


# Spotlight: Office Relocation Distances in Greater London and the South East




Campus, Reading

Flight to Quality • Clusters • Rental Growth


# How far are occupiers moving in the Greater London & South East office market?




On average, occupiers move 3.5 miles when they relocate to a new office




60% of occupiers remained within the same submarket when relocating



35% of relocations are less than one mile



98% of tenants have improved their office space after relocating



Larger occupiers relocate further, deals over 50,000 sq ft had an average relocation distance at 4.7 miles

## Introduction

Savills Research have analysed how far occupiers relocate when they move to a new office in the Greater London & South East office market, and if this has been impacted by the Covid-19 pandemic. The study has been based on a sample of 215 transactions from 2021 and 2022, totalling 4.0 million sq ft, with the exclusion of expansions within the same building.

The Greater London & South East is the most active office market, outside of central London, in the UK. It is a large established market area that has approximately 178 million sq ft of office stock and take-up has averaged 3.5 million sq ft per annum over the last ten years.

A clear trend in the market that has accelerated after the Covid-19 pandemic, is the flight to quality, with occupiers seeking aspirational workspace that can help support the return to the office, and help attract and retain staff in a competitive labour market. This trend was evident in 2022, with 68% of take-up

recorded being grade A standard, which was the highest proportion since 2018. This proportion further rises to 73% after accounting for grade B assets which have been purchased and will be subsequently refurbished to grade A standard by owner occupiers.

## Key Findings

The initial findings are that in the past two years occupiers move on average 3.5 miles for new office space. The median distance is 2 miles, and the most frequent distance is 0.5 miles. The findings show that 60% of occupiers remained within the same town, with 40% relocating to a new town.

There has been a general downward trend in relocation distances over the last decade. Previous Savills studies showed that on average occupiers relocated 6.9 miles from 2010-2015 and 4.8 miles between 2016-2019. The most frequent relocation distance has remained relatively static with 0.5 miles from 2010-2015 and 0.1 miles between 2016-2019. This highlights that

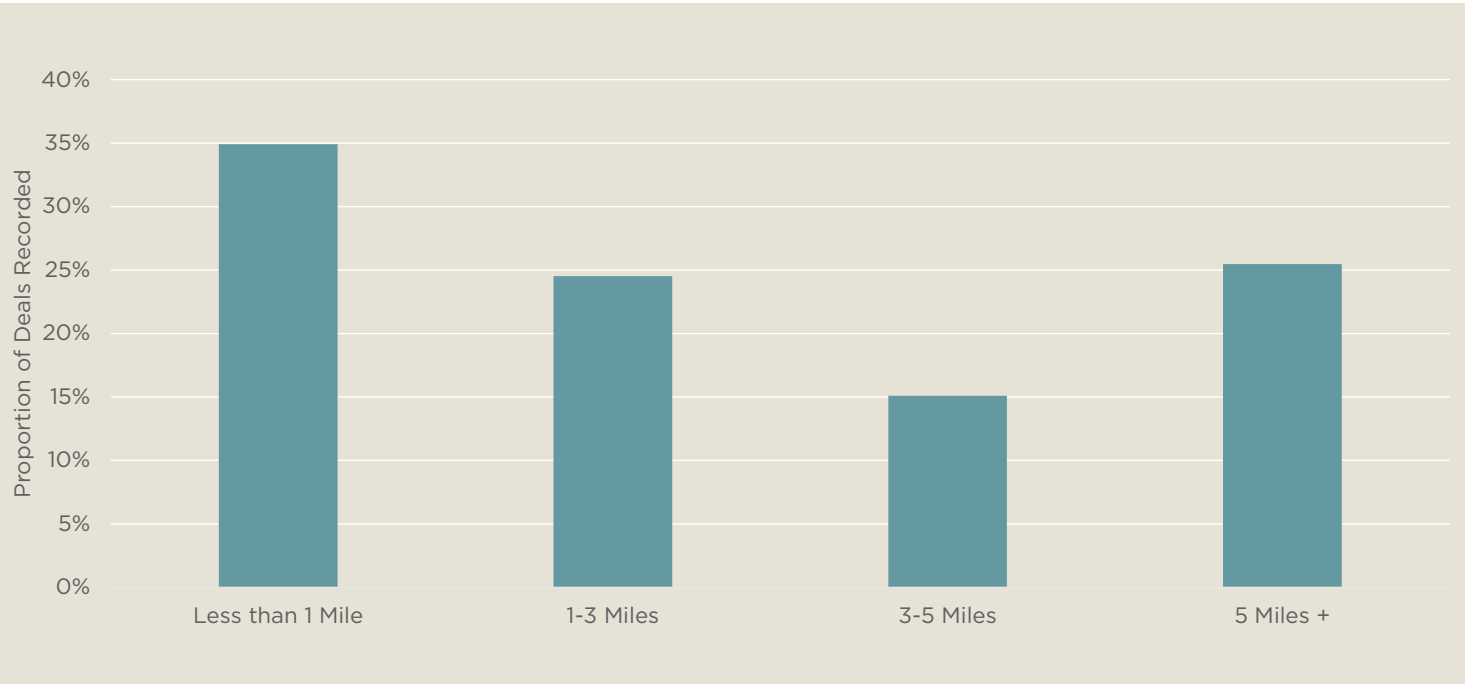
whilst occupiers can be footloose, the majority of demand for buildings is sourced locally.

At the start of the Covid-19 pandemic, it was thought that there would be an increase in occupiers adopting the hub and spoke locational model as a consequence of hybrid working. Whilst there have been examples of occupiers engaging in long distance relocations. The trend of occupiers opening satellite offices whilst having a central operation based in Central London has not materialised on any scale.

## Flight to Quality

A key trend driving tenant relocation is the flight to quality, with 98% of tenants acquiring better quality space in the past two years. This trend has been reflected in the increasing number of deals recorded notably in the smaller size bands. There were 120 deals recorded between 5,000-9,999 sq ft across the region in 2022, which was the highest total in the last five years.

## The highest proportion of deals recorded have involved occupiers moving less than one mile when relocating office





## Stuart Chambers- Director, Greater London & South East Office Agency

“This research demonstrates that occupiers are increasingly prepared to extend their area of search in order to secure Prime Grade A office space that has strong ESG credentials and a broad amenity offer.”

The majority of existing stock requires significant intervention to appeal to current tenant requirements, we therefore, expect deal volumes to remain stable in 2023, with more occupiers likely to explore relocating rather than renewing at lease expiry.

There is a growing trend of occupiers being prepared to relocate further to secure prime grade A office space which offers strong sustainability credentials and multiple amenities. On average, occupiers relocated 4.7 miles to move to prime grade A office space which was above the average of 3.3 miles for properties of lower quality. This was exemplified by ID Business Solutions relocating 7.5 miles to Space, Woking, and leasing 19,350 sq ft. Another example was ENRA who moved from Borehamwood to Hyde, Watford, relocating 7.5 miles and leased 19,663 sq ft. We anticipate this trend continuing, with occupier demand focussed on the best in class office space.

### Pharmaceutical Occupiers are more Footloose

The manufacturing and industry business sector, which includes pharmaceutical companies, relocates the furthest distances when compared to other sectors. On average, since the start of 2021, occupiers from this sector have moved 4.6 miles when relocating, this was across 47 separate transactions.

This trend was evident in previous Savills studies, where the sector has relocated the furthest in the last decade. 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.

The appeal of being located in a cluster with other pharmaceutical companies has been evident by White City attracting the highest number of pharmaceutical occupier inward movers when compared to other submarkets in the region. Quell Therapeutics, Engitix Therapeutics and Clinical Trials Laboratory Services have all moved to White City in the last two years.

Conversely, professional service occupiers relocate the least distance when compared to other business sectors in the region. The war for talent amongst professional service firms has intensified since the Covid-19 pandemic with a shortage of experienced labour. This has resulted in firms being less willing to engage in longer relocations in the fear of losing staff. Several professional service firms have sought to consolidate their office portfolios in the region.

### Relocation Distances are Longer for Larger Deals

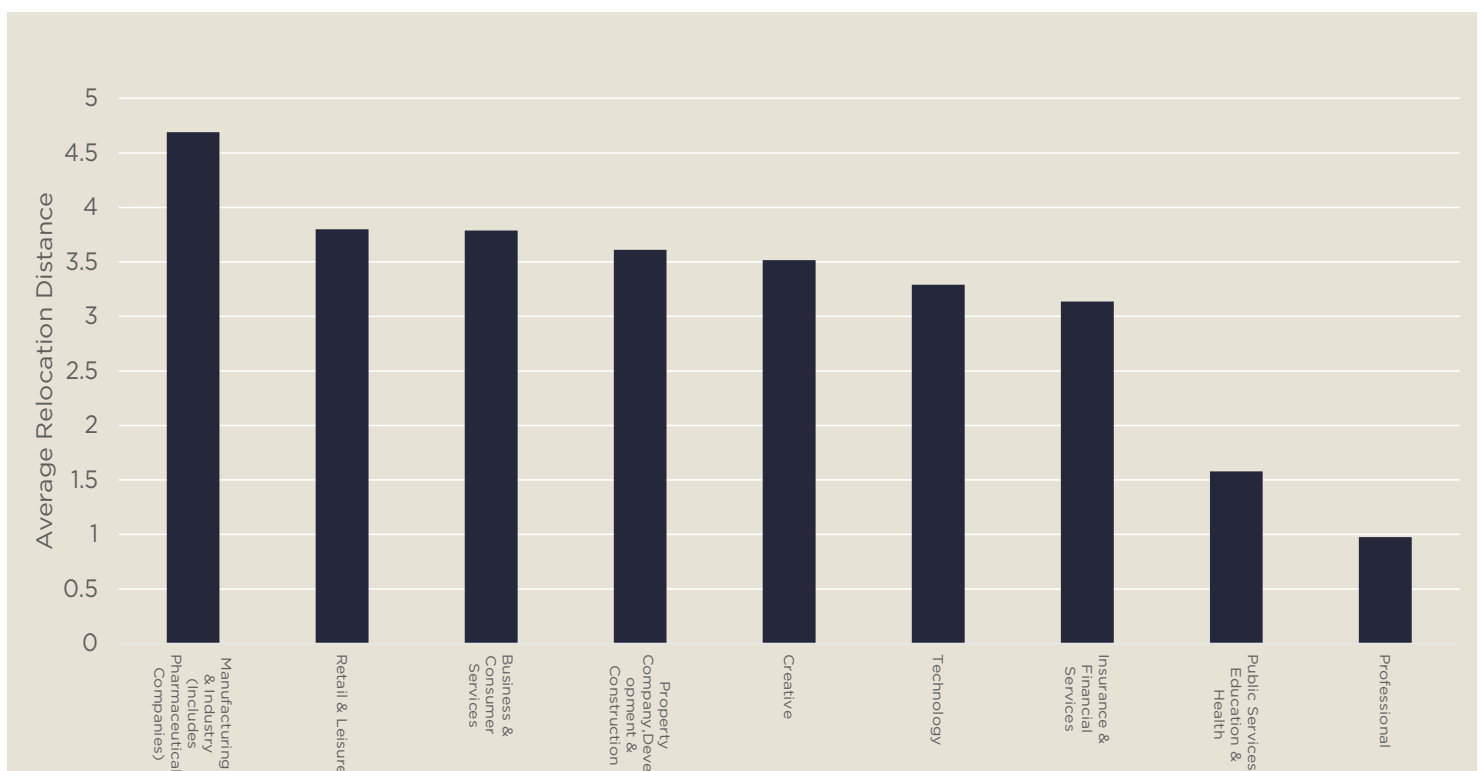
Occupiers who lease larger quantities of space are relocating further which has been evident from deals over 50,000 sq ft on average relocating 4.7 miles. This trend has been exemplified by recent large headquarters letting transactions in the region. Intercontinental Hotels Group moved 10.1 miles from Denham to Windsor, where they leased 57,000 sq ft at Windsor 1 for a new global headquarters. Skanska moved from Maple Cross House, Rickmansworth to lease 67,000 sq ft at Park Avenue, Watford representing a relocation distance of 7.6 miles.

There is shortage of large available grade A buildings with only three submarkets having more than three available grade A buildings where a requirement of over 50,000 sq ft can be satisfied. Therefore occupiers who are seeking to satisfy larger requirements, who are based in smaller submarkets, will have to consider options which are located further afield amidst the ongoing supply shortage of best in class office space.

### Expanding Clusters Continue to Attract New Occupiers

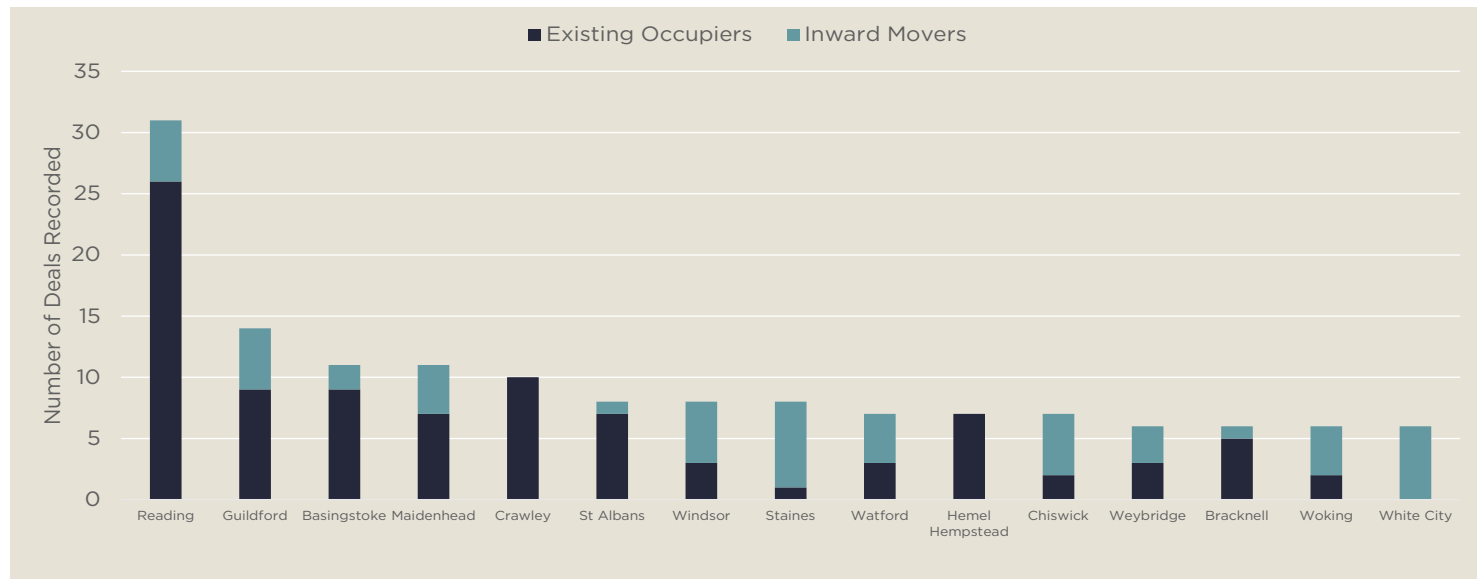
The South East submarkets which attracted the most inward movers were Staines, White City, Guildford, Windsor, Chiswick and Reading. This

## The manufacturing & industry business sector (includes pharmaceutical companies) on average relocate the furthest distances when compared to other business sectors



Source Savills Research \* Minimum of five deals in each business sector

## Reading, Guildford, Windsor, Staines, Chiswick and White City have attracted the most inward movers when compared to other submarkets



Source Savills Research

is a consistent trend with Reading, White City and Chiswick attracting the most inward movers from 2016-2019.

The cluster of retail, science and technology occupiers has continued to expand in White City which has been enabled by new development. There are three office buildings which are either under construction or have recently completed with 1 Wood Crescent and Gateway Central both attracting inward movers being PVH Corp and L'Oreal who pre-let 50,000 sq ft and 120,000 sq ft respectively.

Reading has also attracted new occupiers, with inward movers on average moving six miles. Reading's technology cluster continues to expand, with 80% of inward movers to the town being occupiers from this sector. Amazon opened a new office at 400 Brook Drive, Green Park where they leased 49,000 sq ft, adding to the cluster of both SME and multinational technology occupiers based at the scheme which includes Virgin Media o2.

There has also been expansion by the sector from existing occupiers. The cyber security company Rapid7 leased 22,600 sq ft at 2 Forbury Place, nearly doubling the space they previously occupied at Arlington Business Park. The relocation and expansion was driven by business growth as they look to become more dominant in the UK market. Reading is well placed to benefit from the expansion of the technology sector across the South East region with Oxford Economics forecasting 7% employment growth in the professional, scientific and technology sectors in the next five years which equates to 31,000 additional jobs.

The cluster of video gaming developers has

been expanding in Guildford which has attracted inward movers to the market. There are over 60 video game developers located in Guildford and 3,000 programmers based in the town. Larian Studios opened a new studio in the town in 2022. The cluster of technology and science companies at Surrey Research Park has also attracted new occupiers to Guildford. NautreMetrics raised £6.5 million of funding, and subsequently leased 12,000 sq ft at 1 Occam Road. The nature data business relocated from Egham to the development. There are 203 companies based at the 70 acre scheme.

Windsor has historically been characterised by a lack of available grade A office space. The market has benefitted from two large schemes completing being One Victoria Street and Windsor 1 & 2 which comprised a total of 139,000 sq ft this resulted in 2021 take-up being the highest since 2000. The appeal of Windsor to occupiers based in neighbouring submarkets was evident at Windsor 1&2. The two buildings were let to five tenants including NetApp, Neilson Financial Services and Otsuka Pharmaceutical, all of which were inward movers to Windsor.

Watford and Woking have also appealed to inward movers with over 50% of deals recorded in the towns being from new entrants to these submarkets. Notably in both markets, inward movers have acquired more office space when compared to existing occupiers. This is reflected in the average deal size being 93% and 134% higher than existing occupiers.

### What does this mean for landlords?

The study shows the majority of occupier demand is derived locally which is reflected in the

average relocation distance being 3.5 miles and the most common relocation distance being 0.5 miles. Schemes which can offer aspirational workplaces will outperform in well supplied submarkets.

Occupiers have shown they are willing to relocate longer distances to secure prime grade A office space and gain access to industry clusters which has been highlighted by White City, Guildford and Reading attracting the most inward movers when compared to other submarkets in the South East. The polarisation in demand for office properties is being reflected in the highest proportion of grade A take-up recorded in the last five years in the Greater London & South East region in 2022. This trend is set to continue as the war for talent intensifies in a competitive labour market and corporate occupiers seek to adhere to internal ESG requirements. The leasing velocity of schemes which offer best in class space will also be improved.

Landlords who deliver prime grade A office space will benefit from the improved demand prospects for this product as well as significant rental growth. Occupiers are generally less rent sensitive and this was evident in 2022 with 11 submarkets achieving record high headline rents in 2022. Furthermore on average, the rent per sq ft paid by occupiers increased by 37% when compared to their previous lease, highlighting that occupiers are prepared to pay premium rents to secure the best quality office space. There is currently limited availability of large grade A schemes with only five submarkets having three or more buildings that are able to satisfy a requirement of over 50,000 sq ft. This may result in greater pre-letting activity in the medium term, given the limited development pipeline across the region and the ongoing flight to quality from tenants.



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