

Board

Date: 26 March 2014

Item 16: TfL Office Accommodation

This paper will be considered in public

1 Summary

- 1.1 As part of the ongoing Transport for London (TfL) Head Office Accommodation Strategy (the 'Strategy'), as approved by the Board in June 2006¹, TfL has been consolidating its office based portfolio into 'accommodation hubs' of 2,000 staff or more, as evident in the initial phases with the introduction of Palestra at Southwark (2008) and Pier Walk at North Greenwich (2009).
- 1.2 The purpose of this paper is to seek approval for the acquisition of a third new accommodation hub (the 'Hub'), maintaining the key tenets of the Strategy's objectives and continuing to deliver modern, fit for purpose and cost effective workspace that enhances TfL as an organisation. The funding for this has been provided for within TfL's 2013 Business Plan, although the vast majority of the expenditure will be paid for from the capital contribution being received as a part of the transaction by the lessor.
- 1.3 At its meeting on 12 March 2014, the Finance and Policy Committee considered a paper on the TfL Office Accommodation and endorsed the recommendations to the Board.
- 1.4 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from any public meeting.

2 Recommendations

- 2.1 **The Board is asked to note the paper and the supplemental information on Part 2 of the agenda and:**
 - (a) **approve the proposal for the next accommodation hub (the 'Hub') at the location stated in the corresponding paper on Part 2 of the agenda;**

¹ Staff Summary to the TfL Board Paper entitled 'TfL Head Office Accommodation Strategy', dated 28 June 2006

- (b) approve the acquisition by TfL and/or any Subsidiaries (as described in paragraph 2.2 below) of a lease for the Hub property on the terms outlined in the corresponding paper on Part 2 of the agenda;**
- (c) approve the expenditure relating to the office fit-out, IM infrastructure, office furniture, Stamp Duty Land Tax (SDLT) and professional fees relating to the acquisition;**
- (d) delegate to the TfL Officers and Subsidiaries the authority to approve and finalise the terms (including and limited to the financial terms outlined in the paper on Part 2 of the agenda) of all documentation required in relation to the acquisition and fit out of and the relocation to the Hub property and authorise the agreement and execution (whether by deed or otherwise) on behalf of TfL or any Subsidiary (as appropriate) of any documentation to be entered into in connection with the acquisition and fit out of the Property (including, without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, letters or other documents); and**
- (e) authorise the TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the acquisition and fit out of the Hub property and relocation utilising existing TfL accommodation procedures to the Hub.**

2.2 The following Officers and Subsidiaries shall have delegated authority:

- (a) TfL Officers: The Commissioner and Managing Director Finance.**
- (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited (TTL) and any other subsidiary (whether existing or presently or to be formed) of TTL and of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

3 Background

TfL Head Office Accommodation Strategy

3.1 In June 2006, the Board approved the Accommodation Strategy which set out the long-term objectives and accommodation improvement programme for TfL's Head Office portfolio. The enduring objectives of the Strategy remain:

- (a) to deliver accommodation that enhances TfL as an organisation;**
- (b) to create integrated 'hubs', with over 2,000 staff per building;**
- (c) to create a modern workplace which reflects TfL's aims as a world-class employer, and which incorporates best workplace practices;**
- (d) for accommodation to become an organisational "enabler", not an obstacle;**

- (e) procure higher quality space at no higher cost, with minimum change cost.
- 3.2 As a result of implementing the Strategy to date, new modern offices, known as 'accommodation hubs', have been successfully delivered at Palestra, opposite Southwark station, and Pier Walk at North Greenwich, accommodating some 5,000 staff.
- 3.3 In addition to delivering the 'accommodation hub' buildings, TfL has also successfully introduced new workplace practices such as neighbourhood working (desk sharing), time utilisation surveys and bench furniture systems, all of which have significantly improved both the spatial and cost efficiency of the portfolio. This is evidenced through independent external benchmarking by the Investment Property Database (IPD) Ltd, where TfL's latest 'Cost Per Workstation' result was identified as being 20 per cent below the central London benchmark for its leasehold premises, equating to notional saving of £1,584 per desk or the equivalent of £17.5m per annum.
- 3.4 Therefore, the future intention is to continue to maintain the current disposal strategy and to further consolidate into larger hub buildings, along with the on-going adoption of best workplace practices such as neighbourhood working.

Accommodation Supply and Demand

- 3.5 The TfL Head Office portfolio currently comprises 43 buildings across central London providing 14,850 desks, accommodated within 1.8 million sq.ft of space. The existing office portfolio was mainly inherited from TfL's predecessor organisations and this legacy estate has an occupational capacity which diminishes over time as leases expire, reflecting the predominantly leasehold nature of the key buildings.
- 3.6 Active accommodation demand forecasting is undertaken on a quarterly basis pan TfL and informs the future accommodation requirements, in desk numbers, over a rolling ten-year period. When compared to the office supply (capacity), this allows for the future space requirements to be planned for, balanced and optimised in order to meet the demand in the most cost effective way.
- 3.7 By effectively balancing the supply and demand for space, alongside the acquisition of the initial two accommodation hubs, TfL has also secured the disposal of 29 property interests since 2008.
- 3.8 More recently, the future demand for space has increased since the 2012 Demand Plan (baseline). In 2012 the forecasted demand maintained the original requirement for a new hub in 2017-18, with a requirement for around 2,000 desks. This was the long term assumption and funding for this was approved within the 2013 Business Plan. However, since then, and in support of TfL investment plans and the integration of the former Metronet and Tube Lines portfolios, the demand for space has increased, alongside a number of key property disposal opportunities.

- 3.9 In consideration of the above disposals and the now known increase in demand, the original strategy relating the timing and size of the new Hub has been adjusted whereby the principle criteria now comprise:
- (a) **Timing:** Occupation of the Hub has been brought forward to mid-2015, in order to facilitate known demand and planned disposals;
 - (b) **Phased:** The acquisition of the Hub is to be phased to minimise surplus capacity, with 2,000 desks required by mid-2015 and a further 500 desks by mid-2018;
 - (c) **Size:** The quantum of space is to increase to 250,000 sq.ft in order to meet the planned disposals and latest demand plan. With the adoption of neighbourhood working, the Hub would provide accommodation for a total of 3,000 staff, within 2,500 desks.
- 3.10 Any differential between the number of desks identified for disposal alongside the increased demand and the new Hub supply is balanced off through further spatial efficiencies, improved utilisation and existing vacancy.

4 New Accommodation Selection

Hub Selection

- 4.1 The search for a new Hub commenced in early 2013 and an initial 'long list' of 50 potential buildings and sites were identified across London by TfL, working alongside their external partner property advisors. The 'long list' included various tenure options and development opportunities.
- 4.2 These properties were initially assessed on their overall suitability against a basic set of criteria including: quantum of space; floor plate size; public transport links; availability (programme) and sustainability credentials. New opportunities which came to market during this early assessment were also identified and formed part of the evaluation.
- 4.3 Post evaluation and after a series of reviews, the 'long list' was eventually short-listed, focussing on opportunities in the Southwark area, so in close proximity to both Palestra and City Hall, and the Canary Wharf Estate so being well placed to connect with the Palestra and Pier Walk hubs via the Jubilee Line. All of the short-listed options comprised existing structures, in varying states of fit-out, offered under a leasehold tenure.
- 4.4 Each of the short-listed options were then comprehensively assessed, using external professional advice as appropriate and included a formal evaluation in respect of:
- (a) their ability to meet TfL's programme for phased occupation and related space requirements;
 - (b) the required fit-out of the building(s) and estimated costs;
 - (c) the commercial terms offered using an independent financial model;
 - (d) a full technical due diligence of the existing building; and

- (e) qualitative assessment criteria reflecting the location, technical and commercial aspects.
- 4.5 The evaluation identified that the short-listed buildings broadly met TfL's requirements, although there were differences in the assessment results and the commercial offers.
- 4.6 As all the short-listed buildings were deemed to have met TfL's requirements, the respective Landlords were provided the opportunity to submit their best and final commercial offers by 22 January 2014. A final analysis was then undertaken with the latest commercial offers incorporated into an overall evaluation matrix.
- 4.7 On the basis of these assessments, Heads of Terms (HoT) have now been negotiated and agreed with the preferred Landlord, having submitted the most favourable bid overall when considering both the qualitative and commercial elements.
- 4.8 The recommended new Hub solution provides, inter alia:
 - (a) Around 250,000 sq.ft which will accommodate around 2,500 desks at a density of 100 sq.ft per desk, being the most spatially efficient of the options and providing the highest overall capacity;
 - (b) Occupancy will be phased with around 2,000 desks, being ready for occupation in September 2015 with the balance of 500 desks being available from June 2018 in order to meet TfL's demand plan and thereby optimising TfL's capacity; and
 - (c) As part of the transaction, the landlord will carry out the required fit-out works to TfL's specification in two phases.

Alternative Options Considered

- 4.9 TfL has the following options:
 - (a) **Withdraw from the agreed 'Accommodation Hub' strategy:** TfL could either withdraw or recast its Strategy. If TfL opted for a continuum of the current fragmented office occupation, it would face rising rents from the existing locations (reflecting their location), issues of increasing obsolescence of its existing stock and will forgo the financial efficiencies that are currently being delivered elsewhere. **Not recommended.**
 - (b) **Postpone making a decision:** TfL needs to make a decision in respect of its planned disposal strategy. The timetable for fitting out a replacement hub building requires a decision to be made now so that the tenant fit out works can be commissioned to meet TfL's occupational needs and so deliver timely occupation. **Not Recommended.**
 - (c) **TfL to commission its own office accommodation on an existing site either occupying as freeholder or as a pre-let from a development partner:** This option requires TfL, or a development partner, to seek planning consent for one of its owned sites and then

build out 250,000 sq.ft of office accommodation. Even assuming an expedited procurement cycle, such a proposal is likely to take in excess of three years, which would exceed the required occupancy programme by at least a year. The resulting building would be also commissioned within an improving property market where rents are rising. A new development is therefore likely to result in higher occupancy costs than the options currently available. This option will be kept under review for future hubs. **Not recommended.**

- (d) **Lease a new accommodation Hub:** This paper recommends this approach in line with the adopted Strategy and within the Business Plan provisions already made. **Recommended.**

Risk and Opportunity

4.10 This proposal has the following generic risk and opportunity:

- (a) **Market Opportunity – short term:** The central London office market has, with an improving economic background, improved considerably in a Landlord's favour. **Action** – Agree HoT whilst market conditions remain favourable to TfL.
- (b) **Programme Risk:** It is considered that the programme for delivery of the preferred option is realistic and that the works can be delivered to meet TfL's occupancy timescales. The landlord has extensive experience in delivering office fit out works within this building. **Mitigation** – Closely monitor progress and agree penalties if the lessor fails to deliver on time.

5 Legal Implications

- 5.1 TfL has the necessary powers under its enabling legislation to take leases of property. A land transaction of this type where the total cost exceeds £100m needs Board approval under Standing Orders.

6 Financial Implications

- 6.1 The financial implications are discussed in Part 2 of the agenda.

7 Views of the Finance and Policy Committee

- 7.1 At its meeting on 12 March 2014, the Finance and Policy Committee considered a paper on TfL Office Accommodation and endorsed the recommendations to the Board.
- 7.2 Members were informed that the accommodation strategy and the principles of Hub buildings had worked well, with this paper proposing the third Hub. The identification of staff to occupy the buildings was based on their working patterns including their need to access other hub buildings or other parts of London.

- 7.3 The terms of the lease for the proposed Hub property had been secured under competition, thereby benchmarking current rates of comparable buildings across London, and were considered to represent good value for money.
- 7.4 The Committee noted planning permission is being sought for 55 Broadway but that the need for the new Hub property was not contingent on the proposal to vacate 55 Broadway by Autumn 2015.

List of Appendices to this Report:

A paper on Part 2 of the agenda contains exempt supplemental information

List of Background Papers:

Staff Summary to the TfL Board Paper entitled 'TfL Head Office Accommodation Strategy', dated 28 June 2006

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