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RESEARCH

AT A GLANCE Q1 2023

CENTRAL LONDON OFFICES UPDATE

Key Stats at a Glance

Prime office rents have continued to grow to record levels in the West End, despite Central London take-up starting the year 10% down on the same quarter in 2022.

Demand for Asia-based investors continues to increase, accounting for almost half of total acquisitions.

Take-Up

-13.5%

Central London take-up has dropped at the start of 2023 with a 13.5% reduction in comparison to Q4 2022, comprising 2.56m sq ft across 315 deals.

Vacancy Rate

8.4%

The Central London vacancy rate is reported at 8.4% at the close of Q1. A slight reduction from 8.6% reported in Q4. (West End vacancy rate is 4.59% and City 11.13%).

Occupier Sector

27%

The Banking & Finance sector was the most active sector in Q1 2023, taking a 27% take-up in Central London. Media Tech followed closely with 19%, and then Professional Services which accounted for 11%.

Prime West End Rents

£145.00

There has been a 17.25% increase in prime rents from the start of 2022 in the West End. The City has seen more stabilisation with prime rents sitting at at £72.50 per sq ft.

Investment Volumes

£3.2bn

Central London Office investment volume in Q1 2023, down 42% y/y, but still 14% above the 10-year Q1 average.

Central London Prime Yields

3.85% / 4.75%

Prime yields for the West End and City Markets respectively, unchanged on the previous quarter.

*Take-up figures based on all deals 1,000 sq ft and above.

Central London Leasing Overview

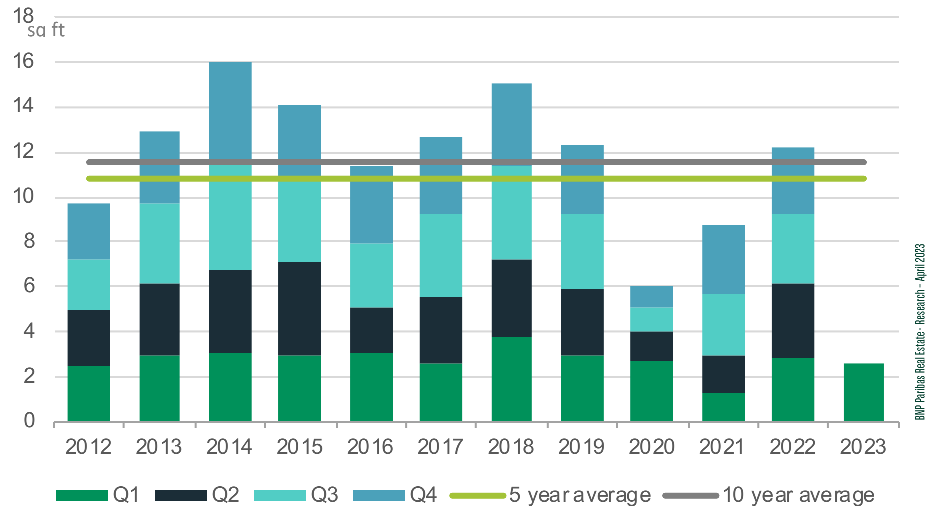
Central London leasing activity saw a 13.5% reduction on the previous quarter, recording a decreased level of take-up when comparing against the beginning same quarter in 2022. In Q1 2022, take-up reached 2.56m sq ft, which is below the 5 year average for Q1, of 2.49m sq ft.

Despite the unsettled economy, occupiers are still committing to office space, with over 300 deals being completed within Central London in Q1.

The largest deal of the quarter was TikTok's 140,000 sq ft pre-let at Verdant (150 Aldersgate), EC1A on a 15 year term. The lease will begin when the property completes, which is currently expected for the third quarter in 2024.

Largely boosted by this deal, prominence for high quality space remains, with over 1.19m sq ft of take-up in Q1 being of Grade A quality, which accounts for 46.5% of total take-up across Central London, which remains inline with Q4's Grade A take-up accounting for 52% of all space signed.

Take-up



Vacancy Rate and Occupier Breakdown

Banking and Finance is a driving force to start the year, with 29% of market share being taken by the sector. Even though the sector has been the most active, there has been a reduction in space taken by these tenants, 29% less than Q4 figures, due to the drop in take-up across the market.

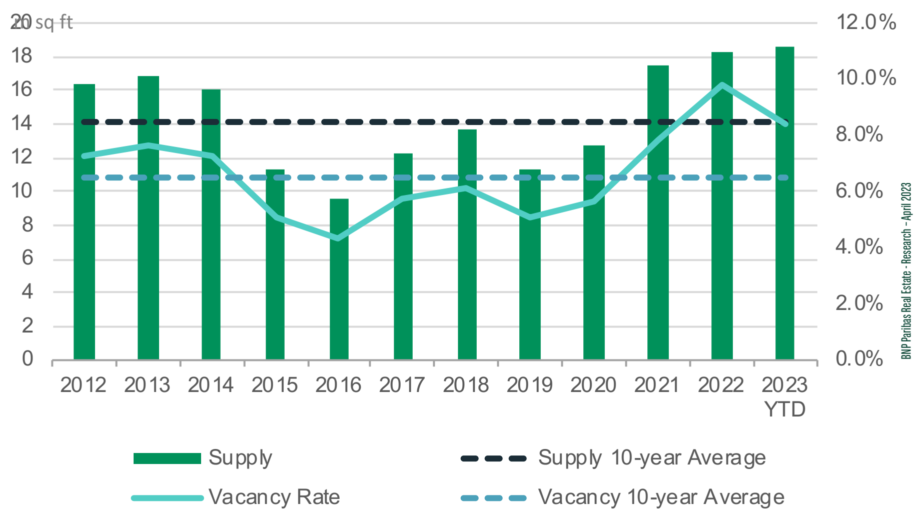
Serviced Offices had a small increase in market share from 4% in Q4 to 6% in Q1, securing the concept of flexible options becoming more desirable as the economy remains unsteady.

Professional Services had a slower start to the year, by falling from 28% to 12%, the sectors usual market dominance has taken a large drop of 67% quarter on quarter. This sector is filling the void of reduction in Media Tech occupiers, which is under pressure due to rise in interest rates and cost of debt, and we are expecting take-up levels in this sector to remain quiet.

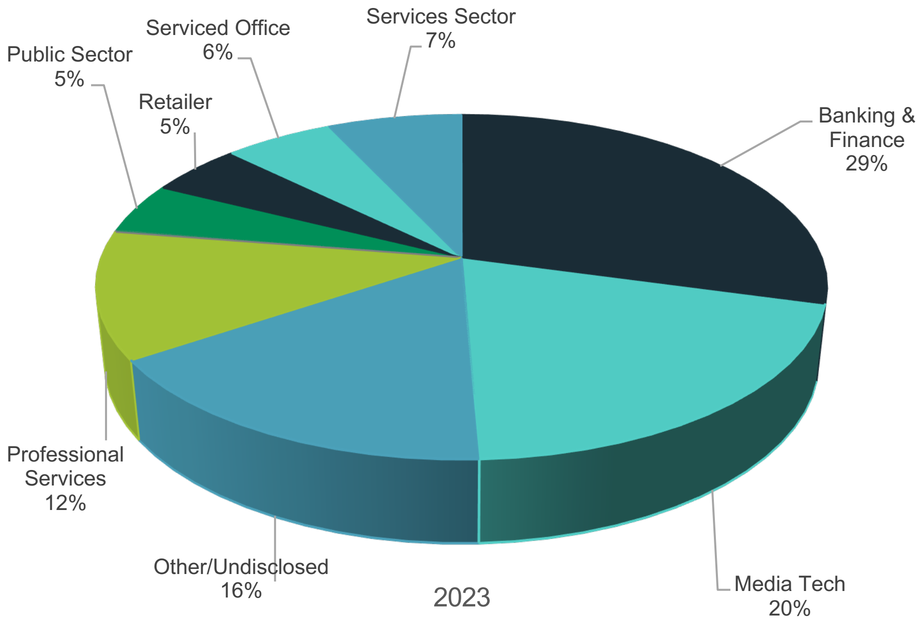
Supply levels are standing at 18.5m sq ft, equating to a vacancy rate of 8.4% for Central London. This is down 140 bps from the previous quarter, and 30 bps down from the same time period in 2022. Grade A supply is 36% of total supply for the market, totalling 6.6m sq ft.

Notable completions of the quarter include Native Land's Arbor at Bankside Yards, a 223,000 sq ft office building spanning over 19 floors, designed around being "human-centric" and suitable for diverse range of occupiers. Quadrant's YY at North Colonnade opened its doors after an extensive refurbishment, offering 415,000 sq ft of redesigned workspaces. In the upcoming quarters we can expect completions from developments such as M&G and Nuveen's joint venture at 40 Leadenhall, providing over 900,000 sq ft of high quality office space, and Old Park Lane Management's 450,000 sq ft project at 20 Ropemaker finishing construction.

Supply and Vacancy Rate



Occupier Breakdown



Central London Investment

Following an unprecedentedly quiet Q4, turnover rebounded strongly in Q1 to reach £3.2bn. While down 42% on the same quarter last year, it's worth remembering this was a record first quarter. Compared to the ten-year Q1 average, first quarter volume this year was up 14%. While deal count remains substantially below previous quarters, it was still almost triple the number recorded the previous quarter and actually rose for the first time since 2021.

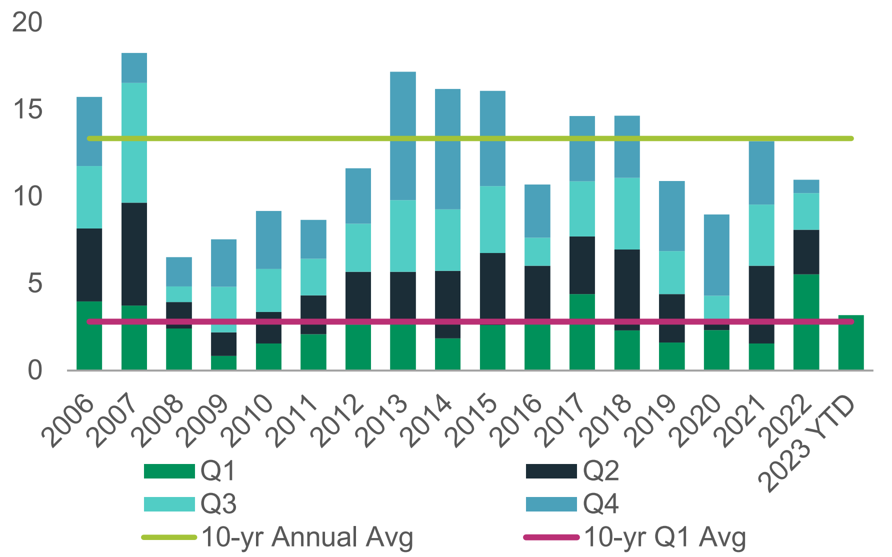
The average lot size also reached £91m – 21% above the five-year quarterly average, boosted by large deals such as Blackstone's sale of St Katherine Docks, E1 to Singaporean investor CDL for £395m and China Chem's acquisition of Landsec's 1 New Street Square, EC4 for £349.5m. Another key transaction was KGAL's sale of 60 Gracechurch Street, EC3 to Obayashi for £140m, a yield of 4.29% with only 2.8 years unexpired term to Allianz, who are vacating. These tentative signs of improving sentiment inform our decision to hold our prime office yields flat for Q1 at 3.85% and 4.75% for the West End and City markets respectively.

The key takeaway from these deals is the continuing demand from Asia-based investors for Central London trophy offices. Inward investment from APAC reached £1.5bn in Q1 – down on Q1 2022's £2.bn but still double the five-year quarterly average for this investor segment and accounting for almost half of all Q1 volume. As CDL iterated on acquiring St Katherine Docks, these investors are taking advantage of current uncertainty and rebasing yields to increase their holdings of prime assets. Indeed, an analysis of the years following the Great Financial Crisis in 2008 and the Brexit vote in 2016 shows that investment from the APAC increased substantially (see chart).

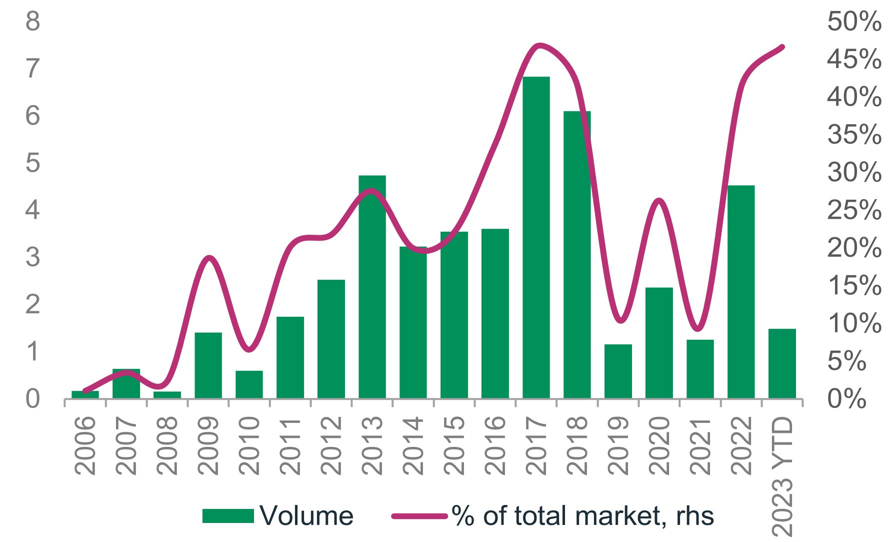
Encouraging index data also points to signs of a moderation in pricing corrections. MSCI's latest monthly index shows All Property total returns in the first three months of the year. Over the same period, while pricing for UK offices continued to decline overall, West End offices returned 0.5%, driven by 0.8% rental growth as well as a significant fall in outward yield shift. While it is too early to say whether or not this is the start of a sustained recovery, it will nonetheless help give comfort to investors looking for signs of the beginnings of pricing bottoming out in core markets.

While there are reasons for optimism, our forecasts do not expect volumes to pick up materially until the second half of the year. With interest rates having risen by so much in such a short time, many investors are still adjusting to the new monetary normal and looking for clearer evidence of falling inflation and peak Bank Rate. Moreover, with construction costs c. 40% above pre-pandemic levels, redevelopment and reposition of non-core assets remains challenging. At the same time, with loan-to-value ratios having rebased much lower and banks much less exposed to real estate since 2008, there is less pressure to offload poorly-performing assets. This will mean evidence of pricing discovery may be frustratingly slow to materialise.

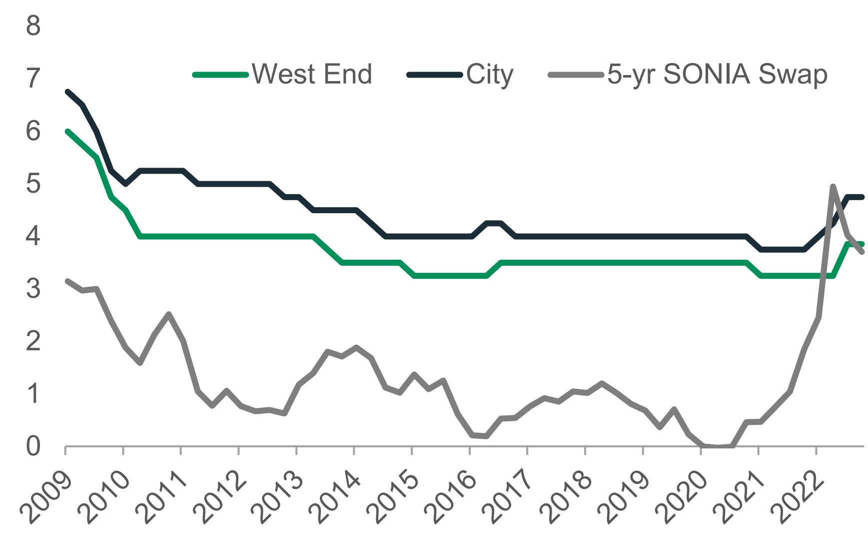
Central London Offices Investment Volume (£bn)



Investment from Asia-Pacific based investors into Central London offices (£bn)



Prime Central London Office and 10-year Gilt Yields (%)



West End

Take-up levels dropped by nearly half, decreasing by 46.5%

Supply increased by 14% representing an overall vacancy rate of 4.59%

Key Headlines

Take-up levels in the West End decreased from the 1.37m sq ft reported in Q4 to 0.73m sq ft in Q1, representing a 2% reduction in comparison to Q1 2022, and 6% below 10-year average.

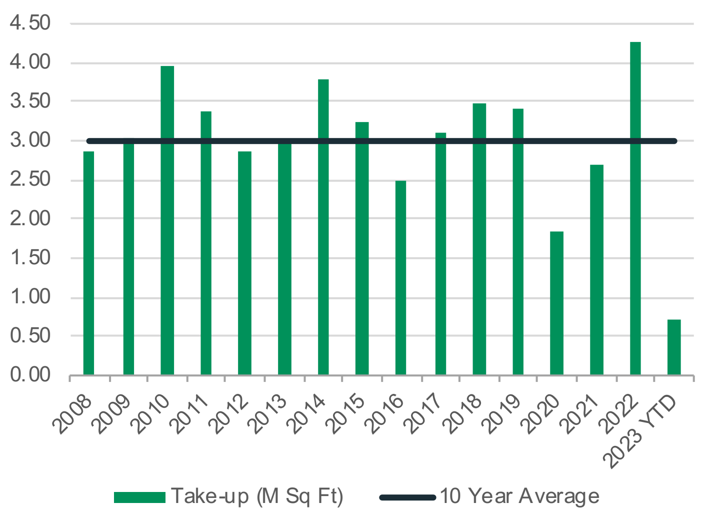
To begin the year, the Banking & Finance sector held the largest market share, totalling 35%, continuing on from being the most active sector in Q4 2022. Media Tech also also remained a key sector at 14%, and Services Sector with 11%.

Key transactions in the West End include Pimco signing for 106,100 sq ft within Derwent London's 25 Baker Street at £103 per sq ft on 15 year lease, and Virgin Media taking 83,000 sq ft at GIC's Paddington Square for an undisclosed rent and term.

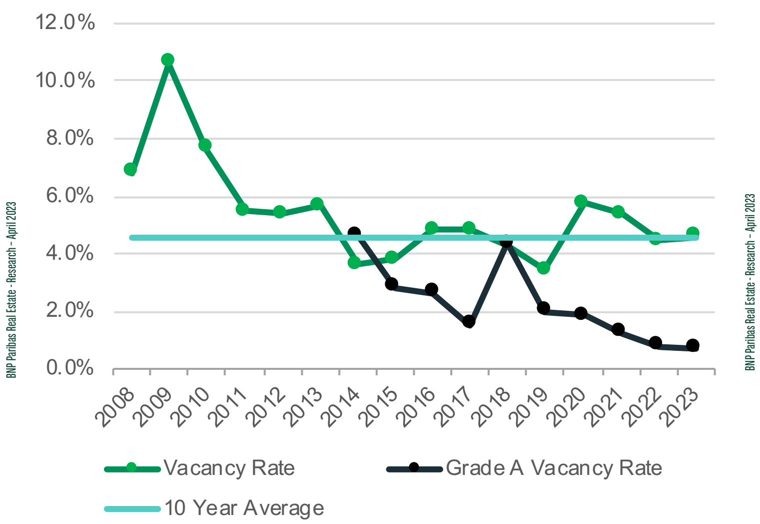
Availability sits at 2.84m sq ft in Q1, which is a increase in comparison to Q4, where we saw 2.48m sq ft, but a reduction on Q1 2022 when availability was 3.65m sq ft. In connection, vacancy for the West End is 4.59%, an increase for the market, as Q4 saw vacancy levels of 3.99%.

Development pipeline for the market is showing c.2.5m sq ft of office space being delivered in 2023, showing the demand for high quality space in the West End will be partially met.

Take-Up



Vacancy Rate



£140.00 / SQ FT

Q1 West End Prime Rent

4.59%

Q1 West End Vacancy Rate

0.73M SQ FT

Q1 West End Take-Up

Midtown

Take-up levels nearly doubled in Q1, with a quarter-on-quarter increase 85.4%.

Supply levels decreased by 7% equating to an overall vacancy rate of 8.4%

Key Headlines

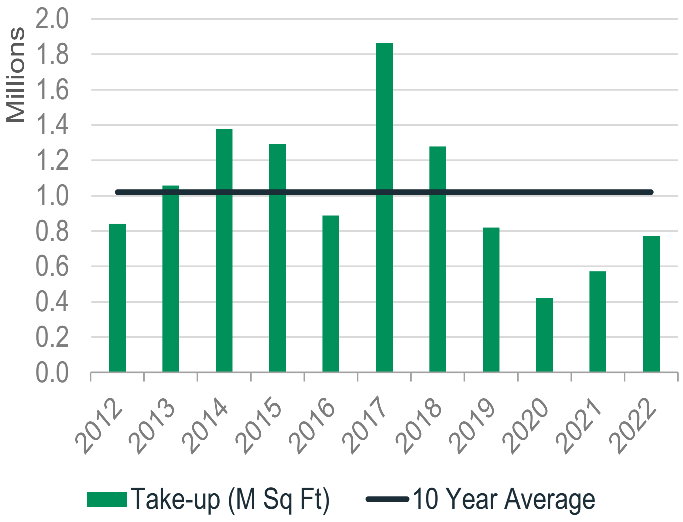
Take-up levels jumped from 0.11m sq ft in Q4, to 0.21m sq ft during Q1, reporting a 85.4% increase, but a 15% decrease in comparison to Q1 2022.

Notable deals in this quarter include Orega signing for 33,880 sq ft at Hoi Hup Realty's Holborn Gate for £68 per sq ft with a 12 year term. Another key letting to note is InfinitSpace taking on 23,800 sq ft at Hagag Group's Kingsbourne House for an undisclosed rent and term.

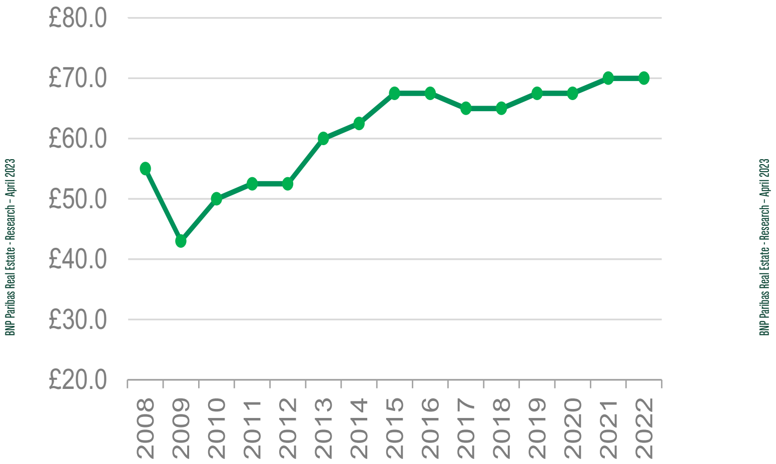
Serviced Office occupiers were the most active tenant sector, with 32% of Midtown's market share, with Professional Services accounting for 23%. Media Tech had the largest sector share in Q4 with 29%, but was only responsible for 4% in Q1.

Supply was reduced by 7% from 1.71m sq ft during Q4, to 1.58m sq ft in Q1, and 15% less than Q1 2022. This represents a vacancy rate for Midtown of 8.4%. Following a similar trend Southbank and Docklands, this is a reduction from the previous quarter.

Take-Up



Prime Rents



£70.00 / SQ FT

Q1 Midtown Prime Rent

9.3%

Q1 Midtown Vacancy Rate

0.1M SQ FT

Q1 Midtown Take-Up

The City

Take-up levels increasing during Q1 by 7.3% from Q4 2022.

Supply increased by 6% Q-o-Q.

Key Headlines

Take-up levels increased by 7% this quarter from 1.15m sq ft to 1.24m sq ft, but with a reduction of 15% from Q1 2022.

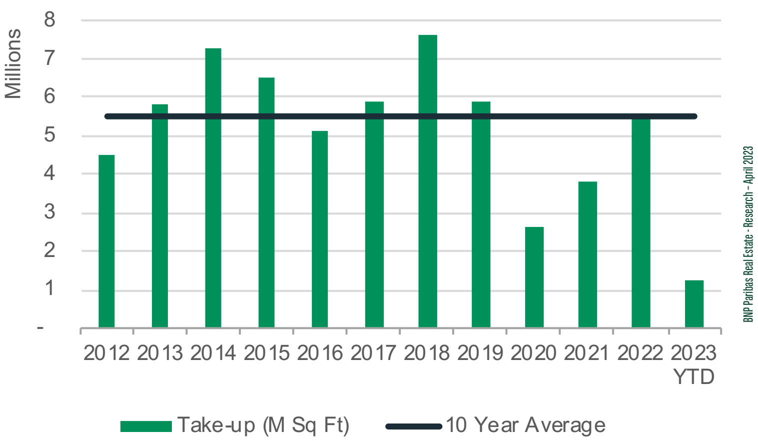
Key transactions in City during the quarter included TikTok expanding their UK footprint by signing a 140,000 sq ft pre-let in Topland's Verdant at 150 Aldergate for £78 per sq ft for 15 years, and Cisco Systems taking on 42,103 sq ft at Deutsche Bank's Park House on Finsbury Square for £69.50 for 10 years.

Number of transactions in the City submarket have risen from 99 deals in Q4, to 132 in Q1, an increase of a third.

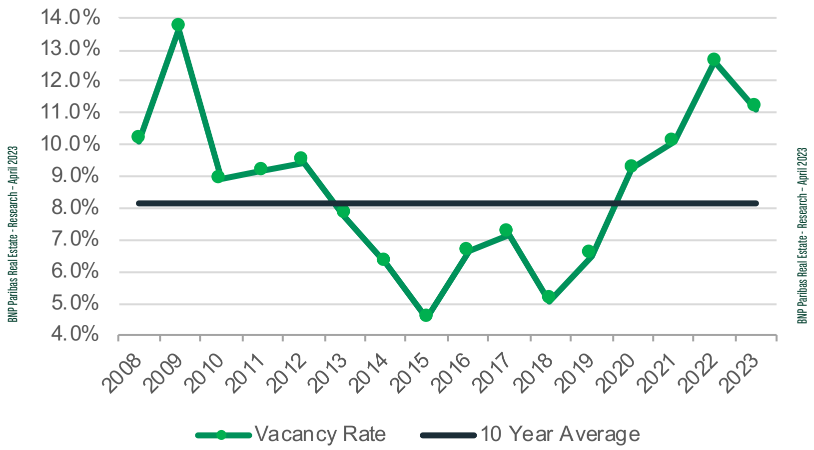
The most prominent tenant sector in Q1 was Banking and Finance, with a 33% share of the market, and a 21% increase from Q4. In contrast, Professional Services took a sizeable reduction in market activity, from 48% in Q4, to 13% in Q1. Supply has increased this quarter to 9.53m sq ft, reflecting a 6% increase from Q4. This equated to a vacancy rate of 11.13%, which is an increase quarter-on-quarter, from 10.31%.

Prime rental rates of £72.50 in the City, and £85 for City Towers, which have seen a 3.5% and a 3% increase respectively post-pandemic.

Take-Up



Vacancy Rates



£72.50 / SQ FT
Q1 City Prime Rent

11.13%
Q1 City Vacancy Rate

1.2M SQ FT
Q1 City Take-Up

Southbank

Q1 saw 22.7% increase in take-up quarter on quarter.

Supply decreased by 5% which equates to a vacancy rate of 6.21%

Key Headlines

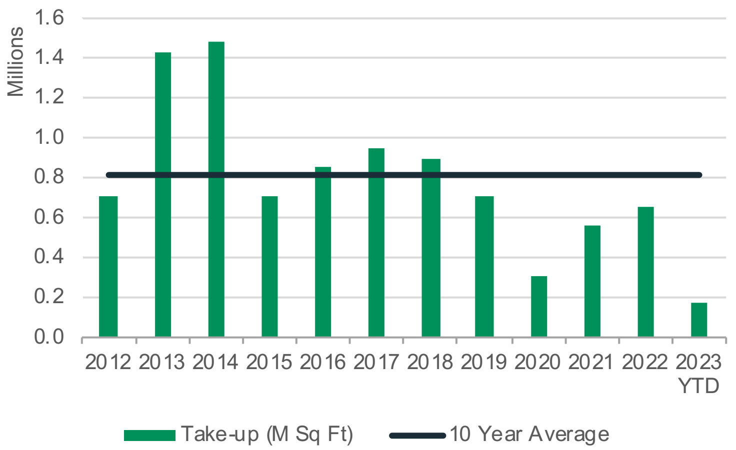
Take-up levels increased by 22.7% during this quarter, from 0.13m sq ft to 0.17m sq ft from Q4 2022. In comparison to Q1 2022, there has been a reduction of 14%, highlighting the effect of the changing economy.

Leading deals this quarter include Fora signing 43,300 sq ft at Oxford Property's Blue Fin Building for an undisclosed rent and term, and Zopa taking on 25,252 sq ft at SCOR's Cottons Centre for an undisclosed rent and term.

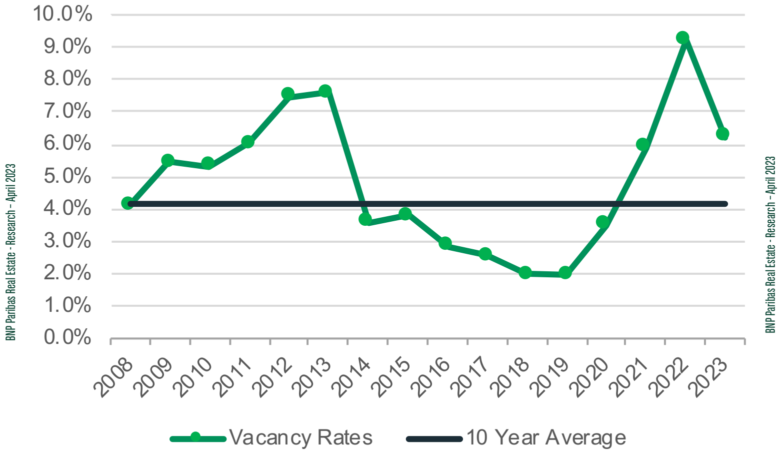
Southbank has the most active Serviced Office occupier market in London, with 35% of the market share, which totalled 43,300 sq ft of space. Professional Services was accountable for 16%, and then Banking & Finance with 13%.

Supply levels have decreased by 5% this quarter, reduced from 1.37m sq ft in Q4 to 1.31m sq ft in Q1. During Q1, 1.47m sq ft of office space was under construction in Southbank, creating a more sustainable market with new builds and refurbished space bringing green credentials to the area. This in-turn has reduced overall vacancy from 6.42% in Q4 to 6.21% in Q1.

Take-Up



Vacancy Rates



£76.50 / SQ FT
Q1 Southbank Prime Rent

6.21%
Q1 Southbank Vacancy Rate

0.17M SQ FT
Q1 Southbank Take-Up

Canary Wharf & Docklands

Take-up levels increased over quarter, expanding by 36.7% in Q4 when compared to Q1.

Supply decreased by 3% representing an overall vacancy rate of 11.97%.

Key Headlines

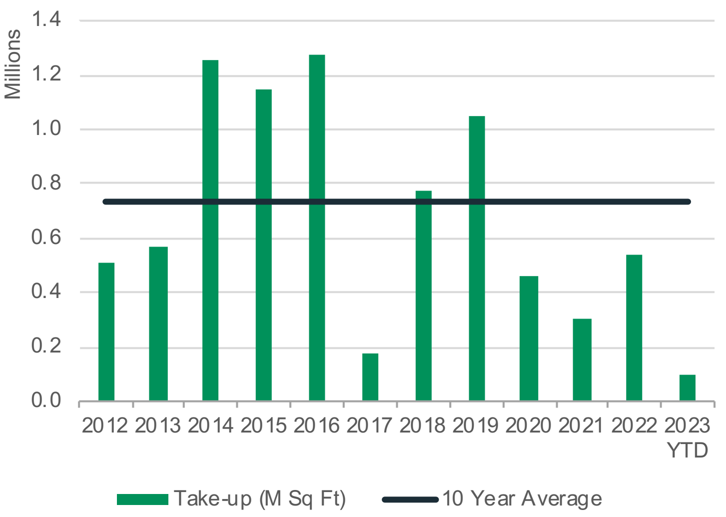
Canary Wharf & The Docklands saw an increase in take-up from Q4 to Q1, growing from 72,015 sq ft to 98,460 sq ft. This is a reduction in comparison to Q1 2022, where take-up was 24% larger.

Services sector was the most active tenant sector in Q1, with 26% of market share. an increase on 19% in Q4. Public services/Government & Education closely followed with 23%, after not have zero activity in Q4.

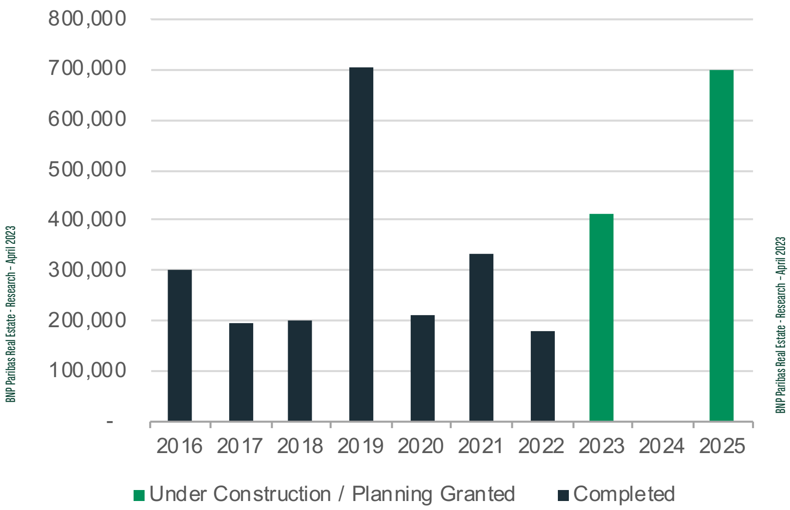
Key transactions include York St John signing for 23,009 sq ft of space at LaSalle Investment Management's Export Building for 23,009 sq ft at £36 per sq ft for 10 years, and General Pharmaceutical Council taking on 21,056 sq ft for an undisclosed rent and term.

Supply decreased by 3%, from 2.72m sq ft in Q4 to 2.62m sq ft in Q1. This represents a vacancy rate of 11.97%, which is a reduction from Q4's 12.16%. Slightly over 0.41m sq ft of office space is currently under construction, with 43% already pre-let.

Take-Up



Development Pipeline



£52.50 / SQ FT

Q1 Canary Wharf Prime Rent

11.97%

Q1 Docklands Vacancy Rate

0.1M SQ FT

Q1 Docklands Take-Up

Top Leasing Transactions

Address (Floor)	Sq Ft	Approx. Rent (per sq ft)	Term (Break)	Tenant	Landlord
Verdant, 150 Aldersgate St, EC1A, (Entire)	140,000	£78.00	15 Years	TikTok	Topland Group
25 Baker St, W1U, (5th–9th)	106,100	£103.00	15 Years	Pimco	Derwent London
Paddington Central, 3 Sheldon Square, W2, (2nd-9th)	83,000	Conf.	Conf.	Virgin Media	British Land / GIC
Blue Fin Building, 110 Southwark St, SE1, (1st, Part 2nd)	43,400	Conf.	Conf.	Fora	Oxford Properties
Park House, 16 Finsbury Circus, EC2M, (6th-7th)	42,103	£69.50	10 Years	Cisco Systems	DWS
Shell Mex House. 80 Strand, WC2R, (2nd)	39,400	£75.00	12 Years	Page Group	Confidential.
Berkeley Square House, W1J, (4th-6th)	37,566	Conf.	Conf.	Conf.	National Bank of Abu Dhabi
Riverbank House, 2 Swan Lane, EC4 (3rd)	34,492	£56.00	12 Years	Winterflood Securities	Oxygen Asset Management

Top Investment Transactions

Address	Lot Size	Capital Value (per sq ft)	Yield	Purchaser	Vendor
Fenwick, New Bond Street, W1 (redevelopment)	£430,000,000	£3,297	-	Lazari	Fenwick
1 New Street Square, EC4	£349,500,000	£1,264	4.92%	China Chem	Landsec
Winchester House, 105 Old Broad Street, EC2	£257,000,000	£694	6.24%	Castleforge	CIC / Invesco
Tribeca, NW1 (Life Sciences development)	£225,000,000	-	-	GIC / BA NAPS	Reef Group / Blackrock
60 Gracechurch Street, EC3	£140,000,000	£1,120	4.29%	Obayashi Properties	KGAL
27 Old Bond Street & 13 Albemarle Street, W1	£140,000,000	£6,384	2.84%	Blue Tower Ventures	Gucci
17 Columbus Courtyard, E14 (redevelopment)	£120,000,000	£638	-	GIC & Oaktree	DPK Management / Macquarie Bank / Sun Hung Kai & Co.
33 Foley Street, W1	£83,000,000	£1,982	4.26%	Pontegadea	Abrdn
19 Charterhouse Street, EC1	£54,000,000	£855	4.51%	French Private Investor	Derwent

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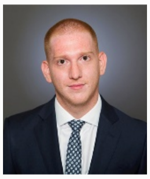

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