The London Report 2022

London's repurposing opportunity

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London's repurposing opportunity

Our experience of living through a pandemic has turned aspirational goals for a sustainability-led future to accelerated targets and changes to the built environment are key to achieving this aim. In this year's London report, we consider the repurposing of obsolete buildings as an opportunity for sustainable redevelopment. The transformation of under-used urban spaces or adaptive reuse of obsolete buildings creates vibrant locations that provide commercial and social value gains. We highlight in our report the foundations for a sustainable future have been laid before the onset of the pandemic and that London is well placed to attract an increasing share of global capital flows to help finance its ongoing recovery.

The report contains our initial insights and in the coming weeks we will be releasing further articles on the Knight Frank Intelligence Lab Knightfrank.com/London-Report

1

London's green and sustainable future

London is a global leader in demonstrating progress to reducing carbon emissions with the built environment central to achieving the accelerated target of net-zero by 2030. We discuss many aspects of a sustainably driven future are already in place and that the challenges of a higher level of obsolescence, forced in part by regulatory changes and also by changing work practices can be tackled by the repurposing of single-use buildings to a mix of higher value uses.

2

London's appeal to global investors

International investors are increasingly looking to real estate for income and wealth preservation as capital allocation plans adjust to incorporate the principles of Environmental, Social and Governance (ESG) in investment portfolios. London is well positioned to attract these rising capital flows and it can play an important role in financing future development opportunities. We discuss the structural factors affecting real estate investors, identify the countries with significant outflows of capital and London's ability to increase its share of overseas investment.

3

Repurposing in practice

The planning environment is focussed on reducing the role of embodied carbon in buildings with repurposing single-use to mixed-use a template for sustainable development. How will the planning regime affect future development of London's business districts? Are there lessons from the recent experiences of the retail sector that can be learned by the office sector? And what does net-zero truly mean in practice?

Explore our full research at
knightfrank.com/london-report

1

Chapter 1: London's sustainable recovery

Looking forward to a sustainable future.

Steppin' out into London's walkable business districts

The concept of the 15-minute city is gathering pace against a wider rethink of how we build and manage cities post pandemic. There's a lot to like. Building communities where leisure, work and retail opportunities are within a 15-minute walk would generate significant health and wellbeing benefits and also tap into changing buyer, tenant and occupier requirements. How do London's CBDs stack up on the idea and what are the opportunities for real estate?

Changing requirements

What we want from the built environment has changed and one aspect of that is a greater appreciation of our surroundings.

In the housing market, among other factors, that includes a desire for amenities on our doorstep. In fact, when asked 'What is important when choosing somewhere to live?' nearly two thirds of London respondents to our latest client survey said being close to local amenities is now more important than pre-pandemic, with 34% now more focused on being within walking distance of their work place.

"Two thirds of London respondents said being close to amenities is more important now than pre-pandemic"

It's a trend that's equally relevant to office occupiers looking to draw on the deepest pools of talent. Some 46% of occupiers surveyed in our latest (Y)our Space report said they expect a greater amenities offering from their workplace in the next three years.

For real estate investors it adds weight to the arguments for building mixed-use, mixed-income, walkable places, or at least benchmarking schemes or sub-markets against their proximity to commercial, retail, transport, leisure and health facilities.

Defining walkability

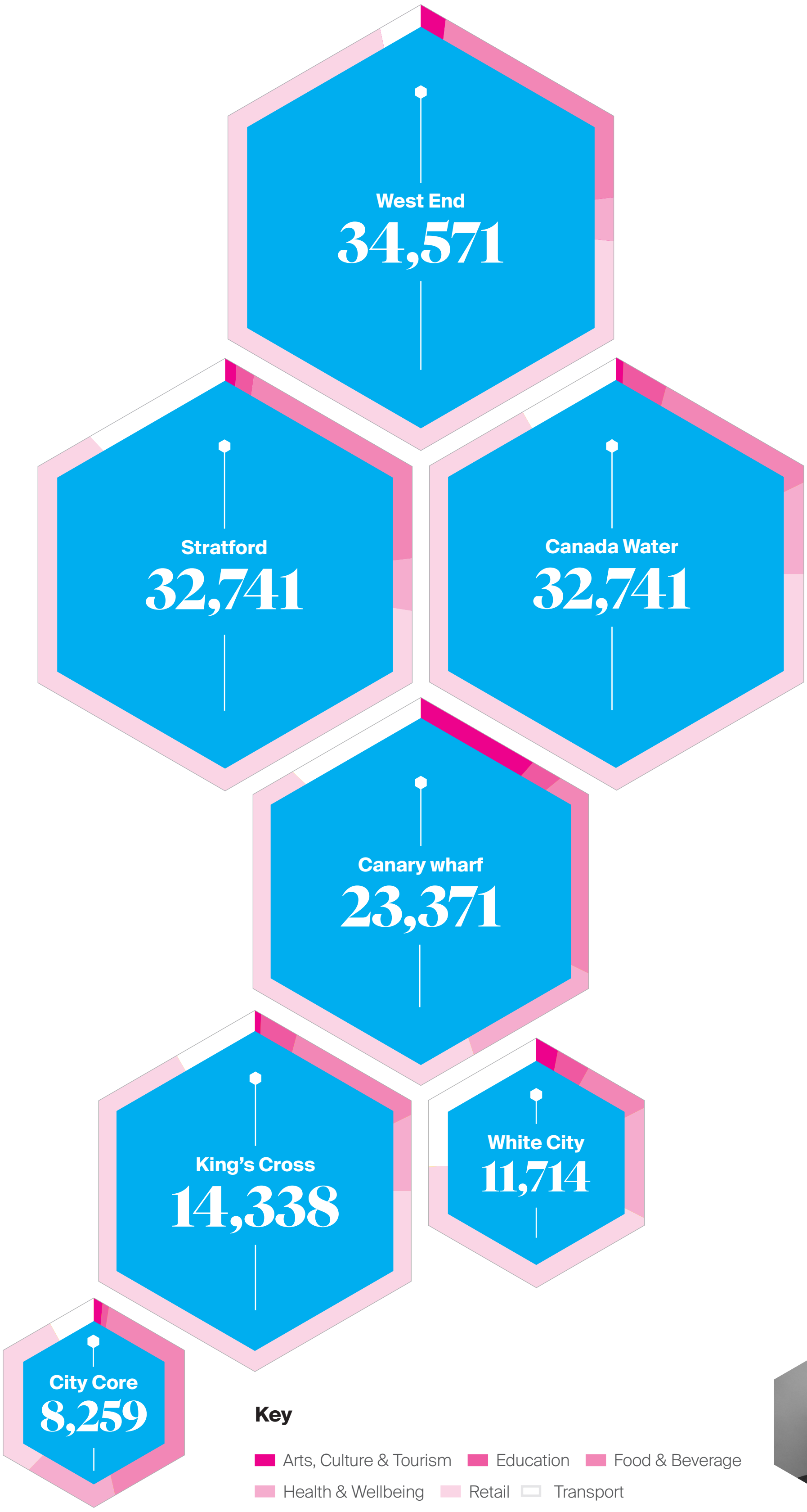
The Knight Frank Walkability Index has been developed to provide insight into the current built environment. Applying it to seven central London sub-markets, it analysed more than 140,000 Ordnance Survey AddressBase points, identifying 9,000 amenities of interest for walkability. These were then grouped into six sub-categories; Arts, Culture and Tourism, Education, Food & Beverage, Green Spaces and other Health & Wellbeing, Retail and proximity to Transport nodes, generating an overall walkability score based on count.

How do London's CBDs score?

In isolation, London's existing submarkets score well for walkability. Overall, the West End Core tops our analysis, followed by the City Core, Southbank and Canary Wharf. However, these high scores are often underpinned by the dominance of a single sub-category. Further analysis of the West End Core, for example, shows that retail accounts for 70% of its total walkability score.

In comparison, other sub-markets, such as the Southbank, boast a more balanced mix. Perhaps unsurprisingly, these are also the markets with a higher number of homes. It is interesting to note that the top two, and more mature submarkets, for residential population have also seen office rental growth twice the average of the overall market. Moreover, both submarkets maintain below average levels of availability, have seen substantial gains in property values and show greater resilience in economic downturns.

FIGURE 1: MORE RESIDENTS IN SOUTHBANK WITHIN 15 MINS WALKABILITY OF AMENITIES.



Source: Knight Frank Research

We explore the potential opportunity for repurposing assets elsewhere in the London Report but, clearly, changing working, shopping and living habits point to a need for a more balanced mix in the future. This is also recognised by city planners. Last year, the City of London Corporation announced plans to create at least 1,500 new homes by 2030.

Balanced and sustainable

The next opportunities will lie in schemes and areas that start or continue to evolve into a balanced, resilient and sustainable mix of real estate. Think about what has been delivered at King's Cross, Battersea, the Southbank, or what's coming at Brent Cross, Canada Water, Earls Court or Euston. Equally, there is an opportunity for existing amenity-rich core locations, like those analysed above, to deliver refurbishments or through the repurposing of assets.

Meeting ESG goals

There are wider societal and environmental benefits which can come from creating walkable neighbourhoods, something likely to be particularly relevant as the UK sets out a route map towards becoming a fully decarbonised nation, and developers and investors strive to hit ambitious targets.

Walkable places that promote healthy, sociable and active lifestyles will be a key component.

Oliver Knight
Partner, Head of Residential Research

"The London office market has more than

24.5m sq ft

of lease expiries pending"

Going back to the future with the occupier

Renewed re-occupancy, the subsequent evaluation and refinement of requirements, and a greater willingness to act will be the hallmarks of London's occupational market in 2022.

In keeping with its global counterparts, London's occupational market gained momentum during 2021. Year-end leasing volumes, although down on long-term averages, were up almost 40% compared with 2020. Encouragingly, active demand also currently stands at 7.6 million sq ft – suggesting a significant flow of future transactions. Both these metrics could have been higher still but for the periodic rise of variants that caused occupiers to apply the brakes on projects and brought a staccato rhythm to the market. Additionally, some inertia emerged amongst occupiers who, in the absence of any true signals from their offices over the last 18 months, were unclear as to how much floor-space they might actually require over the longer-term.

Re-occupancy as an important first step

This is why the re-occupancy of offices, which had started to gather some momentum prior to the Omicron-induced government guidance, is so critical. It is an essential second stage in what we have described as the great global workplace experiment spawned by the pandemic. The attitudes, behaviours and engagement of staff as they return to the office will provide occupiers with essential signals as to what the longer-term form, function, quantum and qualities of the office might be. Formulating such a view at a time of enforced lockdowns and restrictions has been fraught with difficulty. In this sense, office occupiers will need to go back in order to shape the future.

For many occupiers this process of evaluation is becoming urgent. The London office market has more than 24.5 million sq ft of lease expiries pending between now and the end of 2025. These expiries present the opportunity for occupiers to make a step change in their real estate. Concrete action is likely to be much more effective if built upon robust evaluations of how staff have returned and how they wish to engage with the office going forward. This year will represent the commencement of this evaluation and from it will finally emerge more defined occupier requirements.

Transformative business strategy brings real estate into focus

There is a growing sense that 2022 will be the year when we move from pandemic to endemic. As that transition occurs, the motivations underpinning business strategy will also shift from being defensive and reactive towards a more progressive and transformative footing. Accordingly, we expect business leaders to act urgently on three fronts, each of which places the real estate they occupy firmly in the spotlight.

1

Closing the gap between ambition and action on sustainability

The pace of action on sustainability will ratchet up further this year. An ambitious tone has already been set with the targets set by most businesses now open to public and market scrutiny. The advent of additional regulatory pressure, coupled with greater expectations to act from staff, suppliers, investors and customers, mean that the operation and occupancy of more sustainable real estate is becoming mission critical. No business leader is going to want to be found wanting. The stakes are just too

Million sg ft expiring per year
Source: Knight Frank Research

high. We will see greater appreciation and understanding of the journey towards sustainable real estate over the next 12 months, and everyone across the real estate sector will need to assist in closing the gap between ambition and action.

2

Creating a place in the new world of work

Our personal and collective working experiences during the pandemic, when combined with the apparent strength and resilience of London's labour market, will force a fundamental re-evaluation of the how and where of work. This will raise the noise levels in relation to hybrid workstyles – whereby work is undertaken across a range of workplace settings including the office and remote settings. As we have argued previously, this does not negate the need for offices. In fact, it heightens the need for better offices that prove more compelling and enticing to their users. The flight to quality apparent in the London market will therefore continue, but against the backdrop of limited available new supply and the associated sustainable development challenge of bringing older office buildings up to the mark rather than simply razing them to the ground. Occupiers are already recognising that securing the right places in the new world of work will require them to act with more zeal.

3

Cultivating corporate culture and connection

The greatest fuel to an emergent, progressive business agenda is c-suite sentiment. Early year surveys of business leaders point to great optimism with expectations for headcount and revenue growth now well above pre-pandemic levels and hitting a seven-year high. Achieving this growth will require significant on-boarding of new staff and the conversion of opportunities into real business. Both point to a renewed role for the office as the place where corporate culture is galvanized and where the conversion of contacts from prospective to actual clients occurs. Some argue that on-boarding and business development can occur in the virtual world. This is, of course, true but the office presents the best means by which to deliver efficiently and effectively. In fact, in our view, culture and connection will be central to the emergent reappraisal of the office as the heartbeat of high-purpose, high-growth companies.

Twenty twenty-two is the year when the rubber truly starts to hit the road in London's occupational market. Although there is potential for further staccato rhythm, the growing appreciation that coronavirus is something that we will live with over the long-term requires business leaders to advance their transformation plans. Acting on three specific fronts, they will place real estate firmly in the spot light. This is good and exciting news for the London market.

Lee Elliott
Partner, Global Head of
Occupier Research

Reviving retail in London – two tales of one city

High levels of retail obsolescence were evident in our town centres and high streets long before the pandemic. While Central London anticipates the return of consumers, repurposing single use retail for alternative uses is a growing feature of suburban London

The recovery in Central London retail lagging the rest of UK

Unprecedented is perhaps the most over-used and hackneyed term in citing the effects of Covid-19 but in the case of London Retail it is most certainly true. Central London has continually been an outlier to the wider UK retail market, historically almost always outperforming. For example, the Global Financial Crisis barely registered in the West End retail market - while retail rents and capital values across the country rebased at a rate of knots, those in the capital went in the opposite direction. Annual rental growth was often double-digit and prime yields compressed to sub 3.00%.

Such is the irregularity of Covid-19 that it has not only undermined these dynamics, but actually turned them on their head. In many respects, Central London is lagging the rest of the country in both its pace of re-opening and extent of its recovery. While the West End previously almost defied gravity, it now appears to have a redoubled level of gravity weighing it down.

Clearly, the key reason Central London retail has not proved immune this time around is that it is a market heavily driven by tourist and worker audiences. In the West End, CACI data suggests that tourism accounts for as much as 46% of comparison goods retail spend in a year. In terms of wider context, this average across the UK is around 10%. The West End retail market is slightly less dependent on worker population trade. The same data from CACI indicate that workers account for only 9% of comparison goods spend in the West End, compared to a UK average of around 6%. Of course, the hospitality sector is distinct from this and the contribution of London's worker population to the hospitality spend is substantially higher. In essence, London's retail market is heavily dependent on overseas / domestic tourists, but less so office workers. In contrast, London's hospitality sector is heavily dependent on both.

> **"Most of the areas of greater London have gentrified to a greater or lesser degree over the years yet the retail offer has not evolved at the same pace"**

Repositioning of retail space in suburban London

Elsewhere across the capital, the dynamics could scarcely be more different. Enforced working from home and the ongoing legacy of dynamic working has given fresh impetus to localism – people rediscovering the retail and leisure facilities closer to where they live. Positive as this renewed consumer demand towards suburban London centres is, it is shining a spotlight firmly on an issue that was bubbling away long before Covid-19 reared its ugly head – in many Outer London centres, there is a huge disconnect between the quality and nature of retail/leisure supply and the demographics of the people that live there. In simple terms, most areas of Greater London have gentrified to a greater or lesser degree over the years, yet the retail offer has not evolved at anything like the same pace. While nationally the UK retail market grapples with the notion of over-supply, across London it is often less about whether there is too much space and much more whether or not there is enough of the right space.

Put simply, there are major opportunities in most London suburban centres, from an investment, development and occupational perspective. These transcend any transient localism we may have seen during the pandemic. Many of these opportunities will require substantial re-purposing to other uses such as leisure, food and beverage, residential or logistics and are in effect major regeneration projects generating new jobs, increasing local authority revenues and enhancing social value. This speaks directly to the wider ESG agenda. While Environmental tends to predominate most of the narrative, what could be more socially-enhancing than having vibrant, prospering communities that people are proud of and want to live in?

Newton's 3rd law of motion states that "for every action, there is an equal and opposite reaction". In a London retail context, this seemed to ring true during the pandemic: while Central London toiled, the outer London centres had a localism-inspired shot in the arm. Without wishing to discredit one of our greatest ever physicists, this relationship needn't continue going forwards. Central London and the London suburban markets are not entirely binary forces, they are part of an integrated whole. Both can prosper at the same time – the former re-establishing itself as tourists and workers return, the latter re-establishing their own identities after many years of under-investment and neglect.

The success of many of the suburban London repurposing projects may not be fully known for many years but the growing number of live schemes suggests developers are able to unlock value from repositioning to alternative uses that accommodate higher demand and local authorities are able to enhance social value with the regeneration of town centres.

46%

Tourists account for 46% of comparison goods spend each year in Central London.

Source: CACI

Stephen Springham
Partner, Head of Retail Research

2

Chapter 2: Capital flows, our predictions for investment

Global investors are increasingly allocating capital to real assets. How is London positioned to capture an increasing share of the expected rise in cross-border investment?

Financing future growth and role of global capital

> "286 cities globally showed London is the **highest ranked** green city"

In this section we highlight how the mega trends affecting how we live, work and socialise are leading to changes in how long-term international investors allocate capital globally and across different asset classes. We show there is potential for significant capital deployment in real estate and that London needs to build upon the solid foundation already in place to increase its share of global capital flows.

Investment in London real estate: the start of the next cycle

We believe that in a post-pandemic world, capital flows will be influenced by a number of structural factors that will lead to greater allocations of capital to real estate. Furthermore, investors will favour cities that are well positioned to harness future economic growth opportunities. Locations supported by thriving knowledge and creative industries where sustainability and wellbeing are central to the curation of those locations. We explore three key factors below:

1

Allocations to real estate continue to rise.

The upturn in global economic growth has presented a number of challenges, namely - the dislocation of supply chains, labour shortages, higher inflation and the end to an era of ultra-low interest rates. These will all have profound implications investors' capital allocation decisions. Global institutional investment portfolios currently show an average allocation of 10.7% to real estate a figure expected to rise to 11% in 2021. This annual increase of 0.3% represents an additional $80-$120bn of capital to be deployed to real estate globally. During the last decade institutional portfolios have been under-allocated to real estate due to stronger return expectations in other asset classes and a lack of institutional grade stock in gateway cities.

In our recently conducted Capital Tracker Survey we asked global investors about their intention to invest in London offices in 2022. This revealed a targeted capital allocation of £48.1bn, up from £46.0bn in 2021. The change was driven by large rises in target allocations from US and European investors and a fall from the Greater China region. There is clearly very strong appetite to invest to London offices, however, opportunities to invest are affected by limited availability of institutional quality assets. This weight of capital combined with well-functioning debt markets provides the basis for financing the redevelopment of the built environment that is underpinned by sustainability goals.

2

The role of ESG in attracting capital

London can already demonstrate to global investors progress toward becoming a more sustainable city. Our research on sustainable cities, where we computed 'sustainability scores' based on carbon reduction criteria across 286 cities globally showed London is the highest ranked green city followed by Paris, New York, Seoul and Tokyo. Developers and landlords in London have made considerable strides in integrating sustainability practices during the life cycle of a building. This is illustrated by the number of buildings in London which have achieved a BREEAM rating of Good or above – 1078 office buildings. This is more than twice the number in Paris the next largest gateway city. In addition, London has more office buildings rated 'Excellent' than Paris has rated 'Good' or above. Our recently released Active Capital Report demonstrated office buildings in London with an 'Excellent' rating have achieved a 'green' sales premium of 10.5% compared to equivalent unrated buildings and a 10.1% premium where the BREEAM rating was 'Very Good'.

3

Innovation hubs attracting increasing levels of capital

The importance of high-quality academic institutions in London and proximity to Oxford and Cambridge Universities has led to the creation of innovation districts and vibrant new office submarkets in White City, Kin'gs Cross and the Southbank. The regeneration of these locations and the bespoke curation of real estate uses and the public realm creates a sustainably led ecosystem in which knowledge based industries are able to monetise cutting edge research. For financially constrained local authorities it grows their revenues and provides communities with opportunities to upskill and develop careers in future growth sectors such as life sciences, health and ed tech.

10.5%

Office buildings in London with an 'Excellent' rating have achieved a 'green' sales premium of 10.5% compared to equivalent unrated buildings and a 10.1% premium where the BREEAM rating was 'Very Good'.

Source: Knight Frank Research

Shabab Qadar
Partner, Head of London Research

Breaking down the wall of money

For over two years, the strong headwinds of Brexit and Covid-19 have impacted global capital flows to London. As the easing of restrictions on cross-border travel and an improving economic outlook coincides with strengthening investor demand, we explain why global capital flows look set to rise.

Bounce-back in investment volumes

Despite rising long-term interest rates, restrictions on social interaction, Covid-19 variants leading to rising infection rates, disruption to international travel and the adoption of greater levels of remote working, investment transactions in London offices reached £12.3bn in 2021, a rise of £3bn compared with 2020 – the highest annual change since 2017. International capital inflows rose by £1bn, reversing a three-year downward trend following the Brexit referendum. This positive momentum looks set to continue in 2022 with £5.3bn of deals currently under-offer. Does the recent rise represent a short-term drive to take advantage of attractive pricing relative to other cities, or has there been a more fundamental shift in the way that investors evaluate London's prospects, and the attractiveness of real estate in general?

Modelling global capital flows into London - 2022 to see a 17% rise in office investment

In our recently released Active Capital Report we used machine learning techniques to model capital flows at a country and sector level and show that pent-up demand complemented by the broadening of different investor types provides the backdrop for record cross-border capital flows in 2022. The UK offices sector is expected to see transactions as high as £21.3bn ($29bn).

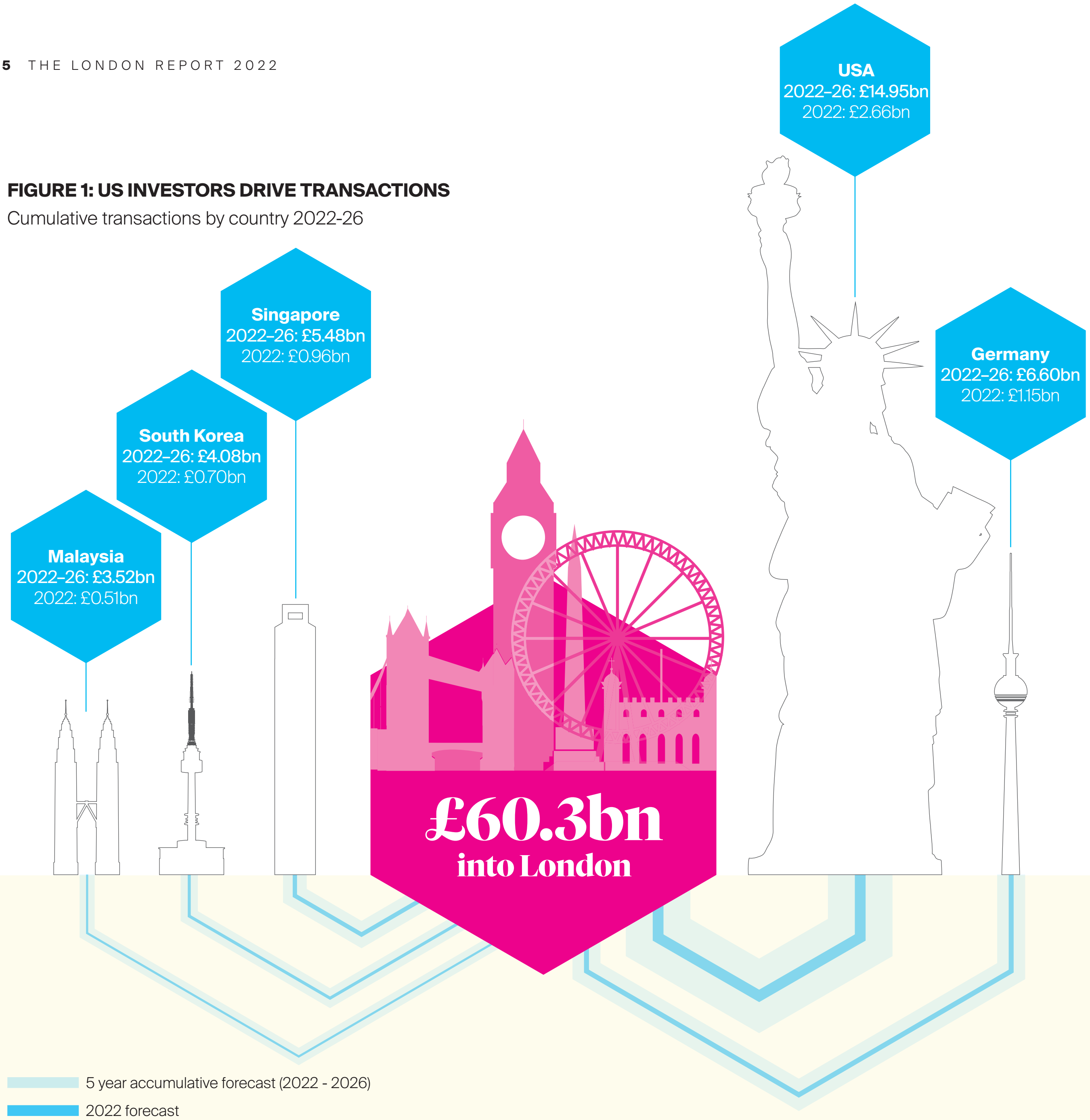
To understand how deal volume in London may be affected by the improvement in global capital flows we have developed a capital gravity model to forecast future transactions from international investors using our proprietary transactions data. We use independent assumptions for key economic indicators and include variables which explain the proximity of investor countries to the UK and metrics that explain political, cultural or historical ties with the UK.

Our model projects global capital flows into London offices of £10.5bn in 2022, an increase of 16.8% compared with 2021. Moreover, the cumulative total of international transactions in London during the next five years is expected to be £60.3bn – the highest five-year total for over 15 years. The largest region expected to invest in London offices during the next five years is expected to be North America with just over £18bn (30%) of transactions, followed by Other South East Asia with £15.69bn (26%) and European investors with £14.4bn (24%). Flows from greater China are expected to reduce significantly during the next five years accounting for only £8.7bn of transactions.

The attraction of London to global investors is clearly very strong but low levels of investible stock is an impediment. In the short-term, increasing the available stock could be achieved by landlords taking advantage of the current high levels of interest in the sector whilst in the longer-term, financing opportunities could arise from lower risk repurposing projects.

FIGURE 1: US INVESTORS DRIVE TRANSACTIONS

Cumulative transactions by country 2022-26



Source: Knight Frank Research

Real estate analytics at Knight Frank

Intuition and looking back at historic data trends have long been the cornerstone of decision making in real estate. However, the growing quantities of granular location data combined with sophisticated analytics enables real estate professionals to analyse with greater accuracy the dynamics of smaller submarkets and to have a richer understanding of risk and return.

At Knight Frank we have significantly bolstered our ability to transform our proprietary and third-party data into insightful analytics that can aid clients make better decisions. Our analysis of London's walkable business districts was carried out by our Geospatial team who have developed tools that can provide a more three-dimensional assessment of a micro location. Moreover, our team of data scientists have expertise not only in creating insightful visualisations but can also perform machine learning and traditional quantitative analysis to predict future trends.

Our analytics capability leverages the multi-disciplined skill set of a team of analysts in Knight Frank's data office, improving the quality and integrity of our data which provides the foundation to perform the broad set of analytics that gives a deeper understanding of real estate markets.

Shabab Qadar
Partner, Head of London Research

3

Chapter 3: Repurposing in practice

Repurposing offers a sustainable route to redevelopment creating commercial and social value gains.

From no-use to mixed-use

The pandemic confirmed that successful neighbourhoods are not separate commercial or residential districts. Instead, they are locations that provide a dynamic mix of living, working and leisure activities.

Striking the right balance

For cities, and for London in particular, this presents an opportunity. For years, developers have done a good job in creating mixed-use neighbourhoods. Look at King's Cross and Battersea, and what's coming in Brent Cross, Canada Water and Elephant & Castle.

The domination of city centres by office and retail sectors will not change but new work and shopping habits point to the need for a more balanced mix in the future. For cities, and for London in particular, this presents an opportunity.

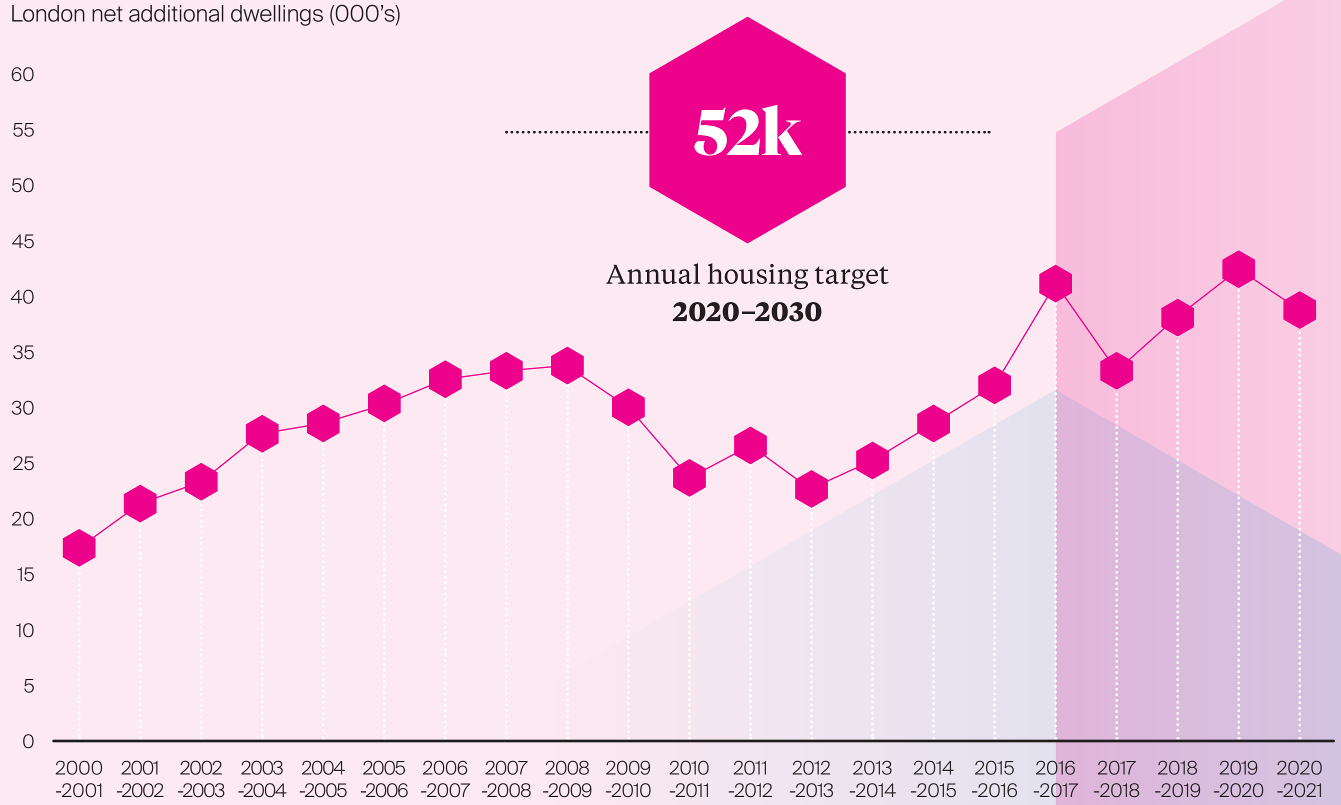
Part of the solution lies in making better use of the buildings we already have by repositioning or repurposing existing assets for alternative use. Logistics, residential and life science are obvious beneficiaries.

Take residential as an example. London is falling short of delivering the homes it needs. Last year, 37,000 new homes were added to the capital's housing stock, a drop of 9% on the previous year, and a figure notably below the annual 52,000 homes the Mayor's London Plan says are needed to meet demand.

A decline in starts, permissions and applications over the last few years means future housing delivery will remain some way short of targets. Could repurposing buildings, or delivering mixed-use, mixed tenure schemes that suit post-pandemic behaviours, help fill the gap?

FIGURE 1: NET ADDITIONAL DWELLINGS ADDED TO LONDON'S HOUSING STOCK

London net additional dwellings (000's)



Source: Knight Frank Research

Changing requirements

Repurposing redundant or secondary assets in central London is particularly relevant as changing buyer and tenant requirements drive a resurgence of demand. Knight Frank figures show the number of new prospective buyers currently looking to buy in the capital ran 67% above the five-year average in the first few weeks of January, for example, while rents in central London rose 8.2% in the second half of 2021 alone, their highest growth in a decade.

Longer-term, nearly two thirds of Londoners who responded to our latest Knight Frank client survey suggested that, when considering where to live, proximity to local amenities is now more important than it was pre-pandemic. For 67%, the local community is a more important consideration than before and there was a noticeable uptick in the importance placed on walkability, something we explore in our article 'Steppin' Out into London's Walkable Business Districts'

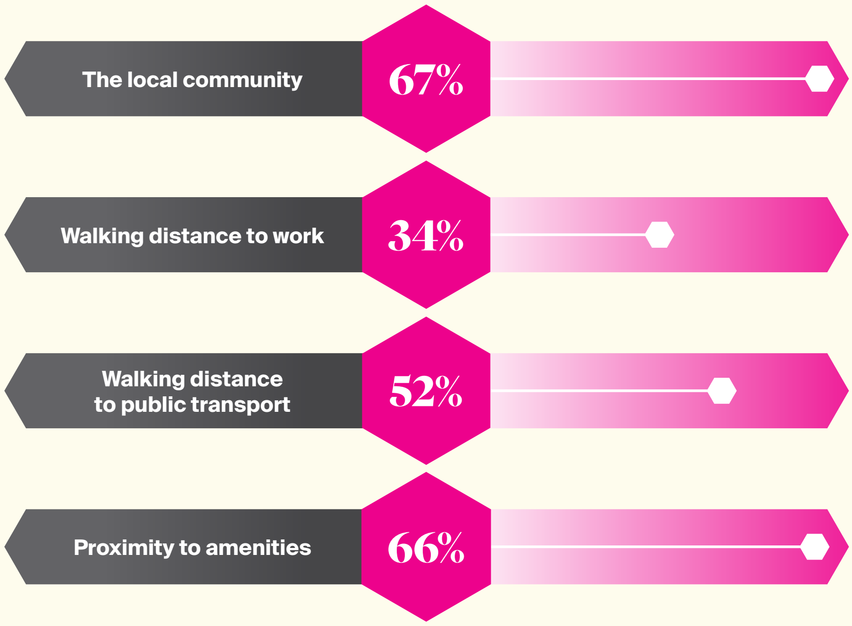
Mixing uses

There is a precedent for repurposing assets to residential in London. Data from the Department for Levelling Up Housing and Communities (DLUHC) shows that over the past six years, nearly 21,000 homes have been delivered under permitted development rights in London.

And the concept of mixed-use spaces is nothing new. In recent years, London has diversified away from developments dominated by a single use. Regeneration hubs such as Battersea Power Station, Elephant Park and Canary Wharf have all adapted their offerings through the evolution of the original masterplan planning permission.

FIGURE 1: CHANGING BUYER DEMAND POST-PANDEMIC

How important are the following factors when choosing where to live compared to the Covid-19 pandemic?



Source: Knight Frank Client Survey London respondents (December 2021)

"Last year, **37,000** new homes were added to the capital's housing stock"

Looking forward, major new mixed-use hubs targeting a full breadth of occupiers, workers, and visitors are planned in other parts of the capital including Euston, the Earl's Court and Canada Water.

Yet the question remains: if the data tells us that we have a consistent issue with undersupply across London, within both the residential and commercial sectors, will building mixed-use help or hinder the drive for more space? Indeed, on paper, mixed-use schemes reduce supply, diluting planning applications for single-use schemes by introducing a range of other uses.

Why, despite these apparent disadvantages, do mixed-use schemes remain extremely compelling?

Firstly, consumer demographics play an important role. As previously mentioned, people want to both live and work in versatile, dynamic locations that offer more than just one use. Flexibility is also an important consideration – including flexibility on delivery strategy, flexibility on funding, and flexibility on timing. Mixed-use can accelerate delivery through partnerships whilst reducing exposure to market risk for any given sector.

And finally, mixed-use schemes are generally more viable, particularly for residential. The hardening planning position of the Mayor of London has left no doubt that the pursuit of affordable housing and affordable workspaces are key drivers of land value.

"Last year, institutions spent

£1.2 bn

acquiring and funding build to rent (BTR) stock in the capital"

Investors like it too. Last year, institutions spent £1.2 billion acquiring and funding build to rent (BTR) stock in the capital with nearly half of the deals struck backed by overseas capital. Close to 50,000 BTR units are in the development pipeline in London, due to be delivered in the coming years, some within mixed-use, mixed-tenure schemes.

What has become increasingly obvious is that building mixed-use is about so much more than simply meeting demand. It is vital to create a modern city fit for post-pandemic life. As well as making better use of limited land availability, there is evidence that connecting people with amenity and infrastructure can have a positive impact on capital values and rents and, longer-term, support the creation of communities.

There is no 'one-size-fits-all' approach; location, demand and local infrastructure will inform what is viable but, looking to the future, the next opportunities will lie in schemes and areas that start evolving into a balanced, resilient and sustainable mix of real estate.

Oliver Knight
Partner, Head of Residential Research

Learning the lessons from retail

Hindsight is a wonderful thing. Retail, once the darling of the property world, is left licking its largely self-inflicted wounds, with much debate about where it all went wrong. What are the lessons that offices can learn from retail's ungainly fall from grace?

I'm pre-empting two schools of response to this exam question. One, retail and offices have nothing in common, the rise of online is specific to retail and irrelevant to offices. Two, on the contrary, they are both major real estate property classes subject to the same macro-economic forces and capital market cycles. To my mind, both schools of response are fundamentally wrong.

The rise of online is erroneously accepted as the sole cause of physical retail's supposed downfall. The reality is infinitely more complex and ironically, a reluctance to look beyond the rise of online to the real root causes of malaise is an ongoing issue holding the retail market back. Offices clearly have their own structural challenges, not least the pandemic-induced rise in working from home. No one needs physical stores any more as everyone shops online, no one needs offices any more as everyone is working at home. The death of the High Street, the death of the Office. Both are ridiculous notions, of course, but they are the tip of the iceberg in terms of wider structural challenges.

Just as retail has had to work out what a multi-channel world looks like, offices must also discover what a hybrid working model means in reality. I venture that retail is further along its own learning curve, but the journey is never-ending. The first lesson for offices? There are no constants, just a continually shifting reality. "Old school" thinking and metrics have gone out of the window and the name of the game is to evolve and be proactive, not simply wait passively for change to come.

"Offices will have to work out what a **hybrid working** model means in reality"

The rise of online was just one of the '10 Structural Failings of Retail' we have previously identified in our 'Price of Change' Research. To simply overlay these '10 Structural Failings' on the office market and see how the template fits misses the point – retail and offices are fundamentally different asset classes, subject to their own dynamics and nuances (which is why I rubbish the second school of response, as outlined above).

That notwithstanding, there are still more generic lessons that I believe offices could learn from retail. To put forward four:

1

The risk of oversupply. A build, build, build mentality from the 1990s onwards has come back to haunt the retail market. All accelerator, no rear-view mirror. No understanding of obsolescence or the process of managing down space. An obsession with development pipelines and scant regard for the life cycle of existing stock.

2

(Un)affordabilty. Affordability is a far more measurable and quantifiable concept in retail. (This is not the appropriate forum, but I am happy to walk anyone through store contribution/sales density/effort ratios/ROIC etc). But how many "record rents' set and celebrated in retail in the 2000s have proved sustainable to this day and haven't been drastically re-based? Very few. Affordability PTSD means I wince when I hear the phrase "record rents" and I still hear it frequently in an office context.

3

The dangers of under-investment/complacency. No one felt the need to invest heavy capex into a retail asset that was delivering fantastic returns. However nobody knew what to do when it didn't. Too little money was thrown at the problem too late. A measured and staggered programme of capital expenditure over the lifecycle of the asset would surely have been a better approach. With tighter ESG regulation an inevitability (rightly), the need to continually invest will rise rather than recede. The notions of cash cows and geese laying golden eggs is diminishing.

4

Occupier is King. Landlord and tenant relations in retail have historically been more fractious than in other property classes and the balance of power has shifted over time. Historically, retail landlords held most of the cards: at best, making no effort to understand their occupier base as long as they paid the rent, at worst, treating them almost with contempt. The pendulum of power has since swung the other way and many of these inequalities have been painfully re-balanced. A different occupier base perhaps, but office landlords must surely learn the value of listening to their tenants and the benefits of close collaboration rather than conflict.

To return to the second flawed school of reasoning: the dangers of generalisations and assumption that real estate is just a commodity. There are good and bad assets in any property sub-sector and simply applying blanket assumptions based on sub-classes or geographies is a very limited investment approach, and one that only works in a bull market. Deeply forensic, strategic, asset-specific stock picking is the way forward. Many retail investors have only learned this lesson the hard way.

Hindsight is a wonderful thing. But foresight is infinitely better.

Stephen Springham
Partner, Head of Retail Research

Inspiring creative communities through heritage

While the office commute was off limits during lockdown, Londoners reconnected with their own neighbourhoods, discovering long forgotten derelict and damaged historic sites on their doorsteps. These sites are finally getting the attention they deserve, as local communities look to restore places that have been an eyesore for generations. Heritage of London Trust, HOLT, is an independent charity that rescues London's historic buildings and monuments, working with a keen focus on sustainability, repurposing and encouraging young people to work – and learn - with them.

Dead good repurposing

We've seen some fantastic models of heritage repurposing in recent years. In Lewisham, next to Deptford Town Hall, the Victorian Laurie Baths were served by giant iron water tanks suspended above the elegant swimming pools (1st and 2nd class). By 2017 these were rusting and at risk. Goldsmiths Art College worked with HOLT and other funders to restore and repurpose the tanks, opening them as an edgy new art gallery, Goldsmiths' Centre for Contemporary Art, designed by Turner Prize-winning architects Assemble. The smaller tanks now house open air sculptures while the larger tanks have installations in their dark industrial iron riveted walls.

"Repurposing and sustainability, is at the core of HOLT's Proud Places programme"

Also in south London, Peckham's derelict Old Fire Station was converted to an art gallery. This was the first surviving, purpose-built fire station in London, laid out in 1867 like a domestic house as the firemen lived there with their families, The project restored details such as the old 'Engines' lantern and included education and archive rooms for visitors to explore the building's history.

HOLT has 40 current projects and repurposing is at the core of all of them. In East London, HOLT is rescuing the East End's last surviving Victorian funeral parlour. Stripped and damaged by successive owners after its sale in 2005, its original façade is being lovingly restored, right down to the barley twist spindles being copied by local East End woodturners and the recreation of the family's gilt and black signboard: 'Francis & C Walters – Funerals'. The business has long moved away. Instead, today the building will be home to a boutique burger bar, selling hellfire burgers.

Going for green

Elsewhere in London, around 100 surviving Victorian drinking water fountains have long been dry, their spouts and masonry broken and cigarette stubs and discarded plastic bottles cluttering their bowls. Over the past 18 months, HOLT has worked to restore them, enlisting the help of young people in the process. Frequently in busy public spaces, bringing these fountains back to life is simple, a question of new piping and taps, restoring the stonework, hooking up to Thames Water and then ensuring regular twice monthly maintenance. Children have embraced these bite-sized environmental projects on their doorstep, enthusiastic about helping to reduce single-use plastic. Six HOLT fountains have been completed and eight more are on the way.

Proud places

Repurposing and sustainability, plus a dose of imagination and flair, lies at the core of HOLT's Proud Places programme. Launched during the pandemic, this education programme has involved over 500 young people from challenging backgrounds, in workshops and visits. Children can have a go at stonemasonry and other heritage crafts as well as learn more about local history. A good example is a traditional green cabmen's shelter being restored by HOLT near Albert Bridge which has given 40 school pupils an introduction to the history of cabbies through the charity that runs the shelters.

"Knight Frank have supported and engaged with HOLT for the past couple of years and we are big fans of their projects"

With energy and creativity London's heritage sites can revitalise communities. Never before has their wider impact looked so bright.

Knight Frank has been a major donor of HOLT for the last three years and is a sponsor of the Francis & C Walters funeral parlour project in east London.

Stephen Clifton, Partner, Head of Commercial comments: "We have supported and engaged with HOLT over recent years and are big fans of their projects. Nicola and her team are doing a brilliant job at rescuing our built environment."

Dr Nicola Stacey
Director, Heritage of London Trust

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