KALMARs

SOUTH LONDON'S LEADING AGENTS

WINTER QUARTER MARKET REVIEW

2021

CONTENTS

2021 WINTER QUARTER

Richard Kalmar
Managing Director

2020 was certainly a challenging year but there were many positives coming out of it including: -

- A step change in the use of technology, in particular video conferencing has probably moved more in one year than in the last 5
- Funding has remained available and, although mortgages have moved to require 15% deposits during the course of last year, there is a ready supply
- Bank gearing is significantly better than it was in 2007 or 2008 therefore the supply of money, always a significant driver of the property market, is likely to continue
- Government schemes including furlough, bounce back and CBILS loans have supported business and are likely to continue in 2021
- Stablecoin currencies are likely to become much more common place in 2021 as technology moves forward
- The internationalisation of available skills is growing. For example, our company has had several lectures from Australian advisors

FIVE TIMES WINNER

MOST ACTIVE AGENT BY NUMBER OF DISPOSALS

MOST ACTIVE AGENT BY NUMBER OF INSTRUCTIONS

The market moved dramatically last year; a result is that, in-spite of the increase in technology, much of the data on which the graphs are based are out of date. It is really important to look to the future and get an agent on the ground's input before decision making. Overall, 2020 was not as bad a year for property as it could have been had had it not been for the support of the financial markets. KALMARs was only just short of target in-spite of furloughing several staff for several months. Going into 2021 we are taking on new staff and opening a new office in the heart of a new growth area, Old Kent Road, allowing us to expand both our commercial and residential divisions.

Generally, businesses in London have shown great adaptability and the pandemic has also stimulated enterprise. London has always been fast to adapt, and we anticipate that, as the vaccine kicks in at the latter end of 2021, we will see significant improvements to most parts of the market. One particular area of stress is central London offices due to working from home, see the article on page 16. Whilst this is unlikely to have a permanent negative effect, it will probably be some years before the full level of demand comes back as the economy grows and supply is reduced as older offices are taken out of the market.

Rethink on occupational use of office

Great choice for occupiers

Light on the horizon with vaccine roll out

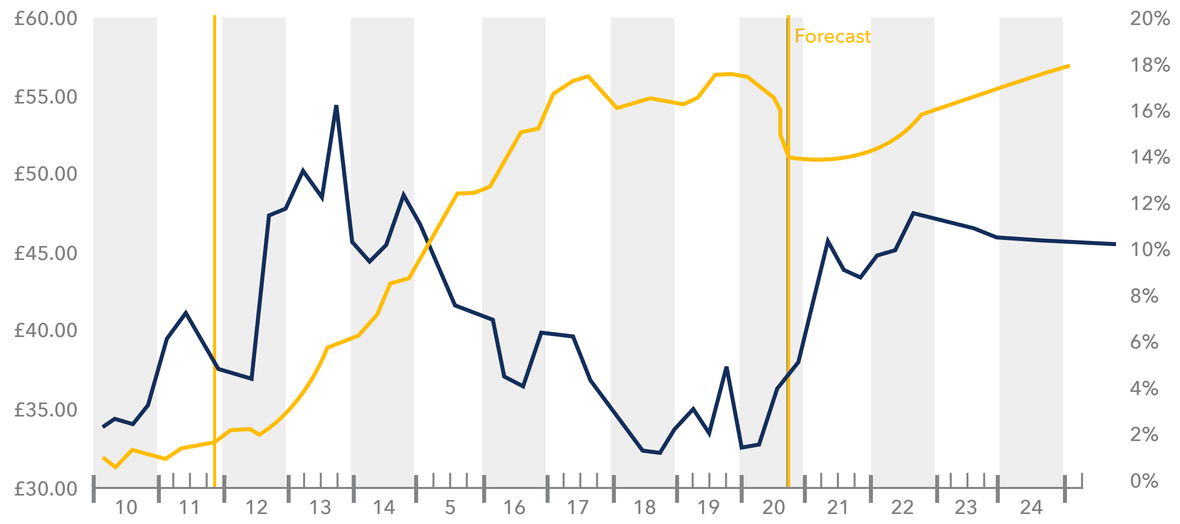
SE1 CENTRAL OFFICE MARKET

The Covid lockdown and working from home (WFH) has resulted in a considerable reduction in demand for, and a large increase in supply of, offices in SE1. Tenants now have a wide range of choice and landlords have had to be flexible; consequently rents have reduced by around 30% from a peak in January 2020, with rent free periods of a year currently being the norm. WFH has been the practice for many businesses throughout 2020 and furloughing common-place. These look set to continue.

Capital Values have fared better, currently discounted around 10% from pre-Covid levels, as owners and buyers are taking a long-term view that the market will revive. The fundamentals of SE1 being an attractive location for office occupiers remain and we predict that as the vaccine kicks in, office space is taken up, and the current ongoing concerns are less prevalent, the market will recover during the latter part of 2021. However, it is unlikely that rents will return to the levels seen at the beginning of 2020 for the next 2 years. (See article below on page 16 Working From Home.)

Market Rent per SF

Vacancy Rate



256 Waterloo Road, SE1
3,240 SQ FT

Horselydown Lane, SE1
878 SQ FT

Wheat Wharf, SE1
7,064 SQ FT

Increased focus on working outside central london

New Class E planning use has been a springboard to allow diverse uses such as gyms and nurseries

Growth Areas such as Camberwell and Charlton becoming new hubs

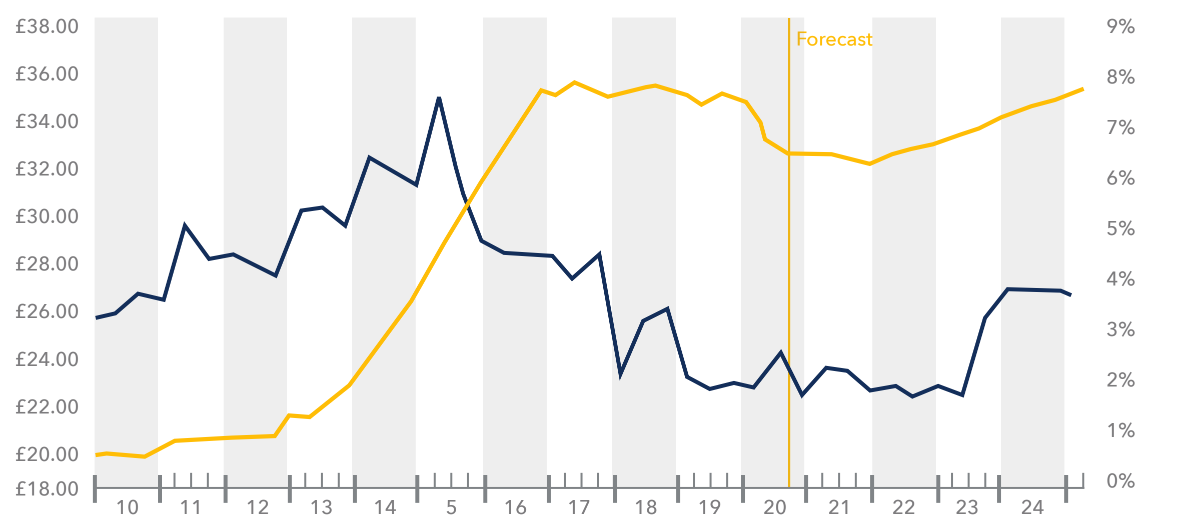
DECENTRALISED OFFICE MARKET

Decentralised locations are attracting companies avoiding central London and, with limited supply, rents have not suffered as much as the City or West End, only falling by 15-20% during the pandemic. However, areas such as Camberwell and Charlton which were on an upward trajectory have slowed and we wait and see how they do this year. The introduction of 'Class E' planning use has grouped offices, some shops, light industrial and some leisure uses into one category. This has meant that the ongoing keen demand for nurseries and gyms has filled much of the space. For instance, at the time of writing, we have keen interest from nurseries in buying 9,000 sq ft of new office space in Forest Hill.

The graph below reflects the fact that data has not caught up with the market, however, our prediction is that the vacancy rate will not be as high as the graph shows, as supply is relatively tight.

Market Rent per SF

Vacancy Rate



Victoria Way, SE7
2,043 SQ FT

Camberwell Road, SE5
711 SQ FT

South Lambert Road, SW8
1,275 SQ FT

Local shops are in good demand

High demand for freeholds with added development potential

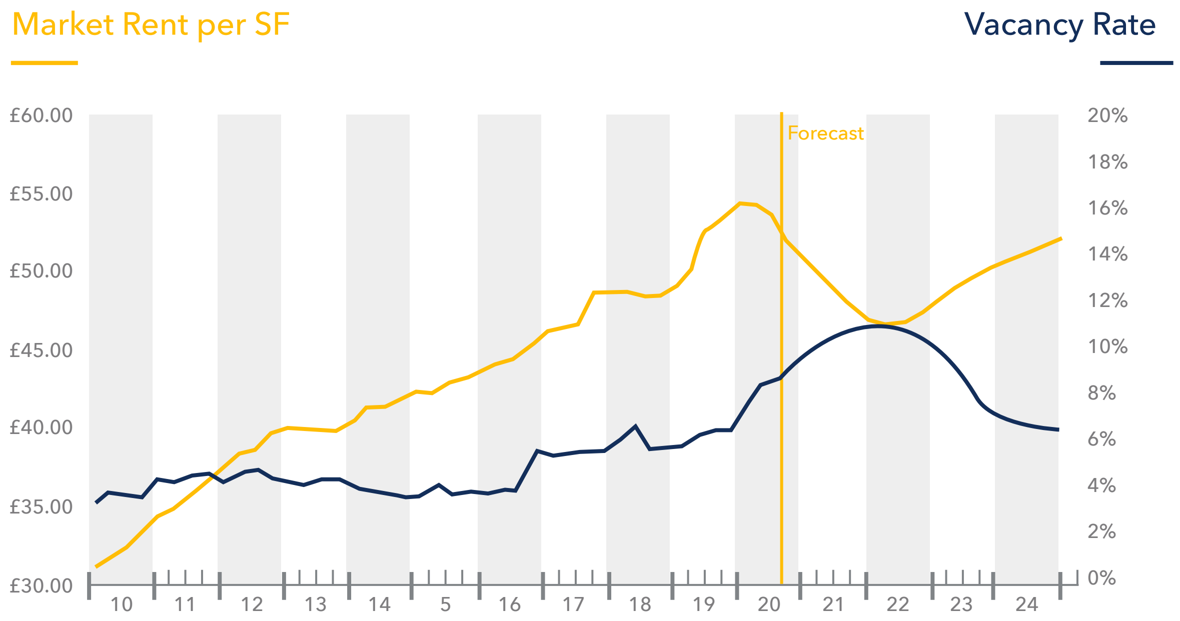
Keen demand for service business not on internet e.g. dentists, barbers and cafes

RETAIL MARKET

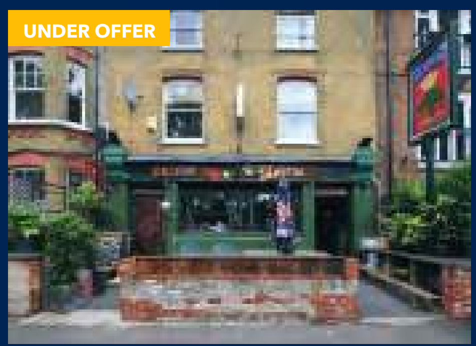
The retail market across south London in non-prime locations has been relatively unaffected by the problems of the Covid pandemic as shoppers are avoiding the big centres.

We anticipate pent up demand for restaurants when the lockdown ends and this is likely to continue throughout 2021.

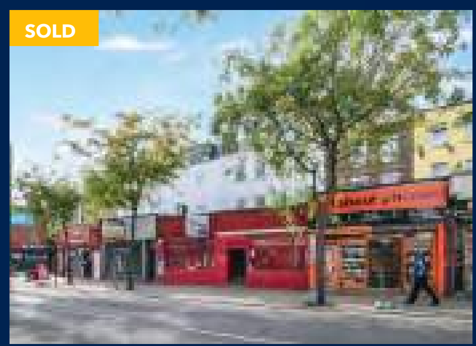
The government introduced a Class E classification attempting to simplify offices, light industrial, shops and leisure however, in practice, it seems more complicated and exactly how it will be implemented is yet to be determined. Meanwhile, there is a good demand from leisure uses; we are currently letting 4 separate gyms in sizes ranging from 4,000-10,000 sq ft.



Fairway House, SE23
8,944 SQ FT



Fitzalan Street, SE11
1,826 SQ FT



Walworth Road, SE17
5,041 SQ FT

Stable in average rents

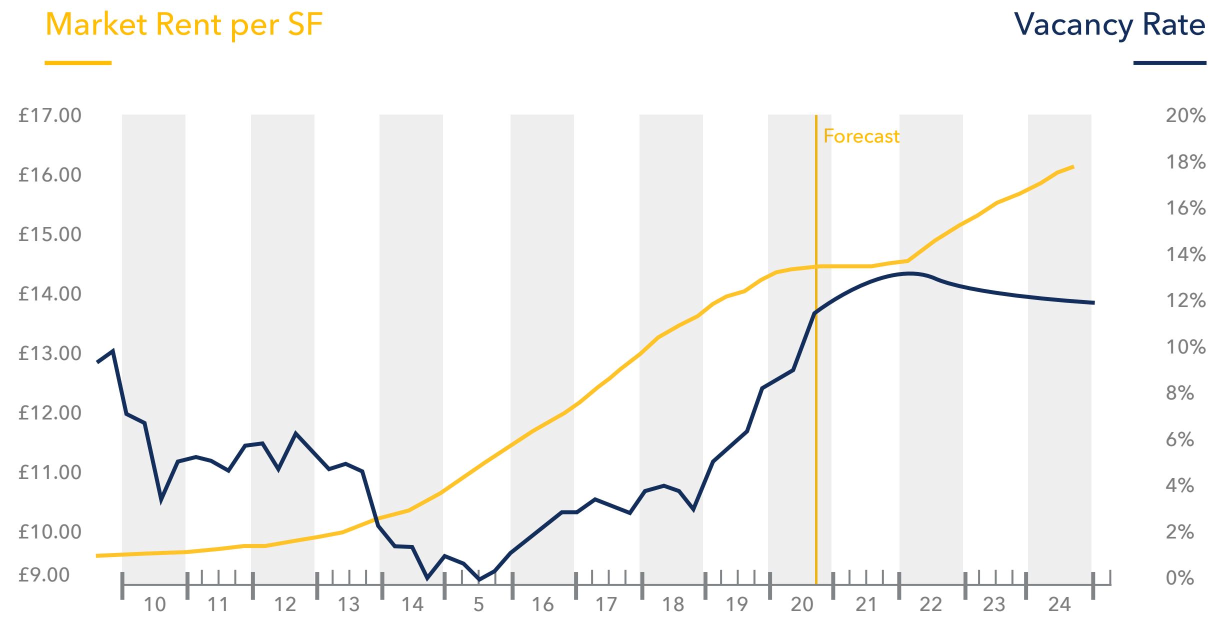
Repurposed railway arches in demand

Keen demand from food/drink businesses

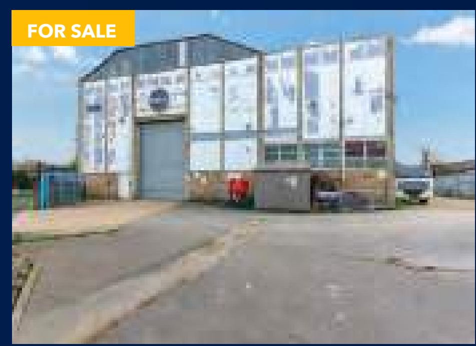
INDUSTRIAL MARKET

The industrial market has been steady throughout 2020, in part due to short supply. Demand has also been light, but steady, and is principally from the food business and, with the catering industry being closed for a lot of 2020, many companies have taken a long term view and are taking up space such as the 9,000 sq ft brewery or a 14,500 sq ft coffee warehouse that we let this year.

It is likely that demand will continue from essential business in inner London. There is virtually no supply of factories for sale, especially given the ongoing demand from residential developers.



Unit 3 Stockholm Road, London, SE16 3LP
31,269 SQ FT



138-140 Nathan Way, London, SE28 0AU
36,669 SQ FT

Unit 4A Juno Way, London, SE14 5RS
3,868 SQ FT

Residential demand in inner London remained stable in 2020.

Current focus on period properties	House prices stable	KALMARs active promotion campaign from new office in Old Kent Road

PRIVATE RESIDENTIAL SALES

2020 started well, no one was expecting the year ahead, however demand held up in part supported by the temporary abolishing of Stamp Duty until April 2021. It remains to be seen whether this will be extended. There was a common conception that people wanted to move out of town, however the fundamentals of inner London remain popular and, as the vaccine kicks in, the ongoing appetite is likely to result in a reasonable market in 2021 and the supply remains low.

KALMARs are excited about opening a new office in the growth area centred on Old Kent Road, where there are many attractive period terraces of private houses.

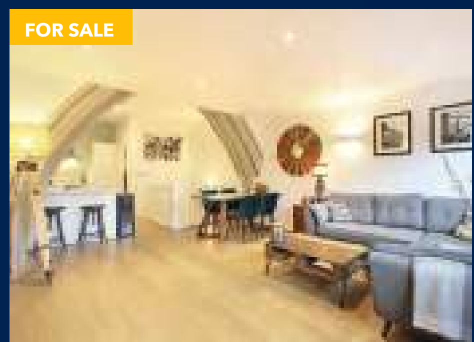
Roman Watling Street, the gateway to Europe now Old Kent Road

Chaucers pilgrims stopped off in Old Kent Road

KALMARs are please to have opened a new office at The High Pavement in Old Kent Road, a location rich in history yet with a bright future that we have already done much to spearhead.

Odessa Street, SE16
£700,000

Blue Anchor Lane, SE16
£750,000



Lynton Road, SE1
£570,000

Demand mainly from local young professionals	Rents fell 10%	KALMARs let 24 flats in a new development within two weeks

RESIDENTIAL LETTINGS

KALMARs has had its record year for lettings and anticipate that this demand will remain reasonable and 2021 will also be a good year. However, rents have dropped by about 10% due to redundancies, furlough and, in some cases, moving out of London.

SE1 remains particularly strong where virtually all 24 units in a new development we were handling let within 2 weeks of completion, mainly to young professionals seeking the convenience and lifestyle. Their preference is for fully furnished space with flexible lease terms.

The Vintners Asylum was one of many refuges to retire to in the suburbs c. 1790

The High Pavement c. 1910

Apex Court, SE1
£510 per week

Grices Wharf, SE16
£595 per week

Odessa Street, SE16
£550 per week

Stamp duty savings drive market

Search criteria change for Working From Home model

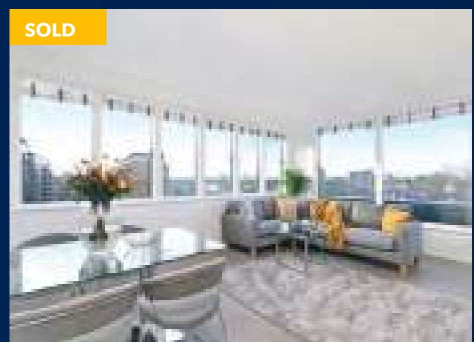
KALMARs presell all units in 2 new developments

NEW **HOMES**

2020 was a turbulent year and purchasers were focusing on greater outside space and greenery and developers are now creating additional study bedrooms and buildings with more Covid resistant specification. Quarter 4 remained active with Help to Buy (HTB) continuing to support the entry end and the stamp duty holiday also fuelling the demand. As a result there has been a flurry of buyers looking to secure properties as soon as possible. KALMARs are pleased to be releasing several new developments early in 2021 and has some interesting stock in the pipeline around Old Kent Road

Bombay Apartments, SE16
£450,000

Woods Road, SE15
£450,000



Randall Court, SE17
£800,000

Financial availability maintains market

Good demand for specialist areas such as PRS and Student

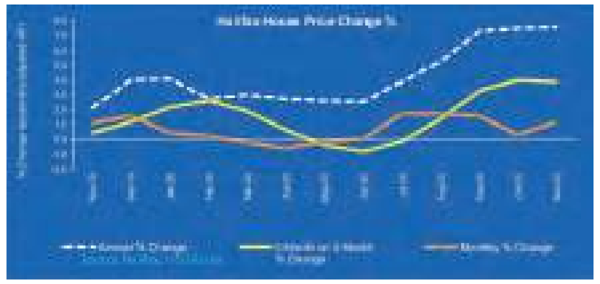
KALMARs sell over £70m worth of sites in 2020

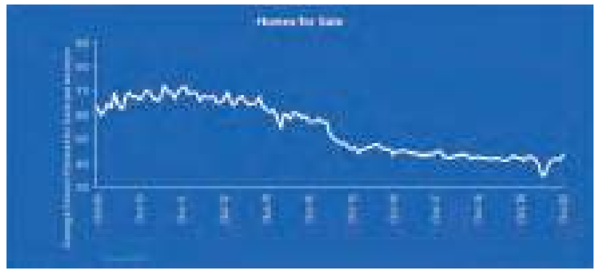
SOUTH LONDON DEVELOPMENT MARKET

The development market has been strong throughout this unusual and challenging time. There has been consistent demand for unconsented sites fuelled by money being available. Smaller consented sites in particular have been popular, generally going to tender. Larger consented sites however were for the most of 2020 slower to attract purchasers willing to move quickly. This is changing but there has been a clear increase in activity and interest from housebuilders and housing associations. Site owners have shown some flexibility on prices for their sites especially due to the anticipated increases in capital gains tax.

KALMARs development team are very excited about the prospects for 2021 with several major instructions and are proposing to expand the department, due to the stock on new sites we are launching and our new office opening in one of London's largest regeneration areas.

GOOD DEMAND FOR WELL DESIGNED AND SENSIBLY PRICED FLATS





Lynton Road, SE1

Albion Street, SE16

Bell Green, SE26

WORKING FROM HOME
HOW WILL IT PAN OUT?

The pandemic has caused rapid changes in working practices, the most striking of which has been working from home particularly as big companies have closed their offices for nearly a year, facilitated by rapid changes in video conferencing.

There are very divergent views on the merits of WFH with benefits including:

- Saving travel time and costs
- Reduction in requirement for office space with consequent cost savings
- Ecological benefits of not travelling
- Reduction in transmission of contagious diseases
- Reduction in stress

Conversely it has disadvantages including:

- Adverse effects on communications; staff do not have the 'marketplace' buzz
- Reduction in staff socialising together
- Adverse effect on productivity as the focus on work can be harder at home
- Pressures on family life especially in small areas
- Hardware and software availability issues
- Loss of employer control of working practices
- Increase in stress; it can work either way

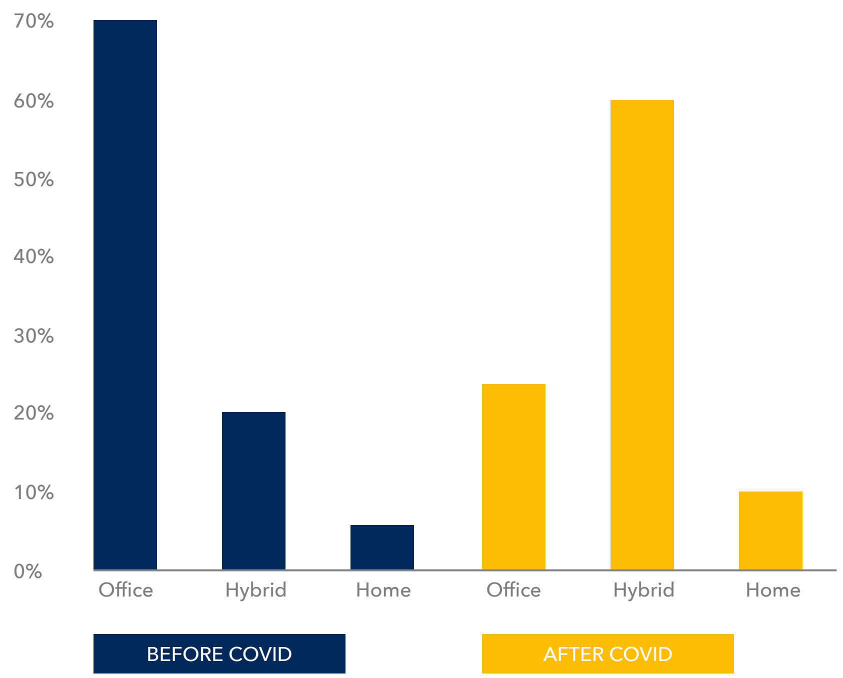
Differing businesses clearly have different issues, as do different age groups: younger people with perhaps less working space at home or children to deal with or those who get more involved in the social side of the working environment have found it especially challenging.

The attached graph, surveying around 230 companies, demonstrates that most people anticipate having a hybrid working pattern i.e. working one or two days a week from home. This is equivalent to about a 20% reduction in requirements for office space. It is likely to take some years to absorb the current supply of working space. Conversely, social distancing has resulted in the traditional model of one person per 9 sq m changing to one person per 12 sq m, i.e. there will be an increase by a third for the space required . This will not result in a commensurate profitability per employee and therefore there will be downward pressure on office rents.

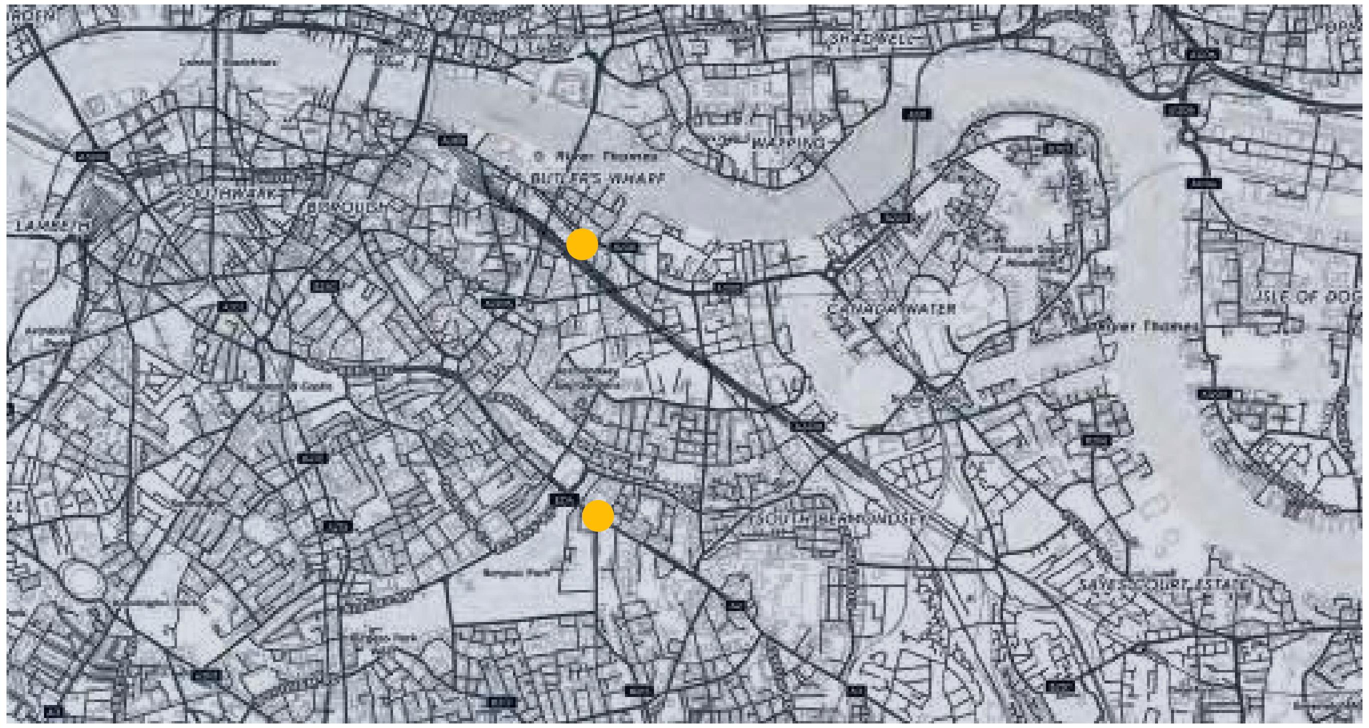
Sociologically and philosophically many issues arise including understanding full body language of being in the same room, tone of voice, and general means of communications and how best to use them. The old cliché of 'people type tougher than they speak' has moved into a new level. It has also thrown up a new lexicon for us to use, including words like asynchronous working (when two or more people can communicate without the requirement that they be there at the same moment), deindividuation (the level of analysis of the individual in a social situation) and many other rather clunky expressions. Like it or not, WFH is unlikely to go away, even post pandemic, and as we all get more used to technology there can be considerable benefits to business.

The property industry needs to embrace these changes and adapt, as it always does, to ensure it is responsive to market demands. Conference screens working in open plan offices, studies in flats and international working hours are just the tip of the iceberg in years to come.

Survey staff across wide sample of office users



WE ARE **KALMARs**



OFFICE LOCATIONS

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Saturday: 10am - 3pm

Sunday: Closed

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