THE OCCUPIER 2023 OUTLOOK

DeVono

20 YEARS ANNIVERSARY

Central London Office Market Snapshot
2022

12.9 M SQ FT
LEASED IN 2022

LEASING

6,908 SQ FT
AVERAGE OFFICE SIZE LET IN 2022

NO. OF BUSINESSES LEASING OFFICE SPACE IN 2022 INCREASE BY
23%
COMPARED TO 2021

MIDTOWN LEASING ACTIVITY HITS
2 M SQ FT
– A 5-YR HIGH

AVAILABILITY

CENTRAL LONDON AVAILABILITY DROPS TO
22.5 M SQ FT

TOTAL OFFICE AVAILABILITY STILL
62%
HIGHER THAN Q1 2020

LARGEST AVAILABILITY LEVEL FALL IN 2022 WAS IN THE WEST END
DOWN BY 18%

6,630 SQ FT
AVERAGE AVAILABLE OFFICE SPACE SIZE

RENTS

HIGHEST PRIME GRADE A RENTAL GROWTH IN 2022 = MAYFAIR-ST JAMES'S
18% UP

NO PRIME GRADE A RENTAL GROWTH IN 4 OUT OF 21 SUBMARKETS

NEW GRADE A RENT BENCHMARK IN PADDINGTON SET AT
£85.00 PER SQ FT

DOCKLANDS GRADE B RENTS
SINK BY 7%
IN 2022 – ONLY SUBMARKET WITH A DECREASE

AVERAGE GRADE B
FLEXIBLE OFFICE DESK RATES DECREASE BY 6% IN 2022

AVERAGE GRADE A
FLEXIBLE OFFICE DESK RATE INCREASES BY 10% IN 2022

CENTRAL LONDON OFFICE LEASING

NORMAL SERVICE RESUMED?

DeVono research shows that leasing activity in 2022 totalled 12.9 million sq ft, representing a 28% increase on the volume let in 2021, and 9% above the long-term average. Whilst this total does not quite hit the highs seen in 2018-19, it does suggest that a certain degree of normalcy has returned to the central London office market. Lifting the lid on our data we see that there are several trends that have impacted the latest leasing figures, not least of all a requirement for smaller spaces and shorter leases.

KEY OFFICE MARKET MOVEMENTS IN 2022:

SMALLER SPACES

Average size of transaction of 6,908 sq ft, 9% below 5-year average.

SHORTER LEASES

Average lease length in 2022 was 5.6 years down from 6 years in 2021.

BEST-IN-CLASS SPACES

Total space pre-let in 2022 increased by 65% on 2021 level.

LOCATION

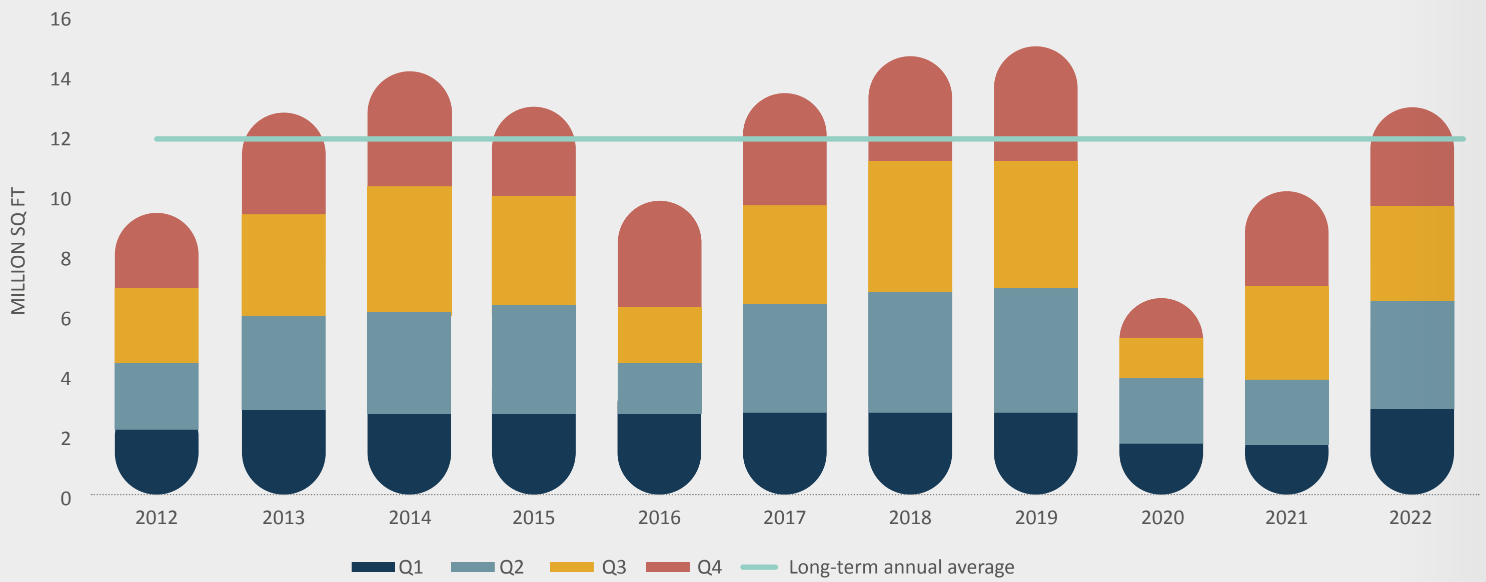
Above average share of leasing for the West End with 32% (27% long-term average)

SECTOR BOOST

Insurance sector leasing activity increased in 2022 by 115% on the previous year, highest annual volume of space leased since 2012.

We have observed an increased number of deals transacted in 2022, whilst the number has ebbed and flowed each quarter, the year-end total stands at 1,883 deals. This is a 23% rise on the previous year. For context, this is only 4% below that recorded in 2019. Again, this shows that market normality has resumed, flying in the face of some commentators that still refute the value of the office to a business and its workforce.

CENTRAL LONDON OFFICE MARKET: LEASING ACTIVITY BY QUARTER, 2012-22



SHORTENING OF LEASE LENGTHS

Lease length trends also appear to have diverged from those recorded pre-pandemic. On the whole tenants appear to be more cautious, with lease lengths having only increased by 3% to 5.6 years, which is down 7% on those recorded in 2019. Although demand for office space has returned in 2022 occupiers continue to be restrained in the length of commitment. Some short-term factors may well be at play such as the infancy of hybrid working policy, uncertain expansionary plans, recessionary/inflationary pressures or a shift in the role of the office to name a few. That being said, it should be acknowledged that while the majority of sectors are showing a preference for shorter leases, there are sectors that have been taking longer leases than they were prior to the pandemic. In particular, the average lease length taken by the legal sector has increased by 28% on 2019. This is largely a consequence of the mega deals that have transacted in 2022, requiring a longer lease commitment. However, despite this the overall picture of lease lengths is that businesses are taking shorter leases, with it being the case that this was already occurring prior to the pandemic but has accelerated somewhat as a result.

CENTRAL LONDON OFFICE MARKET: NUMBER OF LEASING DEALS, 2019-22

SECTORS COMMITTING TO OFFICE SPACE

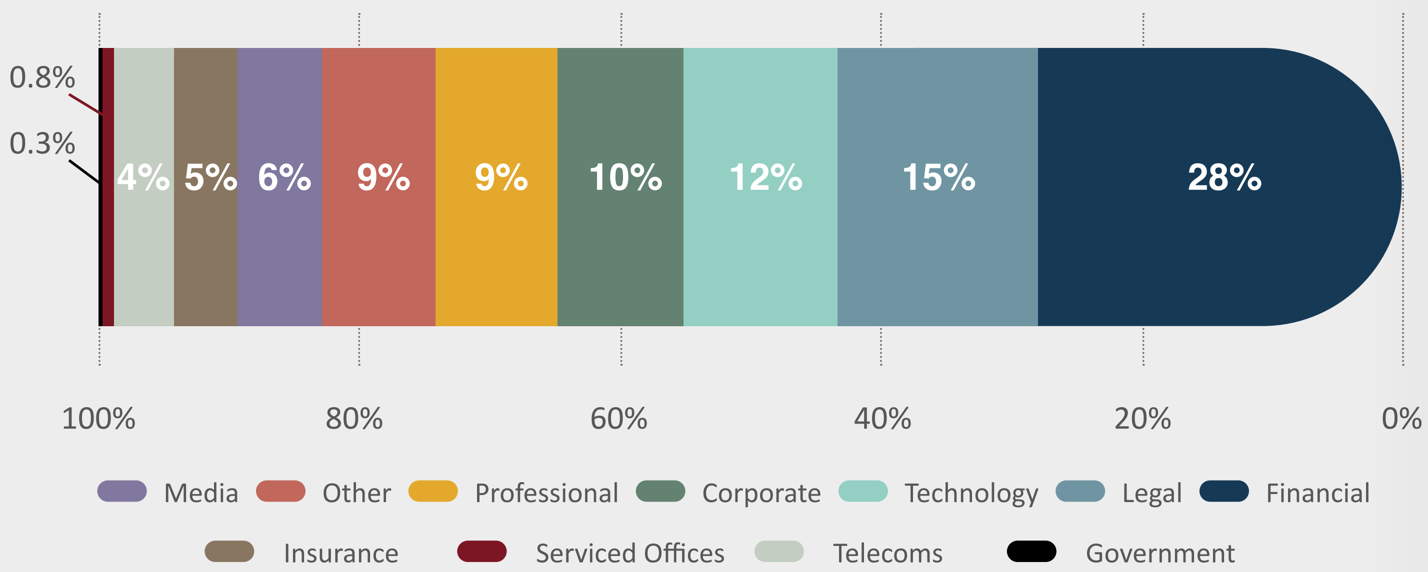
The heightened demand for office space in 2022 was fuelled by a diverse range of business sectors. Yet, it was the traditional Financial sector that continued to drive take-up activity, accounting for 28% of leasing across central London. This sector is a core occupier group but it continues to face many headwinds that could influence its office footprint, such as the reality of the post-Brexit trading landscape and a greater promulgation of hybrid working and digitisation. Nevertheless, the number of financial firms leasing space in 2022 is 17% above the long-term average of 2016.

This year the Insurance sector has recorded its highest level of leasing activity since 2012, not only has leasing activity risen by 115% compared to the total in 2021, this total is also above the long-term annual average by a third.

Big Tech' has garnered much press attention in recent months as several firms have announced large global redundancies. A fast-paced hiring spree pre-and-post-pandemic for many has now come to a halt. The ramifications will no doubt drip through to the physical space needs at some point, exacerbated by the slower and less enthusiastic return to the office. Despite this the Technology sector remained an active occupier in 2022, accounting for 12% of leasing activity. The average transaction size has reduced 10,795 sq ft in 2018, down to 7,965 sq ft in 2022, a trend that is likely to continue.

A number of smaller sectors have increased their footprints, namely sectors such as Education, Health and Charities, who have all been active in 2022. Merck Sharp & Dohme alongside GSK in the health/medical sector have committed to over 356,000 sq ft between them in Midtown. Also, in Midtown, universities NYU and UCL have taken over 118,000 sq ft for new academic buildings, further cementing this part of London as the 'Knowledge Quarter'

CENTRAL LONDON OFFICE MARKET: LEASING ACTIVITY BY BUSINESS SECTOR, 2022



CENTRAL LONDON OFFICE MARKET: 5 LARGEST DEALS IN Q4 2022

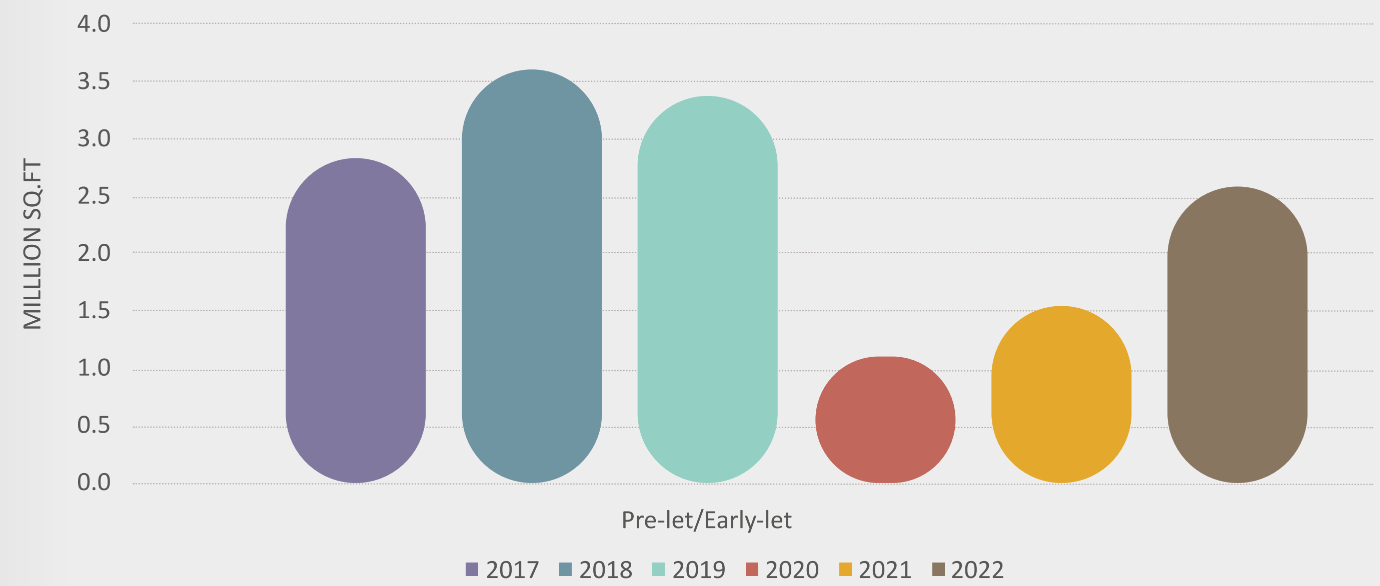
COMPANY	BUSINESS SECTOR	BUILDING	MARKET	SIZE (SQ FT)
Clifford Chance LLP	Legal	2 Aldermanbury Square	City	327,707
GSK	Healthcare	The Earnshaw 77-91 New Oxford Street	Midtown	161,050
Reed Smth	Legal	Blossom Street	East Fringe	130,378
Grant Thornton UK LLP	Professional	5 Broadgate	City	104,108
Lazards LLP	Financial	20 Manchester Square	West End	81,281

SIGNING UP EARLY

Tenant attraction to the best-in-class is now well documented, at least it is in real estate circles, and whilst the share of Grade A space leasing constitutes 43% of the total it is pre-letting activity that has picked up pace in recent years, accounting for 20% in 2022. Pre-letting or early-letting is generally seen as the preserve of national/ international firms and whilst this is not necessarily incorrect, it does suggest that acquiring smaller tranches of space is off limits. This is not-so, 58% of all pre-let or early-let deals in 2022 were for spaces below 25,000 sq ft, with the range of deals going down to as low as 1,000 sq ft.

The volume of space let 'early doors' in 2022 is up 65% to 2.6 million sq ft. While this is not quite at the recent high of 3.4 million sq ft in 2019, this certainly surpasses the 2.3 million sq ft annual long-term average – indicating that this is a trend that is likely to continue into 2023 as tenants of all sizes demand the best spaces.

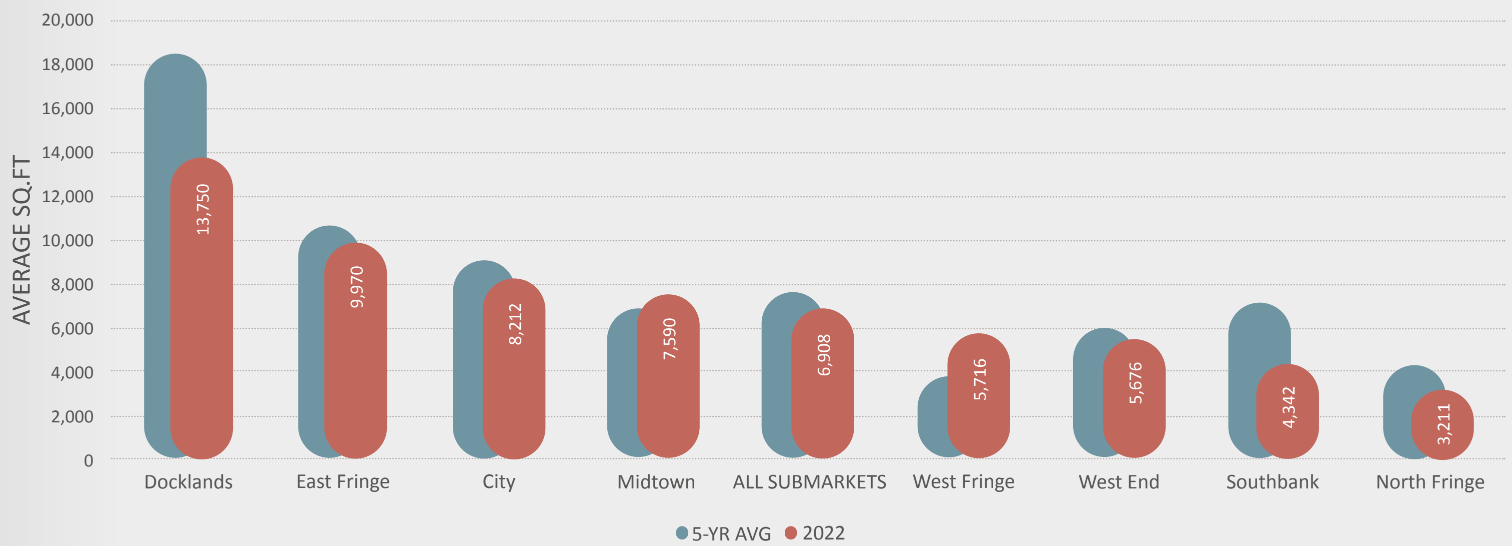
CENTRAL LONDON OFFICE MARKET: PRE/EARLY-LETTING ACTIVITY, 2017-22



(OFFICE) SHOWTIME IN THE WEST END

The City and the West End continue to dominate leasing activity with a 38% and 32% share of take-up respectively. Delving into the data deeper shows that leasing in the West End office market has broken the 4 million sq ft level, last done so in 2018 and only the second occurrence in over 20 years. This has in part been fuelled by demand for space in Paddington. In contrast, the total leasing activity in the City of 4.2 million sq ft sits below the long-term annual average of 4.7 million sq ft. There have been significant uplifts in leasing activity in the smaller markets across central London. Midtown leasing activity in 2022 is up by 60% on the previous year, as it notches over 2 million sq ft for the first time in five years. The 'up and down' Docklands market has leased 1.7 million sq ft in 2022, up 95% and well above the longer-term annual average of 731,000 sq ft. The Southbank market saw leasing activity decrease marginally in 2022, by 13% on the previous year.

CENTRAL LONDON OFFICE MARKET: LEASING ACTIVITY AVERAGE TRANSACTION SIZE BY MARKET



Average size of transaction in 2022 was 9% down

(on 5-yr annual average)

HYBRID WORKING INFLUENCING SPACE REQUIREMENTS

Hybrid working has fast become a popular provision for the 'traditional' office-based workforce. The stuttered return to the office following pandemic restrictions was softened by the ability to work from home for part of the working week. The varied approach that businesses have taken on a temporary and permanent basis has a significant impact on the type and size of space that is required.

Our data shows that the average size of transaction in 2022 at 6,908 sq ft was 9% down on the five-year annual average. Whilst we cannot completely attribute this decline to hybrid working, some of the larger deals that completed in 2022 would have been bigger had these occupiers not accounted for this change in the way the office space is used. Clifford Chance, Hogan Lovells and Grant Thornton, to name a few, have all committed to less space than they currently occupy.

DeVono's workplace consultancy team have worked with several companies in 2022 to ascertain their required office size when factoring in hybrid working patterns and office design and, as a result, generally space efficiencies could be gained ranging between 21-32% less space.

OUTLOOK FOR 2023

Central London office leasing activity in 2023 will be determined and influenced by several factors. Although we have seen a return to more normal levels of office leasing post-pandemic, the impact of the past three years on current operations is still being felt by many and will continue to be realised over the coming years. Grappling with this alongside continued inflationary pressures and a recession to add will certainly impact budgets in the short-to-medium term, budgets that include the cost of the office too.

CONSTRAINTS TO LEASING IN 2023:

- Reduced workplace investment.
- Continued rental growth for the best-in-class spaces.
- Subdued expansionary growth due to recessionary headwinds.
- Reduction in available 'quality' office options
- Reduction in rental incentives

DRIVERS FOR TENANT LEASING IN 2023:

- More lease flexibility sought with lease lengths and space size.
- Best-in-class office spaces continue to be sought.
- Greater attraction to locations with an abundance of amenities and transport links.
- Investment in growth sectors such as life sciences and healthcare
- Pockets of 'cost efficient' locations to offer value.
- Implementation of hybrid working policies

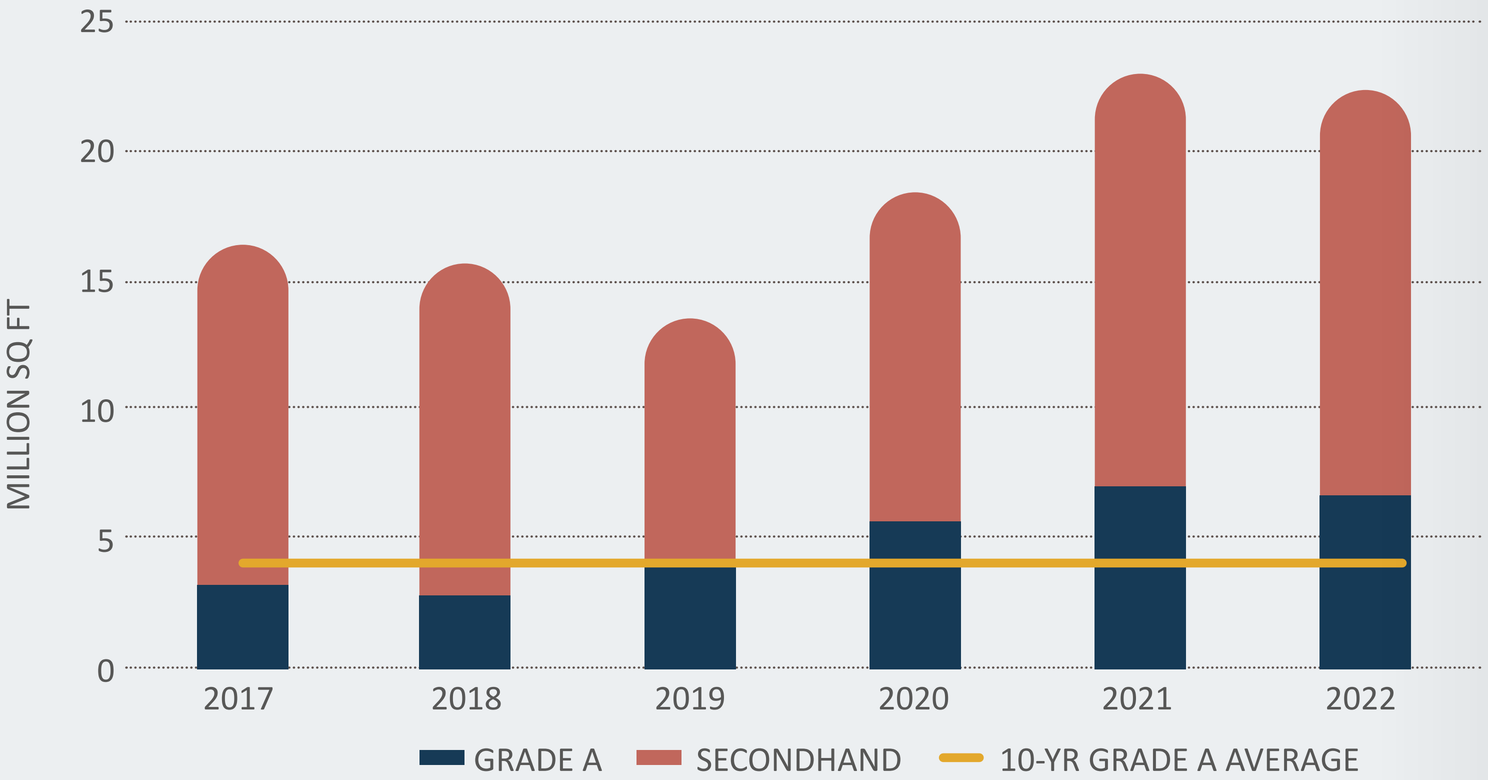
CENTRAL LONDON OFFICE AVAILABILITY

2022: PASSING THE PEAK

One of the defining legacies of the pandemic on the central London office market has been the sheer volume of available office space. Availability quickly rocketed in 2020 as leasing activity fell off a cliff, and many tenants marketed their surplus space in reaction to both successive lockdowns and the adoption of hybrid working. Levels have remained stubbornly high ever since.

Fast forward to the end of 2022, our research shows availability reduced by 4% over Q4 2022 to 22.5 million sq ft, which represents 9.0% of office stock across central London. This is still a significant uplift on the volume in 2019, two-thirds higher to be precise. While the market has some way to go before it returns to pre-pandemic levels but now appears to be heading in a downwards direction.

CENTRAL LONDON OFFICE MARKET: AVAILABILITY BY GRADE, 2017-22



MOVEMENT BY MARKET

Availability levels have fluctuated throughout the year with the completion of large new developments/refurbishments or the release of sizeable surplus tenant spaces sustaining high levels. However, Q4 2022 data shows that the decline in availability levels has been more widespread across markets than previous quarters, with the exception of one which has seen an increase.

Surprisingly, Docklands' availability level decreased by 8% in Q4 2022. Expectations that this market will return further rises have been quashed, although the total figure available is 75% higher than at Q1 2020.

Two West End submarkets saw office availability rise in Q4 2022 – Knightsbridge (12%) and Victoria (27%).

7%

Southbank availability has been trending downwards since hitting its peak in Q1 2022 – at 1.7 million sq ft the level is 7% lower than at the start of the year.

8.4M SQ.FT

The City office availability reduced by 5% over the course of Q4 2022 to 8.4 million sq ft, its lowest level since Q1 2021.

4.2M SQ.FT

The West End office availability has decreased the most out of all markets across 2022, ending the year 18% lower at 4.2 million sq ft – a level last seen back in Q1 2021.

EC2

A reduction in available space in the EC2 postcode was the main driver of the wider drop in City office availability. Accounting for 43% of available space in this market, it remains higher than at Q4 2021 – by 191,000 sq ft.

Two West End submarkets recorded double-digit quarterly decline in office availability in Q4 2022 – Paddington (-30%) and St James's (-14%).

6%

Midtown is the exception to the decline in availability levels. A rise of 6% in Q4 2022 put the level back to a similar total to that seen at the end of 2021, at 3.0 million sq ft. It is however, 7% off the recent peak in Q1 2022.

CENTRAL LONDON OFFICE MARKET: AVAILABILITY BY MARKET, Q4 2022

	WEST END	MIDTOWN	SOUTHBANK	CITY	DOCKLANDS	CENTRAL LONDON
AVAILABILITY (million sq ft)	4.2	3.0	1.7	8.4	3.2	22.5
% change Q3 2022- Q4 2022	-3%	6%	-7%	-5%	-8%	-4%
% change Q4 2021- Q4 2022	-18%	0%	-7%	-2%	-2%	-3%

QUEST FOR THE BEST SPACE

Both the volume of available Grade A and Secondhand spaces have fallen over the course of 2022, with a drop of 5% and 2% respectively. Yet, the volumes are still in excess of the long-term average.

The high level of availability for all quality of spaces suggests that there is plenty of choice for tenants. However, a growing list of requirements from a more space savvy tenant has made satisfying these more difficult when factoring in locations – on a macro and micro level.

In the City, the average share of Grade A space available is 38% across the EC postcodes.

A closer look at the data shows that there is a lesser share of Grade A in the EC3 (26%) and EC1 (30%) areas.

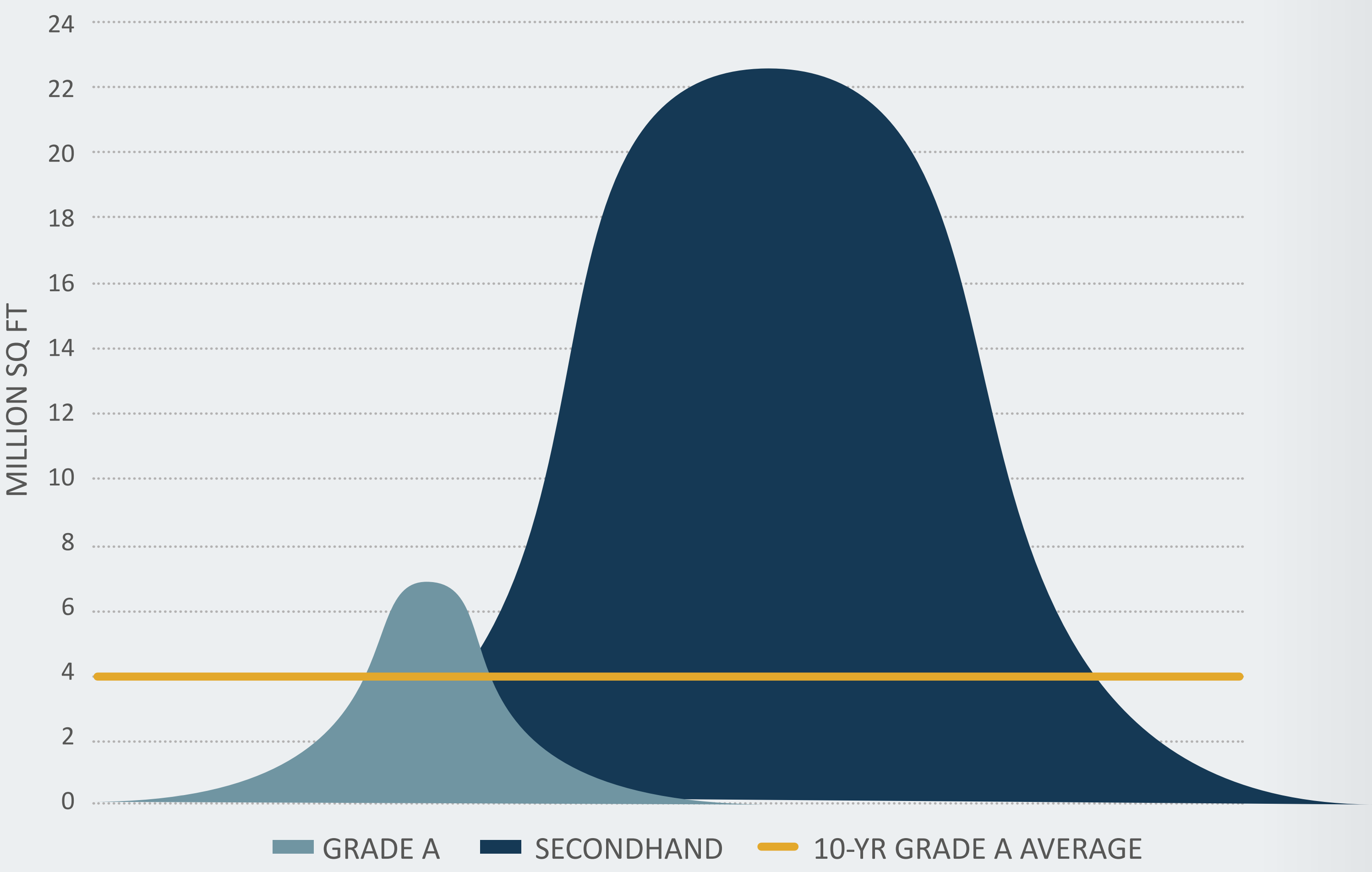
There is a wide variance of Grade A availability across West End submarkets.

Knightsbridge's share of Grade A is just 8%, whereas Victoria's available Grade A space accounts for 45% of availability.

Other submarkets in the West End that currently have low levels of Grade A availability include North of Oxford Street (18%) and Mayfair (15%).

The Southbank and Midtown markets recorded a Grade A share of availability totalling 18% and 19% respectively, the lowest levels across all central London markets, pointing to potential difficulties in satisfying tenant requirements in these locations.

CENTRAL LONDON OFFICE MARKET: AVAILABILITY BY GRADE, Q4 2022



OUTLOOK FOR 2023

The economic outlook for 2023 is steeped in uncertainty and further inflation, both of which could impact businesses making big ticket decisions, such as the office. Historically, economic downturns have resulted in reduced business appetite for leasing. Should this happen it is likely that further decreases in availability will be muted.

The 'pandemic years' put many office reviews on hold, despite the gloomy outlook for the next year there are businesses who need to make a move. Not least of all because experimentation with hybrid working has not yet fully played out, with many firms still to review and implement their policies. Such shifts in operational strategy will likely lead to a new set of real estate requirements fuelling further leasing opportunities. Whilst the current crop of available offices could suit, continued demand for Grade A spaces could put pressure on the number of Grade A available options in the medium-term, forcing more pre-letting activity.

The completion of new developments and refurbishments is expected to be relatively healthy in 2023. However, current construction activity looks likely to tail off towards the end of the year with the volume of new projects scheduled to complete in 2024 and 2025 looking relatively light. Businesses who are looking out to these years for new space are likely to have a limited number of options. This situation could be mitigated as landlords are expected to ramp up their refurbishment of the glut of ageing secondhand space, delivering high quality space in a more time efficient and sustainable route rather than demolish and rebuild.

Tenant focus in 2023 will be fixed on suitability and cost, as we progress through the year it is likely that the optionality for both will be squeezed. Opportunities exist for businesses of all shapes, sizes and budgets – identifying the right one amongst the vast array available will be no mean feat without support.

CENTRAL LONDON OFFICE RENTS

2022: A YEAR OF RENTAL GROWTH

The final quarter of 2022 ushered in further rental movement. The average prime rent (Grade A & B) across all central London submarkets was 2% below that recorded at the start of the pandemic, with the delta between these periods continuing to contract. Prime rents are now 5% higher than those recorded at the end of 2021. The accelerated growth in several office locations has marked new high rent benchmarks as tenants have been securing the best spaces in town. Conversely, there remains a significant volume of available older spaces on the market and that has led to more modest rental growth across Grade B spaces, exacerbating the growing gulf between the two tiers of pricing.

TURNING THE DIAL UP ON PRIME GRADE A RENTAL GROWTH

Several factors have applied upward pressure on Prime Grade A spaces, not least of all a return to near normal levels of leasing activity which has emboldened landlords to notch up asking rents. New developments both completed and under construction/refurbishment are also shifting the dial to varying degrees, location dependent. Developers are delivering the next generation in office spaces, highlighting the best in technology and sustainability credentials, all of which command a higher price.

2022: TOP 10 PRIME GRADE A RENT MOVERS

	ANNUAL CHANGE
MAYFAIR | ST JAMES'S	18%
PADDINGTON	13%
CLERKENWELL | FARRINGDON	13%
SOHO	11%
VICTORIA	10%
KNIGHTSBRIDGE	9%
COVENT GARDEN	8%
SHOREDITCH | OLD STREET	7%
LIVERPOOL ST / BANK	6%
CANARY WHARF	5%

NOTABLE PRIME RENT MOVEMENTS INCLUDE:

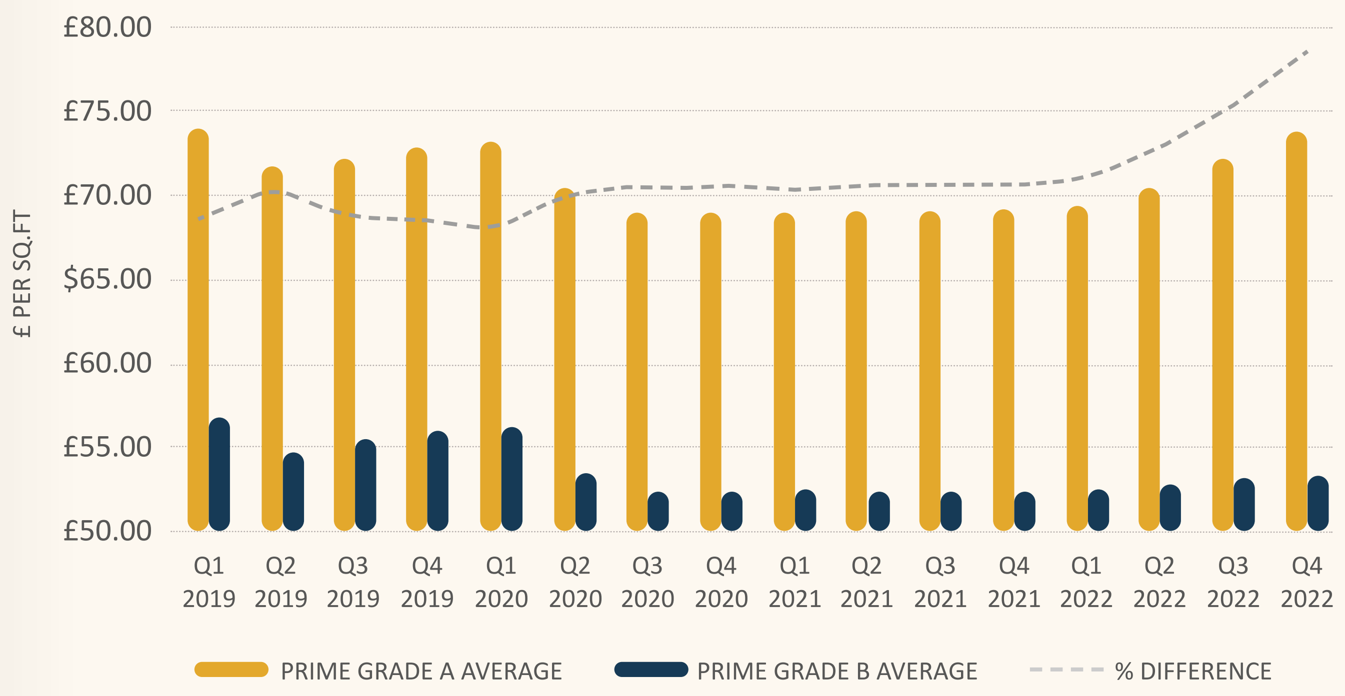
- Mayfair-St James's prime Grade A rents end the year at £130.00 per sq ft up 4% on the previous quarter and are now 8% higher than at the start of the pandemic.
- Access to transport links is also fuelling rental growth, especially with the arrival of the Elizabeth Line. Paddington and Clerkenwell-Farringdon submarkets both with brand new stations and proving popular with commuters have seen Grade A office rents rise by 13% higher than at the start of 2022.
- Accessibility to a variety of amenities, and not just traditional retail, has also risen on the list of workplace requirements to aid talent attraction and thus influenced the better positioned buildings. This has increased rents in traditional locations such as Soho and Covent Garden, the former being back to its historic high of £97.50 per sq ft and the latter back to the 2018 level of £85.00 per sq ft.

WIDENING GAP BETWEEN GRADE A AND B OFFICE RENTS

Prime rental growth for Grade B offices has been subdued in 2022, and as such the gap between the top and the rest of the market has been widening - the average Prime Grade A rent is now 38% higher than the average Grade B rent in Central London.

This multi-tiered pricing ensures that there is generally a product that can suit most, if not all, occupier types and budgets. This offers a window of opportunity for some tenants to capitalise on this situation and secure the best Grade B spaces at an advantageous rent and including incentives.

CENTRAL LONDON OFFICE MARKET: AVERAGE PRIME RENTS, 2020-22



Prime Grade B rents in two submarkets recorded growth in Q4 2022:

- Shoreditch-Old Street Grade B rents up by 3% over the quarter, now at £57.50 per sq ft – not quite back to the 2019 high of £60.00 per sq ft.
- City core of Liverpool Street-Bank Grade B rents still 9% lower at £52.50 per sq ft than pre-pandemic pricing.

Over the year there have been some notable movers, especially where choice has been squeezed:

- Mayfair-St James's Grade B rents are up 6% in 2022 – now back to £85.00 per sq ft.
- Soho Grade B rents have increased by 4% over the year to £72.50 per sq ft, representing an increase on the pre-pandemic level too.

Several markets have seen divergent rental growth:

- Victoria Grade B rents have not budged in 2022, compared with a 10% hike in Grade A rents.
- Knightsbridge has seen no Grade B rental growth over 2022 yet has seen Grade A rents rise by 9% during this period.
- Docklands Prime Grade B rents are now 7% lower, ending 2022 at £32.50 per sq ft, a level more akin to those in 2016.

OUTLOOK FOR 2023

As in 2022, more rental growth is expected in 2023, with the very best office spaces available for both Grade A and Grade B commanding greater rents - some of which may well set new historic highs. In addition, office availability across central London is now trending downwards giving landlords further impetus to push up asking rents.

Continued occupier attraction to prime office spaces will create further pressure on prime rents to increase, this is further exacerbated by a relatively weak pipeline for the development of new office space in 2024 and 2025.

Whilst this comes at a time when inflation rates still rage on, potentially impacting operational budgets, we do expect rent-free incentives to remain relatively generous so as not to totally cut-off tenant demand – but landlords will be looking to bring them down further from the average level of 22-24 months on a 10-year lease.

Despite a year of rental growth, pockets of opportunities remain across central London for comparatively good-valued transactions. Even in the face of further rental growth, there are office districts where prime rents are lower than those commanded before the pandemic; seven submarkets where prime Grade A rents are on average 6% lower than in Q1 2020, and 15 submarkets where prime Grade B rents are on average 8% lower for the same period.

As such these submarkets are likely to maintain occupier attraction as we traverse through the year. The way rents have fared throughout 2022 has shown that the pendulum can swing out of tenant favour rather rapidly, especially as the better office buildings, of all grades, push rents up further.

Q4 2022 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	£130.00	£85.00	2%	18-20
Soho	£97.50	£72.50	1%	18-20
Knightsbridge	£95.00	£57.50	4%	20-22
North of Oxford Street	£90.00	£67.50	1%	20-22
Paddington	£85.00	£52.50	3%	20-22
Victoria	£80.00	£60.00	0%	20
King's Cross | Euston	£77.50	£60.00	2%	20
Camden	£61.50	£47.50	0%	24
MIDTOWN				
Covent Garden | WC2	£85.00	£63.50	2%	20-22
Midtown | WC1	£70.00	£60.00	2%	24
CITY				
Clerkenwell |Farringdon	£87.50	£65.00	1%	24
Old Street |Shoreditch	£75.00	£57.50	3%	22
Liverpool Street | Bank	£72.50	£52.20	3%	24
Aldgate | St Katharine Docks	£57.50	£42.50	0%	26
Premium Tower Space High Rise	£95.00		6%	
Premium Tower Space Mid Rise	£85.00		3%	
SOUTH LONDON				
Southbank: London Bridge | Waterloo	£72.50	£58.50	2%	24
Vauxhall | Nine Elms | Battersea	£60.00	£42.00	0%	24
WEST LONDON				
Hammersmith	£55.00	£45.00	0%	25
White City	£57.50	£35.00	2%	25
DOCKLANDS				
Canary Wharf & Quays	£55.00	£32.50	2%	28
EAST LONDON				
Stratford	£42.50	£34.00	0%	28
Hackney | London Fields	£42.50	£30.00	0%	25

Data as at the end of Q4 2022
Q on Q average growth denotes general rental tone change of leasehold Grade A & B combined from Q3 2022 to Q4 2022
Rent-free incentive based on a Grade A, 10-year lease general indication, will vary case by case

CENTRAL LONDON FLEXIBLE OFFICES

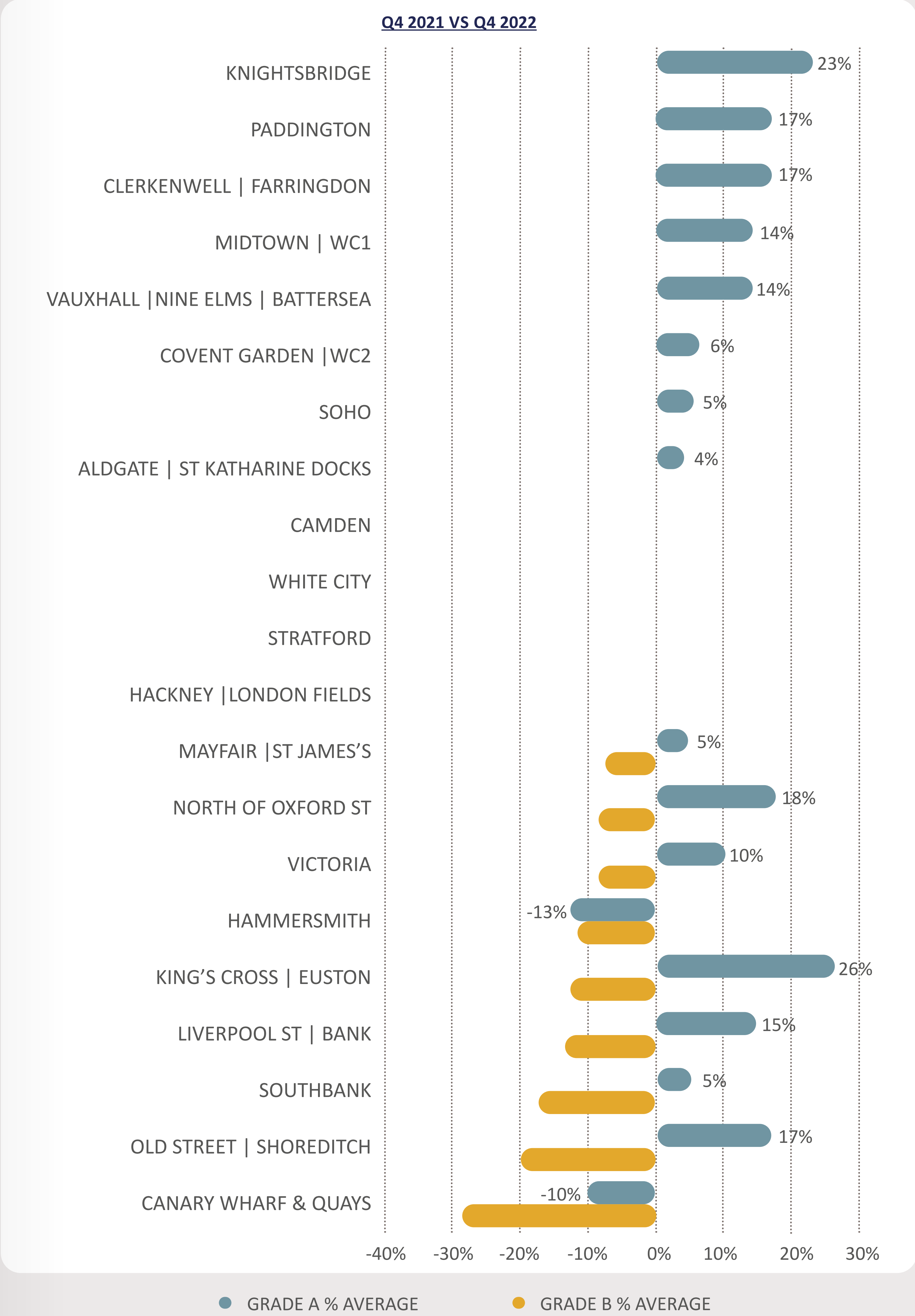
In comparison to the traditional leasehold office market the flexible office market operates at a different pace, more attuned to tenant demand and the availability of options. As such, the pricing of flexible office solutions has seen a more widespread and heightened level of growth in 2022. Other than greater flexibility in rental terms, businesses opting for serviced office space have the same requirements as those securing leasehold properties; best-in-class space, sustainability, technology, location, and amenities.

Only six submarkets out of 21 did not see any rise in Grade A desk rates, with the majority having notched up double-digit growth across 2022.

> The average Grade A desk rate at the end of Q4 2022 was £811 per desk, per month – this represented a rise of 10% over the year.

LARGEST GRADE A FLEXIBLE OFFICE SUBMARKET PRICING MOVEMENTS ARE:

- King's Cross – Euston submarket is up by 26% in 2022. This submarket is home to a number of well-established providers, with Landmark doubling down on its commitment to the area with its new flex space at the Lighthouse.
- The Knightsbridge average desk rate is up by 23% in a year.
- Victoria Grade A average desk rates break the £1,000 per desk, per month level - £1,075 at Q4 2022
- Clerkenwell-Farringdon submarket pricing ratchets up by 21% in second half of 2022 to £850.00 per desk, per month.
- Hammersmith and Canary Wharf were revised downwards, -13% and -10% respectively. Reduced uptake of space have led to the shift in these locations in order to attract businesses. This has been an exception to what has turned out to be a pivotal year for the serviced office product as businesses returned to the office and established different working policies.



TWO-TIER PRICING GAP INCREASES

London is one of the largest flexible office markets in the world, and with it comes a wide range of options from the well-established centres to the newest spaces offering the latest in design and sustainability. Obviously, they are priced accordingly, and the aforementioned Grade A spaces have seen desk rates soar in 2022. Not so with Grade B prices. In fact, our research shows that the average desk rates across central London submarkets have decreased further in Q4 2022, adding to the overall 6% drop in 2022. Whilst most of the Grade B prices have remained static, it has been a handful of locations that have seen some notable drops.

The submarkets with the greatest Grade B pricing falls in 2022 are:

- Canary Wharf and the Docklands area has seen a 29% downward revision in pricing of Grade B flexible office space to an average of £250.00 per desk, per month.
- The Old Street and Shoreditch area has seen several older spaces compete with the new kids on the block, and as such pricing has fallen by 20% in 2022.
- The Southbank market has also seen a double-digit drop of 17% over the year, having had a relatively good 'return-to-the-office' period in 2021.
- Other markets that experienced a drop in pricing included Hammersmith, City Core, Victoria, North of Oxford Street and Mayfair-St James's.

Whilst the gap between the best-in-class spaces and the next tier down has widened, it does offer businesses opportunities to secure spaces at advantageous pricing in some of the best locations in London.

> The average Grade B desk rate across all central London submarkets now stands at £482.00 per desk, per month.

OUTLOOK FOR 2023

APPRECIATING FLEX: 2023 will be a key year in which many firms will align their office footprint with their wider operational strategy. As rising inflation continues, an impending recession looms, and in some cases a reduction in headcount is on the cards, entertaining serviced office as a workplace option is increasingly popular for businesses of all sizes, which has been seen in the high demand levels in 2022.

More and more businesses are taking advantage of the flexibility and efficiencies that can be gained from both serviced and managed options. The most cost-conscious could well turn towards Grade B spaces, and even at the top of this part of the market our research shows that there are some great spaces available at some great prices.

Whichever pricing level a business opts for, the best space at that level will be sought after, meaning that the not-so attractive spaces will weigh heavy on providers' portfolios and will require some extra 'TLC' to bring them up to scratch for the modern occupier.

PROVIDERS BOOST OFFERING: Serviced office providers continue to maximise their position in what is a very competitive market. Whilst some have looked outside of the capital, several continue to firm up their presence in London. An additional 434,000 sq ft across 22 spaces was added to the providers' roster in 2022, with some centres being online, while others will be in 2023. Although 59% of the space taken by serviced office providers in 2022 was located in the City, DeVono predicts that we will see new centres opening in less traditional submarkets over the next year as a result of the increased competition between providers. Although it is uncertain which submarkets these providers will be attracted to, this will likely be determined primarily by the prevalence of local transport connections and amenities.

PRICE UPLIFT: As has been the case with prime rents, the opening of the Elizabeth line has had a significant impact on serviced office pricing. Over the last six months since it opened, desk rates in Clerkenwell/Farringdon have gone up 21% while those in Paddington have also risen by 17%. This is a sign that providers are cognisant of the value of these locations for occupiers looking to make the most of their hybrid working policies through combining the freedom from lease obligations that comes with a serviced office and the convenience that comes with an accessible location.

This added capacity is great for tenant choice, but the larger spaces, some of which will be delivered with the highest specifications will continue to push pricing rates higher sooner rather than later in the year.

FLEXIBLE OFFICE PRICING - Q4 2022

	SERVICED OFFICE £ PDPM		MANAGED OFFICE £ PSF	
	GRADE A AVG	GRADE B AVG	GRADE A	GRADE B
WEST END				
Knightsbridge	£1,200	£625	£350	£170
King's Cross | Euston	£1,200	£525	£200	£130
Mayfair | St James's	£1,125	£700	£180	£140
Victoria	£1,075	£525	£300	£175
North of Oxford Street	£1,000	£550	£220	£150
Soho	£975	£600	£185	£130
Paddington	£850	£600	£160	£125
Camden	£575	£450	£130	£115
MIDTOWN				
Covent Garden | WC2	£825	£550	£200	£150
Midtown | WC1	£800	£525	£165	£130
CITY				
Liverpool Street | Bank	£975	£475	£195	£145
Clerkenwell |Farringdon	£850	£550	£165	£80
Old Street |Shoreditch	£850	£400	£200	£120
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	£450	£250	£105	£85
EAST LONDON				
Stratford	£550	£400	£95	£80
Hackney | London Fields	£450	£350	£95	£75

Data as at the end of Q4 2022
Serviced office rates are fully inclusive and based on a Per Desk, Per Month rate (£PDPM)
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.

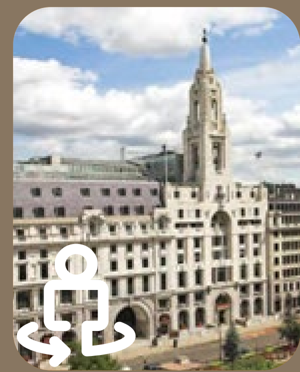
To help visualise the available workspace in each building, click on the 360 icon to take a virtual tour.

CITY

THE BOWER
20,000 SQ FT

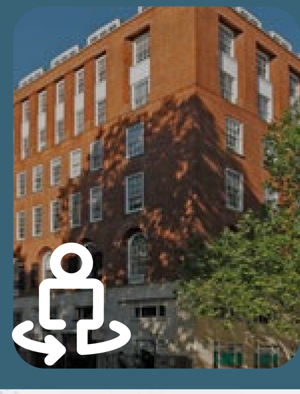
CITY

ALPHABETA BUILDING, EC2
UP TO 8,990 SQ FT



WEST END

WOBURN HOUSE, WC1H
3,527 SQ.FT



CITY

THE HALLMARK BUILDING
EC3
9,190 SQ FT

WEST END

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

WEST END

MEDIUS HOUSE
2,314 SQ FT

WEST END

WHITE COLLAR FACTORY
6,100 SQ FT

CITY

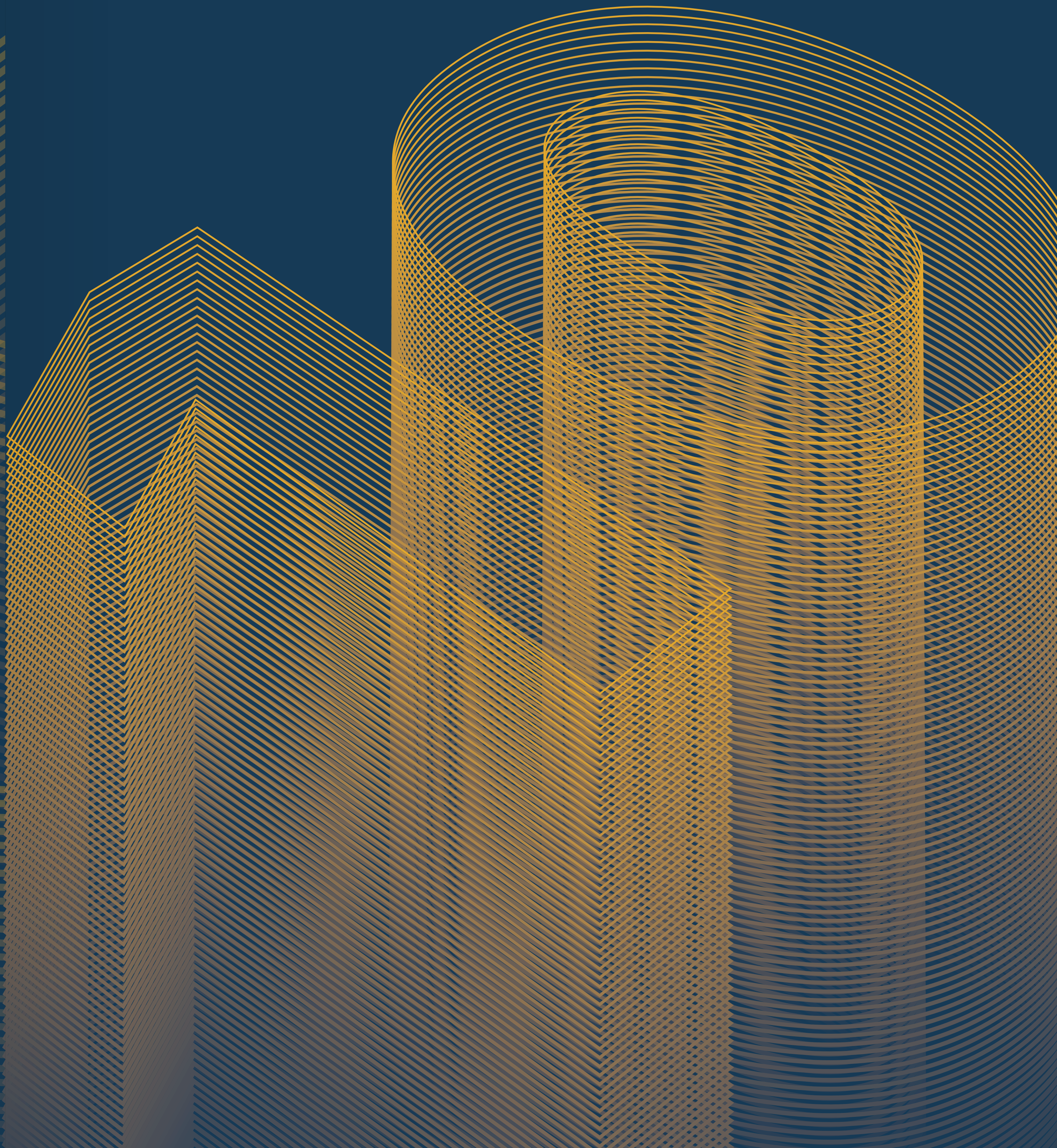
20 WOOD STREET, EC2
12,885 SQ FT

SOUTHBANK

THE HARLEQUIN BUILDING
7,302 SQ FT
2ND FLOOR

Outlook 2023

10 Office Market Predictions



01

RISING ENERGY COSTS TO IMPACT WORKPLACE DECISIONS

The rapid rise in energy prices in 2022, in some cases as high as 600% on the previous year, has taken commercial office occupiers by surprise. Even with government support through the Energy Bill Relief Scheme, increased energy costs are starting to bite and eat away at operational budgets. With the scheme due to end in April 2023 and a return to uncapped levels, businesses were eyeing the prospect of a cliff edge moment with their energy costs. Extending the Energy Bill Discount Scheme until April 2024, the looming hike in costs has been delayed for another year. Regardless of this temporary reprieve, businesses should factor in that higher energy costs are to stay.

The UK's transition of its power generation away from the reliance on fossil fuels towards greener energy sources will not be a quick evolution, as such businesses looking to lessen the burden of rising costs could look at adjusting their office space and use through a variety of ways.

REASSESS YOUR SERVICE CHARGE:

The impact of hybrid working patterns is likely to be the biggest disruptor to established service charge principles, particularly regarding energy usage. DeVono believe that some service charge budgets are being set pessimistically high, anticipating increases within 2023 and forecasting the worst-case scenario. Businesses are expected to take a greater interest in their service charge and associated data points which could support wider workplace decision making.

INVEST IN ENERGY EFFICIENT TECH:

Whether it is a laptop, computer screen, video conferencing hardware, or even the office printer, all of these pieces of equipment that many of us take for granted are significant consumers of energy, some more than others. Businesses should take the opportunity to ensure that the workplace tech that is used is as energy efficient as is possible.

IMPACT OF HYBRID WORKING:

The implementation of greater hybrid working patterns has prompted many businesses to review their office space needs. Whether it is from reduced utilisation on certain days or a significant change in use, the role of the office has changed and for many have rendered some (or all) space surplus to requirement. Having too much space or not using what you have efficiently will ultimately cost money, with rightsizing the office now having an energy implication attached to it.

REDUCING COSTLY FUNCTIONS:

Costly single-function spaces for many may well be the way of the past (or of the very wealthy), designing in flexible and multi-functional space means that you don't necessarily need to cut down on everything, just better utilise infrequently used areas such as all-hands, canteens, client entertaining and training areas.

IMPROVE ENERGY ETIQUETTE:

Switching off the lights in a room that is not being used (day and night), turning off screens and laptops at the end of the day, assessing whether the aircon needs to be on, or even reducing the number of emails in your inbox: these are all small steps that individuals can adjust to minimise energy consumption. Whilst many are very cognisant of steps that can be taken to reduce energy use in the home, businesses could educate their workforce to do similar in the office.

GREENING THE OFFICE:

The new generation of office properties are not only more sustainable and energy efficient from a building perspective but are equipped with energy-saving technologies such as occupancy sensors, LED lighting and the latest HVAC systems. However, much of the UK's office stock is old, and requires some landlord investment, whilst energy efficiency is being driven up the agenda through a shift in EPC assessing, ahead of this there could be an opportunity for tenants and landlords to discuss options – for mutual benefit.

SWITCHING PROVIDER:

Unlike for residential, energy pricing for commercial customers can be competitive. To maximise the benefit of this landlords and tenants should ensure that, where possible, they look at retendering or testing the market for better service contracts.

02

THE OFFICE: A VITAL TOOL FOR TALENT

Businesses have been under no illusion that the recruitment of talent regardless of the role has, and will continue to be, competitive. Even as the grey economic clouds gather and headlines of redundancies increase in number, attracting and retaining the best talent remains imperative, now even more so. Although there will be pressures to cut costs in response to the recession, firms will be aware that in-demand talent will retain a degree of mobility during this period. As such, these firms will be careful not to compromise the workspace.

Despite the predictions of some commentators that Gen Z and Millenials don't want to return to the office, there is now a considerable level of demand from these groups who are beginning to crave the mentorship and social interaction that comes from the office environment. Each generation of workers pose a different set of requirements for their workplace and trying to accommodate all of them is no mean feat. However, there are some common elements that enable productivity and support people's purpose in the office.

IMPORTANCE OF LOCATION:

Being close to transport links has always been an important factor for business leaders, it has become even more so when factoring in attracting new talent. This extends to the actual part of the city/town too, as being in the easiest location for the CEO does not hold much gravitas to the workforce. Understanding people's travel arrangements and including them in location choice will go a long way towards making the office an attractive proposition.

PEOPLE DEVELOPMENT:

Virtual meetings can only achieve so much. The office is an enabler of face-to-face interaction with colleagues, it also allows people (more junior team members) to acquire skills, knowledge, social cues and access to both business and social events. The office is a vital conduit in developing people, not just for traditional training, but providing the environment and opportunities in order to thrive.

OFFICE - HOME-FROM-HOME:

Factoring in more personal aspects when curating an office can make all the difference to a worker's impression of the company. Ranging from soft seating for relaxation, snacks and drinks, provision of wellbeing spaces, access to onsite gyms, cycle racks and changing rooms, down to the ability to personalise your workstations, with the ability to bring in dogs being important for some.

VALUE-ADD OF LOCAL AMENITIES:

People first, is the overriding factor for all the above space/building elements. The same can be said for the local area to an office. Access to restaurants, bars, retail and entertainment has been a key driver of attracting people back to the office, it can also do the same for keeping people engaged with the workplace too.

PURPOSEFUL WORKPLACE DESIGN:

Being able to create flexible spaces and have multi-use purposes is key to ensuring that the modern office has relevance. However, overly curating spaces can sometimes have a detrimental effect with spaces ending up being underutilised or not fit-for-purpose. The collaboration area is one such feature that quickly increased in favour, whilst the need to facilitate teamwork grew in importance, for some it was to the detriment of more valuable spaces. What do the workers truly want is a key question that needs answering before embarking on a design.

Now as we are living 'the future of work', people and businesses have embraced working from a variety of locations, so the office is even more important than ever. The workplace needs to be both fashionable and functional. While 2022 was the year in which the provision of snacks was dangled in front of employees to encourage them to return to the office, with varying degrees of success, this will not be sufficient in 2023. Firms will need to take more drastic steps to compete for staff.

03

HYBRID WORKING TO EVOLVE SPACE CHOICE

Much as it has done since the pandemic began, hybrid working will continue to evolve space choice as we move into 2023. The majority of firms utilised 2022 to nail down their working policies, with a recent Office for National Statistics survey suggesting this work style has grown in popularity, as the percentage of hybrid working increased from 13% to 24% between February and May 2022. The switch to (or greater implementation of) hybrid working has meant that firms will look at their office provision through the lens of this working style – taking a hybrid-first approach when making decisions.

Hybrid working will increasingly become 'Activity Based Working', with workers choosing the best location and space for the activity or activities completing that day. Hybrid-first is still a must for meeting and collaborating facilities, but the focus is turning to multi-use spaces to improve efficiency.

What is paramount for businesses adopting greater flexibility is that they provide as seamless an experience as possible whether an employee is working from home, office, or an alternative. In order to do this successfully, addressing some common complaints of poor wi-fi connectivity, bad acoustics, inadequate lighting and a lack of appropriate working spaces should make a difference.

THE OFFICE:

Desirable hybrid-friendly features are about both design and use of technology to make the spaces the most efficient. The prime example of this is equipping meeting rooms with VC facilities as standard, the use of intelligent video technology (augmented/virtual reality) will take the experience to the next level, enabling both users in-office and elsewhere to be in the 'same room'. Other elements include room and space booking and heating and lighting control. It is not all about employing new tech or design, as sometimes it is as simple as using the tools that exist already to make improvements, such as the effective use of calendars to identify who is in or out.

SPACE REDUCTION:

Pre-pandemic, many office footprints had excess space from 1:1 desking, and individual-use space. Now, with some reduction in daily headcount, and the acceptance that most people don't sit at a desk all day – efficiencies can be introduced through a variety of settings, reducing formal desks, and increasing alternative workspaces and wellness areas.

LEASE FLEXIBILITY:

How businesses commit to space has fast evolved with more and more (of all sizes) now appreciating the flexibility of serviced offices or managed solutions. Whether it is a short, medium or even long-term option, serviced offices can provide flexibility on size, location and duration.

LOCATION:

The hybrid-first lens will also affect firms' choice of office location. Accessibility will be a key concern, with connections to rail and underground services being a must, and access to cycle routes growing in importance.

The office space should be an enabler of growth for a hybrid culture, with people wanting to go into the office and interact with colleagues, but not to the detriment of those that choose not to – here, technology is key.

04

THE RISE OF THE MANAGED OFFICE SOLUTION

A shift in working trends and workplace expectations has led to a greater awareness and acceptance of flexible office solutions. Businesses of all sizes have long wanted more flexibility from their real estate and being tied to a lease is the complete antithesis of this.

In recent years the number of flexible options available to businesses has increased, alongside the proliferation of a wider range of providers. One such option is the 'managed office', an offering which continues to go from strength-to-strength.

PROVIDERS:

The number of providers that are offering managed office solutions has increased in recent years, and now range from the managed specialists, the general serviced office providers through to landlords. It is the landlords that are increasingly becoming keener than ever before on this option.

Whether it is striking out creating such an option within their own stable of products, like GPE or partnering with Managed Operators such as KITT and Knotel to attract tenants from the flexible market into their buildings.

THE CONCEPT:

The managed office is not a new product, but it is one that is increasingly meeting the needs of businesses that have faced uncertainty and space rationalisation. Whilst short leases, subleases and assignments can offer some flexibility, a managed office solution can offer more. Sometimes described as a hybrid solution between serviced and conventional leasing, providing the benefits of a fully fitted, plug and play serviced office workspace, without onsite support or the breadth of communal conveniences. They are generally most cost effective when used for larger teams of people.

COST:

Prices are calculated on a per SQ FT basis like a leasehold rent and will vary upon the level of customisation. The cost of a managed space is highly dependent on the rest of the market, based on the usual factors of location, quality, specification, and commitment term.

The return-to-the-office allowed many businesses to explore alternative space options, challenging the status quo, leading to a greater uptake of flexible offices. With increased visibility of the managed office product and its providers, this cost-effective solution looks set to gain greater business interest in 2023. Not least of all as economic/inflation pressures are expected to weigh heavy on some businesses' space planning.

05

DIVERSITY OF SPACE

The workplace value proposition has gained more importance over the past year of trying to lure people back to the office. Post-pandemic expectations of the physical space have increased as returning office workers want more from their workplace. Businesses are increasingly aware of the mental and physical health benefits that an office can cater for. Providing staff easy access to spaces and activities that can enhance wellbeing, with a more holistic experience for the workplace being a priority for a growing number of employers, ushering in the next phase in the evolution of the office.

WELLBEING OR FUNCTION:

However, functional design supporting productivity is far higher up the agenda than wellbeing. Wellness should be engrained across the entirety of a workplace design and not just an add-on. An increased focus on neurodiversity and a greater understanding of how spaces can support workforce wellbeing is expected to filter through more into workplace design as employers become more educated on this subject. The provision of a wellness room is progress for some businesses and should not be negated, but unless it is actively used as part of a wider programme of events, then it could just end up as an ad-hoc storage room.

NEURODIVERSE DESIGN:

It is imperative to design spaces to be humancentric, hybrid first and cater for a variety of different activities people may complete over the course of a day. The space must push people together, or engineer serendipity, whilst also allowing them to collaborate with each other without fear of bothering others or hide away for a couple hours of focused work or video calls. Beneficial for activity-based-working, but also for neurodivergent staff members, having well-considered acoustics and lighting can help both define what a certain space is for and create safe, low stimulation areas.

The design of the office is not a perfect fit for all workers, and, whilst advances are still being made with making spaces accessible to those with physical disabilities there is less focus on catering for colleagues with neurodiverse conditions such as ADHD, dyspraxia, dyscalculia or autism to name just a few. For those with these conditions the office can be seen as a barrier. The Office for National Statistics employment survey shows that only 22% of autistic adults are in any kind of employment. Improving the workplace design could be a step to making improvements to this figure.

SIMPLE COLOURS

Bright coloured walls and multi-coloured furniture fabrics can be distracting.

NOISE

Understanding the acoustics of the space is vital, as noisy environments can not only be distracting but triggering for some.

TEXTURES

Touch can be as important as the visual for some, and so providing a range of textures can improve engagement.

TECHNOLOGY

Tech can be a help and a hinderance, flickering screens can induce some conditions, whilst provision of headphones or specific software can help others.

LIGHTING

Being able to dim lights or cover windows can help those who do not like extreme levels of light.

CHOICE OF WORKING ENVIRONMENTS

Providing a choice of spaces is a huge step forward in creating an inclusive workplace.

Engaging with the right people at a design stage will help to create an inclusive workplace that can help nurture the creativity and productivity of the whole workforce and enhance the working environment for colleagues who need some support.

06

MAINTAINING TECHNOLOGY INVESTMENT

With a backdrop of economic uncertainty and high operating expenses, the main focus of businesses is likely to be that of cost efficiency. So, you would think that spending on technology hardware and software would be put on the backburner. However, a growing appreciation of the benefits of workplace technology will prompt investment to be maintained in 2023.

VALUE OF PROPTECH:

Probably even more important than ever before, PropTech tools such as those to track space utilisation, book desks and spaces and manage visitors and daily traffic are imperative to having a smoothly running office, especially with increased levels of hybrid working.

Tools that allow you to understand who is working in the office on a certain day (or even better, their plan for the entire month), will draw more people in as they cross over with those they deem most important. Tracking utilisation of desks and different spaces can ensure that you are deploying your real estate in the most efficient way possible, providing more areas that work well, and scaling back those that are less popular.

Technology solutions that may be implemented include Smart ID tags, Desk Sensors and Mobile App check-ins to track who will be in the office on which day. Furthermore, similar apps can also be used to track productivity and the amount of time spent working, enabling firms to maximise output.

HYBRID CHALLENGES:

As businesses embed more hybrid working practices, the experience of users of workplace technology needs to be seamless, whether logging in from home, the coffee shop or the office. Each business has its own challenges when it comes to workplace strategy and implementation. We have identified six common areas of concern that are at the top of the list of business concerns.

- Attendance & Access
- Communication and Collaboration
- Talent, Training & Development
- Wellness & Wellbeing
- Environmental Sustainability
- Culture & People

SMART SPACES:

Smart building technology is designed to track how the office space is used and regulate air quality and temperature accordingly, which has three benefits. Firstly, it creates a more pleasant office environment for the workforce, constituting a small contribution towards talent retention. Furthermore, such technology helps to maintain the health, and in turn the productivity, of the workforce. Finally, the use of workplace technology can also be used to cut costs through reducing unnecessary spending on heating. Given the high level of energy costs, businesses could benefit from such technology and its impact on expenditure.

Investing in technology now means businesses can start building the treasure trove of data earlier, providing key insights on how the space is used and what that might mean for the next space.

07

SUSTAINABLE WORKPLACES – A COLLECTIVE GOAL

An increasing awareness of the built-environment's continuing impact on climate change is rapidly influencing landlord and occupiers' decisions on real estate. Sustainability has quickly risen up the boardroom agenda, with more and more businesses setting net-zero targets. Achieving such goals will influence all facets of the workplace such as location, design, fit out and more importantly space use. However, attaining the most comprehensive outcome will be borne out of all parties involved working together: occupier management, the workforce and the landlord.

TRANSPARENT DATA:

Tenants are very interested in how their building can contribute to their sustainability goals. Tenants must be given transparency on the building's operation, not just it's construction, as well as have an automated meter reading for their space so that they are able to claim responsibility over the energy they use.

NEXT GENERATION OF OFFICES

Most, if not all major developers/landlords are committed to achieving net-zero in all developments by 2030. This roadmap to decarbonising projects will also cover refurbishment projects. The updating of existing stock and the creation of new sustainable spaces will provide tenants with green options to aid their own sustainable journeys – for all spaces including serviced offices.

GREEN RANKING:

Setting carbon-efficiency goals has paved the way for several accreditation schemes to be used as a benchmarking tool for developers, investors, landlords and occupiers alike. These schemes have and continue to act as true influencers of behavioural change for the long-term. There is no hierarchy in the importance of each scheme as they cover different elements. Collectively, they can support and ultimately determine a business' search process for a new workplace, one that will help achieve corporate goals.

EPC LEGISLATION IS CHANGING:

EPC legislation is changing and as of 1st April 2023 it will be illegal for a landlord to continue letting a commercial space if it is below an EPC 'E'. This change in MEES/EPC requirement is just the start of a phased approach proposed by the government which will result in a minimum EPC 'C' or above from 1st April 2027 and EPC 'B' or above from 1st April 2030.

For tenants, this mandated shift in minimum energy ratings will complement their own efforts to drive ESG related activities. The EPC rating of a building "in-use" will be subject to the same EPC rating requirements and so we will see the issue rising even higher up the list of considerations that influence property searches. The changes will bring about even greater focus on workplace energy efficiency and general building performance.

08

UNLOCKING THE POTENTIAL OF FLEXIBLE OFFICES

To make flexible offices truly appealing, there are three basic elements that businesses are looking for, and providers need to deliver on – flexibility, cost and service. Whilst the first element is pretty much assured, the following two are coming under pressure as desk rates have been rising and inflation is putting a strain on service costs. Nevertheless, providers are continually adjusting their offerings to provide a truly accessible product. Whether that is short-term, overflow, long-term, big or small, flexible and serviced offices provide excellent opportunities for businesses of all sizes. In 2023, we expect more businesses to realise the potential of using the flexible route to commit to office space.

FLEXIBILITY:

The opportunity to utilise space in a more flexible way following pandemic restrictions is not lost on businesses, giving business leaders the impetus to lease and use space differently. A shift in tenant attitudes has been the real driver of the flexible office market, with serviced office providers responding to tenants' desire for more flexibility, shorter leases and greater cost transparency. This is evident in the range of options that are now available.

SERVICE:

The high levels of competition amongst providers and growing agility from landlords offering fitted, managed space will lead to the point of differentiation standing front and centre. We continue to believe that this will be 'service'. Addressing service levels and the customer experience is expected to be at the heart of offerings in 2023 as retention of clients becomes as important as winning new ones.

COST:

Cost is king and being able to deliver a product at advantageous rates will appeal, in the current climate, to the cost-conscious financial directors. For existing users of serviced office spaces at the point of renewal, loyalty is expected to be rewarded in any uplifts. However, similar to car insurance renewal, shopping around and testing the market is vital, ensuring you are not just getting value for money, but exposing yourself to new options.

Brexit, the pandemic, and inflationary pressures have all impacted the office (purpose, cost and operation) in one way or another. Taking on a 10-year lease for some businesses now seems an alien concept, especially as they now plan their operations in shorter stints. Whilst most businesses seek stability, that is often not the best option – serviced office products enable those businesses to control and configure their space needs accordingly

09

SERVICED OFFICE PROVIDERS TO RAMP UP COMPETITION

DeVono research shows that in 2022 just over 434,000 sq ft was let by providers across central London. In the regional cities of Manchester, Birmingham, Leeds, Bristol and Glasgow the figure was approximately 279,000 sq ft. Increased demand for flexible offices, both actual and forecasted, has warranted providers to increase their offerings. These lettings will translate into new centre openings across the UK in 2023. An uplift in new spaces will certainly ramp up the competitiveness of each market, to the benefit of those businesses looking for space.

SURVIVAL OF THE FITTEST:

The serviced office market has had its ups and downs over the past five years with providers either shutting up shop, restructuring, repositioning or consolidating with other players to survive in what is a highly competitive marketplace.

The most recognised of which has been WeWork who continue to streamline their operations in the UK and have subsequently shed a number of their centres. Conversely, a raft of mergers/acquisitions in 2022 have set the scene for the year(s) ahead. Global provider IWG acquired the Instant Group, merging its digital assets to create a global marketplace serving 250,000 businesses. TOG and Fora's merger has cemented the firm's position as one of the top players in the market with over 3.1 million sq ft in the UK and Europe. In addition, US real estate services firm Newmark acquired the provider Knotel. There is potential for further consolidation activity in 2023.

HAVING A DIFFERENTIATOR:

Having a firm financial footing is one thing, being able to compete with others is another. We expect that increased competition will lead to providers beefing up their products and showcasing the differentiators, of which sustainability, amenities and service are likely to top the list.

Some examples of market players with differentiators:

• SUSTAINABILITY: The Black & White Building, completed in 2022, is central London's tallest mass timber office building. Developed by flex office provider TOG, the property delivers on sustainability in construction and materials as well as on efficiency elements such as solar panels. Uncommon, another London provider, are driving ESG credentials in all of their spaces, especially in their upcoming space in Holborn with a focus on carbon, waste and water reduction.

• AMENITIES: Providing a coffee machine and some snacks no longer holds much weight with businesses and their workforces whose expectations have increased in recent years. This is not about being 'all singing and all dancing', but it is about offering a difference and choice for businesses and offering something that improves a company's culture and productivity. Examples of this can vary widely with some spaces including a gym, sauna or even a spa. Promotion of wellness elements such as yoga spaces, prayer rooms and outdoor spaces are growing in number.

• SERVICE: The clue is in the term serviced office and over time it is the service element that has waned somewhat and varies considerably from provider-to-provider. Whilst the pandemic years meant that many in-person service elements were not able to be provided, the return-to-the-office period did not, in some cases, see a rise in service levels. We expect, at least to garner loyalty from existing clients, for service levels to improve in 2023.

10

TENANT NEGOTIATING POWER

The impact of the pandemic led to low levels of office leasing activity and high volumes of office availability across London and major UK cities. This in turn led landlords in many locations to reduce rents and improve on lease incentive packages. As demand for office space returned to more normal levels in 2022, the balance of negotiating has gradually swung more in favour of the landlord than the tenant. Moving at a greater pace for the best-in-class spaces than those of a lesser quality or specification. The bifurcation of the market for Grade A and B offices has grown during the latter part of 2022, and as we head into 2023, we can clearly see the level of negotiating power is also diverging.

GRADE B RENTS:

The volume of Grade B office space available in most UK office markets is considerable, and with a tenant drive to lease better quality spaces it has rendered some buildings more difficult to lease than others. This has resulted in a more subdued pace of rental growth in 2022, if any at all.

As such, both landlord and tenant expectations are less which allows for a greater opportunity to secure space on more advantageous terms. What is worth noting is that quoting rents are not the end point for tenants, especially when there is competition just around the corner.

GRADE A RENTS:

The direction of travel for Grade A rents has been on an upward trajectory throughout 2022, with 17 out of 21 London submarkets having seen rental growth. In the regions, new developments have been pushing rents up further and in Bristol's case setting a new high benchmark of £42.50 per sq ft. Demand for the better spaces has certainly fuelled landlords' bullish level of rents, only further buoyed by their reduction of rent-free incentives.

This kind of approach usually occurs when the volume of Grade A space is in short-supply and whilst on a macro level and in certain locations it is heading that way, overall Grade A availability remains higher than at the end of 2019.

Should tenant demand stutter for this quality of space, despite impending economic woes, then we could see rents climb further, but with relative buoyancy in the market this is not expected in 2023. So, tenants should be cognisant that significant reductions on asking rents may not materialise.

SAVINGS ON SURPLUS SPACE:

A consequence of the pandemic and greater adoption of hybrid working has been the release of surplus space by tenants. Whilst it is in the interest of the tenant to sublet their spaces at the best prices possible, we are seeing a pricing gap emerge between landlord space and tenant-controlled space.

Tenants have been able to be more inventive and flexible with subletting their space. Whether it is the headline rent, rent-free months, inclusion of fixtures and furniture, or just flexibility in lease terms, tenants are able to be more nimble in negotiations and are proving to be direct competition to landlords – sometimes within the same building. We believe that tenants subletting their space in 2023 will increasingly be accommodating to offers on their spaces.

In 2023, we expect that favourable opportunities for tenants will still exist, but they will be less about the headline cost and more about other incentives and less tangible elements that can be achieved.

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:

- INSIGHTS
- OCCUPIER ADVISORY
- FLEXIBLE LEASING
- DESIGN & BUILD
- WORKPLACE CONSULTANCY
- OCCUPIER DISPOSALS
- BUILDING SURVEYS
- RENT REVIEWS
- DILAPIDATIONS
- SERVICE CHARGE AUDIT