South Bank Central, London

INSIGHT

Central London office analysis

Q4 2021

Occupier market

London's office market has gradually built back its strength across 2021, culminating in an end-of-year take-up total of 8.8 million sq ft – which is a 71% uplift on the letting volumes seen in 2020.

Oxford Economics forecasts that GVA will tick upwards by 5.7% across the year; and that office-based employment in London is likely to grow by around 2% overall.

Investment market

2022 has already started with a bang for London offices, as Google confirmed its £760m purchase of Central Saint Giles, WC2, – highlighting its belief in offices as being critical to synthesising growth and collaboration.

The best-in-class buildings with strong environmental credentials will lead the way as investors look to 'green' their portfolios.

AVISON YOUNG

NICK ROCK
Principal

> "
> **Our figures indicate that just over 3.1 million sq ft has been let during Q4 2021. This figure represents a 29% increase against the ten-year average – and is even reflective of a 21% increase on typical pre-pandemic quarterly volumes.**

Occupier market in brief

MOMENTUM MAINTAINED

London's office market has gradually built back its strength across 2021, culminating in an end-of-year take-up total of 8.8 million sq ft – which is a 71% uplift on the letting volumes seen in 2020.

Although this total is 9% down on the long-term average for annual take-up – it's important to underline that the market was having to operate under stringent restrictions for much of the first half of the year.

July's 'Freedom Day' may not have brought a deluge of white-collar workers back to the capital – but it did herald the start of a strong six-month spell for London office leasing in which some form of normality was first restored, and then surpassed. Having hit the long-term average for space let in Q3, we have subsequently seen an end-of-year flurry of lettings, with Q4 figures showing that just over 3.1 million sq ft has been let.

This figure represents a 29% increase against the ten-year average – and is even reflective of a 21% increase on typical pre-pandemic quarterly volumes as companies begin to shake off Covid-induced uncertainty and look instead towards the future of working; and how communal offices can be used to engender collaboration, enhance productivity, and facilitate growth.

This quarterly total comprised 132 individual deals – representing a fourth consecutive increase in the volume of completed transactions (as well as space let), indicating that London's occupiers are now formulating their strategies for office use with increased confidence. This is confirmed by the fact that 9 deals above 100,000 sq ft have completed during the last six months – which is more than in the preceding eighteen months combined.

TECH DRIVES MARKET FORWARD

Occupiers within the tech & creative sector were paramount in driving quarterly take-up, accounting for more than 30% of overall activity. This was anchored by Snapchat taking 115,000 sq ft at the newly completed Bloom, EC1; and Gamesys letting 102,500 sq ft at 70 Berners Street, W1.

Tech firms were also key in the full year reckoning, accounting for 27% of annual activity. Financial services was the second-largest cohort with 21% of space let, while a handful of significant lettings for law firms meant that the professional services sector came in third this year at 19%, after having been the most active occupier sector in 2020.

The latest major deal for a law firm was confirmed in November, with Allen & Overy signing a pre-let for 267,000 sq ft at 1-2 Broadgate, EC2, ahead of expected occupation in late 2026. This was the biggest individual letting of the quarter, and exemplified the pattern of occupational demand – with seven of the eight largest lettings in Q4 by size being either pre-lets or take-up of new-build stock.

This appetite for best-in-class space has helped to support the stabilisation and recovery in rental tone across 2021 – with our figures now indicating that prime rents in the City, Southbank, West End and West London submarkets are ahead of where they were at the end of 2019 after experiencing a correction during the depths of the pandemic.

Through 2022, we expect this focus on high-grade space to continue. London's emerging 'tiered' office market will be more prominently emphasised going forward as corporate concerns around decarbonisation and employee wellness become increasingly pivotal elements factored into decision making.

Currently, the development pipeline is relatively abundant by recent standards with a relatively low level of pre-lets of 33%. However, if demand for best-in-class space continues to increase as expected, we're likely to see pre-committed levels increase throughout the year as the economic recovery progresses, and the recent 'dislocation' of office demand is rebalanced by reactivated requirements.

A significant number of speculative schemes are also slated for a 2022 on-site start, which would further underline the confidence percolating back into the market that good quality office space in such a globally renowned business location should let well – particularly during an economic rebound.

In terms of occupier strategies – while we should anticipate some consolidations off the back of such a seismic shift in the way we work, that approach to office space won't be ubiquitous by any means. Since the pandemic took hold, we have seen major lettings in which firms have agreed to take more London office space than they had previously to accommodate organic expansion plans and calm any fears in staff about overcrowded workplaces.

RECOVERY & GROWTH READY

More broadly for London's business community, there are several more reasons for optimism moving into 2022. Oxford Economics forecasts that GVA will tick upwards by 5.7% across the year; and that office-based employment in London is likely to grow by around 2% overall.

Meanwhile, reports continue to emerge outlining London's position as a continental leader for a variety of high-growth business sectors.

According to Innovate Finance, the UK fintech industry body, Investment into fintech in the UK in 2021 grew by 217% to $11.6bn – substantially ahead of any comparative European nation. Meanwhile, according to a report by London Partners and Dealroom, climate tech investment is booming in London, where the combined value of start-ups in the sector has almost tripled in the last year to £28bn – again, outstripping continental cities, and second only to Silicon Valley globally.

While most of these metrics are demonstrably encouraging, the year has started under something of an Omicron-shaped cloud; suppressing return-to-office numbers which had peaked in mid-November on our recovery index to a high of 51% against a baseline of February 2020.

With circumstances gradually tapering back towards that which we left in 2019, we anticipate that the spring of this year should see new highs reached in the volume of workers returning to offices. This will primarily be driven by the fact that corporate messaging no longer needs to be so heavily diluted by virus concerns, and can instead focus solely on the best needs of businesses and employees alike as the hybrid working experiment begins in earnest.

Central London

TAKE-UP

Take-up increased for a fourth quarter on the bounce, totalling 3.1 million sq ft in Q4 2021. This represents a 27% increase against Q3 and is the largest amount of quarterly space let since Q4 2019.

Allen & Overy's 267,000 sq ft letting at 1-2 Broadgate, EC2, was the largest deal of the quarter. This was supplemented by a further 14 deals above 50,000 sq ft – which is the highest volume in a single quarter within this larger size band that we have ever recorded in London.

Occupiers within the tech & creative sector were paramount in driving quarterly take-up, accounting for more than 30% of overall activity. This was followed by the professional services sector and the financial sector which accounted for 23% and 16% respectively.

SUPPLY

As letting volumes improved across 2021, we have seen availability begin to taper off in recent reporting periods after having risen for five consecutive quarters across 2020 and early 2021.

The amount of available space now totals 20.7 million sq ft, which, although reflective of a 3% drop against the previous quarter, is still 33% ahead of the ten-year average with the market still feeling the impact of such a shallow letting period in the year after the pandemic hit.

Alongside the drop-off in total availability, the vacancy rate for central London has marginally fallen from 7.3% last quarter to 7.2% at the end of Q4 – almost two percentage points ahead of the post-GFC typical vacancy rate for Central London.

In-situ supply is weighted towards Grade-B stock – with Grade-A space comprising less than 20% of readily-available supply in some submarkets; and as those larger deals continue to flow through, we expect that particular supply crunch to intensify next year.

RENTAL GROWTH

Most micro-market areas within our London map are at or above their pre-pandemic levels, with demand for high grade office space insulating the prime end of the market from severe corrections. Headline tone for the City Core has increased during Q4 2021 to £75.00 psf; while Mayfair & St James have both increased to £117.50 psf.

Seven out of the eight largest transactions in Q4 were either pre-lets for developments under-construction, or for new-build space – indicating the skew of demand from occupiers for offices which can best satisfy an increasingly sophisticated list of requirements.

Doubtless there will be some cost-conscious businesses for whom the lower grades of space within London increasingly represent a value proposition – and so there may be more demand than anticipated for lower-grade space as an interim post-pandemic solution. Ultimately, however, rental growth is likely to be seen exclusively within the upper echelons of London office supply as the bifurcation of the market continues.

OUTLOOK

Broadly speaking, economists remain hopeful that the economic rebound has only been temporarily hit by the Omicron variant. Oxford Economics are forecasting that GVA will rise of 5% in London across 2022, with office-based jobs growing by just over 2% – a figure which outpaces the equivalent growth expected in Paris and Berlin.

The year has begun with positive chimes as Google nailed its colours to London's mast by committing to a £762 million purchase of Central Saint Giles – which is the biggest London office acquisition since Citigroup purchased its own building in mid-2019 for over £1 billion.

In addition, the withdrawal of 'plan B' Covid restrictions by government earlier this month has been celebrated by business groups and individual companies, who appear keen for workers to return to communal offices for at least part of the working week.

Across the year we are likely to see various 'hybrid' strategies beginning to be implemented without the acute influence of the virus hampering their development, and as such, we can expect a clearer picture to emerge on what business groups are doing with their office strategies. Some will no doubt look to consolidate staff into fewer (but higher quality) buildings, whereas others will be looking to organically expand as the recovery gathers pace.

For investors, the market remains steadfastly competitive – particularly for the highest-quality products which tick boxes on both occupier requirements and environmental performance. Interest rate rises as currently predicted are likely to be shallow enough to not have too great an impact on investors' sentiment when it comes to London offices – although on the value-add and development side the increased cost of debt may inhibit progress in some cases.

KEY DEALS Q4

Address	Occupier	Sq Ft
1-2 Broadgate, EC2	Allen & Overy	267,000
99 Kensington High Street (Barkers Building), W8	Daily Mail Group	125,600
Bloom, Clerkenwell, EC1	Snap Inc	115,000
70 Berners Street, W1	Gamesys	102,100
1 Portsoken Street, E1	BPP	83,900

TOP TENANT SECTORS

TMT & Creative
31%

Professional Services
23%

Financial Services
16%

The London market definitions have been amended to align better with up-to date market perceptions. If you require back-dated historic data, please let the Research team know.

KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q4

3.1 million sq ft

▲ 28.6%

UP ON THE 10-YEAR QUARTERLY AVERAGE

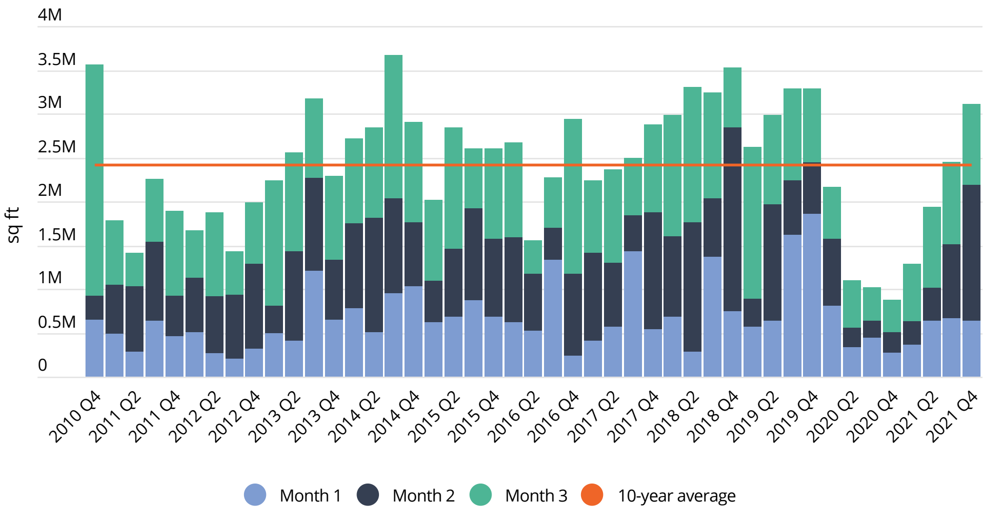
7.2%

VACANCY RATE

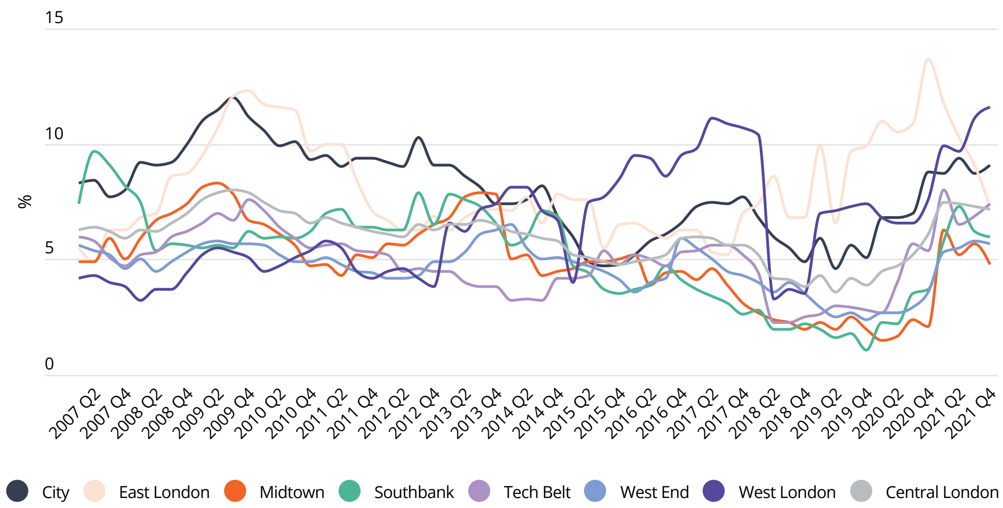
0.1 percentage points down against last quarter

Occupier charts

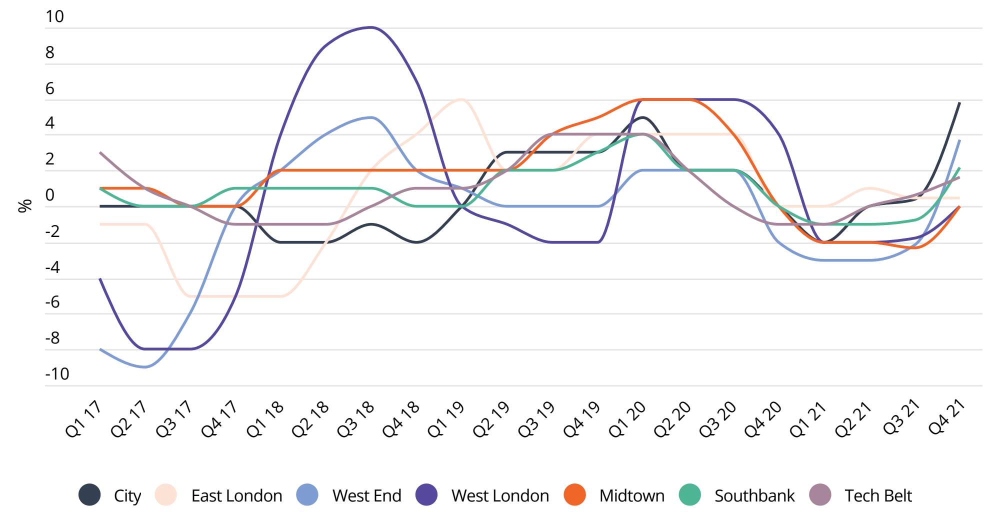
CENTRAL LONDON TAKE-UP



OFFICE AVAILABILITY RATES



PRIME HEADLINE RENTAL GROWTH



City

During the final quarter of 2021, take-up in the city reached 1.4 million sq ft, reflecting the most active quarter for office take-up since Q2 2018 and an increase of over 80% against Q3.

2021 take-up totalled 3 million sq ft, a 49% increase from 2020, but down by 12% against the five-year annual average. The City was the most active submarket within London throughout 2021 in terms of square footage let, accounting for 35% of Central London take-up.

During 2021 the City has shown a significant rebound from the effects of the pandemic, with take-up being on a consistent upward trend since the second quarter. We expect this will continue throughout 2022 as we move out of the shadow of Covid-19 and into a gradual phase of economic recovery.

Q4 take-up was boosted by Allen and Overy agreeing to pre-let 267,000 sq ft across 7 floors at 1-2 Broadgate, EC2. The legal firm plans to move to their new office upon completion in winter 2026/2027 and has stated that its likely to take additional space at the building – but will decide on that closer to relocation day.

As a result of this large deal, the Professional Services sector was key to driving activity during the quarter, accounting for 36% of take-up across 11 deals totalling 511,000 sq ft. The Financial Services sector was also a significant source of demand with take-up of 255,400 sq ft, accounting for 25% of the total, across ten deals. Key to this was a 78,318 sq ft letting to William Blair across 3 floors at 22 Bishopsgate, EC2.

Office availability across the submarket currently totals 6.8 million sq ft reflecting a 4% increase since the end of Q3 2021. As a result, the vacancy rate across the city has also shown a slight quarterly increase moving from 7.8% to 9.1% at the end of Q4 2021.

There is currently 4.8 million sq ft of office development under construction within the City completing between now and 2025 of which 40% has already been pre-let, with a significant further proportion under-offer. The average headline rent within the submarket is currently £73.13 psf reflecting a 3% increase since the end of Q3 2021. During Q4 prime rents in all the city micromarkets increased except in the West City where they remained stable at £72.50 psf. This has meant that the Avison Young rental index for City submarkets increased by 3.2% during the quarter and is also 5.8% up against the levels at the end of 2020.

KEY DEALS Q4

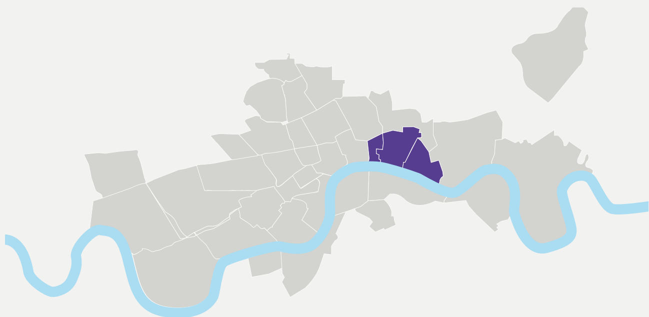
Address	Occupier	Sq Ft
1-2, Broadgate, London, EC2	Allen & Overy Llp	267,000
1 Portsoken Street, E1	BPP	83,862
Exchange House, EC2	Braze	81,000
22 Bishopsgate, EC2	Apple	78,406
22 Bishopsgate, EC2	William Blair	78,318

TOP TENANT SECTORS

Professional Services
36%

Financial Services
25%

TMT & Creative
21%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q4

1,414,600 sq ft

△ 66%

UP ON THE 10-YEAR QUARTERLY AVERAGE

9.1%

VACANCY RATE

£75.00 per sq ft

PRIME RENT

City Core / Northern City & Broadgate

West End & West London

Throughout Q4 2021 take-up across the West End and West London markets totalled 1 million sq ft – reflecting the highest take-up figures the markets have seen since the final quarter of 2019. This reflected a substantial 56% increase since Q3 2021 and a 60% uplift from the five-year quarterly average. Annual 2021 take-up totalled 2.8 million sq ft, which is more than double the amount leased across 2020.

The largest deal of Q4 came at the Barkers Building, W8 where the Daily Mail Group agreed to take 125,500 q ft across 4 floors. In the West End, the largest deal saw Gamesys lease 102,150 sq ft at the newly refurbished 70 Berners Street, W1T.

Throughout Q4 the TMT & Creative was the most active sector accounting for 37% of take-up across 8 deals totalling 377,500 sq ft, largely driven by the Daily Mail Group and Gamesys deals. The tech sector was also key to driving demand across the year as a whole, accounting for 27% of annual activity – just ahead of the Financial Services sector, which comprised 25% of take-up.

Within the West End and West London, availability now sits at 6.3 million sq ft, with a vacancy rate at 6.5% – representing a downward movement of 0.1 percentage points against last quarter. Based on the five-year annual average take-up, there is only enough office availability in the West End to meet the demand for one year and ten months.

Furthermore, in-situ supply across the West End and West London is extremely heavily skewed towards lower-grade spaces; with Grade-A availability only comprising 12% of the standing availability. This is likely to mean that letting activity in 2022 will be heavily concentrated in the development pipeline – within which there is currently around 4 million sq ft of unlet space under construction.

Average prime rents in West London remained stable throughout the final quarter of 2021, however, the West End saw average prime rental growth of 3%. Rents in Fitzrovia and Marylebone increased from £85 psf to £90 psf and in Mayfair and St James rents moved from £115 psf to £117.50 psf.

There was also prime rental growth in Paddington and Soho where rents increased to £77.50 psf and £95 psf, respectively. This has resulted in the Avison Young rental index for the West End submarket increasing by 2.4% during the quarter and is also currently 3.7% up year-on-year. While in West London, average prime rent remains at £64.60 psf, with our rental index level for both the year and the quarter.

KEY DEALS Q4

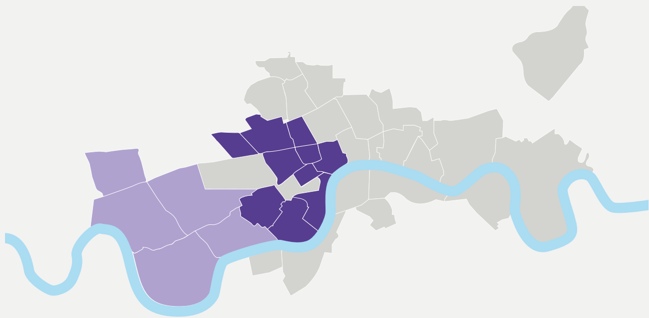
Address	Occupier	Sq Ft
Barkers Building, W8	Daily Mail Group	125,587
70 Berners Street, W1	Gamesys	102,150
50 Broadway, SW1	House of Commons	72,800
20 Grosvenor Street, W1	Fora	39,500
80 Strand, WC2	Shark Mob	39,000

TOP TENANT SECTORS

TMT & Creative
37%

Financial Services
11%

Consumer Services
10%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q4

1,020,000 sq ft

63%

UP ON THE 10-YEAR QUARTERLY AVERAGE

6.5%

VACANCY RATE

£117.50 per sq ft

PRIME RENT

(Mayfair / St James)

Tech Belt

In Q4, office take-up within the Tech Belt reached 420,000 sq ft – while this was down on the previous quarter this figure is slightly above both the five and ten-year quarterly averages. Annual 2021 take-up in the area totalled 1.5 million sq ft, reflecting a 90% uplift on 2020.

The most significant deal of the quarter was to Snap Inc which agreed to let 115,000 sq ft at The Bloom Building, EC1. This move will see the social media giant more than double its office footprint in London demonstrating continued confidence in the capital. The TMT and creative sector continues to be the most significant source of office demand in the submarket, accounting for 56% of Q4 take-up and 48% for the year as a whole. The business services and financial services sectors were also active throughout Q4, accounting for 17% and 10% of take-up, respectively.

Office availability increased slightly during the final quarter of 2021 creating a corresponding increase in vacancy rate to 7%. Availability currently totals 3 million sq ft reflecting enough supply to meet the demand for one year and ten months of typical take-up. There is currently 3.2 million sq ft of office development under-construction within the submarket – however, almost 50% of this has already been pre-let, demonstrating the significant demand for new high-quality office space within the Tech Belt.

During Q4 average prime rent increased marginally moving from £68.75 psf to £69 psf. This was due to rental growth occurring in Clerkenwell, where headline tone moved from £77.50 psf to £79 psf. The Avison Young rental index for the Tech Belt is currently 1.6% up against Q3 and up 0.6% on this point last year.

KEY DEALS Q4

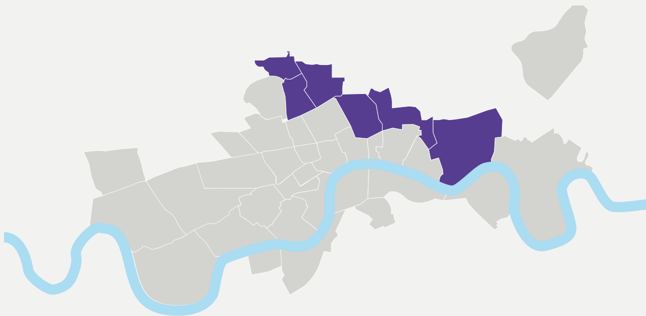
Address	Occupier	Sq Ft
Bloom, EC1	Snap Inc	115,000
Aldgate Tower, E1	Infinite	61,194
Worship Street, EC2	accuRx	39,326
8 Bleeding Heart Yard, EC1	Julius Baer	35,000
Aldgate Tower, E1	Youview Media	20,274

TOP TENANT SECTORS

TMT & Creative
56%

Business Services
17%

Financial Services
10%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q4

420,000 sq ft

△ 1%

UP ON THE 10-YEAR QUARTERLY AVERAGE

7.4%

VACANCY RATE

£80 per sq ft

PRIME RENT

(King's Cross)

East London

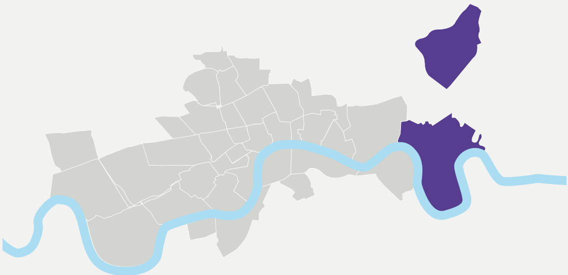
East London saw a marginal uptick in take-up against Q3, as just over 69,000 sq ft was let in the final three months of the year. Full-year take-up came in at just over 335,000 sq ft – the lowest annual figure in East London since the global financial crisis with a particularly notable absence of large-scale lettings which have traditionally bolstered activity in the area.

The largest of the four deals to complete this quarter was on the 6th floor of Export Building, E14, where York St John University took just over 26,000 sq ft.

For 2021 as a whole, demand was mainly underpinned by tech and creative businesses, which accounted for 24% of take-up; with the professional services sector in second place, comprising 19% of activity.

The vacancy rate across East London is currently 7.1% with total availability standing at 1.8 million sq ft, which is 2% ahead of the 10-year quarterly average.

The Avison Young rental index for East London is currently 0.5% up y-o-y but remains flat against last quarter without any movement on prime tone seen across the submarket at year end. Rent-free periods remain stable at an average of 30 months across all reporting areas within the submarket.



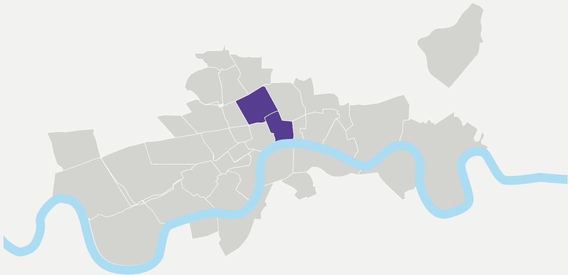
Midtown

After a significant spike in Q3 underpinned by one of the largest deals we've ever recorded in Midtown, it was a more sedate end to the year in the submarket as just 58,500 sq ft transacted in Q4 – which reflects a 66% decrease on the long-term quarterly average.

Year-end take-up came in at 446,000 sq ft – which represents a healthy 49% uptick from 2020, albeit still some 38% behind the ten-year average for annual activity. The vacancy rate now sits at 4.8% - which is slightly ahead of the typical pre-pandemic level of vacancy, with availability standing at 1.25 million sq ft.

Underpinned by Travers Smith's 158,000 sq ft pre-let at Stonecutter Court, EC4, the professional services sector dominated take-up across 2021, accounting for some 49% of overall activity. The tech sector, meanwhile, accounted for 23% of activity last year – thanks largely to another Q3 letting which saw Thought Machine take 65,000 sq ft at 7-11 Herbrand Street, WC1.

Prime rents in Midtown remained stable against last quarter, at £80.00 per sq ft in Bloomsbury and £70.00 per sq ft in Holborn. These have been the prime rental levels since the end of 2020, and as such there is no year-on-year change in the rental index.



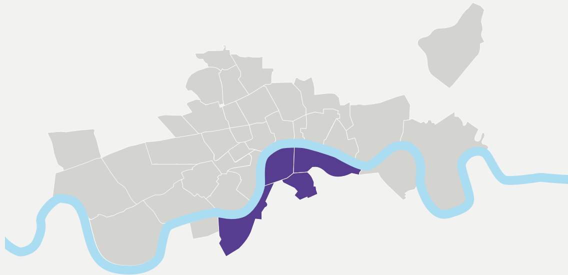
Southbank

For only the second time in ten quarterly reporting periods, take-up hit six figures on the South bank, with just over 128,000 sq ft letting across nine individual deals. This is 67% up on Q3, albeit still 13% below the long-term quarterly average.

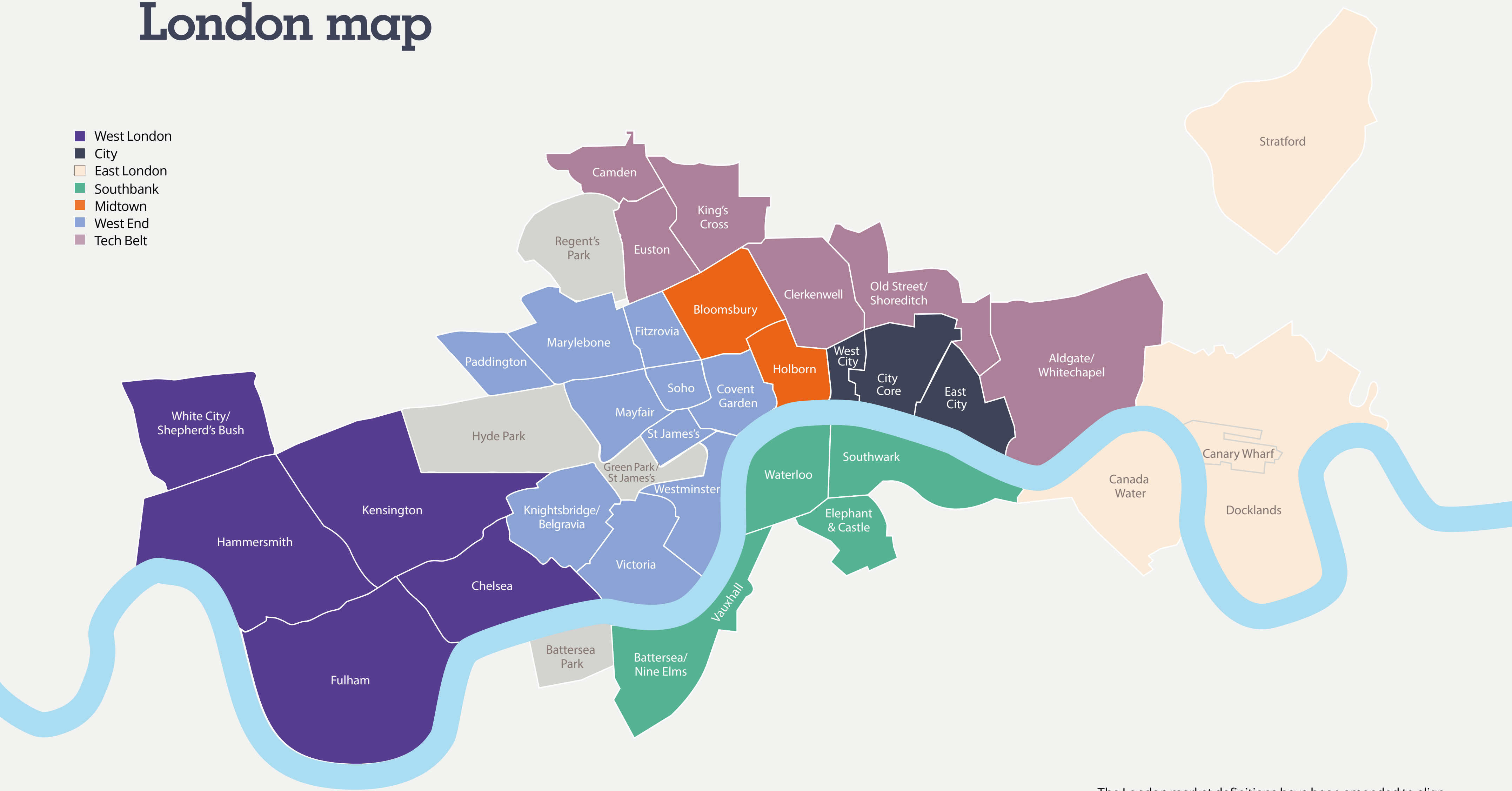
Largest among this quarter's deals was a 27,300 sq ft letting to law firm Lewis Silkin at 133 Blackfriars Road, SE1. Elsewhere, Steer Davies & Gleave became the first tenant to sign at Southworks, SE1, which was the first UK building to achieve a 'Platinum' WiredScore rating, and also won the accolade of 'world's smartest building' in June 2021.

Availability remains steadfastly above long-term average levels, sitting at 1.5 million sq ft currently, meaning a vacancy rate of 6%.

According to the Avison Young prime rental index, values sit 2.2% above where they were at this point last year – underpinned by an uptick in prime tone around London Bridge and Southwark from £65 psf to £67.50 psf over the last quarter.



Central London map



The London market definitions have been amended to align better with up-to date market perceptions. If you require back-dated historic data, please let the Research team know.

Central London markets

West End	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Mayfair	£117.50	24	£52.19	£179.94
St James's	£117.50	24	£49.78	£177.53
Soho	£95.00	24	£44.43	£149.68
Knightsbridge/ Belgravia	£90.00	24	£42.29	£142.54
Marylebone	£90.00	24	£42.29	£142.54
Covent Garden	£82.50	24	£32.12	£124.87
Fitzrovia	£90.00	24	£36.13	£136.38
Victoria	£77.50	24	£36.07	£123.82
Paddington	£77.50	24	£28.64	£116.39

West London	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Chelsea	£90.00	24	£39.61	£139.86
Kensington	£70.00	24	£47.10	£127.35
Hammersmith	£58.00	24	£22.48	£90.73
White City/ Shepherd's Bush	£60.00	24	£9.10	£79.35
Fulham	£45.00	24	£21.41	£76.66

Midtown	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Bloomsbury	£80.00	24	£32.38	£122.63
Holborn	£70.00	24	£29.71	£109.96

Assumes a 10-year term on a mid-floor new build space without terraces.
Excludes towers, aside from the designation of 'City Tower.'

Southbank	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Waterloo	£70.00	24	£24.35	£104.60
Southwark	£67.50	24	£27.84	£105.59
Battersea/Nine elms	£59.50	24	£16.33	£86.08
Vauxhall	£57.50	24	£16.33	£84.08

City	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
City Tower	£90.00	26	£27.20	£127.45
City Core	£75.00	26	£27.56	£112.81
West City	£72.50	26	£27.56	£110.31
East City	£70.00	26	£28.37	£108.62

Tech Belt	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
King's Cross	£80.00	24	£33.72	£123.97
Euston	£72.50	24	£29.71	£112.46
Clerkenwell	£79.00	24	£24.89	£114.14
Camden	£60.00	24	£28.64	£98.89
Old Street/ Shoreditch	£67.50	26	£19.27	£97.02
Aldgate/ Whitechapel	£55.00	27	£21.41	£86.66

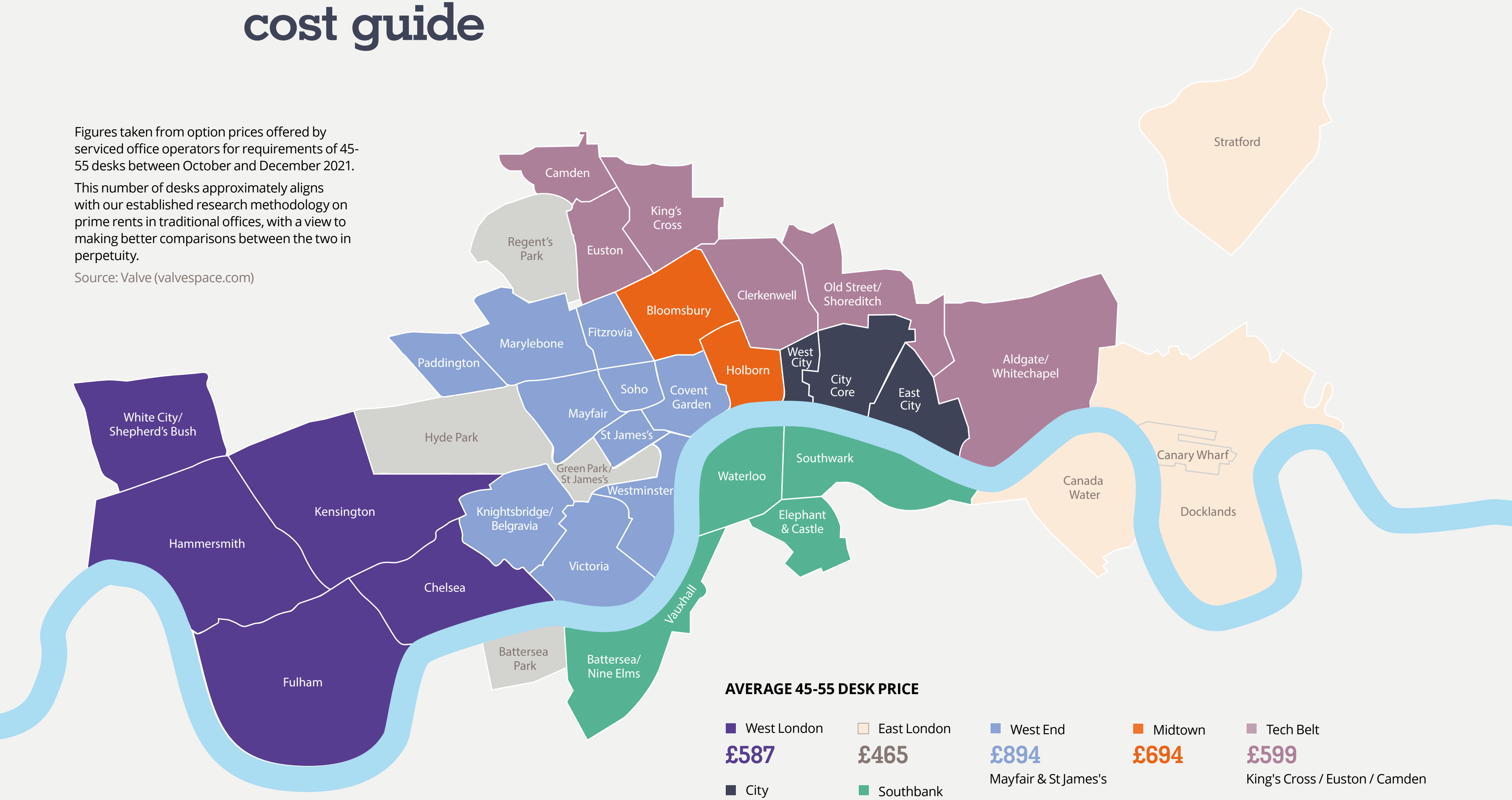
East London	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Canary Wharf	£45.00	30	£13.64	£68.89
Stratford	£46.50	30	£9.10	£65.85
Docklands	£32.50	30	£10.71	£53.46

Serviced office cost guide

Figures taken from option prices offered by serviced office operators for requirements of 45-55 desks between October and December 2021.

This number of desks approximately aligns with our established research methodology on prime rents in traditional offices, with a view to making better comparisons between the two in perpetuity.

Source: Valve (valvespace.com)



AVERAGE 45-55 DESK PRICE

West London	East London	West End	Midtown	Tech Belt
£587	£465	£894 Mayfair & St James's	£694	£599 King's Cross / Euston / Camden
City	Southbank			
£728	£684	£862 Belgravia / Knightsbridge / Soho		£675 Clerkenwell / Old Street / Whitechapel

Investment market in brief

JAMIE OLLEY
Principal

"

Across 2021, almost £12 billion was spent on London office assets by investors. While this is 15% behind the ten-year average for annual turnover, it nevertheless represents a 53% uplift on 2020 volumes.

END ON A HIGH NOTE

While the lockdown at the start of the year might have put a slight dampener on market activity in Q1, buyers have sprung back to life since; with overall spend surpassing £3 billion in each of the last three quarterly periods – and ending with turnover outpacing the long-term average for all quarters in Q4, at just over £3.5 billion.

While prime income is still being heavily sought-after in the main; we have also seen a variety of different transaction types underpinning the strong end to the year – including occupier purchases, site acquisitions, and a spate of value-add deals to boot.

NORTH AMERICANS INVEST

The largest individual deal of the quarter saw US media giant Omnicom acquire its own London headquarters at 2-3 Bankside, SE1, in a £440m deal – significantly above the original quoting price of £400 million and seeing off notable investors such as Brookfield in the process. Elsewhere, Brookfield acquired State Street's headquarters at 20 Churchill Place, E14, for around £245 million in the largest Canary Wharf transaction since the onset of the pandemic.

These two transactions helped North American buyers to dominate the investment picture in Q4 – accounting for nearly 40% of overall spend; and meant that they leapfrogged European buyers in the standings for full-year investment into London offices, with the latter comprising 25% of turnover as against 28% for the North American cohort.

The wide variety of international vehicles targeting London for potential returns over the medium term expanded in Q4 2021, as the founders of Native Land created a partnership with several private Asian family offices to create the RW1 investment vehicle, which is targeting £500m of central London office acquisitions.

Elsewhere, Israeli investment group Electra Real Estate has launched an opportunity fund, hoping to raise £200 million from private and institutional investors with the intention of purchasing lower-grade office buildings in the UK in order to add value.

OUTLOOK BRIGHT

2022 has already started with a bang for London offices, as Google confirmed its £760m purchase of Central Saint Giles, WC2, – highlighting its belief in offices as being critical to synthesising growth and collaboration; as well as eliciting huge confidence in the capital as a place to both invest and do business.

Elsewhere, it is widely anticipated that the £1.25bn purchase for UBS' headquarters at 5 Broadgate, EC2, by LaSalle on behalf of Korea's National Pension Service, will conclude in Q1. This, combined with several more deals exchanging towards the end of 2021, has led some to predict that we may see the strongest ever opening quarter to a year for turnover.

This would represent an auspicious start for predictions made in various forecasting documents which indicated that London was primed for a strong 2022 as the level of global 'dry powder' targeting real estate continues to rise.

PwC and Allianz analyses outlined that the capital was the top target in terms of European investment prospects across 2022, while a similar conclusion was reached by research conducted Mayfair Capital on behalf of major pension fund and owner Swiss Life.

Underpinning all of these forecasts are the fundamentals of the London market, including low volatility, strong business environment, potential for economic growth and attractive price points as well as a landlord-friendly environment– with the capital remaining relatively discounted in pricing terms against major office markets on the continent.

Quite how much longer that discount has to run is certainly a prescient subject in light of accelerating demand for London offices – with the latest figures on equivalent yields from MSCI indicating that the move towards tighter pricing has begun during Q4. Meanwhile, our sentiment gauge indicates that several submarkets of London are seeing improved investor appetite, exerting downward pressure on prime yields.

Fundamentally, 2022 is likely to see a continuation of trends which emerged over the course of the pandemic; with investors across the globe seeking potential opportunities in various forms within London office assets. The best-in-class buildings with strong environmental credentials will lead the way as investors look to 'green' their portfolios; but value-add opportunities will also be of strong interest to those buyers seeking to contribute to London's urban renewal and achieve robust returns along the way.

Investment commentary

Momentum was maintained in the London office investment market as we strode into the new year. A total of £3.5 billion transacted over the last three months of 2021 representing a 16% uplift on Q3 turnover. Although the figure is 16% behind the long-term average for end-of-year volumes specifically, it still represents another point on the recovery graph after a tumultuous two years.

This means that across the year, almost £12 billion was spent on London office assets by investors. While this is 15% behind the ten-year average for annual turnover, it nevertheless represents a 53% uplift on 2020 volumes, and comes in 29% ahead of 2019 as global capital once again found its way to London's shores despite travel restrictions pervading much of the year.

Foreign buyers accounted for 73% of investment in Q4 specifically – and were responsible for a similar proportion of overall investment in 2021 at 71%, with North American and European buyers particularly active across the year.

2022 brings with it fresh hopes that the virus (and variants) will recede further in influencing both working patterns and the shape of international investment – and that London's long-standing reputation as a prominent business hub can underpin further upticks in activity.

KEY STATS THIS QUARTER

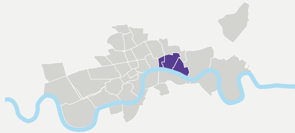
TRANSACTION VOLUMES

£3.56 billion

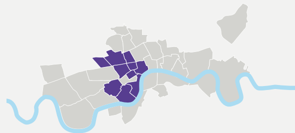
△ **0.5%**

UP ON THE 10-YEAR QUARTERLY AVERAGE

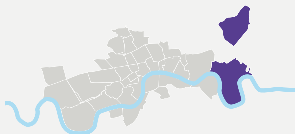
VOLUMES BY MARKET



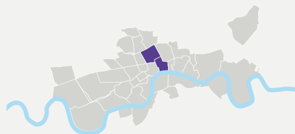
CITY
£406.2 million



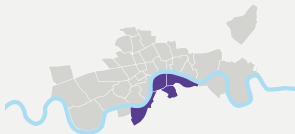
WEST END
£1282.2 million



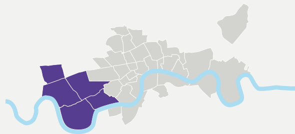
EAST LONDON
£441.5 million



MIDTOWN
£114.5 million



SOUTHBANK
£794.0 million



TECH BELT
£451.5 million

VOLUMES BY INVESTOR TYPE

OVERSEAS INVESTORS
£2,508 million

UK INSTITUTIONS
£442.1 million

UK PROPERTY COMPANIES
£474.1 million

CITY PRIME YIELD

▷ 4.00%

WEST END PRIME YIELD

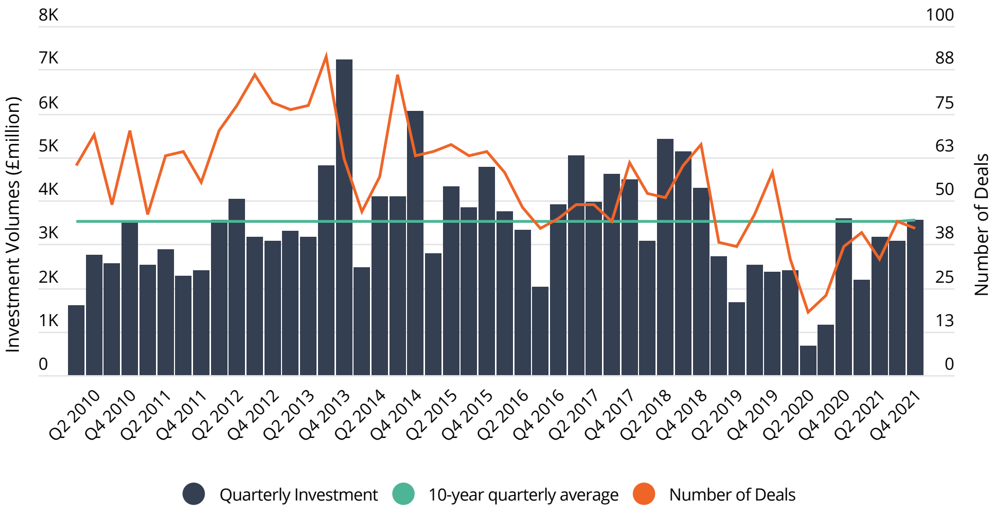
▷ 3.25%

Investment data

LARGEST INVESTMENT DEALS OF Q4 2021

Address	Price (£m)	Yield (%)	Month	Purchaser
2-3 Bankside, SE1	440	4.52	Nov	Omnicom
214-218 Oxford Street, W1	378		Oct	Ingka Group
Marble Arch Place	280	4.18	Dec	ARA Dunedin & NH Investment Securities
20 Churchill Place, E14	245	5.86	Dec	Brookfield
18 Blackfriars Road, SE1	200		Oct	Hines

CENTRAL LONDON QUARTERLY VOLUMES VS NUMBER OF DEALS



CENTRAL LONDON YIELDS Q4 2021

Submarket	Q4 2021 Prime Yield	Sentiment gauge
Stratford	5.00	Holding
Hammersmith / West London	4.75	Holding
Canary Wharf	4.75	Holding
Paddington	4.50	Improving
City eastern fringe	4.25	Holding
City northern fringe	4.25	Holding
Clerkenwell	4.25	Holding
Southwark	4.25	Holding
Victoria	4.25	Holding
Covent Garden	4.25	Holding
Euston / Kings Cross	4.25	Improving
City Core	4.00	Improving
Holborn	4.00	Holding
Marylebone / Fitzrovia	4.00	Improving
Soho	4.00	Improving
Mayfair / St James's	3.25	Holding

Should you wish to discuss any details within this update please get in touch

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