



LOMA: London
office market
analysis **Q2 2021**





London offices Q2: On the comeback trail



London is back. Or at least is well on the road to recovery. Fresh figures from EG Radius show the green shoots of recovery witnessed in the opening quarter of 2021 continued to grow in Q2 with 1.7m sq ft of space taken up by occupiers – a 35% increase on Q1 and 50% rise year-on-year.

Investment too is bouncing back with some £2.7bn spent on office buildings between April and June 2021 – more than double the amount spent in Q1. The Q2 figure was heavily influenced by Brookfield's £635m acquisition of 30 Fenchurch Street, EC3, however, the largest individual London office deal since Citigroup bought its headquarters at 25 Canada Square for £1.1bn in April 2019.

Year-to-date investment is £3.9bn, up by 39% on the same point in 2020.

That things are continuing to move in the right direction is encouraging given the strenuous circumstances in which the market still has to operate – but with business

uncertainty still abound and Covid-19 continuing to pervade all aspects of regular life, the market figures still have a little way to go to match longer-term averages.

Average H1 take-up in central London in the five years before 2020 was 5.7m sq ft – almost double the amount let so far this year, while the average figure for H1 investment across those five years was £6.7bn – 72% above the total spend in H1 2021.

There is optimism, however, that following easing of most coronavirus restrictions across England in July, the momentum built up in the first half of this year will continue to push market activity closer towards those more traditional volumes.

According to the latest data from Metrikus' index of office occupancy, people are now far more willing to come into the office than at any other point during the pandemic. Its figures showed that during July, office occupation was consistently above 50% of pre-pandemic levels across the UK.

Perhaps most crucially for London, a significant chunk of the working population are likely due to get their second job relatively soon – which will naturally increase levels of confidence in undertaking commutes and being in a more heavily populated environment during the day.

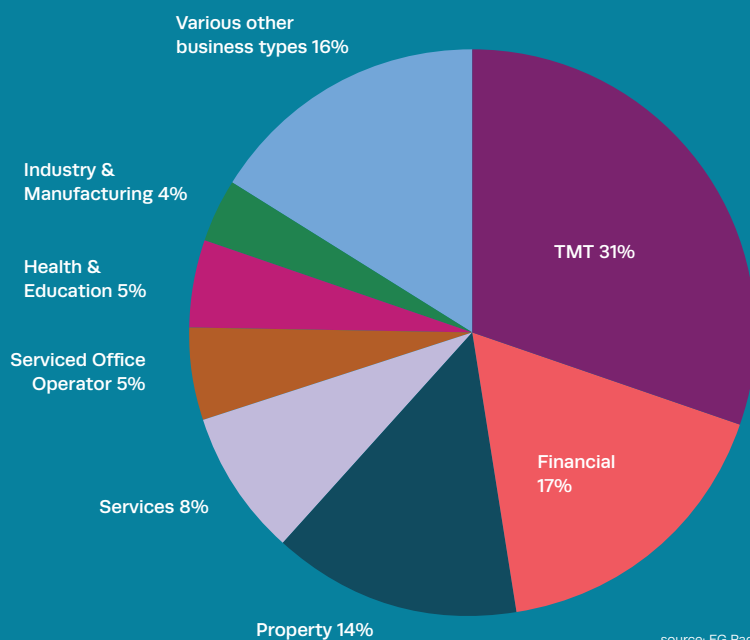
Input from all age cohorts of workers will be critical in trying to understand the true shape of future working patterns, which in turn will make it easier for businesses to undertake long-term strategic planning; and be more confident in pushing the button on real estate decisions which have been delayed under the exigent circumstances.

All of those factors should help to accelerate the journey towards ‘normalcy’ for London offices – but it remains tough to predict when exactly that journey might end, and how buffeted it might be along the way by as-yet-unknown virus variants, associated growth in case numbers, and further governmental restrictions on movement.

While it might not stack up altogether favourably against those longer-term metrics, 1.7m sq ft of office take-up in central London is the best showing since Covid-19 hit the UK – and was underpinned by a solid performance throughout the capital in terms of both geography and transactional volume.



Take-up by sector Q1 2021



source: EG Radius

For the first time since Q4 2019, all six London submarkets topped the 100,000 sq ft mark for new space let, with the Southern Fringe in particular enjoying a renaissance in comparison to recent activity.

This jolt of life in the submarket was propelled by the 157,000 sq ft deal for IBM at 1 Southbank Place, SE1 – the largest individual deal this quarter – comprising 9% of all letting activity across London in Q2.

Since the start of last year, big individual deals have given a modicum of respectability to otherwise shallow leasing volumes and as such have generally commanded a much greater share of activity than that – but this time around an increased swathe of additional deals have helped supplement the headline-grabbers.

A total of 231 leasing deals were completed in Q2, the largest number since Q4 2019 and a fourth successive quarter in which transactional volumes have increased in London.

For long-term context, the typical deal volume is upwards of 350 deals, so once again there's still a gap between an improving market for overall activity and what we might deem 'normal'. However, a reduced reliance on major deals to boost volumes is something worth feeling positive about.

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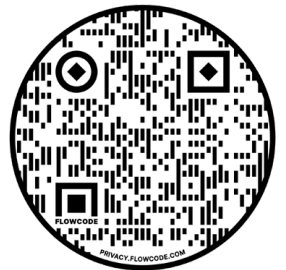
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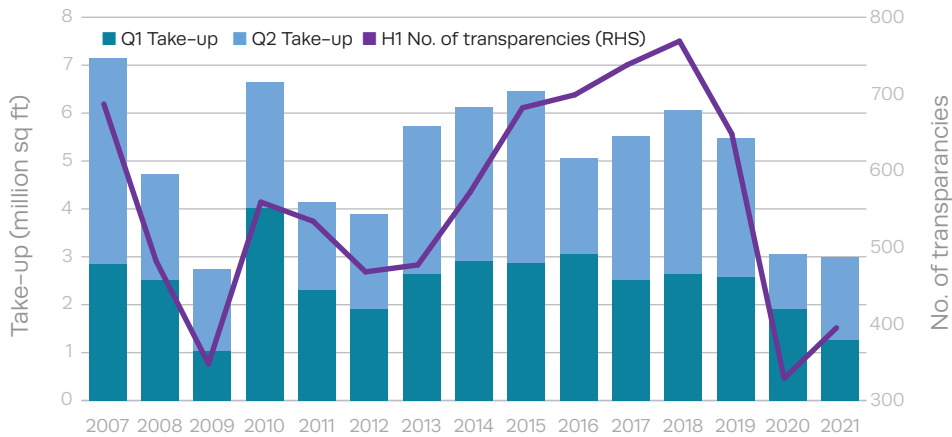
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London Office Take-up Q1 2021 Submarket Comparison



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Alongside the IBM deal, Apple's 66,600 sq ft letting at One Bank Street, E14, and Depop's 33,500 sq ft deal at 20 Farringdon Road, EC1, helped the tech sector come out on top for new deals by business type for the first time since Q1 2020. Tech firms represented 31% of letting activity by square footage during the quarter.

Mondrian Investment Partners' relocation to 60 London Wall, EC2, meant the financial sector came in second once again – this time with 17% of activity. Two lettings for JLL at 1 Broadgate, EC2, and 20 Water

Street, E14, anchored the property sector's move into third place – up from sixth most active in Q1.

Although letting activity is picking up pace, it isn't yet at the required level to induce an inward movement of the supply rate across the capital. For the sixth consecutive quarter, the amount of space on the market relative to overall stock has drifted outwards – and now stands at 8.4%, representing the most abundant market for in-situ office supply in a decade.

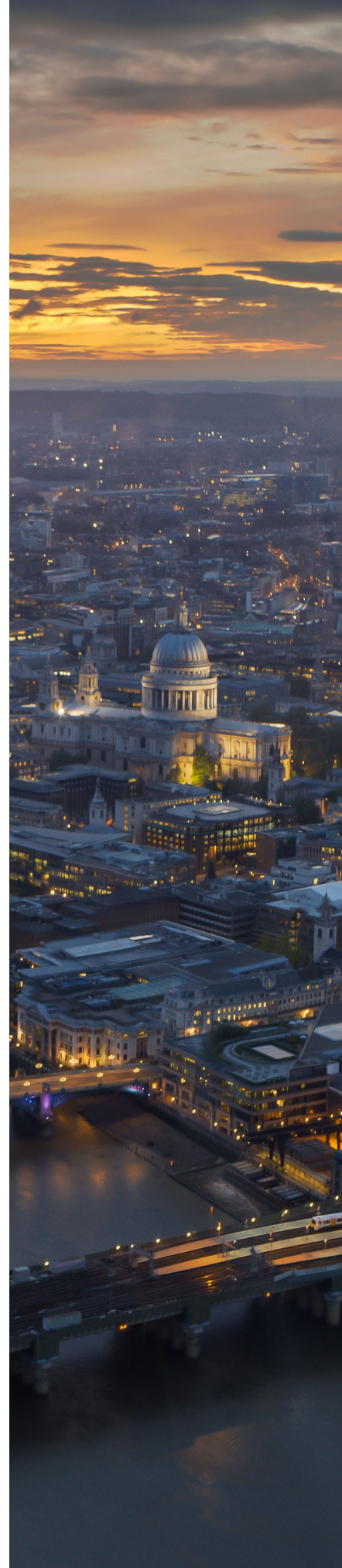
This glut of existing supply is not resulting in rental concessions, however, with the bifurcation in demand levels for high-grade space against less desirable stock leading to the opposite result.

Aggregated rental tone for Grade-A space across London from our agency panel has shown a 0.7% increase against last quarter – the first time Grade-A rents have risen since the end of 2019. Seven out of 11 comparable areas saw the Grade-A rental tone increase, while the other four showed no change against Q1.

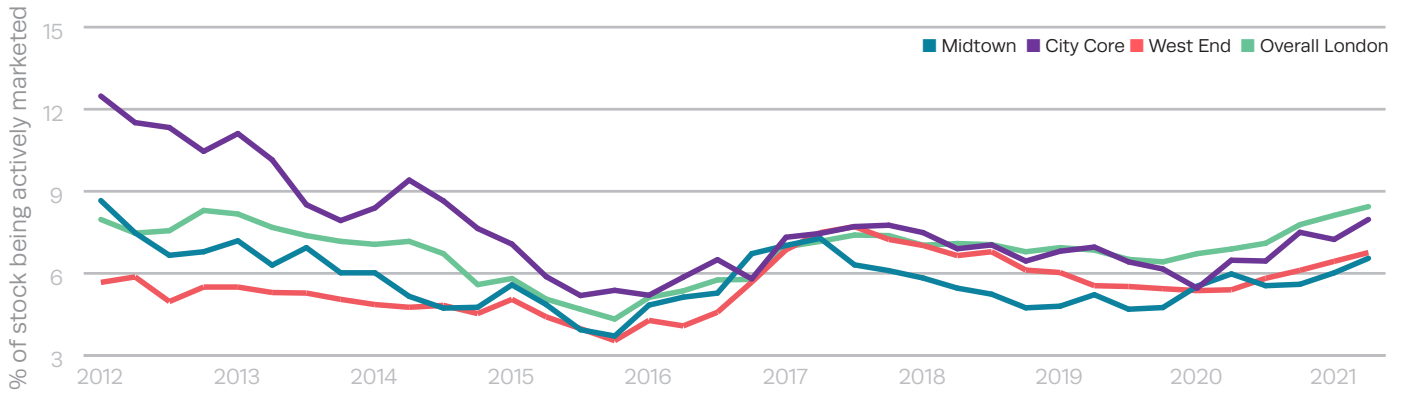
London Office Take-up Q2 2021 Submarket Comparison

	City Core	City Fringe	Docklands	Midtown	Southbank	West End	Total
Take-up Q2 2021	422,145	254,049	197,384	181,068	295,076	333,222	1,714,816
VS Q1 2020	-0.6%	293.2%	-26.5%	99.5%	349.3%	45.5%	50.0%
VS 5 YR AVG	-52.4%	-26.0%	15.3%	-50.4%	76.1%	-46.6%	-34.1%
VS 10YR AVG	-54.8%	-30.1%	0.7%	-58.2%	56.9%	-50.1%	-38.8%

source: EG Radius



Availability Rate % Central London & Selected Submarkets, 2012–Q2 2021



The typical rent-free period on a Grade-A letting has also marginally reduced against last quarter, down by 0.2% – the first downward movement since the end of 2019.

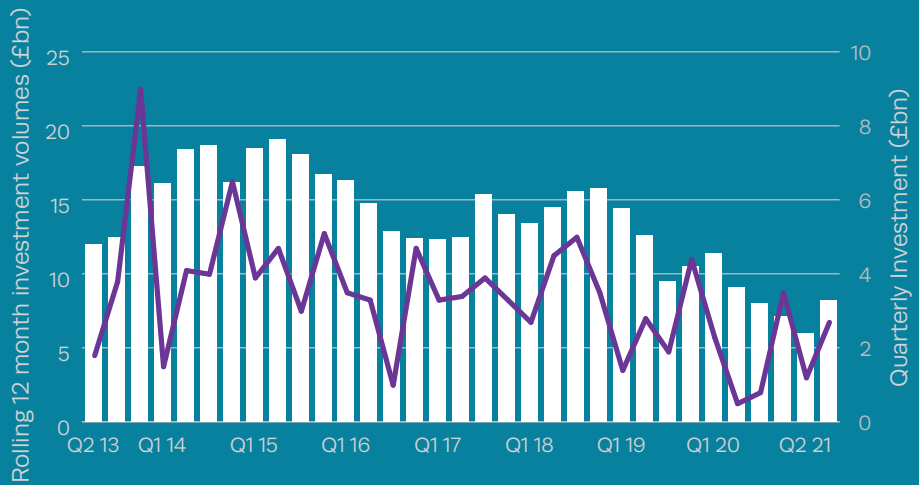
When the coronavirus crisis began in the first half of 2020, we drew some comparisons with the period immediately after the EU referendum vote in 2016 – during which time Grade-A rents and incentives took eight quarterly periods to begin recovery.

This time, that rebound in lease mechanics on high-grade space has taken six quarterly periods to begin – and the fact that this has occurred during a time when even the very necessity of physical office footprint has been called into question underlines the significance that quality of space plays in decision making for London’s occupier base.

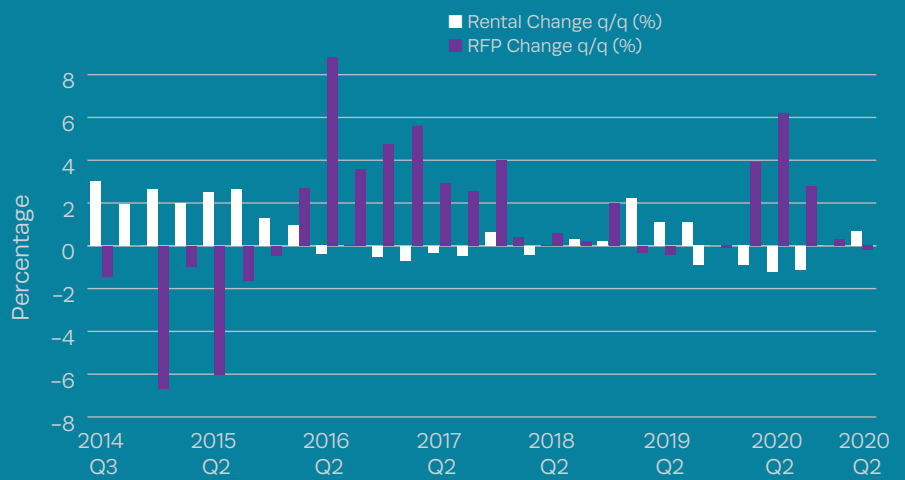
Looking at the Q1 2021 average rental figures for London’s eleven sub-markets and comparing them to all aggregate figures submitted by the panel since 2013, most of them are between 3% and 10% below their respective peaks.

If this quarter does prove to be the start of a genuine recovery trajectory for Grade-A rents with that amount of headroom for future growth, then we might expect to see good levels of investment coming through for the remainder of 2021 if enough of those high-calibre assets become available for purchase. ■

London office Quarterly & rolling 12 month investment



London wide q/q change in grade A rent and rent free periods





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70,000+*

the number of commercial planning applications added since January 2020

100,100+*

the number of deals recorded with a lease expiry date

* Source: EG Radius, Jan 2020-Jan 2021