

LONDON BUSINESS SURVEY

SEPTEMBER 2015



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CBRE



London's business climate

Business concerns include:

- 1st** Retaining key talent
- 2nd** Uncertainty over the UK's role in Europe
- 3rd** Lack of economic growth

Mayoral election priorities

- 76%** Investment in transport infrastructure
- 59%** Enhancing housing quality and affordability
- 41%** Taking effective strategic planning decisions

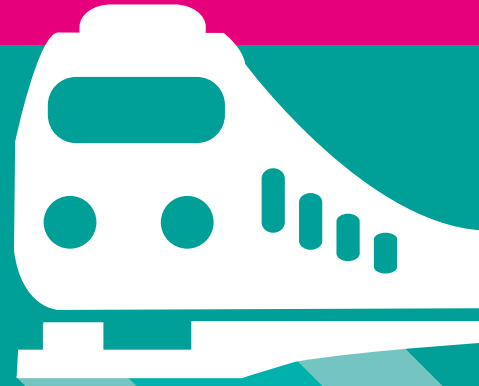


Impact of housing on business

- 57%** list housing costs and availability impacting negatively on the recruitment of entry level staff
- 63%** cite not enough funding for affordable housing
- 55%** cite a lack of available land to build homes (land supply)

Business infrastructure priorities

- 70%** think that the increased strain on London's infrastructure will negatively impact on business
- 56%** would like to see improvements to the road network
- 49%** would like to see improvements to digital connectivity



Foreword

We are delighted to launch the first of our refreshed London business surveys in partnership with CBRE. As the UK's economic powerhouse and a leading global city, London needs to be alive to the wellbeing of its business community, and this survey provides a barometer of business views on the economy and also on issues of importance for the capital.

We are encouraged that firms remain optimistic about economic prospects for the UK, but businesses highlight concerns about retaining their best people as well as uncertainty over the UK's role in Europe.

With the mayoral elections taking place next year, investing in transport, boosting housing supply and taking effective strategic planning decisions come out as the golden ticket issues that any winning candidate must address.

On housing in particular, over half of businesses say housing costs and availability have a negative impact on the recruitment of entry level staff. As a result, firms are having to pay a premium to attract workers. Tackling congestion on London's road network and improving our digital connectivity are also infrastructure issues that must be addressed to help maintain our global competitiveness.

The issue that has come out strongly in all areas of this survey however is planning. Firms would like the new mayor and local authorities to prioritise strategic planning decisions, they warn that planning blockages are restricting house building, and highlighted a streamlined

planning system as the top measure to help boost investment in infrastructure. This will be particularly important when the government makes a decision about expanding London's airport capacity.

We look forward to working with the mayor and other stakeholders on these issues and engaging with candidates from all parties. We hope you enjoy our first report and it keeps you informed of the issues business view as critical to competitiveness.



Lucy Haynes
CBI London director



Adam J Hetherington
CBRE managing director, central London





London's business climate

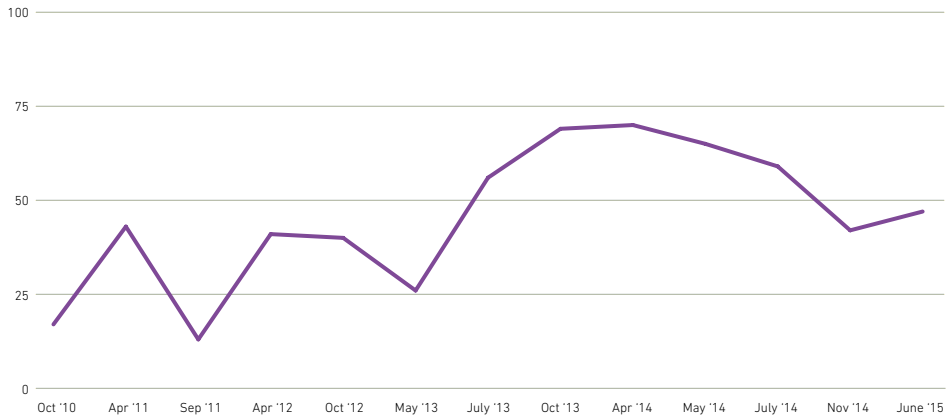
In line with previous surveys, London businesses are concerned about retaining skilled employees. The looming EU referendum is also on the minds of respondents as uncertainty over the UK's role in Europe becomes the second biggest concern. Despite this, businesses are feeling optimistic about prospects for the economy but many are looking to reduce costs which is impacting on recruitment and HR activity.

- Almost half (47%) of businesses surveyed feel more positive about economic prospects for the next six months when compared with the end of 2014. This figure has increased by five percentage points since Q4 last year which is promising, however optimism for the economy is still far below Q2 levels last year (70%) Exhibit 1.
- Similarly, firms are feeling more positive about business prospects over the next six months (40%), which has increased by two percentage points since Q4 last year – reversing the downward trend we had seen since Q2 last year.



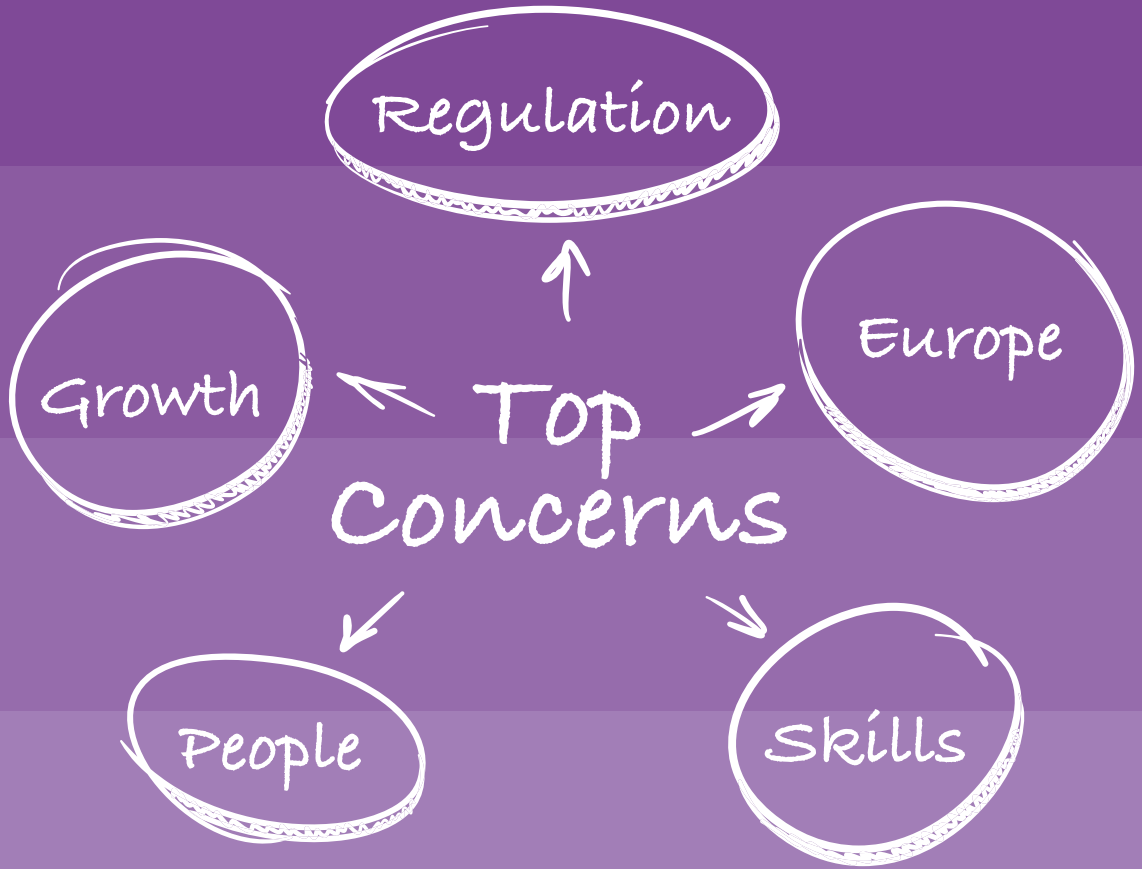
Exhibit 1: Optimism for economic prospects in the UK

% Optimistic



- Sixty-three percent of respondents plan to expand their operations over the next year, continuing a downward trend over the past year since the Q4 2013 peak (73%).
- Of those looking to expand, a half of firms plan to do so in London rather than outside the capital (8%) or the UK (24%). The number of firms planning to expand solely in the capital is at the highest it has been since 2012 (50%).
- Over a half of businesses surveyed (55%) are continuing to increase headcount, and just under a fifth (19%) are easing headcount.
- However, it is clear that reducing costs is a top priority for firms:
 - Over half (60%) of businesses will only be hiring where essential
 - The number reporting redundancies (21%) has increased by six percentage points over the last ten months but it is also promising to see the number easing redundancies also increase by two percentage points (22%) since Q4 last year
 - Over a quarter of firms (26%) are implementing HR policies to reduce costs (shorter working week, reduced pay). This has increased by thirteen percentage points over the past ten months.

Top 5 issues of concern for business over the next year



Businesses are concerned about human capital, highlighting issues around retaining their best people and a lack of skilled staff. Interestingly, with a referendum on the UK's position in Europe now certain, uncertainty over the UK's role in Europe has become one of the main issues for firms in the capital. A year ago this was ranked as the sixth top concern but it has now moved up to second place.

1 *Retaining top talent*

2 *Uncertainty over
UK's role in Europe*

3 *Lack of economic growth*

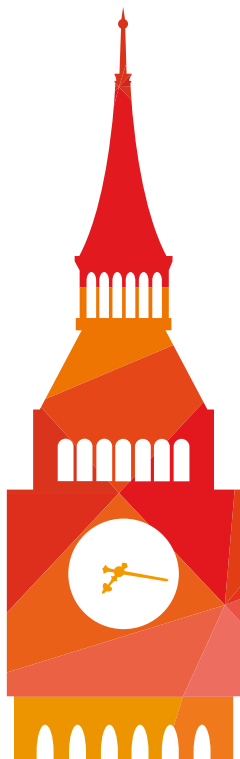
4 *Regulatory pressures*

5 *Lack of appropriately
skilled staff*

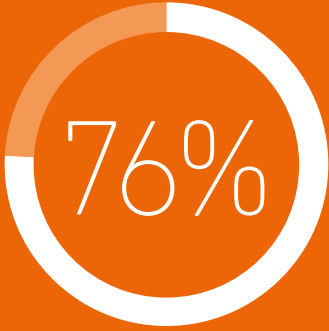


Priorities for the 2016 mayoral election

With the 2016 mayoral election dominating recent headlines and the candidate selection process taking place this month, businesses are thinking about the key issues that the incoming mayor should focus on. With London's population set to reach ten million by 2030, investment in our transport and housing infrastructure are highlighted as priorities.



- Over three quarters (76%) of businesses surveyed have highlighted that the top priority for the incoming mayor should be investing in the capital's transport infrastructure.
- Improving the housing offer by building more quality and affordable homes is second (59%) and taking effective strategic planning decisions and better streamlining the planning system third (41%) Exhibit 2.
- Lifting Londoners' skills levels and boosting apprenticeships is also cited a key priority. Over a quarter of firms (26%) highlight this as a priority for the new mayor. This is a particular concern to firms in the energy, manufacturing and construction industry (45%) and the information and technology sector (40%).



Investing in London's transport infrastructure



Enhancing the housing offer including quality and affordability



Taking effective strategic planning decisions



Lifting Londoner's skills levels & boosting apprenticeships



Promoting London internationally



Improving London's security in the face of terror attacks/security breaches



London's housing market and the impact on business

Highlighted as one of the top mayoral priorities for 2016, the lack of affordable and quality housing available in London is negatively impacting on business growth. The government must do more to help the mayor reach his target of building more than 42,000 homes a year while business also has a role to play in improving employee access to housing.

- Housing costs and availability in London have a negative impact on firms' ability to retain and recruit staff, particularly employees on lower incomes. Almost two thirds of businesses (57%) cite housing costs and availability as having a negative impact on the recruitment of entry-level staff. Nearly half (45%) report it as being an issue for recruiting mid-level managerial staff, and almost a quarter (24%) for staff at a senior level.
- This has resulted in half (50%) of firms offering premium wages/retention payments to attract and retain staff and is also impacting on firms' ability to offer flexible working. Almost a third (32%) of businesses said they are unable to offer flexible part-time employment due to the time/cost of the commute into London for employees who cannot afford to live locally.

- Almost one third (29%) of respondents also said that employees are moving away from the local area and therefore are having to leave their job because housing costs are too high.
- This is affecting retention rates. Half of firms cite housing costs and availability as having a negative effect on the retention of entry level staff and 38% for mid-level staff.
- Businesses recognise the role they need to play to support their employees who are faced with increased living costs and think more can be done to help the mayor reach his target of building more than 42,000 new homes per year.
- Sixty percent of respondents provide or plan to provide transport incentives (eg a season ticket loan) for employees whilst an eighth of respondents (12%) have implemented or plan to implement housing incentives (eg subsidised mortgage, rental deposit loan) Exhibit 3.
- Looking to the future, three quarters of respondents (76%) do not believe the 42,000 new homes target, set out in the London Housing Strategy, will be met. Two thirds (63%) of respondents pin this down to a lack of funding for affordable housing and just over a half of respondents (55%) say that there is a lack of available land to build homes. This demonstrates the importance of the newly established London Land Commission, which has been set up to identify all brownfield land available for housing.

76%

do not believe the mayor's 42,000 new homes target will be met

- Eighty percent of firms are pessimistic about affordability of the housing market in the next 1-3 years, suggesting that firms believe issues around the recruitment and retention of staff will only worsen.

Exhibit 3: Employee rental deposit scheme

The CBI has implemented a tenancy deposit scheme for its employees where an interest free loan is offered to staff to pay for rent deposits.

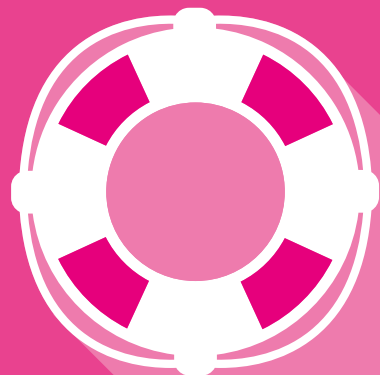
The idea, proposed by homeless charity Shelter, was piloted by Greater London Authority last year, and works exactly like the season ticket loan offered by many firms to help commuters pay for their travel costs.



A lack of housing is impacting on business growth...

50%

of businesses are having to pay a premium to attract and retain staff



Firms are stepping up support for employees...

80%

are pessimistic about the affordability of the housing market in the next 1-3 years



...but more must be done to get homes built

63%

think there is not enough funding for affordable housing

29%

say that employees are moving away and leaving their jobs as housing costs are too high

19%

of respondents pay travel expenses for employees to travel into work

60%

plan to or currently provide travel loans to help employees pay for discounted yearly travel tickets

12%

plan to or currently provide support to help employees access the housing market

55%

think there is a lack of available land to build homes

54%

think that the planning system restricts house building



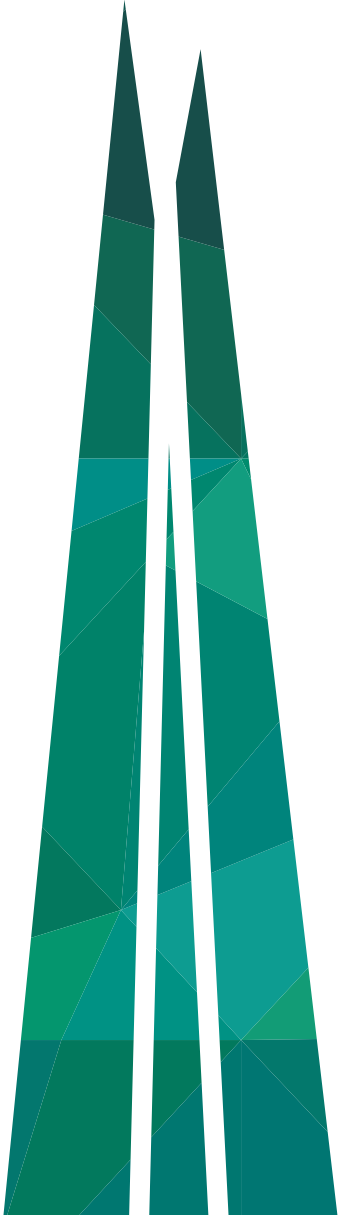
Business infrastructure priorities and levers to boost investment

Measures to improve London's roads and tackle road congestion continue to be the biggest infrastructure priority for business. Improvements to digital connectivity is also high on the agenda which is vital for the growing creative and Fintech companies in the capital. Business is clear on the levers needed to make infrastructure investment happen (eg streamlined planning system), and believe there should be diverse sources of funding.

70%

think the increased strain on the capital's infrastructure will negatively impact business

- London's infrastructure is beginning to feel the strain of a growing population. Seventy percent of businesses surveyed think that the increased strain on the capital's infrastructure will have a negative impact on their business.
- The top infrastructure projects that businesses would like to see prioritised include improvements to the road network (56%), a boost to housing supply (54%) and improvements to digital connectivity (49%).
- Airport capacity in the south east and funding to develop Crossrail 2 were not far off the priority list (41% and 34% respectively).



- Businesses understand the importance of infrastructure investment, but favour a mix of measures to boost infrastructure investment in the capital.
- Businesses support business rates reform (64%), greater use of investment vehicles with partial public funding (61%) and a more streamlined planning regime to help with quicker decision making (74%).
- Support for bolder and politically sensitive measures such as the introduction of user charges (eg road tolls) were mixed however (32% support the idea, 38% oppose the idea and 30% neither support nor oppose).
- Almost half of respondents (49%) support devolution of funding powers to help boost investment in London's future infrastructure, but at the same time over a third (38%) said they neither support nor oppose the proposal. This highlights a lack of information and the need for the mayor/ government to do more to make the case for devolution before it gets the go-ahead. CBI members support giving local leaders more involvement in transport decisions, however still remain cautious over the idea of fiscal devolution.



*Measures to
improve London's
roads and tackle
road congestion*



*Boost to housing
supply to address
demand*



*Improvements
to digital
connectivity*

Transport for London's £4bn roads modernisation plan will help to tackle congestion and will support London's population and economic growth. The government's recent budget announcement was right to address the £8bn black hole in the existing road budget through the creation of the new Roads Fund but the CBI believes it is important to hold a serious debate about how we pay for the network in the longer term.

From Housing Zones to the Housing Bank, the raft of measures introduced by the mayor to boost housing supply are welcome. The CBI now looks to the newly established London Land Commission which has been tasked with identifying all brownfield land available for housing development and urges the government to honour the £1m funding already committed for the Commission's development.

As London cements its position as a global tech hub, it is crucial we have the infrastructure to support our tech growth. The mayor's recent Connectivity Rating Scheme will help businesses identify buildings with the digital speed levels they require in the city, this coupled with the implementation of the government's Digital Communications Infrastructure Strategy which includes better planning will help to boost better connectivity across the capital.

About the survey

The London business survey was carried out between 17 June and 7 July 2015. We received 136 responses, many directly from CEOs of leading companies.

Professional services was the largest sector, covering 35% of the total sample, followed by banking, finance & insurance (13%), energy, manufacturing & construction (10%) and information, communications and technology (9%).

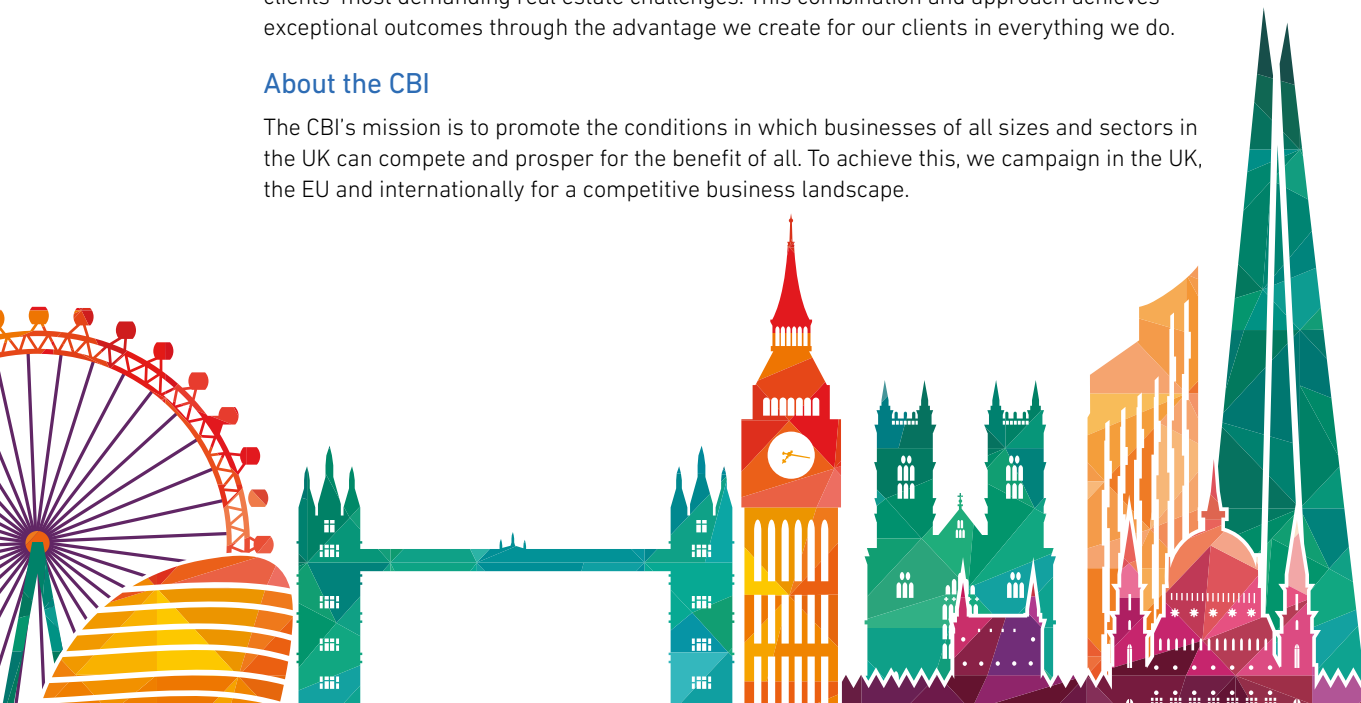
About the sponsor

CBRE's capabilities extend broader and deeper than any other real estate services provider, offering unparalleled tools and resources, leverage, credibility, market coverage and local expertise. London's dynamic real estate market demands the full spectrum of these specialisms to ensure market-leading advice.

At CBRE our uniquely integrated London team of over 200 local experts, achieves this by leveraging our scale, perspectives and connections to create world-class solutions to our clients' most demanding real estate challenges. This combination and approach achieves exceptional outcomes through the advantage we create for our clients in everything we do.

About the CBI

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. To achieve this, we campaign in the UK, the EU and internationally for a competitive business landscape.



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