Avison Young advised private equity clients on the acquisition of the 13,500 sq ft 4th floor at GPE's One Newman Street.

INSIGHT

Central London office analysis

Q1 2022

Occupier market

After having increased consistently across 2021, take-up has seen its first quarter-on-quarter decrease in central London offices since the end of 2020 – with 2m sq ft let during the first three months of 2022. This represents a 34% downturn on the amount of space transacted in Q4 2021 and is 16% below the long-term average for quarterly letting volumes.

However, that take-up figure is some 60% ahead of the equivalent point in 2021, when the year started with only 1.3m sq ft let during the opening quarter.

Additionally, we have seen yet another quarterly uptick in transactional volume, with 137 deals getting over the line – the most in an individual quarterly period since 2019.

Investment market

We have seen an auspicious start to the year for London offices, with £5 billion spent by investors in the opening quarter. This represents a 40% increase against the long-term quarterly average and is more than double the overall spend at this point last year.

This stellar beginning to 2022 was underpinned by the completion of three individual transactions above the £500m mark. For context, only a single transaction above that value completed in the entirety of 2021 – namely, Brookfield's £635 million purchase of 30 Fenchurch Street, EC3.

AVISON YOUNG

Occupier market in brief

STUART COMMINS
Principal

"The year has started in a relatively steady fashion for London offices, with just over 2m sq ft let in the first three months of 2022; underpinned by a seventh consecutive quarterly increase in number of completed lettings.

STEADY START

The year has started in a relatively steady fashion for London offices, as just over 2m sq ft has been let in the first three months of 2022.

Although this is reflective of an 8.7% drop against the long-term average for Q1 letting volumes, it is also some 60% ahead of the amount of space let in the equivalent period of 2021.

Putting this into context, it means that rolling 12-month office take-up in London has reached 9.5 million sq ft – the highest that figure has been since the year ending Q2 2020, which of course still encompassed pre-pandemic quarterly figures from 2019.

Prior to this quarter, the previous two reports we released on letting volumes were characterised by the quantum of large deals which completed. We recorded historically high numbers of deals above 50,000 sq ft getting over the line in the second half of 2021, which heavily bolstered take-up activity.

The inverse has been seen across the first three months of this year. More than 130 deals measuring less than 50,000 sq ft completed during the three-month period – which is ahead of the pre-pandemic average for deal volumes within this size band; and indicates that occupiers of all shapes and sizes have been part of this gradual year-long recovery in office demand levels.

FORMALISING PLANS

The opening quarter brought with it the removal of all coronavirus restrictions in England – underlining the move into the 'living with Covid' era, to quote the government's own plan. For businesses, this of course means continued evolution of working practices will need to be factored into their communal office strategies – but, hopefully, this can now be undertaken with no further interruptions due to lockdowns.

Crafting those strategies is not easy, with so many new variables to consider for real estate teams. For London's businesses specifically, the challenge has been underlined by global research from Stanford University et al, which outlined that UK employees are the most likely to seek new employment if forced to come back to the office full-time (23% against a 15% average globally).

However, the study also indicated that UK firms are currently striking the right balance, with employee 'desired days at home' matching up to the current number of remote days (1.93) – so there is almost certainly no 'revolution' needed, but the need to get the location decision right is absolutely paramount.

Therefore, the key for businesses is to ensure that the 'top-down' approach to communal office spaces is the right one which works for their employees as well as satisfying business needs. This is sharpening the focus on high-quality office space in London – epitomised by the fact that this quarter, 9 out of the 10 top deals by square footage were at new-build or grade-A spaces: precipitating a 1% increase in our prime rental tone across London against Q4 2021.

An example of these strategies being implemented came in the shape of the largest individual deal in Q1, which saw Hogan Lovells take a 266,000 sq ft pre-let at 18-20 Holborn Viaduct, EC1, ahead of anticipated occupation in late 2026. This amount of space is roughly equivalent to the legal giant's current footprint in its nearby HQ – so there isn't any material change in occupation. However, crucially, the move is designed to support its global sustainability drive and be adaptable to the future needs of employees and clients.

In a slightly different vein, accounting firm Deloitte confirmed its own shift towards hybrid working earlier this month, but will be undertaking a net consolidation into high-quality space as part of that process. It has committed on a lease renewal at 1 New Street Square, EC4, until 2036 – indicating that this will act as a blueprint for all future office moves, focusing on sustainability and wellbeing.

While Deloitte and Hogan Lovells have decided to evolve their approach while staying 'local', retail giant Curry's has gone for a different tack, opting to move to WeWork in Waterloo – leaving its long-established headquarters in Acton in the process. The move comes after a consultative approach with employees which enabled the business to understand more about what 'hybrid working' actually meant in practicality, and how they could optimise their London occupation to fit in with present and future employee requirements.

This prominent deal comes as serviced office operators are once again on the expansion trail. The last twelve months has seen almost 500,000 sq ft of new space let – almost a threefold increase on the previous year after many flex operators' growth plans were shelved during the uncertainty of the pandemic.

In addition, the ongoing success of products such as Myo and Storey has led LandSec and British Land respectively to consider further expanding their flex products in anticipation of large corporates mirroring Curry's and incorporating flexible space into their future occupational strategies.

The second largest letting transaction of the quarter, meanwhile, came in the shape of the first letting at Canary Wharf's newly launched product, MadeFor, which will accommodate Citigroup in 94,500 sq ft of flex space at 40 Bank Street, E14.

HEADWINDS ABOUND

There is certainly forward momentum in terms of moving out of the pandemic era from London's occupier community in general. However, diving deeper into some of the broader indicators at present gives a picture of the dissonance that all stakeholders are having to look through in order to decide how best to move forward.

For example, the services flash PMI for March was ahead of February – with the highest recorded figure since June 2021, aided in no small manner by the removal of Covid-19 restrictions.

However, business sentiment across the entirety of the private sector fell to the lowest level since October 2020, with concerns around inflation and associated rising costs paramount for many firms. These firms may also need to bake in wage rises into their business planning, as employees anticipate a squeeze on living costs in the short to medium term.

This, in conjunction with the fact that wider domestic indicators point to a year of slow growth (at best) will, of course, give concern for some corporate leaders – but even among London's business community, there are evidently differing views on how these aspects will play out.

In the London Chamber of Commerce's Q1 2022 bulletin, there was a small increase in the share of firms who said they expect their prospects to improve over the coming year (from 31% to 36%), but also a marginal uptick in businesses expecting things to worsen (20% - up from 19% in Q4 2021).

The bulletin also revealed that the chief concern for London businesses is inflation – with 62% of companies said they were more concerned about inflation than they were three months prior, representing a new record high for the survey.

So, while we can retain optimism over a solid start to the year within the London office market, underlined by the increasing frequency with which occupiers are committing to spaces, we should pay extremely close attention to those domestic and international indicators which will play a significant role in how strongly any momentum can continue throughout 2022.

Central London

TAKE-UP

After having increased consistently across 2021, take-up has seen its first quarter-on-quarter decrease in central London offices since the end of 2020 – with 2m sq ft let during the first three months of 2022. This represents a 34% downturn on the amount of space transacted in Q4 2021 and is 16% below the long-term average for quarterly letting volumes.

However, that take-up figure is some 60% ahead of the equivalent point in 2021, when the year started with only 1.3m sq ft let during the opening quarter.

Additionally, we have seen yet another quarterly uptick in transactional volume, with 137 deals getting over the line – the most in an individual quarterly period since 2019.

Hogan Lovells' 266,000 sq ft pre-let at 18-20 Holborn Viaduct, EC1, was the only transaction above 100,000 sq ft to complete during Q1; and meant that professional services firms accounted for 24% of letting activity across the three-month period.

This put the professional sector in second place in terms of influencing the letting market – with financial operators out on top, commanding 27% of activity. This was underpinned by Citigroup's agreement to take 94,500 sq ft at 40 Bank Street, E14.

SUPPLY

Across the latter half of 2021, supply began to noticeably taper off as letting volumes once again surpassed long term average levels. A good amount of this take-up absorbed some of the newly build space which completed during the nadir of letting activity in 2020, helping to gradually reduce the overall vacancy rate in the process.

While 2022 has seen a reasonably solid start on the lettings front, there has still been a marginal uptick in total supply on the market, with overall availability now totalling 21.1m sq ft. This has meant that the vacancy rate has been nudged up by 10 basis points to 7.2% which, although still ahead of pre-pandemic vacancy levels, is still below the mid-pandemic and mid-GFC peak vacancy levels of 7.5% and 8% respectively.

Supply remains weighted towards in-situ Grade-B stock – with some submarkets seeing existing grade-A supply comprise less than 15% of the overall availability total. In addition, more than 50% of the development space due to complete during the remainder of 2022 is pre-let; with another significant proportion under-offer, and so we can reasonably expect a further supply squeeze on high-grade space as time moves forward.

KEY DEALS Q1

Address	Occupier	Sq Ft
18-20 Holborn Viaduct, EC1	Hogan Lovells	266,000
40 Bank Street, E14	Citigroup	94,500
Eightyfen, EC3	Aviva	78,323
River Building, EC4	Deliveroo	43,930
Berkeley Square House, W1	Blackstone	37,566

TOP TENANT SECTORS

Financial Services
27%

Professional Services
24%

TMT & Creative
16%

The London market definitions have been amended to align better with up-to date market perceptions. If you require back-dated historic data, please let the Research team know.

KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q1

2.1 million sq ft

16%

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

7.2%

VACANCY RATE

0.1 percentage points up against last quarter

Central London

RENTAL GROWTH

We have seen a marginal increase in headline rental growth against the end of 2021 – with an increasing number of micromarket areas within London seeing prime tone reach or surpass pre-pandemic levels.

On an annual level, six out of the seven submarkets monitored in this report have seen increases in rental growth. The West End leads the way in this regard having seen a 5.9% uptick against Q1 2021 – bolstered by quarterly increases in prime tone in Fitzrovia, Soho, Paddington, and Covent Garden. Meanwhile, the City is currently 5.4% ahead of where it was at the start of 2021 in terms of average headline rent.

The last twelve months has been epitomised by an increased appetite from various industries for high-calibre office space. This is being reflected by the speed of recovery in prime rental tone from what was a sharp correction within the depths of the pandemic, underpinned by the aforementioned paucity of in-situ grade-A supply within certain areas of London.

OUTLOOK

There is a litany of moving parts to assess with any future-gazing at present – but starting on a positive note, there is a pervading sense within London that there is something resembling the 'new normal' being formed in terms of a more frequently returning workforce to communal office spaces.

TFL data on tube usage since January, for example, has indicated a much swifter rebound than we have seen after previous lockdowns as City and Termini exits have quickly moved back to similar levels seen in November 2021 after an enforced lull over January. These figures remain at around 60% of pre-pandemic volumes – which perhaps indicate that a three-day working week is the normal situation for the moment.

The fact that this rebound has maintained momentum even within an environment of (once again) rising Covid cases perhaps reflects a wider attitude among London's workforce of 'living with Covid', to reference the strategy which has been adopted by government.

There will, of course, be a need for London's firms to retain the ability to be nimble enough to accommodate employees who remain reticent to come back while the risk of illness is still prevalent. However, the likelihood is that future working schedules can now be implemented more fully, and communal office spaces better utilised as a critical component within that canon.

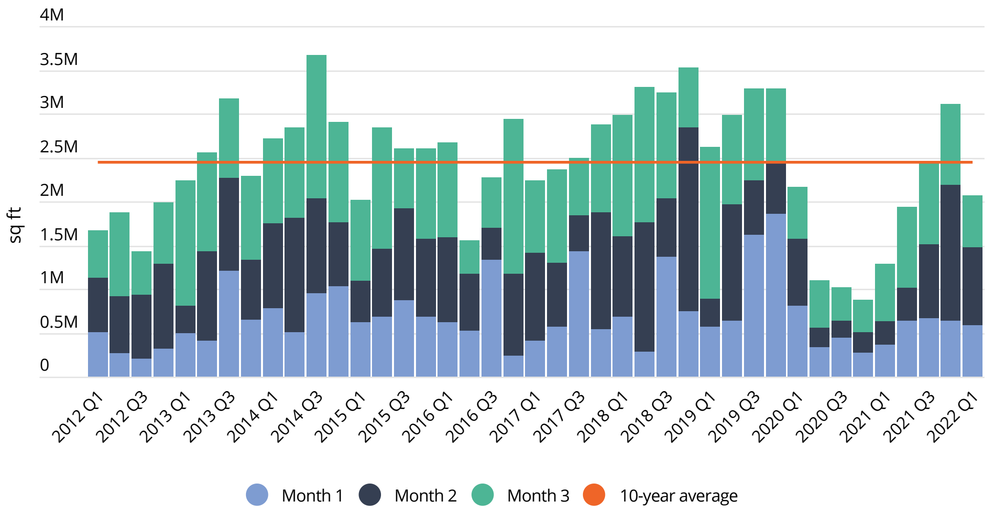
Looking more broadly at the outlook for London, Oxford Economics still expects the capital to return to pre-pandemic levels of economic output across 2022 – with an expected 3.9% rise in GVA across 2022; and increased levels of (nominally) office-based employment to come this year and in 2023.

However, some consensus forecasts have been necessarily tampered down because of concerns over rising inflation and a relatively slow-growing economy – not to mention the unpredictability of how events in Ukraine might unfold, and the scale of impact on all aspects of business continuity in London.

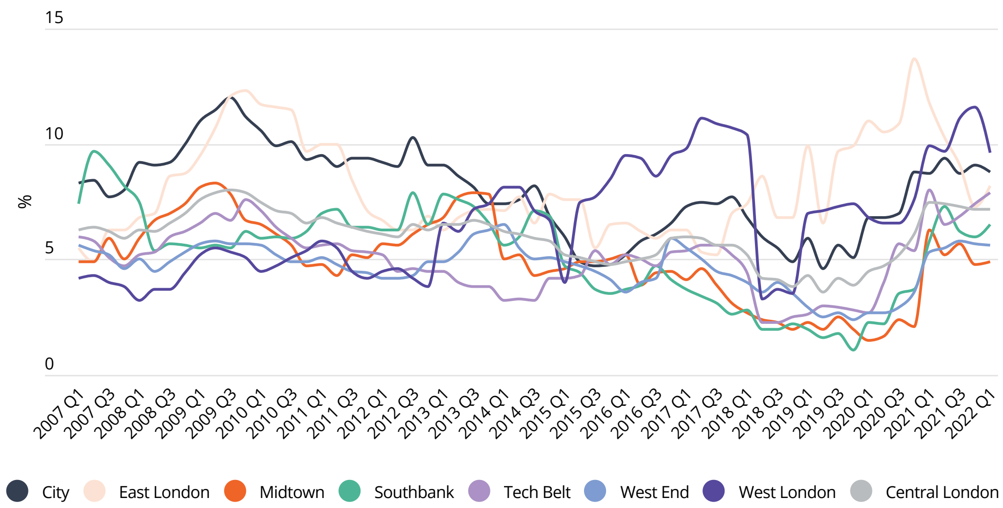
Some latent domestic issues have, of course, been exacerbated by the fallout on oil and bread prices following the war breaking out in Europe and the sanctions placed on Russia as a result. As such, the cost-of-living crisis and inflationary pressures could cause some ruptures in confidence over the medium-to-long term, as wage pressures and debt pricing cause all parties to reassess their outlook – with the spectre of recession also looming large.

Occupier charts

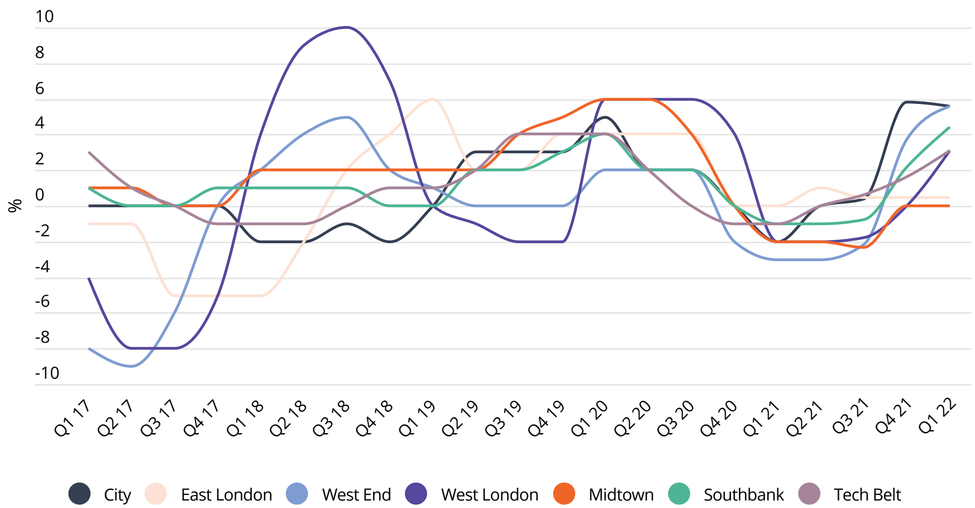
CENTRAL LONDON TAKE-UP



OFFICE AVAILABILITY RATES



PRIME HEADLINE RENTAL GROWTH Y/Y



City

During the opening quarter of 2022, take-up in the City totalled just under 900,000 sq ft which, although representative of a 37% drop against Q4 take-up levels, is still a modest 2% increase against the ten-year average for take-up within the submarket.

Activity was heavily boosted by Hogan Lovells taking 266,000 sq ft in a pre-let agreement for 18-20 Holborn Viaduct, EC1. The proposed building falls just inside the West City micromarket – and as such represents the second consecutive quarter in which a major pre-letting deal from a law firm has propelled City take-up, following Allen & Overy's commitment to 1-2 Broadgate, EC2, in November last year.

As a result of that Hogan Lovells deal, the Professional Services sector was key to driving activity during the quarter, accounting for 41% of take-up across 9 individual deals.

Meanwhile, Financial Services firms were the second-highest source of demand this quarter - with take-up of 256,000 sq ft, accounting for 25% of the total across twelve deals. The largest of which was a 78,300 sq ft letting to Aviva, which agreed to house its new London headquarters across four floors at Eightyfen, EC3.

Office availability across the submarket currently totals 6.6 million sq ft, reflecting a 2% decrease since the end of 2021. As a result, the vacancy rate across the city has moved marginally inwards from 9.1% in Q4 2021 to 8.8% currently.

The average headline rent within the submarket remains stable against last quarter at £73.13 psf; however, there has been significant movement within occupier sentiment across the market to tighten the indicative rent-free periods which moved outwards from 24 months to 26 months during the pandemic.

We have now reversed this, which means a quarter-on-quarter improvement in prime net effective rents across the City submarket to the tune of 1.8%.

KEY DEALS Q1

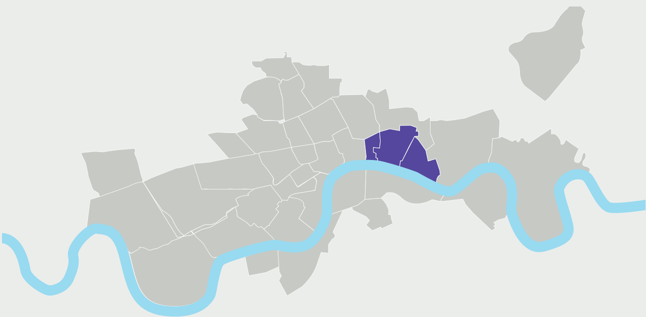
Address	Occupier	Sq Ft
18-20 Holborn Viaduct, EC1	Hogan Lovells	266,000
Eightyfen, EC3	Aviva	78,323
River Building, EC4	Deliveroo	43,090
1 Fen Court, EC3	Newline Underwriting	33,090
22 Bishopsgate, EC2	McDermott, Will & Emery	27,296

TOP TENANT SECTORS

Professional Services
41%

Financial Services
25%

TMT & Creative
11%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q1

886,169 sq ft

2%

UP ON THE 10-YEAR QUARTERLY AVERAGE

8.8%

VACANCY RATE

£75.00 per sq ft

PRIME RENT

City Core / Northern City & Broadgate

West End & West London

Quarterly take-up across the West End and West London markets totalled just over 571,000 sq ft – reflecting a 44% decrease against what was a bumper final quarter of 2021: and a more modest 8% drop against the ten-year quarterly average.

The vast majority of activity came in the West End submarket alone – where the largest individual deal saw Blackstone agree to take a further 37,000 sq ft at Berkeley Square House, W1. Elsewhere, cyber security specialists Darktrace took around 31,000 sq ft at 80 Strand, WC2.

That Blackstone letting was supplemented by further significant deals for Perella Weinberg and Stonehage Fleming, which helped the Financial Services sector take the lion share of West End letting activity in Q1, accounting for 31% of all space taken. Close in second was the TMT and Creative sector, which comprised 30% of quarterly activity.

Within the West End and West London submarkets, availability has moved marginally inwards from where it was at the end of 2021, sitting at 6.2 million sq ft compared to 6.3 million sq ft in our last reporting period. The vacancy rate, therefore, has also contracted, and currently sits at 6.3% after having been 6.4% at the end of 2021.

In-situ supply across the West End and West London remains heavily skewed towards lower-grade spaces; with Grade-A availability now comprising just 11% of existing supply – the lowest across all our London submarket areas. As such, occupier attention may well turn to the 4.4 million sq ft of unlet office space we currently record as being under construction in the West End and West London submarkets.

Partially as a result of the relative dearth of available grade-A supply, prime headline rental tone within these submarkets has seen quarter-on-quarter growth as tenants continue to focus on best-in-class space.

Prime rents in Hammersmith have moved from £58 psf to £60 psf, and in Kensington from £70 psf to £75 psf – meaning an increase of 2% overall for the submarket in comparison to the end of 2021. This also means that West London has seen a 3.1% year-on-year increase according to the Avison Young rental index.

Staying with the rental index, and the West End submarket has seen a significant 5.6% growth year-on-year for prime headline rents. This comes after quarterly increases have been recorded in Paddington, Soho, Covent Garden, Victoria and Fitzrovia; wherein high-quality new build schemes are commanding superior rents in what is a demonstrably squeezed market for grade-A supply.

KEY DEALS Q1

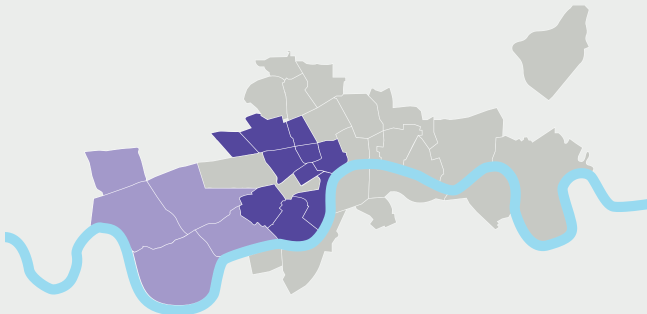
Address	Occupier	Sq Ft
Berkeley Square House, W1	Blackstone	37,566
80 Strand, WC2	Darktrace	30,805
80 Charlotte Street, W1	Perella Weinberg	29,191
6 St James's Square, SW1	Stonehage Fleming	28,000
The Adelphi, WC2	The Economist	24,874

TOP TENANT SECTORS

Financial Services
31%

TMT & Creative
30%

Professional Services
13%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q1

571,389 sq ft

▽ 8%

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

6.3%

VACANCY RATE

£117.50 per sq ft

PRIME RENT

(Mayfair / St James)

Tech Belt

In Q1, office take-up within the Tech Belt totalled just under 267,000 sq ft – which represents a 36% decrease against the final quarter of 2021, and a similar percentage fall when compared to the ten-year average within the submarket.

This quarter has seen a spread of different occupier sectors influencing take-up activity. The TMT and Creative sector has been a key occupier sector for the submarket in recent quarters, and once again takes top spot – but only with a relatively shallow 19% of total activity.

In second position was Serviced Offices – as deals for Runway East at 52-60 Tabernacle Street, EC2, and Knotel at Old Sessions House, EC2, meant that the sector accounted for 17% of overall take-up – just edging Professional Services firms (16%) into third.

We have recorded an increase in office availability across the Tech Belt from 3 million sq ft at the end of 2021 to 3.3 million sq ft as of this quarter – meaning that the current vacancy rate stands at 7.9%. While this is a higher vacancy rate than has historically been observed in the Tech Belt – it should be noted that Grade-B supply accounts for almost 70% of the existing availability; and that demand levels are still reasonably robust within the area for higher-grade provision.

Headline rental tone has moved marginally upwards once again in Clerkenwell to £80 psf; while Shoreditch has now been uplifted to £69.50 psf. This means that the Avison Young rental index for the Tech Belt is currently reflecting a 3.1% increase on this point last year. Rent-free periods, meanwhile, remain at 24 months on a ten-year term across all micromarkets within the Tech Belt – except for Aldgate & Whitechapel, where we record a rent-free period of 27 months.

KEY DEALS Q1

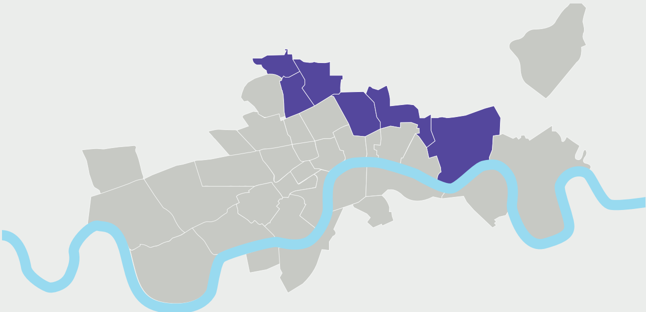
Address	Occupier	Sq Ft
52-60 Tabernacle Street, EC2	Runway East	22,884
2 Pancras Square, N1C	AstraZeneca	22,000
Old Sessions House, EC1	Knotel	21,430
The Bower, 207-211 Old Street, EC1	Intercom	17,416
73-77 Wicklow Street, WC1	UCL	16,982

TOP TENANT SECTORS

TMT & Creative
19%

Serviced offices
17%

Professional Services
16%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q1

266,991 sq ft

▼ 36%

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

7.9%

VACANCY RATE

£80 per sq ft

PRIME RENT

(King's Cross/Clerkenwell)

East London

East London saw a second consecutive quarter-on-quarter increase in office take-up, as just over 151,000 sq ft was let during the first three months of 2022. This reflects more than a twofold increase against the volume of space taken in Q4 2021 – but is still some 24% below the ten-year average for take-up.

Citigroup's letting at 40 Bank Street, E14, was critical to boosting activity this quarter – with the 94,500 sq ft deal the largest in the submarket since BP's 205,000 sq ft pre-let at Cargo, E14, in 2020. This also meant that Financial Services comfortably accounted for the vast majority of new space taken in East London – comprising 82% of the quarterly total.

The vacancy rate across East London is currently 8.2% with total availability standing at 2 million sq ft, which is 15% ahead of the 10-year quarterly average.

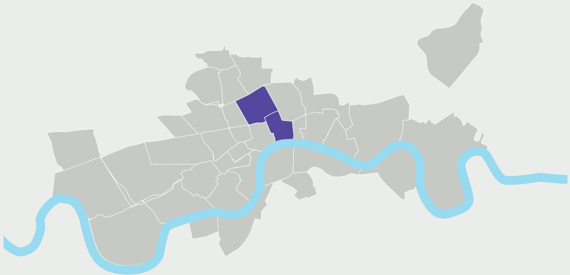
The Avison Young rental index for East London is 0.5% up year-on-year but remains flat against last quarter without any movement on prime tone seen across the submarket during the opening quarter of 2022. Rent-free periods, meanwhile, remain stable at 30 months across all reporting areas within the submarket.

Midtown

For only the second time in eight quarterly periods, take-up in Midtown has broken the six-figure mark – with more than 125,000 sq ft having been let in the opening three months of 2022. This is more than a twofold increase against the final three months of 2021 – albeit still some 31% below the ten-year average within the submarket.

Alongside the West End and West London areas, Midtown is another submarket which appears squeezed for high quality supply; with less than 20% of active in-situ availability coming in grade-A spaces. The vacancy rate in Midtown currently stands at 4.9% - a little ahead of the long-term trend within the area – but largely influenced by grade-B stock.

Prime rents in Midtown once again remained stable against last quarter, at £80.00 per sq ft in Bloomsbury and £70.00 per sq ft in Holborn. These have been the prime rental levels since the end of 2020, and as such there is no year-on-year change in the Avison Young rental index within the submarket.



Southbank

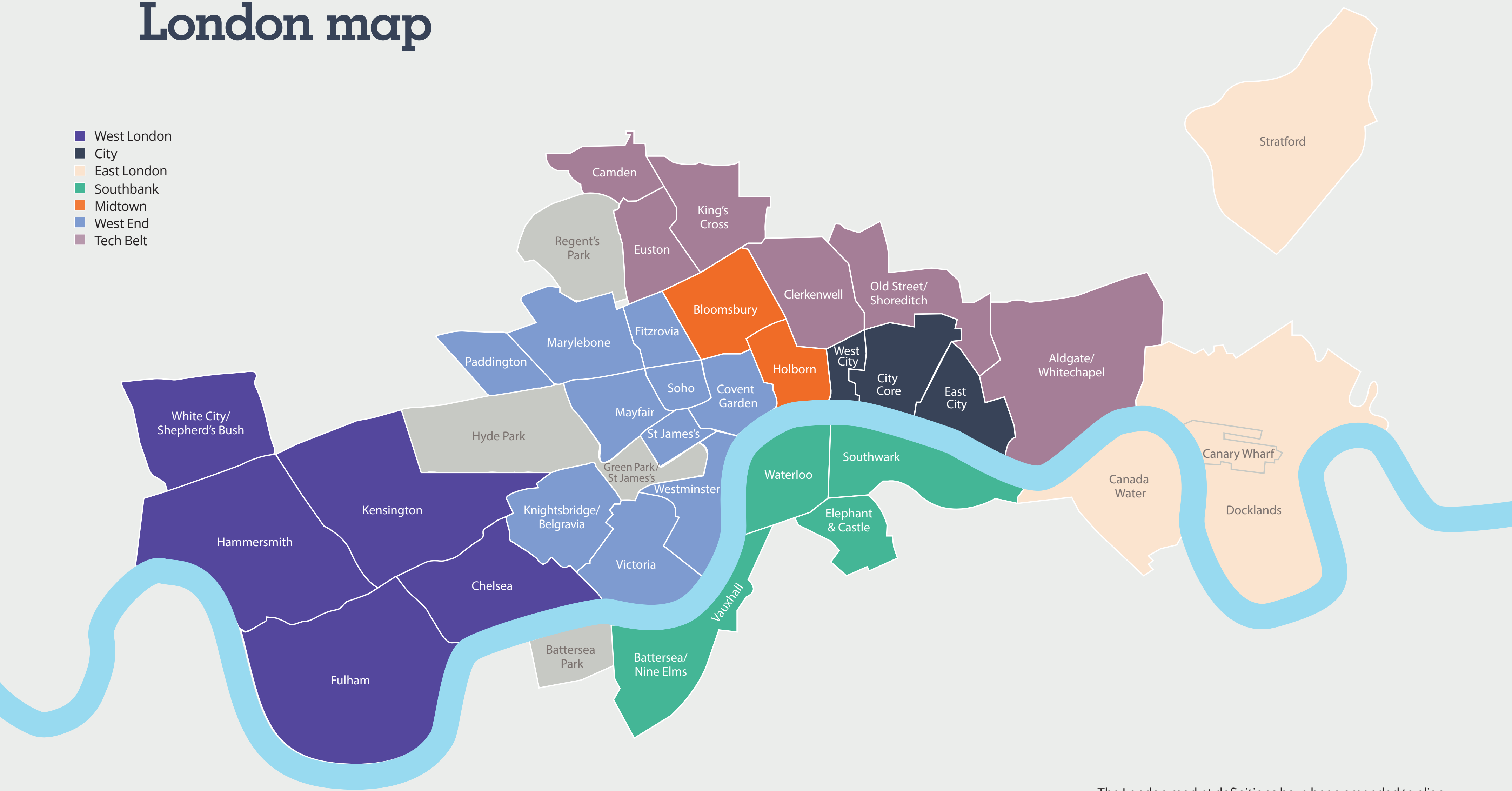
After a strong end to 2021, the opening quarter of occupational activity was more subdued on the South bank this time around – with 61,000 sq ft being transacted across just five individual lettings. This represents a 64% drop against the ten-year quarterly average.

Comfortably the largest among those lettings was a 29,000 sq ft deal to Montagu Private Equity for two floors at 2 More London, SE1, which meant that Financial Services was the dominant occupier sector this quarter, comprising almost 48% of total take-up.

With occupational activity relatively quiet, overall availability increased against the previous quarter, with 1.6 million sq ft currently on the market in the South bank – representing a vacancy rate of 6.5%. Although this is indicative of a tighter market for overall supply than several other areas of London, it is still relatively high in comparison to a post-GFC typical vacancy rate of 4.8% within the South Bank submarket.

London Bridge and Southwark, however, has seen healthy levels of occupier interest – exemplified by that significant deal at 2 More London. Dynamics within the micro-location have meant that we have moved prime rents upwards to £70 psf – and with all other areas staying stable, we are recording a 1% quarter-on-quarter uplift in prime rental tone across the submarket area.

Central London map



The London market definitions have been amended to align better with up-to date market perceptions. If you require back-dated historic data, please let the Research team know.

Central London markets

West End	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Mayfair	£117.50	22	£52.19	£179.94
St James's	£117.50	22	£49.78	£177.53
Soho	£97.50	24	£44.43	£152.18
Knightsbridge/ Belgravia	£90.00	24	£42.29	£142.54
Marylebone	£90.00	24	£42.29	£142.54
Covent Garden	£85.00	24	£32.12	£127.37
Fitzrovia	£92.50	22	£36.13	£138.88
Victoria	£80.00	24	£36.07	£126.32
Paddington	£79.50	24	£28.64	£118.39

West London	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Chelsea	£90.00	24	£39.61	£139.86
Kensington	£75.00	24	£47.10	£132.35
Hammersmith	£60.00	24	£22.48	£92.73
White City/ Shepherd's Bush	£60.00	24	£9.10	£79.35
Fulham	£45.00	24	£21.41	£76.66

Midtown	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Bloomsbury	£80.00	24	£32.38	£122.63
Holborn	£70.00	24	£29.71	£109.96

Assumes a 10-year term on a mid-floor new build space without terraces.
Excludes towers, aside from the designation of 'City Tower.'

Southbank	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Waterloo	£70.00	24	£24.35	£104.60
Southwark	£70.00	24	£27.84	£108.09
Battersea/Nine Elms	£59.50	24	£16.33	£86.08
Vauxhall	£57.50	24	£16.33	£84.08

City	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
City Tower	£90.00	24	£27.20	£127.45
City Core	£75.00	24	£27.56	£112.81
West City	£72.50	24	£27.56	£110.31
East City	£70.00	24	£28.37	£108.62

Tech Belt	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
King's Cross	£80.00	24	£33.72	£123.97
Euston	£72.50	24	£29.71	£112.46
Clerkenwell	£80.00	24	£24.89	£115.14
Camden	£60.00	24	£28.64	£98.89
Old Street/ Shoreditch	£69.50	24	£19.27	£99.02
Aldgate/ Whitechapel	£55.00	27	£21.41	£86.66

East London	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Canary Wharf	£45.00	30	£13.64	£68.89
Stratford	£46.50	30	£9.10	£65.85
Docklands	£32.50	30	£10.71	£53.46

CHRIS GORE
Principal

"

We have recorded the best opening to a year since 2017, with a total of £5 billion spent by investors in the opening quarter, representing a 40% increase against the long-term quarterly average.

Investment market in brief

A STRONG START – BUT KEEP CAUTIOUS

We have recorded the best opening to a year since 2017 in terms of overall spend on London offices, with buyers from the Far East comprising a significant portion of the total outlay.

It sounds like a description of the market at the start of a bumper year for investment volumes – but we're holding off on rolling out the bunting and champagne just yet, as wider market data and broader economic indicators provide reasons for caution.

That total spend was comprised of just 31 individual deals – the fewest in a quarter since the middle of 2020. This can be at least partially attributed to a relative paucity of stock on the market, as the Covid-induced economic downturn and associated fallout has not resulted in a lot of distressed sellers – as has been the case in previous cycles.

However, there has been a slight thinning of competition in some regards, as the environment around interest rate rises (and the expectation of further increases to come) is impacting the attractiveness of the market to investors who need to raise debt in order to compete at current pricing levels.

NAVIGATING THE HEADWINDS

Part of the trepidation will be around navigating through the various scenarios that central banks may pursue in attempting to mitigate against the downside risks of inflationary pressure – and, thereafter, in appraising what that means for the commercial lending environment.

Oxford Economics' latest forecasts indicate that the Bank of England interest rate will not go above 1% until 2024; whereas Capital Economics believe that interest rates could actually peak at 3% during 2023.

That might not appear to be a significant rise to the casual observer – but for investors looking at certain types of assets, the investment metrics on development or value-add projects may not now stack up so readily.

Turning to the commercial lending environment in the UK at present – the Q1 Bank of England 'credit conditions' survey indicates that lending to commercial real estate is still favourable, with increased availability of lending being seen over the first three months of the year. However, expectations among the respondents were that this growth in lending will decelerate next quarter, and that real estate values may appear less favourable to lenders.

There is, of course, a likelihood that investors have already tweaked their plans and allocations to account for the changing global environment. With the prospect of slower economic growth an increasing possibility, there may even be a situation in which the relative 'safety' of London office property becomes more appealing, with the potential of consistent and predictable returns superior to government bonds.

To that point – since the Global Financial Crisis, London office returns have traded at a significant 'spread' against 10-year gilts – and one could theorise that that could be eroded depending on the requisite level of central bank action to get inflation under control.

However, the latest consensus forecasts put 10-year gilts at a level of 1.89% by this point next year – which is not a large deviation from where they currently sit – meaning that London offices would maintain a reasonably healthy spread against bond yields, even at the top end of the pricing spectrum.

IN IT FOR THE LONG HAUL?

Bearing all of this in mind, one potential facet which should be monitored across the market in the immediate term is cash-rich corporate occupiers exploring the possibility of purchasing their own London office premises. This may come as part of a broader investment strategy, or to dampen the impact from more stringent IFRS regulations – or, indeed, both.

Google's deal at Central Saint Giles was, of course, partly an investment play as well as an owner-occupier sale – but it follows swiftly on from the £440 million Omnicom deal at 2-3 Bankside, SE1, towards the end of 2022. In addition, with Australia's TCorp reportedly cooling on 21 Moorfields, EC2, there are rumours that Deutsche Bank may swoop for their own soon-to-be-completed development that Landsec are marketing.

Beyond that, there is another factor to acknowledge – which is the fact that all coronavirus restrictions were repealed in England in February and that even the Government are now actively encouraging their own workforce (i.e. civil servants) to get back into the office.

Although it is early days in monitoring the impact of this, there is already a nascent recovery being seen in international travel activity – which we monitor as part of our UK Cities Recovery Index. The latest reading shows London being at 50% of February 2020 activity in terms of international flights; the highest it has been in the capital since the onset of the pandemic.

We can only infer so much from this currently – but the fact that global buyers are now somewhat freer to visit the capital could counterbalance any reduction in activity due to the aforementioned economic headwinds.

Therefore, although we need to retain caution despite the strong-looking start in overall investment terms, there are other reasons to believe that the latent strength within the London market could be brought to bear if geopolitical and domestic turbulence subsides accordingly.

Investment commentary

We have seen an auspicious start to the year for London offices, with £5 billion spent by investors in the opening quarter. This represents a 40% increase against the long-term quarterly average and is more than double the overall spend at this point last year.

This stellar beginning to 2022 was underpinned by the completion of three individual transactions above the £500m mark. For context, only a single transaction above that value completed in the entirety of 2021 – namely, Brookfield's £635 million purchase of 30 Fenchurch Street, EC3.

Korea's National Pension Service acquired UBS' headquarters at 5 Broadgate, EC2 from CK Holdings (HK) for more than £1.2 billion – reflecting a net initial yield of 3.6%.

Elsewhere, Google bought Central St Giles, WC2 from L&G and Mitsubishi Estates, for an initial consideration of £762.5 million – representing a 3.9% net initial yield; while Ho Bee Land paid £718 million to WR Berkley for 52-54 Lime Street, EC3, at a net initial yield of 3.8%.

This substantial outlay from major global investors (and tech mammoths) ensured that overseas buyers once again comprised a large proportion of quarterly investment – accounting for 74.2% of total activity; with Far Eastern buyers alone responsible for almost half the total spend in Q1.

KEY STATS THIS QUARTER

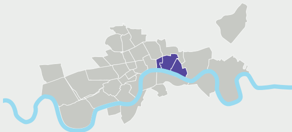
TRANSACTION VOLUMES

£4.99 billion

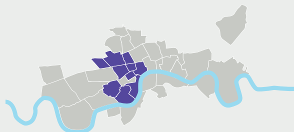
▲ 39.9%

UP ON THE 10-YEAR QUARTERLY AVERAGE

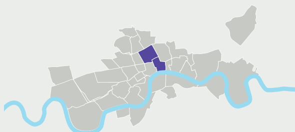
VOLUMES BY MARKET



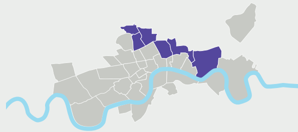
CITY
£2,693 million



WEST END
£1,238 million



MIDTOWN
£688 million



TECH BELT
£377 million

VOLUMES BY INVESTOR TYPE

OVERSEAS INVESTORS
£3,705 million

UK PROPERTY COMPANIES
£1,016 million

UK INSTITUTION
£273 million

CITY PRIME YIELD

▷ 4.00%

WEST END PRIME YIELD

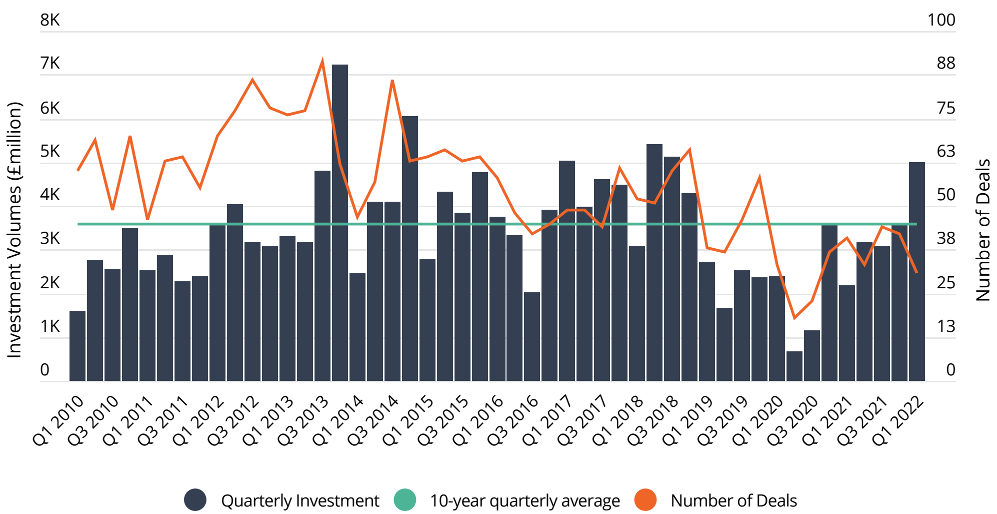
▷ 3.25%

Investment data

LARGEST INVESTMENT DEALS OF Q1 2022

Address	Price (£m)	Yield (%)	Month	Purchaser
5 Broadgate, EC2	1210	3.6	Mar	National Pension Service of Korea (NPS)
Central St.Giles, WC2	762.5	3.9	Jan	Google
52-54 Lime Street, EC3	718	3.8	Mar	Ho Bee Land
Victoria House, WC1	420		Jan	Oxford Properties
70 Gracechurch Street, EC3	300		Mar	Cadillac Fairview & Stanhope JV

CENTRAL LONDON QUARTERLY VOLUMES VS NUMBER OF DEALS



CENTRAL LONDON YIELDS Q1 2022

Submarket	Q4 2021 Prime Yield	Sentiment gauge
Stratford	4.75	Holding
Hammersmith/West London	4.50	Holding
Canary Wharf	4.50	Holding
City (Eastern Fringe)	4.25	Holding
Covent Garden	4.25	Holding
Paddington	4.25	Holding
City Core	4.00	Holding
City (Northern Fringe)	4.00	Holding
Clerkenwell	4.00	Holding
Southwark	4.00	Holding
Holborn	4.00	Holding
Victoria	4.00	Holding
Marylebone/Fitzrovia	4.00	Holding
Soho	4.00	Holding
Euston/Kings Cross	4.00	Holding
Mayfair/St James's	3.25	Holding

Should you wish to discuss any details within this update please get in touch

Jeremy Prosser
Principal, London Office Agency
+44 (0)20 7911 2865
jeremy.prosser@avisonyoung.com

Nick Rock
Principal, West End Agency
+44 (0)20 7046 6517
nick.rock@avisonyoung.com

Dominic Amey
Principal, Central London Investment
+44 (0)20 7911 2095
dominic.amey@avisonyoung.com

Stuart Commins
Principal, Occupier Advisory
+44 (0)20 7911 3129
stuart.commins@avisonyoung.com

Chris Gore
Principal, Central London Investment
+44 (0)20 7911 2036
chris.gore@avisonyoung.com

Jamie Olley
Principal, Central London Investment
+44 (0)20 7911 2802
jamie.olley@avisonyoung.com

James Walker
Principal, London Office Agency
+44 (0)20 7911 2049
james.walker@avisonyoung.com

Martin Devine
Principal, Flexible Occupier Advisory
+44 (0)20 7911 2997
martin.devine@avisonyoung.com

Graham Shone
Associate Director, Insight
+44 (0)20 7911 2132
graham.shone@avisonyoung.com

Pearl Gillum
Senior Analyst, Insight
+44 (0)20 7911 2144
pearl.gillum@avisonyoung.com

Visit us online
avisonyoung.co.uk/research

Avison Young is the trading name of Avison Young (UK) Limited. ©2022 Avison Young **Created: 04/22 Ref: 12521**

@AYUKviews

This report has been prepared by Avison Young for general information purposes only. Whilst Avison Young endeavours to ensure that the information in this report is correct it does not warrant completeness or accuracy. You should not rely on it without seeking professional advice. Avison Young assumes no responsibility for errors or omissions in this publication or other documents which are referenced by or linked to this report. To the maximum extent permitted by law and without limitation Avison Young excludes all representations, warranties and conditions relating to this report and the use of this report. All intellectual property rights are reserved and prior written permission is required from Avison Young to reproduce material contained in this report.