STUDY ON BUSINESS SPACE

IN MALTA

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EXECUTIVE STUDY

The study tries to analyse the market and demand for business space and provide recommendations to Malta Enterprise on behalf of Government of Malta on Business Space Policies.

Office space is in continuous evolution brought about by technological advances including virtual offices, pen-based computers, wireless technology, collaborative workplaces and smart buildings.

The key issues concerning end user in office specifications are office design, specification, location, lease structure, building management, and infotech/furniture. Call centres have grown within a generation to develop and deliver business-to-customer communication, are major employers in terms of volume and an important consumer of commercial property. The typical property requirement is of 130 square feet ($12m^2$) per employee. However technology is pushing for yet other changes like interactive voice response, speech recognition, and automated telephone agents, which will have a significant effect on office space.

Office space per worker differs significantly per office-using sector and type of occupation. It tends to be higher in smaller buildings but lower in very expensive locations. Space per worker is dependent on the internal layout of the building, differs with age of the building and is positively related to "capacity to pay". European data shows that office space per worker ranges from $14.8m^2$ in London to $25.3m^2$ in Frankfurt, $26.0m^2$ in Amsterdam and $26.3m^2$ in Brussels. In London, a Grade A office costs Lm600 per square meter with a yield of 4%, whereas the same property in Budapest costs Lm85 per square meter with a yield of 6%, while, for Malta, the same values taken at Lm90/m^2 and 5% respectively.

The Maltese office rental market is a function of the affordability ratio (which depends on occupancy costs and revenues). This equates to 6.25% of total annual business budget or l0% of payroll costs. The weighted average of floor area per employee is $12m^2$ rising to $15m^2$ in the banking sector with a range of office rental levels between Lm 45/m2 and Lm 68.25/m^2. Appendix B gives an office range varying from Lm14/m^2 up to LM160/m^2. It is only recently that pricing of space is being considered and demand for higher infrastructural flexibility is increasing.

The earnings' multiplier (Years' Purchase) factor being of inverse of the property yield, is utilized to convert rental value into open market value is based on the:

i. net rental value (calculated at 95% of the gross rental value, to cater for management & overhead changes),
ii. capitalization rate which depends on the quality and location of the office premises, and,
iii. purchase expenses (assumed at 9% inclusive of stamp duty, professional fees and allowance for Capital Gains Tax)

White-collar workers in Malta have increased from 38.9% in 2000 to 47.6% of total labour force in 2006. More than $60,000m^2$ of office space is presently available in Malta, the vast majority of which is located in Central Malta and the North Harbour. South Malta with half this office space available $11,801m^2$ as opposed to $19,867m^2$ and $20,227m^2$ has the largest floor area available at an average of $695m^2$, as opposed to Malta's average of $317m^2$. 80% of office sizes to be placed on the market lie between the size of $0m^2$ and $400m^2$.

The Malta average rental rates stand at Lm42.40/m^2, lying within a low range of Lm35.75/m^2 for South Malta followed closely by North West at Lm36.50/m^2, and a high range of Lm51/m^2 for the Grand Harbour, followed closely by the North Harbour at Lm48.95/m^2. 87% of all rentals lie within the range of Lm16/m^2 – Lm60/m^2.

A case study of a business space development of 100 plots divided in 4 rows with 2 rows of back to back plots measuring 6m X 45m with a central road between the 2 block in a site (Dowty) measuring 150m frontage and 150m deep in Mriehel, gives a land value of Lm9,375,000, equivalent to Lm3,500,000 per hectare. This contrasts sharply with the cost per hectare of land in Germany (Lm135,000), Singapore (Lm75,000) and Italy and France (Lm20,000).

The main residual valuation for the Dowty Site (market rental rate Lm35/m^2) is based on different development models, ie:

- Tower Block 67,000m^2
- Basic Office layout of 106,666m^2
- Basic Office layout of 85,600m^2- plus 5,737m^2 retail space
- Public Private Partnership (PPP)

Table 1 - Rental Rates for Office Options dependent on land value

OFFICE OPTIONS With floor areas	**TOWER BLOCK T 67,500m^2**	**BASIC OFFICE LAYOUT B 106,666m^2**	**BASIC OFFICE/RETAIL BR OFFICE 85,600m^2 RETAIL 5,757m^2**
LAND VALUE	**Lm/sq m p.a.**	**Lm/sq m p.a.**	**Lm/sq m p.a.**
Land given for free plus further subsidy to make it feasible to lease out at the present Mriehel rental value T1, B1, BR1	35 Subsidy : Lm20 million	35 Subsidy: Lm2 million	Office 35.00 subsidy NIL Retail 50
Land sold at Commercial Value (Lm9,375,000) TII, BII, & BRII	89.25	46.50	Office: 42.00 Retail: 50.00
Land given for free TIII, BIII & BRIII	72.00	37.00	Office: 32.00 Retail: 50.00
Land given for free with 0% contingency, 0% profit and no estate agents' fees (in case of BR agent fees = 3.5%) TIV BIV, BRIV	48.25	25.50	Office: 21.00 Retail : 50.00

Table 2 - Land Value

LAND VALUE – PPP MODEL (BRPPP)	
Basic Office Block with retail use at Ground Level (Office 85,600m^2 – Retail 5,737m^2)	Office: Lm23.50/m^2
	Retail: Lm50/m^2
Basic Office Block with retail use at ground level for front block of 75m frontage by 50m depth (Office 130,000m^2 – Retail 3,750m^2)	Office: Lm19.50/m^2
	Retail: Lm50/m^2
Internal Block with no retail use 60m frontage by 50m depth (Office Space: 13,500m^2)	Office: Lm30.50/m^2

Deminimis rule applies to the sale of land and buildings by public authorities without an unconditional bidding procedure. The aid allowable is equivalent to Lm28,985 over a 3 year period for each individual entity. Thus for an effective rate of rent of Lm15/m^2, the maximum space which can be subsidized is as follow:

Table 3 – Maximum Subsidized Office Space

	Maximum Subsidized Office Space
Basic Office Layout with Retail with land at NIL Value (BRIII)	1,700m^2
Basic Office Layout with Retail with land at Market Price (BRII)	1,070m^2
Basic Office Layout with **NO** Retail with land at NIL Value with full in-house dev. (BIV)	2,760m^2
Basic Office Layout with Retail with land at NIL value with full in-house dev. (BRIV)	4,830m^2

These maximum subsidized spaces may be further increased if Government grants tax rebate on rental income earned.

A business park development can be undertaken in the Mriehel Area while tower office blocks are feasible when rental rates are higher than Lm70/m^2 in prime locations with sea view like Pembroke and Sliema/St Julian's Area. 87% of all rentals lie within the range of Lm16/m^2 – Lm60/m^2.

INTRODUCTION

This study tries to give recommendations to Government to assist in deciding whether:

- Supply Business Space directly (as happens with Industrial Space in Industrial Estates); or
- Encourage investors to rent Business Space currently available in the private rental market, or
- A combination of the above along with incentives where necessary

These recommendations could possibly require Government intervention in the form of

i. Possibly allowing private investors to build and operate business space on suitable government land through Public Private Partnerships;
ii. Allowing property developers to build business space for renting to industrialists;
iii. Developing Business Space as new top floors over current and planned industrial space;
iv. Other government incentives, for example by subsidizing the rental fees should the investor rent from the current private market supply of Business Space.

The study also refers to current and future supply of appropriate Space to allocate Businesses.

HISTORY OF THE OFFICE SPACE

Work Begins

Human history has always defined work in relationship to the technologies people used for communication. Perhaps 100,000 years ago speech became the first significant communication technology to transform work.

Fast forward to a time some 10,000 years ago when a new communication tool, written language, reorganized work and along with it most other aspects of civilization. Agrarian societies evolved and transformed the work of culture creation. At this time, the first small class of knowledge works emerged. A priestly class concerned the market for this knowledge work, the gathering and recording of information, for thousands of years.

……while factory doors shut a new door is opening…..

Then came Gutenberg and the printing press. Control over written works was wrestled out of the hands of a small elite once those written words became mass-produced. Creativity exploded throughout Europe in a transition from the medieval age to a modern age called the Renaissance.

Our modern notions of work are still dominated by the industrial era that followed. The industrial revolution re-organized the production of goods, food, clothing and shelter, but the work of creating culture was just as profoundly affected. The scale of society grew beyond that of a simpler age when the number of people who used writing was small. Organizations were not longer bound by space as communications technology created the potential for control at a distance.

The industrial age worked because it spread literacy. Aspirations for universal education created a huge corps of knowledge workers. This gave us a speedier evolution of mankind's brainpower, measured in the number of books, colleges, laboratories and subjects where knowledge is systematically developed. Our collective knowledge gave birth to a new economy as society leveraged the opportunity to share intellect.

During the first decade of this century the fields of economic psychology and scientific management were influential in determining the design and management of work. These approaches utilized methods such as time and motion studies to emphasize efficiency of various job related tasks. From this perspective, the worker was viewed as a potential source of error in the system of the job. Management in the first half of the twentieth century, taking its cue from these perspectives, endeavored to minimize this source of error by standardizing work environments and work routines.

In the 1930s, a major turning point in industrial psychology came about from a series of experiments at the Hawthorne Electric plant (Chicago) by Elton Mayo. The "Hawthorne Experiments", originally designed to examine the effect of illumination on worker productivity, were diverted from this focus by a recognition of the importance of management's concern for works' well-being. These famous studies are considered the beginning of the human relations movement and signalled the end of studies of the physical environment in organizational psychology and management theory. The attention to the human qualities in work situations were further emphasized by the humanistic approaches.

As this brief history suggests, initially the focal point for the study of work settings was the physical environment. Following the Hawthorne studies, emphasis was placed on aspects of the social environment. In recent years, several developments have pushed the physical environment into a more prominent role.

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2. *Otto E Stallworth & Brian H Kleiner:- "Recent Developments in Office Design" Facilities Vol 14 No 1/2 1996 MCFB University Press*

TRADITIONAL OFFICE & NEW CONCEPTS

Organizations wishing to explore the full potential of new technologies, rather than simply integrating them into existing work patterns must be prepared to reassess and modify their own work cultures.

Convention, in most large organizations, is very clear; those at the top get more space, more privacy, better views, better furnishings and more opportunities for personalization and choice. The justification is that it acts as an incentive for those expecting to rise in the organization and the visitors measure the influence and power of those with whom they interact by these values.

The typical view of management is that people who are working should look like they are working; sitting at their desk writing, reading, talking on the telephone, in a meeting etc. Work is place-bound – at the desk or in the office. Recently, when most people or businesses thought of office design, what usually came to mind was wall and carpet colour, style or furniture, and wall hangings or pictures. Cost containment was and still is a concern. Other things concerning the office space were taken for granted – such as whose office goes where. From the chief executive officer (CEO) down through the organization chart, and CEO would inhabit the largest suite on the top floor and lowest-level employee would have the smallest office on a low level. This unlike the Japanese mentality where the CEO occupies the internal central space overseeing the employees.

Today, however, the trend is towards basing office design on employee needs, in order to maximize employee productivity and satisfaction. The work environment can either accommodate or frustrate those needs.

Innovative workplaces allow sharing of information and networking without regard to job-level boundaries, allow networked and spontaneous communication, simulate thinking and creativity.

The three types of communication which must be increased are:

(1) communication to co-ordinate work (grouping according to project);
(2) communication to keep individuals informed of new developments in their field of specialization (grouping according to specialty;
(3) communication to stimulate creativity (less predictable and more informal, chance encounters).

There are advances in technology, which will also have a major impact on shaping the office of the twenty-first century:

- *Virtual office*. Home office and telecommuting will be more common. Following a briefcase with extra work for evening or weekend hours, is a longstanding tradition. Laptops, faxes and modems now allow workers to take the entire office home. This has led to teleworking which helps companies reduce real-estate costs, respond to employees' needs for work family balance, offer employment opportunities to persons with disabilities and reduce traffic congestion and air-pollution. Teleworking is not restricted solely to home-based working, but is stretched to those working in telecentives back street offices and even call centers.
- *Pen based computers*. Coded or hard-written data will be scanned into a computer supporting the needs of the mobile or non-traditional office
- *Office in-a-box.* Miniaturization will enable us to have cellular phone, modem, optical CD storage, scanner, printer, keyboard and computer in a briefcase.
- *Wireless technology*. Permanent workstations will not be needed.
- *Silicon secretaries*. Phone calls, memos and verbal commands will be taken by computers.
- *Collaborative versus private workplaces*. The team-oriented approach to the work process will make it necessary to accommodate the need to gather in groups for meetings, as well as to take their individual assignments to a quiet area. Separate activities that generate sound from activities that are sensitive to sound, by supplementing open plan solution with sound-insulated quiet rooms. A glazed partition may attenuate sound whilst not cutting off sight of vision. Further note that the line of sight between 2 points is straight, whilst for hearing this is a curve. Thus a low partition may provide for not seeing the other working, but may hear him.
- *Smart buildings*. Technological development will allow business to respond instantaneously to environment changes. Computerized "smart" offices will reduce operating costs by monitoring all building functions. For example, temperatures will adjust and lights will go out unless codes are entered to accommodate a later worker.

European countries prefer opening windows and natural ventilation reducing energy demand, whilst North Americans expect A/C space partly due to the extremely large floor plates found. The footprint of the building has a bearing on the natural characteristics of ventilation together with its total embodied energy content, which has to be reduced as a sustainable requirement. There is a moral reason to improve buildings thermally to reduce man's environmental impact. The economic argument for thermal improvement is low running costs, however ultimately the building owner develops the design brief and passes on the running costs to the tenant. Until tenants demand lower running costs, the owners, unless forced by legislation, will continue their current practice. With thermal improvements located in the envelope, with improved insulated walls and roofs, together with improved window specifications, it is in the lighting that major savings may be affected, as lighting can account to 38% of all electrical energy consumed.

Improving old buildings is an effective strategy for sustainability as it reduces resource consumption, energy use and emissions and by extending the useful life of buildings, reclaims embodied energy over a greater time frame. The wireless technology may bring old buildings stock back to use, as buildings of restricted height may now be utilized as office space due to the less restrictive headroom requirements.

Improvements in the physical design of the workplace may result in a 5-10 per cent increase in productivity. Mobility, empowerment teams, cross-training, virtual offices, telecommunicating, re-engineering, restructuring, delayering, outsourcing – these buzzwords which are changing the lives of workers.

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