

# Occupier Activity Index

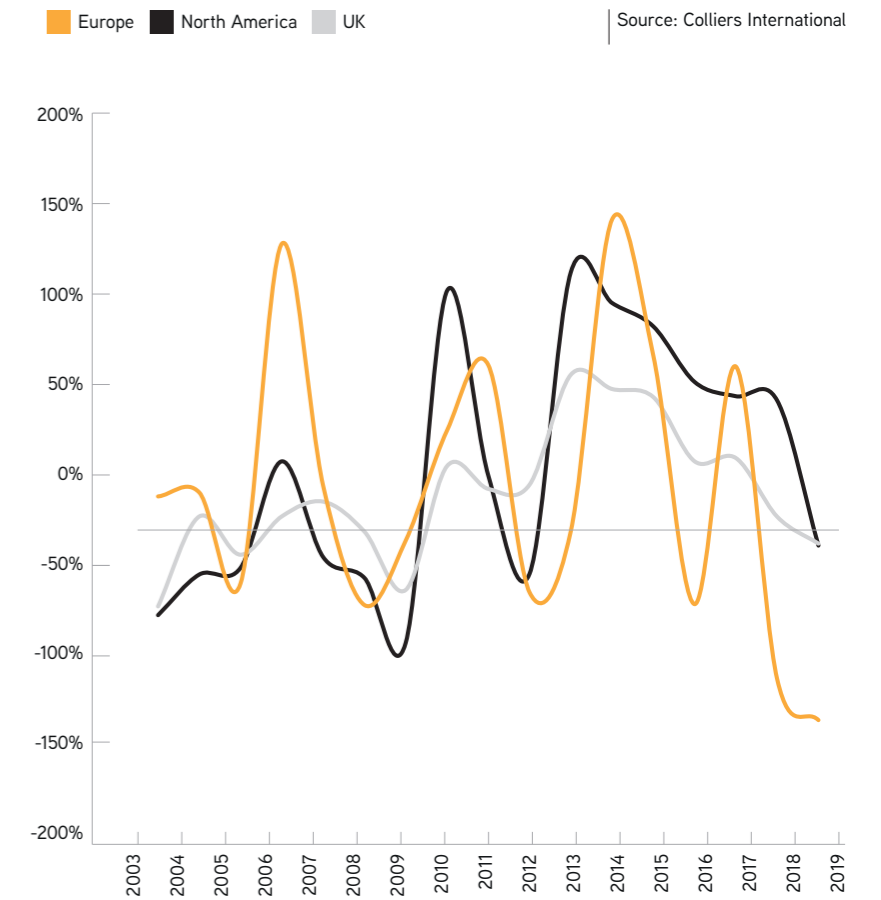
Summer 2019



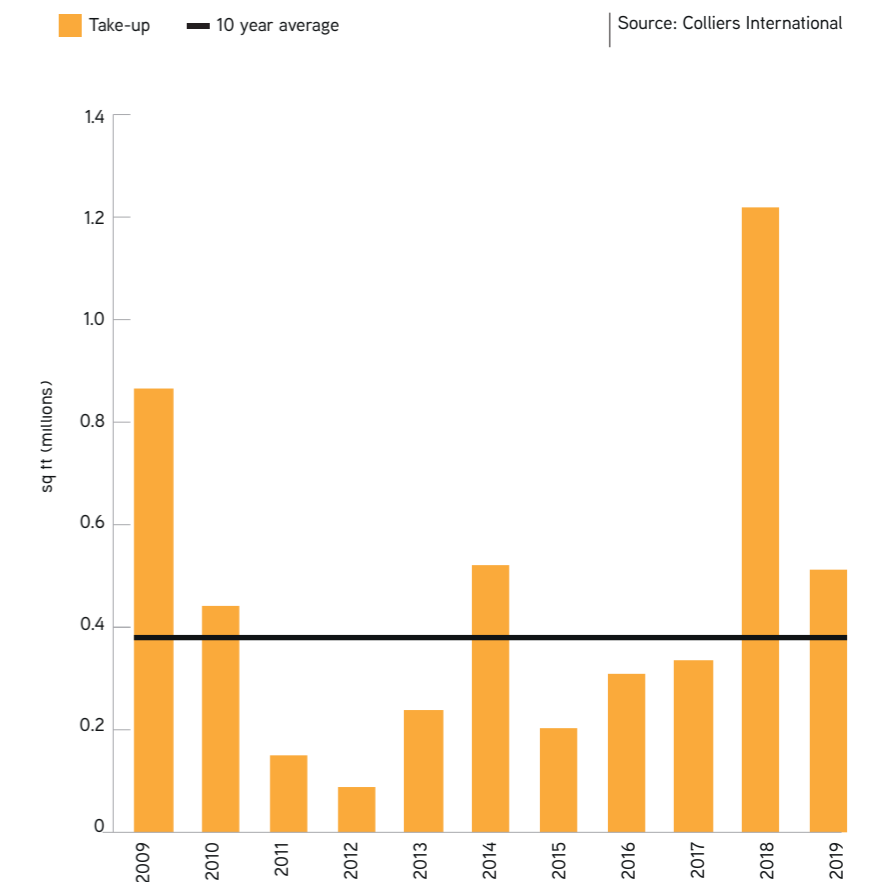
## NICE KNOWING EU

- > Overseas occupiers' commitment to London office space has moderated in 2019 to date. The record-breaking levels seen in 2018, now seem some time ago. Take-up by non-domestic companies in London during 2018 reached 4.6 million sq ft, which was an increase of 18% year-on-year and more than 60% above the 10-year average. Statistics cannot disguise the fact that demand from European owned occupiers was soft in 2018 and has slumped further in the year-to-date, to its lowest level since 2001. Concerns about the UK's manner, timing and even probability of its departure from the EU, have led to a pronounced level of caution from potential continental occupiers.
- > Transactions over 5,000 sq ft by European occupiers were 71% below the 10-year average in 2018 and the numbers have only deteriorated further in 2019. As at May 2019, letting activity by European occupiers was a stark 91% below the long term average for the first five months of the year. This suggests that larger than average commitments for space are off the menu for the time being. It is worth noting that even for smaller space, under 5,000 sq ft, activity was muted. Across all size bands there were only 15 deals recorded, totalling just 43,065 sq ft. That said, numbers were similarly depressed for the equivalent period in 2018, showing the persistent scepticism being employed by European companies.
- > The largest commitment of the year-to-date, ironically, has been by the European Bank for Reconstruction and Development (EBRD), which although not classified as a European body, being owned jointly by 67 separate countries, operating not just in Europe but increasingly across the middle east and into Asia, still contributes to overseas take-up.
- > EBRD has taken 365,000 sq ft at 5 Bank Street, E14, where 2,500 staff will be based, moving from Exchange Square in the City of London. 5 Bank Street will now be fully leased prior to completion, with the other 45% being occupied by French multinational investment bank, Societe Generale. The scheme, in many ways, represents the quandary that major financial operations, either active across Europe or with an established continental network, are having to face. The message remains clear that for major corporates and financial services operations, London is still front and centre, as the key European hub.
- > While the mid-level, European owned operations appear to be adopting a wait-and-see attitude to relocations and new commitments to real estate, non-UK/European/North American operators seem remarkably unphased by the whole Brexit process. Boosted by the deal to EBRD, transaction levels by 'Other' occupiers are already above average in 2019 to date.

**Figure 1: Central London Offices Overseas Activity 2003 - 2019 vs 10 yr average**



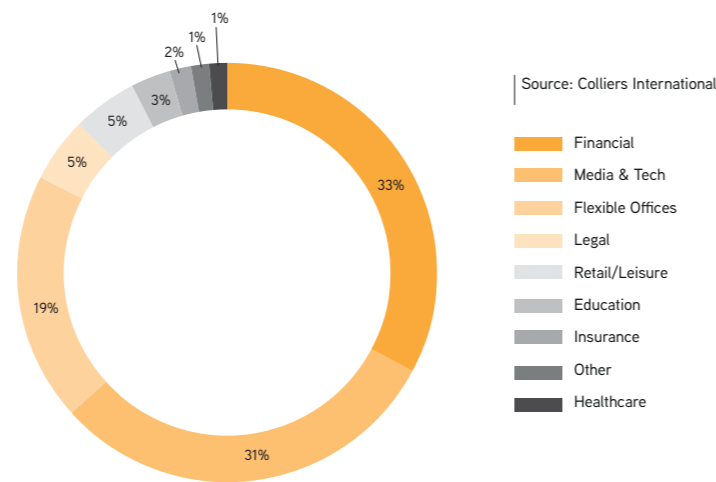
**Figure 2: Central London Offices Other Overseas Activity 2009 - 2019 vs 10 yr average**



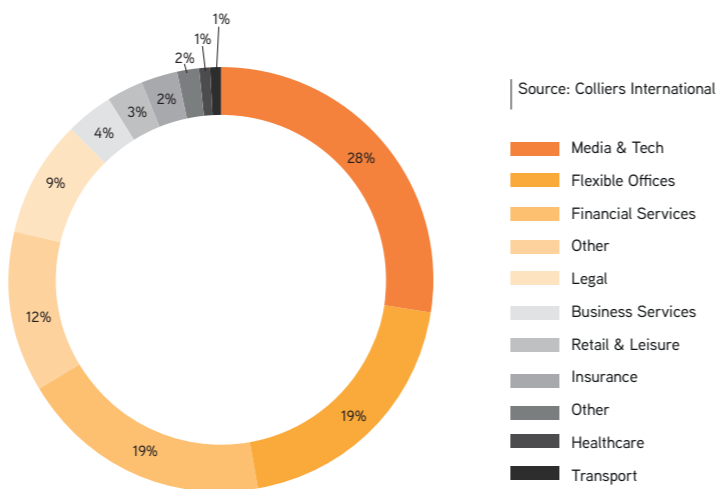
# US AND THE U.S.

- › Although occupier take-up from US occupiers has slowed relative to the levels seen in 2017-2018, demand is only marginally below the long-term average. Average deal size was 19,228 sq ft, compared to 15,384 sq ft for UK companies. Facebook has signed for an additional 145,000 sq ft, along with substantial deals to Cinven, Phillip Morris, Product Madness and the obligatory leasing activity from US flexible offices provider, WeWork.
- › Flexible office occupiers continue to absorb space. WeWork has signed for 227,000 sq ft in 2019 to date, with overall commitments from the sector reaching 400,000 sq ft as at May 2019. WeWork's portfolio across London, both existing and future centres, now totals 3.5 million sq ft.
- › While 'flex' office providers remain a key source of demand, the strength of financial services take-up continues to surprise to the upside. 460,000 sq ft of overseas take-up was derived from the financial sector. At 33%, the market share for financial services is at its highest level since 2015 and is on course to reach a nine-year high, based on activity in 2019 to date. In addition, requirements by Rabobank (150,000 sq ft), Bank of Montreal (100,000 sq ft) and Julius Bar (70,000 sq ft) will swell transaction levels further in the second half of the year.

**Figure 3: Central London Offices Overseas Occupier Activity by Business Sector: 2019 to date**



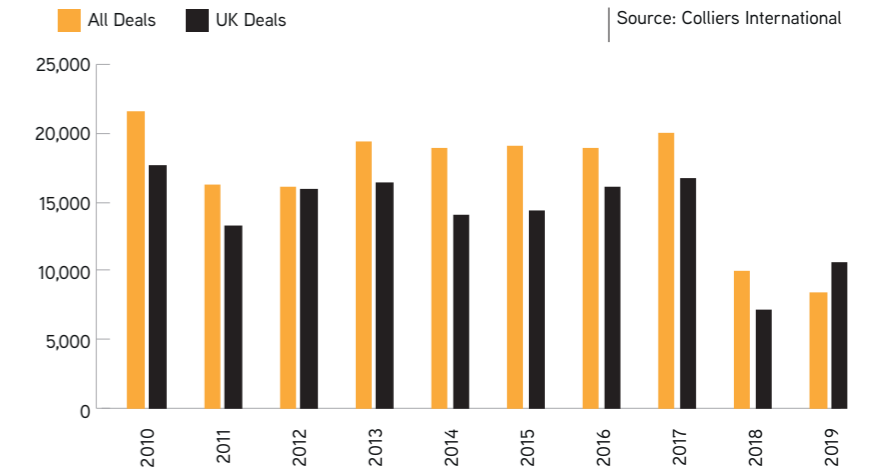
**Figure 4: Central London Offices Overseas Occupier Activity by Business Sector: 2018**



# JUST A SMALL SLICE FOR ME

- › Reductions in average deal size remain to the fore. Overall, average deals were smaller than at any time in the past decade. While the average for UK firms has risen in 2019, the number is still significantly below the 10-year average (-25%). Caution remains the watchword, across all sectors and nationalities.

**Figure 5: Central London Offices Average Deal Size by Origin 2010 - 2019 to date**



# CONCLUSIONS

- › The impact of the political maelstrom on the London offices market, while not adversely impacting overall take-up levels, is certainly affecting the make-up of said demand.
- › European occupiers are clearly nervous about committing to new space until further clarity on UK EU membership timelines. UK, North American and European activity has all slipped below the ten-year average, with the latter at a record low.
- › In sharp contrast, 2018-2019 has seen 'Other' nations continue to absorb space faster than at any time in the past 20 years. The 1.2 million sq ft transacted in 2018 is on course to be repeated in 2019.
- › Despite the political environment and overall fall in transactional activity in 2019 to date, overseas financial services has been the most active business sector, with demand at a four year high.
- › Average deal sizes remain significantly below trend, reinforcing the cautious nature of both UK and non-UK occupiers



## CONTACT US

### West End Agency

Paul Smith  
+44 20 7487 1767  
paul.smith@colliers.com

### City Agency

James Walker  
+44 20 7487 1802  
james.walker@colliers.com

### City Fringe Agency

Shaun Simons  
+44 20 7871 7422  
shaun.simons@colliers.com

### Lease Advisory

Charles Cowley  
+44 20 7344 6818  
charles.cowley@colliers.com

### West End Investment

Rob Hayes  
+44 20 7487 1766  
rob.hayes@colliers.com

### City Investment

Dominic Amey  
+44 20 7344 6604  
dominic.amey@colliers.com

### City Fringe Investment

Kyle Joss  
+44 20 7487 1958  
kyle.joss@colliers.com

### Research & Forecasting

Guy Grantham  
+44 20 7344 6793  
guy.grantham@colliers.com

### West End Tenant Representation

Stuart Melrose  
+44 20 7344 6909  
stuart.melrose@colliers.com

### City Tenant Representation

Stuart Commins  
+44 20 7487 1810  
stuart.commins@colliers.com

### Serviced Offices

Mark Bott  
+44 20 7344 6501  
mark.bott@colliers.com

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