

*London take-up  
rises above trend*

*Prime rents rise  
in West End*

*Yields under pressure  
from rising debt costs*



**THE  
LONDON  
OFFICE  
MARKET  
REPORT  
2022 Q2**

# MARKET ROUNDUP

*Occupier demand is robust with take-up rising above trend*



*Lack of prime availability provides impetus for rental growth in West End*



*Investor sentiment impacted by rising debt costs*

## **The economic backdrop became increasingly challenging in 2022 Q2**

Continued dislocation of global supply chains, war in Ukraine, rising energy prices and accelerating rates of inflation have led to significant weakening of business and consumer confidence. Business activity growth remains high in London but is softening as new orders and expectations for the future outlook have fallen amid rising levels of input inflation which is being passed on to the end consumer. Businesses continue to hire to contend with existing workloads but the pace of job growth is slowing.

These headwinds have prompted downward revisions by leading forecasters of economic growth in both the London and the UK economies. This is likely to lead to a moderation of demand in the next 12-18 months. As occupiers delay investment and relocation decisions whilst there is an increased level of uncertainty about the near-term economic outlook. However, many larger occupiers with near-term lease expiries are active in the pre-let



## **Lettings activity in London has been incredibly robust in Q2. Take-up is c.543,000 sq ft higher than in Q1**



market as the lack of current and future best-in-class buildings continues to be a feature of the London office market.

### **London offices remain resilient**

Take-up across London was 3.19m sq ft, a quarterly increase of 20.5% and above the long-term trend of 3.08m sq ft. Almost two-thirds of the space leased was for new and refurbished space – a marked increase from just below 50% in 2022 Q1. Unlike the start of the pandemic, where demand was driven by a ‘flight-to-quality’, the rise in new and refurbished take-up this quarter was due to the completion of large deals that have been under-offer for an extended period.

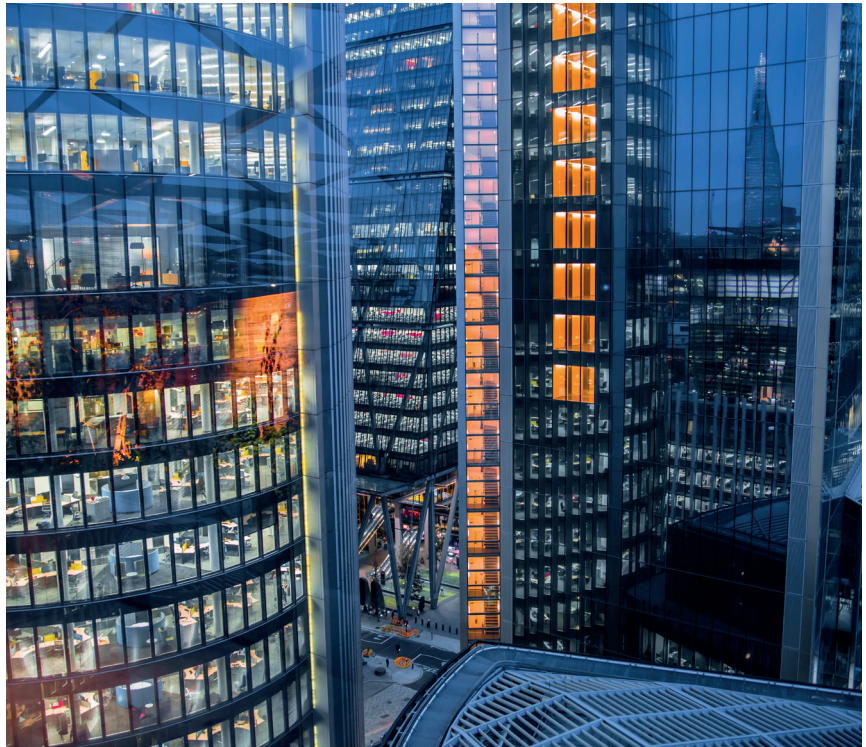
## **Slight rise in availability and future supply is modest**

Availability has risen slightly to 20.41m sq ft from 20.1m sq ft in 2022 Q2 and reflects a vacancy rate of 8.3%. Although this is nearly 5m sq ft above the long-term average, excess vacant floor space is a greater issue in the City & Southbank compared with the West End. Speculative completions due in the next six months of 584,000 sq ft are the main factor driving the increase. Currently, 57% of available space in London is new and refurbished, however, there is variation between the main markets. In the City & Southbank the availability of new and refurbished buildings is 62% and above the average for London. Whilst in the West End this ratio falls to 48% and below the average for London. The future pipeline remains modest at 15.14m sq ft with a delivery timeframe of 2022-25. Just over 11m sq ft is space that is being built speculatively. This is 4m sq ft below the level implied by the long-term average levels of completions. In comparison to long-term average levels of take-up for new and refurbished buildings, the potential under supply of best-in-class buildings is 8.69m sq ft.

### Strong occupational demand in West End

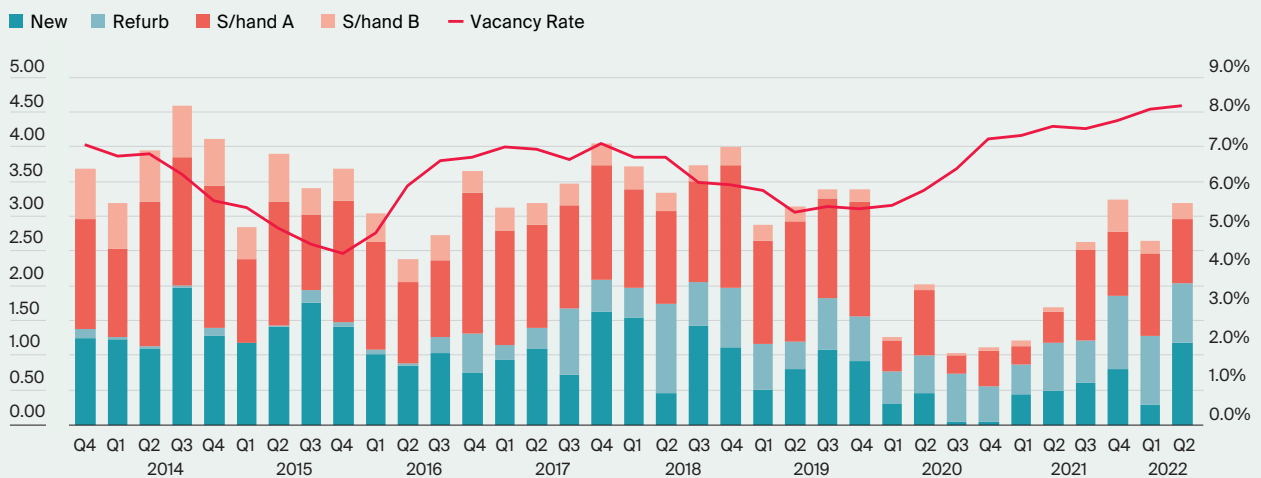
Across London there is a divergence in performance between the City & Southbank and West End markets. Although take-up rose by 12.7% in 2022 Q2 in City & Southbank, it remains below the long-term quarterly trend of 1.69m sq ft for a third successive quarter whilst availability has risen during this period. In contrast, take-up in the West End has risen in-line or above trend for a fourth successive quarter and has been combined with falling levels of availability.

The strength of demand and lack of available prime buildings has led to a rise in the rental tone across the West End. We have raised our assessment of current prime rents in all West



London – Take-up by quality and relative to vacancy rate

m sq ft



Source: Knight Frank Research

◆◆  
**Investment in the London office market fell from £5.86bn to £3.18bn in 2022 Q2**  
 ◆◆

End submarkets except Bloomsbury and King’s Cross/Euston. We have also raised our prime rent in Canary Wharf from £50.00 per sq ft to £52.50 per sq ft amid growing evidence of demand increasingly focussed at prime buildings with negotiated rents above £50.00 per sq ft. We have kept prime rents unchanged in the City & Southbank. Rent-free periods remain unchanged at 21 months in the West End and 24-27 months in the City & Southbank for a 10 year lease.

As expectations for London and UK economic growth have been revised down in recent months, we have lowered our rental growth forecasts across London over the next five years. Our forecast annual average shows stronger growth in the West End submarkets. However, growth is front-loaded in 2022. Between 2023-26, rental growth

is supported by low levels of available prime space and a modest future pipeline. Whilst occupier demand during this period is expected to rise in line with the improvements to GDP growth.

In the West End Core we expect average annual growth of 1.5% between 2022-26 and 1% in the City Core.

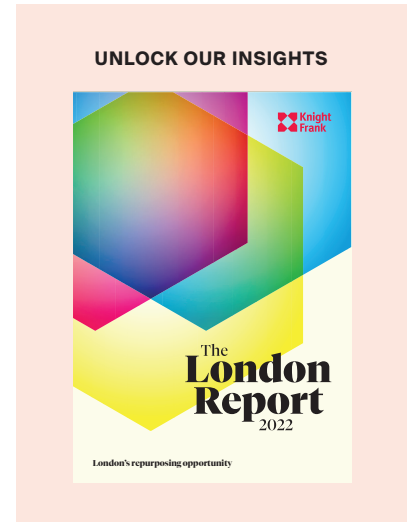
**Prime yields rising in the City**

The investment market has been especially strong in recent quarters. In 2022 Q2, transactions in London offices fell from £5.86bn to £3.18bn. Some of this fall can be attributed to a delayed seasonal slow-down usually expected in Q1. Sentiment has been impacted by rising interest costs with debt no longer accretive to income returns.

As a result, we have raised prime yields in the City & Southbank by 25bps to 4.00%. Yields in the West End and Docklands & Stratford have remained stable at 3.25% and 4.75% respectively. Prospects for further interest rate rises and a weaker economic outlook will likely place upward pressure on yields, however, this is offset to some extent by sterling’s depreciation which translates to capital values looking attractive in



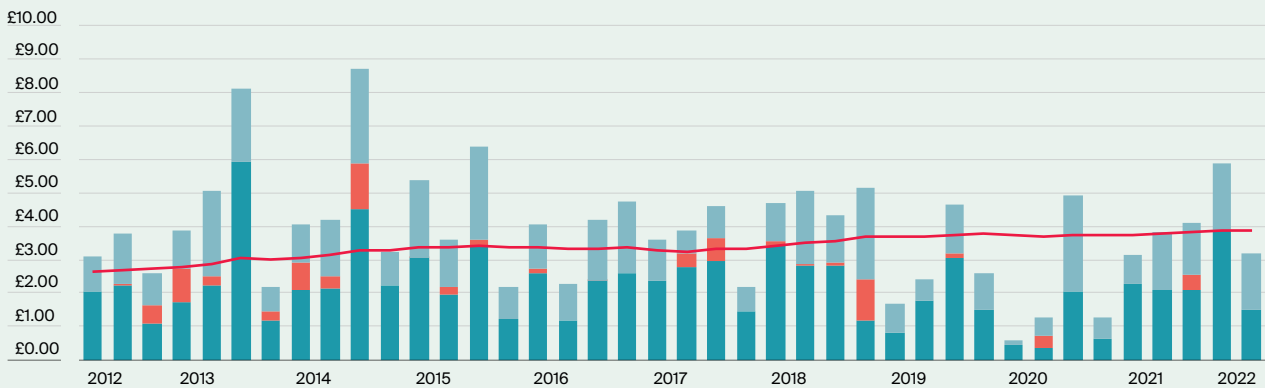
overseas currencies to global investors whilst the potential to hedge against inflation will intensify demand for best-in-class buildings.



▼  
**London investment volumes**

£bn

■ City & Southbank ■ Docklands & Stratford ■ West End — Long-term new/refurb take-up



Source: Knight Frank

# LONDON OFFICE MARKET

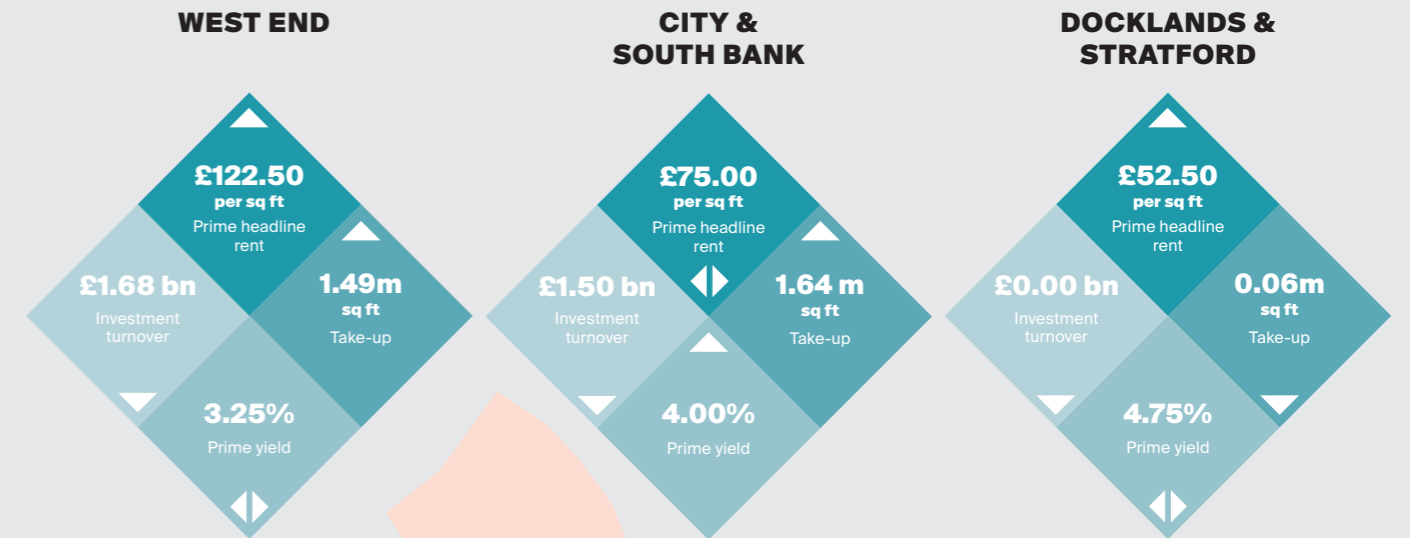
Performance dashboard 2022 Q2

## Key performance indicators



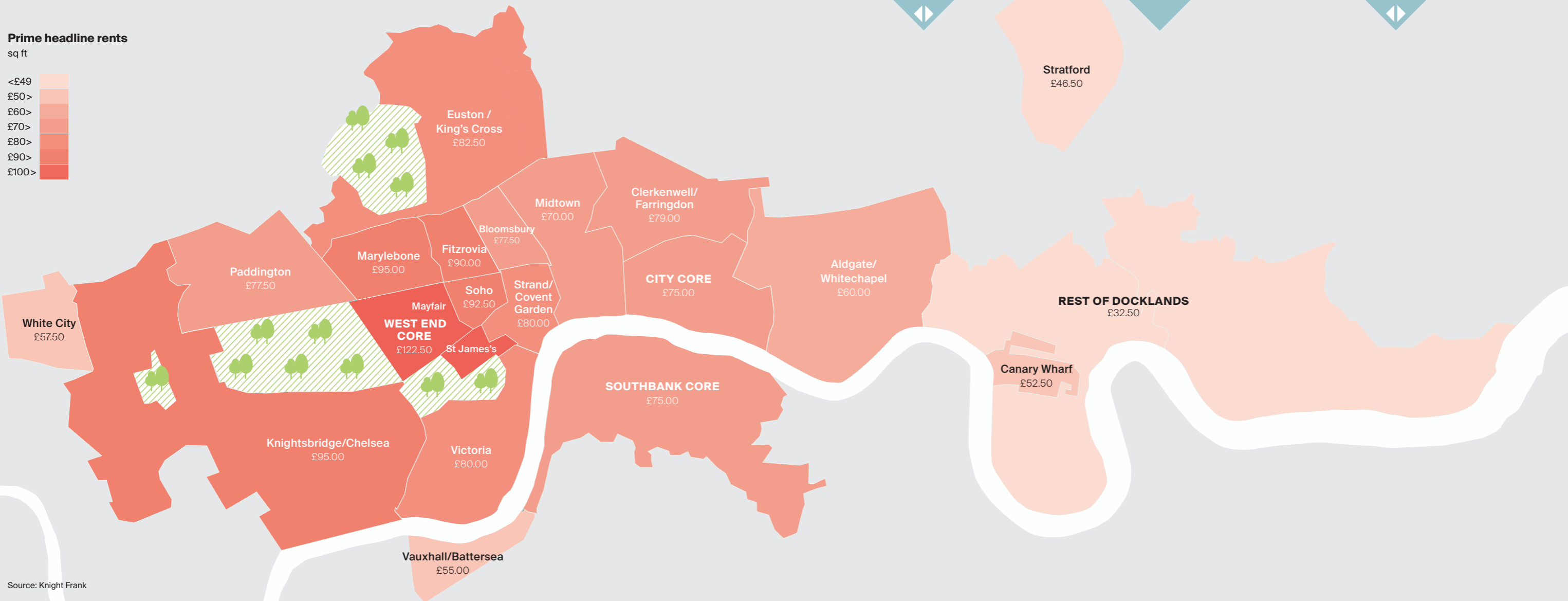
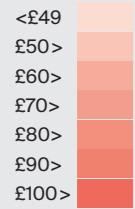
## Change on

2022 Q1	20.5% ▲	1.5% ▲	0.1% ▲	-1.1% ▼
LTA	3.04 million sq ft	15.26 million sq ft	6.70%	9.26 million sq ft



## Prime headline rents

sq ft



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**  
RENT  
(PER SQ FT)

▲ **1.64 m**  
TAKE-UP  
(SQ FT)

▲ **11.18 m**  
AVAILABILITY  
(SQ FT)

▼ **1.50 bn**  
INVESTMENT  
TURNOVER

▲ **4.00%**  
PRIME YIELD

### Take-up increases but remains below trend

City & Southbank take-up in 2022 Q2 totalled 1.64m sq ft, an increase of 12.7% on the previous quarter, and translates into an annual increase of 98.9%. This is slightly below the long-term average of 1.69m sq ft. Two of the largest deals of the quarter were pre-lets by legal services firms. Kirkland & Ellis pre-leasing 219,000 sq ft at 40 Leadenhall Street and Holman Fenwick Willan pre-leasing 62,000 sq ft at 8 Bishopsgate in the City Core. These transactions highlight the continued demand for best-in-class buildings to attract and retain highly talented professionals. The largest life science transaction in two years was a key feature of last quarter. MSD pre-leasing 195,000 sq ft at Belgrove House highlights the broadening of the King's Cross/Euston submarket as demand from life science companies continues to strengthen.



**Rise in availability**

Availability saw a slight quarterly increase of 4.0% to 11.18m sq ft. Driving this increase is c.1.5m sq ft of speculative completions due in the remainder of 2022 and space which completed last quarter. The vacancy rate has risen to 8.4% which compares to a long-term average of 6.7%.



Supply of new stock in the City & Southbank remains limited, at 18.0% of total availability. There is c.6.4m sq ft of speculative space under-construction which completes by 2025.

Prime at £75.00 per sq ft have remained unchanged with incentives remaining at 24-27 months on a typical 10-year lease term.

**Investor sentiment affected by rising debt costs**

Total investment turnover reached £1.50bn, a 61.2% fall on the previous quarter and below the long-term quarterly average of £2.20bn. This decrease in part is due to a delayed seasonal slowdown and investor sentiment affected by the rise in financing costs. As a result we have raised our prime yields for the City & Southbank by 25 bps to 4.00%.

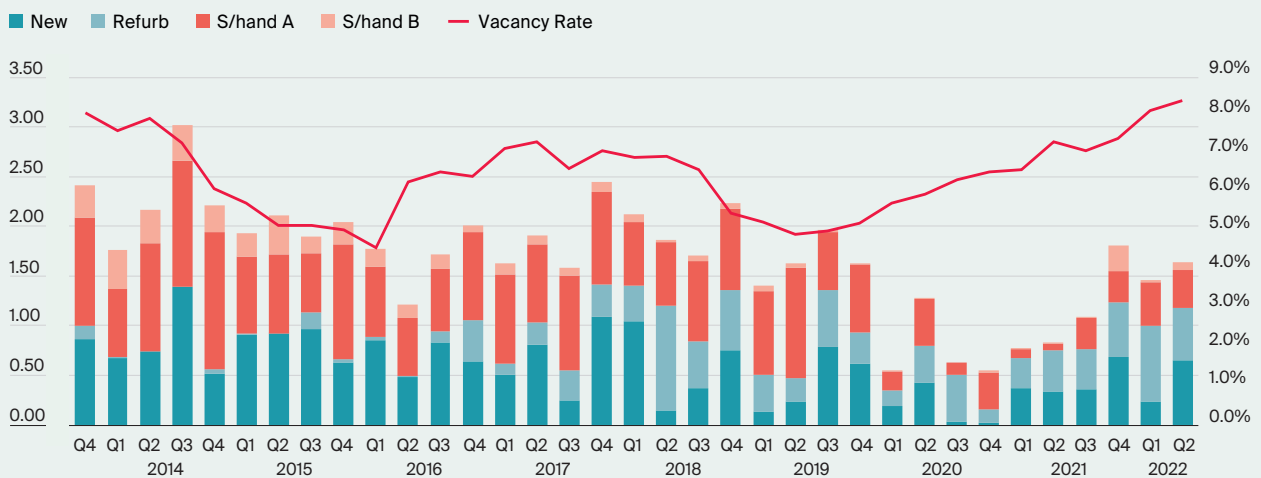
◆◆

**Pre-lets by law firms were again prominent with the largest leasing transaction completed by Kirkland & Ellis pre-leasing 219,000 sq ft at 40 Leadenhall Street, EC3**

◆◆

The largest deal of the quarter was Goldman Sachs’s acquisition of Sancroft, 10-15 Newgate Street, EC1 for £370m. Another notable deal was the sale of 2 London Wall Place, EC2 by Brookfield to Hong Kong investor Kingboard for £302m.

**City & Southbank - Take-up by quality and relative to vacancy rate**  
m sq ft



Source: Knight Frank Research

# MARKETS IN REVIEW

## WEST END

▲ **£122.50**

RENT  
(PER SQ FT)

▲ **1.49 m**

TAKE-UP  
(SQ FT)

▼ **6.17 m**

AVAILABILITY  
(SQ FT)

▼ **£1.68 bn**

INVESTMENT  
TURNOVER

◀▶ **3.25%**

PRIME YIELD

### Take-up above trend

Take-up in 2022 Q2 was 1.48m sq ft – a quarterly increase of 47.1% and 31.7% above the long-term average of 1.15m sq ft. Take-up in the West End has now been above trend for three of the last four quarters. Lettings of new and refurbished buildings accounted for 55% of all lettings.



**In Knightsbridge/Chelsea the prime rent is now £95.00 per sq ft. In the West End Core rents have risen by £2.50 per sq ft to £122.50**



Finance & banking occupiers maintained their leasing strength accounting for the largest proportion of known occupier types (40%). This is demonstrated by Capital International Limited which was the largest transaction of the quarter leasing 221,746 sq ft at Paddington Square. The second largest deal was also at Paddington Square with PaymentSense occupying 75,897 sq ft.

### Third quarter of falling West End availability

Levels of available space are now at 6.17 m sq ft, down approximately 700,000 sq ft on the previous quarter.

Completions amount to 132,218 sq ft, 53.2% below the 10-year average. There is 3.3m sq ft of speculative office space expected to deliver by 2025. The level of pre-lettings remain consistent with

the previous year at 1.2m sq ft which is just below the 10 year average of 1.3m sq ft.

### Rents increase while investment transactions remain steady

The strength of occupier demand for prime buildings and lack of existing availability has led to rental tension in many West End submarkets. As a result we have raised prime rents in every submarket except Bloomsbury and King's Cross/Euston.

The largest increase was in Knightsbridge/Chelsea (£5.00 per sq ft) where the prime rent is now £95.00 per sq ft. In the West End Core rents have risen by £2.50 per sq ft to £122.50 per sq ft.

The West End accounted for the majority of investment transactions for London with turnover of £1.68bn for the quarter



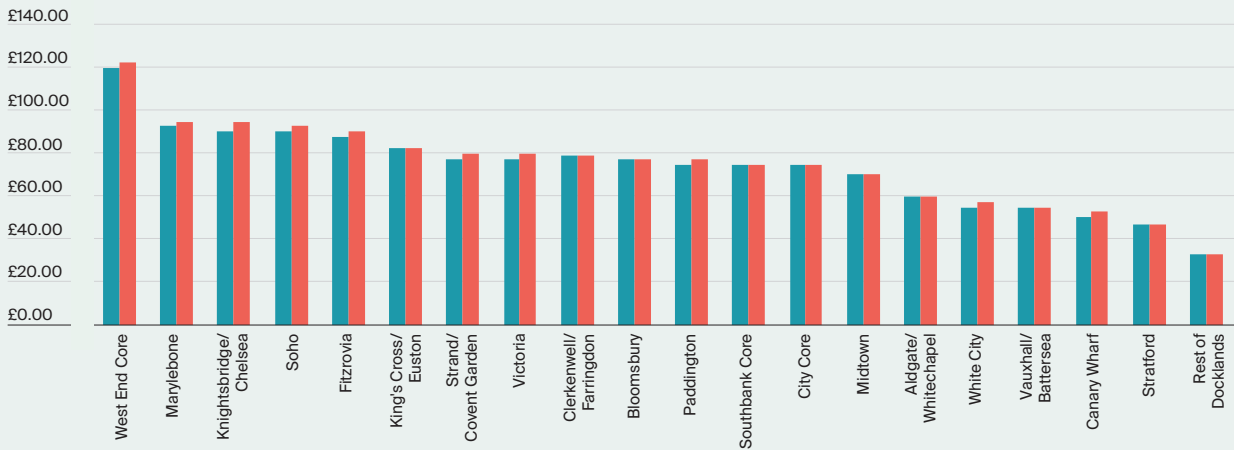
across seventeen transactions totalling 1.51 m sq ft. Paddington Central was the largest sale of the quarter at £694m – a 4.3% yield to a Singaporean sovereign wealth investor. 40 Strand is the second at £195m to another Singaporean buyer.



**London - Submarket prime rents**

£ per sq ft

■ 2022 Q1 ■ 2022 Q2



Source: Knight Frank Research

## MARKETS IN REVIEW

# DOCKLANDS & STRATFORD

▲ **£52.50**

RENT  
(PER SQ FT)

▼ **0.06**

TAKE-UP  
(SQ FT)

▲ **3.06 m**

AVAILABILITY  
(SQ FT)

▼ **£0.0bn**

INVESTMENT  
TURNOVER

◄ **4.75%**

PRIME YIELD

### Take-up decreases

Take-up was 0.06m sq ft in 2022 Q2 down 67.3% on the previous quarter and is below the long-term quarterly average of 0.22 m sq ft. The largest leasing deal occurred in Canary Wharf, where an undisclosed occupier leased c.19,000 sq ft at 1 Cabot Square. A key deal that took place this quarter involved Genomics England, a government funded company which sequences patient genomes for the NHS. They leased 18,000 sq ft 1 Canada Square. This illustrates how the occupier base is diversifying in Docklands & Stratford.

### Availability increases

Availability in Docklands & Stratford saw a 21.0% increase on the previous quarter, totalling 3.06m sq ft. This

remains above the long-term average of 1.83m sq ft. The increase reflects c.415,000 sq ft of speculative completions in the next six months.

Second-hand space accounts for 44.6% of all availability. The vacancy rate is 12.8%, up on the 10.6% recorded last quarter.

The future pipeline is very limited with only 758,000 sq ft currently under construction and due to complete by the end of 2024 – all of this space is speculative.

### Prime rents rise in Canary Wharf

Prime rents have risen this quarter to £52.50 per sq ft. This rise is due to demand focussing on better quality buildings where negotiated rents



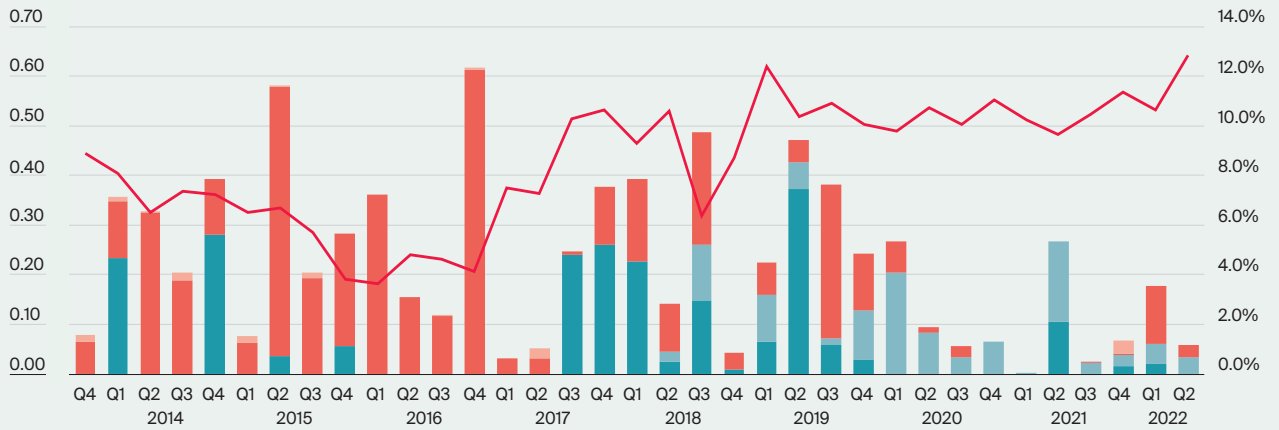
are above the previous benchmark. Incentives remain at 30 months on a typical 10-year lease term.



**Docklands & Stratford - Take-up quality and relative to vacancy rate**

m sq ft

■ New ■ Refurb ■ S/hand A ■ S/hand B — Vacancy Rate



Source: Knight Frank Research

# KEY STATISTICS

	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	% CHANGE		10-YEAR QUARTERLY AVERAGE
						3 MONTHS	12 MONTHS	
<b>AVAILABILITY (SQ FT)</b>								
West End	6.86 m	6.93 m	6.86 m	6.83 m	6.17 m	-9.6%	-10.1%	5.24 m
City & Southbank	9.60 m	9.30 m	9.77 m	10.75 m	11.18m	4.0%	16.4%	8.19 m
Docklands & Stratford	2.29 m	2.48 m	2.65 m	2.53 m	3.06 m	21.0%	34.1%	1.83 m
<b>London</b>	<b>18.75 m</b>	<b>18.71 m</b>	<b>19.29 m</b>	<b>20.11 m</b>	<b>20.41 m</b>	<b>1.5%</b>	<b>8.8%</b>	<b>15.26 m</b>
<b>VACANCY RATE</b>								
West End	7.8%	7.8%	7.6%	7.6%	6.8%	-0.7%	-1.0%	6.1%
City & Southbank	7.3%	7.1%	7.4%	8.1%	8.5%	0.3%	1.1%	6.7%
Docklands & Stratford	9.7%	10.5%	11.3%	10.6%	12.8%	2.2%	3.2%	8.5%
<b>London</b>	<b>7.7%</b>	<b>7.7%</b>	<b>7.9%</b>	<b>8.2%</b>	<b>8.3%</b>	<b>0.1%</b>	<b>0.5%</b>	<b>6.7%</b>
<b>TAKE-UP (SQ FT)</b>								
West End	0.56 m	1.44 m	1.36 m	1.01 m	1.49 m	471%	146.3%	1.13 m
City & Southbank	0.83 m	1.09 m	1.81 m	1.46 m	1.64 m	12.7%	98.9%	1.69 m
Docklands & Stratford	0.27 m	0.02 m	0.07 m	0.18 m	0.06 m	-67.3%	-78.3%	0.22 m
<b>London</b>	<b>1.66 m</b>	<b>2.55 m</b>	<b>3.24 m</b>	<b>2.65 m</b>	<b>3.19 m</b>	<b>20.5%</b>	<b>87.9%</b>	<b>3.04 m</b>
<b>ACTIVE REQUIREMENTS (SQ FT)</b>								
West End	1.55 m	1.31 m	1.53 m	1.85 m	1.03 m	-44.5%	-33.8%	2.01 m
City	4.66 m	5.21 m	4.28 m	4.43 m	2.45 m	-44.7%	-47.3%	4.16 m
Docklands	0.75 m	0.64 m	0.63 m	0.75 m	0.12 m	-84.1%	-83.9%	0.56 m
London-wide	1.43 m	1.08 m	1.12 m	1.35 m	4.26 m	215.4%	198.8%	1.91 m
<b>London</b>	<b>8.38 m</b>	<b>8.25 m</b>	<b>7.57 m</b>	<b>8.39 m</b>	<b>7.86 m</b>	<b>-6.3%</b>	<b>-6.2%</b>	<b>8.65 m</b>
<b>SPEC UNDER CONSTRUCTION (SQ FT)</b>								
West End	3.31 m	3.87 m	3.25 m	3.82 m	5.29 m	6.7%	3.2%	2.85 m
City & Southbank	4.98 m	5.41 m	5.94 m	7.09 m	9.10 m	-5.2%	26.4%	5.70 m
Docklands & Stratford	0.52 m	0.65 m	0.90 m	0.76 m	0.76 m	0.0%	10.0%	0.71 m
<b>London</b>	<b>8.81 m</b>	<b>9.94 m</b>	<b>10.09 m</b>	<b>11.68 m</b>	<b>15.14 m</b>	<b>-1.1%</b>	<b>16.4%</b>	<b>9.26 m</b>
<b>DEVELOPMENT COMPLETIONS (SQ FT)</b>								
West End	0.05 m	0.21 m	0.33 m	0.45 m	0.13 m	-70.7%	144.4%	0.28 m
City	0.29 m	0.17 m	0.17 m	0.13 m	0.74 m	485.2%	151.4%	0.56 m
Docklands	0.34 m	0.00 m	0.00 m	0.14 m	0.06 m	-56.1%	-82.4%	0.11 m
<b>London</b>	<b>0.69 m</b>	<b>0.38 m</b>	<b>0.51 m</b>	<b>0.72 m</b>	<b>0.93 m</b>	<b>30.4%</b>	<b>35.3%</b>	<b>0.96 m</b>
<b>INVESTMENT TURNOVER</b>								
West End	£0.84 bn	£1.75 bn	£1.57 bn	£1.99 bn	£1.68 bn	-15.5%	98.9%	£1.45 bn
City & Southbank	£2.29 bn	£2.10 bn	£2.10 bn	£3.87 bn	£1.50 bn	-61.2%	-34.3%	£2.20 bn
Docklands & Stratford	£0.00 bn	£0.00 bn	£0.44 bn	£0.00 bn	£0.00 bn			£0.22 bn
<b>London</b>	<b>£3.13 bn</b>	<b>£3.85 bn</b>	<b>£4.12 bn</b>	<b>£5.86 bn</b>	<b>£3.18 bn</b>	<b>-45.7%</b>	<b>1.5%</b>	<b>£3.87 bn</b>
<b>PRIME HEADLINE RENTS (PER SQ FT)</b>								
West End	£115.00	£118.00	£118.00	£120.00	£122.5	2.1%	6.5%	2.6%
City & Southbank	£73.00	£75.00	£75.00	£75.00	£75.00	0.0%	3.4%	3.2%
Docklands & Stratford	£50.00	£50.00	£50.00	£50.00	£52.50	5.0%	5.0%	3.8%

# CONTACTS

## HEAD OF LONDON OFFICES

### Philip Hobley

philip.hobley@knightfrank.com  
+44 20 7861 1192

## CHAIR LONDON OFFICES

### Angus Goswell

angus.goswell@knightfrank.com  
+44 20 7861 5150

## LONDON CAPITAL MARKETS

### Jamie Pope

jamie.pope@knightfrank.com  
+44 20 3909 6814

### Nick Braybrook

nick.braybrook@knightfrank.com  
+44 20 7861 1309

### Anthony Barnard

anthony.barnard@knightfrank.com  
+44 20 7861 1216

### Oliver Sprackling

oliver.sprackling@knightfrank.com  
+44 20 3830 8638

## LONDON LEASING

### Dan Gaunt

dan.gaunt@knightfrank.com  
+44 20 7861 1314

### Ian McCarter

ian.mccarter@knightfrank.com  
+44 20 7861 1506

### Abby Brown

abby.brown@knightfrank.com  
+44 20 7861 1306

## LONDON TENANT REPRESENTATION

### Richard Proctor

richard.proctor@knightfrank.com  
+44 20 7861 5159

## LONDON LEASE ADVISORY

### Simon Austen

simon.austen@knightfrank.com  
+44 20 7861 1341

## STRATEGIC ASSET MANAGEMENT

### Tim Robinson

tim.robinson@knightfrank.com  
+44 20 7861 1194

## VALUATIONS

### Simon Gillespie

simon.gillespie@knightfrank.com  
+44 20 7861 1292

## STRATEGIC CONSULTING

### Neil McLocklin

neil.mclocklin@knightfrank.com  
+44 20 3909 6836

## FLEXIBLE OFFICE SOLUTIONS

### Amanda Lim

amanda.lim@knightfrank.com  
+44 20 3826 0661

## LONDON DEVELOPMENT

### Andrew Tyler

andrew.tyler@knightfrank.com  
+44 20 7861 1319

## LONDON RESEARCH

### Shabab Qadar

shabab.qadar@knightfrank.com  
+44 20 7861 1234

### Atif Ludi

atif.ludi@knightfrank.com  
+44 203 869 4766

### Bryndis Sadler

bryndis.sadler@knightfrank.com  
+44 20 7861 1571

### Jordan Vine

jordan.vine@knightfrank.com  
+44 20 7861 1422

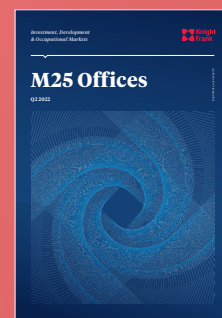
## Recent market-leading research publications



The London Report 2022



London Offices Spotlight 2022 Q2



M25 Offices Q2 2022

### 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

**Knight Frank Research**  
Reports are available at  
[knightfrank.com/research](https://knightfrank.com/research)



© Knight Frank LLP 2022. This document has been provided for general information only and must not be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this document, Knight Frank LLP does not owe a duty of care to any person in respect of the contents of this document, and does not accept any responsibility or liability whatsoever for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. The content of this document does not necessarily represent the views of Knight Frank LLP in relation to any particular properties or projects. This document must not be amended in any way, whether to change its content, to remove this notice or any Knight Frank LLP insignia, or otherwise. Reproduction of this document in whole or in part is not permitted without the prior written approval of Knight Frank LLP to the form and content within which it appears.