EXECUTIVE SUMMARY

Positioning London for the Future: Quantum vs Quality

In this year’s London Report, we look at the implications to the landlord from how occupier requirements are increasingly driven to amenity rich buildings and locations. Moreover, we compute amenity provision scores and show how these relate to the expected shortfall of new and refurbished buildings in many of London’s submarkets. We also show the results of our capital gravity modelling of cross border investment flows to show £9.5bn of transactions in 2023 and that private investors are likely to be a key player.

THE FACTS

11m sq ft
11 million square feet

7m sq ft
7 million square feet

£9.5bn
9.5 billion

£2.4bn
2.4 billion

EXPECTED UNDER-SUPPLY OF BEST QUALITY BUILDINGS 2023-26

LEASE EXPIRES 2023-27 OF FLOORSPACE WITH AN EPC RATING BELOW C

FORECAST TRANSACTIONS IN LONDON OFFICES IN 2023

EXPECTED TRANSACTIONS BY PRIVATE INVESTORS IN 2023

AMENITY PROVISION SCORES AND NET PRIME AVAILABILITY

Shabab Qadar
M: +44 7890 027 925
E: Shabab.Qadar@knightfrank.com

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QUANTIFYING OBSOLESCENCE RISK

We believe a structural shift in demand for better quality buildings is unlikely to be filled by the current pipeline under construction, providing development opportunities in those locations with an under supply of new and refurbished buildings. We’ve calculated ‘Amenity Provision’ scores by aggregating the quantity and quality of key amenity categories, including Arts and Culture, Education, Health and Wellbeing, Hospitality, Retail and Transport. Furthermore, we’ve used geospatial techniques to account for proximity of amenities to offices. The top five London submarkets with the highest amenity provision scores include Covent Garden, Soho, City Core, Fitzrovia and Midtown.

COMPETING FOR GLOBAL CAPITAL

The investment landscape changed considerably during 2022 as interest rates rose rapidly to curb accelerating inflation across the developed economies. This has precipitated a marked slowdown in London office transactions in recent months. The results of our recent Global Capital Tracker Survey suggest the weight of money targeting London offices is likely to fall in 2023. Higher levels of risk aversion will provide greater opportunity for private capital to be deployed as we see a moderation in actual transaction volumes this year. We are forecasting transaction volumes of £9.5bn, slightly below the long-term trend of £9.8bn.

BACK TO BASICS

As interest rates have risen, so too has a degree of risk aversion amongst real estate investors as pricing the fundamentals of performance becomes clouded by an uncertain outlook. We believe current pricing reflects an above average risk premium compared with the long-run average. Moreover, higher obsolescence risk and weaker prospects for rental growth in average quality buildings will see a return of wider yield spreads to prime.

LONDON OFFICE INVESTMENT TRANSACTIONS BY REGION 2023 £BN

<table>
<thead>
<tr>
<th>Region</th>
<th>Investment Transactions £BN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rest of world</td>
<td>4.5</td>
</tr>
<tr>
<td>Middle East</td>
<td>4.0</td>
</tr>
<tr>
<td>Greater China</td>
<td>3.5</td>
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<td>North America</td>
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<td>1.5</td>
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<tr>
<td>Middle East</td>
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</tbody>
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