Take-up falls 591,000 to 2.65m sq ft

Development pipeline remains constrained

Highest level of quarterly investment transactions since 2015 Q4

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THE LONDON OFFICE MARKET REPORT 2022 Q1

MARKET ROUNDUP

Take-up falls 591,000 to 2.65m sq ft

◆

Development pipeline remains constrained relative to long term average levels of prime take-up

◆

Highest level of quarterly investment transactions since 2015 Q4

London Overview

Despite a challenging economic backdrop in Q1, the London office market maintained a robust level of lettings activity whilst investor appetite for prime buildings has been especially strong. The rise in energy prices, compounded by the Russia-Ukraine conflict has added an element of uncertainty to the future outlook and tilted the balance of risk to the downside.

Total take up for the quarter was 2.65m sq ft, a slight decrease on levels recorded in the previous quarter and below the long-term average of 3.02m sq ft. New and refurbished space accounted for c. 49% of transactions, down 30.8% compared with the previous quarter and 3.9% lower compared with the long-term average. In the City & Southbank, new & refurbished leasing transactions accounted for 68.5% of total take up for the quarter, in the Docklands & Stratford it was 34.8% and the West End stood at 21.9%.

The pre-let market continues to show remarkable resilience with c.30% of space under construction already transacted and in many instances at rental levels about the average of the broader market. Indeed, the top leasing deal last quarter was a pre-let - Hogan Lovells pre-leasing 266,000 sq at 14-21 Holborn Viaduct, EC1. This confidence in London and the role that offices will play going forward is furthered by the level of under offers across London currently standing at 3.38m sq ft, with viewing and enquiry levels also remaining healthy throughout the quarter.

◆◆

London office market maintained a robust level of lettings activity whilst investor appetite for prime buildings has been especially strong

◆◆

Strengthening demand for prime office space

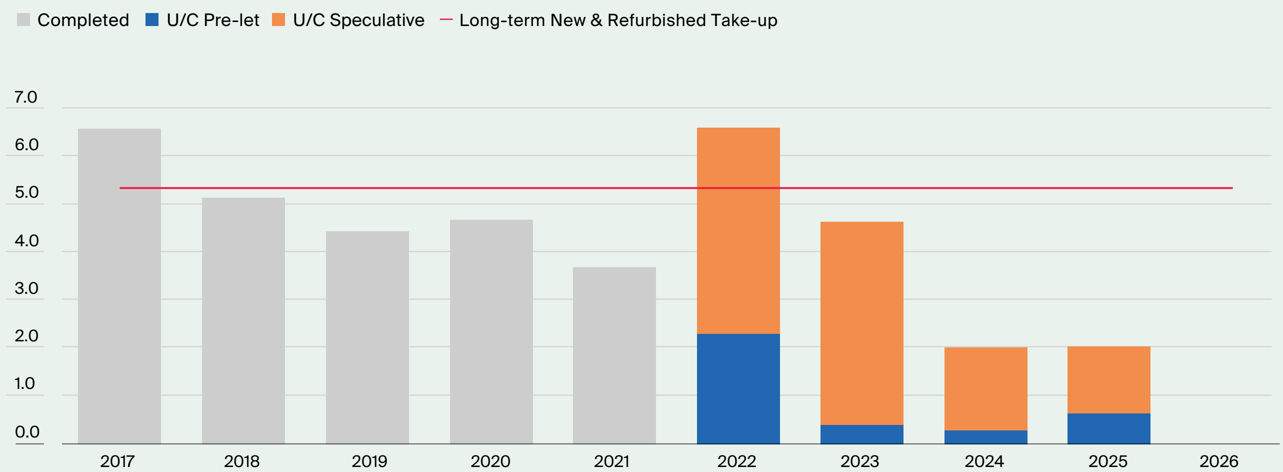
Take up in 2022 Q1 was dominated by professional services and finance & banking occupiers, with both accounting for 30.0% and 23.6% of take up respectively. Legal services firms continue to be a great source of demand in the London office market, with a number of firms acquiring space during the quarter. In addition to Hogan Lovell's 266,000 sq ft pre-let, McDermott Will & Emery acquired 27,000 sq ft at 22 Bishopsgate, EC2, along with Jenner & Block LLP and Walkers Global all leasing office space during the quarter. All of these deals completed on best in class space, further emphasising the flight to quality we have seen from legal services firms in London over the last few years. The largest finance and banking leasing deal completed during the quarter was by Citi Group, who acquired c. 95,000 sq ft at 40 Bank Street in Canary Wharf. Citi Group are taking this space on a short-term basis whilst improvement works are ongoing at their HQ building at 25 Canada Square, E14.

This strengthening demand for best in class space by occupiers is further emphasised the amount of active requirements in London totalling 8.38m sq ft at the end of 2022 Q1. This is an increase of 10.9% on levels recorded in the previous quarter and 11.5% increase year-on-year, with all markets seeing an increase in occupiers enquiring for space.

Availability rises, however prime stock remains limited

Availability across London increased slightly in 2022 Q1 to 20.11m sq ft, a 4.2% increase on levels recorded in the previous quarter. However, total availability of space classified as being brand new, stands at only 3.88m sq ft, and available across just 70 units. With fervent demand for best in class space from occupiers, the definition of what is classified as prime is also evolving to include various ESG credentials, as well amenities within and around the building, connectivity and outside

London development pipeline
m sq ft



Source: Knight Frank

or green space to name a few. With the current lack of prime stock, occupiers are looking further ahead and pre-leasing office space. However, there is also an issue of availability of this space, with the future pipeline being modest as only 11.68m sq ft of office stock is currently under construction speculatively across London. Additionally, 30% of the current pipeline under construction is already pre-let, constraining the pipeline further.

Investment into London offices reached £5.86bn, the highest quarterly level since 2015 Q4

Rents rise in the West End

With the flight to quality from occupiers intensifying and leading to greater demand for best in class offices, this has had an effect on rents in key markets. Competition for space had led to rental tension for prime buildings, with transactions on such space being at or above prime rental levels. Therefore, in the West End we have raised our prime rent to £120.00 per sq ft, due to the growing weight of evidence of leasing transactions. Prime rents in both the City & Docklands remain at £75.00 & £50.00 per sq ft respectively.

Quarterly Investment Turnover Highest since 2015

With the ending of all COVID restrictions and the limitations on travel easing during the quarter allowing investors to view assets, ensured that investment into London offices reached £5.86bn, the highest quarterly level since 2015 Q4. Despite the economic headwinds, high levels of investment displays the strong appetite for London offices, with levels of investment increasing 42.3% on the previous quarter, and a year on year increase of 363.9%. For the second quarter running, investment turnover was above the long-term average of £3.89bn. Investors from Asia Pacific were the most active during the quarter accounting for 40.0% of investment into London, followed by North American investors with 31.6%. Overseas investors once again dominant, with UK investors only making up 6.5% of total investment in 2022 Q1.

There were a number of big-ticket investment transactions during the quarter, with the largest deal being

2.65m sq ft
LEASING DEALS DURING Q1

Korea's NPS purchasing 5 Broadgate, EC2 for £1.2bn, £1,651 per sq ft and at 3.60% NIY. Followed by Google purchasing Central St Giles, WC2 for £775m in the West End and Ho Bee Land purchasing the Scalpel Tower, EC3 for £718m. These transactions display the attraction London has for investors and current appetite for prime assets in London, and that investors are willing to invest substantial capital to secure prime assets. Our prime yields for the West End and City remain at 3.25% & 3.75% respectively, highlighting the number of prime transactions that are occurring in London at these levels. In addition to this, we previously forecast record levels of cross border investment into London, and subsequently we are likely to revises these upwards due to the demand for London office assets.

UNLOCK OUR INSIGHTS

THE LONDON OFFICE MARKET REPORT 2022 Q1

LONDON OFFICE MARKET

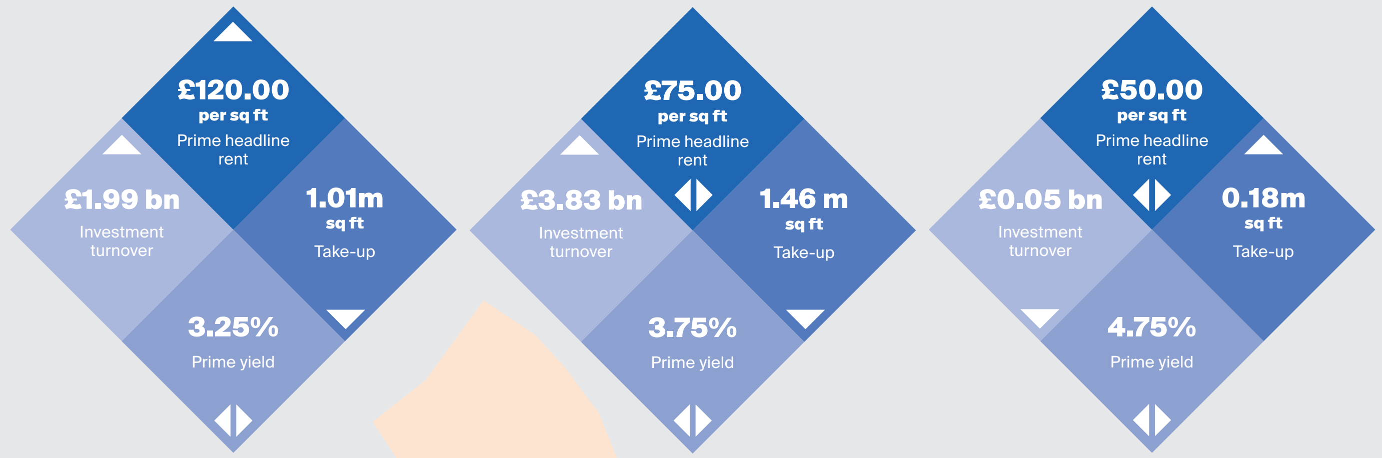
Performance dashboard 2022 Q1

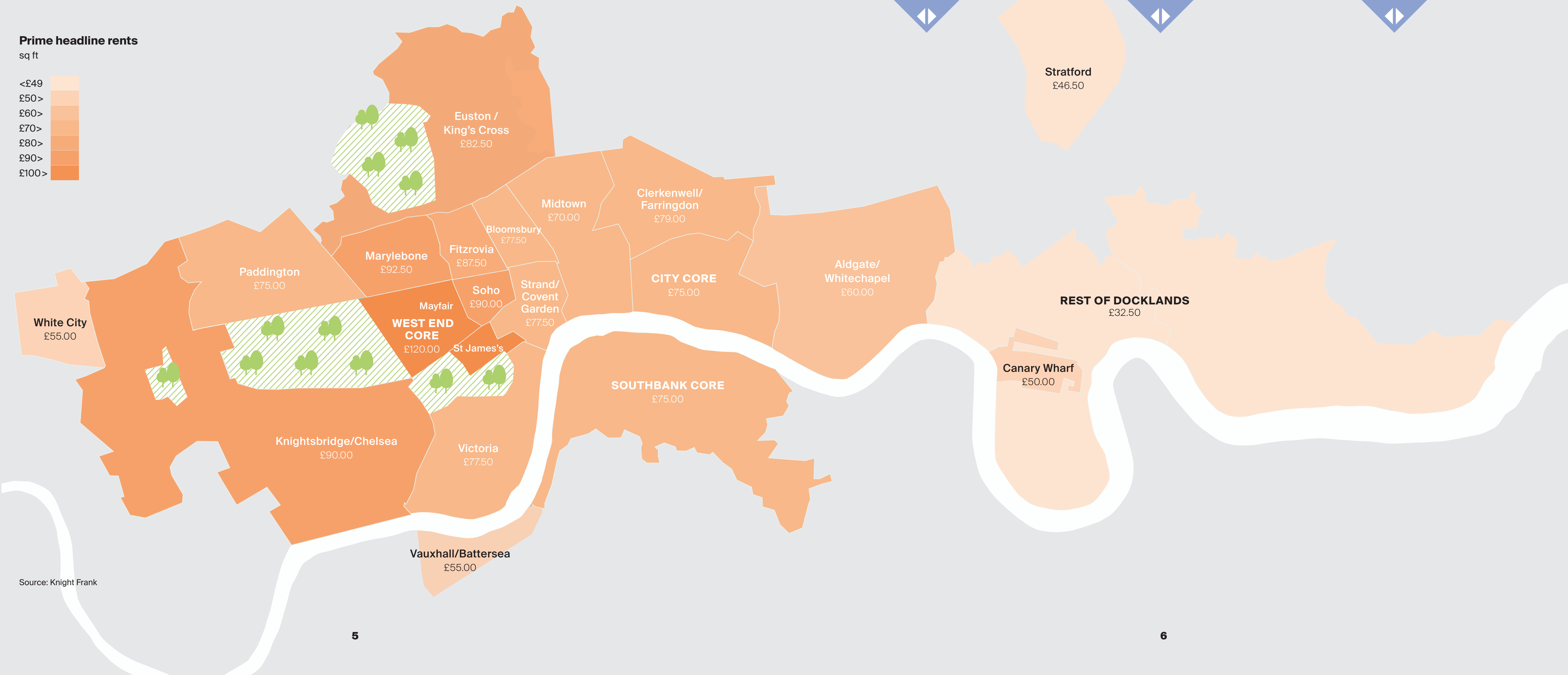
Key performance indicators

	▼2.65 m	▲20.11 m	▲8.2%	▲15.31 m
	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	VACANCY RATE	UNDER CONSTRUCTION (SQ FT)
Change on				
2021 Q4	-18.2% ▼	4.2% ▲	0.3%	6.6% ▲
LTA	3.02 million sq ft	15.18 million sq ft	6.70%	8.88 million sq ft

Prime headline rents
sq ft

<£49
£50>
£60>
£70>
£80>
£90>
£100>





Source: Knight Frank

MARKETS IN REVIEW

THE CITY & SOUTHBANK

▲ ▼ ◀▶
Arrows throughout the report show how values have increased, decreased or stayed the same since the last quarter unless specified

◀▶ £75.00	▼ 1.46 m	▲ 10.75 m	▲ £3.83 bn	◀▶ 3.75%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Take-up decreases

City & Southbank take-up in 2022 Q1 reached 1.46m sq ft, a fall of 19.2% on the previous quarter, however this is a year-on-year increase of 132.8%. Pre-lets were again a feature of take-up in the City & Southbank with the largest letting of the quarter being Hogan Lovells pre-leasing of 266,000 sq ft at 14-21 Holborn Viaduct, EC1. This deal is in line with a broader trend, which has seen numerous major law firms relocating to prime offices as the war for talent extends to the competition for space. With law firms being highly transactional during the quarter, it is no surprise to see professional services firms were the most active, accounting for 30.2% of all take-up followed by technology, media & telecoms firms with 16.8%.

Availability rises, however prime stock remains limited

Availability in the City & Southbank rose 10.0% to 10.75m sq ft, and as seen

in previous quarters, this is due schemes completing speculatively and developments coming into our availability figures. Looking at supply in detail, available stock classified as New only makes up of 17.3% of availability in the City & Southbank. The rise in availability has seen the vacancy rate increase slightly to 8.1%. Prime rents in the City & Southbank at the end of 2022 Q1 have remained stable at £75.00 per sq ft, with incentives coming in slightly to 24-27 months on a typical 10-year lease term.

Highest quarterly investment turnover since 2019

In what has been a very strong quarter for investment into London offices, it is no surprise to see that 2022 Q1 investment in the City & Southbank reached levels not seen since before the pandemic, with £3.83bn transacting overall. This translates into a quarterly increase of 82.3% and a year-on-year rise of 507.9%. Such robust levels of investment has seen turnover for the quarter being above the long-term quarterly average of £2.22bn. Strong investor appetite for prime assets in the City & Southbank has seen a number of large transactions complete during the quarter, with the largest deal occurring at 5 Broadgate, EC2 purchased by Korea's NPS for £1.2bn. This is followed the sale of the Scalpel Tower, EC3 for £718m which was purchased by Singaporean investor Ho Bee Land. With such strong demand for prime assets form investors, prime yields in the City & Southbank remain at 3.75%.

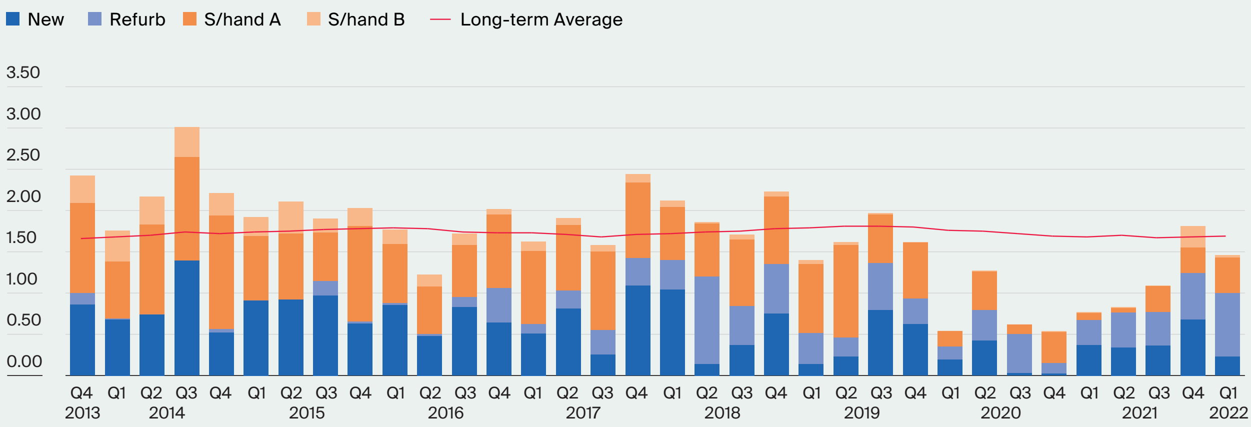
LEASING ACTIVITY REACHED

1.46M

SQ FT IN Q1 2022

City & Southbank – Take-up relative to trend

m sq ft



Source: Knight Frank research

MARKETS IN REVIEW

WEST END

▲ £120.00	▼ 1.01 m	▼ 6.83 m	▲ £1.99 bn	◀▶ 3.25%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Take-up softens but surges year-on-year

West End take-up in 2022 Q1 was 1.01m sq ft - a quarterly decrease of 25.9% but annual rise of 132.8%. Despite the slight fall in take-up and the challenges to the economy, we are seeing levels of leasing activity well above those seen during the height of the pandemic. Take-up during the quarter was dominated by finance and banking occupiers, who accounted for 34.5% of the total, followed by the professional services sector with 15.5%. Millennium Capital Management's 37,837 sq ft letting at 20 Grosvenor Street, W1 was the largest transaction of the quarter, followed by a confidential occupier taking 37,556 sq ft at Berkeley Square House, W1. The West End Core was the most active sub-market in terms of leasing transactions, with 31.3% of deals taking place in this submarket, followed by Victoria with 17.7%.

Availability falls and development completions increase

For the second successive quarter availability in the broader West End has fallen, with levels of supply now at 6.83m sq ft. This amounts to a 0.5% decrease on the previous quarter and down 3.0% year-on-year. This has meant that the current vacancy rate has remained stable at 7.6%. There was a total of 1.35m sq ft of developments completed in the West End – a 20.7% increase on 2021 Q4 and 5.3% down on this time last year. The largest development to complete was Derwent's Soho Place, 1 Oxford Street, W1 totalling 191,572 sq ft.

Prime rents rise

With the lack of prime stock across London and the surging demand for best in class space from occupiers, this has led to rental tension for prime buildings. Therefore, we have raised our prime rents in the West End Core to £120.00 per sq ft from £117.50 per sq ft in 2021 Q4. Whilst rent free periods have also fallen from an average of 24 to 21 months for a 10 year lease.

West End investment remains strong

The robust demand for West End offices from investors continues to underpin investment turnover. A total of £1.99bn transacted in 2022 Q1, a 26.2% rise on 2021 Q4 and 212.1% increase on the levels recorded in 2021 Q1. Investment turnover in the West

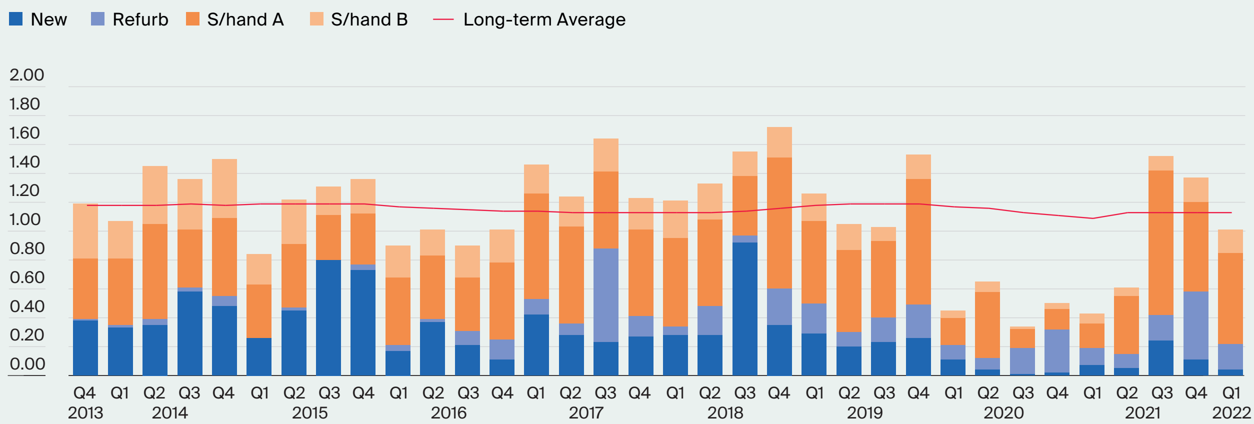
End was once again above the long-term quarterly average of £1.44bn, a demonstration of the appetite investors have for prime West End assets. The largest investment deal to transact during the quarter was Google's acquisition of Central St Giles, WC2 for £775m, £1,865 sq ft reflecting a yield of 3.91%. Prime yields in the West End have remained stable at 3.25%.

LEASING ACTIVITY REACHED

1.01M

SQ FT
IN Q1 2022

West End – Take-up relative to trend
m sq ft



Source: Knight Frank research

MARKETS IN REVIEW

DOCKLANDS & STRATFORD

£50.00	▲ 0.18	▼ 2.53 m	▼ £0.05bn	4.75%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Take-up surges, while active requirements also increase

The Docklands & Stratford market saw a rise in leasing activity this quarter with a 164.7% increase to 0.18m sq ft. This was the highest quarterly turnover in the submarket since 2020 Q1. Key leasing deals included Citi group acquiring 95,000 sq ft at 40 Bank Street, E14, and Brookfield Asset management acquiring 42,000 sq ft at 1 Canada Square, E14. Away from Canary Wharf, there was another c. 40,000 sq ft leased in Stratford and the Outer Docklands markets. In addition to the rise in take-up, active requirements for space in the Docklands & Stratford also increased during 2022 Q1 to 0.75m sq ft. This equated to a 19.2% increase on 2021 Q4 and 33.0% above the long-term average of 0.57m sq ft. Finance and banking occupiers account for the majority of active requirements with 79.6% of the total.

Availability falls

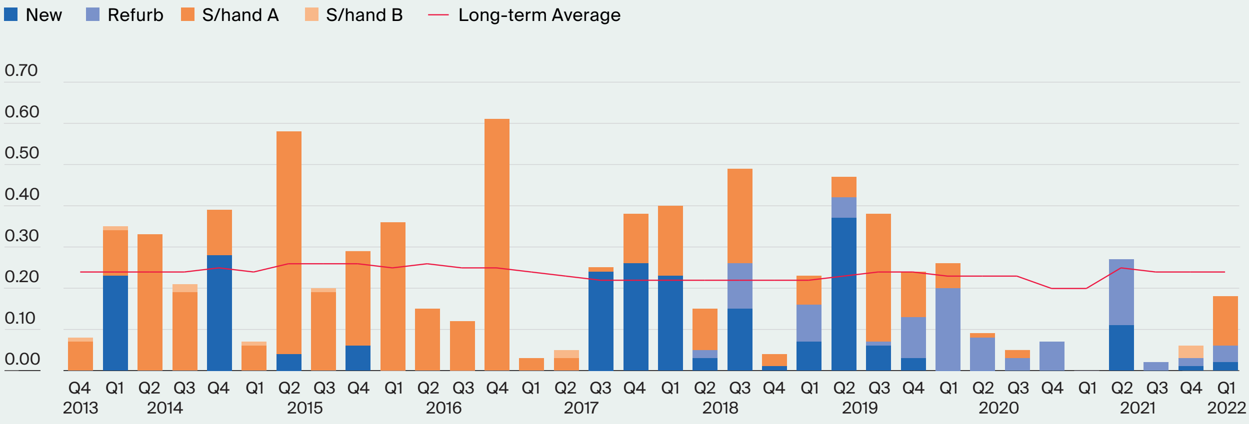
Availability saw a 4.6% decrease on the previous quarter, totalling 2.53m sq ft at the end of 2022 Q1 and remains above the long-term average of 1.80m sq ft. Second-hand stock only accounts for 39.7% of all availability. The fall in availability has meant that the vacancy rate now stands at 10.6%, down on the 11.3% recorded at the end of 2021 Q4.

Speculative schemes dominate development pipeline; Rents remain stable

There was only one development scheme that completed in 2022 Q1, the refurbishment at 1 Westferry Circus, E14 totalling 136,710 sq ft. The total amount under construction speculatively in the Docklands & Stratford currently totals 0.76m sq ft and is over two schemes. Rents have once again remained stable at £50.00 per sq ft, with rental incentives at 30 months on a typical 10 year lease term.

ACTIVE DEMAND IS
0.18M
SQ FT

Docklands & Stratford – Take-up relative to trend
m sq ft



Source: Knight Frank research

KEY STATISTICS

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	% CHANGE 3 MONTHS	% CHANGE 12 MONTHS	10-YEAR QUARTERLY AVERAGE
AVAILABILITY (SQ FT)								
West End	7.04 m	6.86 m	6.93 m	6.86 m	6.83 m	-0.5%	-3.1%	5.22 m
City & Southbank	8.61 m	9.60 m	9.30 m	9.77 m	10.75 m	10.0%	24.8%	8.17 m
Docklands & Stratford	2.30 m	2.29 m	2.48 m	2.65 m	2.53 m	-4.6%	10.1%	1.80 m
Total London	17.95 m	18.75 m	18.71 m	19.29 m	20.11 m	4.2%	12.0%	15.18 m
VACANCY RATE								
West End	8.1%	7.8%	7.8%	7.6%	7.6%	0.0%	-0.5%	6.3%
City & Southbank	6.6%	7.3%	7.1%	7.4%	8.1%	0.7%	1.5%	6.7%
Docklands & Stratford	10.2%	9.7%	10.5%	11.3%	10.6%	-0.7%	0.4%	7.5%
Total London	7.5%	7.7%	7.7%	7.9%	8.2%	0.3%	0.7%	6.7%
TAKE-UP (SQ FT)								
West End	0.43 m	0.56 m	1.44 m	1.36 m	1.01 m	-25.9%	132.8%	1.11 m
City & Southbank	0.77 m	0.83 m	1.09 m	1.81 m	1.46 m	-19.2%	89.1%	1.70 m
Docklands & Stratford	0.00 m	0.27 m	0.02 m	0.07 m	0.18 m	164.7%	5788.4%	0.22 m
Total London	1.21 m	1.66 m	2.55 m	3.24 m	2.65 m	-18.2%	119.0%	3.02 m
ACTIVE REQUIREMENTS (SQ FT)								
West End	1.86 m	1.55 m	1.31 m	1.53 m	1.85 m	20.9%	-0.6%	2.04 m
City	3.96 m	4.66 m	5.21 m	4.28 m	4.43 m	3.5%	11.9%	4.22 m
Docklands	0.28 m	0.75 m	0.64 m	0.63 m	0.75 m	19.2%	172.7%	0.57 m
London-wide	1.43 m	1.43 m	1.08 m	1.12 m	1.35 m	20.7%	-5.3%	1.85 m
Total London	7.53 m	8.38 m	8.25 m	7.57 m	8.39 m	10.9%	11.5%	8.68 m
SPEC UNDER CONSTRUCTION (SQ FT)								
West End	2.31 m	3.31 m	3.87 m	3.25 m	3.82 m	17.6%	65.5%	1.44 m
City & Southbank	4.60 m	4.98 m	5.41 m	5.94 m	7.09 m	19.4%	54.2%	3.30 m
Docklands & Stratford	0.55 m	0.52 m	0.65 m	0.90 m	0.76 m	-15.3%	37.9%	0.46 m
Total London	7.46 m	8.81 m	9.94 m	10.09 m	11.68 m	15.7%	56.5%	5.21 m
DEVELOPMENT COMPLETIONS (SQ FT)								
West End	0.59 m	0.05 m	0.21 m	0.33 m	0.45 m	-35.8%	-23.3%	0.28 m
City	0.43 m	0.29 m	0.17 m	0.17 m	0.13 m	-27.5%	-70.8%	0.55 m
Docklands	0.21 m	0.34 m	0.00 m	0.00 m	0.14 m		-35.3%	0.11 m
Total London	1.23 m	0.69 m	0.38 m	0.51 m	0.72 m	41.0%	-42.0%	0.94 m
INVESTMENT TURNOVER								
West End	£0.64 bn	£0.84 bn	£1.75 bn	£1.57 bn	£1.99 bn	26.2%	212.4%	£1.44 bn
City & Southbank	£0.63 bn	£2.29 bn	£2.10 bn	£2.10 bn	£3.87 bn	84.3%	517.4%	£2.22 bn
Docklands & Stratford	£0.00 bn	£0.00 bn	£0.00 bn	£0.44 bn	£0.00 bn	-100.0%		£0.22 bn
Total London	£1.26 bn	£3.13 bn	£3.85 bn	£4.12 bn	£5.86 bn	42.3%	363.9%	£3.89 bn
PRIME HEADLINE RENTS (PER SQ FT)								
West End	£110.00	£115.00	£118.00	£118.00	£120.00	2.1%	9.1%	2.4%
City & Southbank	£70.00	£73.00	£75.00	£75.00	£75.00	0.0%	7.1%	3.2%
Docklands & Stratford	£50.00	£50.00	£50.00	£50.00	£50.00	0.0%	0.0%	3.3%

Source: Knight Frank

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General Note

This report has been prepared by Knight Frank Research, the research and consultancy division of Knight Frank. Knight Frank Research gratefully acknowledges the assistance given by the London office teams in the compilation and presentation of this material. Certain data sourced from LOD. All graph data sourced by Knight Frank.

Technical Note

The following criteria have been adopted in the preparation of this report.

i. All floorspace figures quoted in this report refer to sq ft net.

ii. Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.

iii. Availability refers to all space available for immediate occupation, plus space still under construction which will be completed within six months and which has not been let.

iv. Availability and take-up are classified into three grades:
New/refurbished: Space under construction which is due for completion within six months or space which is currently on the market and is either new or completely refurbished.
Second-hand A Grade: Previously occupied space with air-conditioning.
Second-hand B Grade: Previously occupied space without air-conditioning.

v. Demand figures quoted in this report refer to named requirements for over 10,000 sq ft.

vi. Under construction figures quoted in this report refer to developments of over 20,000 sq ft which are currently underway. They do not include properties undergoing demolition.

vii. Investment figures quoted in this report refer to accommodation where the majority of income/potential income is from office usage and comprises transactions of £1 m and above.
The data includes standing investments, site purchases and funding transactions.

viii. This report is produced to standard quarters.
Quarter 1: January 1 – March 31,
Quarter 2: April 1 – June 30,
Quarter 3: July 1 – September 30,
Quarter 4: October 1 – December 31

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