Progressive Property & Construction Daily

21 November 2022: SRE | London office delivery to hit 20-year high driven by 'ESG' ambitions

A round-up of market statements, news, economics and views from the property and construction sectors

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Company news

Sirius Real Estate (SRE, 82p, £962m mkt cap)

Leading operator of business parks in Germany. HY (Sep) results. Rev +48%, €131m; PBT -3.2%, €75.7m; EPS -6.8%, 6.0c; interim div +32%, 2.7c; NAV 103.9c (Mar, 102.0c); net debt, €818m (€900m); LTV, 41.0% (41.6%). *Trading:* Portfolio valuation €2,081m (€2,075m). Disposal of two mature assets in Magdeburg for €13.8m and Camberwell for €18.8m which together represent a 9.4% premium to book value; the proceeds will be recycled into two value-add acquisition assets in H2, in Düsseldorf (€39.8m) and Dreieich (€3.9m). *Outlook:* "Sirius remains resilient and well positioned to navigate the current macro-economic climate due to its intensive asset management initiatives and the fixed priced contracts it has secured for a significant portion of its utility demands in both Germany and the UK, which should shelter its diverse tenant base from some of the higher operating costs that most industrial companies are facing. As such, the company continues to expect to trade in line with consensus and management expectations for the full year".

Economic data

Office development. Ongoing construction of London offices will 'catch-up' in 2023 after post-pandemic delays, delivering the highest volume of completed new office space for twenty years (see below), while new construction will increase from 2024 - 26, with strong 'ESG' credential underpinning development, according to the latest Deloitte Crane Survey (link). Refurbishments represent over two-thirds of the volume started. Developers expect the shift to hybrid working to drive down the overall requirement for office space by 10% per head in the long term. But a tilt to refurbishment and 'flight to quality' will drive stronger demand for Grade A space. 31 schemes with a total volume of 2.5 m sq ft were started between April and September, a 6% rise over the previous survey, but remains below the ten-year average of 2.9 m sq ft. Average new scheme size rose to 79,000 sq ft from 69,000 sq ft in our previous survey. This is largely due to the 556,000 sq ft refurbishment of BT's former headquarters, started in Q2 2022. The three largest schemes in the latest survey account for 41% of the total volume of new starts. 2025 should see the real estate industry potentially rebounds from the UK recession and as pressure on stock stimulates rental growth, creating a wave of fresh opportunity for developers. Developers will need to build or upgrade approximately 15 m sq ft pa to meet the Government's proposed 'EPC B or above' energy efficiency standard by the 2030 deadline, but the report concludes "they will fall short of this level, leading to an acute supply squeeze going forward".

Delayed starts to raise expected supply in 2026

Central London: Future office development pipeline

Source: Deloitte

In other data …

The City of London Corporation has approved plans to relocate the capital's historic meat and fish wholesale markets to a £1bn purpose-built site in Dagenham Dock, ConstructionEnquirer.com (link). The City Corporation has voted to deposit a Private Bill in Parliament on 29 November to relocate Billingsgate and Smithfield wholesale markets to the new East London site. The Corporation will invest around £1bn directly into Barking and Dagenham to regenerate 42 acres of industrial land into a modern wholesale food market. Relocating the Smithfield meat market will also pave the way to reinvigorate the existing site near to the Farringdon Elizabeth Line station. The site will become home to the new London Museum, and cultural and commercial space. The land at Canary Wharf that will be unlocked by relocating Billingsgate fish market could provide around 2,000 homes and other social infrastructure.

Prices are as at the previous day's close.

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