

# LONDON BUSINESS SURVEY

APRIL 2018



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## *London's business climate*

**22%** feel more optimistic for the economy over the next six months

**25%** feel more optimistic about their business prospects over the next six months

**61%** plan to expand their organisation over the next twelve months

## *Recent political impacts on business*

**61%** have already developed a contingency plan, or propose developing one in the future, for when the UK leaves the EU

**63%** think the government should prioritise 'Retaining access to the European Single Market and customs union' in the EU negotiations

**53%** think the government should prioritise 'guaranteeing the right to remain for EU citizens in the UK' in the EU negotiations



## *London's housing market and the impact on business*

**66%** cite housing costs and availability as having a negative impact on the recruitment of entry level staff

**44%** are offering premium wages/retention payments to attract and retain staff

**62%** think it is unlikely that the London housing market will become more affordable for the working population in the next three years

## *Business infrastructure priorities*

**64%** think Crossrail 2 is the top infrastructure priority for the capital

**78%** would support a more streamlined planning regime to help make quicker decisions

**67%** would support an independent commission responsible for identifying future infrastructure schemes



## Foreword

*Against a backdrop of continuing political and economic uncertainty, it is positive to see business optimism recover in the latest edition of the CBI/CBRE London business survey. Almost a quarter of firms (22%) are feeling more optimistic for future economic prospects than six months ago, and while this figure remains low, it is still the most positive firms have felt since 2015. To sustain this optimism, the government must provide the clarity and certainty businesses need for continued growth.*

The United Kingdom's future relationship with the European Union has been a top concern for businesses for the past five consecutive surveys, and so unsurprisingly most firms (61%) have developed a contingency plan or propose to develop one in the future. As a deal is negotiated, London's businesses would like the government to prioritise access to the European Single Market and customs union (63%) as well as guaranteeing EU citizens the right to remain in the UK (53%).

On housing, the cost and availability of homes continue to negatively impact businesses' ability to recruit and retain staff, particularly at entry (66%) and mid-managerial level staff (59%). As a result, firms are having to pay a premium to attract workers. These figures are higher than when we last surveyed firms on the issue in 2015, highlighting that a lack of affordable housing is still negatively impacting business growth.

Businesses are not optimistic about this issue improving, with over a half saying that homes will not become more affordable over the next three years.

Finally, on infrastructure, businesses would like to see Crossrail 2 and Heathrow Airport expansion go ahead. In addition, businesses support greater pedestrianisation of London and more cycle routes. To help facilitate infrastructure delivery, a more streamlined planning regime will be necessary to speed-up decision-making. Businesses would also support an independent commission responsible for identifying future infrastructure schemes as well as business rates reform to help encourage infrastructure investment.

Businesses have clearly laid out the key issues that are critical for their competitiveness. It is now vital that the mayor, government and key decision makers take action to create the environment for business growth.



**Eddie Curzon**  
CBI London Director



**Adam J Hetherington**  
CBRE Managing Director, London



## London's business climate

*Business optimism on future economic and business prospects improved in the first quarter of 2018, but remained relatively low by historical comparison. With businesses citing uncertainties over Brexit as their main concern, the government's ability to clarify the UK's future relationship with Europe will be key to supporting further improvements in business confidence.*

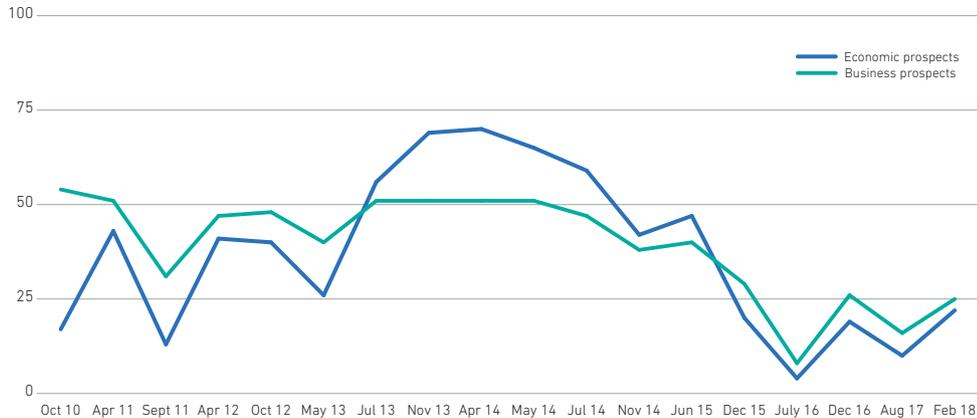
### Business and economic prospects

Business optimism for the economy over the next six months improved, with over a fifth of firms (22%) now feeling more optimistic for future economic prospects, compared with only 10% in Q3 last year. This is promising and, by a small margin, is the fastest rise in optimism since 2015.

Around two fifths of firms (39%) feel less optimistic for the future economy over the next six months, but this is considerably less than last year, where two thirds of businesses surveyed (61%) felt less optimistic regarding economic prospects.

Similarly, firms are feeling more positive about their own business prospects over the next six months (25%) compared with Q3 last year (16% – **Exhibit 1**). The percentage of firms that feel less optimistic for their business over the next six months decreased by twelve percentage points, with just over a fifth feeling less optimistic (22%).

## Exhibit 1: Firms feeling more optimistic about business and economic prospects (%)



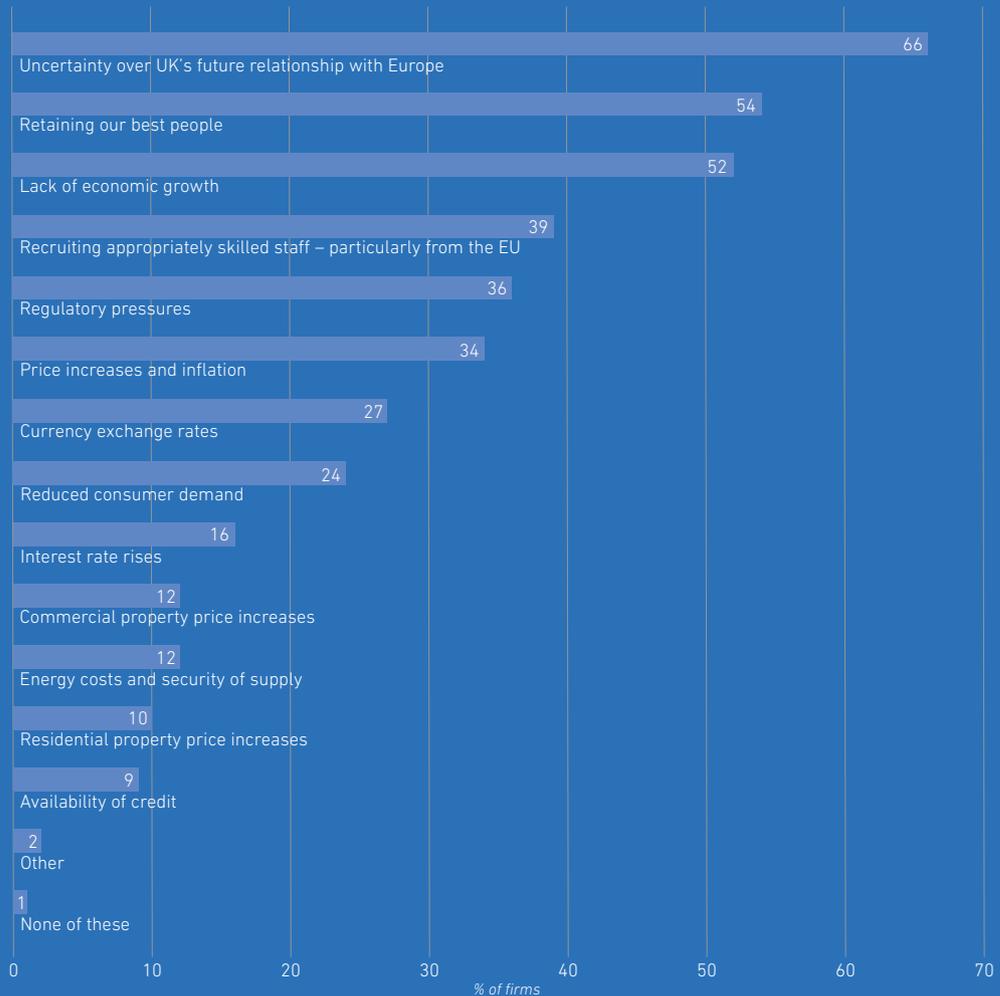
### Business growth and hiring intentions

The increase in optimism among London businesses is reflected in their immediate investment plans. 30% of firms plan to increase their investment – higher than last year’s 17% – and 41% of firms plan to maintain their immediate investment plans.

The proportion of firms planning to reduce or freeze investment plans remains relatively unchanged at 18%. The majority of firms (61%) plan to expand over the next twelve months: most (34%) plan to do so both in London and elsewhere in the United Kingdom.

Employment intentions in Q1 2018 have changed very little compared to last year: almost half of firms (46%) plan to increase their headcount, while 51% are looking to take on apprentices. Just under a quarter (23%) of firms envisage continuing a recruitment freeze over the next six months.

# Top issues of concern for business over the next year



*1 Uncertainty over the UK's future relationship with Europe (66%)*

*2 Retaining our best people (54%)*

*3 Lack of economic growth (52%)*

*4 Recruiting appropriately skilled staff – particularly from the EU (39%)*



## Recent political impacts on business

*With the Brexit negotiations taking priority on the political and business agenda, we have used this survey for the second time running to determine what, if any, contingency plans firms have in place for when the UK leaves the EU. Sixty-one percent of firms either have a contingency plan in place or are proposing to develop one. Unrestricted access to the EU single market, securing the rights of EU citizens living in Britain and securing a transitional agreement with the EU continue to be the key areas that businesses want the government to prioritise.*

### Business contingency plans for Brexit

In preparation for the United Kingdom leaving the EU, over a third of firms (35%) report to having a contingency plan in place with just over a quarter of firms (26%) planning to produce one in the future. In addition, a similar number of businesses (26%) stated they have no intention of producing a contingency plan for Brexit.

The United Kingdom's decision to leave the EU generated concern that firms may choose to relocate parts of their operation abroad. While the majority (63%) of firms stated they currently have no plans to move any part of their operation abroad, over a quarter (27%) of businesses indicated they are now planning to move part of their operations overseas, with a small number (5%) planning on moving all operations abroad.

## Business priorities for the Brexit negotiations

Firms highlight the following top three areas the government should prioritise while negotiating our exit from the EU:

- Retaining access to the European Single Market and Customs Union (63%), which has increased in priority by eight percentage points since the last survey in Q3 2017
- Guaranteeing the right to remain for European citizens in the UK (53%) who are crucial to the capital's workforce
- Agreement on 'interim' transitional arrangements that ensure a smooth and orderly exit with no 'cliff edge' (46%).





## London's housing market and the impact on business

*The cost and availability of housing continues to impact on the successful running of firms in the capital. This is an issue we surveyed businesses on back in 2015, and housing continues to negatively impact the recruitment and retention of entry-level and mid-managerial staff. Businesses are not optimistic that the London housing market will become more affordable in the next three years. Therefore it is vital that the mayor works closely with the government to increase the supply of affordable homes.*

Housing costs and availability in London continue to have a negative impact on a firms' ability to retain and recruit staff, particularly employees on lower incomes. Two thirds of businesses (66%) cite housing costs and availability as having a negative impact on the recruitment of entry-level staff compared with 57%, in 2015.

Over half of firms (59%) report housing as being an issue for recruiting mid-level managerial staff, and almost a quarter (22%) for staff at a senior level.

This has resulted in almost half (44%) of firms offering premium wages/retention payments to attract or retain staff and firms' ability to offer flexible working is also impacted.

Over a third (36%) of businesses said they face difficulty attracting or offering flexible part-time employment due to the time/cost of the commute into London for employees who cannot afford to live locally.

Almost half of businesses (46%) said many of their employees commute into work because they cannot afford to live in the area and over a quarter (28%) of respondents said employees are forced to leave their job because either local housing costs are too high or they are unable to afford to commute.

This is affecting retention rates. Over half of firms (58%) cite housing costs and availability as having a negative effect on the retention of entry-level staff and 58% for mid-level staff.

## The future of London's housing

To ensure business growth is not hampered by housing costs and availability, it is vital that the capital's housing supply becomes more affordable. Businesses are not hopeful however, with under two thirds of firms (62%) saying that it is unlikely that the London housing market will become more affordable for the working population in the next three years.

When asked whether the government and Mayor of London should consider building on the green belt – designated parts of greater London and surrounding counties – businesses were split. Over half (53%) said they think this is needed, while just under half (47%) said no.

## A lack of affordable housing is still impacting on business recruitment and retention



cite housing as negatively impacting on the recruitment of entry level staff compared with 57% three years ago



cite housing as negatively impacting on the retention of mid-managerial level staff compared with 45% three years ago

## This hinders business growth...



say that employees are moving away from the local area and therefore are having to leave their job because housing costs are too high



face difficulty attracting or offering flexible part-time employment due to the time/cost of the commute into London for employees who cannot afford to live locally

## Businesses are stepping up to support employees...



offer premium wages/retention payments to attract and retain staff



pay travel expenses for employees to travel into work (eg season ticket or a company car)

## ...but they fear that affordable housing will not improve in the near future



think it is unlikely that the London housing market will become more affordable for the working population in the next three years



think that the government should consider development on the green belt surrounding London



## Business infrastructure priorities

*To ensure London remains an attractive place to do business, measures to improve capacity across the transport network are vital. Crossrail 2 is highlighted as the top priority followed closely by the expansion of Heathrow Airport. To ensure crucial transport improvements get underway, businesses support a more streamlined planning regime with quicker decision-making as well as business rates reform.*

Businesses cite Crossrail 2 (64%), Heathrow Airport expansion (52%) and pedestrianisation and cycle routes (36%) as the top three priorities for the capital.

Crossrail 2 and Heathrow Airport expansion have been highlighted as business priorities in previous surveys. Pedestrianisation and cycle routes, however, have moved up the priority list.

### Measures to boost investment

To help boost this much needed infrastructure investment, over three quarters of firms (78%) would support a more streamlined planning system to allow for quicker decision-making.

Over two thirds of businesses (67%) would support business rates reform.

Over half of businesses (51%) would support the devolution of funding as a measure to help boost investment in London's infrastructure. Similarly, almost half (46%) would support user charges (eg road tolls etc), but over a quarter (28%) would not support this measure, while a similar number said they had no opinion on the issue (26%).

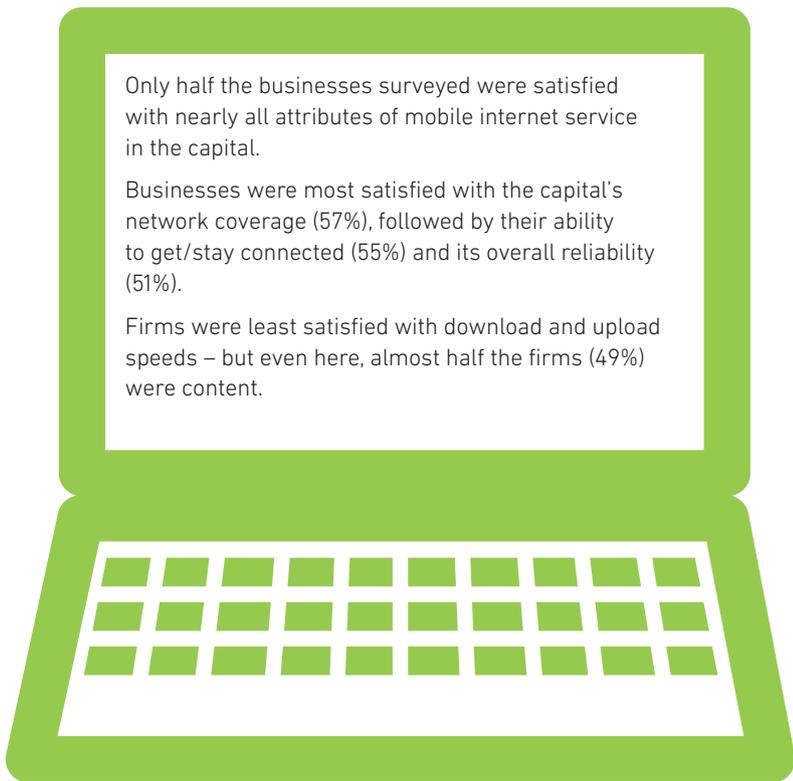
Many businesses would neither support nor oppose measures such as the Pensions Infrastructure Platform (58%) or Tax Increment Financing (60%). This highlights there could be a potential lack of awareness regarding these measures available to boost investment.

## Mobile internet service in the capital

Only half the businesses surveyed were satisfied with nearly all attributes of mobile internet service in the capital.

Businesses were most satisfied with the capital's network coverage (57%), followed by their ability to get/stay connected (55%) and its overall reliability (51%).

Firms were least satisfied with download and upload speeds – but even here, almost half the firms (49%) were content.



## About the survey

The London business survey was carried out between 9 January 2018 and 5 February 2018. We received 176 responses, many directly from CEOs of leading companies.

Professional services were the largest sector, covering 26% of the total sample, followed by banking, finance & insurance (19%), information, communications, and technology (16%), other sectors (15%), energy, manufacturing, and construction (9%), hospitality, leisure and retail (8%), transport and distribution (4%) and property (3%).

## About the sponsor

CBRE Group, Inc. (NYSE:CBRE), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services and investment firm (based on 2017 revenue). The company has more than 80,000 employees (excluding affiliates), and serves real estate investors and occupiers through approximately 450 offices (excluding affiliates) worldwide. CBRE offers a broad range of integrated services – including facilities, transaction and project management, property management, investment management, appraisal and valuation, property leasing, strategic consulting, property sales, mortgage services and development services.

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## 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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April 2018

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Product code: 12139