



LEAD STORY

Onshoring

The war for talent is fierce, the UK metropolis is one of the most expensive office markets in the world, and the wage gap between the regions and the capital is increasing. While London is and always will be a hub of business and culture, corporates increasingly realise the opportunities presented by the UK regions. As a result we have seen lawyers, banks and professional services firms move away from the capital in order to attract and retain the right talent, lower their cost of real estate and reduce their wage bill.

TALENT

The ability to recruit staff with a variety of skills and attributes is crucial for the development of business clusters as competition for the very best talent remains fearsome. Occupiers are being drawn to areas where there is a pool of talent to draw from rather than risk losing such talent to regional-based firms as a growing number of graduates are put off migrating to London due to ever-

growing living costs. Research shows that the majority of students choose to remain in the same town or city as their university to work.

When Deutsche Bank relocated from London to Birmingham in 2015, the bank's Birmingham head, Paul Anderson, commented that "Birmingham was an easy choice when it came to picking a location outside London and the key factor

is the labour market. We have been able to recruit the highest-calibre teams for compliance, technology and professional services."

The UK is home to some of the world's best universities and local businesses recognise the importance of building strong links with graduates from an employment, innovation and investment perspective. If these partnerships



By Alex Dunn,
UK Business
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can work successfully, they are clearly mutually beneficial in terms of developing knowledge-based clusters. Furthermore, it can enhance a city's reputation as an incubator of talent, making it more likely that other businesses will look to locate there.

IBM is an example of this and has a long-running partnership with the University of Manchester. On the benefits to the company, Operations Manager Martyn Spink explains that: "The School of Computer Science at the University of Manchester is one of the best in the country, providing IBM with a continuous stream of talented graduates."

Regional cities also have a lot to offer employees in terms of lifestyle, most notably the ability to buy a home within commutable distance to work in the city centre. Damian Pettit, Head of International Banking Service at RBS, Manchester explains that: "The Manchester office is an inspiring place to live and work, which is why we've managed to attract quality professionals to come and work with us. Those that have relocated have found improvements in their prospects and quality of life, with reduced commuting times, more disposable income and affordable house prices. All without losing the benefits of being in a stylish city."

Balfour Beatty's relocation to Quorum Business Park in Newcastle was also driven by the ability to recruit and sustain the right talent. After three years, the company claims to have reduced staff turnover from 20% to 5% per annum.

Andy Raynor, Chief Executive of legal firm Shakespeare Martineau, notes that the improved quality of life for employees in the regional markets is making law firms consider relocating away from the capital. Mr Raynor adds: "There's a trend for London-trained lawyers to practice in the Midlands, where it is cheaper to buy a house and easier to commute to work."

This comment is supported by Acritas, the legal market research providers who say that brand awareness of London-based Magic Circle law firms has declined 15 per cent in the past year as competition from regional rivals has increased.

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“Businesses recognise the importance of building strong links with graduates from an employment, innovation and investment perspective



One New Bailey, Manchester



The potential cost savings that can be secured by relocating into cities such as Birmingham are widely recognised by employers from a wide range of sectors but the potential financial benefits are only part of the wider decision making process.

The ability to draw skilled staff from a working population of 4.3 million people within an hour's travel time of Central Birmingham is proving to be a key consideration when comparing Birmingham with alternative regional destinations. Equally the recent inward migration into the city and the continuing growth of sectors such as BioMed has resulted in an improved food

and beverage, retail and leisure offer which is an important consideration to those staff part way through those careers considering their employment options and the 25,000 graduates in the region every year.

It is increasingly apparent that the clustering of fast growing ambitious businesses will be an important part of Birmingham's continued renaissance which will be helped by the high quality and diverse development pipeline in the office, retail and industrial sectors.

David Tonks, MRICS
Head of Birmingham Office



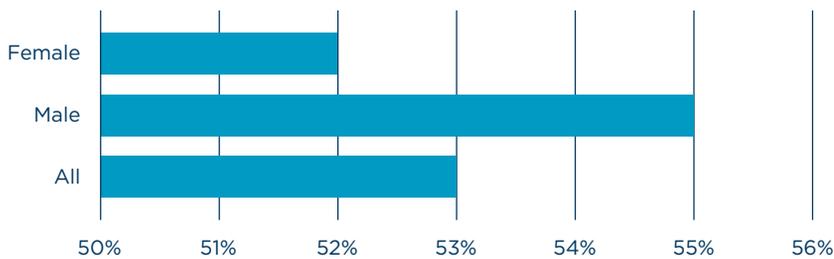
RENT

The financial benefits to relocate are obvious. Prime office rents outside London are significantly lower (Figure 2). In June 2016, prime rents in Edinburgh, the highest of the regional cities, was £32.50 per sq ft. However, this was still 74% lower than London West End at £125 per sq ft and 51% below London City prime rents at £66.50 per sq ft.

Magic Circle law firm Freshfields Bruckhaus Deringer, agreed to take 80,000 sq ft at One New Bailey in Manchester. Anup Kollenathu, Freshfields' Global Centre Director, confirms: "One New Bailey gives us both the high quality and attractive location we want for our staff. We have been extremely impressed by the premises in the Manchester area."

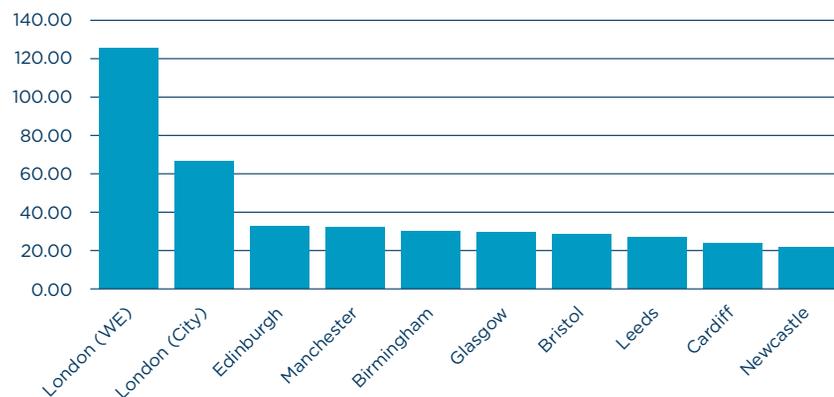
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53% of students
chose to work in the
same city as their
University

Figure 1
Percentage of students that stay and work in the same town from which they graduated (%)



Source: Page Group

Figure 2
Prime office rents (£ per sq ft)



Source: Cushman & Wakefield



CASE STUDY

Balfour Beatty North-shores Shared Services to Newcastle

Balfour Beatty established their UK shared services centre in Quorum Business Park in Newcastle in November 2010, acquiring 40,000 sq ft and recruiting more than 500 new staff as the new operation ramped up.

The move was a result of a review of the UK business structure, and a desire to bring various shared services from across the group into a single centre of excellence. This would avoid duplication across the group, and move functions from higher cost locations such as London.

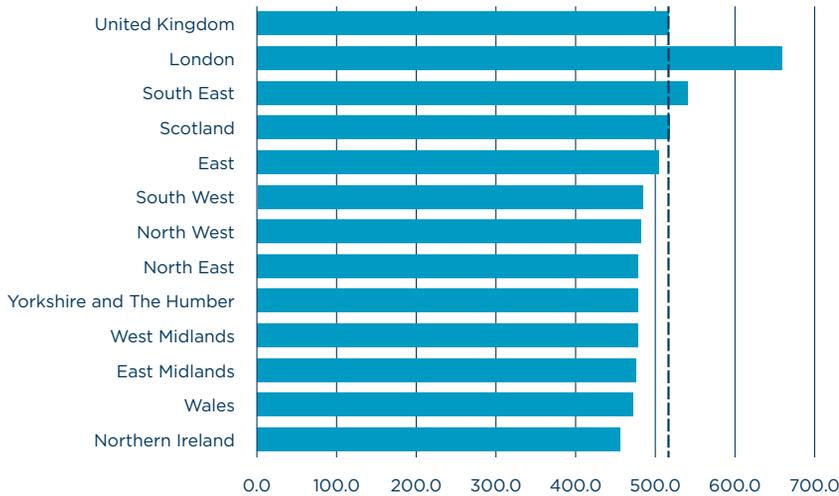
The company looked at several locations across the country and undertook extensive analysis of demographics and availability of skills, before deciding that Newcastle was the place to invest.

The move to Newcastle has been highly successful for Balfour Beatty. Now processing 80% of the Group's UK shared services, the office at Quorum has unified payroll, accounting and supply chain management, serving the needs of its 20,000-strong UK workforce. This has resulted in improved efficiency and saved a significant amount of money for Balfour Beatty. Year on year savings achieved following the move to Newcastle amount to circa £15m per annum.

The work of the centre was recognised by an award from the Chartered Institute of Purchasing and Supply, which saw Balfour Beatty named the 'Most Improved Purchasing Organisation (Step Change)'.

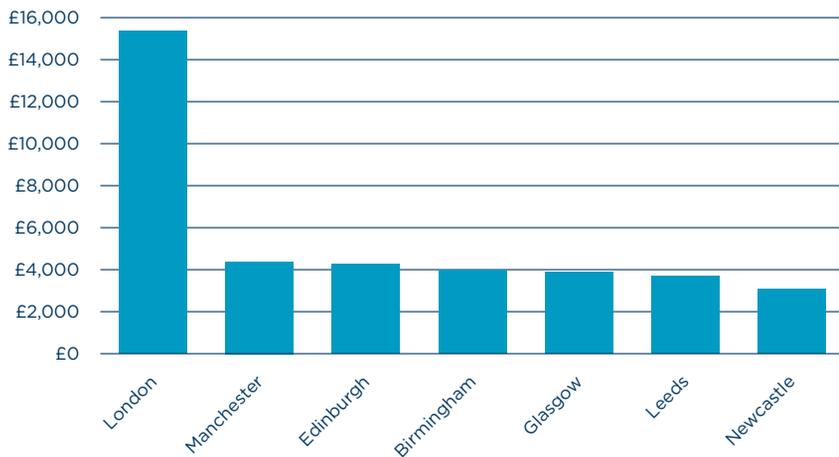
Fergus Trim is a Director at Broadoak Asset Management and has headed up the leasing activity at Quorum Business Park. "Balfour Beatty were one of five north-shoring projects that landed at Quorum in recent years. Others included Tesco Bank and French energy company Engie. Between them they have brought over 2,200 new jobs to Newcastle. Newcastle's status as a key university city, and lower costs of doing business were the key factors behind all of them," he says.

Figure 3
Average full-time gross weekly earnings by region, UK, April 2014 (£)



Source: ONS

Figure 4
Annual cost per person by city



Source: Cushman & Wakefield

WAGE

Of the £15m Balfour Beatty has saved from the move to Newcastle, a significant portion can be linked to the cheaper costs of labour with wages outside London significantly lower (Figure 3). The average full-time gross weekly earnings in London in April 2014 was £660, 37% above the regional average of £484.

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PwC real estate director Paul Harrington has said the firm is considering moving additional functions outside the capital to cope with rising salary and property costs. Harrington admitted that rival professional services firms were also looking at relocating functions away from the capital, following on from similar moves in the banking and legal sectors.

Cushman & Wakefield’s Office Metrics analysis calculates the average occupier cost per person with real estate and office density also factored into the equation. Figure 4 shows how the average cost per person in London is significantly higher than the regional cities at an average £15,400 per person per year. By comparison, the cost in Manchester, the second highest, is dramatically lower at only £4,400 per person per year.

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Bristol features very prominently with occupiers looking to onshore due to the highly skilled workforce, young demographic, improving infrastructure and high quality of life. Bristol scores the highest or close to the highest on all these indexes against other regional centres. We do however suffer from a supply imbalance with developers historically

reticent to commit to speculative development. We expect this to change with the increased interest in Bristol due to the above factors and the recent commitment to build Hinkley Point with Bristol being the base for the office based functions of the scheme.

Andy Heath
Head of Office Agency, Bristol





CASE STUDY

Simmons & Simmons – UK Expansion

Simmons & Simmons was founded in the city of London in 1896 and is now an international law firm with offices in major business and financial centres throughout Europe, the Middle East and Asia. Its HQ remains in London (CityPoint).

In 2011/2012, against a backdrop of changing market conditions, Simmons & Simmons considered opening its first UK office outside London. With excellent but cost effective client services a key requirement, Simmons & Simmons embarked on its search, prioritising proximity to London, a local talent pool and quality of life. Three locations – Belfast, Cardiff and Bristol – were initially considered. After careful review of the cities, with Cushman & Wakefield providing research support, Simmons & Simmons identified Bristol as its preferred location. The city has excellent connectivity and is currently 1 hour and 40 minutes by train from London Paddington – a journey time which will reduce by a further 20 minutes from 2020. The talent pool in the city is excellent as it boasts two universities (University of Bristol and UWE), professional training schools including University of Law, BPP and Kaplan and a significant law firm presence.

Taking advantage of the Bristol property market in 2012, Simmons & Simmons was able to secure the top floor of Linear Park, a new Grade A office building, on flexible lease terms with an option to expand into the floor below, providing a cost effective base while future proofing for its projected expansion. Simmons & Simmons was able to recruit top talent in Bristol, capitalising on the firm's brand and reputation. The workforce comprises lawyers alongside a number of business services teams, including IT, who can fulfil their roles from Bristol.

Bristol has been a great success for Simmons & Simmons and the firm has increased both its headcount and the office space it occupies there since 2012. The lower cost base in Bristol over London (for both property and workforce) has enabled Simmons & Simmons to stay one step ahead in the market. Cushman & Wakefield continues to advise Simmons & Simmons on its Bristol property and the next chapter of its Bristol story is bound to be exciting.

CONCLUSION

Onshoring is far more than a simple cost cutting strategy and the potential for future development in regional locations is clear, particularly in a climate of increased devolution of power to the regions.

It is the supply of talent which is key, and businesses which are able to work with universities will be able to tap into a constant supply of highly-educated and diverse graduates. Despite the uncertainty surrounding Brexit, Onshoring will continue to be a major theme across the regional markets as cost control will become even more crucial.



We already have many examples of onshoring, which is the perfect barometer for the North East in terms of its ever increasing competitiveness in the markets, with the ability to provide solutions which many other regional cities just simply cannot compete against. Quorum Business Park for example, has an impressive track record for attracting significant footloose inward investment projects with five recent new projects delivering over 2,500 jobs to the Business Park since 2009. This competitiveness covers a number of items, most notably our total occupational costs which, at just £24.00 per sq ft, represents perhaps the most competitive occupancy across the whole of the UK.

Perhaps even more important, however, is the talent in the region given the outstanding universities we have with Northumbria University, Newcastle University and Durham University. The talent also has a reputation for loyalty. North East staff retention rates are amongst the best in the country and therefore provide the occupier with additional savings through retention, ongoing recruitment and training costs.

Tony Hordon
Head of Newcastle Office

