

The London Report 2022

Executive Summary

London's repurposing opportunity

The focus of this year's London Report is how the sustainable repurposing of buildings, no longer fit for purpose, can be transformed into alternative uses to create vibrant urban spaces, generating commercial and social value. Our Report is structured in three parts containing a series of articles highlighting the challenges and opportunities, sustainability and repurposing poses to the real estate industry.

LONDON'S GREEN AND SUSTAINABLE FUTURE

London is a global leader in demonstrating progress to reducing carbon emissions with the built environment central to achieving the accelerated target of net-zero by 2030. We discuss many aspects of a sustainably driven future are already in place and that the challenges of a higher level of obsolescence, forced in part by regulatory changes and also by changing work practices can be tackled by the repurposing of single-use buildings to a mix of higher value uses creating walkable locations.

LONDON'S APPEAL TO GLOBAL INVESTORS

International investors are increasingly looking to real estate for income and wealth preservation as capital allocation plans adjust to incorporate the principles of Environmental, Social and Governance (ESG) in their portfolios. London is well positioned to attract these rising capital flows and it can play an important role in financing future development opportunities. We discuss the structural factors affecting real estate investors, identify the countries with significant outflows of capital and London's ability to increase its share of overseas investment.

REPURPOSING IN PRACTICE

The planning environment is focussed on reducing the role of embodied carbon in buildings with repurposing single-use to mixed-use a template for sustainable development. How will the planning regime affect future development of London's business districts? Are there lessons from the recent experiences of the retail sector that can be learned by the office sector? And what does net-zero truly mean in practice?

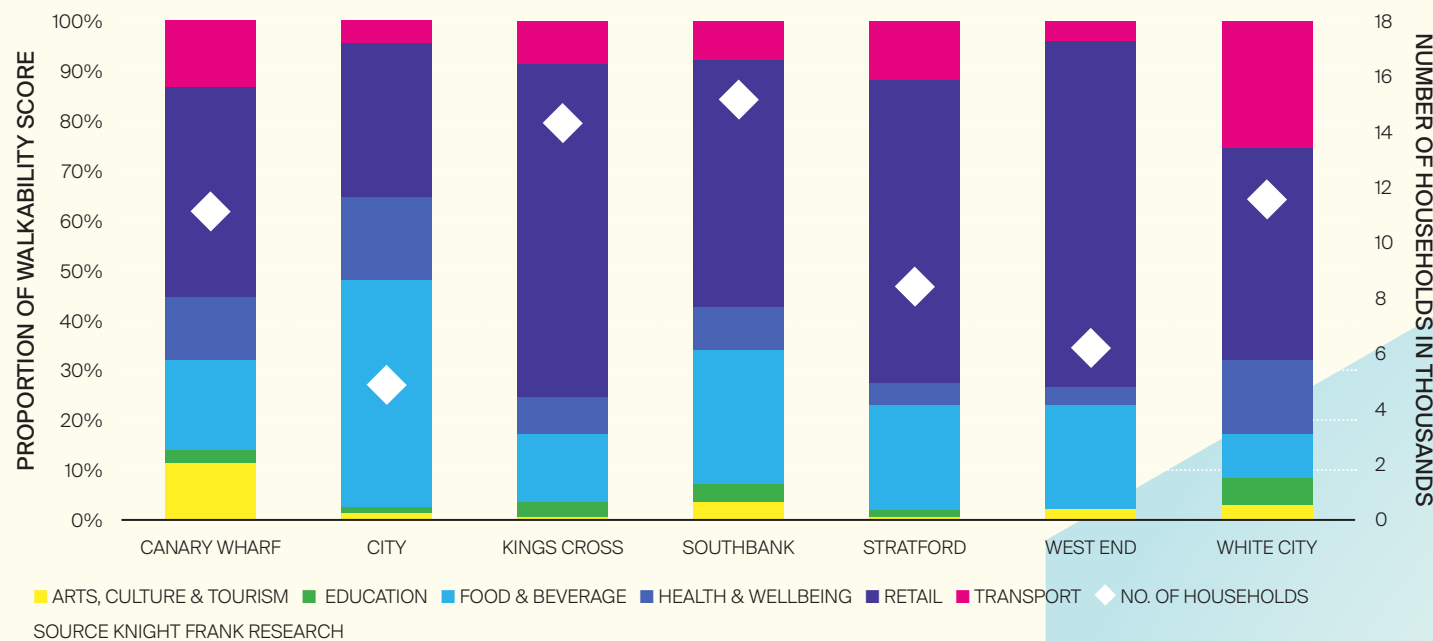
£60bn

of transactions between
2022-26 – the highest
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for over 20 years.

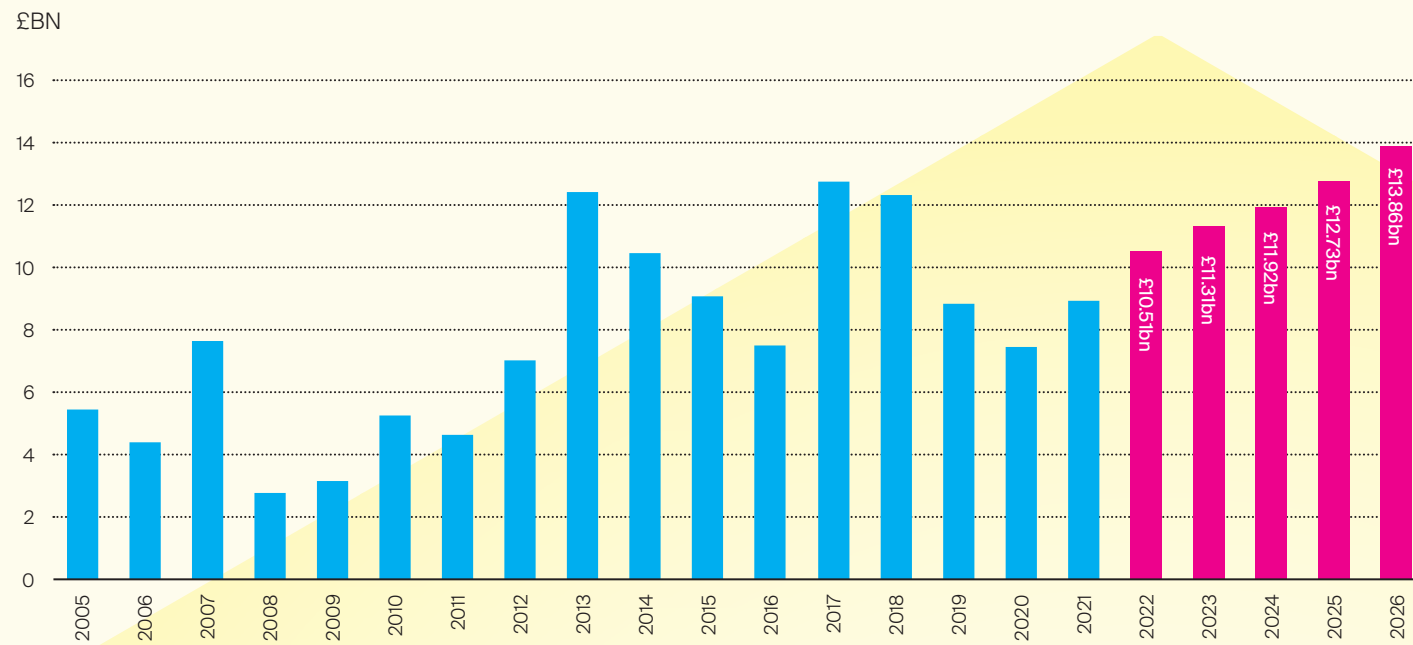
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NEW SUBMARKETS ARE MOST WALKABLE BUSINESS DISTRICTS IN LONDON

% CONTRIBUTION OF AMENITY GROUP TO WALKABILITY SCORE (LHS), NO OF RESIDENT HOUSEHOLDS (RHS)



£60BN OF EXPECTED TRANSACTIONS IN LONDON OFFICES DURING THE NEXT FIVE YEARS.



SOURCE KNIGHT FRANK RESEARCH

1. LONDON'S GREEN AND SUSTAINABLE FUTURE

In this section we look at how London's economy is transitioning with a greater contribution to growth from the knowledge and creative industries and leading to a more diverse occupier base.

We discuss the latest changes to occupier requirements and the implications for office spaces of the future. We use Geospatial tools to examine how walkable London's main business districts are? We show that the new submarkets of White City, King's Cross and Southbank are the most walkable business districts with more of the resident population able to access amenities of importance within 15 minutes walking time. These are also submarkets that have generated significant real estate out performance with office rents growing by 55%-65%. View the 'Steppin Out' article here.

The retail recovery in Central London is lagging other parts of the UK as cross-border travel remains subjected to pandemic related disruption. The repurposing of retail is a growing feature of suburban London providing opportunities for developers, investors and occupiers and creating social value enhancements. View the 'Tale of two cities' article here.

2. LONDON'S APPEAL TO GLOBAL INVESTORS

As long-term global investors adjust their capital allocation plans to reflect the principles of ESG we discuss how real estate could be a key beneficiary and London in particular, is positioned to attract an increasing share of global capital flows. Renewed investor interest in London offices was a key theme in 2021 especially as the capital is able to boast more than twice the number of BREEAM rated buildings in comparison to other gateway city office markets. These buildings command rental and sales premium's whilst the growing number of innovation districts is positioning London as a city able to harness future growth opportunities. Financing future growth article here.

The easing of cross-border travel and improving economic outlook has coincided with a strengthening of global investor demand. We use capital gravity modelling techniques to show investor appetite from the US, Germany and Asia Pacific countries is expected to result in over £60bn of transactions between 2022-26 - the highest five-year investment total for over 20 years. View Breaking down the wall of money article here.

3. REPURPOSING IN PRACTICE

The Mayor of London has accelerated plans to achieve net zero carbon emissions by 2030. Reducing the impact of embodied carbon in the development of the built environment is key to realising this aim and London's planning regime is evolving to reflect this ambition in current and future consents.

In section 3 we discuss the implications of the planning environment to developers and landlords and what this means for London's tall buildings? We discuss the repurposing of single-use buildings to alternative higher value or combining with other uses is a template for development that can deliver sustainable and inclusive locations and we discuss the lessons that can be learned from the retail sector.

Repurposing of obsolete historic buildings has been an important area of work for Heritage of London. The tangible benefits to local communities and the revitalisation of urban spaces is discussed in article. View London heritage article here.



Shabab Qadar

M: +44 7890 027 925

E: Shabab.Qadar@knightfrank.com

View our insights

knightfrank.com/london-report