City Focus

Greater London

Should I stay or should I go?

London finds new ways to attract talent as competition rises

Will the past year shift the UK's balance of power out of London? Arguments over the lasting effects of lockdown and remote working brought into focus the future of the capital – a roaring global city whose streets slumped into eerie silence at the height of the pandemic.

Hints of an exodus out of London have been a recurring theme in the news this past year. Every recent house price index shows stagnation in London's housing market while the regions boom. "When we're all forced to work remotely, why not move somewhere with a bit more space?" the number seemed to ask. Dip into **EG's Lockdown Diaries** with some of the industry's experts, and you will find those who did happily make the move.

That shift wasn't simply the result of bored home workers browsing idyllic English towns on Rightmove. Between the government announcing in May plans to relocate 3,000 civil service jobs out of London and the south east and the BBC moving entire departments to the regions, there has been a concerted effort to re-think the capital's economic supremacy at a time when flexible working has taken another step towards normality.

But London, backed by global corporations, has fought back against these shifts. Last year, Google gave the capital its seal of approval, assuring that it would go ahead with its planned HQ in King's Cross. With a capacity of 7,000 employees, Google's three buildings in the area will be able accommodate more people than it currently employs in the UK as a whole. JLL similarly committed to 1 Broadgate in April in what developer British Land called "a real vote of confidence" for the city.

The government, despite pledging to "level up" the regions and post thousands of civil service roles outside London, is also advocating for London with a planned overhaul of listing rules to ensure that the city's financial heart remains globally competitive. Of course, the capital has little trouble attracting all kinds of investors. As we learnt from Knight Frank in April, London's luxury residential market is the largest in the world, easily beating Hong Kong and New York.

London has shown its resilience in many ways, but there are undeniable changes to confront. The question the city – and recently re-elected mayor Sadiq Khan – has to grapple with now is, what's next?

Finding the sweet spot between residential and commercial space in and around London is key. The City of London Corporation announced in April that it would turn disused office buildings into hundreds of homes to revive the financial district, while an expansion of the ultra-low emission zone aims to make the inner London more breathable. At the same time, outer boroughs and commuter towns are set for a boost, with Crossrail recently confirming it's on course to open next year, while developers swoop into the edges of Greater London with plans for massive build-to-rent schemes.

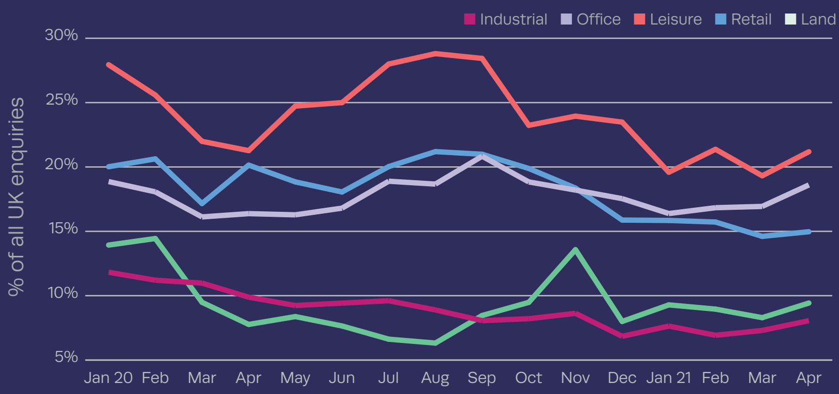
Over the following pages, we'll find these trends play out in data from EG Radius and EG Propertylink. The numbers confirm what we've all heard: London is changing, but that change is complex. While twists in the road might challenge our assumptions of the capital, we find familiar paths along the way. These pages will showcase both, pinpointing where London is still London as we know it – and where it's shifting into something new and surprising. ■

Enquiries across the UK rose 88% on EG Propertylink between Q1 2020 and Q1 2021. But the sectors and the locations piquing the industry's interest have shifted. That has affected London, which – in contrast to the UK as a whole – is still dominated by office enquiries

Offices, as a proportion of total enquiries, rose from 26% to 27% in London. Although it's a small rise, it's significant in a year when the sector, nationally, fell from 24% to 20%. While the increase in enquiries across the UK was largely driven by industrial and retail searches (up 101% and 102% respectively), the lack of interest in industrial opportunities in the capital – along with a newfound interest in commercial space in the regions – stifled London's numbers. As a result, while total enquiries were up 88%, year-on-year, in London they rose by a relatively muted 44%.

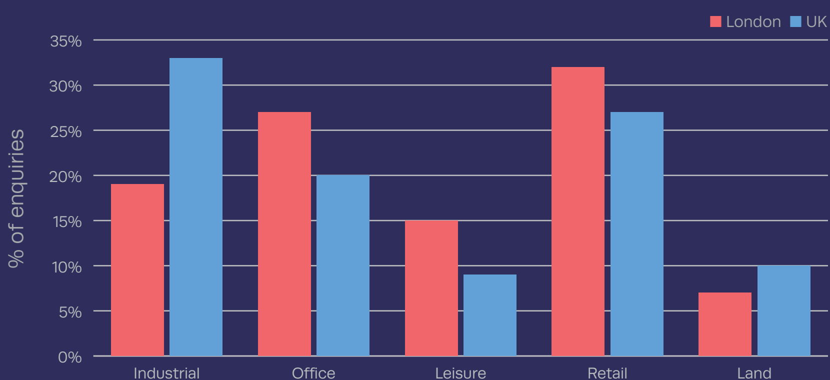
Sheds generally don't rank highly in the capital – just 22% of enquiries in Q1 2020 were for sheds, compared to 31% nationally – but the divide grew even larger over the last year. Industrial enquiries rose just 28% in the year to Q1 2021, with the sector's proportion falling to 19% of total searches. Nationally, numbers more than doubled and the sector accounted for the largest proportion of enquiries at 33%.

London enquiries as a percentage of all UK enquiries



Source: EG Propertylink

Enquiries by sector, London vs the UK, Q1 2021



Source: EG Propertylink

Find your commercial property space with EG Propertylink

London goes shopping

Retail enquiries are where London's trends match the UK's. Enquiries were up 58%, accounting for the largest rise in any sector. Although some of that space will continue to function as shops – or more interactive 'retail experiences' – there is also the potential to convert some of it into homes. In the way the City of London Corporation is turning unused offices into residential space, unneeded retail could serve the same purpose.

London is also a magnet for leisure opportunities, accounting for a fifth of all searches for the sector nationally (in comparison, even London office enquiries account for a smaller percentage – fewer than 17% of total office searches). The future of London, the numbers suggest, must involve a mix of spaces and amenities. While workspace is the city's anchor, the race is on to offer residents more than that. After all, if this year has taught us one thing it's that there is competition out there. ■

Sector deals

As London's reopening continues, could the capital be on the cusp of a recovery?

Offices

Office take-up in Greater London slipped 1.6% in Q1, despite a strong uptick in activity in Central London. EG Radius recorded 2.05m sq ft of take-up in the quarter, down from 2.1m sq ft in Q4 2020. The previous four quarters have seen broadly similar amounts of take-up, ranging from 2m-2.2m sq ft. Year-on-year, take-up in Q1 was down 48.9%.

The relatively small amount of movement in take-up in Greater London contrasts with activity in the city centre, where occupiers signed 1.3m sq ft of space – an increase of 43.3% on Q4 2020, according to EG's Q1 2021 London Office Market Analysis. This suggests activity is returning to Central London more quickly than to the surrounding areas (although, as the report shows, leases are still less than half of the five-year quarterly average). LOMA reported 163 individual leasing deals in the quarter in what was the third consecutive increase in transactional volumes. As London reopens, businesses have growing clarity about their plans and, whether they decide to shrink their office footprint or re-commit to traditional workspaces, that will continue to translate to more deals.

In Greater London as a whole, office take-up is down 48.6% on the five-year quarterly average. The lockdown-driven fall has been marginally less severe than in Central London, but it has yet to show signs of a recovery in the way the centre has. Numbers for Q2 in coming weeks should, however, start to show an improvement and, assuming the country re-opens as the government plans, Q3 could be a real turning point.

Industrial

Although 2020 was a difficult year for every sector, Q3 and Q4 showed somewhat surprising resilience with take-up at around the five-year quarterly average of 1.2m sq ft. However, that momentum has not continued into 2021: EG Radius recorded a 51% fall in take-up in Q1, which totalled a little more than 618,000 sq ft.

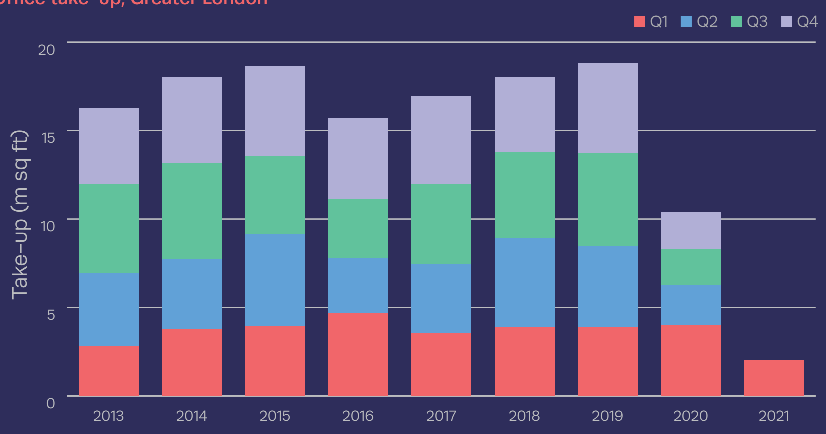
Much of Greater London's industrial activity comes from small deals in the outer boroughs. Last year, those deals shrunk to just under 9,000 sq ft (down from 12,900 sq ft in 2019). By the end of 2020, EG Radius had recorded more deals than in 2019, but the smaller average size and a dismal Q2 with less than 300,000 sq ft in lettings meant that overall take-up was down 40.7% year-on-year.

Investment in Q1 2021 came to £99.6m, led by Goodman's £75.3m acquisition of Martinbridge Industrial Estate in Enfield. The quarter's total was down 66.3% on Q4 2020, although this was partly due to a surge in investment at the end of the year. Bucking downturns in most sectors, industrial investment in 2020 came to £1.1m, the second highest total in any year since at least 2013.

Retail

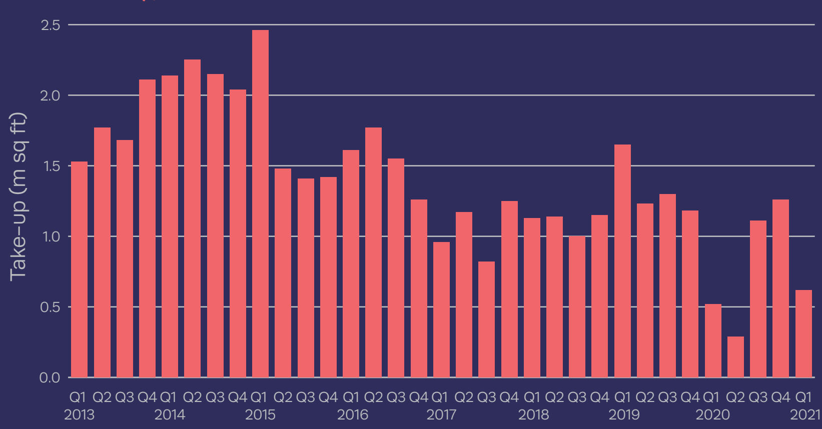
London retail had a difficult 2020 as take-up fell 45% to 1.2m sq ft. Even the most active quarter since the start of the pandemic – Q4 2020 with 322,000 sq ft of take-up – came to less than half of the average quarterly total between 2015 and 2019. However, retail transactions have long been on a steady downward trend: with the exception of 2019, every year since at least 2013 has had less take-up than the year before. Whether greater interest for retail space translates to higher take-up in coming years remains to be seen.

Office take-up, Greater London



Source: EG Radius

Industrial take-up, Greater London



Source: EG Radius

Residential

The build-to-rent market is booming in and around London. As EG's recent BTR report shows, 57% of the £4.7bn committed to the sector in the 12 months to March went to schemes in London. The year's biggest deal was AXA IM's £800m purchase of Dolphin Square, comprising 1,233 homes in Pimlico, SW1.

Development is also continuing at pace, according to the report. The number of proposed BTR schemes rose 93% in London, year-on-year. Overall, the capital accounted for 28% of all BTR proposals in the last year, with outer London a particular point of interest. Some of the largest proposed schemes with BTR, nationally, are in outer London boroughs, including Enfield (Crosstree's Edmonton Green Town Centre), Barnet (Montreaux's B and Q Broadway Retail Park) and Havering (Portland Capital's Rom Valley Retail Park).

Liam Ridley, Senior Surveyor at BNP Paribas Real Estate

We spoke to BNP Paribas Real Estate about the challenges and changes they have seen over the past year throughout the UK and what to expect with the easing of lockdown restrictions.

Congratulations on your recent large deal in Leeds. What changes have you seen in the market over the past 12 months across the country?
The transition to remote working is really the biggest change we have seen over the last 12 months. Moving all staff to remote working in such a short time period has been challenging for businesses of all sizes but it is incredible how fast organisations and people adapted to these new ways of working. As we have continued to enter into new lockdowns, it is clear that businesses have become much more resilient and have found new ways of trading, despite of the ongoing restrictions.

At the start of the pandemic, we saw enquiries slow considerably within the CRE market, across all asset classes. Not surprisingly, enquiries for office space was hit hard at the start because of the instant shift to homeworking. Back then, organisations were trying to take stock to better understand what impact the rapid shift in working patterns would have on their business. However, from the start of this year we have seen interest steadily pick up. Organisations today, compared to 12 months ago, are much more clear on their future workplace strategy and for most businesses the physical workspace is very much part of that.

On the retail and leisure side on the other hand, enquiries for space have continued throughout the pandemic. I think this has been driven by people having more time during lockdown to think about their future business plans and identify suitable premises. The retail and leisure park The Springs is a good example of this. A lot of people saw an opportunity to embark on a new business venture or expand their presence in the region at The Springs – it's been interesting.

Do you think people ended up following through with those enquiries?
I would say 60% of all enquiries were driven by curiosity, whereas, the remaining 40% are ongoing active enquiries. For example, I met a bar operator who has a good regional presence in the area and saw an opportunity in lockdown to secure some new premises. With ongoing lockdowns, negotiations naturally slowed, but we are now at a much stronger position to support our clients to complete their deals than we were a year ago. The economic forecast is much more optimistic, which has helped to boost both consumers and businesses confidence.

What do you see coming up this year with the easing of lockdown restrictions?
There is definitely a flight to quality from an office perspective. This is a chance for the whole market to advance what is being offered in terms of quality of stock. I think we've been talking about it for quite a few years, but this has given everyone a real push in that direction. There are increased focus on building standards with occupiers looking for quality BREEAM rated space to support their own path to net zero. The pandemic has really accelerated this trend.

Organisations today are increasingly focused on finding workspaces that places the wellbeing of their staff at the forefront, and we've really seen that drive in Leeds with a flight to high quality sustainable stock. However, the issue is that we have a severe deficit of good quality stock. That is why, for example, we have seen Lowell Financial pre-let 133,000 sq ft of new quality space instead of signing for existing space, as there is simply no stock available to that standard. One of the driving factors behind Lowell's relocation is so that they can offer one well-consolidated space, with high standards of health and wellbeing for their staff. Employee retention is key and, as such, organisations are starting to understand the importance of these high-quality office spaces.

As a result of the growing demand for quality space, there are great opportunities ahead for landlords to refurbish and redevelop existing stock. This also provides an opportunity for property developers, who not necessarily are active in that area, to come in and redevelop existing stock and to do something special.

There has been a paradigm shift in what is acceptable. The facilities in buildings are going to have to be hotel quality to ensure that employees can see the benefits of

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Liam Ridley

working in offices post COVID-19. We are seeing a lot of collaboration between the tenant and the developers to better understand what today's occupiers want, with the safety and health of staff at the forefront. This is shifting the power to the occupiers, rather than the developer. It is exciting to see this shift and the result will be better workspaces that support people and business growth.

When working in such challenging times, what have you and your team at BNP Paribas Real Estate done over the past 12 months to support your clients?

For us as a team it was really important to make sure that our clients knew that we were there if they needed us and to keep them up to date with the latest market developments and trends to support their business strategy and decisions in these difficult times.

We also worked with clients to identify vacant space that could support the NHS or the government's operations during the pandemic. This was all new to everybody so it was imperative that we sustained the contact and tried to make the most out of the situation.

Despite repeated lockdowns, it has been busy in the background. We have continued conversations with other agents in the industry to make sure we as a team are all up to date with any new market developments. There are many legal preparations in dealing with the unknowns, matched with bottlenecks built up from previous lockdowns. There is a lot of uncertainty, which is creating challenges for clients wanting to make decisions around their future workspace. Some companies have changed their minds several times concerning how much workspace they require moving forward.

We have definitely seen an uptick in work as we follow the roadmap out of lockdown. Our focus is now on supporting clients around determining their future workspace requirements that fits with an increasingly hybrid working model. This includes everything from advising a client on IT systems that support efficient working from home practices to what type of facilities will best support staff in the office. We are seeing increased demand for cycling facilities and better showers and changing rooms. Bespoke cycling and spa facilities are increasing in popularity, and the pandemic has been a catalyst for an upgrade in these areas.

What is the biggest benefit you and your team have had from using EG Radius and Propertylink?

Without a doubt, the more eyes on a listing, the better chance you've got of letting a property for a client. It is as simple as that. We get a lot of enquiries coming from EG Propertylink, which is great. It really gets our name out there.

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The comparables on EG Radius are imperative. We need them to provide advice to our clients and the more data we can get put into EG Radius, the easier, more complete and thorough the advice to the client is going to be.

And lastly with lockdown beginning to lift and business activity continuing to recover, what's given you the most pride over the last year? Where has you team shone?

We are advising some leading city centre developers, and creating a comprehensive review of what the future of space looks like for tenants. It is going to be transferable to clients across the country and is essentially going to be a checklist of the initiatives, and specifications that will need to be in place, not only for offices in cities, but anywhere in the country. It includes recommendations such as having a dedicated cycle entrances and an exciting break out space. We've developed a really strong template that we're going to be able to use to advise our clients across the country when developing new areas.

I am really proud of how we at BNP Paribas Real Estate have cracked on, and the tenacity of the whole process. We hit the ground running in the first quarter of 2021 and it is definitely starting to show. This is within both my team, and the wider organisation. There has been great ongoing communication with a real community spirit. It has been tough for everybody, in all industries, but you can slowly see that the hard work was all worth it and we are optimistic about the future.

EG On-Demand Rankings

With On-Demand Rankings, you can now access an up-to-date view of how agencies are performing across the UK by sector, geography, and deal type, updated on a weekly basis.

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Snapshot of contributed data from 01/01/21 to 21/05/2021 via EG Radius

London: Top Contributors – Lettings and Occupational Sales

Contributor	Space transacted (sq ft)
Cushman & Wakefield	661,221
Savills (UK) Ltd	433,844
JLL	363,127
CBRE Ltd	333,086
Knight Frank LLP	177,958
Pilcher London	163,455
BNP Paribas Real Estate	101,262
Frost Meadowcroft	80,850
Strettons	79,583
Hanover Green LLP	71,787

London: Top Contributors – Office

Contributor	Space transacted (sq ft)
Cushman & Wakefield	661,221
Savills (UK) Ltd	433,844
CBRE Ltd	397,077
JLL	371,679
Knight Frank LLP	197,926

London: Top Contributors – Industrial

Contributor	Space transacted (sq ft)
CBRE Ltd	332,803
JLL	211,714
Gerald Eve	156,226
BNP Paribas Real Estate	99,697
Strettons	85,841

London: Top Contributors – Retail

Contributor	Space transacted (sq ft)
CBRE Ltd	64,868
Strettons	19,921
David Menzies Associates	14,845
CF Commercial	10,566
Whitman & Co (W4)	5,610

For more information and to find out how to contribute your data, get in touch at **deals@egi.co.uk**