

KALMARs

AWARD WINNING
ESTATE AGENTS



QUARTERLY NEWSLETTER OCTOBER 2015

KALMARs MARKET LEADERS IN
THE SOUTH LONDON AREA

INTRODUCTION

Welcome to KALMARs third quarterly report for 2015, an in-depth analysis of the South London property market. This combines our experience with carefully researched data from leading indices, providing up-to-date information to assist those interested in property in South London. This is general data, for more specific information affecting a property, contact one of the specialist consultants from our team, the largest, and as we approach our 50th year in 2017, the most experienced in South London.

The strong market continues unabated despite fears relating to China, interest rates, the stock exchange or of Britain leaving the EU. The pattern of growth looks set to increase as supply greatly reduced in quarter three, being approximately 3.5 million sq ft, as opposed to a high point of approximately 6.5 million sq ft three years ago. Construction stats show a mixed pattern across the area with a reasonably constant supply being delivered, currently 2.15 million sq ft is being built, which is in line with the highest amount over the last five years. However, in the SE1 area the construction stats at approximately 930,000 are roughly half the five year average or 40% of quarter three 2013 when approximately 2.28 million sq ft was under construction.

As commercial rents rise in some areas, it has become viable to undertake office development; especially as social housing is not required within the development. This is likely to result in increased supply in the medium term.

Examples of properties KALMARs have recently sold for office development, which were expected to go to for residential use, include a £13million site near Borough; now planned to be a 50,000 sq ft office; a 15,000 sq ft former office now selling in sections as offices; and a 10,000 sq ft flat office/development now being developed purely as offices.

In spite of these changes, the pattern of commercial sites selling for residential development carries on, for example we have just sold a 1.2 acre site off the Old Kent Road for £8.4 million.

We anticipate growth will remain strong for:

- Offices outside of the centre especially as Permitted Development rights, i.e. a change of use from office to residential, has just been extended. Contact us for more details on this.
- Offices in central locations, due to the shortage of supply and lack of new space becoming available, balanced against keen demand.
- Whilst residential price rises have slowed, the shortage of space remains significant and is unlikely to change in the short term. This slowdown is healthy as the rapid rises of 2013/2014 could not continue, but the prices are still edging up.

This report covers inner South London i.e. the area South of the Thames and North of the South Circular. It is based on KALMARs unrivalled experience of demand and supply of commercial and residential property across the area. This includes major transactions of both vacant and investment properties combined with data from the leading index producer CoStar’s latest figures.

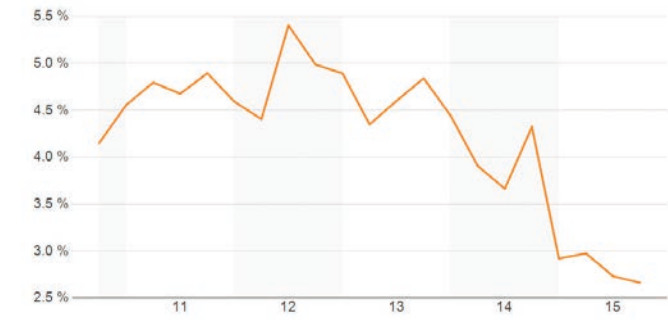


Richard Kalmar
MD KALMARs Commercial
Chairman Southwark Chamber of Commerce

ALL COMMERCIAL INCLUDING SE1 OFFICES

There is a total of approximately 97 million sq ft of commercial space with a value, based on average achieved prices, of £31.25 billion, of which £13.2 billion or 20.25 million sq ft is in SE1 offices representing 42.25 % of the total capital value, this clearly has a large influence on the statistics. For more detailed information, see the sections that follow.

VACANCY RATE



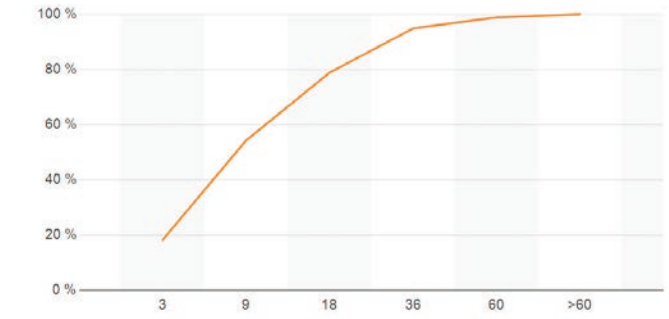
ASKING RENT PER SF



NET ABSORPTION



PROBABILITY OF LEASING MONTHS



Availability	Survey	5-Year Avg
Rent Per SF	£33.21	£24.54
Vacancy Rate	2.7%	3.5%
Vacant SF	2,042,379	3,337,914
Availability Rate	4.3%	5.0%
Available SF	3,439,293	4,957,387
Sublet SF	357,492	333,123
Month on Market	6.8	9.4

Inventory	Survey	5-Year Avg
Existing Buildings	12,451	12,401
Existing SF	97,047,957	96,628,542
12 Mo. Const. Starts	1,189,776	1,576,991
Under Construction	5,198,337	3,396,129
12 Mo. Deliveries	624,808	941,869

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	175,850	548,255
12 Mo. Leasing SF	2,063,601	2,316,142

Sales	Past Year	5-Year Avg
Sale Price Per SF	£331	£295
Asking Price Per SF	£453	£405
Sales Volume (Mil.)	£457	£854
Yield	5.8%	6.0%

OFFICES SE1

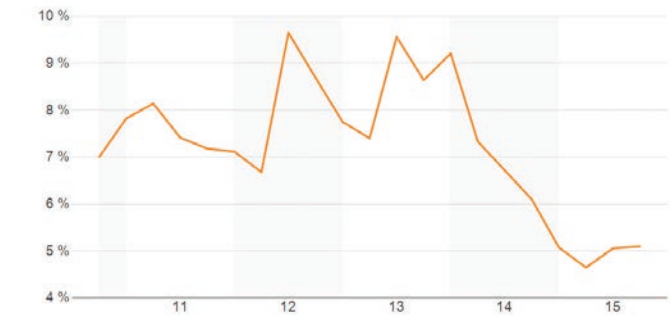
The SE1 office market continues to grow exponentially with demand outstripping supply. SMEs continue to move into the area attracted by

- Being alongside large corporates which have either expanded or moved into SE1
- The rapidly improving environment and amenities
- Good transport links. Interestingly there have been more new business start-ups in the Bankside area than anywhere else in the UK.

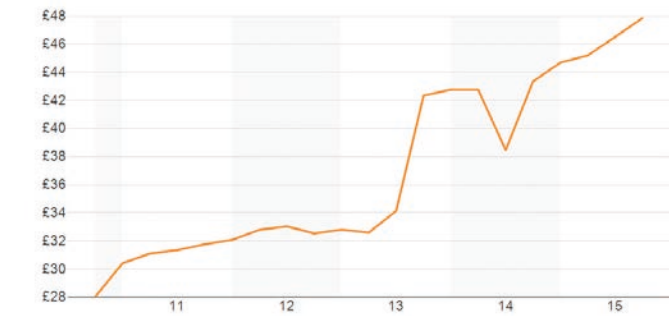
Following the increase in supply in 2012 when the Shard became available, there is now an acute lack of major developments due to be completed in the medium term. There are a few exceptions such as South Bank Tower, due to provide 225,000 sq ft next year, the Shell Centre 800,000 sq ft and Elizabeth House York Road 950,000 sq ft, which are expected to be delivered in 2018.

KALMARs have concluded several major pre-let or sales including one of the largest pre-lets in SE1 being 29,000 sq ft by Tower Bridge and a pre-sale of 12,000 sq ft off Blackfriars Road and a 26,000 sq ft office building on Long Lane.

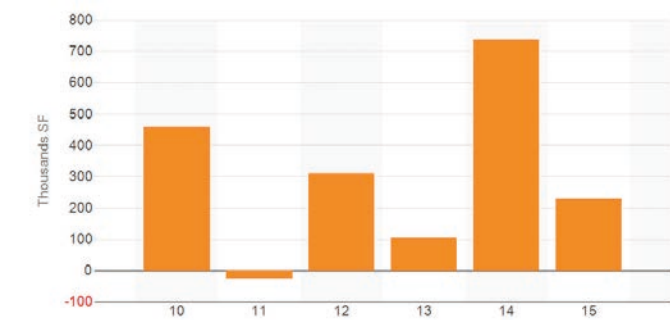
VACANCY RATE



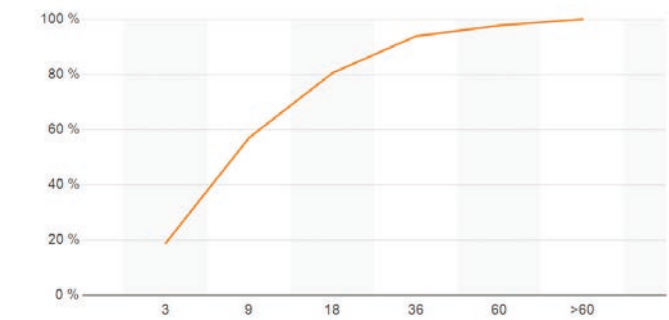
ASKING RENT PER SF



NET ABSORPTION



PROBABILITY OF LEASING MONTHS



Availability	Survey	5-Year Avg
Rent Per SF	£47.87	£37.41
Vacancy Rate	5.1%	7.3%
Vacant SF	1,032,559	1,449,327
Availability Rate	7.2%	9.8%
Available SF	1,530,234	2,026,112
Sublet SF	213,538	154,175
Month on Market	4.2	7.3

Inventory	Survey	5-Year Avg
Existing Buildings	864	859
Existing SF	20,250,857	19,765,139
12 Mo. Const. Starts	623,625	275,609
Under Construction	892,625	842,352
12 Mo. Deliveries	63,875	355,549

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	368,917	255,763
12 Mo. Leasing SF	1,139,344	1,062,128

Sales	Past Year	5-Year Avg
Sale Price Per SF	£652	£475
Asking Price Per SF	£632	£525
Sales Volume (Mil.)	£168.0	£431
Yield	5.9%	5.6%

Current data provided by Costar

LARGER OFFICE DEALS IN SE1

ADDRESS	SIZE SQ FT	OCCUPIER	MONTH
90 Southwark Street	373,787	Omnicom	Oct-14
York Road	250,000	Shell	Mar-15
25 London Bridge Street	45,714	ED&F Man	Dec-14
32 London Bridge Street	33,691	The Office Group	Dec-14
25 Lavington Street	31,300	One Avenue Group	Mar-15
230 Blackfriars Road	31,164	Instant Managed Offices	Feb-15
25 London Bridge Street	30,919	Regus	Dec-14
82-84 Tanner Street	26,673	Periscopix	Dec-14
Hays Lane	25,252	Network Rail	Feb-15
5 Montague Close	25,130	Guy's & St Thomas' NHS Foundation Trust	Dec-14

INDUSTRIAL

Due to the shortage in industrial property in zones 1-3, supply is currently 1.7% down from an average 3.9% over the last five years. Consequently businesses are being forced to move out beyond the South Circular, where there is a greater level of stock. Transaction volumes have increased three-fold, but capital values have dipped slightly which is an anomaly caused by one or two large older buildings being sold and does not reflect the general trend, especially as rents have increased by c.25.9% psf. Rental incentives have also retracted therefore providing landlords with a strong negotiating position.

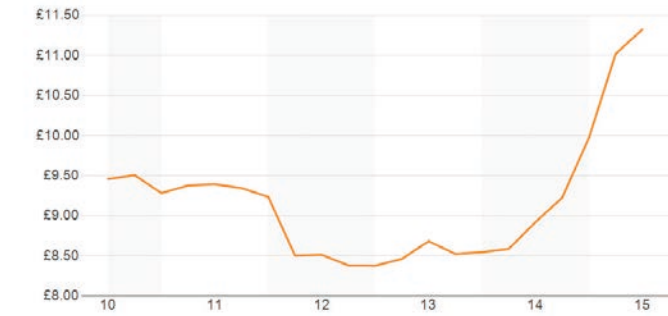
Demand is from a wide range of occupiers, ranging from small local businesses to large national PLCs. SMEs operating in the area are particularly suffering from the lack of supply, as landlords are able to pick blue chip tenants.

The median level of enquiries we receive are for 2,000-7,000 sq ft, as bigger businesses require larger lorries than London’s road system can accommodate. However we have recently received several enquires for over 20,000 sq ft sector from specialist companies that need to be in central London. There is only one new industrial estate being built within five miles of central London, being in New Bermondsey and we are experiencing a keen level of demand.

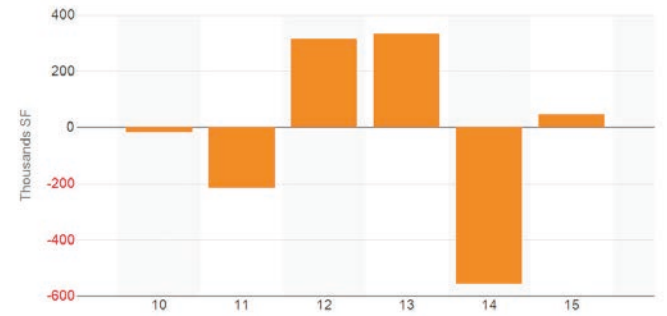
VACANCY RATE



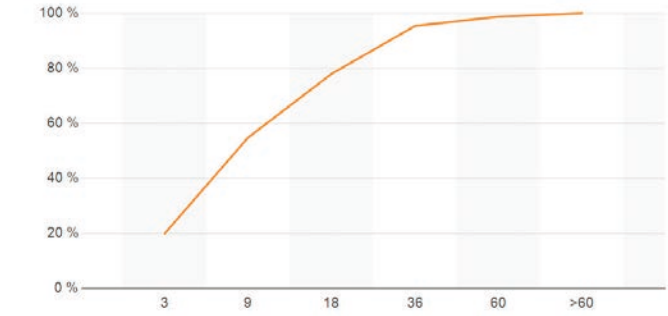
ASKING RENT PER SF



NET ABSORPTION



PROBABILITY OF LEASING MONTHS



Availability	Survey	5-Year Avg
Rent Per SF	£11.32	£8.99
Vacancy Rate	1.7%	3.9%
Vacant SF	279,619	644,304
Availability Rate	2.7%	6.6%
Available SF	455,100	1,082,471
Sublet SF	6.1	12
Month on Market	4.2	7.3

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	-474,982	91,810
12 Mo. Leasing SF	445,421	482,265

Inventory	Survey	5-Year Avg
Existing Buildings	1,238	1,215
Existing SF	16,618,522	16,476,999
12 Mo. Const. Starts	57,000	86,065
Under Construction	82,499	55,444
12 Mo. Deliveries	9,906	78,807

Sales	Past Year	5-Year Avg
Sale Price Per SF	£153	£162
Asking Price Per SF	£185	£125
Sales Volume (Mil.)	£120	£41
Yield	2.5%	6%

RETAIL

Both rental and capital values within the South London retail sector continue to rise. Rental levels are currently 11.6% above the five year average at £26.96 per square foot. Sale prices over the past year have averaged £370 per square foot, which is 69.7% above the five year average. This has been driven by an influx of owner occupier and speculative purchasers, resulting in capital growth substantially outstripping rental growth in the sector.

There is currently 235,732 square foot of retail property under construction, a huge 112.2% increase on the five year average. This statistic does not necessarily reflect increased demand for retail space, as a large amount of the space is only being built as a planning requirement within new build residential schemes. A significant amount of the retail space we have been instructed on has gone for diverse alternative uses, such as health or leisure use, including doctors surgeries or gyms, even on one occasion a 7,000 sq ft basement archery range.

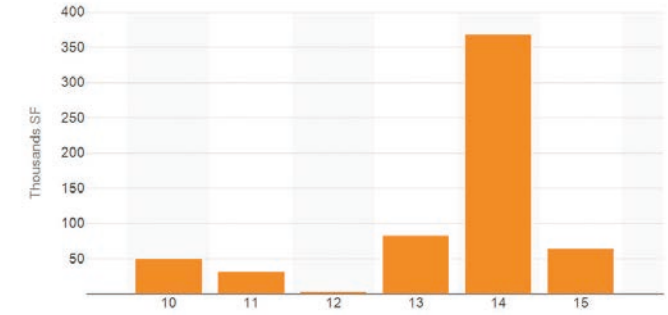
VACANCY RATE



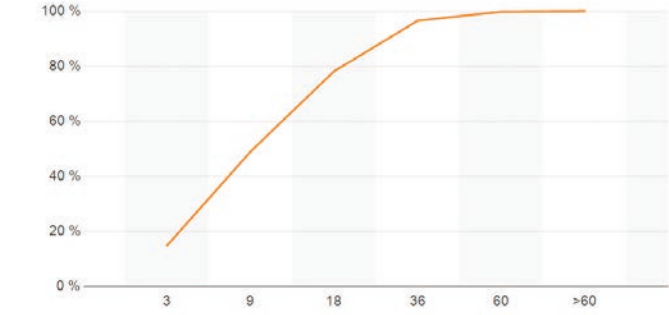
ASKING RENT PER SF



NET ABSORPTION



PROBABILITY OF LEASING MONTHS



Availability	Survey	5-Year Avg
Rent Per SF	£26.96	£24.15
Vacancy Rate	1.7%	1.9%
Vacant SF	267,157	289,621
Availability Rate	3.1%	3.5%
Available SF	486,420	522,849
Sublet SF	42,380	59,310
Month on Market	10.6	8.1

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	147,348	39,877
12 Mo. Leasing SF	229,093	218,529

Inventory	Survey	5-Year Avg
Existing Buildings	5,981	5,933
Existing SF	15,506,916	15,000,972
12 Mo. Const. Starts	182,916	88,015
Under Construction	235,732	111,074
12 Mo. Deliveries	158,674	75,040

Sales	Past Year	5-Year Avg
Sale Price Per SF	£370	£218
Asking Price Per SF	£355	£270
Sales Volume (Mil.)	£27	£61
Yield	6.6%	6.1%

SOUTH LONDON OFFICES

The South London office market has improved dramatically and is now buoyant with strong demand from tenants and purchasers, balanced against low supply. As a result both rental and capital values are substantially above the five year average, sales prices being up by 48.27%. In summary the factors behind this improvement are:

- Permitted development, allowing offices to be used for the more valuable use of residential, greatly reducing supply. This is now set to continue and includes some shops. Contact us for more information.
- A pickup in business for existing companies
- Money being more readily available

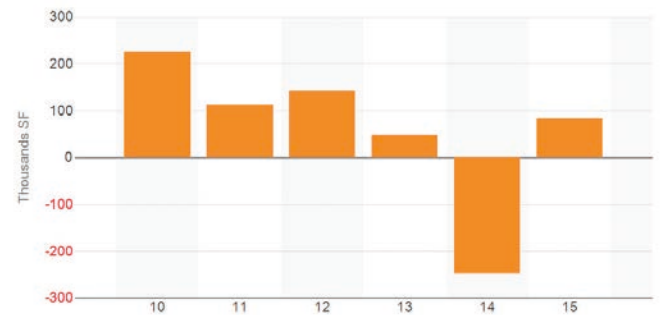
As a result of this shift in occupier demand trends KALMARs have disposed of numerous new build offices for many leading developers such as Barratt Homes, Berkeley Homes and Galliard Homes.

As KALMARs Residential office is located in SE1 the comments and table below are focused on this area. The map shown at the bottom of the page is more general and covers decentralized residential values providing average price per square foot. by post code. For further comments on developments planned in these areas, please contact sebastiank@kalmars.com

VACANCY RATE



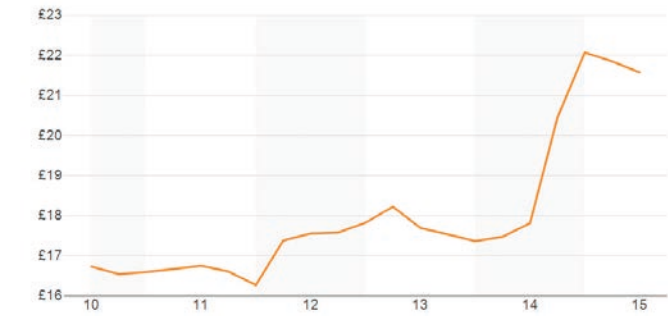
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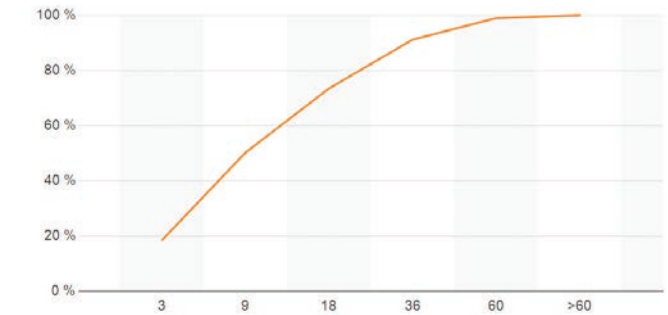
Availability	Survey	5-Year Avg
Rent Per SF	£21.57	£17.76
Vacancy Rate	2.7%	4.2%
Vacant SF	232,471	367,183
Availability Rate	3.1%	5.8%
Available SF	294,853	533,494
Sublet SF	7,089	7,430
Month on Market	8.6	13.1

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	6,131	-3,825
12 Mo. Leasing SF	234,395	177,280

ASKING RENT PER SF



PROBABILITY OF LEASING MONTHS



Inventory	Survey	5-Year Avg
Existing Buildings	1,051	1,052
Existing SF	8,749,262	8,850,580
12 Mo. Const. Starts	94,569	195,356
Under Construction	851,809	512,934
12 Mo. Deliveries	36,701	64,553

Sales	Past Year	5-Year Avg
Sale Price Per SF	£387	£261
Asking Price Per SF	£256	£176
Sales Volume (Mil.)	£28	£26
Yield	4.3%	5.8%

RESIDENTIAL LETTINGS

The rental market has been performing very strongly, with very little space available, yet strong demand resulting in properties letting quickly and rents showing steady growth year on year. Yields have traditionally been low, averaging around 2%, less than elsewhere in London. However the capital growth, averaging 8% in the last 12 months, has compensated investors for the low yield.

Typical rental values in the SE1 area are as follows

BEDS	RENTS £PER FLAT PW	
	PRIME	SECONDARY
1	400	350
2	500	450
3	800+	500+

RESIDENTIAL SALES

Sales demand is currently very strong and supply very low with a real need for more properties to become available. However in the long term many new flats are planned including

- Vauxhall 15,000 flats
- Canada Water to Greenwich Creek 16,000 flats
- Old Kent Road numerous, but unspecified

Whilst these and other development centres could help the balance, London's population is growing by about 140,000 each year and more dwellings are being occupied by single people. This supply is unlikely to solve the shortage for many years. Prices have shown growth in the first and second quarter of 2015, but are at a more sustainable rate than in previous years and we expect the market to grow steadily in the coming year. Over the last 5 years the area has averaged 7% per year growth and in some roads in exceptional growth areas, like around the Elephant and Castle, KALMARs have achieved an increase as high as 17%.

With the prime SE1 area reaching maturity, for those seeking high growth we recommend looking to regeneration areas like New Bermondsey (around Surrey Canal Road), Surrey Quays, the Elephant and Castle and around the Old Kent Road.

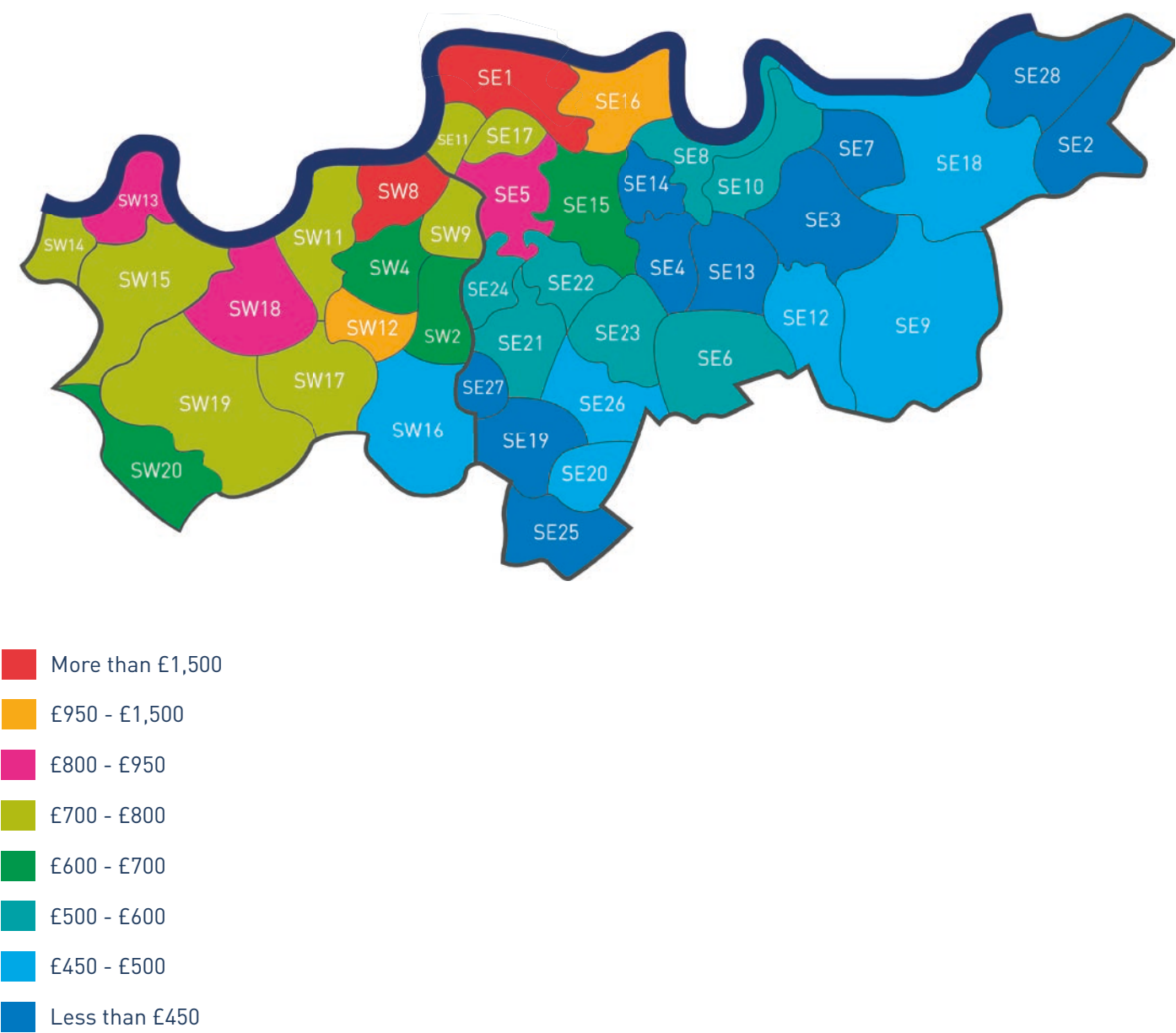
Typical sales values in the SE1 area are as follows

BEDS	SALES £s PER FLAT	
	PRIME	SECONDARY
1	550,000	400,000
2	750,000	550,000
3	850,000+	650,000

RESIDENTIAL

Residential demand for lettings and sales has been very keen for over two years which has continued to push prices up. This is clearly demonstrated from the map and table shown.

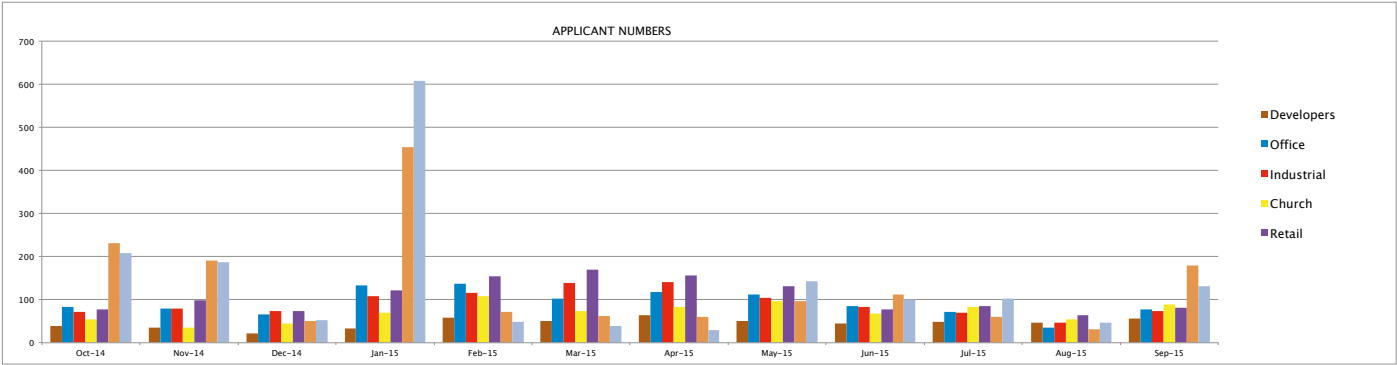
LONDON RESIDENTIAL
£'s PER SQUARE FOOT BY POSTCODE, OCTOBER 2015



APPLICANTS

Listed hereunder are KALMARs applicants over the last 12 months providing a barometer of demand. These have increased significantly over previous years. Following the normal August lull demand has now returned in the autumn. Other anomalies are caused for a number of reasons, please contact us for a more detailed analysis of how these patterns may affect you.

Applicant	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Average	Total
Developers	39	35	21	33	59	51	64	50	44	49	47	56	46	548
Office	83	79	66	133	138	102	117	113	86	72	36	77	92	1102
Industrial	71	79	73	108	116	139	140	104	83	70	46	74	92	1103
Church	54	36	45	70	109	73	84	96	67	83	54	89	72	860
Retail	77	98	73	121	155	170	157	131	78	85	64	82	108	1291
Total Commercial	324	327	278	465	577	535	562	494	358	359	247	378	409	4904
Residential Sales	231	190	50	454	71	62	61	97	112	61	32	180	133	1601
Residential Lettings	209	188	52	609	49	39	30	143	100	103	46	131	142	1699
Total Residential	440	378	102	1063	120	101	91	240	212	164	78	311	275	3300
Overall Total	764	705	380	1528	697	636	653	734	570	523	325	689	626	8204



KALMARs FRESH FACES ONGOING GROWTH

During the last 12 months KALMARs have taken on 6 new sales staff, the drive and ambition of the new staff complements the very experienced directors to provide a very powerful force and ensure that we remain the leading agency in our area. Our residential division has also been strengthened by the promotion of Sebastian Kalmar to director level.

These new staff are:



Anthony Tappy-Day BSc MRICS
Decentralised offices and shop agency manager
With eight years’ experience as a commercial agent and surveyor Anthony is rapidly gaining the trust of both long standing clients and new ones such as London and Regional and Land Securities.



Greg Giessen BSc
Residential private sales consultant
Graduating from Edinburgh with a degree in Human Geography, Greg’s charisma has ensured that he has already successfully concluded numerous sales and lettings in the residential department, which he is now building on with a very healthy pipeline of deals in hand.



Luke Osborne BSc
Industrial agency manager
Following achieving a first class degree in Economics, Luke had several years of experience in office agency, where he brought in exceptionally high fees. Thus he has had a flying start at KALMARs and within 6 months of joining has already produced fees in excess of £175,000.



Myles McMillan BSc
Residential lettings consultant
Graduated from Manchester University with a degree in Business Management and Finance, Myles has a long standing family tradition in property, providing a valuable understanding of the business. His enthusiasm for the work as residential letting consultant resulted in two deals in his first month.



Piers Hanifan BSc
Decentralised office shops and industrial consultant
Graduated from Westminster University, Piers’s calm yet determined approach has proved invaluable to the company. He has now gained broad experience to ensure that he provides a top quality service to clients.



Laura Featherstone BSc
Central office consultant
Graduating from the University of Manchester with a RICS accredited Masters in Urban Regeneration and Development, Laura is a fresh face within the commercial team, astute, ambitious and exuberant; her role is focused on smaller offices within the London SE1 sector.



CONCLUSION

As shown throughout this report, the commercial and residential property market in South London is currently experiencing high demand and consequently strong growth, which is likely to continue for the foreseeable future.

The recent Government announcement making Permitted Development permanent covering industrial space, it is likely to result in further commercial stock being taken out of the market. We predict the reduction in what is already greatly reduced stock will result in accelerated price rises. In turn this will trigger development as the viability becomes attractive to developers and their funders.



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