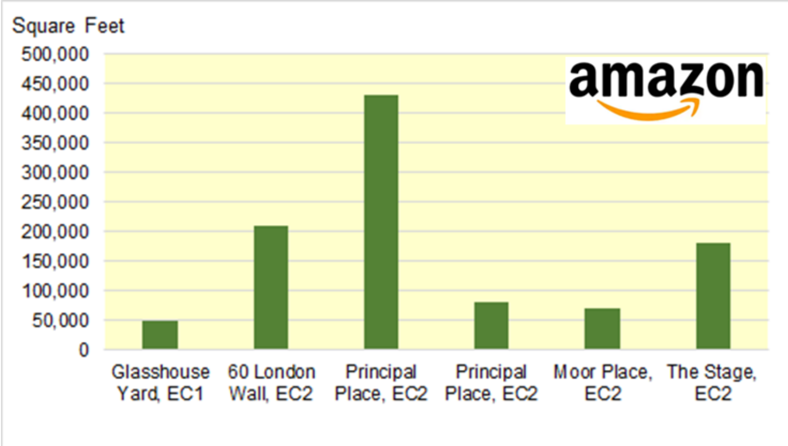
Ramidus Consulting: London Office Market Update #9

VC, FDI, SCIENCE AND FLEX, DCS AND HE

On-line retail giant Amazon recently announced a strict ‘return to office’ mandate (five days in the office), causing consternation within the workplace design community.



What is less well-known is that, over the summer, the company leased space previously taken by WeWork in Shoreditch (see below). The deal was Amazon’s sixth in London, taking its whole office portfolio there to over one million square feet. It means that Amazon is now probably the largest private sector occupier in London, as the big banks shrink their bloated footprints. Previously, between 2014 and 2019, WeWork had amassed 4.5m sq ft through 63 leasing deals before imploding in late-2023. Somehow, Amazon’s estate seems more stable!

London economy

London’s job market remains in rude health – given the wider context of uncertainty. The **total number of jobs** has grown by nearly 17% since March 2016, reaching 6.65m in March this year. In terms of office jobs, these rose from 1.98m to 2.33m, or by 17.6%, over the same period. [1] Growth has been particularly vigorous in digital and tech, which have attracted growing investment.

According to figures from Dealroom published in CityAM, **UK tech firms** received £7.4bn of venture capital (VC) during H1 2024 (up 16% in the same period last year), more than France and Germany combined (£6.8bn) and five times Switzerland’s total (£1.25bn). The increase was driven by a rebound for London, which saw a 30% jump in VC investment to £5.3bn; ahead of Paris (£2.4bn) and Stockholm (£940m). Cambridge also entered the top 10 European cities for funding, with an 83% growth to £517m.

London’s enduring attractiveness to overseas investors was also evident in the latest **Foreign Direct Investment** (FDI) data from EY.

- The UK recorded 985 FDI projects in 2023, up 6% from 2022 (ranking second in Europe). The UK’s share of Europe’s FDI market grew to 17.3%.
- UK FDI growth driven by resurgence in digital investment, securing over a quarter (27%) of all European tech projects last year.
- Greater London recorded 359 FDI projects in 2023, a 20% increase on 2022, making it Europe’s highest performing region for FDI.

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Counter to the UK and London, Europe as a whole recorded a 4% year-on-year decline in FDI with a total of 5,694 projects in 2023: its lowest FDI total since 2020 and 11% lower than its pre-pandemic level.

Demand and supply

Leasing activity across central London has remained strong, with the latest data from JLL showing activity slightly ahead of 2023. According to JLL's numbers, some 2.8m sq ft of central London offices were let in Q3, with the West End performing particularly strongly. Year-to-date deals total 6.6m sq ft, which is up by 5% on the same period in 2023.

The same JLL data showed that speculative construction stood at just under 11m sq ft, more than half of which comprised refurbishments. New build schemes underway have attracted a higher rate of pre-lettings, with 51% pre-let compared to just 30% for refurbished space.

According to BNP Paribas prime rents in Central London continue to grow as demand remains strong. Vacancy rates averaged 9.65% at mid-year, ranging from 7.2% in the West End, to 11.06% in the City and 13.4% in Docklands. Professional Services accounted for the largest share of take-up at over 26%.

Occupier activity

One of the largest recent leasing deals was completed by **Legal & General.** The company announced that it will be moving from Coleman Street into Stanhope and Cathay Life Insurance's redeveloped Woolgate, EC2. L&G will occupy 190,000 sq ft on a 15 year lease (only marginally less space than their current office).

In another Docklands-to-City move, rating agency **Moody's** has confirmed its move from 1 Canada Square to 10 Gresham Street, EC2, where it has leased 110,862 sq ft with an option on a further 32,403 sq ft.

The legal sector remains particularly active, with **A&O Shearman** taking 100,000 sq ft at British Land and GIC's 1 Broadgate, EC2; while **Watson Farley & Williams** pre-letting 70,000 sq ft at Barings' 25 Moorgate, EC2.

On-line retail giant **Amazon** has taken space in two buildings totalling 180,000 sq ft, at Cain International's scheme, The Stage, on Curtain Road, EC2 (previously let to coworking group WeWork). The deal involves 107,000 sq ft at The Bard and 70,000 sq ft at The Hewett Building.

And while tech moves to the City, so finance moves to Victoria! In one of the largest pre-lets for the area, **Evercore** has taken 135,000 sq ft across five floors of BGO's 105 Victoria Street, SW1. The firm will move from Mayfair to the 445,000 sq ft scheme in 2026. The building is designed by architect Kohn Pederson Fox with interior architect Henning Larsen.

In the West End, accountancy and business advisory firm **BDO** has confirmed that it has taken a long lease at The M Building, Marylebone Lane, W1. It has taken

220,000 sq ft to house its 5,000 London-based employees. The former Debenhams department store is owned and being redeveloped by Ramsbury and development adviser Capital Real Estate Partners.

Monday.com, referred to as a 'multi-product platform', has announced plans to double its UK workforce in 2024 and has taken 80,000 sq ft on the top three floors of the 270,000 sq ft, 1 Rathbone Place, W1. The facility will be company's largest R&D operation outside of its HQ in Tel-Aviv. The company was quoted as saying that "*London is a global tech hub with unparalleled access to talent and innovation",* and that *"We are committed to … contributing to London's vibrant business landscape."*

M&G Real Estate and Nomura Real Estate Development have pre-let 31,000 sq ft of their 86,000 sq ft new building, The Fitzrovia, on Tottenham Court Road, W1 to Primark owner **Associated British Foods**. Developer CO-RE is due to complete the scheme in early-2025.

Hollywood talent agency, **Creative Artists Agency**, has taken the whole of 21 Bloomsbury Street, WC1. Currently being refurbished by Capital-38 and Morgan Capital, the building is due to complete in 2025.

New development

Brookfield has submitted long-awaited plans to redevelop **99 Bishopsgate, EC2**. The existing structure (badly damaged by a Provisional IRA bomb on 24th April 1993) will be partially demolished and replaced by a 1m sq ft, 53 storey tower. The scheme will include c13,500 sq ft of retail and food and beverage space on the ground level and a 26,000 sq ft standalone "cultural pavilion building", which will be used for free exhibitions, commercial hire and as affordable creative workspace.

Aviva Investors is working with development manager CO-RE and architect Wilkinson Eyre on plans for the redevelopment of **130 Fenchurch Street, EC3**. The existing building will be replaced with a development of up to 32 storeys and c450,000 sq ft. The scheme will include retail and cultural uses. Aviva expects to submit a full planning application in early-2025.

JP Morgan Global Alternatives has announced plans to redevelop **Bishops Square and Spitalfields Market, EC2**. Said to be one of the largest retention and extension schemes in Europe, the Foster & Partners designed project will save around 70% of the existing building and extend it to 870,000 sq ft. The scheme is targeted for completion in 2030.

Obayashi and Seller have submitted plans for the redevelopment of **60 Gracechurch Street, EC3**. The existing nine-storey will be replaced by a 37 storey tower comprising c560,000 sq ft of offices plus retail and public realm.

Owner Qatar Investment Authority and partner Canary Wharf Group have unveiled plans for a radical transformation of the 1.1m sq ft **8 Canada Square, E14**. Occupier HSBC will relocate to the City and Architect KPF has been appointed to transform the Foster & Partners-designed tower into a mixed use development, including offices cultural and leisure destinations and entertainment spaces. Initial drawings show the uniform façade broken by multiple cut-out terraces.

Derwent London and Lazari Investments' joint venture has gained planning consent for a new scheme on **Baker Street, W1**. The existing buildings will be replaced by two seven-storey buildings, totalling 240,000 sq ft.

Another West End consent was secured by Stanhope and Mitsubishi Estates for their redevelopment of **1 Victoria Street, SW1**. The building, previously occupied by the Government, will be rebuilt to provide c640,000 sq ft of offices across ten storeys, as well as retail, restaurants, leisure, medical offerings and public realm.

Life science sector

Life science body MedCity released its latest report on the state of the sector in July. It stated that by the end of 2026 there will be almost 2m sq ft of lab space in London, which is forecast to reach 7.2m sq ft by 2032, of which 2.7m sq ft will be wet lab space. [2] Much of the growth through to 2032 will occur in the Knowledge Quarter (around King's Cross) and SC1 (around London Bridge), with 2.5m sq ft and 2m sq ft, respectively. The report highlights areas of specialism such as the focus in Whitechapel on dry lab space to support their digital health and Artificial Intelligence (AI) focused life sciences, and that in SC1 which is developing over 804,000 sq ft of wet lab space to accommodate activities in advanced therapies and oncology.

The report predicts that there will be greater provision of shared research resources, hot desks, communal space and lab-enabled space for flexible development; and advises developers to remain flexible to accommodate size, tenancy length and lab type requirements on a case by case basis, and to consider non-traditional tenants such as biopharmaceutical services. The report identifies fast growing life science sub-sectors in London as including:

- digital health: $2.5bn combined company value in London and a 131% increase in employment in MedTech between 2008-2022;
- advanced therapies: home to the most advanced therapies companies in Europe and $1.3bn capital investment raised in the past five years, and
- AI in healthcare applications: More AI focused life science companies than anywhere else in the world, home to GSK's AI hub, ranked #2 globally for AI talent, and $2.2bn venture capital investment in Life Sciences AI companies.

Developer **Oxford Properties** and lab operator Pioneer Group have combined to transform Victoria House on Bloomsbury Square, WC1 into 300,000 sq ft of contemporary office and lab space, where life sciences, technology entrepreneurs, academia, research, large pharma, and venture finance will collaborate. The completed scheme will offer incubator laboratories, including collaborative areas and quiet spaces. Early-stage businesses can choose to take up residence with just a single 1m bench in the Co-Lab; and as they grow they can move into private Flexi Labs. Larger companies can move into ready-to-occupy Premium Labs, fully furnished with associated offices that teams can call their own.

The **Francis Crick Institute** is leading two unique collaborations: with British Land at Regent's Place, NW1, and with Blackrock, GIC and Reef Group's Tribeca project, N1. The two schemes, with 30,000 sq ft and 52,000 sq ft respectively, will provide highly serviced state-of-the-art laboratories and office space, designed for companies at the forefront of life sciences, health and AI/Biotech. It is understood that architect Gensler has been appointed to design the spaces.

LB Islington Council has consented **Delancey Real Estate's** proposals for a 200,000 sq ft science and technology building, designed by Kohn Pedersen Fox, at 176-178 York Way, N1. The plans involve c130,000 sq ft of research and laboratory space alongside 13,000 sq ft of affordable workspace, with completion due in 2028.

London Borough of Tower Hamlets has consented proposals from the Department of Health and Social Care and NHS Property Services, for the redevelopment of a 3.4 acre site on Whitechapel Road, E1, around the Royal London Hospital. The plans encompass five sites containing seven buildings with a mix of refurbished, extended, retained and new-build structures. The completed scheme will provide 872,000 sq ft of space for flexible life science uses.

The flexible space market

The flexible space market continues to show robust performance, including the occupation of buildings previously operated by WeWork.

- The Boutique Workplace Company has signed a 15-year lease at the Robert Adam-designed Mercers' Company building at 1-3 Frederick's Place, EC2. At just under 18,000 sq ft, the workplace spans seven floors. It has a roof terrace and a restaurant and coffee shop on the ground floor. Other amenities include a gym, wellness room, podcast room, concierge services.
- Rapidly-growing Work.Life leased its largest facility to date. The building at 7 St Cross Street, EC1 spans 32,000 sq ft across seven floors. The new centre will open in February 2025.
- Flex office provider Runway East has signed a 20-year management agreement with Peer Group for 12,000 sq ft at 150 Borough High Street, SE1. It already operates the 24,000 sq ft Chapter House on Crucifix Lane, SE1 for the Peer Group; and now has a portfolio of 12 centres.
- Estates Gazette has recently reported on two occupier deals involve AI companies. First, OpenAI, the developer of ChatGPT, is close to establishing its first overseas HQ in London's King's Cross, at **Fora's** York House, 221 Pentonville Road, N1. Secondly, text-to-speech and voice AI start-up ElevenLabs has chosen flexible provider **Scope.Space's** Soho facility at 119 Wardour Street, W1 for its London HQ.

Away from offices …

Oxford Street

The shopping district continues with its reinvention. In an earlier LOMU we described the district's evolution into a more mixed retail, leisure, cultural and business area. New retail, leisure and hospitality brands have been arriving and footfall is growing. As noted above, BDO has recently taken 200,000 sq ft on the site of the old Debenhams store; while Derwent London's Soho Place, on the corner of Oxford Street and Charing Cross Road, was pre-let to G-Research (102,000 sq ft) and Apollo Global Management (88,000 sq ft).

In September the Mayor of London announced plans to pedestrianise Oxford Street between Oxford Circus and Selfridges, to make the famous thoroughfare "*the leading retail destination in the world*". Previous similar plans have floundered in the face of strong opposition, not least from the previously Conservative-controlled Westminster City Council and residents of surrounding streets.

Significantly, the announcement was made in conjunction with the new Labour government. The Deputy PM and Secretary of State for Housing, Communities and Local Government (MHCLG) Angela Rayner said that the plans would "*drive growth by creating new jobs, generating economic activity and giving a much-needed boost to London's night-time economy*". The plan will depend on Mayor Khan establishing a Mayoral Development Corporation, which would have planning powers, allowing the mayor to overrule the council. The project is expected to cost about £150m, with City Hall officials hoping local businesses, private funders and new revenue streams will foot the bill.

Data Centres

Over recent years a rather strange building typology has become evident, particularly in East London, and often quite close to the central area. These large, anonymous, solidly-clad buildings are in fact data centres (DCs).

These often strange-looking buildings are now vital infrastructure supporting today's digital economy.

Cushman & Wakefield recently reported that London, Amsterdam, Dublin and Frankfurt are four of the most mature European markets. London has 128 data centres run by 45 operators and was the first Euro region to reach 1.0 GW operational capacity. London also has the potential to be the first region to reach 2.0 GW, given that it has 117 MW under construction and a further 693 MW at planning. However, the market faces " *several headwinds, including energy and water requirements, sustainability concerns, planning obstacles, and power grid limitations*". Cushman & Wakefield highlight the UK's current power infrastructure grid constraints, while noting that many London DCs are over a decade old, and some struggle to meet the power density requirements of enterprises with advanced technologies, like cloud, AI, IoT and 5G.

In June, the data centre platform of GLP Capital Partners, **Ada Infrastructure**, was given a resolution to grant planning by LB Newham, to deliver one of London's largest data centre campuses. The 210 MW Docklands data centre campus will comprise three 70 MW, eight-storey buildings and is expected to be operational by 2027. Ada said the buildings had been designed to achieve a BREEAM Excellent rating and that the campus "*is engineered to be 'AI ready' from day one, capable of adapting to the intensive power and cooling requirements of hyperscale AI applications*".

In October Estates Gazette reported that LB Newham approved plans for a second mega DC scheme. The facility, on Bidder Street, E16 will be delivered by **Legal & General**, digital infrastructure investor Goldacre, and data centre developer sineQN. The scheme comprises three buildings – a data centre and office building spanning 600,000 sq ft; a 20,000 sq ft plant building and a 52,000 sq ft energy centre with a pump house. The completed facility will deliver 80 MW of power by early 2027.

Creative space

Innovative developer **General Projects** has released details of its planned 'creative campus' in Kentish Town. To be known as Highgate Studios, the 212,000 sq ft scheme will include small, fully fitted 1,000 sq ft units as well as larger, open-plan studios. As well as the workspace the scheme will include public realm, cycle facilities and amenities including café, restaurant and a gym.

General Projects is also redeveloping the 1955 iconic Woolworths building on Marylebone Road, to be known as Metropolis, and the world-famous Heal's building on Tottenham Court Road, into the Manufactory.

Higher Education

There are four important news stories from the HE sector.

- **Imperial College London** has taken 47,650 sq ft at Stanhope and Ontario Teachers' Pension Plan's White City Place, W12. The university will use the building as a professional services hub.
- **King's College London** has signed a memorandum of understanding with British Land, developers of the 53 acre Canada Water, SE16, to create a science and technology innovation campus. The agreement will give King's College and its spin-outs with work and lab space.
- **University College London** is in discussions with Canary Wharf Group to occupy 44,500 sq ft of space vacated by Bank of New York Mellon in One Canada Square, E14. UCL already occupies floors 38 and 50, and is negotiating on floors 48 and 49.
- **De Montfort University** has taken 18,000 sq ft at LaSalle Investment Management and Trilogy Real Estate's education and innovation campus on Commercial Road in Aldgate, E1.

During the previous year, the USA-based Northeastern University took 98,138 sq ft at 1 Portsoken Street, E1, and the University of Sunderland leased 95,628 sq ft at Harbour Exchange, E14.

Outlook

The London office market has made a solid, albeit fragile recovery from some particularly challenging circumstances since 2020. Demand has returned to longer-term levels and there has been no sharp uptick in vacancy rates. Investment and development have responded with a steady supply of new space. Jobs in key sectors are growing and FDI continues to outpace other European centres.

However, as we approach the close of another year in the London office market, there is a further challenge – political uncertainty. All eyes are on the new Labour Government and its emerging fiscal policies and wider social and economic agenda. Rarely can so much speculation have surrounded the agenda of a new government.

Business does not need new legislation that will make the labour market less flexible, less productive and less competitive; nor does it need new taxes that will deter recruitment. What it does need is labour supply in the form of skilled workers, which applies as much to skilled trades in the construction industry as it does to skilled laptop warriors.

While CEOs are struggling with enforcing RTOs, the Government has a growing problem with a more strategic issue: RTW, or return to work. More than 20% of the economically active population are, in fact, not economically active, nor are they seeking work. This is economically constraining and, ultimately, a drag on London.

Key tenets remain unchanged. New development requires monetary stability, stable interest rates and capital flows. New investment is predicated on confidence that London will continue to compete on the world stage. And a healthy occupier market depends upon business confidence and a ready supply of skilled workers.

Dr Rob Harris
Principal, Ramidus Consulting Limited
https://www.ramidus.co.uk

[1] As represented by: Information & Communications, Finance & Insurance, Professional Services and Admin & Support jobs.
[2] MedCity (2024) *London Lab Showcase* July 2024