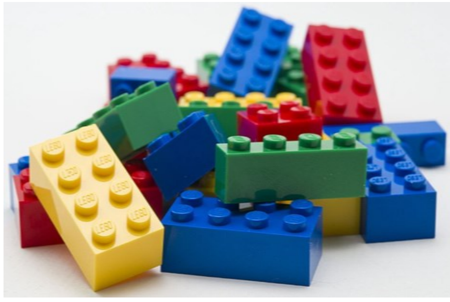
Ramidus Consulting London Office Market Update #7

SO FAR, SO GOOD; BUT PLANNING NEEDS TO STEP UP AND HELP

Television out ….
Toys in …

The latest on London's office market



Thirty years ago the Richard Rogers-designed **Channel 4** building broke the mould by opening in SW1. Yes, Victoria! The 160,000 square foot building in Horseferry Road was a brash addition to the normally staid world of Ministers and Mandarins. Now it is leaving, taking most jobs out of London. In an almost simultaneous announcement, **Lego Group** revealed a search for a HQ of up to 200,000 sq ft. A toymaker HQ in central London? Probably a first in modern times.

London's office market continues to fascinate and surprise in equal measure.

Adjusting to a post-pandemic market

March of this year marks the fourth anniversary of the first Covid-19 lockdown when, almost overnight, office workers across the country found themselves working from home. Now, four years on, there is a creeping acceptance among employers and the property supply industry that there will be no return to the *status quo ante*.

The Big Question now is how do we deal with the fallout? European cities are showing nothing like the stress of American CBDs, many of which are now reporting 20%+ vacancy rates. Nevertheless we have to adopt innovative approaches to managing the impact of hybrid working on use patterns and overall demand.

Before Covid, a 30% drop off in demand (as implied by the widely published data on daily attendance at offices) would have caused market convulsions. Indeed, in the immediacy of the storm, a rapidly expanding market commentariat talked of an 'existential crisis' for offices. And yet, against the odds, most market indicators suggest a calmer reaction, albeit overcast by a long shadow of uncertainty – both in terms of the impact of hybrid working and wider political and economic uncertainty.

Occupier activity

As flagged above, the iconic **Channel 4** headquarters in Victoria looks set to close as the TV producer seeks to cut costs and move staff north, possibly to Leeds. The site, no doubt, will be subject to bids for luxury residential use.

And as one iconic brand shuts shop, another opens; or at least expands. In January, Danish toy company **Lego Group** confirmed that it was looking for a new 150,000-200,000 sq ft of headquarters in the capital. The group currently occupies just under 50,000 sq ft in two EC4 buildings (New Fetter Lane and Plough Place).

Following on from announcing its departure from Canary Wharf, **HSBC** recorded the largest London deal of 2023 in confirming its move to the 556,000 sq ft Panorama St Paul's, EC1 (the redeveloped BT Newgate Street HQ). In some contrasting rare good news for Canary Wharf, **Barclays Bank** has agreed to extend its lease by five years at One Churchill Place, E14 to 2039. As part of the deal, Canary Wharf Group will take a sublease on Barclays' the 560,000 sq ft, 10 Cabot Square, from where Barclays will move its investment bankers to the one million sq ft Churchill Place.

In a deal that sees a new member of London's (rapidly shrinking) 'million square feet club', **Amazon** has leased 180,000 sq ft at The Stage in Shoreditch. The scheme is very close to Principal Place, EC2 where Amazon already occupies over 500,000 sq ft. The Stage had previously been leased by WeWork. Amazon also occupies Moor Place, EC2 (100,000 sq ft) and Sixty London Wall, EC2 (210,000 sq ft).

In December, Berkeley Estate Asset Management pre-let the whole of its 176,000 sq ft office scheme at 50 Berkeley Street, W1 to global investment firm **Millennium** for its European HQ. Millennium has occupied the building since 2004, and has temporarily relocated during the redevelopment. Millennium will be near neighbour to investment manager **Blackstone** which, earlier in 2023, pre-let the whole 275,000 sq ft redevelopment of Lansdowne House on Berkeley Square.

Other notable moves include the following.

- Retailer **Sainsbury's** signed for just over 68,000 sq ft at Helical and Ashby Capital's 200,000 sq ft JJ Mack Building, EC1. The firm will exit its current building at 33 Holborn, EC1.
- French reinsurance provider **SCOR** has signed a deal to take 50,000 sq ft and specialist insurance provider and cyber group **CFC** has signed for 90,000 sq ft, both at 8 Bishopsgate, EC2 in a deal that takes the new tower to 80% leased. They will be joining law firms King & Spalding (41,000 sq ft), Proskauer Rose (60,000 sq ft) and HFW (60,000 sq ft).
- Lawyer **Debevoise & Plimpton** has taken space at The Northcliffe, Tudor Street, EC4, for its new UK head office. The New York law firm will occupy 68,000 sq ft across the c190,000 sq ft building.

Other major searches known to be underway include those for professional services group **Accenture**; US insurance broker **Gallagher**; Japanese investment bank **Nomura**, credit card company **Visa** and telecoms group **Vodafone.**

Vacancy

JLL data show active demand (requirements) reaching 12.2m sq ft at the close of 2023. This is up 42% on 2022 and includes 25 individual requirements in excess of

100,000 sq ft. JLL suggest that this "*showcases the underlying strength of the market*". The firm's vacancy data suggest a central London average of 9.2% in Q4 2023 (with the ten year average running at 5.7%. This rate varies between sub-markets.

In November, Landsec offered an interesting perspective on vacancy in Central London. It suggested that, more than 80% of London buildings are full, and that 40% of the vacant space is concentrated in just 1% of buildings, and that most of this space was in the City and Docklands.

New development

We reported in LOMU #6 that large new development schemes continued to come forward. Within this overall trend there has been a particular growth in refurbishment schemes, most likely as a result of the Minimum Energy Efficiency Standards (which demand a minimum Energy Performance Certificate rating of 'E' by 2025 and of 'C' by 2027).

In November, Deloitte released the latest *Crane Survey*, which tracked 5.1m sq ft of new construction starting across 43 schemes in the capital. This is nearly 16% higher than recorded in the previous survey, and marks the highest volume of new starts since the survey began recording new construction activity across seven Central London submarkets in 2005. The *Crane Survey* lists 124 schemes as currently under construction, the total volume exceeding 15m sq ft.

The following examples provide some colour to these bald statistics.

Fenwick's New Bond Street, W1 Lazari Investments has submitted plans to Westminster City Council for the refurbishment and extension of the iconic store from where Fenwick's has traded for 130 years. The Foster + Partners-designed scheme involves a smaller retail offer (50,504 sq ft) and 175,043 sq ft of offices.

1 Undershaft, EC3 Singapore developer Perennial Group and development manager Stanhope have lodged revised plans for its 2016 consented 73-storey, 1.4m sq ft tower on the site of the existing Aviva Tower or the Commercial Union building. The revised proposals increase the amount of office space to 1.7m sq ft, and the building will stand taller than 22 Bishopsgate.

Blackfriars, EC4 Network Rail and developer Almacantar are working up plans, with architect Bennetts Associates, for a 3.6ha riverside site. The Puddle Dock proposals include a large eight-block redevelopment next to Blackfriars station in the City of London.

Waterloo, SE1 Bourne Capital has secured planning approval for its Waterloo Central office tower from Lambeth Council. The tower, which sits on land adjacent to Waterloo station, will provide 315,000 sq ft of workspace. That includes 18,000 sq ft of affordable space for the creative and cultural sectors.

Shoe Lane, EC4 Landsec has submitted proposals to replace Hill House on the corner of Shoe Lane and Little New Street with a new 18-storey, 614,000 sq ft tower. Offices will span the first to 16th floors, measuring 466,519 sq ft, with each floorplate benefiting from access to a landscaped terrace.

Museum Street, WC1 In a rare West End scheme, developer Simten, backed by investor BC Partners, will oversee the delivery of a 19 storey, 180,000 sq ft office-led mixed-use building, recently consented by Camden Council.

Life sciences sector

The life science sector has been experiencing very rapid growth over recent years, and four large schemes have taken significant steps forward in recent months.

Euston Tower, NW1 British Land has submitted plans for the tower's redevelopment to provide a life sciences and innovation hub. The 36-storey, 1960s tower will make way for 541,370 sq ft of offices, 263,673 sq ft of lab-enabled space, and 29,611 sq ft of retail and community space.

Royal Street, SE1 Plans brought forward by Stanhope and Guy's & St Thomas' Foundation as the focus of the 'SC1 innovation district', have been approved by Lambeth Council. Despite controversy over the scale of the proposals, Lambeth have consented the creation of 1.7m sq ft of lab-enabled offices, 133 homes and 52,000 sq ft of retail and leisure facilities.

London Cancer Hub, Sutton The London Borough of Sutton confirmed the selection of insurer Aviva and developer Socius as partners to advance the development of the London Cancer Hub ON a five hectare site adjacent to the Royal Marsden hospital and Institute for Cancer Research. The project will deliver 1m sq ft of research, treatment and innovation spaces.

Victoria House in Bloomsbury Square, WC1 Oxford Properties and Pioneer Group have appointed contractor Wates Group to convert the building, providing 220,000 sq ft of wet-lab-enabled life sciences space. There will also be 80,000 sq ft of office, amenity, meeting and retail spaces, plus an eighth-floor club lounge and roof terrace overlooking central London.

The flexible space market

The flexible space market continues to show robust performance, including by absorbing three buildings previously leased by WeWork.

- **Keltan House, Mare Street, E8** The building has been taken by operator Eat Work Art for occupation in early 2024.
- **Shoreditch Exchange, Hackney Road, E2** Regal London has appointed Platform to replace WeWork as operator of its 140,000 sq ft building.
- **The Stage, EC2** As noted above, Amazon has leased 180,000 which WeWork pre-leased in 2018.

At the height of its rapid expansion, WeWork took over 60 leases in London across c4.5m sq ft. The fallout from WeWork's collapse is also being felt in Brussels. In January, the Financial Times reported that the EU is facing a €450m bill for the remaining 14 years on the European Medicines Agency's building's lease at 30 Churchill Place, Canary Wharf. The Agency vacated the building and sublet it to WeWork in 2019, with the head lease stretching out to 2039.

A number of other deals have taken place since the previous LOMU.

- **Orega** took its first West End office, signing a ten year management agreement with Pearson PLC, at 80 Strand, WC2. It will operate a 630 workstation, 35,000 sq ft facility on the ground floor.

- **Landmark Space** is expected to agree a lease on the BBC's Wogan House, at 99 Great Portland Street, W1. The 37,000 sq ft building will undergo refurbishment to improve its ESG rating. The lower ground floor will offer amenities and facilities including a wellness room, gym and showers.

- **Fora** (which merged with TOG last Autumn) is set to operate a facility at Sixty London Wall, EC2, where it has signed a management agreement, with landlord LaSalle Investment Management, to run 33,000 sq ft of space from the latter half of 2024.

- **Huckletree** is taking space at Mitsubishi Estate London and Stanhope's 8 Bishopsgate, EC3.

Away from offices ….

Turning for a moment to indicators of the wider health of the London economy, London's lustre to investors seems to be resilient. For example, in October, Savills reported that demand for the **most expensive homes** remained strong. In the nine months to September, the firm logged 390 sales of properties worth £5m or more, 67% higher than the pre-pandemic three year average.

Similarly, in the **hotel sector**, according to a survey by Deloitte, London has become the most attractive European city for investment, with three-quarters of the senior hospitality leaders, owners, lenders, developers and investors surveyed stating that they were optimistic about the long-term future of the UK hotel market, up from two-thirds of respondents last year.

Oxford Street In LOMU #4 we reported on plans to convert six West End department stores to alternative uses, including the potential for 1.3m sq ft of office space. This was amid widespread concern over the continuing malaise of London's premier shopping destination – Oxford Street. However, things seem to be making a turn for the better. First came news that the emblematic HMV store was re-opening. Then in December, property industry journal Estates Gazette was able to report on a significant turnaround. The article reported that, during 2023, more than 23 candy stores had disappeared from the street, while some 20 new stores had opened, with a further 22 under offer. As well as HMV, new openings included those to Dr

Martens, Footasylum, HMV, Reserved, Samsonite and Under Armour, while the street awaits the opening of the 82,000 sq ft Ikea store in 2024.

London's **Film & TV** sector continues its extraordinary growth of the past four years. In late 2023, Quartermaster Entertainment and VERB announced a new 1.75m sq ft film studio near Houghton Conquest in Bedfordshire. This follows several announcements of new studios across the M25 region over the past year or so.

Investing in the future

In July to September 2023, there were 103 new FDI projects in London, worth £1.3bn in capital expenditure according to estimates by FDI Markets. In the five years before the pandemic, the average per quarter produced around £1.5bn of new FDI projects.

Research released by the Corporation of London in January ranked London as the world's number one financial centre. The annual ranking exercise put arch rival New York into second place, The survey uses 101 metrics in the benchmarking research, ranging from "reach of financial activity" to "business infrastructure resilience". Other statistics in the report included the following.

- Private equity and venture capital firms invested £14bn into early stage UK fintech companies in 2022, three times more than in France, Germany, Hong Kong, Japan and Singapore combined.
- Net financial services exports reached a record £72bn in 2022, ensuring the UK's place as the world's largest net exporter of financial services.
- There are over 138 start-up firms valued at over $1bn (£0.79bn) in the UK, more than in France, Germany and Singapore combined. London is home to 104 of them. The City's European rivals Frankfurt and Paris came fourth and fifth respectively, also behind third-placed Singapore.
- Fintech firms and investment banks opening offices in London helped foreign direct investment rise by 68% to more than £2bn in 2022. Around 15,000 jobs were created.
- Foreign investment in UK Financial & Professional Services reached £2.1bn in 2022 and created 15,000 jobs, a 68% increase in capital invested compared to 2021, and 39% more projects. In the past five years, London has been the world's number one destination for financial services FDI.

Such a list of stats is testament to London's resilience and its ability to respond quickly and effectively to rapidly moving macro-economic forces.

Forecasts

London's economy and office market continues to perform well. In January this year. GLA Economics estimated that the number of workforce jobs in London reached 6.48 million in June 2023, up 6.6%, or 400,000 jobs, on the pre-pandemic, December 2019 level. London's GDP was up 7% year-on-year in Q3 2022 and down 0.1% in the most recent year to Q3 2023, but continues to outpace the UK.

SO FAR, SO GOOD; BUT PLANNING NEEDS TO STEP UP AND HELP

Latest data show that London's economy is now c5% larger than before the onset of the pandemic, and the job market continues to grow. According to the City of London Corporation there was a 29,000 (5%) increase in jobs in the City in 2022 compared to 2021, taking the total to 615,000 jobs. Given the impact of the pandemic, this is robust growth.

The latest forecasts from the GLAE suggest that across Greater London, the office economy [1] will grow by 366,000 jobs between 2023 and 2040. To give this context, the number of jobs grew by 527,000 between 2011-2023. Under traditional methods of measurement this represents additional demand for c47m sq ft (4.4m sq m) of office space – albeit the traditional relationship between headcount and demand is changing due to hybrid working.

Despite these positive statistics, the general consensus is that London's growth, in common with the rest of the Eurozone, is set for a period of weak growth. Doing well compared to other centres is not enough when the other centres are flat lining at best.

Prospects

In a departure from the normal format of these London Office Market Updates, this paper concludes on a rant! A well-meaning and well-reasoned rant, as you'd expect. But things need to be said. My justification is that the subject of the rant is posing a real threat to the strength of the office market. Here we go….

London is a confident, successful, world class city. Time and again it has reinvented itself. In recent years it has established globally leading roles in architecture & design, computer & digital, film & TV and life sciences. And London, as shown above, has become a hotbed of start-up culture. This is all fantastic news for the City. But there are times when one could be forgiven for thinking that it is being taken for granted in public policy terms.

London needs to grow; to reinvent; to challenge, to create, to build and to attract. To do all this it needs sympathetic public policy backdrop. But we have a growing list of stifling behaviours and decisions that threaten to turn investors away.

The London Mayor has resisted high profile attempts to provide London with global attractions. Remember the Garden Bridge? The Tulip? And most recently the MSG Sphere? The backers of all these schemes gave up the ghost having faced years of costly, politically driven procrastination. The Mayor has also failed to back new, much needed, river crossings, while the Hammersmith Bridge is soon to mark the fifth anniversary of its 'temporary' closure. City Hall has also been largely responsible for allowing a catastrophic loss of industrial land and property over the past decade or so (the chickens have yet to come home to roost on this one).

[1] As represented by the key sectors of Information & Communications; Finance & Insurance; Professional Services and Administrative & Support Services.

Central Government has also made its contribution to this growing list of stifling decisions. The pantomime antics over the proposals for the M&S store at Marble Arch stand out. The scheme has become a cause celebre in the 'refurbish versus redevelopment' debate and rational discourse about the future viability of the building in question for retail use has been cast aside while wider political battles are fought and the legal profession makes another mint.

And now we have the Secretary of State's intervention on the proposed redevelopment of the former ITV studios on the South Bank. The scheme by Mitsubishi Estate and developer Co-Re, at 60-72 Upper Ground, SE1, was consented by Lambeth Council and by the GLA in 2022, but then called in by Michael Gove, and we are still awaiting the outcome of the public inquiry which concluded in January 2023. Why should the developers bother?

Policy needs to balance control with creation. Whatever your views on the architectural merits of the Garden Bridge, the Tulip and the MSG Sphere, they were all bold attempts to give London something to attract global attention. So, we need to create. For example, it is a case for national shame that London does not have a world-class conference centre, similar in quality say to the Convention Centre Dublin. Such a facility would be huge benefit to Global London.

The wider planning system has been degraded by central government over many years. While proper scrutiny is not denied here, the 'computer says no' culture now pervading planning does no-one any favours. London needs a creative, responsive and market-aware planning context.

London is a magnet for investors and leading edge office organisations not just because it produces great buildings. 'Getting things done' is a top priority for such business, and wasteful, inefficient, pointless bureaucracy is a huge deterrent. Competition between global cities is no respecter of tradition; and we take London's leading role for granted at our peril.

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