KALMARs

SOUTH LONDON'S LEADING AGENTS

AUTUMN
QUARTERLY MARKET REVIEW

2022

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2022 AUTUMN QUARTER

Richard Kalmar
Managing Director

OPPORTUNITY FROM THE ADVERSITY

"All the adversity I've had in my life, all my troubles and obstacles, have strengthened me. You may not realize it when it happens, but a kick in the teeth may be the best thing in the world for you."

Walt Disney

Few of us have experienced such turbulence and political shenanigans as are going on at the time of writing this. Fortunately KALMARs have seen huge ups and downs in the market, Black Monday, year 2000 blip, the 2007 credit squeeze, Brexit and more recently presented problems from Covid all were significant challenges, yet the UK economy pulled through. Whilst clearly money is going to be more expensive, inflation remains an issue. Fundamentally, South London remains in a strong position with high employment, growth in IT, life sciences, film, the arts and being next to one of the world's greatest financial centres, the long-term prospects are good.

Although residential buyers are currently down, demand for rentals is extremely high pushing rents way above mortgage repayments so that, essentially, if you can get the deposit, it makes financial sense to buy. Demand for offices has picked up now that there is some clarity on how the working from home model works. Albeit at KALMARs we believe the collective sharing team communications derived from being in the office produces greater effect and productivity, and we remain fully in the office.

In this quarter's review, which takes a couple of weeks to produce, we have had to re-write our outlook and make the most of that current turmoil. Overall, many of our clients prefer a bear market and the opportunities it brings to make hay whist the sky appears cloudy!

TURBULENCE

At the time of writing, and it is changing by the day, we are faced with inflation, rising interest rates and a weak pound, all creating economic uncertainty and pressure on property. The good news is that this leads to opportunities for buyers, not something that has really been the case for some years, banks have been much more prudent and have money, the UK is cheap to invest in and the government is promising to spend money on long term infrastructure projects and generally to stimulate the economy.

We have been through challenging times before with the financial crash of 2007, Brexit in 2016 and then Covid in 2020, and no doubt there will be further issues in the future. Fortunately, London generally has proved resilient and has high employment, is attractive to IT companies and an appealing place to live and work.
This article examines the effect of the current financial turbulence on properties in south London by sector.

OFFICES

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.

SHOPS

Whilst increased costs are likely to hit struggling retailers, there has been a move to shop locally and we are not anticipating large stretches of high street shops being vacated. This is particularly as many former shops are being converted to alternative uses, assisted by the increased flexibility created by the introduction of Class E in 2020 where uses include cafes, nurseries, gyms and shisha bars.

HOSPITALITY

Post lockdown the appetite for eating out has come back and there is good demand for speciality restaurants in the right position, for instance we are achieving a very substantial premium for an assignment in Bermondsey Street. However, high energy costs will hit marginal business such as old-fashioned pubs, for some unfortunately being the final nail.

LEISURE

Although some elements of this may be cut back on, we are not currently experiencing any reduction in demand

for leisure use. For example we have recently let a boxing gym in a basement at £22 psf in shell condition and have strong enquiries from alternative games in former warehouses.

HOTELS
Demand in London for budget hotels is good as blue collar workers working in town during the week need rooms. The weakness of the pound is likely to make London more attractive for tourists and, as Covid becomes less of a concern generally, international travel is set to grow. Anecdotally, one hotel has increased its rates 5 times since the depths of Covid.

INVESTMENTS
The increase in interest rates by the Bank of England to try and counteract inflation have resulted in industrial investments going off the boil, whereas office and shops have greater stability and residential investments stay strong. Under the recently elected government there are few concerns that there will be increases on tax on landlords.

With the reduction of the value of the pound

INDUSTRIAL
Industrial in London tends to be more warehouse or quasi studios than light industrial, but the inflationary pressures on imports coupled with energy costs is likely to put pressure on the true light industrial users. It remains to be seen whether these can be passed on the cash strapped customer.

RESIDENTIAL
Many big companies are only just now requiring staff to come back to work, not necessarily 5 days a week, but generally the trend of moving out of town has reversed, plus the UK is now more affordable to foreign visitors, therefore hotels are likely to benefit.

As a result, long term, we anticipate values will continue to rise by 2024/5 as the substantial increases in the last few years are absorbed and the ratio between earnings and the property prices are retained to a lower level.
Residentially, the fundamental imbalance between the demand and supply has still not been anywhere near satiated in London, although the working from home model has shaken the city it is still an attractive place to do

FINANCE
Whilst there has been some tightening of credit for higher risk businesses, overall money supply is far from dried up. Long term fixed mortgage rates have gone up but still are up to 3% below the pre 2007/8 crash levels and look likely to remain the same.

For more information about particular sectors, please contact the heads of departments of our specialist team of consultants.

Demand remains steady despite current political headwinds as the South Bank market continues its recovery

Occupiers demanding higher quality stock with refurbished or newbuild space being the number one requirement

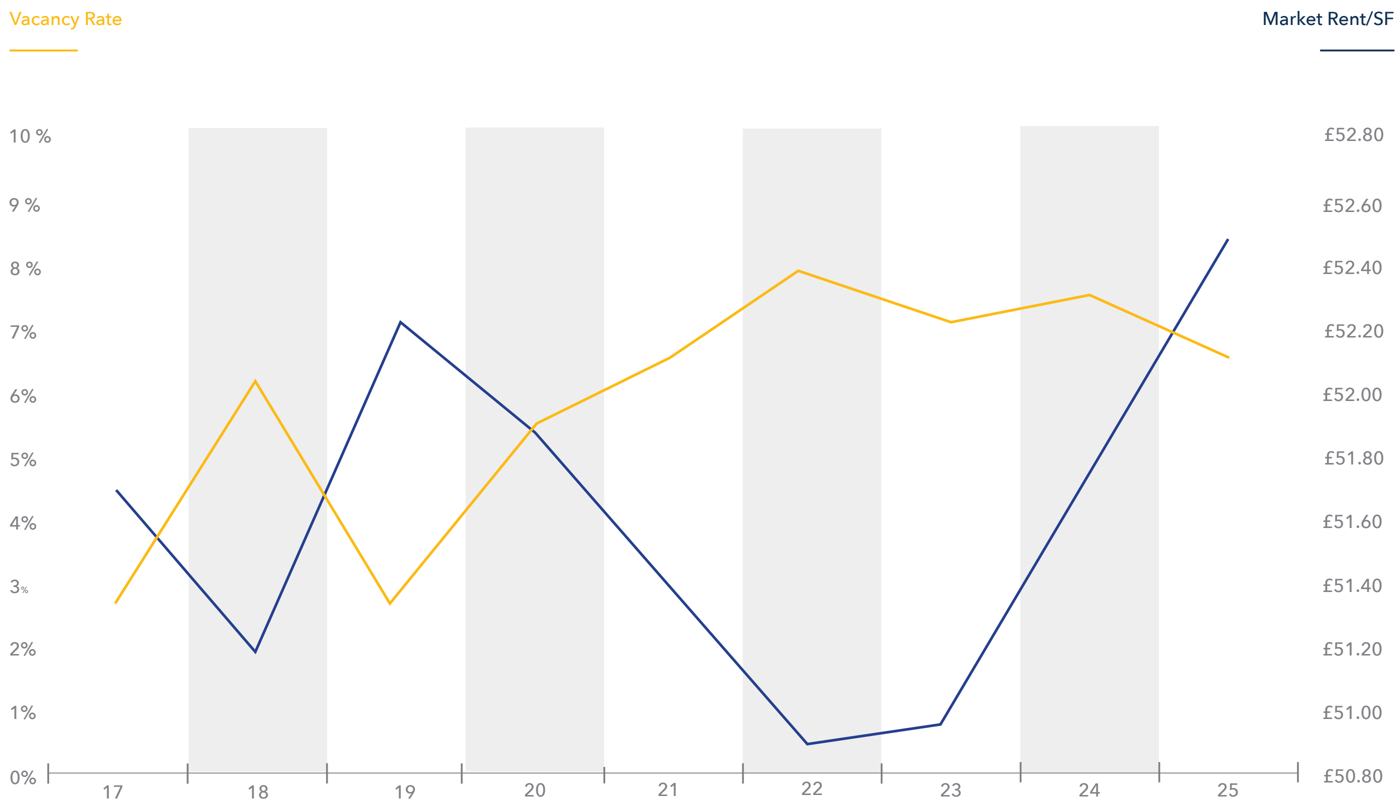
Supply relatively flat helped by limited development activity during covid

SE1 CENTRAL OFFICE MARKET

Demand remains steady as most businesses are now back in the office. Rents have stabilised and are beginning to show signs of rising again following strong take-up of existing stock. KALMARs office team have had a strong quarter with deals back at pre-pandemic levels, despite economic headwinds, the lack of supply caused by limited development activity during Covid has helped buoy both rent and prices.

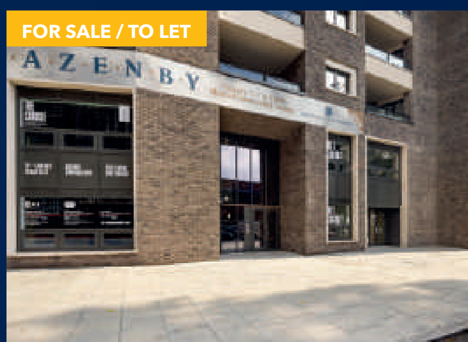
Applicant numbers are still strong, showing evidence of underlying growth. Applicants are demanding higher quality stock with refurbished or new-build space being the number one requirement.

Looking forward, rises in interest rates pushing up borrowing costs are likely to have more of an impact on sales than lettings as occupiers way up their overall outgoings.



75 Weston Street, SE1
5,726 SQ FT
Price £3,500,000

Newhams Yard, 151-153
Tower Bridge Road, SE1
from 703 - 18,187 Sq Ft



The Crosse, New Tannery Way, SE1
732 - 6,049 SQ FT
Price/Rent on application

Improved transport links due to the Elizabeth Line

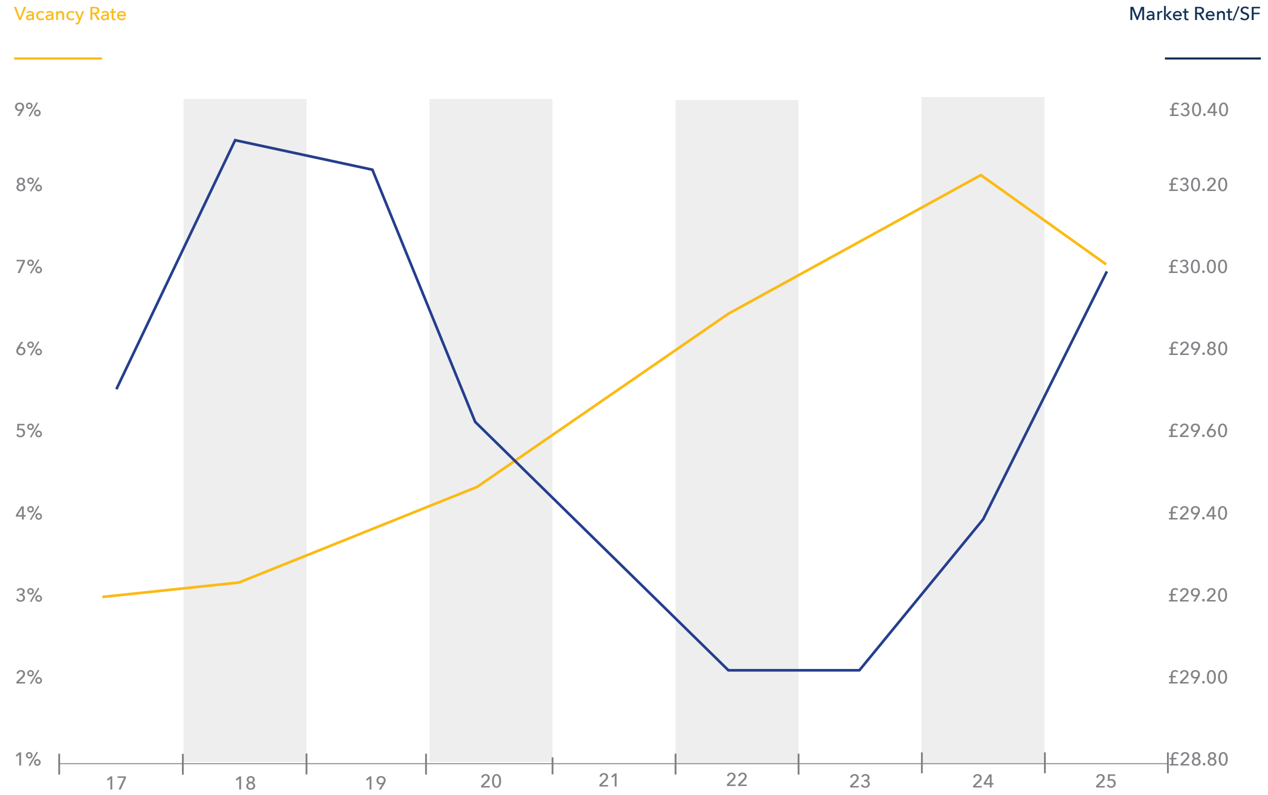
Flexible space providers seek to differentiate themselves from competition

Landlords offering flexibility on lease lengths, values, rent free periods etc

DECENTRALISED **OFFICE MARKET**

Decentralised office demand is gradually increasing, especially due to improved transport links with the Elizabeth Line which has cut down travel time. Flexible space providers are plentiful and seek to differentiate themselves from competition by creating green, open-plan spaces with a host of amenities and services. Traditional offices are having to be competitive on value to attract tenants. This has seen an increase of shorter leases which, are now often as short as 18 months term certain.

To secure tenants and reduce void periods landlords are having to be flexible on lease lengths, values, rent free periods and how the deal is structured.



Childers Street, SE8
2,495 - 5,509 SQ FT
£21.5 PSF

Tempus Wharf, Bermondesy Wall West, SE16
1,809 SQ FT
£54,276 p.a.

Toronto House, Surrey Quays Road, SE16
1,841 SQ FT
£60,000 p.a.

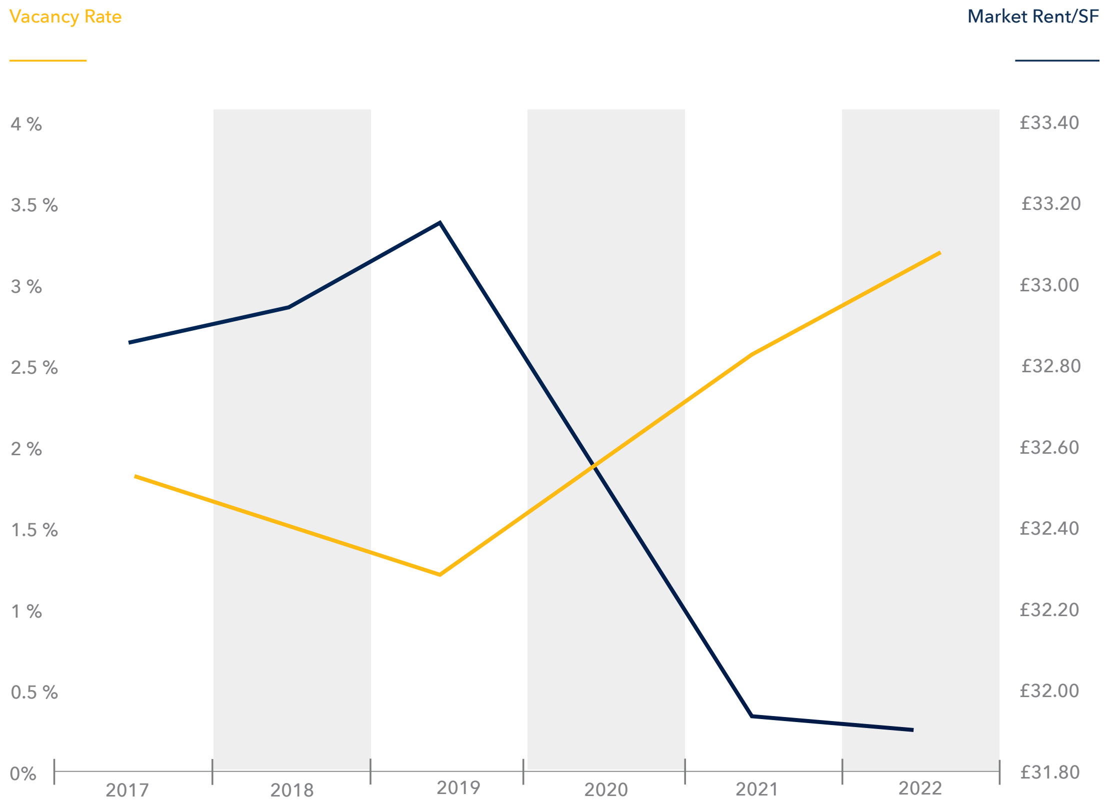
Appetite for traditional retail outlets remains strong

F&B, nail and beauty bars struggle to find space

Gyms benefit from strong interest in health and fitness

RETAIL MARKET

Appetite for traditional retail outlets such as convenience stores, boutique alcohol and food shops remain relatively strong, however the cost-of-living crisis could place a significant dampener on demand with people turning to more cost effective prices online, delivered to your door. Operators such as drinking establishments and nail and beauty bars are struggling to find new units, owing to their new use class being 'sui-generis' instead of being within the flexible e-class. Leisure operators such as 'box-fit' gyms continue to benefit from consumer interest in health and fitness and have therefore been active in the marketplace



Bermondsey Street, SE1
20 SQ FT
£40,000 p.a.

Rye Lane, SE15
9,6096 SQ FT
Price £2,000,000

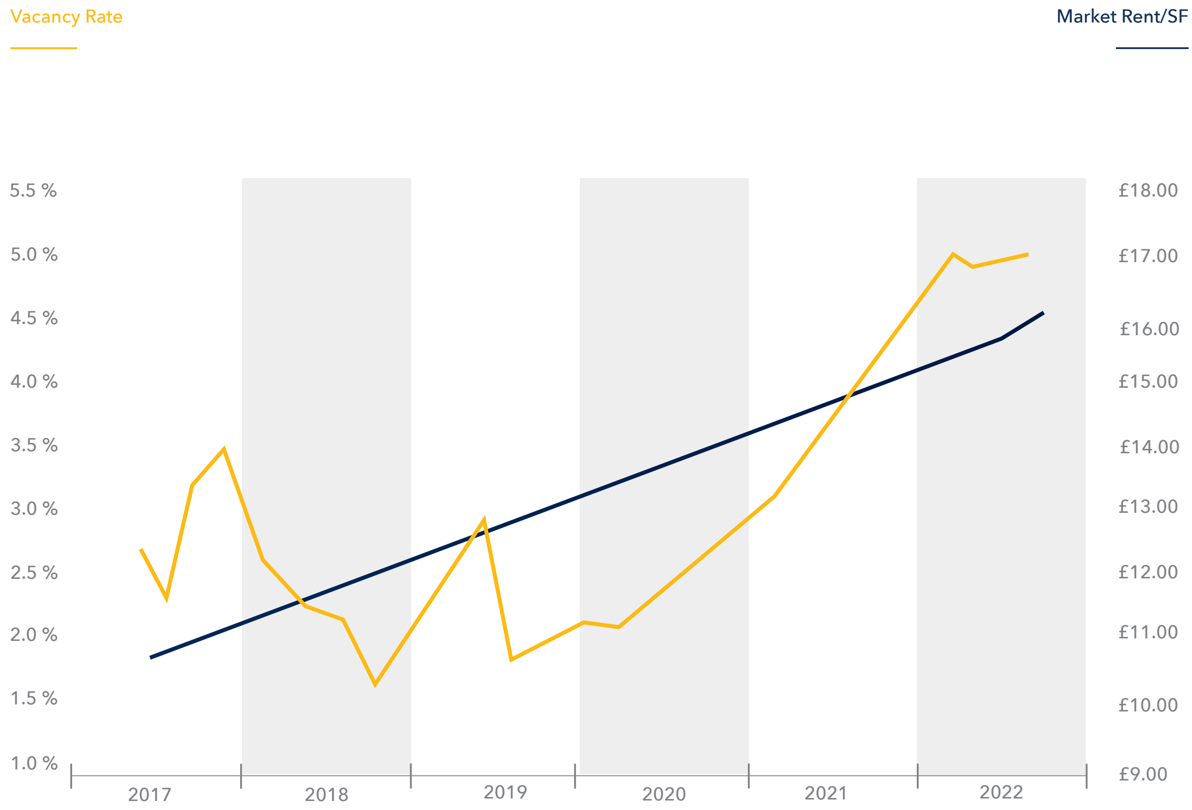
Early Years, The Aylesbury Health Centre, Thurlow Street, SE17 - 5,952 SQ FT
Rent On Application

Rents still rising	Asking price psf increased	Applicant numbers have grown

INDUSTRIAL MARKET

The industrial market has continued its strong start to the year through Q3. Whilst the investment market has tailed off slightly since the increase in interest rates earlier in the year, as the below graph shows, demand for industrial lettings remains strong and on the up, with rents reaching £30psf in SE1, SE15, SE16.

Vacancy levels have increased slightly in the last quarter which we believe is due to the B1c (light industrial) use units beneath residential developments in and around the Old Kent Road being completed or nearing completion. KALMARs sees this as an area of growth for the industrial market and we have been able to agree deals for, and advise, both occupiers and developers in off-market proposals for these units.



9 -11 Cottage Green, SE5
20,606 SQ FT
£250,000 p.a.

Unit 11, 57 Sandgate Street, SE15
2,564 SQ FT
£51,280 p.a.

Unit 1B Juno Way, SE14
2,600 SQ FT
£70,200 p.a.

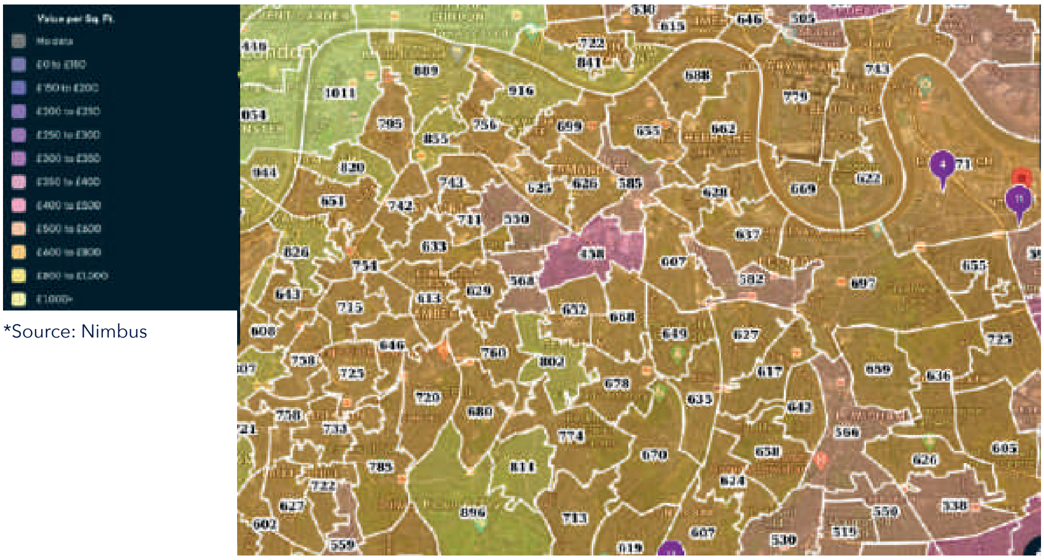
Interest rates rising	Opportunities increasing for well-funded buyers	New stamp duty rules helping first time buyers

PRIVATE RESIDENTIAL SALES

The level of demand for residential property in London has cooled recently, mainly due to increasing interest rates, a spike in inflation and concerns about the economy. However, the fundamental shortage of stock continues and, whilst those looking for a quick buck may be disappointed, long term buyers looking for a home are likely to see growth.

KALMARs have been able to maintain healthy sales figures in the private sales department throughout quarter three, despite a reduction in the number of buyers. This is in part due to a dynamic marketing strategy, including recruiting experienced and skilled staff. We are also constantly looking at effective new methods to market and reach out to potential buyers. As well as our expansive social media and local press campaigns, we are also working very closely with a digital marketing firm to help push the business to a new level.

We are confident that we can maintain and build on these strong sales figures moving into Q4 as our level of resourcing is far more extensive than most of our competitors.



*Source: Nimbus

244 Bermondsey Street, SE1
2 Bed
Price £725,000

Maltings Place, 58 Tower Bridge Road, SE1
1 Bed
Price £450,000

Vestry Road, SE5
7 Bed
Price £875,000

Rents are rising quickly to almost 18% in London with the average rent now £1,818

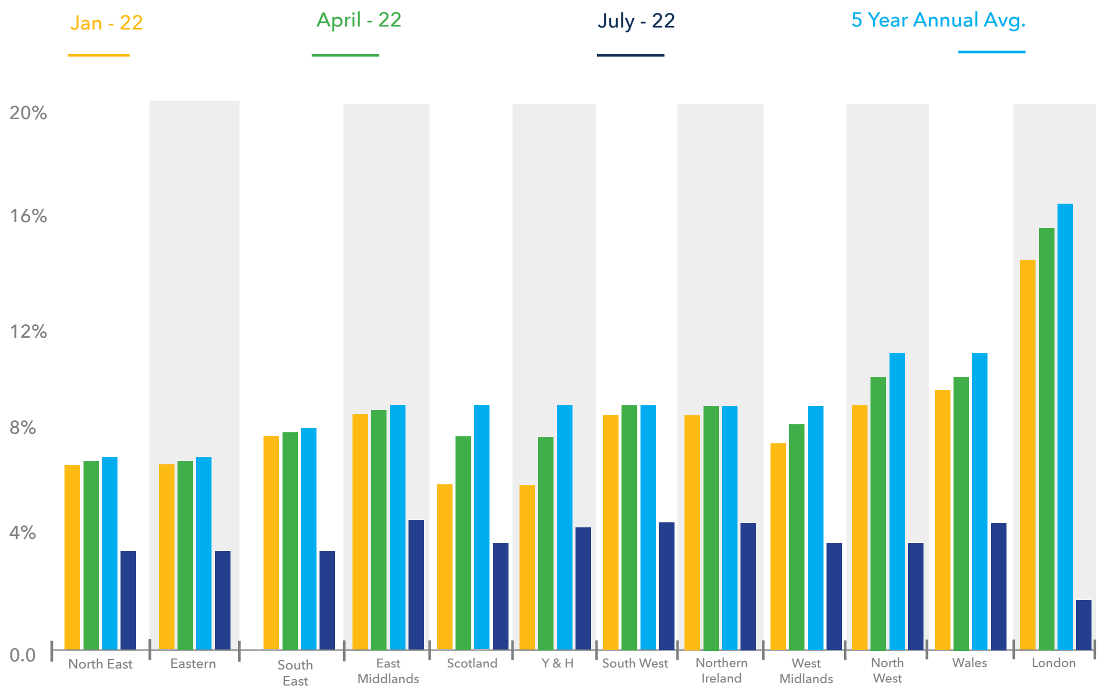
Majority of properties letting over the asking price

The stock of homes for rent remains almost half the average compared to the last 5 years

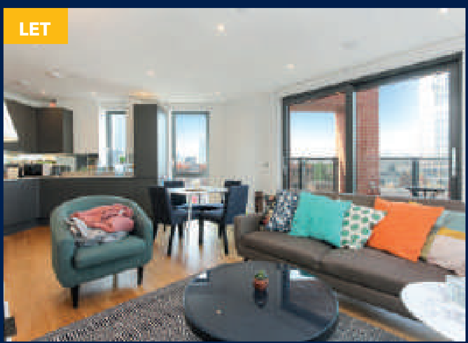
RESIDENTIAL **LETTINGS**

Rents are rising quickly to almost 18% in London with the average rent being £1,818 (data from Zoopla). On average, rents have increased by £115 per month since last year. The rental market faces a chronic imbalance of supply and demand that has led to a surge in rents. The stock of homes for rent remains almost half the average compared to the last 5 years. The average letting agent has just 8 homes available to rent - half that of the summers 2017-2019. The flow of new homes to rent is running 7% below the long-term average, as renters stay put to avoid rent increases. With less new homes on the market to rent, there is a higher demand for new builds at a premium let.

RENTS HAVE SURGED AHEAD BUT PACE OF GROWTH STARTING TO FLATTEN OUT



Source: Zoopla Rental Index, ONS



Colorama, Webber Street, SE1
2 Bed
£2,900 pcm

Lexinton Gardens, SW11
2 Bed
£4,000 pcm

Tower Bridge Road, SE1
2 Bed
£3,800 pcm

High interest rates and build costs

Buyers' market returns

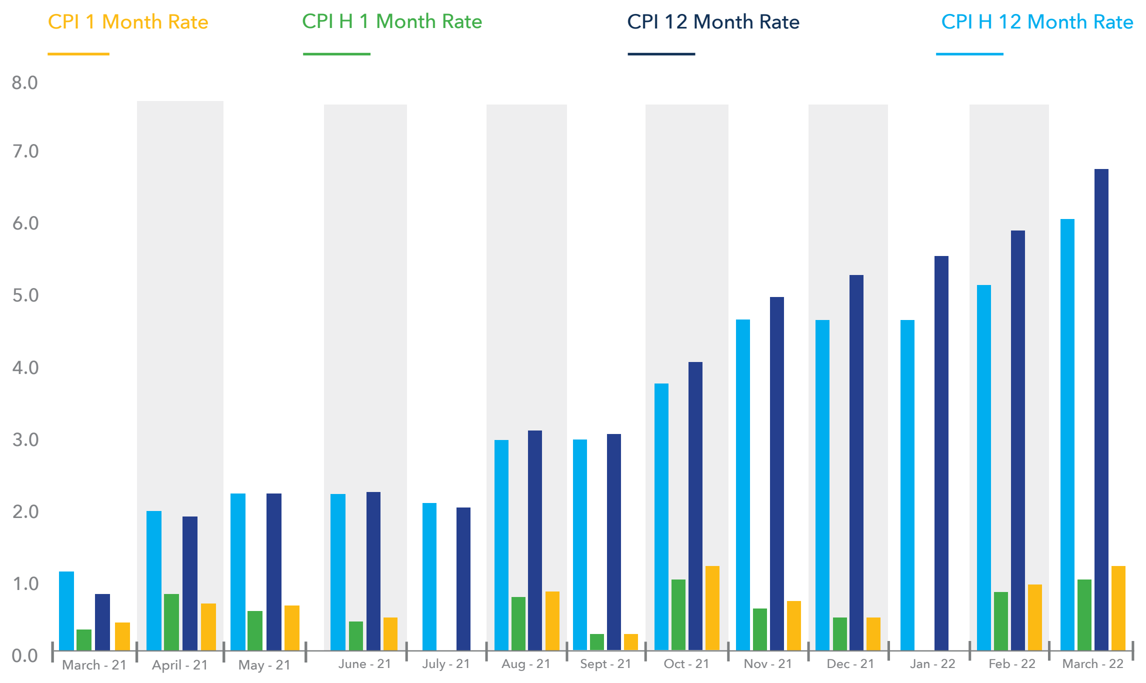
Reasonable to good demand still for sites

SOUTH LONDON DEVELOPMENT MARKET

The return of a buyers' market appears to be emerging as the market currently faces some of the toughest conditions since the last recession, however demand currently continues to remain strong from a wide variety of purchasers. Factors such as a slow planning system, growing construction costs and increasing interest rates are likely to impact land values soon, as the last quarter did. However, we still see good transaction numbers and consistent values.

The challenges developers are facing are contributing to the growth we are seeing in alternatives to build-to-sell. Many more schemes we are reviewing present stronger land values such as build-to-rent, student living and co-living, but this comes with some resistance from local planning authorities.

INFLATION; CPIH, OOH COMPONENT AND CPI INDEX VALUES, AND 12-MONTH AND 1-MONTH RATES



Source: Office for National Statistics - Consumer price inflation

17 Newport Street, SE11
1,636 - 5,382 SQ FT
Price £2.9m

Grosvenor Park, Grosvenor Terrace, SE5
1,575 SQ FT
Price £450,000

St John's Woodland, Grove Park, SE5
1.45 acres
Price £5m

New homes sales have continued to go from strength to strength

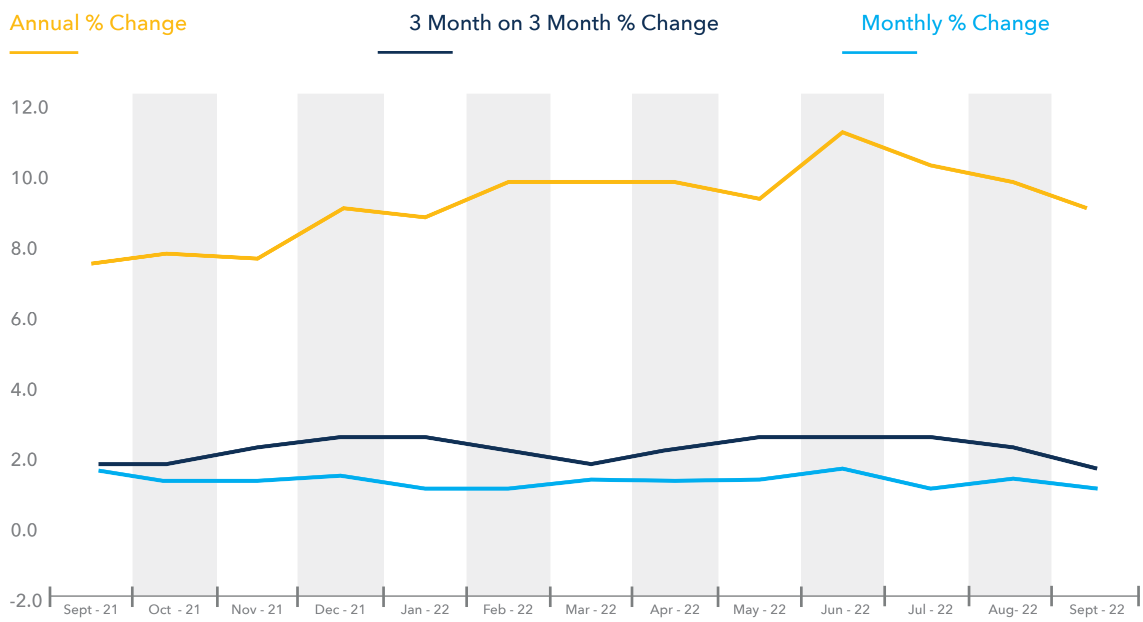
Home buyers more price sensitive

Demand for property currently remains above the five-year average

NEW **HOMES**

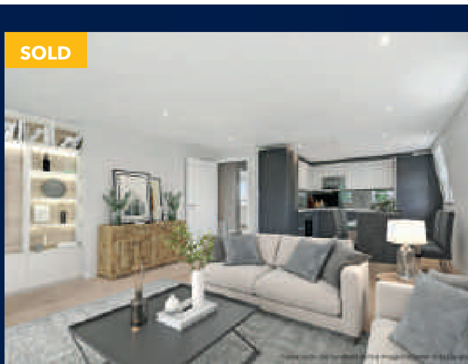
Confidence amongst buyers is being matched by sellers too. A net balance of +46% of respondents reported an increase in the number of New Homes being listed for sale in August. In addition to highlighting the buoyant nature of the market, we picked up on some of the emerging trends in the UK following life in lockdown; specifically, the increased demand from buyers and tenants on property with a garden, or with easy access to outdoor green space.

HALIFAX HOUSE PRICE INDEX



*Source – Halifax, IHS Markit

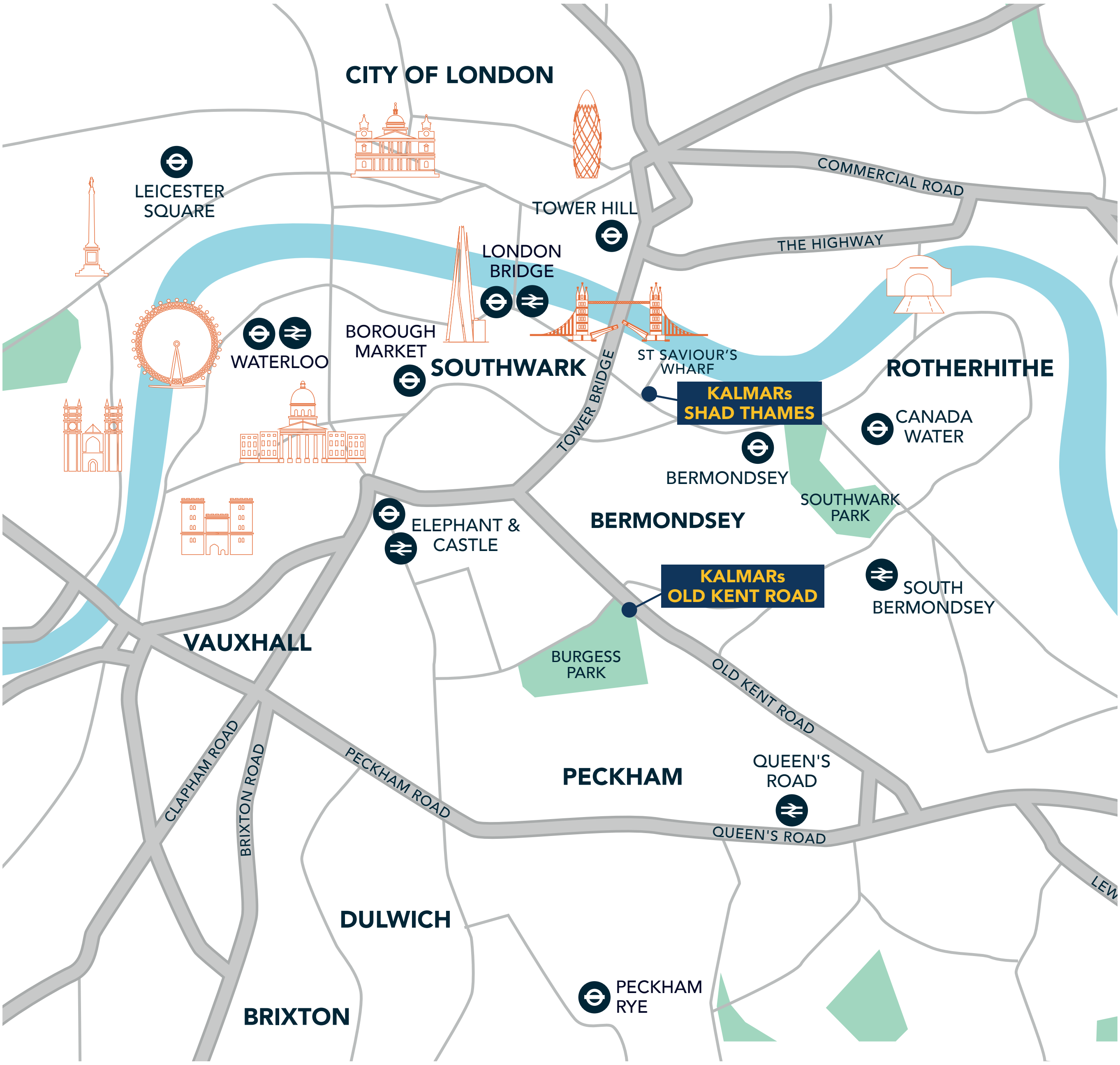
Hyde Vale, Greenwich, SE10
3 Bed
Price £1.85m



Lyton Road, SE1
1 to 2 Bed
Price £450,000 / £595,000

Montrose Building, Lexington Gardens, SW8
2 Bed
£1,000 pw

WE ARE KALMARs



OFFICE LOCATIONS

Jamaica Wharf, 2 Shad Thames, Tower Bridge, London, SE1 2YU

The High Pavement, 366 Old Kent Road, London, SE1 5AA

T 0207 403 0600 **E** info@kalmars.com

OPENING TIMES

Monday - Friday: 9am - 6.30pm

Saturday: 10am - 3pm

Sunday: Closed

KALMARs TEAM

Richard Kalmar
Managing Director
richardk@kalmars.com

Mickola Wilson
Non Executive Director

Donald Walsh
Director Development Department
donaldw@kalmars.com

Adrian Gurney
Director Central Office Department
adriang@kalmars.com

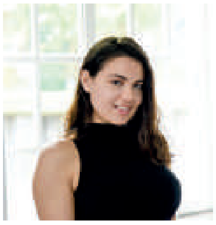
Sebastian Kalmar
Director Residential Department
sebastiank@kalmars.com

Elaine Barker
Financial Controller / Office Manager
elaineb@kalmars.com

Joel Dela Cruz
Director
joeldc@kalmars.com

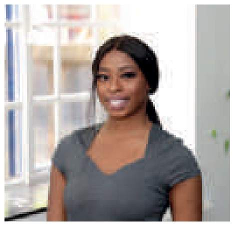
Nadine Warnakula
Land & Development Consultant
nadinew@kalmars.com

Uri Lasker-Lourenco
SE1 Office Consultant
uril@kalmars.com



Francesca Harris
Residential Lettings & Sales Consultant
francescah@kalmars.com

Scott Bebbington
Head of Retail & Decentralised Offices
scottb@kalmars.com



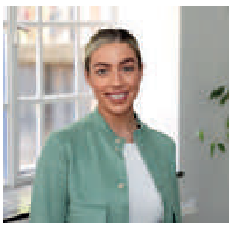
Catherine Agbaje
Retail & Decentralised Office Consultant
catherinea@kalmars.com

Piers Hanifan
Head of Industrial
piersh@kalmars.com

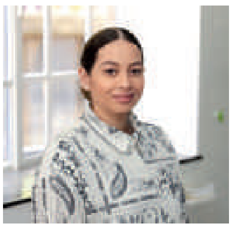
Ewa Wild
PA/Office Coordinator
ewaw@kalmars.com

Peter Ranki
Senior Property Consultant
peterr@kalmars.com

Denim Islam
Residential Branch Manager
denimi@kalmars.com



Rachel Cullen
Office Coordinator
rachelc@kalmars.com



Yasmine Nabil
Office Coordinator
yasminen@kalmars.com

KALMARs

Jamaica Wharf, 2 Shad Thames, Tower Bridge, London, SE1 2YU
The High Pavement, 366 Old Kent Road, London, SE1 5AA

KALMARs.COM T 020 7403 0600