HIGHLIGHTS

THE TMT SECTOR WILL NEED
1.2 MILLION SQ FT OF ADDITIONAL LONDON OFFICE SPACE BY THE END OF 2014 –
THE EQUIVALENT OF TWO SHARDS

THIS IS OVER AND ABOVE THE SECTOR’S NATURAL DEMAND THROUGH CHURN OF C. 1.15 MILLION SQ FT PER YEAR

54% PLAN LONDON HEADCOUNT INCREASES OVER THE NEXT THREE YEARS, ON AVERAGE INCREASING STAFF NUMBERS BY ONE-THIRD

THE TECHNOLOGY, MEDIA AND TELECOMMUNICATIONS (TMT) SECTOR

The technology, media and telecommunications sector is commonly abbreviated to TMT. This sector encompasses a vast array of companies from huge publishing houses like HarperCollins, to computer software giants like Microsoft, to niche advertising agencies and start-up tech companies. As the sector’s full title suggests, the sector is broad; made up of a cross section of individual sub-sectors, which combined together form the TMT sector.
TMT is conscious that a company’s office building can impact brand perception and talent attraction.

Proximity to clients and business opportunities is London’s biggest attraction.

72% expect revenue growth over the next three years, with growth averaging 44% over the period.

The government should focus on enhanced access to funding to help ensure London’s continued competitiveness as a leading world media and technology city.

TMT occupiers want modern, well located and well priced space.

Transport links are a top priority when considering new offices.

No single dominant preferential London location emerged – the whole London office market could potentially gain from the sector’s growth. Although the City of London needs to sell its merits harder.
INTRODUCTION

The TMT sector has been heralded by many as a saviour in the London office market. As growth from London’s traditional occupiers has stymied over recent years in response to the challenging economic climate, the TMT sector has been the one sector to buck this downward trend and achieve genuine growth.

Whilst the TMT sector has always had a London presence, it has often been perceived as the darling of the Thames Valley office market, with its preference for large offices on campus style business parks. But with the maturing of the sector and rapid technological advances, such as cloud computing, the sector’s location, property and staffing needs have rapidly changed from 20 years ago.

OUR RESEARCH IS TIMELY

A crucial growth sector for London
With London’s property market gaze firmly fixed on the TMT sector, we decided that the time was right to speak to this important occupier group and uncover more about its growth aspirations, property needs, location preferences and its views on the government and the importance of London as a global TMT centre.

Relatively little is known about London’s TMT sector
London’s TMT office needs are little understood as the sector’s property requirements have often been prioritised behind traditional occupier sectors like banking, insurance and professional services. But with the sector’s expanding London presence, landlord perception has rapidly altered, as they have become acutely aware of the opportunities this growth sector presents.

Occupiers and landlords should mutually benefit from our insight
Through speaking to London’s TMT occupiers, we have engineered an interface between this important growth sector and London’s landlords, which can only be mutually beneficial to both parties. The insight our research provides into the TMT sector’s property needs will assist landlords in providing functional, attractive, appropriately priced office space that will be fit-for-purpose for the TMT sector.
London is considered to be one of the top three world leading technology and media centres

When participants were asked to name their top three world leading technology and media centres, London scored favourably. At 42% London was forced into second place by rival New York, which was the highest scorer with 52% of participants citing the US city. Interestingly San Francisco / Silicon Valley, which epitomised the TMT sector 20 years ago, came second from bottom, just ahead of Munich.

TMT expansionary trend looks set to continue

Our survey results point to the ongoing buoyancy of the TMT sector, with 70% of participants confirming plans to grow revenue over the next 12 months, on average by 25% per annum. Web-based services and software developers were found to be the most optimistic sub-sectors, respectively forecasting average revenue growth plans of 39% and 30% over the coming year. Marketing and PR was found to be the most ambitious sub-sector, with 86% of participants planning revenue growth in the next 12 months.

Revenue growth prospects are equally optimistic over the medium term

Over a three year period, 72% of participants expect their revenues to have grown on average by 44% compared to now. Media and broadcasting organisations are more ambitious about their medium term revenue growth expectations than their shorter term outlook, with average revenue growth of 52% expected over the next three years.

Over half predict an increase in London headcount

Over the same three year period, 54% of participants predict an expansion in their London headcount, with firms planning to increase staff numbers on average by one third. Company age was also found to impact headcount growth, with younger companies much more likely to take on new London staff, than older established companies.

At 89% the results showed unanimously that organic growth will be the main driver behind the planned staff increases over the next three years. The relocation of existing staff into London from either the UK or abroad scored lowly at 7%.
Headcount growth won’t automatically lead to increased floorspace demand

When participants were asked about expected floorspace demand over the next three years, 25% confirmed plans to take additional space during this period. The good news for landlords is that only 5% said that they planned to decrease their volume of floorspace, which means the sector has no plans to shed huge swathes of London space.

TMT sector growth impact on London take-up

To gauge what TMT sector growth will mean for London offices over the next three years, we tested the relationship between historic changes in London TMT jobs and TMT take-up. This produced a correlation coefficient of 0.82, which suggests a relatively strong relationship between the two series. Trend analysis of these two datasets revealed average annual London TMT take-up is 1.15m sq ft per annum through churn alone i.e. excluding demand driven by employment growth. Given the current buoyancy of the sector, we foresee no reason why this trend will deviate over the next three years.

There will also be additional space taken through sector employment growth. Our survey data showed headcount growth of 1.6% per annum over the next three years, which equates to 14,280 new jobs. From our calculations we estimate that this could translate into demand for at least 1.2m sq ft of additional space over the next three years. To put this in perspective, it essentially means the equivalent of two Shards.
TMT growth will occur across the capital
The survey results showed that the whole of London has the potential to benefit from TMT sector growth, with no single preferential location emerging. The findings did however confirm that preferred locations do exist, this not surprisingly included established media locations such as Soho and Covent Garden. Although emerging locations like Southbank, King’s Cross and Clerkenwell are now proving equally popular with the TMT occupiers. There were also sub-sector variations in locational preferences.

There’s a mismatch between tenant aspirations and actual market rents
The results showed that there was a definite disparity between current market rents and occupier rental aspirations. In all markets occupier aspirations fell well short of the current headline rental levels for prime space. The story was slightly more positive when looking at average rents, with occupier rental aspirations in Soho, Clerkenwell and King’s Cross comparable to current average rents. The Old Street and Southbank submarkets did however show much wider disparities between current average rents and tenant aspirations. Of course, some of these responses are likely to be reflective of the rents currently paid by start-ups for their existing office accommodation.
The larger the deal, the higher the rent
Analysis of recent TMT deals by different size bands across key submarkets, also suggests that tenants looking to upsize their premises are likely to have to pay more rent. In the West End for example, average rent paid by occupiers in the 0-5,000 sq ft size band was found to be £34.90 per sq ft, compared to £67.50 per sq ft in the 25,001-50,000 sq ft category. This will have to be factored in when a company is considering a move to new offices.

It’s all about modern space for the TMT sector
When participants were asked to use three words to describe what their ideal property would look and feel like, ‘modern’ was the undisputable winner as it was mentioned by 34 different individuals. This was followed someway behind by ‘spacious’ and ‘clean’, which were each respectively mentioned 12 and 11 times.

Sub-sector type influences building style preferences
The results showed building style preferences differed between sub-sectors, with telecoms and IT companies indicating a stronger preference for modern glass and steel buildings, whilst marketing and PR prefer warehouse style properties. The different responses between sub-sectors is good news for landlords, because it confirms a range of property types are appealing across the sector. This insight will also help landlords to target marketing strategies to individual sub-sector groups.

Proximity to clients and business opportunities is London’s biggest attraction
Participants were asked to consider why having a London presence is so attractive to their organisation. They were given a list of nine options, from which they had to select their top three. What the results showed was London’s undisputable star attraction, cited by 71% of participants, is being near to clients and business opportunities. This was followed by good transport links, which scored 30% and proximity to talent/suitable workforce which was cited by 21% of participants.

Which three words or phrases would best describe the look and feel of your ideal property?
Like financial services, transport links are a top priority
When participants were asked what their priorities would be when looking for new space, transport links scored highest in their decision-making process. This was the same response as financial services, who were asked a similar question in our 2011 financial services survey. What also emerged was the cost sensitivity of the TMT sector, with level of rent being the second most important criteria. What was a little surprising was that location was listed higher than lease flexibility, as it might be assumed that the dynamic TMT sector would want to minimise lease liabilities to ensure it can respond quickly to growth changes.

Top three criteria when choosing a new office

<table>
<thead>
<tr>
<th>TMT sector</th>
<th>Financial services sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Transport Links</td>
<td>1. Transport links</td>
</tr>
<tr>
<td>2. Rental level</td>
<td>2. Lease flexibility</td>
</tr>
<tr>
<td>3. Location</td>
<td>3. Rental level</td>
</tr>
</tbody>
</table>

Company size influences new space priorities
Company size inevitably influences priorities when considering new office space. Bigger companies place green issues / building sustainability higher than smaller companies, which is likely to reflect their higher corporate profile. Lease flexibility and transport were also deemed more important by larger companies.

Building, brand and talent are entwined
The sector acknowledges the strategic impact property has on brand perception and talent recruitment. 63% of participants believed that the right office space is crucial for building a successful brand, whilst 55% agreed having the right office is crucial for attracting the right talent. Marketing and PR was the most sensitive sub-sector to the relationship between office space and talent attraction, with 77% of participants confirming its importance.

The government should prioritise funding, taxes and infrastructure
Participants were asked to consider what the government’s key priority should be to ensure London’s ability to compete as a leading world city for technology and media. They were given six separate options, from which they had to select just one.

What the results revealed is that the sector believes that the government should be leaving the creation of designated TMT hubs like ‘Tech City’ to market experts and instead should be focussing resources on financial stimuli. This might be through the provision of funding or a more favourable tax system. Expenditure on transport infrastructure improvements also scored highly. Interestingly, the heavily debated topic of visa relaxation to attract talent from abroad also featured low on the priority list.

What the government should be focusing on

<table>
<thead>
<tr>
<th>Top three government priorities</th>
<th>Three lower priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing government backed venture capital funding for technology &amp; media companies (25%)</td>
<td>Creating designated technology &amp; media hubs i.e. ‘Tech City’ in east London (5%)</td>
</tr>
<tr>
<td>Increasing R&amp;D tax credits or lowering corporate tax rates (25%)</td>
<td>Promoting the UK’s TMT sector expertise internationally (8%)</td>
</tr>
<tr>
<td>Increasing infrastructure spending such as transport network improvements (21%)</td>
<td>Relaxing tax &amp; visa policy to make it easier to attract talent from abroad (13%)</td>
</tr>
</tbody>
</table>
CONCLUSIONS

The survey has provided a valuable insight into London’s burgeoning TMT sector. With the majority of participants confirming revenue and headcount growth plans over the next three years, it has given reassurance that the sector’s recent London growth spurt isn’t a transient trend. These findings also allowed us to make an informed prediction about the sector’s future demand for London office space.

Beyond confirming sector growth, the survey has also given London’s TMT sector a platform to speak about their office needs and location preferences. The demystifying of the sector’s property requirements can only be a good thing for landlords, as our research findings may open up new opportunities for their vacant properties. Where conflict between the two parties has potential to arise will be over rental levels, with signs of disparities between the sector’s rental aspirations and market rents in certain markets. There also seems to be a divergence of thought between the government and London’s TMT sector about the best way to ensure London’s competitiveness as a leading world city for technology and media going forward.
METHODOLOGY

- BNP Paribas Real Estate commissioned independent consultancy Meridian West (formerly Lighthouse) to interview 102 senior real estate decision makers from technology, media and telecommunication companies.
- The sample comprised a cross section of company types, which is reflective of the diverse range of organisations that constitute the TMT sector.
- The companies sampled varied in age, ranging from start-ups to mature organisations. It also included a range of company sizes, with the highest proportion (46%) of participants falling into the 10 or less employee category. This is reflective of the nature of the sector which is known to attract a high volume of start-ups.
- Greater London was selected as the sampling area, to ensure that the geographical dispersion of London’s TMT sector was captured in the sample.
- A short structured telephone interview, containing predominately closed questions, was conducted by Meridian West.
- Interviews were undertaken in April 2012.
- At the time of the interview, all participants were anonymous to BNP Paribas Real Estate. Participants were given the opportunity to disclose their identities at the end of interview.

The sub-sectors interviewed

Size of organisations contacted

Company age
ABU DHABI
Al Bateen Area
Plot n° 144, W-11
New Al Bateen Municipality
Street n° 32
P.O. Box 2742 Abu Dhabi
Tel.: +971 44 248 277
Fax: +971 44 257 817

BELGIUM
Boulevard Louis
Schmidtlaan 2 B3
1040 Brussels
Tel.: +32 2 290 59 59
Fax: +32 2 290 59 69

CZECH REPUBLIC
Pobřežní 3
186 00 Prague 8
Tel.: +420 2 248 277
Fax: +420 2 248 277

DUBAI
Emaar Square
Building n° 1, 7th Floor
P.O. Box 7233, Dubai
Tel.: +971 44 248 277
Fax: +971 44 257 817

FRANCE
Headquarters
167, Quai de la Bataille de Stalingrad
92867 Issy-les-Moulineaux
Tel.: +33 1 55 65 20 04
Fax: +33 1 55 65 20 00

GERMANY
Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 98 99 0
Fax: +49 69 2 92 91 4

HONG KONG
83/F Two International Finance Center - 8 Finance Street
Hong Kong
Tel.: +852 2909 2806
Fax: +852 2865 2523

HUNGARY
Alkotás u. 53.
H-1123 Budapest,
Tel.: +36 1 487 5501
Fax: +36 1 487 5542

IRELAND
20 Merrion Road,
Dublin 4
Tel.: +353 1 66 11 233
Fax: +353 1 67 89 961

ITALY
Via Carlo Bo, 11
20143 Milan
Tel.: +39 (0)2 58 33 141
Fax: +39 (0)2 3706 9209

JERSEY
3 Floor, Dialogue House
2 - 6 Arley Street
St. Helier, Jersey JE4 8RD
Tel.: +44 (0)1534 629 001
Fax: +44 (0)1534 629 011

LUXEMBOURG
Axento Building
Avenue J.F. Kennedy 44
1855 Luxembourg
Tel.: +352 34 94 84
Fax: +352 34 94 73

NETHERLANDS
Jt Vloastastraat 33
1071 JP
Amsterdam
Tel.: +31 20 305 97 20

POLAND
Al. Jana Pawła II 25
00-854 Warsaw
Tel.: +48 22 653 44 00
Fax: +48 22 653 44 01

ROMANIA
Union International Center
11 Ion Campineanu Street
6th floor, 1st district
Bucharest 010031
Tel.: +40 21 312 7000
Fax: +40 21 312 7001

SPAIN
María de Molina, 54
28006 Madrid
Tel.: +34 91 454 96 00
Fax: +34 91 454 97 65

UNITED KINGDOM
5 Aldermanbury Square
London EC2V 7BP
Tel.: +44 20 7398 4000
Fax: +44 20 7430 2028

ALLIANCES
AUSTRIA
Bulgaria
CHINA
CZECH REPUBLIC
DENMARK
FINLAND
FRANCE
GERMANY
GREAT BRITAIN
HUNGARY
ICELAND
ITALY
LUXEMBOURG
MACEDONIA
NETHERLANDS
NORWAY
PORTUGAL
ROMANIA
RUSSIA
SLOVENIA
SPAIN
SWEDEN
SWITZERLAND
UKRAINE
USA

PLEASE CONTACT

Alliances
Bernard Blanco
Tel.: +33 (0)1 47 59 20 84
bernard.blanco@bnpparibas.com

Research
Christophe Pineau
Tel.: +33 (0)1 47 59 24 77
christophe.pineau@bnpparibas.com