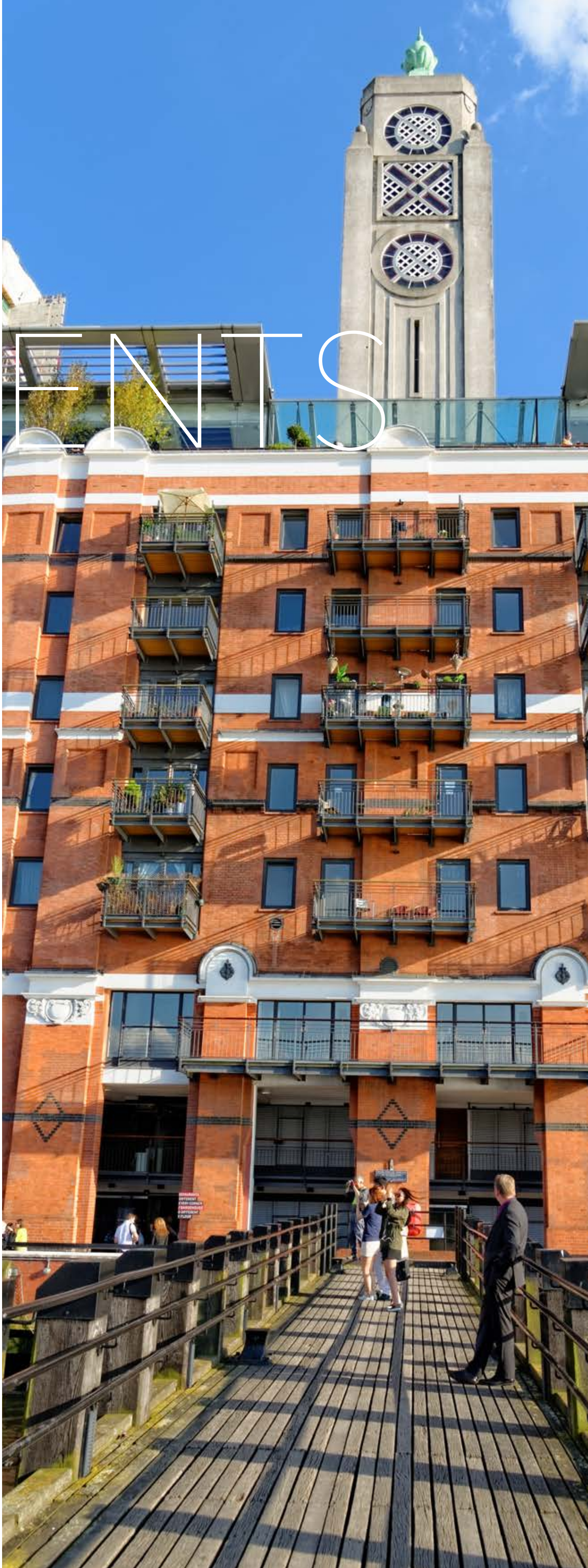
KALMARs

SOUTH LONDON'S LEADING AGENTS

WINTER/SPRING
QUARTERLY MARKET REVIEW

2023

CONTENTS



2023 WINTER/SPRING QUARTER

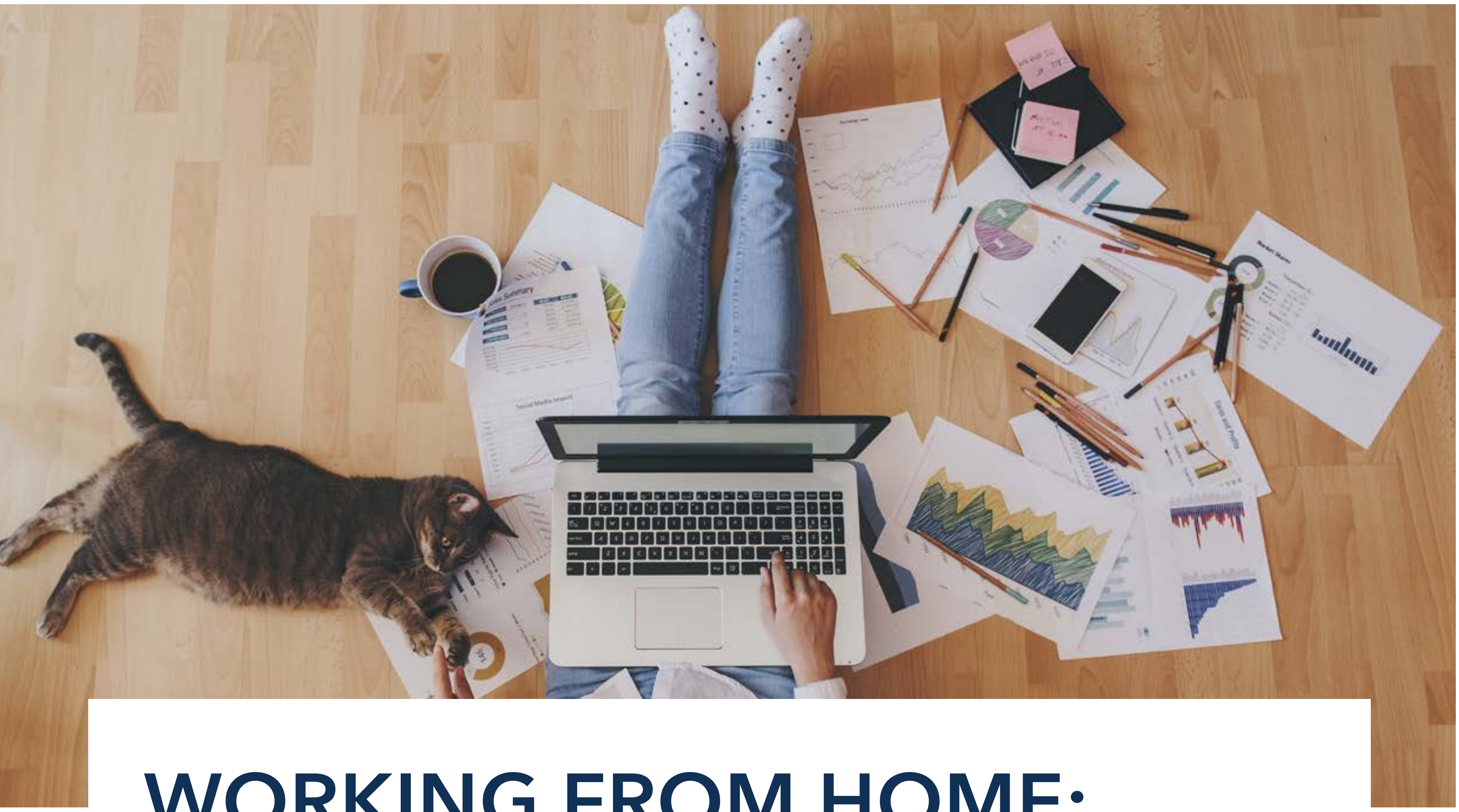
Richard Kalmar
Managing Director

PIVOT POINT

Following the Liz Truss premiership and the Ukrainian war debacle hitting the economy in the latter part of 2022, 2023 has started a little bit more positively. China's stock exchange is up 48% this year, gas prices and inflation are generally coming down as global supply chains ease. A representative from Cazenove summed it up recently with a couple of acronyms; last year's TINA – There Is No Alternatives, this year's TARA - There Are Alternatives. Whilst money is more expensive, it is a far cry from 2008's drought and 2023 does not portend the challenges of the back end of 2022, but it is likely to be a challenging year.

The residential sales market ploughed on well in south London; in spite of rises in interest rates and the first-time buyer incentives ceasing, KALMARs exceeded our target. Lettings were incredibly strong which is continuing into 2023, fuelling buy-to-let development. Offices are showing greater stability as there is greater clarity on how much office space is required. Our feature this quarter on working from home considers the pros and cons and, whilst there is no clear conclusion at the moment, there is greater stability. Industrial yields rose significantly following overheating at the beginning of the year and also higher interest rates but they are now stabilising and remain a popular asset class supported by reasonable rental and strong sales demand, especially from owner/occupiers. The retail sector has been turbulent, but local and out-of-town retail has definitely improved as market leaders like Next report improved results.

Generally, 2023, whilst being a challenging year, should improve on the latter part of 2022 and see growth in most sectors.



WORKING FROM HOME: THE JURY IS STILL OUT & THE EFFECT ON PROPERTY

Covid catapulted the Working from Home (WFH) paradigm forward in a way unimaginable just 3 years ago, but the full long-term effect is still unclear, including how this affects property. There are well documented arguments for and against WFH, generally with employers being less favourable than employees. The effects of WFH vary from one business to another depending on how collaborative the work is, cost of premises, ability to monitor productivity, travel, age of staff, loss of interaction, social engagement and mental health.

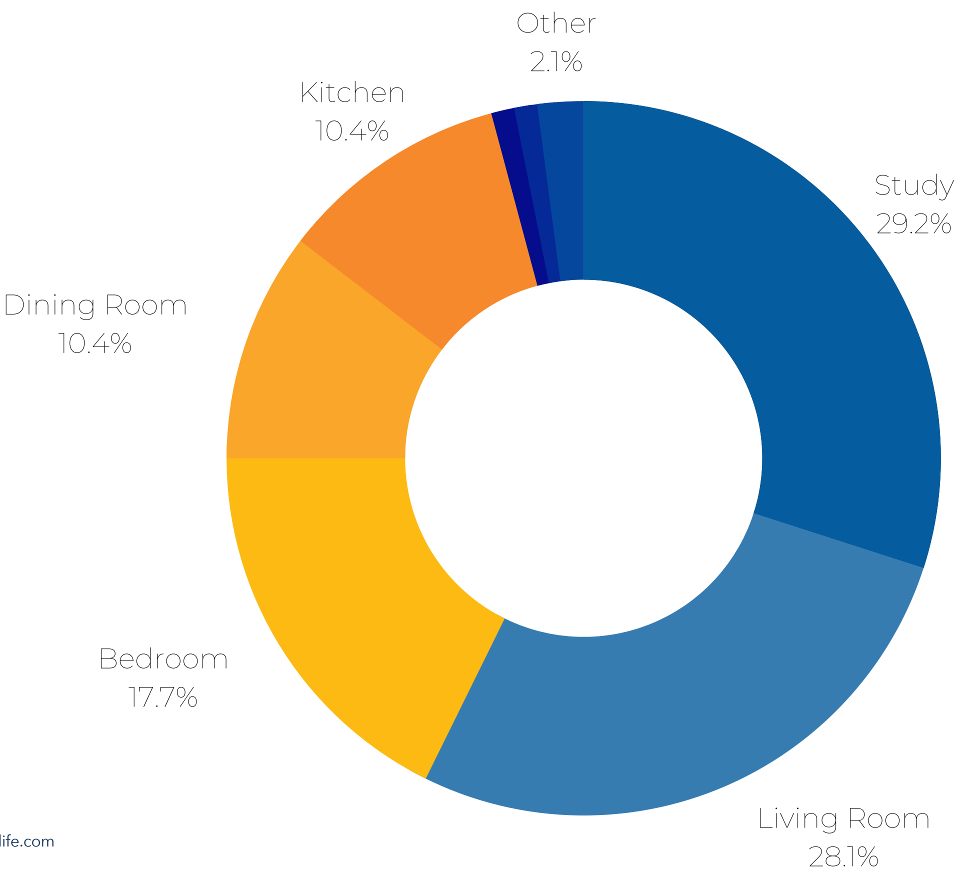
RESIDENTIAL

South London offices are principally in the service sector, which is relatively inflation proof as it can charge higher prices. Most occupiers rent, so are not affected by higher mortgage rates, but overdrafts are likely to be more expensive and the general concerns are likely to stabilise rents. Particularly exciting is the SC1 initiative to encourage life sciences into the triangle formed by three world class teaching hospitals, Guys, St Thomas's and Kings, with an estimated 80,000 jobs anticipated. KALMARs have already had substantial enquiries for this use and anticipate large spin-off demand.

There are two ongoing questions. Are residents going to require and be prepared to pay for an office within their dwelling? The answer in inner London is generally not.
Are residents going to move out of inner London, resulting in a boom in the suburbs? Again, the answer is no. There is still a shortage of accommodation hence high prices in inner London, it is a place people like to live and, whilst far from perfect, there is decent transport, excellent leisure activities and world class health care.

Source: https://thehomeofficelife.com/blog/work-from-home-statistics

WHERE DO RESPONDENTS WORK IN THEIR HOUSE?



Source: thehomeofficelife.com

OFFICES

Office have had a flight to quality; the work environment now needs to be attractive to encourage staff back in, be modern, spacious and fun. I recently went around the million sq ft HQ being developed for Google at Kings Cross. They are clearly very tech savvy, yet their approach is to provide an environment where staff can interact in person and don't want to go home. Features include a roof top park with running track and exemplary leisure facilities, including free meals to attract the best staff from around the world.

Many people WFH on Mondays and Fridays, but with hot-desking does that require the same amount of space and, post pandemic, is the requirement for more space per person? Generally, whilst some businesses are partly WFH, overall demand is similar.

WFH has contributed to greater flexibility of lease length and a one-year commitment is commonplace. Landlords increasingly have to provide space tenants want, but they are charging for it. Typically, an office in, say, Borough High Street that might let for £50 psf on a conventional lease can let at double that on 'easy in easy out' terms.

Whilst this is 9 months old it is the most recent survey by the NS office. Clearly more staff have returned to the office since it was produced.

SHOPS AND FOOD AND BEVERAGE

Home deliveries have undermined traditional prime high streets, but out-of- town centres and very local shops in residential areas have fared well; perhaps more than ever, people want to go out and meet others. With the new class E flexibility and WFH, there has been growth in leisure activities including health, beauty and nurseries taking a lot of fringe space. Cyber cafes have evolved into cooler spaces, with people working on laptops, for which there is good demand.

INDUSTRIAL

With the exception of food production and creative space, with WFH the movement in south London property has continued to reflect the decline in manufacturing, but continued demand for warehouse space.

It will be interesting to revisit the question in a couple of years' time when there will be greater clarity on how WHF has really panned out.

Greater clarity in demand as working from home is absorbed

Two tier market with quality space remaining popular

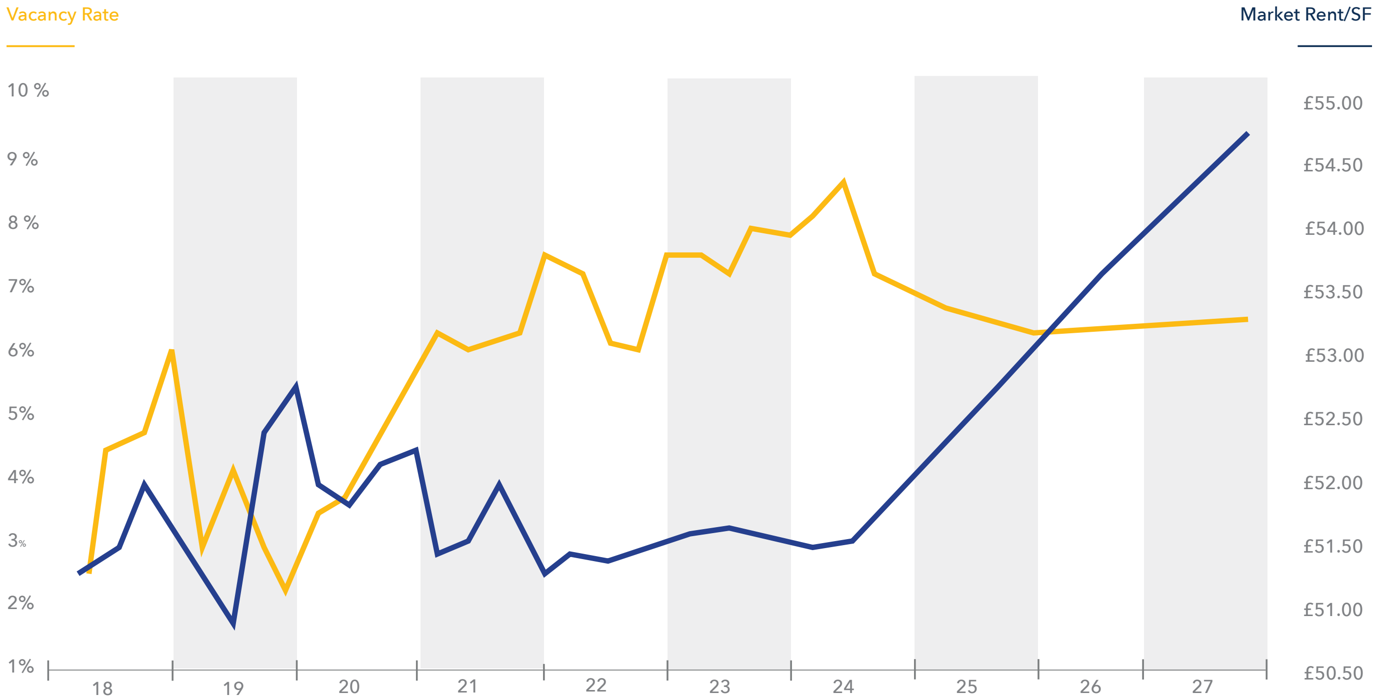
Deals up significantly

SE1 CENTRAL OFFICE MARKET

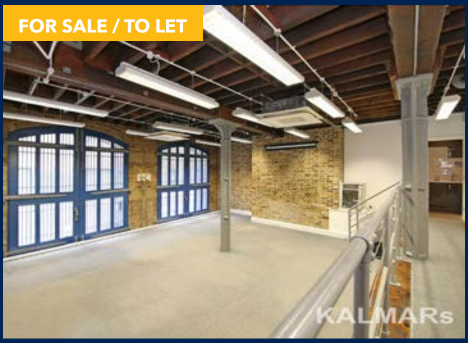
Despite economic and political turmoil KALMARs office team had a very strong final quarter in 2022 with a record number of deals being transacted. Applicant numbers increased, matched by an increased number of instructions providing attractive choices with the best space maintaining good values.

Employees are seeking a better-quality working environment, which has led to demand remaining strong particularly for higher quality new or refurbished buildings. Some companies have adopted flexible working practices, but this varies depending on the type of business.

Looking forward, rents have fallen by a marginal £2 psf or 4% but, as any reduction in the demad caused by working from home change is absorbed and supply dwindles, they are set to rise in line with inflation.



Gainsford Street, SE1
9,200 SQ FT
Price On Application



New Concordia Wharf, Mill Street, SE5
786 SQ FT
Price On Application

The Pyramid, Queen Elizabeth Street, SE1
2,080 SQ FT
£79,500 p.a.

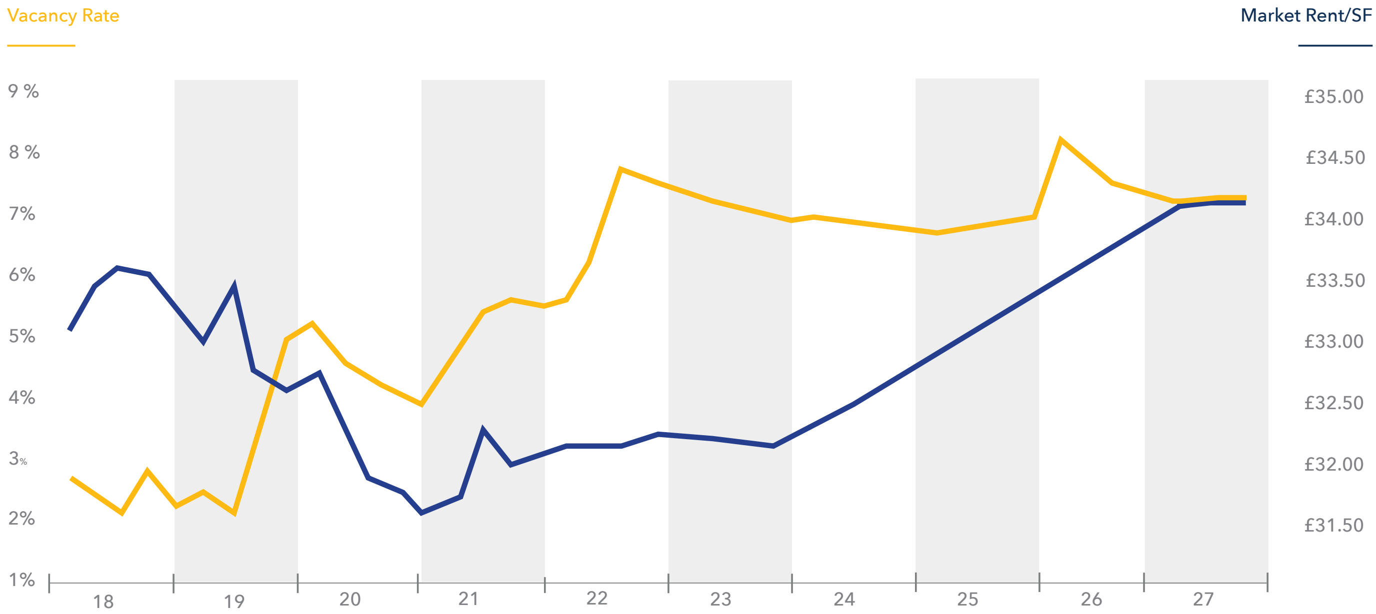
Vacancy rates turning the corner	Improved transport links boosting hot spots	Growth in serviced studio/hot desking providers

DECENTRALISED **OFFICE MARKET**

The decentralised office market has been challenging but, following Covid, less of a problem. Vacancy is around 7% which is anticipated to peak early this year and then fall. Rents have stablised with potential for medium term growth as the problems at the end of 2022 are slowly put behind us and stock is taken out of the market for alternative uses. For instance, KALMARs are letting a 4,000 sq ft office in Deptford for a CrossFit gym. Yields also rose in line with bank rates and tighter funding but long-term funding is stabilising with yields following suit.

Improving transport links such as the Elizabeth Line to Woolwich and the extension of the Northern line to Battersea is resulting in exceptional growth in these areas. Large-scale office developments such as Elephant Park, the Canada Water Masterplan and, again , Battersea are creating whole new business districts, with a higher level of sustainability built in and we understand there is good demand for the large new units.

Serviced offices/hot desking operators are back with a bounce and have been particularly active in purchasing offices ranging from 6,000 to 60,000 sq ft. With more competitively priced sales values, south London is perfectly poised to attract such buyers.



Childers Street, SE8
2,495 SQ FT
£50,000 p.a.

Loampit Vale, SE6
768 SQ FT
£25,000 p.a.

Sylvan Grove, SE15
500 - 5,000 SQ FT
Rent On Application

£1psf or 3% fall in rents now stabilising

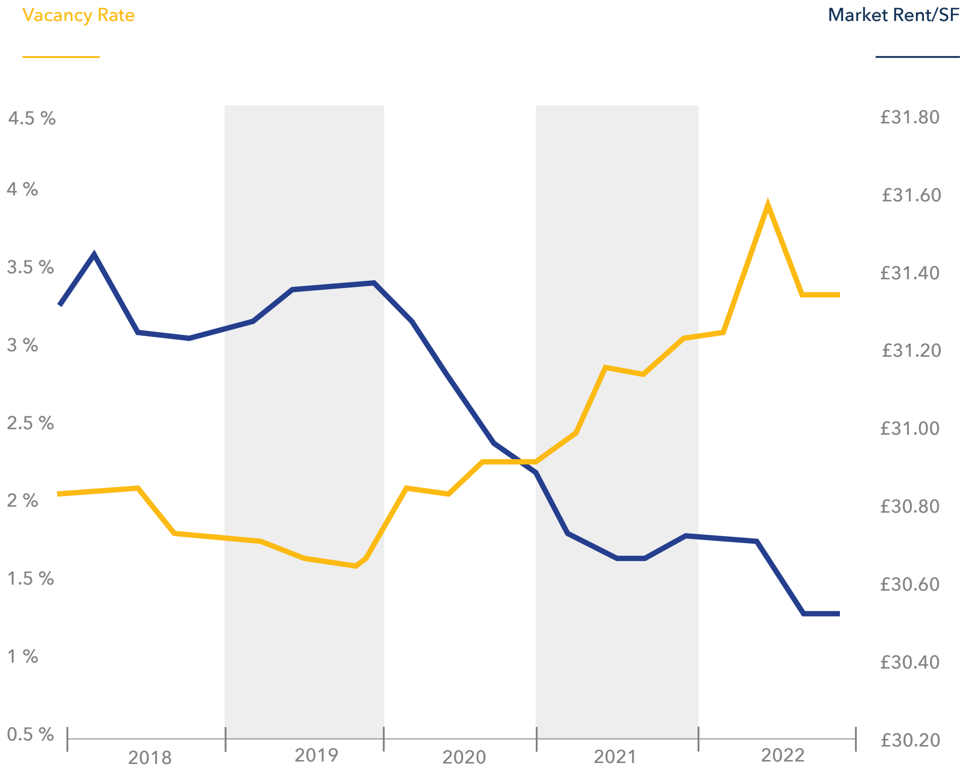
Investment yields soften

Enquiry levels still high

RETAIL MARKET

Whilst rents have fallen and yields have risen, retail demand has remained stable, so the fall is only on average £1 psf or 3%. Increased demand from leisure and service uses such as gyms, cafes, and beauty, plus 'destination operators' has taken up a significant percent of the stock, as a result south London does not have the empty shopping parades much publicised in other parts of the country.

The structural change caused by working from home and internet deliveries has settled down. Amazon and the tech companies who acted like there was no tomorrow in their growth have stablised, and local shops continue to do well. The decline in sandwich bars in central business districts has halted and there is still a lot of interest in bricks and mortar in the retail sector. KALMARs have done deals on over 8 shops for one client alone in the last year. Generally, the outlook for 2023 is cautious but not calamitous.



Lambarde Square, SE10
3,414 SQ FT
£60,000 p.a.

Old Kent Road, SE15
2,385 - 3,406 SQ FT
£45,000 p.a.

Rye Lane, SE15
9,096 SQ FT

Vacancy still low at 5.5% & set to stabilise

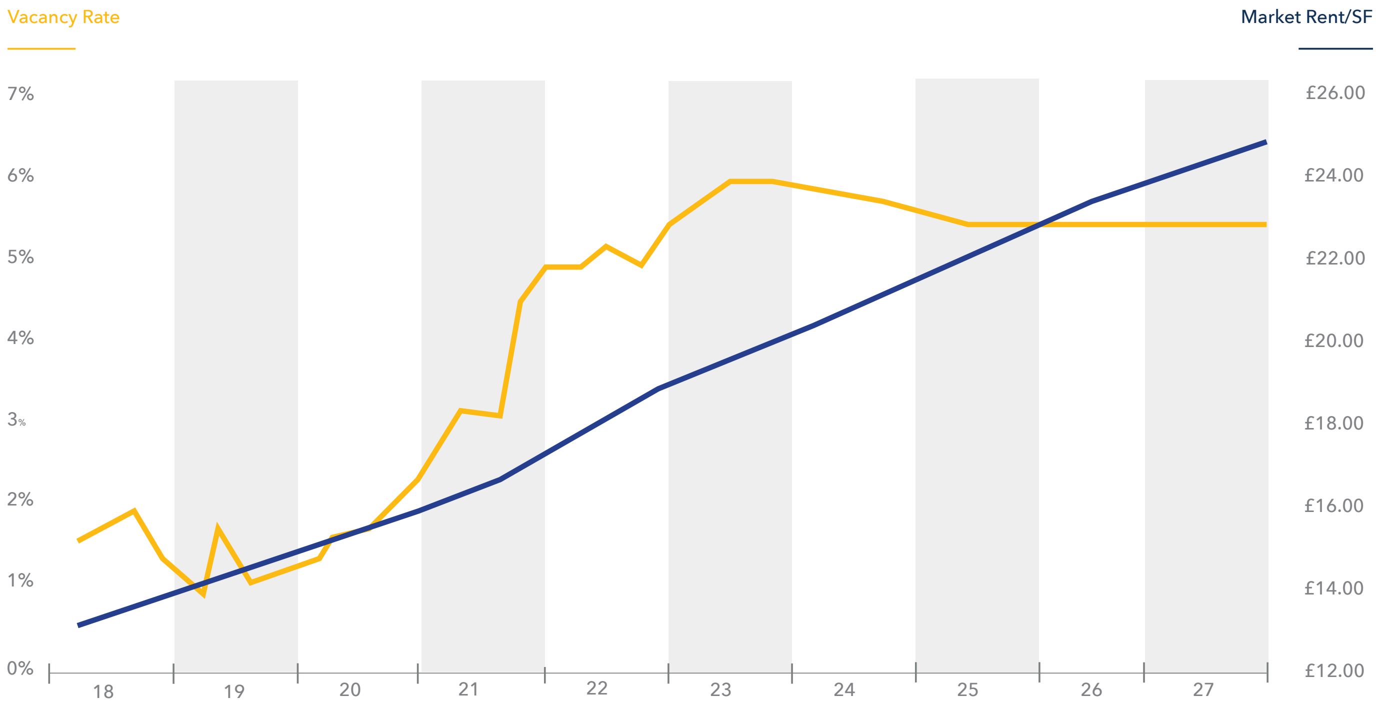
Rents have increased to £22psf

Demand stable

INDUSTRIAL MARKET

Despite the industrial investment market tailing off in line with the rise in interest rates through 2022, demand for freehold and rental industrial units from owner occupiers remains positive, The rental graph demonstrates a significant increase in demand and as result rents are likely to reach £24psf in 2023. As vendors expectations have dampened and money is still available, albeit at higher rates, industrial investments are continuing to sell.

There are new commercial units coming to the market, beneath residential developments, suitable for more creative businesses including artists and leisure. KALMARs have a good selection of competitively priced units this year.



Bessemer Park, 250 Milkwood Road, SE24
3,176 SQ FT
£62,500 p.a.

Galleywall Road, London, SE16
36,844 SQ FT
£830,000 p.a.

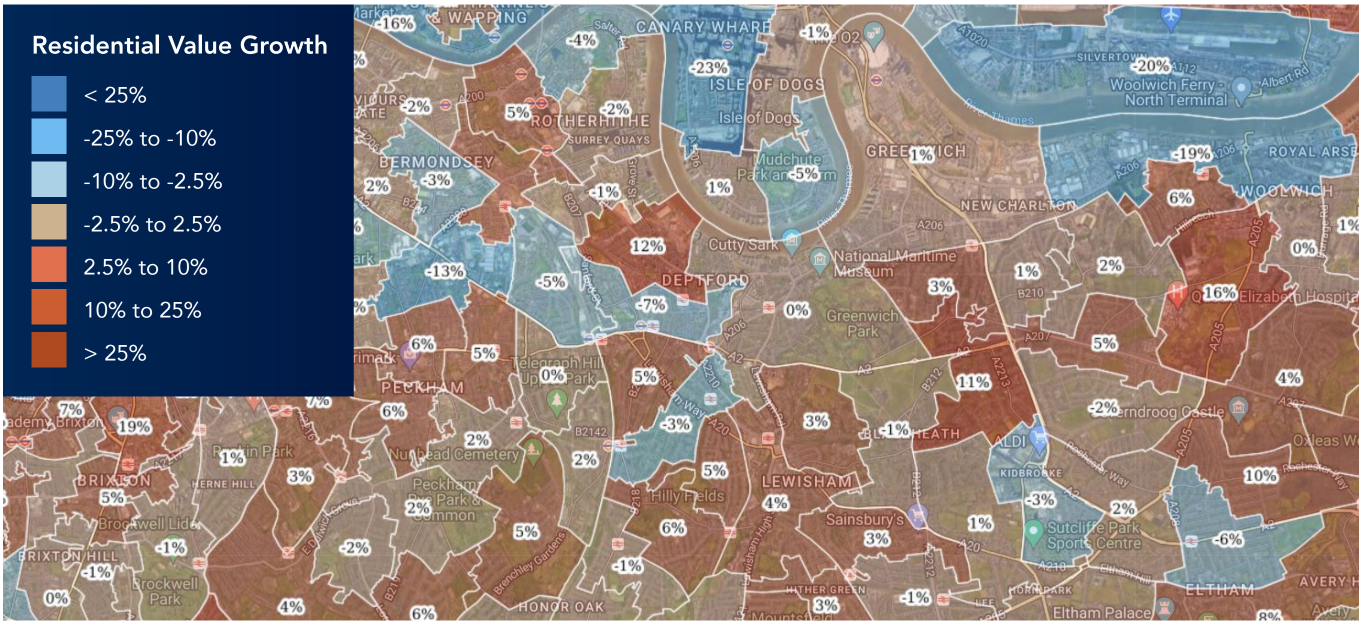
Verney Road, London, SE16
19,063 SQ FT
£315,000 p.a.

Bias absorbing interest rates	More flexible prices	Long term growth potential good

PRIVATE
RESIDENTIAL SALES

Although mortgage rates increased substantially during 2022, demand for sales has remained perhaps surprisingly strong, as money is still available albeit with more stringent lending criteria and higher rates. This is mainly due to underlying long term supply not meeting demand and London remaining a popular place to live. At the end of 2022 there were considerable concerns about the national and international economic problems, but these appear to be less prevalent, and confidence is likely to come back in 2023.

Displays the growth rate (as a percentage) of average residential sales values when comparing the last 12 months with the 12 months prior, for neighbourhoods defined by the census.



Source: Nimbus

Maltings Place, SE1
Studio
O.I.E.O £400,000

83a Country Street, SE1
2 Bed
£940,000

Kirby Estate, Southwark Park Road, SE16
2 Bed
£450,000

Limited supply

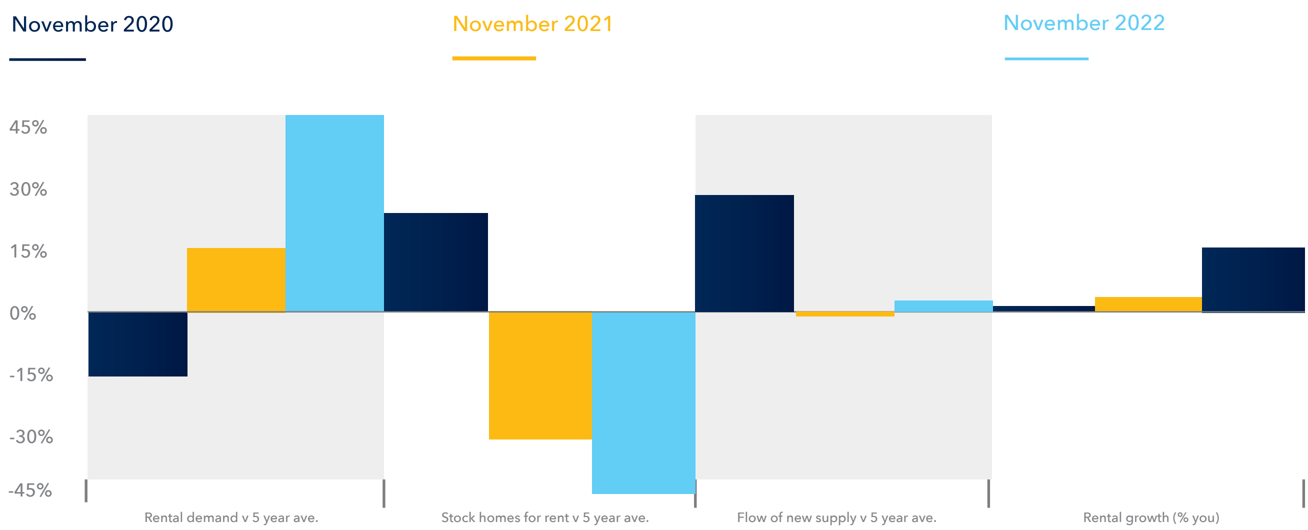
Increasing demand due to higher interest rates

Economic uncertainty favouring rentals

RESIDENTIAL LETTINGS

At the start of the pandemic there was a perception that residents were going to move out of London and demand was down, consequently there was a small fall in rents. However, since May 2020 RICS in surveys have shown demand from prospective tenants increasing and the rents have increased at a rapid rate over the last two years. The start of 2023 had a slight increase in supply, which may help to calm the inflation which is important if London is to avoid overheating and rents are to become affordable.

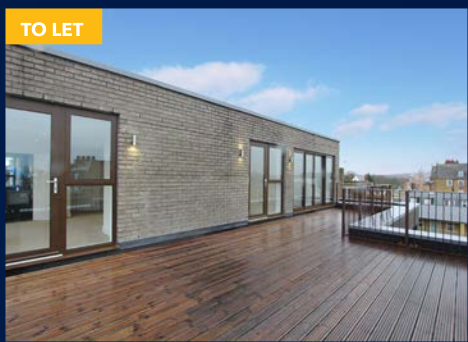
WIDENING SUPPLY/DEMAND IMBALANCE DRIVES RENTS HIGHER



*Source – Zoopla Rental Market Report December 2022

Balfour Lofts, Country Street, SE17
2 Bed
£3,033 pcm

Balfour Lofts, Country Street, SE17
2 Bed
£3,359 pcm



Rye Lane, SE15
2 Bed
£2,496 pcm

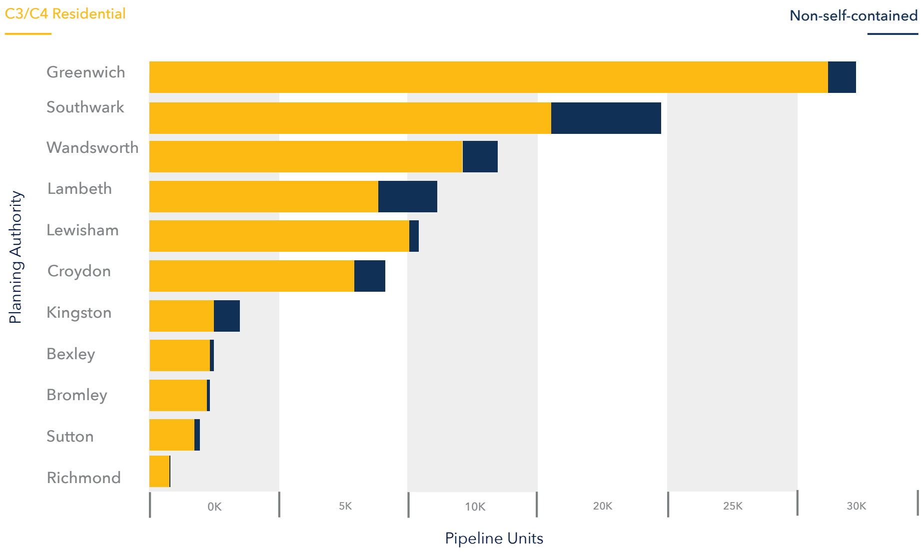
Strong demand for BTR sites	Site values experiencing little to no growth	Positive outlook for build costs to cool

SOUTH LONDON
DEVELOPMENT MARKET

Despite lengthy planning delays by south London local planning authorities (LPAs) the schemes that eventually reached committee were received well, with the exception of Bromley, that appears to oppose development. Some LPAs are continuing to pursue ambitious targets, despite economic challenges. We expect and hope to see planning departments and committee members contribute to the growth and realisation of south London's untapped potential.

Viability is currently at the forefront of discussions with most landowners and developers. There is an appetite from our clients to build and deliver, but also very high demand from consumers for homes to be built quickly. However, many sites that were purchased, prior to build cost inflation and increased finance costs, now will be under scrutiny with many proving unfeasible. This, in turn, has resulted in a significant increase in owners exploring alternative use classes, such as BTR (build to rent), whilst also reviewing their existing consent's viability i.e. a reduction of affordable housing.

These conditions have led many to the conclusion that we are now in a market in which they will be able to secure sites at a more realistic price. This results in a healthy demand for sites and the ability for a robust level of transaction numbers across 2023. That being said, healthy margins are required for owners to navigate a more challenging economic backdrop, and this will most likely have an effect on land values.



*Source – Residential pipeline dashboard - London Datastore

Haymerle Road, SE5
6,875 SQ FT
Price On Application

Maple House & Linden House, Masons Hill, BR2
57,572 SQ FT
O.I.E.O £7,500,000

Parkhouse Street, SE5
13,993 SQ FT

Balconies/terraces popular

Developments selling well

New homes are more energy-efficient

NEW HOMES

Demand has not fallen significantly, KALMARs sold out 4 new-build developments at the latter part of 2022 and into 2023 but build costs and more stringent funding requirements are challenging the market. Therefore, the focus of development has been to take a more creative approach with good demand from student, build to rent (BTR) and co-living schemes. Student housing has been profitable, now we wait to see how the market pans out in 2023. Due to the huge increase in rental values, BTR is doing well when consent can be won. Where appropriately located co-living is also popular due to an increasing demand for higher quality and greater flexibility which is set to continue as a long-term trend.

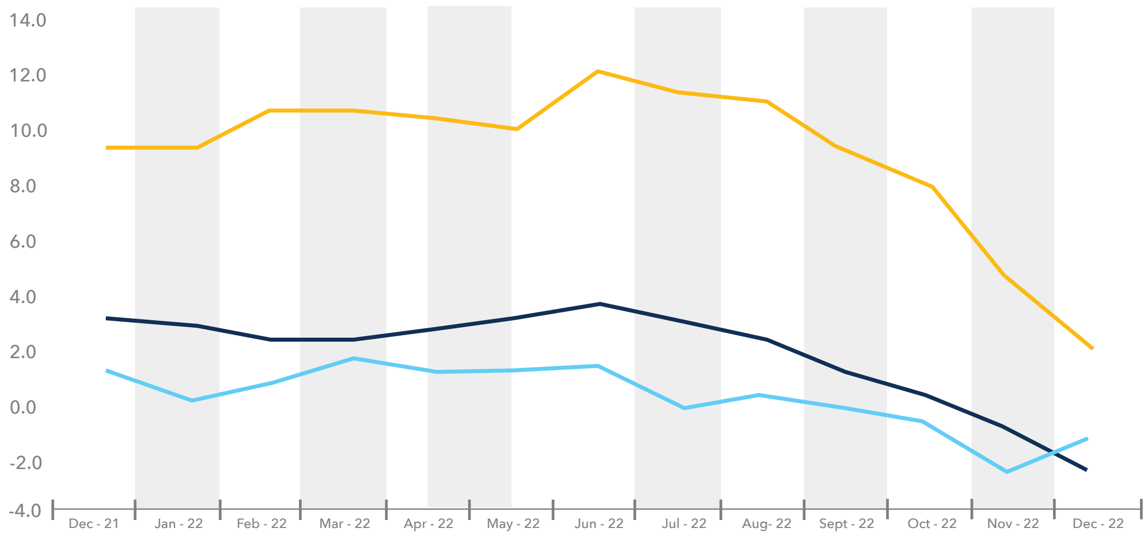
Values are likely to plateau during 2023 and then rise ongoing as problems of increased costs of borrowing are reduced.

HALIFAX HOUSE PRICE INDEX

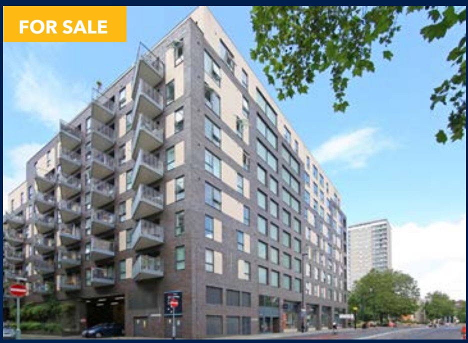
Annual % Change

3 Month on 3 Month % Change

Monthly % Change



*Source – Halifax, IHS Markit

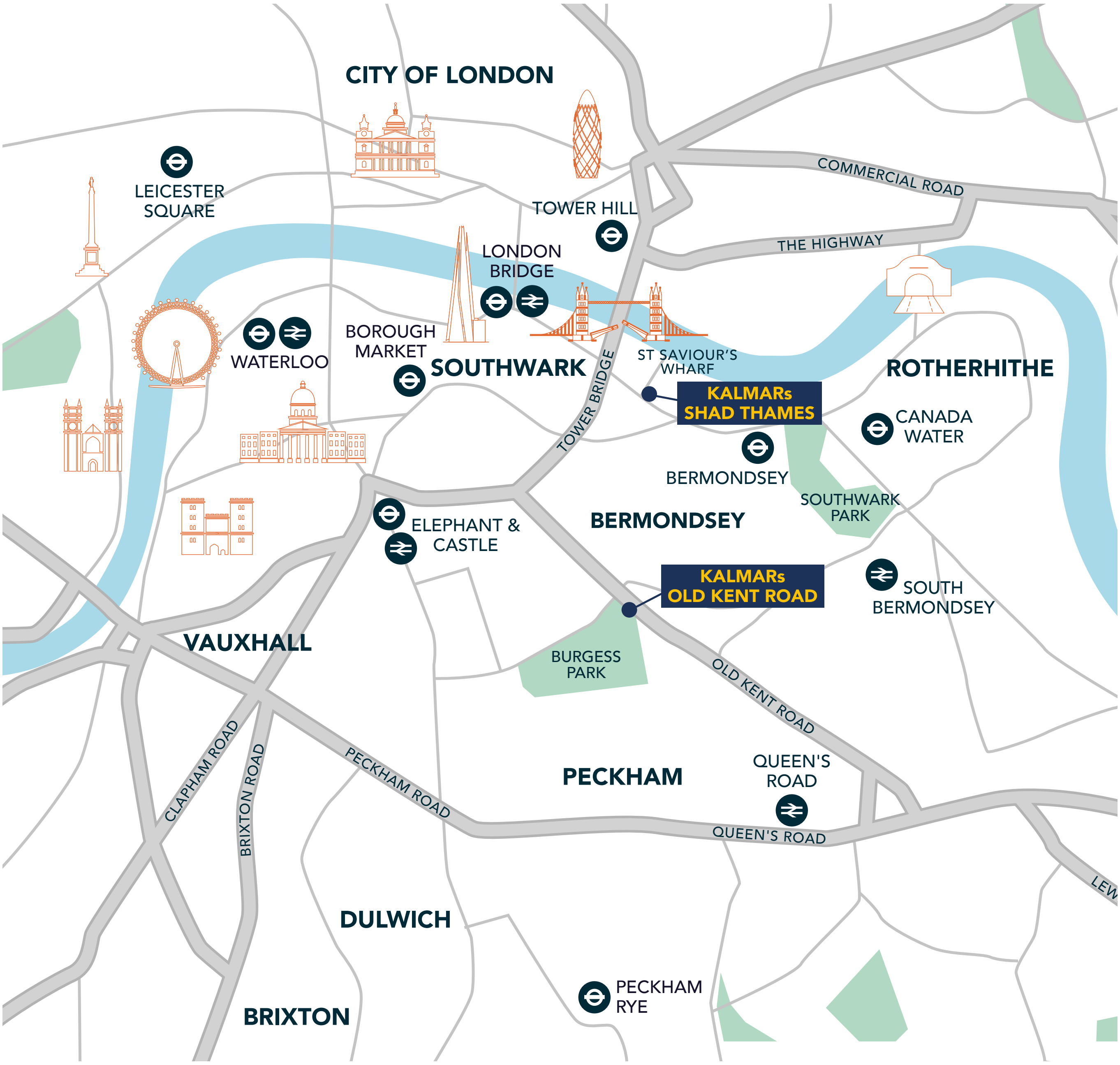


Parker Building, SE16
2 Bed
£650,000

Park Place, Southwark Park Road, SE16
11 x New Homes
Prices from £560,000 - £810,000

The One, Hillreach, SE18
7 New Homes
Prices from £365,000 - £550,000

WE ARE KALMARs



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