Colliers Occupier Activity Index

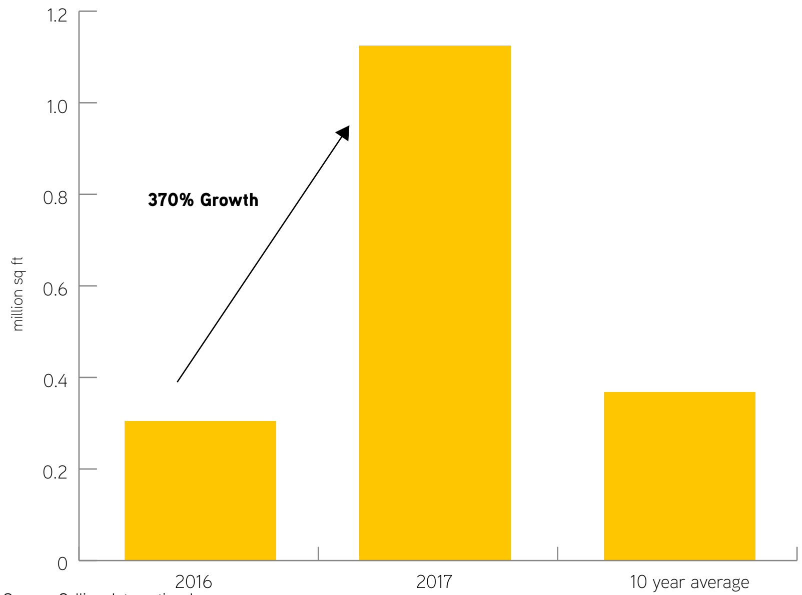
Spring 2018

EU RULES UK

UK economic, if less political sentiment, appears to be in a far more comfortable place than 18 months ago. 2016 was a challenging year for the London office market, but 2017 demonstrated not only resilience in the face of ongoing uncertainty, but also occupier confidence in London as an enduring global nucleus. This support was not so much evident amongst UK occupiers, but more critically, in leasing activity amongst overseas companies.

Take-up by non-UK occupiers rose by 90% in 2017. While this overall figure shows marked, above trend, growth, the key driver of this uplift was a surge in activity from European occupiers. European companies took 45% less space in 2015/16 than in 2013/14, with the figures slipping below the ten-year average. In contrast, 2017 saw square footage taken rise by over three and half times, reaching the highest annual total in the past 15 years.

European Occupiers Activity 2016/2017 vs 10 yr average
Units above 5,000 sq ft



Source: Colliers International

Brexit, Brexit…. What on earth is Brexit?

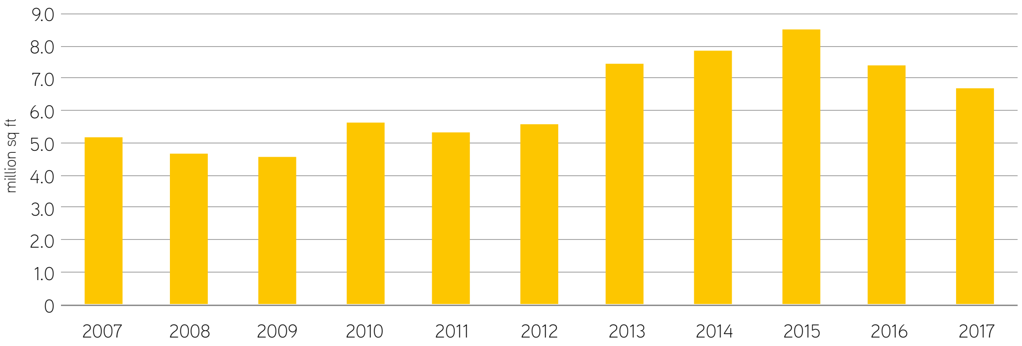
2016 saw demand for office space nose dive in London, but in 2017, transactional activity bounced back sharply, driven not by a resurgence in domestic confidence, but instead by overseas occupiers. Overseas occupiers accounted for 36% of London take-up in 2017 compared to just 20% in 2016. While the press being generated about the volatile political climate continues apace, European occupiers are increasingly becoming conditioned to Brexit 'white noise' and are keen to push forward with expansion and relocation plans, previously stymied by the immediate post-referendum malaise.

At the same time, take-up by UK companies actually fell marginally in 2017, down for the second successive year. Named UK occupiers took 6.6 million sq ft of office space in 2017, down from 8.5 million sq ft in 2015 and 7.4 million sq ft in 2016. At the same time, average deal size reduced from 19,251 sq ft to 17,283 sq ft.

The reduction in average deal size by UK firms is reflected in an analysis of the largest deals signed in 2017. While two of the top five deals are to UK firms, just eight out of the top 20 transactions can be assigned to UK owned occupiers. For the top 20 deals, in terms of square footage, just 36% of space is accounted for by UK activity, with 41% North America and 23% European.

UK Occupiers Activity 2007-2017

Units above 5,000 sq ft



Source: Colliers International

2017 Top 20 Deals by Size (sq ft)

Deutsche Bank AG	Europe	Financial	469,000
Dentsu Aegis	UK	Media and Tech	311,800
WeWork	North America	Flexible Offices	283,450
Freshfields Bruckhaus Deringer LLP	UK	Legal	256,521
WeWork	North America	Flexible Offices	177,587
WeWork	North America	Flexible Offices	140,00
Calyon Credit Agricole	Europe	Financial	136,688
Expedia.com	North America	Media and Tech	136,657
Arup Group Limited	UK	Property	133,600
Boston Consulting Group	North America	Business Services	123,500
Lloyds Bank Plc	UK	Financial	116,176
Hyperion Insurance Group	UK	Insurance	115,892
Nex Group	UK	Financial	115,680
WeWork	North America	Flexible Workspace	114,000
WeWork	North America	Flexible Workspace	111,488
Cancer Research UK	UK	Charity	109,960
Spotify Limited	Europe	Media and Tech	104,052
WeWork	North America	Flexible Workspace	103,582
Lloyds TSB Bank	UK	Financial	102,248
Turner Broadcasting	North America	Media and Tech	99,800

Source: Colliers International

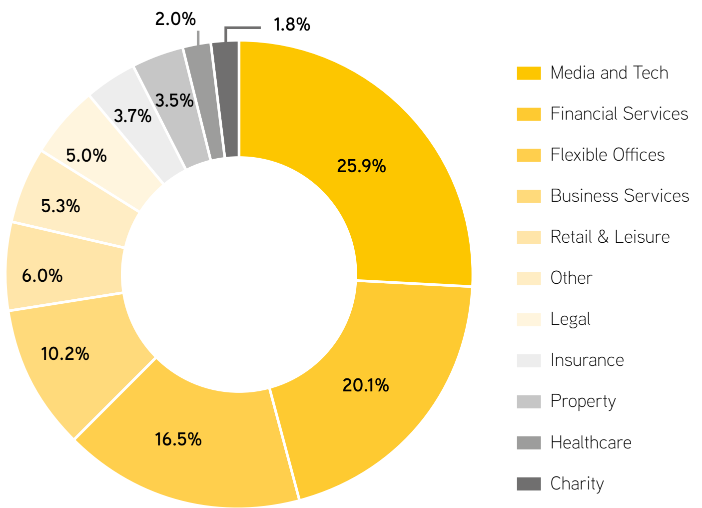
Service Sector Surge

Sector wise, media and tech continue to lead the occupier activity, with that sector and financial services accounting for nearly 50% of demand. Flexible offices, dominated by WeWork (1.1 million sq ft), increased its market share substantially from 6% in 2016 to 16.5% in 2017.

In terms of media and tech and financial services, UK domestic demand continues to dominate. However, European financial services activity was reignited in 2017, disregarding the potential Brexit minefield. In 2016, European financial services companies took under 100,000 sq ft of new space. In 2017, that figure rocketed to 650,000 sq ft, underpinned by Deutsche Bank's commitment to a new HQ in the City of London.

Take-up by Sector 2017

Units above 5,000 sq ft



Source: Colliers International

HQing Up

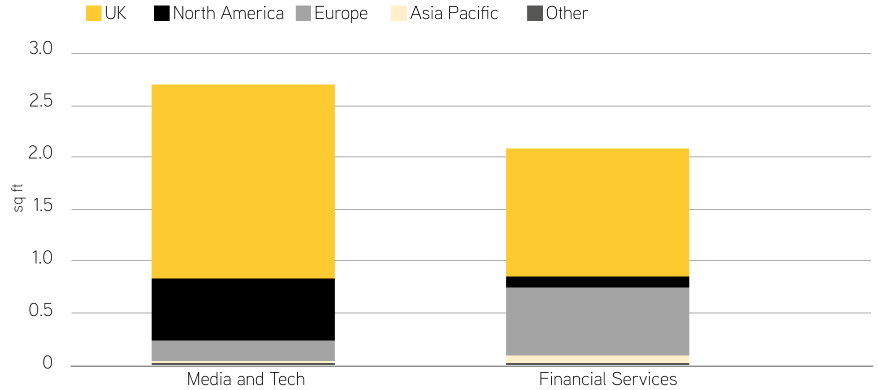
For media and tech, North American blue chips such as Amazon, Verizon, Snapchat, Expedia, Adobe and Turner Broadcasting took 450,000 sq ft between them. Despite 2016 seeing Apple sign up for 470,000 sq ft at Battersea Power Station, the 2017 total of North American media and tech take-up still matched the previous year's numbers. There were 25 individual deals for units above 5,000 sq ft in 2017 compared to just 11 in 2016.

Looking further ahead at key requirements in the market, overseas occupiers continue to dominate, with 100,000 sq ft plus searches by Citi, Bank of America, L'Oreal and Warner Music. Add to that Facebook, which is believed to be under offer on 400,000 sq ft at King's Cross, as well as Nike (60,000 sq ft). LinkedIn and Sony are close to finalising moves for new HQ buildings.

While overall UK activity is plateauing, North American and European demand appears to be surging well above long term average levels. While North American activity has been supported by demand from WeWork, both North America and Europe were running at close to 175% above the ten-year average.

Key Sectoral Take-up by Region 2017

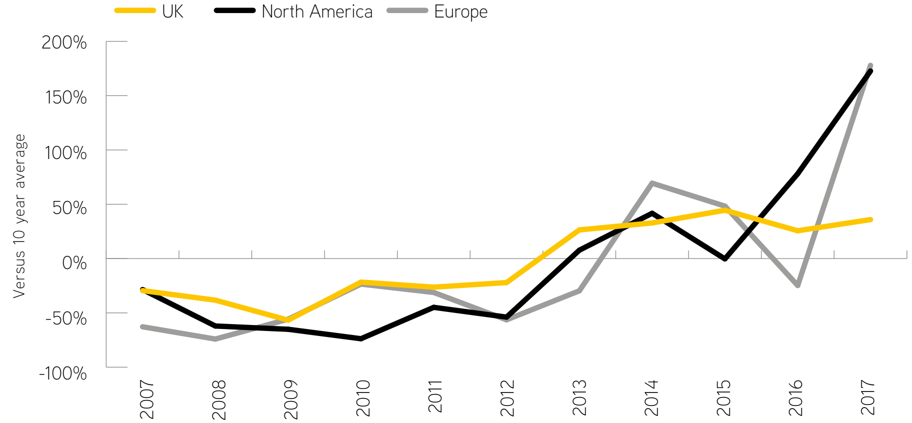
Units above 5,000 sq ft



Source: Colliers International

UK & North American Occupier Activity vs 10 yr average

Units above 5,000 sq ft



Source: Colliers International

Conclusions

London is retaining and reinforcing its magnetic draw for global corporates. Demand for space improved in 2017, with all of the uplift driven by overseas occupiers.

2016 Euro-scepticism of the viability of a London HQ appears to have substantially receded as demand for space from European owned companies surged in 2017 to way above the long term average.

While there was some notable activity from UK occupiers, expansion-led demand appears to be in shorter supply than amongst overseas companies. With the exception of Dentsu Aegis, other major UK leasing transactions were more 'churn' or like for like relocations, such as Lloyds Bank, Cancer Research and Arup.

Media and tech occupiers continued to be in expansion mode in 2017 and going into 2018, with 'land-banking' by Google and Facebook very much to the fore.

At the same time, flying in the face of anecdotal evidence, the financial services sector remains robust in its acquisition of new space. 2018 could see major London commitments from top five full-service investment banks, Bank of America Merrill Lynch and Citi, in conjunction with Goldman Sachs' occupation of its new, bespoke, Farringdon HQ.

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