

DELIVERING R&D POTENTIAL FOR THE UK



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The fundamental role of real estate

£726 bn

Global market cap

1.3m

Global employees

£21 bn

Global R&D spending (16/17)

Source: Bidwells & Creative Places, YouGov

As the UK looks to its future, in whatever form that eventually takes, there has inevitably been increased focus on the economics of that future. *The UK Industrial Strategy* published in 2017 made clear the vision must be focused on high growth knowledge based industries in order to secure the country's long-term prosperity.

It is therefore essential we understand the requirements of companies in these high growth sectors, whether it be space aeronautics, agri-chemical or biopharma. Given this, in 2018 we worked with YouGov to understand the requirements and preferences of organisations engaged in R&D activities to provide better for the industry in the future.

We did not approach this with a real estate focus. One respondent noted that "R&D is about success...it is nothing to do with property". However, this work finds that location and real estate, across multiple aspects, are central to delivering our nation's high growth future.

The survey

On our behalf, YouGov undertook detailed and confidential interview and online surveys of 50 global corporates with some form of occupation in the UK, selected from the EU Industrial Scoreboard (2017). The business focus ranged from IT hardware and software, pharmaceuticals and healthcare, agri chemical and tech, energy and environmental, automotive aerospace and chemicals.

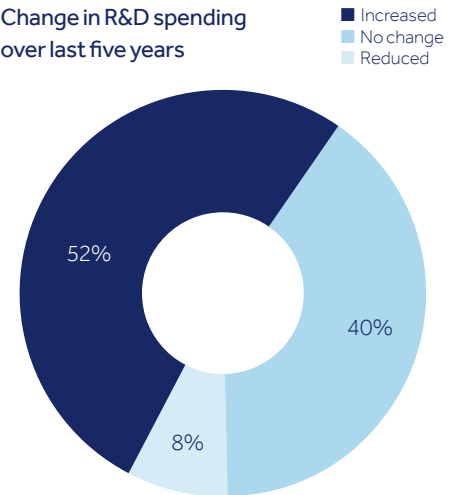
The respondent in each case was the head of R&D or equivalent, with combined responsibility for global R&D spending of over £21 billion.

Global players

The global nature of the companies taking part in the survey is reflected in the organisation of R&D functions. In addition to the UK, 26% of those surveyed undertook R&D in other European countries, while 44% had research operations outside Europe.

In total, the respondents had a global market capitalisation of approximately £726 billion and employed 1.3 million staff, an increase of 15% over the last 12 months.

Change in R&D spending over last five years



Source: Bidwells & Creative Places, YouGov

Growth in R&D spending

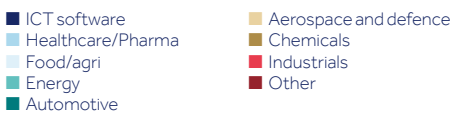
The scale of R&D spend of these organisations is staggering. The £21 billion spent globally in the 2016/7 financial year was 13% ahead of the spending recorded over the previous 12 months. An expansion in R&D spending was reported by over half of the responding organisations.

Competitive pressures

This drive to deliver innovation and new products is being undertaken against the backdrop of a highly competitive market. While, on average, the profits earned by our survey base rose over the 16/17 financial year, respondents underlined the challenge of delivering new products to the market, and the need for constant innovation to compete.

Themes around 'facilitating innovation under the given budget' and 'improving success rate and...reduce the cost of failed research' were amongst the most frequently mentioned challenges noted by respondents.

Sector breakdown of survey respondents



Source: Bidwells & Creative Places, YouGov

“There will always be a challenge to develop innovative products for the ever-demanding future.”

Approach to R&D

To an extent, a company's approach to R&D is dictated by these pressures of balancing innovation with costs. In all but one case, organisations' businesses operated in-house R&D functions as might be expected. However, R&D was also secured through outsourced research and/or where the company bought-in research or products. These models were operated by a third of companies in both instances.

This collaborative model reflects the trend towards open innovation and the evolving manner in which R&D is being conducted. This has implications for real estate decisions and location choices, in particular the drive to locate in close proximity to research institutions and the cascading of innovation in the wider R&D ecosystem. These issues will be a theme of a forthcoming research paper.

Business location considerations

To understand the role of location and real estate for large company R&D we drilled down on the key considerations for location decision-making.

The importance placed on these considerations inevitably vary between business sectors, with some interesting sectorial trends emerging. However, a number of key issues emerged as more significant on average.

The ability to recruit and retain suitably qualified staff is central to the story. Invariably, required qualifications are at a very high level and very specific to

a particular scientific or technical area. Clearly this further explains the focus of clusters around universities, hospitals and other research institutes, whether in Cambridge, Oxford, London, or elsewhere.

However, the quest for talent also drives demand for accessible city district locations, invariably offering companies a wider recruitment reach. In fact, public transport hubs were valued by our respondents above all other facilities.

Housing is also noted as essential. We know this to be a key concern around the Oxford and Cambridge high growth areas. New and growing companies, as well as the universities, which are feeding the innovation process, consider this to be important.

Top considerations in location decisions

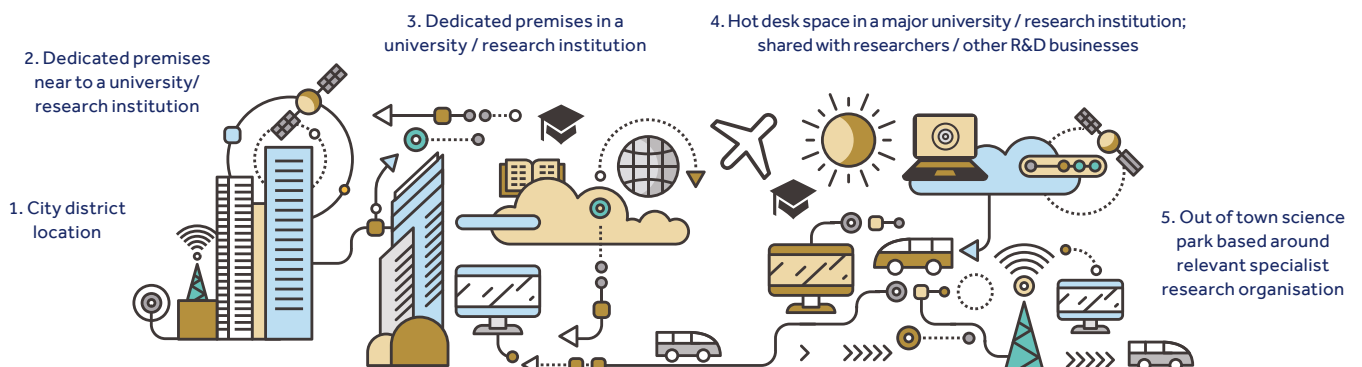
Top 5 out of 10

1. Ease of recruiting and retaining staff
2. Ultra fast and high volume data connectivity
3. Availability of property to grow R&D activity
4. Amenities in 24/7 environment
5. Availability of professional advisors, business support and financial services

Source: Bidwells & Creative Places, YouGov

Top location choices

Top 5 out of 10



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Facilitating Innovation

At the micro location level, great weight is placed on the physical aspects of the location, both in terms of the data capacity and the availability of suitable property in which to grow and expand. A number of respondents noted the importance of having available space at a location to enable R&D activity to respond to business need.

The availability of such space in city centre locations is growing but companies invariably look to edge-of-centre campuses and out of town science parks where there may be greater supply and flexibility. In these locations the quality of transport infrastructure and facilities to attract staff are important.

It is notable what is not considered important by our respondents. The cost of space was a relatively low consideration, far outweighed by the issue of staffing. Not only is large company R&D relatively price insensitive, the availability of short lease terms is one of the lowest priorities.

This contrasts with start-up R&D where funding may be relatively short-term, hence the common links with large company R&D whether through formal incubator space, funding or other form of support. University linked accelerator activity can play a similar or complimentary role.

The potential to grow their R&D functions, to deliver future innovation, is also key, as is the wider ecosystem of professional and financial services companies. We know this in our own market, and it was very much the case in the evolution of other major clusters such as Silicon Valley.

Future plans

Just under a third of our respondents think it likely they will be looking to secure new or different property over the next five years. In over two thirds of cases this is to accommodate expected growth in the business.

Only 13% of respondents were considering moving as a result of their current property assets being too expensive.

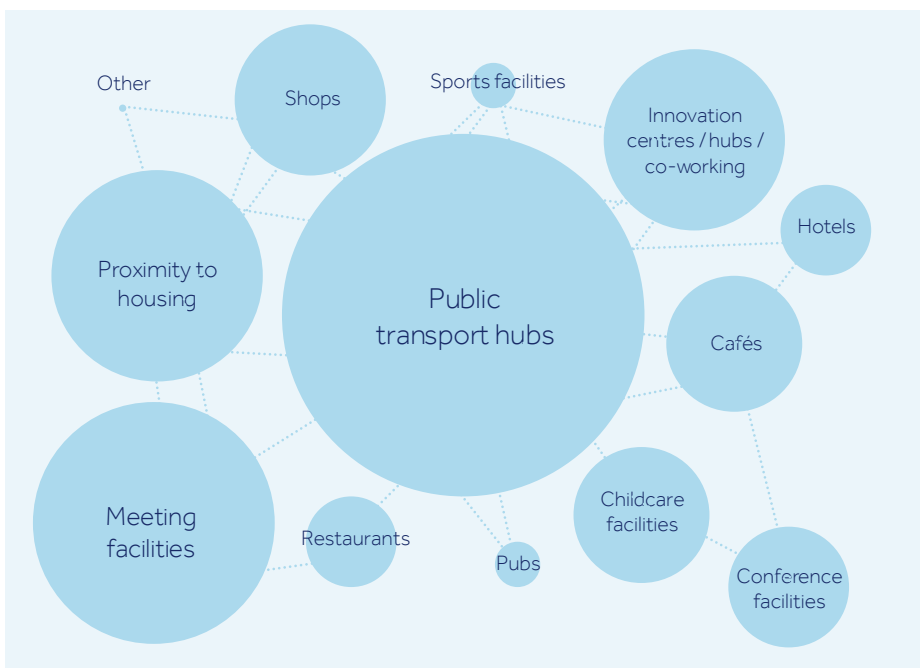
While the cost of space is not the priority for these companies, the specification in terms of macro and micro location are exacting and a challenge for the market.

We will see more science and tech clusters evolve around university foci in city centres in particular.

However, existing and established science park clusters will continue to compete, offering the size and flexibility of space needed, particularly when combined with improved transport infrastructure, facilities and housing.

Businesses could not be clearer. Delivering on R&D future potential depends on access to the high skilled staff and research institutions required. If these global businesses are unable to fulfil this criteria, we can be sure they will look elsewhere - whether it be in the UK or, perhaps quite possibly, elsewhere in the world.

Hierarchy of facilities important to large R&D business



Source: Bidwells & Creative Places, YouGov

30%

of respondents think it likely they will take new property over the next 5 years

67%

of those expecting to take new property state this is due to business growth

Source: Bidwells & Creative Places, YouGov





YouGov

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YEARS OF
INNOVATION