*In this report, we reflect on the commercial investment landscape in London and share three key themes defining the investment market*

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# THE LONDON INVESTOR BULLETIN

## Winter 2020

# MARKET BACKDROP

*As we approach the end of a tumultuous year, news of the vaccine roll-out is boosting market sentiment, but in parallel, the world continues to grapple with rising COVID-19 infections and fatalities.*

The pandemic has delivered the economic uncertainty we expected, while also fueling the debate around the future of the office and while businesses reassess their occupational strategies, with a view to allowing greater remote working in the future, London's leasing market has registered its lowest levels of lease deals on record during Q3.

London's commercial property market has been supported by strong fundamentals since the EU referendum: a shortage of stock for occupation, diverse and robust demand from businesses, led by finance and banking, professional services, tech and flexible office providers and yields that outstrip most global bond offerings and indeed most major European gateway cities.

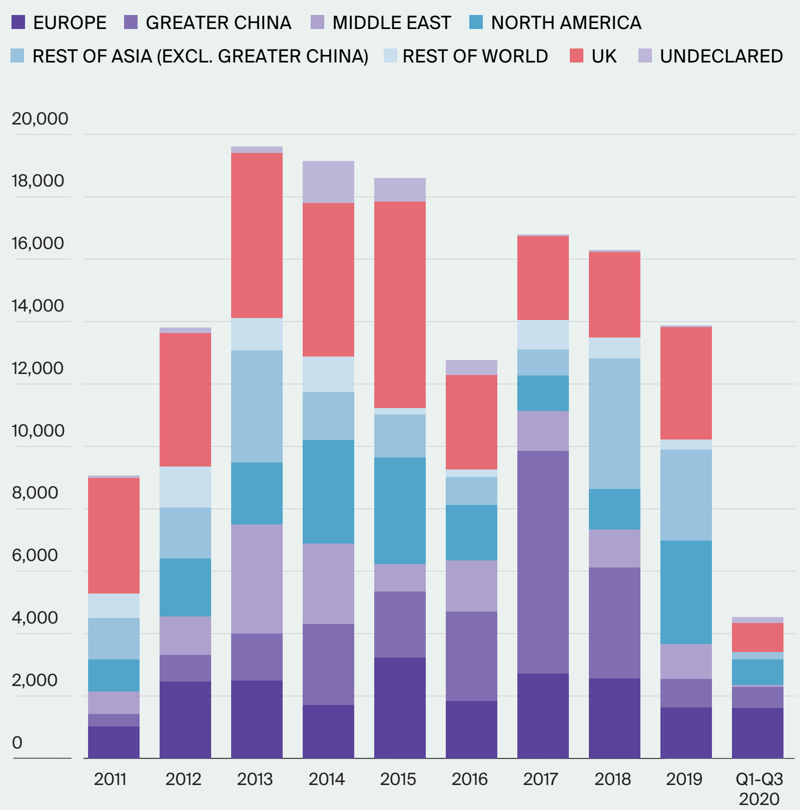
The ability of property to deliver long-term income, portfolio diversification and asset management opportunities, means it will remain the central pillar of investment portfolios. And London has been no different, with investment volumes rapidly climbing in the second half of 2020.

The increase in activity is evidenced by the rapid succession of big ticket deals at the start of October – 1 London Wall Place for £480m, 50% of the Nova Estate for £450m and White City Place for £235m. These transactions show how the confidence towards the medium-term prospects for London that was emerging during Q2 and Q3 has grown, translating into heightened interest for London assets. This confidence in turn is helping to unlock a market that has experienced a dearth of stock for many years.

Year-to-date turnover stands at £8 bn across London. This compares to a long-term average of £12.5bn. To put this in context, turnover levels during the GFC in 2008 and 2009 were £6.8bn and £6bn, respectively.

As always, however, there are multiple factors at play. We take a look at three key trends shaping London's office investment landscape.

**Source of London Investment**
£ millions




Source: Knight Frank

# 3

# TRENDS SHAPING LONDON'S OFFICE INVESTMENT MARKET

## 01

### STOCK SHORTAGES A THING OF THE PAST

Investors looking to the London market historically will have been frustrated by a distinct lack of investible stock. We started the year with just £2.3bn of commercial property available, spread across 40 assets and down 60% on the long term quarterly average.

However, with £8.4bn of offices available to purchase as at the end of Q3, including assets under offer, the market now has 58% more stock than Q3 2019, the second highest level since 2015. And as more substantial deals are traded in London, it is our expectation that this is likely to boost confidence amongst international investors as well as vendors.

In fact, we are already seeing available investments on the market increase in response to rising demand. We're now tracking £8bn of available commercial real estate opportunities, which is up 84% year-on-year. The polarising of views in respect of the future of offices is likely to further boost turnover, particularly as we approach the year end.

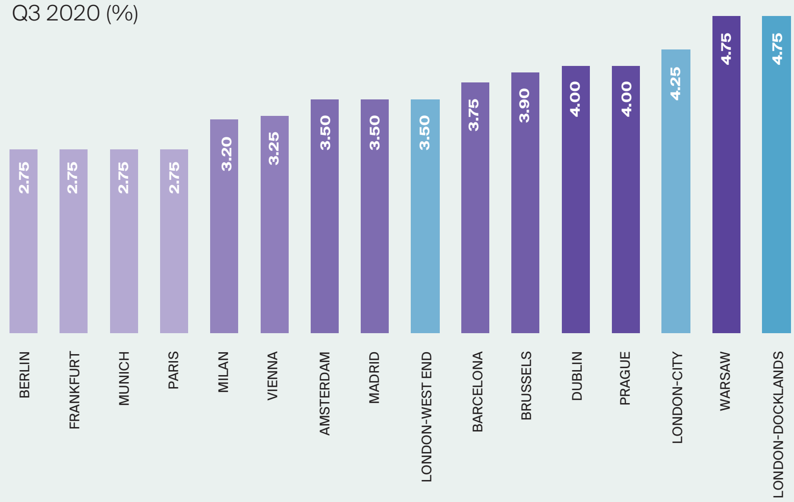
## 02

### YIELD STABILITY

If progress with vaccines continues as anticipated, Q1 2021 is likely to be the mother of all quarters. There will be no shortage of investors seeing this as their opportunity to deploy the mountains of dry powder that have been amassed.

For now, while we await the release of this pent-up demand, London's office yields remain steady and stable at 4.25% in the City and 3.50% in the West End, as at the end of Q3. These levels compare incredibly favourably to most other asset classes, as well as global bond offerings, most of which are negative yielding. This ever widening gap is likely to continue fuelling demand for commercial assets and particularly so in London, where cap rates are more attractive than most major European cities.

**Prime office yields**
Q3 2020 (%)




Source: Knight Frank

# 03

## THINK GREEN!

The 2020 World Economic Forum's Global Talent Competitiveness Index named London as the number 2 city globally for creating, attracting and retaining talent. There is however a global talent shortage and London's businesses are having to work harder to find and retain the right staff. This is an issue we believe will transcend the pandemic.

One way in which businesses have been mitigating against challenges around finding and retaining talent is through the 'greening' of their offices. This is especially relevant to the next generation of the workforce, but the government is also consulting with legislation that may need all commercial buildings to make improvements to their energy efficiency standards by 2030, as well as plans for the UK to go carbon neutral by 2050.

In a pledge to Build Back Better, the Prime Minister has recently gone a step further, announcing a 10-point plan to create 250,000 highly-skilled green jobs in the UK by 2030 through investments totalling £12bn. This is expected to spur three times as many jobs in the private-sector.

There is some evidence to suggest green rental premia can be commanded by greener buildings, but it's more likely that we will see brown discounts first.

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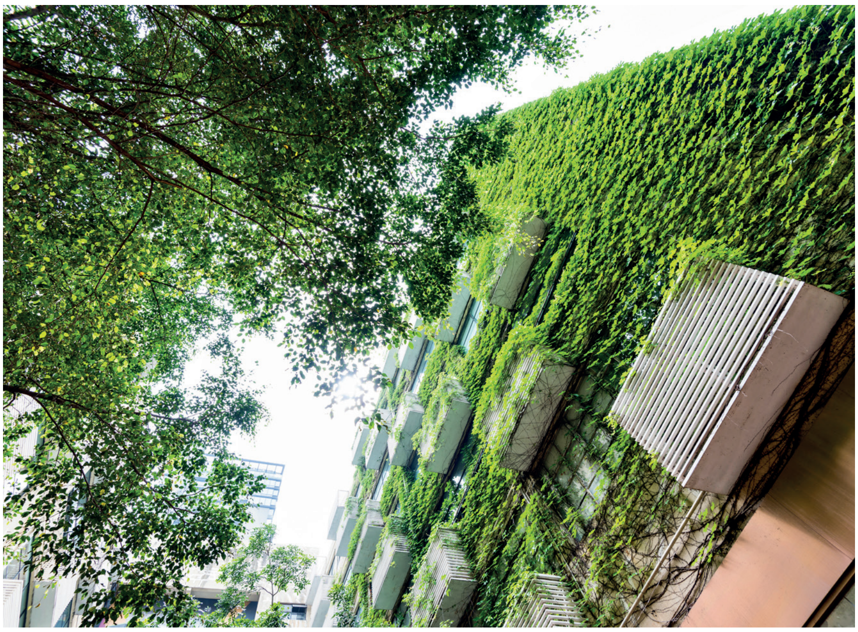
Investors can perhaps take advantage of brown discounts and then greenify buildings. With 64% of London's office buildings completed prior to the year 2000, there is an opportunity to 'greenify' these buildings, which we believe will become increasingly sought after as investors begin to sign up to climate change disclosures. Thus far, funds managing USD 120tn of assets have done so globally and this is expected to grow. And as the world's 'greenest' city, London is home to over 3,000 green rated buildings, the highest concentration globally, giving investors a rich choice of green assets.



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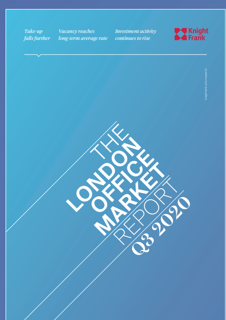


The London Office Market Report Q3 2020


London Offices Spotlight Q3 2020


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