



Q1 2021

UK Research

Central London **office market report**

Tentative improvement in leasing volumes



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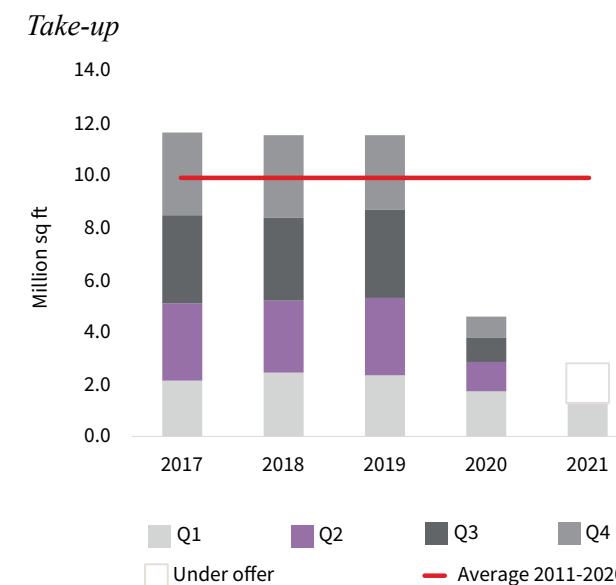
01 Central London overview

Leasing activity improves quarter on quarter

Despite a strict national Covid lockdown, leasing volumes increased quarter on quarter with 1.3 million sq ft let, which ended five consecutive quarterly declines. While still not back at pre-Covid levels, Q1 was the strongest period since the pandemic took hold and volumes were 69% up in comparison to Q4 but still a third below Q1 2019.

There was an increase in activity from all sectors, bar public & administration, over the quarter. The banking & finance and professional services sectors were most active, and these two sectors accounted for over half of the space leased in Q1. Professional services accounted for 373,000 sq ft of transactions. This included the largest deal of the quarter which was to Latham & Watkins, who signed a 200,000 sq ft pre-let at Leadenhall Court, EC3. Banking & finance leasing stood at 338,000 sq ft during the quarter, which was higher than any quarter in 2020.

Space under offer declined over the quarter, falling from 1.6 million sq ft to 1.5 million sq ft, which was the lowest level since Q4 2016. The drop was in part due to higher leasing combined with limited replacement transactions coming forward. The decrease was most evident in the volume of second-hand space under offer, with both new and pre-let space remaining stable. Active demand, on the other hand, rose to 7.6 million sq ft, with more enquiries evident from banking & finance and TMT companies in the first three months of the year compared to the final quarter of 2020.



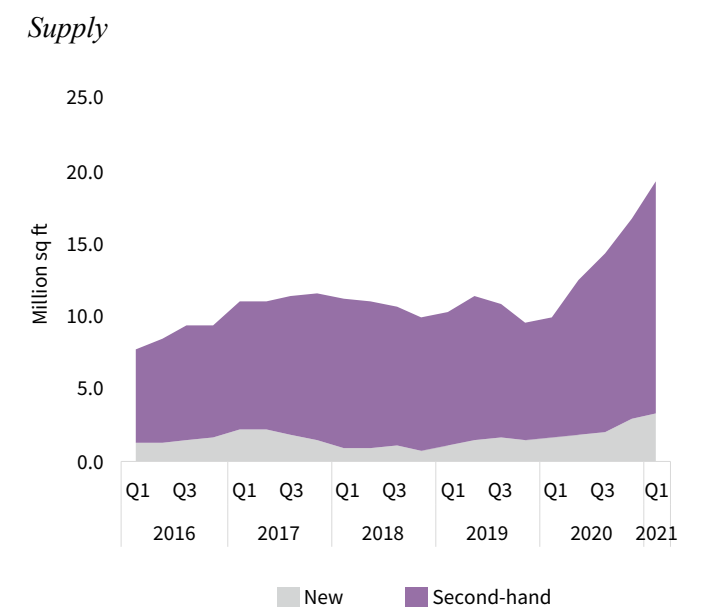
Second-hand space fuels supply increase

Supply levels continued to increase during the quarter, with both new and second-hand space rising. As a result, there was 19.2 million sq ft of space available at the end of Q1, which was the highest volume of supply since Q4 2009. The vacancy rate rose to 7.8%, which was up 100bp quarter on quarter and at levels not seen since the Global Financial Crisis.

The second-hand vacancy rate continued to increase at pace, rising to 6.4%, although the new vacancy rate also increased for the second consecutive quarter to 1.3% and was ahead of the 10-year average of 1.1%.

Increases in vacancy were evident across all key markets. The City and West End vacancy rates both ended the quarter at 7.3%, while the East London vacancy rate rose to 11.7%. The 130bp increase in City vacancy was primarily fuelled by an increase in second-hand space, with the new vacancy rate stable quarter on quarter. The West End also saw a sharp rise in second-hand vacancy, but the new vacancy rate also increased, as Scale Space, W12 (56,000 sq ft) completed during the quarter.

Speculative space under construction increased during the quarter, rising from just under 8 million sq ft to 8.5 million sq ft. New starts were evident in both the City and West End, with 263,000 sq ft and 335,000 sq ft starting on site respectively. This quarter saw seven schemes commence, with new builds dominating and expected floorspace accounting for 66% of new starts. Landsec's 166,000 sq ft Nova East, SW1 was the largest scheme to commence and is expected to complete in mid-2023. Just over 3.2 million sq ft is currently anticipated to complete speculatively in 2021, with 2.5 million sq ft due to complete the year after.



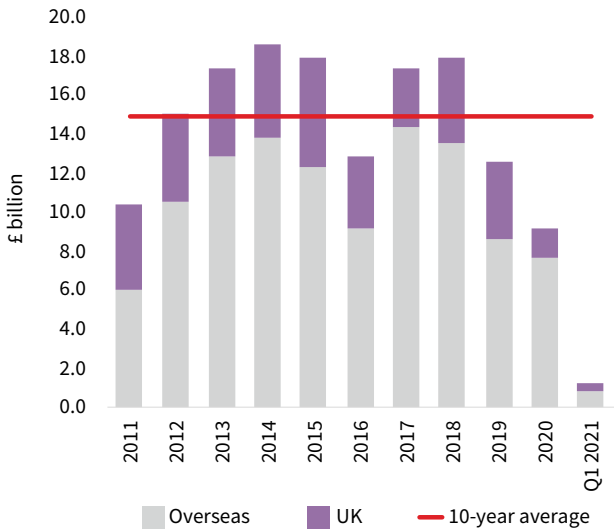
Investment market stalls

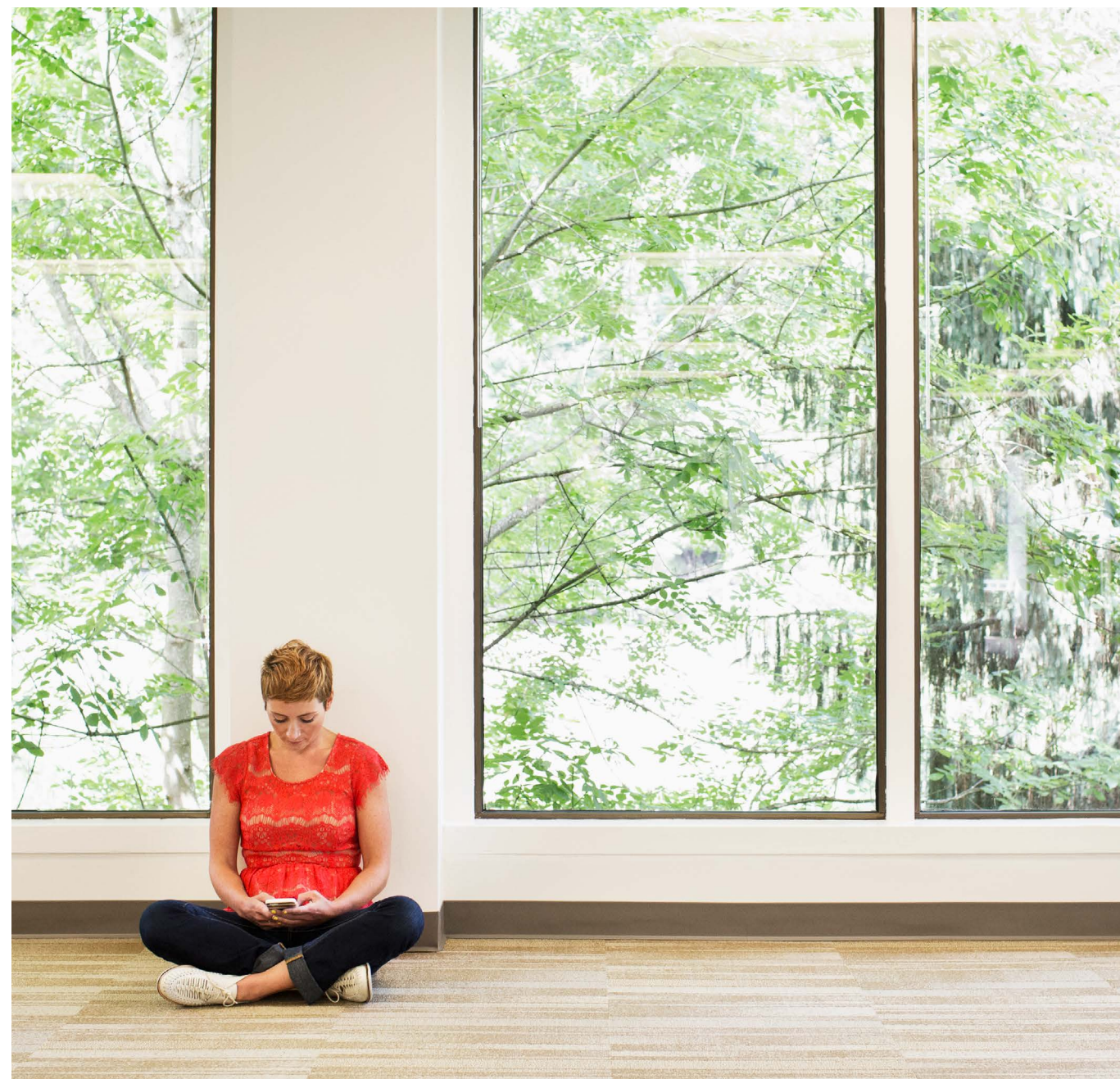
The momentum in investment activity seen in the final three months of 2020 was not carried over into 2021. Investment volumes reached £1.2 billion during the quarter which was 68% below the 10-year quarterly average of £3.7 billion and half the levels seen in the same period in 2020. This fall back was primarily due to a lack of stock being marketed as the structured lifting of lockdown measures pushed new launches back.

Activity from overseas investors was muted this quarter with just £827 million transacted, accounting for 71% of volumes. The largest deal was the purchase of 66 Shoe Lane, EC4 acquired by Wing Tai for £255 million at a net initial yield of 4.15%.

There is an estimated £3.0 billion currently under offer and a further £6.3 billion of assets potentially available. Activity is anticipated to pick up during the latter half of the year, with stock levels due to increase in line with the return to the office and opening up of borders.

Investment volumes





02 Key transactions



3 Sheldon Square, W2

Tenant: Bark.com

Size: 13,000 sq ft

Rent: Confidential

Description: JLL advised Bark.com on their acquisition of a new London HQ at 3 Sheldon Square. After considering both flex and traditional office solutions, moving into the fitted upper floor suite on a sub-lease provides the business with flexibility to account for their ambitious growth targets in the near future. The building is well connected for attracting talent, with national train links, Crossrail, the Heathrow Express and four underground lines on the doorstep.



Ed Smith
Central London Tenant Representation



45 Pall Mall, SW1

Price: £110.0 million

Purchaser: JP Morgan

Description: JLL were delighted to advise JP Morgan Asset Management on the off-market acquisition of this St James' core-plus freehold. The asset will benefit from planned capex and repositioning with potential to drive significant rental and capital growth in the short to medium term.



Rob Corbett
Head of West End Investment



Kaleidoscope, 4 Lindsey Street, EC1

Tenant: Bytedance

Size: 86,000 sq ft

Rent: Confidential

Description: Kaleidoscope delivers fantastic flexible workspace with large open floor plates benefiting from excellent natural light, uninterrupted views and a stunning terrace overlooking Smithfield Market. The sustainability credentials were also an important factor in Bytedance's decision making process with it having achieved a BREEAM Excellent rating. The building is situated on top of the new Farringdon Crossrail station meaning it is excellently connected for staff and visitors. Kaleidoscope will be a stunning new home for this exciting high growth business.



Tom Curry

Director, Central London Tenant Representation



Saffron House, EC1

Price: £78.30 million

Purchaser: M&G

Description: JLL were delighted to advise M&G on the acquisition of Saffron House on behalf of one of their separate Asian mandates. Having been launched to market after the first UK lockdown in September 2020, M&G were able to act quickly to secure the deal at a discount of over 10% on the original guide price. Saffron House provides excellent asset management opportunities in the short to mid-term and is located in the submarket of Farringdon, just 150m to the west of Farringdon Station and Crossrail.



Fraser Campbell-Wilson

Director, Central London Markets



03 Issue to watch

Health & Wellbeing - Creating places people want to be

We have witnessed an unprecedented global crisis that is likely to drive a fundamental change in how we live and work. Times are therefore uncertain for property owners and occupiers, with some office-based companies pondering the long-term viability of mass home-working, and developers of mixed-use buildings considering what the ‘healthy place of the future’ needs to look like. However, this rapidly emerging new world also presents significant opportunity.

As companies are directed to prioritise their most valuable asset – their people – their reflections will lead to far better recognition of what employees as human beings need to be fulfilled and productive. Those that address this now will reap the benefits of not only creating great places, but also delivering the best return financially.

JLL’s new health and wellbeing report illuminates three key learnings:

1 The next normal (2021 – 2025)

Developers and planners will need to put wellbeing and resilience firmly front of mind in placemaking designs, in order to attract occupiers and visitors. Changes will include:

- Greater use of technology
- Higher levels of flexible working
- More savvy occupiers – recognising the role of buildings on health

2 Owners of real estate will need to demonstrate that their asset is safe, healthy and supports wellbeing in order to drive value

Air pollution

Small increase in long-term exposure to particulate air pollution leads to significant increase in COVID-19 death rate.

Ventilation rate

Higher ventilation rates = lower disease spread.

Humidity

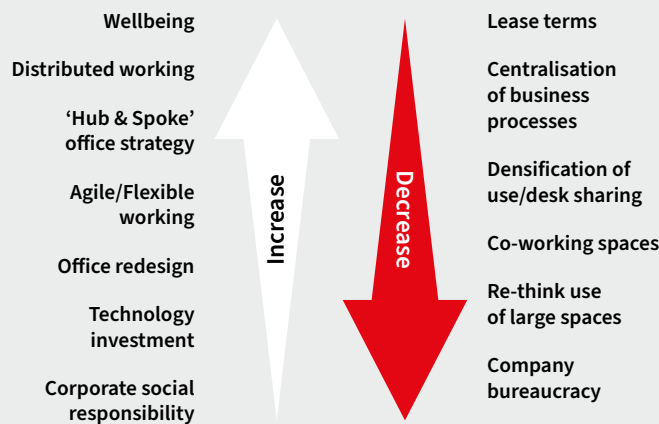
Humidity rate of 40-60% = lower infectivity of aerosolised viruses.






Industry standards emerging



Quality offices will need to demonstrate quality of space, including air quality, lighting, acoustics, biophilic design, activity levels and even social programmes.

3 Predicted CRE trends are already starting to happen



	Good practice	Best practice	World-leading practice
Active living 	<ul style="list-style-type: none">• Cycle parking• Minimal car parking• Car club spaces• Green spaces• In-house gym facilities	<ul style="list-style-type: none">• Convenient indoor cycle storage• No car parking• On site bike shop• Outdoor gyms• Attractive public leisure centres• Dedicated cycle routes	<ul style="list-style-type: none">• Active design principles incorporated into all buildings• Car-sharing rental services• Site logistics operation• Community designed parks• Dedicated cycle and pedestrian routes integrated into surrounding area
Community 	<ul style="list-style-type: none">• Creation of residents/tenants associations• Provision of community space	<ul style="list-style-type: none">• Provision of community activities through NPO partnerships• Support of arts events• Support of skills/education programmes	<ul style="list-style-type: none">• Community platform enabling an ecology of selfstarting groups• Collaboration with educational institutions, financiers to support entrepreneurs• Co-location of different age groups• Seniors housing linked with learning• Co-housing
Nature 	<ul style="list-style-type: none">• Enhanced biodiversity• Tree planting• Green spaces• Green roofs	<ul style="list-style-type: none">• Green walls• Intensive internal planting• Biodiversity action plans• Rooftop allotments• Community gardens	<ul style="list-style-type: none">• Infrastructure integrating amenity, water treatment, and transportation• Intensive external planting• Creation of natural forest-like views from all areas of the development
Light 	<ul style="list-style-type: none">• Above-average window sizes and floor to ceiling heights• Public spaces sunlit throughout the day	<ul style="list-style-type: none">• Building openings and orientation designed to maximise natural light and reduce internal lighting requirements	<ul style="list-style-type: none">• Masterplan designed to maximise internal and external natural light and reduce lighting requirements
Measurement 	<ul style="list-style-type: none">• BREEM Excellent• SKA Gold• CSH 4	<ul style="list-style-type: none">• PassivHaus Standard• WELL Building Standard• Socio-economic studies• Healthy building studies	<ul style="list-style-type: none">• Living Building Challenge• One Planet Living• Cradle to Cradle• Partnerships with academic/medical institutions to measure impact

Our new health and wellbeing report is designed to get our clients thinking about how to deliver healthy and safe places to work and live, understand the human impact of their real estate, and future-proof their buildings with smart use of technology.

When it comes to developing the place of the future, the report looks at what needs to be provided to meet the emerging needs of the people who will live, work and play in them. Good is simply not good enough any more, so how do we measure success?

Great places of the future will need to fundamentally address the indicators of health and wellbeing (summarised in the table above) at increasing levels of expectation and best practice.

In response to this challenge, JLL has developed health and wellbeing expertise by researching, developing benchmarking reports and including health and wellbeing as part of our advice to clients.

“The acceleration of ‘green health’ and the appreciation of our environment being a key indicator of mental health and happiness has driven a real imperative to ensure we have a softer, kinder recovery to a new normal. We have to put people at the heart of our new places, their health and wellbeing will be a fundamental part of the choice of where they live and visit as well as where they work (and who for). Those who address this now will reap the benefits of not only creating great places but also delivering the best return financially.”

Katie Kopec

Lead Director - Strategic Development Consulting, JLL



04 West End overview

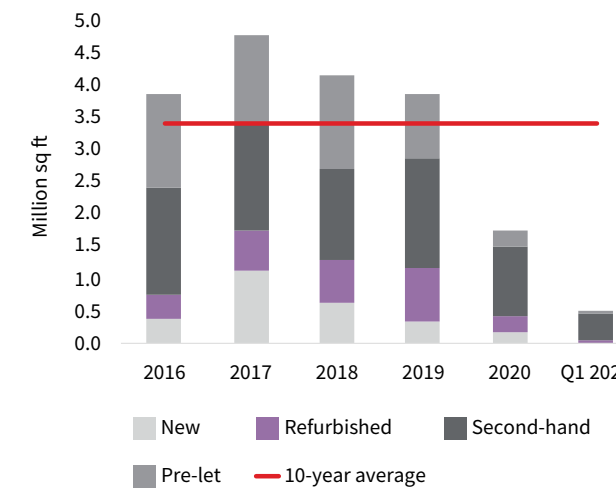
Take-up highest since start of pandemic

Take-up volumes picked up during the first quarter, reaching 493,000 sq ft across 30 deals, the highest level since Q1 2020. Despite the increase, take-up was still below the 10-year quarterly average of 859,000 sq ft.

The banking & finance sector leased the most space in Q1 and accounted for 37% of take-up. This was followed by the TMT sector at 13%.

Pre-leasing activity was subdued with a single pre-let taking place at 1 Berkeley Street, W1 in which Waypoint Capital secured 35,500 sq ft on the upper three floors.

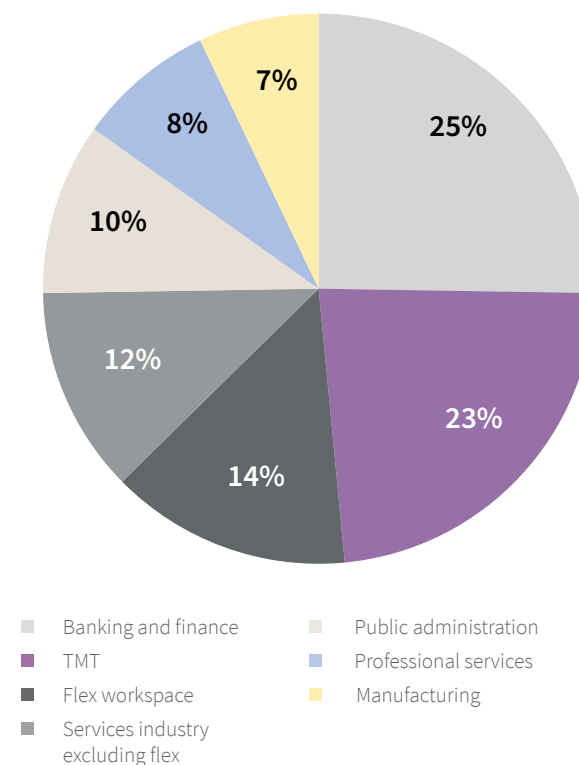
Take-up



The level of under offers decreased by 19% during the quarter and stood at 577,000 sq ft, below the 10-year average of 709,000 sq ft. The fall was mainly the result of deals completing but not being replaced by new under offers, suggesting that occupiers may remain cautious in the short term.

Active demand was also stable at 2.8 million sq ft and remained below the 10-year average of 3.3 million sq ft. The banking & finance sector was the most active, accounting for 25% of floorspace required. This was followed by the TMT sector at 23% and flexible offices at 14%.

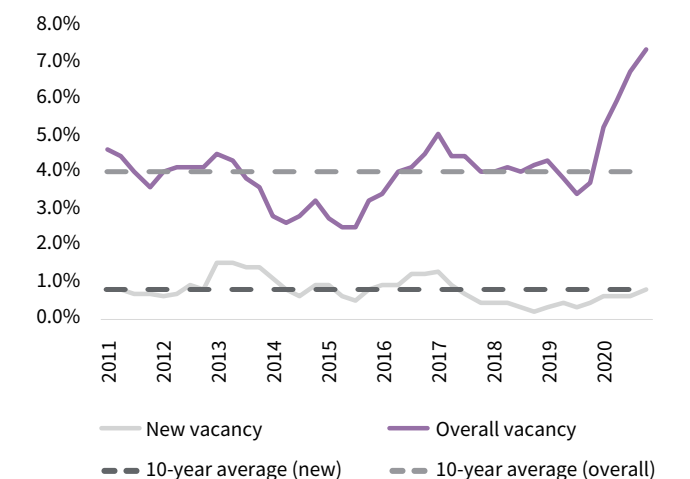
Active demand by sector (Q1 2021)



Overall vacancy increases further

Supply increased by 9% to 7.2 million sq ft due to a rise in second-hand space brought to market. Second-hand space increased by 497,000 sq ft (8%) over the quarter. The overall vacancy rate rose from 6.7% to 7.3%, above the 10-year average of 4.0%, and also the highest since Q4 2009. New supply increased slightly following the completion of Scale Space, W12 (56,000 sq ft) and the new build vacancy rate ticked up to 0.8% and is now in line with the 10-year average.

Vacancy rates

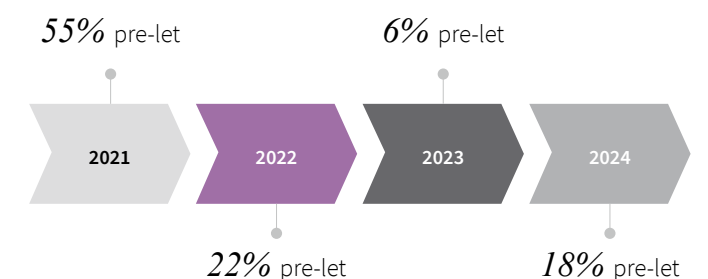


Tenant-controlled space increased by 10% and stood at 2.9 million sq ft. It accounted for 41% of overall supply with some of the larger units including 196,000 sq ft at 171 Victoria Street, SW1 and 167,000 sq ft available at 80 Strand, WC2.

Speculative development completions totalled 88,000 sq ft across two schemes. Along with Scale Space, W12, the refurbishment at 60 Charlotte Street, W1 also completed, releasing 34,000 sq ft to the market.

Looking ahead to the end of the year, 3.2 million sq ft is expected to be delivered in 2021 and 1.8 million sq ft of this (55%) has already been pre-let.

Development pipeline



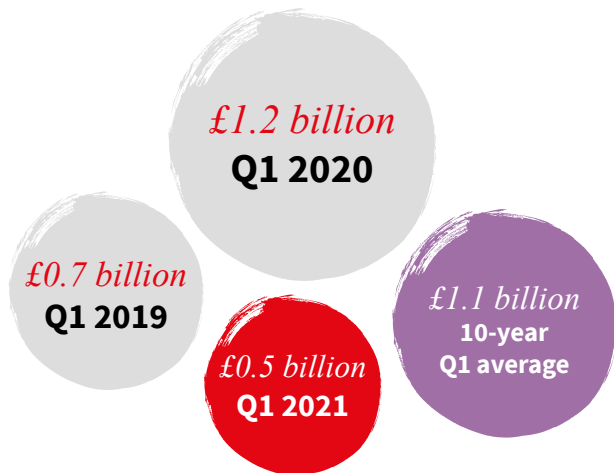
Prime rents unchanged

Prime rents and rent-free periods in the Core were unchanged at £115.00 per sq ft and 24 months respectively for this quarter (assuming a 10,000 sq ft floor plate and a 10-year term). Prime rents were also unchanged in all other West End submarkets.

Investment volumes fall in Q1

Investment volumes reached £541 million across twelve transactions in Q1, below the 10-year quarterly average of £1.4 billion.

Investment volumes

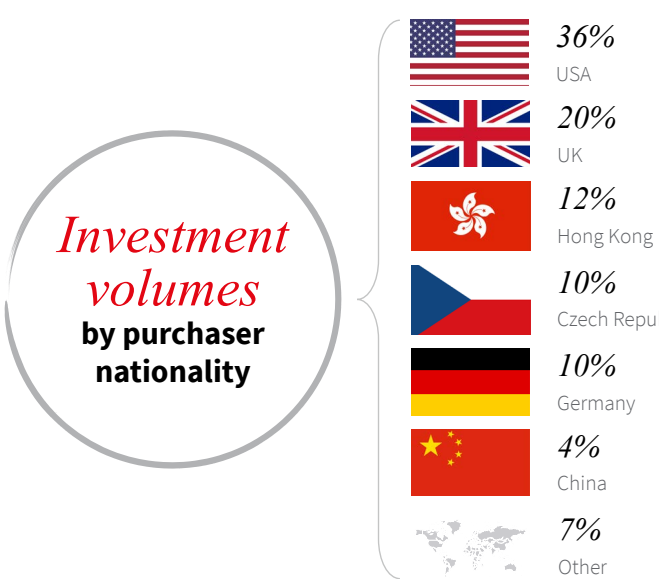


The largest deal of the quarter involved the sale of 45 Pall Mall, SW1 which was bought by JP Morgan for £110 million reflecting a net initial yield of 4.55% and capital value of £1,851 per sq ft.

Investors from the USA accounted for the largest share of investment volumes during the quarter at 36% across three deals. This was followed by UK-based investors with a share of 20%, also across three transactions.

Property companies were most active in Q1 and had a 39% share of total investment volumes.

Investment volumes by purchaser nationality (Q1 2021)



Prime yields remained unchanged at 3.50% for lot sizes below £40 million. Yields for lot sizes between £40 million and £125 million were unchanged at 3.75% but trending stronger. Prime yields were 3.75% for lot sizes above £125 million.





05 City overview

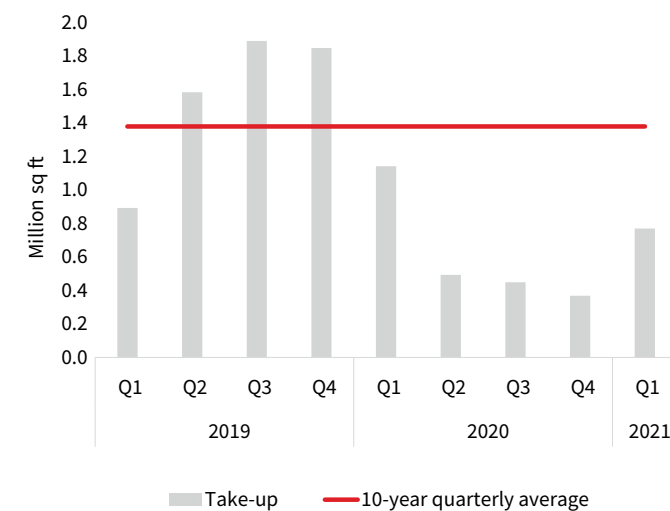
Take-up recovers from record low

Take-up recovered from the record quarterly low in Q4 2020, although the Q1 total of 770,000 sq ft is still 44% lower than the 10-year quarterly average of 1.4 million sq ft. Latham and Watkins' pre-commitment to lease 200,000 sq ft at Leadenhall Court, EC3 was the largest transaction of the quarter.

This transaction together with a further nine deals meant that professional services remained the most active business sector, accounting for 43% of take-up across the quarter.

Under offers remained broadly unchanged at 768,000 sq ft, although were 44% below the 10-year average and as a result we expect leasing volumes to continue at below average levels in the near term.

Take-up

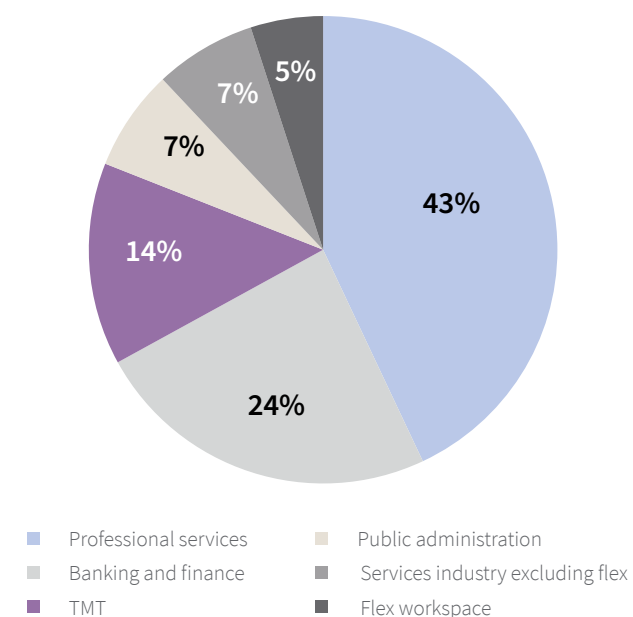


Legal sector driving demand

Overall demand decreased 13% to 7.1 million sq ft, and was 26% lower than the Q1 2020 total of 9.6 million sq ft, and 28% lower than the 10-year quarterly average of 9.9 million sq ft. The quarterly fall was driven by a 38% drop in potential demand which ended the quarter at 1.7 million sq ft, and was 52% below the 10-year average.

Active demand remained unchanged at 5.4 million sq ft and was broadly in line with the 10-year quarterly average. Professional services accounted for the largest share of active requirements at 43%, principally driven by law firms who accounted for 21 active requirements totalling 1.8 million sq ft.

Active demand by business sector (Q1 2021)

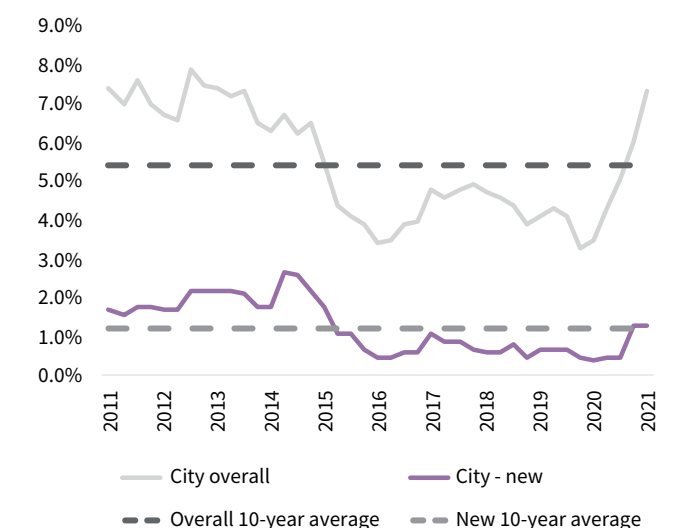


Vacancy highest since 2009

Supply continued to rise, increasing 20% in Q1 to 8.9 million sq ft, and reaching its highest level since Q4 2009. This resulted in a 1.3% uptick in the overall vacancy rate, which ended the quarter at 7.3%, compared to the 10-year quarterly average of 5.4%.

Tenant-controlled space available on a sub-lease or assignment increased 30% to 2.9 million sq ft, and accounted for 32% of overall supply. The relatively low level of quarterly development completions had a negligible impact on the new build vacancy rate which remains in line with the 10-year average at 1.3%.

Vacancy rates



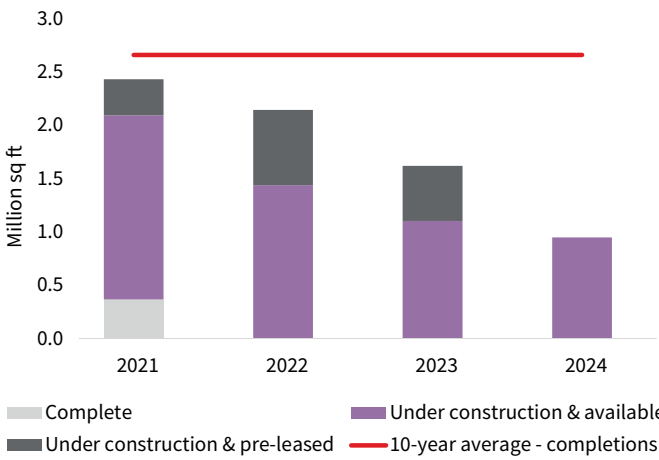
Marginal uptick in speculative development

Development completions totalled 369,000 sq ft across four schemes including The Bard, The Stage, EC2 where 65,000 sq ft remains available and LDN:W, Noble Street, EC2 where the majority of the scheme (106,000 sq ft) is available following a single floor pre-let to Nippon Insurance (7,000 sq ft).

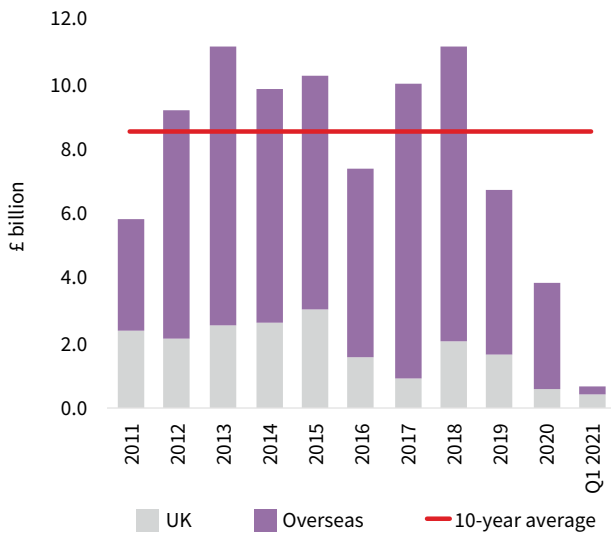
Speculative development starts totalled 263,000 sq ft across three schemes: The Forge, 133 Park Street, SE1 (134,00 sq ft), 66-86 Farringdon Road, EC1 (70,000 sq ft) and 9 Prescott Street, E1 (59,000 sq ft).

The level of speculative space under construction recorded a marginal uptick to 5.2 million sq ft. 1.8 million sq ft of which is scheduled to complete in 2021, with a further 1.4 million sq ft in 2022.

Committed development pipeline

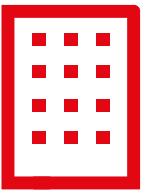


Investment turnover



Divergence between prime and grade B rents

Prime rents remained unchanged at £70.00 per sq ft, following three consecutive quarterly falls. Typical rent-free periods remained unchanged at 27 months, based on a 10-year lease term. The increase in tenant-controlled supply has put downward pressure on grade B rents, which have fallen by 3% on average across the City's 10 submarkets.



56%
Property company



29%
Private



15%
Institution

Investment turnover stalls

Investment volumes fell back, following a strong final quarter in 2020, reaching £618 million compared to £2.1 billion in Q4 and 71% below the 10-year quarterly average. The purchase of 66 Shoe Lane, EC4 by Wing Tai for £255 million, reflecting a net initial yield of 4.15% and capital value of £1,624 per sq ft, was the largest of the quarter and the only transaction in excess of £100 million. This transaction boosted the overseas share of quarterly turnover to 64%.

Prime yields remained unchanged at 4.00% across all lot sizes.





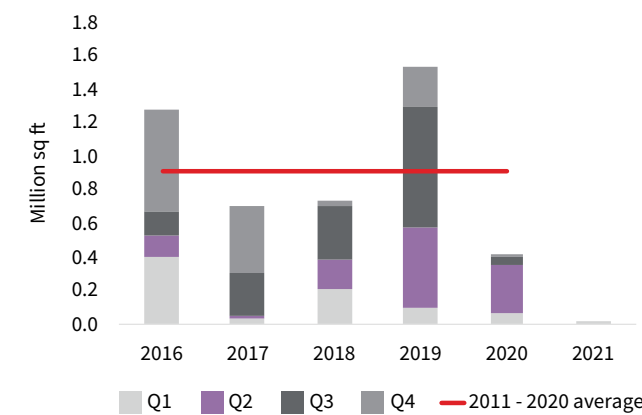
06

East London overview

Single transaction in Q1

The East London leasing market remained subdued. There was a single leasing transaction completed during Q1. World Fuel Services acquired 11,000 sq ft at 1 Canada Square, E14. This was the slowest start to a year since Q1 2009 and was on a par with last quarter.

Take-up



Demand remains subdued

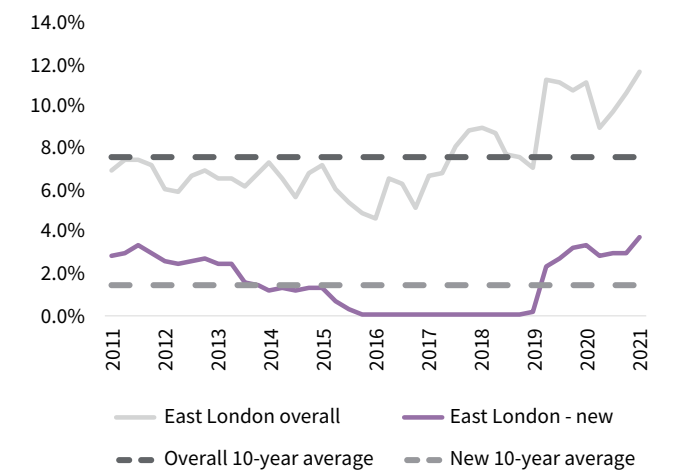
Overall demand fell by 9% to 2.4 million sq ft, 30% below the 10-year quarterly average of 3.5 million sq ft. Within this, active demand stood at 1.4 million sq ft, up from 1.1 million sq ft in Q4 but still 40% below the 10-year average of 2.3 million sq ft. The banking & finance sector was most active, accounting for a 59% share of active demand, followed by the professional services sector at 15%.

First completion at Wood Wharf boosts vacancy

Supply increased by 11% to 3.1 million sq ft during the quarter, reflecting a vacancy rate of 11.7%. This was significantly higher than the 10-year average of 7.5%, as well as the current levels recorded in the City and West End where vacancy was 7.3% in both markets. The increase was fuelled by the completion of 211,000 sq ft at 20 Water Square, E14. Tenant-controlled supply available on a sub-lease or assignment totalled 961,000 sq ft, reflecting a 31% share of overall supply.

As a result of the aforementioned completion, the volume of space under construction speculatively fell to 237,000 sq ft, below the 10-year average of 397,000 sq ft.

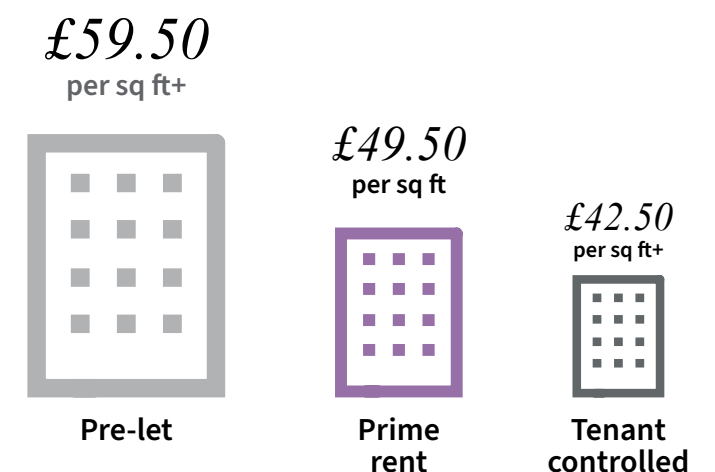
Vacancy rates



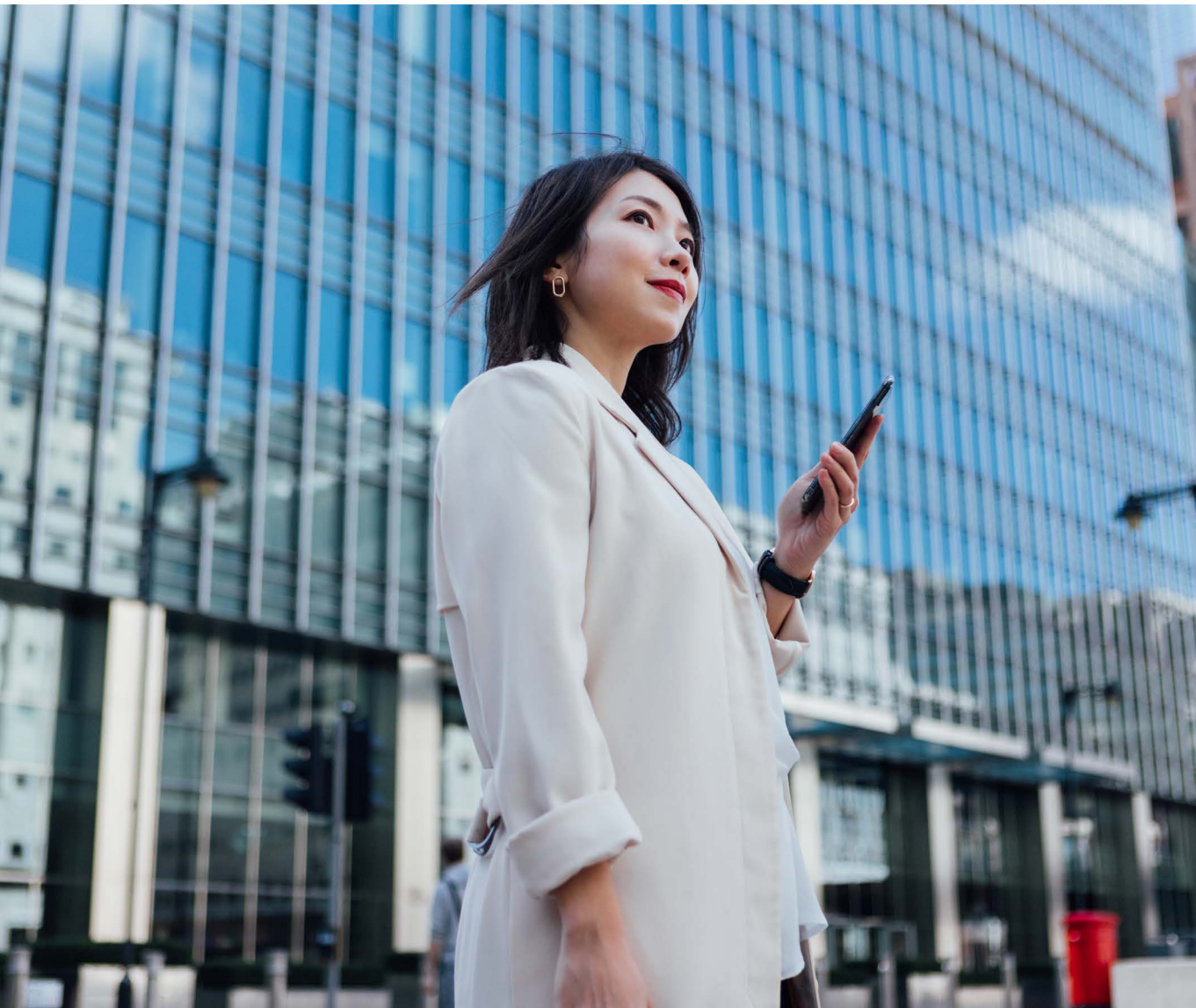
Three-tiered rental market

Prime rents were unchanged at £49.50 per sq ft in Q1. Tenant-controlled supply was available at rents from £42.50 per sq ft and continued to restrict rental growth, while pre-let supply was marketed at rents of £59.50 per sq ft.

Rental bands



There were no investment transactions completed in East London in Q1.



07

Rental conditions in Central London

1	Battersea	4	Camden	7	Kensington & Chelsea	10	Marylebone	13	Fitzrovia
	£55.00		£57.50		£70.00		£70.00		£87.50
	£81.30		£92.94		£118.54		£104.95		£132.33
2	Belgravia & Knightsbridge	5	Covent Garden	8	King's Cross	11	Mayfair	14	North of Oxford Street
	£77.50		£82.50		£82.50		£115.00		£87.50
	£130.98		£123.63		£124.86		£178.37		£138.51
3	Bloomsbury	6	Hammersmith	9	Euston	12	Nine Elms	15	Paddington
	£80.00		£54.00		£72.50		£57.50		£72.50
	£118.65		£85.74		£113.63		£86.27		£107.45



■ Prime rents per sq ft ■ Occupancy costs per sq ft

16	Soho	20	Waterloo	24	Eastern	28	Clerkenwell	32	Canary Wharf
	£92.50		£62.50		£70.00		£78.50		£49.50
	£142.27		£90.28		£104.08		£112.21		£75.80
17	St James's	21	White City	25	Aldgate	29	Southbank	33	Stratford
	£115.00		£57.50		£60.00		£70.00		£45.00
	£190.72		£84.89		£92.23		£106.18		£69.57
18	Victoria	22	City Core	26	Northern	30	Southern	34	Whitechapel
	£77.50		£70.00		£70.00		£67.50		£60.00
	£122.33		£107.85		£104.08		£104.09		£90.01
19	Vauxhall	23	City Midtown	27	Shoreditch	31	Western		
	£57.50		£70.00		£70.00		£72.50		
	£85.03		£109.10		£102.48		£109.09		

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