



Spotlight Corporate Lettings

2014



Prime London THE CORPORATE RENTAL MARKET

Corporate relocation is a key driver of the capital's established prime rental markets

Across all the major world cities, corporate demand plays a key part in the prime rental markets. This is particularly evident in prime London where nearly half of all tenants are renting due to employment relocation.

A growing market
Over the past decade, the private rented sector has become a significant part of the London housing market. The number of households in the sector grew from 14% of all dwellings in 2001 to a quarter of all dwellings by 2011. We expect this to rise further to 34% by 2021, though some London boroughs already exceed this figure. In the central boroughs of the city of Westminster and the Royal Borough of Kensington and Chelsea,

the proportion of households renting is closer to 40%. These prime central London rental markets are the most expensive and well established and were traditionally the key locations sought after by corporate tenants.

Beyond the core
However, the prime housing market in London has expanded, growing organically along the so-called wealth corridors that run down to the South West and up to the North; and has extended eastwards along the banks of the Thames, propelled by regeneration.

This expansion has provided corporate tenants with a much wider choice of prime properties and locations. At one end of the scale, the east of City rental market is primarily one or two bed flats occupied by individuals or couples working in Canary Wharf or the City. At the other end, there is the more family orientated market of four and five bed houses in south west London.

From around the world
Demand for prime rental properties in London is predominately international. Across all prime London, 63% of tenants come from overseas and in the corporate relocation market that figure rises to 77%. In this market, the largest tenant nationality region is Western Europe, accounting for 34% of tenants. North American tenants come in third place behind the UK, accounting for 20% of tenants. This is a contrast to the sales market where they are not a significant buyer group, indicating a preference for renting. The remaining 23% of tenants come from a wide range of locations, from Pacific Asia to Latin America as shown in Graph 1.

Rise of tech
Traditionally, the financial and insurance services sector has been the key sector in the corporate relocation market. In 2007, 50% of tenants worked in this sector, dominating the market. However, following the credit crunch and the effect it had on this sector, we have seen a fall in corporate tenants from the financial and insurance sector, now accounting for just 39% of the market.

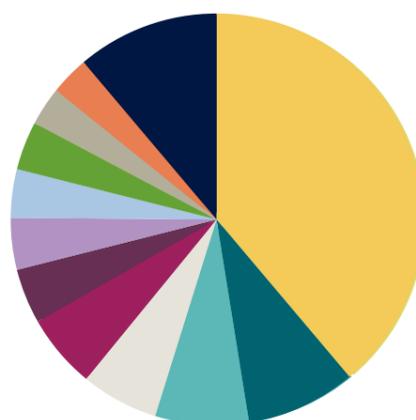
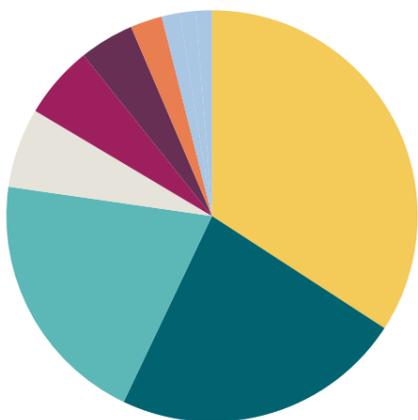
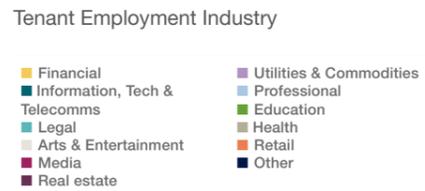
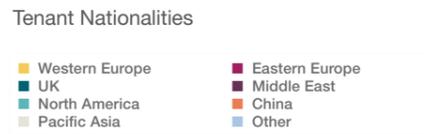
The industries which have risen up the corporate tenant rankings are information, technology and telecommunications and media and advertising. This follows the growth

MAP 1 Prime Central London Average weekly prime rental values



Source: Savills Research

GRAPH 1 Corporate Tenants across all Prime London



Source: Savills Research

of Tech City in the east and the more recent regeneration of Kings Cross. Both locations have attracted large international companies such as Google and with them come the tenants relocating from abroad.

What's next?
Across the UK, the employment market is continually improving. In a survey by Deloitte of chief financial officers, over 80% are planning to increase their hiring 'somewhat' and a further 1% will increase it 'significantly' over the next 12 months. This will especially benefit London, which is forecast to account for 28% of the UK's growth in employment over the next five years, resulting in an increase of 368,000 employees.

Rental values across prime London have remained stable over the past three years, seeing very little growth. However, over the first half of this year improved demand, particularly from the corporate family market, has led to a rental growth of 1.4%. We expect an average growth of 2.5% in prime London rents over the course of this year and a total growth of 20.4% over the five years to 2018.

A PLAYER ON THE GLOBAL STAGE

How does London compare to other world cities?

Corporate relocation is a key driver of many of the rental prime markets of the world's top tier cities. Like London, these cities have large financial and business services sectors, internationally mobile workforces, and established prime rental markets to serve them.

weekly prime rents of around £2,000. High by global standards, these cities are among the world's most important centres of global commerce and enjoy a strong tenant demand base for prime residential stock.

Five cities, namely New York, Hong Kong, London, Paris and Tokyo all have average

In fast growing, high supply Dubai and Shanghai, weekly rents stand at under £800, while Sydney would appear good value by world standards, at under £700 per week.

GRAPH 2 Average weekly prime rents for a 2,500 sq ft property



Source: Savills Research

Map LONDON'S KEY BUSINESS DISTRICTS

Five major business districts in London



CHISWICK BUSINESS PARK

Approximate existing office floorspace (million sq ft)	1.2
Dominant employment sectors	Media, Oil and Gas
Office based employment growth forecast (2014-18)	50% (final building due to be completed at the end of this year)
Renting in the local area (W4)	5,632 PRS households accounting for 29% of all households £2,100pcm for a 2 bed
Employees commute from	Richmond, Brook Green, Fulham

CANARY WHARF

Approximate existing office floorspace (million sq ft)	15
Dominant employment sectors	Banking and Finance
Office based employment growth forecast (2014-18)	7%
Renting in the local area (E14)	12,567 PRS households accounting for 37% of all households £2,300pcm for a 2 bed
Employees commute from	Islington, Wapping

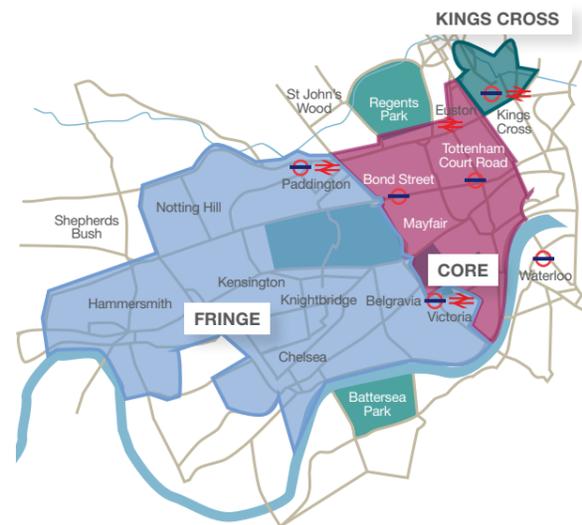
ABP AT ROYAL ALBERT DOCK

Approximate future office floorspace (million sq ft)	4.7
Dominant employment sectors	Focused on targeting companies from Asia. No particular business type
Office based employment growth forecast (2014-18)	10% (with stronger growth predicted post 2018)
Renting in the local area (E16)	5,922 PRS households accounting for 34% of all households £1,600pcm for a 2 bed
Employees commute from	Canary Wharf, Wapping, Greenwich

WEST END

	CORE (W1, SW1, WC1, WC2)	FRINGE (W2, W6, W8, W11, W14, SW3, SW5, SW7, SW8)	KINGS CROSS (N1)
Approximate existing office floorspace (million sq ft)	95	24	5
Dominant employment sectors	Mixed - inc. Financial, Media and Public Services	Mixed - inc. Public Services, Retail & Leisure, Technology and Creative	Technology and Public Services
Office based employment growth forecast (2014-18)	6%	6%	9%
Renting in the local area (E16)	23,693 PRS households accounting for 40% of all households £5,400pcm for a 2 bed	49,001 PRS households accounting for 38% of all households £3,300pcm for a 2 bed	11,166 PRS households accounting for 27% of all households £2,400pcm for a 2 bed
Employees commute	The West End, situated in the centre of London, is well connected and employees are able to commute from all over London but many choose to live in the fringe areas		

MAP 1 West End office submarkets

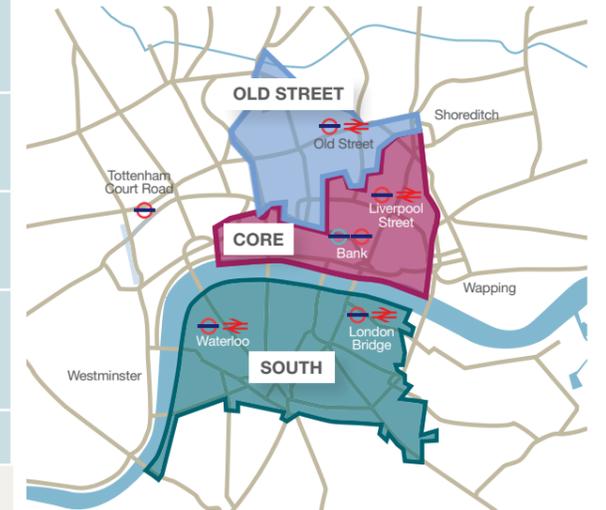


Source: Savills Research

THE CITY

	CORE (EC2, EC3, EC4)	OLD STREET (EC1)	SOUTH (SE1)
Approximate existing office floorspace (million sq ft)	56	16	20
Dominant employment sectors	Professional, Banking, Finance & Insurance	Technology, Creative and Professional	Professional and Public Services
Office based employment growth forecast (2014-18)	6%	6%	8%
Renting in the local area (E16)	1,500 PRS households accounting for 43% of all households £3,300pcm for a 2 bed	3,771 PRS households accounting for 28% of all households £2,700pcm for a 2 bed	9,625 PRS households accounting for 32% of all households £2,500pcm for a 2 bed
Employees commute	The City is well connected and employees are able to commute from all over London, either from the east and west via the Central Line and District Line or from the north and south via the Northern Line and Waterloo and City Line		

MAP 2 City office submarkets



Source: Savills Research

Market Dynamics

WHY LONDON?

London continues to tick the boxes of global companies for a multifold of reasons

London attracts companies from around the globe for a number of reasons: political stability, culture and heritage, the English language and the tax regime among many others.

The location of London is critical to its success. Situated in between America and Asia, London is able to conduct business with both the East and West. The time zone plays a key part in this, with London's office

hours overlapping with countries that collectively generate 99% of the world's GDP.

As a result, international companies are able to open an office in London and remain in good contact with their colleagues, no matter where they are situated.

We have examined three further top attractions for international businesses, all of which have impacts on the corporate rental market, in more detail.

Industry leaders

London attracts more international companies in the financial services, ICT, electronics and creative industries than any other European city and is home to the highest number of corporate headquarters.

London is famous for its financial industry, which vies with New York

City as the financial capital of the world. Across the key central London employment boroughs of Tower Hamlets, City of London and City of Westminster, the financial and insurance sector is the biggest industry, accounting for 21.2% of employees.

However, over the next five years this will change. Oxford Economics forecast that while the financial and insurance industry will experience almost no growth, employees in the professional, scientific and tech industry will increase by 15.6% to become the largest industry in central London. This follows London establishing itself as a leader in the tech industry with growth in the sector across England outstripping California's Silicon Valley.

We have already seen a similar shift in the profile of the corporate tenants moving to London and examine the effects further on page 8.

Improving infrastructure

To arrive in London from overseas is simple. There is a choice of six international airports and several smaller airports, together forming the busiest airport system in the world by passenger numbers.

Once in London, the choice of transport is extensive. The city is home to the oldest underground system in the world, a complex bus network and the national mainline railway links.

The traditional tube network now includes the Docklands Light Railway and the London Overground, both of which are responsible for opening up large areas of east London, including Canary Wharf. The arrival of Crossrail in 2018 will benefit Canary Wharf further, decreasing the travel time to the West End (Bond Street) from 18 to just 13 minutes.

ABP, the future business district at the Royal Albert Docks, sits one stop

“As London's population and workforce continue to grow, the transport system needs to keep up”

Sophie Chick, Savills Research

further east along the Crossrail line and reduced travel times to central London and Heathrow airport will be key to attracting companies to the location.

As London's population and workforce continue to grow, the transport system needs to keep up. There are already plans in place for the Northern Line extension to Battersea, together with increasing the capacity on the current lines. Proposals for Crossrail 2 are in consultation and there are proposals for Crossrail 3.

International schools

For families relocating to London, a good international school is critical to their search.

In the sales market we know that a good school commands an average house price premium of 29% in London, and strong demand for properties in nearby locations is also seen in the rental market, particularly around international schools.

Many parents begin their search in locations around one particular school, with the hope their child will be given a place. However, if that school falls through they will move their search to the next school on their list regardless, even if it is the other side of London.

London is fortunate to be home to a number of highly regarded international schools, giving tenants a wide range of options. The Good Schools Guide International has provided us with a list of 50 popular international schools in and around London, see Map 1.

While there is no rigid definition of an international school, there will usually be a wide range of nationalities, a certain amount of mobility amongst families, and an emphasis on change, adaptability and multi-language learning. Above all, they are schools used by the international community.

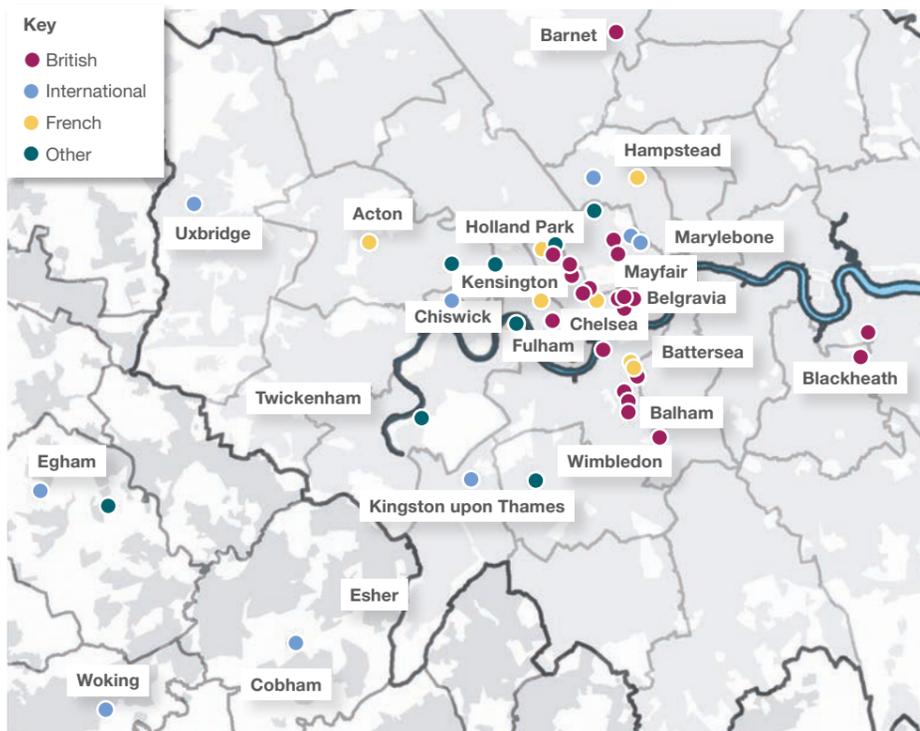
Just under half of these schools follow the UK national curriculum but are popular with families from overseas and with mobile British families. There are 11 international schools on the list and they are the most widely spread across London and the home counties. The nine French schools are all clustered in inner London, and the remainder of schools on the list are from a range of locations, including America, Japan and Sweden. ■

WHAT WILL LONDON LOOK LIKE IN 2018?



MAP 1

International schools As provided by the Good Schools Guide International



Sources: Good Schools Guide International, Savills Research

Sources: Savills Research, ONS, Oxford Economics

OUTLOOK

London will continue to drive corporate relocation tenants

While the employment market is changing, London remains one of the world's key financial centres, which will continue to drive corporate relocation tenants from the financial industry to the city. However, as other industries see higher levels of growth, the picture will continue to become more varied.

Employees from different industries often have different requirements, either motivated by their job location or budget. In the financial sector, on average tenants are given a relocation budget of 25%

more than in the tech sector. This has an impact on where employees in different sectors rent.

Employees in the financial industry are concentrated in the established prime London locations of central London or other locations near to their jobs such as Wapping and Bermondsey.

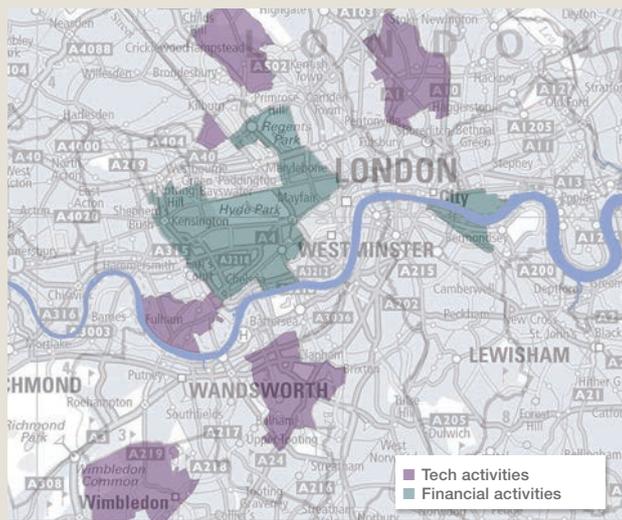
On the other hand, the tech industry has traditionally been concentrated around Old Street roundabout and employees tended to live in either east/north London

or to the south, down the Northern Line. Yet, as other locations such as Kings Cross have become more popular with the tech industry, employees now live in a wider variety of locations.

As the tech industry expands, this extension in popular locations will continue and the demand for rental properties suitable for corporate relocation tenants will increase. This presents an opportunity for landlords or institutional investors to target these emerging corporate markets.

TABLE 1 **The top 10 locations where employees in tech or financial industries live***

Tech sector	
Islington	22.0%
Highbury	22.0%
Clapham	21.9%
Belsize Park	21.6%
Wimbledon Village	20.8%
Balham	20.6%
De Beauvoir (Hackney)	20.3%
Hampstead	20.0%
Maida Vale	19.7%
Fulham	19.7%



Financial industry	
Wapping	26.7%
Chelsea	26.7%
Earls Court	26.4%
Knightsbridge & Belgravia	25.8%
Kensington	25.2%
Marylebone	24.8%
Bermondsey	21.4%
Notting Hill	20.9%
Regent's Park	20.7%
Mayfair & Soho	17.8%

Sources: Savills Research, Census

*Excluding City of London

Savills team

Research

Corporate Services – Lettings



Lucian Cook
UK Residential
020 7016 3837
lcook@savills.com
Twitter: @LucianCook



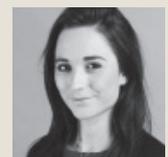
Sophie Chick
UK Residential
020 7016 3786
schick@savills.com
Twitter: @SophieChick



Matthew Salvidge
Head of Corporate Services
020 7016 3751
msalvidge@savills.com



Stephen O'Kane
Corporate Services
020 7016 3782
sokane@savills.com



Phoebe Tye
Corporate Services
020 7016 3776
ptye@savills.com