Contents

• Executive summary
• Introduction
• Central London leasing market
• Central London net take-up
• Expansion space
• Migration trends
• Distance moved
• In-movers and out-movers
• Focus on Aldgate & Whitechapel
• Case study
• Occupier loyalty
• New operations in Central London
• Relocation trends by sector
• Summary and outlook
Cushman & Wakefield has analysed migration trends since 2013 and this report focuses on patterns recorded in 2016.

- Just under half of all occupiers moved some or all of their operation to a new submarket
- The proportion of relocations between submarkets decreased compared with 2015
- The shift from West to East continued - 20 moves from West to East compared with 6 moves from East to West
- The average distance moved was 1.1 miles, which was a shorter distance than seen in the last two years
- City Core and Mayfair accounted for the largest number of out-movers
- The City Core also saw the greatest number of in-movers, along with Aldgate & Whitechapel
- Overall, Aldgate and Whitechapel and Clerkenwell and Shoreditch recorded the highest net positive balance (in-movers less out-movers)
- Longer term, the City Core, Canary Wharf and Aldgate and Whitechapel have attracted more in-movers in comparison to those moving out
- Media and tech companies were the most likely to relocate, followed by Professional services companies
- As in previous years, insurance companies were most loyal to their existing submarkets
- Net absorption as a direct result of leasing activity totalled 3.0 million sq ft in 2016, which was down on 2015 (3.2 million sq ft)
- This growth was driven by the tech sector who recorded a year on year increase in occupied floorspace
- Overflow or short term expansion space accounted for a higher proportion of leasing activity in comparison to previous years
- Government, public and associations, along with legal and insurance companies were the most likely to take overflow space
Introduction

2016 was characterised by uncertainty; The ‘Brexit’ vote sent economic shockwaves throughout the global markets and UK stocks plunged for the first time since the financial crisis in 2007.

Nevertheless the UK economy outperformed expectations post the EU referendum, recording growth of 2.0% during 2016. Positively, the London economy grew by 3.1% which was on a par with 2015 levels. Business sentiment remained positive, with the services sector expanding in the period since the vote to leave.

As a result, London’s employment levels were at record highs while unemployment continued its downward trend. Despite the vote to leave the EU, employment growth forecasts remain positive with expansion still anticipated in most office related business sectors over the medium term- banking and finance being the exception.

Against this background, annual leasing volumes were marginally below the five year average but there was a resurgence in Q4 indicating more robust business sentiment. Occupiers were still facing a low supply environment, with year end vacancy rates standing at just 4.5%, while rental values remained at historically high levels in most submarkets. Decisions are taking longer and coming under greater scrutiny but occupiers are now adjusting to the post Brexit environment - seeking out cost-effective solutions that still maintain brand awareness and appeal to their workforce. Finding the right building and location remains more critical than ever.
Introduction

To identify key relocation trends in various submarkets and factors driving decisions amongst different business sectors, Cushman & Wakefield analysed transactions in excess of 10,000 sq ft that occurred during 2016.

These 249 transactions accounted for over 75% of all leasing volumes in Central London and totalled 8.1m sq ft. Of these, 160 deals were for properties located in the City & East London and the remaining 89 in the West End or Emerging West.

Cushman & Wakefield has monitored occupiers' migration patterns and expansion trends in detail since 2013. These previous three years saw above average take-up volumes and so it is not a surprise that the number of transactions analysed for 2016 was lower than seen in the last three years, when an average of 280 deals per annum were analysed.

2016 ANALYSIS OF CENTRAL LONDON LEASING MARKET (OVER 10,000 SQ. FT ONLY)
*BY NUMBER

- New entrants: 9%
- Office as service: 4%
- Education and medical: 3%
- Established companies: 84%

Note: *‘Established firms’ in this report refers to companies which were already based in central London and took a new lease and ‘New entrants’ includes both new operations and companies which were new to the boundaries of the central London office market.
Central London leasing market
(Lettings over 10,000 sq ft only)

Established companies accounted for 82% of leasing activity in 2016.

This was a similar proportion to that seen in the previous 12 months, albeit volumes were down. In 2016, established firms accounted for 6.6 million sq ft, down from 8.3 million sq ft a year earlier.

London continued to attract new companies from both overseas and other parts of the UK. The trend for companies seeking more than 10,000 sq ft slowed down in 2015 following two stellar years for inward investment but there was a marginal year on year upturn in volumes in 2016, with new entrants accounting for 5% of volumes.

Meanwhile, both education and medical users and Office as a Service continued to expand their footprint in Central London but, in line with the market, at slower rate than seen in previous years.
Despite uncertainty, Central London occupiers are still expanding.

Companies already located in London relocated from a total 5.1 million sq ft, committing to 8.1 million sq ft, which equated to a net take up of 3 million sq ft or 37% growth. This contrasts with 2015, when existing companies expanded their footprint by 3.2 million sq ft, albeit at a lower rate of growth of 56%.

Expansion was evident across all business sectors, despite economic uncertainty. Among all central London established firms, the tech sector saw the greatest expansion in floorspace occupied during 2016, amounting to approximately 875,000 sq ft of growth. Despite the expectation that banking & financial services would start to withdraw from the leasing market, expansion was evident to the tune of 675,000 sq ft.

BUT A YEAR ON YEAR DECREASE
Central London net take-up by sector
(Lettings over 10,000 sq ft only)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2015 (sq ft)</th>
<th>2016 (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing &amp; energy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government, public &amp; assoc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Media</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail &amp; leisure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking &amp; finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tech</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Driven by the rapid expansion of the capital’s tech sector

A global tech company took 475,000 sq ft of space at Battersea Power Station

Amazon took 87,000 sq.ft of space at Principal Place in Shoreditch

Note: *Expansion in this report relates to the growth in floorspace occupied by companies as a direct result of a leasing transaction and does not necessarily reflect the changes in companies’ headcount.
Expansion space

The trend to take overflow or short term expansion space continued in 2016, with an estimated 1.3m sq ft of take up above 10,000 sq ft accounted for by companies who either took extra space in their existing properties or expanded their Central London operation with additional sites nearby rather than a full relocation.

This is a similar volume to 2015, but represents a higher proportion of leasing activity overall. Economic uncertainty coupled with the cost of relocating and the relatively limited choice, particularly for larger companies has supported this trend for overflow space rather than committing to a full scale move.

The tech sector saw the greatest levels of growth, as a sector that continues to expand across London. London is the third largest tech sector in the world and is anticipated to see further expansion as digital disruption and artificial intelligence permeate into the more traditional business sectors. Tech companies increased their footprint three-fold in 2016, and at a faster pace than recorded the previous year. Apple’s commitment to c500,000 sq ft of space at Battersea Power Station was a key driver of this growth but Palantir, Adobe, Deliveroo and Amazon were other key examples of companies expanding across London.

While both the media and banking and financial services sectors increased their floor space during 2016, the volume of expansion slowed year on year. Both sectors saw significant activity in 2015 which has not been maintained during the year of Brexit. In particular, location strategies of banks are coming under greater scrutiny as companies consider how to respond to the potential loss of passporting rights when the UK exits the EU. It is no surprise that a number of the investment banks are delaying hiring intentions and considering alternative locations. Counter to this though, banks are investing in other areas of business such as digitalisation, with HSBC digital for example leasing 65,000 sq ft in the Blue Fin Building, SE1.

2016 business growth in the media sector was the lowest for several years, as marketing and advertising budgets were broadly flat year on year and this is likely to have impacted on real estate decisions. The largest media transactions were Thomson Reuters, who are consolidating from a number of offices into 315,000 sq ft at 5 Canada Square, E14 to achieve efficiency gains, and the FT, who following their sale to Japanese media organisation Nikkei Inc, are relocating back into the City at Bracken House (183,000 sq ft) but neither of these involved any major expansion.
Expansion space-sector analysis

Sectors *increasing* their net take-up Y-O-Y

- Retail & Leisure
- Banking & Finance

Sectors *reducing* their net take-up Y-O-Y

- Tech
- Media
2016 Migration trends summary
excludes OaS/Education and Medical

Two moves West End to East London

63 moves within wider West End (16 within the same submarket)

20 moves West End to East

100 moves within the wider City (45 within same submarket)

Six moves within East London (One within the same submarket)

Six moves East to West End

19 new operations
How far do occupiers really move?

1 MILE

the average distance occupiers moved in 2016
The average actual distance moved during 2016 was just over 1.1 miles, which is down on the distances seen in 2014 and 2015.

There is a relationship between the distance moved and the level of supply in the market. As the vacancy rate falls, occupiers tend to be more willing to move further away to find the type of accommodation they require but when there are higher vacancy rates, it is not as necessary for companies to shift as far from their current location.
Distance moved by business sector

The government and public sector have, over the last few years, consistently moved more significant distances in comparison to other sectors; this was even more apparent in 2016 as they sought out more cost effective space. The GPU consolidating into one hub in Stratford from multiple sites in Westminster typifies this trend.

At the other end of the spectrum, the insurance sector moved the shortest distance in 2016, following the same patterns recorded over the last couple of years, as they seek to remain in close proximity to Lloyds of London.

AVERAGE DISTANCE MOVED IN MILES

<table>
<thead>
<tr>
<th>Sector</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecoms &amp; IT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail &amp; Leisure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Media</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public &amp; Government</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Distances moved by submarket

Due to their geographical location in comparison to Central London, it is no surprise that occupiers are motivated to move further on average to submarkets such as Docklands, Canary Wharf or Stratford, where occupational costs are lower.

The average distance moved to Paddington and King’s Cross is just over 2 miles, while in comparison other emerging markets such as Aldgate & Whitechapel and Shoreditch and Clerkenwell typically see occupiers migrating shorter distances of closer to a mile.

More mature markets such as Mayfair and St James’s, Victoria, Midtown and the City Core are attracting companies from around half a mile away.

Around 41% of central London established occupiers moved some or part all of their operations out of their existing submarket during 2016. This was marginally down on 2015, when 45% moved submarket. The shift from west to east remained a key trend, with a quarter of West End movers migrating to one of the City and East London submarkets.

The rate has slowed down as supply levels across much of the West End office market have started to increase. Only a handful of City and East London movers relocated to one of the West End submarkets in 2016, which reversed the upturn seen in 2015 when 16% by moved East to West.

Continuing the trends seen in previous years, the City Core accounted for the largest proportion of out-movers. The majority of these City Core out-movers chose to relocate in surrounding city villages, with Aldgate and Whitechapel the main beneficiary. The development of high quality office accommodation in Aldgate and Whitechapel, along with lower costs not only relative to the City Core but to other adjacent submarkets and its proximity to the City Core have been the main drivers of this shift.

The migration from the City Core has been driven by tech and professional service occupiers. This supports trends seen in previous years but with the rental differential eroding, the City Core now looks good value and 2017 may see a slowdown in outward migration.
In-movers and out-movers by submarket

Aldgate and Whitechapel recorded positive migration, a continuation of the trends being observed over the last two years.

The area saw a large increase in in-movers, with only two occupiers leaving the submarket and 10 moving in. The refurbishment of the White Chapel building and redevelopment of Aldgate Tower were part of the reason for the influx of companies. (see case study).

The number of in-movers to the City Core was down year on year but it still saw the highest number of companies move in. However, for the first time since Movers & Shakers analysis has been undertaken, there were more out-movers.

Migration trends into Clerkenwell and Shoreditch were positive in 2016, reversing the outflow recorded in the preceding 12 months. Higher levels of supply have created more choice for the larger occupier; something that had been missing over the recent past. The redevelopment of schemes such as the White Collar Factory and the Bower have continued to attract companies into the area.
Net balance – in-movers minus out-movers

Taking into account the last three years, the sub-market trends appear to have followed a similar trend year on year. Mayfair and St James’s has continually had more out-movers than in-movers, whilst Aldgate and Whitechapel and Canary Wharf and Docklands have consistently had more in-movers than out-movers on balance.
Focus on Aldgate and Whitechapel

• Aldgate and Whitechapel saw highest net balance of in-movers and out-movers in 2016
• Buildings in the area have been refurbished in recent years which has provided new grade A office stock, attracting new occupiers from surrounding areas.
• It has benefited from:
  – Increasing reputation as a trendy area of town
  – Proximity to the City core and the tech hub of Shoreditch
  – Imminent arrival of Crossrail
  – Relatively low rents – £55 per sq ft compared to the City Core and other submarkets such as Southbank and Clerkenwell and Shoreditch
• The largest deal to complete in 2016 was at Aldgate Tower – an 86,000 sq. ft. letting to Aecom (who have moved from Midtown).
Case study – Rathbones

The largest move out of Mayfair was Rathbone Brothers Plc who have relocated from 1 Curzon Street and leased 74,000 sq ft of space at 8 Finsbury Circus in the City Core. This is a net expansion of around 30,000 sq ft.

The main driver for relocating was to accommodate expansion.

• Rathbones had expanded at a faster pace than expected and had outgrown their existing space. Their funds under management had grown from £8.9 billion to £16.5 billion in just four years.

• The company wanted to ensure that everybody worked in one building
Submarket analysis by occupier loyalty

As seen in previous years, a large number of companies chose to remain in their existing submarket (116 companies) equating to 46% of transactions above 10,000 sq ft from established companies.

The greatest degree of loyalty was shown to the City Core – out of all the companies that chose to remain in their existing submarket, just under half of them were in the City Core. This means that 51 out of 63 leasing transactions in the City Core originated from companies already located in the submarket. This follows on from the trends seen in the previous three years when at least half of all transactions were from City Core occupiers.

The most notable company who chose a full scale move within their existing submarket was Jefferies who moved their operations from Vintners Place to 100 Bishopsgate.
New operations

19 new companies made London their home. Where did they go?
Cushman & Wakefield estimates that companies new to Central London in 2016 - either new entities or companies moving into Central London - accounted for 4% of total transactions by number – this equates to 417,859 sq ft. This is on a par with 2015 percentages but was higher in terms of volumes.

Nevertheless, it was down on the peak years of 2013/14 when new entrants accounted for 8%-12% of leasing volumes, with significant migration from companies such as Salesforce, Amazon and Tableau Software moving into the capital.

**New operations in Central London**

Cushman & Wakefield | Movers & Shakers

**Government Digital Service**

**Kraft Heinz**

**Whitechapel Building – 54,793 SQ FT**

**The Shard – 38,667 SQ FT**

**A New Entity**

**Moved from Middlesex**
New operations in Central London by sector

There were relatively few new operations in central London in 2016. The tech sector as well as professional services accounted for 42% of the total number of new operations in Central London respectively, which reflects the continued diversity of the capital's occupational market.
New operations in Central London by location chosen

New companies into London were relatively footloose in where they set up their operations - with a diverse range of submarkets chosen.

Soho, Paddington and the City Core saw the largest number of new operations, but most submarkets attracted new companies in 2016.
The headquarters of Kraft Heinz is currently located in Hayes, Middlesex. It is home to over 300 people that work across multiple functions. The company made the decision to relocate its European and UK headquarters to central London with the principal goal to strengthen the company’s 'dynamic culture', which is based on meritocracy, speed and efficiency.

In November 2016, the company announced that it was to lease around 38,000 sq ft in the Shard, which will house around 100 employees from Hayes.

The location was chosen due to its strong transport links and the wealth of nearby amenities – both inside the building and in the surrounding neighbourhood, while the building layout will allow Kraft Heinz to design space that will increase efficiency by facilitating better communication and faster decision making, while promoting collaboration and focused working amongst employees.
As in previous years, tech companies showed the greatest willingness to move location, with 18 occupiers relocating submarket, and only six remaining in their existing sub-market.

There were four tech companies new to London, and a further 11 companies took expansion space in their existing submarkets.

‘Hopes pinned on tech sector riding to London’s rescue in post-Brexit world’

Tech occupiers who moved submarkets relocated from a variety of locations. The greatest loser was the City core (six occupiers moving out) while the biggest winner was Aldgate and Whitechapel (four occupiers moved in).

Media companies were also relatively footloose, continuing the trends seen in previous years. Half of media companies moved submarkets but there was no dominant location chosen by the sector. A number of media companies moved their operations to Southbank, as the area cements its reputation as an established media hub. These included Dods Publishing, who relocated to the Shard, and Brands2Life, who moved to the Blue Fin Building both migrating from Victoria. As in 2015, the sector was one of the main drivers of the west to east migration.

Colt Technologies moved from the City core to Great Eastern Street in Shoreditch, bringing them closer to the cluster of tech companies around the Silicon Roundabout. The relocation will provide space for 300 new sales staff.

Deliveroo was one of the most high profile relocations into the City Core, and reflects the increased diversification of the areas occupier base. The company leased space in Cannon Bridge House- increasing its space five fold.
Relocation trends by sector

Note: *by number
Relocation trends by sector

The propensity to move submarkets from the media and tech sector was at a higher rate than seen in 2015.

Professional services companies also migrated at a higher rate, with just over half moving submarkets, which compares to 45% a year earlier. Despite having a relatively high rate of migration, professional services companies were more likely to remain within the main geography of the West End or City. McKinsey migrating from St James’s to Bloomsbury and Capita’s move from Victoria to Fitzrovia are examples of this trend.

Similar to trends seen in previous years, approximately half of lawyers relocated outside their existing location. Despite relocations between submarkets, legal occupiers remained faithful to their core market of the West End or City. There was only one shift from west to east which was Reddie & Grose moving from Bloomsbury to Aldgate and Whitechapel, where they leased just under 20,500 sq ft in the White Chapel Building.

In contrast, insurance companies were the most loyal to their existing submarket. All but one of the insurance companies chose to remain in the City core. In percentage terms, this was similar to the rate seen in 2015, when approximately, 86% of insurance companies remained in their existing submarkets but there were fewer transactions in 2016.

Banking and financial services companies also showed strong loyalty, as seen in previous years with limited movement from the traditional locations of the City Core and Mayfair and St James’s. Victoria was the main beneficiary of migrations, primarily from companies previously located in Knightsbridge and Mayfair and St James’s.

‘It may be where the hipsters hang out, but Shoreditch’s position as the number-one choice for technology and creative businesses is now facing strong competition from the South Bank.’
Relocation trends– Retail & Leisure

KINGS CROSS

SOHO

CAMDEN

FITZROVIA

FITZROVIA

EUSTON
Summary and outlook

The migration trends that have been evident over the last few years continued during 2016, albeit the EU referendum resulted in a slowdown in the number of transactions while an upturn in the West End vacancy rate has provided greater choice to occupiers than seen in previous years.

There is a direct relationship between the vacancy rate and the average distance moved, with higher vacancy rates correlating with shorter distances. The majority of professional services occupiers and media and tech companies were willing to relocate to keep occupancy costs contained. On the other hand, insurance companies, lawyers, and banking and financial institutions remained largely faithful to their areas.

Media and tech companies are expected to continue to drive the leasing market and as a result will fuel migration between submarkets. With many occupiers taking the opportunity to change the way they operate within their offices, increasingly focused on brand and attracting talent, many corporates may be more willing to consider alternative locations especially with rents in many submarkets converging. The rating revaluation is likely to see a redistribution in occupancy costs and may also fuel migration trends to more cost effective locations during 2017.

Counteracting this, vacancy rates are anticipated to see a further uplift during 2017, while prime rents may come under some downward pressure. This combination will see greater choice of occupiers in their existing areas and the propensity to migrate may slow in the short term.

With the current market uncertainty, there was also evidence of more occupiers leasing overflow space and this is expected to continue, as occupiers are more reluctant to take longer term commitments. Expansion rates have fallen year on year, as occupiers seek to lease more efficient space and net take-up is expected to be positive but lower during 2017.