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GUEST WEBINARS

# An Introduction to Commercial Office Markets London

In partnership with:

**UCEM**





# An Introduction to Office Investment Markets: London



**Jessica Austen**

BSc (Hons) MSc MRICS

- Graduated from UCEM with BSc Real Estate Management in 2019.
- Member of Royal Institution of Chartered Surveyors.
- General Practice Surveyor.
- RICS Registered Valuer.
- Senior Surveyor at CBRE, London.
- Work in Fund Valuation – Real Assets team.
- Valuer of commercial assets including offices, industrial and retail for financial reporting.
- Role includes advising on a range of single assets, mixed-use schemes and portfolios, geographically placed across Central London and UK Wide.
- Specialist in Central London market.
- Clients include institutional investors such as:
  - » Federated Hermes
  - » Nuveen Real Estate
  - » Pembroke Real Estate
  - » Canada Life
  - » USS
  - » Aviva Investors
  - » Columbia Threadneedle



**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).

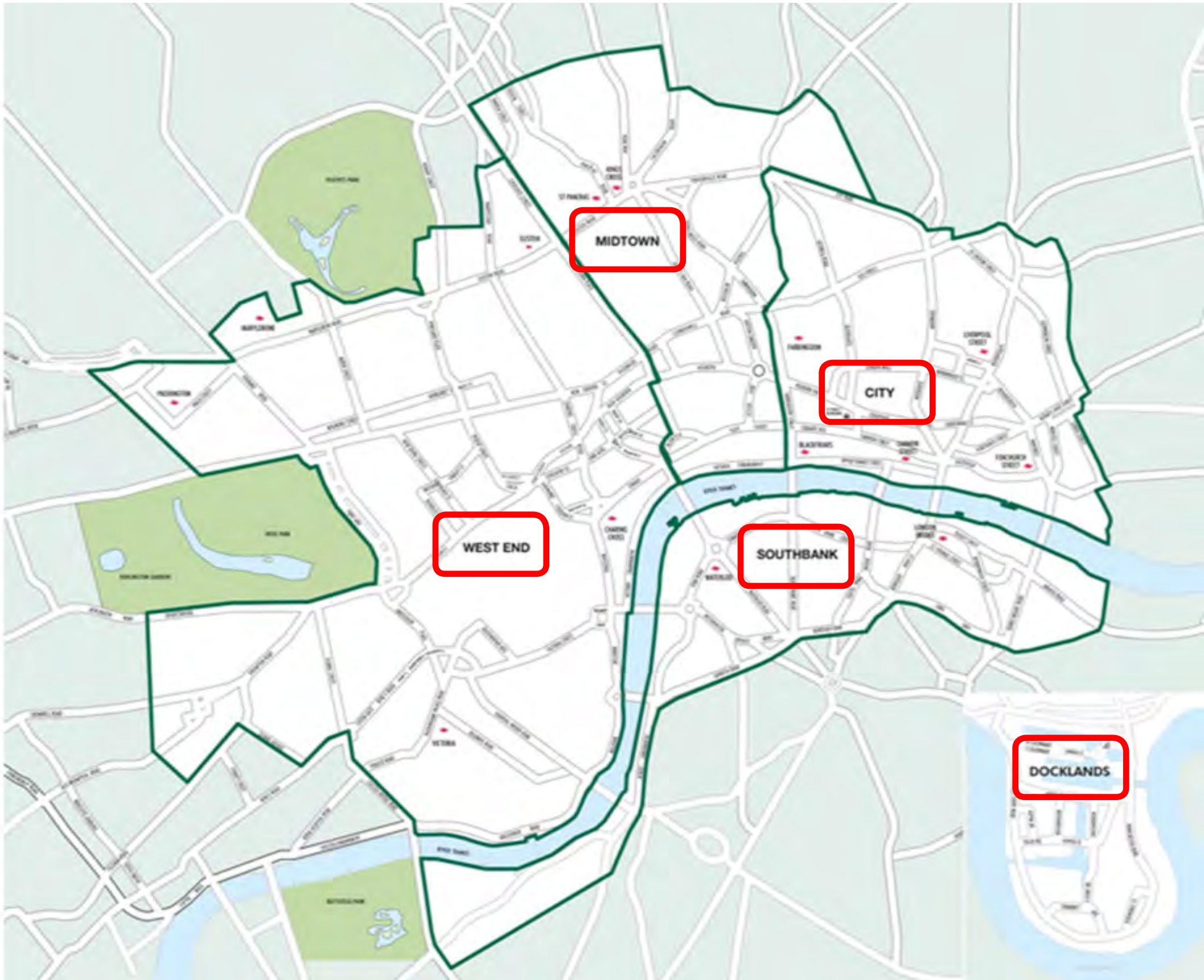
# 1. Introduction: The Office Investment Sector - Size & Structure

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

Invested Stock by Market Segment, end-2018

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

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



Source: CBRE

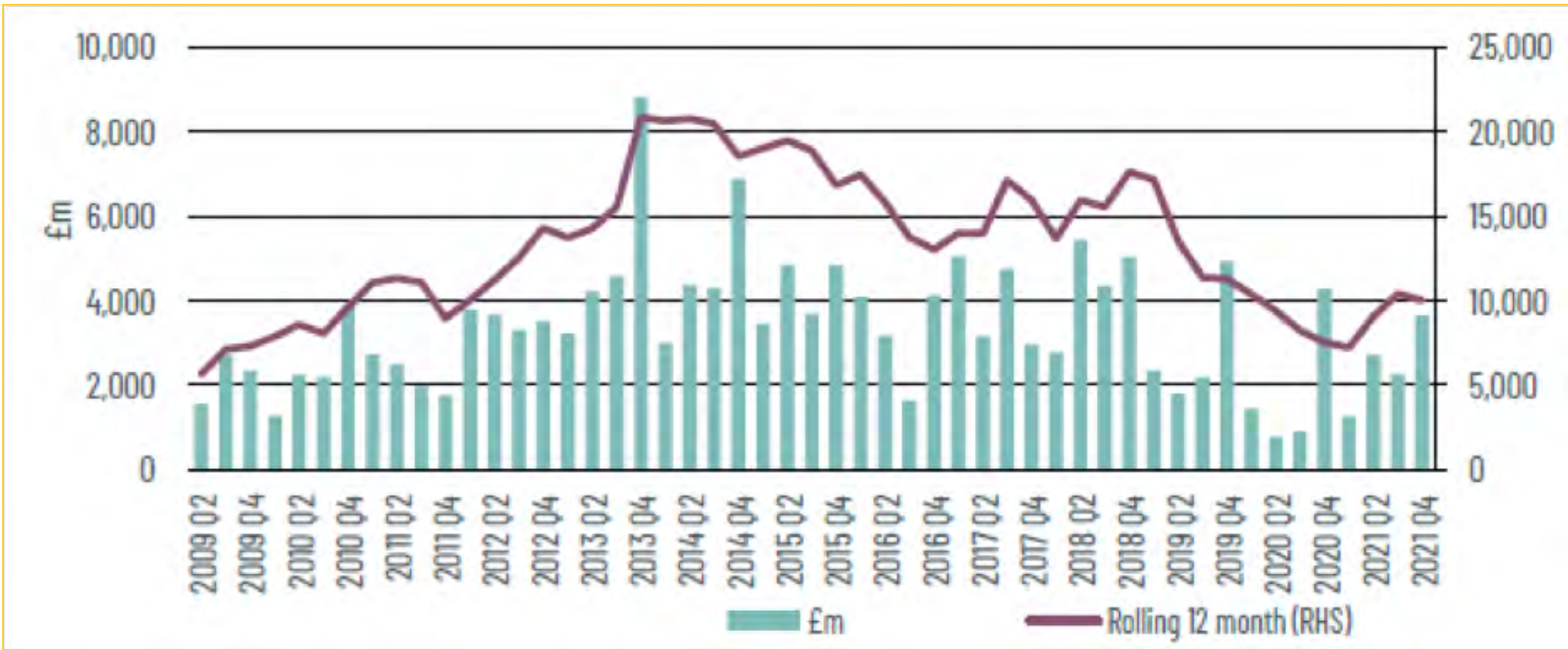


## 2. The London Office Investment Market: Yields, Purchasers & Rents

### London Yields and Transactions:

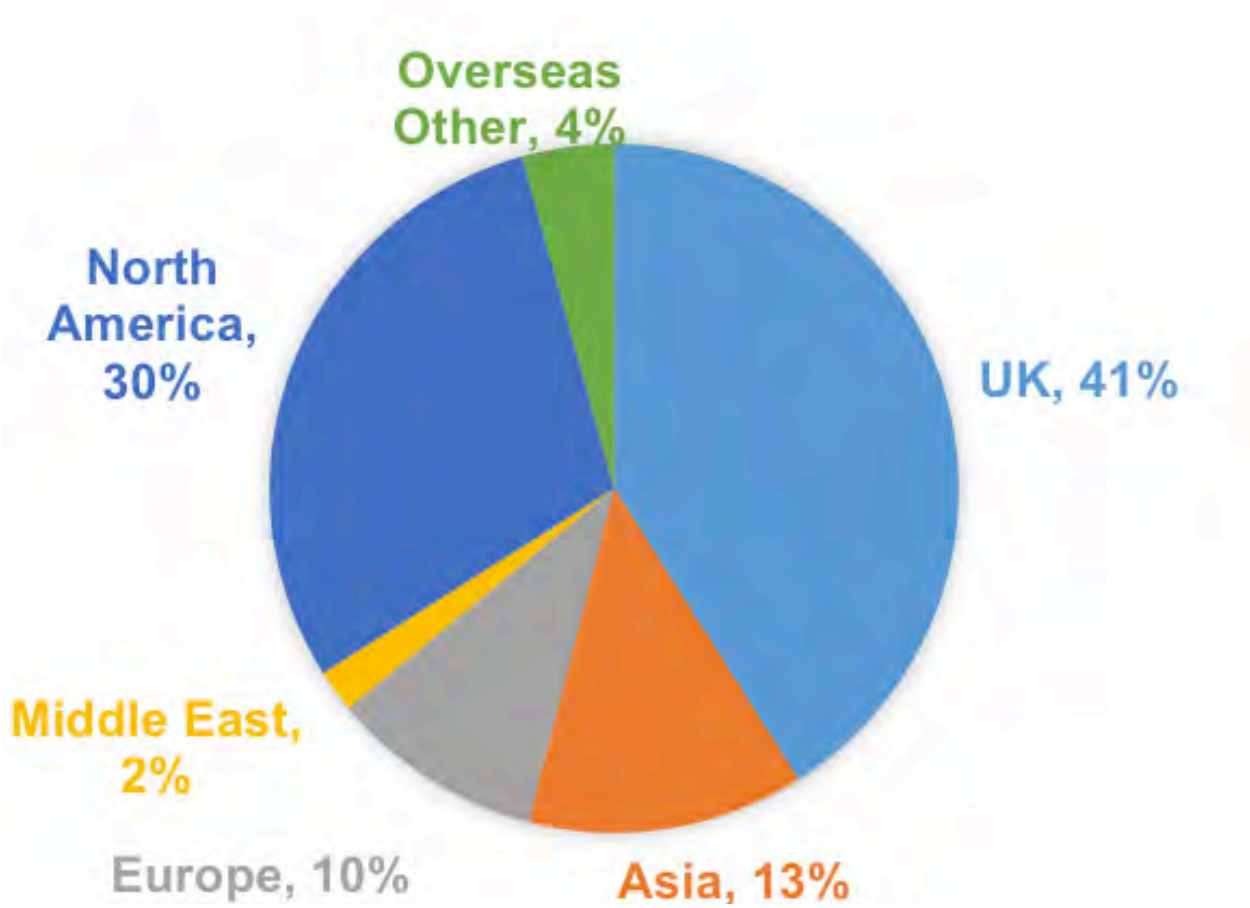
	Mar 21 (%)	June 21 (%)	Sept 21 (%)	Dec 21 (%)	Jan 22 (%)	Trend
OFFICES						
West End	3.50	3.50	3.25	3.25	3.25	Stable
City of London	4.00	4.00	3.75	3.75	3.75	Stable
M25/South East	5.50	5.50	5.50	5.50	5.50	Weaker
Regional Cities	4.75	4.75	4.75	4.75	4.75	Stable
Good Secondary	7.00	6.00	7.00	7.00	7.00	Weaker
Secondary	10.00	10.00	10.00	10.00	10.00	Weaker

Source: CBRE Yield Sheet January 2022



Source: CBRE Central London Q4 2021 figures

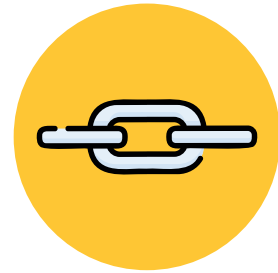
### London Investment by purchaser in 2021



£ per sq ft	Grade A (avg)	Grade B (avg)	Prime* (avg)	Rent free** (avg)
Dec-20	£74.97	£61.00	£107.50	24
Mar-21	£86.00	£66.70	£118.50	27
Jun-21	£78.53	£58.67	£116.75	26
Sep-21	£82.36	£54.36	£120.00	24
Nov-21	£82.98	£58.79	—	—

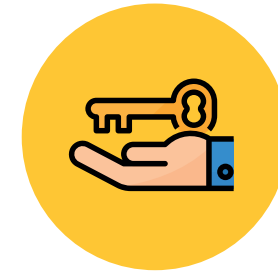
Source: Savills West End Office Market Watch - December 2021

### 3. The London Office Investment Market: SWOT Analysis



#### Strengths

- GRETI 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.
- Relative political stability.
- E-conveyancing.



#### Opportunities

- Lockdown restrictions easing / Economic growth in the UK.
- 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

- Difficult trading environment continues for tenants.
- Widening gap between primary and secondary stock.
- Climate Change – Did COP26 deliver?
- European economies and supply lines affected by political tensions post Brexit.
- UK economic constraints in 2022: tight labour markets and high consumer price pressures.



## 4. The London Office Investment Market: Key Trends & Forecasts

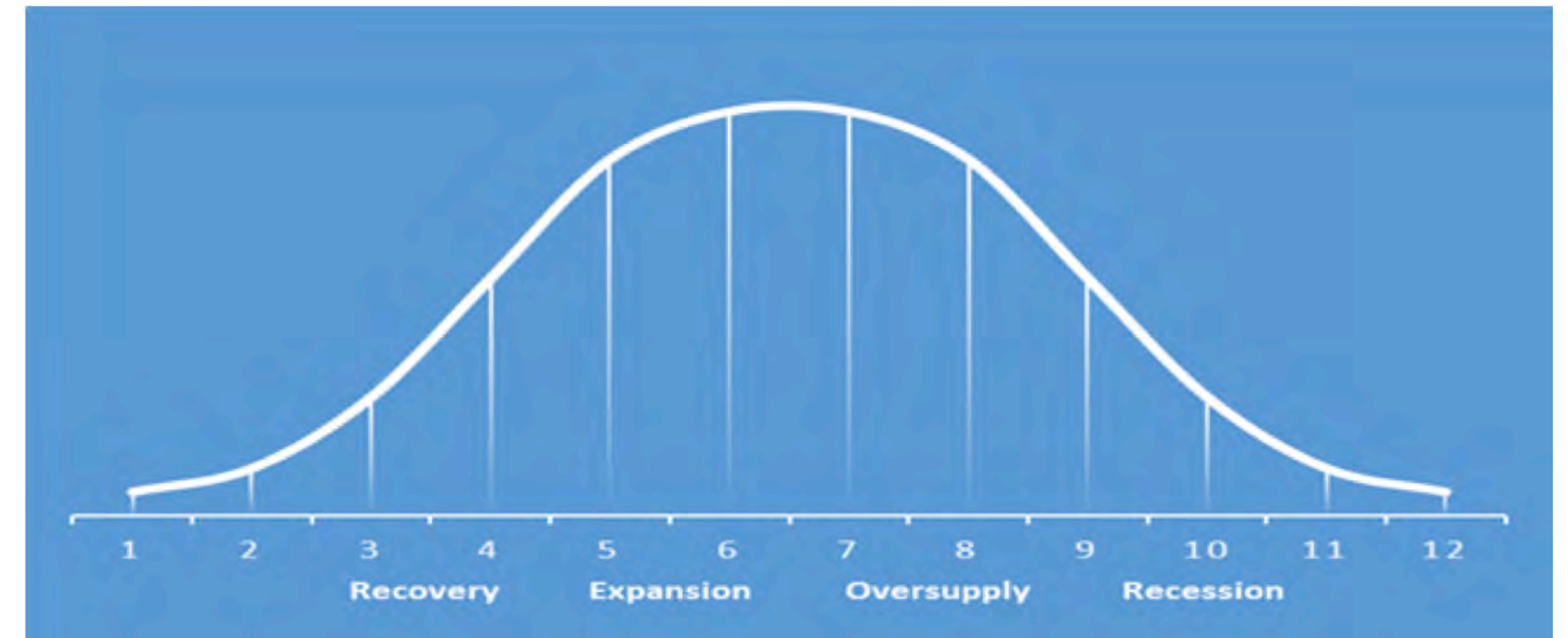


### Trends

- Stiff competition for grade A space - leasing demand for quality, future-proofed and sustainable office product office space will continue to increase through 2022.
- Demand will put further pressure on development pipelines and rents for both sub-premium and premium product.
- Supply problems will be further affected by construction cost inflation in 2022.
- Refurbishment activity will increase as developers will seek to promote sustainable credentials and aim to meet new EPC standards scheduled for 2023 – minimum Grade E certifications.
- Despite uncertainty, pricing on best quality refurbishments, premium and trophy stock will see healthy uplifts in 2022.
- Life sciences will continue to attract investment in the Golden triangle of London, Cambridge and Oxford.

Source: Colliers UK Research 2022 Forecasts

Where is the London office market in its life cycle?







**Thank you for attending our webinar.**

## Upcoming webinars

- An Introduction to Commercial Office Markets - Dublin

9<sup>th</sup> February 2022 | 11:00pm GMT

- An Introduction to Commercial Office Markets - Paris

16<sup>th</sup> February 2022 | 11:00am GMT

- An Introduction to Commercial Office Markets - Hamburg

23<sup>rd</sup> February 2022 | 11:00am GMT



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