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An Introduction to Commercial Office Markets London

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An Introduction to Commercial Office Markets - London



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- Associate Valuation Surveyor, Matthews Goodman, London.
- General Practice Surveyor based in the City.
- Registered Valuer in our London Valuation team.
- Valuer of commercial assets including offices, industrial and retail for a varying number of purposes, including secured lending, development and financial reporting.
- Advisor on a range of single assets, mixed-use schemes and portfolios, geographically placed across central London and the Southeast.
- Clients include banks, professional service providers, investors and developers such as:
 - » Victoria Mutual Finance
 - » United Bank
 - » Habib Bank AG Zurich
 - » Punjab National Bank
 - » NatWest/RBS
 - » Mizrahi-Tefahot Bank Limited



David Hourihan
MSc FSCSI FRICS FHEA

Academia

- Graduated from UCEM MSc in Property Investment in 2008.
- UCEM Programmes Leader for the BSc Real Estate Management and MSc Real Estate.

Industry

- 17 years of commercial real estate experience across the UK and Ireland.
- Specialist in investment, office agency, retail asset management and valuation.
- Previous positions with international firms including JLL and Colliers International.
- Acquisition and asset management instructions for clients including Société Générale, Metzler Bank, Mobil Oil, Scottish Widows, Aviva and British Land.
- Member of the Investment Property Forum (IPF).

SCSI / RICS APC

- APC Chairman.

UK Office Investment Sector - Size

Total ‘invested’ commercial property stock: £512bn (held by investors)¹

Commercial Investment Stock by Owner Type, 2018

	Value (£bn)	Share 2018 (%)
UK Investors		
Insurance Direct & Funds	44	9%
Pension Funds	43	8%
Unlisted & Collective Schemes	84	16%
Listed Companies & REITs	71	14%
Private Companies	55	11%
Estates & Charities	23	4%
Private Investors	14	3%
Other Owners	22	4%
Sub-total	356	69%
Overseas Investors		
Unlisted & Collective Schemes	48	10%
SWF & Government	29	6%
Private Companies, Individuals	27	5%
Listed Companies & REITs	18	4%
Insurance & Pension Funds	13	3%
Other Owners	20	4%
Sub-total	156	31%
Total	512	100%

Source: Estimates based on data from MSCI, RCA, PFR and other sources

Invested Stock by Market Segment, end-2018

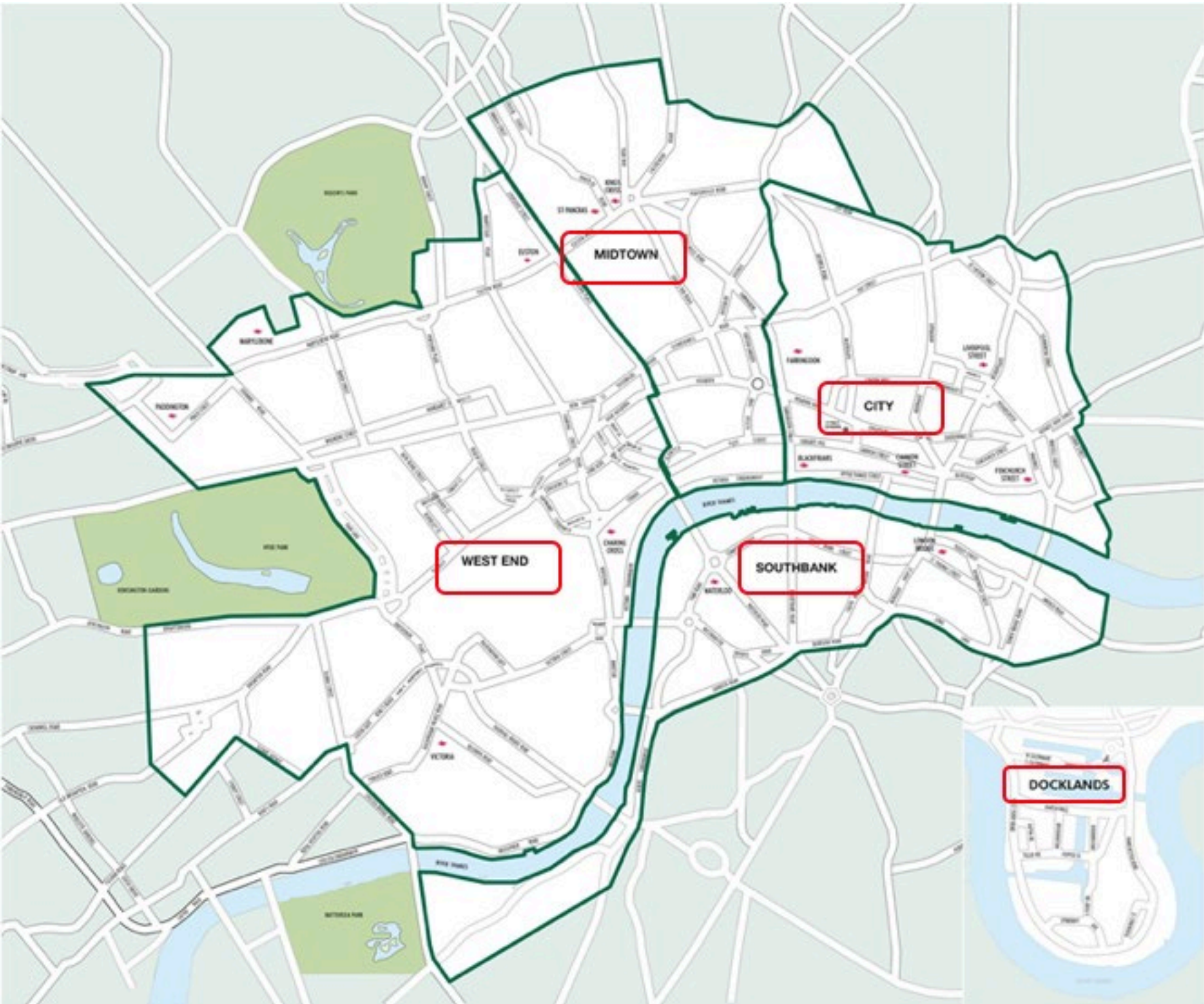
	£bn by investor origin		
	Total	UK	Overseas
Office	220	108	112
City	66	19	47
West End, Mid Town	79	44	34
Rest South East	53	29	25
Rest UK	21	15	5
Retail	163	141	23
Standard Retail South East	50	41	9
Standard Retail Rest UK	20	19	1
Shopping Centre	51	43	7
Retail Warehouse	43	38	5
Industrial	77	73	5
South East	50	47	3
Rest UK	27	26	1
Other Commercial	52	34	17
Total	512	356	156

Source: Estimates based on multiple sources including MSCI and RCA.

1 IPF (2018) The Size and Structure of the UK Property Market: End 2018 Update

UK Office Investment Sector - Structure

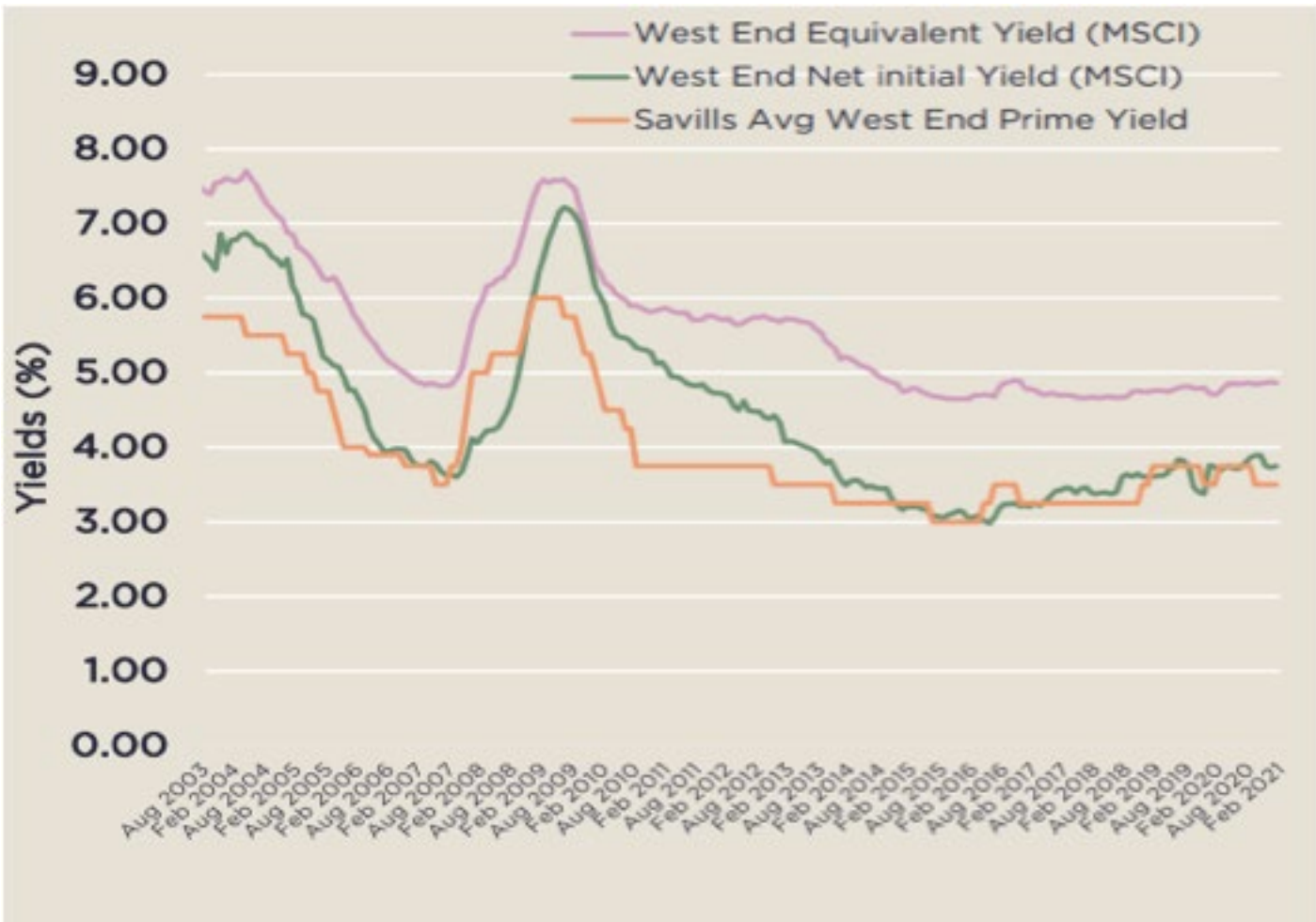
London and its sub markets:



Source: CBRE

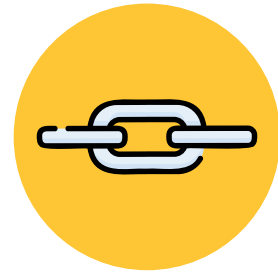
Rents & Yields - West End

	Average			
	Grade A	Grade B	Prime	Rent Free
June-20	£82.16	£61.52	£100.00	24
Sep-20	£74.21	£63.47	£120.00	24
Dec-20	£74.97	£61.00	£107.50	24
Mar-21	£86.00	n/a	£118.50	27



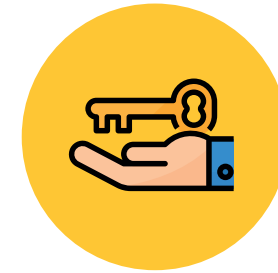
Source: Savills

UK Office Investment Sector - SWOT Analysis



Strengths

- GRETl 2020 – UK ranked no 1 out of 99 countries and territories.
- Mature economic structure.
- Economy showing positive with GDP growth.
- Lockdown restrictions lifting.
- Investor profile: International long-term core.
- Political stability in Britain.



Opportunities

- Changing work patterns.
- Repurposing of older office buildings.
- Sustainability.



Weaknesses

- Market practices:
 - » Non-standardisation of DCF appraisal techniques.
 - » Reluctance to adopt more sophisticated quantitative modelling applications.
 - » Measures of risk still heuristic.
- Traditional Lease Terms.



Threats

- Corona Virus.
- Difficult trading environment for tenants.
- Widening gap between primary and secondary stock.

London Office Investment Market - Key Trends & Forecasts



Trends

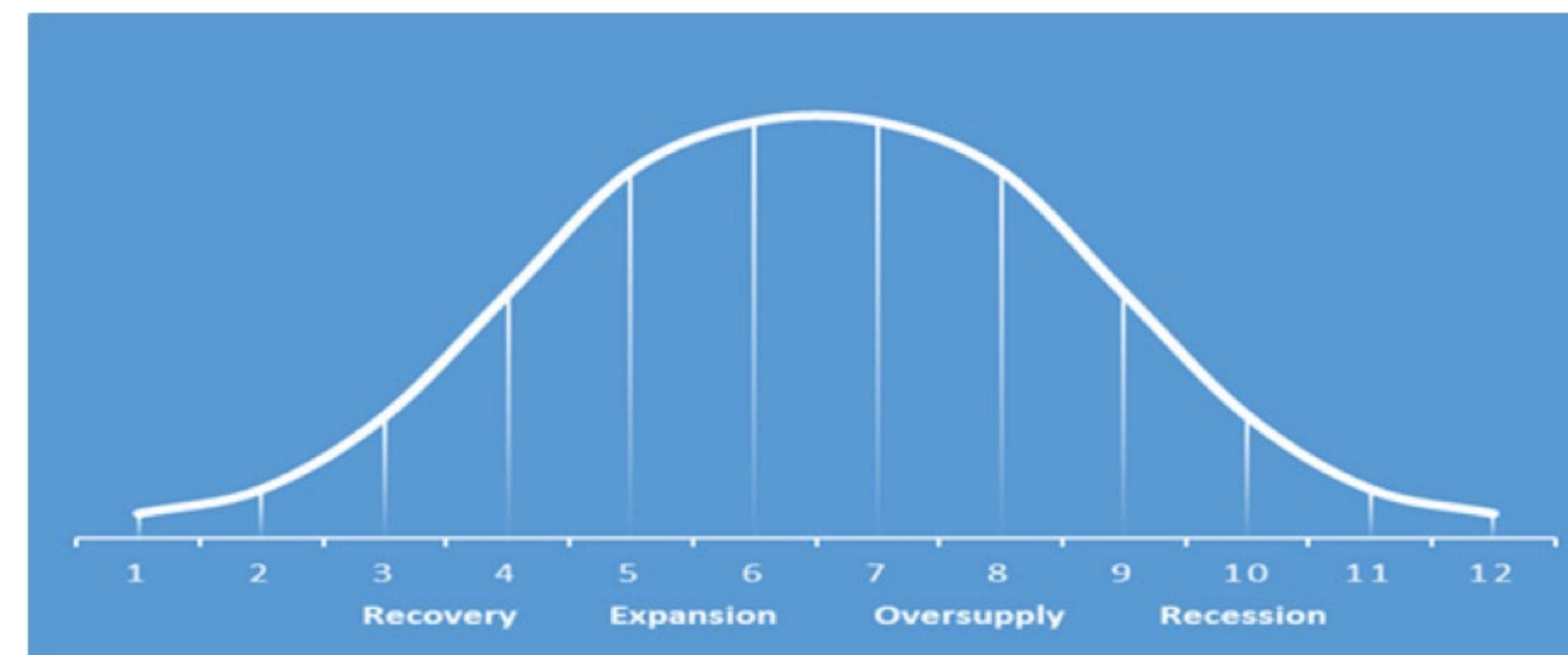
- 1 How has the pandemic affected the valuation process for London offices?
- 2 Where currently is Investor appetite: Core, Core Plus, Value Added, Speculative?
- 3 In terms of location - Have certain London office sub-markets been affected more than others during the lockdown?
- 4 In lettings - Have lease terms changed as a result of the pandemic?



Forecasts (next 12 months?)

- 1 Will tenants pay more for a high rated BREEAM office building?
- 2 Will London office rents remain rise or fall after the lockdown?
- 3 What type of investor will be most active in the London office markets?
- 4 How will office design change post pandemic?

Where is the London office investment market in its life cycle?



Thank you for attending our webinar.

Here's our upcoming schedule....

**An Introduction to Commercial Office Markets
Dublin**

9th June 2021 | 11:00am BST

**An Introduction to Commercial Office Markets
Paris**

16th June 2021 | 11:00am BST

**An Introduction to Commercial Office Markets
Frankfurt**

23rd June 2021 | 11:00am BST



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