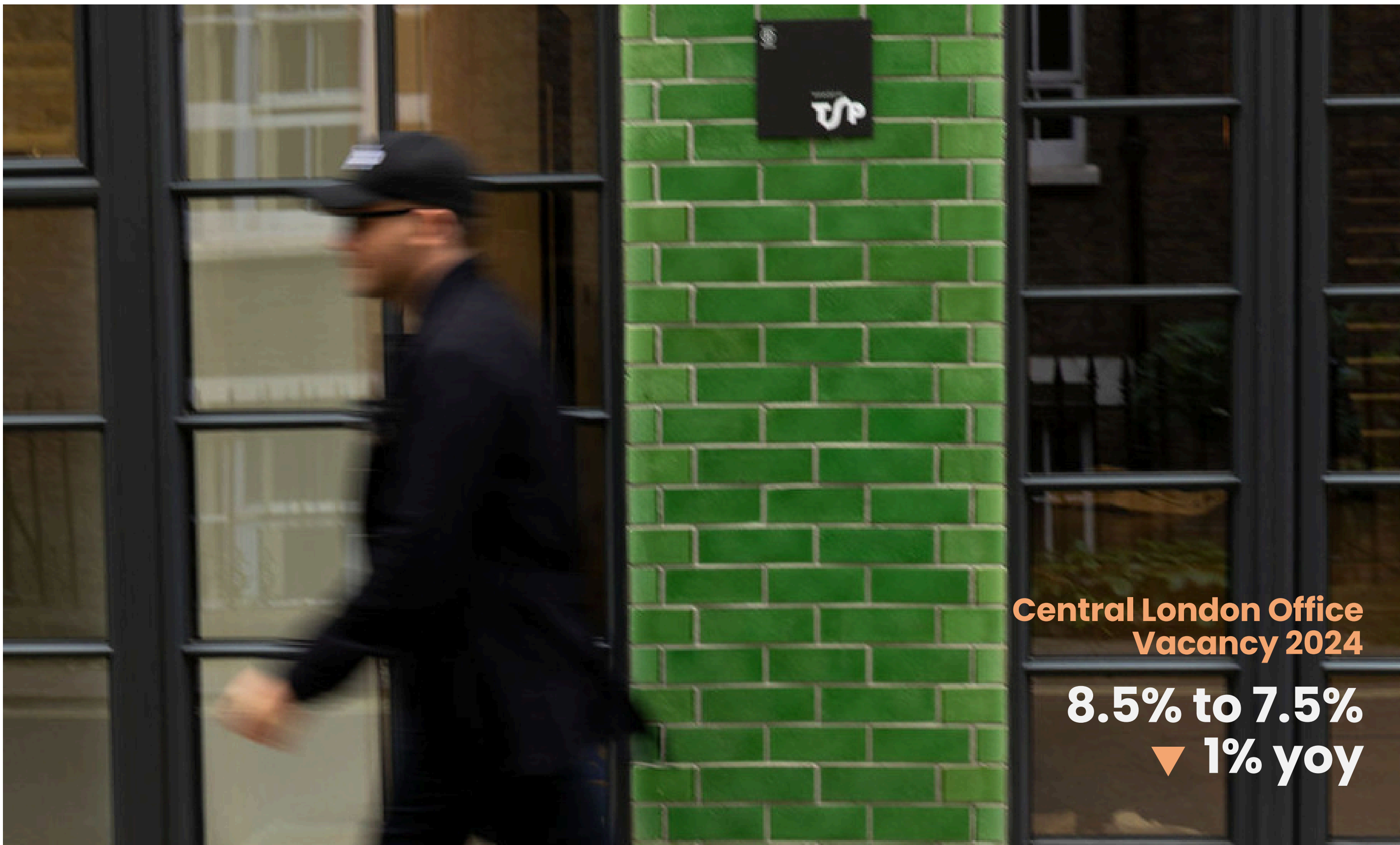
Then & now

2024 saw the “office is dead” narrative fade, replaced by the acceptance that offices require active management. The ‘as a service’ model gained traction with flex providers proliferating, though traditional leases still dominate.

High-quality, amenity-rich, multi-let buildings offering hotel-like experiences are performing strongly, whilst unmodernised ‘commodity’ offices are languishing.

2025 will see office landlords embrace hospitality and service culture to meet rising occupier expectations. The challenge is finding the right operating model that balances flexibility with security and returns. Most landlords will stick to traditional management while partnering with service providers in some way to enhance their offer.

As these service providers expand, data that demonstrates high occupancy, sustainable premium rents and robust cashflows will be crucial for valuation and investor success.



Work from ?@!x

In 2024 many employers reevaluated their Work from Home (WFH) policy. Most notably Amazon, with Andy Jassy (CEO) saying “When we look back over the last five years, we continue to believe that the advantages of being together in the office are significant”.
Amazon is joined by X.com, JP Morgan, Starbucks and a raft of other companies that have mandated either full-time or 4 days per week in the office. Whilst this is positive news for the office sector, we don’t expect many companies to revert to a 5-day week in the office. WFH was thought to be a fait accompli for office attendance, but 2024 proved that’s not the case.

2025 will see more companies focusing on providing modern and agile workspaces, which means higher specification and lower density spaces. Landlords will start to compete more aggressively on their offering and invest heavily into fit out; this will mean higher rents will be needed to justify the enhanced capital expenditure.

In short, robust occupier demand will meet increased investor expectations and build costs, driving rents higher still.

OFFICE • OFFICE • OFFICE •

WHAT HAPPENED IN 2024

Flex overdrive

More is more when it comes to flex offices. At TSP, we count at least 50 serviced or co-working operators as of December 2024 in London alone.

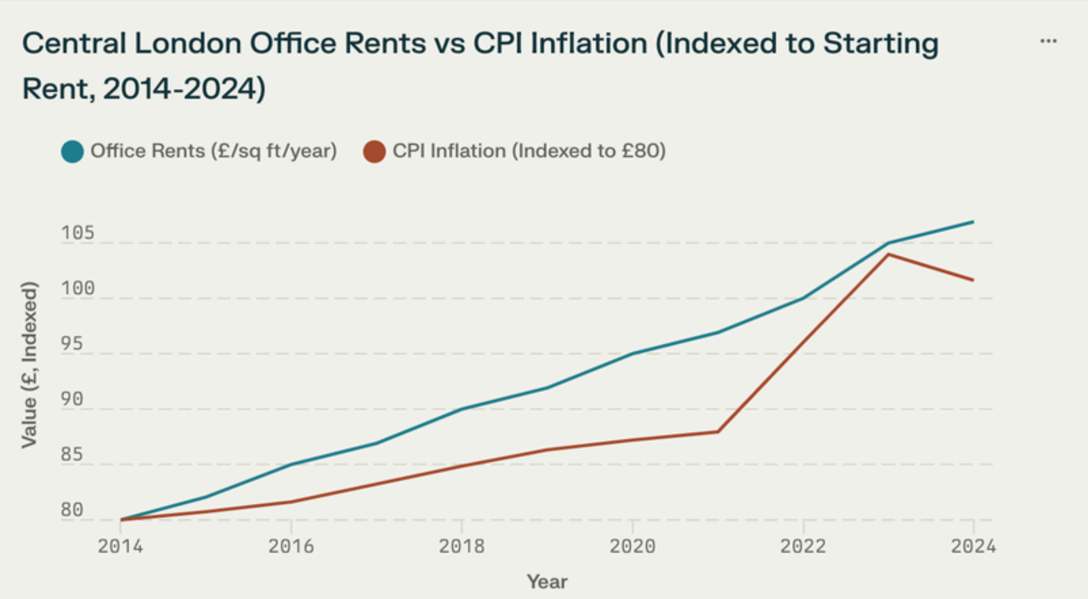
The flex sector continues to mature with some standout operators raising the bar across hospitality, wellness and design. This is having a positive contagion across the traditional office sector, where we continue to see more ‘flex’ features.

However, there are big questions regarding market saturation, financial viability and how strong these operators truly are. Interestingly, the traditional office sector has also continued to see robust leasing alongside the flex expansion.

We suspect the flex sector will begin to consolidate in 2025. Landlords will continue to weigh the benefits of long-term management agreements with flex operators versus self-delivery with traditional and hybrid service providers and managers.

CBRE’s purchase of Industrious was a watershed moment for offices, and signals that much of what flex has to offer will be applied sector wide.

OFFICE • OFFICE • OFFICE •



Source: Perplexity (2024)

Inflation busting rents

2024 saw companies clearly articulate their demand for high-quality, high-specification workspace, coupled with an expectation of hospitality-led service. This has been reflected by inflation-busting rental growth in the premium segment of the office market.

It is encouraging that – despite long term elevated vacancy rates, more choice and greater purchasing power – companies understand the value of quality and are willing to pay for it.

In 2025, we expect to see a continued upcycling of commodity office stock into premium offerings.

The signal to landlords? "Build it and they will come".

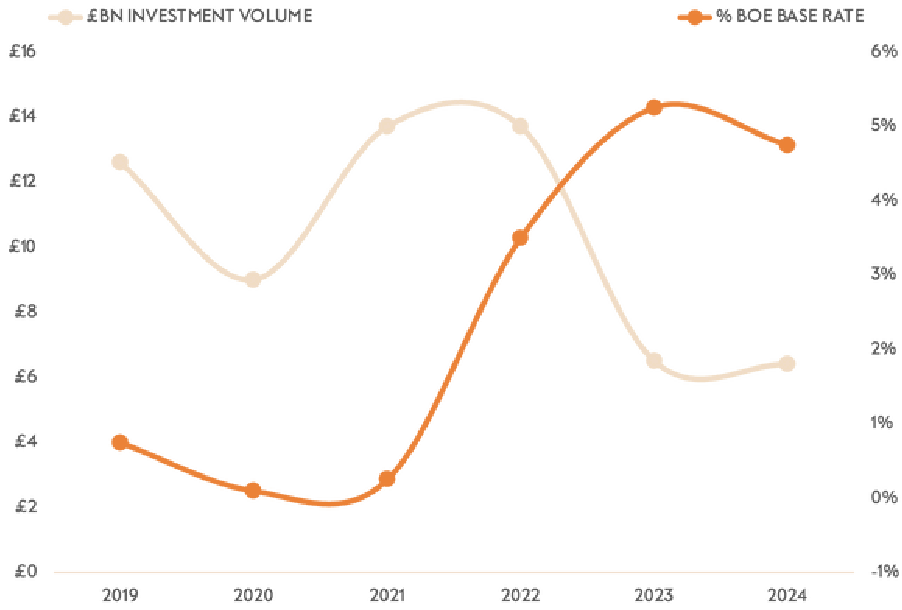
"The fundamentals are about meeting basic human needs, which are driven by design and service.

Users are dictating what's needed, and if an owner of an asset isn't responding to what that user needs, then the risk of having a vacant building is significant."

Charlie Green, Founder
The Office Group/FORA

WHAT HAPPENED IN 2024

Rates subdued investment



2024 was a muted year for office investment, with less than £7bn of offices traded in London, compared with the 10-year average of £14bn+. Hesitant investors often cited cost of capital and build costs.

We suspect the lack of appetite is also linked to an inability to underwrite 'new' risk in the sector. With lease lengths much shorter, investors give greater weight to lettability, renewals and rental premia, all previously secondary to the underpin of long term secured income.

We expect to see more activity in 2025, driven by lower interest rates, and 5 years of occupational and rental data post-pandemic.

We believe 2025 will see operational data become a key driver underwriting office investments; think churn, historic performance, NPS and beyond. Landlords will have to focus on delivering these KPI's too, not just cashflow.

OFFICE • OFFICE • OFFICE •

OFFICE • OFFICE • OFFICE •

What about 2025?

Whilst investors will remain cautious, we believe that assets with outstanding service and quality will thrive. We believe this will usher investors back, seeking both value-add opportunities and fully stabilised modern assets with a track record of leasing quickly at strong rents.

The delivery model for landlords will be key, and whilst much has been written about the type and quality of fit out, many questions remain over choice of operating models. We've evolved from simply demonstrating badges, certificates and accreditations and now need to demonstrate key attributes with solid process and data to support it.

At TSP, we believe these key attributes apply across all operating models and will be mainstream by the close of 2025. Moreover, they will be 'expected' by customers.

We spoke to some of our friends in the industry to inform our viewpoint and have outlined them for you in the following pages.

There is only one boss. The customer. And they can fire everybody in the company from the chairman down simply by spending their money somewhere else

Sam Wallton, Founder
Walmart

OFFICE • OFFICE • OFFICE •

Know thy customer

No one says it better than Sam! The office industry is in the process of consumerisation, meaning a customer-centric approach will be key in 2025. Landlords must merge design and service into their offering and have this cut through in their marketing.

The question is, what do customers want? Here's a simple outline:

DESIGN

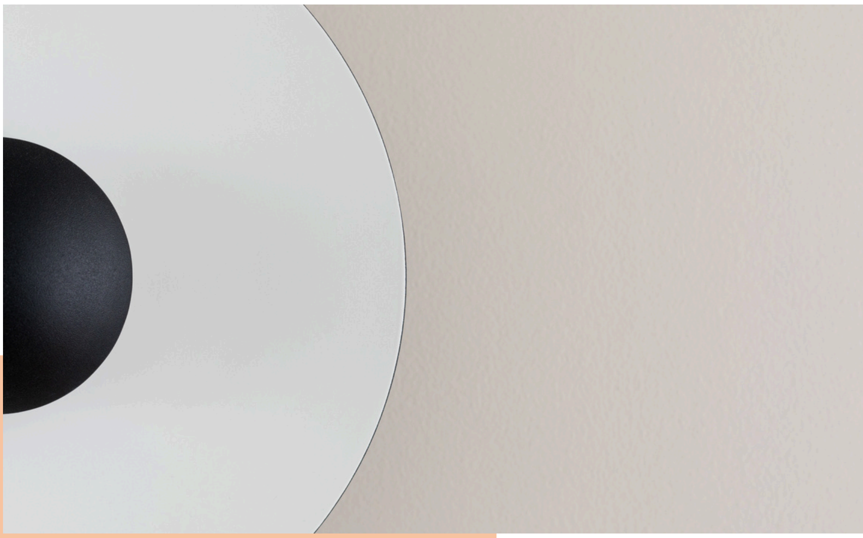
- Quality surroundings
- Low capital expenditure
- Lifestyle amenity

SERVICE

- Hospitality & personalisation
- Human connection & community
- Useful services that create ease
- Flexibility & fairness

Of course, location, precise specification and size still matter. But the list above reflects the shift in expectation of what a workspace is, how it represents a company's aspirations, and today's employee demands.

Ease, the human touch and flexibility will permeate through to the traditional office market in 2025. We expect many landlords to start standardising shorter leases, community events and higher quality Front of House services alongside better quality design and fit out.



Quality Quality Quality

> “If you think about it, buildings haven’t really changed that much in 500 years. It might sound simple but, the key is to just design a building that’s really good.
>
> A building has to be so good that it subconsciously pulls people back there again and again.”
>
> Simon Allford, Executive Director & Head of Design Studio
> Allford Hall Monaghan Morris (AHMM)

Quality is nothing new in real estate, but over the last 20-30 years, many offices were designed with cost-cutting and efficiency in mind, often at the expense of quality. Think blue nylon carpets, yellowish ceiling lights and rubber plants dotted about. Quality offices were the reserve of the privileged few. Now it’s a mainstream demand, our customers have keen eyes and Instagram accounts. They’re more clued up on furniture brands, types of finishes and coffee machines than ever before.

2025 will see landlords continue to up the ante as they compete for the best companies. We expect to see better quality materials, design and layout – centred around creating calming, focused and multi-functional workspaces that feel better than home.

Hospitality

Until recently, offices have been more about functionality, not hospitality. Then the flex sector led the way in making offices feel more like hotels or members clubs.
For traditional office landlords, shifting to a hospitality-led approach means focusing on Front of House teams, and property managers at every level of the service delivery chain.

The fundamentals are well-trodden in most sectors already; A warm welcome, an empathetic approach to service, and a problem-solving mindset are the quick wins when adapting to a better and more hospitable environment.

Beyond that, visitor management systems and strong integration of building staff with community programs quickly converts a functional office into a building that feels like home.

2025 will see the term ‘Front of House’ used much more frequently in office settings, with landlords taking more care in deciding who welcomes customers into their buildings.

“We are no longer just in the real estate industry. People want to feel like they belong and are taken care of.

We are now in the hospitality industry.”

Caleb Parker, Founder & CEO
Brave Corporation

OFFICE • OFFICE • OFFICE •

Community & connection

At a human level, most enjoy a sense of familiarity and belonging. Building a community in offices means bringing people together outside of their primary purpose of being there. For us, this means low pressure events with some simple food and drink, with the singular goal of making people smile.

A community programme like this is a low-cost, high-impact way to drive retention. People have something to lose if they move. With lease lengths continuing to shorten, this strategy is too good not to execute, and we expect to see many more social buildings in 2025.

> "The truism today that human connection is a key driver of productivity will remain the same in 10 years, or even 20."

Julian de Metz, Founding Director
dMFK Architects

> “Across industries, from ordering a taxi or lunch, to buying toothpaste, processes have become more intuitive and personalised than ever.
>
> Commercial property is following suit.”
>
> Shaun Simons, Founder
> Compton

Customisation Generation

The traditional lease still works for most office occupiers. But change is occurring, and an increasing number of customers want to customise and personalise their office experience.

This trend manifests itself in more flexible and service-led ‘traditional’ leasing. Managed Space is a growing segment whereby customers select add-on services (such as food and beverage, community events, cleaning and planting) all tailored to their requirements, and bundled into a simple all-inclusive price. We are also seeing many more requests for add-on services and ‘one-offs’ within our own managed portfolio – at TSP, we call it ‘Room Service’.

We believe the genie is out of the bottle, and in 2025 we expect to see a massive increase in customised leasing agreements. We foresee a future where leasing an office is like specifying a car and maintenance package in the showroom, with optional extras and service packs being pre-sold and upgraded throughout the customer journey.

Conclusion

2025 will see office landlords investing more and delivering better service than ever before. In doing so, they'll achieve bigger rents and attract loyal customers who will stay for longer.

A 'box ticking' approach to delivering an office offering doesn't work anymore. Instead, successful landlords will continue to deliver outcomes that demonstrably respond to their customers' needs. They'll do this by marrying software and hardware at the asset level and sharing data to prove their value.

For traditional office landlords, selecting the right path to deliver flex will be key: either opting to self-deliver with a manager who can provide hospitality, community and flexible options, or tying in with a flex operator on a long-term basis. While self-delivery is initially harder, it is much better for the underlying asset value, especially in an increasingly saturated service provider market.

2025 will mark 5 years since the pandemic. We believe that the office sector will stabilise and thrive this year, confidently building on the last few years of trial and error.

Core to Floor®

TSP has spent the last 15 years tinkering, testing and evolving our property management service to allow landlords to offer flexible, hospitality led offices on the same terms as traditional managing agents.

Our goal is to keep your buildings Fuller for Longer. We do this by delivering our Core to Floor® management strategy that's designed to;

- Increase your NER by up to 40%
- Double your leasing demand
- Reduce rent frees and tenant incentives
- Supercharge your lease renewal rates
- Lower void periods by months
- Increase your capital value

OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •
OFFICE • OFFICE • OFFICE •