

PROPONOMICS

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Headlines

The UK labour market is tight, and skills shortages are becoming a source of concern

Higher wage inflation in the coming years, could prompt more firms to expand in regional cities

Indeed, in the US, we already see firms looking at second HQs, but often with demanding criteria

The next round of UK relocations will see firms setting the benchmark higher when selecting a city, with rents just one of many considerations



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JOBS AND THE REGIONS

With low unemployment set to drive up wage costs, will more businesses start to expand their regional offices?

The latest UK jobs figures confirmed that the unemployment rate, at 4.2%, remains at its lowest level since 1975, while the number of job vacancies at 806,000 is 8% higher than pre-referendum levels. As recently as January 2014, there were four unemployed people for every job vacancy. Yet, by March 2018 there were 1.7 people out of work per available role – the lowest level since vacancy figures were first recorded in 2001.

Full employment

In short, Britain today has a tight job market. This is partly due to an ageing population, greater flexibility in the labour market (with the rise of the 'gig economy'), and the new wave jobs created by the digital revolution. Once the unemployment rate goes below 5%, economists often talk about a country having reached full employment. This is because unemployment will never reach zero, as you will always have a certain number of people who are temporarily between jobs.

Moreover, this is not just a British problem. As figure one shows, many countries around the world are now close to or below the 5% level. As the problem is increasingly global in nature, there is less room to bring in foreign labour via immigration; indeed Brexit has made this option politically risky.

While jobs can be moved abroad, many popular off shore locations have single digit unemployment rates – India is at 5.9%, the Philippines at 5.3%, and Czech Republic is down to 2.2%.

Occupiers dilemma

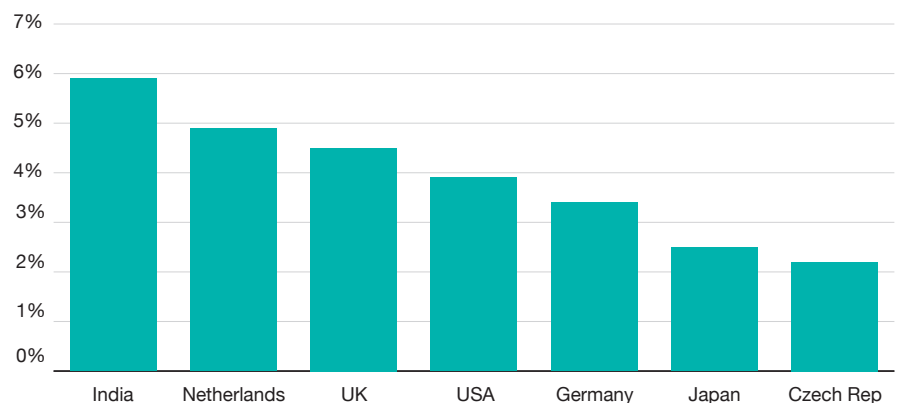
Given all this, it is surprising that pay growth in the UK is so sluggish, and only just above inflation. This is probably a case of the Brexit uncertainty deterring some from job hopping, but this situation will not last forever. Even if the Brexit debate becomes drawn out, there will be a tipping point where employers who are struggling to fill vacancies increase pay to smoke out candidates. This will present companies with a dilemma.

No firm likes rising costs, but retaining staff is key to business survival. Big global, gateway cities like London, New York, Paris, and San Francisco, are very good at attracting the quality of staff that firms in office-based industries like to recruit, but they are expensive places to locate for both firms and the people they employ.

Higher wage inflation is set to make these cities even more expensive and already we see evidence, particularly in the US, of firms expanding in other locations.

FIGURE 1

Unemployment rate in various nations



Source: *The Economist*

Amazon’s search for a HQ2 has been widely publicised, while the *Washington Post* has reported that Apple is looking at options for a large campus in Northern Virginia. Goldman Sachs is building up a hub in Atlanta, while Alliance Bernstein plans to expand in Nashville.

At a time when there are global banks in London who oblige their staff to work from home on certain days, because they do not have desks for everyone, the question inevitably arises: is the UK next to see a regional migration? The answer, is probably ‘yes’, but attracting the relocations will not be easy, as occupiers expectations are high.

New criteria

During Amazon’s search for its HQ2 in the US some cities discovered that just being cheaper than Seattle was not enough. The guidance for cities intending to pitch specified the following criteria:

- No more than 45 minutes travel from an international airport.
- 1-2 miles from major highways.
- Have mass transport access (i.e. rail/subway/bus) at the site.
- “A highly educated workforce is critical”, plus “strong universities”.
- “A compatible cultural and community environment”.

Looking at the list above, it becomes clear that to attract firms from a global centre like London, a regional city must have similar characteristics, just on a different scale

and at a lower price point. This is because it is no longer back office jobs coming out of the global cities, with para-professional and specialist roles on the move. Amazon said its HQ2 will house executives, software engineers, and legal staff.

Beyond back offices

Many back office jobs are now disappearing due to automation, a trend that will accelerate when the artificial intelligence (AI) revolution truly gets into its stride. Call centre jobs probably face the same fate. In this context, matching the wider range of criteria suggested by the Amazon requirements – which relate to talent, infrastructure, culture and community – will become central to attracting office occupiers.

High costs – mostly salaries, rather than office rents – will encourage firms to think more about which business functions they can place outside of London. Regional cities hoping to draw a share of these relocations should note that Amazon’s eight page briefing document for those bidding for its US HQ2 makes almost no mention of the density ratios and property cost metrics that we in the property world routinely fret over. They do ask for information on local wage rates, traffic congestion, and housing options.

In a world where regional cities are no longer pitching for back offices, a cheap rent is no silver bullet for winning relocations. Leveraging new infrastructure, emerging tech communities, and links to academia, will be essential for attracting the new wave of occupiers.

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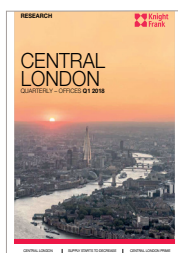
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