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BREXIT AND THE TECH SECTOR

Concerns over the financial sector have dominated discussion on the impact of Brexit on the UK economy, but growing evidence points to robust growth for the tech sector.

Headlines

Recent jobs figures show that the UK has seen significant employment growth from the information and communication sector

This coincides with evidence that office demand from the tech sector has held up well in the last year

Concerns that financial sector job losses may hit office demand could be overstated, given markets are realigning towards tech

This is a long-term trend that pre-dated last year's referendum, which we see continuing

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"There is now growing evidence that the tech revolution is becoming a national phenomenon, and one that is undaunted by the prospect of Brexit."

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Since the vote to leave the EU in June 2016, there has been widespread concern that jobs might leave the UK, or firms will delay recruitment. The focus has been greatest on the financial sector, as many international banks and insurers have been able to operate across the single market via their London office's regulatory licence. However, concerns of a financial jobs 'Brexodus' from the UK may be overlooking long-term trends within the UK economy. Tech is increasingly overshadowing finance.

Regular readers of this note will know that the Technology, Media and Telecoms (TMT) sector overtook finance as the largest source of demand in the Central London office market back in 2011. As a result, prime rents in Clerkenwell and Shoreditch in London's tech belt reached parity with those of the City Core (the capital's largest financial district) this year. However, there is now growing evidence that the tech revolution is becoming a national phenomenon, and one that is undaunted by the prospect of Brexit.

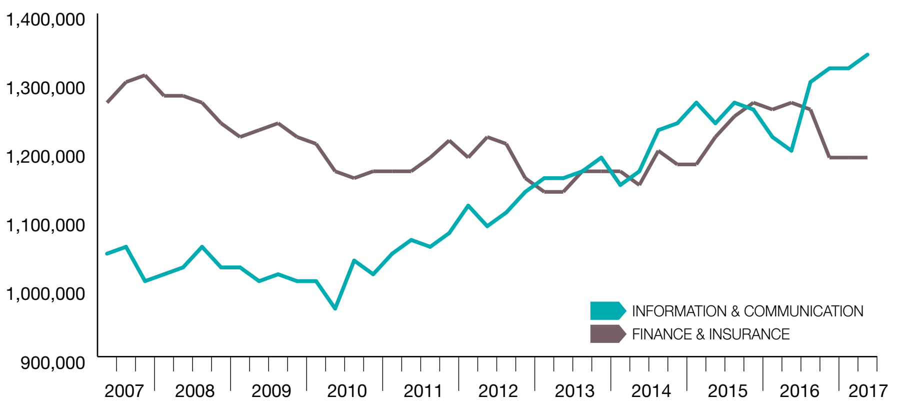
Figures from the Office for National Statistics (ONS) on UK employment point to a long-term shift towards the information and communication sector, which is broadly similar to what the property world refers to as TMT. This is more than compensating for lost jobs in finance and insurance – see figure one. In Q2 2017, 12.4% more people worked in information and communication in the UK than finance and insurance. Back in Q2 2007, finance and insurance employed more people by over 21.0%.

Upwards trajectory

This difference in fortunes between the two sectors is remarkable, with information and communication employing over 28.0% more staff than a decade ago. Headcount for finance and insurance is down nearly 6.0% over the same period, having seen a rollercoaster ride for job numbers – contrasting with the upwards trajectory for information and communication.

However, what is most striking is the data covering the period since last year's referendum. The number of people working in information and communication has jumped 11.4% in the year to June 2017, recording growth every quarter. Finance and insurance has shed 73,000 jobs over the same period, although information and communication more than counterbalanced this with 138,000 jobs created.

FIGURE 1
UK jobs in Information & Communication vs Finance & Insurance



Source: ONS

The 73,000 finance and insurance job losses occurred in the six months immediately after the referendum, so too soon to be relocations to Europe resulting from the referendum. These were probably redundancies already in the pipeline irrespective of the referendum outcome. This reminds us that finance is an industry under-going huge change in the face of increased regulation and automation. That the finance and insurance figures have flat-lined this year, tallies with anecdotal evidence that the banks are not hurrying jobs out of the UK.

Borderless world

The ONS data coincides with evidence from the property leasing market suggesting that the UK economy has been successfully diversifying away from the financial sector. The vote for Brexit appears to have enhanced the trend, as for the financial and insurance sector a fresh wave of uncertainty has descended. In contrast, tech and creative firms live in a borderless world, where software or content produced in one city can be used all over the globe.

Undoubtedly, London's large technology cluster will have buoyed the figures, however the tech trend is also in evidence in the regions. The acquisition of Skyscanner by Chinese firm Ctrip last year for £1.4 billion reflects Edinburgh's rise as a tech location, with TMT accounting for nearly a third of 2016 take-up in the city. Four of the top ten leasing deals in Edinburgh in 2016 were to TMT firms. Around 18.0% of take-up in Bristol in 2016 was to TMT firms, versus 14% for finance. In Leeds, TMT's share of first half 2017 take-up at 20.5% towers over finance at just 3.5%.

Moreover, this is consistent with the experience in the US, where the tech growth broke out of San Francisco and New York City several years ago, spreading to regional cities. Initially, this favoured tier two tech cities, like Seattle and Portland, but of late this has included cities that had little previous track record as hi-tech locations, such as Pittsburgh.

In part, the driver has been lowering costs, but also there has been an element of hugging academia, whereby tech firms target cities with top universities. Pittsburgh's appeal, for instance, was partly due the presence of Carnegie Mellon University. Certainly, this tallies with Bristol, Edinburgh and Leeds quickly developing as TMT locations, and bodes well for other UK regional cities with highly rated universities.

Impact on property

For commercial property, the vote to leave the EU initially put both investment and occupier markets on the back foot. While the industrial market has been fast to recover, for many office markets sentiment has remained subdued, with concerns over financial sector job losses casting a shadow. However, that occupier demand has held up well since the referendum, and supply levels remained largely in check, has of late encouraged confidence to improve.

Evidence that jobs growth in information and communication industries is more than compensating for losses in finance and insurance is a reminder that office markets need demand, not demand from specific industries. Sectors do rise and fall, but for property markets this is not a problem so long as new sources of demand emerge. That is what appears to be happening.

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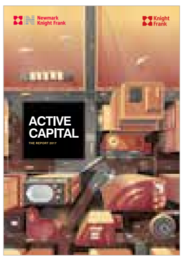

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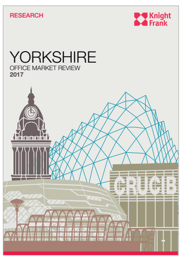

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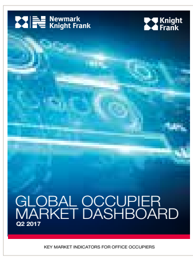

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