



Record UK venture capital investment supporting flexible offices





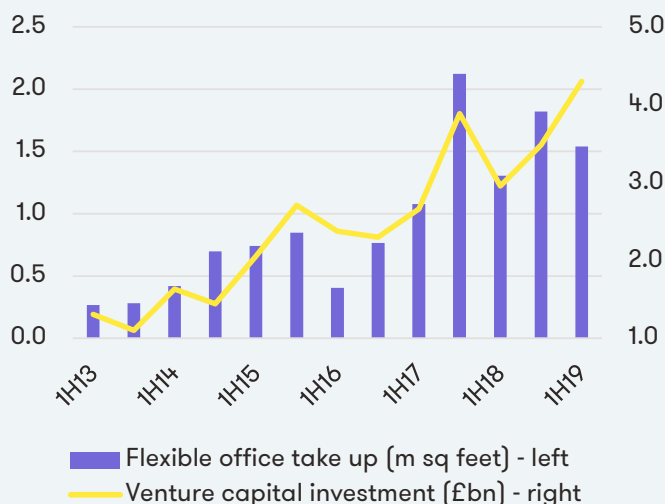
Introduction

Venture capital investment into new start-ups and existing smaller businesses is a major facilitator of growth, particularly in terms of headcount expansion. This, in turn, creates a strong link between venture capital investment and demand for serviced and coworking office space, which is generally the preferred choice for these types of businesses due to the flexible terms and facilities that they offer. Even though an increasing number of global corporates are choosing to place a portion of their employees in coworking spaces, flexible offices still mostly cater for small businesses. 1H19 UK venture capital investment reached record highs, which is a major positive for the flexible office market.

Of course this does not happen instantaneously. It takes time to finalise what to do with the funding, to implement processes, to interview potential candidates, to find a suitable office space, and so forth. So how efficiently do flexible office providers anticipate this future demand? Pretty well, according to the data. The strongest correlation between UK venture capital investment and flexible office take up is seen for the corresponding time periods, rather than with a one or two quarter time delay for the latter.

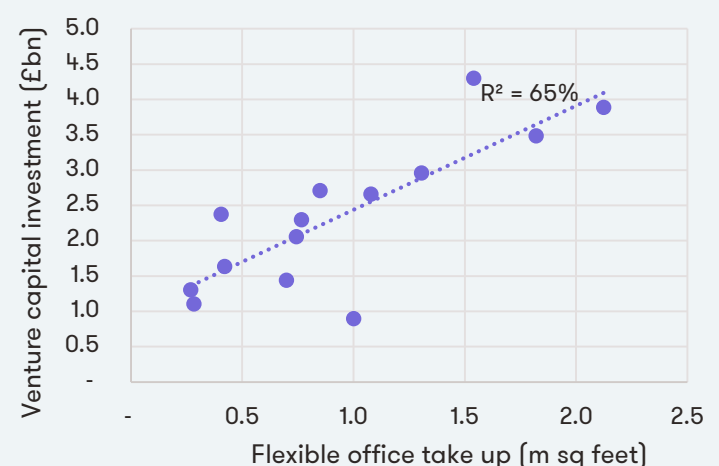
1H19 saw a noticeable disconnect between venture capital investment and flexible office take up, with the former outpacing the latter. This is likely due to the fact that there were a number of large deals in the first half of the year, and bigger companies are more likely to already be situated in conventional office space rather than looking to move into a flexible space.

UK flexible office take up vs venture capital investment



Source: PitchBook

UK flexible office take up vs venture capital investment



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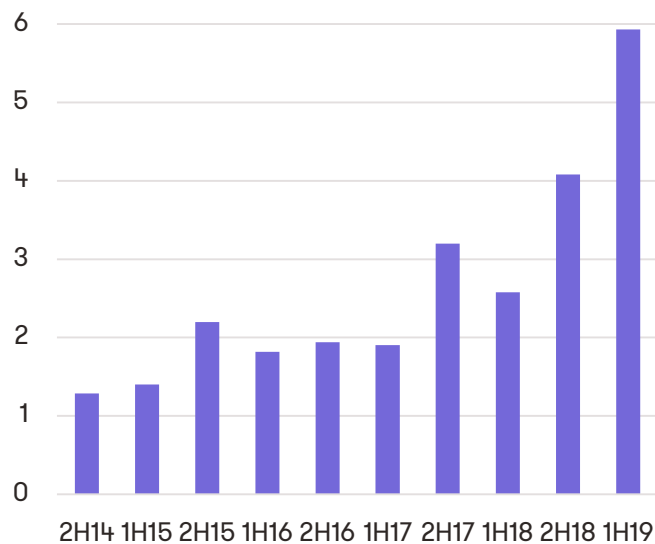


Average venture capital deal size doubles

Venture capital funding in the UK reached record highs in 1H19, up 45% year-on-year, with this figure even higher for London at 81%. Against a backdrop of Brexit uncertainty and weaker GDP growth, this increase is robust, to say the least. So what's driving this growth? In a word: tech. Venture capital funding for tech companies made up 60% of all venture capital funding in 1H19, compared to 44% in 1H18. In London, tech venture capital investment accounted for two thirds of total funding in 1H19.

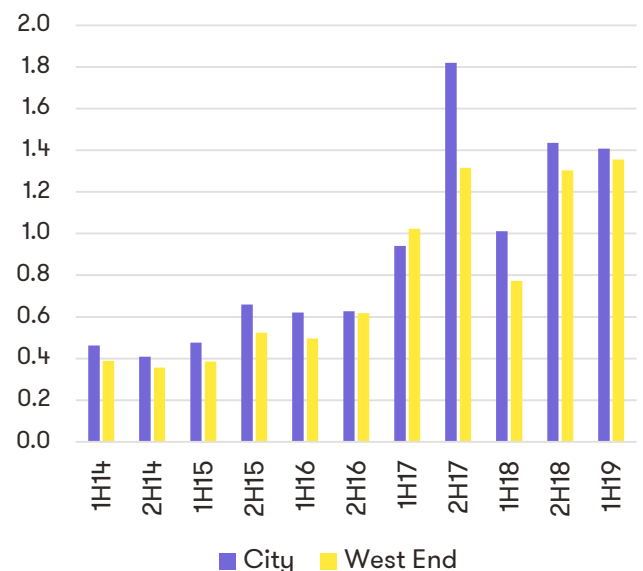
In the first half of the year, UK venture capital investment totalled £4.3bn, which compares to £3bn in 1H18. It would be reasonable to assume that more funding goes hand-in-hand with more deals, but this hasn't been the case. We saw just 724 venture capital deals in 1H19 down from 1,147 in 1H18, meaning that the average deal size has more than doubled year-on-year to reach £5.9m. In London, the average deal size in 1H19 was £9.0m, driven by an increasing number of companies attracting follow-on funding.

Average UK venture capital deal size (£m)



Source: PitchBook, Workthere

Venture capital investment (£bn)



Source: PitchBook, Workthere

81%

Venture capital funding up 81% in the London YoY

£4.3bn

UK total venture capital investment was £4.3bn in 1H19

45%

Venture capital funding up 45% in the UK YoY

Move over healthcare, FinTech is in town

Last year it was all about healthcare. This year it is all about tech. In 1H18, half of the ten biggest venture capital deals were healthcare-related and only three were tech-related. In 1H19, all of the top ten funding deals were for tech companies. Even though we are only halfway through 2019, we have already seen some chunky deals. Parkjockey raised £690m in March and Deliveroo secured £441m in May. These two deals alone make up more than all of the top ten venture capital deals combined in 1H18. In terms of portion of overall venture capital investment, in 1H19 tech accounted for 60% vs 44% in 1H18. Healthcare has shrunk from 27% to 10% year-on-year.

The tech sub-sector that has driven this growth is FinTech. In the first half of last year, three out of the top ten funding deals were for FinTech companies, compared to this year with eight out of ten. We have seen

OakNorth, Checkout.com, Iwoca, WorldRemit, Monzo, Starling Bank, GoCardless and Onfido all secure funding ranging from £50m to £337m. All of these companies' primary UK offices are based in London, further cementing its reputation as a key global FinTech hub.

The previous UK Trade Secretary, Liam Fox, recently played down fears that Brexit will impact the UK's tech market. "If you take the legal system, skills of the workforce, the regulatory and tax systems, linguistic skills, access to tech, and IP law, not one of those is affected to any degree by Brexit," said Fox. "London hasn't been the centre of the FinTech revolution because of anything [the] government's done. It's because we have all the necessary prerequisites for that available here." And the data supports this.

1H19	Company Name	Deal Size (£m)	Industry	Office location
1	Parkjockey	690	Application software	Soho
2	Deliveroo	441	Application software	City of London
3	OakNorth	337	FinTech	Soho
4	Checkout.com	176	FinTech	West End
5	Iwoca	150	FinTech	Midtown London
6	WorldRemit	134	FinTech	Westminster
7	Monzo	113	FinTech	City of London
8	Starling Bank	75	FinTech	City of London
9	GoCardless	58	FinTech	Farringdon
10	Onfido	50	FinTech	City of London

Source: PitchBook, Workthere

1H18	Company Name	Deal Size (£m)	Industry	Office location
1	Revolut	178	FinTech	Canary Wharf
2	Freeline Therapeutics	88	BioTech	Hampstead
3	Orchard Therapeutics	85	BioTech	City of London
4	CMR Surgical	74	Surgical devices	Cambridge
5	EToro	72	FinTech	Canary Wharf
6	Datatrial	70	Healthcare technology	Newcastle upon Tyne
7	Liberis	58	FinTech	Hammersmith
8	Culture Trip	57	Consumer products & services	West End
9	Crescendo Biologics	50	BioTech	Cambridge
10	Paxos	48	Blockchain & cryptocurrency	Shoreditch

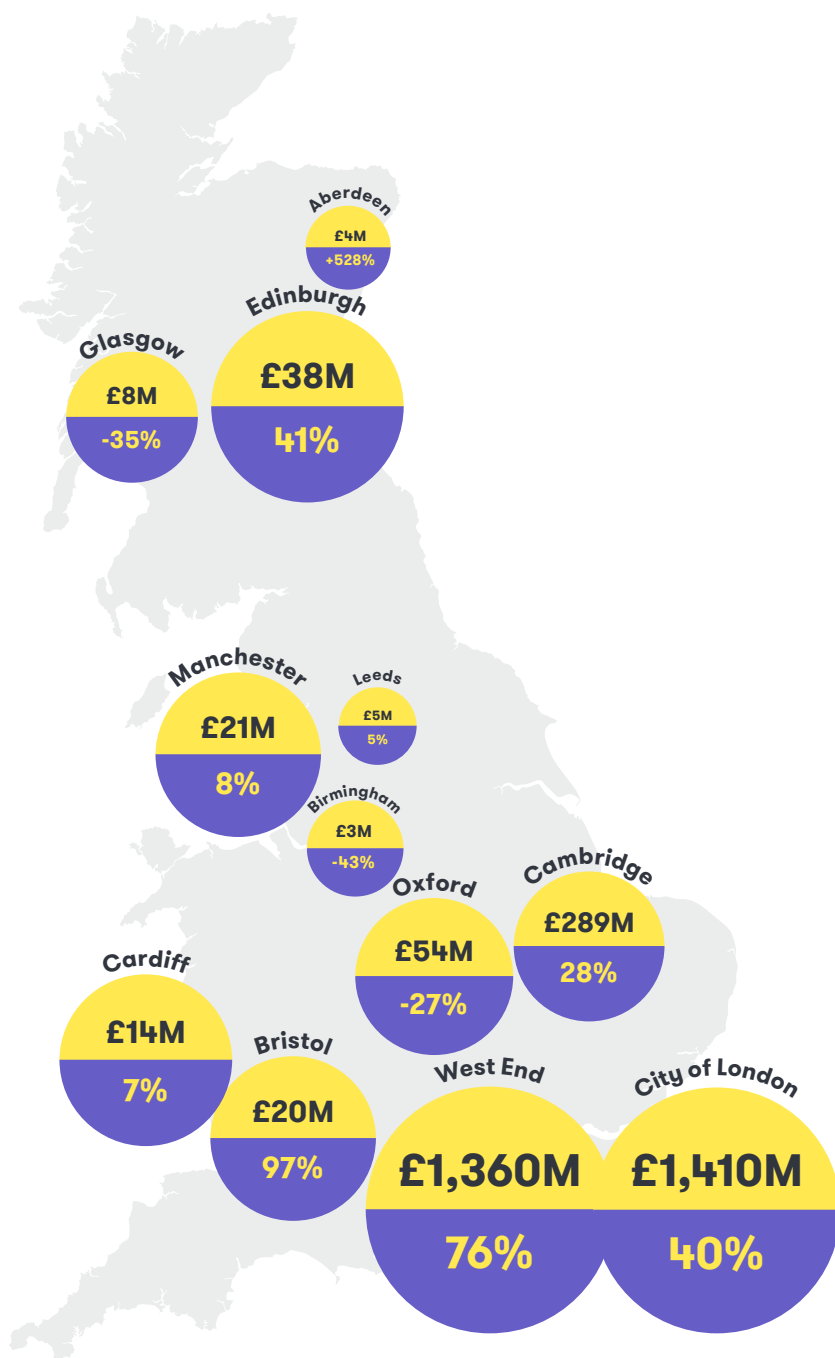
Source: PitchBook, Workthere

London, Bristol and Aberdeen attracting more investment

London, Bristol and Aberdeen have seen a material increase in venture capital investment, albeit the latter comes from a small base, and we expect to see strong demand for flexible office space in these markets over the coming few months. Cambridge, which is a hub for venture capital funding due to its first-class university, saw an increase of 28%. However, Birmingham and Glasgow saw significant declines in investment in the first half of the year.

Within London, the West End has outpaced the City. Venture capital investment in the West End is up 76% year-on-year, whilst the City is up 40%. This mirrors the long-term trend, with the five-year compound annual growth rate for the West End at 28%, compared to the City at 25%. Both the West End and the City have seen more than 60% of investment over the past five years go into tech companies.

These tech start-ups are based in a variety of locations around London: from Parkjockey in Soho and Checkout.com in the West End to GoCardless in Farringdon and WorldRemit in Westminster. This goes to show that the tech world is not limited to just Old Street roundabout and Shoreditch; tech companies are far more footloose and locating across London. In fact, not one of the top ten funding deals in the first half of this year or last year were for tech companies based in Old Street or Shoreditch.



Source: Pitchbook, Savills
Note: Percentage change is 1H19 versus 1H18

76%

Venture capital funding up 76% in the West End YoY




Both the West End and the City have seen more than 60% of investment go into tech companies over past 5 years.

40%

Venture capital funding up 40% in the City of London YoY

Flexible office take up and desk costs

	1H19 flexible office take up (sq foot)	1H18 monthly desk cost (£) 	1H19 monthly desk cost (£) 	Annual desk cost change %
Aberdeen	17,159	250	250	0%
Birmingham	256,806	350	350	0%
Bristol	75,193	300	325	8%
Cambridge	48,065	375	400	7%
Cardiff	-	250	250	0%
London City	451,658	625	650	4%
London West End	310,530	800	800	0%
Edinburgh	40,585	250	300	20%
Glasgow	-	250	250	0%
Leeds	23,498	300	300	0%
Manchester	206,931	300	325	8%
Oxford	-	350	350	0%

Source: Workthere, Savills



Workthere.com

Workthere is a business by Savills focused solely on helping businesses find flexible office space, whether that's a serviced office, co-working or shared space.

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