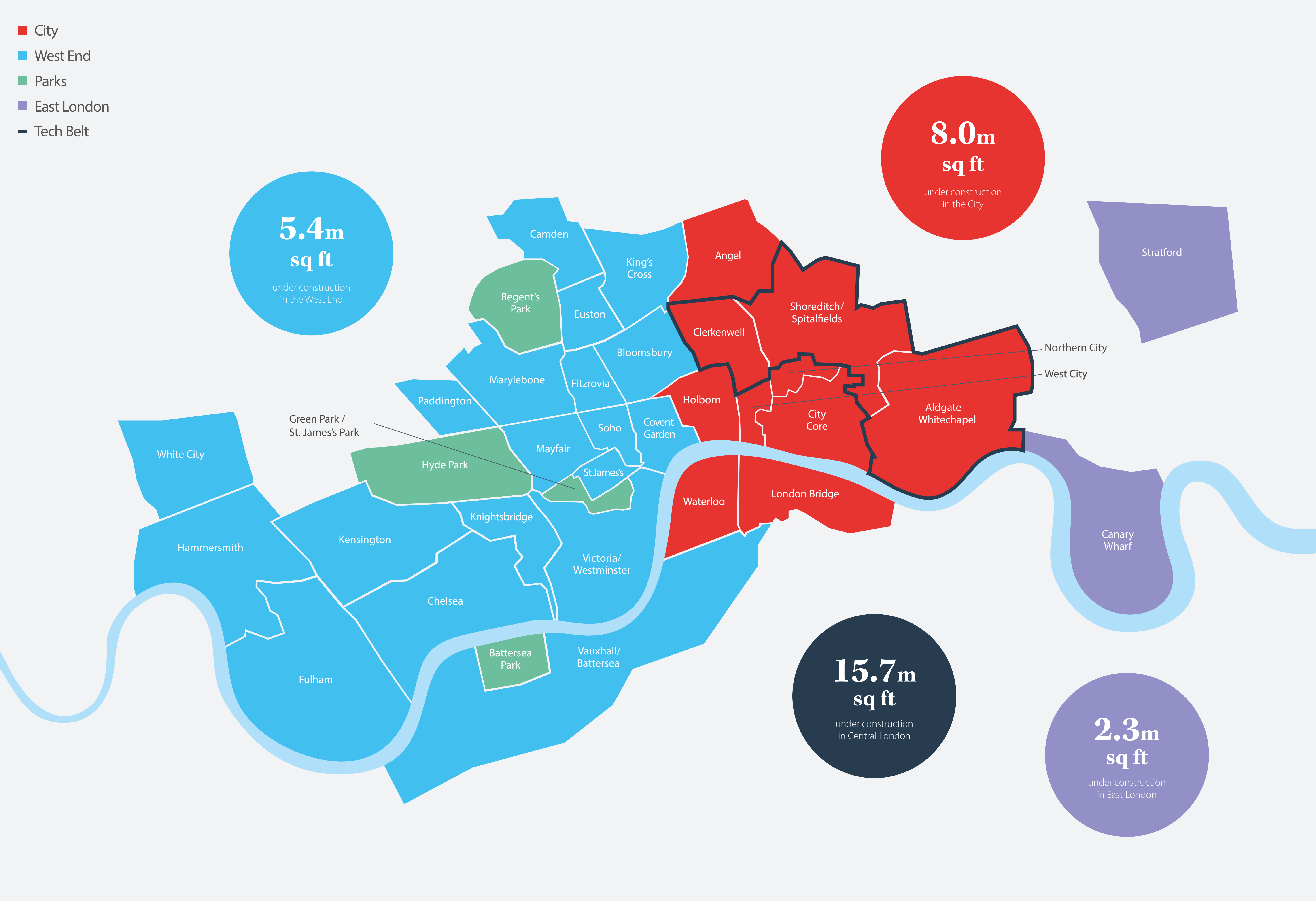
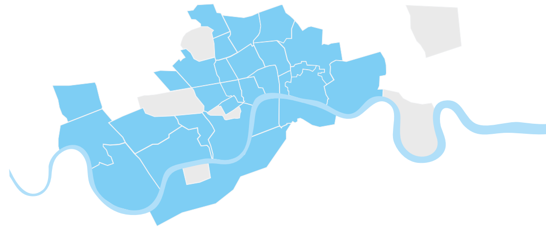
Central London Office Development Pipeline

2019


City
West End
Parks
East London
Tech Belt
5.4m sq ft
under construction in the West End
8.0m sq ft
under construction in the City
15.7m sq ft
under construction in Central London
2.3m sq ft
under construction in East London
Camden
King's Cross
Regent's Park
Euston
Angel
Shoreditch/ Spitalfields
Clerkenwell
Bloomsbury
Marylebone
Fitzrovia
Paddington
Holborn
Northern City
West City
City Core
Aldgate – Whitechapel
Stratford
Green Park / St. James's Park
White City
Soho
Covent Garden
Mayfair
Hyde Park
St James's
Waterloo
London Bridge
Knightsbridge
Kensington
Hammersmith
Victoria/ Westminster
Chelsea
Canary Wharf
Battersea Park
Vauxhall/ Battersea
Fulham



Central London

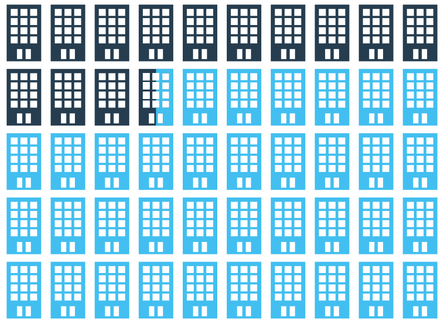
Across Central London there is 15.7 million sq ft under construction. Completion levels peaked in 2018 at 7.7 million sq ft, up from 6.8 million sq ft of completions in 2017 albeit we will see a higher level of completions in 2019. However, we are starting to see signs of a subdued pipeline going forward with only 6.0 million sq ft under construction post 2020, of which 56% is already prelet.

15.7m sq ft

under construction in Central London

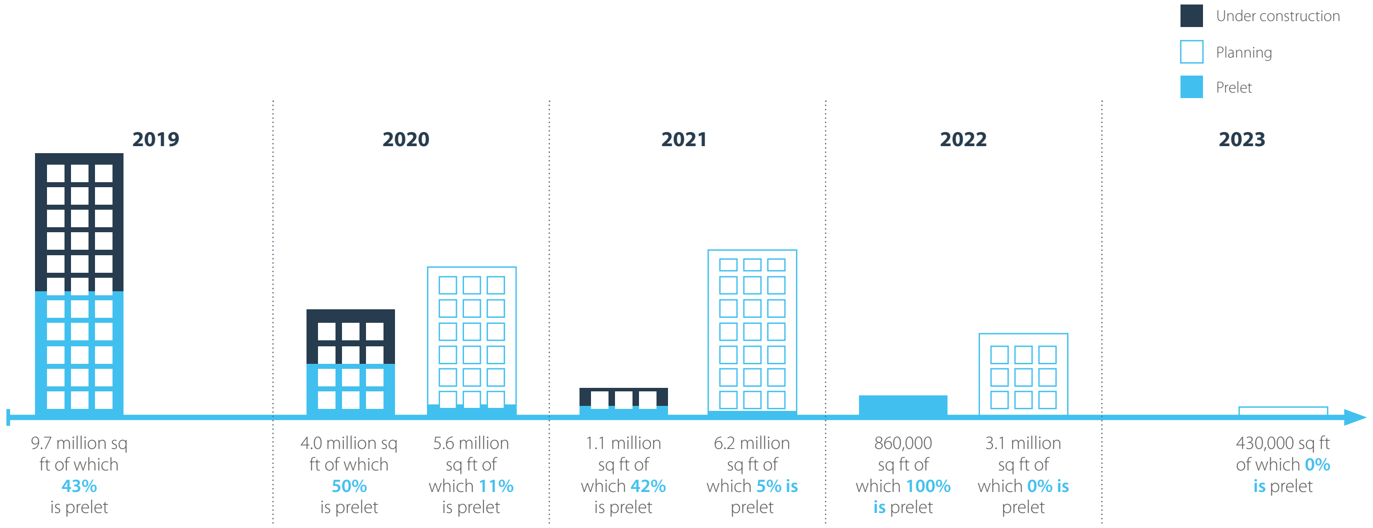
48% is prelet

leaving 8.2 million sq ft available

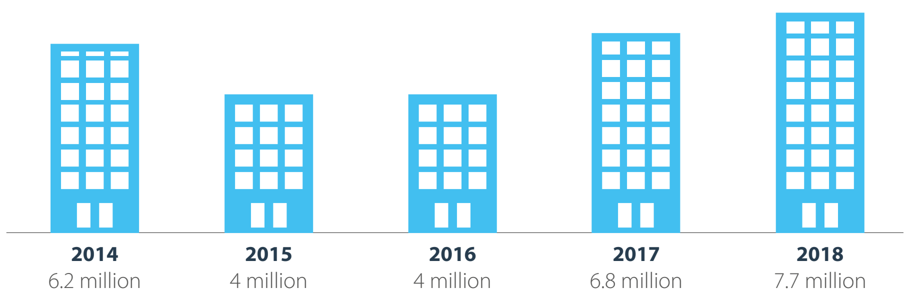


121 developments

under construction with the largest 5 developments making up 27% of the total space under construction



Development completions reached their highest ever level in 2018 at 7.7 million sq ft, up from 6.8 million sq ft in 2017.



sq ft completed

The average size of developments under construction is currently

129,884 sq ft

Prelets comprised 30% of all lettings in 2018

Lettings for new and refurbished stock comprised 24% of all take-up for the year

Prelets were mostly for new build supply, making up 74% of all preletting activity for 2018

LARGEST AVAILABLE DEVELOPMENTS UNDER CONSTRUCTION IN CENTRAL LONDON

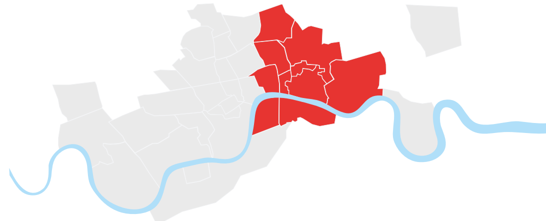
Address	Market	Earliest Completion Estimate	Total proposed sq ft (% prelet)	Available Sq Ft	Pre-lets	Developer
22 Bishopsgate	City Core	2019	1.3 million (15%)	1.1 million	Beazley, Hiscox, AXA	AXA, Temasek, Lipton Rogers, PSP
5 Bank Street	Canary Wharf	2019	700,000 (40%)	420,000	Societe Generale	Canary Wharf Group
60 London Wall	City Core	2020	310,000 (0%)	310,000	n/a	LaSalle IM
One Braham	Aldgate/ Whitechapel	2020	300,000 (0%)	300,000	n/a	Aldgate Developments, Starwood
100 Liverpool Street	City Core	2020	430,000 (37%)	270,000	Sumitomo Mitsui	British Land, GIC

A large proportion of developments with planning are made up from larger schemes such as International Quarter and King's Cross Central, many of which are unlikely to commence without first receiving a prelet

Currently only

6%

of space with planning permission has been let, boosted by the Royal Mint Court (Chinese Embassy) deal in 2018



City

There is 8.0 million sq ft under construction in the City due for delivery by 2021 of which 45% is prelet. Longer term, there is a reduced level of supply with only 2.6 million sq ft under construction projected to complete post 2020, of which 45% is prelet. Without the addition of developments currently with planning permission, the future may see considerable under supply for good quality stock, particularly in Fringe submarkets. The City development market is characterised by larger new build developments, rather than refurbishments, with generally good preletting activity well in advance of the completion date.

8m sq ft

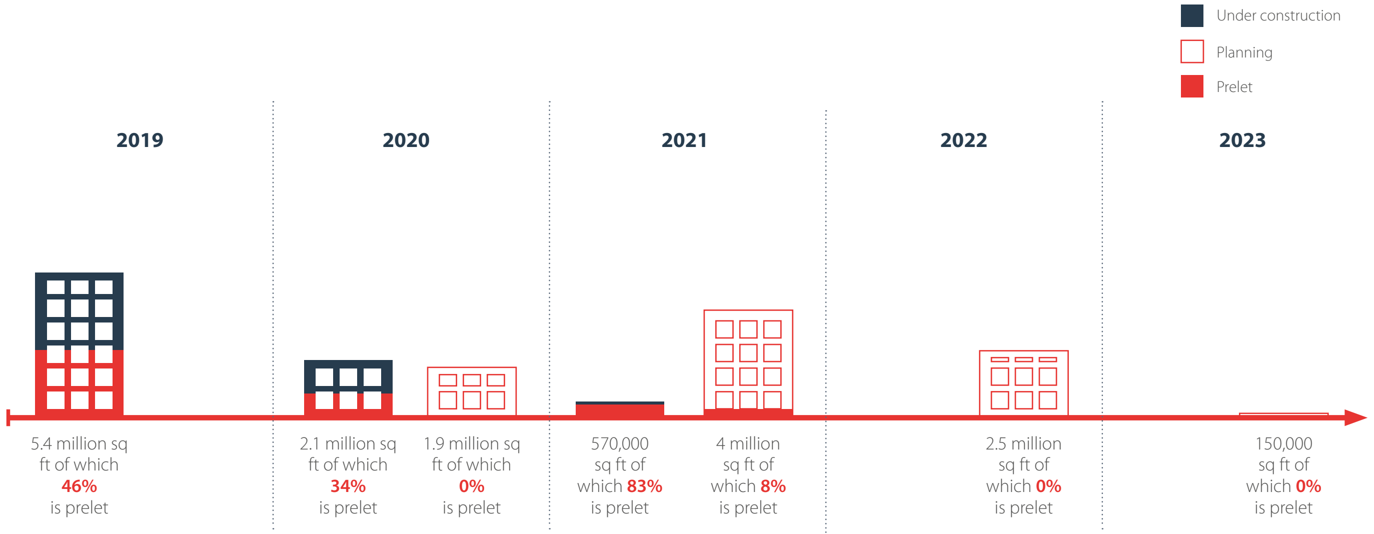
under construction in the City

45% is prelet

leaving 4.4 million sq ft available

56 developments

under construction with the largest 5 developments making up 42% of the total space under construction



City Core/EC3

By City submarket, the majority of space is in EC3/City Core where

5.4m sq ft

is under construction, making up 67% of all activity

49% of under construction space in EC3/City Core is prelet, similar to the overall City average

Tech Belt

As a comparison, developments within the 'Tech Belt' make up

18%

of total space under construction

Of the space under consruction in the 'Tech Belt', **31%** is prelet

The average size of under construction developments in the City is

143,326 sq ft

Within EC3/City Core the average size rises to

268,014 sq ft

Within the 'Tech Belt' average size falls to

78,278 sq ft

Prelets made up **31%** of all City take-up in 2018

New and refurbished deals comprised **23%** of take-up for the same period

A majority of prelets were for New Build space making up **70%** of preletting activity for the year

LARGEST AVAILABLE DEVELOPMENTS UNDER CONSTRUCTION IN THE CITY

Address	Market	Earliest Completion Estimate	Total proposed sq ft (% prelet)	Available Sq Ft	Existing Tenant(s)	Developer
22 Bishopsgate	City Core	2019	1.3 million (15%)	1.1 million	Beazley, Hiscox, AXA	AXA, Temasek, Lipton Rogers, PSP
60 London Wall	City Core	2020	310,000 (0%)	310,000	n/a	LaSalle IM
One Braham	Aldgate/ Whitechapel	2020	300,000 (0%)	300,000	n/a	Aldgate Developments, Starwood
100 Liverpool Street	City Core	2020	430,000 (37%)	270,000	Sumitomo Mitsui	British Land, GIC
80 Fenchurch Street	EC3	2020	240,000 (0%)	240,000	n/a	Partners Group, Exemplar

West End

The West End under construction pipeline currently comprises 5.4 million sq ft of which 51% is prelet. Excluding the two largest developments from the pipeline, Google's new HQ and Battersea Power Station, space under construction falls to just 4.0 million sq ft and prelet space to 34%. This is representative of most of the market with the majority of larger developments located in Fringe submarkets.

5.4m sq ft

under construction in the West End

51% is prelet

leaving 2.6 million sq ft available

Refurbishments make up

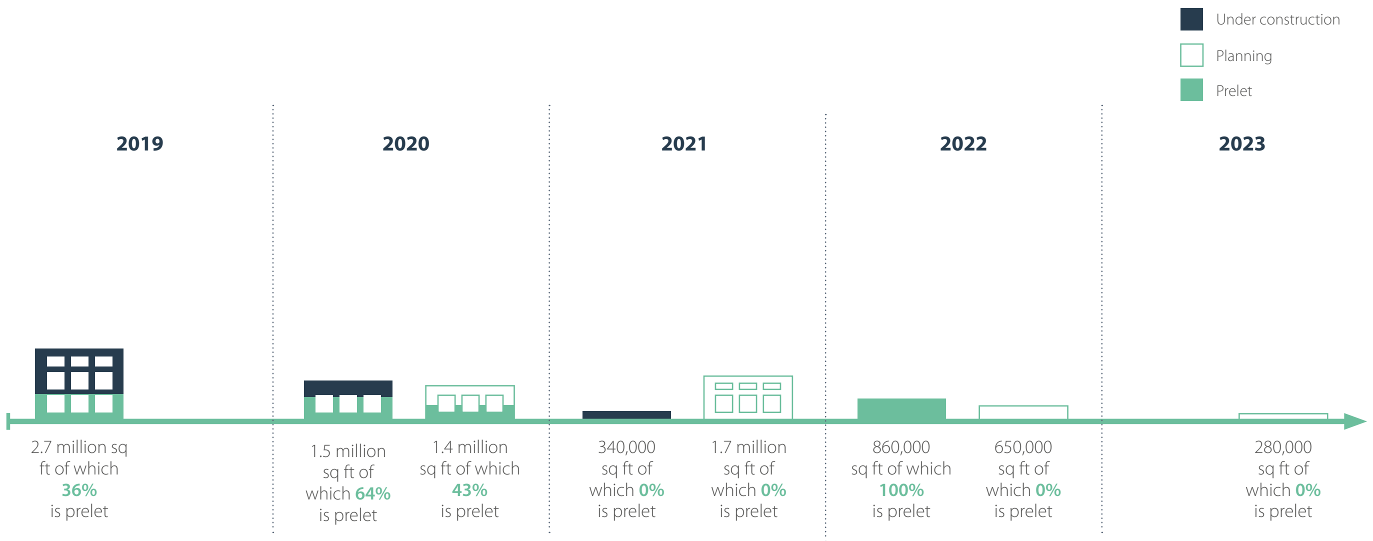
1.4m sq ft

of under construction supply; 27%

and new build developments make up

4m sq ft

73%



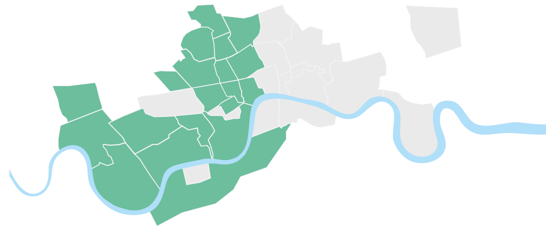
Excluding Battersea Power Station and Google's new HQ under construction supply drops to

4.0m sq ft

and the percentage of prelet space in the pipeline drops to 34%

57 developments

under construction with the top 5 developments making up 42% of the total space under construction



Developments in Mayfair and St James's currently make up

8%

of all development activity in the West End.

The average size of a development in the West End is

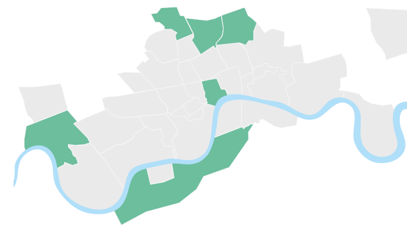
94,897 sq ft

The central West End submarkets are generally lacking in large floor plates to accommodate larger occupiers. The largest developments are located in the fringe markets including NW1, Covent Garden, Battersea and Hammersmith

The majority of development activity is located in the Vauxhall/Nine Elms/Battersea submarket where 960,000 sq ft is under construction, making up

18%

of activity



Prelets made up 28% of all West End take-up for 2018, boosted by the deal to Facebook at King's Cross Central (611,000 sq ft)

Lettings for New and Refurbished space made up a further 30% of take-up for the year

A majority of prelets were for New Build space making up 96% of preletting activity in 2018

LARGEST AVAILABLE DEVELOPMENTS UNDER CONSTRUCTION IN THE WEST END

Address	Market	Completion	Total sq ft (% prelet)	Available Sq Ft	Existing Tenant(s)	Developer
Bechtel House, 245 Hammersmith Road	Hammersmith	2019	240,000 (0%)	240,000	n/a	Legal & General
1 Oxford Street	Soho	2021	210,000 (0%)	210,000	n/a	Derwent London
S1 Handyside	King's Cross	2019	190,000 (0%)	190,000	n/a	Argent/Australian Super
206 Marylebone Road	Marylebone	2021	135,000 (0%)	135,000	n/a	Astrea
Ilona Rose House, Charing Cross Road	Covent Garden	2020	170,000 (15%)	150,000	Warner Bros	Soho Estates

Key trends

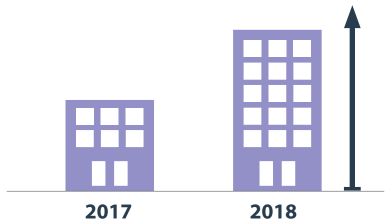
KEY EMERGING MARKETS

As the completion of the Elizabeth Line approaches, we have seen a boost in activity in the markets surrounding its stations. Up until now, large placemaking schemes such as King's Cross Central, International Quarter and White City have attracted attention, however these areas are mainly monopolised by a single key developer and we expect areas that provide wider opportunity to be the focus of attention going forward.

Farringdon

We have seen a considerable rise in leasing activity for New/Refurbished and Under Construction space in Farringdon. Comparing 2017 to 2018, take-up for this grade of space rose 61% to a total of 440,000 sq ft. 2018 has seen some particularly significant deals transact in the market including the acquisition of the Ray Building on a prelet by LinkedIn (83,000 sq ft), the acquisition of Smithson, Briset Street on a prelet by Macmillan Publishers (36,000 sq ft), and the acquisition of the Farmiloe Building on a prelet by Live Nation (63,000 sq ft), achieving record rents for the area.

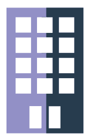
2018 take-up of newly completed/under construction space rose **61%** to 440,000 sq ft



580,000 sq ft

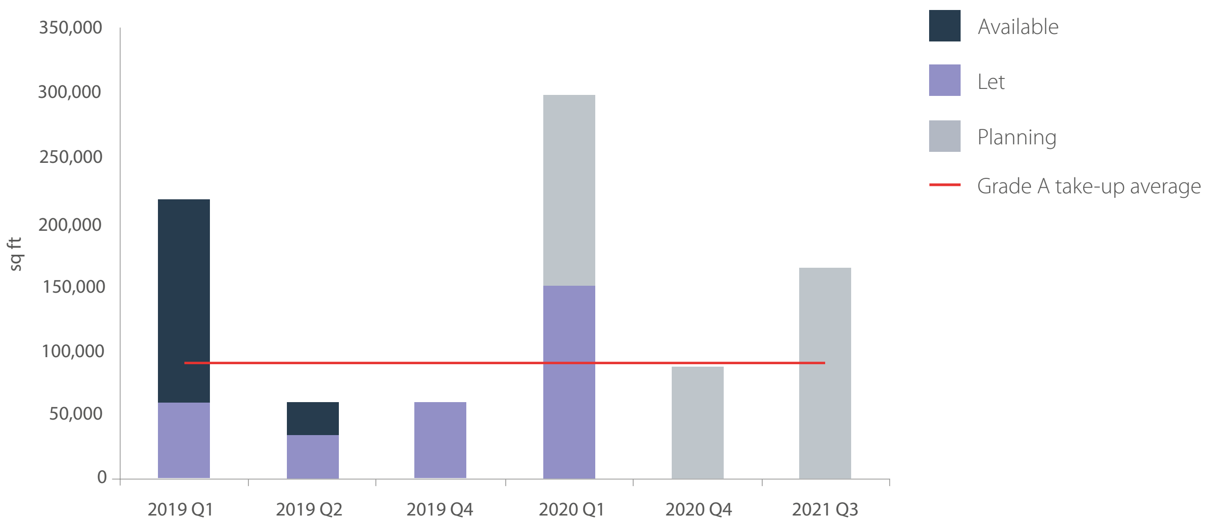
under construction in the market, the largest schemes are One Bartholomew Close totalling 215,000 sq ft and 17 Charterhouse Street totalling 152,000 sq ft.

52% is prelet



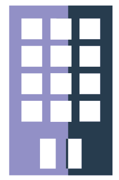
Although there is limited under construction space currently projected to complete post 2020, the planning pipeline could see an additional 397,000 sq ft delivered by the end of 2021.

Farringdon future development pipeline

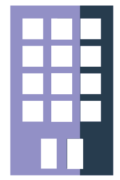


Paddington

Paddington Grade A take-up rose 54% from 2017 to 2018 to 180,000 sq ft, although demand is high however, supply for newly developed and under construction stock is limited. Recent lettings at the Brunel Building have taken it to 65% let ahead of its completion mid next year (2020) and is currently the only building providing space on a prelet basis.



Grade A take-up rose **54%** from 2017 to 2018



In Q4 2018, Premier League, Alpha FX and Coach took space at the Brunel Building taking the scheme to **65%** let

Although the planning pipeline looks set to provide an additional 1.1 million sq ft before the end of 2022, there may be a lag while tenants await the arrival of good quality space in the submarket. Paddington Cube for example has begun demolition works and will provide 360,000 sq ft for delivery in 2021. We expect the arrival of the Elizabeth Line to further boost tenant interest in the submarket, in addition to its improving offering elsewhere with Paddington Basin's new neighbourhood feel.

Improving occupier demand and anticipation of price increase has created greater investment interest in the submarket. For example, Yard Nine Devleopments/Invesco acquired 40/50 Eastbourne Terrace in June for £110m, 50 Eastbourne Terrace currently has planning permission for a new 94,185 sq ft office and retail development.

Canary Wharf

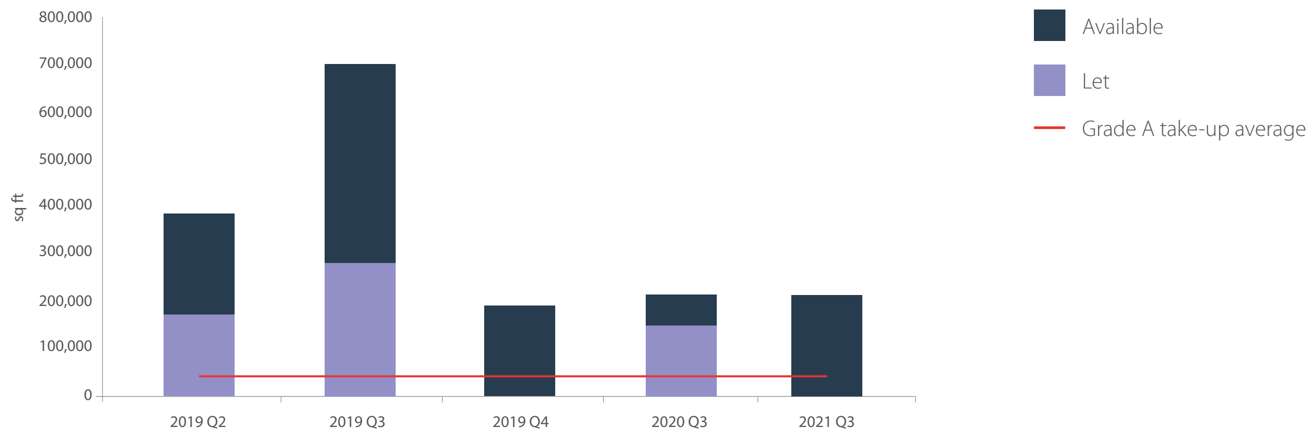
Canary Wharf is already well established as an eminent financial centre. Further residential and commercial development is transforming the area however, shaped by the arrival of the Elizabeth Line.

Commercial development is on the rise in Canary Wharf, anticipated to cause a rise in employment. With the combination of Crossrail, residential and commercial development, the area is being developed as a village-style destination with a clear place-making agenda. There is currently 1.7 million sq ft under construction in Canary Wharf which is currently 35% prelet.

Further, after several years of subdued activity, there is evidence the market is again attractive to occupiers with total take-up reaching 657,000 sq ft for 2018, up 282% on 2017. Prelets are becoming more common, CMA took 113,000 sq ft at the Cabot in 2018, further boosting the market's government association following the deal to the GPU in 2017.

Currently, investment activity is limited to smaller lot sizes. Canary Wharf prime yields currently stand at 5%, compared to 4.25% in City Core and providing opportunity for yield compression.

Canary Wharf future development pipeline



*Excluding planning

RISE IN THE ROLE OF OVERSEAS DEVELOPERS

The presence of UK developers in the pipeline has declined relative to other developer types, with overseas developers becoming of increased importance, reflecting trends in the investment market as a whole.

2017 and 2018 have seen record levels of overseas investor development reaching 31% and **30%** of the pipeline respectively, up from just 18% in 2016.

Development by UK property companies fell to **28%** of the pipeline for 2018, down from 41% in 2017.

the development trend reflects the overall trend for investment transactions with H1 2018 recording

£4.3bn

of overseas investment, **65%** of the 2017 figure

2018 saw owner occupation rise as a proportion of the development pipeline to

1.7m sq ft

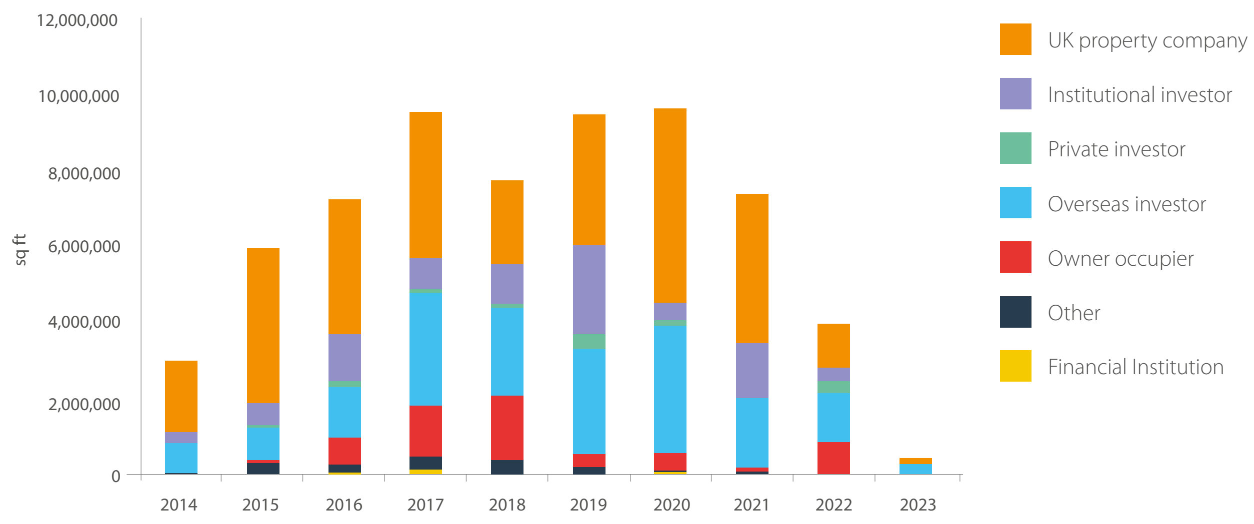
22% of the pipeline

Further, a rise in levels of owner occupation within the pipeline reflects an increase in companies choosing to acquire their new HQ, a result of regulation change and increased desire for flexibility. Examples include Wells Fargo at 33 King William Street and Bloomberg at Bloomberg Place.

In contradiction, a number of larger occupiers have recently chosen to sell and leaseback their HQs. Recent examples include Anglo American at 17 Charterhouse Street, Lloyds Bank at 25 Gresham Street and KPMG at 15 Canada Square. However, this is more likely to reflect corporates taking advantage of interest from investors for a building with long term secure income and redeploying the capital within the business.

Lastly, although overseas investors have upped their presence in the London development pipeline, many international investors have limited knowledge of the London market and we increasingly see overseas developers join up with UK development partners, especially on larger schemes. The largest example is at 6-8 Bishopsgate where Mitsubishi has partnered with Stanhope to provide 710,000 sq ft of offices for delivery in 2021.

Developer by type – 2014-2023



TOP UNDER CONSTRUCTION DEVELOPMENTS BY OVERSEAS DEVELOPERS

Address	Market	Completion	Total Sq Ft (% prelet)	Developer/ Development Manager	Origin
100 Bishopsgate	City Core	2019	800,000 (81%)	Brookfield	Canada
Battersea Power Station	Battersea	2020	550,000 (100%)	Malaysian Employees Provident Fund	Malaysia
One Braham	Aldgate/ Whitechapel	2020	300,000 (0%)	Aldgate Developments/ Starwood	Ireland/Hong Kong
14 Westfield Avenue	Stratford	2019	300,000 (80%)	Westfield Corporation	Australia
IQ S9	Stratford	2020	280,000 (79%)	Lendlease/London Continental Railways	Australia/UK

SERVICED OFFICES: TAKE-UP OR FAKE-UP?

Serviced offices have established themselves as a key feature of the Central London office market, this itself is old news. However, with serviced offices increasingly providing an option to tenants as a suitable availability for their requirements, serviced offices have an increasing role to play in the development pipeline.

WeWork, for example, have recently taken space in several key pipeline developments include The Stage, One Poultry, 5 Merchant Square and Southbank Place. The space that remains available to tenants increasingly provides an attractive alternative to space on a traditional lease.

Take-up by serviced offices totalled

1.9m sq ft

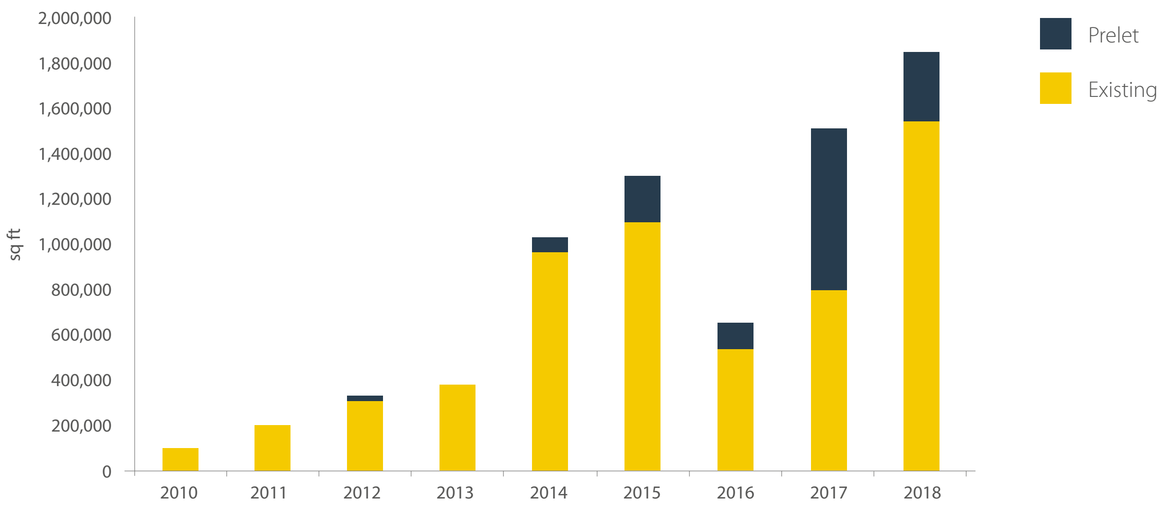
for 2018 up from 1.5 million sq ft in 2017

With serviced offices currently making up around **20%** of take-up each quarter, its removal from take-up, and thus the pipeline, would be significant

Where serviced office providers have taken space in second hand buildings such as 125 Shaftesbury Avenue, they have tended to carry out their own refurbishment of the building. With such sites having been earmarked for development previously, the question is whether the grade of space serviced office operators provide eats away at the future potential of the building given it may be of a lower quality, and may require more costly and lengthy development post operator departure.

Furthermore, it is likely that the vacancy rate is higher than that which is implied from traditional counting. Although, serviced offices taking space pre-completion may put pressure on supply which may limit the options available for other tenants.

Serviced office Take-up 2010-2018



SUMMARY

- There is 15.7 million sq ft under construction in Central London, of which 48% is currently prelet. Longer term, we may see significant under supply for developed space with only 6.0 million sq ft projected to complete post 2020, of which 56% is already prelet.
- There is 8.0 million sq ft under construction in the City which is currently 45% prelet. There is only 2.6 million sq ft projected to complete post 2020, currently 45% prelet.
- The majority of City stock under construction is located in EC3/City Core, making up 67% of activity.
- There is 5.4 million sq ft under construction in the West End, already 51% prelet. If we exclude Battersea Power Station and Google's new HQ from the figures however, under construction supply drops to 4 million sq ft and the prelet percentage to 34%, more representative of the market's performance.
- The majority of larger West End developments are located in Fringe locations including NW1, Covent Garden, Battersea and Hammersmith.
- Although levels of under construction supply are subdued, there is a further 15.4 million sq ft of space with planning due to complete before 2023. The majority of space with planning (55%) is located in the City.
- There is considerable opportunity in submarkets along the new Elizabeth Line route. Submarkets including Farringdon, Paddington and Canary Wharf are seeing strong interest from occupiers, increasingly for developed space. Opportunity for yield compression is creating greater interest from investors.
- In line with investment trends, we are seeing a rise in the role of overseas developers in the pipeline with 2018 levels reaching 2.3 million sq ft, 30% of development for the year. Overseas developers will often use a UK development partner however.
- The influence of serviced offices in the development pipeline is such that development availability should be treated with some caution. Currently, serviced office operators make up around 20% of take-up each quarter.

If you'd like to talk to one of our team to discuss property services or any market leading research, please get in touch.

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