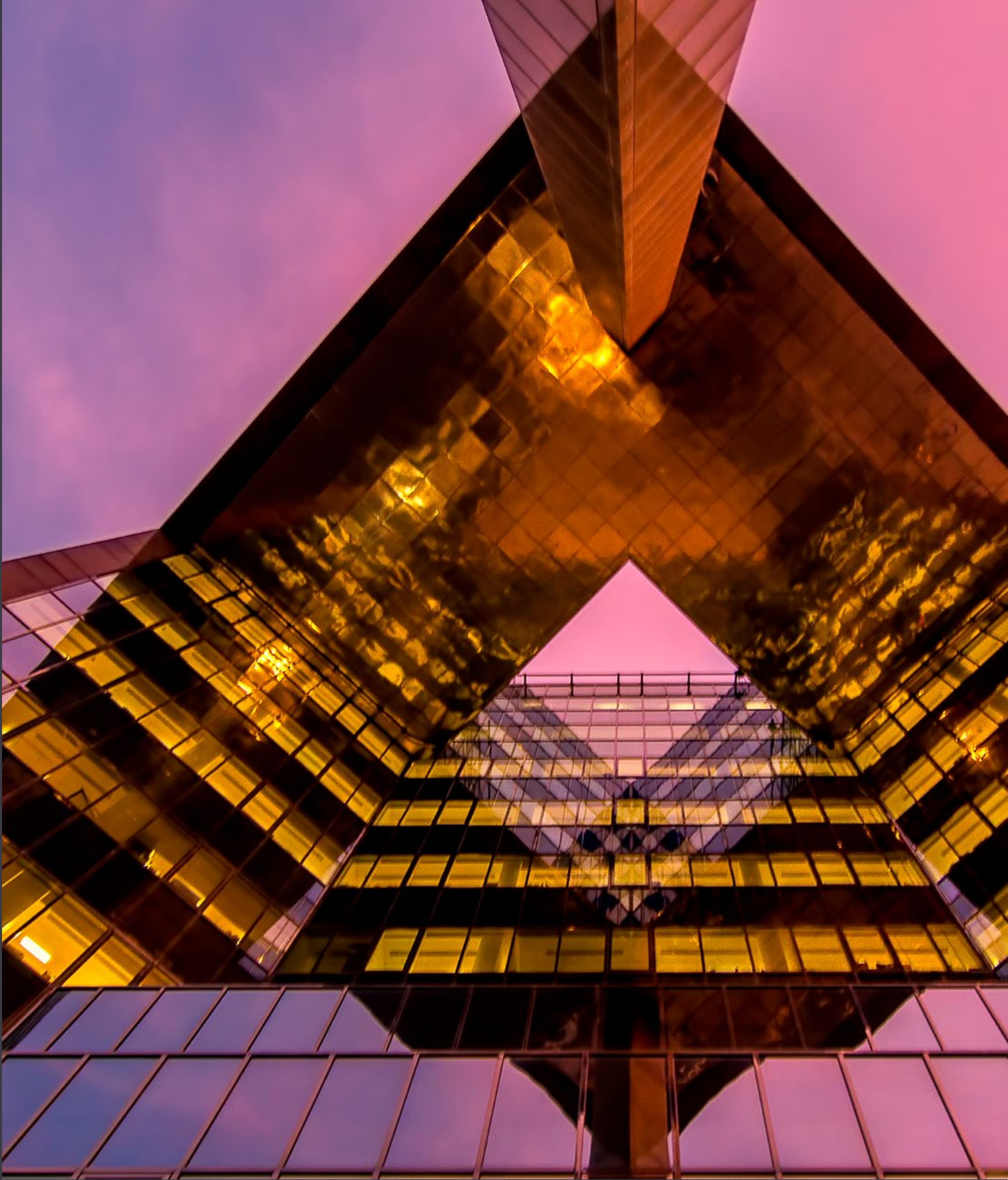
Life beyond the pandemic
London Office Crane Survey

Summer 2021



Contents

Foreword

Welcome to Deloitte's *Summer 2021 London Office Crane Survey* – a barometer of business and developer sentiment.

Since our last survey, a resurgence in the number of virus cases led to renewed restrictions during the autumn and the looming deadline for a UK-EU Brexit trade deal also heightened the uncertainty for businesses. The start of 2021 has seen Brexit-related risks fall but the recovery stalled temporarily during the third national lockdown, albeit against a backdrop of growing confidence driven by the vaccine rollout.

In the investment market, travel restrictions made deals difficult to get over the line. As those restrictions now ease, there is a growing expectation that investor appetite will build with pent-up demand likely to lead to a period of sustained activity.

COVID-19 restrictions and homeworking have inevitably had a considerable impact on central London office leasing with many businesses adopting a 'wait and see' approach before committing to new office space. An increase in leasing transactions and the higher level of active requirements in the last couple of months suggests, however, that the leasing market could be over the worst now.

As we prepare to return to the office after more than one year of working from home, businesses will be reviewing their real estate strategies and look to combine the benefits of working from home and in the office, while adopting the latest technology, in order to facilitate a hybrid working model.

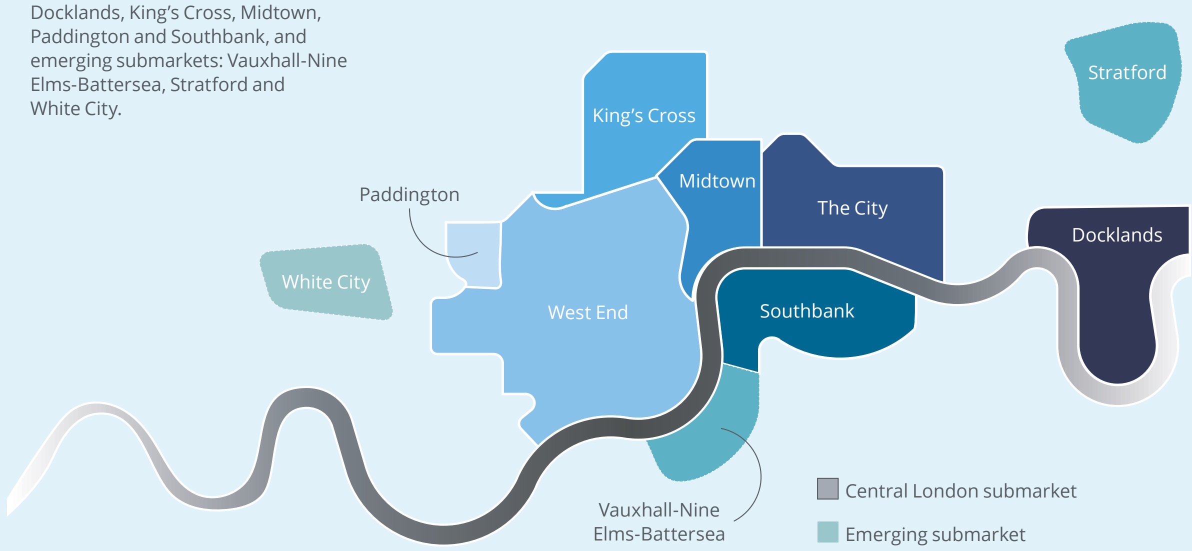
What?
A report that measures the volume of office development taking place across central London and emerging London submarkets.

Where?
London, covering the central office markets: The City, West End, Docklands, King's Cross, Midtown, Paddington and Southbank, and emerging submarkets: Vauxhall-Nine Elms-Battersea, Stratford and White City.

Who?
Developers building new offices or undertaking significant office refurbishment of 10,000 sq ft +.

When?
The survey covers the period from October 2020 to March 2021.

How?
Our team of researchers have walked the streets of central London and emerging London submarkets to monitor office construction. Our field research is then verified with direct industry links and in-house property experts.



The move towards greater workplace agility and use of hybrid working models is likely to lead to a drop in office space required by tenants. However, the actual impact is likely to be sector dependant.

The office is arguably undergoing its most disruptive shift in recent times, as it evolves and adapts to the new ways of working that suit the modern post-COVID workforce. As employers look to lure their workers back to the office, they are likely to sharpen their focus on best-in-class office accommodation, with ESG and wellbeing credentials.

In an effort to understand changes in office construction in central London, our team of researchers have once again walked the streets across all the established and emerging submarkets. We have spoken to London's developers to understand their future construction plans, as well as their current concerns around the market.

What impact do the latest office construction figures have on supply levels? How concerned are developers about leasing demand? Is responding to climate change contributing to an acceleration in the rate of obsolescence of secondary stock? Our survey provides you with detailed insight.

In this edition Deloitte Head of Sustainability, Katherine Lampen and Head of Valuation, Philip Parnell, discuss the growing importance of ESG in the real estate industry, while Jordan Cummins, CBI Head of Policy for London, shares his thoughts on what the future of work might look like.

We would like to thank developers and contractors who assisted with the data and took part in our surveys.

This edition is accompanied with our interactive microsite for the London Office Crane Survey. It will allow you to navigate to the content you find most useful, including submarket snapshots and a development map.

We hope you find our survey results and insights useful and thought-provoking, and we welcome your feedback.

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Key Findings

Crane Survey findings

New office starts are up to 3.1m sq ft, above the survey long-term average

For the second consecutive survey, a **majority of new starts were refurbishments**

Speculative new starts are up, suggesting a relative confidence in the prime office market

West End and Midtown account for majority of new construction, while other submarkets are quiet

Completions reach 4.5m sq ft, the **highest volume in 18 years**

Volume under construction remains above average due to more new starts and previous delays

Occupiers continue to 'buy time' through lease renewals or extensions, with others looking to capitalise on the market disruption to secure more favourable lease terms

While still the biggest concern, the **majority of developers think leasing demand has improved**

Crane Survey outlook

The successful rollout of vaccines and the gradual reopening of the economy have **boosted business confidence above pre-pandemic levels**

Homeworking is expected to reduce office demand, however, the actual impact is sector dependent

Office strategy and working models will be polarised amongst sectors, depending on business growth forecast and attitudes to working from home

The **hybrid working model will have many operational challenges to overcome** in order to achieve office space reduction

The **move to net zero is fully underway**, with occupiers becoming more discerning about the offices they occupy

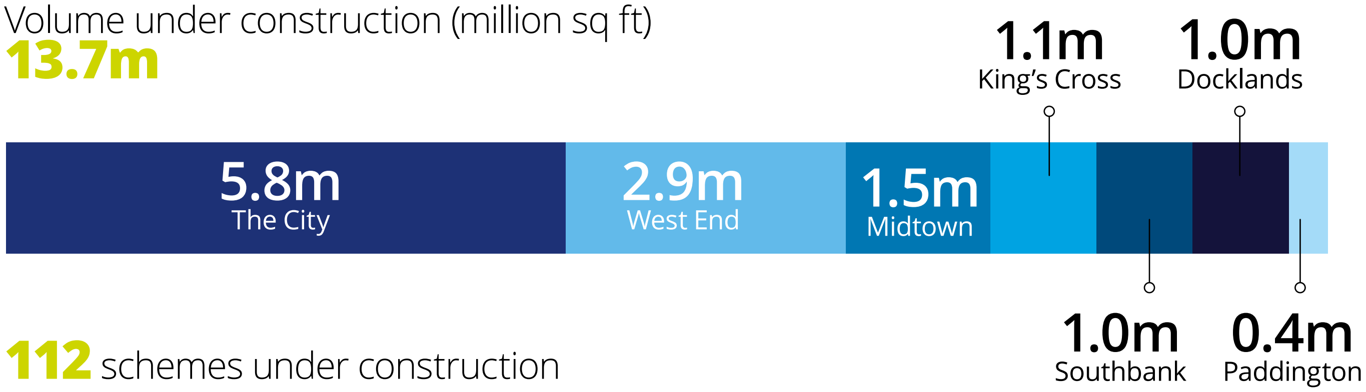
ESG credentials are increasingly recognised as a **risk factor capable of eroding value**

The **proliferation of vacant poor-quality offices is expected to continue**, especially in offices that may be difficult to reconfigure due to cost or layout limitations

Majority of developers are looking to increase their pipelines in the next six months but with a strong focus on best-in-class office space

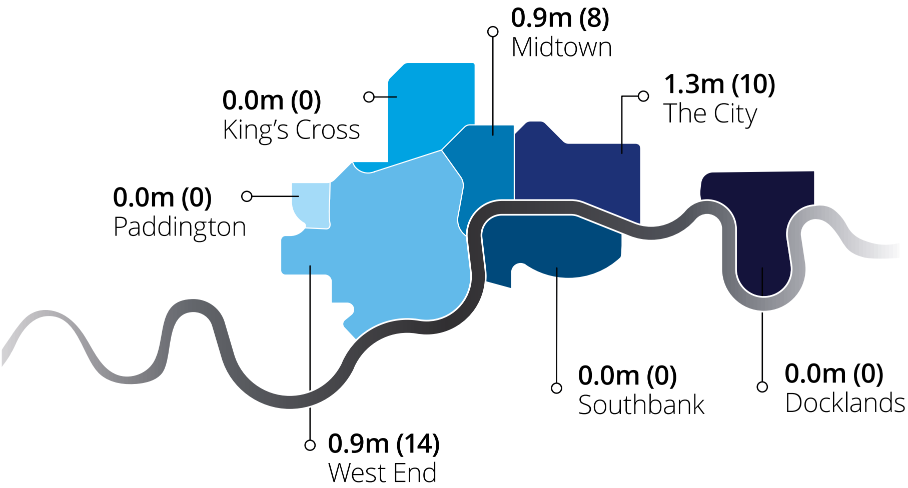
Volume under construction (million sq ft)

13.7m



112 schemes under construction

New construction starts: volume (million sq ft) and number



3.1m sq ft in new construction starts

Total number of new starts
32

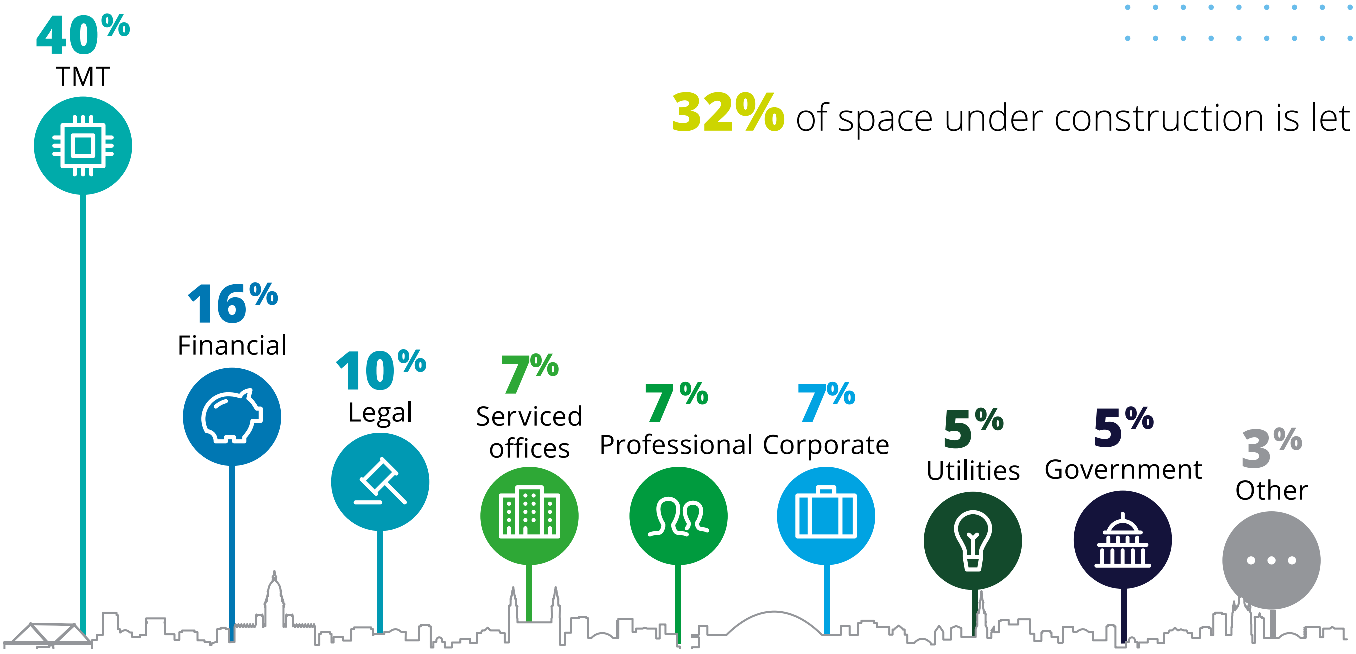
High (Q1 2016)
51

Average
30

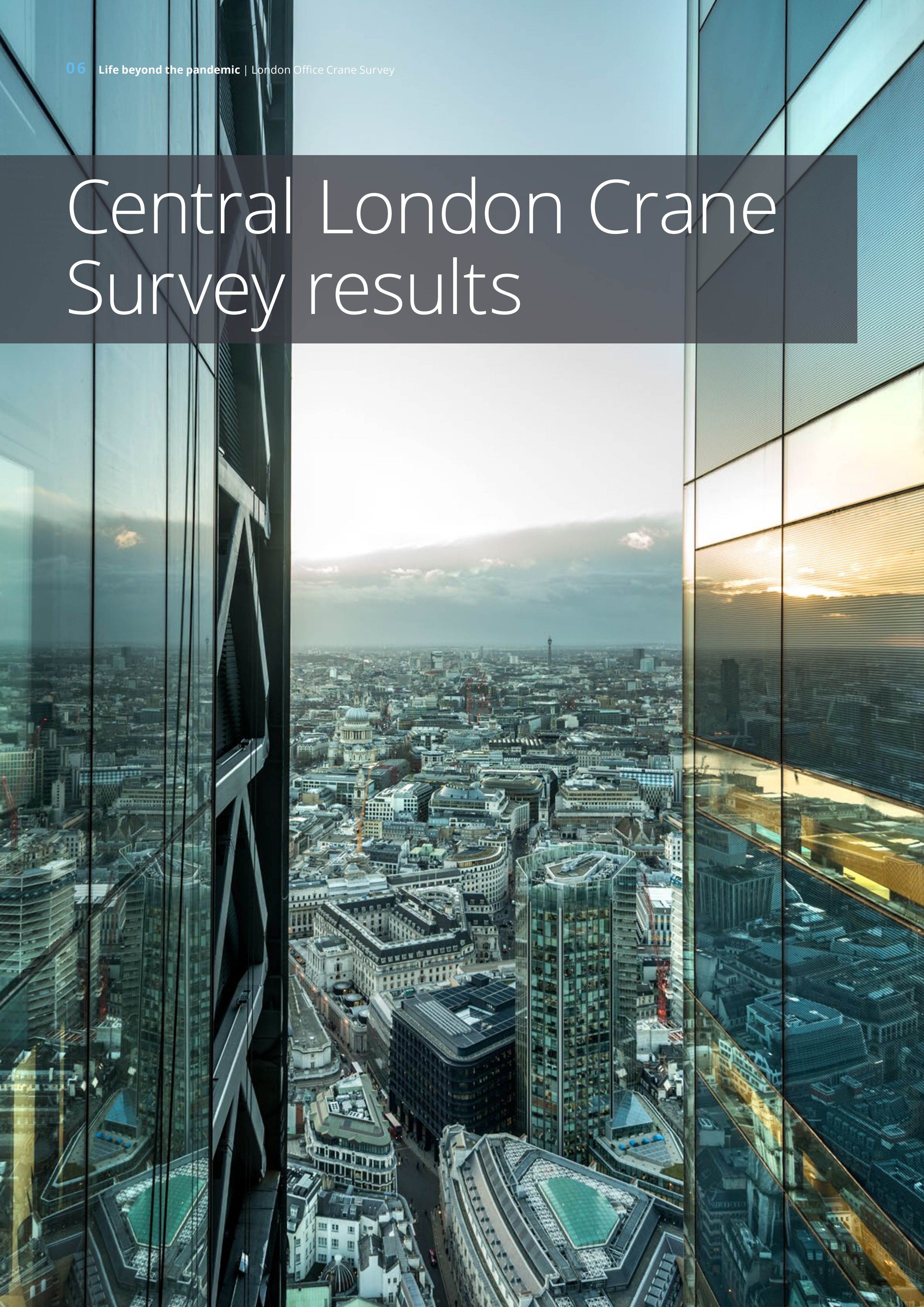
Low (Q3 2010)
4

Percentage of pre-completion space let by sector

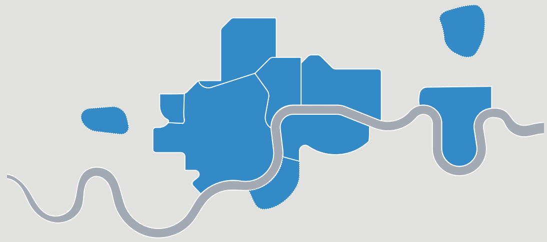
32% of space under construction is let

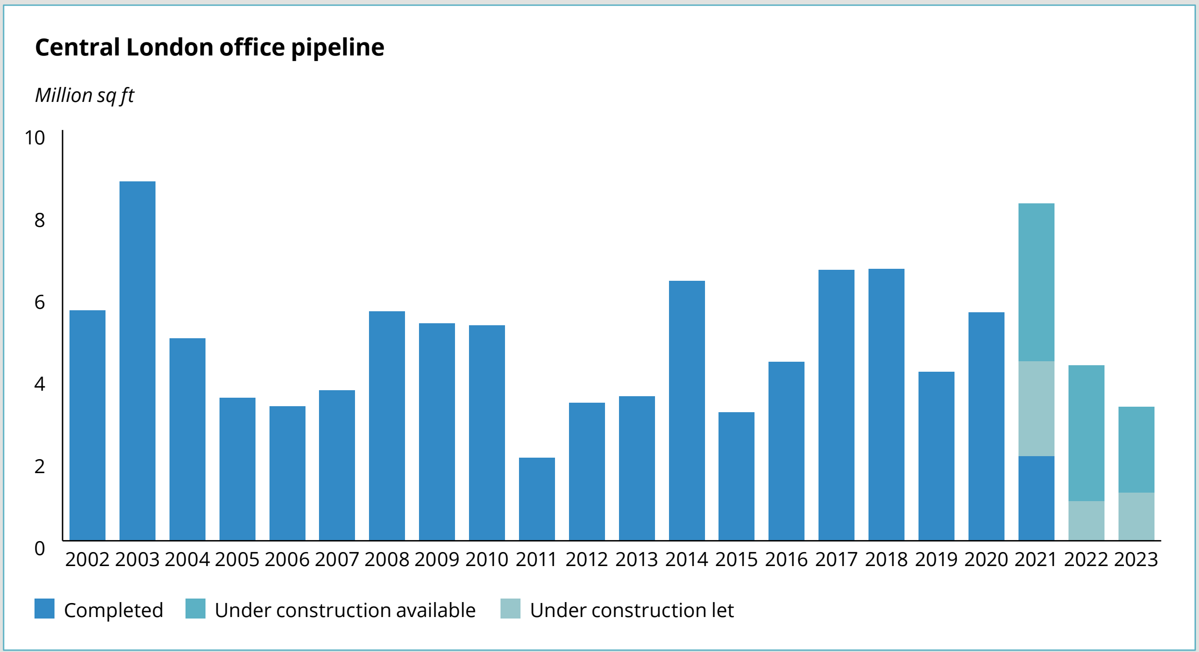


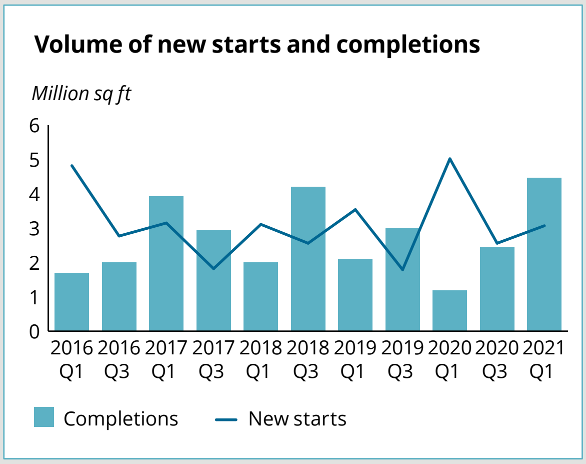
Central London Crane Survey results

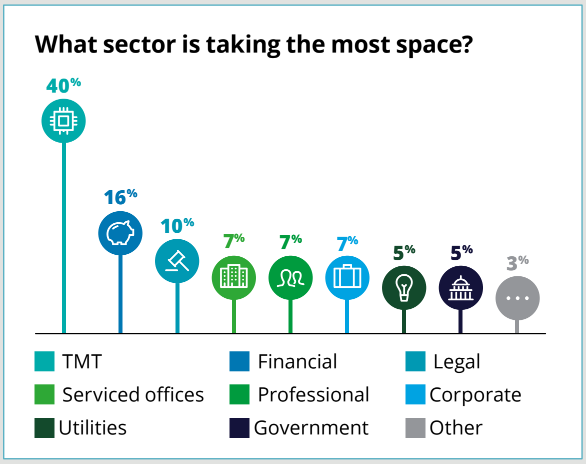


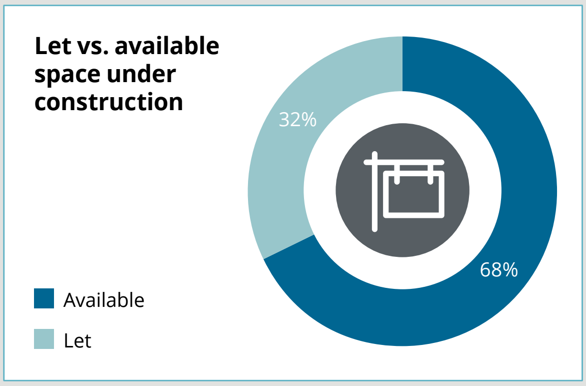
Submarket snapshots
Central London

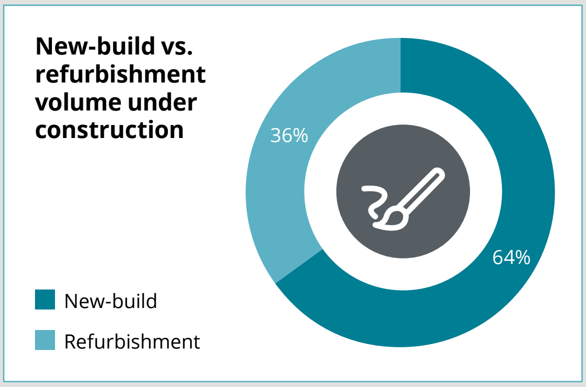












Source: Deloitte

Summer 2021 London Office Crane Survey – findings

In our previous Winter 2020 survey we discussed how the easing of what turned out to be the first lockdown in 2020 led to a growth in business activity over the summer months, raising hopes for a quick recovery. However, the strong summer economic performance was something of a false dawn as a resurgence in the number of virus cases led to renewed restrictions during the autumn and the looming deadline for a UK-EU Brexit trade deal also heightened the uncertainty for businesses.

The start of 2021 has seen Brexit-related risks fall sharply, but the recovery stalled temporarily during the third national lockdown, albeit against a backdrop of growing confidence driven by the vaccine rollout.

In the London office market, leasing activity fell in 2020 by over 50% year on year. This was a result of the inevitable practical difficulties in acquiring space during the pandemic and also the natural desire of businesses to reassess their real estate footprint needs in the light of their experiences over the past year. Q1 2021 saw an increase in leasing transactions for the first time since the pandemic began, suggesting renewed life in the central London market.

Following a strong end to 2020, central London office investment transactions were understandably more subdued in the first quarter of 2021. Travel restrictions made deals difficult to get over the line, and some investors wanted to see more evidence of improving tenant demand. However, there is now a growing expectation that investor appetite is building with pent-up demand likely to lead to a period of sustained activity as travel restrictions ease – particularly since the relative pricing of London offices offers attractive medium to long-term income streams compared to elsewhere in Europe.

As we examine the latest survey results, covering the period October 2020 to March 2021, we can look for answers to several questions. What impact do the latest office construction figures have on supply levels? How concerned are developers about leasing demand? Is responding to climate change contributing to an acceleration in the rate of obsolescence of secondary stock?

New starts are up, led by refurbishments

Despite the pandemic, the volume and number of new starts exceeded the long-term average for the third survey in a row. Our latest survey found a 20% increase in the volume of new construction starts (both new-build and refurbishments) to 3.1m sq ft across central London in the six months to March 2021. 32 separate new schemes commenced during the survey period – a higher figure than the long-term average of 25.

The level of pre-letting in new construction starts has dropped from 45% to just 19%. This higher proportion of speculative development suggests a relative confidence in the prime office market, where demand for best-in-class offices is expected to remain robust 'post-pandemic'. Equally, there is recognition of the emerging demand from tenant for a 'flight to quality', increasing the risk profile and concerns about consequent value erosion for secondary stock.

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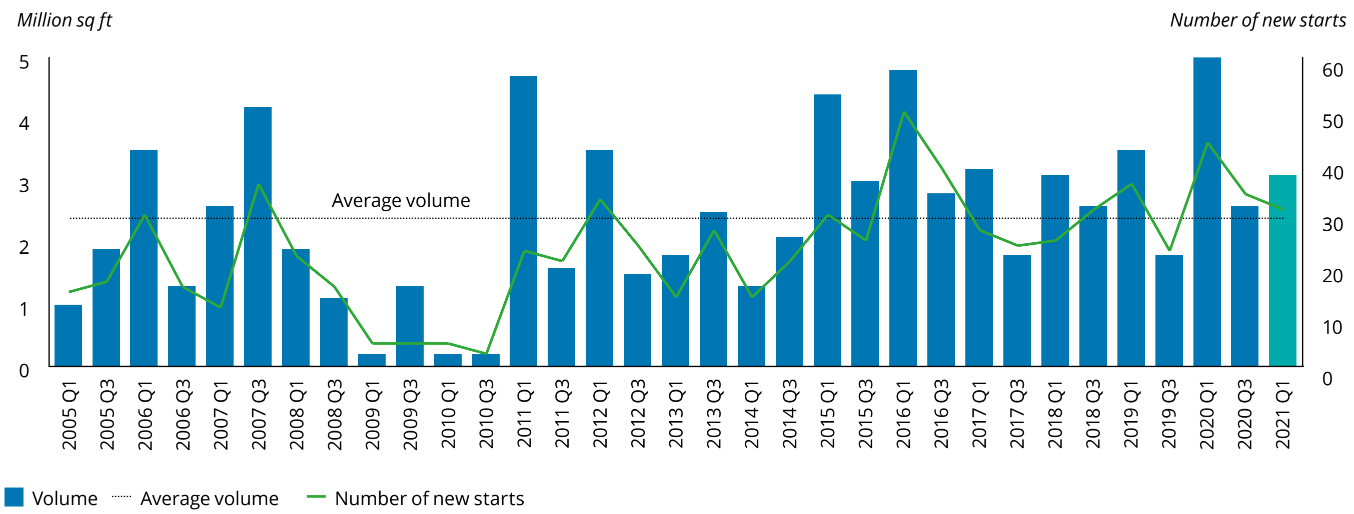
Central London: Volume and number of new starts per survey



Source: Deloitte

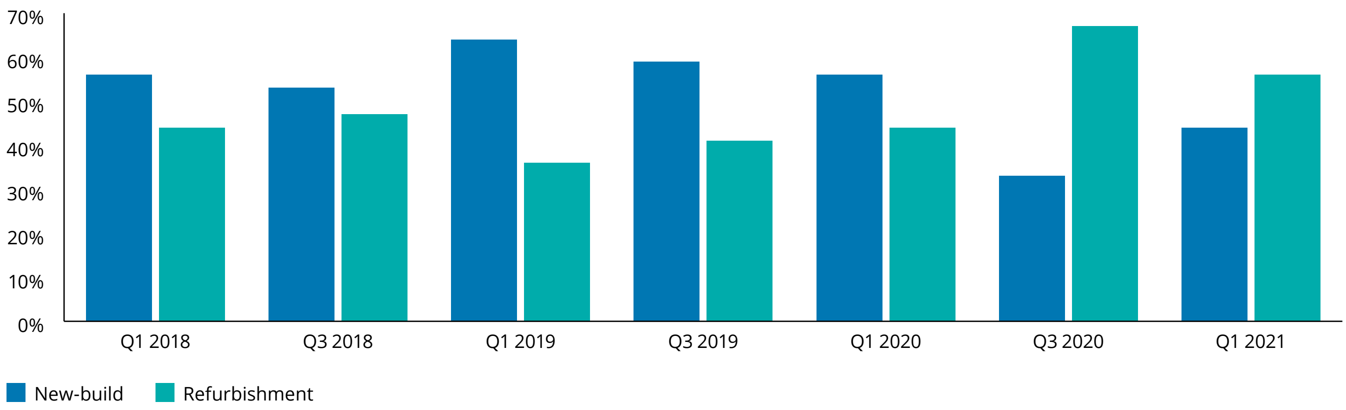
For the second consecutive survey, a majority of new starts were refurbishments. Our latest survey found that 56% of new construction starts involved an extensive upgrade to existing office stock in as many as 21 separate schemes. By transforming outdated buildings into COVID-safe high-quality workspace with improved sustainability credentials, asset owners are no doubt looking to improve the resilience of their offices in a market where demand from occupiers is more selective. In the *Key themes and outlook* section of this report, we discuss in more detail the impact on the secondhand office market of the move to net zero.

The biggest new start in six months to March 2021 was the refurbishment and extension of 80 Strand. In this Grade II listed building, built in the 1930s as Shell Mex House, four office floors will be renovated, with exposed structure and services, new rooftop terraces as well as new bicycle storage, showers and changing facilities in the basement. This scheme will complete at the end of summer 2021, providing 384,000 sq ft of Grade A office accommodation. The 303,000 sq ft Christchurch Court is another large scheme undergoing comprehensive refurbishment. Work on this former Goldman Sachs office in St Paul's is expected to complete in April 2022.

The shift towards refurbishments is gradually gaining momentum in the market, with several owners now opting to undergo retrofit and reuse of the existing space instead of demolition. BT's former HQ at 81 Newgate Street is one such example, where the structural frame will be reused. This should speed up the development programme while helping to make the building 'net zero carbon' through the use of photovoltaics and air source heat pumps. This 729,000 sq ft project is expected to start in 2022 and complete in 2024.

The owners of the 170,000 sq ft Gresham St Pauls, which completed in February 2021, opted for refurbishment rather than demolition and re-construction, on the grounds of sustainability. The refurbished office space will reduce CO2 emissions by 6,660 tonnes over its lifetime, compared to a new building. It will also reduce the building's lifetime carbon emissions by 23% per person compared to keeping the existing building and saving 9% per person compared to building a brand-new office.

Central London: New starts – new build vs. refurbished (%)



Source: Deloitte

Secondhand offices at risk of obsolescence

The availability of space in central London has increased considerably in the past 12 months, reaching its highest levels for more than a decade. Much of this is attributable to a 50% year-on-year increase in secondhand availability, which now accounts for 75% of all existing available supply. The proliferation of poorer quality workspace is expected to continue, especially in offices that may be difficult to reconfigure due to cost or layout limitations.

The excess of secondhand supply is not expected to be absorbed even when the market recovers, as tenants look for accommodation that meets their more exacting standards post-pandemic. There are demonstrable trends among occupiers towards concern for environmental, social and corporate governance (ESG) principles and staff wellbeing, leading to polarisation in the market. A new era of 'stranded assets' beckons.

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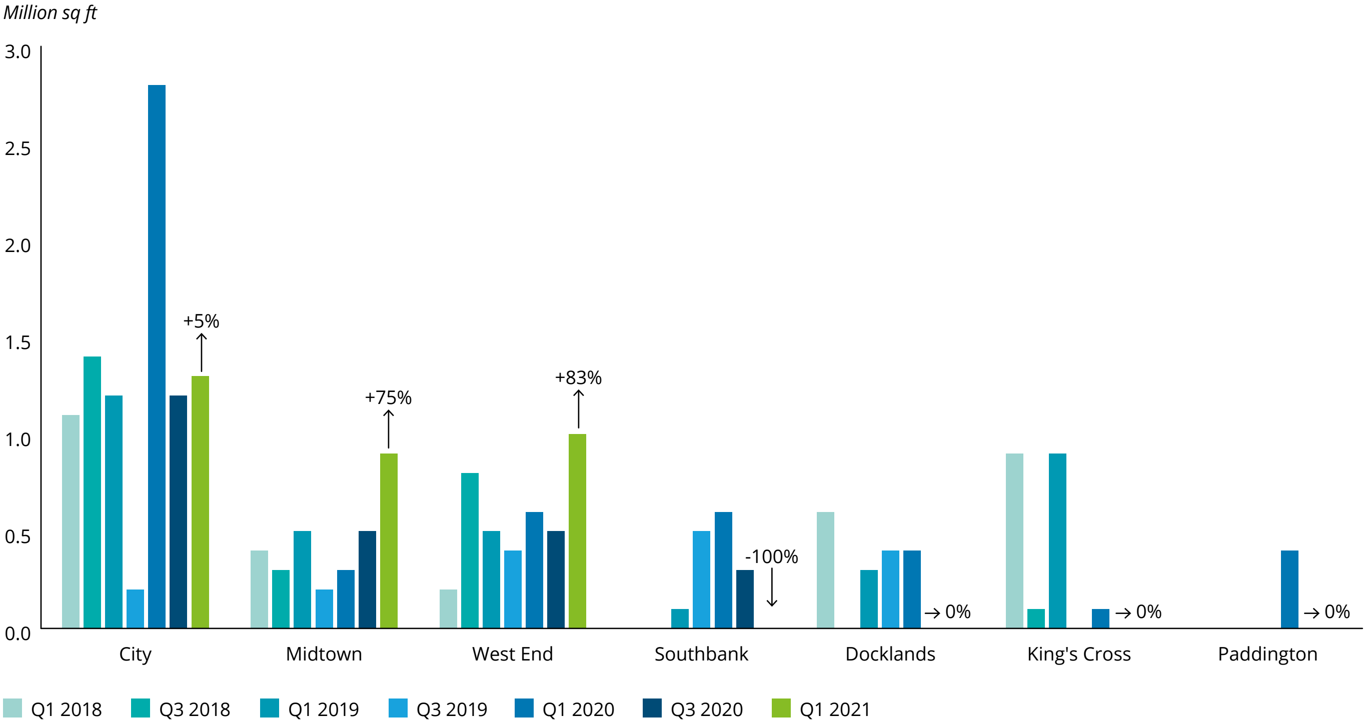
Central London: Volume of new starts per survey



Source: Deloitte

West End and Midtown lead with new construction, while other submarkets are quiet

In the six months to March 2021, new starts were concentrated in London's core City, West End and Midtown markets, with the West End and Midtown combining to account for 57% of all new office construction in central London. There were no new starts reported in Southbank, Docklands, Paddington or King's Cross.

New office starts in the **West End** almost doubled from the previous survey, with 0.9m sq ft breaking ground across 14 new developments. Interestingly, almost two-thirds of the starts were new-build projects, including the three largest in this submarket. Norfolk House in St James's Square, with 165,000 sq ft of brand-new office accommodation, is expected to come to the market by the end of 2022. Landsec broke ground on two new-build schemes in this survey: n2, the next phase of Nova development in Victoria, which will deliver 160,000 sq ft of workspace, and the 110,000 sq ft Lucent W1 located behind the Piccadilly Lights.

Midtown was another submarket with an uptick in new construction starts, with 0.9m sq ft commencing across eight schemes. This includes the largest new start in this survey, the refurbishment of the 384,000 sq ft 'Shell Mex' building at 80 Strand. Another sizeable new start in Midtown was the 201,000 sq ft 33 Charterhouse Street near Farringdon Station. This new-build project is expected to complete in Q3 2022.

In the **City**, where there was a high volume of new starts in Q1 2020 with both 40 Leadenhall and 8 Bishopsgate commencing, there has been a steady volume of new construction, totalling 1.3m sq ft in the survey period. Notably, only two schemes were new-build developments, both located in the City Fringe: the 302,000 sq ft Norton Folgate in Shoreditch and the 135,000 sq ft the Arc in Old Street. Norton Folgate has taken a long time in getting to site after opposition from conservationists, while the 225 City Roads site for the Arc, which has been used as a temporary car park since the mid-1990s, is the last vacant site in the area.

The City and Canary Wharf are set to reinvent themselves

Given the severe impact on central London of lockdown and working from home, the City has set out to 'reinvent itself' as it seeks to address changing market dynamics post-pandemic and maintain its position as a leading global business district. The City of London Corporation is planning that a fifth of office tenants will be 'new' to the area by 2025 and is hoping to attract small businesses and sectors outside of its traditional financial services core. The authority also wants half the journeys between railway stations and workplaces to be on foot or by cycle, with the development of pedestrian and cycle routes, and also a 50% increase in weekend and evening visitors. It is also planning to convert offices left vacant after the pandemic into hundreds of new homes.

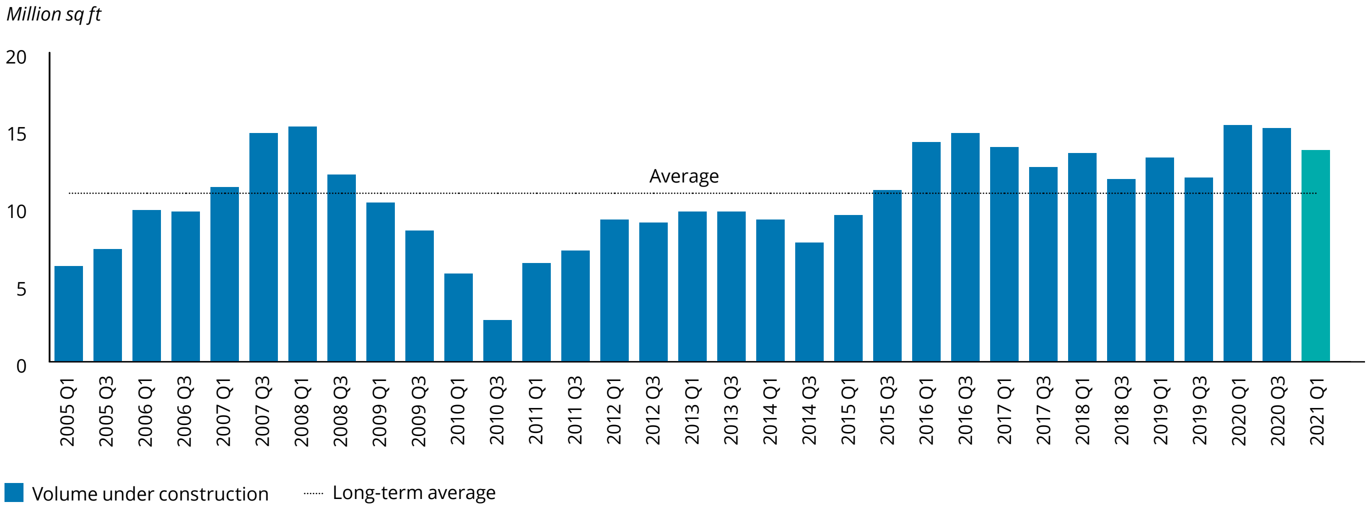
In a vote of confidence in the future of both the City and the office sector, the City of London Corporation recently granted planning permission for a number of sizeable office developments. Hong Kong's Tenacity Group received planning permission for a 33-storey office tower at 70 Gracechurch Street which will provide 775,000 sq ft of workspace, and also for nearby 55 Gracechurch Street with 365,000 sq ft of office accommodation. British Land/GIC's 2-3 Finsbury Avenue was given the green light for a 38-storey tower, including 490,000 sq ft of workspace. In the City Fringe, the Bishopsgate Goodsyard scheme was also given the go-ahead – six years after the developer first filed plans. This scheme aims to provide 1.4m sq ft of workspace in five buildings on Shoreditch High Street.

Canary Wharf, which is more reliant on demand for office space from traditional banks, is likely to be affected more by the shift towards homeworking. The estate owner Canary Wharf Group is looking to reinvent the financial district from a perceived 'all work and no play' banking district to a Millennial neighbourhood. It is striving to establish the district as a weekend destination, as evidenced by a number of large residential developments in recent years, and to attract more food and beverage operators to the area.

On the construction front, Canary Wharf Group is now considering scrapping its plans for 1m sq ft of office space and replacing it with a 60-storey apartment tower instead. 1 Park Place received initial planning permission for office development in 2015. A major redesign of the nearby 408,000 sq ft 30 South Colonnade, formerly headquarters to the Reuters news operation, has been given the green light, in a move that will see the Canary Wharf landmark named YY London. The decision to refurbish rather than demolish the building will reduce emissions of CO_2 by an estimated 10,260 tonnes. YY London will start construction in the coming months and is expected to complete at the end of 2022.

Given the severe impact on central London of lockdown and working from home, the City has set out to 'reinvent itself' as it seeks to address changing market dynamics post-pandemic and maintain its position as a leading global business district.

Central London: Total volume under construction per survey



Source: Deloitte

Despite high levels of completions, construction volume remains above average

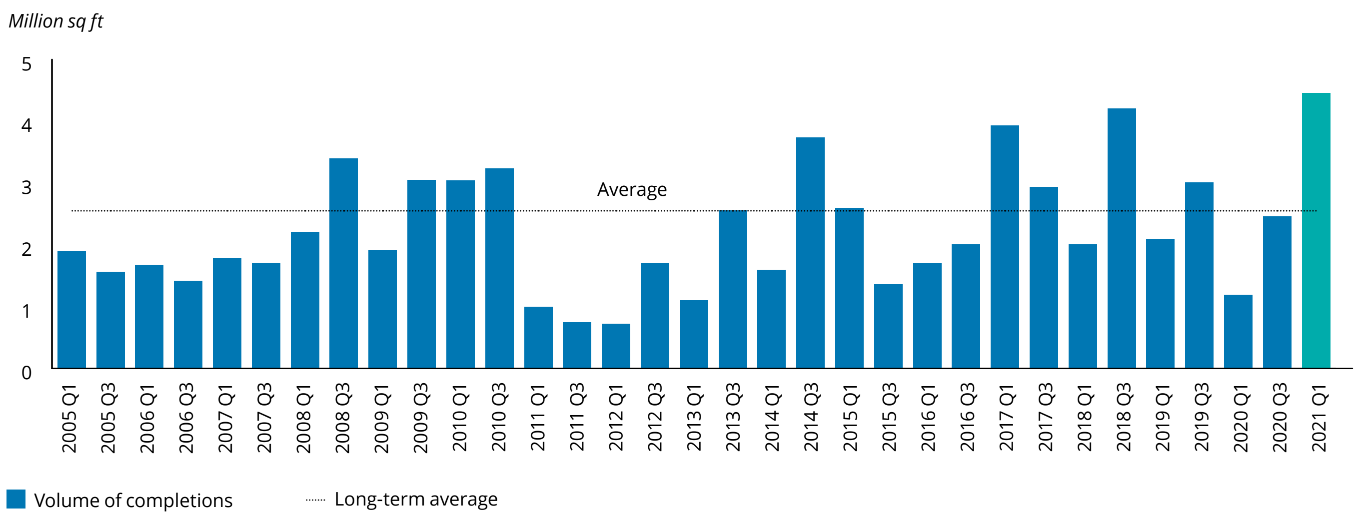
The 13.7m sq ft of office space under construction in central London is 9% less than in our previous survey but this remains above the long-term average. This is despite 4.5m sq ft being delivered between October 2020 and March 2021 – the highest amount of completions in 18 years of surveys. The long-anticipated skyscraper 22 Bishopsgate reached completion in December 2020, adding 1.3m sq ft of office accommodation, with 60% already pre-let. Construction of this tallest building in the City started in January 2017, on the foundations of the stalled Pinnacle project.

Although lower, the volume of construction remains high due to delays caused by COVID-19 restrictions. Of all the schemes presently under construction, less than a quarter (23%) have pushed back their previous delivery dates by at least one quarter. This is a significant improvement however on our Winter 2020 survey, when 55% of developments had experienced a delay of one quarter or more.

The extent of delays to individual projects has inevitably depended on the stage of construction. Projects in demolition or during groundworks, where the use of machines is more prevalent, were able to avoid major delays. In contrast, schemes nearing completion and typically requiring a concentration of people working inside and in close proximity to one another have been subject to greater delay. Hence, labour-intensive fit-out trades were impacted more by new Site Operating Procedures and social distancing measures that were introduced by the main contractors.

The 13.7m sq ft of office space under construction in central London is 9% less than in our previous survey but this remains above the long-term average.

Central London: Total volume of space completed per survey



Source: Deloitte

Homeworking continues to influence office demand

COVID-19 restrictions and homeworking have inevitably had a considerable impact on central London office leasing with many businesses adopting a 'wait and see' approach before committing to new office space. Occupiers have been 'buying time' through lease renewals or extensions at their existing premises as they review their accommodation needs, including occupational densities and location requirements.

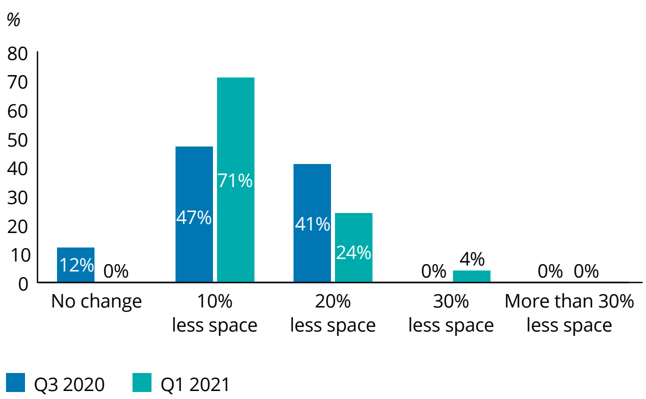
Looking to the future, greater workplace agility and use of hybrid working models will lead to a reduction in the quantum of office space required by tenants. As mentioned earlier, this reduction is likely to result in more vacant secondary space – with prime/Grade A accommodation capable of adapting and evolving to accommodate demand for new occupational models and so remaining more resilient. Our survey found that developers anticipate that the new working patterns will reduce office demand on average by 10-15% in terms of square footage, suggesting relatively modest change rather than a seismic shift in the demand for office space.

Most developers argue that the reduction in office occupation due to homeworking is likely to be offset by growing requirements of tenants for lower density occupation, less hot desking and more collaborative space, all of which will require additional space. While a return to the office is likely to lead to a redesign of offices, there is also uncertainty about whether the transition towards hybrid working will result in substantial real estate savings without also causing problems with productivity, staff retention and hiring.

Furthermore, only firms with upcoming lease breaks can effectively implement office reduction relatively quickly: for others the transition is likely to be a slower process.

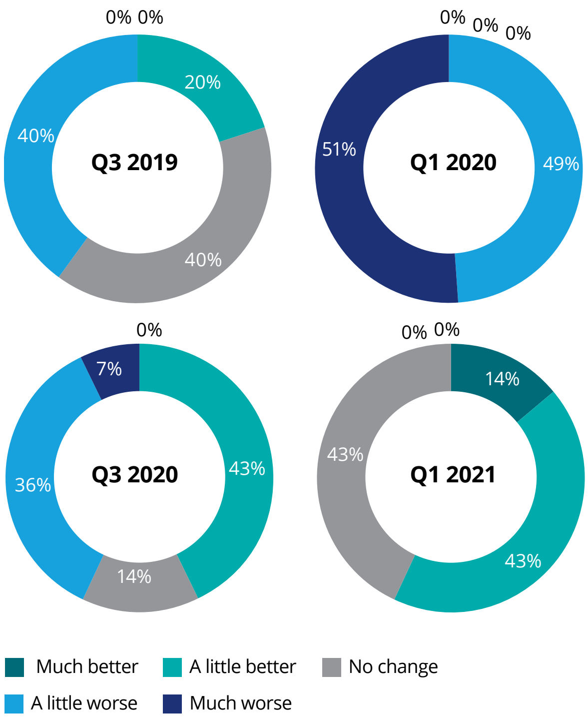
However, many large corporate occupiers will actively look to reduce their office footprint. In particular, many will see a shift to collaborative working as amplifying, rather than offsetting, the drop in their requirements for space, by up to 50% for some businesses. Hence, depending where occupiers are in the cycle, some will consolidate their offices and increase office density, whereas others may consider increasing their footprint in order to accommodate new office designs.

Landlord survey: 'What impact will homeworking have on the amount of office space tenants will be taking long term?'



Source: Deloitte

Landlord Survey: 'Compared to six months ago, how do you currently perceive the leasing market?'



Source: Deloitte

Leasing demand remains the main concern but there are signs of optimism

Our data reveals that the level of confidence in demand for leasing continues to be the biggest deterrent to new office development. A large majority (85%) of developers pointed to the current weak demand from tenants for office space as a major concern in the London office market. Until there is more clarity about occupiers' office plans, many developers will hesitate to embark on new projects.

Nonetheless, developers we interviewed at the end of March 2021 were more positive about the lettings market than they were at the end of September 2020, when 43% respondents to our survey had said that office demand was worse than six months previously. This time, no respondent told us that leasing demand had worsened, suggesting that the leasing market could now be over the worst. More than half (57%) of developers felt that demand had improved, with the remaining 43% thought that it had stayed the same compared to six months earlier.

Signs of renewed life in the central London market can be seen in higher levels of demand for Grade A office accommodation reported during March and April. Attempting to 'make do' with potentially out-of-date buildings and facilities is likely to be short-lived phenomenon as the quality of offices is increasingly becoming a reflection of the occupier's brand as well as a manifestation of its ESG credentials to existing employees and future hires.

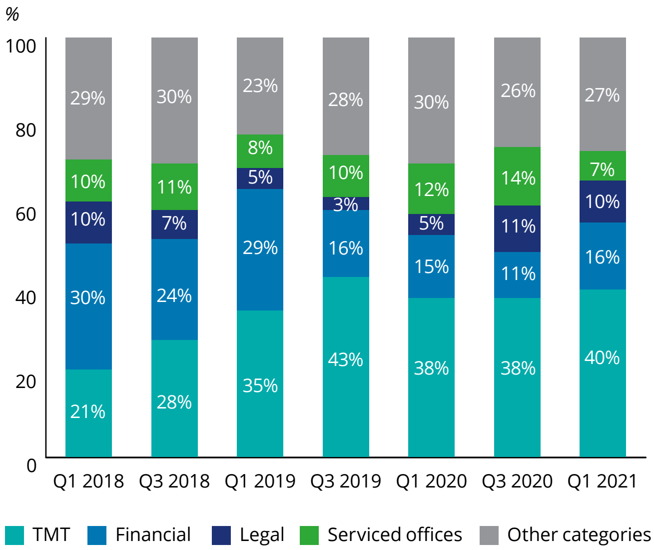
Opportunity for occupiers to renegotiate leases

Unsurprisingly, just as overall office demand has fallen considerably since the pandemic began, pre-letting activity has also weakened. Of all the office space under construction in central London, less than a third (32%) is committed to, compared to 45% in our previous survey. Similarly, 59% of completions in our survey have a tenant, down from 70% in the previous survey and below the five-year average of 65%.

The share of technology, media and telecoms (**TMT**) pre-lets in the total amount of space under construction increased to 40%, reaffirming the importance of this sector in the London leasing market. In comparison, although there was a small increase on the previous survey, **Financial Services** accounted for a modest 16% of the pre-let space under construction. This reflects the sector's shift towards scaling down on real estate by consolidating its office presence in central London, and with many back-office functions being moved to the regions. We discuss why financial services firms are focusing on reducing their central London footprint in the *Key themes and outlook* section of this report.

59% of completions are pre-let, down from 70% in the previous survey.

Central London: Percentage completion lettings by sector

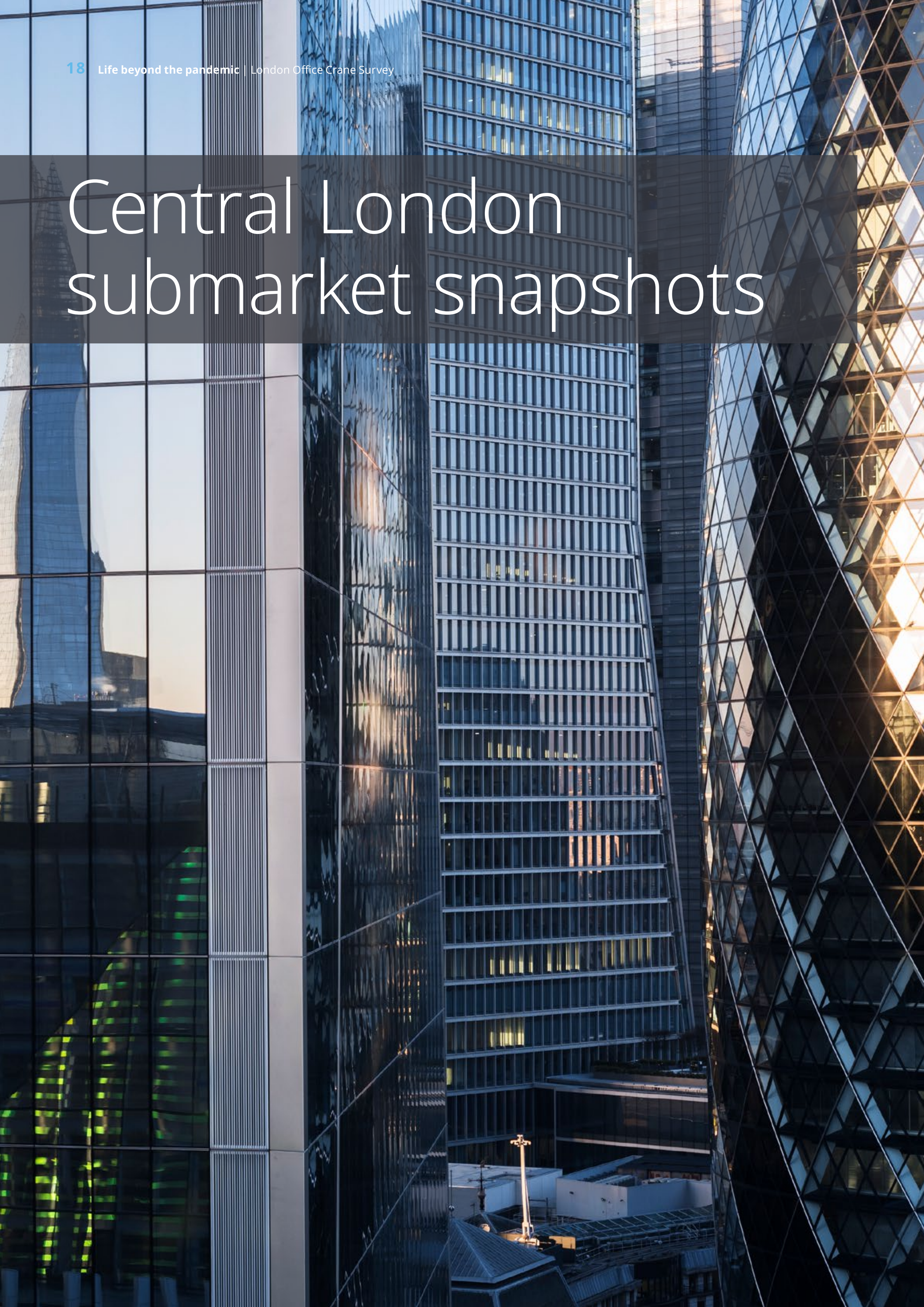


Source: Deloitte

The appetite among **flexible office** providers for office space in London has inevitably diminished due to weaker tenant demand for short-term space as a result of the increase in homeworking. Nonetheless, the sector is also witnessing some growth in demand from tenants that are unable to agree terms to extend their lease with their current landlord and who need short-term space while they assess their accommodation needs. (The continuing viability of the serviced office sector during these challenging times is discussed in the *Key themes and outlook* section in this report.)

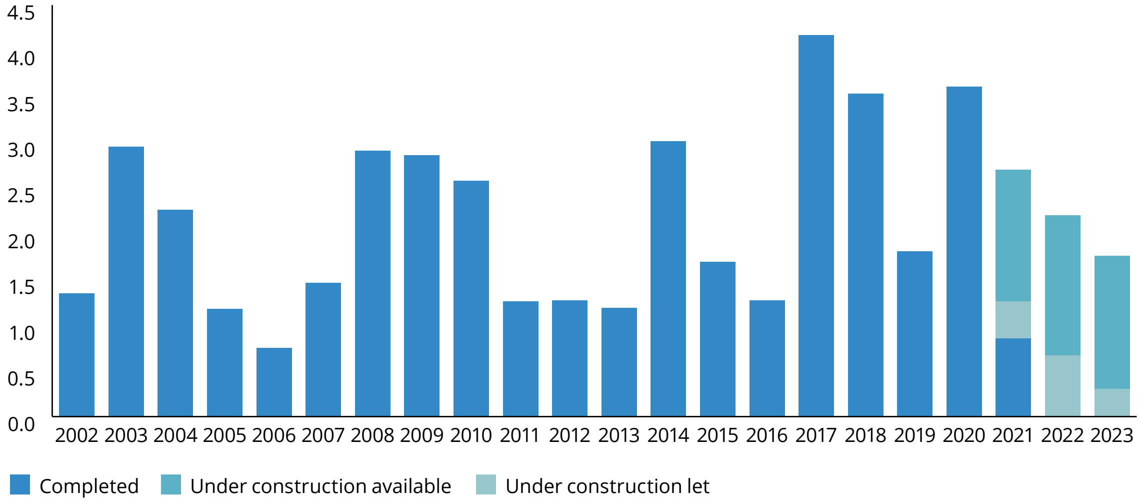
As we emerge from the pandemic, we shall see a mix of London occupier sectors looking to change their leasing arrangements in response to changing market dynamics. Many financial services firms plan to reduce their office presence, having realised that they can operate with a much higher proportion of home working. In contrast, other sectors such as TMT, legal, medical, healthcare and education may capitalise on the market disruption to secure more favourable lease terms.

Central London submarket snapshots

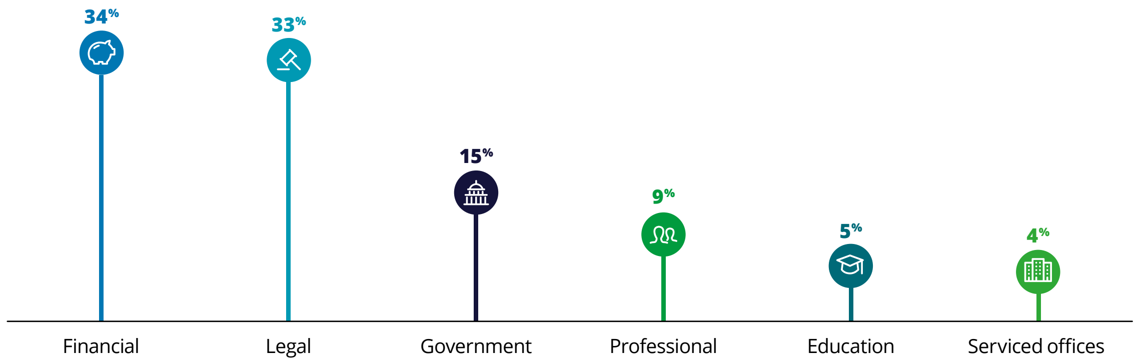


Submarket snapshots
The City

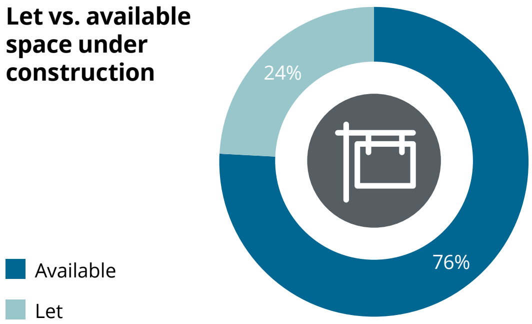
The City office pipeline



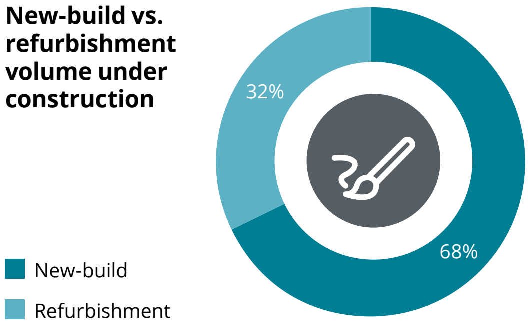
What sector is taking the most space?



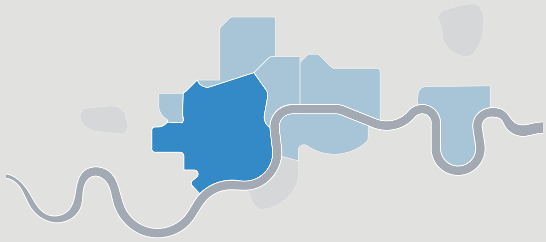
Let vs. available space under construction



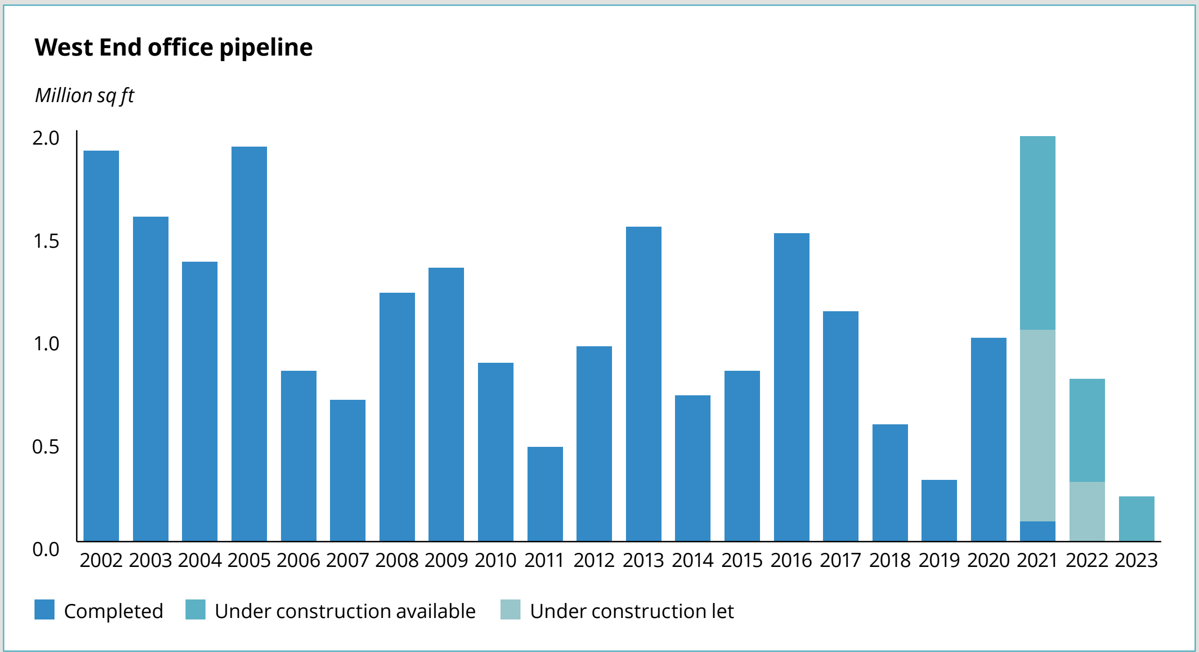
New-build vs. refurbishment volume under construction

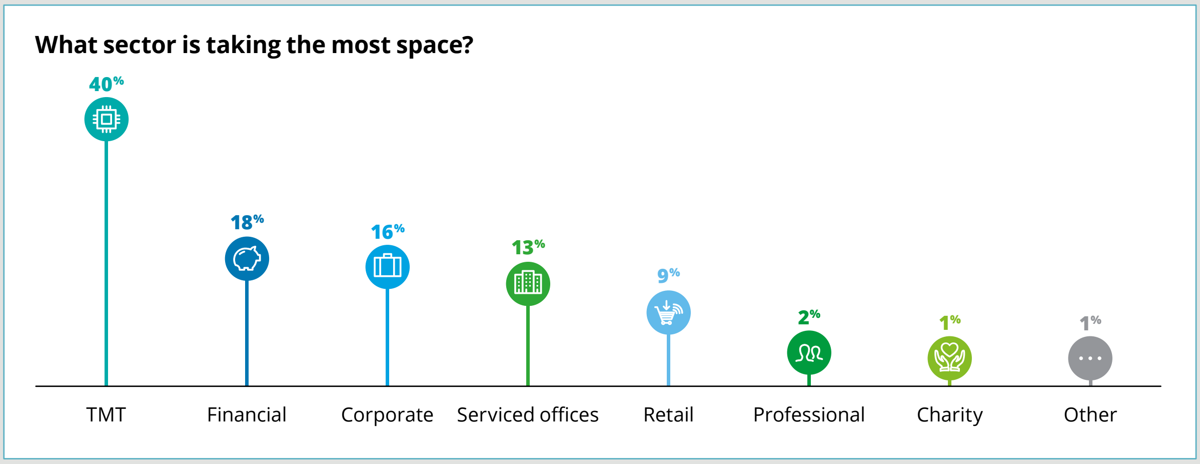


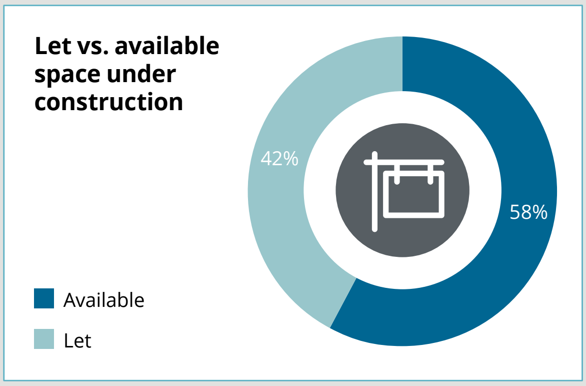
Source: Deloitte

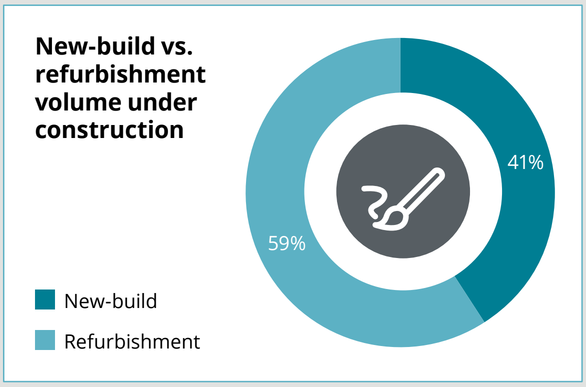


Submarket snapshots
West End



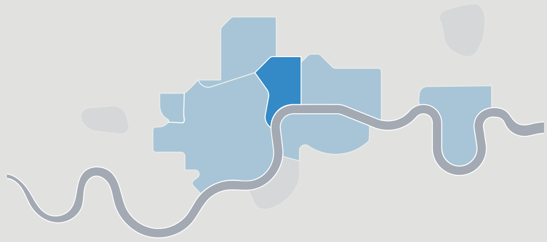






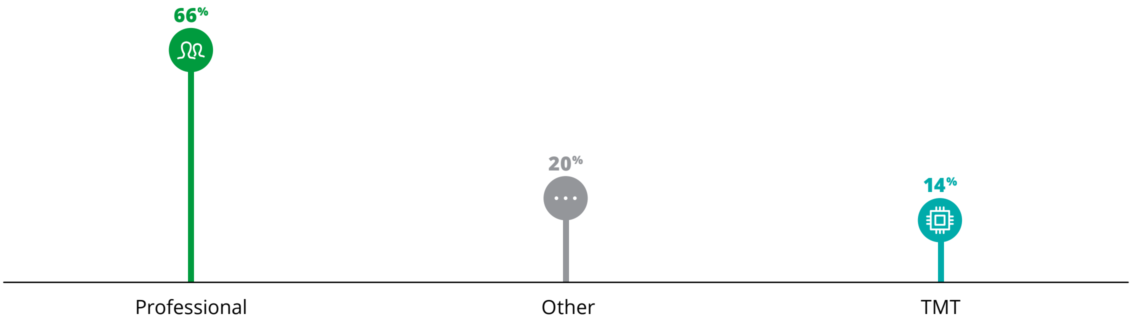
Source: Deloitte

Submarket snapshots
Midtown

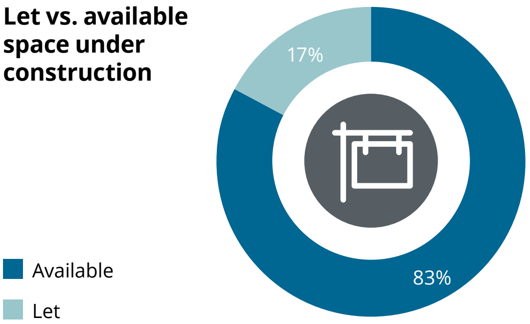


Midtown office pipeline

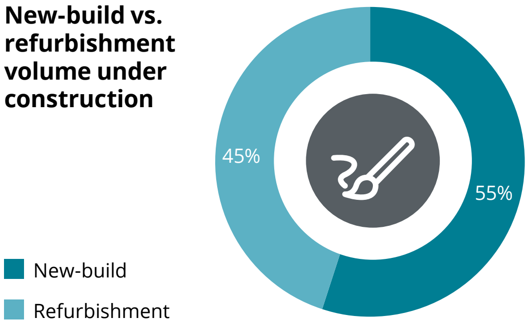
What sector is taking the most space?



Let vs. available space under construction

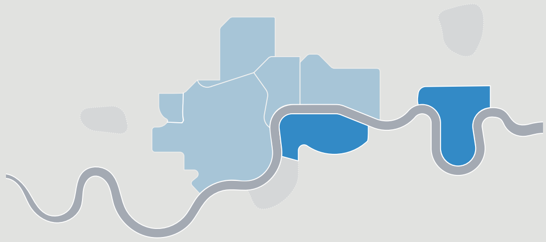


New-build vs. refurbishment volume under construction

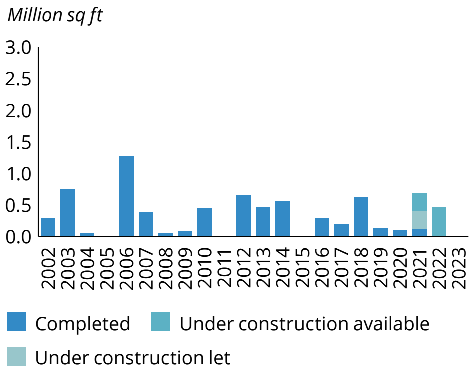


Source: Deloitte

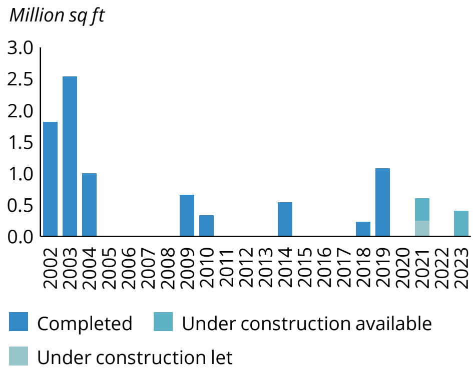
Submarket snapshots
Southbank and Docklands



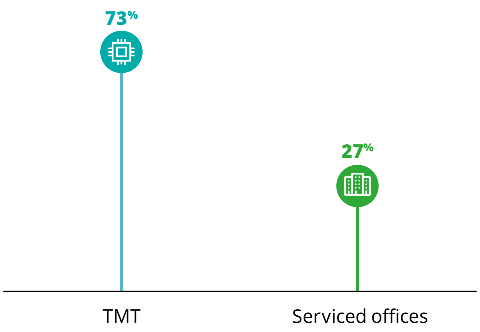
Southbank office pipeline



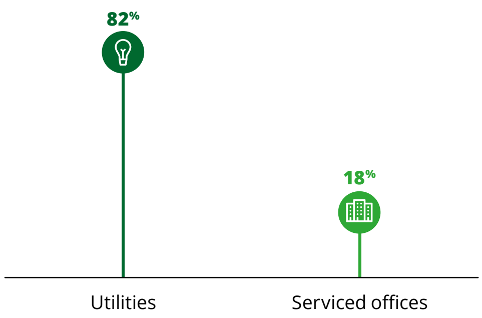
Docklands office pipeline



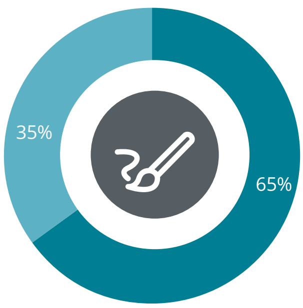
What sector is taking the most space?



What sector is taking the most space?

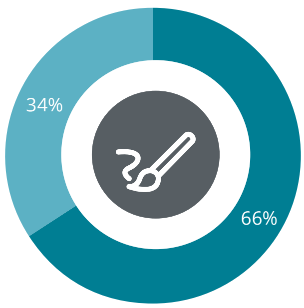


New-build vs. refurbishment volume under construction



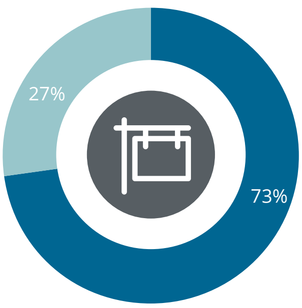
New-build
Refurbishment

New-build vs. refurbishment volume under construction



New-build
Refurbishment

Let vs. available space under construction



Available
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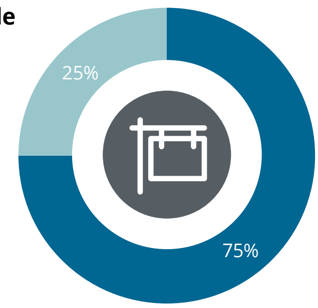
Let vs. available space under construction



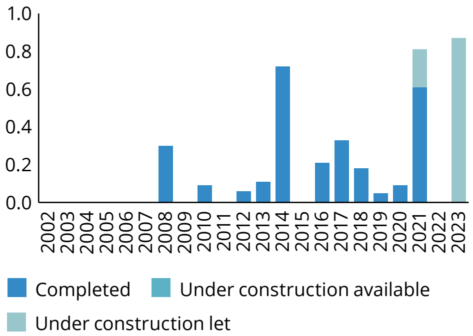
Available
Let

Source: Deloitte

Submarket snapshots
King's Cross and Paddington

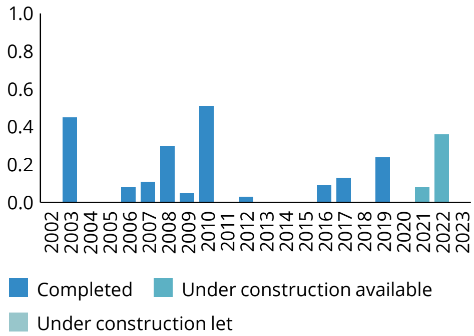
King's Cross office pipeline

Million sq ft

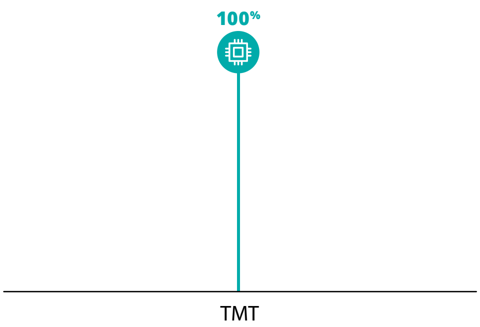


Paddington office pipeline

Million sq ft



What sector is taking the most space?



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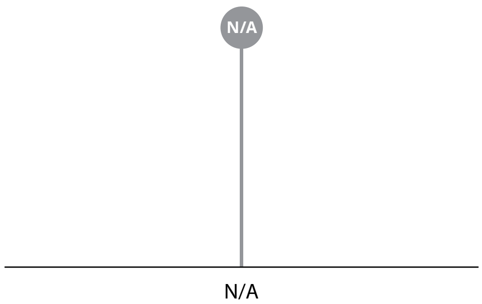
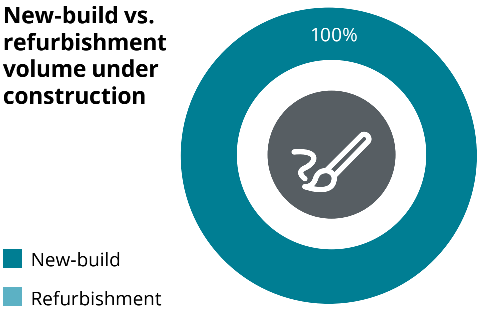
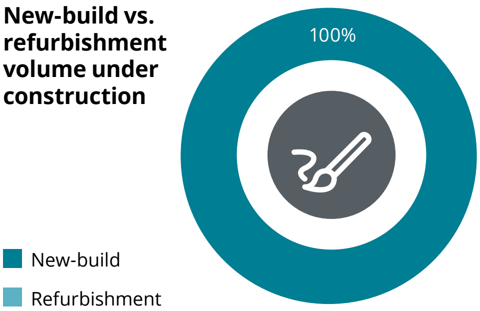


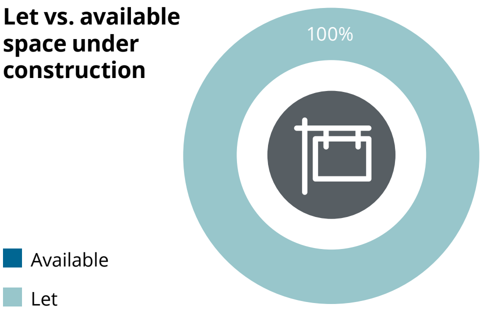
New-build vs. refurbishment volume under construction



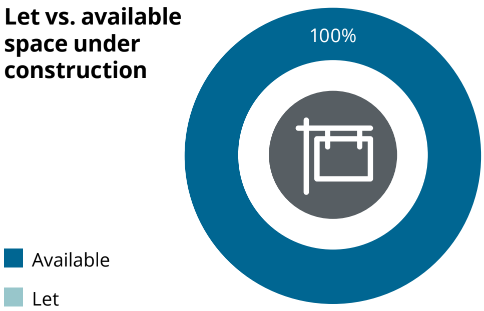
New-build vs. refurbishment volume under construction



Let vs. available space under construction



Let vs. available space under construction



Source: Deloitte

Emerging submarkets Crane Survey results

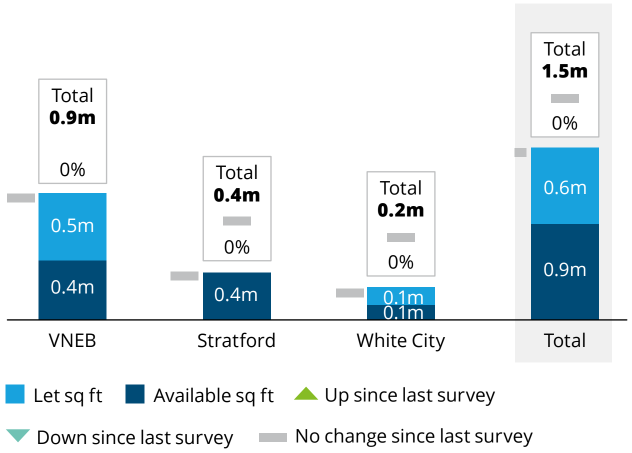
Emerging submarkets results

Emerging submarkets see no new construction activity

Emerging submarkets saw no change in construction levels as there were no new starts or completions between October 2020 and March 2021. Construction activity in less-established office areas tends to be more volatile than in the more mature business districts of central London. Development often starts only when a major pre-let has been secured, endorsing the location and attracting other businesses to the area. This occupier-led demand provides the stimulus for new construction, unless a developer embarks on a major proposition or regeneration play.

In **Stratford**, International Quarter London S4 is the only scheme currently under construction. It will bring 350,000 sq ft of workspace to the market by 2023. International Quarter London has a further 1.9m sq ft of office space in the pipeline with planning permission, but the developers are expected to wait for a sizeable pre-let before beginning any construction. Further south, the next phase of Sugar House Island, MU2, is likely to commence speculatively in Q2 2021. It will deliver 290,000 sq ft of office space with completion scheduled for 2023.

Emerging submarkets: Total office space under construction (sq ft)



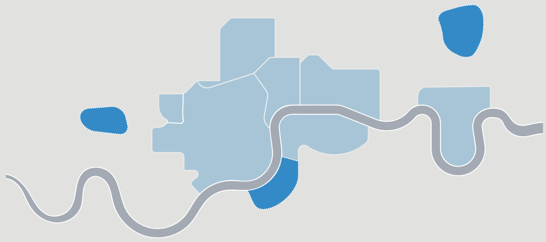
Source: Deloitte

In **White City** construction is now progressing on the 240,000 sq ft Gateway Central Building. This will be occupied by L'Oréal which has pre-let 110,000 sq ft from 2023. When this survey period closed at the end of March, the construction of the neighbouring 115,000 sq ft 1 Wood Crescent was yet to start. It subsequently commenced in April following a 50,000 sq ft commitment from PVH Corp, the firm behind Calvin Klein and Tommy Hilfiger. With the Life Sciences sector expanding in response to the pandemic, White City is also emerging as London's hub for life sciences research and innovation, driven at least in part by its proximity to Imperial College London.

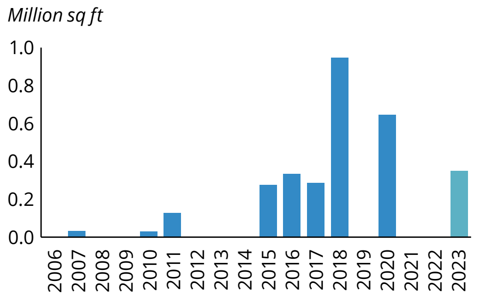
Vauxhall-Nine Elms-Battersea is expected to start coming of age with the opening of the Battersea Power Station development (postponed to Q2 2021) and the Northern line extension scheduled for late 2021. The neighbouring Embassy Gardens development, Eg:HQ, is now well underway and is set to deliver 217,000 sq ft of workspace by 2022.

Elsewhere, **Canada Water** in South East London will see the largest proposed office development in the UK since the beginning of the pandemic, for a 1.7m sq ft office-led scheme. The 4.4-acre site, bought by Art-Invest, will comprise buildings of up to 25 storeys that will include retail, food and drink and community space and a new public realm. This development will be neighbour to British Land's Canada Water masterplan, which has planning consent for 2.4m sq ft of office accommodation.

Emerging submarket snapshots
Stratford, VNEB and White City

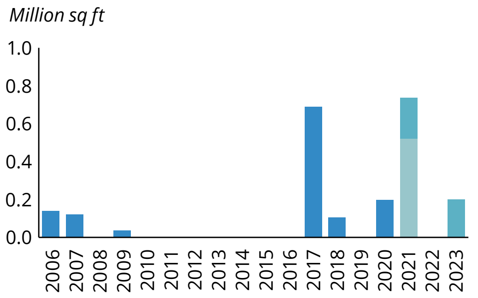


Stratford office pipeline



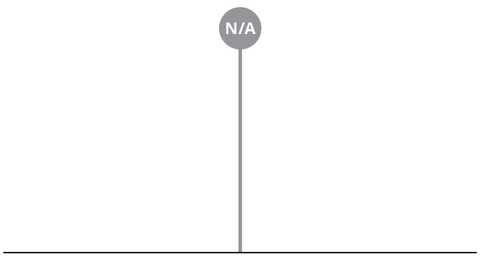
Completed
Under construction available
Under construction let

VNEB office pipeline

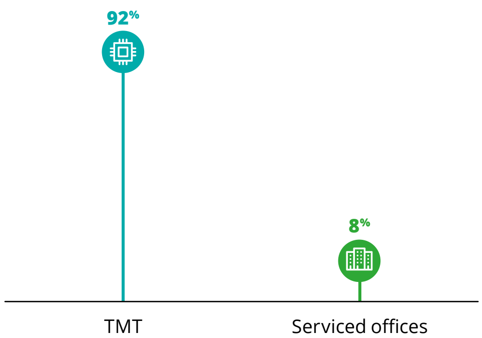


Completed
Under construction available
Under construction let

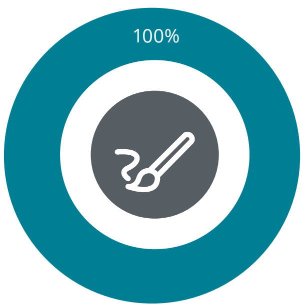
What sector is taking the most space?



What sector is taking the most space?

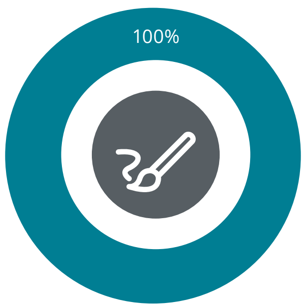


New-build vs. refurbishment volume under construction



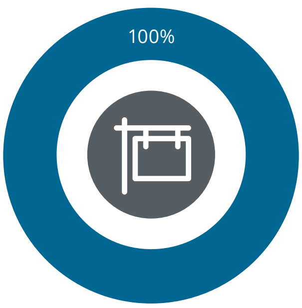
New-build
Refurbishment

New-build vs. refurbishment volume under construction



New-build
Refurbishment

Let vs. available space under construction



Available
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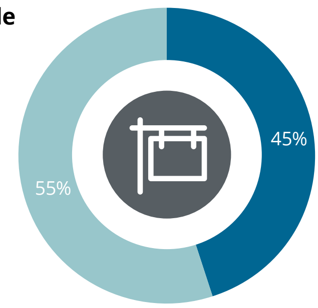
Let vs. available space under construction



Available
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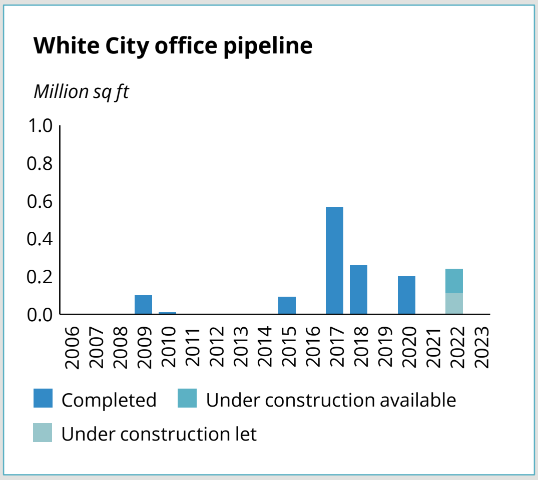
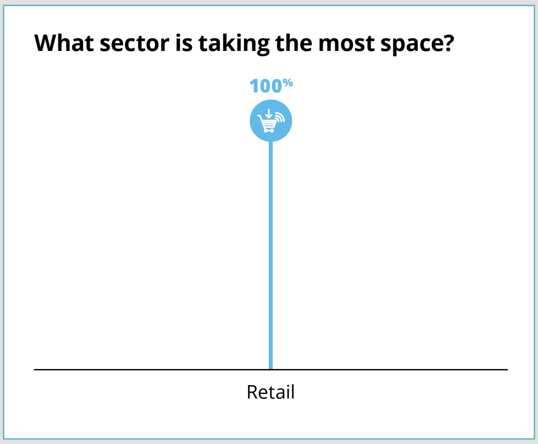
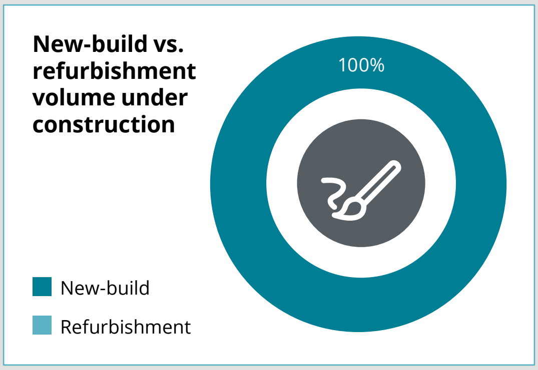
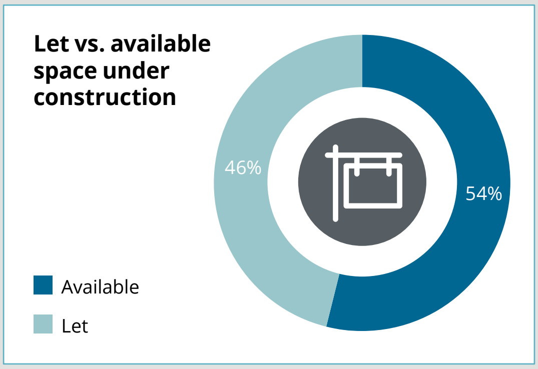
Source: Deloitte









Source: Deloitte

With the Life Sciences sector expanding in response to the pandemic, White City is emerging as London's hub for life sciences research and innovation, driven at least in part by its proximity to Imperial College London.

Key themes and outlook

Key themes and outlook

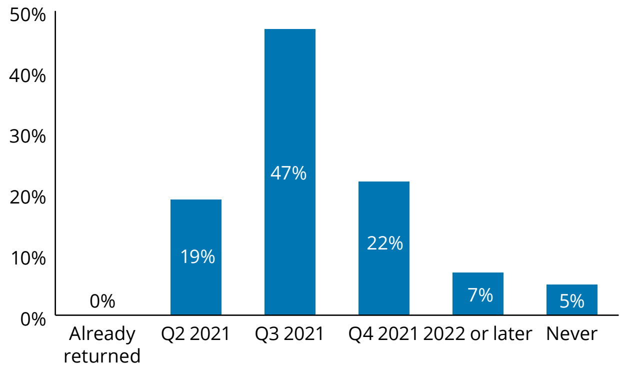
Optimism rises as the economy gradually reopens

The successful rollout of vaccines and the gradual reopening of the economy have boosted business and consumer confidence above pre-pandemic levels, suggesting that the economy will rebound in the second quarter. According to the latest *Deloitte CFO Survey*, optimism among financial leaders of the UK's largest businesses has risen to a record level.

Similarly, the *IHS Markit/CIPS UK Composite Purchasing Managers' Index (PMI)* rose to a six-and-half year high in May 2021, fuelling hopes of a milder economic contraction in the first quarter of this year than during the first lockdown in 2020. What is more, there is some evidence that this increase in activity may be prompting businesses to start hiring again.

The marked improvement in business sentiment was also evident in the expectation by two-thirds of CFOs surveyed by Deloitte that the bulk of their company's workforce would return to working in an office by September 2021. The companies will no doubt be looking to combine the benefits of working from home and in the office, while adopting latest technologies within a hybrid working model.

Expectations for the return to offices
% of CFOs who expect the bulk of their firm's workforce to return to working in the office in the following quarters



Source: Deloitte CFO Survey Q1 2021

According to the latest Deloitte CFO Survey, optimism among financial leaders of the UK's largest businesses has risen to a record level.

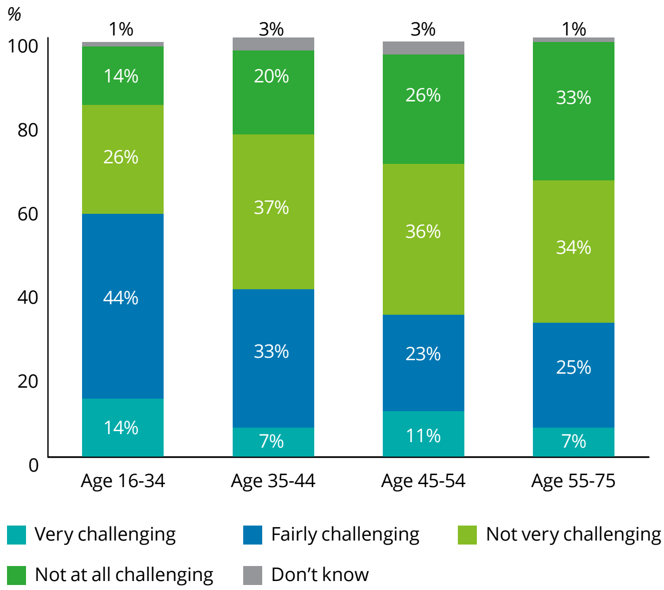
Reimagining the role of the office

Lockdown has opened the eyes of employees to the benefits of working from home, with many relishing the absence of commuting and a flexible working day. However, the prolonged period of homeworking also gives rise to concerns about employee wellbeing as well the implications for business growth, employer brand and organisational culture.

While businesses are reviewing their real estate strategies, considering property costs and required occupancy ratios, this is not the end for the office. Employers will be investing in revamping and repurposing their offices to encourage teams to work creatively and collaboratively, when they do return. Traditional banks of desks are likely to be replaced with meeting rooms and training areas, creating a vibrant hub for collaboration and skills training. The office will become a focal point, where interaction with new and existing clients can take place: it will also be essential for attracting talent to the organisation in the future.

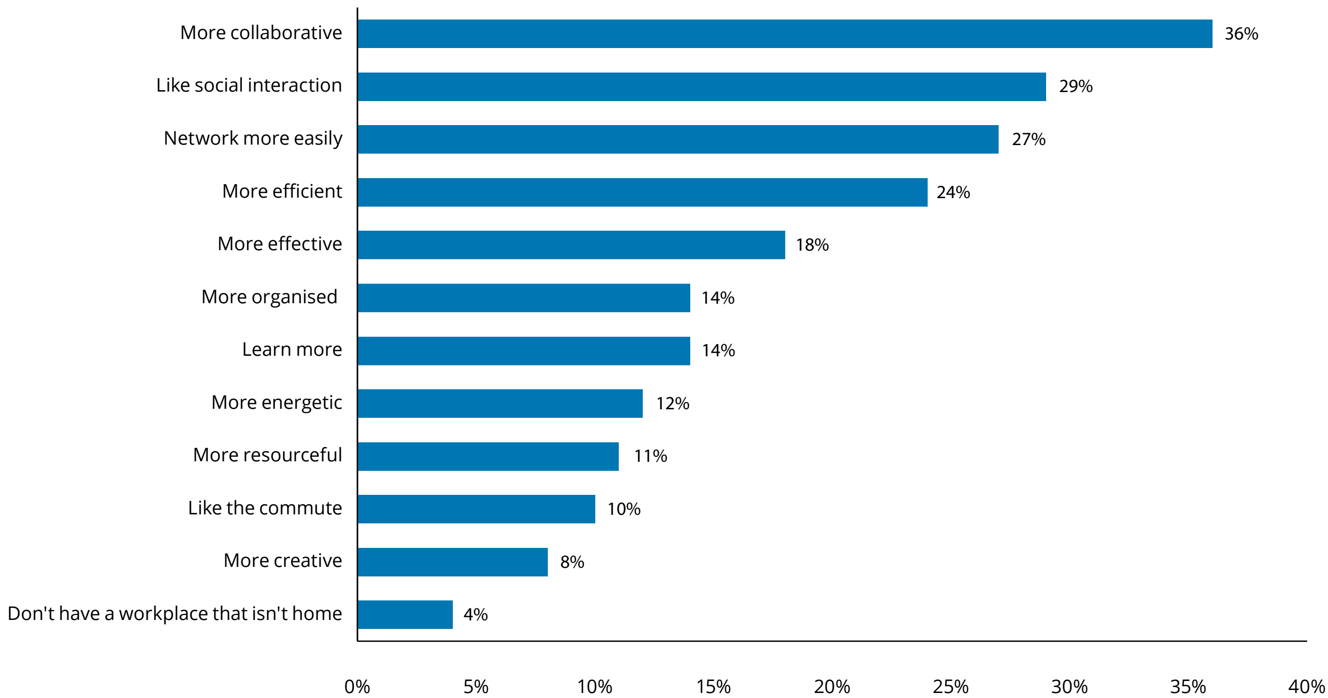
The office building is also likely to become a space to promote and support the wellbeing of employees, many of whom have experienced isolation during the lockdown period as well as challenging/sub-optimal working conditions. The generational divide is evident. More than half (58%) of employees aged under 35 doing their jobs from home say that they find it 'challenging' according to the latest Deloitte research *'UK workers: a year in the pandemic'*, compared to an average of 44% for all home workers. Of those finding working from home challenging, 39% felt that it is hard to stay motivated, 34% found it difficult to maintain a work-life balance, and 33% felt isolated or lonely.

How challenging, or not, are you finding working from home?



Source: Deloitte UK Workers Survey 2021

Benefits of working at usual workplace (not home)



Source: Deloitte UK Workers Survey 2021

Hybrid working model is favoured but there are challenges

Most companies have so far favoured the middle course of a hybrid way of working – attempting to retain the benefits of offices for training and collaboration without discouraging staff who value the flexibility of remote working. This emerging 'blended' approach includes a mixture of home or remote working, a central hub for face-to-face collaboration and possibly a satellite office on the outskirts of a city.

Nonetheless, striking a balance between home-based and office working gives rise to a number of practical issues. It is relatively easy to manage staff if they all work from the office or if they all work remotely; but it is more difficult to make the hybrid model work operationally. In order to gain real estate benefits from hybrid working, business leaders will need not only to gauge employee preferences, but also to assess which tasks are best suited to home and which to the office.

Apart from reviewing employee preferences and job roles, business leaders will also need to establish guidelines that enable them to estimate how much office space they will require. One of the key challenges will be to manage the time people want to spend at home and when they want to come to the office, in order to avoid busy offices mid-week and empty offices on a Friday. This difficulty may limit the reduction in office space that can be achieved. Hence, although staff preferences may be taken into account, we expect that there will be a requirement for more sophisticated scheduling for the hybrid working model to work.

Businesses that look to introduce hybrid working will also need to ensure they provide an equal experience for those work remotely and those in the office, and that they measure their outputs consistently. Workers will therefore need to be well equipped to seamlessly transfer between physical and virtual settings regardless where they are located.

'Reopening and relaunching our capital takes careful thinking'

Against the backdrop of COVID-19, Brexit and climate change, London's business community is grappling with a lot. And at the forefront of this is how best to approach the return to office, what the future of work – and by extension the workplace – will look like.

At the heart of this is London's transport network, an artery for business. The network must be both recognised and prioritised as a precursor to enabling any transition to a new normal. Reliability and reassurance will both be vital for encouraging Londoners back into the city centre safely – accompanied by clear and consistent communication. It is, after all, this very system that will also play a key role in futureproofing our capital – protecting its international competitiveness and providing leadership for on the decarbonisation effort.

But what does a post-COVID transport system look like? This is a big question with no clear answer just yet. However, there is distinct eagerness within the business community for an open discussion on how we can protect and enhance it, looking at ticketing options and data usage to reflect changing commuting trends.

A further nod to our changing city is the evolving use of space. While the commercial property market is unlikely to stall in London, the pandemic is undoubtedly responsible for a shift in the types of space and configuration that firms feel they now need. From our discussions with firms, many are moving away from the 'in office 9-5' assumption. This means a wholesale reimagination of both the nature of work and its connection to the workplace.

For those who encourage people back into the office, more consideration will need to be given to the physical setting and wraparound staff support. Property services firms have been clear about their role too, understanding their need to grip the psychology of the 'draw' to the office, the growing need for ESG reporting, and ensuring that their portfolio provides the right environment for client interaction, training, collaboration and creativity.

Finally, over the past year, London has experienced a 'halo effect', with economic activity shifting out to surrounding boroughs. And as many have noted, there are real advantages to our new world of hybrid working. It has the potential to increase productivity and employee engagement, reduce some fixed costs, widen the talent pool, bring previously distant groups closer to the labour market, and empower a more diverse and caring workforce – as we all seek a balance between work and home life. Therefore, it is critical that businesses across the city try to retain positives from their experience in the past year as we transition to a new equilibrium.

A lot of uncertainty remains, lots of questions are yet to be answered. One thing we can be sure of, however, is that our capital – its workers, its offices, its very charm – has evolved and the pandemic has provided a new opportunity for London to reassert its credentials – defining itself as a competitive hub in which work, leisure and home life are spread more liberally across the city.

Jordan Cummins
Head of London Policy
CBI (Confederation of British Industry)

The move to net zero is under way

In an effort to future-proof investments in a world where climate change risk is becoming increasingly important, the real estate industry is having to accelerate its plans to tackle the climate crisis. One such example of this is the *Better Buildings Partnership's* Climate Change Commitment, signed so far by 24 of the country's largest commercial property owners that have each pledged to deliver net zero carbon portfolios by 2050. Notably this applies to both new and existing schemes and covers operational and embodied carbon for the entire building, including the energy consumed by their tenants.

> We are undertaking a high-level net zero carbon analysis to apply to future developments and engaging with companies dedicated to sustainable development to ensure our buildings are meeting and exceeding sustainability credentials.
>
> **UK property developer**

The government also recently published an ambitious plan to introduce significantly tighter Minimum Energy Efficiency Standards, raising the current permitted threshold of EPC from 'E' to 'B' by 2030, with an interim step of 'C' by 2027. Alongside proposals to introduce an annual 'energy in use' measurement, this will have a significant impact on the secondhand office market, where buildings that do not comply with the standards will be increasingly exposed to accelerated rates of obsolescence.

A further question is whether existing buildings should be demolished to make way for newer structures, and in doing so, increase the embodied carbon. With occupiers increasingly demanding space capable of different uses we expect that there will be greater focus on remodelling and refurbishment, where buildings can be recycled and adapted to suit demand, without the need to demolish and rebuild. However, while some outdated buildings with good grid sizes and floor to floor heights can be refurbished relatively easily, other refurbishments will not be so straightforward, leading to office vacancies, early obsolescence and conversion to other use classes.

Occupiers are also becoming more discerning about the buildings they use. Office requirements have already evolved as a result of the pandemic and changing commuting habits. With commuters currently viewing the Underground less favourably, being closer to major transport hubs could become more important in the future. Offices that employees can cycle or walk to, and that also have additional parking space for cycles and changing facilities, are already in higher demand, underlying the fact that ESG credentials are more relevant than ever.

> For all our developments we will undertake Whole Life Carbon Assessments with a view to cut embodied carbon intensity by 50% by 2030. We will also build to NABERS Design for Performance principles.
>
> **UK real estate investment firm**

Katherine Lampen, Head of Sustainability and Philip Parnell, Head of Valuation, Deloitte UK

Q. Why do you think ESG has recently become so important in the real estate industry?

(KL) Wider context – The UK Green Building Council (UKGBC) states that the built environment contributes around 40% of the UK's total carbon footprint. Almost half of this is from energy used in buildings, and so clearly the built environment has a major role to play in climate change mitigation and adaptation and in helping the UK achieve its commitment to net zero. Equally, the United Nations Environment Programme Finance Initiative (UNEP FI) states that the real estate sector has one of the highest carbon footprints – it currently contributes 30% of global annual greenhouse gas (GHG) emissions and consumes around 40% of the world's energy. Following through on the commitments made in Paris means avoiding 77% of total CO2 emissions in the buildings sector by 2050 compared to today's levels. COVID-19 and the UN Climate Change Conference of the Parties (COP26) later this year have sharpened the focus on ESG and put it at the forefront of company agendas, including real estate.

(KL) Financing – There is a growing realisation that ESG can be a way of unlocking new, or preferential access to capital. Many real estate companies are now exploring things like green revolving credit facilities to help improve existing stock, meet net zero commitments, and deliver strategic objectives.

(KL) Regulation – The mandatory Task Force on Climate-related Financial Disclosures (TCFD) is coming down the line in the UK and the recent EU Sustainable Finance Disclosure Regulation (SFDR) will help to clarify what a 'sustainable investment' really is. If a real estate firm wants to be included in an investment company's 'sustainable' investment portfolio it will need to manage, collect and report ESG data in a number of specific areas and provide this to the investor. If it does nothing, it risks not being included in sustainable portfolios, which are growing rapidly and are likely to continue to do so.

(PP) ESG has deep roots in the real estate sector, but for too long the business case for adoption was primarily focused was on trying to identify and capture a so-called 'green value premium'. In reality, ESG is not an optional extra which niche players might choose. It affects all built stock and inferior ESG credentials are increasingly recognised as a risk factor capable of eroding value. Whether the risk due, for example, to weaker demand from occupiers, the need for more capital expenditure or more expensive debt, let alone reputational risk, ESG now presents a very real threat to value.

Q. What changes do you think the government, and industry, needs to make to achieve net zero?

(KL) The mandating of TCFD is already part of the answer: getting companies to disclose their exposure to climate change risk and how they are managing it, and encouraging them to take meaningful action to contribute to the UK's net zero target. And better engagement with tenants – often real estate companies report only the emissions within their operational control and if a tenant procures its own energy, they would not generally have sight of it, even if it is in their own building. Better tenant engagement on sustainability would help to lower operational emissions in the built environment.

(KL) Better data: for example, a rollout of smart metering as standard to ensure regular and accurate data is received and performance can be monitored.

(PP) The proposed measurement of 'energy in use' in 'private' buildings (as distinct from 'public' buildings, where Display Energy Certificates have been used for many years) has long been called for and is to be welcomed. However, it will require careful implementation to ensure that it operates effectively alongside the tighter Minimum Energy Efficiency Standards.

(PP) Standards and Regulations set out by professional bodies such as the RICS have started to embrace ESG but will need to evolve further – firstly, as a means of driving adoption throughout the real estate market, and secondly to instil consistency and confidence beyond the informality of voluntary codes of practice.

Q. Do you think ESG will have an impact on the move to more buildings being refurbished as opposed being demolished/new build?

(KL) Many asset owners have already highlighted the need to focus on refurbishments, with the UKGBC saying that about 80% of all buildings that will exist in 2050 have already been built. So, one of the key ways to resolve the climate crisis will be to address the existing stock.

(KL) The focus on embodied carbon, especially with commitments to net zero, means that decisions will need to be made carefully when considering development activity. Decisions will increasingly be taken with embodied carbon in mind, driven by an internal carbon price. Depending on the outcome of the embodied carbon assessments, this in turn could favour refurbishment over new-build projects.

Katherine Lampen
Head of Sustainability, Deloitte UK

Philip Parnell
Head of Valuation, Deloitte UK

Office strategy is polarised amongst sectors

Continuing a trend since the global financial crisis, many of the large retail banks have recently announced plans to reduce their office holdings portfolios, especially in central London. This is being driven by more efficient use of space through increased densities and remote working across many functions, with the proportion of employees working from home at any point in time potentially reaching towards 50%. In contrast a number of large investment banks, which tend to be involved in highly interactive regulated activities and which have a different culture, are looking to maintain their current office footprint and encourage a rapid return to the office.

While the large retail banks, which are long on space and have little expectation of growth, aim to cut back on office space and save costs, many other companies, particularly in TMT and growth industries such as FinTech, expect their employees to return to the office for the majority of the week and are not intending to scale back on space to the same degree, if at all. We are witnessing a polarisation of working models that depend largely on the forecast for business growth and staff attitudes to working from home. Many other occupiers will continue to adopt a 'wait and see' approach until there is more clarity about employee preferences and strategy implementation, with no clear picture emerging until 2022.

Flexible offices set eyes on 'hub and spoke', but will demand follow?

Working from home and the introduction of social distancing measures for those working in an office have tested the viability of flexible office businesses during the pandemic. However, the sharp fall in demand for short-term accommodation, especially from SMEs, is likely to be offset by demand from larger businesses looking for temporary accommodation. Bigger occupiers will want access to amenity space in addition to their existing offices so that they use it if and when all staff need to come into the office.

There has also been some evidence of appetite for flexible office space in non-core city areas as tenants seek alternative locations in commuter towns or city suburbs. A 'hub and spoke' model would allow businesses to retain a city centre presence, while also utilising regional and local office hubs, which could include out-of-town co-working space. But the sector is still at an experimental stage and there is uncertainty about tenant demand for flexible office space in suburban locations.

The previous boom in the flexible office market has inevitably slowed down as the rapid expansion led to an overhang of space. However, in the longer term, serviced offices are likely to be a part of new working patterns and the shift towards greater choice in where and how we work.

Will the pandemic create a more dispersed urban landscape?

Businesses will undoubtedly look to re-shape their existing office space into hubs for collaboration, while new forms of shared facilities may crop up in neighbourhoods and suburban centres.

The *Deloitte Regional Crane Survey* found that regional cities have fared better than expected during the pandemic, with residential and office development remaining strong. The benefits of a shorter commute, cheaper housing and a good quality of life have meant that the regional cities and towns are responding well to the multiple challenges that the pandemic has presented. It is possible that these cities and towns can remain nimble and effect structural change quickly, particularly as we emerge into a post-pandemic world where public safety and carbon neutrality are likely to play a bigger role.

With Crossrail and HS2 in the pipeline, as well as a host of smaller local infrastructure projects aimed at moving people around the country more quickly and easily, the quality of life should improve for the many people who rely on transport networks to get to work. Improved transport links will no doubt increase capacity, drive regeneration, create new city quarters and connect previously isolated areas.

Major global cities are already preparing for big changes to reduce commuting times. Paris is promoting the concept of the '15-minute city', where living spaces are a short commute from work and amenities. Melbourne is proposing '20-minute neighbourhoods'; and Montreal is working on a hybrid system that combines remote working with a continued use of physical space. The pandemic has prompted a rethink about how to live, work and move differently, a theme that is being picked up and delivered at pace in London and elsewhere.

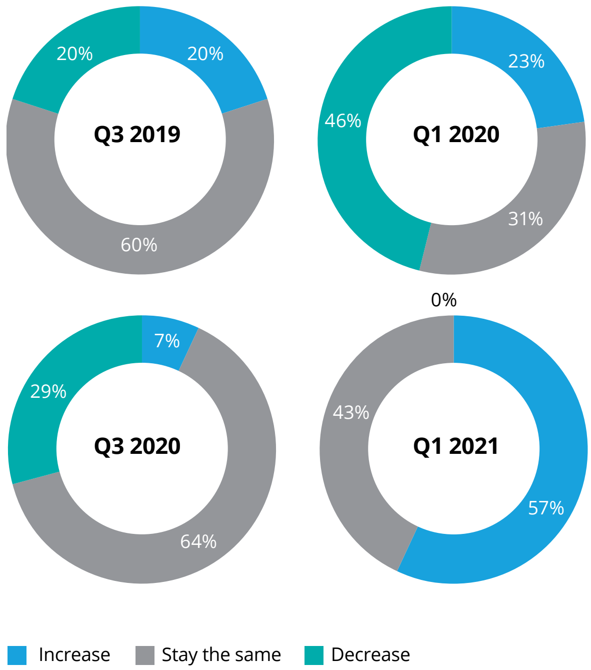
From survival to revival

The role of the office is arguably undergoing its most disruptive shift in recent times, as it evolves and adapts to the new ways of working that suit the modern post-COVID workforce. As we prepare to return to the office, businesses are reviewing their real estate strategies and looking to combine the benefits of working from home and in the office, while adopting the latest technology, in order to facilitate a hybrid working model.

Despite weak leasing demand since the pandemic began, the central London office construction sector is still very much alive. Compared to September 2020, more than half (57%) of developers are now looking to increase construction pipelines in the next six months, against just 7% in our Winter 2020 survey. This suggests confidence that there will be sufficient demand to justify building new offices. However, developers are focused on providing the right product, embracing adaptable and generous office space, occupier wellbeing and sustainability. Best-in-class offices are likely to be in short supply as demand intensifies, while outdated secondhand offices that do not meet industry standards, especially on carbon emissions, will rapidly become obsolete.

As the London office market undergoes a sweeping reinvention, it will inevitably prompt a major reconfiguration of office layouts and density, as well as accelerating the adoption of smart technologies. Office developers and landlords will need to work harder to respond to evolving occupier requirements, which will be guided by ESG credentials, health and safety, technology and demographics.

Landlord survey: 'Compared to six months ago, how to you expect your pipeline to change in the next six months?'



Source: Deloitte

Central London: Office pipeline forecast

Source: Deloitte

Construction cost and workload sentiment survey

Construction cost and workload sentiment survey

To complement the London Office Crane survey, Deloitte's cost consultancy team carry out a bi-annual construction market survey, capturing market sentiment on workload and price. The construction industry is back at work, but the impact of COVID-19 continues, along with concerns about Brexit.

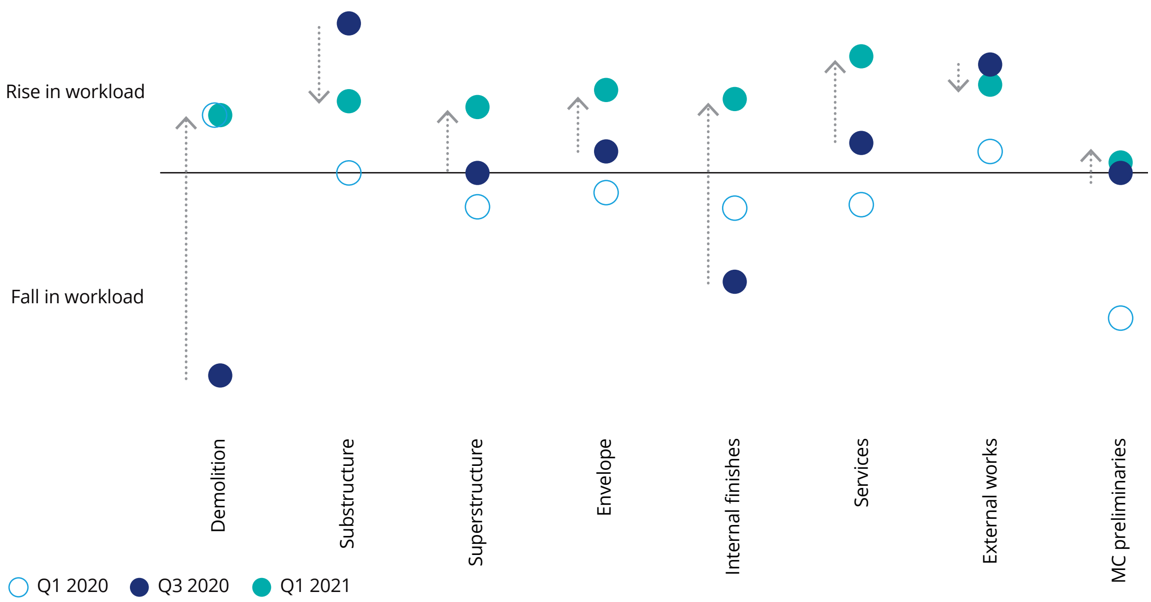
Trades predict a rise in workload over the next 12 months

Data from our Construction Market survey is consistent with similar findings by the Office for National Statistics (ONS), the Construction Products Association (CPA) and IHS Markit, which all suggest significant growth in UK construction workload in 2021 as organisations recover from the effects of the disruption from COVID-19. CPA predicts however that getting back to pre-pandemic 2019 levels will not be fully achieved until 2022 for most sectors and in the commercial sector, which includes both office and retail schemes, it will take until 2023.

Our London Office Crane survey reports a high number of completions in new-build and refurbishment schemes in the six months to March 2021. Encouragingly construction levels continue to remain above the long-term average as we see a good number of new starts. Less encouraging is fit-out activity: contributors to our Construction Market survey suggest that this still remains subdued as a consequence of less leasing.

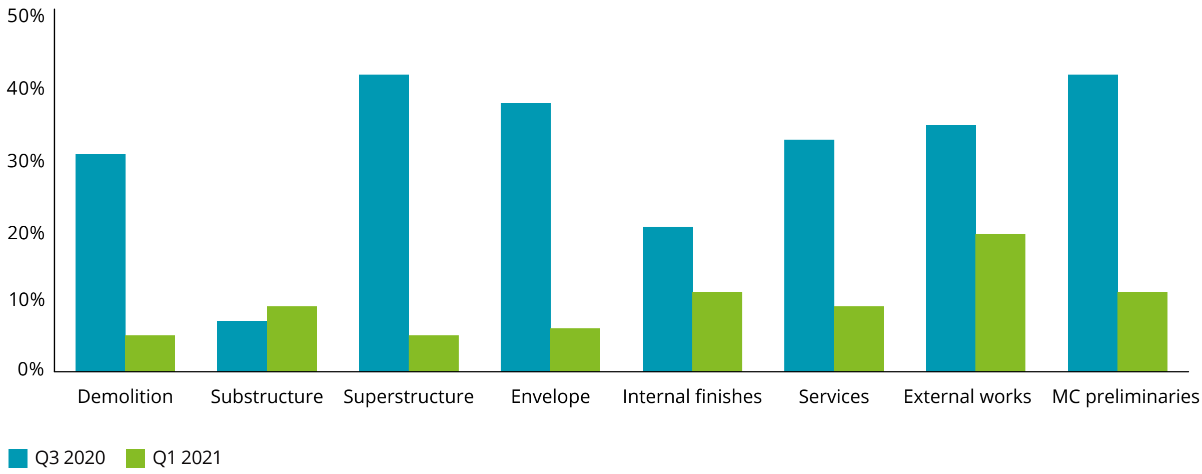
In our workload results graph (below) the arrows indicate the change in the predicted future workload, compared to six months ago. Almost all trades predict a rise in workload. The exception is substructure trades for which significant growth was predicted in the previous survey, relating to infrastructure activity and HS2 in particular. It is therefore no surprise that the expected growth for these trades is now more in alignment with other trades, which explains the reduction this time.

Workload sentiment for the next 12 months



Source: Deloitte

Percentage of workers on furlough

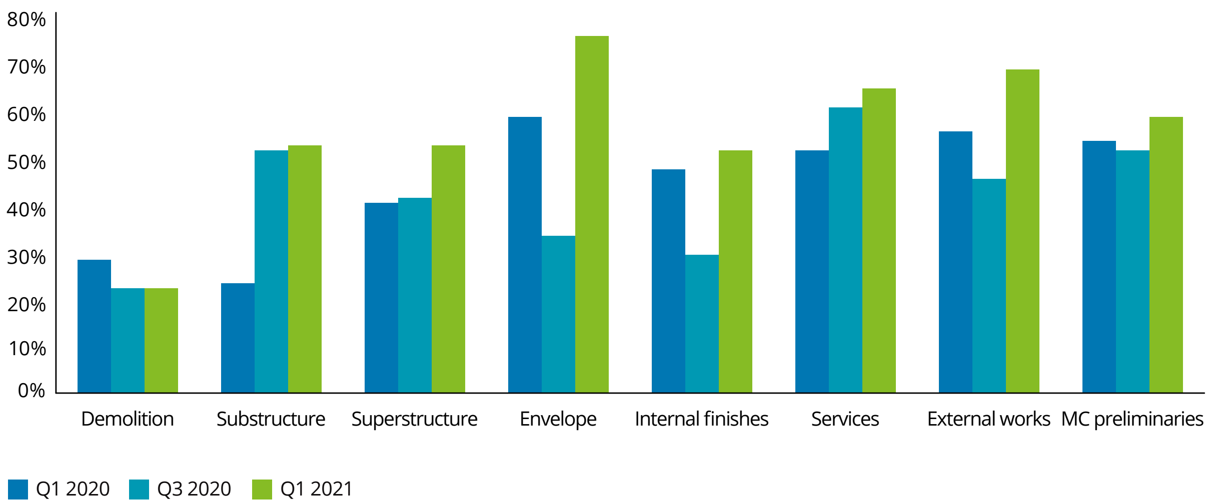


Source: Deloitte

The predicted rise in workload is supported by a dramatic and encouraging drop in the number of workers on furlough compared to six months ago. However, once all available resources are redeployed, the continued growth in the workload will revive fears around the post-Brexit availability of non-UK labour, which the construction industry has relied on historically to deal with peaks in activity. An inability to secure foreign labour could lead to price inflation, and some evidence of this is already starting to emerge across a few trades.

Secured pipeline figures for almost all trades are up compared to both six and twelve months ago. It is worth noting however that early trades in construction projects have less visibility of their pipeline as they can often have immediate starts, compared to later trades which may secure projects many months before they start work on site. The graph below shows strong pipelines for many of the later trades, which is a positive indicator. However, there may still be a lack of immediate work and could be a reason for the competitive prices seen for work carried out during 2021 but higher prices for 2022 and later.

Pipeline: Percentage of pipeline secured



Source: Deloitte

Trades are concerned over disrupted supply chains

Cost increases and price changes are the most significant headline in this Construction Cost survey. These have been driven principally by higher material costs. Both heavy and light raw material suppliers are reporting increases in costs. As just one example, there have been numerous warnings about rising steel prices in the past year. Some of this is driven by general world demand, some is led by the market turmoil with supply and demand imbalances as a consequence of COVID-19, where demand is outstripping supply for some materials as the impact of previous factory outages, shipping and logistics issues. There is evidence that price hikes for some materials may be driven by rising costs, but there are also suggestions that some larger manufacturers may be taking advantage of market dynamics and their own dominant position to push through increases. A word used by some survey respondents is 'unstable' prices, which make for difficulties in a market where often contractors have to fix their prices many months in advance. In our previous survey we described the impact of COVID-19 on eroding profit margins, which means that many contractors have limited capacity to absorb material price hikes.

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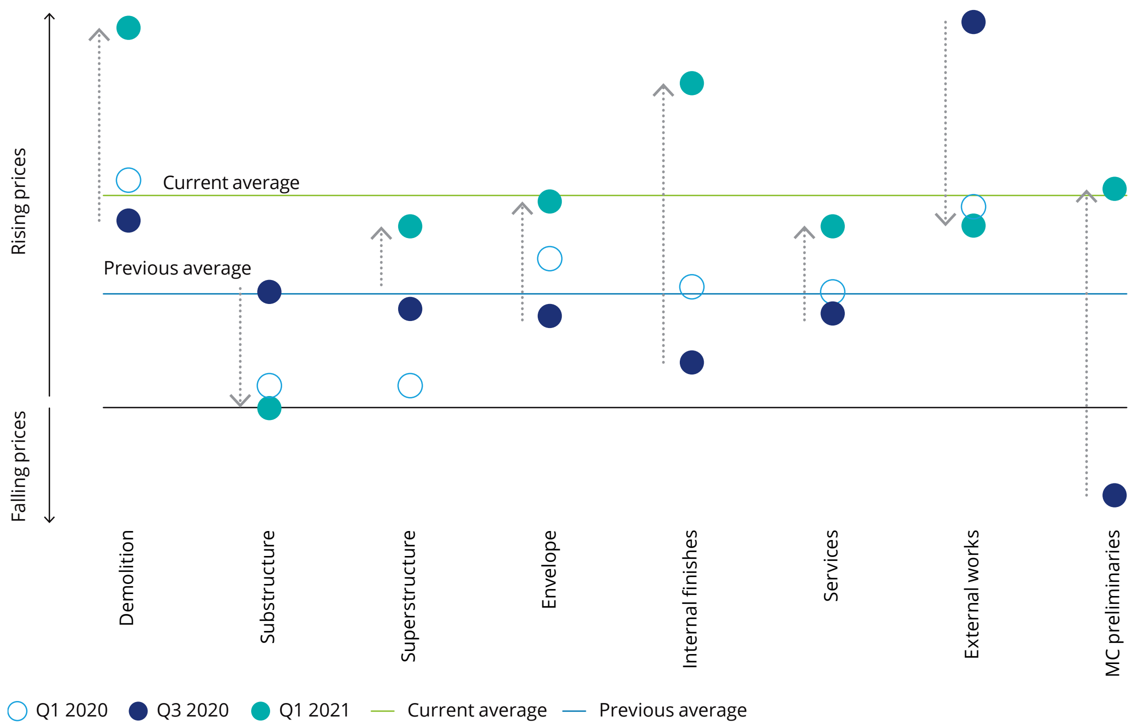
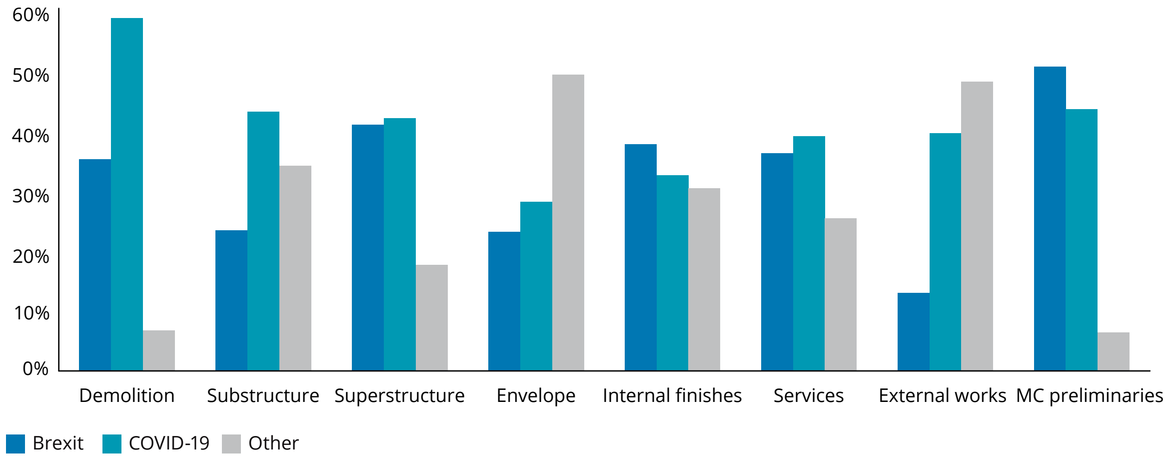
Price change sentiment for the next 12 months



Source: Deloitte

Prices: What is driving the anticipated price changes?



Source: Deloitte

COVID-19 is only one factor affecting costs and prices. The impact of Brexit and the EU-UK Trade and Co-operation Agreement is another key driver. Our survey respondents reported that higher prices were being seen or predicted for EU goods and services.

Whilst prices for materials are currently the dominant driver of price changes, there are other issues for contractors to contend with. Construction work on sites continues to be managed under COVID-19 driven Site Operating Procedures, which limit close contact and so reduce productivity and increase cost. The availability of and the cost of insurance across the construction industry, particularly around PII insurance, is a problem, with substantial year-on-year increases in premiums. Problems with insurance stem largely from the impact of the Grenfell fire: nobody wants the liability for design faults or responsibilities for fire-critical elements in buildings. Responsibilities are therefore likely to get passed down the supply chain, and those picking up the responsibilities will expect to be paid – another source of higher prices.

How much cost increases are absorbed by contractors and how much will be passed on to clients in higher prices will depend very much on workload and competition / confidence in the contractor market. Current projects that may have been priced on thinner margins may have to absorb cost increases this year, which may lead to problems and significant price increases for future projects. Although it seems that the construction industry has weathered the immediate impact of COVID-19 reasonably well, the 'aftershocks' mean the road ahead may still be somewhat bumpy for some time to come.

COVID-19 is only one factor affecting costs and prices. The impact of Brexit and the EU-UK Trade and Co-operation Agreement is another key driver.

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Further information

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