n

*Research Report*

# *London borough of Lambeth*

**Commercial Office Baseline Report**

**October 2020**

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# 1. INTRODUCTION

1.1.1. The London Borough (LB) of Lambeth has appointed JLL to provide commercial office market real estate intelligence, research, insight and advice to understand the current health of the commercial office property market in LB Lambeth.

1.1.2. The report sets out to provide evidence, intelligence and insight about the borough as a whole, with a particular focus on commercial centres in the borough: -

1. Waterloo & Southbank
2. Vauxhall
3. Brixton
4. Streatham
5. Clapham
6. Norwood

1.1.3. The objectives of the research are:-

- To provide a detailed analysis of the commercial office market in LB Lambeth to set out the dynamics at sectoral, local and borough wide level.
- To identify opportunities for LB Lambeth and the above centres to benefit from specific needs of emerging and growth markets.
- To provide a general market overview of the London office market, looking at key strategic market indicators for the leasing and capital markets to inform development strategies.
- To identify occupier trends and factors that are likely to influence the way that offices are occupied in the future, with particular emphasis on the impact in Covid -19, and whether these will create opportunities for the Lambeth office market.
- To benchmark local market data against other office markets and boroughs in Inner London.

1.1.4. We have used both quantitative and qualitative data to answer the questions. The research has drawn on JLL's own market statistics for Central London but we have relied on third- party data sources to compile estimates and forecasts for the non- central markets within London and for Inner London office market analysis and also for the analysis of the local economy.

1.1.5. The report is split into several main sections which are briefly outlined below.

**Leasing Activity**
This section provides a historic overview of leasing activity across Central London, highlighting aggregate trends across the capital and in different submarkets. It breaks down leasing activity by size and business sector, as well as incorporating analysis of migration trends. This section is supported by data on employment by business sector using Oxford Economics to illustrate the relationship between employment and leasing and data on lease events to forecast volumes of take-up and which sectors are expected to be most active.

**Sector Analysis**
This section considers the trends that will influence a number of key sectors in LB Lambeth and how their requirements for office space has changed and is likely to change over the medium term. It specifically focuses on media/tech/life sciences and professional services. This section also discusses the provision of affordable workspaces.

**Overview of supply**

The section considers the quantum of office stock in Inner London, and individual office markets. and how it has changed over time. An assessment of current supply and historic trends has been provided at a borough and market level, along with an overview of future development.

**Commercial analysis**

This section considers rental values for Central London including data on prime rents and average achieved rents. It considers whether there is a relationship between rents and both economic and real estate indicators. This section also provides a forecast of next 5-year cycle, placing rents in LB Lambeth in context of the wider commercial office market.

**An overview of corporate office trends**

This section covers key trends that are likely to influence the way in which companies will occupy space in the future, being mindful of those that will impact on different sectors or size of company that are represented in LB Lambeth. Trends analysed include occupational density, fit-out and design, flexible working, smart buildings, sustainability and placemaking. It puts these trends into the context of Covid-19.

**Benchmarking summary**

The final section provides comparison of the main office centres to their competitors across Inner London.

# 2. EXECUTIVE SUMMARY

This report explores the office market in Lambeth and how it compares to the Inner London office market to understand the opportunities and challenges for the area as a commercial office centre.

The findings of the report suggest there is significant potential for the key office locations at Vauxhall and Waterloo, with the latter providing greatest opportunity. These areas are characterised by Grade B stock which is not the type of space that vibrant and large scale businesses require, and as such has inhibited inward migration to the area.

However, the area around Waterloo in particular benefits from excellent connectivity, depth of cultural and amenity offer along with the benefits of being adjacent to the River Thames. Combined with the relative affordability of the area, these are location drivers that few other areas in Central London can compete with.

The main office markets in the borough are well served by public transport, with Waterloo Station at its core. With the expected trend for urbanisation set to continue in light of Covid-19 and the focus on a green recovery, we expect to see companies seeking premises in and around core transport hubs. Evidence from office markets around mainline railway stations, such as King's Cross and Paddington, shows how with regeneration these areas have generally outperformed from a leasing and rental perspective.

The largely residential nature of the borough means that there are a large number of homes within walkable/cycling distance of major and local employment centres – with a significant pipeline of new residential development this is only likely to increase the potential pool of talent which will further add to the attractive nature of the borough as a location.

The report shows that Lambeth is well placed to attract a wide range of companies in the longer term, provided a range of office stock is available but that in particular there should be a focus on life sciences, tech and media companies to build on the key location strengths.

There is no doubt that the competition to attract companies will be high, with most London boroughs seeking to attract inward investment and boost their own local economy. To realise the borough's long term potential and to draw companies in from elsewhere, it is essential that LB Lambeth has the right kind of stewardship, policies and strategic direction.

# KEY FINDINGS

**London and Lambeth's commercial office market**
Lambeth is a relatively small office market in comparison to other London boroughs. It is one of only two boroughs that have seen office stock decline over the last ten years, due to a lack of appetite for commercial redevelopment combined with conversion to alternative uses.

Waterloo and Vauxhall dominate the provision of office stock in the borough, but Waterloo has seen a contraction in office stock unlike most other centrally located office markets which have been expanding over the last ten years. While the markets of Brixton, Clapham, Norwood and Streatham are important areas for the local economy they predominately cater for local occupiers.

The limited office stock and the quality of the stock within Lambeth and its core commercial centres has inhibited the potential growth of the area and is reflected in the low levels of leasing activity across the borough. This is a pattern that is evident across all Lambeth's main office centres and is reflected in the wider property market trends such as available supply and development activity.

**Office Employment**
Office based employment has been on an upward trend across Inner London, driven by the trend for urbanisation of employment and the war for talent. While the current economic climate will dampen growth in the short term, over the longer-term office employment is expected to continue to increase, albeit at a more modest pace.

Much of this employment growth will continue to be driven by the types of businesses that tend to congregate in urban locations because of the clustering benefits, most obviously those in professional and business services, technology, creative and media.

Lambeth has lagged behind the inner London trends and has seen low levels of office employment growth over the same period. Its employment base is less reliant on office-based sectors than many other London boroughs. Nevertheless, Lambeth is expected to see stronger employment growth over the next five years, albeit from a low base in absolute numbers.

This growth could be boosted by further investment into the built environment, to create a location where companies want a presence because their employees want to work there.

**Lambeth's Economy**
Historically Lambeth has underperformed the Inner London average, but expectations are that Lambeth should see better economic growth over the next five years. This is supported by expansion in the working age population.

The challenge for Lambeth is to provide employment for the population within the borough. Currently Lambeth is one of only six Inner London boroughs to be characterised by negative commuting patterns, as residents travel elsewhere for employment.

Attracting new employment to the area is dependent upon providing the right business environment, in terms of both the built stock and the public realm.

**Leasing activity**

Central London has seen strong levels of leasing activity over the last seven years, although volumes have stalled in light of the pandemic and the uncertainty created around the UK's exit from the European Union.

This trend is mirrored across Inner London. Lambeth has however, seen lower rates of leasing in terms of turnover as a proportion of stock and has underperformed relative to its size. As the main office market in the borough, Waterloo has lagged behind its neighbours. This is reflective of the fact that the boroughs office stock, especially in the core markets, has been underinvested in for several years. The shortage of space has hindered occupier activity to date.

At the same time, other areas such as Camden (King's Cross) and Hackney (Shoreditch) have undergone significant regeneration and have become firmly established office markets. These areas have grown as they have provided good quality office stock combined with a focus on the urban realm and amenity provision, to create places where people want to work and dwell.

The London office occupier has diversified, with the TMT increasing its footprint since the Global Financial crisis, while banking & financial services have been contracting. Lambeth has successfully attracted the TMT sector, while the dominance of the public sector has waned over the same period. However, the borough has not attracted occupiers of scale in significant numbers and leasing is reliant on SME's.

### Migration

Today's occupiers are increasingly footloose and historic location cluster have been eroded. Companies searching for space today have different requirements to the traditional office occupier base. Workplace design, health & well-being, activity-based working, sustainability, amenity and flexibility are all high on the corporate agenda.

Companies are willing to relocate further to secure the right space. The fact that Waterloo, and to a lesser extent Vauxhall, have an undersupply of properties that can meet these occupier needs has been reflected in a net out-migration from the market with only a handful of large-scale occupiers, including Cloudflare and CyberArc moving into the area over the last ten years.

Looking forward, with most corporates expected to reduce their overall footprint, larger occupiers will be highly sought after across the capital. Areas that combine the right asset with the right place will continue to attractive.

Waterloo and Vauxhall will need to provide a competitive offer to other areas across Central London. While the area competes favourably on price, this will change as new developments come forward and generate higher rents, so the challenge will be to create an area that has a critical mass of assets- but that provide a range of size and quality-that feel integrated to create a place where people want to work over and above the established office markets/clusters which are further ahead in terms of evolution and reputation.

### Sectors trends-Creative & Media

The creative and media sector is facing considerable disruption due to the Covid-19 pandemic. Ad supported business models have been particularly badly hit, forcing many firms to cut roles and accelerate efforts to transition to subscription-based business models.

Media production across film and television was halted due to the imposition of lockdown measures, forcing the delay on the production of new material but also producing innovative ways to produce content.

The Covid pandemic has further divided the sector between the new and premium digital media platforms, OTT streaming services[1] and video game publishers, on the one hand, and traditional ad-supported media and broadcast firms on the other.

As the sector pivots towards more digital content and subscription services however, it will create opportunities for new and immersive content to emerge and new modes of communication to target audiences.

Overall, media companies have traditionally been sensitive to real estate costs, due to the tight margins under which they operate. This will be even more the case due to the pandemic. Many firms may well find that central London markets, including Waterloo, are too expensive and they may look to locate in more cost-effective accommodation in less central markets. This may present an opportunity for Vauxhall.  The local area has already attracted a number of media companies such as Dorling Kindersley and Penguin Random House and it is cost effective, provided that the development of the adjacent Nine Elms and Battersea Power Station are doesn't push up rents across the whole area and Brixton, which has been designated a cultural area and has a base of creative companies already located in the area.

### Sectors trends -Technology

The technology sector has been the most active sector across the London leasing market over the last decade. This has spurred the transformation of parts of the capital, as major tech groups expanded their footprints in areas that offered access to deep pools of talent and a high level of amenity provision – often paying a considerable premium compared with their non-tech peers to secure the best space.

The growth of the tech sector has also expedited the rise of co-working and flexible space, as the flexibility and short-term commitments offered by these spaces are well suited to tech firms, who scale quickly and often bring in freelancers and contingent workers for short term project requirements.

Large parts of the technology sector have also proven highly resilient to the pandemic, as consumers have responded to lockdown measures by conducting more of their activities online, and mass remote working has forced firms up their spending on technology infrastructure.

Looking forward, there is considerable potential for this sector to grow in and around Waterloo, if the redevelopment of the station can improve the public realm and the amenity provision is upgraded. The tech sector is drawn to locations that are not deemed to be corporate and while there are a number of tech clusters across Central London, migration data shows that the sector is willing to embrace new areas.  At the same time, rents have increased sharply in many tech locations and have become too expensive for some parts of the tech sector.

Brixton also has significant potential, if more high-quality commercial office space can be provided. The area is already home to a large population of young, highly skilled workers and a flourishing

[1] OTT Streaming is a streaming media service offered directly to viewers via the Internet rather than traditional TV channels

ecosystem of freelancers, start-ups and scale-ups. As location decisions become more 'product-driven' in the aftermath of pandemic, Brixton could be one of a number of emerging locations outside Central London that is highly attractive for tech occupiers, if the appropriate office stock is provided.

**Sectors trends -Life Sciences**

The Covid-19 pandemic has underscored the essential contribution that the life sciences sector makes to public health. Life sciences firms have proved highly resilient to the impact of the pandemic, and policies to support the sector are likely to take on greater strategic urgency in the aftermath of Covid-19.

Lambeth (and neighbouring Southwark) are home to a world-leading healthcare and research infrastructure. The burgeoning innovation district could emerge, alongside Kings Cross and White City, as a major centre of global research and innovation within the next decade.
The nurturing of this cluster, however, will rely on supporting partnership between local government, healthcare trusts, academic institutions and private enterprises.

Lambeth should explore how its policies can help create an environment that encourages the development of specialist labs and research space. The council should also ensure that there is sufficient provision within schemes in the borough for affordable labs and workspace, as many of the breakthrough innovations within life sciences are made by start-ups and scale-ups who are highly sensitive to costs.

**Sectors trends -Professional and Legal Services**

Despite an immensely challenging economic environment, the professional services sector is a set continue to remain a major constituent of demand for office space across London. We estimate that there is currently around 2.5 m sq. ft. of active demand from professional services firms across the capital, representing 31% of total active demand.

Law firms, one of the largest sub-sectors within professional services, account for 1.8 m sq ft of this demand. These firms tend to locate among their clients and peers – resulting in high concentrations of firms in the City, Midtown and to a lesser extent around London Bridge and Canary Wharf. There is, therefore, limited potential for this sector to grow in Lambeth.

Within the broader professional services market however, growth in demand for space in Lambeth will almost certainly come on the back of redevelopment around Waterloo, with professional services firms seeking to take advantage of employees commuting through the station.

**Future occupational trends**

The Covid-19 pandemic has accelerated a number of workplace trends that have been evident for some time now. The drive towards flexibility, health & well-being, smart buildings and the trend towards sustainability have all been brought to the fore by the pandemic and will remain future considerations in any location decision.

The immediate debate centred around the death of the office, but the consensus is that the office will survive but that its role may be very different. Remote working will be a fundament part of the future of work, with most employees not expecting to go back to the office on a full-time basis, but the office will have a part to play in terms as a hub for collaboration and for socialising. Offices will need to pull people back in and as such a flight to quality is anticipated, with more amenities and collaborative spaces.

Office footprints may well change as a result of the pandemic as firm optimise their space needs against a reduced workforce, while space per person is expected to increase to accommodate new models of working and to implement social distancing. At the same time, this is expected to impact on London's geography, with more focus on locations with excellent connectivity such as areas around railway stations. This should benefit the area around Waterloo.

A shift to a hub and spoke model has been mooted, with local hubs offering alternatives to working from home for staff. This could benefit suburban office markets, which could see an increase in demand, most likely for flexible workspaces, with both Brixton and Clapham potentially seeing an uptick in requirements as a result.

Urban areas are expected to bounce back post-Covid, but expectations on the purpose of cities have changed. As we rethink urbanisation, health, resilience and placemaking must be at the core of the design of sustainable places. Successful places will be those which are designed to increase the health and wellbeing of residents and communities.

### Supply

Waterloo and Vauxhall have an older office stock than the Central London average, and potentially have a higher level of space reaching obsolescence than other parts of the capital. This is due to the low levels of new development seen over the last ten years. This is also evident in the other centres across the borough- all being characterised by an abundance of Grade B stock.

Nevertheless, this creates opportunity for redevelopment and reimagination of the space within the borough. This is starting to emerge through the development pipeline, with a significant number and high volume of schemes in the pipeline. This suggests that the next ten years could be transformative for the borough. One Waterloo Place is the largest office scheme currently in the pipeline across Central London and will be crucial to the regeneration of the Waterloo submarket, while proposed new schemes in Brixton will boost the centres appeal.

Currently though, vacancy rates across the borough are low and available space tends to be of low specification, which inhibits the ability for occupiers to lease space across the borough. Until new development comes through, there is unlikely to be any significant boost to leasing activity and inward investment.

### Commercial analysis

The office markets in Lambeth are cost effective in comparison to many other London boroughs and office markets. In line with the wider market, rents have increased over the decade but there is a divergence between rents that are paid by larger occupiers and the smaller tenants in the borough, as smaller occupiers typically take lower quality space which is more affordable.

Both prime and average rents are expected to come under downward pressure in the short term. One of the consequences of Covid-19 is that we expect a flight to quality from occupiers, so the gap between prime and secondary spaces is expected to widen over the short term.

The London borough of Lambeth recognise that rising rents are pricing many local occupiers out of the market and are adopting a comprehensive strategy to provide affordable workspaces. In an area where SME's dominate, particularly from the creative sector, it is important to provide affordable workplaces to support local businesses. Demand for affordable workplaces is only expected to increase as a consequence of the current economic climate.

**Potential for growth- Waterloo**
The redevelopment around stations has been critical to the successful regeneration of a number of areas across Central London. Waterloo shares many of the characteristics that have supported the growth of office markets around railway stations such as King's Cross and Paddington, but to date has underperformed. Waterloo has the strongest potential for growth of any of the office markets in Lambeth and could follow similar growth trajectories to other transport focused areas.

***A major railway station*** - Waterloo is London's busiest - with strong connectivity to other major office locations, indeed many Waterloo commuters connect to the city via the Waterloo and city line. The downside is the lack of permeability of the station and integration with the public realm
***Development at scale*** - Waterloo ranks 4th of 36 Central London sub-markets, behind City Eastern, Canary Wharf and Southbank for potential supply deliverable over the next five years.
***Large sites*** – potential developments which can accommodate an occupier requiring in excess of 500,000 sq ft are rare in Central London.
***Strong amenity*** – Established and strong surrounding amenity including: river frontage, cultural offering of national scale, food and beverage.

**Potential for growth -Vauxhall**
Vauxhall is an emerging office market, and as such demand for space is limited in comparison to Waterloo. It has the same challenge as Waterloo in that it lacks sufficient office stock.

While there is some new development planned, the area will benefit from the redevelopment of neighbouring Battersea and Nine Elms.

While transport connectivity is a key location strength, the area is not pedestrian/cycle friendly and more curation of local amenities will be required to improve the areas appeal**.**

**Potential for growth -Brixton**
Brixton has developed a reputation as an emerging office market and has a reasonable size office stock, with a range of building sizes. It is cost effective, but this is largely due to the lack of good quality office space.

It has benefitted from the borough's commitment to positive change and regeneration, while recent investment by developers such as Derwent and Hondo, is expected to see a focus on the higher specified stock. This will aim to bring in new companies to the area, boosting employment and the local economy.

It is an area that is perceived to have great character and amenity and is renowned for its cultural diversity. It is imperative that the areas characteristics are preserved, and any new office development should be sympathetic to the local environment.

**Clapham** does not have a clear identity as an office market, albeit it does benefit from having a relatively large critical mass of office space and has good transport links.

**Norwood and Streatham** are small office centres, lack critical mass and generally only appeal to local occupiers. There are limited prospects for growth over and above catering for the existing occupier base.

# 3. OVERVIEW OF LONDON AND LB LAMBETH'S COMMERCIAL OFFICE MARKET:

## 3.1. Lambeth office stock

3.1.1. The report refers to information using overlapping geographic boundaries: inner London borough level, JLL's central London office market and the Central Activities Zone (CAZ). Maps outlining the boundaries used and overlap are provided in Appendix 2.

3.1.2. Inner London office stock has recorded growth of 4.0% over the past decade, rising from 303 million sq ft at the end of 2010 to 317 million sq ft[2] as at Q2 2020. Of this stock, over a half is located in the City of London and Westminster. The City of London has recorded the largest increase in stock across the London boroughs, adding 4.4 million sq ft, reflecting a 5.6% increase. Hackney, which borders the City of London, recorded the second highest net increase in stock, adding an additional 2 million sq ft over the past 10 years.

3.1.3. Lambeth is a predominantly residential borough with a relatively small proportion of its footprint being located within the defined JLL Central London office market or within the CAZ. The submarkets of Waterloo & Southbank and Vauxhall sit within Central London but are relatively under developed in comparison to other Inner London borough central submarkets as will be demonstrated throughout the report.

3.1.4. Lambeth is a relatively small office market, with an estimated stock of 9.9 million sq ft, reflecting a 3% share of Inner London's total office stock. At its peak, CoStar estimate that the office stock in the borough totalled 10.6 million sq ft back in early 2012 - reflecting a 3.5% share of total stock across inner London at that time - but it has been steadily falling ever since, with the largest decline between 2013 and 2015, when overall stock fell by 1.3 million sq ft.

3.1.5. Lambeth has recorded a net loss of over 600,000 sq ft in office stock over the past 10 years, reflecting a decline of 5.6% reflecting the low levels of commercial development and the influence of Permitted Development Rights. Westminster is the only other London borough to record a net loss in office stock over the same time period. These trends are reinforced by data published by the Valuation Office[3], which show that the stock of offices in the borough in the rating list has actually fallen by nearer 1 million sq ft, which is the second highest floorspace loss behind Westminster.

3.1.6. Within Lambeth, the most developed office markets are Waterloo & Southbank[4] and Vauxhall, which account for around half of the total office stock within the borough. A number of new developments completed in Waterloo during 2019 resulting in an uptick in stock. Prior to this, the size of the Waterloo submarket had been in decline, and the area has still lost an estimated 400,000 sq ft of office stock over the last ten years. Vauxhall is a relatively new submarket that has emerged as the Central London boundary has expanded and as such has relatively low levels of existing stock, comprising around 2.2 million sq ft.

3.1.7. There are also a number of other smaller commercial centres within the borough. The table shows the CoStar data for the stock for the town centres, based on a half mile radius from the

[2] Based on CoStar data
[3] Valuation Floorspace Statistics 2020
[4] For the purposes of this report this will be referred to as Waterloo, while Southbank relates to the market within Southwark

centre of LB Lambeth's town centre boundaries. As such they capture the town centres but also other offices outside the defined area. There is limited data available on these markets but an overview of each has been provided in Appendix 1.

*Table 1: Office stock by commercial centre*

| Location | Estimated office stock |
|---|---|
| Waterloo* | 2,705,000 sq ft |
| Vauxhall* | 2,094.000 sq ft |
| Brixton | 720,320 sq ft |
| Clapham | 836,000 sq ft |
| Streatham | 89,600 sq ft |
| Norwood | 65,700 sq ft |

*Source 1: JLL*/CoStar, Q3 2020*

### 3.2. Inner London Office Employment

3.2.1. Looking at the number of people employed in office-oriented sectors[5] within Inner London, employment is at peak levels and has grown by 290,000 (16.7% or 3.1% per annum) in the five years to end of 2019, which is far more than the pace of growth across the UK as a whole.[6] This reflects the continuing urbanisation of employment, the preference of graduates for city locations, and the concentration of new jobs in sectors such as tech, media, technical and professional/business services, which all tend to congregate in urban clusters.

3.2.2. Over this period, the fastest growth has come in the professional, scientific and tech[7] which has grown by 21% or 3.9% per annum to reach 662,000. Despite concern around the future of the financial services sector, headcount growth in financial services has also been positive, at 8.0% or 1.5% per annum, as the sector responds to structural changes within the industry reflected in expansion of compliance and technical roles. The sector saw 5,500 new jobs created in 2019, although the rapidly growing information & communication sector increased by 11,600 new roles and professional services by over 42,000.

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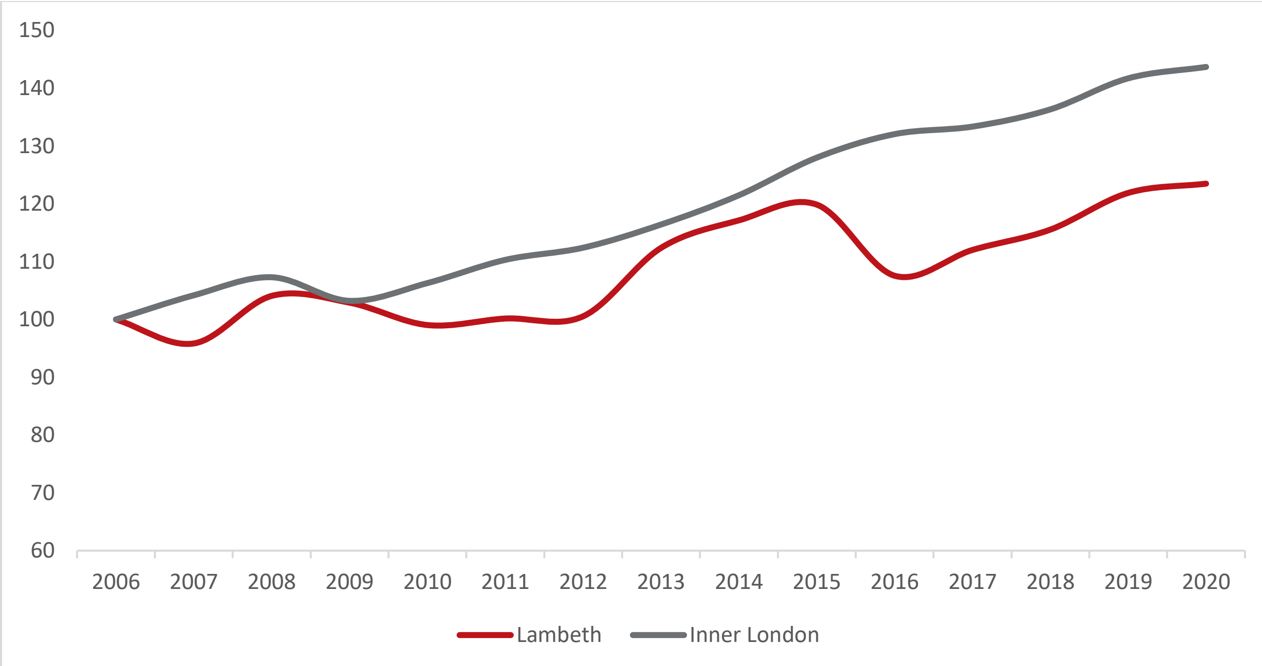
[5] Administration and support/financial and insurance/information and communication/professional, scientific and tech/public admin/real estate activities.

[6] Inner London is defined as the eleven statutory London boroughs

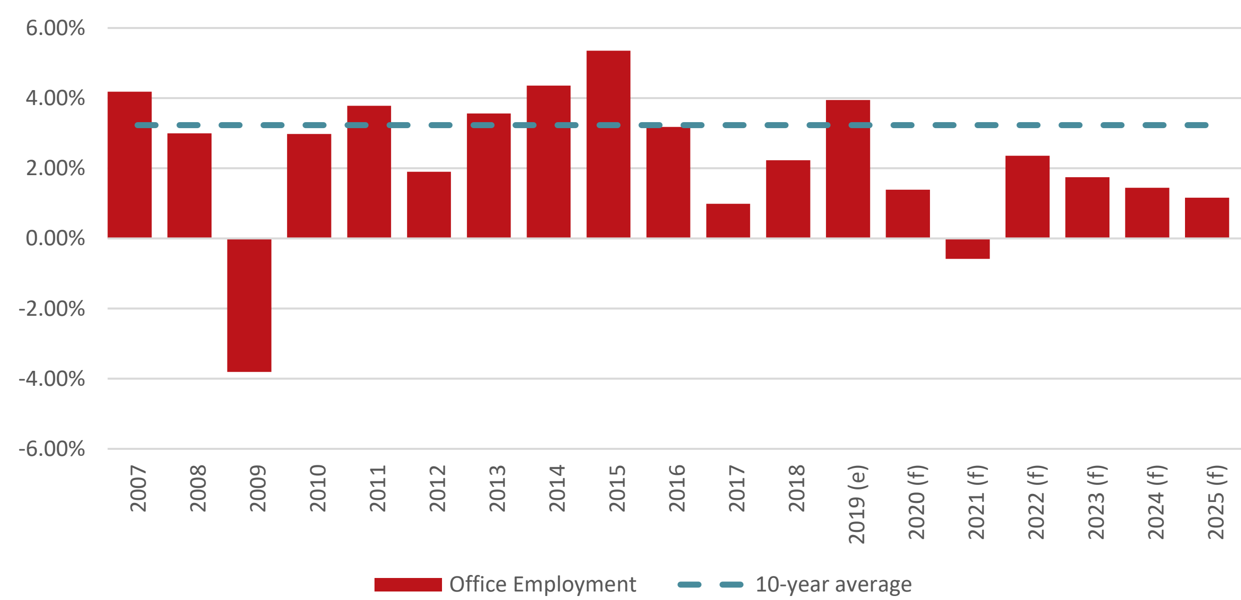
[7] Standard SIC codes -SIC Codes are used as a proxy for office employment and it musts be recognised that some non-office based employment will be included in these broader sectors but that this will be compensated for excluding office employment in other broad sectorshttps://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007

*Chart 1 :Lambeth and Inner London office employment trends 2006-2020 (Index 2006=100)*




*Source 2: Oxford Economics (July 2020)*

*Chart 2: Change in office employment, Inner London 2006-2023*




*Source 3: Oxford Economics (July 2020)*

3.2.3. Oxford Economics forecast[8] that Inner London will continue to see solid employment growth, despite a subdued economic performance. Growth will be at a more modest pace than seen in the last five years as companies struggle in the aftermath of the pandemic and remain reluctant to make long term capital investment in their businesses. The number of jobs is forecast to increase by an average of 1.3% per annum between 2019 and 2024 which equals just over 132,000 new roles.

[8] Forecasts as at July 2020

3.2.4. It is expected that this will continue to be led by the information and communication and professional services sectors, as well as business administration, while the total headcount in financial and insurance is likely to fall. Much of this employment growth will continue to be driven by the types of businesses that tend to congregate in urban locations because of the clustering benefits, most obviously those in professional and business services, technology, creative and media.

*Table 2: Office employment growth per annum 2019-2024 (annual average)*

| Sector[9] | Inner London | Lambeth | Greater London |
|---|---|---|---|
| Administrative and support | 1.8% | 1.5% | 1.3% |
| Financial and insurance | -0.1% | -0.3% | -0.1% |
| Information and communication | 1.5% | 1.4% | 1.5% |
| Professional, scientific and tech | 1.7% | 1.4% | 1.4% |
| Public administration and defence | 0.7% | 0.5% | 0.6% |
| Real estate activities | 1.6% | 1.5% | 1.3% |
| All office-based employment | 1.3% | 1.3% | 1.1% |

*Source 4: Oxford Economics (July 2020)*

### 3.3. Lambeth office employment growth and forecasts

3.3.1. Within Inner London, Lambeth has seen one of the lowest levels of office employment growth in all boroughs, with 18% more people working in office-based employment in the borough at the end of 2019 than the end of 2009. This equates to an average annual growth rate of 1.7%, which compares to 3.2% for Inner London overall. Only Greenwich, Hammersmith & Fulham and Lewisham had a slower rate of office employment growth.

3.3.2. Around 37% of all employment in the borough is in office related sectors, which has fallen from 40% in 2009. Lambeth office employment has historically been lower than the Inner London average which is 48% excluding the City- where office employment accounts for 82%- or 54% including the City. Only Greenwich, Lewisham, Newham and Wandsworth have lower percentages of office employment than Lambeth. Over the same period, Hackney office employment has increased from 41% to 47% as the local economy has seen significant shifts in its make up primarily due to the growth of the local tech sector.

3.3.3. Oxford Economics' July 2020 projections for employment growth over the coming decade indicate that Lambeth will outperform Inner London as a whole, although the pace of growth is expected to slow across all boroughs. Lambeth's 12% projected growth between end-2019 and end-2029 places Lambeth in the top half of the Inner London boroughs, with Islington (15.5%), Southwark (13.4%) and Tower Hamlets (13.3%) the leading three boroughs.

3.3.4. As a result, office employment is forecast to account for a rising share of total employment in the borough over the next ten year to reach 38% of total employment. However, this still remains below the average.

3.3.5. Breaking down employment in Lambeth by sector (Table 3), we see a large proportion of jobs are currently in the administrative and support sector, with nearly twice as many people working in this sector compared to professional services, which is the next largest. Nevertheless, professional, scientific and technical has seen particular strong growth of 41% between 2009 and

[9] Based on standard SIC codes- Creative (Architects, Advertising, Design) and Life Sciences are captured under Professional, scientific and tech. Digital services categorised under information and communication

2019. Information and communication has seen erratic employment growth in the borough, as the area has expanded its appeal over recent years.

3.3.6. Over the last 10 years there has been some rebalancing in the local economy which is illustrated by the fact that there is less reliance on the public sector, which back in 2009 accounted for 18% of all jobs in the borough but had fallen back to 14% in 2019 although at the same time, admin and support employment has risen from 35% in 2009 to 40% by the end of 2019, while professional services employment has also increased its local dominance over the same period to represent around 23%.

*Table 3: Total employment by sector in Lambeth (000s)*

| Sector | 2009 | 2014 | 2019 | 2024 | Total growth 2009-2014 | Total growth 2014-2019 | Forecast total growth 2019-2024 |
|---|---|---|---|---|---|---|---|
| Administrative and support | 20.54 | 26.72 | 27.6 | 29.78 | 30.1% | 3.3% | 7.9% |
| Financial and insurance | 1.08 | 0.94 | 1.28 | 1.26 | -13.0% | 36.2% | -1.6% |
| Information and communication | 12.52 | 14.14 | 10.89 | 11.67 | 12.9% | -23.0% | 7.2% |
| Professional, scientific and tech | 11.16 | 13.08 | 15.76 | 16.87 | 17.2% | 20.5% | 7.0% |
| Public administration and defence | 10.76 | 8.87 | 10.02 | 10.28 | -17.6% | 13.0% | 2.6% |
| Real estate activities | 2.46 | 2.87 | 3.77 | 4.06 | 16.7% | 31.4% | 7.7% |
| Total office-based employment | 58.52 | 66.62 | 69.32 | 73.92 | 13.8% | 4.1% | 6.6% |

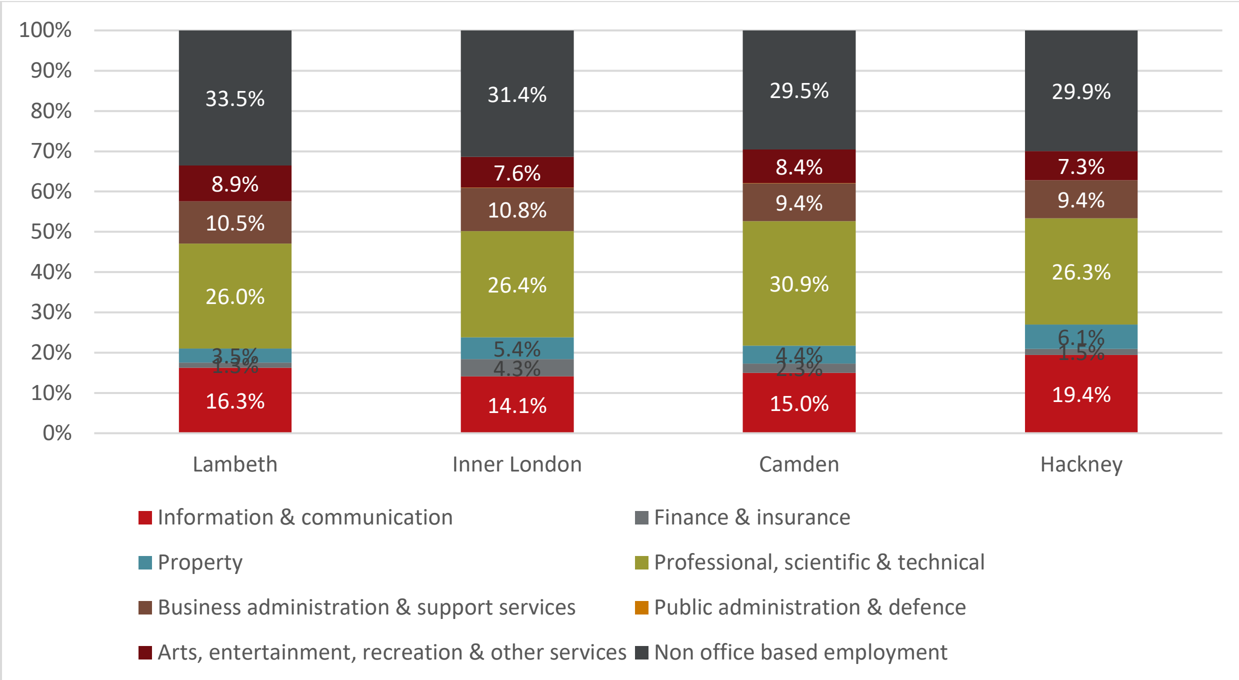
*Source 5: Oxford Economics (July 2020)*

3.3.7. Small and medium sized enterprises represent 99% of all businesses Inner London, with just 2,150 companies employing more than 250 people. A similar pattern is evident across all boroughs. Latest ONS data[10] shows that there are just over 14,000 enterprises in Lambeth, across all sectors and that 83% of them employ between 0-4 people. This is slightly above the Inner London average, while the proportion between 5-9 employees is marginally below the Inner London average, otherwise the borough mirrors the wider distribution. While this data covers all sectors it is safe to assume that office employment will follow a similar pattern, with small enterprises dominating and this will be reflected in the patterns of occupier activity within the borough.

3.3.8. Data on the number of enterprises in office sectors supports the trends seen in employment data. Of the 14,000 enterprises, 8,100 are classified in office sectors. Lambeth has an above average number of enterprises in Information & communication- 16.3% of all enterprises in the borough compared to 14.1% across Inner London-only Hackney (19.4%), Islington (18.7%) and Tower Hamlets (19.3%) have a higher density. Lambeth is under represented in Financial & Insurance and Property enterprises while the proportion of Professional, Scientific & Technical and Business Administration is virtually on a par with the Inner London average.

[10] ONS UK business: activity, size and location - 2019

*Chart 3: Lambeth enterprises by business sector*



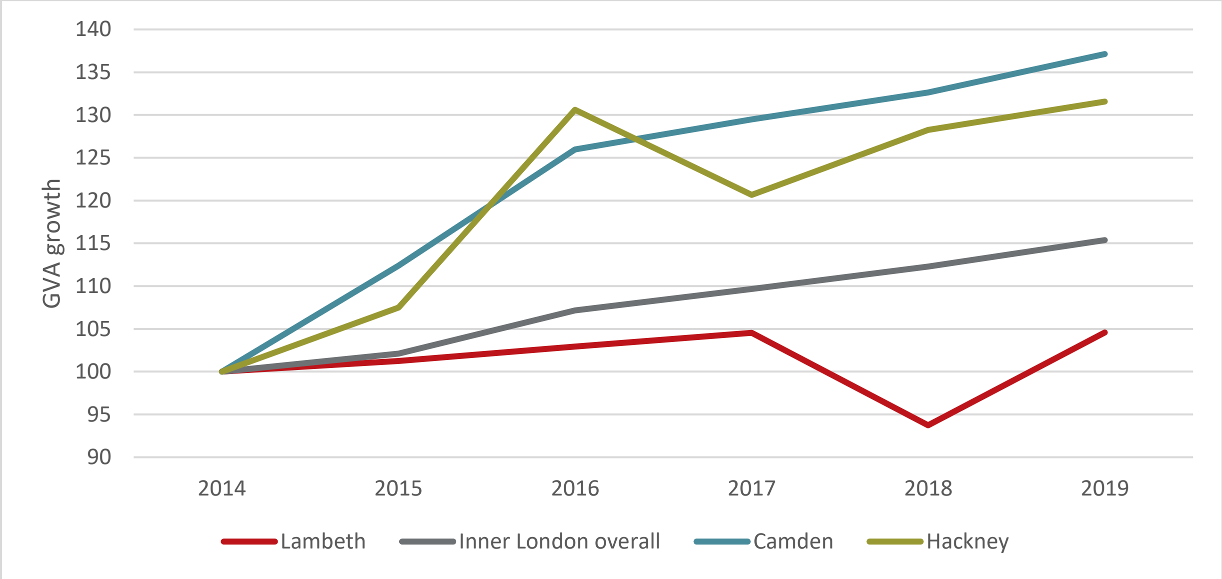

*Source 6: ONSf*

3.3.9. In line with this, there are signs that the Borough is experiencing growth in industries such as the digital and creative technologies sectors, which are predominantly occupied by small businesses and start-ups, many of which experience rapid growth in the first few years after establishment.

### 3.4. Lambeth's economy

3.4.1. Lambeth's economy has underperformed the Inner London average over the last five years. Average GVA growth in the borough is estimated to be 1.3% compared to 2.9% in Inner London overall. Camden, Hackney and Hammersmith and Fulham have seen the fastest growing economies with per annum growth in excess of 4.0% per annum evident. At the other extreme, Lewisham, whose economy shrank over the last five years, Kensington and Chelsea and Tower Hamlets had the slowest growing local economies.

*Chart 4: Lambeth Inner London GVA growth 2014-2019 (2014=100)*




*Source 7: Oxford Economics*

3.4.2. Looking forward, in line with the general economic trends the local economy is expected to contract sharply during 2020 but will rebound in 2021 to recover the lost ground during the pandemic. Oxford Economics expect Lambeth's economy to see better growth in the next five years compared to the last five years, with annual growth of 1.6% anticipated. This is marginally below the Inner London average, which will be boosted by strong growth in Camden, Islington and Southwark.[11]

[11] Economic growth is based on employment structure and expected changes

*Table 4: Inner London GVA growth*

| Borough | GVA Growth per annum 2014-2019 | GVA Growth per annum 2019-2024 |
|---|---|---|
| Camden | 6.5% | 2.2% |
| City of London | 2.9% | 1.9% |
| Greenwich | 1.3% | 1.1% |
| Hackney | 5.6% | 1.6% |
| Hammersmith and Fulham | 4.1% | 1.5% |
| Islington | 1.3% | 2.1% |
| Kensington and Chelsea | 0.8% | 0.9% |
| Lambeth | 1.3% | 1.6% |
| Lewisham | -0.8% | 1.3% |
| Newham | 2.4% | 1.5% |
| Southwark | 3.6% | 2.1% |
| Tower Hamlets | 0.8% | 1.9% |
| Wandsworth | 1.0% | 1.1% |
| Westminster | 3.4% | 1.6% |
| Inner London | 2.9% | 1.8% |

*Source 8: Oxford Economics (August 2020)*

3.4.3. The claimant count unemployment rate in Lambeth was estimated to be 3.5% at the end of 2019 and, due to the impact of the pandemic, will rise to over 6.6% by the end of 2020 before falling back as the economy starts to recover. Oxford Economics do not expect, however, for unemployment to be back at 2019 levels during the next five years. The estimate for unemployment is 3.8% by 2024. This trend is forecast for most inner London boroughs, with only Southwark, Tower Hamlets, Islington, Camden and Hackney expected to see an improvement in unemployment rates over that period.

3.4.4. The number of people of working age[12] is at its highest level for at least 10 years in Lambeth. This is in line with the expansion of the population and is a trend that is evident across most Inner London boroughs with the exception of Hammersmith & Fulham and Kensington & Chelsea. As at the end of 2019, Lambeth's working age population was estimated at 242,000 people and is expected to increase by around 10,000 over the next five years.

3.4.5. Average weekly resident-based earnings in LB Lambeth are estimated at £724.00, which is higher than the average workplace earnings of £702.00 which suggests that residents are commuting to areas where wages are higher.

3.4.6. This is borne out by net commuting patterns with the numbers commuting out of the borough standing at 28,500 people. This has come down from an estimated high of 46,500 people back in

[12] Working age population is defined as population aged 16-64

2016, suggesting that employment opportunities within the borough have improved over the last few years. Six Inner London boroughs have negative commuting patterns, with Lewisham experiencing the greatest movement out (94,000 people), followed by Wandsworth (-71,000 people) and Newham (-35,100 people).

*Table 5: Net commuting trends by local authority (000s)*

| Local Authority | 2009 | 2014 | 2019 | 2024 |
|---|---|---|---|---|
| Camden | 161.24 | 195.62 | 212.10 | 231.17 |
| City of London | 307.52 | 377.59 | 491.19 | 514.28 |
| Greenwich | -27.371 | -33.95 | -36.54 | -39.42 |
| Hackney | -17.88 | -10.06 | -3.94 | -5.13 |
| Hammersmith and Fulham | 21.46 | 19.27 | 26.81 | 27.28 |
| Islington | 67.83 | 70.07 | 74.68 | 83.74 |
| Kensington and Chelsea | 26.07 | 38.71 | 64.82 | 63.11 |
| Lambeth | -20.86 | -37.31 | -28.50 | -30.72 |
| Lewisham | -58.45 | -75.29 | -94.03 | -99.01 |
| Newham | -26.13 | -25.93 | -35.11 | -36.49 |
| Southwark | 30.23 | 47.98 | 51.40 | 56.19 |
| Tower Hamlets | 98.64 | 102.51 | 121.16 | 134.39 |
| Wandsworth | -56.89 | -63.61 | -70.88 | -76.44 |
| Westminster | 463.01 | 523.42 | 546.71 | 573.10 |

*Source 9: Oxford Economics*

3.4.7. It is no surprise that the boroughs with the highest in-commuting are Westminster (546,000 people), the City (491,000 people) and Camden (212,000 people). Oxford Economics expect these broad trends to continue, suggesting that they expect further job creation to cluster in the current dominant economic centres.

### 3.5. Lambeth walking and cycling catchment analysis

3.5.1. The following analysis looks at demographic data for various London locations to determine how many people live within a certain catchment area in these locations. The areas included in the analysis include Brixton, Clapham, Norwood, Streatham, Vauxhall and Waterloo.

3.5.2. The central point used for each area is as follows. Catchment maps for both walking and cycling are provided for each area in appendix 3.

- Brixton: Brixton tube station
- Clapham: the midpoint between Clapham Common and Clapham North stations
- Norwood: St Luke's Church, West Norwood
- Streatham: the midpoint between Hill and Streatham stations
- Vauxhall: island site near Vauxhall Gyratory
- Waterloo: The Wellington Hotel, Waterloo

*Table 6: Number of people within walking or cycling distance from location (millions)*

| Location | Cycling 45 mins | Cycling 30 mins | Cycling 15 mins | Walking 45 mins | Walking 30 mins | Walking 15 mins |
|---|---|---|---|---|---|---|
| Brixton | 3.37 | 1.55 | 0.42 | 0.34 | 0.16 | 0.04 |
| Clapham | 3.44 | 1.57 | 0.43 | 0.33 | 0.17 | 0.04 |
| Norwood | 2.85 | 1.44 | 0.31 | 0.24 | 0.10 | 0.03 |
| Streatham | 2.90 | 1.49 | 0.37 | 0.30 | 0.13 | 0.03 |
| Vauxhall | 3.74 | 1.85 | 0.43 | 0.34 | 0.17 | 0.04 |
| Waterloo | 3.80 | 1.92 | 0.34 | 0.26 | 0.09 | 0.02 |

*Source 10:CACI*

3.5.3. The data show that over 3 million people live within a 45-minute cycling distance from Brixton, Clapham, Vauxhall and Waterloo whereas numbers in this category fall for Norwood and Streatham suggesting these areas might find it more difficult to attract a workforce if a development scheme were proposed here. This trend is echoed when looking at 30-minute and 15-minute cycling distances with both Norwood and Streatham showing lower numbers than other areas.

3.5.4. In terms of walking distance, over 300,000 people can walk to the above specified locations within 45 minutes in Brixton, Clapham, Streatham and Vauxhall. Once again, equivalent numbers for Norwood are far lower than for other areas. There are also fewer people living within a 45-minute walking distance of The Wellington Hotel in Waterloo which is perhaps expected given that this area is more expensive relative to the other areas and is not a primarily residential area.

3.5.5. Breaking down the 45-minute cycling segment by age group, we see that the younger generation is more dominant in all locations with the largest age groups being the under 15s and those between 25 and 34 years, indicating that many young families are residing in these areas. This is illustrated in table 7. If considering only the working age population, circa 70% of the population within a 45-minute cycling distance of each location is of working age.

*Table 7: Number of people within a 45 minute cycling distance from location by age band (000s)*

| Location | < 15 years | 15-24 years | 25-34 years | 35-44 years | 45-54 years | 55-64 years | 65 years+ |
|---|---|---|---|---|---|---|---|
| Brixton | 606.51 | 389.89 | 726.87 | 574.36 | 422.80 | 308.60 | 345.45 |
| Clapham | 618.87 | 395.34 | 734.49 | 586.59 | 435.46 | 316.62 | 357.27 |
| Norwood | 520.63 | 314.16 | 577.63 | 480.65 | 368.01 | 274.95 | 314.08 |
| Streatham | 526.67 | 315.55 | 577.31 | 488.04 | 380.26 | 284.56 | 330.12 |
| Vauxhall | 669.58 | 435.78 | 827.25 | 638.33 | 462.95 | 333.63 | 370.03 |
| Waterloo | 678.51 | 447.32 | 855.25 | 650.49 | 464.27 | 332.65 | 368.68 |

*Source 11: CACI*

# 4. LEASING ACTIVITY

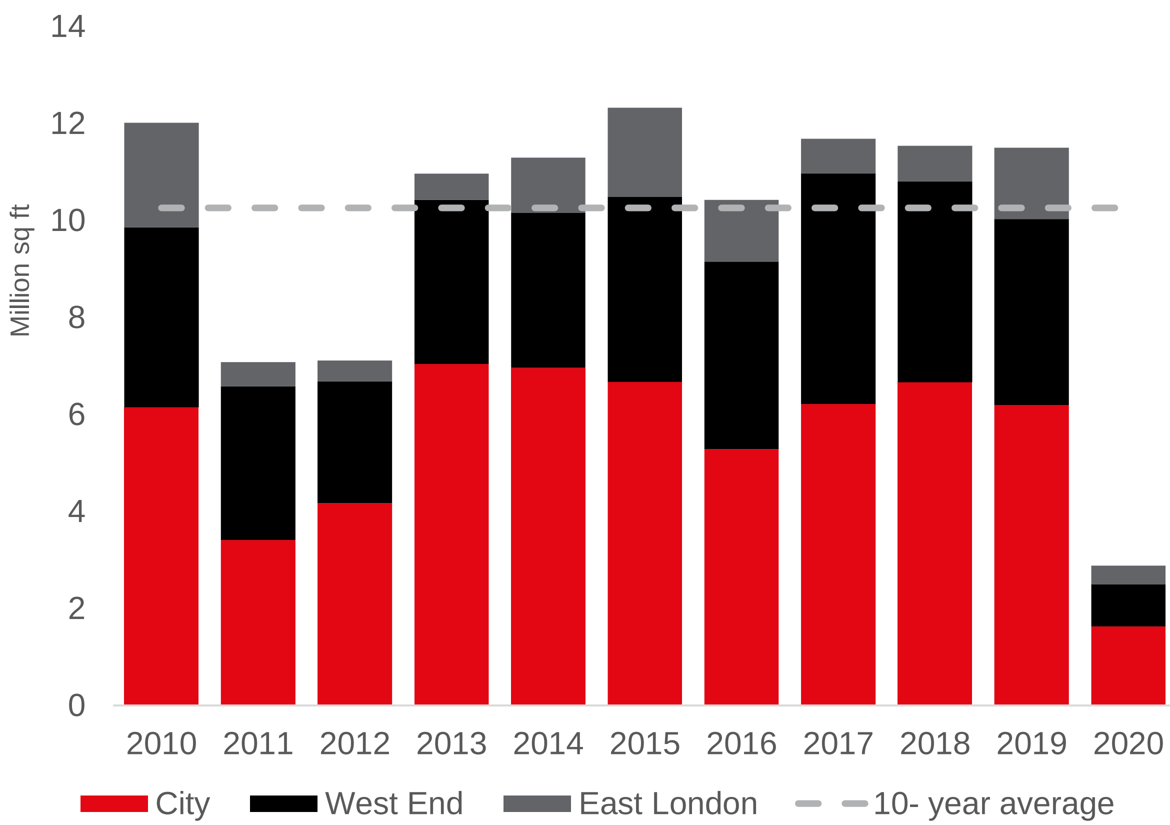
### 4.1. General trends – Central London[13]

4.1.1. Across Central London, leasing volumes have remained robust despite the political uncertainty that surrounded Brexit. However, this resilience is a result of the fact that much of the demand is driven by existing office occupiers with upcoming lease expiry or break, rather than expansion or consolidation. The presence of a lease event will, in most cases, lead to an occupier relocating to a new office, or extending its lease if the building remains fit for purpose. Building obsolescence can also be a second driver for an occupier to relocate, if for example the building mechanical and engineering services are reaching the end of useful life, and therefore the building requires redevelopment.

4.1.2. Take-up has exceeded 10 million sq ft in each of the last seven years, including 2019. Despite the political and economic headwinds, annual leasing activity reached 11.5 million sq ft in 2019, which was broadly on a par with 2018 volumes, and 8.9% above the 10-year average of 10.6 million sq ft.

4.1.3. However, the leasing market has slowed down during H1 2020 primarily as a result of Covid-19. Leasing volumes stood at 2.9 million sq ft, which was 38% below the 10-year H1 average. The downturn was particularly acute in Q2, when just 1.1 million sq ft was let which is the lowest quarter of activity since Q1 2009.

*Chart 5: Central London take-up (2010-2020 H1)*




*Source 12: JLL*

[13] Central London refers to JLLs definition (see map in Appendix)

4.1.4. Across Inner London, a similar pattern emerges to Central London with take-up recording above average levels of take up between 2014-2018, with a marginal fall back in 2019. Based on analysis of transactional data from multiple sources, we estimate that average take-up for Inner London is around 20 million sq ft. Mirroring the distribution of stock, City of London and Westminster account for more than half of all leasing activity, followed by Camden, on the back of King's Cross, and Tower Hamlets, driven by Canary Wharf.

4.1.5. The proportion of leasing activity in Hackney, Islington and Southwark roughly mirrors the proportion of stock, but areas such as Lambeth, Wandsworth and Newham under perform on this basis suggesting that the space being marketed does not meet the needs of today's occupiers, through the limited and ageing stock of the area, or that companies are not drawn to these areas to set up business due to factors.

4.1.6. The average take-up rate across the Inner London boroughs has averaged 6.7% of stock over the last 10 years, but there are differences in performance. Camden, City of London and Islington have recorded above average levels of activity while Kensington & Chelsea, Newham, Lambeth, Wandsworth, Greenwich and Lewisham have seen leasing rates below average.

4.1.7. The recent strength of Central London take-up has been supported by London's expansion into new and expanding sub-markets. London's Central London office stock has increased 5% over the last five years, as these new submarkets have started to mature.

4.1.8. In the West End, King's Cross has been the main growth area with a 12% share of total West End take-up since the first pre-let was signed at Argent's King's Cross central in 2010, compared to a 3% share in the preceding decade (2000 – 2009). The market itself accounts for less than 2.5% of the West End office stock and so has outperformed relative to its size. Only Victoria has seen higher volumes of lettings over that period.

4.1.9. In the City, the formerly fringe locations of Southbank, Shoreditch, Clerkenwell and Aldgate have attracted a rising share of City take-up, accounting for 8% of leasing activity back in 2010, when the government announced it was to support the growth of tech city, rising to a peak of 32% in 2018. This increase has been driven by increased regeneration and redevelopment of the office stock, combined with a local environment and amenity that is attractive to a diverse workforce.

4.1.10. The prime rent in the City Core has historically been the benchmark of the wider City market, with sub-markets in the immediate periphery at a discount of up to 40% in the two years after the GFC. The rental profile of the City has started to change, with less geographic divergence between sub-markets.

4.1.11. This rapid convergence of prime rents in the City owes much to the emergence of Clerkenwell, Shoreditch, Aldgate and Southbank, where the pace of growth has outperformed the core. Clerkenwell now has higher rents than the City core, while in Shoreditch rents are on a par. Aldgate has lagged, due to the limited redevelopment that has taken place to date but that is starting to change with the new mixed-use development and the impending arrival of the Elizabeth line at nearby Whitechapel.

4.1.12. In the West End, we have also seen the strongest recent market performance outside the traditional core market, as evidenced by rapid rental growth in King's Cross, Fitzrovia, Vauxhall and Camden. King's Cross rents peaked at £85.00 per sq ft which equated to growth of 75% over the last 10 years. The emerging markets of Battersea and Vauxhall have seen rents double in this period, as the delivery of new stock has raised the quality of the office offer.

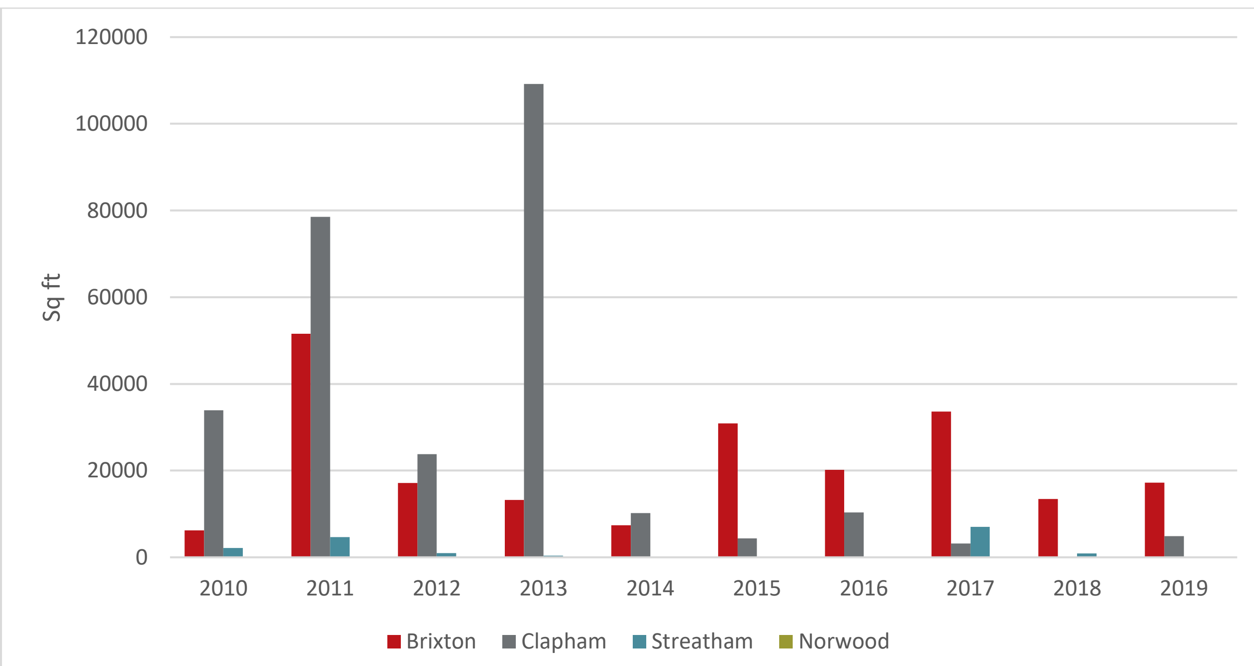
4.1.13. These high growth submarkets have been helped by the strength of the TMT sector, mixed use development, the improvement of the local environment, and the inherent attractions of the locations as a place to work for the Capital's younger workforce  They are perceived to offer the right blend of amenities to be attractive to staff and have attracted a diverse range of occupiers looking for high quality office floorspace in a less corporate environment.  The amenity is a crucial draw for employers, with a focus on genuine "live, work and play" environment and strong night-time economy.

4.1.14. Waterloo and Vauxhall have generally lagged behind other submarkets in terms of leasing activity, in part due to the limited availability of good quality office stock available on the market. Strong take-up in Waterloo, in particular tends to follow the delivery of new space, with half of all space let over the last 10 years in the two markets being pre-let.  JLL estimate that take-up (over 5,000 sq ft) has average just 103,000 sq ft per annum over the last 10 years, with peaks in 2015 and 2017 when 264,000 sq ft and 412,000 sq ft were let.

4.1.15. Waterloo and Vauxhall have accounted for just 0.7% and 0.3% of Central London leasing volumes over the last 10 years- while Vauxhall is in part explained due to the relatively immature nature of the market, Waterloo is an established market but has not provided the office stock required by occupiers seeking a Central London location and has failed to capitalise on its central location.

4.1.16. The other centres in Lambeth are all small scale and are driven by local occupiers.  Chart 6 shows the scale of leasing over the last 10 years for comparison.

*Chart 6: Lambeth Town Centre Leasing 2010-2019*

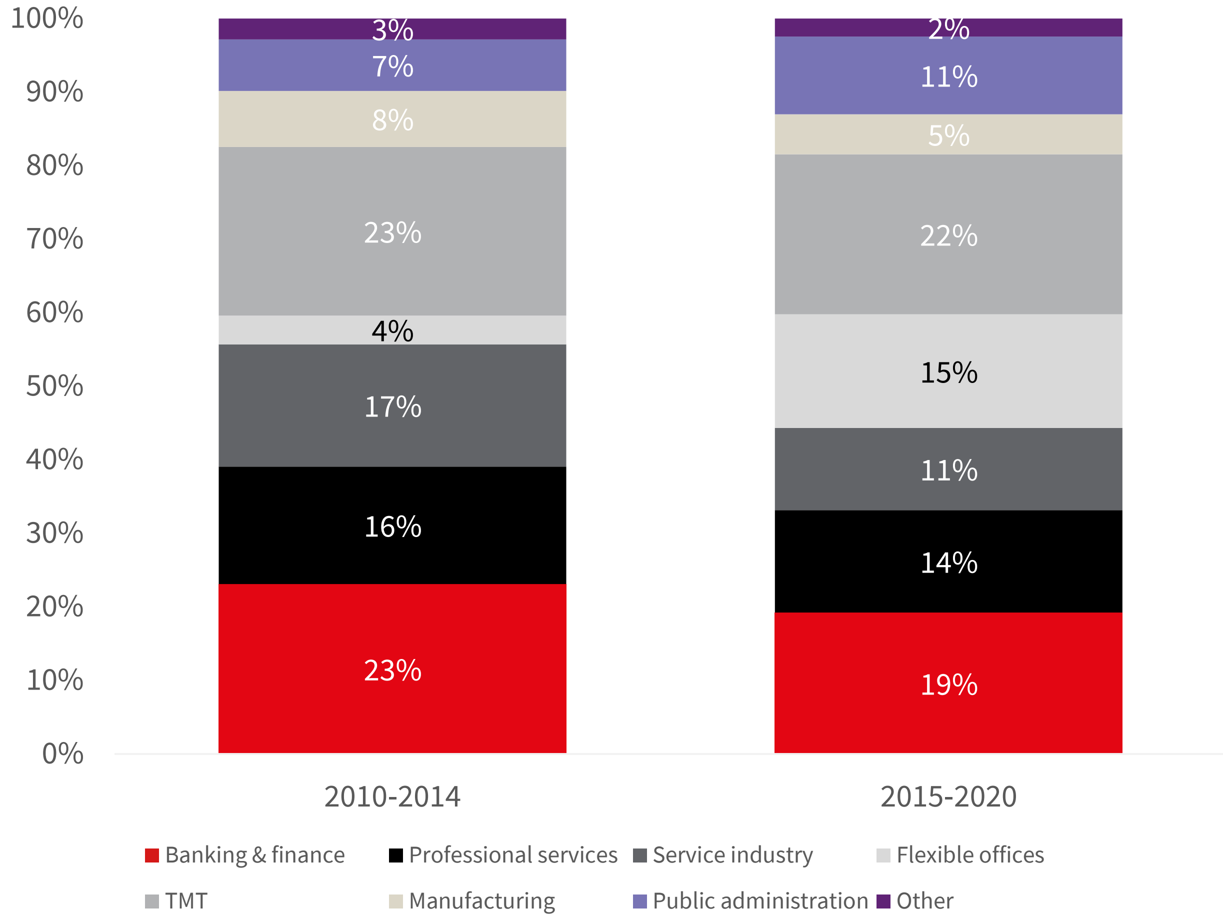



*Source 13: JLL/CoStar*

### 4.2. Take-up by business sector

4.2.1. London's occupier base is now less reliant on the financial sector.  While it remains a key part of the business mix, there has been a far greater diversity in recent years, as technology, media (TMT) and flexible workplace occupiers have grown substantially, adding to the pool of tenants.

*Chart 7: Change in Central London leasing patterns*




*Source 14: JLL*

4.2.2. The TMT sector has been increasing its footprint across Central London since 2008/2009 and has been the dominant sector in that period. In the ten years to end 2019, the sector has been responsible for 22.6% of all leasing activity, which is more than double the proportion in the previous ten- year period.

4.2.3. Banking & finance has seen its share of take-up fall from almost 30% in the ten years before the GFC to just over 20% in the period thereafter, reflecting the significant structural changes that have been evident since the collapse of the sector triggered the financial crisis.

4.2.4. Not surprisingly, banking & finance activity has been focused around the City and Canary Wharf, whilst King's Cross (12.1%), Southbank (9.5%) and Shoreditch (7.8%) have seen the main share of activity from the TMT sector. In comparison, Waterloo has seen just 1.4% of activity from the sector over that period. Looking at the Media sector, Advertising & PR companies have been most active subsector with Southbank, King's Cross and Midtown continuing to attract the sector.

4.2.5. The growth of the flexible workplace sector has supported the leasing market over the last five years, essentially since WeWork entered the market. Flexible workplace take-up has averaged 21% of total take-up between 2017-2019.

4.2.6. Over this period the size and structure of the flexible workplace sector has changed, with growth from both new entrants and established operators in response to the evolving nature of work, the shifting nature of the economy supported by rapidly advancing technology.

4.2.7. There has been a marked increase in the number of large transactions involving serviced office providers, with 50 deals of more than 50,000 sq ft between 2014 and 2019, compared to just two deals of this size in the previous 10 years (2004-2013). Of these large transactions, 30 have been leased to WeWork[14].

4.2.8. The average deal size for flexible workplace operators between 2014-2018 was 60,830 sq ft up from 16,600 sq ft between 2009-2013, as the sector shifts to a hybrid model- essentially providing both private offices and co-working spaces. Amenity space has become a more important element of the offer. Communal areas, meeting rooms or co-working spaces now tend to account for around 15-20% of the net internal space and this has been part of the reason for operators taking bigger spaces.

4.2.9. Growth in the sector slowed suddenly at the end of 2019 as WeWork scaled back its expansionary plans and cancelled its IPO. This coincided with a slowdown in the entrance of new flexible office providers as accessing finance became more challenging. As the pandemic started to gather pace at the start of 2020, activity in the sector slowed further with leasing volumes in Central London down 83% compared to a year earlier.

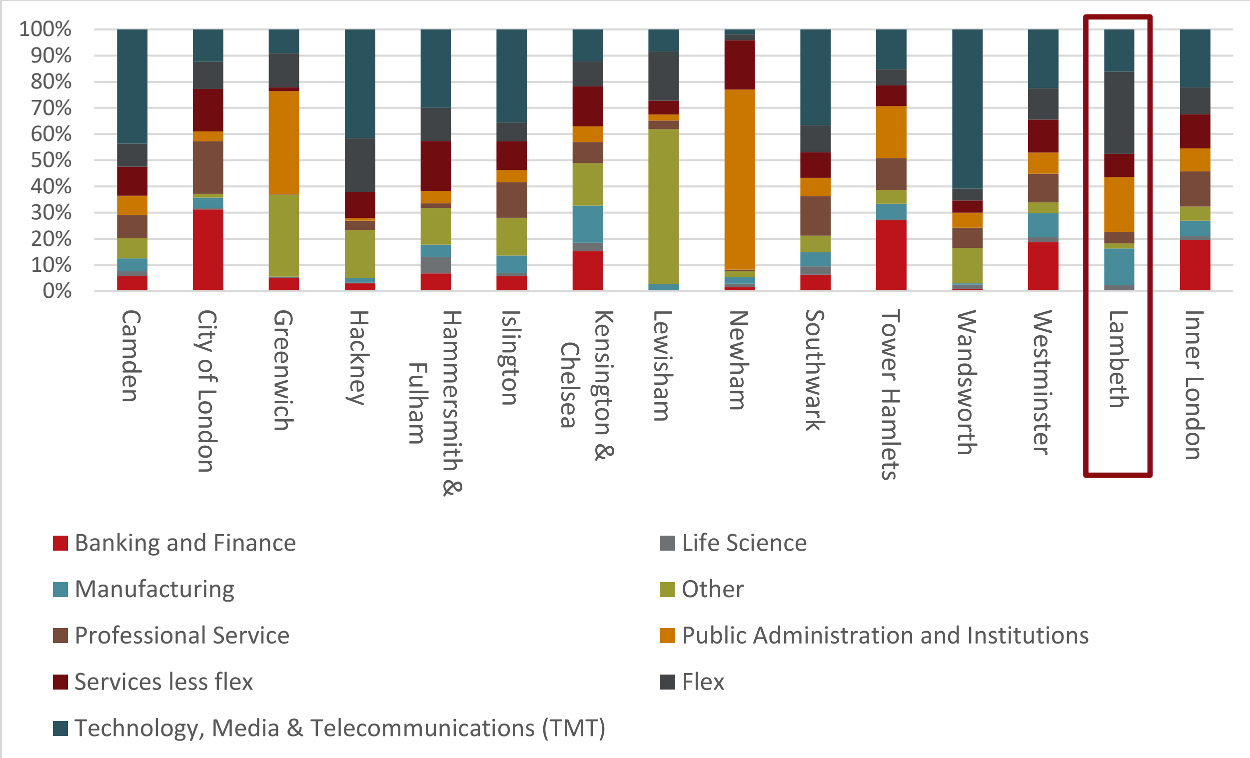
4.2.10. The public sector has tended to seek out lower cost locations, with Stratford and Canary Wharf the main focus for this sector. At a borough level, Greenwich also has a high proportion of leasing activity to public sector tenants.

4.2.11. We have analysed the sectors of around three-quarters of lettings in Lambeth over the last ten years to identify the sectors who have been leasing space. The data shows that over the period the Flex providers, Manufacturing and Public Sector have been the most active. The larger deals within the borough, as outlined in the next section, skew the data, so if we exclude these deals over 100,000 sq ft we can get a better understanding of the wider market trends.

4.2.12. The biggest shifts at this smaller unit level that are evident are that the TMT sector has been more active over the last five years than the preceding five, rising from 14% of take-up to 25%, while the dominance of the public sector has waned over the same period, falling from almost half of take-up to just 16% between 2014-2019. Professional services demand has remained relatively constant over the ten- year period at around 10% of leasing volumes.

[14] This excludes WeWork's subleasing of EMA space at Canary Wharf which signed in Q3 2019.

Chart 8: Take-up by sector 2009-2019 (Inner London)




Source 15: JLL/CoStar

### 4.3. Take-up by size

4.3.1. Across Central London the number of larger transactions has helped to support high levels of leasing volumes over the recent past. Between 2015-2019, there have been 24 transactions over 200,000 sq ft across Central London, which is up on the previous five-year period, when there were 20. In the current climate large transactions have come under greater scrutiny but a number of sizeable transactions have signed during the first half of 2020, including Linklaters completing on a 308,000 sq ft pre-let in February and a further four deals in excess of 50,000 sq ft signing in the lockdown period. The largest deal in Q2 was BP leasing 226,000 sq ft in East London, while Baker McKenzie signed for a pre-let of 145,000 sq ft in July.

Table 8: Transactions over 50,000 sq ft in Waterloo and Vauxhall 2010-2019

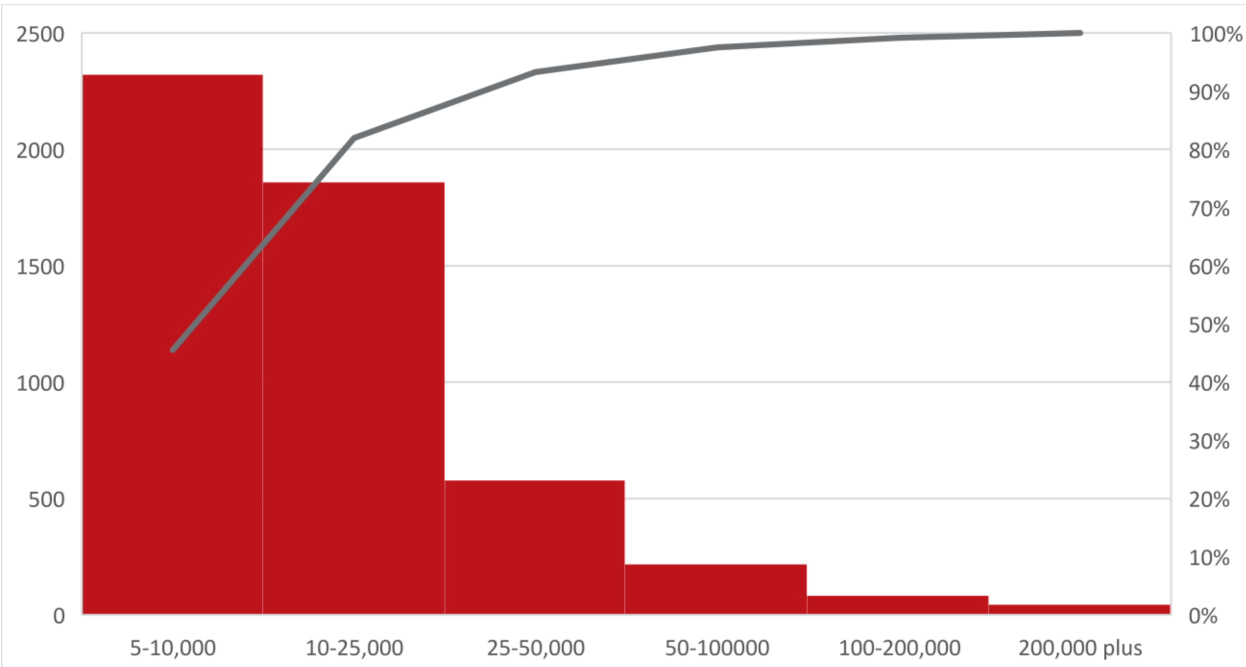
| Year of transaction | Tenant | Address | Size | Comment |
|---|---|---|---|---|
| 2017 | WeWork | The Shell Centre, 2 Southbank Place, SE1 | 283,443 | Pre-let while under construction |
| 2015 | Bouygues | Becket House, Lambeth Palace Road SE1 | 143,722 | Second hand space |
| 2015 | The Office Group | Tintagel House, 37 Albert Embankment, SE1 | 120,000 | Owner occupation |

Source 16: JLL

4.3.2. The big transactions make the headlines, but the market is dependent upon smaller and medium enterprises as a major source of activity. Analysis of take-up over the last ten years illustrates this quite clearly, with 40% of all transactions[15] between 5-10,000 sq ft.

4.3.3. CoStar data suggests that there were also over 21,000 transactions below 5,000 sq ft over this period. There has been some downward trend in the number of sub-5,000 sq ft deals since 2015, which is often attributed to the growth of the flexible workplace sector diverting smaller enquires, with 2019 seeing annual numbers fall below 2,000 transactions for the first time in the last ten years.

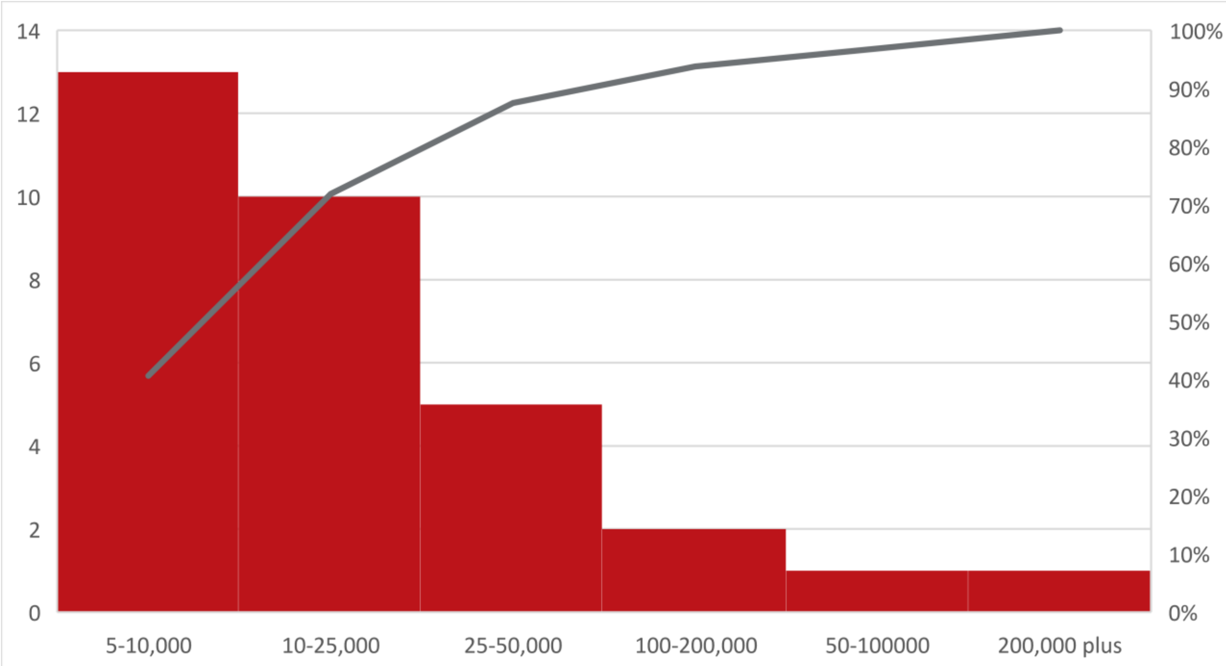
*Chart 9: Central London take-up by size band (count)*




*Source 17: JLL % are cumulative (RHS axis)*

[15] Transactions over 5,000 sq ft

*Chart 10: Waterloo & Vauxhall take-up by size band (count)*




*Source 18: JLL   % are cumulative (RHS axis)*

4.3.4. Leasing patterns in Waterloo and Vauxhall follow a similar pattern to Central London, with most transactions below 5,000 sq ft (251 transactions). Unlike the wider market, there has been no significant fall in numbers of smaller transactions over the last five years.

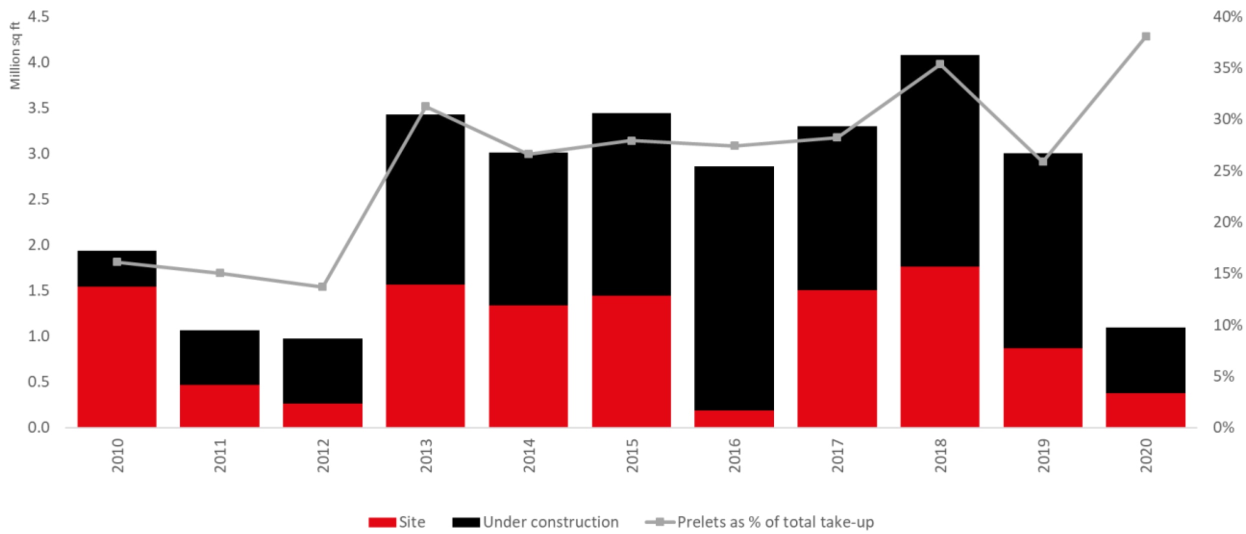
### 4.4. Importance of pre-letting

4.4.1. The Central London office market has been characterised by very tight supply for several years (see section 6) and it is evident that occupiers have been starting their office searches earlier and significantly ahead of their lease events. It is not unusual for occupiers to be in the market now even though they will not occupy a new office until 2022 or 2023. As a result, the Central London market has seen a significant increase in pre-leasing activity – it has averaged 29% for the past seven years compared to just 15% in the three years following the global financial crisis.

4.4.2. Even during lockdown pre-lets have been taking place, as many companies recognise that beyond the pandemic, the shortage of supply will still be evident. As we will see later in the report, we expect there to a focus on quality spaces post-pandemic as the specification of fit-out, and the perceived sustainability and health & well-being qualities, become more important.

4.4.3. Eight of the top ten largest transactions in Central London signed in Q2 were pre-lets which equated to over half of the space let. This space totalled 605,000 sq ft, which was ahead of pre-let volumes in both Q4 2019 and Q1 2020.

*Chart 11: Central London pre-letting activity*




*Source 19: JLL*

4.4.4. Why an occupier decides to relocate from their existing premises varies for each occupier but in most cases, the move relates to an upcoming lease event. Existing premises may be worn and obsolete after a lengthy lease term and a new office can bring a fresh look and feel to a company.

4.4.5. Pre-letting is generally, but not exclusively, undertaken by large companies. These companies typically have strong covenant and have a greater ability to forward commit. Smaller occupiers generally do not plan their property strategy as far out as larger companies. Pre-letting to a well-known corporate is advantageous to the developer as it sends out a strong signal to the market and also helps derisk the project in terms of the ability to attract finance, impact on potential yield and hence capital value, and also helps to facilitate forward sales to investors. Pre-lets typically involve longer leases but this may sometimes be in return for a lower rent or higher level of incentives such as rent-free periods or extra fit out costs.

4.4.6. Where occupier demand is uncertain, developments realistically would not start without a pre-let. This reduces risk but may reduce profit. In less established office markets, developers are likely to be more cautious and have less appetite for building speculatively. A pre-let would then help to kick start a scheme, establish a schemes credentials and hopefully provide leasing momentum in the rest of the scheme or later phases.

4.4.7. The property cycle can be an important consideration for developers when considering pre-letting. In a stronger market, a developer may be willing to go ahead speculatively in anticipation of higher rental levels in a low supply environment. In a weak market, the risks are often too high for speculative development and if rents have fallen or are expected to fall, the financial viability of a scheme may not stack up.

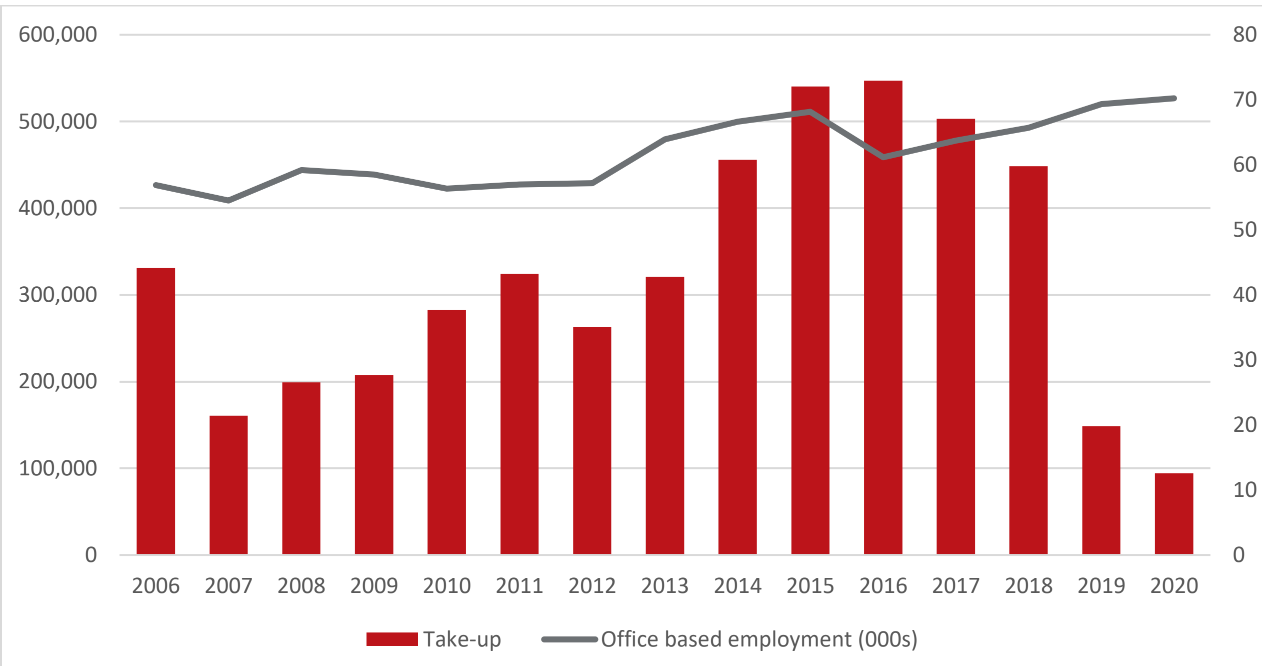
4.4.8. Pre-lets are particularly prevalent in emerging submarkets, such as Vauxhall, Nine Elms, Battersea, White City and Stratford, where there is limited speculative development. Conversely in the West End only a third of active developments are pre-let, in part due to a lack of large new build stock.

4.4.9. Occupiers searching for space for occupation in two to three years' time are more likely to opt for a pre-let. Pre-leasing a new development is more likely to guarantee that the occupiers' specifications are met when compared to taking existing space. A new build will also more likely include the highest standard of specifications and a good level of staff amenity such as cycle spaces, shower facilities and food and beverage outlets in the vicinity. Securing a best in class office is an ideal solution for most occupiers as this will help them to attract and retain the best talent. To do this in a tight supply market, looking for space early and securing a pre-let is many occupiers' only option.

### 4.5. Correlation and forecasts

4.5.1. Analysis of economic data shows that there is a strong correlation between employment growth and take-up across Central London. However this relationship, while positive, is weaker for Lambeth take-up and this is likely to be related to the lower number of data points and the relative immaturity of the market where leasing activity is generally more volatile. The correlation between Lambeth employment growth and take-up (lagged one year) is 0.3.

*Chart 12: Lambeth take-up and employment growth*




*Source 20: Oxford Economics/CoStar*

4.5.2. Average take-up in the borough over the last ten years is around 385,000 sq ft per annum and we estimate that there are c230,000 sq ft of lease events per annum over the next ten years**16**. Not every occupier will move on lease expiry and according to the latest MSCI analysis of lease events 15% of office leases were renewed in 2019. If we assume that 85% of space will relocate on expiry, then this would create around 197,000 sq ft of demand from lease events each year across Lambeth. This does not account for any change in footprint that may be brought about from changes to working practices from Covid-19.

4.5.3. New office job creation is in the order of 9,000 jobs over the same period and for the base case we assume that these new jobs all occupy space at the average occupational density in the borough, which is based on total office employment and occupied stock. This equates to around 140 sq ft per person. This would result in new demand for 1.3 million sq ft of demand over ten years or 130,000 sq ft per annum.

4.5.4. There is likely to be some inward investment from outside the borough, but this is likely to be focused on the central locations in the borough or where new development is considered. Migration trends are considered in the next section and as we will see later, the centres of Brixton

[16] Based on data as at July 2020

and Clapham may see some benefit from new suburban hubs but, as yet, this is theoretical with no evidence to show that this perceived trend has started to be implemented. We have made an assumption that inward investment increases from historic trends due to the arrival of large-scale development in Waterloo and Vauxhall.

4.5.5. We have also considered that company footprints may decline as more people opt to work from home. The narrative is that most people will be working from home for 2-3 days on average, while there may also be a loss of demand from smaller companies who decide to continue to work from home permanently. We have not adjusted the floorspace per worker because the allocation in Lambeth is higher than the average and it is also likely that if offices become spaces of collaboration actual densities will be higher than for individual workstations.

*Table 9: Office demand forecasts- based on lease events and employment growth*

| 2021-2030 | Base case | Assume footprint reduced by 25% (2-3 day working at home) |
|---|---|---|
| Lease expiry- assume 85% relocate | 1,972,340 | 1,479,255 |
| Expansion based on employment growth | 1,265460 | 885,822 |
| Inward investment | 1,250,000 | 875,000 |
| Total | 4,487,800 | 3,240,077 |

*Source 21: JLL*

### 4.6. Migration patterns

4.6.1. Occupier migration has been a key theme in the Central London office market in recent years, with several high-profile example's indicative of a wider trend of increasing tenant mobility. Occupiers are seen to be increasingly footloose and historic location ties have been eroded. Location is still important, but it needs to be combined with the right building to represent brand and as a tool to attract and retain talent.

4.6.2. Companies searching for space today have different requirements to the traditional office occupier base. Workplace design, health & well-being, activity-based working, sustainability, amenity and flexibility are all high on the corporate agenda. This has been reflected in a shift to buildings with smaller floorplates, due to the changing nature of work and the type of company leasing space.

4.6.3. Analysis of migration trends shows that there are clear differences between the distances that different business sectors have been willing to move, with the public sector relocating furthest in their quest for value. TMT companies have also relocated further than the average, typically moving 5.3 km compared to an average of 5.1 km.

4.6.4. These distance trends are primarily because companies are willing to move further to secure space in non-core submarkets, with companies relocating further to secure space in Stratford, Canary Wharf, Southbank, Shoreditch in the City and East London for example, while King's Cross and Paddington in the West End have gained occupiers from further afield than core submarkets.

4.6.5. The developments in Stratford have accommodated a bigger share of recent large requirements that have moved east over the past five years, with 1 million sq ft in three transactions of more than 250,000 sq ft, this is in part due to the cheaper overall occupational costs compared to other locations. Stratford has therefore appealed to cost driven government and charity occupiers including HMRC, FCA, Cancer Research and Transport for London.

4.6.6. In addition, the development of King's Cross, Paddington and White City in the West of London has provided West End focused occupiers with an option to acquire offices close to the West End core but at cheaper overall occupational costs. King's Cross has also been attractive to larger requirements with two transactions over 250,000 sq ft over the past ten years and a further twelve over 100,000 sq ft including accommodating the expansion of major tech occupiers, notably Google and Facebook who have wanted to remain in the West End/West End fringe due to access to talent.

*Table 10: Waterloo & Vauxhall migration- excludes flexible workplace providers*

| Street | Size | Tenant | Submarket | Previous submarket | Distance relocated Km |
|---|---|---|---|---|---|
| Riverside Building, County Hall, Westminster Bridge Road, SE1 | 33,000 | Cloudflare | Waterloo | Southbank | 1.4 |
| 1 Pear Place, SE1 | 10,370 | CyberArk | Waterloo | Outside Central London | 0.4 |

*Source 22: JLL*

4.6.7. Our analysis only focuses on Central London migration patterns. Over the time period there have been numerous examples of companies moving into London from suburban London and further afield to improve their access to talent and to use real estate as a tool to attract this talent. There will be examples of companies who have moved in the opposite direction, but these are likely to be few in number. The most prominent relocation into Brixton was Squires & Partners, who purchased the Department Store primarily for their own occupation.

4.6.8. Looking forward, with most corporates expected to reduce their overall footprint, larger occupiers will be highly sought after across the capital. It currently is not unusual for a corporates shortlist of buildings to be spread out geographically. Areas that combine the right asset with the right place will continue to attractive. Waterloo and Vauxhall will need to provide a competitive offer to other areas across Central London. While the area competes favourably on price, this will change as new developments come forward and generate higher rents, so the challenge will be to create an area that has a critical mass of assets- but that provide a range of size and quality-that feel integrated to create a place where people want to work over and above the established office markets/clusters which are further ahead in terms of evolution and reputation. The examples of other key transport hubs illustrate this point.

4.6.9. However, it must also be remembered that the core City has a much more diverse tenant base and space offer than it ever has and has attracted a range of both media and tech occupier in the last five years, including McCann, Apple, IPG and Deliveroo, while Canary Wharf, with the delivery of Wood Wharf will be also seeking to attract the similar tenants, in all probability at a rental discount to Waterloo & Vauxhall. It would therefore be a mistake to ignore the more traditional submarkets.

## 4.7. Location drivers and assessment of local centres

4.7.1. A wide range of drivers prompt location decisions to be made. Every company will have unique reasons for optimising their portfolio. Real estate must align with business strategy and objectives, no matter what the size of the company. We have set out a summary of the key location drivers and assessed each of the commercial centres in Lambeth against each factor, see Table 12.

### Talent and skills

4.7.2. The pre-eminence of talent is increasing in focus, with the quality of talent being a critical part of business success. Positioning a company's real estate to attract and retain the best talent is gaining importance, and to date this means accessing central locations.

**Real Estate costs and supply**

4.7.3. Real estate is often the second largest cost for businesses after labour costs. Ensuring real estate is deployed optimally and used efficiently brings significant financial benefits. A varied range of available property types in terms of size and quality will satisfy a broader tenant mix. Markets need an adequate level of vacancy to function effectively.

**Clusters**

4.7.4. Clusters provide an ecosystem which can help drive innovation, knowledge sharing and collaboration.

**Change in strategy**

4.7.5. The pandemic has accelerated a number of changes to real estate strategy. The ability of talent to work from anywhere means that offices must become more user focused, prioritising experience and promoting worker productivity. Central meeting places become more important. Corporates are consolidating and streamlining their portfolios to strategic locations in talent hotspots via the hub and spoke model. This provides a central hub with meeting, co-working and flexible space supported by multiple smaller spokes elsewhere

**Accessibility**

4.7.6. Accessibility is a prerequisite for new investment. What accessibility means differs considerably between companies and sectors. For some it may relate to accessing new markets and customers but for others it is predominantly about access to the talent pool.

**Location dynamism**

4.7.7. Whilst rarely a leading driver of corporate portfolio review in isolation, local area dynamism can pull businesses to a particular location or push them away once the fundamentals of a location are proven to be right for the business. Factors such as strong F&B, night time economy and cultural offer all add to an areas appeal.

**Connectivity**

4.7.8. In order to function as a base for any business, all buildings require connectivity, with the emphasis on Wi-Fi, as workers carry increasingly portable devices between their desks, homes and meetings. High-speed connectivity and free public Wi-Fi at street level is a high priority.

*Table 11: Comparison of major office centres in Lambeth*

| Location driver | Waterloo | Vauxhall | Brixton | Clapham | Streatham | Norwood |
|---|---|---|---|---|---|---|
| Talent & Skills[17] | Wide catchment area due to Waterloo Station bringing in commuters from across the SE | Catchment smaller than Waterloo | Likely to attract a younger, dynamic workforce. Residential location provides access to talent | Commuter town which is home to professionals | Local market reliant on local neighbourhood for catchment | Local market reliant on local neighbourhood for catchment |
| Clusters | Life Science clustering anticipated – generally a diverse occupier base but is renowned as a major cultural cluster | Emerging market but has attracted some media companies recently and known for visual arts | Focus on creative and media sectors | No real clustering | No real clustering- small local occupiers dominate | No real clustering- small local occupiers dominate |

[17] Catchment analysis has not been provided in detail in this report

| Location driver | Waterloo | Vauxhall | Brixton | Clapham | Streatham | Norwood |
|---|---|---|---|---|---|---|
| Accessibility | Waterloo station and numerous tube lines run through the area. It is also within walking distance to the West End and City | Not as accessible as Waterloo – with fewer trains stopping but interconnection with Victoria line provides good access to other parts of London. | The Victoria line quickly connects Brixton with Central London, but it is reliant on one tube line or the bus | Benefits from proximity to Clapham Junction railway station and the northern line and overground | Limited public transport accessibility. Rail access in Zone 3. | Served by national rail connecting into Central London |
| Location dynamism | Amenity pull from Southbank; Lower Marsh and the Cut add to areas vibrance | Night time economy, LGBT venues | Area renowned for its culture and authenticity | Affluent gentrified area | Improvements to local area but high street noted as a barrier to movement around the area | Residential suburban location |
| Change in strategy | Occupiers may choose to cluster around railway stations – avoiding tube network | Too close to centre to benefit from companies setting up non-CBD hubs | May benefit from occupiers moving out of Central London to set up local hubs. Seen as complementary to Central London footprints | May benefit from occupiers moving out of Central London to set up local hubs. Seen as complementary to Central London footprints | Unlikely to benefit from any relocations. Local workers may decide to work from home rather than lease space | Unlikely to benefit from any relocations. Local workers may decide to work from home rather than lease space |
| Real estate costs | Cost effective compared to other Central London submarkets. New development may lead to higher rents in longer term | Cost effective compared to other Central London submarkets. Rents have increased at a faster rate than other London submarkets | Rents are comparable with other similar centres. Little differential between Clapham and Brixton | Rents are comparable with other similar centres. Little differential between Clapham and Brixton | Low cost centre appealing to local occupiers | Low cost centre appealing to local occupiers |
| Real estate supply | Limited good quality space but potential for more space to come through longer term | Gaining a critical mass of office space and more supply expected to come through | Limited supply of space and generally small units available. Potential for further redevelopment. Arrival of Derwent will be seen as a positive for raising profile of the area | Few large scale or quality buildings available | No critical mass and unlikely to change in the future | No critical mass and unlikely to change in the future |

*Source 23:JLL*

# 5. SECTOR ANALYSIS:

This section focuses on some of the trends that are likely to impact the core sectors that have driven take up in the capital and which are likely targets for the LB Lambeth.

## 5.1. Media

5.1.1. Covid-19 has seen the sector facing significant disruption. Working from home, restrictions on travel and public gatherings are causing workforce and supply chain challenges, while impacting on consumer demand and behaviours around media consumption. The hardest hit sectors are those that require social and physical interaction, while demand from advertisers has waned.

5.1.2. Newspapers such as The Guardian and the London Evening Standard have cut jobs, while other publications have reduced their publishing timetable. New digital subscribers have brought in some extra revenue as demand for services like OTT streaming and video games, as well as internet access and data connectivity have increased during lockdown.

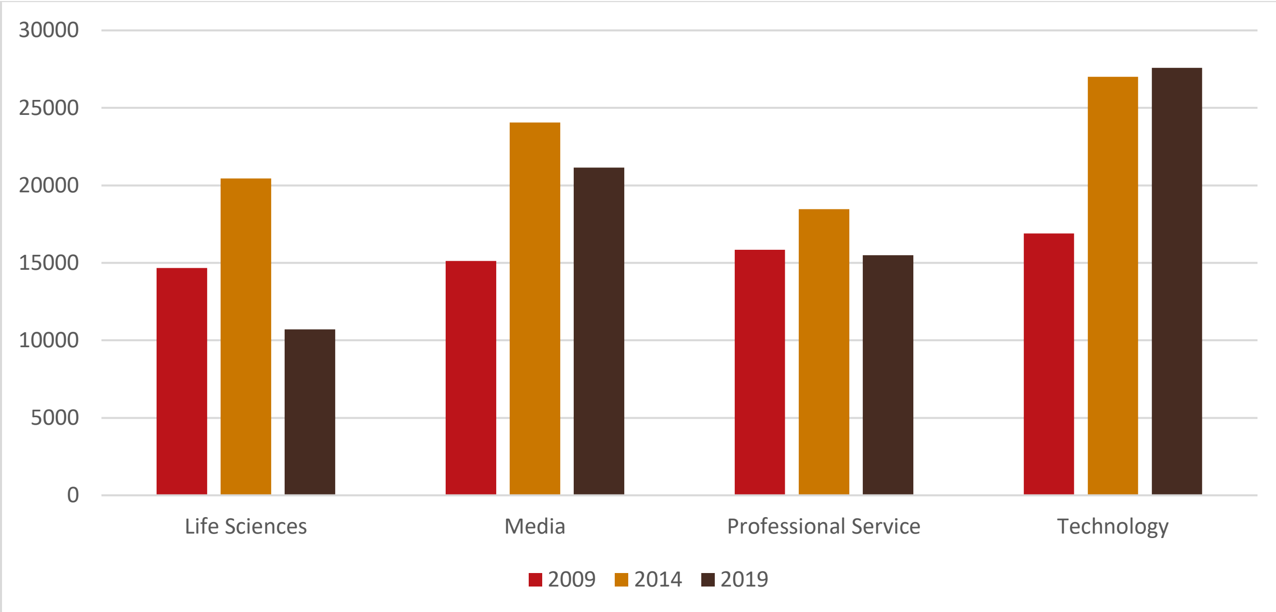
5.1.3. This is likely to see longer term structural changes within the industry, including how we consume media, use of digital platforms and reduction in traditional media and advertising models. The sector is likely to pivot towards more online content, subscription led models and data-led services. This will create opportunities for new and immersive content to emerge and new modes of communication to target audiences.

5.1.4. The sector is characterised by several large conglomerates, whose brands have driven leasing activity across Central London, and a range of SMEs who span a wide range of activities. The sector has been undergoing consolidation of its real estate footprint to take advantage of economies of scale, which has been driven by these larger companies. Overall, Media companies have traditionally been sensitive to real estate costs, due to the tight margins under which they operate.

5.1.5. There will be some M&A opportunities as companies seek new growth areas and business models, while exiting some less profitable areas.

5.1.6. Parts of Lambeth are home to a strong contingent of firms from across the broader creative sectors, including design, architecture, media and technology. The growth of the flexible space sector has allowed many of the smaller firms within these sectors to find suitable accommodation across Waterloo, Vauxhall and Brixton. Brixton in particular has benefited from Squire and Partners’ relocation to the Department Store and the firm’s plans to develop an adjacent coworking space.

*Chart 13: Average size of unit leased by sector*




*Source 24:JLL*

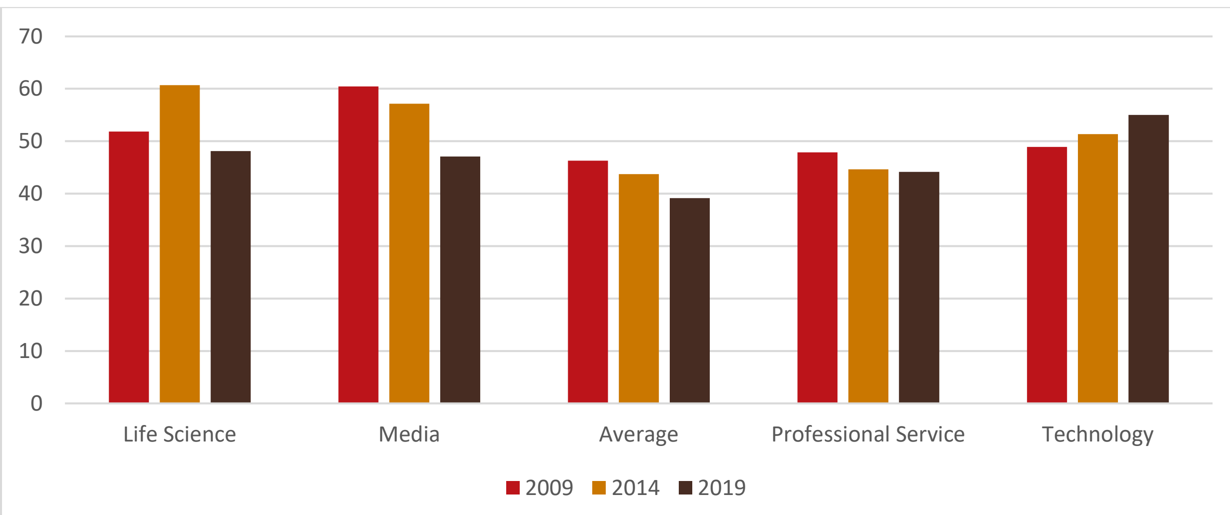
### 5.2. Technology companies

5.2.1. The demands of the technology sector are fairly well documented, with the sector being at the vanguard of changes currently evident across pretty much every business sector. As with any sector an environment where tech companies can attract talent is key and there has been competition for the best staff within this sector.

5.2.2. The sector has come to the fore on the back of the large tech companies who have set up in Central London and expanded their footprints to become amongst the largest occupiers in the capital. With companies such as Google and Facebook setting up centrally, other tech companies, previously located outside Central London, followed suit in the quest to compete for talent, leasing better quality space to help stimulate a new brand and association and to create an environment where people would want to work.

5.2.3. The tech sector have been amongst the companies paying the highest rents for the largest spaces over the last five years. This is reflected in the growth in average weighted rents paid by the sector which have increased by 7% compared to a fall in rents paid by the professional sector and the average.

*Chart 14: Average weighted rent paid by sector (transactions over 5,000 sq ft)*




*Source 25: JLL*

5.2.4. It is unlikely that smaller emerging technology companies want to be housed in the same type of space with the same facilities as their larger neighbours. The rise of co-working space since the global financial crisis reflects increased demand from SMEs in the capital. Co-working space offers the flexibility in use and duration that emerging tech companies typically require, with the ability to scale up or down with relative ease. If people within the tech sector lose their jobs in the recession, we may see an increase in the number of freelancers/self employed as a consequence who will create additional demand for flexible or affordable workspaces.

5.2.5. Cost is a key concern for start-ups, particularly when they graduate from incubator or accelerator space and have to pay rent. As occupational costs increase, client expectations change and finding affordable space becomes a key challenge. It is likely that more affordable space is needed across the borough, as the development of new grade A stock may drive up rents and make the area less affordable for smaller businesses.

5.2.6. In terms of amenities, any start-up wants a functional office, yet few would settle for a generic corporate space. The focus on amenity space is just as, if not, more important to start-ups who can't afford to invest themselves. Connectivity is essential, as are facilities such as kitchens, access to printing/copying, while meeting rooms for meeting potential clients are high up on the agenda. Start-up also value the opportunity to network with other tenants and to participate in events with their peers.

### 5.3. Life Sciences

5.3.1. In general, the outlook for the industry is positive, with growth closely correlated to the increase in global healthcare expenditure driven by the treatment of both chronic and acute illnesses and of course the pandemic. These markets will be most notably driven by globalisation and a growing and ageing population – while a number of positive fundamentals including the recent increase in R&D productivity and more drug approvals is driving continued confidence in the sector.

5.3.2. Studies carried out of life science clusters have identified a limited yet significant number of key success factors that appear repeatedly. Proximity to leading and well-funded academic research institutions tops the list of being the most important factor for the establishment and maintenance of an industry cluster. More often than not leading companies will have emerged from prominent research laboratories and as they grow into mature companies, they continue to need the academic expertise that created them in the first place.

5.3.3. Smaller players are becoming better funded, which means that they can take products further along the development process before needing to partner. This is creating a more competitive landscape and is manifesting itself in some companies relocating activity to be next to or integrated with entrepreneurs and academics that could provide future pipeline products.

5.3.4. As with many other business sectors, there has been a focus on the attraction and retention of skills, through the adoption of different working practices and the provision of amenities either within or in close proximity to the location. This can be a positive for urban science clusters, as they are able to curate the existing facilities in the neighbourhood and build upon the reputation of the area.

5.3.5. The appetite for space in London is backed up by property market activity. The largest recent deal was Cancer Research UK's headquarters move to Stratford. They will share the building with The British Council, adjacent to University College London's new science and tech-dominated East Campus.

5.3.6. The beginnings of more focussed 'innovation campus' developments are apparent in London, most notably at King's Cross where the quality of the environment, transport connections and the presence of the Crick Institute and the London Bioscience Innovation Centre has drawn a number of major companies, including Pfizer and MSD.

5.3.7. White City has emerged as an alternative location due to the development of Imperial University's 23-acre White City Campus, which is focused on scientific research and entrepreneurship. The first phase of the scheme, which included the opening of the Translation & Innovation Hub (I-Hub) incubator in 2016, has already helped to create a flourishing life sciences ecosystem. Adjacent to the I-Hub, commercial property developer Stanhope has redeveloped White City Place, a former BBC building, to include a significant portion of lab and R&D space. The scheme has been able to attract the likes of Autolus, Synthace, GammaDelta Therapeutics and Novartis to the burgeoning West London cluster.

5.3.8. A new innovation district is also emerging across Lambeth and Southwark, building on the world-class healthcare and research infrastructure located at St Thomas' hospital in Waterloo; Guy's Hospital at London Bridge; and King's College Hospital in Denmark Hill. The development of the 5.5-acre site at Royal Street, opposite St Thomas Hospital, will provide a commercially-led, mixed-use scheme including a 350,000 sq. ft. pre-let to Guy's and St Thomas' NHS Foundation Trust. The scheme will also benefit from the close cooperation between St Thomas Hospital and Kings College, one of the world's best universities for life sciences.

5.3.9. Stanhope, the developer, have considerable experience in delivering spaces for life sciences firms from their scheme in White City and are also developing a similar tech and innovation focused centre at the British Library extension site in Kings Cross, which they will apply to Royal Street.

5.3.10. Other developments across the Lambeth – Southwark cluster include the London Institute of Healthcare Engineering, a joint initiative between King's College, Guy's and St Thomas' NHS Foundation trust and a number of commercial partners to create a new centre focused on medical technology; and the King's Health Partners masterplan at London Bridge.

5.3.11. Location, placemaking and amenities are necessary to being able to provide the right mix of companies and institutions in the right buildings and the right locations. This is something that will need to be considered in Waterloo, if the area is to take advantage of and grow on the back of its existing location strengths.

### 5.4. Professional services- focus on legal sector

5.4.1. Changing client demands, an increasingly challenging and diverse competitive environment, and technological advances are transforming how work in the professional sector is structured, resourced and delivered. The legal sector is perhaps impacted more than accountants and consultants, albeit there are some common themes, as they have been slower to change how they operate.

5.4.2. We estimate that there is currently around 2.5 m sq. ft. of active demand from professional services firms across the capital, representing 31% of total active demand. Law firms, one of the largest sub-sectors within professional services, account for 1.8 m sq ft of this demand.

5.4.3. Many UK law firms are navigating a period of profound transition. New entrants into the sector and the growth of in-house teams have seen the supply chain of legal service delivery become more diverse and complex. The relentless advance of new technologies, such as machine learning and data analytics, are creating huge efficiencies in how legal work is undertaken, but also requiring firms to augment their workforces with unfamiliar skill sets. Operating models which have endured within law firms for decades (if not longer) are being uprooted as firms adopt more agile and dynamic business practises.

5.4.4. They have started to deploy new open, hybrid an agile workplace configurations to better support their people, encourage different behaviours or aid the transition to new ways of working. The pandemic has seen a number of high-profile lawyers make public statements around their WFH policy with Linklaters stating that their employees could work from home for up to half their working week indefinitely.

5.4.5. The legal sector is renowned for allocating more space per person in their offices than any other sector, typically around 215 sq ft per person, but that is changing, and new working practices are providing space savings while providing much better-quality office accommodation at between 110-140 sq ft per person.

5.4.6. Technological innovation is becoming critical to how legal services are delivered, but relies on partnerships between law firms, start-ups, software firms and clients. This is impacting physical space requirements as firms create specialist incubator or innovation labs in which they can collaborate with partner firms.

5.4.7. The legal sector is responding to the increasingly competitive nature of the sector, by limiting headcount growth in London while expanding in regional cities across the UK. This is a trend that has been evident with the wider professional services sector for a number of years and may be accelerated in light of Covid-19.

5.4.8. In general, professional firms are increasingly leveraging the design and fit out of their workplaces to improve talent attraction, promote employee wellbeing, and instil a sense of shared brand and values. New forms of client spaces are being deployed to support more frequent and varied interactions with clients.

5.4.9. Professional services are expected to be a key driver of demand, as evidenced by employment growth trends. Most professional services firms within the borough are likely to be small scale local practices in areas such are unlikely to see significant changes to how they occupy space. Growth in demand for space in Lambeth is likely to come on the back of redevelopment around Waterloo, with professional services firms seeking to take advantage of employees commuting through the station. These companies will be impacted by the trends outlined above.

5.4.10. Increasingly there is evidence of large professional services firms co-locating with smaller start-ups. There is an opportunity to connect these companies together to facilitate innovation through an incubator or accelerator programme. A number of these have been set up across Central London, including Pi Labs (Real Estate), MDR Lab (Legal) and Deloitte Ventures (Consultancy), but there are few south of the river.

### 5.5. Affordable workspaces

5.5.1. Affordable workspace, as defined in the Lambeth draft affordable workspace SPD and the London Plan as: workspace that is provided at rents maintained below the market rate for that space for a specific social, cultural or economic development purpose. However, in many cases - alongside a discounted rent - other forms of support are offered, including the provision of flexible lease arrangements, access to facilities such as meeting rooms and specialist equipment, business support and maintaining an appropriate mix of tenants. Community benefits can include engaging with charities and cultural organisations. Lambeth maintains a list of approved affordable workspace providers, with endorsement based on track record of business support, community engagement and business conduct.

5.5.2. Reflecting the diverse nature of demand for affordable workspaces within Lambeth, a flexible approach is outlined in the affordable workspace SPD. Firstly, in terms of the type of space provided, which in most cases is likely to be in the form of affordable office space but could also extend to research and development or light industrial space targeting the creative industries. Secondly, three alternative ways to provide affordable workspace are identified with the owner either leasing space to an affordable workspace provider on Lambeth’s approved list (approach A), acting as the affordable workspace provider (approach B) or leasing space directly to an end users on the councils charitable and not for profit register (approach C). [18]

5.5.3. With self-employment and freelancing activity on the rise, the need for affordable workplaces is growing and will continue to do so, particularly in the current climate in which many are being faced with redundancy and will have to redeploy their skills elsewhere.

5.5.4. Demand for affordable workplaces is also symptomatic of a lack of office supply more generally, either through the loss of office space to alternative uses or existing space being upgraded through redevelopment.

5.5.5. We have mapped the locations of flexible and affordable workplace centres across London based on data from JLL, Valve and Hubble. The latter was mainly used for centres outside Central London. The provision of affordable workspaces generally ranges from dedicated co-working or

[18] Source: Draft supplementary planning document: affordable Workspace, 2020, London borough of Lambeth. https://jll2.sharepoint.com/teams/UKofficesresearch/Shared%20Documents/Client%20reports%20&%20requests/Lambeth%20Council/Background%20info/pl-draft-affordable-workspace-february-2020.pdf

managed spaces, to converted ex-industrial premises, to individual desk spaces offered in larger office or studio spaces.

*Table 12: Flexible workplace centres in Lambeth*

| Operator | Address |
|---|---|
| Canvas CoWorking | 215 Lyham Road |
| Castle CoWorking | First Floor, 2/6 Atlantic Road, Brixton, London |
| Impact Brixton | 17a Electric Lane, Brixton, SW9 |
| Meanwhile Space CIC | Tripod, Lambeth Town Hall, 2 Brixton Hill, London |
| The Hall @ Kennington Creative Hub | 170 Kennington Lane |
| | Kennington Park, 1-3 Brixton Road |
| 3Space | 3Space International House, Cantebury Crescent |
| Parkhall Business Centre | 40 Martell Road, SE21 |
| The Office Group | Scott House, Waterloo Road, SE1 |
| Old Paradise Yard | Bankside 2, Old Paradise Yard, SE1 |
| | Elizabeth House, SE1 |
| WeWork | 10 York Road, HA9 |
| | 99 Waterloo Road, SE1 |
| | Mercury House, Waterloo Road, SE1 |
| | Capital Tower, 91 Waterloo Road, SE1 |
| | 124 Cornwall Road, SE1 |
| Lenta Business Centres | The Chandlery, 50 Westminster Bridge Road, SE1 |
| | Southbank, Upper Ground, SE1 |
| Flexible Office Space | ITV Studios, Upper Ground, SE1 |
| Workspace | Edinburgh House, 170 Kennington Lane, SE11 |
| Workspace | China Works, Black Prince Road, SE1 |
| Ethical Property | The Foundry, 17 Oval Way, SE11 |
| | 9 Albert Embankment, SE1 |
| Workspace | Vox Studios, 1-45 Durham Street, SE11 |
| | 36-37 Albert Embankment, SE1 |
| Regus | 37 Vintage House, SE1 |
| The Office Group | Tintagel House, 92 Albert Embankment, SE1 |
| Workspace | Kennington Park, 1-3 Brixton Road, SW9 |
| Bizspace | Lilford Attribute Business Centre, 61 Lilford Road, SE5 |
| Bon Marche | 241-251 Ferndale Road, SW9 |
| Caya | 344 Coldharbour Lane, SW9 |
| Flexible Office Space | Piano House, Brighton Terrace, SW9 |
| Shakespeare Attribute Business Centre | 245a Coldharbour Lane, SW9 |
| Eurolink Business Centre | 49 Effra Road, SW2 |
| | Clapham North Arts Centre, SW4 |
| | 141-157 Acre Lane, SW2 |
| | 250 Brixton Hill, SW2 |
| Wingate Business Exchange | Wingate Square, SW4 |
| Le Bureau | 80 Silverthorne Road, SW8 |
| | 443 Norwood Road, SE27 |
| Pop Brixton | 49 Brixton Station Road, SW9 |
| Blue Star House | 234-244 Stockwell Road, SW9 |
| GLOWS | 14A Greenleaf Close, SW2 |
| Build Studios | 203 Westminster Bridge Road, SE1 |
| Meanwhile Space | Granby Space, 114-118 Lower Marsh, SE1 |
| Health Foundry | Canterbury House, 1 Royal Street, SE1 |

| Operator | Address |
| --- | --- |
| Hideaway | 1 Empire Mews, SW16 |

*Source 26: JLL, Hubble, Valve*

5.5.6. Most Landlords with large portfolios are looking to provide smaller units and flexibility. By diversifying their own portfolios landlords can broaden their occupier base. While landlords understand the need to cater for the start-up sector, the same age-old barriers remain. These are the questions of covenant, lease term flexibility and the impact on value. Landlords are increasingly looking to derisk these by entering into third party partnerships with shared workspace providers.

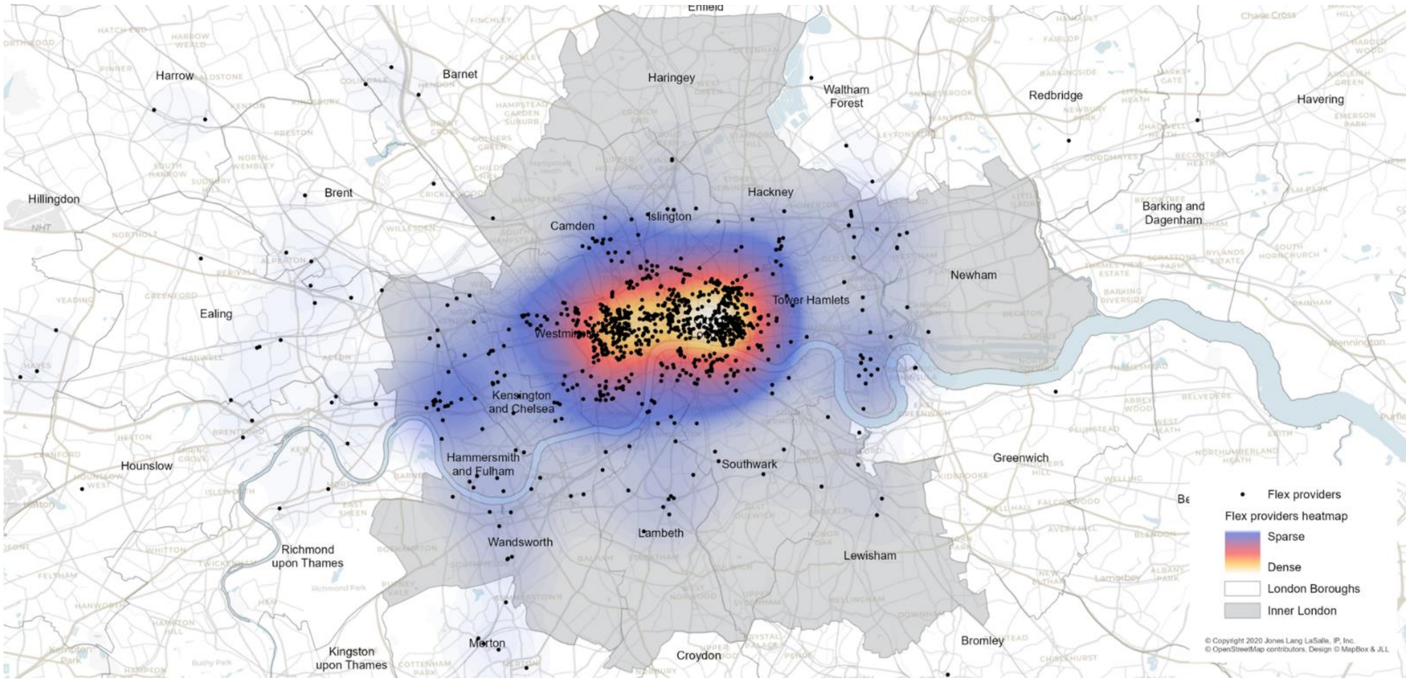
5.5.7. Some landlords are embracing affordable workplaces and setting aside a portion of their development schemes to accommodate affordable workspace. An example is HB Reavis who have committed to allocating 10% of their 134,000 sq ft scheme at Worship Street in Hackney to affordable workspace, while British Land's application for the 377,000 sq ft 5 Kingdom Street scheme includes 42,000 sq ft of affordable workspace. Increasingly developers see the value of incorporating affordable workspace, alongside place making and amenity as part of complementary eco-system, rather than being compelled to include through planning policy. In British Land's case this is recognised by Sarah Carey – head of Sustainable Places:

> "The delivery of affordable workspace with supporting amenities and public realm, alongside high-quality housing, will be crucial to ensure that London remains at the forefront of the tech and creative industries, and a draw for international talent".[19]

5.5.8. LB Lambeth have been working with developers in advance of the adoptable policy to encourage affordable workplaces into new schemes. That many buildings in Lambeth don't match the aesthetic standards preferred by big business can be a positive for start-ups, particularly in the tech sector. This was reinforced by comments from 3Space who suggested that the quality of the building is directly related to the affordability of the space. Many tech firms which are expanding rapidly find areas such as Shoreditch too expensive. Those which commit to looking for

[19] Source: British Land, 2017, https://www.britishland.com/news-and-views/our-views/articles/2017/sarah-cary-affordable-workspace-in-london

*Figure 1: Flexible workplace centres heatmap- includes both flexible and affordable space*




*Source 27: Hubble/JLL*

affordable workspace south of the river find it difficult to find space unless they go to Waterloo and even that area is out of the price range for many companies.

# 6. OVERVIEW OF SUPPLY:

## 6.1. Current supply

6.1.1. Central London development completions have averaged 4.5 million sq ft annually over the past 10 years, with recent peaks in 2017 (7.2 million sq ft) and 2019 (7.6 million sq ft). Development completions – new or comprehensive refurbishments – totalled 45.2 million sq ft between 2010 and 2020, meaning 18% of Central London's office stock is less than 10 years old. In the preceding decade, development totalled 55.4 million sq ft, which equates to 22% of current office stock that is between 10 and 20 years old.

6.1.2. Development in Vauxhall and Waterloo is more sporadic that the wider Central London market. Development completions have averaged less than 100,000 sq ft per annum over 10 years, however this includes several years with no completions. Overall between 2010 and 2019, development completions have totalled 841,000 sq ft. In comparison, neighbouring Southbank has recorded 2.6 million sq ft of completions of which The London Bridge Quarter - which incorporates the Shard – was a major component of this total, accounting for 1 million sq ft.

6.1.3. As a result of the relatively low levels of developments in Waterloo and Vauxhall, the areas have older office stock than the London average, and potentially a much higher level of buildings at or reaching obsolescence. The share of office stock greater than 20 years old is 65% in Waterloo and 93% in Vauxhall. In contrast, the Southbank sub-market has a slightly younger stock than London overall, with 50% of stock less than 20 years old, compared to the wider London total of 41%.

6.1.4. Historically Lambeth has seen very low levels of development activity, averaging 141,000 q ft per annum between 2009 and 2019[20]. More recently, starting with a peak in 2015, the level of development has increased with an average of 243,000 sq ft in the previous five years. We expect a hiatus in completions in 2020 and 2021 due to a recent drop in the level of under construction, but thereafter there is significant scope for Lambeth to see a further wave of development due to the number of schemes in the pipeline, which is expanded on below.

## 6.2. Vacancy rates

6.2.1. The office vacancy rate in Lambeth is currently 3.6%, and amongst the lowest of the Inner London boroughs - only Southwark, Camden, Greenwich, Lewisham have lower vacancy. The borough's vacancy has averaged 4.8% since 2003, however the volatility has increased in the previous 10 years. Between 2010 and 2020, vacancy has ranged between a peak of 9.5% and a trough of 1.9% and averaged 4%.

6.2.2. Tenant controlled supply, measured through the amount of space available to sub-lease, is not a major feature of the Lambeth office market, averaging 0.1% over the previous 10 years, and often at 0%. By comparison the City of London and Westminster have sub-lease vacancy rates of 0.8% and 0.5% respectively.

6.2.3. There was an estimated 250,000 sq ft of vacant space in Lambeth at the end of 2019. The volume has been steadily increasing throughout the course of 2020 to reach around 311,000 sq ft by the end of Q2 2020. This mirrors the upward trend observed in the wider office market.

[20] LBL data- 141,000 sq ft CoStar data 145,000 sq ft

6.2.4. There is limited new space available across the borough. JLL estimates that there is no new space in either Waterloo or Vauxhall. This trend extends to the other areas of the borough, with an only 50,000 sq ft of new space currently being marketed.

6.2.5. There are few large spaces currently available in Lambeth, and space being marketed tends to be for units of less than 10,000 sq ft. An estimated three-quarters of units (by number) are for spaces of less than 10,000 sq ft and these typically have a lower specification than the larger units being marketed.

### 6.3. Future supply

6.3.1. The 2018/2019 Lambeth Commercial Development Pipeline Report (LCBPR) suggests that there was 2.5 million sq ft under construction at the time the report was written. This is significantly higher than other third-party sources and is primarily down to differing definitions. The LCBPR includes space where they have not started on site whereas third party data only includes schemes where the foundation work for the building has started. For the purposes of the report we will use the latter definition and only include schemes where foundation work has started to analyse space under construction.

6.3.2. In the two central submarkets, JLL estimate that there is no space speculatively under construction in Waterloo and just 39,000 sq ft onsite in Vauxhall at The Storybox, 80 South Lambeth Road, SW8. In fact there has been no speculative development in Waterloo since end of 2016, with all developments completed in the intervening period being either pre-let or for owner occupation.

6.3.3. Nevertheless, there is significant scope for Waterloo and Vauxhall to expand their office stock in the coming years. Waterloo ranks 4th, behind City Eastern, Canary Wharf and Southbank for potential supply deliverable over the next five years.

6.3.4. Across the borough, the LCDPR estimated that there were 817,000 sq ft of space with planning permission for new office development, which was the lowest since 2013/14. These schemes would result in a net addition to stock of 332,000 sq ft if they were implemented.

6.3.5. As at mid-2020, JLL estimate that there is 803,000 sq ft of space with planning permission in Vauxhall in seven schemes, the largest being Vauxhall Square East. The earliest that any of these schemes can be delivered will be 2022 but we expect that all bar two schemes will not come through until at least 2023. This will still represent a 38% increase in total office stock, from its current total of 2.1 million sq ft, if all of these schemes complete.

6.3.6. In Waterloo, we estimate that there are no schemes with planning permission but there are four major schemes[21] which could potentially be delivered within five years, although none is yet consented including One Waterloo (Formerly Elizabeth House) which has a resolution to grant and Royal Street (which is at pre-application stage). At the time of writing, One Waterloo is the largest potential development across Central London. These schemes, along with a couple of smaller schemes could bring through almost 2.7 million sq ft to the area, most likely during 2024 and early 2025.

6.3.7. Beyond the next five years, there are a number of developments that are likely to be brought forward in Waterloo which total 838,000 sq ft. These include the IBM Building, Upper Ground, Building 3 Royal Street and the Waterloo Estate. As a result there is 3.5 million sq ft of space that could be delivered in the submarket in the next five plus years.

[21] Major refers to schemes over 50,000 sq ft

6.3.8. Whether these schemes go ahead on a speculative basis remains to be seen in the current economic climate. A pre-let will provide the ability to derisk the project in terms of letting void and financial exposure. It must also be remembered that if rents fall significantly in the intervening period, then the financial viability of new development could be reduced significantly and may render some schemes unviable.

6.3.9. There are several large-scale schemes in the rest of the borough that could be delivered in the next development cycle. The highest profile are Derwent's scheme at Blue Star House and AG Hondo's 274,000 sq ft at 20-24 Pope's Road scheme. Derwent will gain vacant possession of Blue Star House in 2025 and are expected to work up a larger scheme that currently in situ.

6.3.10. The question is whether there will be sufficient demand to absorb this future space. It is safe to say that based on historic trends, this is unlikely to be the case. For the purposes of forecasting demand and supply, we have used data on supply from both JLL and CoStar. The majority of the space expected to be constructed by 2025 will be within buildings in Waterloo & Vauxhall and as such will be well located to absorb some migration from existing companies within Central London.

6.3.11. Our forecast is largely driven by quantitative analysis, but it is informed by qualitative findings from the trends highlighted elsewhere in this report. We have looked at macro-economic forecasts for office employment, supply forecasts and historic trends to see how they compare against historic trends.

6.3.12. Historically, new developments in both Waterloo and in neighbouring Southbank have let quickly and to large scale occupiers. It is a reasonable assumption to make that the proposed new developments in Waterloo and Vauxhall could attract high quality occupiers from growth sectors such as technology and professional services, particularly if delivered alongside improving provision of amenity and urban realm. The provision of higher quality buildings will help to attract new occupiers who, as we will see from migration analysis, are less tied to historic locations and are focused on quality areas, and therefore new employment opportunities into the centrally located areas of the borough. Over the longer term, these developments are likely to attract sufficient demand.

6.3.13. The local markets of Clapham and Brixton are characterised by higher levels of availability and low net absorption rates that are indicative of low levels of occupier demand. In Brixton absorption has been negative in three of the last five years averaging a loss of over 9,000 sq ft per annum, while in Clapham absorption has only been negative in 2019 and has averaged 4,500 sq ft per annum . The markets are relatively small in terms of stock – particularly of medium to large premises which has been driven by the trend for small occupier demand. Demand for smaller premises seems to be positive, particularly from the creative and cultural sector with continuing demand from traditional occupiers but generally the market is driven by existing occupiers rather than any significant inward investment.

6.3.14. Nevertheless, Brixton and Clapham could compete with other non-central locations to attract demand from companies who are seeking to adopt a hub and spoke model.

6.3.15. Analysis of Streatham and Norwood show that these markets are relatively small scale and have limited critical mass. They appeal to local operators and are unlikely to attract demand from further afield. Demand may increase through individuals looking to take flexible space in lieu of working from home, but this could be counteracted by local companies deciding to work from home permanently rather than lease commercial space. There is insufficient data to analyse absorption rates in these two centres.

6.3.16. In the short term there may be some occupiers who look to sublet surplus space due to Covid-19, this trend will be short-lived as occupiers readjust the footprint to the new environment. Second hand space will return to the market on leasing but not all due to space being relocated to alternative uses, space being removed for redevelopment or refurbishment. Analysis of historic supply and demand trends show that on average this absorption rate across the borough is just over 50%.

6.3.17. It is widely accepted that voids in the existing stock enable the property market to function effectively. The accepted vacancy rate tends to be around 5% in Central London but may rise to 7.5% for smaller markets. Above this level markets are seen to be oversupplied.

*Table 13: Supply scenarios*

| | 2019 | 2030 base case | 2030 alternative take-up scenario | 2030 increased development |
|---|---|---|---|---|
| Vacancy rate at start of period | | 2.5% | 2.5% | 2.5% |
| Stock at beginning of period (start of 2020) | | 9,900,000 | 9,900,000 | 9,900,000 |
| Supply at beginning of period (2020) | | 252,512 | 252,512 | 252,512 |
| Add in completions- total over 10 years | | 2,500,000 | 2,500,000 | 5,000,000 |
| minus take-up total over 10 years | | 4,487,800 | 3,240,077 | 6,900,000 |
| Add in second hand space- total over 10 years | | 2,244,000 | 2,244,000 | 2,244,000 |
| Stock at end of period (end 2030)[22] | 9,900,000 | 10,900,000 | 10,900,000 | 11,900,000 |
| Supply at end of period (end of 2030) | 252512 | 508,712 | 1,756,435 | 596,512 |
| Vacancy rate at end of period (end of 2030) | 2.55% | 4.67% | 16.11% | 5.10% |

*Source 28:JLL*

6.3.18. Based on the base case for take-up and calculated average absorption rates over the last 10 years (50%) , the market would be able to support around 2.5 million sq ft of space without seeing a significant hike in vacancy rates. If take up was lower, due to changes in working practices, it is easy to see how the market can get over supplied in the next ten years. It is therefore vital that Lambeth provides appropriate office stock for the area but that will appeal to occupiers moving into the area.

6.3.19. If the levels of new development are higher, more in line with the proposed buildings already in the pipeline, at around 5 million sq ft , then the final scenario illustrates how take up would need to increase to almost 7 million sq ft to keep vacancy rates around the 5% level. Given that JLL estimate that c200,000 sq ft of demand could come from lease expiries and a further 130,000 sq ft from employment growth [23], the balance would be drawn from companies migrating into Lambeth from other areas. We have therefore assumed that this would not add any additional second-hand space back onto the market above the level of churn in both the base case and 2030 alternative. If a higher proportion of demand came from existing occupiers in the borough, we would expect the vacancy rate to increase further as more second-hand space came back onto the market.

[22] Stock has been increased based on average net addition to stock from para 6.3.4 (40%)- it does not consider change of use over the period.

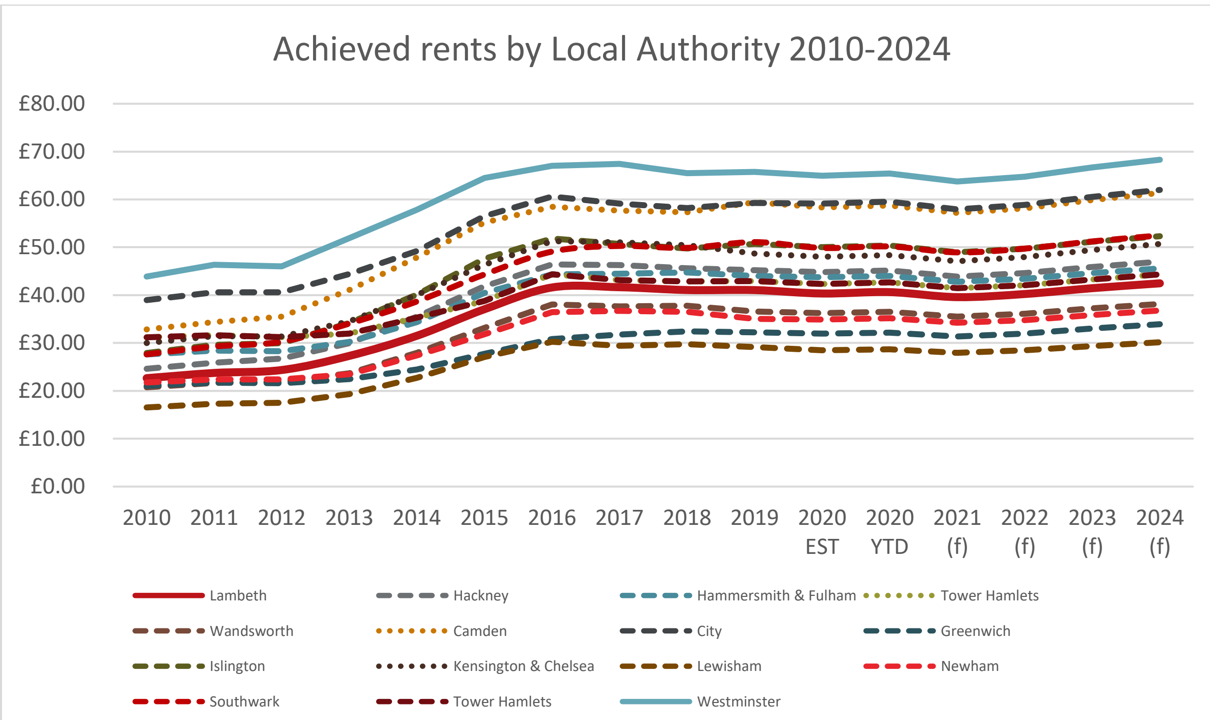
[23] See section 4.5

# 7. COMMERCIAL ANALYSIS:

## 7.1. Rents

7.1.1. In the absence of a prime rental series for the London borough of Lambeth, average achieved rents have been used to provide an analysis of market performance. Average achieved rents[24] have almost doubled over the past decade rising from £22.70 per sq ft in 2010, to £41.00 per sq ft in 2019. Rents have subsequently dipped, falling by 1% in the first half of 2020, reflecting a post Covid-19 trend we have seen across other central London sub-markets, although a hiatus in leasing activity means that evidence is currently limited. Transactions at the smaller end of the market tend to be of lower quality and the average achieved weighted rent for transactions below 5,000 sq ft was £26.00 per sq ft over the last five years.

*Figure 2: Achieved rents by Local Authority 2010-2024*




*Source 29: CoStar*

7.1.2. The gap between the lowest and highest achieved rents at Local Authority level has been widening over the last 10 years and is expected to diverge even further over five year forecast period. Lewisham is the lowest rental borough with Westminster the most expensive. It is clear from the graph that Camden recorded a different trajectory in terms of rental performance, primarily due to the redevelopment and regeneration of King's Cross, with rents effectively on a par with the City since 2014/2015.

7.1.3. A comparison of rental growth in Lambeth relative to other Inner London boroughs demonstrates much stronger growth in Lambeth, with rents rising 6.1% per annum between 2009 and 2020, comfortably outperforming the boroughs akin to the core. The City (4.3%), Westminster (4.1%) and Tower Hamlets (3.3%), along with Hammersmith & Fulham, Greenwich and Newham all saw growth of less than 5% per annum over the last 10 years. This is reflective of a recent trend in

[24] Transactions over 5,000 sq ft

Central London of sub-markets on the periphery recording the strongest rental growth. The boroughs encompassing Shoreditch, Clerkenwell, and Southbank have recorded strong growth to close the gap on the core City of London. Southwark and Hackney recorded the strongest performance at 6.3% per annum, followed by Islington (6.2% per annum).

7.1.4. JLL's Central London office market boundaries incorporate Southbank, Waterloo and Vauxhall which are in the northern parts of Southwark and Lambeth. Southbank has recorded 47% growth over the past 10 years, rising to £70 per sq ft, while Waterloo and Vauxhall have recorded growth of 69% and 113% respectively but still provide competitive space with prime rents estimated at £63.50 per sq ft and £58.50 per sq ft (as at June 2020).

7.1.5. The profile of the Lambeth average rental series shows strong growth between 2012 and 2016, with rents plateauing thereafter and dipping in 2020. This is the downside of comparing a prime series against an evidence-based series. The former is subjective, and the rent can be hypothetical in the absence of evidence, whereas an average achieved series can be volatile in the absence of transactional evidence. This has been the case in Southbank, Waterloo and Vauxhall with very little prime evidence in recent years, due to a lack of development completions. The prime rent series has been maintained based on hypothetical achievable rents, as well as the prime rent in other London sub-markets.

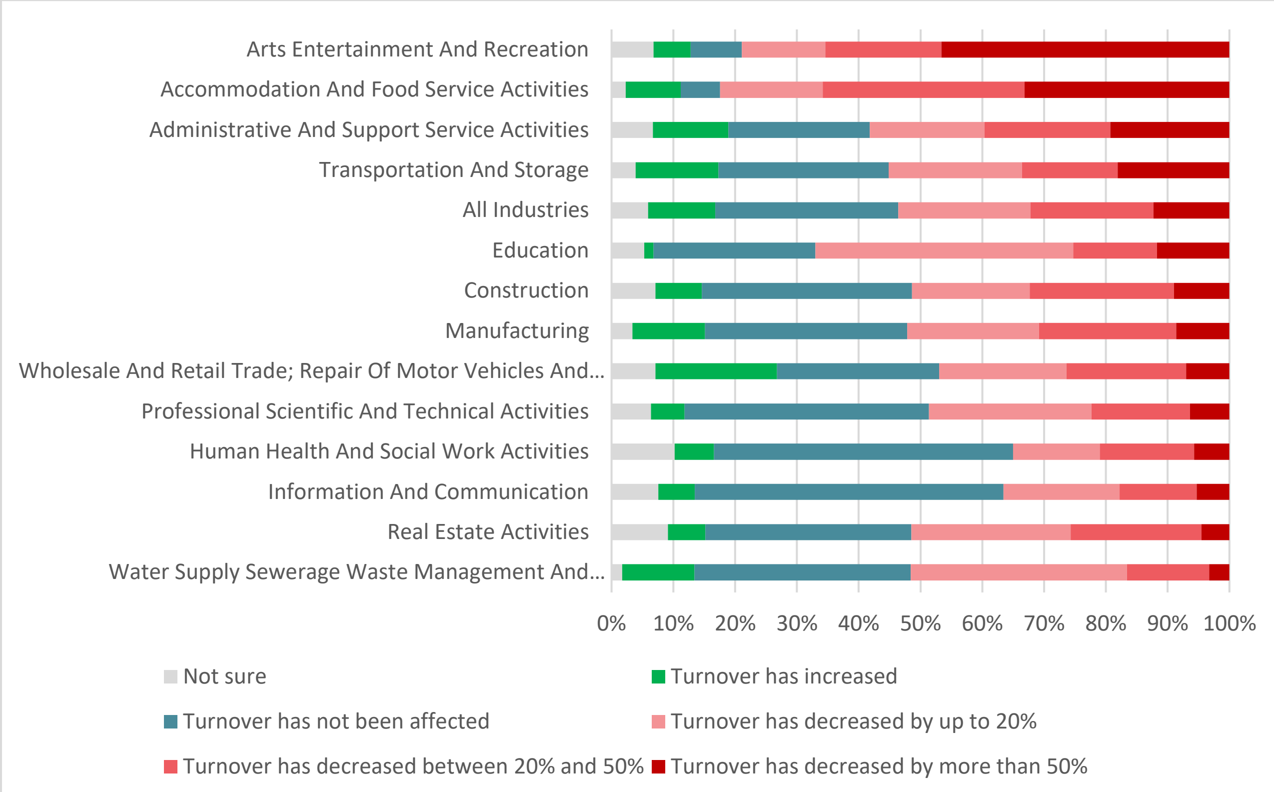
## 7.2. Correlation and forecasting

7.2.1. There is a strong relationship between average achieved rents and both office-based employment and gross value add (GVA). A comparison of the average achieved office rents with the number of office-based employees results in a correlation coefficient of 0.72, which rises to 0.91 when replacing Lambeth office-based employment with inner London office-based employment. A strong relationship is also evident between Lambeth gross value add (GVA) and Lambeth average rents achieved.

7.2.2. These correlations are used as part of the forecasting process, with office-based employment a key driver of office rental forecasts rather than economic growth.

7.2.3. The forecasts assume that Covid-19 will continue to impact our ability to go about our working lives throughout the remainder of 2020. Not every business sector will be impacted equally and the latest ONS impact of Coronavirus survey illustrates that the sectors that the office market is most dependent upon, such as ICT and professional services, have been impacted least by the events of the last few months because most employees have been able to work remotely.

*Chart 12: Effect on turnover, businesses that are currently trading, broken down by industry (UK) 13-26 July*




*Source 29: Business Impacts of Coronavirus Survey data 13th August*

7.2.4. Rents for office space over the next five years, whether average or prime, are expected to underperform the previous five years.[25] Occupiers who remain active this year will likely be seeking to secure rental discounts, which will lead to some rental falls in the latter part of the year. We do not however, at this stage, envisage prime rents declining to the same extent as seen in the Global Financial Crisis.

7.2.5. Rental recovery is anticipated to be quicker than in previous downturns, as delayed demand returns to the market into the latter part of 2021. More than half of active demand is driven by lease events, and, while some companies have extended their leases while a period of uncertainty prevails, we expect that a number of these will re-emerge as recovery takes hold. Smaller occupiers have been more likely to terminate leases and fully embrace working from home, at least in the short term.

7.2.6. The flight to quality will be more evident than ever, as larger companies seek to reflect their culture and values in their space. The performance gap between prime space and secondary space is expected to widen. Grade A rents are forecasted to fall further than prime rents as this segment of the market is more competitive than prime space for securing tenants, and so rents are anticipated to come under greater downward pressure than for prime space. The supply of Grade A space and hence the rate of rental decreases will also be highly dependent on the quantity of tenant release space. This could create opportunities for smaller occupiers to upgrade their space at lower rents.

7.2.7. There will be some individual assets that perform relatively well, with instances of competition for the best buildings seen since lockdown while landlords' individual responses to renegotiation

[25] Both JLL and CoStar use Oxford Economics for the economic inputs for forecasting

of terms will be dependent upon their own exposure to vacancy, financial risk and the quality of the space.

*Table 14: Rental performance by location*

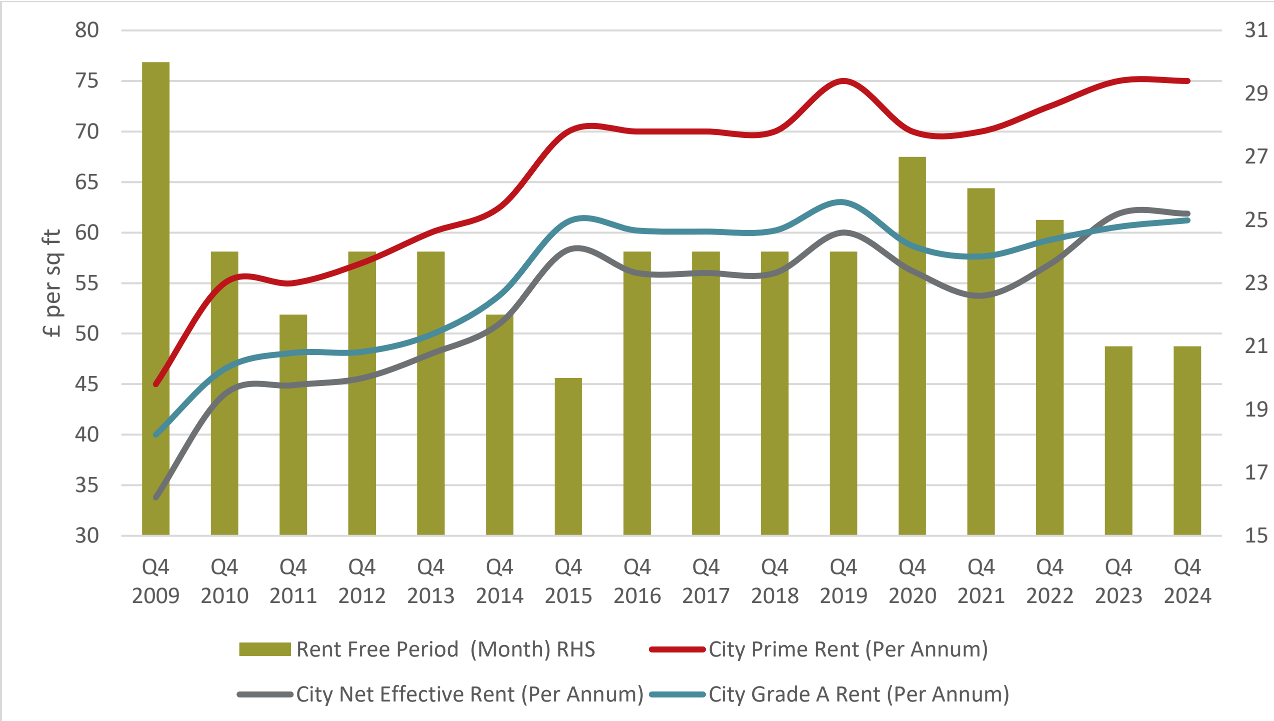
| Per annum change | Peak rent 2009-2019 | Q2 2020 | Rental change Q2 2020 | 2009-2019 per annum average | 2014-2019 per annum average | 2019-2024 per annum average |
|---|---|---|---|---|---|---|
| City PRIME | £75.00 | £73.50 | -2.0% | 5.2% | 3,2% | 1.3% |
| West End PRIME | £120.00 | £117.50 | 0.0% | 4.6% | 0.4% | 0.8% |
| Lambeth | **£41.66** | **£40.63** | **-1.0%** | **6.1%** | **5.4%** | **0.7%** |
| Hackney | £46.43 | £45.16 | -0.1% | 6.3% | 4.9% | 0.8% |
| Hammersmith & Fulham | £44.75 | £44.03 | 0.1% | 4.8% | 5.0% | 0.7% |
| Tower Hamlets | £44.36 | £42.65 | -0.7% | 3.2% | 4.0% | 0.6% |
| Wandsworth | £38.08 | £36.53 | -0.2% | 5.8% | 5.5% | 0.8% |
| Camden | £59.43 | £58.73 | -1.2% | 6.1% | 4.4% | 0.6% |
| City | £60.63 | £59.51 | 0.4% | 4.3% | 3.8% | 0.9% |
| Greenwich | £32.41 | £32.14 | -0.4% | 4.4% | 5.7% | 1.0% |
| Islington | £51.82 | £50.40 | -0.6% | 6.2% | 4.8% | 0.6% |
| Kensington & Chelsea | £51.29 | £48.38 | -0.6% | 5.0% | 4.0% | 0.8% |
| Lewisham | £30.26 | £28.67 | -1.6% | 5.8% | 5.1% | 0.7% |
| Newham | £36.72 | £35.17 | 0.3% | 4.9% | 5.0% | 1.0% |
| Southwark | £51.08 | £50.17 | -1.8% | 6.3% | 5.7% | 0.5% |
| Tower Hamlets | £44.36 | £42.65 | -0.7% | 3.2% | 4.0% | 0.6% |
| Westminster | £67.41 | £65.44 | -0.5% | 4.1% | 2.6% | 0.8% |

*Source 30: JLL/CoStar*

7.2.8. Rent free periods for a ten-year lease were equivalent to 24 months and 21 months in the City and West End respectively at the end of 2019. JLL expect incentives will become more generous this year, with rent free periods moving out by 3 months, on a 10-year term, across Central London, before starting to move back in over the following two years. Incentives are not anticipated to reach levels seen during the last recession when they reached 30 months in the City and 24 months in the West End.

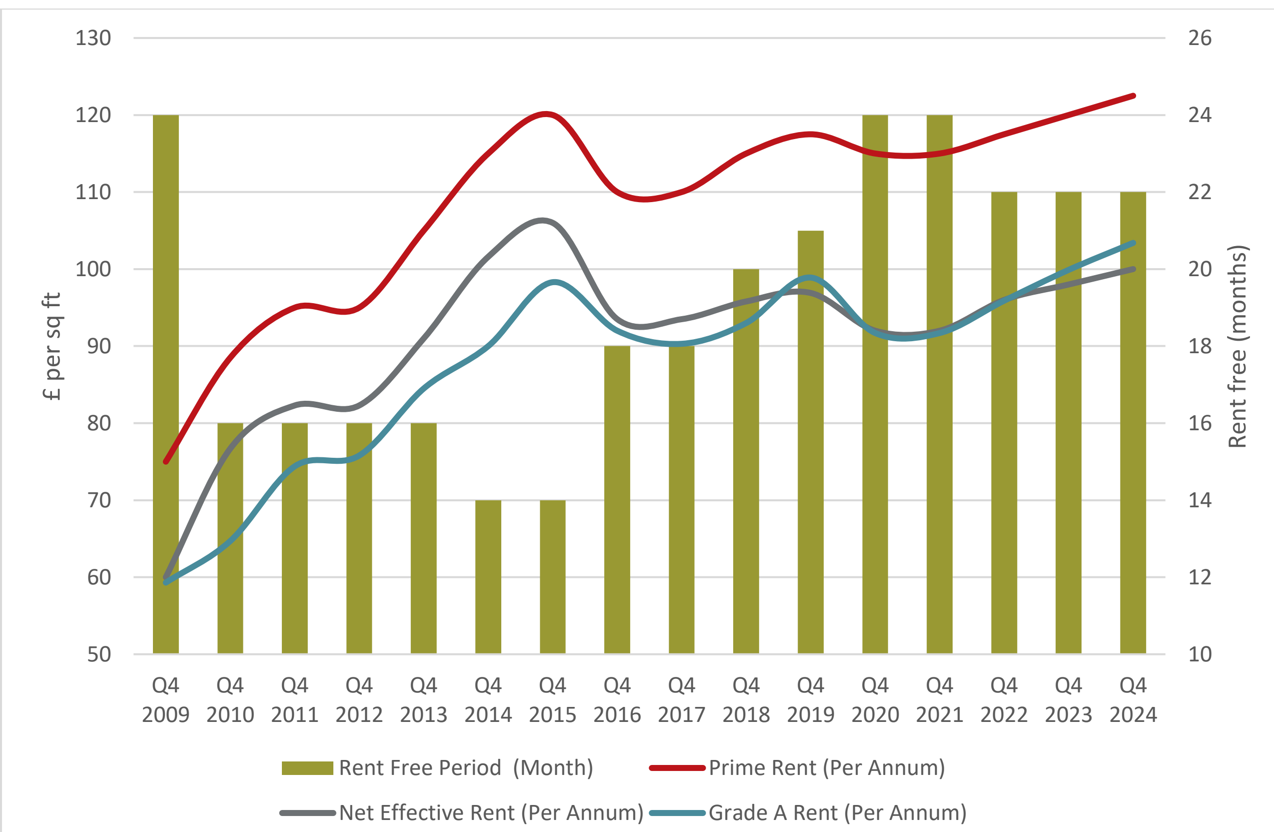
7.2.9. We do not collect incentives for other locations outside Central London, but it is reasonable to assume that they will be at similar levels for a ten-year term.

Chart 15: City rental performance 2009-2024




Source 31: JLL

Chart 16: West End rental performance 2009-2024




Source 32: JLL

# 8. AN OVERVIEW OF CORPORATE OCCUPIER TRENDS

## 8.1. The Old Normal: The Changing Role of the Workplace pre Covid-19

8.1.1. The decade leading up the covid-19 pandemic has witnessed a transformation in the ways in which firms select, design and manage their workspaces and real estate. Whereas real estate was historically viewed by firms as an intractable though necessary cost of doing business, prior to the pandemic investments in the workplace had come to be seen as a means of achieving business aims and attracting the best talent.

8.1.2. Traditional models of workplace design that attempted to pack as many desks into an office as possible have largely been superseded by more dynamic, agile models that focus on collaboration and knowledge sharing. Activity-Based Working (ABW), an approach to office design in which employees do not 'own' a desk but transition between different 'settings' for work according to the tasks they are doing, was fast emerging as the predominate model of workplace design across many industries.

8.1.3. Companies with multiple business units have increasingly been opting to co-locate them in fewer locations to encourage collaboration and help break down organisational silos. Specialist incubator and accelerator spaces, where employees work alongside start-ups, partner companies and outside experts, have also become more common.

8.1.4. Firms have also become more discerning about the locations they select based on the recognition, certainly prior to the pandemic, of the role their offices play in attracting and retaining the best people. To tap into deeper pools of talent, companies have been drawn to urban talent hotspots over cheaper sub-urban or out of town office locations, and kitting out their offices with gyms, collaboration spaces, cafes and other amenities. Other design interventions aimed at enhancing the experience of workers and promoting their health and wellbeing, such as providing more access to natural light, outdoor spaces or encouraging movement, have become staples of office design.

8.1.5. Property requirements have also become more flexible over the last decade, due in part to the increasingly project-based nature of work and growth in alternative models of employment. Flexible office space, such as co-working spaces and serviced offices, have consequently become an increasingly important part of real estate footprints as companies look to scale their space commitments more dynamically, rather than locking themselves into long leases.

## 8.2. Impact of covid-19 on demand for office space in London

8.2.1. With the property market effectively shut down since mid-March, occupiers were unable or were reluctant to make significant real estate decisions and this was reflected in the low volumes of leasing activity across Central London. Since lockdown, a number of companies have placed their transactions on hold or downsized as they re-evaluate their real estate strategy but positively, there has still been evidence of deals going under offer and few deals have been completely withdrawn from the market. Nevertheless, companies actively searching for space declined 20% during the three months post lockdown which equates to over 1.1 million sq ft.

8.2.2. On the other hand, half of all active requirements before lockdown were driven by lease events and building obsolescence, and these companies will still need to move at some point, while the increase in lease renewals and extensions will push some potential requirements into the future, when office supply may be more constrained.

8.2.3. This pause in activity is likely to continue in the short term, as unemployment rises, and companies evaluate the impact on homeworking and delay making significant decisions around their real estate footprint.

## 8.3. Covid-19: The Impact on Occupier Strategy Short term

8.3.1. As the covid-19 pandemic spread, firms closed offices and sent staff home. By the middle of April, almost 80% of those working in the professional, scientific and technical sector in the UK were working from home. Despite fully remote working being an unfamiliar concept for the vast majority of workers, most employees and their employers have transitioned to this new arrangement remarkably well.

8.3.2. This has prompted much debate about 'end of the office'. The widespread success of remote working during the pandemic, detractors of the office argue, will result in a long-term shift to greater levels of remote working, causing a precipitous fall in demand for office space.

8.3.3. While there is a kernel of truth to this argument, studies conducted by JLL and others over the last few months point to a more nuanced picture. In a recent survey 3,000 workers globally, JLL asked respondents whether they were 'missing' the office, with a narrow majority of 58% saying that they were. This figure rose, however, to 65% for the under-35s – indicating that preferences around office usage going forward will vary across demographic groups.

8.3.4. When asked about what respondents were missing from the office, the most commonly cited responses across all groups were 'socialising with my colleagues' (44%), 'a professional environment' (31%) and 'collective face-to-face work' (29%). At the same time, respondents pointed to a number of factors that they enjoyed about working from home, including 'less or no commute' (49%) and 'flexible hours' (45%).

## 8.4. Re-Entry: A slow return to offices

8.4.1. As the first phase of the pandemic has subsided, many firms have initiated programmes to reopen their offices and allow a reduced population to re-enter. These programmes generally consist of the suspension of desk-sharing policies, the implementation of social distancing, and the introduction of more rigours cleaning regimes.

8.4.2. However, re-entry programmes have so far seen only a limited uptake in the UK. According to a survey by AlphaWise carried out in July, only just over a third of office workers in the UK had returned to their normal working location, compared with around 70% in Germany and more than 80% in France. A separate survey in August by YouGov found that only 13% of British adults thought that those who can do their jobs remotely should return to the office.

8.4.3. A further complication for re-entry for firms in London is the city's reliance on public transportation for commuting to work. With many of the capital's tubes, trains and buses experiencing overcrowding during peak times, it will be difficult to increase central London office occupancy whilst trying to balance the need for social distancing.

8.4.4. Many of the UK's largest firms have opted not to activate re-entry programmes at all. A recent survey of 50 large British firms by the BBC found that almost half had no plans to return staff to the office. Though our recent engagements with JLL clients, we've found that while many occupiers have provisioned for around 30-40% of their staff to be able to return to the office, very few have seen utilisation anywhere near these levels.

8.4.5. Other firms have announced more radical overhauls of their working patterns: Schroders, the FTSE-100 listed asset manager, informed its staff in August that they will not be required to return to the office even after the pandemic has passed. Similar announcements have also been made by the likes of Twitter, Facebook and PwC.

### 8.5. Re-imagine: The Next Normal for Occupiers

8.5.1. Uncertainty surrounding the prospect for further waves of covid-19, the length of time until a vaccine is available, and the extent of economic damage done by the pandemic means that many firms are delaying anything other than tactical decision-making on their property. This has led office leasing to grind to an abrupt halt as noted earlier.

8.5.2. Property teams at most firms are, however, actively engaged in planning exercises to re-imagine how their workplace and real estate strategies will adapt in response to covid-19, and what the 'next normal' for businesses may look like.

8.5.3. From our engagements with these firms, we've identified several shifts in property strategy arising from Covid-19.

- The transition to remote working that has arisen as a result of the covid-19 pandemic will result in a sizeable increase in the proportion of workers who regularly work from home after the pandemic subsides. JLL expects that working from home will increase to an average of 1-2 days per week – though this figure will vary depending on individual circumstances, job role and sector.
- Even with a reduced population, offices will still play a critical role for firms as a hub for collaboration, as well as instilling values and culture into employees. In this context, the design of office space will evolve to be more focused on collaborative work activities, with the proportion of space given to meeting rooms, workshops, and other communal spaces increasing.
- In a world in which remote working is more core component of our working lives, offices will need to provide more 'pull' factors to draw people in rather than working from home. Beyond more collaborative spaces, this is likely to result in a greater focus on amenity spaces and providing a generally higher quality of working environment.
- We will not see a move away from activity-based working or the sharing of workspaces in the long term. Indeed, pending the delivery of a vaccine, we would expect greater levels of flexibility in workplace design given that more people will be working from home. We do, however, see the potential for moderate de-densification in workplace design to allay concerns about the spread of pathogens (Covid or otherwise) in densely packed environments, which are likely to linger in the mind for workers even after the pandemic.
- The changes to the frequency of working in an office may also lead to profound changes to the attractiveness of particular cities and sub-markets. As workers will be commuting less, they're likely to be comfortable commuting longer distances when they go into an office. This will benefit London, and potentially harm the UK's regional centres, as the capital will be able to draw talent from across the UK. Furthermore, office developments located next to major transport hubs, such as Waterloo, Kings Cross and Liverpool Street, will have a greater strategic value.
- We also expect to see firms counterbalancing the economic uncertainty in the market by utilising more flexible and contingent workers. As they do so, we'll see them embedding greater quantities of flex space in their portfolios to accommodate more volatility in headcounts and property requirements.

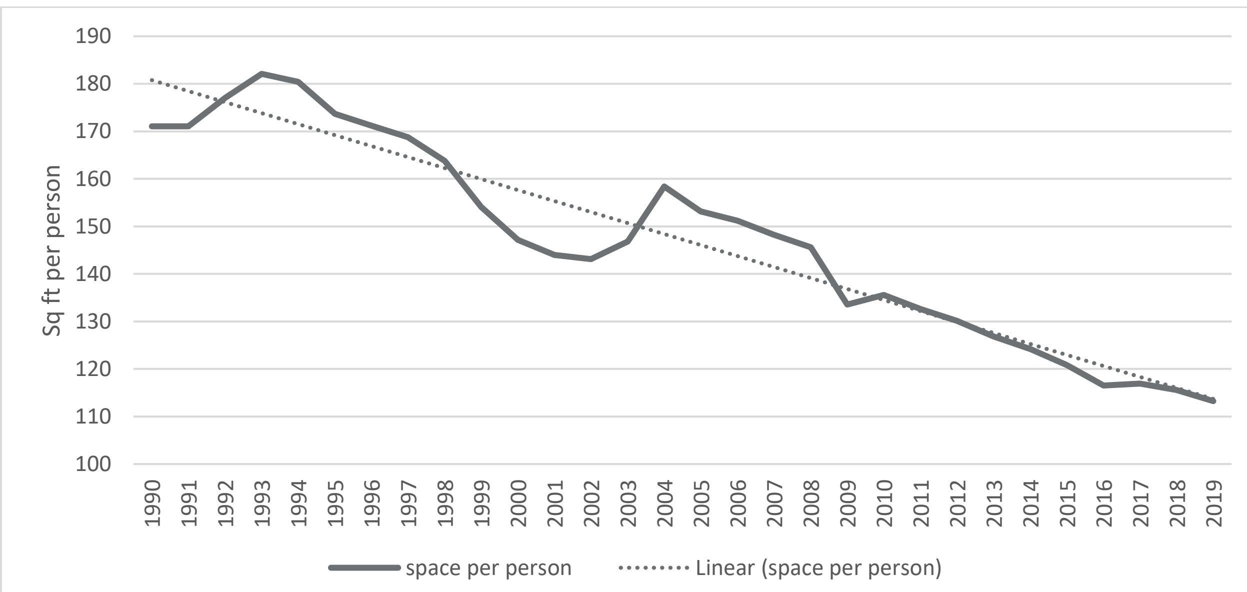
## 8.6. The Future of Office Demand

8.6.1. Given the uptick in flexible working we anticipate as a result of the pandemic, office demand will be lower than pre-covid-19 levels, as firms optimise their real estate requirements against a reduced population of office users. The scale of this fall in demand, however, will be contingent on several exogenous factors, including the strength of the economy, the outlook for particular industries, and public health.

8.6.2. Furthermore, adjustments to office density may offset some of the fall in office demand caused by greater levels of remote working. Over the last decade, more agile models of workplace design have allowed occupiers to notionally push more people into less space. In the UK, the typical amount of office space allocated per employee had fallen to around 9.6 square meters in 2018. Since the early 1990s, London's office-based employment has more than doubled while the stock has only expanded by 30% - meaning space per person has reduced by a third. See chart 13.

8.6.3. However, if a firm that was allocating around this figure per person prior to the pandemic were to increase their space allocation to around 15 sqm per person, to allow for some level of social distancing, they could halve the population of the building, but still require almost three quarters of the space due to the uptick in space per person.

*Chart 17: Central London space per person*




*Source 33: JLL/Oxford Economics*

## 8.7. The Office Market Splits

8.7.1. While the next few years will see some rationalisation and shrinkage in property portfolios to accommodate the growth of more flexible working arrangements, if firms continue to integrate more aspirational and organisational goals into their real estate strategies, we'll see firms coming out of the pandemic with less, but better, space.

8.7.2. While the extent of this will vary from firm to firm, if aims such as talent attraction, health and wellbeing, and sustainability remain core to how firms assess the desirability of their office locations, sites, the top end of the London market may be somewhat insulated from downward pressures on rents, because the supply of high-quality, amenity-rich spaces in central London is extremely tight.

8.7.3. The upshot of this is that we will see the office market bifurcate between high quality stock, which will be to some extent insulated from much of the market turmoil arising from the pandemic, and lower quality and second-hand stock, which will see significant downward pressure on rents.

8.7.4. Combined with post-Covid sensitivities and changes in office design, this would have impacts on London's economic geography. Demand may intensify for locations near national rail stations and major transport hubs. Together with the emphasis on green space and health & well-being, this will benefit developments on the fringe of Central London, such as Waterloo, Southbank, Paddington, King's Cross/Euston and also the Northern City/Southern Shoreditch area around Liverpool Street, as well as stations along the Thameslink line.

8.7.5. Some more suburban London markets could also see an increase in demand. Local 'clubs' or 'hubs' – perhaps occupied on a flexible basis – may become more prevalent in popular residential areas, such as Brixton, Clapham or Kingston in south-west London, or further out into the Western Corridor. These could offer alternatives to the home for local residents on the days they are not travelling into London, but the viability will depend on the individual company's resources and the distribution of their staff.

### 8.8. Post-Covid Occupational Trends

8.8.1. In addition to portfolio optimisation, we've identified four trends which will also shape workplace and real estate strategy in the years ahead. These are health and wellbeing, sustainability, technology and flexibility.

### 8.9. Health and Wellbeing

8.9.1. There has been an increasing recognition among occupiers over the last few years that initiatives to promote the health and wellbeing of employees can improve the attraction and retention of employees and enhance productivity. Furthermore, one of the consequences of the covid-19 pandemic has been that people are more engaged with scientific discourse and debates about the impact of things like air quality on public health.

8.9.2. This is leading to greater consideration for health and wellbeing in offices as facilities re-open and occupiers begin to re-evaluate their longer-term plans. Indeed, a survey conducted by JLL in July 2020 found that the health and wellbeing of employees was now the top priority for corporate real estate leads arising from the pandemic.

8.9.3. A growing body of scientific research has firmly established the connection between the design and management of workplaces and employee performance. Poor indoor air quality, for instance, has been shown to impact productivity: levels of carbon dioxide as low as 600 parts per million (ppm) are known to induce feelings of tiredness, and impair concentration and decision-making abilities – despite being well below the generally accepted level in an office building of 1,000 ppm.

8.9.4. Similarly, research shows unequivocally that office occupants with access to natural light report both higher levels of satisfaction and better health outcomes. According to one study, office workers located near a window received 173 per cent more white light exposure during work hours and slept an average of an additional 46 minutes per night than their colleagues without access to a window. Newer circadian lighting systems, which mimic the effect of natural light by varying colour and intensity throughout the day, can bring similar benefits to darker parts of a workspace.

8.9.5. Greater evidential weight between health and wellbeing initiatives and employee output has seen an uptick in occupier initiatives to enhance the health credentials of their spaces. Certifications such as the WELL Building Standard, a certification that rates buildings on seven different categories related to health and wellbeing, including indoor air quality, access to natural light and how much a building's design encourages physical activity, have become increasingly widespread.

8.9.6. Specialist wellness areas, such as fitness studios, meditation spaces and parenting rooms, are becoming more common features of office fitouts. At the same time, various smart solutions (see below) are being deployed to monitor air quality, light levels and temperature, which can be correlated back to individuals' satisfaction or performance.

### 8.10. Sustainability

8.10.1. Growing awareness of the effects of man-made climate change, along with the rapid rise of social movements like Extinction Rebellion, has promoted businesses to take up the mantle of sustainability with urgency. As corporate real estate, along with business travel, can represent as much as 90% of the carbon emissions for a knowledge economy firm, most large corporates have targeted reducing carbon emissions from their property as a top priority.

8.10.2. To understand how this is impacting corporate real estate, at the start of 2020 JLL interviewed head of property across a range of geographies and sectors. The firms we spoke to were able to identify several drivers for the desire to become more sustainable.

8.10.3. First, there is a recognition among firms that efforts to enhance sustainability can confer considerable competitive advantage. A large consumer goods company interviewed credited their sustainability programmes, which targeted cutting their water usage and carbon emissions by half in the thirteen years to 2020, with adding millions to their bottom line.

8.10.4. Second, firms are facing growing pressures from their investors to embed sustainability at the core of their business strategies. 'In the last 12 months our biggest institutional investors have really started scrutinising our sustainability and corporate social responsibility programmes,' one global head of property at a large engineering group told us. With a number of large investment groups publicly pivoting towards sustainability, many of the corporates we interviewed are under intense pressure from their investors to demonstrate the positive environmental impact they make in the communities in which they operate.

8.10.5. Third, there is a clear sense among the firms we spoke to that showcasing their sustainability credentials is an important part of how they attract and retain their talent, particularly among younger generations. According to the head of sustainability at a large finance group, 'our new generation of talent are very focused on sustainability and expect us to be a leader in this space.'

#### The Implications for Corporate Real Estate

8.10.6. In practical terms, many large organisations have already integrated sustainability into their selection criteria for new office locations. 'We have formalised our requirements in terms of BREEAM, so we always target the highest possible BREEAM rating in the market', said the head of property at a large professional services firm. 'We'll also push the landlord to go for a higher rating where possible – so if they're targeting excellent, we'll bring ideas to the table that will make the building outstanding.'

8.10.7. Furthermore, while few occupiers will prioritise sustainability criteria over all else, its importance in relation to other objectives is certainly growing. One head of property commented, 'we wouldn't necessarily go for a site just because it has a certification, but we now include a set of sustainability questions in our due diligence for site selection. Every transaction we undertake globally is now reviewed for sustainability.'

8.10.8. Once in occupation, moreover, firms are taking a more proactive role to ensuring their spaces operate to the highest possible standards. These include programmes to reduce energy consumption, eliminate waste to landfill or phase out single-use plastics, as well as messaging to employees to ensure they're aware of how sustainability is impacting the operations of property. Some firms are even employing various 'smart' solutions (see below), such as sensors which provide data on occupancy, lighting and air quality, which can be relayed to the building systems to optimise operations.

8.10.9. Other companies are restructuring their relationships with suppliers to incentivise them to provide their services in a more sustainable fashion. One firm we interviewed had recently overhauled their contracts with their FM partners to incorporate specific sustainability metrics. 'We've found that our suppliers all said they were big on sustainability, but unless you incorporate it into contracts with specific KPIs you don't get results because they're not incentivised.' As part of re-appointing the contracts, the firm also asked suppliers to develop detailed proposals on how they would embed sustainability into the delivery of their services.

### The Impact on the Office Market

8.10.10. As sustainability becomes increasingly embedded into the corporate real estate decision-making process, firms will increasingly demand, and developers will increasingly supply, more sustainable office developments.

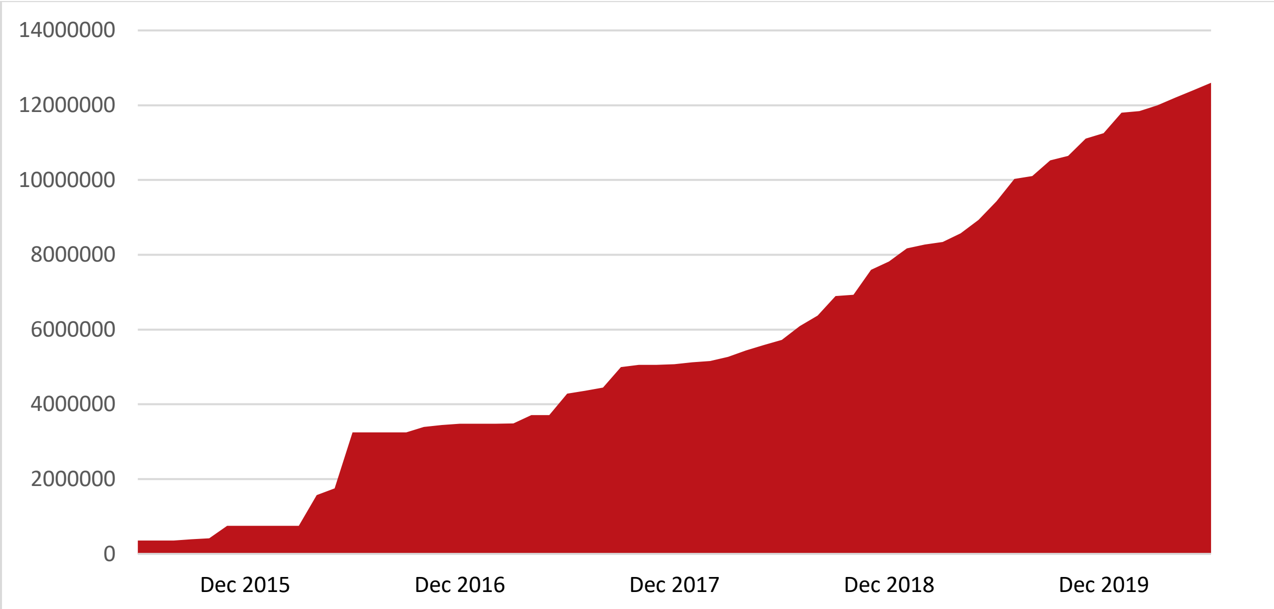
8.10.11. In the short to medium term, however, there is likely to be competition for space in highly sustainable buildings. Around 130 occupiers in London, including some of the capital's largest occupiers, have signed up to science-based targets for carbon reduction – approximately double the number at the end of 2018. Most companies have committed to achieve their targets by 2030- so that is effectively only one real estate cycle. In fact round 100 of these firms have lease events coming up by 2030, totally close to eight million square feet of office space.

8.10.12. More than three quarters of these lease events will take place in an office that does not currently have a BREEAM rating. Even those firms that are in a BREEAM rated space will find that their offices were generally rated according to an older qualification, which may not be sufficient to meet the now higher requirements of these sustainability-minded firms.

8.10.13. If any of these companies chose to relocate away from Central London, they will still need to lease a building that is sustainable, and it is imperative that the stock of offices outside the Central London zone are encouraged to be as sustainable as possible. Lambeth have declared a climate emergency and have committed to be Net Zero Carbon by 2030 and the delivery of more sustainable development will be one way to achieve this.

8.10.14. Even though most of the evidence is derived from large corporates, numerous surveys show that workers increasingly value sustainability- particularly young people- so regardless of company size it is important for all companies to illustrate their sustainability ambition and this can be achieved through their office space. This will be especially important in a location such as Brixton, which has a younger population that could increasingly become the workforce of the location.

*Figure 3: Growth in Central London SBT committed companies by occupied floorspace*




*Source 34:JLL*

8.10.15. As occupier awareness of sustainability increases, it may play a greater role in the decision making for new developments and building refurbishments. Developers respond to market influences and occupier workplace selection decisions are increasingly influenced by the potential productivity and health and wellbeing gains that a well-designed building can offer.

8.10.16. JLL analysis of Central London BREEAM rated buildings show that better rated buildings perform better than the average in terms of both rental value and leasing velocity. It is worth noting that a BREEAM rating is not the sole factor for low vacancy, more so a contributing factor among other market fundamentals. Tenants consider a range of factors when seeking new office space, some of which are location, access to transport and amenities, cost, and floor plate size. However, given the increasing prevalence of corporate mandates toward sustainability, BREEAM is becoming a more prominent deciding factor, and for some tenants, a prerequisite for their new location.

8.10.17. But sustainability is more than just delivery of the shell, it's also about how efficient it is to operate the building- through factors such as energy and water efficiency- and this can be just as, if not more important to occupiers.

8.10.18. EPC certificates were introduced back in 2007 and, from April 2018 minimum energy efficiency standards were introduced. EPC's are more indicative of how energy efficient the assets design is rather than its operational efficiency.

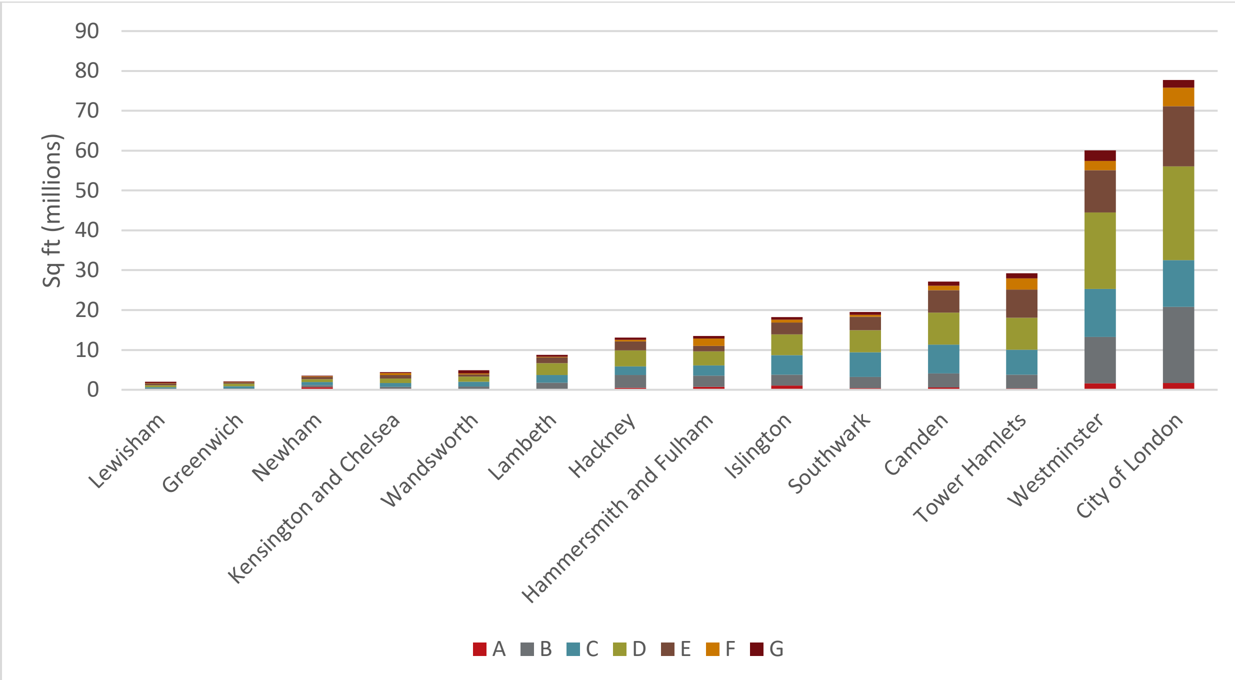
8.10.19. In effect, it is unlawful for a landlord to let or renew a commercial property with an F or G EPC rating, unless there is a valid exemption. From 2023, all existing leased buildings must also comply with this, so the onus is on landlords to start to improve their existing properties over the next 24 months.

8.10.20. Latest data on EPC certificates in office buildings 26 shows that almost 23,500 offices have an EPC rating across Inner London, which account for 284 million sq ft. Lambeth accounts for just over 1,000 of these, which total 8.8 million sq ft. Westminster has the highest number of EPC

[26] https://epc.opendatacommunities.org/ downloaded August 2020

rated spaces at over 5,600 but the City has by far and away the largest footprint at over 77.7 million sq ft.

*Figure 4: EPC ratings by borough*




*Source 35: EPC-open data*

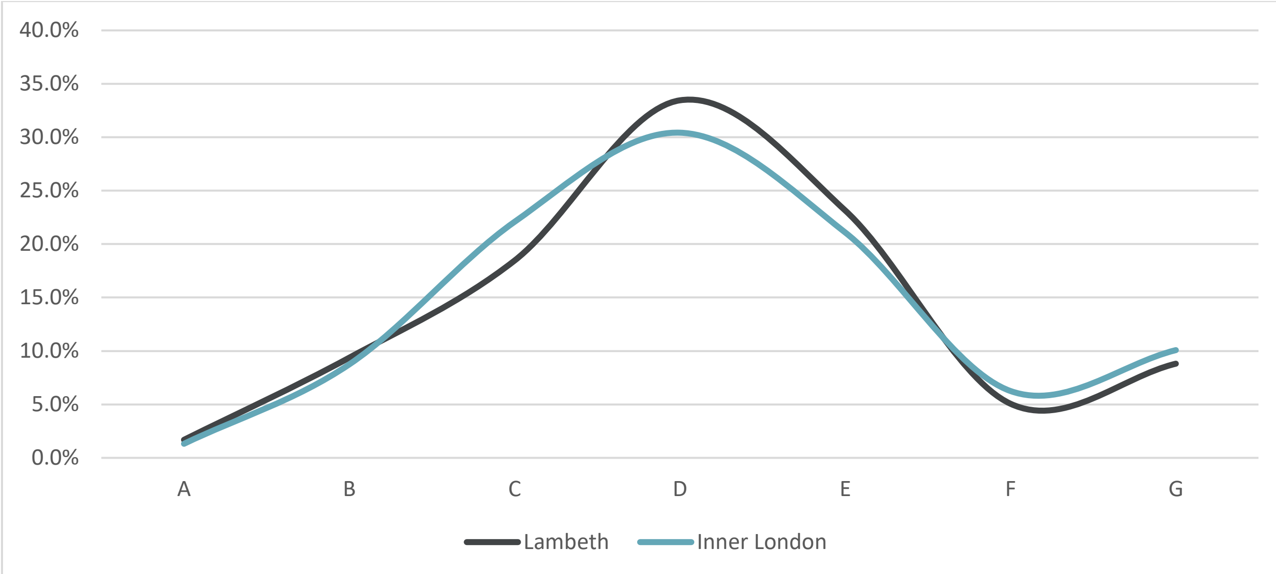
8.10.21. The data shows that of the 309 A rated buildings, 12 are located in Lambeth, with an average size of just under 16,000 sq ft, albeit this is inflated by the Civic Centre - the only A rated building in excess of 100,000 sq ft. Not surprisingly, Westminster, Camden and Islington have the highest number of A rated buildings. In Lambeth, 148 buildings or 657,000 sq ft of space currently have a F/G EPC certificate, which as a percentage is below the Inner London average (16%). However, this means that almost 7% of the boroughs office stock will effectively be obsolete in three years' time.

*Table 15: Lambeth buildings with A rated EPC*

| Address | Size (sq ft) |
|---|---|
| Civic Centre | 105,928 |
| 17-19 Oval Way | 57,382 |
| 10 Salamanca Place | 10,258 |
| 86a Meadow Road | 7,373 |
| 374 Coldharbour Lane | 4,951 |
| 128 Brixton Hill | 2,131 |
| 8, Salamanca Place | 1,905 |
| 130 Brixton Hill | 1,722 |
| 31 Albert Embankment | 1,270 |
| 6 Hercules Road | 1,238 |
| 23 Albert Embankment | 1,141 |
| 1 Glade Path | 861 |

*Source 36: EPC-open data*

*Figure 5: Lambeth EPC distribution v Inner London (number)*




*Source 37: EPC/JLL*

8.10.22. By encouraging more sustainable development within the borough, this may boost the appeal of the area to a wider range of occupiers and investors. At the same time, if other boroughs are driving the sustainability agenda more quickly, Lambeth (among others) could be left with stranded assets or find occupiers and investors attentions are turned to other geographies. Most, but not all, London Boroughs have declared a climate emergency, with the target dates set from 2025 (Tower Hamlets) to 2040 (Hackney)[27].

### 8.11. Technology

8.11.1. Advances in computational power, near ubiquitous connectivity, and the proliferation of devices connected to the Internet has transformed the ways in which we work over the last decade. These technologies are also changing how occupiers and landlords design, build and manage workspaces.

8.11.2. According to JLL's 2018 Future of Work survey, technology is the top investment priority for Corporate Real Estate (CRE) teams. Moreover, two areas where identified by more than half of respondents as being their top priorities for investment: smart technologies and the internet of things; and workplace applications.

**The Emergence of Smart Buildings**

8.11.3. Technology is increasingly being embedded into the fabric of our buildings, leading to the development of 'smart buildings', which utilise sensors, data and software to enhance the experience of occupants, sustain optimal levels of performance and reduce the costs of building operations. In a smart building, different technology systems work together to make the building highly efficient, flexible and a more attractive and desirable place to work.

8.11.4. Fundamental to the emergence of smart buildings has been the development of the Internet of Things (IoT) – the network of actuators, energy meters and sensors that are able to connect and exchange information over the Internet. Sensors in cars, oil pipes, street lights and wearable devices are all part of the expanding IoT ecosystem, which already connects billions of devices. By 2025, it is forecasted that as many as 41.6 billion IoT devices will deployed globally.

[27] https://www.climateemergency.uk/blog/list-of-councils/

8.11.5. The installation of connected devices in buildings is one of the key applications of IoT technology. Sensors that detect the presence of a person, light levels and humidity are already being installed into offices. The Edge, a 40,000m2 office building in Amsterdam, contains 28,000 sensors that track the movement of people through the building.

8.11.6. These sensors provide intelligence on what's going on inside a building, allowing decisions to be made that optimise performance. The bathrooms at Dubai Airport, for instance, have been fitted with sensors that report when bathrooms are experiencing high volumes of traffic and need cleaning. This enables better scheduling of cleaning rotas, helping to save time, supplies, staff and energy.

8.11.7. Deployment of these sorts of sensors has already seen widespread adoption in many markets: More than three quarters of corporate real estate teams at large enterprises have already deployed some IoT devices in their buildings, or plan to in the near future.

8.11.8. The covid-19 pandemic is likely to accelerate the adoption of these sorts of smart technologies, as in the both the short- and long-term occupiers will need better ways of monitoring the utilisation of their spaces, to ensure that spaces are not becoming over-populated and help assess the potential for office right-sizing.

### The Next Generation of Smart

8.11.9. The real promise of smart buildings is that is that data captured IoT devices could be used to not just report information about their environment, but accurately forecast conditions into the future. Advances in statistical modelling techniques, often simply referred to as 'artificial intelligence', now enables the software that runs building systems to recognise patterns in data captured by separate building systems and use these to make decisions about how the building should be run.

8.11.10. Applications of artificial intelligence have already been shown to deliver transformational improvements in building operations. In September 2018, Google announced that by delegating power management at their datacentres to their AI software, they had achieved a 30% saving on the amount of energy needed to cool the centre within only a few months of operations. The system works by pulling a snapshot of the data centre cooling system from thousands of sensors every five minutes. This data is then fed into the software, which identifies which combinations of potential actions will impact future energy consumption.

8.11.11. Similar techniques are being used to anticipate when building systems might fail, allowing the building software take action to prologue the lifespan of a building system. Lift-maker ThyssenKrupp, for instance, has partnered with CGI and Microsoft to deploy a solution that monitors the performance of the company's lifts. Embedded sensors capture data on everything from motor temperature to shaft alignment, cab speed and door function, which is then fed into a statistical algorithm which can predict when maintenance will be required.

### The impact of 5G and the shift to the edge computing

8.11.12. First, the deployment of fifth generation (5G) cellular will allow many more devices to be connected to the Internet. The fastest of these 5G networks, called millimetre band 5G, will be deployed within buildings and offer extremely fast, low latency connectivity without any requirement for network cabling to IoT devices.

8.11.13. Secondly, greater amounts of intelligence are being embedded into IoT devices. Specialist semi-conductors built to run artificial intelligence algorithms, such as GPUs, FGPAs and AISIC, are falling in costs and power requirements, which means parts of the intelligent decision-making process can now be carried on or close to the devices. This is commonly referred to as 'edge computing', as the computation is carried out in the 'edge' of the network, and not in a remote data centre.

8.11.14. The deployment of 5G and the shift to the edge means more complex computation can be carried out faster, and in a more secure fashion. An array of security cameras, for instance, could be tasked with running machine learning algorithms to identify signs of an intrusion, but only transmit the raw footage when it has identified a threat – preventing hackers from accessing the live feed of the camera.

### Data-Driven Design and the Smart Workplace

8.11.15. As applications of these technologies become smarter, they will also change how workplaces themselves are designed and configured. Spatial analytics techniques which are commonly used by retailers to identify 'hot spots' or 'dead areas' in shops are now being deployed in offices, as firms can use sensors to gauge the occupancy of particular spaces and then measure how they change following a redesign.

8.11.16. Moreover, beyond measuring occupancy, techniques for correlating the interactions that take place in an office with the development of new products and ideas are a fast-growing area of scientific research. Sociometric badges, a wearable badge developed at the Massachusetts Institute of Technology, can record where an employee goes, who they interact with, and the tone and nature of these interactions. At a pharmaceutical company where sociometric badges were employed, the data collected from these devices showed a positive correlation between cross-team interactions and higher sales volumes. The company then used this data to justify installing a large canteen and replacing existing coffee points with bigger units shared between more staff. Following the redesign, sales rose by $200m – more than justifying the business case for the upgrades to their office.

### Workplace Applications

8.11.17. Much of the data collected by smarter buildings systems can also be provided back to users via a smartphone application to enhance their experience. Apps are emerging as the key interface between building users and the buildings in which they work, allowing them to view the availability of space in real time, locate a colleague or report an issue.

8.11.18. Moreover, the data collected as users interact with an app are also a valuable source of insight for both occupiers and landlords. One London landlord provided all their tenants' employees with access to building app that provided, among other features, digital subscriptions to international magazines and newspapers. The landlord was then able to identify the types of material that building users were reading, and then provide events in the buildings which aligned to users' reading interests.

## 8.12. Flexible Space

8.12.1. The flex sector has always been present in the London market, but has experienced robust growth over the last five years, partly a result of the sudden and rapid expansion of WeWork. Its rapid growth is being driven by the evolving nature of work and the shifting structure of the economy, supported by rapidly advancing technology. Flex workspaces are becoming a key flexible solution for large corporates to scale their real estate portfolio, allowing them to scale and reduce their real estate requirements more dynamically than through a traditional lease. Larger consumers of space are adopting a parallel portfolio, combining reduced core requirements with greater flex space.

8.12.2. As economies now slowly start to emerge from the pandemic and begin to return to normal, flexible office providers face similar challenges to traditional corporate offices in the short term with both having been left deserted as employees worked from home. Coworking companies will likely face the toughest test as freelancers and start-ups will likely continue to work from home, whilst large corporations will cancel memberships to save costs.

8.12.3. Although most flexible offices remain open, they are forced to adhere to social distancing guidelines, resulting in very low utilisation rates and a huge reduction in profits. Therefore, those flexible office providers who operate a hybrid model and provide private offices as well as coworking space may fare better due to their ability to create more space between workers. Companies on tight margins, such as affordable workplaces, may struggle to break even in the short term at these reduced occupancy rates. As a rule of thumb, occupancy of 70% is typically seen as the breakeven point.

8.12.4. For those office providers who make it through the pandemic, the 'new normal' will likely put more emphasis on remote working and a reduction in office density. It's likely that flexible space will become essential for use as satellite offices to reduce employee commute times and reliance on public transport. In addition, continued economic uncertainty will mean that tenants are reluctant to commit to long lease terms and so flexible space will be an ideal solution in the short to medium term while space and head count figures are assessed.

8.12.5. In the longer term, employees will expect increased flexibility in their contracts with the ability to work from home or closer to home. Businesses will have a greater need for flexible space to accommodate this as well as future expansion or contraction plans. Health and wellbeing will be a higher priority and office densities are likely to be reduced.

8.12.6. With flexibility likely to high on the corporate agenda after the pandemic, flexible space should emerge stronger than ever and growth could return to pre-Covid rates. This will be supported by the return of the self-employed and freelancer over time. These local occupiers will be the main source of demand for local centres, which will rely on this segment of the workforce to return to work for their livelihood.

### 8.13. Placemaking

8.13.1. Placemaking is a key trend that is associated with the real estate industry as developers and owners of spaces drive the creation and curation of the local environment around their buildings. Placemaking focuses on the physical, cultural, and social influences that define a place and support its ongoing evolution into a desirable location. At its heart is a long-term commitment to improve the overall quality of places, either by creating a new identity or restoring an original identity, which create a sense of community and belonging.

8.13.2. It is increasingly important, as individuals expect more from their places of work or from recreational spaces. Placemaking is used to make a place a destination to entice people into the areas and to create places where people want to be. In London, a new wave of developments just outside the core – King's Cross, White City, Stratford – are attracting many of the city's most innovative and exciting companies. This is partly driven by cost, and partly as investors, developers and occupiers recognise the attractions of urban campus developments that create destinations through the ability to 'curate' the right mix of occupiers, mix of buildings, activities, public spaces and amenities and eventually benefit from smart technologies at a neighbourhood scale.

8.13.3. From an office perspective, successful placemaking should translate into more loyal tenants and should bring in new occupiers into an area. It should also be an ongoing process, and places should be adaptable and flexible to meet the fast pace of change associated with somewhere like London.

8.13.4. Successful placemaking should involve the wider community and empowering several stakeholder groups who are representative of the people who are going to work, live or socialise in the area. This is often the area of friction when large scale development is planned that is seen to threaten the existing fabric of a place and where the local community feel their views are overlooked.

8.13.5. Engaging with the community, developing a scheme that is architecturally respectful of the area, and providing communal facilities in the building are all critical components of successful placemaking.

8.13.6. Waterloo has many factors that suggest it should be able to provide a pleasant place to work there needs to be integration and partnership between developers and the council to drive initiatives forward. The area is dissected by the main roads which also segregates the station from the main public realm. This is also a criticism of the area around Vauxhall station and underground.

8.13.7. Looking forward, whilst urban areas will bounce back post-Covid, expectations on the purpose of cities have changed. As we rethink urbanisation, health, resilience and placemaking must be at the core of the design of sustainable places. Successful places will be those which are designed to increase the health and wellbeing of residents and communities.

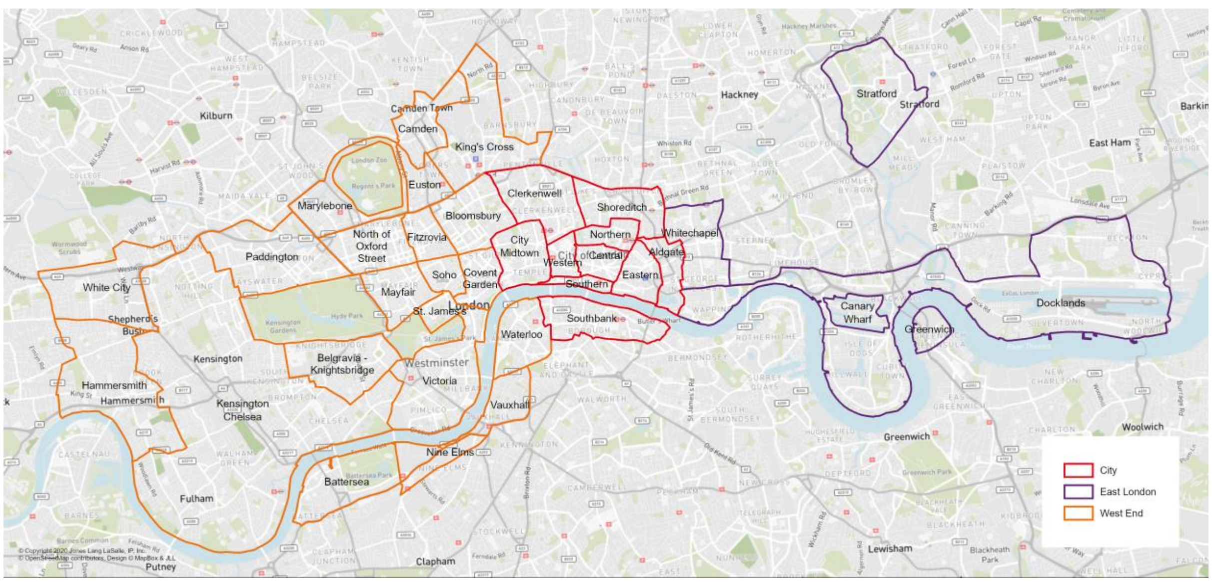
# 9. BENCHMARKING SUMMARY:

## 9.1. Competing Centres Comparison- Central London

9.1.1. Vauxhall and Waterloo are well observed markets and are considered to be part of Central London and the Central Activity Zone. From an office perspective Waterloo has untapped potential, given its location in close proximity to both the City and West End, its cultural offer and having the UK's busiest railway station at its centre. Vauxhall, in contrast, is a relatively new part of Central London and is in an emergent stage. New development, both commercial and residential, and infrastructure enhancements should support future commercial growth in the medium term to long term.

9.1.2. We have undertaken an assessment of the main real estate indicators across the Central London office market. The map below shows the geography. A separate spreadsheet provides the datasheets for comparison. The two submarkets are unlikely to compare directly with some of the core submarkets due to the size and depth of the office markets, but they ultimately may compete for future occupiers.

*Figure 6: Map of Central London boundaries*




*Source 38: JLL*

9.1.3. From a size perspective, Waterloo and Vauxhall are relatively small submarkets, and we noted earlier how the stock of offices in Waterloo has decreased. Waterloo's stock is on a par with Knightsbridge & Belgravia, but if we consider the other submarkets with a railway station at their centre, only Victoria, Southbank and Paddington are larger.

9.1.4. Of the 32 submarkets in Central London Waterloo is the 9th smallest and Vauxhall is the 5th smallest. In contrast neighbouring Southbank has a stock of over 10 million sq ft and is ranked 8th largest.

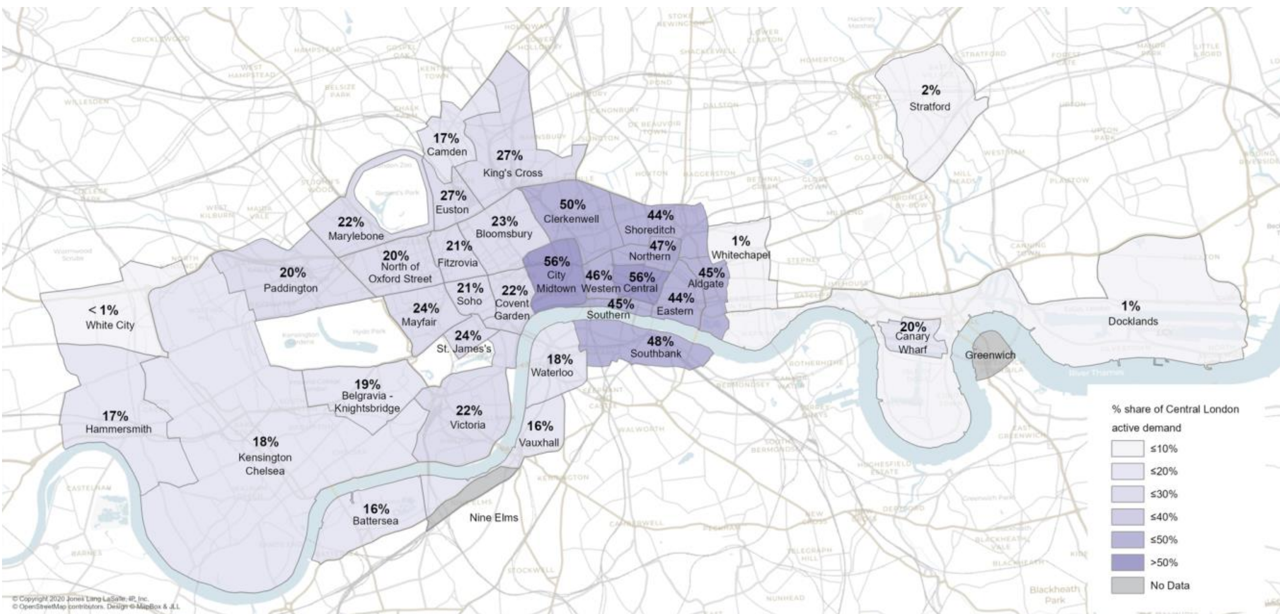
9.1.5. The lack of good quality space in the market has been reflected in the relatively low levels of leasing activity in Waterloo, while Vauxhall has been restricted due to its emergent nature. If we consider take-up as a proportion of stock, then Waterloo actually performs better, with a take-up rate of around 5%. Stratford, King's Cross and Aldgate are the only markets to have a double-digit take-up rate. Vauxhall lags on this basis at just 2%.

9.1.6. It is unlikely that in the short term, take-up activity will improve, regardless of the economic situation, but primarily due to the complete lack of stock that is coming through in the area. Until some of the planned developments are delivered, occupiers looking for space immediately will consider other areas of the capital. This is especially true as occupiers are increasingly footloose and are focusing more on individual assets rather than location.

9.1.7. Waterloo in particular has a low vacancy rate of 2.0% which is in the bottom third of submarkets and as we noted earlier in the report, vacancy below 5% tends to show that a submarket is under supplied. Vauxhall is also under supplied (3.9%) but with some space under construction this could increase on completion.

9.1.8. The map below also illustrates that the majority of companies actively looking for space today are primarily considering submarkets around the City and Southbank, which suggests that in the short-term leasing activity within both Vauxhall and Waterloo will remain subdued. The figures are based on the stated search areas of tenants currently seeking space, combined with the total size they require. [28]

*Figure 7: Map of Central London active demand (June 2020)*




*Source 39: JLL*

*Table 16: Comparison with select London submarkets*

| Submarket | Stock 000 sq ft | Vacancy rate | Take-up Rate | Spec space under construction | Prime rent |
|---|---|---|---|---|---|
| Euston | 2,491 | 1.6% | 8.0% | 198.0 | £75.00 |
| King's Cross | 2,380 | 3.0% | 16.7% | 21.0 | £85.00 |
| Paddington | 3,384 | 2.5% | 6.9% | 435.0 | £75.00 |
| Southbank | 10,261 | 3.2% | 4.7% | 547.0 | £70.00 |
| Vauxhall | 2,222 | 3.9% | 2.5% | 63.0 | £60.00 |

[28] Figures do not add up to 100% as companies may be considering more than one area

| Submarket | Stock 000 sq ft | Vacancy rate | Take-up Rate | Spec space under construction | Prime rent |
|---|---|---|---|---|---|
| Waterloo | 2,705 | 2.0% | 5.2% | 0.0 | £65.00 |
| Victoria | 19,235 | 1.5% | 2.8% | 117.0 | £80.00 |

*Source 40: JLL*

9.1.9. Table 18 shows the key indictors around submarkets which have a station at their centre. These are the submarkets that could benefit from changes in the way that we occupy spaces. Their ability to attract demand will dependent upon the space that they can offer. It is quite clear from the table that new space will be delivered at scale in most submarkets with the exception of Waterloo and King's Cross, albeit the latter has successfully pre-let space underway.

9.1.10. The fact that Waterloo is a relatively low-cost centre is immaterial if there is no space to occupy for potential occupiers. Waterloo has seen net outward migration, along with Euston and Victoria over the last five years. Victoria has lost occupiers due to a lack of supply and relatively high rents, whereas Euston is similar in many ways to Waterloo. King's Cross and Southbank have seen the highest inward movement of occupiers over this period, as new space was delivered and regeneration of the surrounding areas has taken place.

9.1.11. Longer term though, Waterloo could compete well if all the planned space is delivered over the next five years. Our data shows that Waterloo has one of the highest potential pipelines across Central London over the next five years, in part due to the potential delivery of Elizabeth House.

9.1.12. Combined with the regeneration of Waterloo Station alongside creating a place that people want to work, live and play there is no reason that Waterloo should not capitalise on all its location benefits. This is especially true if we consider the growth that has occurred around Southbank (London Bridge), King's Cross and Paddington in particular. These areas have reinvented themselves with new office development, station improvements and a focus on the public realm.

# 10. APPENDIX 1- Town Centre Overviews

**Brixton (0.5 mile radius)**

The Brixton office market 0.5 mile radius study area is focussed around the main A23 Brixton Road / Brixton Hill, Coldharbour Lane and the A203 towards Stockwell. Brixton rail and underground stations are both within the 0.5 mile radius. It is a small office market when compared to the likes of Vauxhall and Waterloo but is a good sized second tier market within Lambeth and has a total stock of 720,320 sq ft. Brixton has been designated as a Creative Enterprise Zone by the Mayor of London.

The office stock composition comprises six buildings over 50,000 sq ft, the largest being the mixed-use 414-436 Brixton Road at 77,658 sq ft then followed by Lambeth Town Hall (58,809 sq ft) and International House (56,457 sq ft). Brixton has a good selection of office buildings over 5,000 sq ft with 29 buildings in total. There are 32 buildings below 5,000 sq ft totalling 69,220 sq ft. According to CoStar the only Grade A office building in the 0.5 mile study area radius is The Department Store, 240-250 Ferndale Road (48,868 sq ft) which houses tenants including the British Refugee Council and the London Borough of Lambeth. The overwhelming majority of office stock is Grade B.  This analysis excludes the Civic Centre because it is technically not commercially available space.

Stock levels have remained relatively consistent over the past 10 years with an overall loss of 26,381 sq ft. Between 2018-19 25,176 sq ft was added to total stock through development completions. There is potential for circa 275,000 sq ft of office stock to be added to the Brixton market following AG Hondo's plans to redevelop 20-24 Pope's Road (currently in retail use and housing Sports Direct and Flannels) as an office-led scheme with 20 floors. Lambeth's planning committee deferred their decision on this scheme on 25 August 2020.

Recent leasing activity has been relatively active at the smaller end of the market. Eight transactions were recorded in 2019, the largest being 3,972 sq ft at Stockwell Park Walk and the remainder all below 2,000 sq ft. The 17,224 sq ft taken-up in 2019 is below the 10-year annual average of 20,879 sq ft.

There has been one investment transaction over the past five years (2015-19) comprising the sale of 379-381 Brixton Road (13,481 sq ft) in 2016. However, in January 2020 Blue Star House (53,750 sq ft) was purchased by Derwent London plc for £38.1m.

**Clapham (0.5 mile radius)**

The Clapham office market 0.5 mile radius study area is focussed around the A3 Clapham High Street. Most office stock in the study area is focussed along this main arterial route in addition to the northside of Clapham Common (B224/B303). Clapham High Street rail and overground station and Clapham North and Clapham Common underground stations are all located within the study area. Clapham Junction station (which is located within the borough of Wandsworth) is located to the west of the study area. Clapham is a small office market when compared to the likes of Vauxhall and Waterloo but is a good sized second tier market within Lambeth and has a total stock of 836,468 sq ft.

The office stock composition comprises three buildings over 50,000 sq ft, the largest being 141-157 Acre Lane at 94,472 sq ft (the main tenant being Access Self Storage), followed by Lambeth College, Clapham Common South Side (62,662 sq ft) and 44 Clapham Common South Side, Southside Business Park (62,001 sq ft). The Clapham study area has a good selection of office buildings over 5,000 sq ft with 38 buildings in total. There are 58 buildings below 5,000 sq ft totalling 139,724 sq ft. According to CoStar there are no Grade A office buildings in the study area with most of the office stock being Grade B.

Stock levels have remained relatively consistent over the past 10 years with an overall loss of 35,282 sq ft. Between 2018-19 15,924 sq ft was added to total stock through development completions.

Recent leasing activity has been subdued with only 4,920 sq ft transacted in 2019 and no deals recorded in 2018. The slowing in leasing activity is demonstrated by the annual 10-year average of 27,842 sq ft reducing to an annual 5-year average of 4,569 sq ft.

There have been six office investment transaction over the past five years (2015-19) with the largest being Akelius Residentail's purchase of George West House, Clapham Common Northside for £18.6 million.

It should also be noted that in January 2020 Polygon House, 18-20 Bromells Road (4,209 sq ft) was purchased by Reachprime Ltd for £2.5m

### Norwood (0.5 mile radius)

The Norwood office market 0.5 mile radius study area is focussed along the Norwood Road which runs north to south through the study. To the north the study area is abutted by the south circular A205 arterial road. The railway stations of Tulse Hill and West Norwood are located within the study area.

Overall stock is limited and is around 65,700 sq ft, with little change evidenced over the past 10 years in terms of additions or space being removed. There is only one office building larger than 10,000 sq ft, which is the Weaver Building (10,400 sq ft) along Chapel Road, with a further 5 office buildings of 5,000 sq ft and above. Building quality is adequate with no office space within the Norwood study area classified as Grade A, only Grades B&C respectively.

The defined Norwood office market is small with very little recent leasing activity. More specifically, there has been no leasing transactions recorded over the past 10 years according to either CoStar or EGiRadius.

Investment activity is generally slow over the past five years with limited activity in Norwood. There have been two transactions over this period, with the purchase of David Pitt House by an undisclosed buyer for £2.6m in 2017 the most notable.

**Streatham (0.5 mile radius)**

The Streatham office market study area is focussed along the main A23 Streatham High Road, which runs from north to south and demonstrates a strong linear pattern of development. Streatham Hill railway station is located towards the north of the study area.

It is a relatively small office market with a total stock of 86,900 sq ft. However, the overall figure was reduced significantly with the demolition and redevelopment of Norwich House on Streatham Road. The building was converted from office to residential use and removed 61,000 sq ft from overall stock.

All office stock within the Streatham study area is categorized as Grade B, with no Grade A space. The recent removal of Norwich House has eliminated by far the largest office building within the study area. At the current time there are two buildings above 10,000 sq ft in size (101 Streatham Road (27,200 sq ft) and 134-136 Streatham High Road (11,900 sq ft)), with a further four buildings of 5,000 sq ft and above.

Recent leasing activity has been subdued, with no transactions recorded in 2019. From a historic perspective, the 10 year average amounts to almost 2,700 sq ft being transacted on an annual basis, with no significant recent transactions recorded.

There have been no investment transactions over the past five years. Overall investment activity has been minimal, with only one transaction recorded over the past 10 years. However, Norwich House along Streatham Road was purchased in 2014 for just over £14m by a residential developer for conversion from office to residential accommodation.

**Vauxhall**

The Vauxhall office market is located south of the River Thames and leasing activity has been limited here compared to other parts of London despite the fact that average rents are lower. Development activity is increasing here following Apple's 500,000 sq ft commitment in the neighbouring Battersea submarket along with a flurry of development activity in neighbouring Nine Elms although it had been fairly muted before this. The flexible office sector has made its mark with The Office Group taking a pre-let at Tintagel House, SE1 which amounted to 120,000 sq ft although other activity in this sector has been muted.

The average lease size in the 5,000 sq ft plus market is 104,400 sq ft although this is across just ten deals. Below 5,000 sq ft, the average size taken is 1,840 sq ft.

The development landscape is likely to look very different in Vauxhall in a few years' time with schemes such as Oval Works, Vauxhall Square East and 8 Albert Embankment expected to deliver almost 500,000 sq ft between 2023 and 2025.

Investment activity has been generally slow over the past five years with just one deal completed to The Office Group at Tintagel House which they also occupied.

## Waterloo

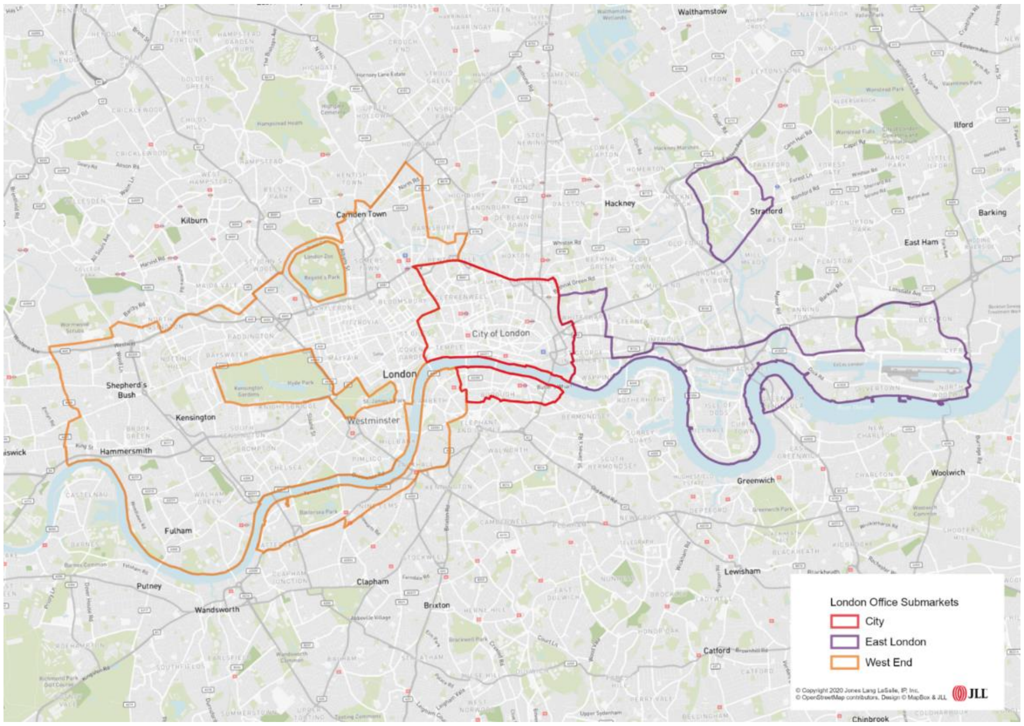
The Waterloo office market is located south of the River Thames and leasing activity has been limited here compared to other parts of London despite the fact that average rents are lower. Development activity has been sporadic with a few years of no development before a large scheme is built, most recently at 1 & 2 Southbank Place, SE1 in 2016. Both of these buildings were pre-let in their entirety to Shell and WeWork and aside from this second deal, the flex sector has not been very active in the Waterloo submarket. The average lease size in the 5,000 sq ft plus market is 32,400 sq ft. Below 5,000 sq ft, the average size taken is 2,100 sq ft.

Development activity is expected to pick up with Stanhope's 1.3 million sq ft Royal Street scheme planned for delivery in 2023/24 as well as One Waterloo, SE1 which expects to deliver just over 1.0 million sq ft at the end of 2024.

Investment activity has been generally slow over the past five years with just two deals completed although both were large lot sizes.

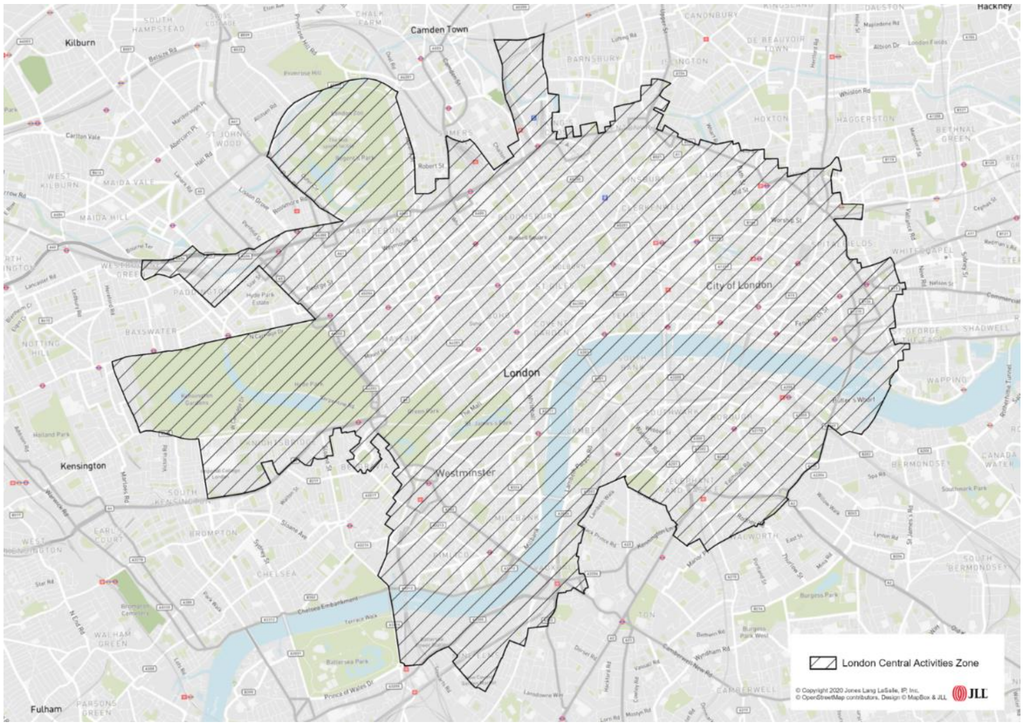
# 11. APPENDIX 2- Boundary maps

Map A: JLL central London office market boundaries

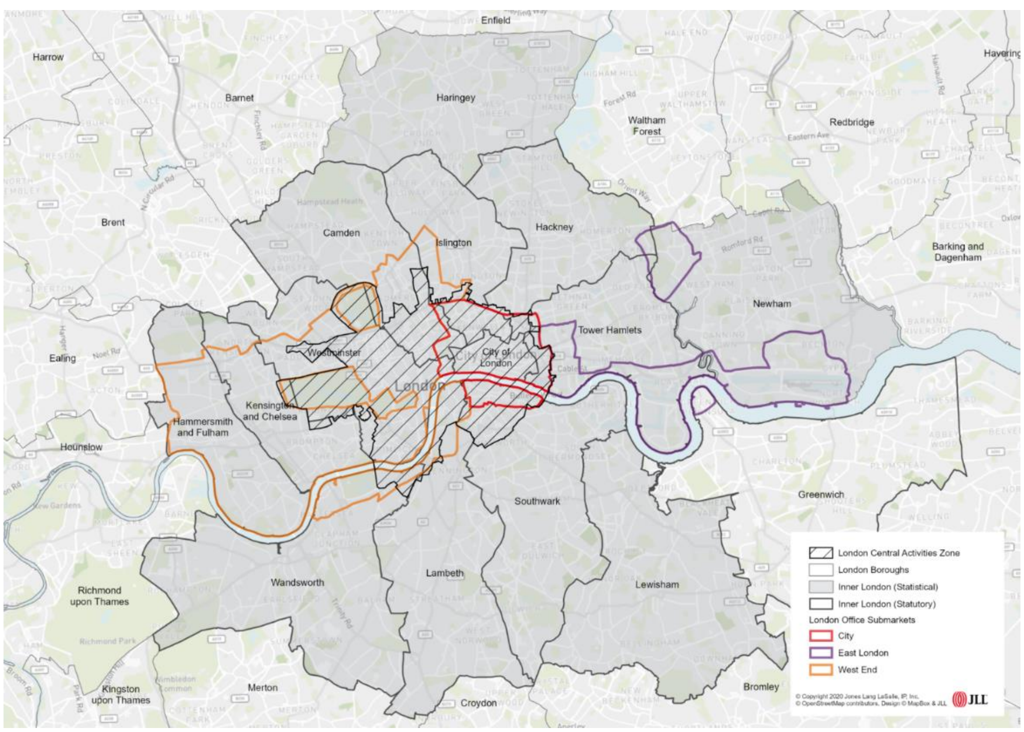



Map B: Inner London borough boundaries

Map C: Central Activities Zone (CAZ)

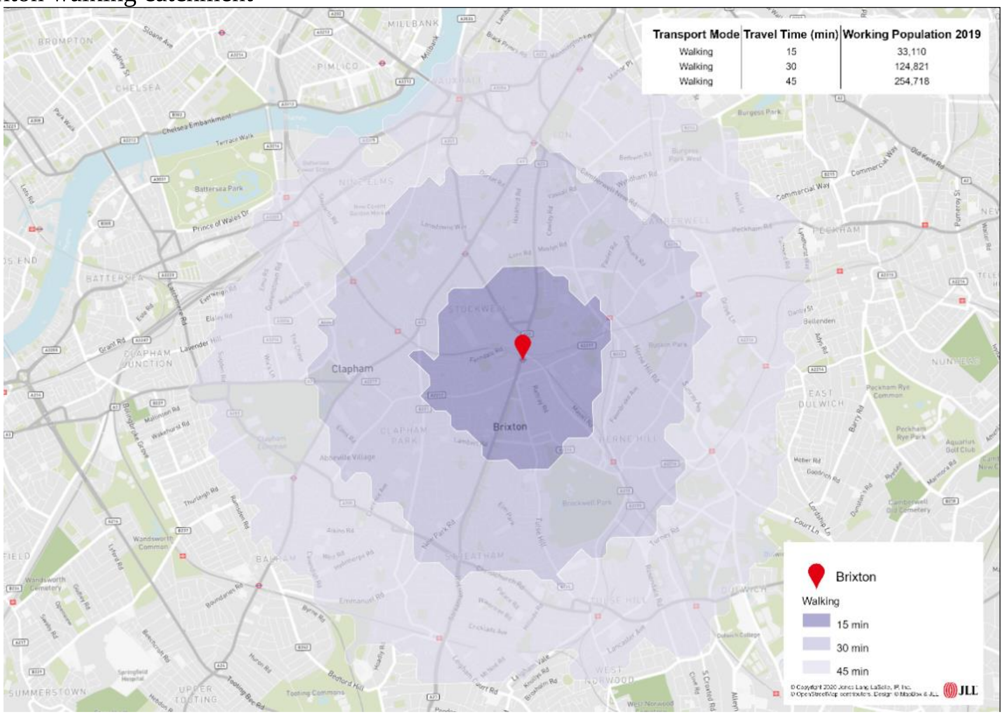



Map D: Combined boundary map

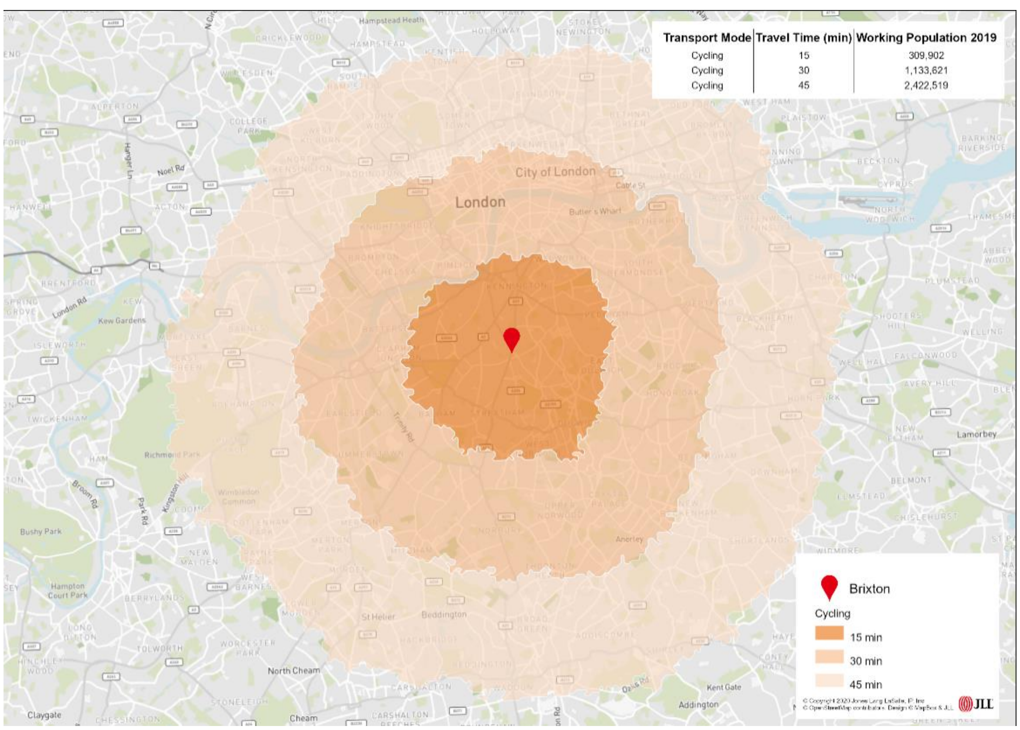


# 12. APPENDIX 3: Lambeth walking and cycling catchments

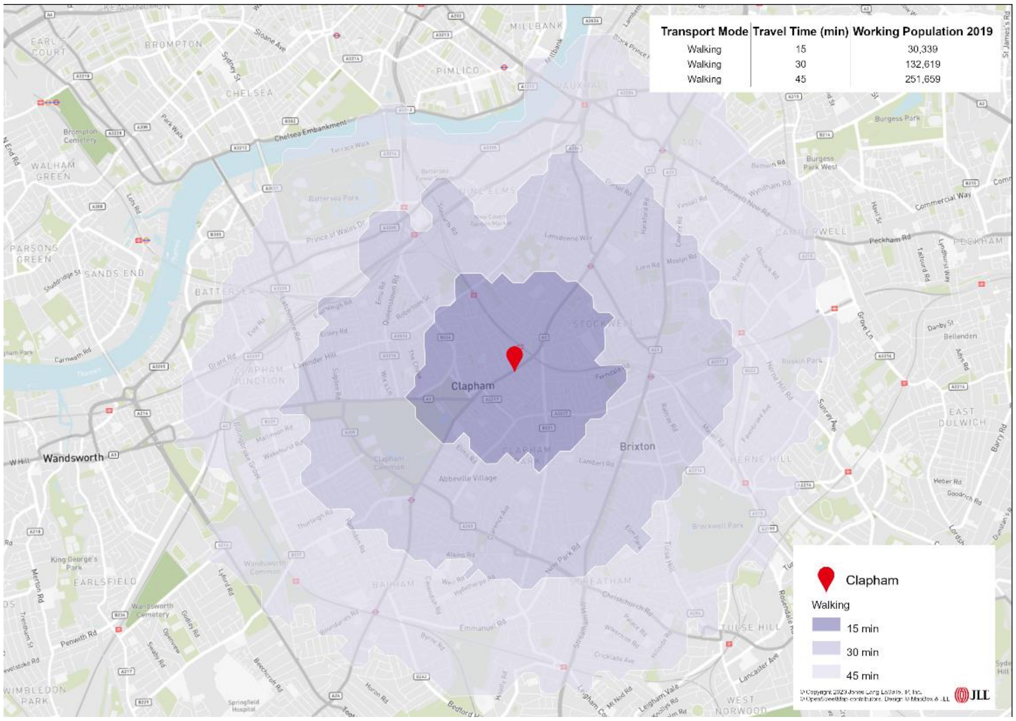
Map E: Brixton walking catchment



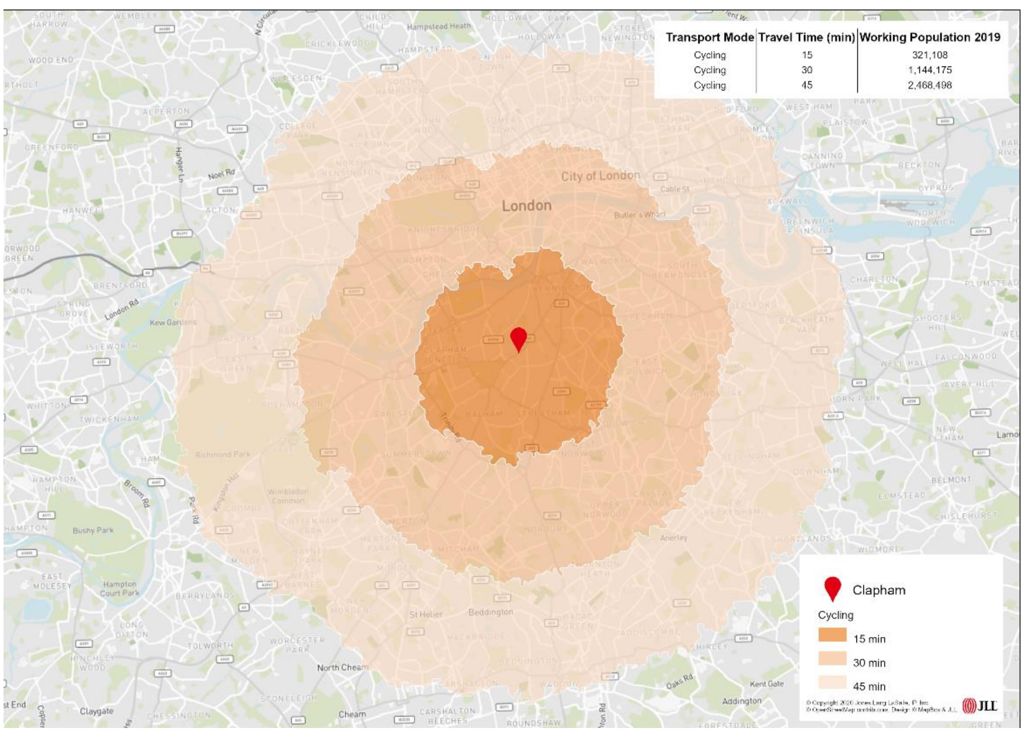

Map F: Brixton cycling catchment



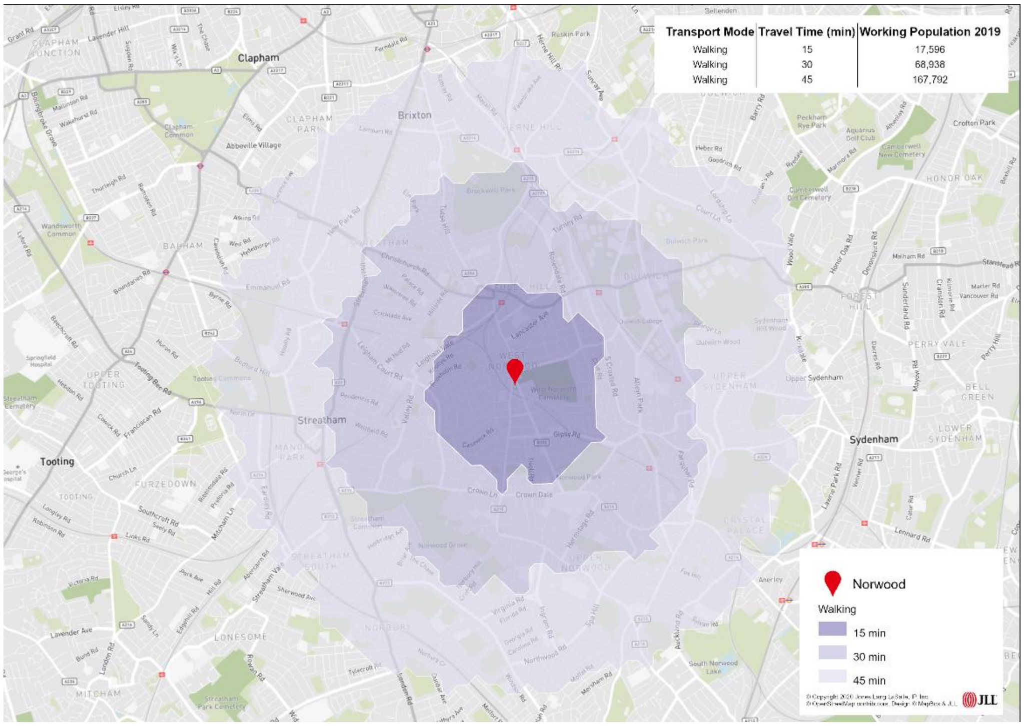
Map G: Clapham walking catchment



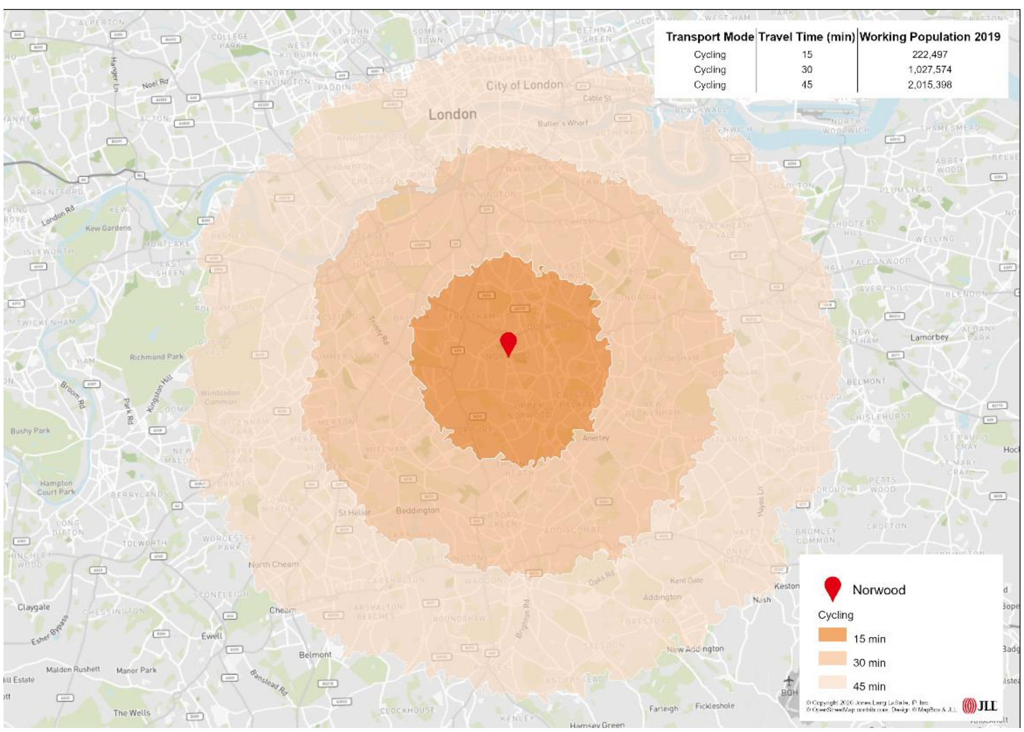

Map H: Clapham cycling catchment



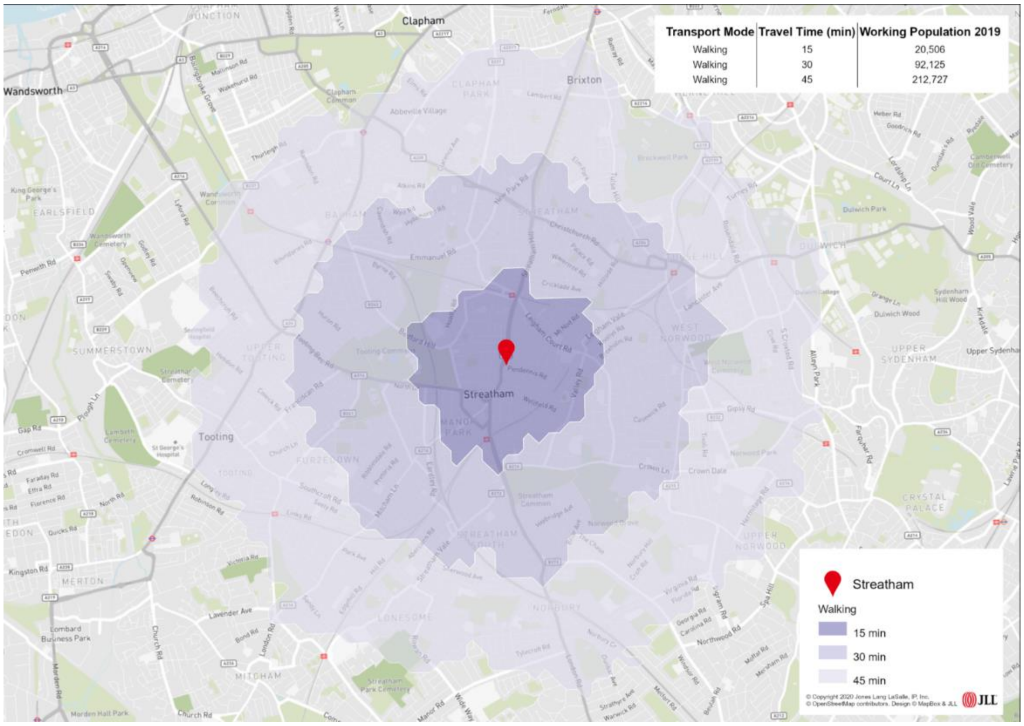
Map I: Norwood walking catchment



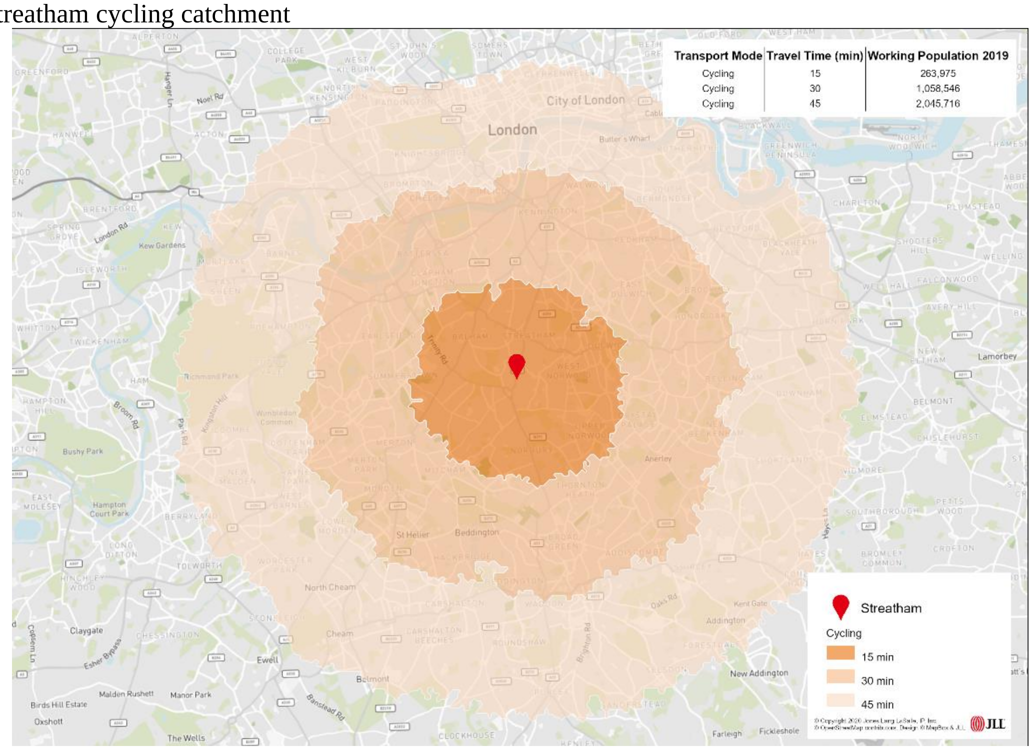

Map J: Norwood cycling catchment



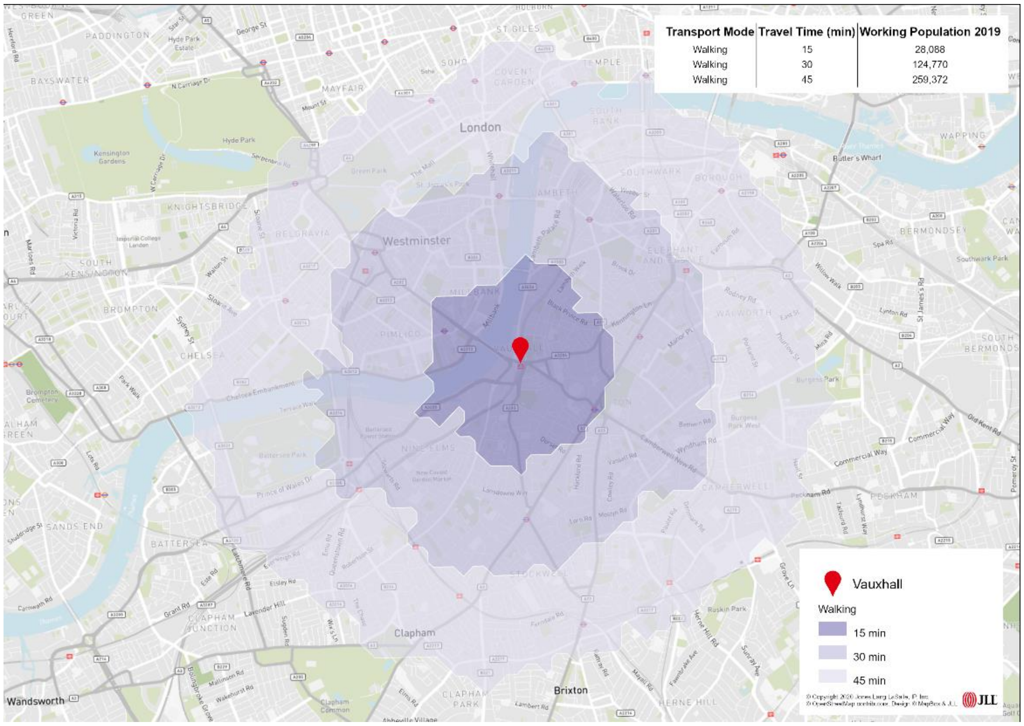
Map K: Streatham walking catchment



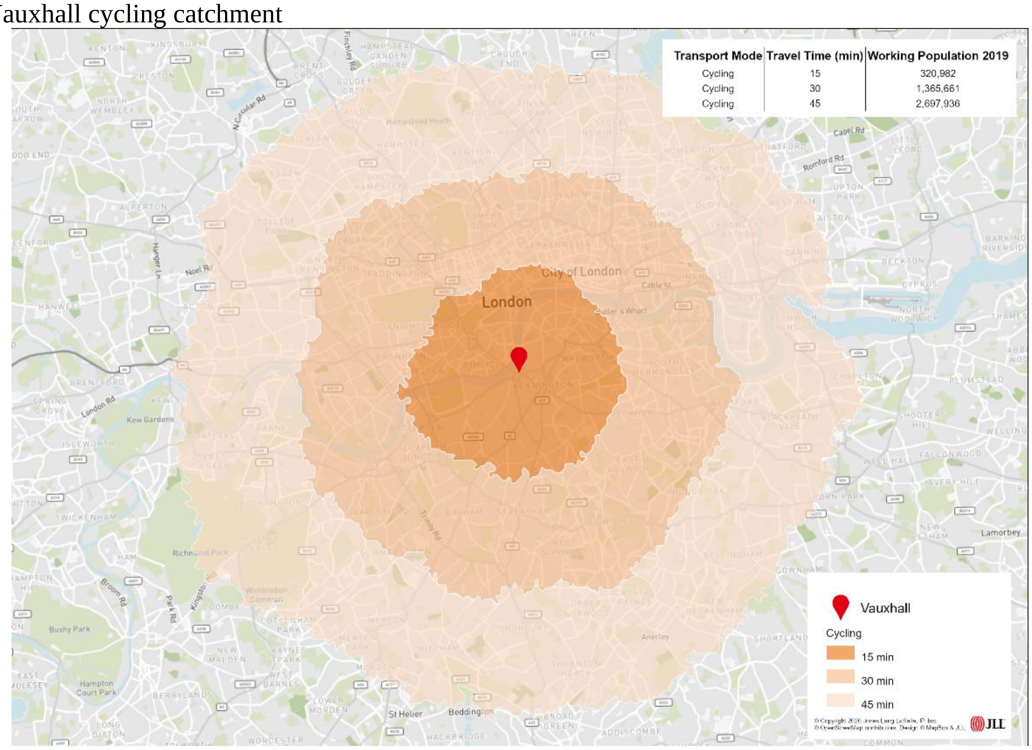

Map L: Streatham cycling catchment



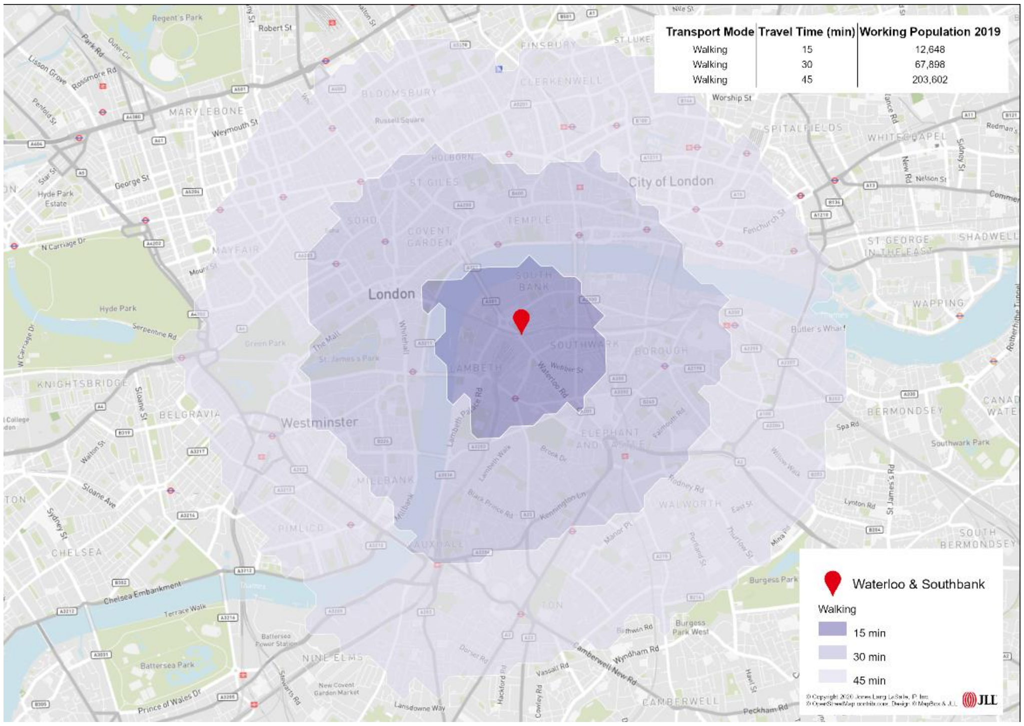
Map M: Vauxhall walking catchment



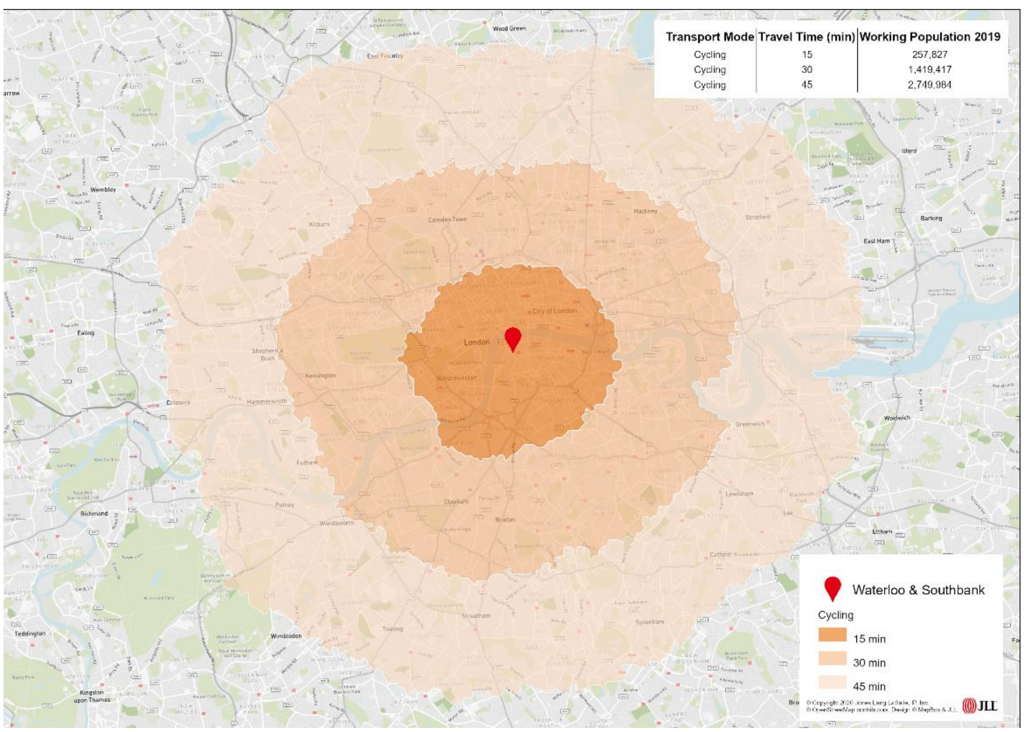

Map N: Vauxhall cycling catchment



Map O: Waterloo walking catchment




Map P: Waterloo cycling catchment



# 13. DISCLAIMER