Central London Office Market Snapshot

DeVono

CENTRAL LONDON OFFICE MARKET SNAPSHOT Q1 2023

AVAILABILITY

CENTRAL LONDON AVAILABILITY INCREASES TO
23.4M SQ FT

CITY AVAILABILITY
DOWN BY 1%

GRADE A AVAILABILITY
UP 13%
IN Q1 2023 VS Q4 2022

DOCKLANDS OFFICE AVAILABILITY AT A
30-YR HIGH

LEASING

TOTAL SPACE LEASED IN Q1 '23
DOWN 21%
ON Q4 '22

2.6M SQ FT
LEASED IN Q1 2023

FINANCIAL SECTOR
BOLSTERS LEASING IN Q1 '23

SOUTHBANK LEASING ACTIVITY
UP BY 21%
IN Q1'23

RENTS

8 SUBMARKETS SET
NEW RECORD
PRIME RENTS

MAYFAIR-ST JAMES'S SUPERPRIME SPACES
REACH £170 PSF

FLEX:
£1,000 AVG PER DESK PER MONTH HIT IN 7 SUBMARKETS

FLEX:
GRADE B CENTRAL LONDON AVERAGE STAYS AT £486 PER DESK PER MONTH

Central London
OFFICE LEASING

LEASING SLOWDOWN

2023 has seen a slower start to leasing activity, ending a relatively buoyant run in 2022. Office take-up in Q1 2023 reached 2.6 million sq ft, not only representing a reduction of 21% on the previous quarter but a drop of 12% compared to the same point at the start of 2022. Several factors have hampered leasing activity at the start of the year, not least of all strong economic headwinds causing a significant amount of trepidation among UK firms, but also a reduction in large businesses committing to new space, and a reduction in the size of spaces taken.

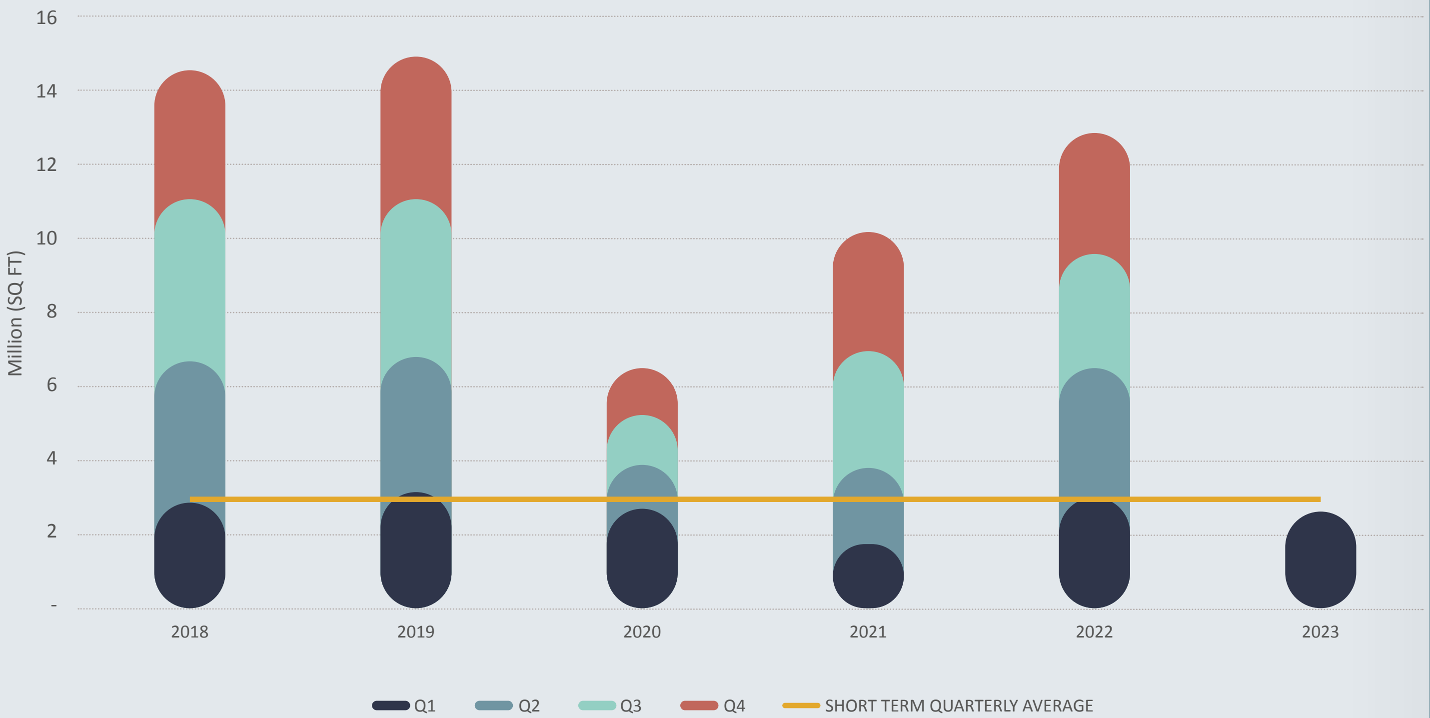
Surprisingly, 469 firms took office space across central London in Q1 2023, 16% higher than the short-term quarterly average, highlighting continued commitment.

However, the average deal size is 24% below the short-term quarterly average, a result of the size of firms securing space, a move to smaller spaces because of successful hybrid working and a desire to reduce operating costs.

Shorter commitments have driven down the average lease length once again, in Q1 2023 standing at 5.5 years, down 2% on the previous quarter and down 5% on the short-term quarterly average.

Economic uncertainty has forced many businesses to press pause or go-slow on their office searches. However, businesses optimism according to the latest Deloitte CFO survey has bounced back. Yet, CFOs are maintaining a defensive strategy stance with their risk appetite below normal levels and a heavy focus on cost control and building up cash. The office directly impacts the latter two points.

CENTRAL LONDON OFFICE MARKET: TOTAL QUARTERLY TAKE-UP, 2018-2023



Financial Sector retains crown.

With the exception of the technology sector, all business sectors recorded a drop-in leasing activity in Q1 2023 on the previous quarter. Despite the drop, there has been little change in the sector split of activity from one quarter to the next.

FINANCIAL SECTOR

- The **financial sector** saw a reduced level of take-up this quarter, dropping 27% on Q4. Despite this the sector has retained its place as the top occupier for take-up in central London.
- **Financial sector** leasing volume was bolstered by Pimco's letting of 106,087 sq ft at 19-35 Baker Street.
- The **financial sector** has returned to its pre-pandemic leasing patterns with its share of leasing in Q1 2023. Its attraction to the West End continues into 2023 with 65% of the space taken this quarter being situated in this market, as well as 4 out of the top 5 largest financial sector deals.

TECHNOLOGY SECTOR

- The **Technology** sector has made its way back into the top 3 most active occupiers this quarter having been the sole sector in central London to have increased its level of take-up, by 128%.
- In contrast to reported market uncertainty and appetite for offices by **technology** firms, the average transaction size is 50% higher than in Q4 – at 10,735 sq ft. Largely driven by TikTok's letting of 139,424 sq ft at 150 Aldersgate, excluding this deal our research shows that the average deal size has increased marginally on the previous quarter to 7,257 sq ft.
- Following the post-pandemic low of 25 deals transacted in Q4 2022, there has been a marked increase in **technology sector** deals to 38 in Q1 2023, serving to further bolster its share of total take-up.

LEGAL SECTOR

- Following a strong year for take-up in 2022, the **legal sector** has seen a reduction in leasing in Q1 2023, by 94%, accounting for a share of only 2% of total activity having registered only 6 deals, all below 10,000 sq ft.

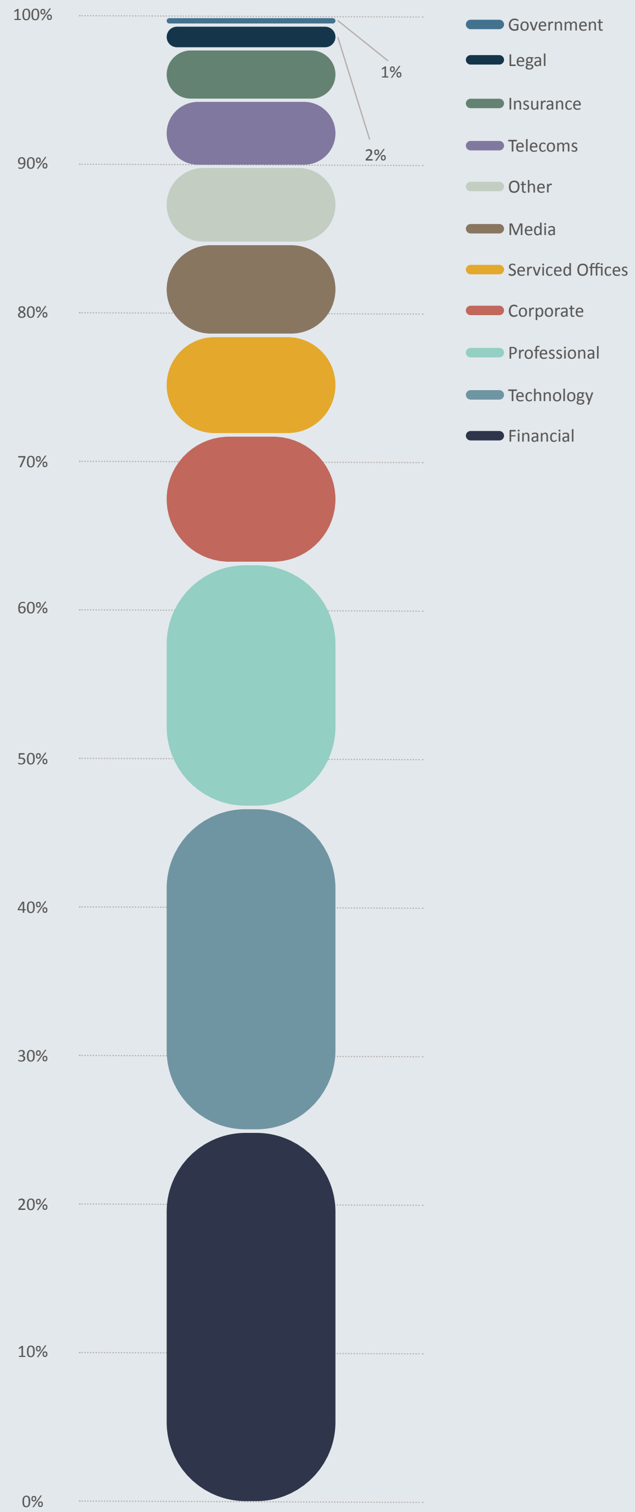
PROFESSIONAL SECTOR

- The **Professional sector** on the other hand has retained its position as the third most active occupier in central London, with a share of 16%, despite a reduction in leasing of 16% on Q4 2022.

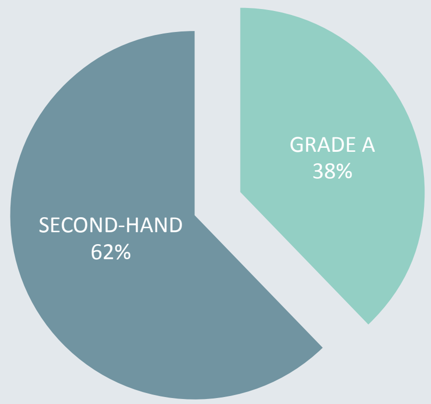
CENTRAL LONDON OFFICE MARKET: 5 LARGEST DEALS, Q1 2023

	SECTOR	SQ FT	ADDRESS
TikTok	Technology	139,424	150 Aldersgate Street
PIMCO	Financial	106,087	19-35 Baker Street
Virgin Media O2	Telecoms	83,000	3 Sheldon Square
KANTAR	Professional	46,628	30 Stamford Street
CISCO	Technology	42,103	16-18 Finsbury Circus

CENTRAL LONDON OFFICE MARKET: SHARE OF TOTAL LEASING BY SECTOR, Q1 2023



CENTRAL LONDON OFFICE MARKET: LEASING ACTIVITY BY SPACE QUALITY, Q1 2023



Leasing up in the Southbank.

The wider drop in leasing has been dispersed across all central London submarkets, falling by an average of 44% on the previous quarter. The **Southbank** office has bucked this trend, having been the sole submarket not to see a reduction in leasing activity.

> **Take-up in Southbank this quarter is the highest recorded since**
> **Q3 2021**

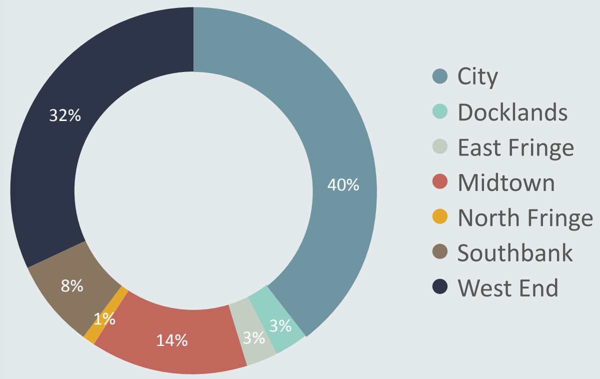
Southbank office leasing activity increased by 21% on the previous quarter, pushing take-up in this market 17% above the short-term average.

Leasing activity in the **Southbank** office market has mostly been the result of larger space requirements. Although there has been a slight reduction in the number of deals (-6%) transacted in this market on the previous quarter, we have seen the average deal size increase by 29% on Q4 to 7,180 sq ft. This increase has been fuelled by two deals between 25,000 and 50,000 sq ft, the largest of which was Kantar's letting of 46,628 sq ft at 30 Stamford Street.

Although the **City and Midtown** have both seen take-up fall in Q1 2023, by 20% and 22% respectively, they have both retained their share of leasing from Q4 2022 at 40% and 14%, indicating that the reduction in leasing in these submarkets is reflective of a more general drop in leasing rather than any loss of interest in these submarkets.

Docklands on the other hand has seen take-up drop significantly on the previous quarter by 49%, seeing both a decrease in the number of deals transacted and a reduction in space requirements with no deals being recorded over 25,000 sq ft this quarter.

CENTRAL LONDON OFFICE MARKET: SHARE OF TOTAL LEASING BY MARKET, Q1 2023



OUTLOOK

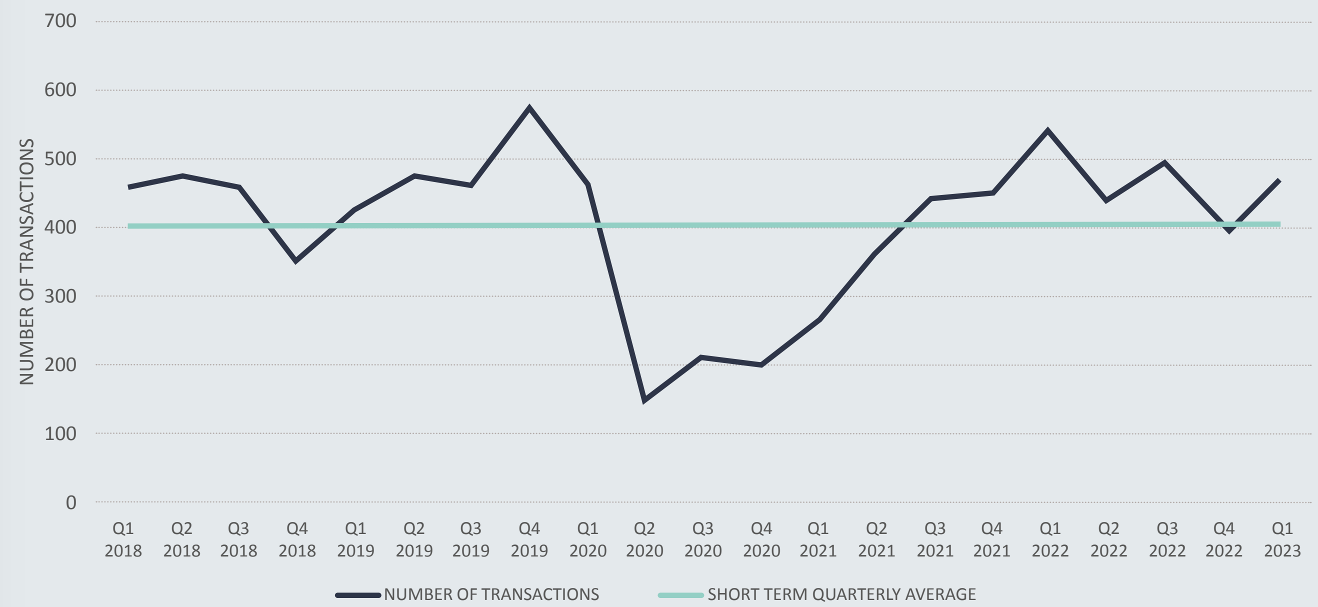
Several factors have impacted a business' appetite to lease space in the short-term, but they are the same factors that will ultimately put pressure on businesses to address their office and workplace needs for the long-term.

Immediate concerns derived from economic uncertainty, inflation and high operational costs are unlikely to dissipate anytime soon, as a result businesses will look to cut their cloth accordingly.

Whilst those making knee-jerk decisions to just trim space will be few and far between, the financial burdens will prompt many to entertain more flexible options such as serviced spaces or subleasing. Ensuring the workplace is agile and efficient will be paramount to weather any storms businesses are experiencing.

Leasing volumes over the next couple of quarters could well remain hampered as the sluggishness experienced in Q1 2023 spills over into the summer months.

CENTRAL LONDON OFFICE MARKET: NUMBER OF LEASING DEALS, 2018-2023



Central London

OFFICE AVAILABILITY

NEW YEAR, NEW RISE IN OFFICE AVAILABILITY

The total volume of office availability at the end of the first quarter equated to 23.4 million sq ft, with this figure representing a screeching halt in the erosion of availability that was seen in Q4 2022. A combination of subdued tenant leasing appetite, protracted negotiation periods and the delivery of new and refurbished office buildings have all led to the uplift in the current total across central London.

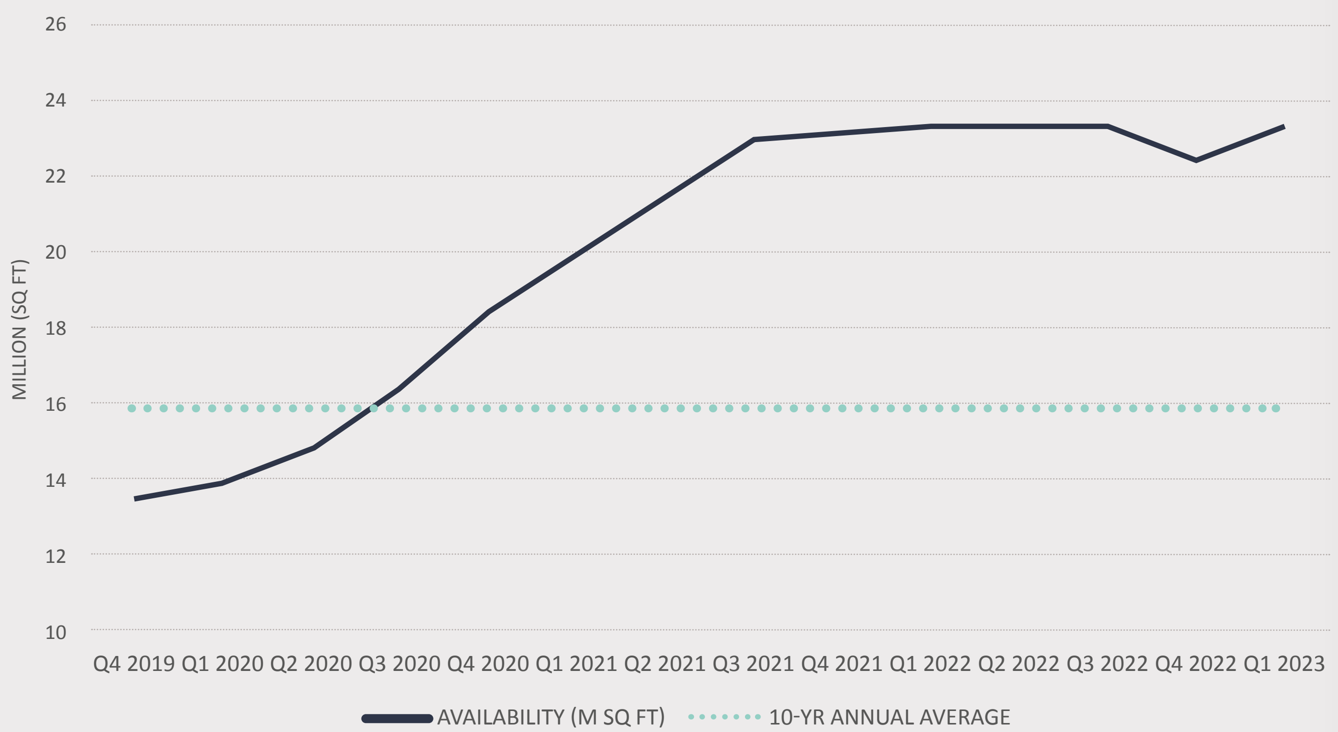
Conversely, our research shows that there were some areas that saw a reduction in office availability - two out of eight office markets with the West Fringe and the City down by 6% and 1% respectively.

REDUCING LEVELS

A deeper dive into our data reveals that:

- **VICTORIA, KNIGHTSBRIDGE & MAYFAIR** have decreased by an average of 18% over Q1 2023
- **EC4** office availability down by 2% over Q1 2023 – now at 1.6 million sq ft
- **EC2** office availability down by 16% to 3.04 million sq ft - still a third higher than the long-term average
- **WC2 – COVENT GARDEN** office availability down by 8% to 1.07 million sq ft

CENTRAL LONDON OFFICE MARKET: AVAILABILITY, 2019-23



SETTING NEW BENCHMARKS

However, the recent uplift in available offices saw some new benchmarks being set:

- **DOCKLANDS** office availability reaches 3.6 million sq ft, highest level since 1993
- Longest quarterly run of 4 million sq ft plus in the **WEST END** since 2009
- Only the third quarter ever that **SOUTHBANK** availability has surpassed 1.9 million sq ft
- **40%** — **EC1** office availability up 40% to 2.17 million sq ft - highest level since 2003
- **EC3** office availability up 11% to 2.41 million sq ft – the highest level since 2004

CENTRAL LONDON OFFICE MARKET: AVAILABILITY BY MARKET, Q1 2023

	WEST END	MIDTOWN	SOUTHBANK	CITY	DOCKLANDS	CENTRAL LONDON
AVAILABILITY (million sq ft)	4.2	3.1	1.9	8.3	3.6	23.4
% change Q4 2022 - Q1 2023	1%	5%	10%	-1%	14%	4%
% change Q1 2022 - Q1 2023	-10%	-2%	0%	-5%	27%	0%

NEW SCHEMES BOLSTER GRADE A OPTIONS

A number of new buildings and refurbishment projects have completed in the first quarter of 2023. In doing so they have boosted the volume of Grade A space that is available across central London, which now stands at 7.7 million sq ft.

The uptick in Grade A options is great news for businesses who have an eye on the best-in-class spaces, however they continue to command a high price. The 13% quarterly rise puts Grade A availability at its highest level since 2003.

Many new developments have enjoyed leasing success over the past couple of years, with significant tranches of space let upon completion, limiting options for businesses with active office searches. The latest dip in leasing appetite could well help those businesses, not only widening the range of choice but giving the tenant a little more negotiating power on rents and incentives.

However, despite the rise in space on a London-wide basis, there remain popular districts that continue to see a squeeze on those best-in-class options.

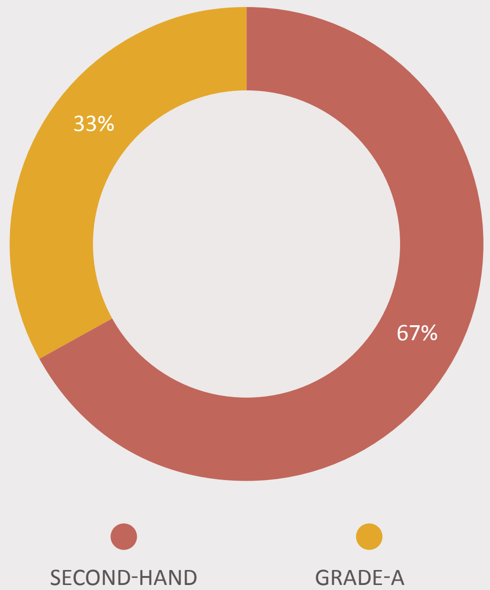
- In the City, Grade A availability in the **EC2** postcode has dropped by 13% over the quarter
- To the west of the City, **EC4** Grade A availability has dropped 2% off its recent peak, now at approx. 634,000 sq ft
- West End submarkets of **VICTORIA** and **KING'S CROSS-EUSTON** have both seen the level of Grade A office availability erode by an average of 55%
- Supply of Grade A space in the **WC2 (Covent Garden)** area dropped by 6% in Q1 2023

OUTLOOK

The latest rise in the central London-wide office availability shows that when the pace of leasing is eased just a little, the result is quick to filter through to the total. Where in recent years the uplifts have been boosted by a wave of secondhand space and surplus tenant space, this quarter it has been fuelled by Grade A, providing a welcome addition for businesses.

Good quality space comes at a cost and despite the recent rise in available options, landlords remain bullish on rents. Yet, there is a short-term advantage to those businesses who are ready to commit, capitalising on economic uncertainty and leasing lethargy, the tenant remains in a strong position. Given that further growth in availability of all grades of space is on the cards for the next couple of quarters, the tenant position could strengthen more.

CENTRAL LONDON OFFICE MARKET: AVAILABILITY BY GRADE, Q1 2023



Central London

OFFICE RENTS

ACCELERATED RENTAL GROWTH KICKS OFF 2023

Expectations of subdued levels of rental growth at the start of the year across central London office markets were short-lived. Fuelled by heightened demand from both active and future requirements for Grade A and best-in-class space, rents leapt in several locations.

Prime Grade A rents grew by an average of 3% from Q4 2022 to Q1 2023. Whilst this does not seem like such a jump, our research shows those areas that did see growth ranged from 3%-10%. This quarter saw 8 markets set new historic highs, led by prime rents in Mayfair-St James's, now at £135.00 per sq ft, and nearby Soho hit a new milestone of £100.00 per sq ft.

Half of all central London submarkets have seen prime grade A rental growth in Q1 2023, although the more outer areas such as Hammersmith, Stratford and White City are amongst those that have stayed at the same level as the previous quarter.

THREE-TIER RENTS IN MAYFAIR-ST JAMES'S

Whilst Prime Grade A rents in Mayfair-St James's have reached new heady heights in Q1 2023, this is not the ceiling for office rents. There is a third tier - super prime. This category of space is not just for the best-in-class spaces but for buildings with perceived prestigious addresses, access to garden squares, upper floors, and a finish and quality of amenities to rival any 5-star hotel, as well as being generally smaller in size (less than 5,000 sq ft).

Our super-prime rental series has reached £170.00 per sq ft, up 17% on the level at the start of 2022. This is back to 2018 highs. There are instances where some transactions have superseded this figure with some rents pegged at £200.00 per sq ft. The frequency of these deals is comparatively low, but demand is expected to grow especially as developers look to differentiate from the market.

REACHING NEW HEIGHTS IN THE CITY

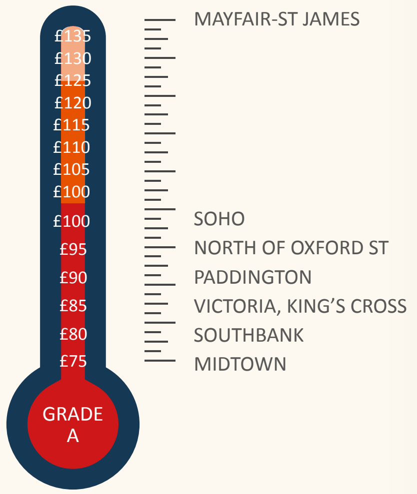
Tower spaces have long commanded a higher rent the higher you go up a building. A host of new towers that have launched in the City over the past few years are now coming in at £110.00 per sq ft for the upper floors, a difference of approximately a third on Prime Grade A rents. DeVono research shows that prime rents for the higher spaces (above the 20th floor) have increased by 41% in just 12 months – which has been driven by steady tenant demand.

OUTLOOK 2023

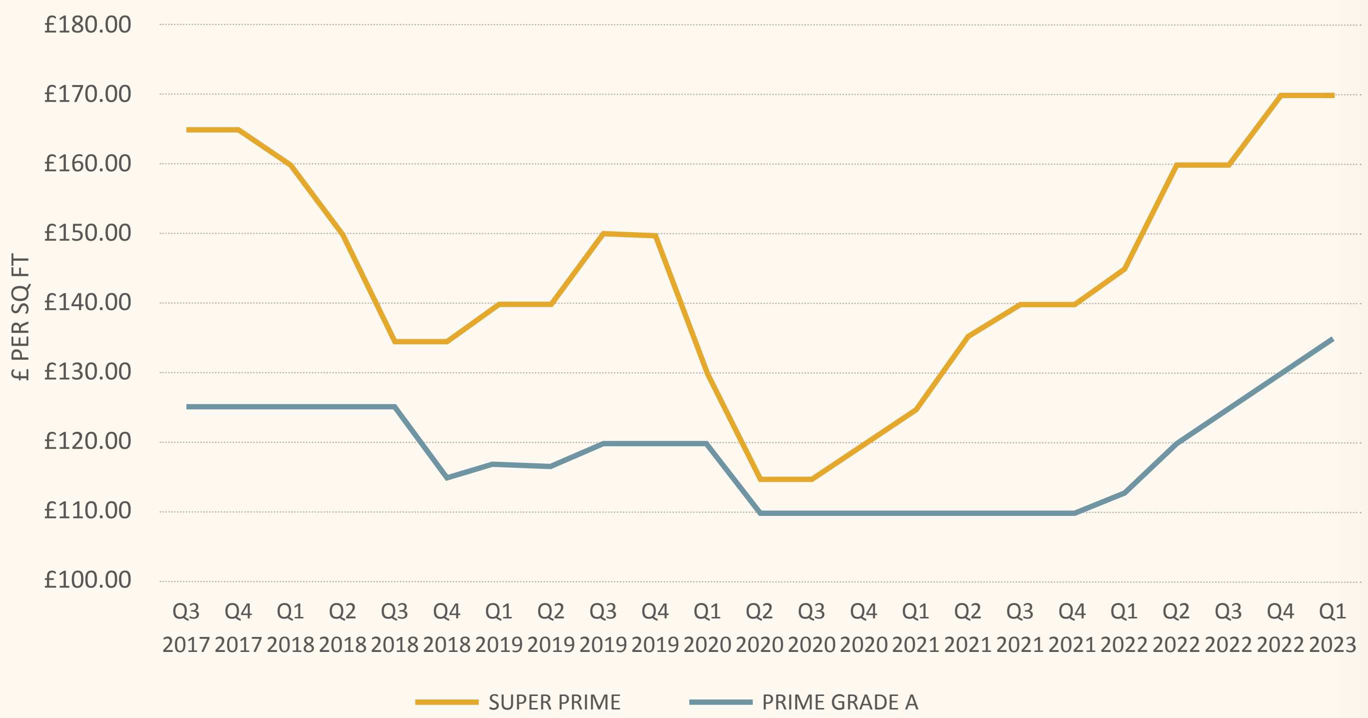
An increase in Grade A office availability in Q1 2023 has not lessened the pressure on further rental growth in the year ahead. New and refurbished spaces all command the higher rents for their location, with some expected to push those benchmarks further.

A reduction in leasing at the start of the year, and increased competition between a wider range of schemes will only serve to strengthen a tenant's negotiating stance, if not from a headline rent perspective most definitely from an incentive level.

NEW PRIME GRADE A RENT HIGHS



MAYFAIR-ST JAMES'S OFFICE SUBMARKET:
PRIME & SUPER PRIME RENTS, 2017-23



Q1 2023 MARKET RENT GUIDE

LEASEHOLD £ PSF

	GRADE A	GRADE B	Q/Q AVG GROWTH	GRADE A RENT FREE 10-YR
WEST END				
Mayfair | St James's	£135.00	£85.00	2%	22-24
Super Prime - Mayfair | St James	£170.00	-	0%	22-24
Soho	£100.00	£75.00	3%	22-24
North of Oxford Street	£95.00	£70.00	5%	22-24
Knightsbridge	£95.00	£57.50	0%	22-24
Paddington	£90.00	£55.00	5%	22-24
King's Cross | Euston	£85.00	£65.00	9%	22-24
Victoria	£85.00	£65.00	7%	22-24
Camden	£61.50	£47.50	0%	22-24
MIDTOWN				
Covent Garden | WC2	£90.00	£70.00	8%	22-24
Midtown | WC1	£75.00	£62.50	6%	24-26
CITY				
Clerkenwell |Farringdon	£95.00	£67.50	6%	24-26
Liverpool Street | Bank	£77.50	£52.50	3%	24-26
Old Street |Shoreditch	£75.00	£57.50	0%	24-26
Aldgate | St Katharine Docks	£57.50	£42.50	0%	26-28
Premium Tower Space High Rise	£110.00	-	16%	-
Premium Tower Space Mid Rise	£95.00	-	12%	-
SOUTH LONDON				
Southbank: London Bridge | Waterloo	£80.00	£60.00	9%	24-26
Vauxhall | Nine Elms | Battersea	£60.00	£42.00	0%	24-26
WEST LONDON				
White City	£57.50	£35.00	0%	24-26
Hammersmith	£55.00	£45.00	0%	24-26
DOCKLANDS				
Canary Wharf & Quays	£55.00	£32.50	0%	28-30
EAST LONDON				
Stratford	£42.50	£34.00	0%	28-30
Hackney | London Fields	£42.50	£30.00	0%	24-26

Data as at end of Q1 2023
Q on Q average growth denotes general rental tone change of leasehold Grade A & B combined from Q4 2022 to Q1 2023
Rent-free incentive based on a Grade A, 10-year lease general indication, will vary case by case

FLEXIBLE OFFICE PRICE GUIDE

PRICE GROWTH SLOWS

As demand for serviced office space increased in 2022, the pricing of said spaces, especially the Grade A options followed suit. However, the pace of both leasing and price growth have slowed in Q1 2023, with the latter in just five office districts. For Grade B pricing, our research showed no uplift in Q1 2023.

Factoring in all central London submarkets the average Grade A price per desk, per month (pdpm) at the end of Q1 2023 was £812, representing a 0.1% rise since Q4 2022. The low level of growth is a significant shift following three consecutive quarters of 4% growth.

Even with the slowing of growth in Q1 2023 the pricing of this grade of space is up by an average 12% since Q1 2022, with some areas like King's Cross and Knightsbridge notching up a price hike of 26% and 23% respectively for the same period.

The average Grade B pricing in Q1 2023 was £486 pdpm, the same as the previous quarter, representing a decrease of 3% over a 12-month period.

SETTING NEW HIGHS

Demand for the higher quality spaces fuelled the rise in Grade A pricing in 2022 to such an extent that at the end of the year the Grade A average surpassed the £1,000 pdpm benchmark in five office submarkets. In Q1 2023, that total increased to seven submarkets, with a further two more expected to join them in 2023.

The latest submarkets to see their average Grade A rise to £1,000 pdpm include Soho and Liverpool-Bank.

UNCERTAINTY LEADS TO RENEWALS

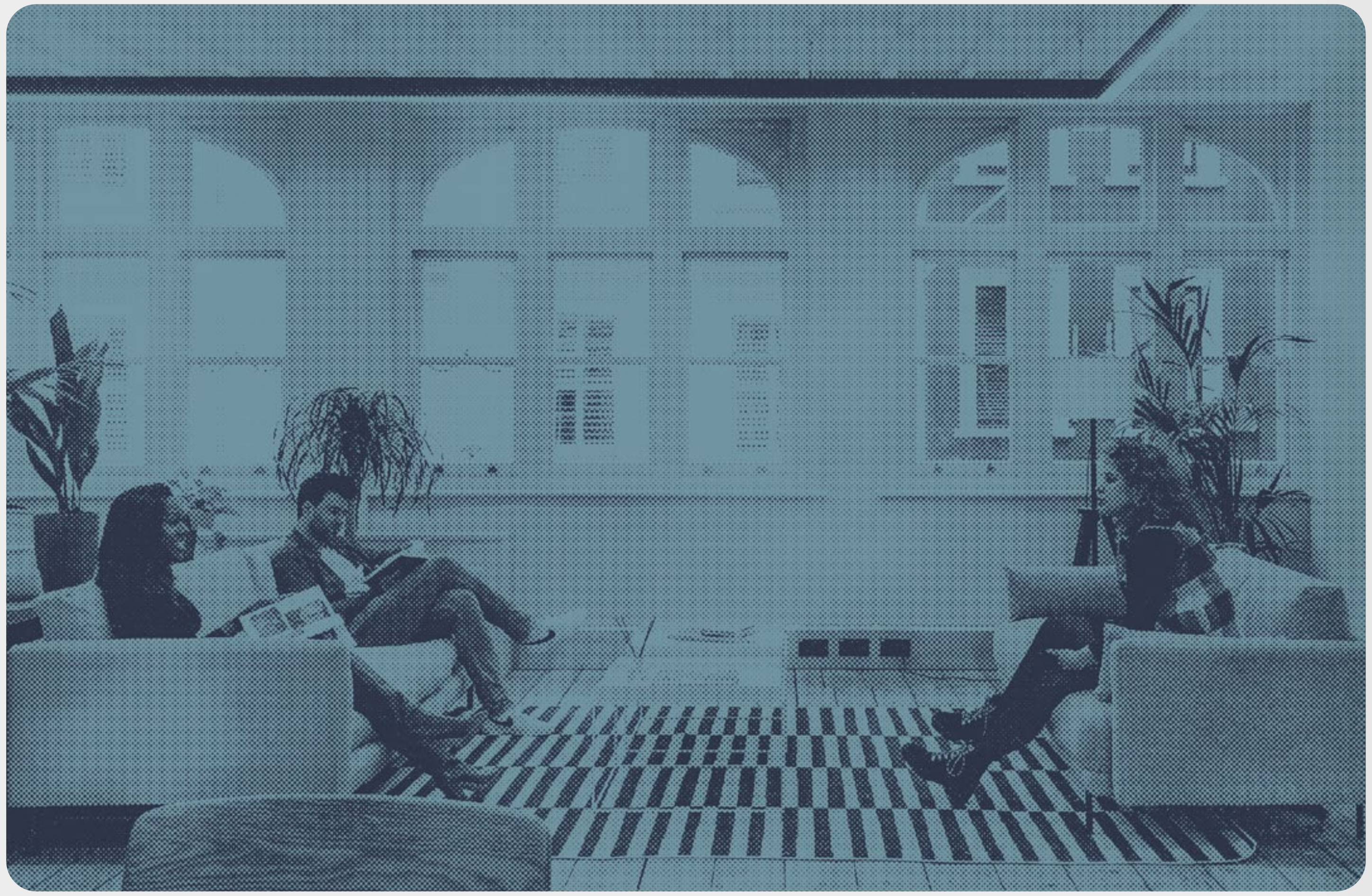
Flexibility is a key benefit to the serviced office offering, whether it is the size, location or length of commitment. Being tied into long leases has curtailed some businesses in their response to external factors and burdened them with space for a longer time than needed. The flexibility of renewing the term on a 'flex' contract, whether on a rolling basis or for a fixed period of time, comes in useful during periods of uncertainty.

DeVono is seeing more businesses renewing on their existing spaces, in part to reduce additional costs of moving. It should be stressed that renewals, much like your car and house insurance, can be negotiated too. Don't accept the first offer and reach for support in having those conversations.

OUTLOOK

According to recent research by Instant Offices, occupancy of flexible office centres across the UK reached a two-year high at the end of 2022. It is this level of occupancy that is maintaining the pressure on pricing to stay high. Even with the slowdown in demand that we have been seeing so far in 2023, operators have continued to keep pricing high for the best spaces.

However, should business lethargy for new spaces continue further into the year, it is more than likely we will see competition amongst operators heat up. Whilst this will not necessarily bring pricing down, it will see operators expand their offerings and incentives to attract new customers and retain existing businesses, opening up new opportunities.



FLEXIBLE OFFICE PRICING - Q1 2023

	SERVICED OFFICE £ PDPM		MANAGED OFFICE £ PSF	
	GRADE A AVG	GRADE B AVG	GRADE A	GRADE B
WEST END				
Knightsbridge	£1,200	£625	£180	£140
King's Cross | Euston	£1,200	£525	£200	£130
Mayfair | St James's	£1,150	£700	£360	£170
Victoria	£1,075	£525	£185	£130
Soho	£1,000	£600	£240	£150
North of Oxford Street	£1,000	£550	£300	£175
Paddington	£750	£600	£160	£125
Camden	£575	£450	£130	£115
MIDTOWN				
Covent Garden | WC2	£850	£550	£225	£150
Midtown | WC1	£800	£525	£175	£130
CITY				
Liverpool Street | Bank	£1,000	£475	£195	£145
Clerkenwell |Farringdon	£850	£550	£220	£120
Old Street |Shoreditch	£850	£400	£165	£80
Aldgate | St Katharine Docks	£600	£425	£140	£100
SOUTH LONDON				
Southbank: London Bridge | Waterloo	£975	£475	£170	£130
Vauxhall | Nine Elms | Battersea	£625	£425	£140	£95
WEST LONDON				
White City	£550	£425	£105	£85
Hammersmith	£525	£375	£110	£85
DOCKLANDS				
Canary Wharf & Quays	£475	£250	£105	£85
EAST LONDON				
Stratford	£550	£400	£95	£80
Hackney | London Fields	£450	£350	£95	£75

Data as at end of Q1 2023
Serviced office rates are fully inclusive and based on a Per Desk, Per Month rate (£PDPM) average of a range
Managed office prices are for self contained spaces, price per sq ft basis on a two-year contract, prices will vary on longer terms

AVAILABLE OFFICE SPACES

EXCLUSIVELY

WITH DEVONO

As part of our full portfolio of services, DeVono has a team dedicated to disposing of occupiers' space. Here is a selection of the currently available disposals, across London's most sought after locations. What better way to identify these spaces, than pinpoint them along the London Underground Map.

To arrange a viewing or to discuss your lease disposal requirements, contact David Barrington. View the full disposals details and brochures at www.devono.com/office-disposals-list.

To help visualise the available workspace in each building, click on the 360 icon to take a virtual tour.

CITY

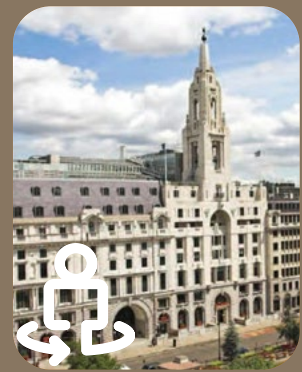
THE BOWER
20,000 SQ FT

WEST END

10 OLD BURLINGTON, W1S
1,543 SQ FT

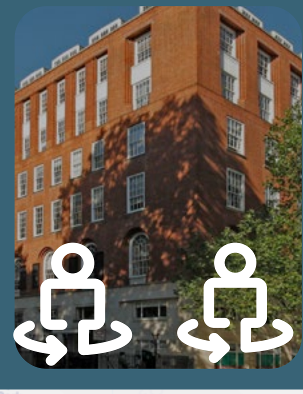
CITY

ALPHABETA BUILDING, EC2
UP TO 8,990 SQ FT



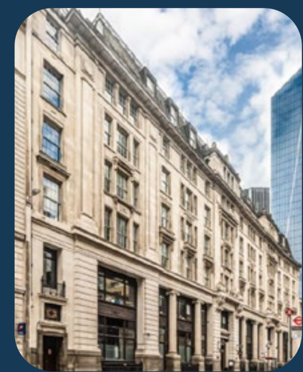
WEST END

WOBURN HOUSE, WC1H
3,527 - 7,814 SQ FT



CITY

THE HALLMARK BUILDING
EC3
9,190 SQ FT



WEST END

12 GOLDEN SQ, W1F
4,155 SQ FT

WEST END

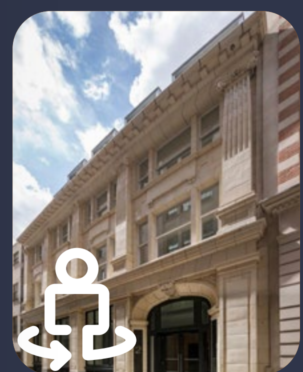
THE COURTYARD BUILDING
3,745 – 12,732 SQ FT

WEST END

MEDIUS HOUSE
2,314 SQ FT

CITY

2 IDOL LN, EC3R
2,907 SQ FT



CITY

20 WOOD STREET, EC2
12,885 SQ FT

SOUTHBANK

THE HARLEQUIN BUILDING
7,302 SQ FT
2ND FLOOR

Check out our other Insights!

DEVONO PUBLICATIONS

THE CHANGING FACE OF FINANCIAL WORKPLACES

The financial sector is the single biggest occupier sector of office space across central London and in 2022 it reclaimed its crown as the leading business sector leasing office space across central London. Our latest report looks at the current office leasing trends of financial firms across central London, delving into the numerous subsectors (ranging from banks through to brokerage firms), their location choice, office size preferences and sharing our outlook for the year ahead.

THE CHANGING FACE OF MEDIA WORKPLACES

Demand for office space in London by the Media Sector has started to return following reduced leasing activity during the 'pandemic years'. Office transactions in 2022 have shown that there is not only an improvement in business confidence, but the commitment to workplaces in the capital is evident. The report is designed to support businesses who are reviewing their workplace strategies, as well as highlighting the recent activity and trends of their peers.

STAYING ONE STEP AHEAD OF YOUR RENT REVIEW

As operational expenditure comes under greater scrutiny, the last thing a business wants is a hefty rent increase. This report gives an introduction into the rent-review process, what to expect and a do's and don't list with steps that can be taken in advance of your landlord's proposal.

THE CHARITY WORKPLACE: RISING TO THE CHALLENGE

The Charity sector has been under immense pressure over the past few years. The demand for services offered have increased exponentially, whilst funding has reduced, and operational costs have soared. These conflicting fundamentals are unsurprisingly filtering through to charities decision-making on the future shape and size of its office footprint.

NURTURING LIFE SCIENCES IN LONDON

The UK is capitalising on the post-pandemic life sciences boom. The latest budget by the UK government identified the sector as one with the potential for high growth, with the aim of consolidating the UK into a global centre. In response, property developers are showing a greater commitment to the sector, with new life sciences hubs emerging in business districts across London. Read our recent blog to find out more.

ABOUT DeVono

DeVono is the UK's leading occupier-only advisory firm. We specialise in advising businesses of all sizes and sectors, on commercial real estate solutions that best support their wider business objectives.

A significant part of our role is helping our clients to understand and define their occupational requirements. We take into account key factors including talent challenges, headcount forecasts, operational priorities and cost considerations, to help craft a brief that is not only fit for purpose today but will also deliver a sustainable occupational footprint moving forward.

DEVONO SERVICES INCLUDE:

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