savills

Spotlight

How far are occupiers moving?

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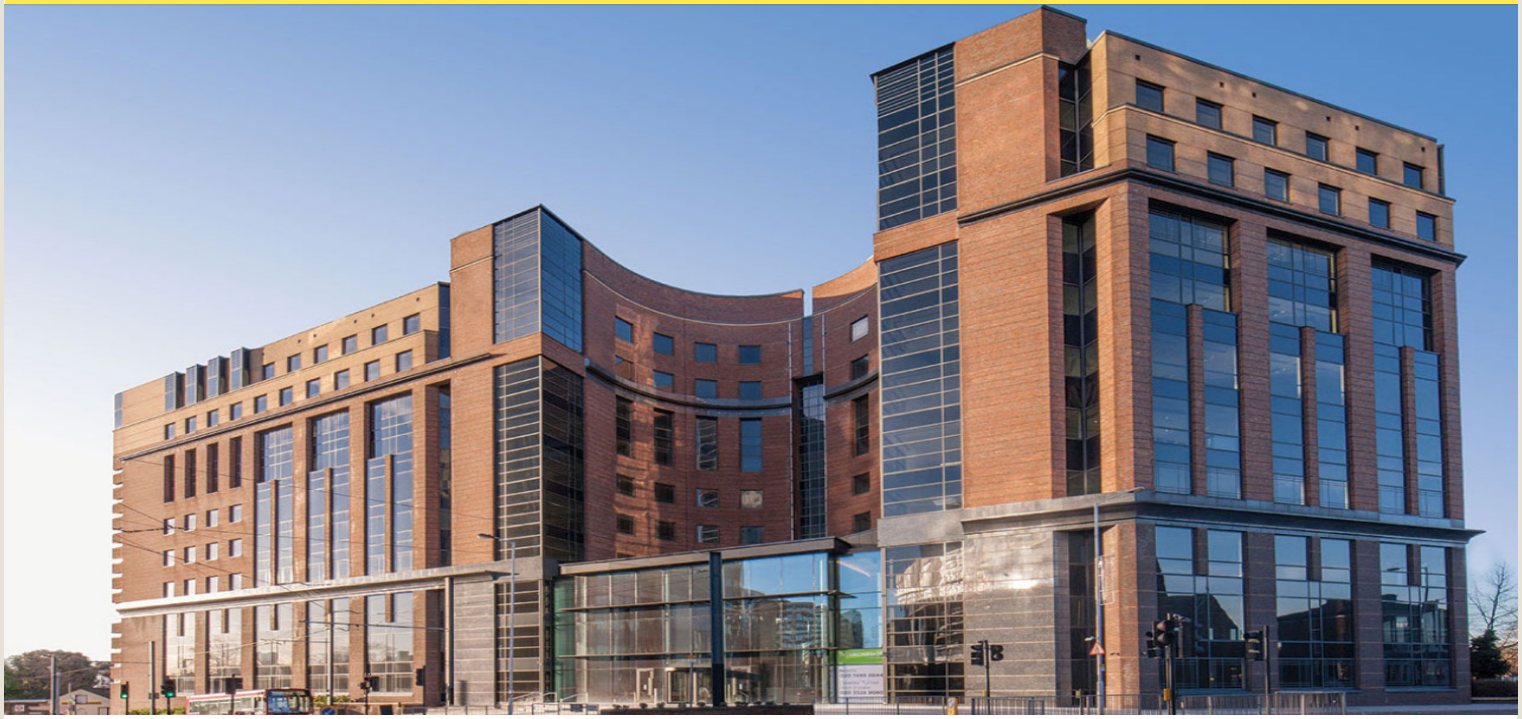


Two occupiers have relocated from central London to Interchange in Croydon totalling 47,263 sq ft. Savills are marketing the building.

SUMMARY

■ The Greater London and South East office market comprises approximately 40 towns, suburbs and sub-markets totalling 220 million sq ft. Therefore, it is the UK's largest and most geographically disparate region.

■ With occupational take-up in 2015 the highest since 2007, and yet with pipeline of new, Grade A buildings limited to a handful of locations, this report analyses the distances that occupiers have moved to satisfy their office accommodation needs.

■ It also addresses the trend of "decentralisation" from London and examines whether it represents a continued source of demand and opportunity for the region.

■ Savills research based on a sample size of 91 deals totalling 4.1 million sq ft shows that occupiers move on average 6.9 miles for Grade A office space above 20,000 sq ft since 2010. The median distance is 4.2 miles. The most occuring distance is 0.5 miles.

■ Staff retention is a key consideration for occupiers when developing their real estate strategy. Consequently, decentralisation from central London has not been a frequent occurrence, with the fear of losing staff being a major concern.

■ However, with rising property costs occupiers are starting to review their real estate strategies to consider either wholescale moves or splitting front office (London) and back office (out of London) functions.

■ The most notable example of decentralisation into the M25 region is a well known energy supplier relocating from Victoria to Croydon. Earlier in 2015 Maersk relocated its IT division from the City of London to Maidenhead and in 2014, Hammerson relocated its back office functions to Reading.

■ If more central London occupiers do decide to move out, it is likely that they will relocate to a Greater London location in the hope of not losing staff. This is good news for locations inside the M25 where there are buildings that can cater for large grade A office requirements such as Croydon, Chiswick, Uxbridge, Stockley Park and Staines.

How far are occupiers moving?

■ The M25 office market has always had considerable appeal to occupiers across the world and is the most active UK office market behind central London. Its appeal resonates with occupiers as the availability of skilled labour and the proximity of Heathrow, Gatwick and fast train lines including Crossrail in 2019 make the M25 office market an attractive destination.

■ There has been much comment in the last 12-18 months on a decentralisation effect from central London where occupiers are contemplating relocating to either the North of England, Midlands or the Thames Valley due to the increasing property costs. High profile moves include HSBC and Deutsche Bank moving to Birmingham have reinforced this trend.

■ Savills has analysed every grade A relocation over 20,000 sq ft (totalling 4.1 million sq ft) since 2010 to assess how far each occupier has moved from their previous office. Any expansionary office moves (to an existing location) were discounted from the analysis. The average tenant relocation distance is 6.9 miles (11.1 km). Demand for Grade A offices are driven from occupiers who are currently located in the South East region. 58% of these transactions have taken place in the Western Sector (Thames Valley) and therefore occupiers are relocating within this region.

■ The main reason for occupiers moving building is for the betterment of their office space as this has been the case for 2.11 million sq ft of office space transacted which accounts for 50% of the sample. This theme is prevalent as there has been a clear pattern of a "flight to quality" emerging in the M25 office market in 2015. 56% of all office space transacted this year has been for grade A space. The continual improvement in the economy and a hangover of companies occupying tired buildings nearing obsolescence is causing businesses to seek a betterment in their office space.

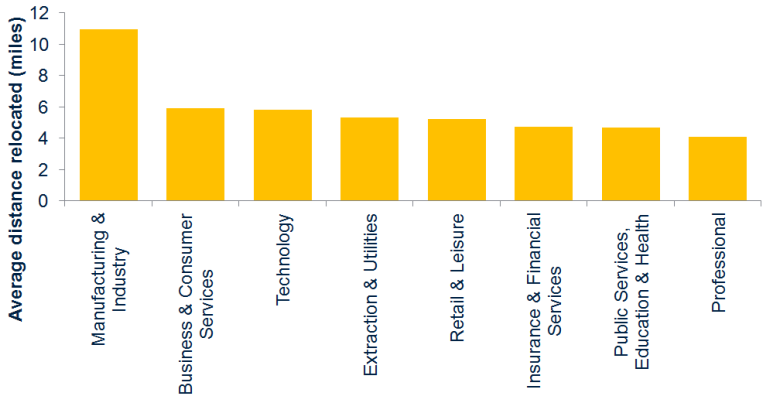
■ Interestingly, there is minimal difference between how far occupiers relocate for the size of their requirement. Occupiers who lease between 20-50,000 sq ft relocate on average 7.0 miles (11.2 km) and it is only 7.2 miles (11.5 km) for 50,000 sq ft and above lettings. Analysing just 2015 Grade A deals above 20,000 sq ft, the average occupier relocation distance has been 5.7 miles (9.1 km) which highlights how demand this year has been far more locally driven than in previous years.

■ Despite the average relocation distance being 6.9 miles (11.1 km) there have been further relocations in the M25 office market. The largest relocation was Hospira leasing 26,162 sq ft at CEG's Horizon building in Hurley near Maidenhead in 2013. Hospira are a pharmaceutical company who relocated from Leamington Spa which is the furthest distance any occupier has moved at 69.5 miles (111.8 km). Other major relocations include Britvic leasing 35,500 sq ft at Brakespear Park in Hemel Hempstead, they relocated from Chelmsford representing a 47.4 mile (76.2 km) move. The major reason for this was that Britvic were seeking improvements in their connectivity in order to grow the business. Hemel Hempstead's proximity to key transport networks in the M1 and M25 enabled Britvic to grow their business across different regions in the UK.

■ BMC Software's move from Egham to Winnersh Triangle, where they leased 40,000 sq ft, highlights how occupiers have to move further to fulfill large spatial requirements. Occupiers who are not traditionally located in established office markets have to look further when considering their locational preferences in order to fulfill larger requirements.

GRAPH 1

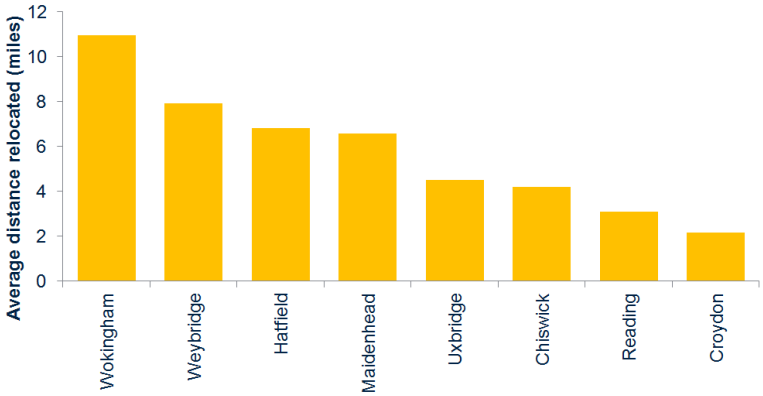
Business sector average relocation distances



Graph source: Savills

GRAPH 2

Average town relocation distances



Graph source: Savills

■ The manufacturing sector has relocated the furthest when compared against other business sectors. This business sector has the more footloose requirements as on average occupiers have relocated 10.9 miles (17.5 km) for grade A office space.

■ Pharmaceutical companies have recently undergone a rapid period of expansion. Consequently they are also willing to move further to satisfy their location and building requirements.

■ As a sector historically associated with the M4 market, pharmaceutical companies employ a highly skilled workforce who traditionally commute further distances than employees from other business sectors due to the specialist nature of the profession. Consequently, pharmaceutical occupiers are more likely to retain staff when they relocate compared to the other business sectors.

■ An example of this is Bayer's imminent move to Green Park in Reading from Bayer House in Newbury which represents a 22 mile relocation. Interestingly, the pharmaceutical sector is not particularly rent sensitive which is unlike the majority of business sectors. This is evident in Bayer's move where they are currently paying £14 per sq ft in Newbury, whereas prime rents in Reading's out of town market currently stand at least double this.

TABLE 1

Furthest relocations in the M25 office market since 2010

Building	Area (sq ft)	Tenant	Rent (per sq ft)	Distance Moved (Miles)
Horizon, Hurley	26,162	Hospira	£20.00	69
Brakespear Park, Hemel Hempstead	35,500	Britvic	£20.00	47
Point, Maidenhead	42,711	Maersk	£35.00	33
1 City Place, Crawley	126,000	Nestle	£22.50	25
E^2, Winnersh Triangle, Wokingham	36,425	BMC Software	£26.00	20

Is decentralisation occuring?

■ Decentralisation from London has been much talked about in this cycle but it is a pattern that has only started to emerge recently in the M25 market. Maersk's letting of 40,000 sq ft at Point, Maidenhead is a major instance of this trend occurring. However, Maersk already had a small presence in Maidenhead at 80 Moorbridge Road so this move wasn't a complete relocation.

■ However, we do expect decentralisation to continue from central London as the rental and business rates growth there has resulted in total occupation costs reaching in excess of £180 per sq ft for prime West End and £115 per sq ft for prime City. Consequently, occupiers may be looking to cut their real estate costs and while they may not result in entire relocations there will potentially be an increase in the decentralisation of back and middle office functions.

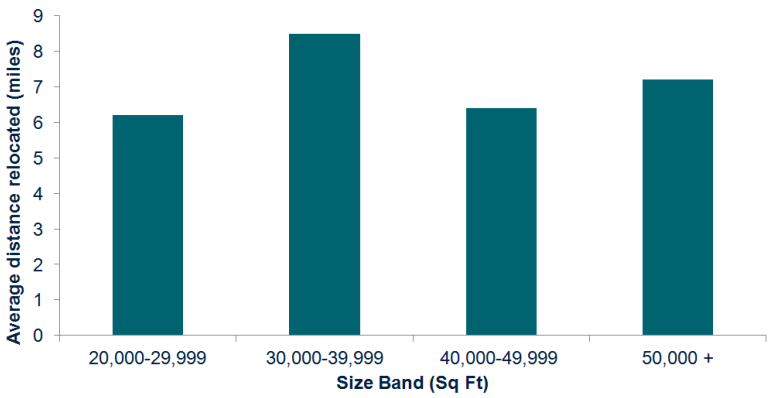
■ Maersk relocated their entire IT office function to Maidenhead, and given that IT (or similar functions) is the dominant business sector across the Thames Valley we could see this trend continuing. There is a large labour supply of technology workers in the Thames Valley which means that if companies are unable to retain staff once they have moved out they should be able to fill the vacancies with the highly skilled workforce that already resides in the Thames Valley. We could therefore see a pattern of rental growth emerging in key towns in the M25 office market where back office decentralisation office moves drive rental growth in each town. Maersk paid £35.00 per sq ft which was the highest rent achieved for the current property cycle in Maidenhead, or indeed anywhere else in the Thames Valley.

■ This trend is also visible from 2014 where Hammerson moved their back office support functions from 10 Grosvenor Street in Mayfair to Aquis House in Reading. Hammerson paid a rent of £33.50 per sq ft which was the highest rent achieved in Reading town centre in the current property cycle and a 10% premium above prevailing in town market rents at that time. Of course property costs are at a significant discount to central London.

■ Croydon is another location within the M25 office market that is set to benefit from the total occupational

GRAPH 3

Size band (sq ft) average relocation distance



Graph source: Savills

cost growth that central London is currently experiencing. JT Global relocated from the City of London and a well known energy supplier have relocated their global corporate headquarters from Victoria. Both are moving to Interchange which is Carval and Canmoor's 180,000 sq ft Grade A speculatively refurbished building. They are expected to be saving approximately 68% on a headline rent basis. The Body Shop leased 25,873 sq ft at Knollys House in December 2015, they are moving from London Bridge to Croydon. They paid £24.50 per sq ft which is the highest office rent Croydon has ever achieved. Savills expects further rental growth in Croydon due to the decrease in the amount of Grade A space available and further demand from central London occupiers. Current Grade A rents in Croydon are still 65% and 77% less than average Grade A rents in the City and the West End, respectively.

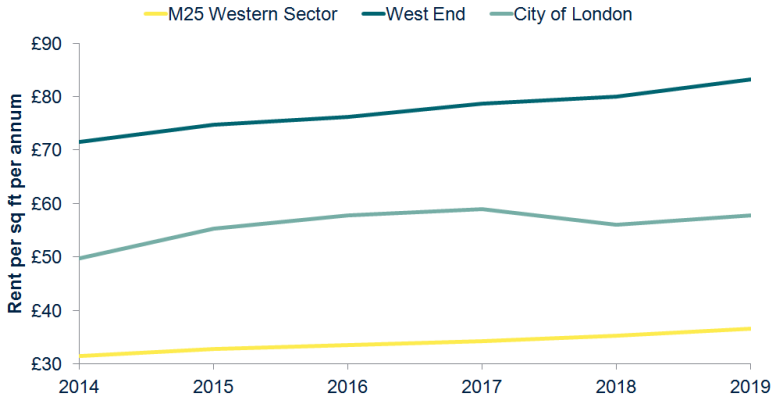
What does this mean for landlords?

■ Overall, landlords and agents should predominantly target local and regional occupiers when they are in the process of attracting tenants to new buildings in the M25 office market. The average relocation distance is 6.9 miles whilst the most common relocation distance was 0.5 miles which indicates how demand for office space is sourced locally. The occurrence of entire relocations from central London is rare. However, back office relocations is a trend that we expect to continue and this could potentially be a target area for landlords and agents who are seeking to attract tenants from central London.

■ Our research suggests that occupiers are generally less footloose than they (or their agent) often suggest. Landlords should focus on identifying and targeting occupiers within the "magic seven miles" of their building. Whilst this doesn't quite fit the premise that "you can normally see your next tenant from the rooftop," in the context of the size of the whole region, the focus should be on targeting those companies close to home.

GRAPH 4

Average Grade A Rental Forecast



Graph source: Savills

Key Findings

Average Occupier Relocation Distance (20,000 sq ft+)
6.9 miles

Main reason for move:
Betterment of office space (50%)

Most footloose business sector:
Manufacturing & Industry 10.6 miles

20,000-50,000 sq ft average relocation distance:
7.0 miles

50,000 sq ft + average relocation distance:
7.2 miles

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