

**Property in Business
– A Waste of Space
How Things Look Now**

**By
Roger Bootle**



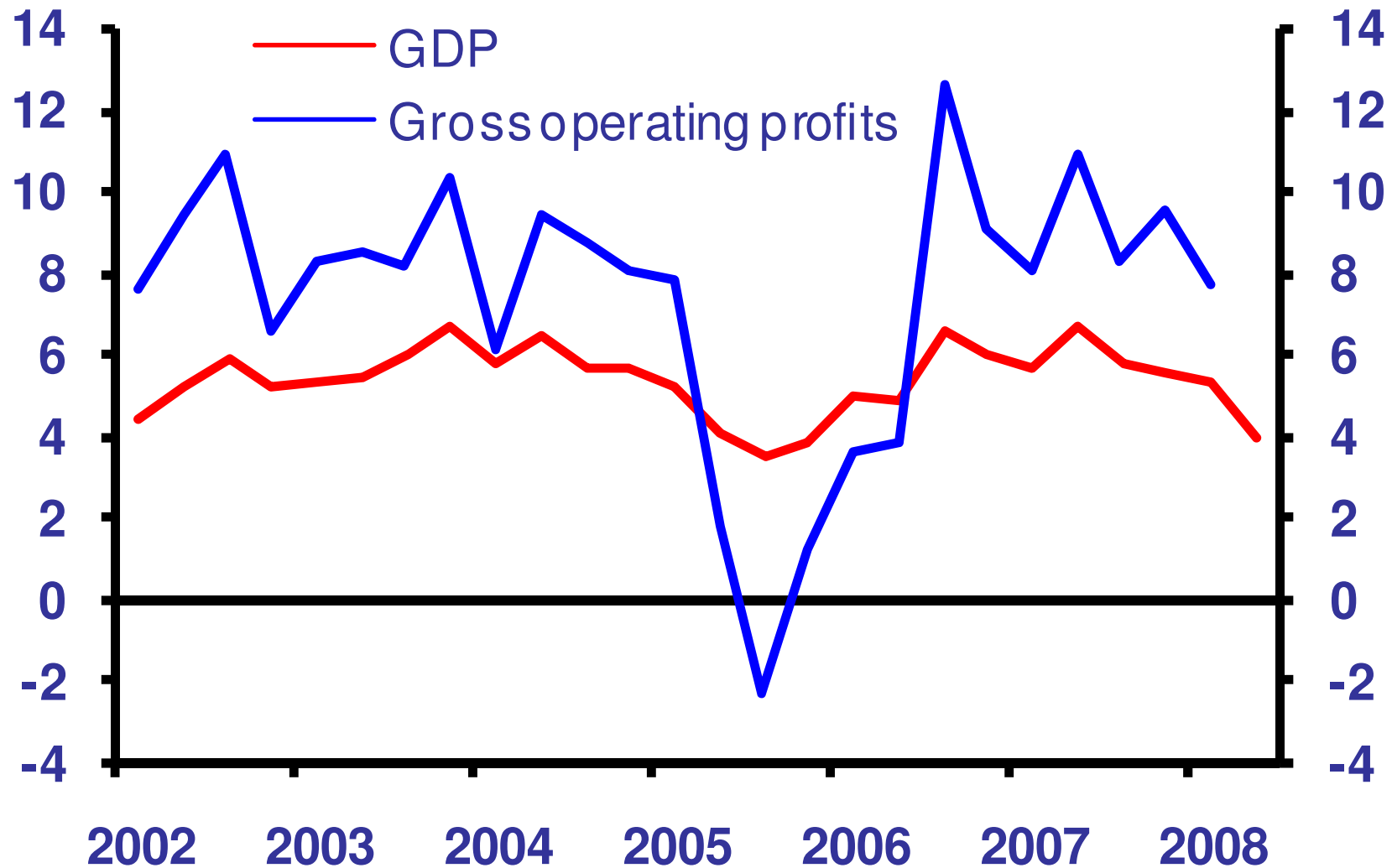
1. Key Findings of the 2002 Report

- **Property costs are typically the second largest cost, after salaries, facing business.**
- **Yet property costs are poorly monitored or understood.**
- **Inefficient property usage costs UK business roughly £18bn per year, or 2% of GDP.**
- **Cutting out this waste could boost gross trading profits by 13%, delivering significant benefits to the economy.**

2. How the Estimates of Savings Were Derived

- **Owner occupiers use property as efficiently as tenants.** £9.5bn
- **All businesses adopt new working practices.** £6.5bn
- **Improved facilities management** £1.3bn
- **Appeal “unfair” rate valuations and make better use of capital allowances** £0.4bn
- **Total costs** £17.7bn

3. Nominal GDP and Gross Profits (% y/y) (2002 – 2008) (Latest = Q2)



4. Updating the 2002 findings

- **Nominal GDP has risen by 36% since 2002Q1.**
- **Assume the costs of inefficient property usage still amount to 2% of GDP.**
- **Total costs to business are now £25bn.**
- **Eliminating that wastage would boost profits by 7%.**
- **But what if firms have changed the way they use property?**

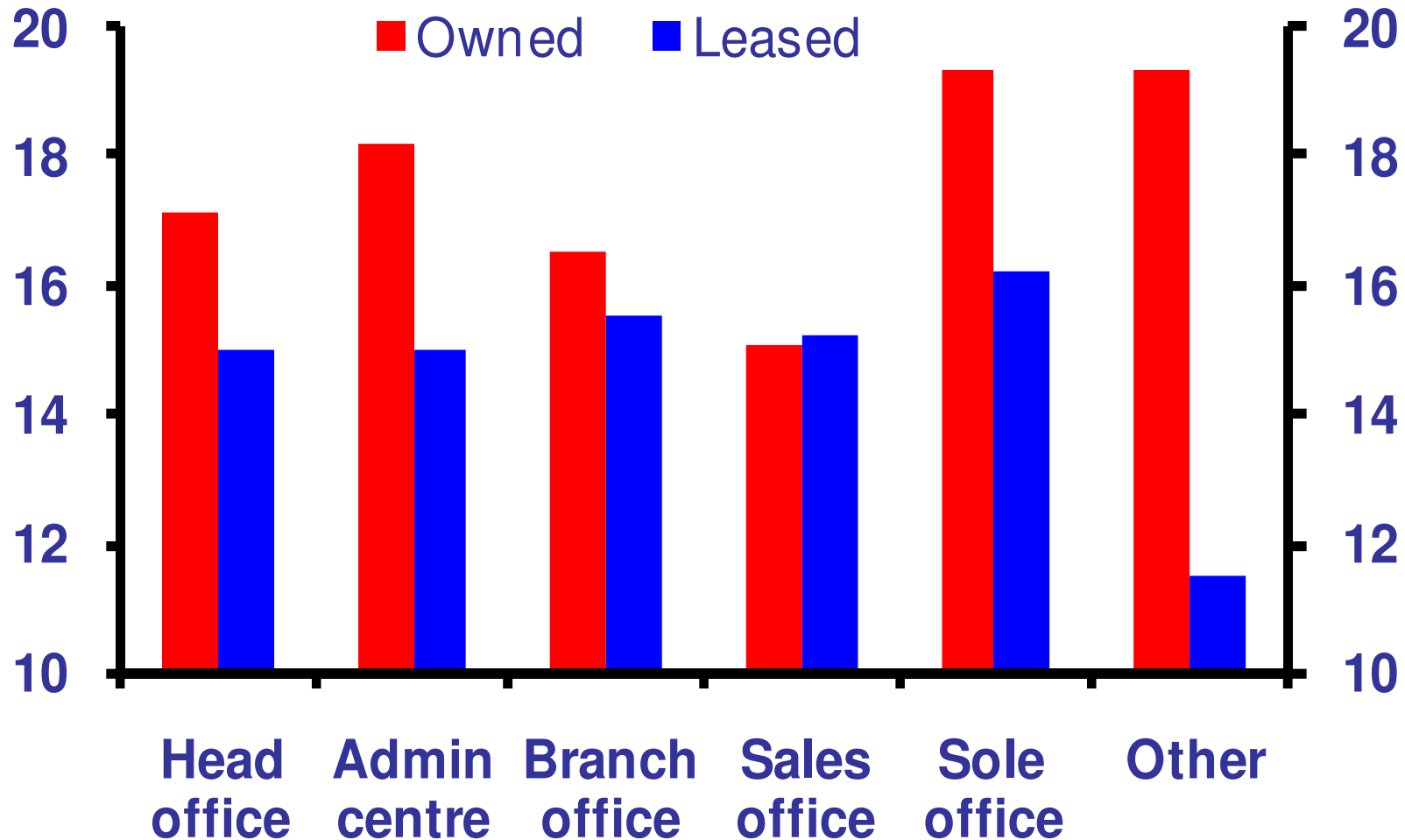
5. Space per private sector employee 2008 vs 2002 (Sq.m)

	Employees 000's	Floorspace Sqm 000s	Space per worker
2002	21,372	590,000	27
2008	23,092	598,951	26
% change	6.3	1.5	-4

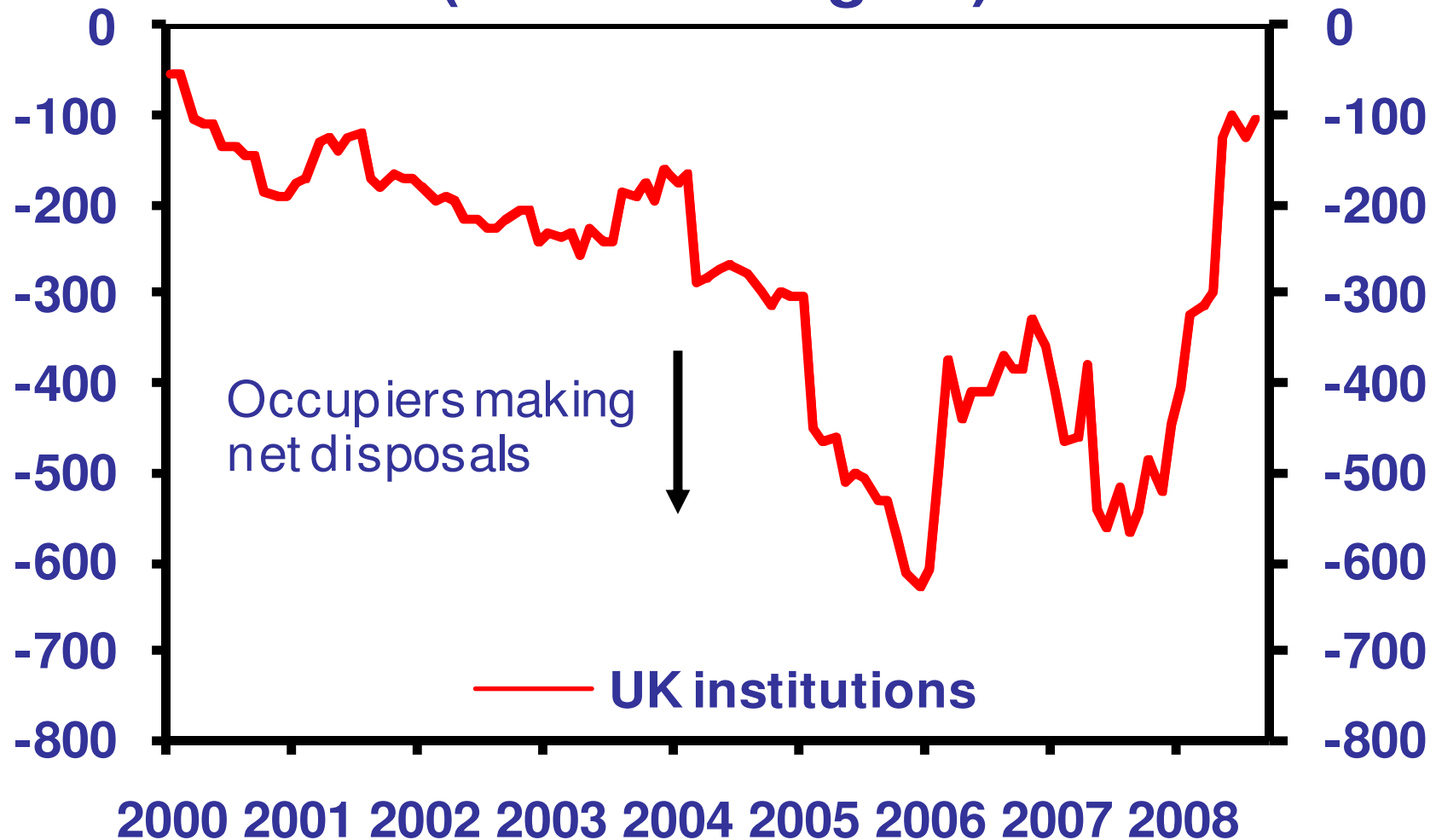


Source: Thomson Datastream, CLG & Capital Economics

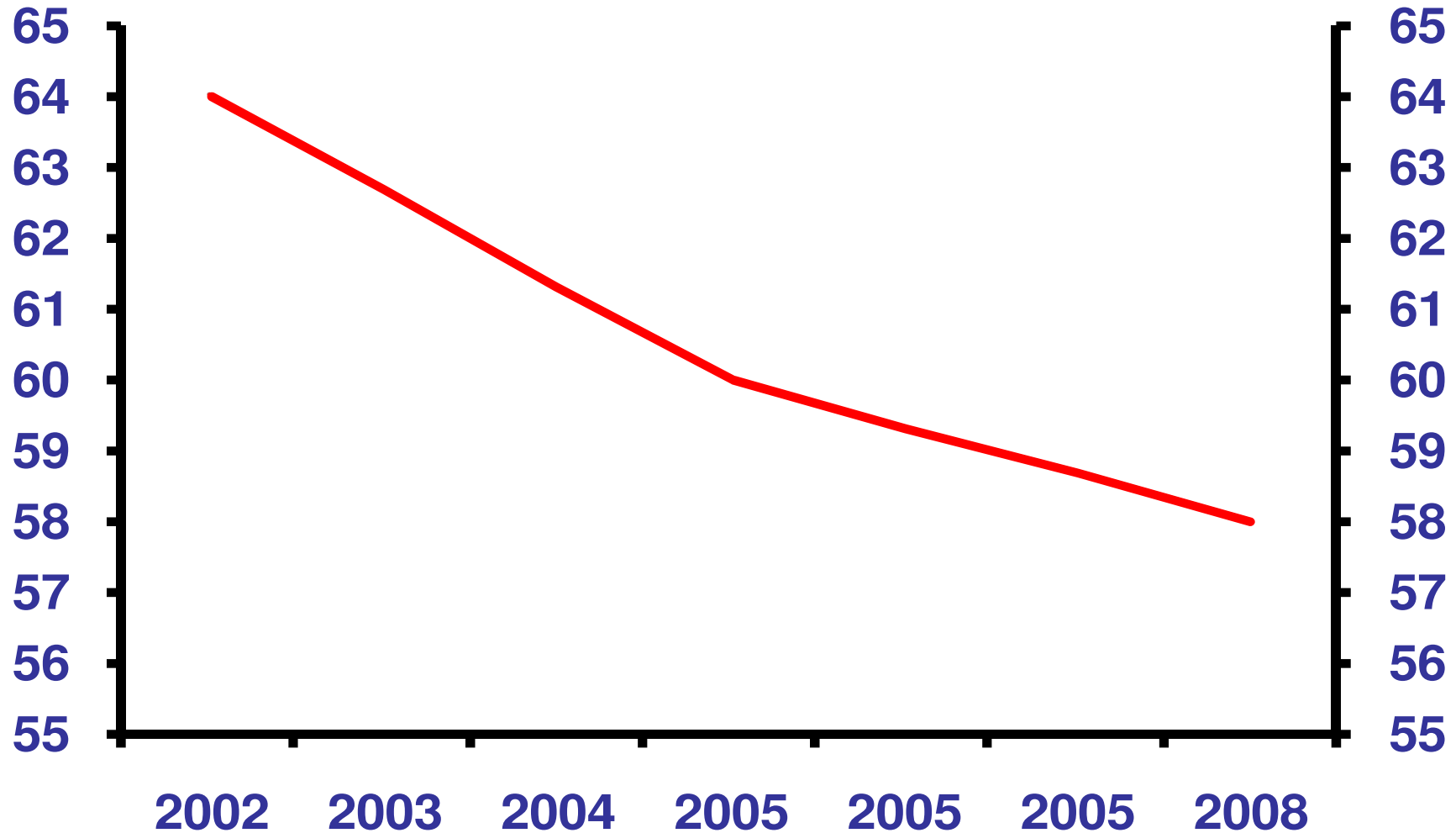
6. Occupation Density for Offices by Tenure and Function (2001) (Sq.m. per employee)



7. Net Investment in UK Commercial Property by Owner Occupiers (2000 – 2008) (Latest = August)



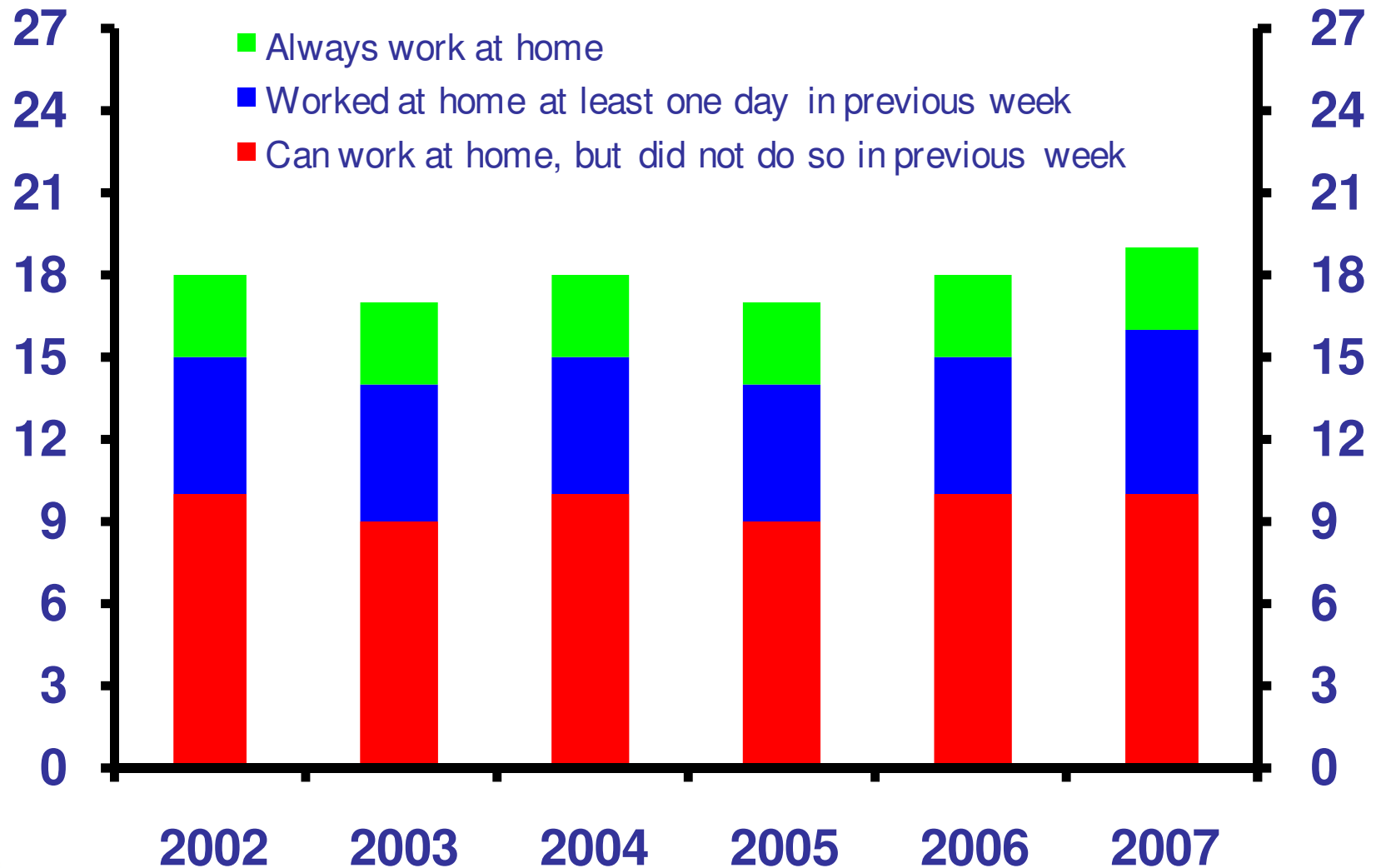
8. Owner Occupied Commercial Property (% of total stock) (2002 – 2008)



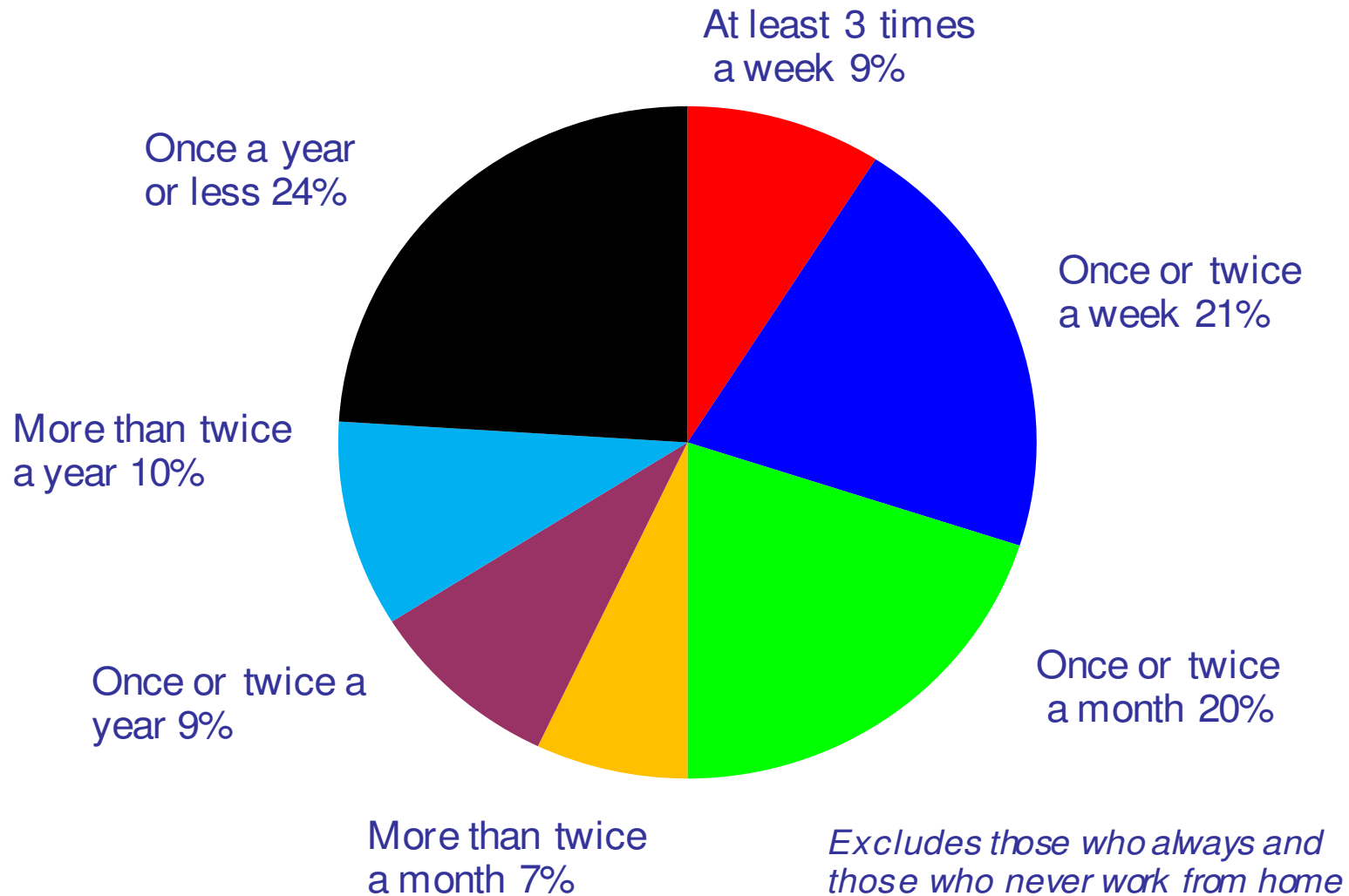
Sources: Cushman and Wakefield, IPF & Capital
Economics Estimates



9. Share of Employees Who Always or Occasionally Work From Home



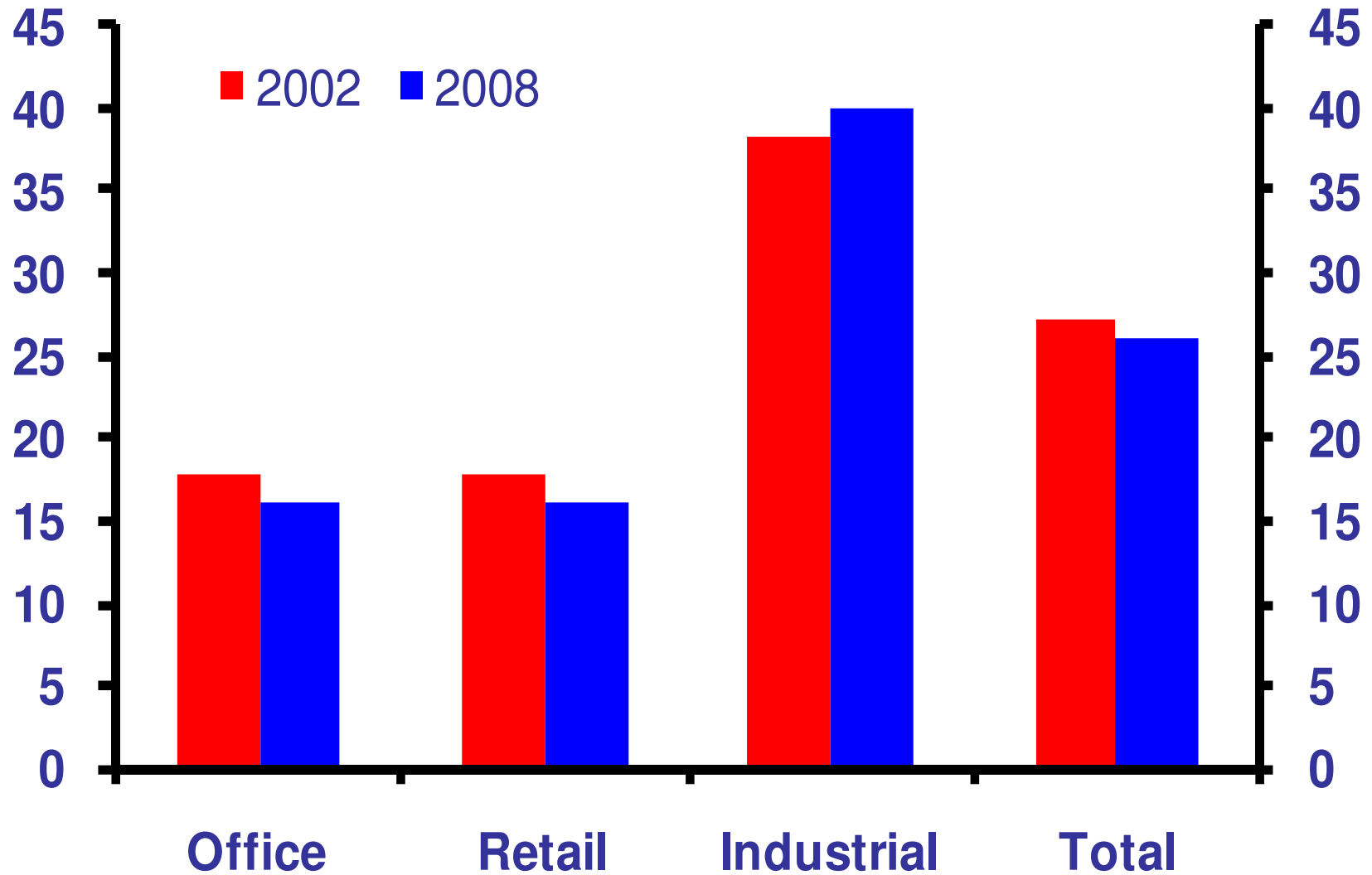
10. Frequency of Home Working (% of Occasional Home Workers)



11. Survey of the Effects of Advanced Working on Productivity



12. Space per Employee By Sector (Sq.m.) (2002 v 2008)



13. Economic Efficiency Considerations

- Without workers, office space has no independent productive value.**
- The same is not true for retail or industrial space.**
- Lower space per worker in the office sector may be a good thing – but not necessarily in the retail sector.**
- Similarly, rising space per worker may signal an increase in economic efficiency in the industrial sector.**
- Given these key differences in the productive value of business space, further reductions in space per worker will come overwhelmingly from the office sector.**

14. Space per Private Sector Employee in the Office Sector, 2008 vs 2002 (Sq.m)

	Employees 000's	Floorspace Sqm 000s	Space per worker
2002	5,622	100,000	17.8
2008	6,834	110,989	16.2
% change	21.6	11.0	-8.7

15. How Much Has Business Saved?

The Calculation

- 1. Property costs per square metre**
 - Rent, facilities management / taxes.**
- 2. Space per employee (sq.m)**
- 3. Number of employees (m).**
- 4. Total Property Cost for Business = 1 x 2 x 3**

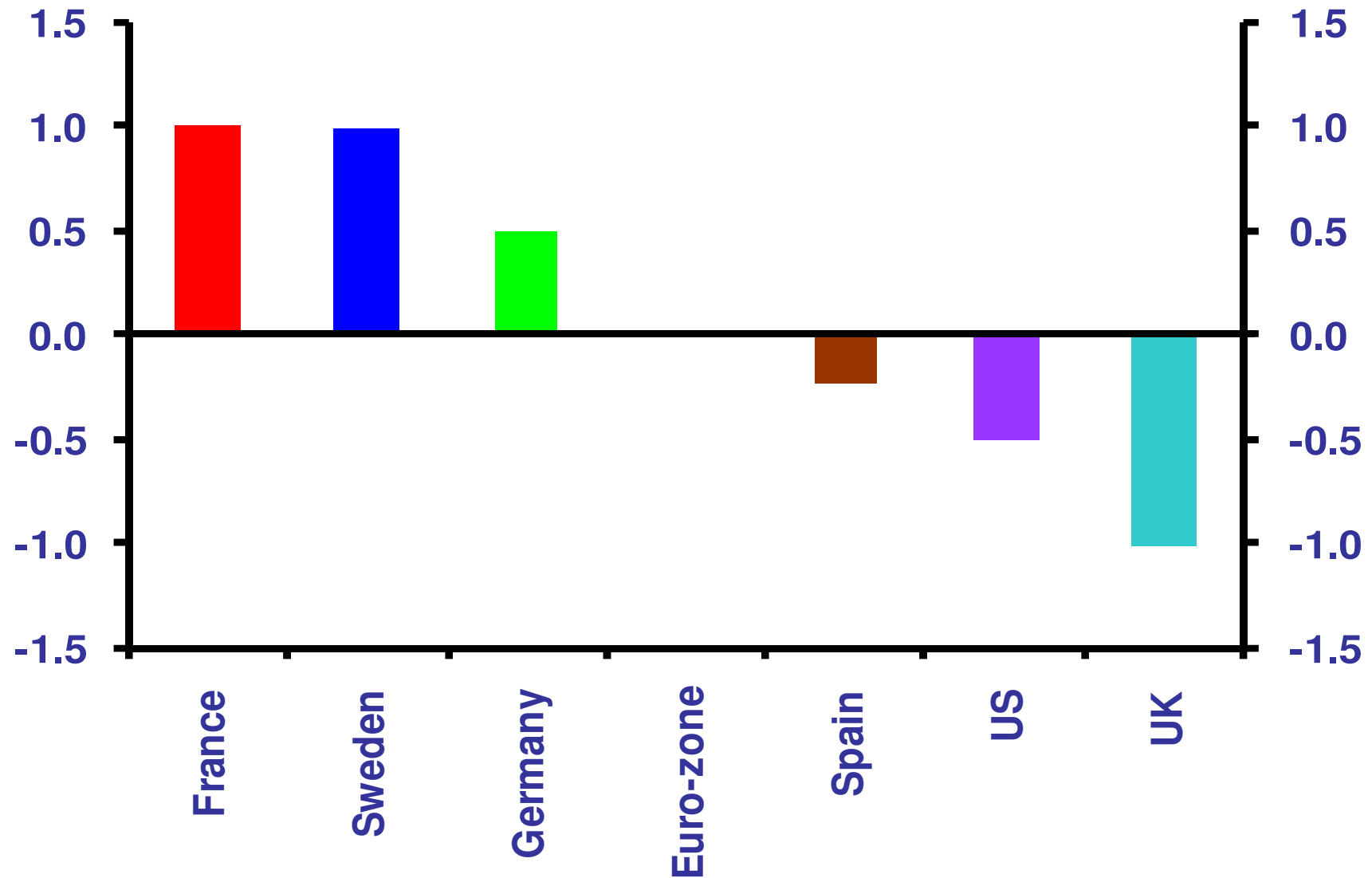
16. How Much Has Business Saved? The Numbers

Business Property Costs	£ bn	% of GDP
Baseline: The 2002 Report	103	9.7
Updating space per worker data only	96	9.1
Updating all inputs to today's costs, prices and space use	121	8.6
Total savings		1.1
CE estimate of potential savings in the 2002 Report		2.0

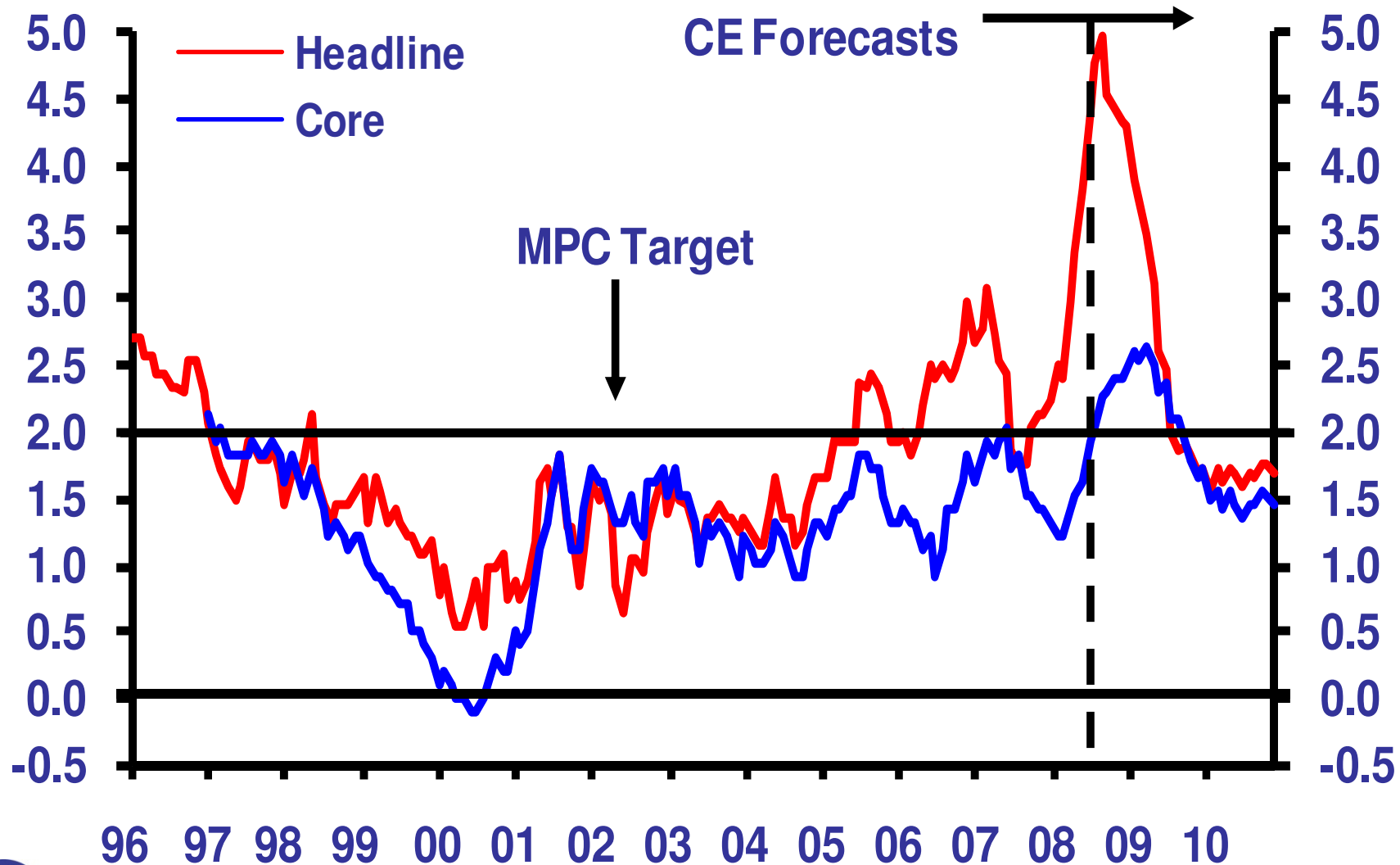
17. The Scope for Further Savings

- 1. Savings of up to 1% of GDP, or £14bn in today's money, are still to play for.**
- 2. Achieving those savings could boost gross trading profits by 4%.**
- 3. Forces still pushing for greater efficiency:**
 - a greater take-up of advanced working practices;**
 - the decline in owner occupation is not over;**
 - the recession will focus attention on cost reduction.**

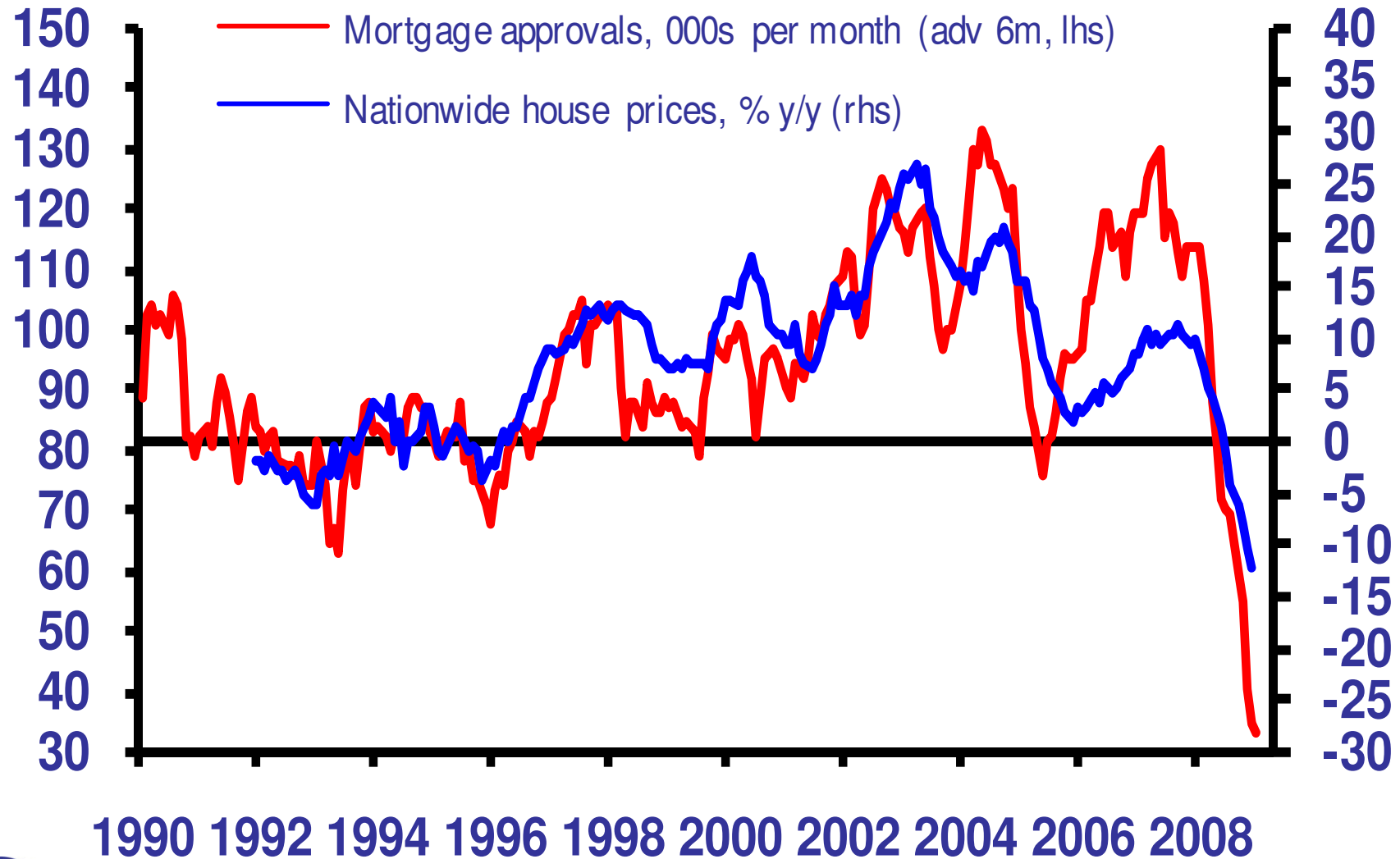
18. Growth Rates Compared (2009)



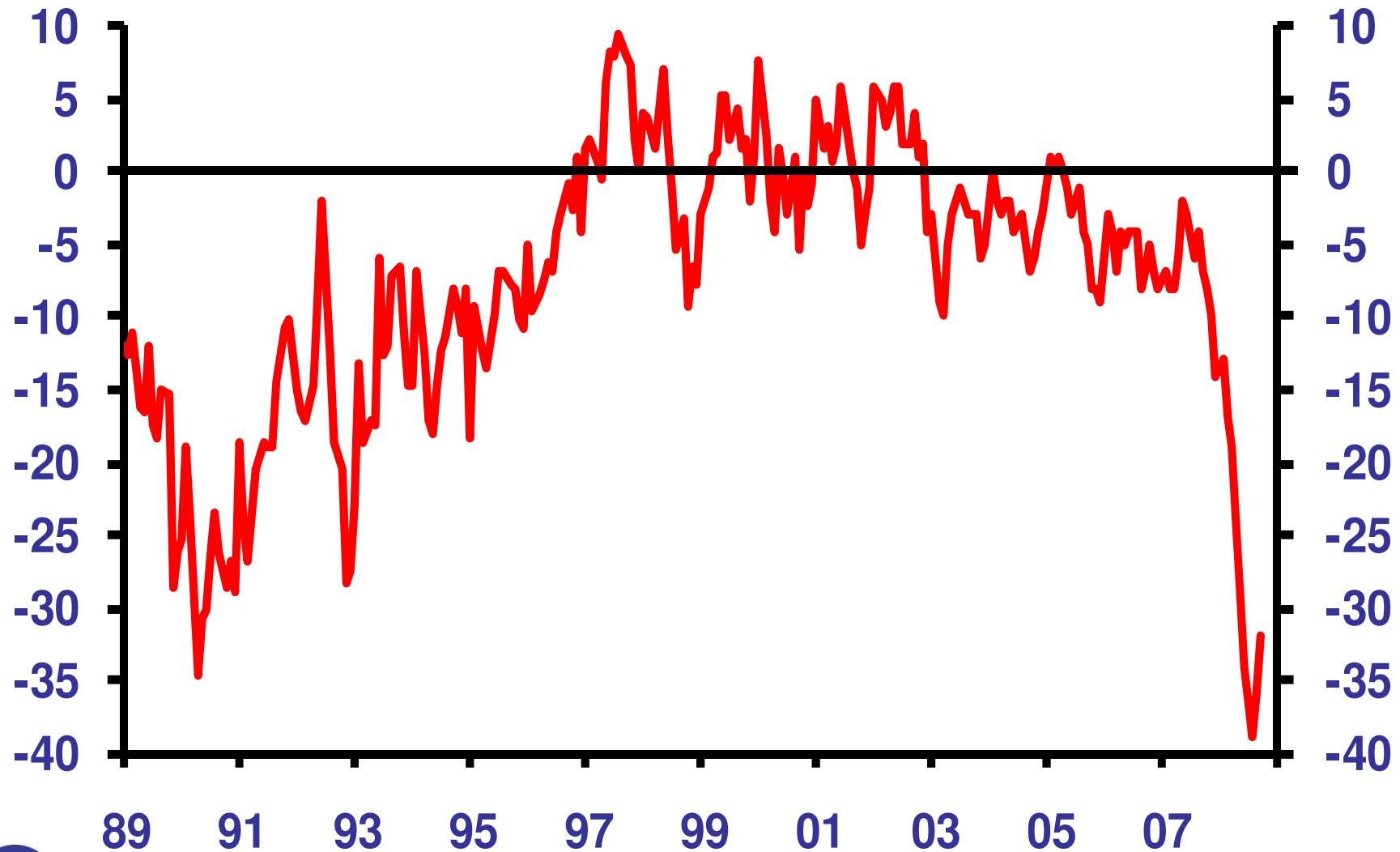
19. UK Headline & Core Inflation (% y/y) (1996 – 2010) (Latest = August)



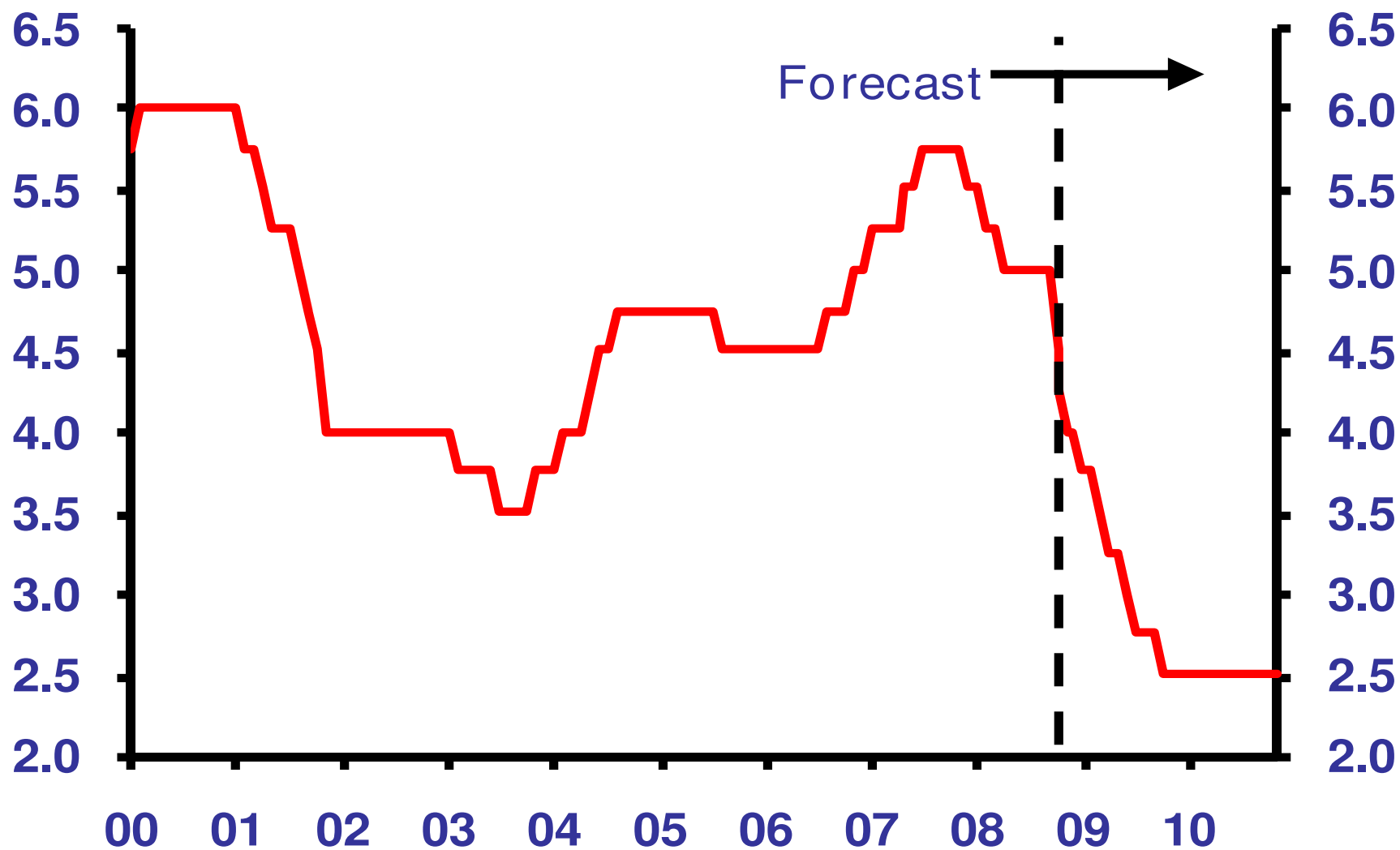
20. Mortgage Approvals and House Prices (1990 – 2008) (Latest = September)



21. UK GfK Consumer Confidence (1992 – 2008) (Latest = September)



22. UK Interest Rate Prospects (%) (1995 – 2010) (Latest = 9 October)



23. Conclusions

- **Since 2002, business has made substantial efficiency savings in the way it uses property.**
- **But it can and surely will do more.**
 - **Advanced working practices will become more common;**
 - **The recession will highlight the need for cost reduction.**
- **Savings worth perhaps £14bn, or 1% GDP are still up for grabs.**
- **Achieving them will bring long-term economic and environmental benefits.**