Central London Office Market –October 2021

Occupational market

- The office market in Central London continues to show signs of positivity in the wake of the pandemic.
- This is shown in take up statistics of 5.5m sq ft of take-up YTD, which is 39% ahead of 2020. In the West End this is 84% ahead of the previous year at 2.6msqft which is just 2% below the 10 year average.
- For context however, this is 34% lower than the 10 year average in the City.
- As national lockdowns seemingly came to a close, we saw occupiers return to the market, which has seen a numerous transactions going into solicitor's hands resulting in 1.3m sq ft of space under offer in both the West End and the City at the end of Q3. This is 75% higher than the 10 year average in the West End, and about par for the City.
- Best in class space continues to outperform secondary space as occupiers look for quality space to entice workers back to the office. In the West End this has been notable with strong interest and under offers at JLL instructions of 78 St James's Street, Paddington Square and 20 Balderton Street, proving that all sizes of the market are active for prime space. The City has seen this theme continue with more occupiers going under offer on buildings under construction such as Chubb and Kirkland & Ellis at Stanza, 40 Leadenhall Street and Holman Fenwick Willan at 8 Bishopsgate.
- The City has also seen an uptick in demand from the banking sector, as requirements from Standard Bank, ICBC Standard Chartered and Macquarie all begin inspecting and taking presentations.
- The seeming dip in demand for secondary stock, however, has been evident as vacancy has continued to rise in Central London to 19.9msqft, an 8% vacancy rate. This is 39% above the figure in September 2020 and 69% above the 10 year quarterly average offering caution to the market. Central London new build vacancy rate is 1.6% at end of Q3 compared to 10-year average which is 1.1%

Central London - new deals and under offers



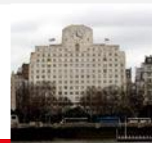
City Deals	Duo, 280 Bishopsgate, EC2	LDN:W, 3 Noble Street, EC2	Cargo, 25 North Colonnade, E14
	Getty Images	Heleba	ANZ
	10,000 sq ft	8,041 sq ft	22,745 sq ft
	Part 6th floor	10th floor	12th floor
	Estimated mid £70.00s psf	£78.00 psf	Confidential



West End Deals	8 St James Square, SW1	Dorland House, 121-141 Westbourne Terrace, W2	80 Strand, WC2
	Glendower Capital LLP	Future Publishing	Sharkmob
	7,888 sq ft	59,250 sq ft	38,718 sq ft
	5th floor	Part Building	4th floor
	£155.00 psf	£52.50 psf	£72.50 psf



City Under offers	Stanza, 40 Leadenhall Street, EC3	8 Bishopsgate, EC3	Hylo, 103-105 Bunhill Row, EC1
	Kirkland Ellis	Holman Fenwick Willan	Marshmallow
	300,000 sq ft	59,445 sq ft	28,870 sq ft
	19th to 34th floors	7th to 9th floors	6th to 8th floors
	Confidential	Confidential	Estimated mid £70s psf


West End Under offers	7 Howick Place, SW1	80 Strand, WC2	Francis House, 11 Francis Street, SW1
	Sweaty Betty	Darktrace	Edelman PR
	31,105 sq ft	30,805 sq ft	38,000 sq ft
	Ground and 1st floors	9th and 10th floors	Building
	£57.50 psf	Estimated £80.00 psf	Estimated £70.00 psf

Central London Office Market – Monthly insight October 2021

Please see below an update on active requirements:

City market

Key active requirement updates

- Macquarie viewed options last week for their 170-200,000 sq ft requirement for delivery Q1 2024.
- Standard Bank are active looking for. 60-80,000 sq ft
- ABN Amro still in the strategy phase but it is coming to conclusion soon. Looking for 30,000 sq ft.
- University of Sunderland are searching for 40,000 to 60,000 sq ft search and have taken short-term overflow at Harbour Exchange.
- University of Wales have a shortlist of 5/6 in East London.
- Smartsheet are looking for 25-30,000 sq ft and have shortlisted 6 options in City.
- PEI Media are looking for c.20,000 sq ft in City.
- Kookmin Bank –are looking for c.10,000 sq ft.
- University of Cumbria have been looking for c. 10,000 sq ft in Tower Hamlets.
- Panmure Gordon focusing on options up to 25,000 sq ft close to St Pauls.
- Better Up are looking at c. 6-12,000 sq ft options in northern city fringe.

West End market

Key active requirement updates

- Hasma Capital, 10 Bruton Street with a lease expiry June 2022, active for 4-5,000 sq ft.
- Investindustrial are viewing 15,000 sq ft options in Victoria.
- ESI are actively looking for 22 to 27,000 sq ft in West End and Southbank.
- Databricks are under offer in 80 Charlotte Street.
- Michael Kors out looking for c.15,000 sq ft have shortlisted 2 options in Midtown.
- Comply Advantage back out looking for 20,000 sq ft in Midtown.
- SLB capital looking for 15,000 sq ft in Central London.
- Zego looking for 20,000 sq ft for up to 3 years.
- Rapha have completed at Dorrington's LAZLO scheme at Archway today - entire building c.34,000 sq ft.
- CapGemini will be 50-70,000sq ft and will concentrate on Crossrail from Paddington to Canary. Timing late 2023 / early 2024.
- Ardian has renewed their lease for another 10 years at One Grafton Street office in Mayfair, W1.

Investment market

- The West End market has continued to perform strongly, with a number of landlords launching their assets to market as they look to take advantage of the lack of supply. In particular there has been an evident uptick in demand for best-in-class assets which offer income security in prime locations.
- JLL have recently launched Walmar House, 288-300 Regent Street, W1 on behalf of GPE. The iconic trophy building comprises 57,336 sq ft of Grade A office and retail accommodation. The asset is multi-let to six high quality tenants, benefitting from a rare 47 metre frontage on Regent Street. Pricing expectations are in excess of £93.20m / 4.25% NIY / £1,626 per sq ft.
- JLL are marketing the freehold interest in 19-24 Dering Street, W1 on behalf of L&G. The prime mixed-use asset is situated directly opposite the Bond Street Elizabeth Line entrance and comprises 34,431 sq ft. The asset benefits from redevelopment potential to create a best in class sustainable Mayfair mixed-use development. Pricing expectations are in excess of £55m / 3.59% NIY / £1,597 per sq ft.
- JLL have also launched the freehold interest in 15 Adam Street, WC2 on behalf of SEB. The property comprises 53,985 sq ft of mixed-use accommodation benefitting from a 40-metre retail frontage on The Strand. The asset is multi-let to ten tenants with an attractive WAULT of 7.5 years to expiry and 4.0 years to break. Pricing expectations are in excess of £65.9m / 4.50% NIY / £1,221 per sq ft.
- The freehold interest in 40 Strand, WC2 has been launched to market. The 141,014 sq ft mixed-use asset occupies an island site between the River Thames and Covent Garden. 103,000 sq ft of office accommodation is single let to Bain Capital until March 2032 with 38,000 sq ft of retail fronting The Strand. Pricing is £195m / 4.26% NIY / £1,383 per sq ft.
- The Eversholt, NW1 has recently been brought to market, the asset has been re-launched with pricing reflecting £100 m / 5.64% NIY / £902 per sq ft. The 110,853 sq ft freehold asset comprises three interlinking buildings and is multi-let to 11 tenants with a WAULT to expiry of 4.7 years and 2.1 years to break.
- Investor demand remains high in the City, especially from European investors. However, a disconnect between this demand and deliverable stock has also remained. Whilst this imbalance has resulted in more approaches being made off market, we are also seeing more stock being prepared for sale on the open market as some seek to capitalize on the current frustrated capital throughout the market and marked lack of supply.
- An example of a recent off market transaction is 160 Old Street, EC1 which has been acquired by JP Morgan from GPE. The 166,300 sq ft freehold property is majority let to Turner Broadcasting with a WAULT of 12.3 years to expiries and 10.2 to breaks. The price agreed was £181.5m which reflects 4.27% (£1,091 psf).
- Another transaction demonstrating the current off-market trend we are seeing in the City is 13-15 Moorgate, EC2, which has been acquired by Unipec for their own occupation. The vendor, Europe Arab Bank, were advised by JLL. The asset is multi-let with one vacant floor and a WAULT of 1.5 years. The price was c.£31.00m which reflects 3.12% NIY and a capital value of £975 psf.
- The freehold interest in 68 King William Street, EC4, has also been acquired in an off-market transaction by a private Asian investor The office accommodation is currently vacant. The asset transacted for £133.5m which reflects a capital value of c. £1,400 psf.
- JLL have recently launched Senator, 85 Queen Victoria Street, EC4 on behalf of L&G. The building comprises 150,802 sq ft of Grade A office accommodation. The asset is multi-let with 72% of income secured by Quilter PLC, investment grade covenant. Approximately 60% of the building was subject to a comprehensive refurbishment in 2018. There is opportunity for investors to add value across the remaining 40% of the NIA which has a block date in 2023. The guide price is £157.30m / 4.80% NIY / £1,043 psf.
- The desire for either core assets or properties with the ability to reposition to 'best in class' is ever present in the City. We anticipate this trend to continue given the lack of supply of quality leasing stock coupled with the relaxation of Covid restrictions driving a return to offices.

The volume of available stock is set out below:

	City (£m)	West End (£m)
Value-add	£675	£1,256
Core-plus	£804	£385
Core	£2,114	£2,053
Total	**£3,593**	**£3,693**

2021 YTD	City* (£m)	West End (£m)	Central London (£m)
Traded	£4,905	£3,114	**£8,019**
Available	£3,593	£3,488	**£7,081**
Under offer	£1,263	£3,807	**£5,070**

Recent transactions exchanged/completed:

Date	Building	Lot size	NIY	WAULT (WAULT to breaks)	Purchaser
Oct-21	160 Blackfriars Road, SE1	£87.00m (£727 psf)	6.23%	3.80 years (2.80 years)	Maya Capital & AnaCap
Oct-21	1 Golden Lane, EC1	£75.00m (£702 psf)	VP	VP	Castleforge
Sep-21	68 King William Street, EC4	£133.50m (£1,400 psf)	VP	VP	Private Investor
Sep-21	Heals Building, W1	Q. £120m	4.8%	4.9 years (3.85 years)	KKR
Sep-21	101 St Martin's Lane, WC2	£56.0m (£1,175 psf)	5.07%	5.40 years (2.5 years)	KGAL
Sep-21	13-17 Fitzroy Street, W1	£92.0m (£993 psf)	VP	VP	DWS

*includes Canary Wharf and East London

Transactions to monitor:

There are a number of key transactions that are either due to exchange imminently or where bids have been called as below:

Status	Building	Lot size	NIY	WAULT (WAULT to breaks)	Comment
Bids received	Holland and Renown House, EC3	£37.5m (£655 psf)	VP	VP	Second round bids scheduled 14/10/2021
Call for bids	Moorfields Eye Hospital, EC1	Q. £200.0m (£215 psf)	VP	VP	First round proposals received.
Under Offer	Clerkenwell Collection, EC1	Q. £217.00m (£1,114 psf)	3.97%	7.60 years	Reportedly under offer
Under Offer	C-Space, 37-45 City Road, EC1	Q. £90.00m (£1,417 psf)	4.00%	9.70 years (6.70 years)	Reportedly under offer
Under Offer	20 Golden Square, W1	Q. £47.50m (1,923 psf)	3.72%	8.0 years	Under offer
Under Offer	Marble Arch Place, W1	Q. 290.0m (£2,044 psf)	4.15%	15.0 years (10.6 years)	Rumoured to be under offer to ARA Dunedin Asset Management
Under Offer	Mission House, 25 Marylebone Road, W1	Q. £25.0m (£832 psf)	VP	VP	Recently gone under offer following second round bids
Bids received	60 Sloane Avenue, SW1	Q. £180.0m (£1,599 psf)	VP	VP	Second round bids received, rumoured to be going under offer
Under Offer	214-236 Oxford Street, W1	Q. c.£400.0m (£1,653 psf)	3.43%	-	Rumoured to be under offer to Ikea
Marketing	25 Moorgate, EC2	Q. 67.50m (£815 psf)	5.03%	c.1.00 year	Currently marketing

Debt market

- The lender appetite in London continues to remain strong as we enter the final Quarter of 2021. Lenders continue to focus on two areas:
  - Core lending: The traditional lenders are most active in this space where income / WAULT is over 7-8 years. On super core assets at the c. 50% LTV level, margin pricing is at the c.125-145bps levels. At slightly higher leverage at the 55-60% LTV levels, core margin pricing remains at c.160-185bps.
  - Refurbishment: The appetite for refurbishment loans continues to be strong from the debt funds and a number of Banks have returned to this speculative lending space at the 50% to 55% LTC levels on select schemes with margins in the 350bps to 450 bps (lender IRR of 5%-7%). The Debt funds still remain the largest lender in the refurbishment space, where we are seeing loans pricing at the 60-65% LTC levels. The margins from the Debt funds have been compressing over the recent period by c. 50bps and margins are now at the 425-525bps levels, representing a lender IRR of 6.5-8.5%.
- Core-plus opportunities (short income 3-6 years) still remain harder to finance as lenders query the immediate leasing demand and rental projections. We are seeing leverage slightly lower than Core at the 50-55% LTV levels with margins ranging from 225-300bps. There are a few exceptions where Core-plus transactions have closed at the c.160-190bps levels on shorter period loans (2-3 years). Sponsor, location, freehold/leasehold, leverage psf and the tenant mix are some of the key factors that impact on the pricing and availability of core-plus debt.
- There are a number of Development opportunities which are live in the market. There is most demand in the £100m-£200m development loan space as lenders have the ability to put back leverage in place. There are only a select number of lenders who are issuing these loans and there is a large focus on the ESG credentials of each deal. We are seeing margins in the 62% to 66% LTC levels have also compressed in recent weeks with margins now at the 450bps – 550bps levels, with fees, this represents a lender IRR of 7-8%.
- An area that borrowers should be aware of is the volatility in the interest rates and an increased probability we are already in an inflationary market. Five-year SWAP rates which were at the c. 0.45-0.55% levels during the summer, grew to 0.60 – 0.75% in September, have now reached 1.00% levels in October. The financial markets are pricing in higher interest rates in the future and Borrowers should be cognizant of the gradual uptick in the interest rates.

The overall demand from lenders for new lending opportunities in London continues to be strong and we are seeing continued demand from lenders for Core, refurbishment, development and select core plus opportunities. We are potentially entering an inflationary period which means greater volatility and potentially increased interest rates

Concluding remarks

- The significant increase in take up in office space for 2021 is not unsurprising, but nonetheless encouraging with the west end market showing a strong performance in particular
- Equally encouraging is the amount of office space under offer, which currently stands at 1.3m sq.ft, pointing to a heathy Q4 and a good overall leasing outturn for 2021
- The Chubb and Kirkland & Ellis pre-lets at M&G's Stanza development in EC3, exemplify what we have been saying for 18 months, in that occupiers will commit early to the best, ESG/ well-being schemes and take the uncertainty of a shortage of new developments in the future out of the equation.
- The market will continue to polarize around new and second hand space, with an increasing delta on future rental growth prospects.
- At the end of Q3, over £8bn of Central London investment transactions have been concluded with a further £5bn under offer. With assets in the final stages of marketing to add, JLL believe the total for the year could be in excess of £14bn, a 50% increase over 2020.
- For sales to conclude by year end, there are approximately two weeks left in which to commence marketing, and as such we have seen a number launched in the last week
- The market is likely to see some significant trades over the next two weeks, with the sales of Marble Arch House, 50% of British Land's Paddington Central, and 2&3 Bankside all set to exchange contracts shortly
- On the back of strong yields paid on Cassini House (3.2%) and 8-10 Moorgate (3.9%) we should see further discovery on trophy opportunities, with transactions such 5 Broadgate, 2 London Wall Place, 21 Moorfields and 60 Sloane Avenue all being established
- Whilst the debt market feels very robust for the right product, the spectre of increasing interest rates is beginning to gather shape. SWAP rates have increased meaningfully over the autumn, and whilst the overall "all in" costs are still attractive, it feels like these will be going one way, albeit slowly.