Strong rise in quarterly take-up.

Prime availability remains acute in the West End.

Further repricing of London office assets.

Knight Frank

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THE LONDON OFFICE MARKET REPORT

2022 Q4

OVERVIEW

Demand for best-in-class buildings fuels an annual rise of 31% in take-up in 2022

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Current and future supply are unlikely to meet average levels of take-up of prime space

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Lower investment transactions amid volatility in interest rates

Early signs of London economic activity improving

During 2022, the London economy experienced a marked slowdown in growth as interest rates normalised to curb rising inflation. However, in December the London economy registered the first rise in business activity growth since June and there were greater levels of optimism about the outlook for the near-term with an improvement to new orders. Cost inflation remains a key issue to businesses although recent data is showing early signs of price pressures easing and financial markets are showing lower longer-term interest rates.

Businesses in London have continued to increase headcounts although recent business surveys are indicating some caution on future hiring plans. Partly driven by economic pressures but also due to skills shortages particularly in the retail and hospitality sectors. And occupancy levels are likely to have been lower in 2022 Q4 compared with the previous quarter as mobility data shows industrial action added to the usual seasonal slowdown that occurs during the holiday period.

London GDP growth forecasts for 2023 have recently improved showing a shallow recession then growing faster than the UK overall with almost 1.5% annual growth in 2024. In comparison to other gateway European cities between 2023-2026, London is expected to be one of the outperforming cities, second only to Amsterdam.

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London GDP growth forecasts for 2023 have recently improved.

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Leasing activity is robust

At 2.98m sq ft, take-up in London rose 12.5% compared with 2022 Q3, while the year as a whole saw the recovery in lettings maintain positive momentum with 11.54m sq ft of take-up, an annual rise of 31.6% and only 6.8% below the long-term annual trend. The occupier focus on best-in-class buildings has led to an acceleration of take-up of new and refurbished buildings during 2022 to 6.77m sq ft and representing 60% of all transactions. Near-term demand is supported by 2.54m sq ft of space currently under offer and a further 7.46m sq ft of requirements greater than 10000 sq ft expected to be filled in the next 12-18 months.

Professional services have been the largest sector driving transactions with three of the five largest deals this quarter being pre-lets to this occupier group. The sector accounted for 35.8% of all deals this quarter whilst the second largest occupier group were financial services with 24.3%. Take-up from these two groups have to some extent offset lower levels of transactions from the technology, media and telecoms sector as the larger occupiers look to global headcount reductions.

Prime buildings in low supply

Overall levels of availability rose last quarter to 21.67m sq ft and a vacancy rate of 8.7%. As a proportion of available floorspace, new and refurbished accounts for 57%. However, as a share of all available buildings, new and refurbished are only 40% and as low as 20% in some parts of the West End.

Last quarter saw almost 1m sq ft of tenant release space added to availability including 313,259 sq ft at Triton Square released by Facebook. Speculative developments completing by 2023 Q2 added a further 320,000 sq ft.

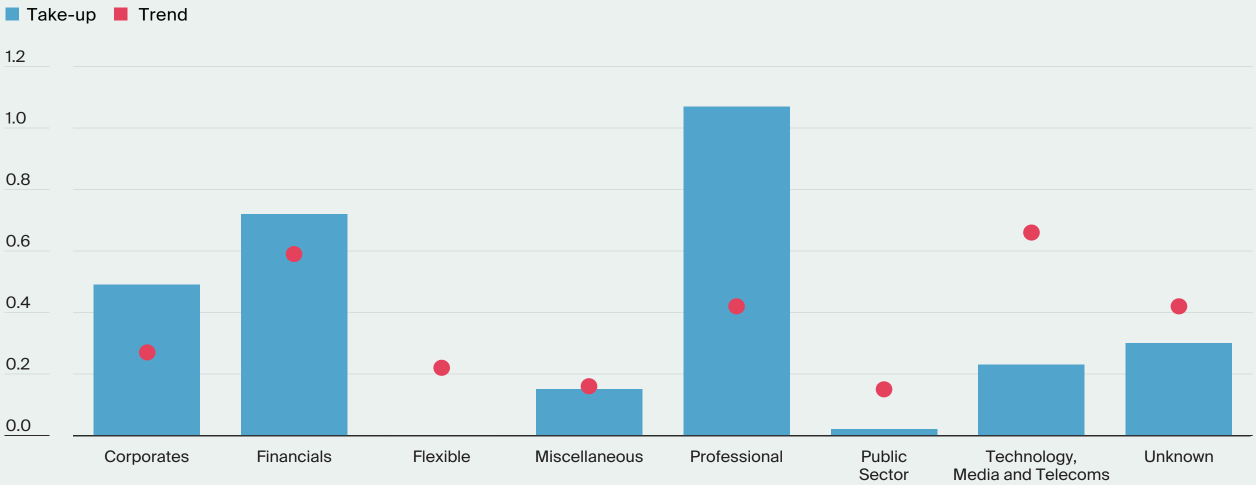
Prime availability will become more acute in coming years as the pipeline fails to satisfy long-term average levels of take-up for top-quality space. As of 2022 Q4 there was 15.42m sq ft under construction, of which 11.0m sq ft is being built speculatively. Extending trend levels of demand for new and refurbished buildings implies a shortfall of almost 11m sq ft across London by 2026.

Investment markets adjust to new norm

The investment landscape has changed considerably following the rapid rises in interest rates. After peaking over 5% in October 2022, five-year swap rates have

London - Take-up by Sector Relative to Trend

m sq ft



Source: Knight Frank Research

fallen to 3.6% whilst the risk-free rate, as reflected by the 10-year UK government bond yield has also fallen to 3.4%.

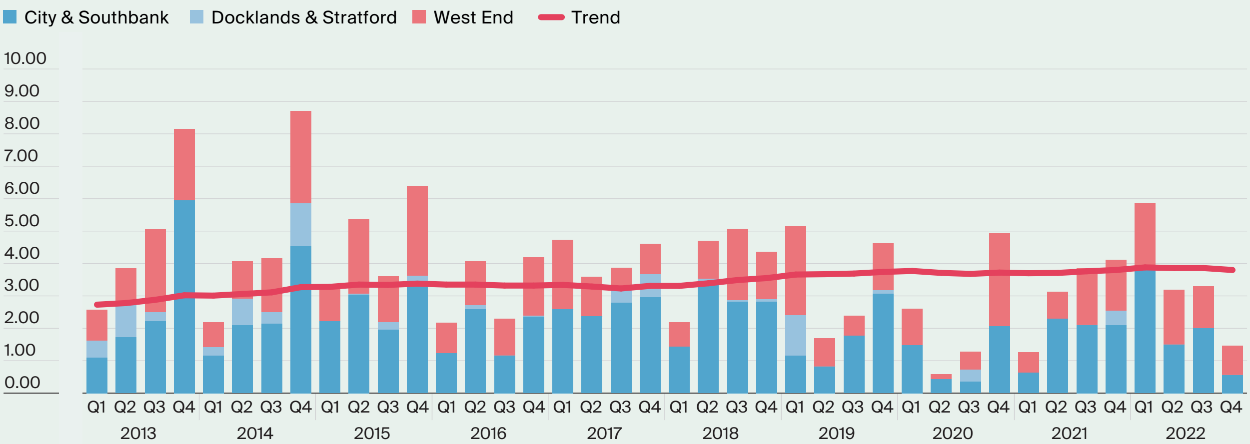
Unsurprisingly, transaction volumes have softened relative to previous quarters as investors adjust to a new market environment. Volumes fell by 56% during the quarter to £1.46bn. This is the lowest fourth quarter volume since the financial crisis. As a result, we have raised our assessment of prime yields across London's three main CBD's - up 25 bps in the West End Core (3.75%) and by 50bps in both the City Core (4.75%) and Canary Wharf (5.50%). Despite the fall in interest rates, all in debt costs remain above prime yields and implying debt is not accretive to income.

To date the re-pricing of London office assets have been driven by higher interest rates. We expect investors will undertake greater levels of due-diligence around the prospects for rental growth to drive future performance.

UNLOCK OUR INSIGHTS

London - Investment Transactions £bn

Prime Yield - 10 Year Bond Rate



Source: Knight Frank Research

THE LONDON OFFICE MARKET REPORT 2022 Q4

LONDON OFFICE MARKET

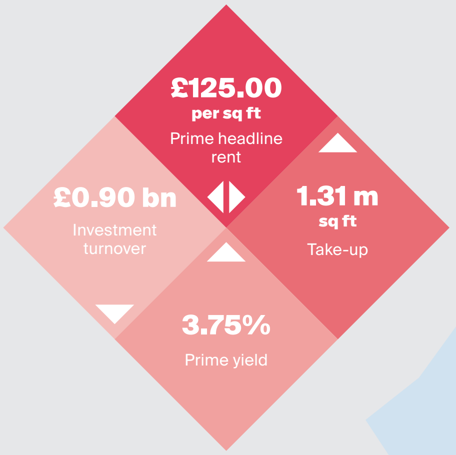
Performance dashboard 2022 Q4

Key performance indicators

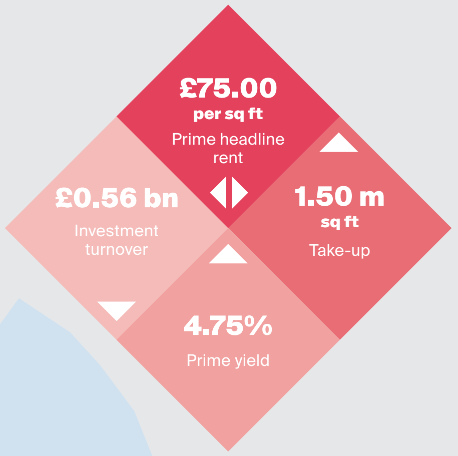
	▲2.98 m TAKE-UP (SQ FT)	▲21.66 m AVAILABILITY (SQ FT)	▲8.7% VACANCY RATE	▼15.42 m UNDER CONSTRUCTION (SQ FT)
Change on				
2022 Q3	12.5% ▲	1.6% ▲	0.1% ▲	2.7% ▼
LTA	3.05 million sq ft	15.7 million sq ft	6.7%	12.91 million sq ft

Prime headline rents
sq ft

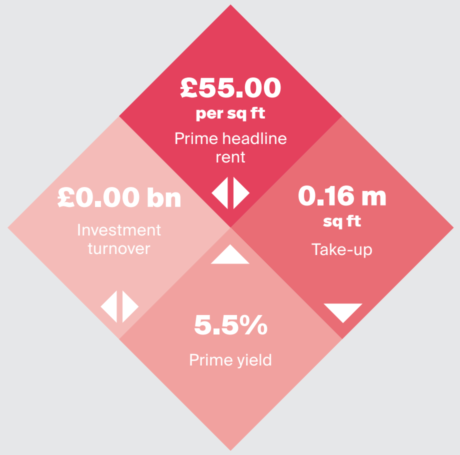
WEST END

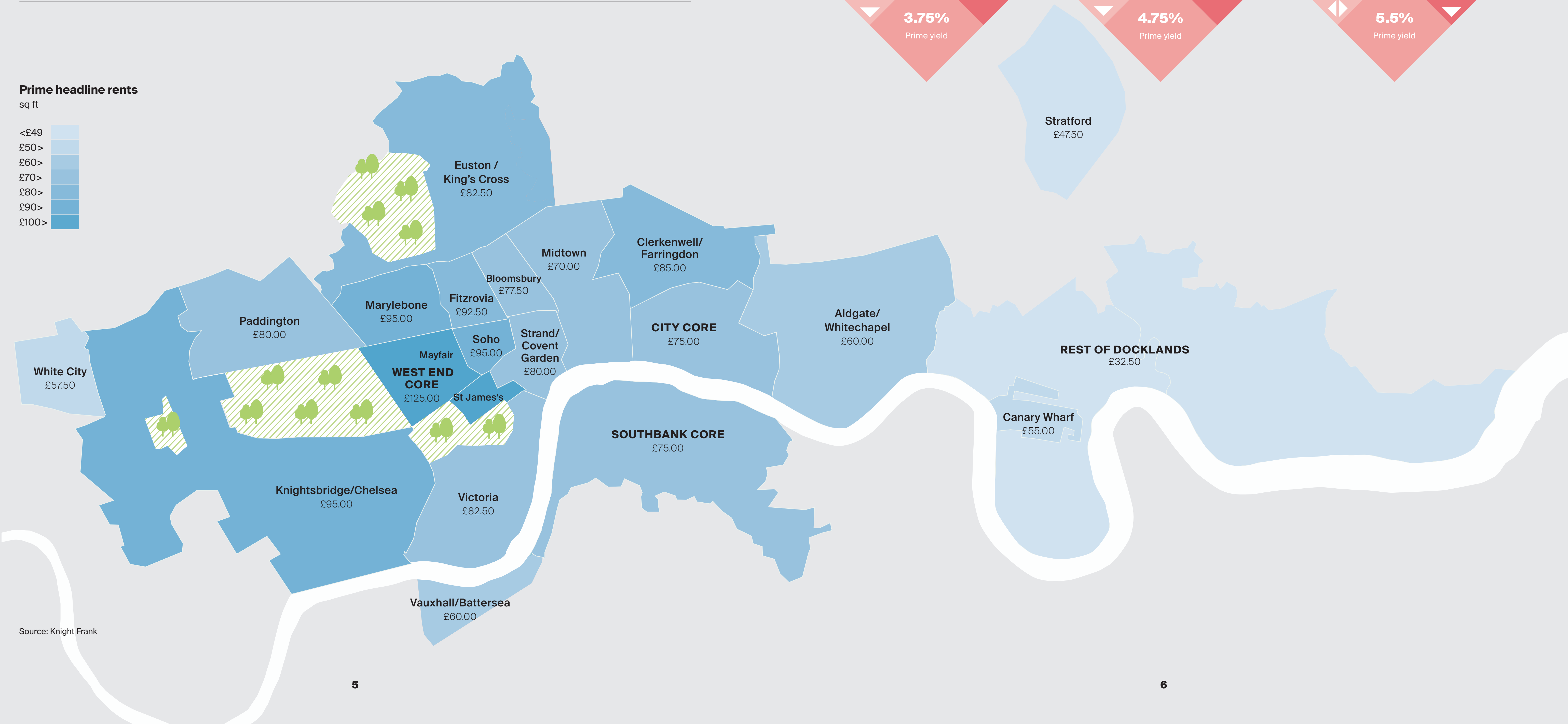


CITY & SOUTH BANK



DOCKLANDS & STRATFORD





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	▲ 1.50 m	▲ 12.72 m	▼ 0.56 bn	▲ 4.75%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Professional services drive take-up

Take-up in City & Southbank was 1.50m sq ft, up 27.8% on the quarter and slightly below the long-term quarterly trend of 1.67m sq ft. The year as a whole saw 5.78m sq ft of lettings transactions – a rise of 30% compared with the previous year and 14.2% below the long-term annual trend. The market continues to see strong levels of demand for the best quality floorspace with take-up for new and refurbished buildings accounting for 67.2% of all lettings.

Almost 41% of transactions in 2022 were by professional services and in particular the legal sector where take-up was the highest on record. The second largest occupier group was financial services accounting for just over 18% and technology, media and telecom which transacted on 13% of all lettings. Take-up from the latter was almost 50% below the long-term annual trend as the global reductions in headcount begin to translate in lower space requirements. The largest two deals of the quarter were by legal services occupiers signing pre-let space ahead of future lease expiries. Both transactions were for floorspace in buildings with best-in-class characteristics. These include 2 Aldermanbury Square, where Clifford Chance LLP, have let 321,000 sq ft at £80 per sq ft. And the 114,003 sq ft letting at Blossom Yard + Studios to Reed Smith LLP, at £80 per sq ft.

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The year as a whole saw 5.78m sq ft of lettings transactions – a rise of 30% compared with the previous year.

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Active demand for floorspace greater than 10,000 sq ft has fallen to 4.59m sq ft, -9.0% quarter on quarter but slightly above the long-term trend. The professional sector leads demand with 1.49m sq ft of active demand with Finance & Banking in at second at just over 1m sq ft.

Prime rents in the City Core have remained stable at £75.00 throughout the year. We have seen rental uplift in Clerkenwell/Farringdon and Vauxhall/ Battersea with the former rising to £85.00 and the latter to £60.00 per sq ft.

Rise in available floorspace

Availability has risen for five successive quarters to 12.72m sq ft in 2022 Q4, and a vacancy rate of 9.5%, 2.7% above the long-term average. This increase in availability is in part due to a 376,893 sq ft rise in tenant release space and also due to an expected 1.36m sq ft of development completions in the first six months of 2023.

INVESTMENT TURNOVER FELL TO

£557 m

IN 2022 Q4

Future pipeline is modest

This quarter saw 0.51m sq ft of completions across five schemes including The Rowe, 60 Whitechapel High St and Arbor, Bankside Yards.

There is a further 6.46m sq ft of speculative under construction which completes by 2025. In comparison to average levels of take-up for new and refurbished space, this suggests a shortfall of over 6m sq ft of best-in-class space.

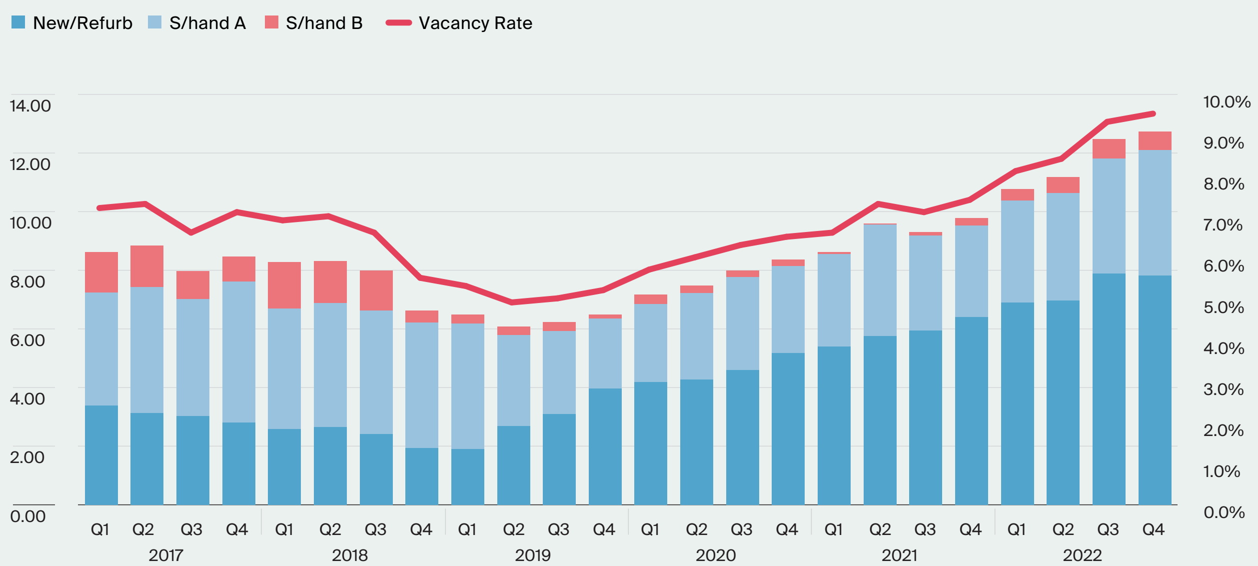
Investment transactions fall

The rise in intertest rates has been felt most in the City & Southbank where the use of debt is more prevalent. Investment volumes in 2022 Q4 were 74% lower compared with the previous quarter at £556.6m - the lowest quarterly total since 2020 Q3. This resulted in volumes reaching £7.9bn in 2022 – an annual change of 11%. Investors from APAC dominated market activity last year with just over 45% of transactions followed by European (17%) and UK investors (14%).

The largest transaction last quarter was 50 Finsbury Square which was purchased by Wirtgen Invest Holding GmbH for £218.3m and reflecting a yield of 3.87%. We expect turnover in 2023 to be characterised by smaller lot sizes and much greater levels of investment from private investors who are less reliant on debt for acquisitions.

Prime yields have risen by a further 50bps to 4.75%. In the last 12 months, prime yields have risen by 100bps and we expect recent falls in longer-term financing rates to lead to pricing stability in the near-term.

City & Southbank - Availability New/Refurb and Vacancy Rate
m sq ft (LHS), % o f Stock (RHS)



Source: Knight Frank Research

MARKETS IN REVIEW

WEST END

£125.00	▲ 1.31 m	▼ 5.13 m	▼ £0.90 bn	▲ 3.75%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Strong demand from financial firms

Take-up rose by 11.9% in 2022 Q4 with letting activity of 1.31m sq ft representing a third consecutive quarter above the long-term quarterly trend. In 2022, there has been 4.98m sq ft of take-up which is 27% higher than in 2021 and 8.0% above the annual long-term trend.

New and refurbished space accounted for 50.0% of take-up with a growing focus on luxury boutique space such as 30 Golden Square in Soho and 30 St James' Square where above average rents were achieved.

Financial services accounted for just over one third of all transactions in 2022 and were followed by professional services which represented almost 20% of all lettings. Both occupier groups acquired space considerably above their long-term trend levels.

Future supply remains constrained

Supply in the West End remains largely unchanged with a minor drop on the quarter of 1.5% leaving availability at 5.13m sq ft and a vacancy rate of 5.6%. The availability of new and refurbished buildings is especially acute representing only 30% of all available buildings in the West End. There is 5.31m sq ft under construction across the West End completing by 2026, of which 1.51m sq ft is pre-let. During the quarter 0.67m sq ft of speculative space completed across six buildings. Notable developments include Paddington Square at 31 London Street which is fully let and Gateway Central in White City. Our analysis of net prime availability suggests a shortfall of 3.4m sq ft by 2026 compared with average levels of take-up of new and refurbished buildings. With a shortage of prime space in the West End, prime rents have risen in Fitzrovia (£92.50 per sq ft), Marylebone (£97.00 per sq ft), Soho (£95.00 per sq ft) and Victoria (£82.50 per sq ft). Rent free periods remain unchanged at c.24 months for a 10-year lease.

Sentiment impacted by cost of debt

Investment volumes softened during 2022 Q4 with transactions of £0.9bn – a fall of 31% and 37.6% below the long-

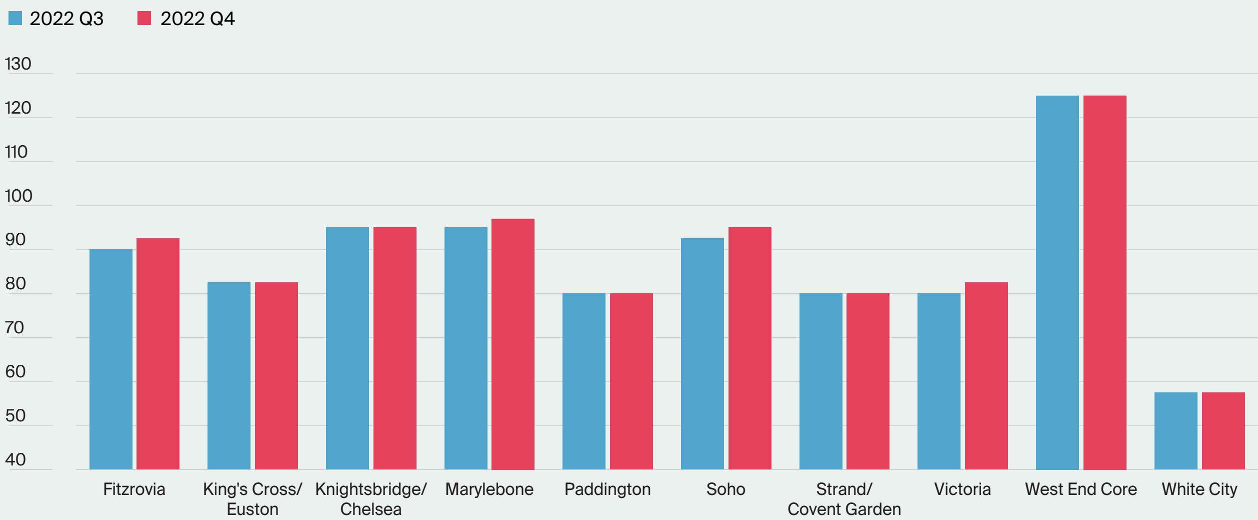
New and refurbished space accounted for 50.0% of take-up with a growing focus on luxury boutique space

term quarterly trend of £1.44bn. In2022, there was almost £5.9bn of transactions which was just over 20% higher than in 2021 and slightly above the long-term annual trend.

Almost half of all transactions last year were from private property companies/ investors who are less sensitive to rising interest rates. We expect this trend to continue in 2023 as institutional investors await greater clarity for the path of interest rates. Yields in the West End have increased 25bps to 3.75% which combined with a drop in the risk-free rate has pushed yield spreads positive. Although, all-in debt costs remain greater than prime yields an implying investors will look to rental growth to drive performance.

West End - Prime Headline Rents

£ per sq ft



Source: Knight Frank Research

MARKETS IN REVIEW

DOCKLANDS & STRATFORD

£55.00	▼ 0.16 m	▲ 3.81 m	£0.0 bn	▲ 5.50%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Take-up falls

Take-up in Docklands & Stratford fell by 45.3% in 2022 Q4 compared with the previous quarter to 0.16m sq ft. For the full year, letting transactions were 0.7m sq ft, up 100% compared with 2021 and 26% below the long-term annual trend.

Take-up of new and refurbished space rose by 15% to 0.4m sq ft in 2022 and representing 54% of all lettings. Professional occupiers had the majority of take-up during the quarter with 0.08m sq ft, considerably above the long-term average of 0.02m sq ft.

The largest deal of the quarter was Kadans Science Partner who leased 38,488 sq ft at 20 Water Street achieving an above market rent of £59.90 per sq ft. Kadans are converting their space into flexible, fully serviced CL2 wet-labs which offer a range of sizes to prospective tenants. This transaction is part of Kadans' wider plan to create a life science cluster within the Docklands & Stratford market. The second largest deal was Liverpool Media Academy leasing 35,000 sq ft at Here East. This letting by LMA is an expansion on their existing campus style location nearly doubling their footprint at the site.

There is 0.15m sq ft of active demand in Docklands & Stratfordled by public sector with 50.5% of total demand, professional services at 21.5% and corporate occupiers with a 20.2% share. This is a significant shift in occupier type since the same quarter last year when financials constituted nearly all lettings transactions.

Rents have increased in Stratford to £47.50 per sq ft while the remaining submarkets have remained unchanged.

Availability increases

Availability has risen to 3.81m sq ft, an increase of 41.8% compared with 2021 and implies a vacancy rate of 16.0%. The quality of available office stock remains evenly split between New and Secondhand space with the former accounting for 45.9% of total availability. This is in part due to the anticipated completion of YY London, 30 South Colonnade in 2023 Q1 which delivers 440,000 sq ft of new prime office space. YY London and

TAKE-UP WAS
0.16 m
SQ FT IN
2002 Q4

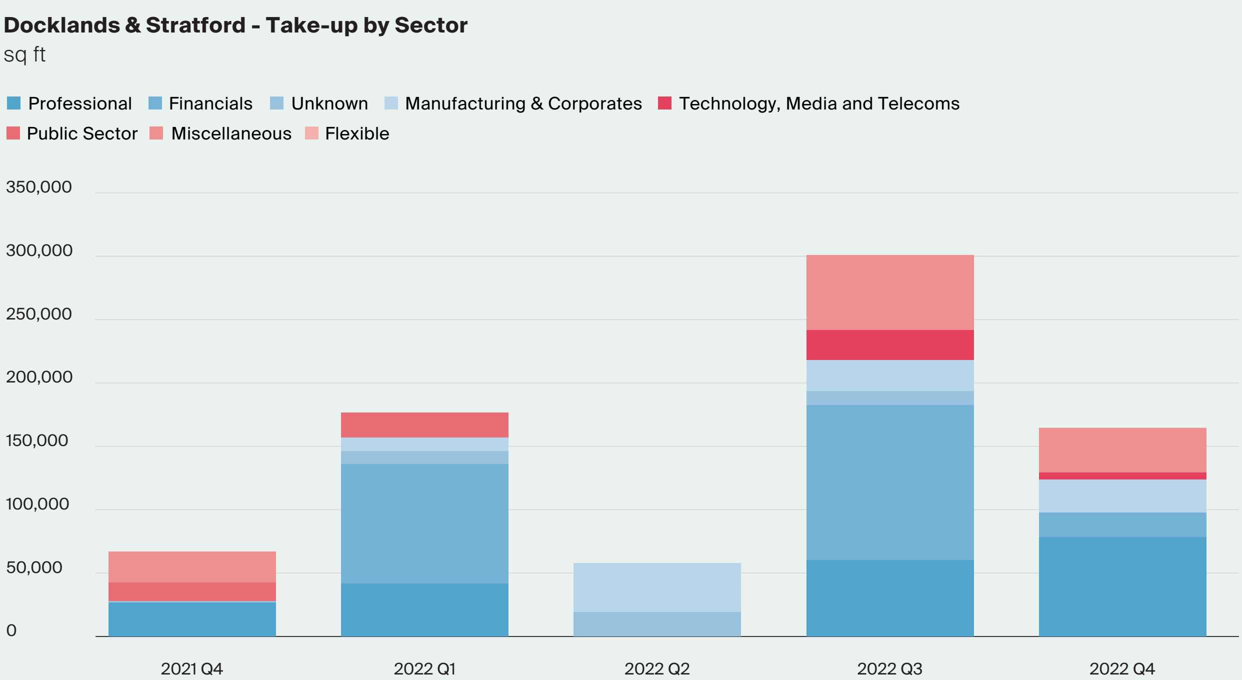
Prime Yields have risen in 2022 Q4 by 50 bps to 5.50%, up 75 bps on the year.

the Turing Building are currently all that is under construction. The latter delivering 343,000 sq ft in 2024. Both developments have achieved BREEAM Outstanding due to their sustainability led design.

Yields rise by 50bps

This has been the third consecutive quarter of no investment turnover in Docklands & Stratford.

Recent newsflow suggests the economic environment is gradually improving and should serve to bolster investment demand in submarkets where transaction volumes are usually lower.



Source: Knight Frank Research

KEY STATISTICS

	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	% CHANGE 3 MONTHS	% CHANGE 12 MONTHS	10-YEAR QUARTERLY AVERAGE
AVAILABILITY (SQ FT)								
West End	6.83 m	6.83 m	6.17 m	5.21 m	5.13 m	-1.5%	-24.9%	5.32 m
City & Southbank	9.77 m	10.75 m	11.18 m	12.48 m	12.72 m	1.9%	30.2%	8.35 m
Docklands & Stratford	2.69 m	2.53 m	3.06 m	3.63 m	3.81 m	4.8%	41.8%	2.03 m
London	19.29 m	20.11 m	20.41 m	21.32 m	21.66 m	1.6%	12.3%	15.70 m
VACANCY RATE								
West End	7.6%	7.5%	6.8%	5.7%	5.6%	-0.1%	-2.0%	6.1%
City & Southbank	7.4%	8.1%	8.4%	9.3%	9.5%	0.1%	2.0%	6.8%
Docklands & Stratford	11.3%	10.6%	12.8%	15.2%	16.0%	0.7%	4.6%	8.9%
London	7.9%	8.2%	8.3%	8.6%	8.7%	0.1%	0.8%	6.7%
TAKE-UP (SQ FT)								
West End	1.36 m	1.01 m	1.49 m	1.17 m	1.31 m	11.9%	-4.0%	1.17 m
City & Southbank	1.81 m	1.46 m	1.64 m	1.18 m	1.50 m	27.8%	-16.8%	1.67 m
Docklands & Stratford	0.07 m	0.18 m	0.06 m	0.30 m	0.16 m	-45.3%	146.2%	0.23 m
London	3.24 m	2.65 m	3.19 m	2.65 m	2.98 m	12.5%	-8.0%	3.07 m
ACTIVE REQUIREMENTS (SQ FT)								
West End	1.53 m	1.85 m	1.03 m	1.40 m	1.43 m	2.2%	-6.8%	1.97 m
City & Southbank	4.28 m	4.43 m	4.18 m	5.04 m	4.59 m	-9.0%	7.1%	4.26 m
Docklands	0.63 m	0.75 m	0.12 m	0.11 m	0.15 m	35.0%	-76.5%	0.56 m
London-wide	1.08 m	1.12 m	1.35 m	2.54 m	0.91 m	-64.1%	-16.0%	1.83 m
London	7.57 m	8.39 m	7.86 m	7.46 m	7.47 m	0.2%	-1.3%	8.62 m
SPEC UNDER CONSTRUCTION (SQ FT)								
West End	3.25 m	3.82 m	4.00 m	4.36 m	3.92 m	-10.1%	20.5%	2.20 m
City & Southbank	5.94 m	7.09 m	6.39 m	7.30 m	6.46 m	-11.4%	8.8%	4.85 m
Docklands & Stratford	0.90 m	0.76 m	0.76 m	0.76 m	0.76 m	0.0%	-15.3%	0.70 m
London	10.09 m	11.68 m	11.15 m	12.42 m	11.14 m	-10.3%	10.4%	7.75 m
DEVELOPMENT COMPLETIONS (SQ FT)								
West End	0.40 m	0.54 m	0.13 m	0.28 m	0.68 m	146.2%	70.8%	0.30 m
City & Southbank	0.57 m	0.33 m	0.79 m	0.98 m	0.51 m	-48.3%	-11.7%	0.73 m
Docklands	0.00 m	0.14 m	0.06 m	0.00 m	0.00 m			0.12 m
London	0.97 m	1.01 m	0.98 m	1.25 m	1.19 m	-5.3%	22.3%	1.15 m
INVESTMENT TURNOVER								
West End	£1.57 bn	£1.99 bn	£1.68 bn	£1.30 bn	£0.90 bn	-30.7%	-42.9%	£1.44 bn
City & Southbank	£2.10 bn	£3.83 bn	£1.50 bn	£2.00 bn	£0.56 bn	-72.2%	-73.5%	£2.16 bn
Docklands & Stratford	£0.44 bn	£0.05 bn	£0.00 bn	£0.00 bn	£0.00 bn		-100.0%	£0.22 bn
London	£4.12 bn	£5.86 bn	£3.18 bn	£3.30 bn	£1.46 bn	-55.9%	-64.6%	£3.81 bn
PRIME HEADLINE RENTS (PER SQ FT)								
West End	£117.50	£120.00	£122.50	£125.00	£125.00	0.0%	6.4%	2.8%
City & Southbank	£75.00	£75.00	£75.00	£75.00	£75.00	0.0%	0.0%	3.2%
Docklands & Stratford	£50.00	£50.00	£52.50	£55.00	£55.00	0.0%	10.0%	4.3%

Source: Knight Frank. Notes: London active requirements includes unspecified target locations. Percentage point difference for vacancy rate.

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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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