London | June 2022

New City Court

Market Overview and Demand Analysis
June 2022

Table of Contents

1. Introduction

This report has been prepared by JLL and Cushman & Wakefield to provide an assessment of market dynamics and future demand in relation to Central London and SE1 in support of the planning appeals (Appeal Refs: APP/A5840/W/22/3290473, APP/A5840/W/22/3290483, APP/A5840/Y/22/3290477, APP/A5840/Y/22/3290490) relating to the proposed office-led redevelopment ('the Proposed Development') of New City Court, 4-26 St Thomas Street, London ('the Site').

2. Executive Summary

2.1 Leasing volumes have remained healthy with take up in Q1 2022 representing the highest volume in the first quarter since 2018.

2.2 Whilst overall supply in central London has increased, Grade A new build supply has continued to decrease quarter on quarter. Within the SE1 sub-market, the level of Grade A new build supply is below that of central London with a rate of 1% in Southwark compared to 1.3% in central London.

2.3 The increasingly hardening barriers to entry make forecasting the development pipeline more difficult. Macro-economic uncertainties, inflationary pressures and increasingly expensive development finance means that many potential schemes may be abandoned in favour of rolling over income or deferred until conditions improve and/or a significant pre-let is secured.

2.4 Of the future 7.3m sq ft of potential SE1 supply between 2023-2026, only 4% has minimal barriers to entry pointing to a continuing shortage of Grade A new supply in this already under-supplied sub-market.

2.5 Demand levels remain healthy with 2021 central London take up being only 12% down on the 2015-2019 5-year average. A key shift has been the increasing focus on amenity rich Grade A offices which accounted for 61% of all 2021 central London take up. This increasing requirement for the very best space is not surprising as occupiers adjust to the expectations of a post-covid working environment that, even with hybrid working, ensures they can continue to attract and retain the best people and use the office to boost productivity, collaboration and innovation.

2.6 The SE1 sub-market demand is diverse and could come from a broad mix of occupiers who are looking at options across London. Demand from banking, finance/insurance/legal and professional/media/technology remains strong. The SC1 Life Science Innovation District, which aims to create a global quarter for healthcare innovation, will also drive demand from the life science sector and its associated co-location businesses.

2.7 Both the 2018 and 2021 New City Court scheme proposals are flexible to appeal to this diverse occupier base, particularly targeting pre-lets in excess of 100,000 sq ft. In advance of a planning determination at New City Court there has already been strong pre-letting interest. For major pre-lets, occupiers will consider both the building specifics and the track record of delivery/pre-letting of the developer in their decision making. There are few companies in the central London market that can match GPE’s track record of delivery / pre-letting.

2.8 The supply and demand dynamics point to continuing imbalance in the central London market, and the SE1 sub-market in particular, where the demand from occupiers will be difficult to meet. The proposals at New City Court, if consented, would meet the needs of occupiers by delivering an amenity rich working environment of the highest architectural quality with exemplary sustainability credentials.

3. Central London Market Update (Q1 2022)

3.1 Introduction

Despite leasing volumes being slightly below what they had been in the previous two quarters (2.4 million sq ft at the end of March, dipping slightly below the 10-year quarterly average of 2.5 million sq ft), momentum continued into the first three months of 2022. To that end, take-up is well above the totals experienced over the last two years and represents the highest volumes in the first quarter of the year since 2018.

As a barometer of current levels of activity:

- The amount of space under offer continued its upward trend, increasing for the fourth consecutive quarter, to 3.2 million sq ft – some 25% above long-term average levels.
- Interestingly, and of particular relevance to New City Court, of the total space under offer across Central London, 61% was for pre-let, new or refurbished space highlighting the trend of occupiers continuing to focus on the best-in-class buildings.

3.2 Supply

3.2.1 Central London

Overall supply (of all grades of accommodation[1]) increased over the quarter, driven by increases in the amount of secondhand space becoming available to the market. Conversely, new supply decreased by approximately 18% over the quarter, resulting in the new vacancy rate falling to 1.3%. Completions in Q1 totalled approximately 1.5 million sq ft across the capital, of which of which 61% was refurbished space.

In summary:

- Overall supply increased to 19.6 million sq ft reflecting a vacancy rate of 7.8%;
- Grade A new build supply decreased quarter on quarter to just over 3.2 million sq ft;
- The level of tenant-controlled supply declined for the fourth consecutive quarter;
- Speculative completions increased slightly. 915,000 sq ft was delivered but 70% of this space was refurbished; and
- Speculative space under construction increased to 10.5 million sq ft with just under half due for completion by the end of the year.

3.2.2 SE1 (Southbank & Waterloo)

As with Central London, supply increased over the quarter in SE1, as quarterly take-up volumes fell below the 10-year quarterly average of 166,000 sq ft. Levels of tenant supply available to the market fell from a peak of 572,000 sq ft at the end of 2020 to 377,000 by the end of 2021, although this trend reversed in the opening quarter of 2022 as the amount of tenant supply increased by 5%.

Whilst overall vacancy increased to 7.1%, driven by the amount of secondhand space coming to market, the new Grade A vacancy rate dropped to 0.9%, well below the long-term average.

There is limited new-build stock available with the pipeline of schemes being delivered during 2022 remaining tight. Of the 5 new build schemes currently being delivered, only two (Arbor and The Forge) offer the scale that occupiers have historically been attracted to in this sub-market.

[1] **New Build**: Office space that has been newly built or redeveloped but is yet to have been occupied by a tenant.
Refurbished: Office space which has been comprehensively refurbished but is yet to have been occupied by a tenant.
Secondhand: Comprises office space that has previously been occupied by a tenant and has not subsequently undergone redevelopment or refurbishment works.

The 2022 new-build pipeline is summarised below:

- Rose Court (157,406 sq ft – 100% pre-let & Complete)
- Triptych, 185 Park Street (62,316 sq ft – Complete)
- Bridge House, 4 Borough High Street (27,589 sq ft - Complete)
- Arbor, Bankside Yards (196,000 sq ft – Under Construction)
- The Forge (133,764 sq ft – Under Construction)
- 131 Great Suffolk Street, SE1 (64,003 sq ft – Under Construction)
- The Typewriter, 140-148 Borough High Street (15,360 sq ft – Under Construction)

The constrained pipeline in the sub-market has historically resulted in schemes showing strong leasing performance. Of the new stock delivered from 2017-2020, 100 per cent was pre-let/owner occupied upon completion. The limited delivery of 220,000 sq ft of space in 2020 did little to raise the new build vacancy rate which now ranks amongst the lowest amongst the City (excluding West End & East London) submarkets and has been under continued downward pressure as occupiers seek out the best-in-class space. This is shown in the pie-charts below.

Figure 1. Vacancy rate in SE1

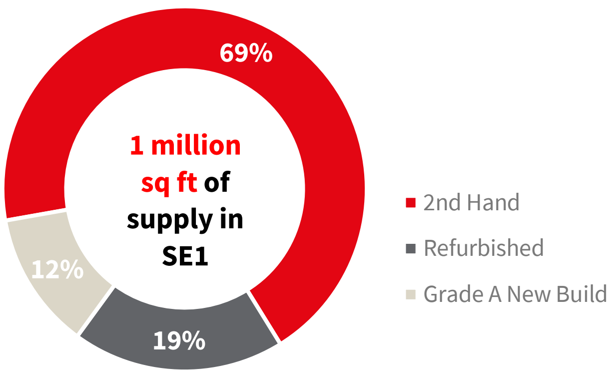
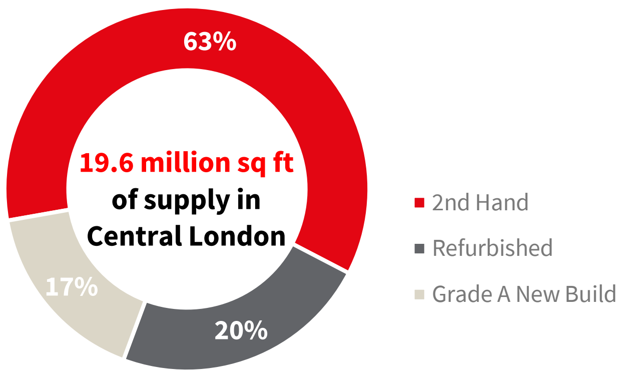


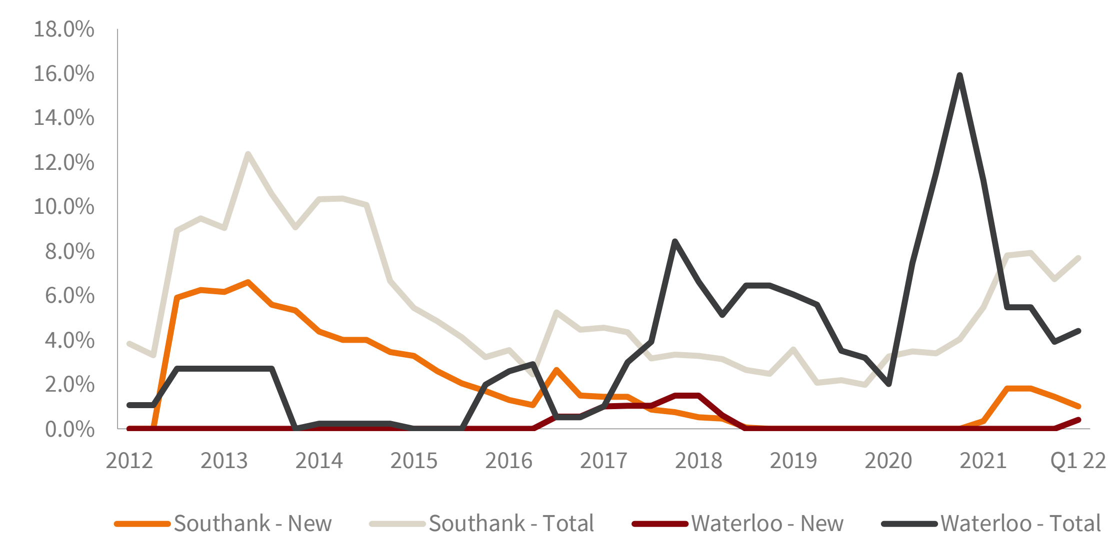
Figure 1.1. Vacancy rate in Central London



The chart below shows the overall and Grade A new build vacancy in the Southbank and Waterloo sub-markets, which make up the SE1 market. Of note:

- In Q1 2022, the overall vacancy rates rose to 7.7% and 4.4% in the Southbank and Waterloo submarkets respectively – below the City & West End market rates of 7.9% and 6.4% respectively.
- The new build submarket vacancy rates of 1.0% (Southbank) and 0.4% (Waterloo) remained below the central London new build vacancy rate of 1.3% at the end of the quarter.

Figure 2: SE1 (Southbank and Waterloo) overall and new build vacancy (%), 2012– 2022 (source: JLL)



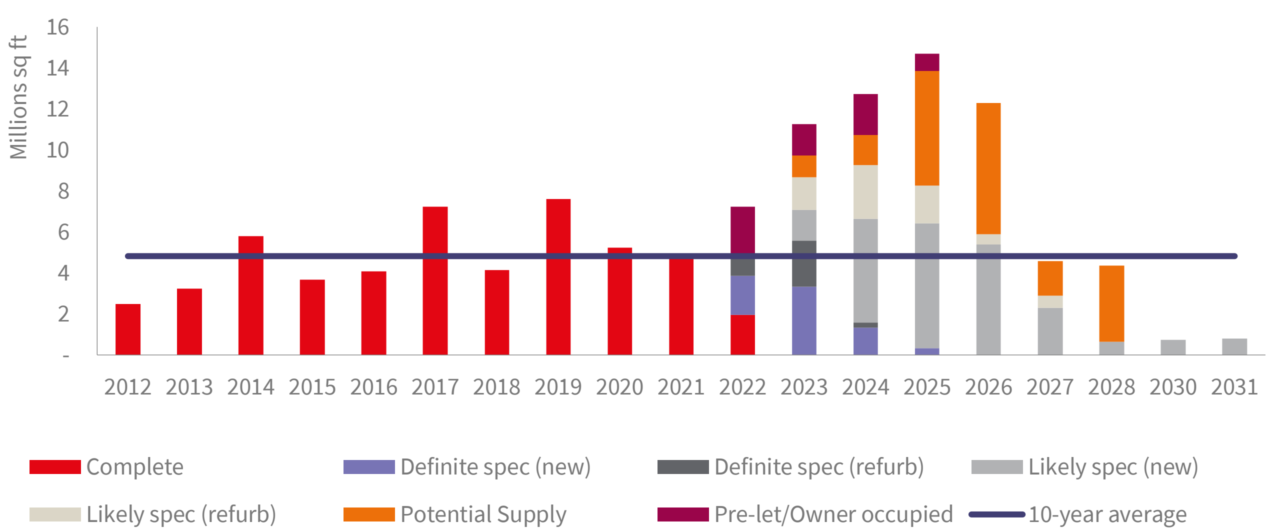
3.3 Development Pipeline (2021 – 2026)

3.3.1 Central London

There is currently 10.5 million sq ft under construction on a speculative basis with 8.5 million sq ft due for completion in 2022 and 2023. With just 1.6m sq ft expected to complete in 2024 there is likely to be significant pressure on occupiers looking to commit to pre-let stock – this is likely to result in them committing to space earlier and consider those schemes which are deliverable with certainty that have not yet commenced construction.

However, the obstacles to commencing development are becoming ever harder with issues such as macro-economic uncertainties, inflationary pressures, increasing regulatory burden and increasingly expensive development finance on worsening terms. This means that many of the pipeline schemes could be deferred or even abandoned in favour of income roll-over.

Figure 3: London development pipeline by status (source: JLL)

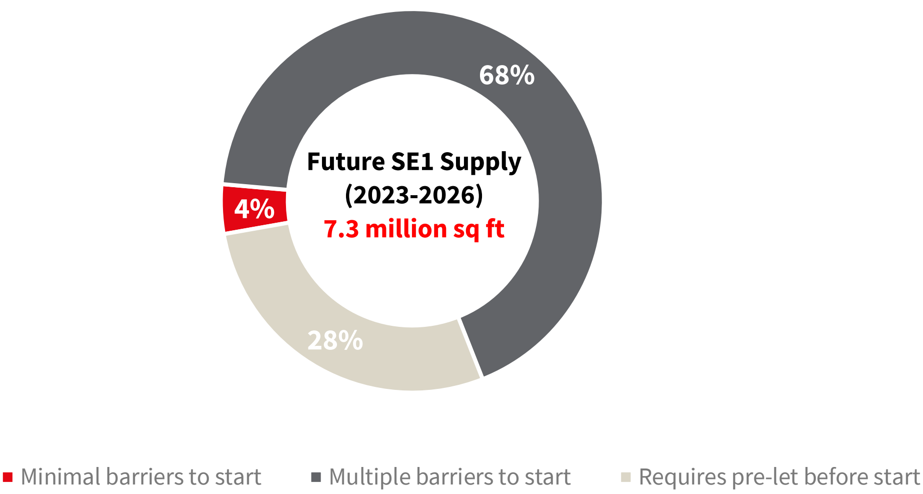


3.3.2 SE1 (Southbank & Waterloo)

There has been limited new Grade A supply in the SE1 (Southbank & Waterloo) market, with over a third of space under construction at the moment having already been pre-let. Future supply across the submarket does not paint a better picture, with much of the future stock yet to be granted planning permission or having other obstacles to overcome before being able to break ground. A third of this future supply requires a pre-let before commencing construction, further limiting the amount of future office stock available in the immediate future.

The lack of new-build stock being delivered in the short to medium term points to there being significant demand for the proposed development at New City Court.

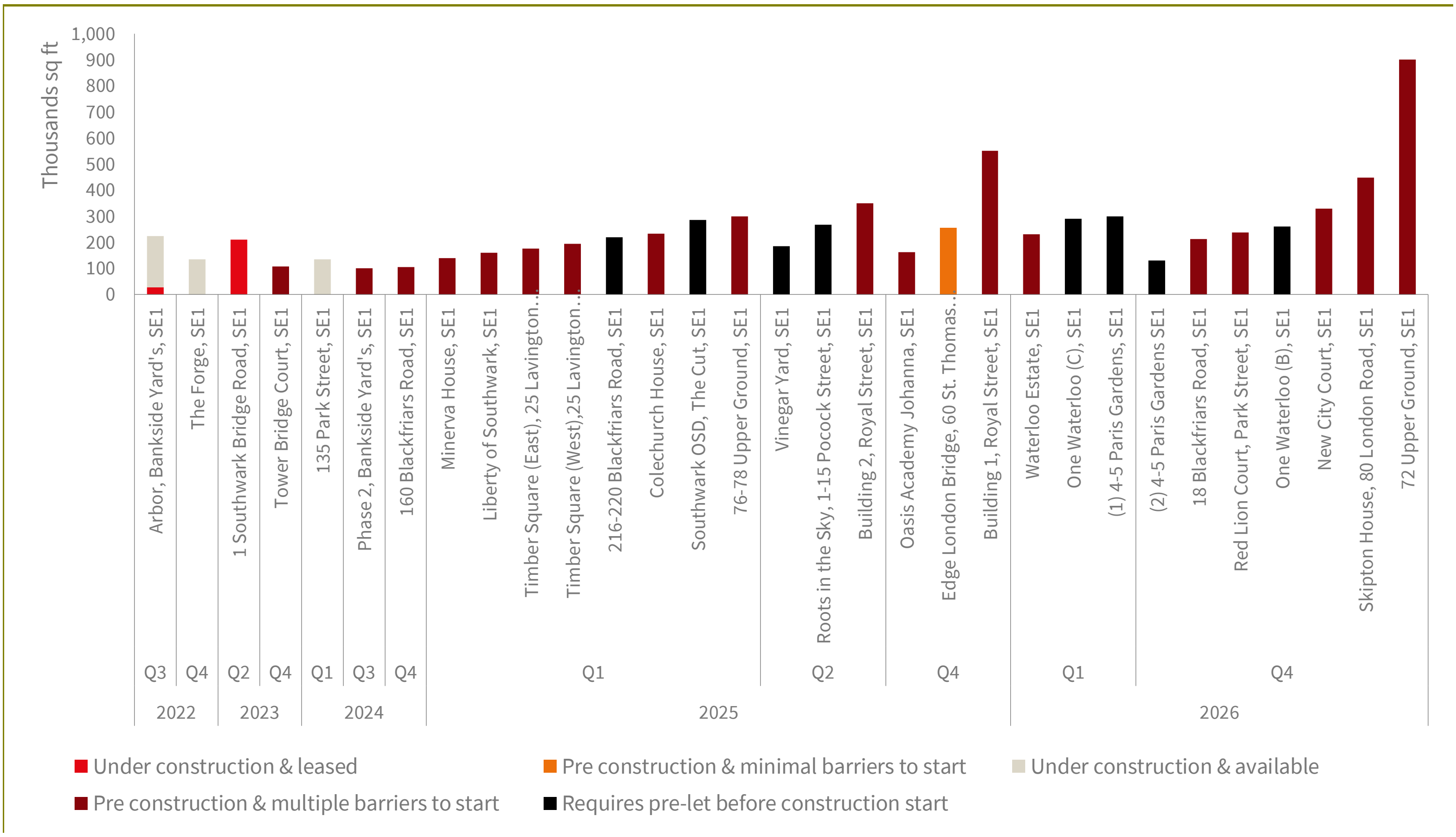
Figure 4: SE1 Supply 2023 - 2026



There is currently 0.4 million sq ft under construction speculatively across four schemes. All four schemes are due to complete in 2022, the largest of which is Arbor, SE1 (196,000 sq ft) which will be available after Q3. This is followed by The Forge, Sumner Street (134,000 sq ft) which is due to complete in Q4 2022.

Whilst there is the potential for 7.3 million sq ft to be delivered in the SE1 sub-market between now and Q4 2026, as set out in the graph below, a number of schemes have barriers to commencement and result in a forecast of just 6.3 million sq ft likely to be delivered on a speculative basis. The constrained pipeline and undersupply of new-build stock will result in significant demand for product like New City Court, where its scale, sustainability credentials, public realm improvements and high-quality design will attract occupiers looking across London.

Figure 5: SE1 (Southbank & Waterloo) Development Pipeline, 2022 – 2026 (source: JLL)[2]



2 Consists of New & Refurbishment schemes, >100,000 sq ft across the SE1 (Southbank & Waterloo) market.

3.4 Demand

3.4.1 Central London Demand

Despite a significant amount of uncertainty over the past 24 months, press speculation regarding "the death of the office" and spending over four months of 2021 in lockdown or under restrictions take-up in London was very positive and sentiment remains so.

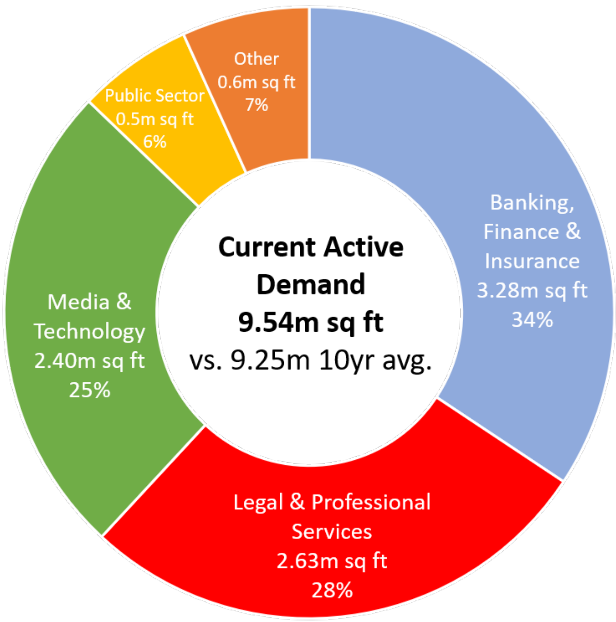
This isn't the first time that such forecasts have been made. Repeated incorrect statements about the end of the office have recurred several times over the last few decades. Technological advancements made remote working possible long before COVID struck, yet its uptake had been limited before the pandemic. The continued allure of working alongside one's colleagues is evident from the proportion of workers surveyed by JLL who said they still want to work in the office at least part of the time. In addition, the extended experience of home working has left many workers craving in-person interactions with their colleagues – more than 60% of the office workers survey by JLL said that 'human interactions' were among the things they missed most about the office. The majority of workers also still identify the office as a better environment than their homes for tasks such as collaboration, management, problem solving and socialising with colleagues.

The take-up statistics and characteristics for the quarter are set out below:

- Take-up for 2021 was 8.56m sq ft only 12% down on the 5-year average.
- 2021 take-up can be seen in a very positive light in comparison to the pre-pandemic (2015-19) 5-year average take-up (ex. serviced offices) of 9.8m sq ft.
- A key shift is that occupier demand is for amenity rich Grade A buildings with 62% of 2021 take-up being for Grade A buildings.

Not only did 2021 demonstrate resilience in occupier demand by the level of take-up, it is also demonstrated by the current level of active demand, which is above the 5-year average.

Figure 6: Active named demand by sector March 2022 (source: Cushman & Wakefield)



The above also demonstrates a good spread of demand from the three key sectors that tend drive London take-up:

- Banking, Finance and Insurance
- Legal and Professional Services &
- Media and Technology.

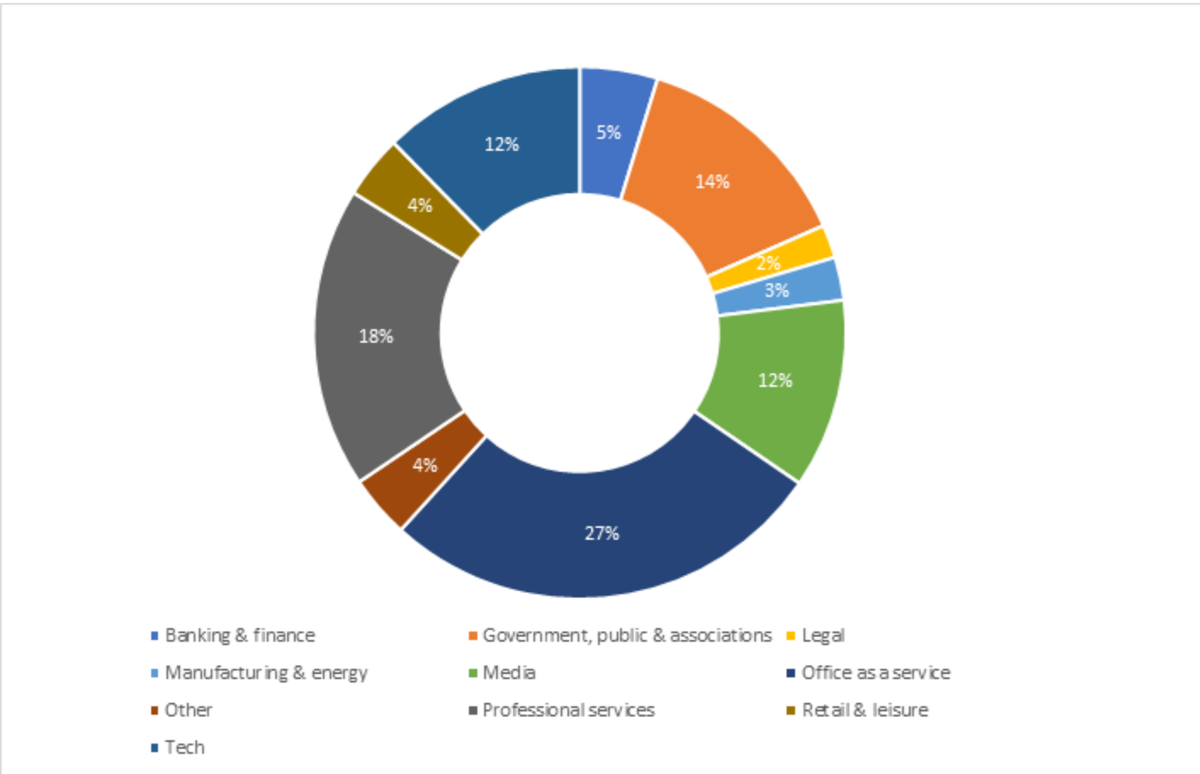
3.4.2 SE1 Demand

Take-up in SE1 is very diverse and demand for the Proposed Development could come from a broad mix of occupiers looking at options across London. The proposals offer genuine appeal to this cross section of occupiers who will be attracted by the exceptional design, scale, proximity to a major transport hub and generous provision of amenity and public space.

The SC1 Life Science Innovation District, which is supported by Southwark and Lambeth Councils, King's Health Partners and Guy's & St Thomas' Foundation, aims to create a global quarter for healthcare innovation. The co-location of healthcare, research and development, start-ups and global businesses will drive further demand into the SE1 market. With New City Court being in close proximity to Guy's Hospital and Kings College London, we expect that much of this wider life science demand will be focussed on the scheme.

Both the 2018 and 2021 New City Court proposals are flexible enough to appeal to a diverse mix of occupiers – both the more traditional sectors outlined above and those who are likely to feature as part of the demand dynamic going forward.

Figure 7: SE1 take-up 2015-2021 (source: Cushman & Wakefield)



Compared to 2019 transactions in SE1, the only size band that saw an increase activity by the number of in 2021 was in the 100,000 sq ft plus size band, with 16 transactions over 100,000 sq ft in 2021 compared to 12 in 2019.

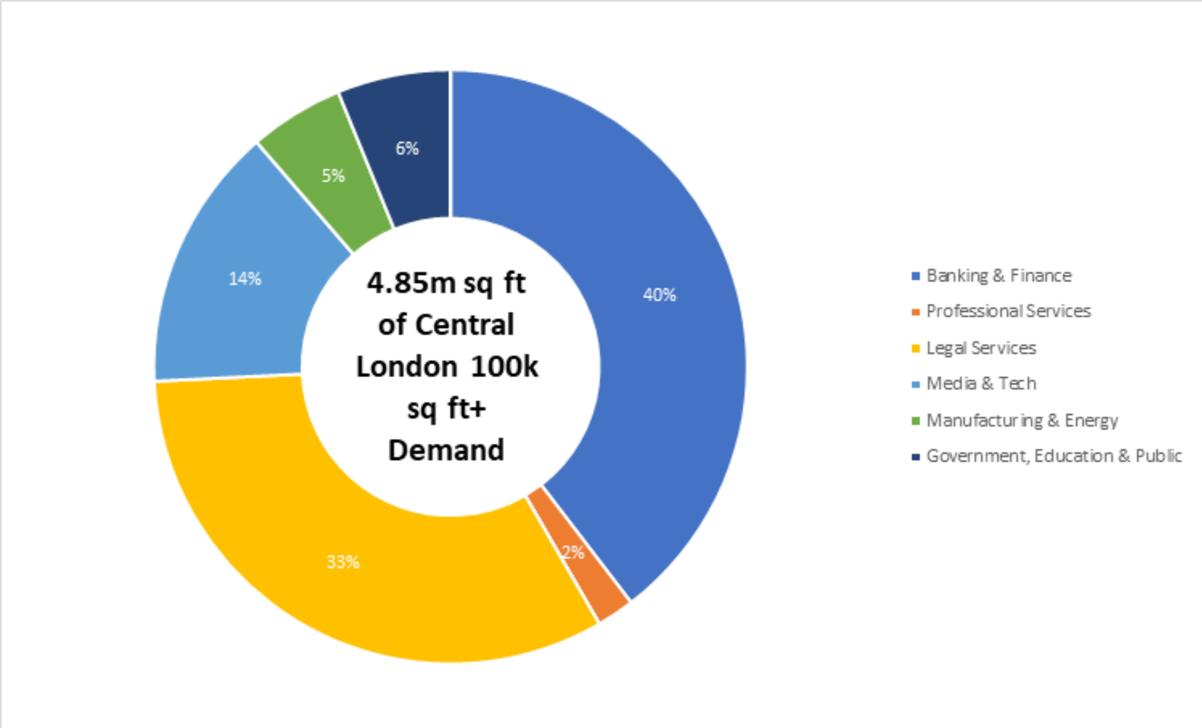
Larger transactions, of 100,000 sq ft plus, will be a key target for New City Court especially against a backdrop of a lack of development completions over the next 5 years due to the hardening barriers to entry such as lack of development finance and inflationary pressures. These larger targets will not only have a lease event but will be driven by growth, with 39% of all active demand over 50,000 sq ft having expansion as a driver for relocation.

We have analysed all transactions in Central London over 100,000 sq ft since the beginning of 2020:

- 84% of them were either new or substantially refurbished buildings,
- 84% of them were within 250m of an overground or underground station and
- 78% of them benefit from outside space.

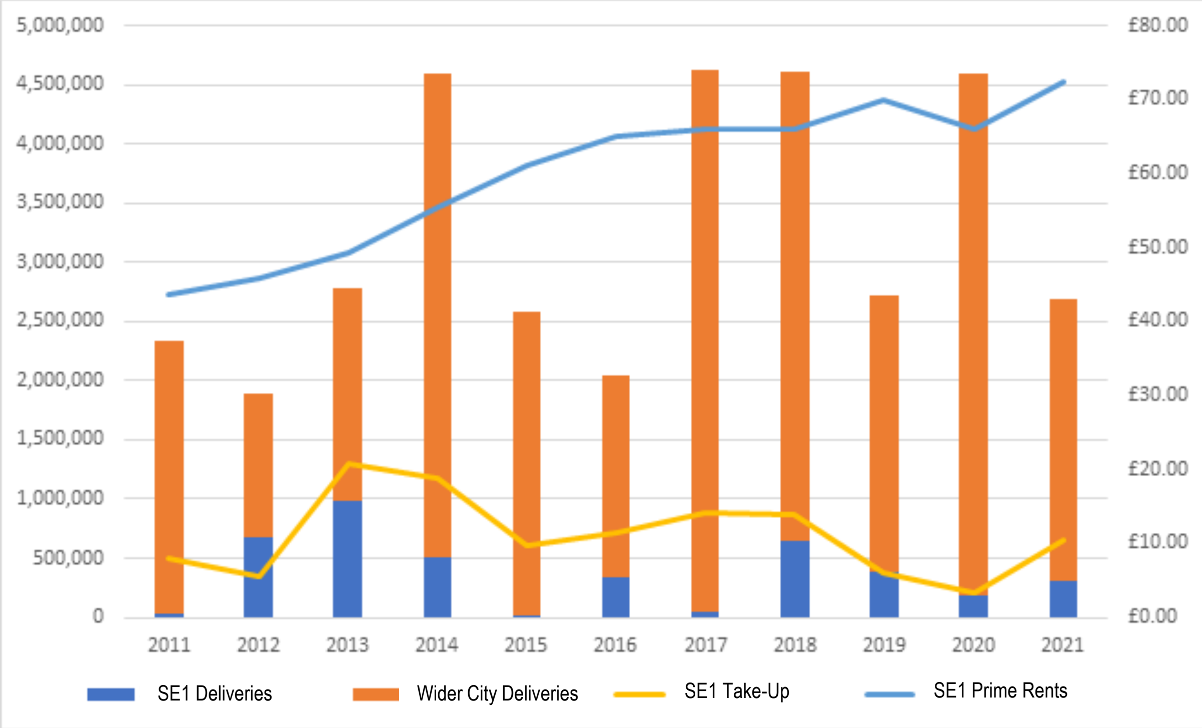
These are all features of the proposals at New City Court, which will provide amenity rich well connected sustainable design which is exactly what occupiers are demanding in the market currently.
Over half of the London active demand is for occupiers seeking over 100,000 sq ft.

Figure 8: Active named demand by sector March 2022 over 100,000 sq ft (source: Cushman & Wakefield)



Over the last cycle demand has reacted to supply in SE1. When a building is delivered in the SE1 market it tends to lease as demonstrated by the increase in take-up in close proximity to the development completion.

Figure 9: Wider City and SE1 development completions against SE1 take-up for 2011-2021 and SE1 prime rents



Demand for SE1 buildings is further demonstrated by the leasing prior to practical completion of the following schemes:

- The Place – News International
- 240 Blackfriars Road – UBM
- Sea Containers – Puma and Ogilvy
- Southbank Place – Shell & WeWork
- Borough Yards – TOG

Despite the small number of off-plan pre-let transactions that occur year on year, New City Court has already been shortlisted by two global law firms as their preferred relocation option for circa 300,000 sq ft. Hogan Lovells were attracted by the building design, floorplate configuration and efficiencies, provision of amenity and public space and proximity to a transport hub. Ultimately, the uncertainty around planning meant that the negotiation was unable to progress.

When considering a commitment to a major pre-let in excess of 100,000 sq ft, the prospective occupier will carefully consider the counter-party risk such as track record of delivering other major pre-lets, financial strength and in-house technical expertise as much as the specifics of the building. There are few other central London developers that can match GPE’s track record of pre-lets to major corporates including: Facebook, UBM, Bird&Bird, CNN Turner, KKR, Glencore, Exane and Inmarsat.

4. Conclusion

Despite an increase in overall availability across London, there is a diminishing supply of Grade A space in the best locations.

Due to inflationary pressures, development finance and other numerous barriers to entry, the development pipeline is likely to remain constrained. This is seen against above average active demand from occupiers in London, with these occupiers demanding the best buildings in the best locations as evidenced by the large transactions (100,000 sq ft plus) over the last two years.

The supply and demand dynamics are pointing towards an imbalance where the demands of the occupiers will not be met in the London market. The Proposed Development would meet the needs of occupiers by delivering a scheme which provides a superior level of architecture, proximity to a key transport node, sustainable and intelligent design and generous amenity provision. These attributes will attract occupiers from across London to Southwark.