



A Race for London



Bear: What on earth are you wearing, Bull? For a minute there, I thought Boris Johnson had just walked in!

Bull: Excellent. My costume is realistic then. As you know, I am running the London Landmarks Half Marathon in a few minutes time, and the good folk at St Bride's (and Boost) have ordered three new costumes for their team to wear. I've drawn the short straw and been given 10 Downing Street, and with it, the need to wear this dreadful Boris Johnson wig. They've also given me a Boris face mask, but I don't think I've got the guts to wear that!

Bear: I don't blame you. Wearing that may well raise a few smiles, but it also feels like a sure-fire way to receive a barrage of abuse along the 13.1 mile route!

Bull: Exactly. I am getting far too old for this anyway. My ankles are knackered, and the costume is heavy. I know I am set for a tough few hours, especially as 25 miles per hour winds are forecast!

Bear: So, why are you putting yourself through it?

Bull: Charity, Bear. Charity. We are raising money for Boost Charitable Trust, St Bride's Managers' affiliated charity. Boost supports inspiring sports programmes which would struggle to launch or be sustained without their help. This half-marathon is one of their annual flagship fund raising events. Our various runners have raised over £160,000 in the five years we've been doing this.

Bear: That's a brilliant effort. You must let me know the details of your fundraising page.

Bull: That's very kind, Bear. It is:

donate.giveasyoulive.com/fundraising/team-londonlandmarks

I know the next couple of hours are going to be pretty miserable, but it does give me a couple of hours of valuable CPD.

Bear: You what? CPD? Don't you mean CSR? You can't put a Sunday morning stroll down as CPD! CPD is about attending seminars, reading industry journals and the like. Professional learning. I can assure you that no-one else will be logging onto the RICS portal and uploading 'running the streets of London dressed as Boris Johnson'. You'll probably get struck off if you input that!

Bull: But this event is my annual 'check-up' on what's happening in London. The route showcases the best of London, as we pass landmarks including Big Ben, St Paul's Cathedral, Nelson's Column, the Gherkin, the Shard and the Tower of London. Deloitte do their Crane Survey every year. This half-marathon is my equivalent!

Bear: Nonsense. Utter nonsense. What are you looking out for? The number of vacant shops you spot? The number of office 'to let' boards? Do you do external dilapidation surveys of every building on route? You've come up with some tripe over the years, Bull, but this must be right up there!



Bull: I don't care. I call it 'Bull's Sentiment Survey'.

As this half-marathon is the only half-marathon that goes through both the City of London and the City of Westminster it gives me a great feel for how the capital is performing. Following the same route every year gives me a sense of where London is at.

Bear: Whatever! It sounds bonkers to me and the RICS will reject it. That aside, what are you expecting to see this morning?

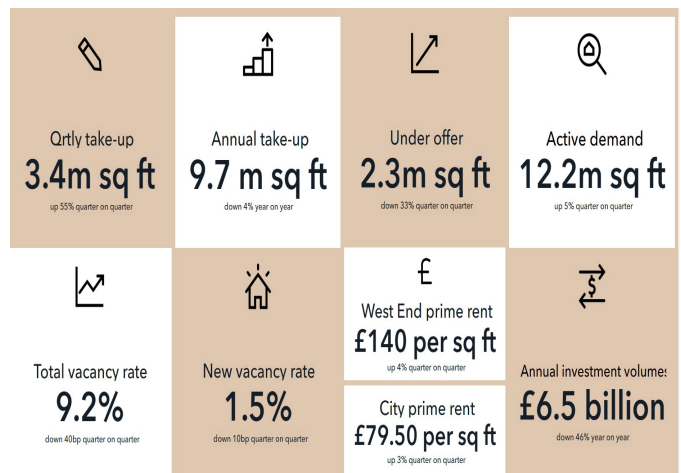
Bull: I have the distinct feeling that Central London is in pretty good health at the moment. I am expecting to see fewer letting boards than this time last year, less vacant shops, more cranes and hopefully more people lining the streets. The sun is out and London, and the City in particular, is far more of a 7-day a week location than it has ever been before.

Bear: I think you must be experiencing some serious pre-race nerves, Bull. You are making things up. Less letting boards? Less vacant shops? Have you lost your mind?

Bull: Absolutely not. I've done my preparation and I have read JLL's Central London Office Report that was released recently.

Bear: So, what were the highlights?

Bull: They can probably best be summarised by this graphic. In short, there was a rebound in office leasing activity in Q4 2023 with 3.4 million sq. ft. transacted, showing a significant 55% improvement compared to Q3 and marking the highest Q4 volumes since 2010.



JLL's Central London Office Report, Q4 2023



Bear: Oh, you do appear to have done your homework. But in typical fashion, you have failed to mention that the annual total take-up of 9.7

million sq. ft. was 4% lower than 2022 and 5% below the 10-year annual average.

Bull: True. But it's my job to paint a rosy picture! However, to ram my point firmly down your throat, the level of active demand has also continued to rise, reaching 12.2 million sq. ft. by the end of December 2023. This represents a significant year-on-year increase of 42% compared to the 8.6 million sq. ft. recorded at the end of 2022. This surge in active demand showcases the underlying strength of the office market.

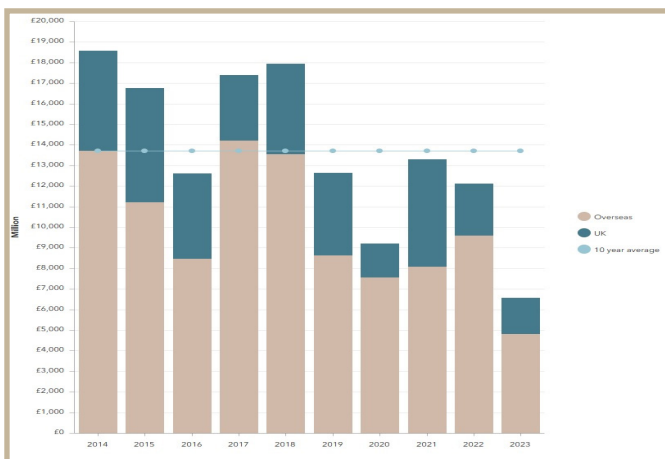
Bear: There's no need to get so aggressive, Bull. You will regret wasting that energy in a few hours' time!

Bull: Fair point! Sorry, Bear. My nervous energy ran away with me for a moment there. But I have got rather tired of everyone writing off the London office market. It really isn't that bad. Overall supply across Central London fell in the final quarter of 2023 to stand at 23.1 million sq. ft. As a result, the overall vacancy rate decreased to 9.2%, with supply levels falling in all three London markets.

Bear: That's true, but vacancy still remains above the 10-year average of 5.7%. That won't help the rental growth story, will it?

Bull: JLL's report would suggest the contrary. Prime rents increased across all Central London main markets in Q4 2023. The prime West End rent increased to £140 per sq. ft, which reflected an annual rental increase of 7.7%. In the City, prime rents ended the year at £79.50 per sq. ft, which represented annual growth of 9.7%.

Bear: So, if the occupational story is so compelling, why was only £6.5bn of office investments traded last year? Overall Central London office volumes for 2023 were 46% down on 2022 and 52% lower than the 10-year annual average of £13.7 billion, and the lowest annual total since 2009!



Central London Investment Volumes, JLL's Central London Office Report, Q4 2023

Bull: We all know why, Bear. We've covered it at length in our recent discussions. The higher cost of debt has continued to limit the feasibility of business plans and underwriting for all lot sizes, especially investments exceeding £100 million. But there has been some better news on that front recently.

Bear: Really? I thought that the investment market was as poorly as you will be feeling in 13.1 miles' time!



Bull: Very funny, Bear. There was an article published on React News this week which suggested, after a prolonged absence, that private equity firms are now returning to the London office market.

Bear: I was aware of Orion's purchase of a 50% stake in 100 New Bridge Street and the £300m sale of Langham Estate's non-core portfolio to Oval Real Estate. But beyond that, I thought the number of significant deals by private equity buyers had been limited of late.

Bull: You are right, but there is a definite sense of a changing trend. For example, over the past two weeks, Ares has bought 25 Charterhouse Square for £43.5m. Feldberg Capital acquired 21-25 Bedford Street in Covent Garden for £75m and BauMont acquired One Smarts Place and Old Change House for £65m. And there is more to come apparently. According to Colliers, of the £1.50bn of London office stock currently under offer, around £320m is on track to be acquired by private equity firms.

Bear: Now that does sound encouraging. The return of private equity usually signals that pricing is bottoming out and that deal volumes will pick up.

Bull: Exactly. Plus, their return may persuade more owners of larger assets to test the market. The lack of potential buyers has been a barrier of late, as most of the private buyers that have been dominating bidding do not have deep enough pockets to go after larger deals.

Bear: True. But private equity buyers typically are very discerning in what they purchase. Their target assets will have to be either high quality or can become high quality. And it shouldn't be underestimated how few of these opportunities there are.

Bull: Absolutely. Availability is limited for true best-in-class offices and there is little prospect of that changing any time soon. And when it comes to redevelopment opportunities, these remain challenging to price, despite construction costs stabilising. Nobody is under any illusion that this will be a banner year for the London office market, but the return of private equity buyers would suggest that the nadir has passed. And that's good enough for me!

Bear: And me! Let's finish on that positive message. And looking at the time, you probably need to waddle off to the start line.

Bull: Crickey, so I should. I got carried away. Anyway, wish me luck!

Bear: Good luck. Run well and remember, pain is just the French word for bread!



Boost's London Landmarks Half Marathon Costume Runners, April 2023