THE LONDON REPORT 2019

WHAT NEXT?
Ten years ago, in February 2009, I stood up to speak at our Central London Breakfast, convinced I had been handed a poisoned chalice. The preceding months had seen a raft of once mighty banks tumble like dominoes and most commentators were talking about a “lost decade”. The outlook for London was bleak.

The intervening years have contained some events that matched those dark expectations – the euro crisis, rollercoaster financial markets and the rise of populist politics. Yet, for the most part, our worst fears in 2009 were not realised. A digital revolution has transformed London’s economy with tech disruption changing everything from how we hail a taxi to how we occupy offices. A truly global market for real estate means Knight Frank’s investment agents are now far more familiar with the airport terminals of Asia than was the case in 2007.

A key feature of the last decade has been unsettling change. It is, however, change that has paid dividends for those agile enough to adapt. London has proved particularly adept at transforming itself to meet the demands of the new era and the benefits are evident in the office market. Of the 22 London office sub-markets we monitor, 14 have prime rents that are higher today than in 2007. Three sub-markets have been added to our definition of Central London since 2007 – Nine Elms, Stratford and White City.

This year’s London Report looks at why this great city is so adaptable and examines the next wave of changes to come. We forecast further transformation in the pipeline, with London set to become a centre of scientific R&D, drawing capital from investors unknown to the market before and extending its reach into yet more sub-markets.

What is certain is that the next ten years of change will create new opportunities in the London real estate market.
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EXECUTIVE SUMMARY

What next? Four future features of the London market

“Current events will not break London’s longstanding track record of responding positively and progressively to seemingly seismic events.”

SUBSTANTIAL DEMAND FROM NEXT WAVE TECHNOLOGY

- The UK has a strong global standing as a centre for the advancement of new wave technologies such as AI, automation, robotics and life sciences.
- London is home to many companies at the heart of next wave technology. They are joined by tech titans who will continue to scale up, invest and develop new technologies - and will access London’s talent pool to do so.
- As these new wave technologies are applied to traditional industry sectors, they serve to alter business models and structures. This will create new occupational requirements from banks, lawyers, professional service firms and beyond. Disruption will continue to create demand.
- London has, in recent years, developed a globally significant position in hybrid sectors such as life science and tech. These are increasingly a source of high growth and well capitalised companies that are seeking to develop scale within London.
- As technology is applied to the life sciences sector, both to generate hybrid sectors such as medtech or enable computational-based R&D for pharmaceutical firms, science in the city becomes a reality, as evidenced by Novartis’ recently announced move to White City. London’s life sciences ecosystem and infrastructure is unrivalled, and this will support increased demand from the sector.

SUPPLY RICH IN AMENITY AND EXPERIENCE

- Occupiers are using the workplace to support, facilitate or portray strategic transformation and to attract and retain talent that can drive that transformation. Consequently, there has been a clear flight to quality in the London office market.
- Amenity-rich offices and office locations will outperform going forward, as they provide occupiers with not just a physical product but a strong business solution.
- Amenity provision in London office buildings will extend beyond those that support physical wellbeing, such as gyms and end of trip facilities. Next phase amenities will provide staff education and development opportunities, offer lifestyle support for a more diverse workforce, and also create spaces that support the mental wellbeing of staff.
- Amenity-rich spaces will provide a positive and productive workplace experience for staff and ensure that costly staff churn is reduced. The cost of occupying an amenity-rich building will be offset by this increase in retention.
- The continued globalisation of investment and development in the London market will bring further international best practice and innovation to the city’s bull stock.

A DEEP AND DIVERSE POOL OF INVESTORS

- London’s position as one of the world’s most liquid and transparent real estate markets will remain alluring for global and domestic investors alike.
- London’s value relative to other capital cities, the prospects for rental growth, and the potential for lower growth and rising volatility in emerging markets will drive increased capital flows towards London.
- The source of this capital is evolving. This year we highlight rising interest from investors in Asia, Europe and Australia and Israel, for example, in addition to persistent demand from Asia, Europe and North America.
- Longer term, we expect that overseas investors will play an increasing role in development activity in order to access higher returns. They already account for over 40% of the current pipeline.
- We anticipate growth in debt funds, and see appetite to lend on income-producing assets from a variety of sources, including domestic insurance companies, German lenders and, increasingly, institutions from the Far East.

NEW DYNAMICS IN RESIDENTIAL DEVELOPMENT

- The search for affordable housing will continue to shape new housing delivery, in terms of design, use of space and the expansion of offering in the rented sector.
- Increased transport infrastructure linking London to other urban centres will change the dynamics of some development decisions as businesses and workers weigh up connectivity and affordability.
- Housing is set to become more age-focused. No longer just about the number of bedrooms, housing will be targeted by need, from student housing via co-living, renting and buying, to senior living.
- Placemaking and the experience of buildings will become ever more important, in order to better connect people to their home, and each other.
- In the era of rising development costs, developers are seeing the opportunity to streamline and speed up development using modular construction.

“Current events will not break London’s longstanding track record of responding positively and progressively to seemingly seismic events.”

“We remain confident about London’s future and the opportunities awaiting in the political process, while there are doubtless numerous twists and turns along the way. Sentiment, London continues to attract the highest level of occupiers and investors alike.”

As this report notes, there are four features that seem to underpin the continued strength of the London office market.

“Current events will not break London’s longstanding track record of responding positively and progressively to seemingly seismic events.”

“Current events will not break London’s longstanding track record of responding positively and progressively to seemingly seismic events.”
The vote to leave the EU in 2016 prompted a fresh wave of prophecies that London would go into decline as a global city. But the capital has defied the pundits before, and evidence is mounting that it is doing so again.

London has weathered the late 1980s stock market crash, the ERM crisis of the early 1990s, the dotcom bubble of 2000 – and moved on to greater things. Commentators have many times over the decades predicted an exodus of companies and jobs to Birmingham, Dubai, Dublin, Frankfurt, Hong Kong and New York. Inevitably, of course, some jobs have indeed left to these cities, but the numbers were overshadowed by further growth. London’s workforce currently stands at a record high.

Two-and-a-half years after the vote for Brexit, major tech firms and financial institutions have reconfirmed their commitment to London by acquiring new headquarters here. Just a handful of financial jobs have been moved out due to Brexit, not the tens of thousands originally predicted. More tower buildings are rising above the city and are steadily letting up.

Inevitably, all this will prompt the obvious retort, that the UK is still to leave the EU. However, this is a fig leaf for continuing to predict bad news at a later date with no supporting evidence to justify the implied pessimism. Pursuing this logic, we should be asking, is there evidence for optimism?

The timeline beside this text is a history of London’s resilience as a business location. This is based on a bedrock of economic fundamentals. The business world likes hubs, whether it be telecoms confluence points, the epicentre of vast commuter rail networks or globally connected airports. London has, albeit in an uphill struggle against political agendas, maintained its infrastructure to an international standard. The green light for Heathrow’s next phase will underpin future growth, sitting alongside the upcoming Elizabeth Line and, in the longer term, HS2.

Moreover, London remains a highly successful hub for people, making it a key focal point in the global knowledge economy. There is expertise in London in established industries like finance, insurance, law and accounting, which is very difficult to replicate elsewhere. We know this for a fact: Brexit has encouraged many cities and governments to engage in Herculean efforts to build a “London” elsewhere in the EU and they have only won a small number of relocated jobs for their troubles.

London has also carved out an enviable place in the digital economy; a borderless world where Brexit is less of a constraint than in heavily regulated businesses like finance and insurance. The capital’s success in attracting these sunrise industries owes much to its desirability as a place to live. Too much emphasis is placed on the cost of housing, and not enough on the city’s vast cultural and leisure scene. Those who live in London, however, are keenly aware of this benefit.

Our timeline serves to remind us that London has faced numerous setbacks in the past but has gone on to set new market benchmarks. This resilience underpins London’s attraction for investors and occupiers alike.

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In the aftermath of the vote to leave the EU in June 2016, many commentators singled out London as a region expected to be particularly hard hit by the economic fallout. This reality has been very different. Indeed, ONS figures show that the two years following the referendum saw the capital’s workforce increase by 278,000 jobs on a net basis. Around 26% of these new roles were in the fast growing information and communication sector.

Even the financial sector has seen over 1,600 jobs created since the referendum, improving the forecasts of tens of thousands of Brexit-related job losses abated. A recent survey by Reuters of London’s financial and insurance firms found that just 630 jobs have moved so far and that, in the event of a hard Brexit, the figure would rise to just 5,800. This would be the equivalent of 1.4% of London’s financial and insurance workforce.

**DIVERSITY FLOURISHES**

Nevertheless, it would be wrong to portray the situation in London since the referendum as “business as usual”. The economy has changed, albeit following trends that pre-date the vote to leave the EU. Output growth in 2017 and 2018 for London’s information and communication sector is estimated at 8.9% by Experian Economics. The equivalent figure for the equivalent of 1.4% of London’s financial and insurance workforce.

**POWERHOUSE**

Based on RFP figures, (if London were a country, its GDP would rank as the 30th largest in the world), far ahead of self-governing cities such as Hong Kong (in 34th place) and Singapore (37th). Figures from Experian Economics suggest that GDP has grown steadily every calendar quarter since the referendum. Taken together, and with the tech and scientific growth mentioned above, these factors prove London is an economic powerhouse big enough to rise above the turbulence of Brexit.

Amazon’s much discussed HQ2 search in the US was an acknowledgement that concentrations of talented workers are scattered across the globe. To mine these knowledge pools, firms need to take the jobs to where the right people are found and, if anything, recent years have seen London cement its position as a talent magnet. Despite Brexit, London still leads in European venture capital investment and foreign exchange trading. London’s position as a global economic hub will strengthen as the digital and scientific revolutions gain momentum.

Our interpretation of the above figures is that those industries that previously depended on finance for work have now expanded to serve the information and communication sector. This has both spurred growth and diversified income streams. The recent arrival of more scientific jobs in the capital, from King’s Cross to Stratford, will add further variety to the economy. Diversity will leave London stronger and safer when facing future downturns.

However, the elephant in the room is a hard Brexit. This would undoubtedly have a negative impact on the UK economy, but more so in manufacturing districts, which are largely found outside London. The government has said that after a hard Brexit it would reduce the tax and regulatory burden on businesses in order to attract investment. This would lessen the negative consequences for London, with its services-oriented economy.

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**DIVERSITY FLOURISHES**

**POWERHOUSE**

**RISK RADAR**

Below are the four key risks facing London’s economy. Each is rated one to five on the likelihood of occurrence, with five being the most likely:

**LABOUR SHORTAGES**

Likelihood 5

Unemployment in the UK at its lowest for decades and pay inflation is accelerating. Brexit has made immigration a political hot potato and companies are adopting a “grow your own” approach to talent management, which will make educational infrastructure a key element of amenity provision. Expect more employers seeking offices with a wow factor that boost staff morale.

**TECH STUMBLING**

Likelihood 3

Stock market volatility in recent months reminds us that the tech sector is no stranger to boom/bust cycles. However, tech is also delivering a continuous flow of innovations that are transforming our lives. 5G telecoms technology is about to be rolled out worldwide, which could spark a new wave for the sector.

**HARD BREXIT**

Likelihood 4

The rollercoaster politics at Westminster means we must take this risk seriously. Although recent parliamentary votes show supporters of a no deal Brexit are in a minority in the Commons, support for a hard Brexit scenario has been minimal, and at the time of writing this feature there is growing speculation that Article 50 may be extended.
INVESTMENT HAS REMAINED REMARKABLY BUOVANT

Despite political uncertainties, London retains strong international investor appeal

INVESTMENT CAPITAL

We believe will draw global capital towards London's prime office market has seen more investment than any other global city, as has also been the case for the past ten years. The role of foreign capital has never been more significant. Over 80% of acquisitions were driven by overseas purchasers, with a nationality mix that is becoming less heavily dominated by Far Eastern investors as European demand re-emerges.

HOW WILL LONDON CONTINUE TO ATTRACT GLOBAL CAPITAL FLOWS?

We highlight a number of specific factors that we believe will drive global capital towards London's real estate in 2019:

- London assets have become cheaper than ever. London's prime office yields have not moved in the past year. In contrast, many continental European markets have yields continue to edge down, and in some cases they are now considerably lower than in London. Although sterling's continued weakness represents an advantage for overseas investors, especially those relying on US dollar-denominated capital.

- Conversely, the total cost of hedging dollar exposure has increased. This is partly because the Federal Reserve has raised rates faster than anywhere else. Knight Frank estimates that over half of global investors purchasing US real estate hedge their dollar exposure. For these investors, raising hedging costs make US real estate relatively more expensive and other locations, such as London, comparatively more attractive.

- Supply shortages are driving rental growth for prime stock. While 2018 was a strong year for the delivery of new space, vacancy is less than 6.5% and an overall oversupply. Consequently, we expect rental growth in 2019. Although we have been highlighting this prospect for some time, it has only recently become widely accepted. The rising cost of construction combined with labour shortages should serve to keep new supply in check.

- London assets are increasingly being held as a hedge against trade disputes and uncertainty in emerging market economies. The Shanghai stock market has lost over 20% of its value since the start of the year, and volatility is rising. We expect this to fuel exports of capital from economies facing similar concerns, and note that London is traditionally a popular choice for maiden overseas purchases.

- London remains a bellwether for the transmission of this demand into real estate.

- Liquid and transparent markets in the world, London remains a bellwether for the transmission of this demand into real estate.

- The continued accumulation of private wealth, Research conducted for our Knight Frank Wealth Report shows that private wealth is growing at the fastest pace in emerging markets, where real estate markets are typically neither deep nor transparent. When possible, those in control of this wealth will increasingly seek to invest in these markets that do enjoy these characteristics. As one of the largest and most transparent real estate markets globally, London is an obvious choice.

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While in the longer term we expect rising interest rates to push up the overall cost of finance for domestic lenders, competition within the market means margins themselves will remain under downward pressure. We see this having a particularly positive impact on debt funding for the acquisition of prime London assets, as these large-ticket transactions attract the most interest from a range of lenders.

The internationalisation of the development pipeline. Domestic developers delivered 88% of the 8 million sq ft of space completed in 2008. Fast forward a decade, and the equivalent share has dropped to 50% as overseas investors, led by those from the US, now account for the other half. This is no short-term anomaly, as domestic investors only account for a marginally higher share – 56% – of the entire development pipeline.

The overseas players active in the London market will increasingly take a role in development. This reflects both the need to access returns higher up the risk curve in a low-yield environment and, in some cases, greater familiarity with the market.

**OUR OUTLOOK**

Office investment in London will not be immune to the impact of political uncertainty in 2019, and competition from other global cities will remain fierce. Yet we believe that attractive pricing, rental growth prospects, and the sheer weight of capital targeting real estate will see London remain one of the world’s most liquid real estate markets.
LONDON'S NEW OCCUPATIONAL ORTHODOXY

Five trends will shape the quantum and qualities of occupational demand in the London market over the next three years

WRITTEN BY
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PRODUCTIVITY PUSH V2.0

Real estate has become a strategic device that facilitates, supports or portrays business transformation. The workplace is no longer simply a business cost to manage downwards or a basic container in which to place people. It is central to enhancing individual and collective productivity and bolstering corporate competitiveness.

NEXT WAVE TECHNOLOGY, NEW BUSINESS MODELS AND NEW DEMAND

The adoption of next wave technologies, such as automation, robotics and AI will radically alter business structures and processes. When businesses change shape, so do real estate requirements. We anticipate further technological disruption being a driver of new market demand.

CHANGING CORPORATE CONSTITUTIONS

Corporate structures and cultures are changing. As the supply chains of big business deepen and broaden or the workforces of a business becomes multi-generational, real estate must also change in order to drive new behaviours and support business cohesion.

SPACE-AS-A-SERVICE BECOMES THE DEMAND DEFAULT

Real estate is shifting from being a fixed physical product towards a flexible, customer-centric service. As the co-working phenomenon has shown, space which is available on flexible terms and provides a positive workplace experience will be in greatest demand. Landlords will need to respond to retain relevance, revenue and returns.

MOBILITY SHAPES LONDON'S FUTURE DEMAND PROFILE

Whether challenged by talent shortages, seeking financial efficiencies or attempting to establish a new identity, occupiers are on the move within and between markets. When occupied with relatively limited supply and the new strategic significance of the real estate decision, mobility will continue to characterise London’s future demand profile.

THREE IMPLICATIONS FOR LONDON

1. More considered occupier requirements with a broader range of stakeholders seeking more bespoke solutions.
2. For larger requirements, a greater desire to enter into pre-construction pre-lettings to better align property with business need.
3. A continued flight to, and increased competition for, the best quality stock and a willingness to pay premium rents to secure the best solutions.
4. Tech companies, and notably the tech titans that are heavily invested in next wave technology, will continue to be a key source of occupational demand, particularly as Europe and the UK hold world-leading positions in these technologies.
5. The innovation imperative will force occupiers towards space that supports high-end, innovative, value-add functions as lower value processes are automated.
6. Recognisable tech hubs that offer a strong supply of tech talent, connection to academia and a culture of innovation that supports a more broadly defined technology sector (encompassing, for example, the life sciences) will superbly perform the wider market.
7. A move towards spaces that have greater allocations of public touch-down space to enable engagement between the occupiers and its suppliers.
8. A diversification of amenity provision within buildings with a growing emphasis on healthcare provision to support multi-generational workforces.
9. Workspaces that offer occasional sanctuary from the always on, always connected reality of modern work will prove increasingly popular.
10. Increased co-existence of conventional and flexible space within individual schemes and/or buildings will become a reality and be recognised by landlords as a means to activate and enliven spaces.
11. New operators will take root in the London market and seek to attract larger-scale occupiers.
12. Conventional landlords will respond with their own offer, bringing greater customer service and flexibility to the fore as they seek to secure occupiers.
13. Further movement of occupiers towards key and emerging transport hubs to increase their talent catchments.
14. Growing “one roof” relocations or clustering to bring together disparate elements of businesses will drive efficiency and collaboration. This will be particularly evident within the media sector.
15. Continued London-wide searches and a rejection of traditional sub-market boundaries by the occupier.

To find out more about how occupier attitudes towards real estate are changing and what this means for global real estate markets including London, download our (Y)OUR SPACE report knightfrank.com/yourspace
The demands and expectations of occupiers are clearly changing. As well as an appetite for a greater alignment between their business and their property, occupiers are seeking real estate solutions that support changes in business culture, structure and constituents. There has been a clear change in dominant business culture over the last five years. Businesses increasingly compete based on innovation rather than scale. Consequently, workplace design needs to bring people together to support collaborative idea generation and development. Occupiers are therefore seeking diverse and agile working environments that allow staff to work across functions or departments, often on a temporary basis. The implications for the supply side of real estate are clear. Think less about a binary distinction between open plan and cellular offices. Instead, focus on the promotion of spaces that support Activity Based Working – spaces that are as varied as the tasks undertaken within them.

The rise of innovation up the corporate agenda also has structural implications. True innovation often requires collaboration with external specialists or even greater connection to those previously regarded as competitors. As such, offices must support interaction between companies – one of the principal drivers of the co-working phenomenon. This will lead to the greater use of public touchdown space within buildings to enable informal interactions with experts and suppliers outside of the secure corporate mothership.

Changing business cultures and structures, when combined with the ongoing and longstanding war for talent, are pushing occupiers towards amenity-rich buildings and environments. These amenities are a key part of the real estate decision-making process and can, for landlords, be the difference between securing or losing occupiers. This has been intensified as occupiers have become largely location agnostic. The increased willingness of occupiers to move between sub-markets...
to secure the best product raises the stakes but increases the opportunity. No longer is it sufficient to have simply a well-designed building. Instead, best in class offices create compelling workplace experiences by being accessible, amenity-rich and service heavy, as well as supporting a culture of innovation and creating a sense of community. This has been key to the emergence of attractive new workplaces in sub-markets such as Stratford or White City or the continued competitiveness of sites, such as Chiswick Park, that retain the experience of work.

Investors and developers must begin to think of buildings less as simply products and more as solutions for their customers. As well as affecting the design and servicing of the building, this also has more practical considerations. In an operating environment where business planning cycles are reducing, flexible and shorter term leases will be in demand. However, occupiers will also be seeking solutions that offer quick and easy access to property, the ability to scale up or scale down on demand, and a more straightforward exit. Conventional product is often hindered by a legal process that takes too long and is too complicated. Fit-outs, including Wayleave Agreements, are a hassle and more as solutions for their customers.

Conventional landlords will, in our view, have to adapt their approach to leases and the delivery of space in order to compete for and secure typical-sized occupiers. The new demand dynamic brings an interesting challenge to the supply side of the industry.

The design of WestWorks is based on the concept that creativity is a business imperative and is best generated through networks. A comprehensive 290,000 sq ft refurbishment, completed in 2017, has attracted a plethora of occupiers from the technology, media and telecommunications, corporate and pharmaceutical sectors. The WestWorks ethos is that creativity is the result of the occupier’s experience and inspiration. The buildings encourage collaboration through the provision of co-working reception, communal gardens, recording studio and a variety of ground floor retail outlets. It’s an environment that looks to blur the lines between work and play, recognizing that creative success is inextricably linked to how we feel about where we work.

CASE STUDY: THE WESTWORKS, WHITE CITY PLACE, W12

OCCUPIERS
ITV Services Ltd, Oneweb, Jelly Cat, Aria Alliance Media Ltd, Syntrac, Novartis, GammaDelta, Attention Seekers Production Ltd, Parker Lane, Cutting Edge Music (Holdings Ltd) (75% let across the White City Place estate)

AMENITIES
Co-working reception, central gardens, terraces, café pavilion, cinema, car and bicycle spaces, showers and lockers, ground floor retail.

ETHOS
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CASE STUDY: HERE EAST, E15

OCCUPIERS

AMENITIES
Variety of canal-side restaurants, cafes and bars, Plexal Innovation Centre, 300-1,000 person event space, central yard area for outdoor events, food markets and tenant engagement programmeme, Westfield shopping centre, Olympic Park and sporting facilities (pool, track cycling, velodrome, tennis, hockey, London Stadium), full walk across the campus, shuttle bus service linking to adjacent transport nodes, 200 car spaces, extensive bicycle and shower facilities.

ETHOS
Here East is a 1.2 million sq ft scheme on the Olympic Park that focuses on technology and innovation. Having formerly been the broadcast and press centres for the Olympics, the buildings offer unparalleled connectivity. Through highly active tenant management, Here East has curated a diverse community of tenants with strong inter-connections, particularly via the mix of start-up businesses in Plexal, Here East’s innovation centre, which now hosts the government-backed Cyber Security Programme, and via strong commercial links with PhD students from UCL and Loughborough University London. The two buildings provide an unusual mix of very contemporary office space and large studios incorporating wave heights of up to 1.1m, allowing tenants to create unique and exciting working environments to attract and retain talent.
**DERIVATIVE DEMAND**

As traditional industries are reshaped by technology, new sources of demand emerge

Even more significant has been the melding of traditional sectors with technology to create entirely new hybrid industries and a new range of well-capitalised, high-growth companies. Four derivative tech sectors have particular significance for the London market and are worthy of continued monitoring as sources of future occupational demand.

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**FINTECH**

The application of new technology to improve and automate the delivery and use of financial services has given rise to fintech, an industry in which the UK dominates, accounting for more than $16 billion of global investment in H1 2018 – more than any other country. Fintech is allowing companies, business owners and, increasingly, consumers to manage their financial operations, processes and lives more effectively and efficiently through specialised software and algorithms. Fintech has expanded to include any technological innovation in, and the automation of, the financial sector, including advances in financial literacy, advice and education, as well as the streamlining of wealth management, lending and borrowing, retail banking, fundraising, money transfers, payments, investment management and more. Fintech is also increasingly encompassing the development and use of cryptocurrencies such as bitcoin.

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**LEGALTECH**

Technology and software is also being used to transform the provision of legal services. Legaltech companies are generally start-ups founded with the purpose of disrupting the traditionally conservative legal market. Legal technology has traditionally focused on law firms with practice management, document storage, billing, accounting and electronic discovery. The market has however evolved to encompass technology start-ups that disrupt the practice of law by giving people access to online software that reduces, or in some cases eliminates, the need to consult a lawyer, or by connecting people with lawyers more efficiently through online marketplaces and lawyer-matching websites. There is growing evidence of collaboration between legaltech start-ups and more established legal services companies. The UK government has recently announced its support for an industry-led delivery panel to “boost new legal technologies.”

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**INSURTECH**

Insurtech describes the use of technological innovation to squeeze savings and efficiencies from the current insurance industry operating model and is founded on the premise that the industry is ripe for innovation and disruption. Many insurtech companies are exploiting avenues that the larger insurance firms have less incentive to exploit, such as offering highly personalised policies, social insurance and using new streams of data from incentivised devices to dynamically price premiums according to observed behaviour.

The UK is Europe’s leading insurtech market and London is at the very apex. US$364 million was invested in UK-based insurtech companies in 2017 – a notable increase on the US$19 million invested in 2016.

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**MEDTECH**

A growing area of derivative demand is medtech, which constitutes all technologies developed or applied to save the lives of individuals suffering from a wide range of medical conditions. Curing is wide spectrum of activity between pharmaceuticals, biosciences, biotech and preventive medicines, medtech is already diagnosing, monitoring and treating virtually every disease or condition that affects us.

According to the Office for Life Sciences, the UK medtech sector consists of more than 3,500 businesses and produced revenues of £22.2 billion in 2017. Digital health is the largest medtech sub-sector in the UK by employment, with London accounting for almost a quarter of all employment.

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Dr Lee Elliott
Global Occupier Research
"As technology reshapes traditional industries, London is becoming a global centre of excellence for emerging hybrid sectors."

London’s emergence as a tech centre of global standing is well understood. Most are aware of the sizable commitments to London made by tech titans such as Apple, Google, Facebook and LinkedIn over recent years. Yet the influence of technology on London’s demand profile is more wide-ranging. All industry sectors are facing up to a digital transformation, leading businesses to respond with new and different real estate requirements.
At the Francis Crick Institute in London NW1, researchers are working to discover new ways to diagnose, treat and prevent cancer. Travel west across London to Imperial College’s White City Campus and teams are pioneering advances into the diagnosis, prevention and treatment of musculoskeletal diseases. The life sciences sector is alive and well in London and, as we enter one of the fastest moving periods of scientific innovation in history, the sector will be a key feature of London’s demand profile over the coming years.

The global life sciences sector is expected to grow 25% to US$2 trillion by 2023

There are a number of drivers behind this growth trajectory, namely:

• A perfect storm of major public and private investment.
• A healthcare system with an urgent requirement to improve patient outcomes and operational efficiency.
• Technological advancement and disruption that is creating new opportunities and entrants in the sector as well as leading to greater sector convergence.
• An ageing population with more complex healthcare needs.
• A health and wellbeing agenda taking hold at individual and corporate level.
• Data-driven diagnostics and the rise of preventative healthcare.

There is increasing convergence between these different segments.

"BIRDS OF A FEATHER, FLOCK TOGETHER"

London already has a robust community of over 1,245 life science companies. Notable occupier activity in the second half of 2018 included commitments from Novartis Life, Autolus and GammaDelta Therapeutics to take space at The WestWorks in White City.

London is extremely attractive for a number of reasons, including access to early stage funding, a sizeable customer base and clinical trial infrastructure. It is also an established hotbed for life sciences, tech and data analytics, able to capitalise on sector convergence and easy access to the “Golden Triangle”. While not restricted to London, access to the NHS is also a huge draw. But the main pull factor is the cluster effect. In an industry that spends huge amounts on, and achieves significant scientific R&D, there is a need to be close together. A perfect storm of major public and private investment, a healthcare system with an urgent requirement to improve patient outcomes and operational efficiency, technological advancement and disruption that is creating new opportunities and entrants in the sector as well as leading to greater sector convergence, an ageing population with more complex healthcare needs, a health and wellbeing agenda taking hold at individual and corporate level, data-driven diagnostics and the rise of preventative healthcare.

The commercial development of those branches of science that involve the scientific study of organisms, including human beings. Applications in the health, agriculture, medicine, pharma and food science industries

A broad spectrum of institutions that support the functioning, growth and development of the life sciences sector. Includes funding sources, regulatory and representative bodies, the NHS, private hospitals and healthcare providers, as well as professional consulting services.

DEFINING THE LIFE SCIENCES SECTOR

The appliance of science

Scientific R&D is urbanising, with London well placed to capture growing demand from the life sciences sector

Develope, produces and markets drugs or pharmaceuticals for use as medications.

Biotechnology uses scientific principles to create technological applications that use biological systems, living organisms or derivatives thereof to make or modify products or processes.

Any technology that can be used in a care setting. A broad area that includes: 3D printing, AI, artificial joints, robotics, syringes, connected health IT diagnostics, wearables and implants.

Life science companies generally conduct their own in-house R&D but increasingly partner with a range of organisations including: academia, research institutions and outsourced service providers.

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**Examples:**

- GSK
- AstraZeneca
- Pfizer
- Gilead Sciences
- Celgene Corp
- Biogen Idec
- Medtronic
- Siemens Healthineers
- BenevolentAI
- Francis Crick Institute
- Imperial College
- IQVIA
- Welcome Trust
- GMC

**Note:** There is increasing convergence between these different segments.

- Source: ONS, as at March 2018. UK SIC codes: manufacture of basic pharmaceutical products; manufacture of pharmaceutical preparations; manufacture of medical and dental instruments and appliances; research and experimental development on biotechnology; other research and experimental development on natural sciences and engineering.
COMPETITIVE ADVANTAGE FROM, NMS, CO-LOCATING ALONGSIDE TALENT, ACADEMIC INSTITUTIONS, HEALTHCARE CENTRES AND PIERS IS CRUCIAL. LONDON HAS A WORLD-LEADING SCIENTIFIC TALENT PIPELINE AND ACADEMIC AND HEALTHCARE INFRASTRUCTURE.

DEVELOPING THE LONDON LIFE SCIENCES ECOSYSTEM

In response to the growing demand outlined above, parts of the city are being redeveloped into world-leading life sciences clusters. A prime example is the Knowledge Quarter, a consortium of over 50 academic, cultural, research, scientific and media organisations located in a small area around King’s Cross, Bloomsbury and Euston. Notably, the quarter is home to the Francis Crick Institute, the largest biomedical research facility under one roof in Europe. The quarter has also attracted artificial intelligence and tech companies such as DeepMind and Google.

CREATING A SENSE OF PLACE IS AS VITAL AS BUILDING THE RIGHT PHYSICAL SPACES

Key attributes of such developments include having one or more anchor institutions such as a hospital, research institute or university, provision of collaborative spaces, providing an advanced digital infrastructure and proximity to transportation nodes. Dedicated life science space has specific technical requirements that differ from a traditional office fit out such as the need for increased floor loading for part of the floorplate, larger floor areas for extraction and upgraded power supply/back-up generators.

Creating a sense of place is as vital as building the right physical spaces. Examples include curating a variety of events that bring people together, opening spaces to the public and encouraging opportunities for collaboration between occupiers.

THREE-YEAR OUTLOOK FOR THE LONDON LIFE SCIENCES SECTOR

In conclusion, the life sciences sector will develop rapidly over the next three years. While the precise shape of the UK life sciences sector will clearly be influenced by the ultimate EU withdrawal agreement, we anticipate the following trends in future demand from the sector:

- Life science occupiers will continue to be attracted to the London market as they seek access to its pool of knowledge and talent. This will be aided by government initiatives such as the UK Life Sciences Sector Deal and the Department of Health and Social Care’s plans to digitise the NHS. In particular, watch out for greater demand from medtech and big pharma relocating certain functions to London.
- While there will still be demand for wet lab space, more life science companies will conduct research via desks and computers, shifting occupational requirements towards standard office product that appeals to both tech and scientific talent.

The implications for landlords and developers are:

- Developments in close proximity to an innovation ecosystem and that create a sense of place and vibrancy will be most attractive and as a result will outperform the market.
- With demand outstripping supply, buildings meeting existing life sciences clusters will seek planning permission to convert into appropriate space. Separately new clusters will emerge near to anchor institutions such as hospitals and universities.
- The need for flexible space to support rapid scale-up amid increased investment will see the emergence of new and specialist co-working spaces targeted exclusively at the life sciences sector.
FUTURE GAZING
What are the trends that will shape residential development over the next five years?

WRITTEN BY
James Mansix
Head of Residential Development
Gráinne Gilmore
UK Residential Research

FIVE BIG TRENDS TO WATCH IN THE NEXT FIVE YEARS
One of the principal concerns for the residential development sector, as well as other property sectors and indeed the country at large, is undoubtedly Brexit. The ramifications from a period of prolonged political uncertainty are already being felt. However, while the economic and political effects of the UK’s eventual position within the EU will be long term, the uncertainty is a shorter-term affair and is dominating the news and headlines.

For this edition of The London Report, we are looking “through” Brexit to an extent, and focusing on five of the biggest trends that will emerge or gain significant momentum over the next few years.

1. AFFORDABILITY
The search for affordable housing, whether in terms of house price to income ratios or the proportion of net income spent on housing costs, will continue to shape new housing delivery. The growth in the private rented sector (PRS) over the last decade has, in part, been fuelled by the dynamic shift in home loan requirements after the financial crisis, including but not limited to Leeds, Birmingham, Cardiff, Manchester and Edinburgh, by lower office rents, large pools of talented workers and the lower cost of living. In many cases, this pick-up in economic activity has also been boosted by transport upgrades or large-scale regeneration driven by national and local government.

2. THE RISE OF SECOND CITIES
The rise of second cities is also linked to affordability, with the lower residential capital values in some of the UK’s largest cities, relative to London, fuelling demand. This trend is not happening in isolation; however – businesses are also being lured to cities, including but not limited to Leeds, Birmingham, Cardiff, Manchester and Edinburgh. The lower office rents, large pools of talented workers and the lower cost of living. In many cases, this pick-up in economic activity has also been boosted by transport upgrades or large-scale regeneration driven by national and local government.

3. AGE-TARGETED LIVING
We are already seeing increased specialisation of housing, from student to retirement, via active living but offers flexible levels of extra care will become an established residential asset class in the years ahead, underscored by the UK’s ageing population. We anticipate a rise in institutional investment, with investors looking for long-term stable income.

4. PLACEMAKING
The importance of public realm has long been understood by developers. In future, placemaking and the experience of buildings, in order to better connect people to their homes and to each other will grow in importance on a more macro level. For developers, this may mean working, not only on the detail of their own scheme, but also in conjunction with local planners and councils as increasing attention is paid to how liveability can be improved by the urban environment.

5. MODULAR CONSTRUCTION
Developers are increasingly looking at ways to streamline residential construction, not only to mitigate rising construction and material costs but also to ameliorate the challenges around a lack of labour availability. There is also pressure to deliver housing, especially affordable housing, much more quickly, resulting in a concerted move to modular construction over the next five years. This will speed up the development pipeline across the UK, especially in urban areas. Developers who are flexible in their operations will be primed to benefit from this shift.
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A decade of change lies ahead for London, a city which has been proven to thrive on the opportunities created by transformation."

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