KALMARs

SOUTH LONDON'S LEADING AGENTS

WINTER/SPRING
QUARTERLY MARKET REVIEW

2022

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2022 WINTER/SPRING QUARTER

Richard Kalmar
Managing Director

KALMARs love south London, both old and new and are unashamedly proud of our unrivalled contribution to assisting the prosperity of the area.

2021 was another strange yet dynamic year for south London property; some of the main issues included:

- Covid 19 and its mutations locked down half the year yet it did not kybosh the economy.
- Working from home in a hybrid 3 days a week mode is commonplace in big businesses. Will it continue? Is it as productive? Is it better for staff? We shall see.
- Buy to rent developments being 40% of the new developments in London is a huge swing; institutional investors are buying, and remodelling rental investments is years behind the rest of Europe.
- Industrial property has risen like a phoenix from the ashes to become the star of the property sector. Can yield compression continue?

Predictions for 2022 are that Covid will be around this year but will continue to diminish in importance as it becomes part of living in the 21st century. We just hope that a new, more dangerous, variant does not evolve, in which case this could again restrain activity.

- Industrial is likely to remain strong, for example we acted for a buyer off a 2.1 % yield on a £16m industrial purchase at the end of the year, the yield may be even keener now. There is no magic tap to turn on supply, construction is likely to remain a problem, planning remains painfully slow and purdah up to the May local elections is going to do nothing to help that. Plus the appetite for offices and shop investments is unlikely to return anytime soon, so industrial yields are likely to remain strong.
- The residential market remains robust, if not runaway. Government schemes come and go without changing much under the current government. Related markets such as buy-to-let, student, hotels and retirement are likely to continue apace throughout the year. Cladding has been a real brake on many sales, hopefully with the softening of controls on under 18 metre buildings and housing associations, in particular, dealing with past issues this will find some clarity in 2022.
- Local shops, leisure and medical are all likely to remain in demand and see growth over the year, especially in the right areas.
- Green issues are ever more important and older buildings are challenged. The requirement for an energy performance certificate of A or B by 2027 will start to have more focus this year.
- Overall the economy is reasonably sound, money is available and, hopefully, Covid will be less of an issue 2022, resulting in a good year for property.

For our part, KALMARs continue to grow and are looking to recruit in several areas to allow our planned expansion in 2022.

THE GREAT COMPRESSION

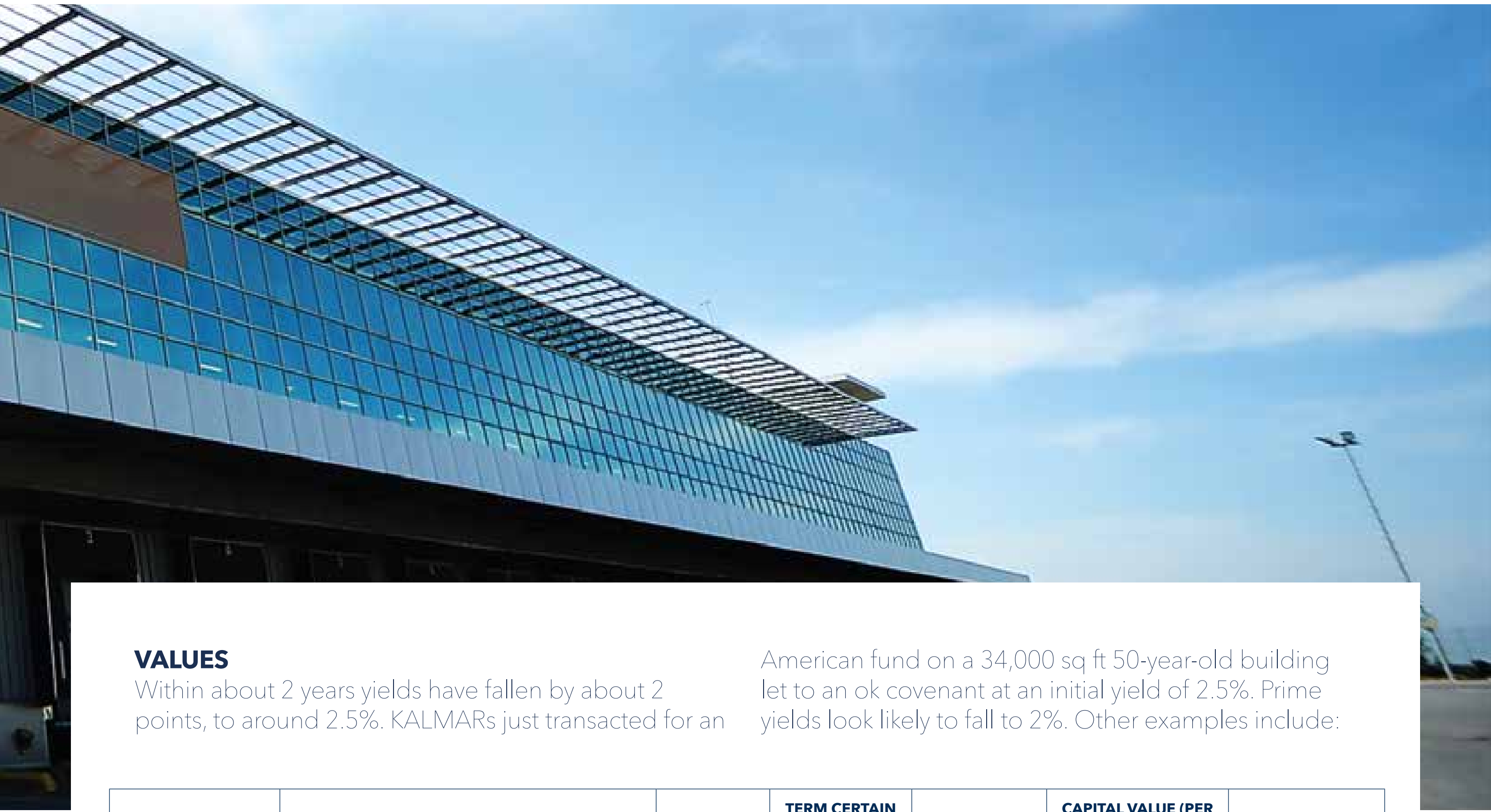
Industrial, long considered the unglamourous sector of the property industry, but not anymore. Several factors have combined to transform the values and demand, investment yields, scarcity and demand.

STRUCTURAL CHANGES TO THE INDUSTRIAL MARKET

Structural long-term uncertainty of Working from Home (WFH) and the suitability of even recently developed office space to meet green requirements have fundamentally undermined the office market. Retail also is clearly in a state of transition; just 10% of sales were online in 2019, and it is anyone's guess how that will pan out with the shopping revolution spurred on by the pandemic. Residential remains in high demand in south London but concerns over controls and political sensitivity continue to make it less popular to funds. Leisure also has been hit by the pandemic. So industrial is a strong option.

South, and particularly southeast London, has probably had the strongest take up of residential development in the country. Tired old industrial stock, no new estates have been built in 20 years, slightly more market responsive planning policies and a rise in values have combined to focus on new residential development, from Charlton to Old Kent Road. Also, class E planning allowed greater flexibility, for example we let a former print works in Brixton to a gym, which had not been allowed before. All of this has resulted in upward pressure on values.

In addition, demand has picked up, with Amazon and other final mile warehouse users taking up over two thirds of the supply over the last few years. Plus, there has been an explosion in demand for online convenience stores promising local deliveries within minutes, KALMARs have done 3 lettings to Gorillas who have taken up a lot of small spaces. We have done numerous lettings to speciality fresh food and drink companies, as this business cannot be done from China, and green/health supplies are also popular; we have recently let two c. 30,000 sq ft 'sheds' to these businesses. This has resulted in a shortage and a rise in rents dictated by demand v supply.



VALUES

Within about 2 years yields have fallen by about 2 points, to around 2.5%. KALMARs just transacted for an American fund on a 34,000 sq ft 50-year-old building let to an ok covenant at an initial yield of 2.5%. Prime yields look likely to fall to 2%. Other examples include:

DATE	ADDRESS	SIZE (SQ FT)	TERM CERTAIN (YEARS)	PRICE	CAPITAL VALUE (PER SQ FT)	NET INITIAL YIELD
Under offer	Panalux, 12 Waxlow Road	40,865	1.7	c.£54,000m	c.£1321	0.99%
Under offer	Garden Campus limited, Waxlow Road	58,684	9.3	c.£37.172m	c.£633	c.2.75%
November 2021	Constantine, Bermondsey	23,373	6.3	c.£14.650m	c.£626	2.69%
November 2021	Abbeydale Industrial Estate, Wembley	58,578	3.4	c.£32.050m	c.£547	2.53%
June 2021	Selco, Walthamstow	37,608	7.7	c.21.500m	c.£572	2.61%
June 2021	The IRIS Portfolio	141,023	4.0	c.75.250m	c.£534	2.71%
March 2021	38-40 Verney Road, Bermondsey	9,696	0.3	c4.750m	c.£490	1.47%
April 2020	38-40 Verney Road, Bermondsey	9,806	1.5	c.4.600m	c.£469	3.25%

Rents have also shot up. We have let two identical 4,000 sq sheds in New Cross the first took time to shift in 2019 at £18.75 psf, whereas in 2021 the next unit had 5 takers and let swiftly at £24 psf and would probably get considerably more just 6 months later. Prime rents look set to top £30 psf. Other examples include:

DATE	ADDRESS	SIZE (SQ FT)	RENT (£ PSF)	TENANT
Oct 2021	Unit 22 Westway Estate, Acton	16,706	£35.00	Confidential
Oct 2021	Unit 4 Segro Park, Canning Town	20,176	£29.00	Worldwide Plastics Limited
Oct 2021	Dudley House, North Wharf Road, Paddington	1,432	£38.40	Weezy

Where is it going to end? There is no sign of a rapid increase in supply with labour shortages and rapid cost inflation, and working from home is not an option, so 2022 is likely to see a continued rise in values and good demand and. given the fall in yields and rise in rents. We may see freehold values well in excess of £1,000 psf and who knows maybe even £1,500!

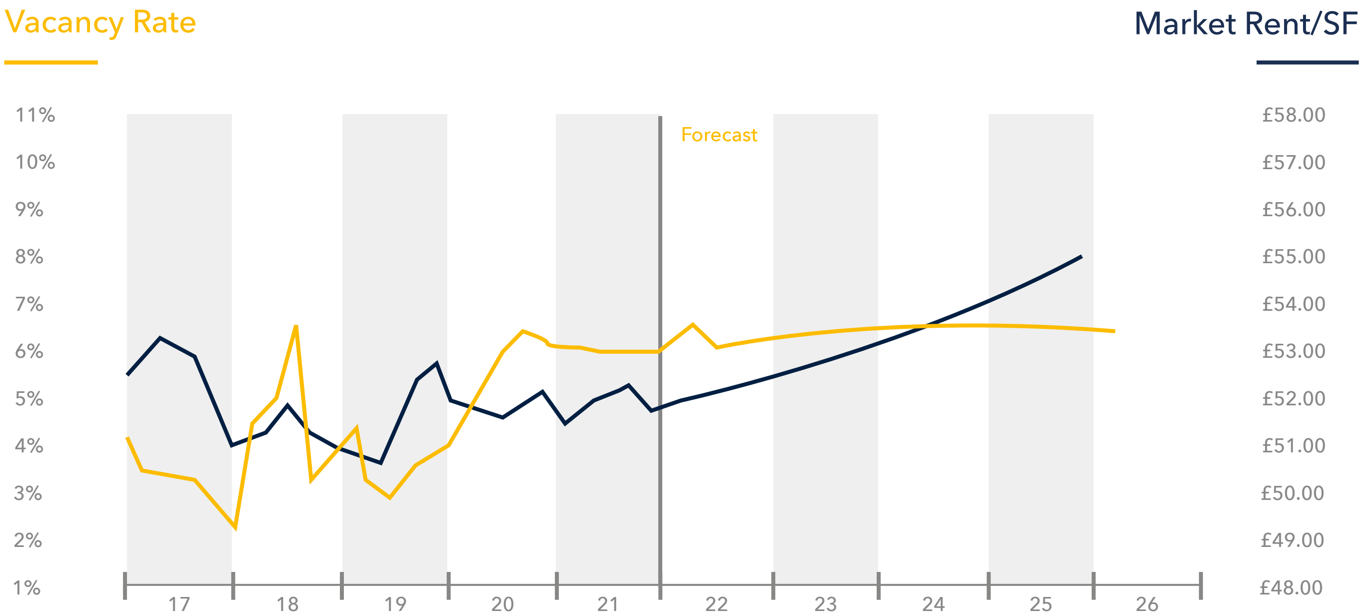
KALMARs started life 54 years ago as industrial agents and are the only agents in south London with a specialist industrial department, so are well placed to advise and help. Contact our Head of Industrial, Piers Hanifan, for more information.

Increase in demand	Offices must entice staff back	Office availability stabilising

SE1 CENTRAL OFFICE MARKET

The office market saw a resurgence in demand in the final quarter with increased demand for both office leases and purchases. The demand primarily came from small and medium sized business requiring 2-4,000 sq ft moving back into the market. This resulted in a flat lining of the vacancy rate and stabilisation of rents. We saw further headwinds in December with the Omnicom variant however it looks like this is milder and rapidly dissipating so is likely to have a lesser impact. Prime rents currently sit around £51 per sq ft with secondary rents ranging from £25-45 per sq ft, which we expect to remain stable in the short term. Looking forward to 2022 we predict rents and prices will begin pushing up again as vacancy rates decline.

There is a general push in the market to provide a higher quality working environment for employees to attract them back into the office, whilst at the same time considering the environmental and carbon impact. An example of this is Cain International's, £109 million development loan from Barings and LBS Properties to construct a 146,334 sq ft, "Net Zero Carbon friendly office 135 Park Street designed by Squire & Partners".



Colorama, Webber Street, SE1
2,333 - 19,886 SQ FT
For Sale £000000

Design House, 150 Long Lane - 7,493 SQ FT
For Sale £000000

88 Bermondsey Street - 1,215 SQ FT
For Sale £000000

Increased supply in new mixed use developments

Larger offices need to attract occupiers

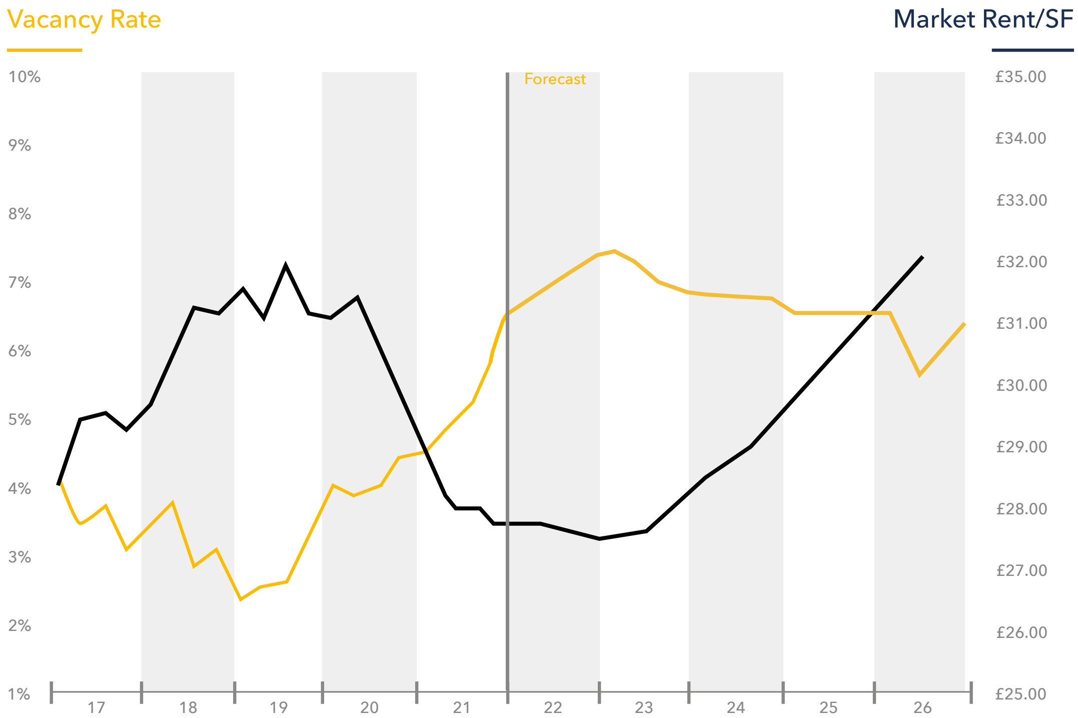
Good deals for occupiers

DECENTRALISED **OFFICE MARKET**

Units around 1,000 sq ft are in demand, whilst larger offices are having to adapt to modern requirements to attract occupiers i.e. provide more space for each person, more fresh air, good natural light and generally a more appealing working environment than the traditional white painted walls with acoustic tiled ceiling. An example being the converted print works in Deptford providing 4,000 sq ft of open-plan studio-style space with high ceilings, metal columns etc.- ideal for the creative industry.

One growth area is the ground floor of residential blocks, where we are finding demand from a variety of users, many of them local, and where occupiers can currently get good deals.

Rents range from £15 psf outside office locations to £50 psf in prime locations like Brixton. Capital values currently range from around £175 psf to £550 psf. We do not anticipate any real growth this year as the full effect of working from home is absorbed by a generally dwindling supply.



12 Steedman Street, SE17 - 2,178 SQ FT
£850,000

Hoola Building, 5 Tidal Bason Rd E16 - 4,490 SQ FT
£112,250 per annum

Mill lofts, 83 County Street SE1
1,300-2,613 SQ FT
£1,350,000 - £24,000

Strong Demand for small local shops	Operators are looking to diversify offerings	Increase in demand for space for Dark Stores

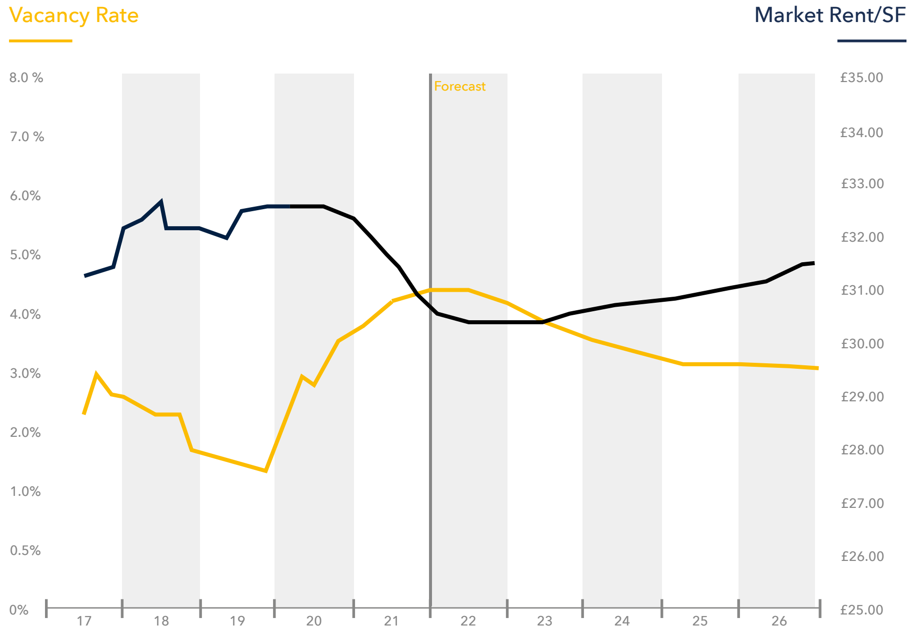
RETAIL **MARKET**

Demand for local shops remains strong with many retail operators diversifying their offering, looking at ways to survive future lockdowns. Forward thinking traditional shops, such as nail bars and salons, are also looking to diversify by offering products online.

Dark stores' seemingly insatiable appetitive for expansion continues, with some operators seeking to take additional space so they may add a modern 'click and collect' convenience store to their traditional delivery service.

The benefits of the E- class are open to debate with a difference of opinions between planners, councils and operators alike.

Rents range from local lock-up shops averaging £18,000 pa to prime zone A in a typical high street at between £80 to £100 psf with more than that being achieved for the very best space. We anticipate growth in freehold values during 2022, particularly where there is scope to diversify the use to, say, leisure or hospitality in the right position.



151-153 South Lambert Road SW8 - 2,588 SQ FT
£60,000 per annum

unit 3 Camberwell Passage, Camberwell Road SE5
2,879 SQ FT
£66,217 per annum

Unit 5 Milliners House, Eastfield's Avenue SW18
1,313 SQ FT
£60,240 per annum

Rents continue to increase

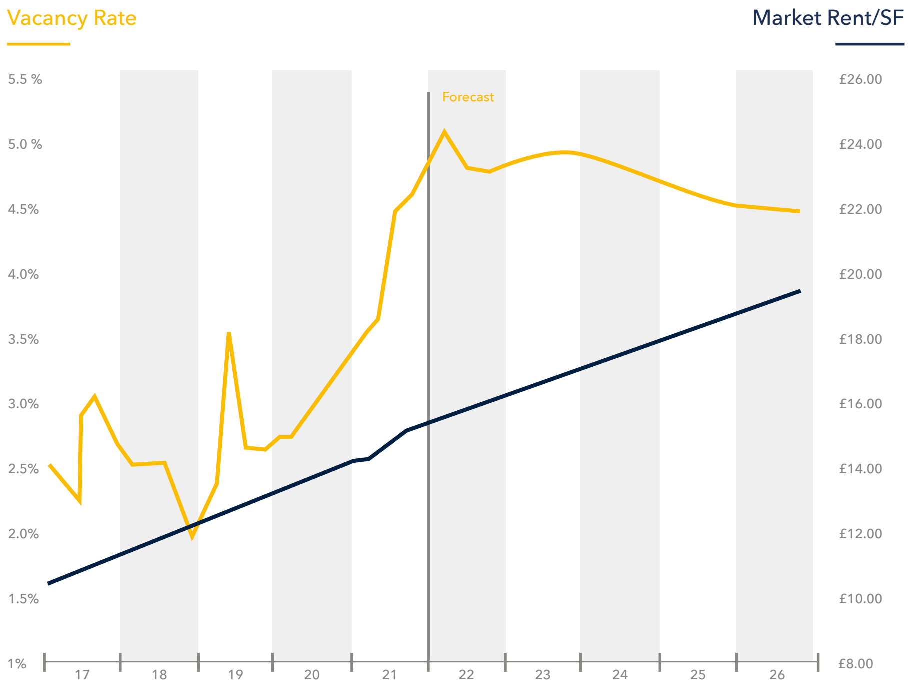
Increase in short-term lettings

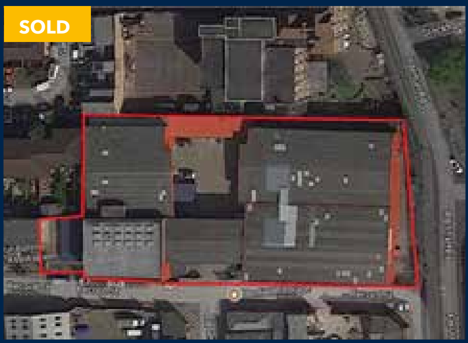
Applicant numbers have grown

INDUSTRIAL MARKET

The positivity around the industrial market in the early months of 2021 carried on right through into quarter 4 of the year. Demand for industrial lettings and sales continued to grow, with supply of freehold and leasehold properties decreasing, especially for properties with a lease of more than three years. Although the graph below shows vacancy rates growing throuhout the year we believe this is because of the increase of short-term industrial properties available to let. Often these properties have either been recently purchased by developers or their owners are exploring the planning potential and therefore require short-term lettings to ensure the buildings remain secure.

Also, in the below graph, rents psf have increased year-on-year and are forecasted to do so moving into 2022 and beyond. This is perfectly demonstrated by the lettings at Juno Way Business Estate where we agreed multiple deals in 2021 at £24-26 psf, which is an increase on the £20 psf that was being achieved in the previous year. Three significant deals that KALMARs completed at the end of 2021 that demonstrate the boom the industrial market is experiencing were two lettings of c. 30,000 sq ft 'sheds at Stockholm Road to HATS Group and Lime UK and the sale of 235-237 Record Street for £16 million to an investment fund at 2.25% yield.





235-237 Record Street SE15 - 38,000 SQ.FT
£16,000,000

Camberwell Works, SE5 - 5,000-79,0009 SQ.FT
£14 psf

Browning Street SE17 - 7,181 SQ.FT
£130,000 per annum

Projected market growth for 2022	Working From Home, continuing demand	Lack of stock but increase predicted for 2022

PRIVATE RESIDENTIAL SALES

Due to previous incentives brought in last April, coupled with all-time low mortgage rates towards the end of 2021, the marketplace saw prices surge.

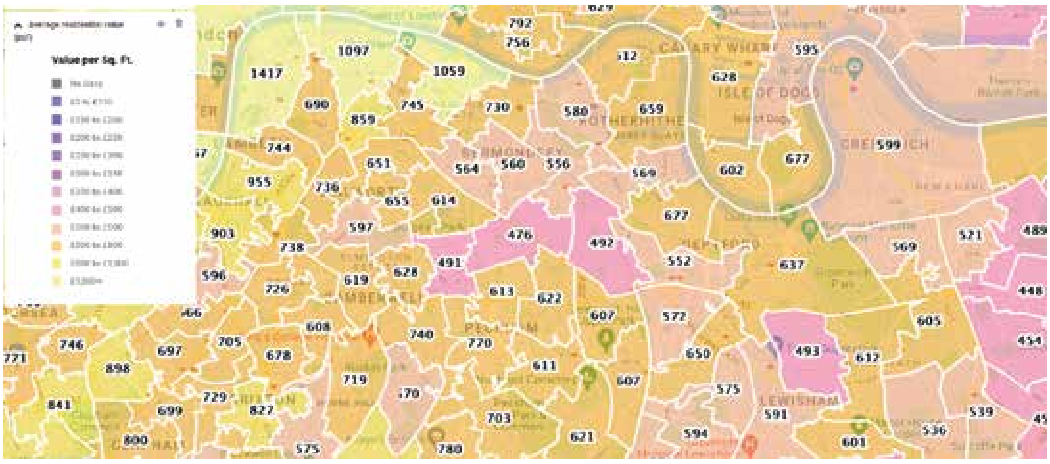
Moving into the new year, buyer demand is still elevated mostly consisting of existing buyers who failed to secure a property last year, but there are also new buyers entering the marketplace.

This year we are expecting that cash buyers and existing owners with mortgages will take a larger share in the market than hitherto. First-time buyers still will make up a sizeable percentage and there will potentially be a drop in buy-to-let investors as taxes hit the benefits, for instance the tax on buying a second home of £1,000,000 is now £93,750.

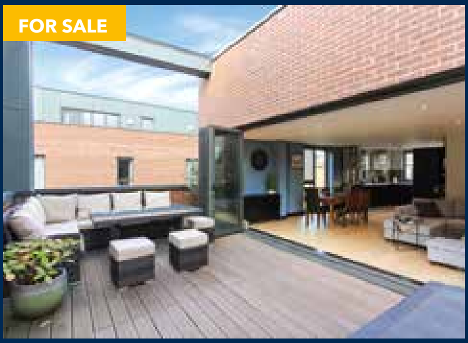
The sheer volume of agreed purchases resulted in longer transaction times overall as solicitors manage a larger workload than usual.

As the market demand rose, a lack of stock emerged at the back end of 2021. This is currently driving competition as we have seen a higher number of applicants leads generated and the return of open houses where, due to popular demand, the property is opened for interested buyers. KALMARs predict this will continue through to spring/summer.

This is driving the property prices upwards, benefitting homeowners with an increase in their equity and enticing even more to the market. 2022 is set to be a positive year.



Design House, Long Lane, SE1 - 899 SQ FT
£950,000



Lumiere Court, Lancaster Street, SE1 - 1,109 SQ FT
£1,350,000

Mill Lofts, County Street SE1 - 2,613 SQ FT
£1,350,000

9% increase in rents on new builds

Higher demand

Property rents are predicted to rise

RESIDENTIAL **LETTINGS**

During the of last quarter of 2021 there was a limited number of properties available to rent, which, coupled with higher demand from professionals, resulted in rents rising by 2.1% over the quarter, equivalent to an annual rate of over 8%.

Property rents are predicted to continue to rise with the increase in the minimum wage and the economy picking up. This is great news for both existing and new landlords. Current areas of strength include refurbished modern apartments and new build developments, which are letting particularly fast with increased rents and minimum void period.

Typical rents for reasonable quality space in inner south London are as follows:

Beds	£s pw	£s p.a
Studios	323	16,796
1 Bed	450	23,400
2 Bed	630	32,760
3 Bed	1,158	60,216

Colorama, Webber Street, SE1 - 750 SQ FT
2 BED £2,550 PCM

The Grand, Grange Road, - SE1, 782 SQ FT
2 BED £3,200 PCM

The Hub, Bell Yard Mews, SE1 - £1,250 SQ FT
£2,800 PCM

60% of new development is buy to let

Industrial values rival residential

Student market remains strong

SOUTH LONDON
DEVELOPMENT MARKET

	Q3 2021
TOTAL SCHEMES	657
Total homes sold	5,173
SCHEMES SELLING <12 UNITS	562
Homes sold in these schemes	810
SCHEMES SELLING 12+ UNITS	95
Main Driver of Sales	
Build to Rent	1,812
Help to Buy	901
Switched to affordable	755
Overseas	391
Launched prior to start	252
Normal sales	214
Bulk deal	38
Homes sold in these schemes	4,363

*Source – Molior

Planning

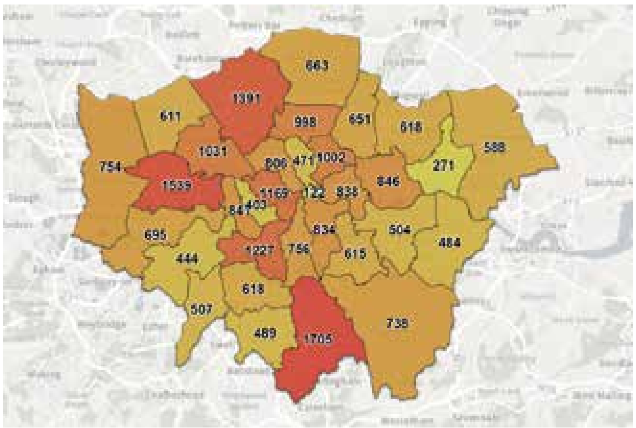
Since last year there has been a decline in the number of units approved for planning permission across London albeit the number of planning applications that were actually decided across south London remained very consistent even when compared to pre-covid levels. The use classes that were being applied for however is likely to be dramatically impacted by covid. We expect to see many more industrial applications given the recent yield compression that this sector has experienced. Whereas the number of office schemes has experienced a steady decline through covid.

Construction

There has been a significant (approx. 10%) reduction in the number of new homes under construction across London. Build To Rent has seen substantial growth with around 41% of new units being BTR. Help to buy is also still a very large proportion of the accounted new homes with just over 20% of all units being sold with HTB.With this being replaced by First Time Buyers scheme soon which has been a concern for developers but our new homes department feel that around 80-90% of our current HTB applicants would qualify for the new scheme.

Sales

26,530 units under construction are unsold, which is 48%. This has broadly been the case since 2018. In addition, there are 3,100 completed unsold 'stock' units across London 7% up on the end of 2020.



SOLD

14-22 Ossory Road, SE1 - £7,000,000
0.236 acres

FOR SALE

2 Queens Road, SE15 - £3m
0.132 acres

FOR SALE

98 Webber Street, SE1 - £1,750,000 Freehold
871 sq ft

Market is price sensitive

Demand has been pent up and supply is still low

Buyers remain unwilling to compromise on outside space

NEW HOMES

At the end of 2021 we saw a steep rise in interest in new build homes in south London. This has carried over to a very strong start to 2022. For instance, one of the first residential schemes we are marketing in Ilderton road in the South Bermondsey regeneration area gathered pace after the first apartment shifted last year. Subsequently we have sold more than one per week.

PRICING

The average new build completion prices for homes in London were :.

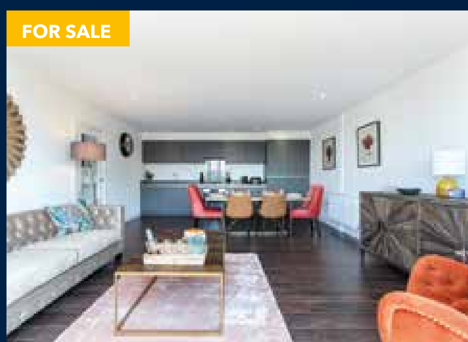
Size	£s Total	£s psf
Studios	391,018	982
1 Bed	476,633	852
2 Bed	628,569	823
3 Bed	757,579	814

Provided by The Department for Levelling Up, Housing & Communities

TOTAL	All decisions (all)	Total granted (all)	Percentage granted (all)	Total decisions (exc Pas)	Total decided in time (exc Pas)	Percentage decided in time (exc Pas)	Total decisions (Pas only)	Total decided in time (PAs only)	Percentage decided in time (Pas only)	Total decided in time (all)	Percentage decided in time (all)
Bromley	777	640	82%	401	181	45%	376	284	76%	465	60%
Croydon	600	379	63%	419	253	60%	181	153	85%	406	68%
Greenwich	454	335	74%	320	294	92%	134	132	99%	426	94%
Kingston upon Thames	393	310	79%	229	213	93%	164	157	96%	370	94%
Lambeth	535	458	86%	300	288	96%	235	218	93%	506	95%
Lewishan	527	406	77%	371	359	97%	156	150	96%	509	97%
Merton	471	420	89%	316	220	70%	155	142	92%	362	77%
Southwark	522	441	84%	351	298	85%	141	163	95%	461	88%
Sutton	348	263	76%	278	256	92%	70	63	90%	319	92%
Wandsworth	714	664	93%	527	423	80%	187	156	83%	579	81%

Higgins House, St James Rd, SE1 - 706 SQ FT
Leasehold £600,000

Hyde Vale, SE10 - 740 - 2,203 SQ FT
£825,000 - £1.85m



New Bermondsey Apartments, 171-177 Ilderton Rd, SE16 - 569-1,111 SQ FT
Leasehold £375,000 - £600,000

PLANNING

During 2021 there was a decline in the number of units approved for planning permission across London as a whole, albeit the number of planning applications that were actually decided across south London remained consistent compared to pre-Covid levels.
The type of use classes being applied for is likely to be dramatically impacted by Covid. We expect to see many more industrial applications, given the recent yield compression that this sector has experienced. In contrast, the number of office schemes has experienced a steady decline.

DEVELOPMENT

The market for sites remained strong in the last quarter of 2021, which is illustrated by KALMARs exchanging on a £7m sale in Ossory Road, a £4m site in Silwood Street and agreeing deals on a further £41m of residential sites. The strength of the market remains, and we anticipate 2022 will be a good year for sales.

The following table shows the increasing number of homes sold in the England during 2021, a trend that has continued into 2022 and we anticipate will continue throughout the year. Build to rent increased to become a dominant part of the market, again a trend we see continuing through 2022.

	Q3 2021
TOTAL SCHEMES	657
Total Homes Sold	**5,173**
Scheme Selling <12 UNITS	562
Homes sold in these schemes	**810**
SCHEMES SELLING 12+ UNITS	95
Main driver of sales	
Build to rent	1,812
Help to buy	901
Switched to affordable	755
Overseas	391
Launched prior to start	252
Normal sales	214
Bulk deal	38
Homes sold in these schemes	**4,363**

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	All 2021
SCHEMES	655	649	657	663	
Total Homes Sold	3,725	4,302	5,203	5,289	18,519
SCHEMES SELLING <12 UNITS	569	548	562	560	
Homes sold in these schemes	749	776	900	822	3,247
SCHEMES SELLING 12+ UNITS	86	101	95	103	
Main Driver of Sales					
Build to Rent	614	1,457	1,729	1,715	5,515
Help to buy	1,099	980	868	861	3,808
Switched to affordable	311	316	755	630	2,012
Overseas	228	315	391	604	1,518
Launched prior to start	271	85	252	113	721
Normal sales	193	271	214	276	954
Bulk deal	260	102	94	268	724
Homes sold in these schemes	2,976	3,526	4,303	4,467	15,272

*Source – Molior;
https://www.moliorlondon.com/media/report_executive_summaries/btsbtr_oct_2021_execsummary.pdf

CONSTRUCTION

There has been a significant, approximately 10%, reduction in the number of new homes under construction across London. Build-To-Rent has seen substantial growth with around 41% of new units being BTR.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