Take-up rises slightly

Slight pick up in availability

Investment turnover weak

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THE LONDON OFFICE MARKET REPORT Q1 2021

MARKET ROUNDUP

Office demand is weak but improving

◆

Availability increases slightly

◆

Modest levels of future supply

Office demand is weak but improving

Q1 2021 began with the twin challenges of the government implementing a third national lockdown to combat the rise in Covid-19 infections and the United Kingdom finally embarking on a new trading relationship with the European Union. Amid this challenging backdrop the London leasing market continued to experience weak levels of activity with transactions at 1.2m sq ft – a rise of 6.7% compared with Q4 2020 but still considerably below the 10 year average of 3.0m sq ft. Take-up is 40% below pre-pandemic levels and on a rolling annual basis continues to fall but the rate of decline has eased. Occupiers remain cautious about the near-term outlook for the office market and have chosen to defer or delay decisions regarding their space occupation needs. As a result we have seen market activity dominated by lease re-gearings ahead of near-term expiries.

During Q1 2021, the majority of take-up in London was by professional services firms (45%), followed by financial services firms (18.5%) and technology, media and telecoms companies (13.3%). The largest deals by floorspace were pre-let deals indicating confidence in the medium-term outlook for London offices and also a desire to secure occupation in the best-in-class office space which as our analysis of development data shows, will be in short supply. The largest deal in London was the pre-let at One Leadenhall where Latham Watkins LLP signed a 15 year lease on 250,000 sq ft at a rent of £81.00 per sq ft. The firm takes occupation of the building in 2026. The second largest deal was in the Farringdon market where ByteDance signed a 15 year lease on 86,000 sq ft at a rent of £90 per sq ft for occupation in 2022. Similar to Q4 2020, requirements for space across the London sub-markets are 7.5m sq ft and dominated by the professional services firms which represent 32.8% of active demand, financial services account for 24.8% and the technology, media and telecoms companies 19.6%.

Current indicators of the leasing market suggest activity levels are continuing to strengthen in Q2 2021. There have been three deals in excess of 390,000 sq ft of which the largest was a c.150,000 sq ft transaction. Furthermore, there is c.2m sq ft of space under offer across London. The majority of this space is under offer to technology, media and telecoms companies (32%) followed by professional services companies (23%) and corporates (13%).

Availability increases slightly

After substantial rises in 2020, the rise in availability was only 2.4% in Q1 2021 taking the level of availability to c.18m sq ft. This represents a vacancy rate of 7.6% and compares to a 10 year average vacancy rate of 6.6%. Second-hand space accounts for 48% of overall availability while prime space is 52% of the total. Our definition of the London office market is relatively broad encompassing many new sub-markets where new supply has risen in recent quarters. Nonetheless, our data shows the availability of new and refurbished space is most acute in the West End sub-markets. During the quarter, we have seen a slight increase in tenant release space in the London market. This has risen from 3.1m sq ft in Q4 2020 to 3.5m sq ft in Q1 2021. Overall, there is an equal split between grade A and poorer quality grade's B and C office space. The breakdown of tenant release

1.2m sq ft

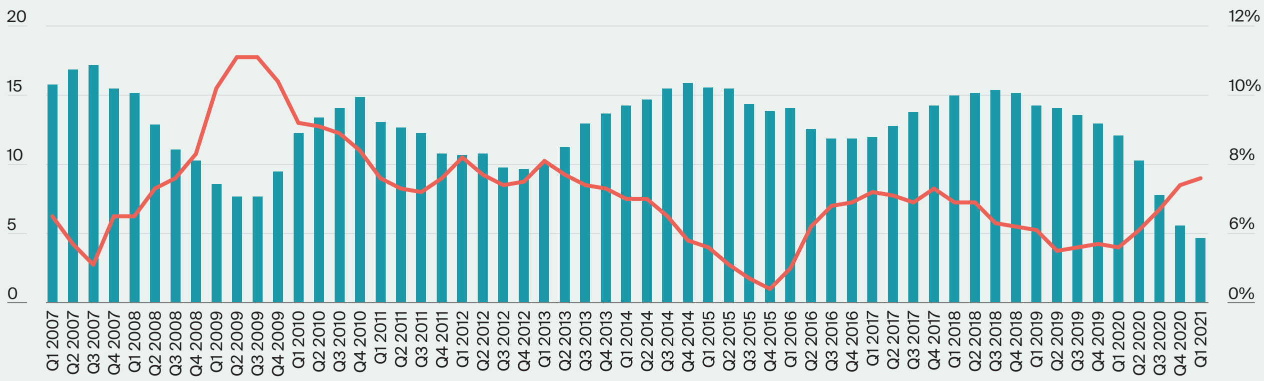
OF LEASING DEALS CONCLUDED DURING Q1

space shows a wide distribution across the London sub-markets. The only significant pockets of concentration are in the core City of London market (36%), Clerkenwell and Farringdon (15.5%) and in Victoria (12%). Unlike previous downturns, the amount of tenant release space has been very limited at this stage of the property cycle.

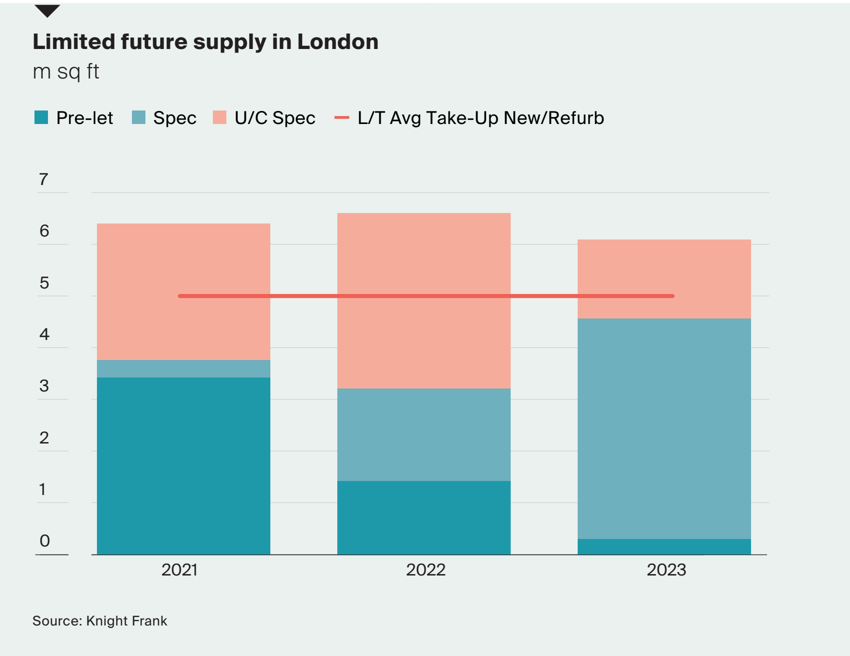
London vacancy rate stabilises

m sq ft

Rolling 4 Qtr Take-up (LHS) — Vacancy Rate (RHS)



Source: Knight Frank



We expect the near-term economic uncertainty to recede as lockdown restrictions are lifted and the vaccination programme continues its rapid rollout

Development completions to be absorbed by average levels of take-up

Future supply remains relatively constrained compared with previous cycles. Our analysis of the development pipeline data shows c.19.1m sq ft of completions in 2021-2023 and pre-lets comprise 27% of this total. Therefore, c.14m sq ft of space is speculative of which 6.4m sq ft are pipeline schemes which have not been started and may not complete during the next three years. This leaves c.7.5m sq ft of speculative space which is currently under construction and compares to a three year average take-up of new and refurbished space of c.15m sq ft. This emphasises our expectation that the post-pandemic London office market will be characterised by an under-supply of best-in-class office buildings especially as occupier demand will structurally change to meet with the requirements of a hybrid home-office working model and satisfy Environmental and Social Governance (ESG) criteria. This was evidenced in our recent (Y)OUR SPACE research which surveyed 400 global occupiers and found the majority of occupiers will look to reconfigure their global office portfolios and remodel their workplaces in the next three years.

No change to prime rental levels

Given the limited leasing activity in Q1 2021, prime headline rents in London were unchanged for a third consecutive quarter. In the City of London, rents were £70 per sq ft with incentives at 27 months for a 10 year lease. In the West End, prime headline rents were £110 per sq ft and incentives were 24-27 months for a 10 year lease. There has also been no change to the drivers of rental growth in our model and we have therefore maintained our previous forecasts for Q1 2021. They show a slight fall in prime headline rents in the City of London of 2.1% in 2021 before returning to growth in 2022-25. During the five year forecast period this is an annual average growth rate of 2.7%. In the West End, we expect prime headline rents to remain unchanged in 2021 and rising in 2022-25, an annual average growth rate of 2.3% during the five year forecast period. We expect the near-term economic uncertainty to recede as lockdown restrictions are lifted and the vaccination programme continues its rapid rollout. In the medium and long-term we believe there is greater upside risk to our forecasts as strong economic momentum fuels demand for office space. The main downside risk to our forecast is in the near-term from any further shutdown to economic activity from a rise in infection rates caused by Covid-19 variants. Our forecasts include a 10% reduction to office demand over the forecast period which we expect arises from a structural shift to new hybrid models of working.

Investment market activity affected by lockdown

The hardening of global travel restrictions combined with the national lockdown led to a substantial fall in investment transactions from £4.9bn in Q4 2020 to £1.3bn in Q1 2021 – just over one-third of the long-term quarterly average total. A breakdown of investment volumes by nationality shows that investors from the United Kingdom were most active, accounting for 36% of all transactions followed by 28.3% from Greater China, 16% from North America, 8% from the Middle East and just over 5% from continental Europe. Despite low levels of investment transactions, prime yields remained stable reflecting strong investor interest for best-in-class buildings with secure long-term income. In the City of London, prime yields were 4% and in the West

INVESTMENT TRANSACTIONS REACHED

£1.3bn

IN Q1 2021

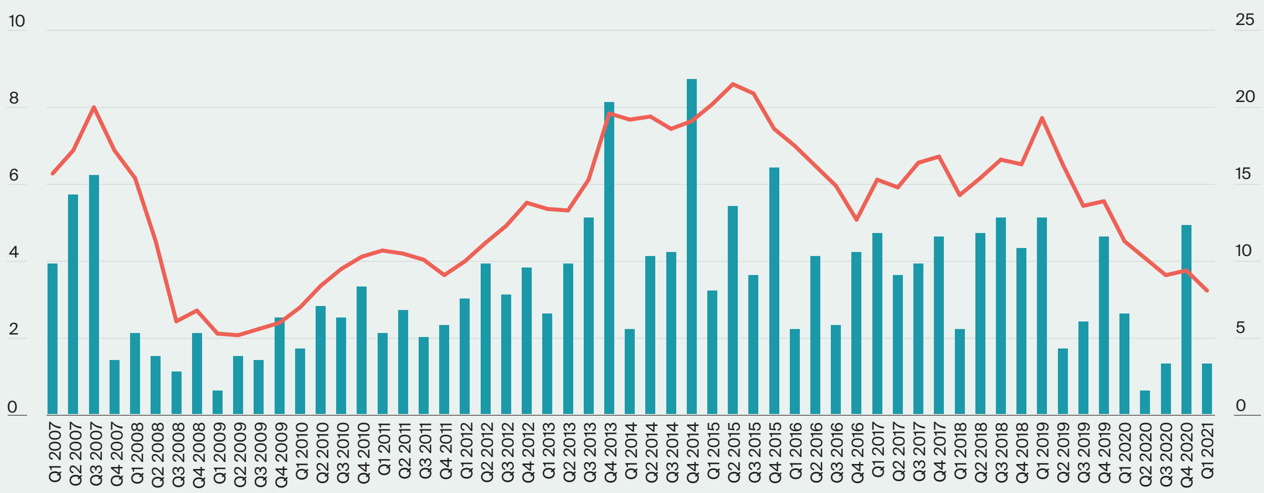
End were 3.5%. During Q1 2021, we have seen a rise in inflation expectations translate into higher benchmark government bond yields which at the end of Q1 2021 were 0.8%. However, there remains a sizeable and positive spread to prime yields and combined with expectations of above inflation growth in rents over the next five years, London offices remains attractive from a pricing perspective.

UNLOCK OUR INSIGHTS

Weak investment volumes in London

£bn

Investment Volumes (LHS) Rolling 4 Qtr Investment Volumes (RHS)



Source: Knight Frank

THE LONDON OFFICE MARKET REPORT Q1 2021

LONDON OFFICE MARKET

Performance dashboard Q1 2021

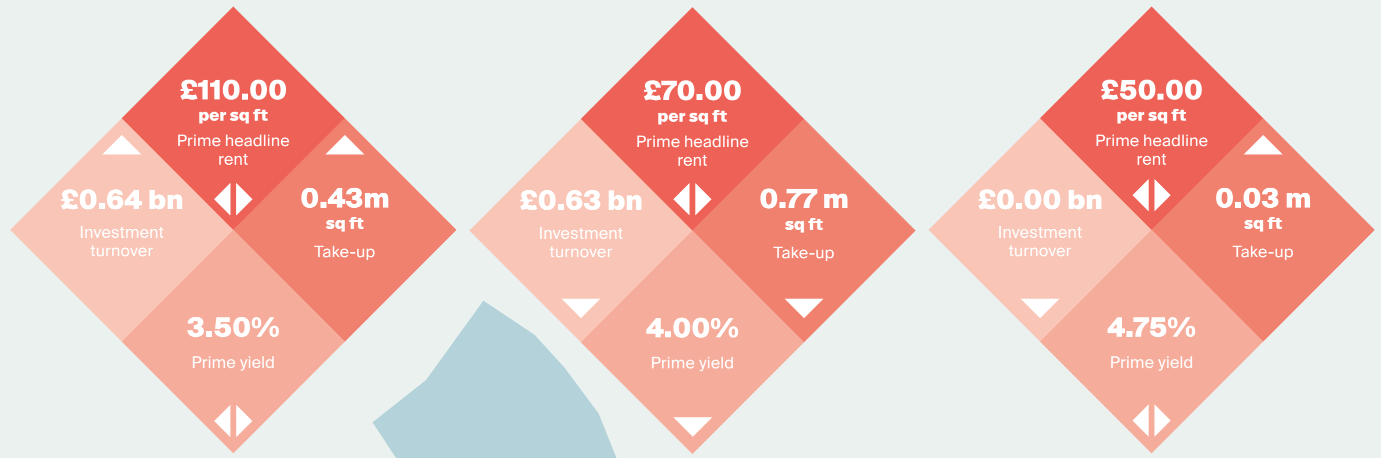
Key performance indicators

	▲1.21 m TAKE-UP (SQ FT)	▲18.04 m AVAILABILITY (SQ FT)	▲7.6% VACANCY RATE	▲12.1 m UNDER CONSTRUCTION (SQ FT)
Change on				
Q4 2020	7.1% ▲	1.8% ▲	0.1% ▲	5.0% ▲
LTA	3.0 million sq ft	15.0 million sq ft	6.6%	9.2 million sq ft

WEST END

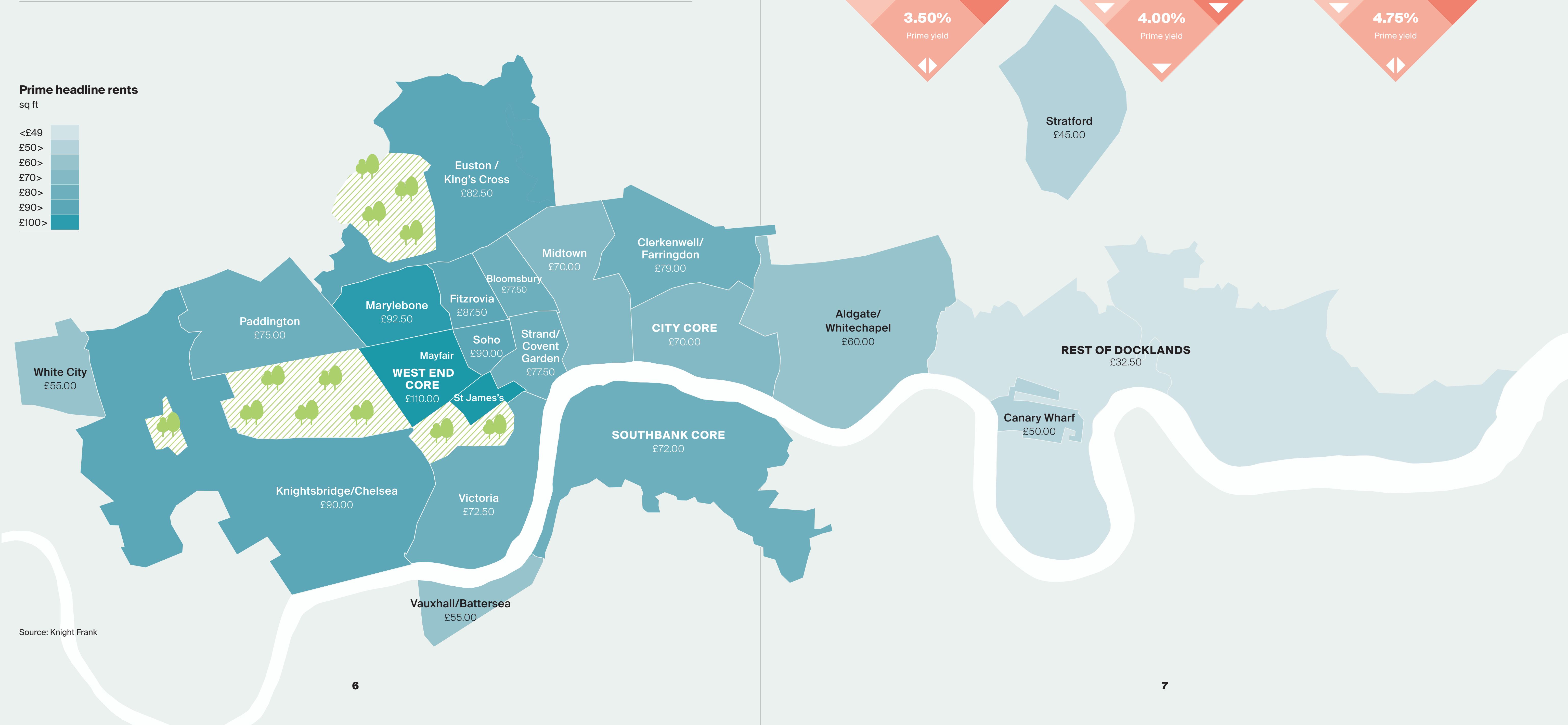
CITY & SOUTH BANK

DOCKLANDS & STRATFORD



Prime headline rents

sq ft



Source: Knight Frank

MARKETS IN REVIEW

THE CITY & SOUTHBANK

▲▼◀▶
Arrows throughout the report show how values have increased, decreased or stayed the same since the last quarter unless specified

◀▶ £70.00	▲ 0.77 m	▲ 8.6 m	▼ £0.6 bn	◀▶ 4.00%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Take-up rises

Covid-19 is still having a significant impact on leasing activity across all sub-markets, with the third national lockdown stalling a return to the office. In the City and Southbank, take-up increased by 43% between Q4 2020 and Q1 2021, which translated into deals totalling 771,276 sq ft. However, this was still 56% down on the long-term average of 1.7m sq ft.

There were three transactions over 50,000 sq ft, with the largest transaction being Latham & Watkins' 250,000 sq ft pre-let at One Leadenhall, EC3. The professional sector was the dominant occupier type in Q1 2021, accounting for 60% of take-up in the City, this was followed by the financial sector with 18%.

The largest proportion of take-up was in the 100,000 sq ft+ bracket at 250,000

sq ft, however, this was due to a single transaction. This was followed by the 25,000-49,999 sq ft size bracket, which accounted for 22% of all City leasing transactions in Q1 2021. The majority of deals occurred in the core City of London sub-market representing 71% of transactions for the City and Southbank as a whole.

Active demand continues to grow

Active demand increased by 6% during Q1 2021 to 4.0m sq ft which was below the long-term average of 4.2m sq ft.

At the close of Q1 2021, there were 10 businesses seeking over 100,000 sq ft in the City and Southbank. The professional services sector, accounted for 52% of active demand in the City and Southbank totalling 2.1m sq ft, followed by the technology, media and telecoms sector at 19% (0.8m sq ft) and financial services made up 12% (0.5m sq ft) of active demand in the City.

Availability increases

Availability in the City increased in Q1 2021 to 8.6m sq ft, an increase of 3% on

OFFICE AVAILABILITY REACHED
8.6m
SQ FT IN Q1 2021

the level recorded in Q4 2020, and 3% above the long-term average. At these levels, the overall vacancy rate in the City and Southbank equates to 6.7% – this is below the long term average of 7.0%.

Diving deeper into availability in City and Southbank, the amount of new and refurbished space available amounts to 5.4m sq ft, with second-hand availability totalling 3.2m sq ft. There are currently 14 buildings in the City and Southbank which could accommodate a requirement of 100,000 sq ft+, the largest of which is 22 Bishopsgate with c.485,000 sq ft available.

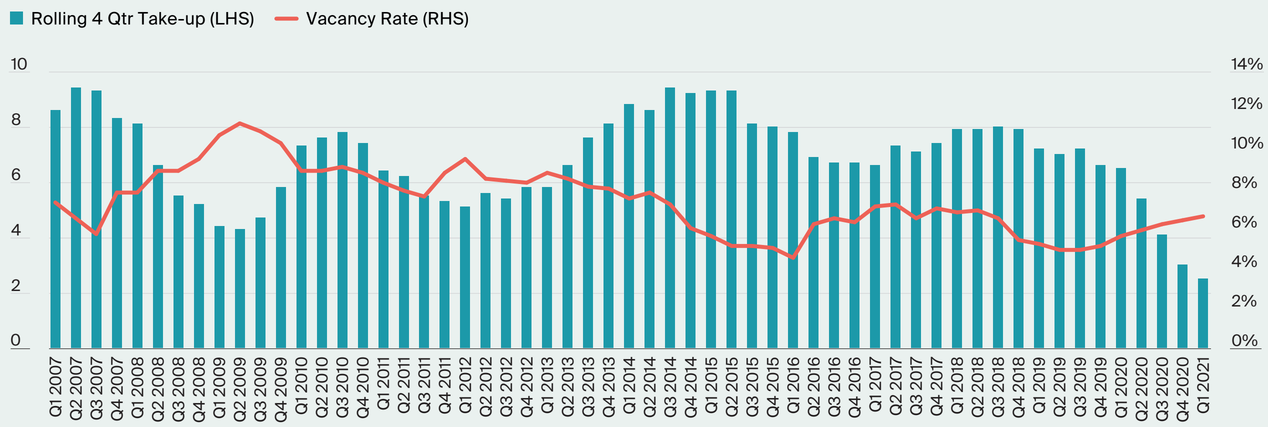
There were 0.5m sq ft of development completions during the quarter, of which 42% remains available. Currently there is 4.6m sq ft of speculative space under construction in the City and Southbank, an increase of 12% on the previous quarter.

Investment activity declines

Total investment turnover saw a 70% fall on Q4 2020 reaching £0.6bn at the end of Q1 2021. This is significantly down on the £2.1bn recorded at the end of 2020.

There were 12 transactions in total for the quarter, with only one deal over £100m and three over £50m. The largest deal was 66 Shoe Lane which sold for £255.5m, purchased by Hong Kong's Wing Tai Properties. Overseas purchasers again dominated, accounting for 78% of transactions in the quarter. Yields remain stable at 4.00% for the City and Southbank.

Slight rise in City & Southbank vacancy rate
m sq ft



Source: Knight Frank

MARKETS IN REVIEW

WEST END

◀▶ £110.00	▼ 0.4 m	▲ 7.0 m	▼ £0.6 bn	◀▶ 3.50%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Leasing activity decreases

West End leasing activity reached 434,427 sq ft during Q1 2021, representing a 17% decrease from the previous quarter. The ongoing effects of Covid-19 are still being felt with take-up remaining below the long-term average of 1.2m sq ft.

Of the 101 transactions registered during the quarter, the greatest number of deals were in the 0-5,000 sq ft bracket (83 deals), followed by the 5-10,000 sq ft bracket (eight deals). The largest and only leasing transaction over 50,000 sq ft during the quarter was the PVH pre-letting (50,052 sq ft) at One Wood Crescent in White City. This was followed by Waypoint Capital acquiring c.35,000 sq ft at 1 Berkeley Street in Mayfair.

The miscellaneous (23%) and the professional (20%) sectors dominated take-up in the quarter, with the total amount of space leased by each sector equalling 101,948 sq ft and 86,349 sq ft, respectively.

◆◆

The largest deal in the quarter was the sale of 45 Pall Mall, purchased by JP Morgan Asset Management for £110m

◆◆

Active demand grows

Levels of active demand in the West End for the quarter increased by 22% on Q4 2020, amounting to 1.9m sq ft. However, this is still below the long term average of 2.1m sq ft. The technology, media and telecoms sector was the largest sector for the quarter accounting for 36% of active requirements in the West End, followed by financial services with 35%.

Availability increases

Availability increased during the quarter reaching 7.0m sq ft, up from the 6.7m sq ft recorded in Q4 2020. New and refurbished availability grew by 13% during Q1 2021 to 2.5m sq ft, and secondary space remained stable at 4.5m sq ft.

The increase in the levels of availability has meant that the vacancy rate in the West End has risen to 8.1%, up from 7.7% in Q4 2020. The core West End market was the sub-market with the largest amount of availability in the West End with 1.5m sq ft, this has resulted in a vacancy rate of 9.7%.

There was 127,626 sq ft of development completions in the West End for the quarter.

LEASING ACTIVITY REACHED

434K

SQ FT IN Q1 2021

Investment activity is weak

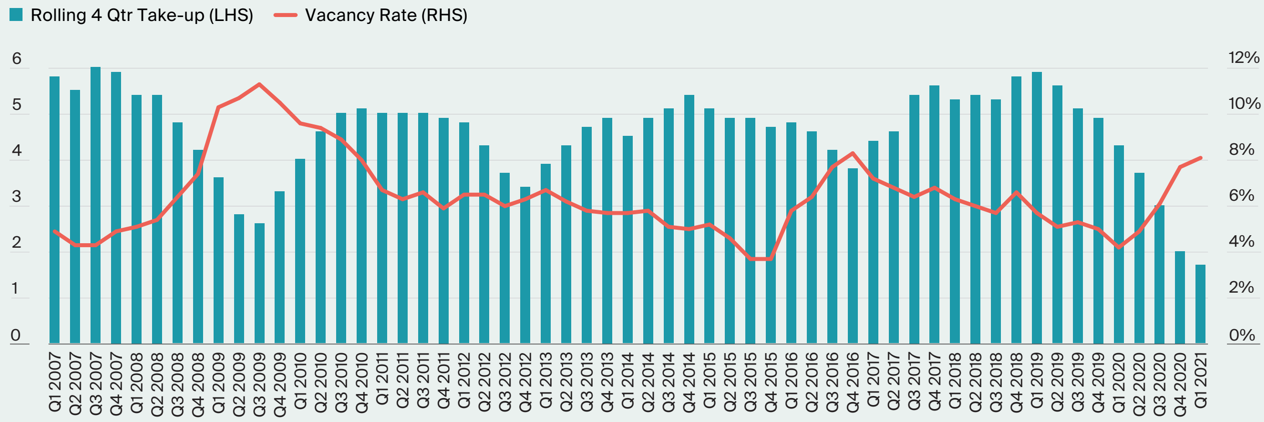
As with the City and Southbank, there was a significant decrease in office investment activity in the West End, decreasing by 78% to £0.6bn during Q1 2021. During the quarter, there were 15 transactions, of which only one was over £100m and six over £50m.

The largest deal in the quarter was the sale of 45 Pall Mall, purchased by JP Morgan Asset Management for £110m. This was followed by 51-52 New Bond Street, acquired by Motcomb Estates for £95m.

Prime yields during Q1 2021 remained stable at 3.50%.

Vacancy rate rises in West End

m sq ft



Source: Knight Frank

MARKETS IN REVIEW

DOCKLANDS & STRATFORD

£50.00	3,000	2.3 m	0 m	4.75%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Take up falls

Take up in Q1 2021 was subdued in the Docklands and Stratford market reaching just over 3,000 sq ft, a fall on the 70,000 sq ft recorded in Q4 2020. The single transaction that occurred was in Outer Docklands at The South Quay Building, E14 where Yuanda leased 3,003 sq ft on the 10th floor.

Active Demand increases

Active requirements increased by 17% in Q1 2021 and currently stand at c.280,000 sq ft, although levels of demand are still below the long-term average of 500,000 sq ft. Nevertheless, we are tracking a number of occupiers currently located in other submarkets across London who are actively considering Docklands and Stratford as part of their wider search.

The professional services sector once again dominates the occupier profile of those looking for space accounting for 61% of active requirements. This is followed by the public sector at 16%.

ACTIVE REQUIREMENTS INCREASE BY

17%

IN Q1 2021

Supply declines

Supply levels in the Docklands and Stratford market declined by 11% in Q1 2021 compared with Q4 2020, and was 2.3m sq ft. Supply of new and refurbished stock now totals 1.5m sq ft.

Across Docklands and Stratford there are 10 units which could provide an occupier with 100,000 sq ft or more.

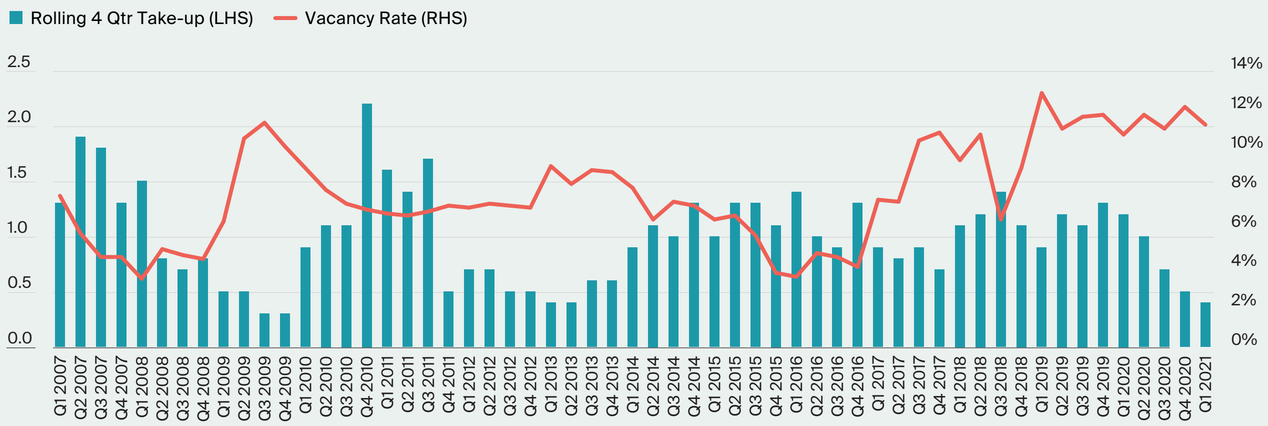
Development Pipeline

There is currently 0.9m sq ft under construction in the Docklands and Stratford market. However, 41% of this has already secured a tenant. There are two schemes currently under construction with 550,000 sq ft available, this is Cargo, 25 North Colonnade and YY London, 30 South Colonnade. The only scheme to complete in Q1 2021 was 20 Water Street in Wood Wharf.

Investment

There were no investments transactions that took place in Docklands and Stratford in Q1 2021. The supply of investment stock remains extraordinarily limited, with just three assets available, two of which are in Canary Wharf and the third in the Wider Docklands area.

High vacancy rate in Docklands and Stratford
m sq ft



Source: Knight Frank

KEY STATISTICS

	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	% CHANGE 3 MONTHS	% CHANGE 12 MONTHS	10-YEAR QUARTERLY AVERAGE
TAKE-UP (SQ FT)								
West End	0.66 m	0.43 m	0.34 m	0.52 m	0.43 m	-17%	-35%	1.16 m
City & Southbank	1.28 m	0.54 m	0.63 m	0.54 m	0.77 m	43%	-40%	1.74 m
Docklands & Stratford	0.09 m	0.27 m	0.06 m	0.07 m	0.03 m	-96%	-97%	0.25 m
Total London	2.00 m	1.26m	1.03m	1.13m	1.21m	7%	-40%	3.15 m
AVAILABILITY (SQ FT)								
West End	3.68 m	4.28 m	5.33 m	6.69 m	7.04 m	5%	91%	5.05 m
City & Southbank	7.16 m	7.47 m	7.99 m	8.37 m	8.61 m	3%	20%	8.32 m
Docklands & Stratford	2.26 m	2.48 m	2.42 m	2.55 m	2.28 m	-11%	1%	1.65 m
Total London	13.10 m	14.23 m	15.74 m	17.61 m	17.93 m	2%	37%	15.02 m
VACANCY RATE								
West End	4.2%	4.9%	6.1%	7.7%	8.1%	n/a	n/a	6.0%
City & Southbank	5.7%	6.0%	6.3%	6.5%	6.7%	n/a	n/a	7.0%
Docklands & Stratford	10.8%	11.2%	10.9%	12.2%	10.8%	n/a	n/a	8.0%
Total London	5.6%	6.1%	6.7%	7.4%	7.5%	n/a	n/a	6.7%
ACTIVE REQUIREMENTS (SQ FT)								
West End	2.15 m	1.49 m	1.36 m	1.52 m	1.86 m	22%	-13%	2.06 m
City & Southbank	4.44 m	3.51 m	2.82 m	3.75 m	3.96 m	6%	-11%	4.18 m
Docklands & Stratford	0.89 m	0.57 m	0.31 m	0.24 m	0.28 m	17%	-69%	0.50 m
Total London	9.21 m	8.14 m	7.40 m	7.55m	7.52m	0%	-18%	8.57 m
UNDER CONSTRUCTION (SQ FT)								
West End	4.89 m	5.37 m	4.48 m	4.22 m	4.38 m	4%	-10%	2.59 m
City & Southbank	5.92 m	7.74 m	7.61 m	6.57 m	6.76 m	3%	14%	6.02 m
Docklands & Stratford	0.91 m	0.72 m	0.72 m	0.72 m	0.93 m	29%	2%	0.60 m
Total London	12.10 m	13.84 m	12.81 m	11.51 m	12.07 m	5%	0%	9.21 m
DEVELOPMENT COMPLETIONS (SQ FT)								
West End	0.08 m	0 m	0.29 m	0.18 m	0.13 m	-26%	63%	0.31 m
City	0.68 m	0.22 m	1.03 m	1.87 m	0.51 m	-73%	-25%	0.58 m
Docklands	0.30 m	–	–	–	0.21 m	–	–	0.61 m
Total London	1.06 m	0.22 m	1.32 m	2.05 m	0.85 m	-58%	-20%	1.50 m
INVESTMENT TURNOVER								
West End	£1.08 bn	£0.16 bn	£0.53 bn	£2.87 bn	£0.64 bn	-78%	-41%	£1.33 bn
City & Southbank	£1.48 bn	£0.43 bn	£0.35 bn	£2.06 bn	£0.63 bn	-69%	-57%	£2.11 bn
Docklands & Stratford	£0.03 bn	-	£0.38 bn	£0 bn	£0 bn	–	–	£0.37 bn
Total London	£2.59 bn	£0.59 bn	£1.26 bn	£4.93 bn	£1.27 bn	-74%	-51%	£3.70 bn
PRIME HEADLINE RENTS (PER SQ FT)								
West End	£115.00	£115.00	£110.00	£110.00	£110.00	0%	-4%	n/a
City & Southbank	£72.50	£72.50	£70.00	£70.00	£70.00	0%	-3%	n/a
Docklands & Stratford	£52.50	£52.50	£50.00	£50.00	£50.00	0%	-5%	n/a

Source: Knight Frank

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General Note

This report has been prepared by Knight Frank Research, the research and consultancy division of Knight Frank. Knight Frank Research gratefully acknowledges the assistance given by the London office teams in the compilation and presentation of this material. Certain data sourced from LOD. All graph data sourced by Knight Frank.

Technical Note

The following criteria have been adopted in the preparation of this report.

i. All floorspace figures quoted in this report refer to sq ft net.

ii. Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.

iii. Availability refers to all space available for immediate occupation, plus space still under construction which will be completed within six months and which has not been let.

iv. Availability and take-up are classified into three grades:
New/refurbished: Space under construction which is due for completion within six months or space which is currently on the market and is either new or completely refurbished.
Second-hand A Grade: Previously occupied space with air-conditioning.
Second-hand B Grade: Previously occupied space without air-conditioning.

v. Demand figures quoted in this report refer to named requirements for over 10,000 sq ft.

vi. Under construction figures quoted in this report refer to developments of over 20,000 sq ft which are currently underway. They do not include properties undergoing demolition.

vii. Investment figures quoted in this report refer to accommodation where the majority of income/potential income is from office usage and comprises transactions of £1 m and above.
The data includes standing investments, site purchases and funding transactions.

viii. This report is produced to standard quarters.
Quarter 1: January 1 – March 31,
Quarter 2: April 1 – June 30,
Quarter 3: July 1 – September 30,
Quarter 4: October 1 – December 31

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