The Occupier

Breaking down the impact of 2023 and the predictions for 2024

Contents

We have once again dusted off our crystal ball and honed our forecasting to bring you our outlook for 2024.

Our first edition of the Occupier for the year provides an opportunity to reflect on the past year and see how the office market landscape has shifted. Greater tenant appetite for the best spaces, higher rents, higher costs and (in some locations) lower office availability have defined 2023. Layer on the increased demands businesses now have on the workplace, navigating the market in 2024 will present a number of challenges.

Shaun Dawson,
Head of Insights,
Devono

2023 Central London Office Market Snapshot.

Leasing

12.7M
Sq ft leased in 2023, 1% down on 2022

49%
Leased in the City – the tenants' choice in 2023

25%
of space leased by the Financial sector – the most active in 2023

-12%
Fall in take-up across the West End in 2023

Availability

24.5M
Sq ft central London availability drops in Q4 2023

77%
Availability higher than at start of the pandemic

33%
Share of Grade A availability

12K
Sq ft average available office size, up 24% in 2023

Rents

10%
Average Grade A rent higher in 2023

18-20
Rent-free months in Mayfair – squeezed in 2023

10%+
Grade B rental growth across 7 markets

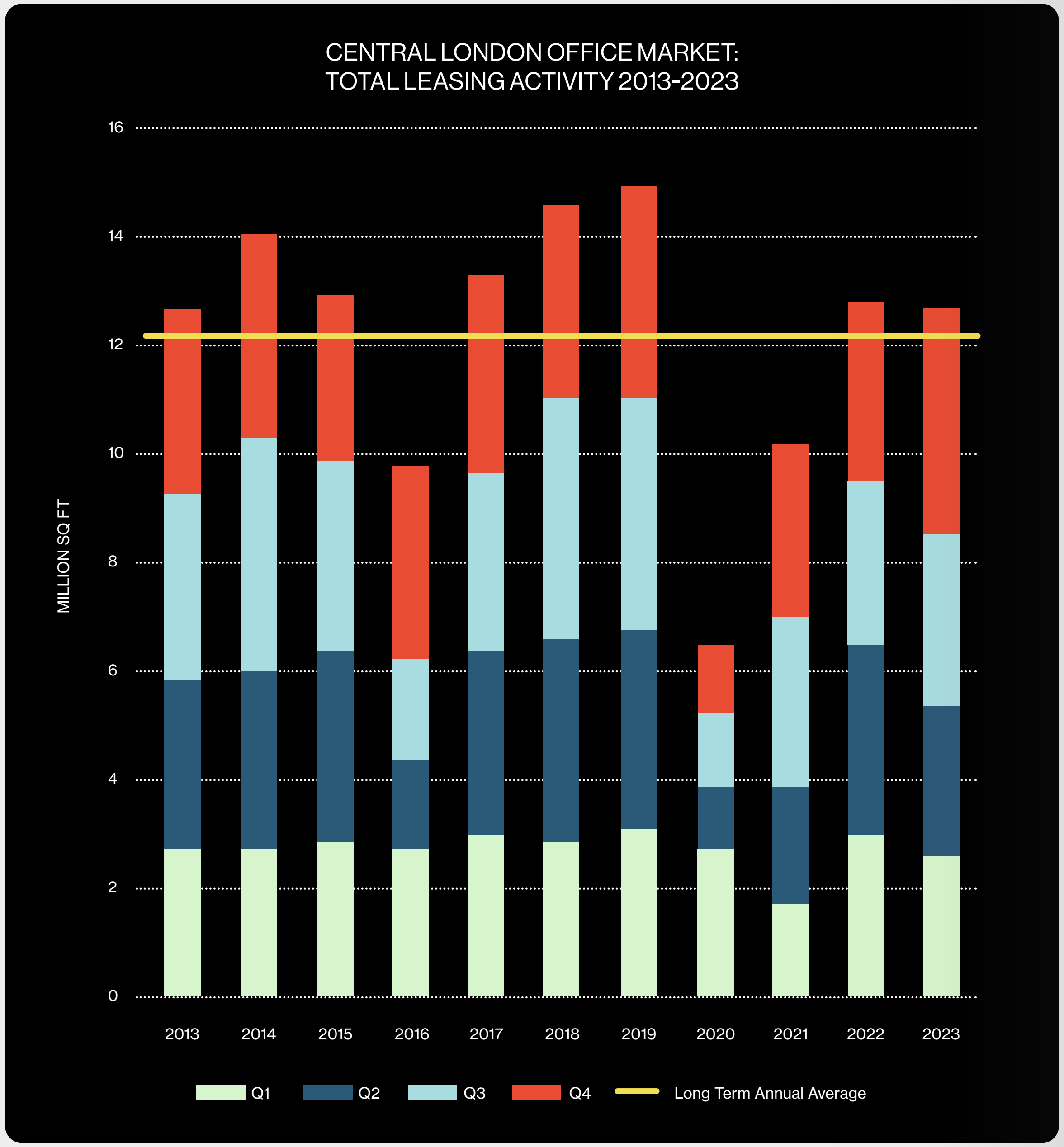
31%
Increase in Grade A rent in Clerkenwell-Farringdon in 2023

Central London Office Leasing

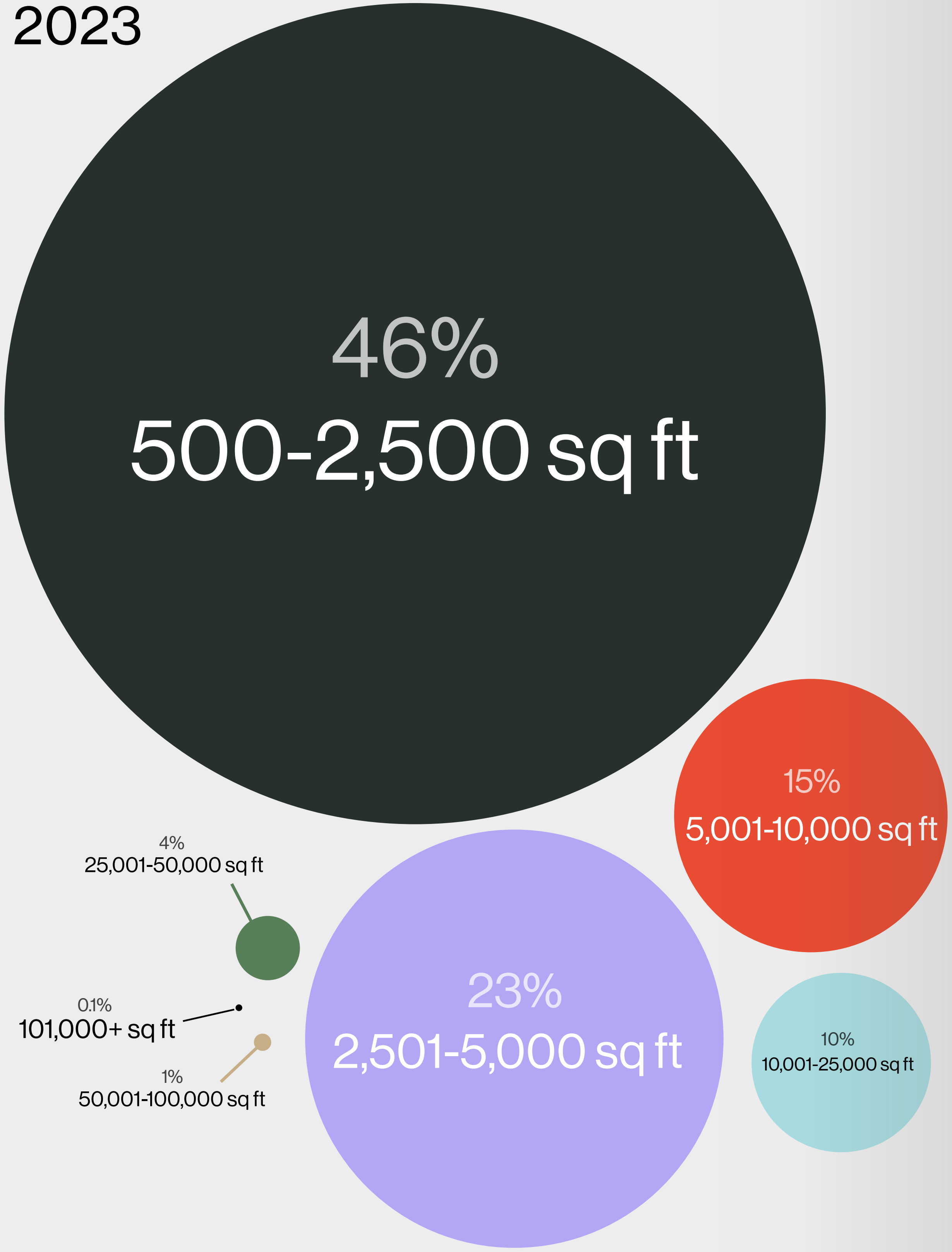
Reaching pre-pandemic leasing levels

Uncertainty was very much the byword for 2023, as wider economic and macro geopolitical pressures caused firms to take stock and reflect. In previous years these conditions might have resulted in a drop in take-up. However, this is the second year in a row that we have seen leasing close to 13 million sq ft.

While this suggests that leasing has remained broadly consistent, our research has highlighted some changes to occupier behaviour in 2023, particularly in relation to an appetite for larger spaces.



Number of Deals by Size Range, 2023



Occupiers have become more confident committing to spaces at the larger end of the size spectrum. In Q1 2023, 5% of deals were over 25,000 sq ft - this rose to 8% in Q4 2023.

556k

There have been fewer mega deals transacted in 2023 than the previous year (7 compared to 10). Despite this, the largest deal of the year was 556,000 sq ft, with HSBC taking space under development at 81 Newgate, EC1. This represents the largest deal since 2018.

25k

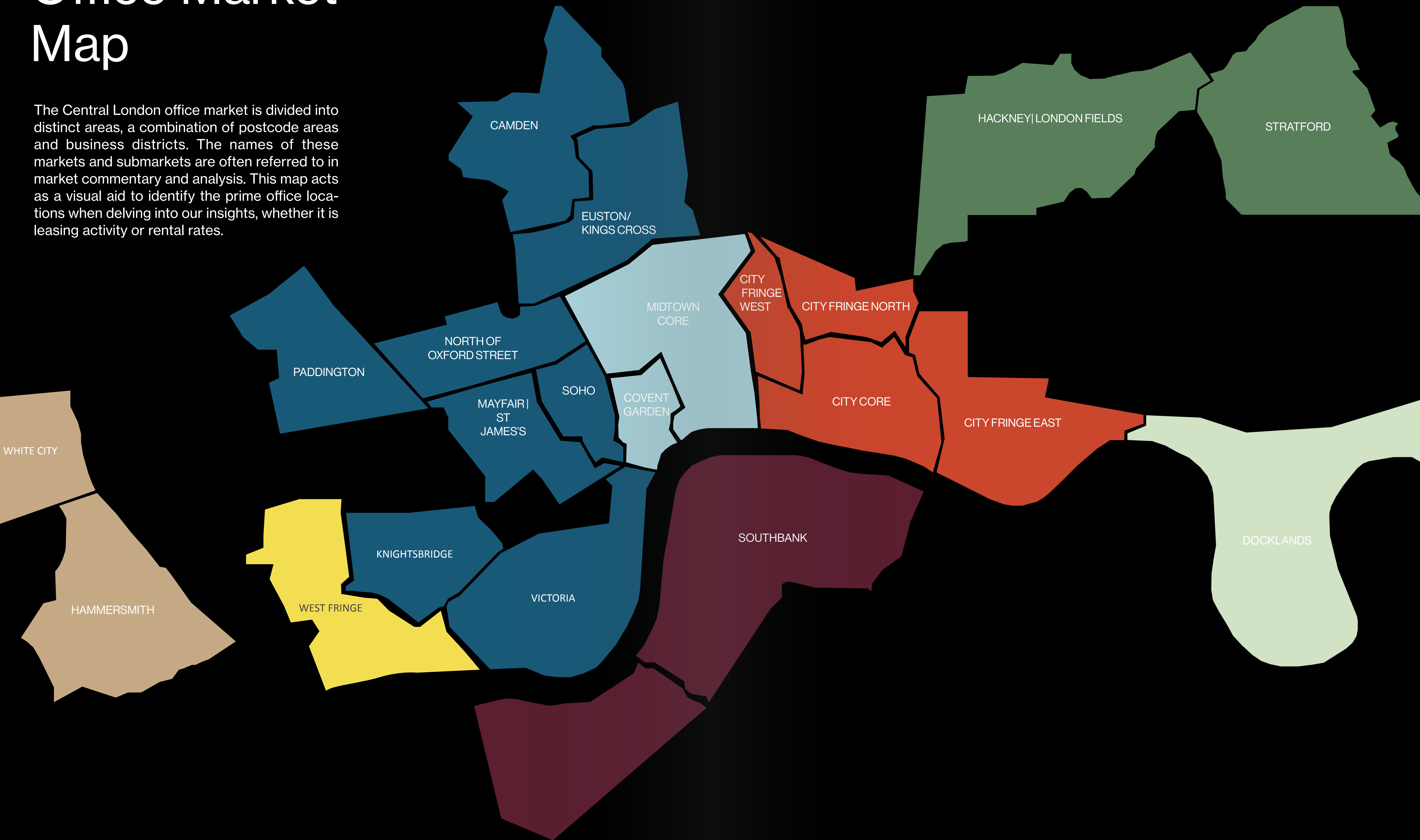
Larger leasing transactions suggests that bigger businesses have worked through their workplace strategies, correlating with the increased return of workers to the office. In 2023, 92 transactions were for spaces over 25,000 sq ft, up from 78 in 2022.

1,856

At 1,856, the number of transactions dipped slightly in 2023 by 1% on the previous year, yet this is 20% above the long-term annual average confirming the robustness of demand.

Central London Office Market Map

The Central London office market is divided into distinct areas, a combination of postcode areas and business districts. The names of these markets and submarkets are often referred to in market commentary and analysis. This map acts as a visual aid to identify the prime office locations when delving into our insights, whether it is leasing activity or rental rates.



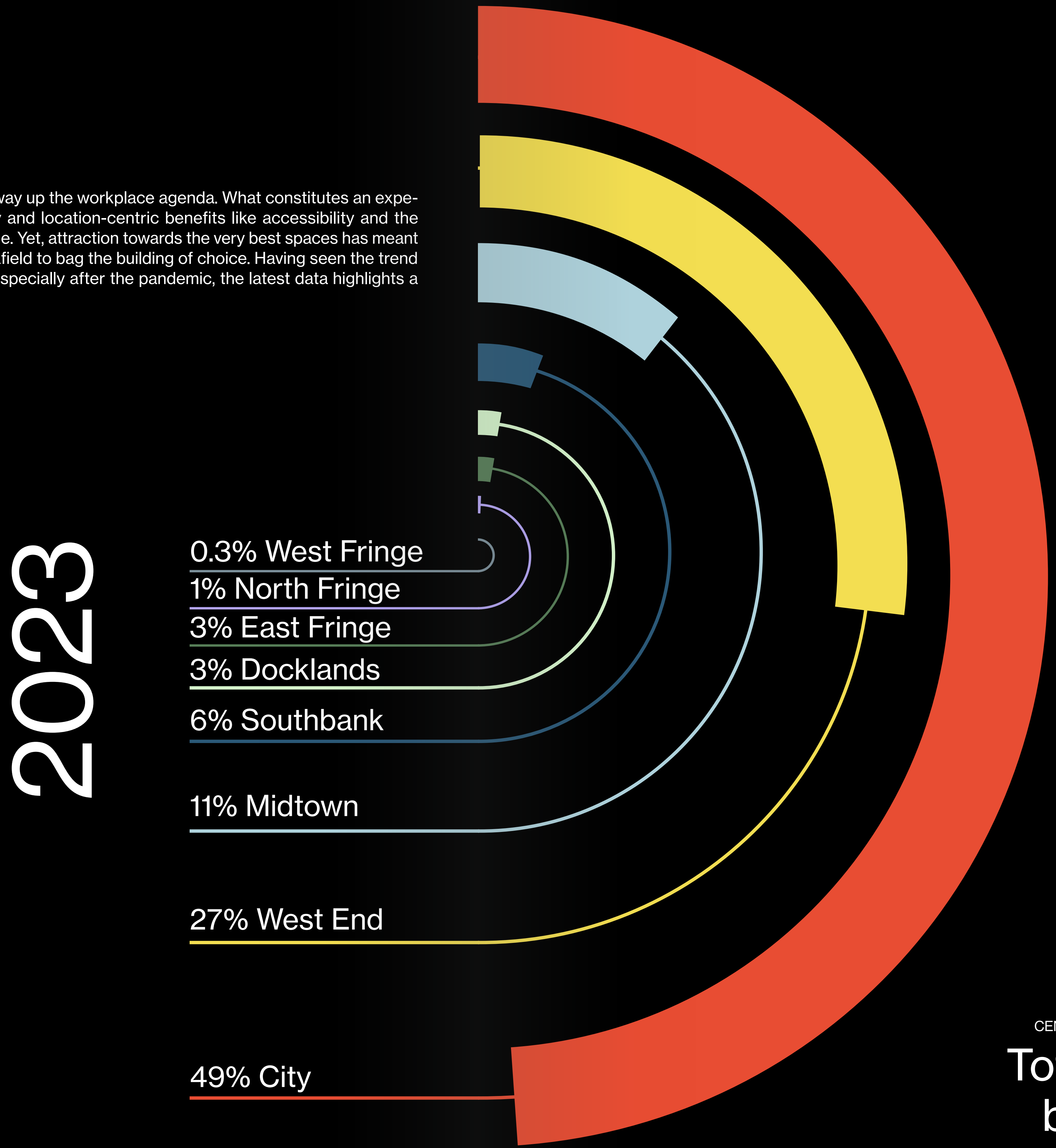
The power of *location.*

The employee experience has pushed its way up the workplace agenda. What constitutes an experience is multi-faceted, with space quality and location-centric benefits like accessibility and the quality of amenities playing an important role. Yet, attraction towards the very best spaces has meant that some businesses are looking further afield to bag the building of choice. Having seen the trend of occupiers being more footloose grow, especially after the pandemic, the latest data highlights a continuance.

The City accounted for the largest share of leasing across central London with 49% of total take-up, which turns out to be a historic high. This market has accounted for 4 out of the top 5 largest deals of the year, with some of the largest financial, legal and tech firms including HSBC, Kirkland & Ellis and TikTok all committing to the City.

The Southbank has also attracted more attention, with Grade A spaces and those with sustainability credentials such as BREEAM leasing up well. One such example is the Blue Fin Building at 110 Southwark Street where a total of 113,897 sq ft was taken by 5 firms in 2023.

The darling of post-pandemic leasing, the West End has seen its level of activity drop by 12% on the previous year. 618 deals were transacted, 5% below the short-term annual average. Higher rents and a squeeze on the supply of good quality spaces is forcing tenants to look elsewhere across London, realising there is greater opportunity to secure top quality spaces for the purpose of meeting ESG goals and attracting talent.



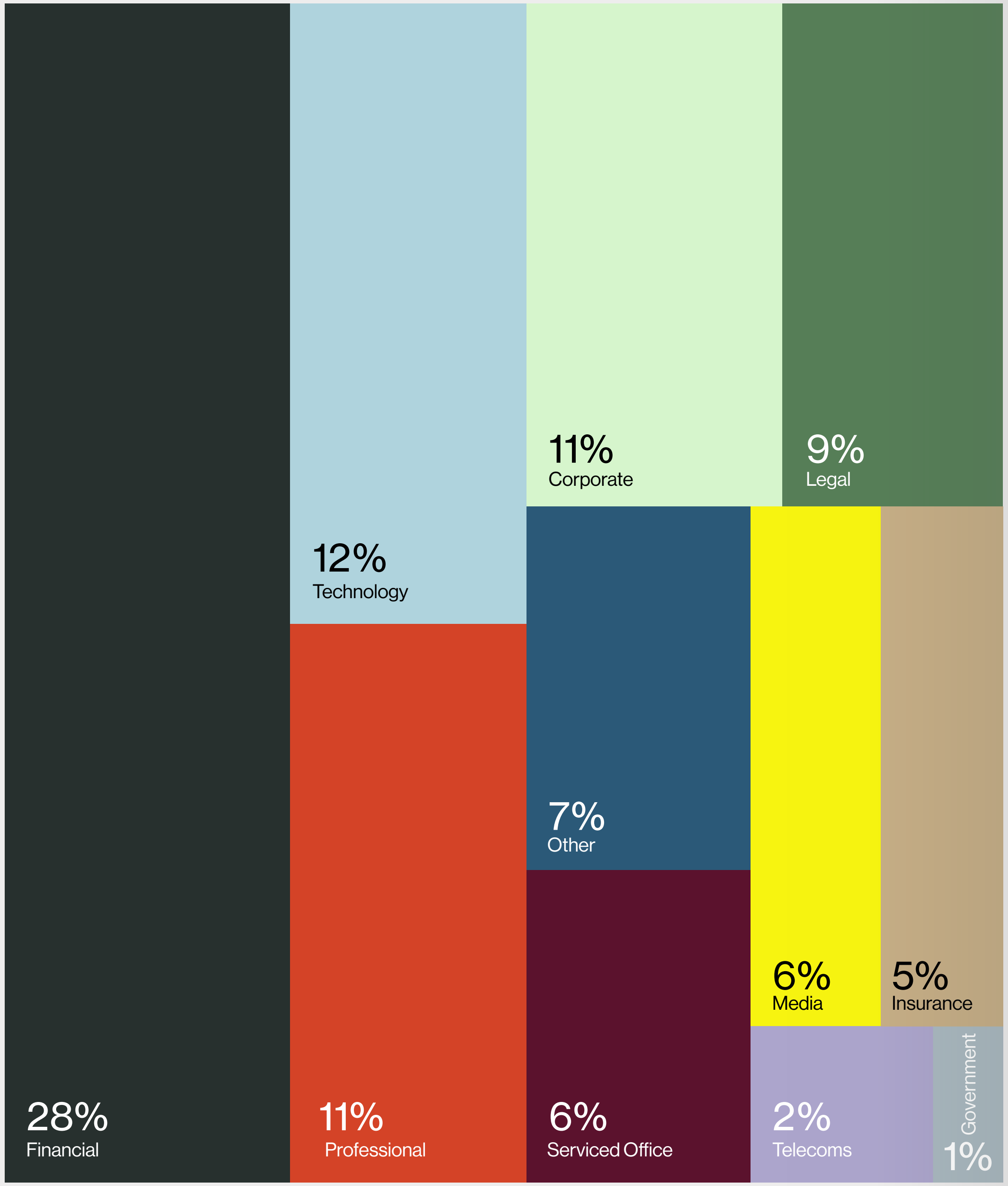
CENTRAL LONDON OFFICE MARKET

Total Leasing by Location

Total Leasing by *Sector*, 2023

Who Is Leasing Space?

From 2022 to 2023 there has been little change to those sectors that have fuelled leasing. The financial and technology sectors continue to be the two largest, with the professional and corporate sectors also remaining in the most active. While the legal sector has been a significant driver of leasing, in 2023 the pace has dropped a gear.



Financial Sector

The financial sector is once again the top sector for office leasing in central London, recording a share of 28%, a small increment on the 27% share in 2022.

While this may suggest we have seen little change in appetite from financial firms, in fact 2023 constitutes a record year for take-up at nearly 3 million sq ft leased, the largest annual volume since 2010.

Our data suggests that the rate of growth in leasing activity is slowing, increasing 11% from 2022 and 2023 compared to 50% between 2021 and 2022. Yet, the latter is during the core pandemic years which accounts for the uplift. What we are seeing is larger financial firms are rationalising space take as they fully appreciate the impact of technology, hybrid working and different ways of working.

The City is once again the key location for financial firms, with over 1.5 million sq ft leased, vs 1.2 million across the West End. Yet when looking at the number of financial companies leasing, the difference is stark, with just 80 across the City and 134 in the West End.

Legal Sector

The legal sector recorded its lowest share of take-up since 2019, down at only 9% of the total, coming off a high of 15.2% in 2022.

However, it is clear that this is not due to a lack of commitment to central London from the sector as 52 law firms leased new spaces over 2023, a historic high and up from 34 in 2023, which represented a high in volume of space.

This is the result of some medium to large firms reducing their space requirements and conversely smaller firms expanding. The average deal size now stands at 18,073 sq ft, a 59% drop on 2022. The City continues to dominate, accounting for 49% of the share of take-up by number of deals and location, followed by Midtown with 30%. The biggest mover has been the Southbank, going from 0% in 2022 to 8% in 2023.

The average lease length of transaction was 7.1 years versus 7.7 years long-term average.

Corporate Sector

At the beginning of last year, it was widely reported that business confidence was at a low as firms prepared to be battered by economic and political headwinds. Our data shows that the corporate sector faced down those winds and increased leasing, accounting for 11% of the total take-up, which is up on the 9% in 2022.

2023 saw 225 corporate businesses committing to the capital, the highest number since the onset of the pandemic. Furthermore, this is no fleeting commitment, with lease lengths also now at an average of 6 years, up 6% on the short-term annual average.

The average size of transaction in 2023 was 5,079 sq ft, down on the 10-yr annual average of 6,531 sq ft.

Overview

What can we expect from businesses leasing space in 2024?

First and foremost, occupiers will continue, and in greater volume to look to secure the **top-quality spaces** in both Grade A and B with a keen eye on sustainability credentials. In 2023, the share of leasing of pre and early lettings and Grade A accounted for 46%, up on the 43% in 2022. In real terms, at 5.9 million sq ft, this was the highest volume of Grade A space leased since the pandemic started. With an increased level of new developments and refurbished spaces coming to the market in 2024, the share of leasing of top quality spaces will rise further.

> The pace of the ***return-to-the-office*** will increase further as more businesses are expected to mandate ***greater*** in-office frequency.

The pace of the **return-to-the-office** will increase further as more businesses are expected to mandate greater in-office frequency. This may well tip the average of 3 days we have seen these past couple of years, more towards 4 days in the office. This is in part due to firms achieving greater clarity on what the alignment of the role of the office and the workforce constitutes. This will lead to more informed occupier decisions with real estate.

Costs will remain a key factor for business for all big-ticket spends such as the work-place, not least of all the rise in rents. We do however expect to see a number of opportunities emerge that could lessen the impact of rising costs. Pre-leasing to secure that preferred space at a preferential rate, negotiating with your landlord on your existing space for refurbishment, or discussing with your landlord for capex contributions for fit-out and furniture. With the right guidance opportunities do exist.

The start to 2024 has not been all that rosy. Unpredictable inflation rates, the prospect of a technical recession and stubbornly high interest rates, as well as conflict around the world adds to any uncertainty that business leaders may have. Throw in several elections, domestic and international, to add yet more uncertainty we are set up for an interesting year ahead.

Constraints

to tenant leasing in 2024

- Election uncertainty to cloud decisions
- Businesses not having a clear workplace brief
- Rental growth to be maintained
- Squeeze on availability of best-in-class spaces
- Pressure on level of rental incentives
- Competition from flexible office solutions

Drivers

for tenant leasing in 2024

- Greater push to meet ESG goals
- Working pattern policy clarity
- Opportunities with Grade B space options
- Lessening inflationary pressure on costs
- Appreciation of Managed offices
- Landlord capex contibutions for tenants

Central London Office Availability

> ...the Southbank market has seen a boost in Grade A supply by 139% over the year

Reaching A New Peak

2023 was expected to have ushered in a downward shift of the level of office availability, coming off a peak in 2022. Not so, the past 12 months have seen a gradual increase in availability across central London, reaching 24.5 million sq ft at the end of Q4 2023 – a 20-year high. This level represents a 9% uplift on Q4 2022 and a 77% increase on Q1 2020 at the start the pandemic.

Despite the high level in Q4 2023, the latest figure is down on the previous quarter by 2%, suggesting we have passed the peak. Availability in 5 out of 8 submarkets headed downwards in Q4 2023, with the West End, Docklands and East Fringe levels rising further. A similar end of year dip in levels was also noted in Q4 2022, largely as a result of elevated tenant demand in the final quarter. So what does the picture look like for 2024?

Grade A Boost

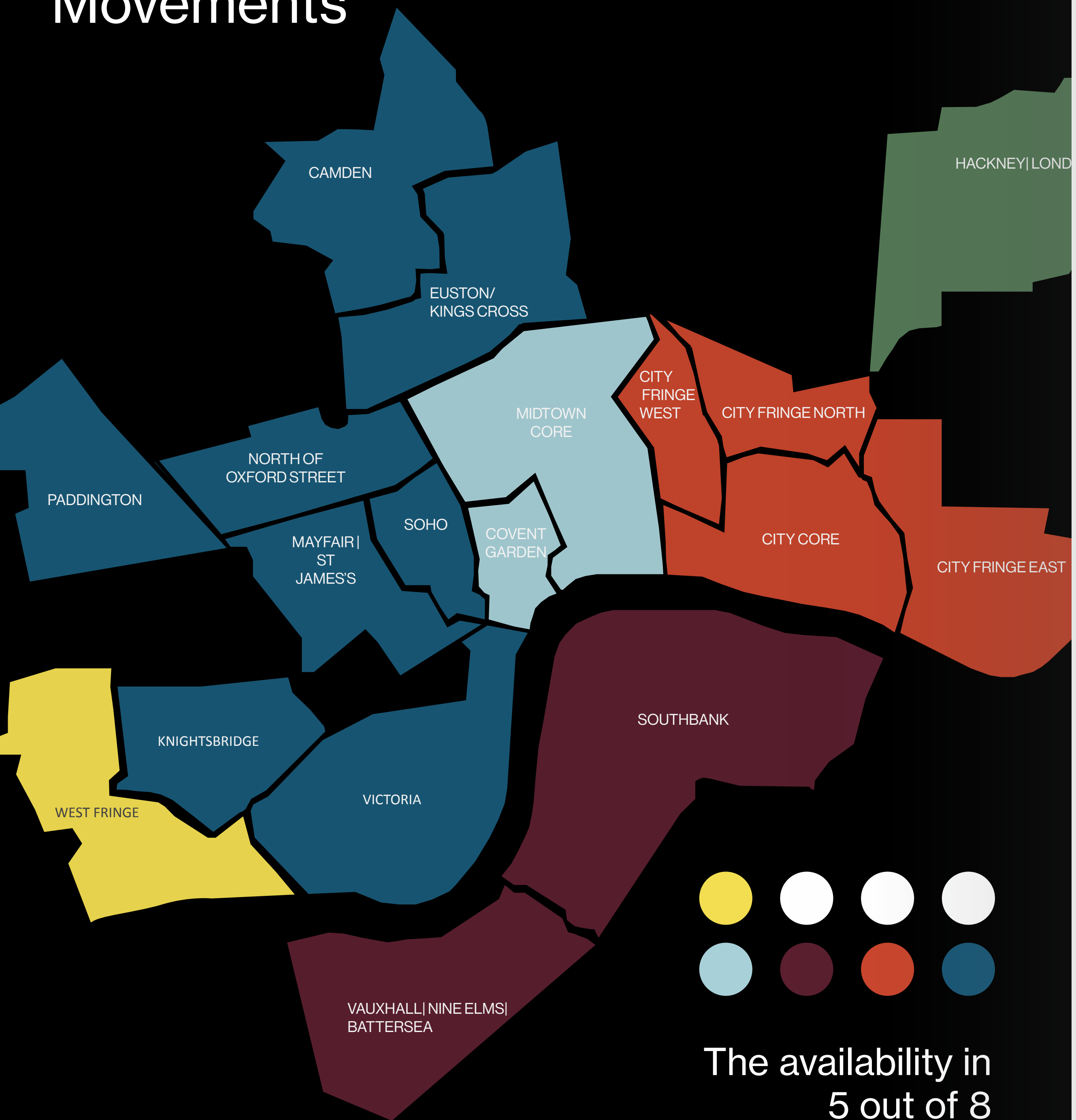
Those markets that have seen a rise in availability levels have benefitted from a boost in Grade A supply. On closer inspection of the West End each of the submarkets saw an uplift in Grade A, on average by 104% compared to Q4 2022, with a tripling of space in King's Cross-Euston with 1 Triton Square taking the lions share having been released by the previous tenant.

Elsewhere, the Southbank market has seen a boost in Grade A supply by 139% over the year, and East Fringe hitting double digit growth.

There is currently 7.9 million sq ft of Grade A space available across central London, a 16% rise since Q4 2022. This is down on the 8.6 million sq ft available mid-2023, but remains above the long-term average of 4.3 million sq ft.

North Fringe and Docklands have seen a drop in available Grade A space in 2023, ending the year down 7% and 8% respectively. Despite both markets seeing a rise in the total availability, secondhand space dominates options.

Q4 2023 Market Movements



The availability in 5 out of 8 submarkets all heading downwards in Q4 2023

West End

35%
Average size of availability: 8,035 sq ft up 35% in 2023

38%
Share of Grade A availability: 38%

17%
Location - volume of space (% share): King's Cross-Euston up from 17% in Q4 2022

34%
Location – largest % change: King's Cross-Euston up 34% in 2023

Midtown

23%
Average size of availability: 10,108 sq ft up 23% in 2023

22%
Share of Grade A availability: 20%

40%
Location - volume of space (% share): WC1 – 40% up from 39% in Q4 2022

30%
Location – largest % change: EC1N, EC4A & Y – up 30% in 2023

Southbank

8%
Average size of availability: 8,487 sq ft down 8% in 2023

40%
Share of Grade A availability: 40%

23%
Location - volume of space (% share): SE1 9 – 23% up from 17% in Q4 2022

44%
Location – largest % change: SE1 3 – up 44% in 2023

The City

40%
Average size of availability: 14,334 sq ft up by 40% in 2023

31%
Share of Grade A availability: 31%

11%
Location - volume of space (% share): EC2A – 11% up from 10% in Q4 2022

145%
Location – largest % change: EC2Y up 145%

Overview

Increased leasing activity in the latter part of 2023 has started to nibble away at the overall volume of available office space. Secondhand space continues to make up the majority of availability which continues to prove stubborn, however we are now starting to see landlords reposition older stock with more refurbished buildings boosting Grade A supply in most locations across central London.

Demand for the best offices has meant that rents have kept on climbing, and finding the right-sized space in desired areas remains challenging, forcing many businesses to compromise. This trend is expected to persist into 2024, possibly becoming more pronounced in some cases – despite an increase in supply.

Whilst the drive for Grade A will remain strong, dismissing secondhand space out of hand could see a missed opportunity. Whether it is a conversation with an existing landlord or an alternative space, deals with landlords are available which include contributions through fit-out and furniture or other capex spends, as well taking advantage of lower Grade B rents.

There are positive signs for tenant demand in 2024 as office occupancy rises, more people return to the office, business optimism grows, and cost pressures ease somewhat. This in turn will mean that more businesses will be active in 2024, creating competition for the space.

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Central London Office Rents.

Pushing The Envelope

Inflation, recession and demand for better quality spaces have all fuelled Grade A rental growth which in some locations has skyrocketed in 2023, with the average across central London reaching 8% over the year. As a result, the average rent payable for Grade A space in London is currently at an all-time high of £81.40 per sq ft.

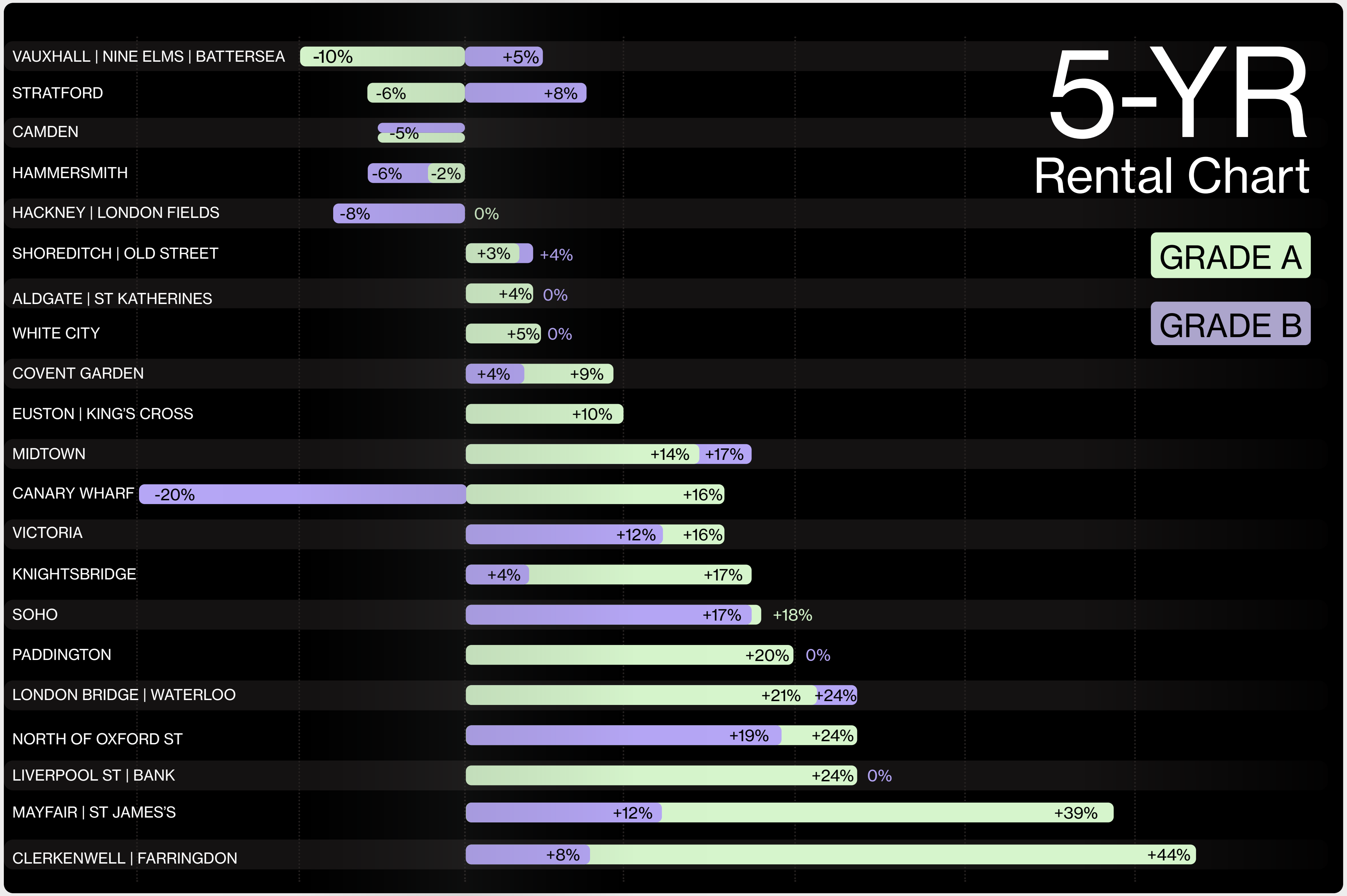
Several submarkets have hit new historic highs in 2023, with markets such as Soho and Clerkenwell/Farringdon having successively moved the benchmark each quarter. This has meant that 5 markets are now pushing beyond the £100.00 per sq ft mark, compared to only one market at the end of Q4 2022.

Where these high rents have previously been confined to the West End, we are now seeing markets further east achieve rents in excess of £100.00 per sq ft with new spaces pushing the envelope on asking and subsequently achieved rents.

While in-building and local amenities have been a key facilitator for tenant demand, improvements to accessibility have been endowed with greater importance, as is the case of Clerkenwell/Farringdon where rents have increased a remarkable 31% over 2023 now that the Elizabeth Line has granted more access to the wider network.

Prime Grade B Succumbs To Pressure

As firms have become more conscious of providing a sustainable and user-friendly offices for their employees, occupier leasing has homed in on Grade A buildings. However, competition for these spaces has intensified and the best of Grade B is proving more attractive, which has provided landlords the opportunity to increase Grade B rents over 2023.



Only 3 markets saw upward movement in rents for Grade B spaces during Q4 2023, but over the year 14 markets have experienced an uplift in Grade B rents, 7 of which saw growth in excess of 10%.

Significant rent hikes have primarily been in the West End locations, such as Mayfair and Soho, with growth elsewhere recorded in Midtown/Covent Garden. This is reflective of the multi-faceted way in which occupiers are attempting to deliver on employee experience within a reasonable cost.

Long Term Rental Recovery

While the role of the office has changed for many companies since the pandemic, the current rental landscape compared to five years ago indicates that any concerns amongst landlords around the price elasticity, especially with increased hybrid working, has dissipated. If anything, landlords have become more bullish with their rental expectations, with the majority of London submarkets now at historic highs. The average rent for a prime Grade A office in central London is now 13% higher than the level recorded five years ago, with only 4 out of 21 submarkets currently lower than in Q4 2018.

Whilst certain markets, such as Clerkenwell/Farringdon where rents are 44% higher than 2018, are garnering significant attraction, even those areas that are currently experiencing a drop in occupier interest are still commanding comparatively high rents. For example, tenant demand for the Docklands is low, and its rents are still at their highest level on record, up 16% on Q4 2018 at £55.00 psf.

Overview

Despite having seen some significant rent hikes in 2023, we expect there is still room for further growth in 2024 and 2025. It appears landlords are picking up where they left off in 2019. The pace of growth is likely to be more muted in those markets that have had significant rises. The big jumps will be from the next generation of offices that are being developed.

An easing of inflation pressures and subsequent interest rate rise drops expected later in the year will take some pressure off a rising cost base for businesses. However, office pricing will remain high which could push some smaller and more nascent firms out of accessing the best-in-class spaces.

Furthermore, as the availability of Grade A options is squeezed further and firms continue to look to secure space in accessible and amenity-rich locations, we expect to see more Grade B rental pressure.

Rental growth in less accessible markets such as Hammersmith, White City and Vauxhall/ Nine Elms/Battersea could be less significant with rents remaining at a similar level.

The increased attention for the top-quality Grade B spaces amongst larger firms will stimulate rental growth in 2024 for spaces of this class, however opportunities could be had on these spaces during new space searches or lease renewals.

While we are yet to see a significant squeeze on rent-free incentives outside of Mayfair, given the number of markets that are now registering historic highs it is only a matter of time before landlords begin to rein in their rent-free offerings.

If anything, the pace of pricing by landlords is picking up where they left it in 2019, fuelled by the return to the office.

The increased attention for the top-quality Grade B spaces amongst larger firms will *stimulate* rental growth in 2024 for spaces of this class

Leasehold Rent Guide.

	LEASEHOLD £ PER SQ FT			
	GRADE A	GRADE B	Q/Q AVG GROWTH	GRADE A RENT-FREE 10-YR
WEST END				
MAYFAIR | ST JAMES'S	£160.00	£92.50	5%	18-20
SUPER PRIME - MAYFAIR | ST JAMES'S	£200.00	-	0%	18-20
SOHO	£115.00	£85.00	5%	22-24
KNIGHTSBRIDGE	£105.00	£65.00	0%	22-24
NORTH OF OXFORD STREET	£105.00	£77.50	3%	22-24
PADDINGTON	£90.00	£55.00	0%	22-24
VICTORIA	£90.00	£70.00	0%	22-24
KING'S CROSS | EUSTON	£85.00	£65.00	0%	22-24
CAMDEN	£61.50	£47.50	0%	22-24
MIDTOWN				
COVENT GARDEN | WC2	£90.00	£70.00	0%	22-24
MIDTOWN | WC1	£80.00	£67.50	0%	24-26
CITY				
CLERKENWELL | FARRINGDON	£115.00	£70.00	5%	24-26
LIVERPOOL ST | BANK	£85.00	£55.00	3%	24-26
OLD STREET | SHOREDITCH	£75.00	£60.00	0%	24-26
ALDGATE | ST KATHARINE DOCKS	£60.00	£42.50	2%	26-28
PREMIUM TOWER SPACES HIGH RISE	£115.00	-	0%	24-26
PREMIUM TOWER SPACES MID RISE	£97.50	-	0%	24-26
SOUTH LONDON				
SOUTHBANK: LONDON BRIDGE | WATERLOO |	£85.00	£65.00	2%	24-26
VAUXHALL | NINE ELMS | BATTERSEA	£58.50	£42.00	0%	24-26
WEST LONDON				
WHITE CITY	£55.00	£35.00	0%	24-26
HAMMERSMITH	£55.00	£42.50	0%	24-26
DOCKLANDS				
CANARY WHARF & QUAYS	£55.00	£30.00	0%	28-32
EAST LONDON				
STRATFORD	£42.50	£35.00	0%	28-30
HACKNEY| LONDON FIELDS	£42.50	£30.00	0%	24-26

Data as at end of Q4 2023

Q on Q average growth denotes general rental tone change of leasehold Grade A & B combined from Q2 2023 to Q3 2023

Rent-free incentive based on a Grade A, 10-year lease general indication, will vary case by case

Interior design by Dthree Studio for Regal

Central London Flexible Offices

2023: Year of expansion.

Veiled by the financial and operational troubles engulfing WeWork, the flexible office market in the UK proved its resilience, denouncing the WeWork issues as theirs and not those of the wider market. So much so, the flex office provider appetite for leasing new spaces jumped in 2023. Devono data shows that 654,405 sq ft of space was leased by the sector over 2023, an increase of 44% on the previous year and the largest quantity of space leased since 2019. Not a record year for serviced office take-up, but activity clearly shows more provider confidence in broadening their footprints within central London.

Providers are focusing on adding larger spaces to their portfolio, with 45% of the deals registered this year being more than 25,000 sq ft and only 29% being lower that 10,000 sq ft.

Our research shows that 2023 saw the most concerted push on the part of providers towards securing larger spaces since pre-pandemic.

Data indicates that leasing activity has been less about the best-in-class spaces compared to previous years, as only 26% of the spaces occupied by providers this year were of a Grade A standard in contrast to 38% in 2022. This suggests a number of trends may be emerging above building quality, those of cost, location and indeed volume which have been driving leasing.

The City continues to attract more attention, accounting for 52% of provider deals.

A concerted appetite for Grade A workspaces has pushed the average desk rate up over £1,000 pdpm* in 6 areas of London in 2023 for the first time, and even Grade B average pricing has notched up 3% over last year.

* per desk per month

Interior design by Dthree Studio for Regal

Desk Rates Push Boundaries

Heightened demand for quality spaces, launch of the best in the market centres, and a squeeze on supply have led to Grade A serviced office desk rates increases in 2023.

The year ended with the Grade A average above £1,000 per desk, per month (pdpm) in 6 markets across London, all of which are in the West End. The greatest jump came from Mayfair|St James's where the Grade A average is £1,200 pdpm.

Coming close to that £1,000 level are spaces in Midtown, City core, and the Southbank, with the launch of new spaces in 2024 likely pushing these locations over the mark. The greatest increase in average desk price was in Midtown, leaping 19% across 2023.

The average Grade A space is now pegged at £836.00 pdpm, 3% higher than a year ago. Pricing of Grade B spaces, due to the immense competition, has felt little pressure to rise in 2023. As demand for the best within this range increases, so too will prices. The average of £487 pdpm across all London locations is still 5% lower than at the end of 2021.

Competition & Choice

The London flexible office market remains a hot bed of competition, fuelled not just by the demise of other providers' market share, but by the opportunities of an expanding menu of solutions that businesses are attracted to. Leasing activity by providers in 2023 saw 24 different providers taking space over the 31 deals.

Fora, Orega and Runway East achieved the top five largest deals, Runway East taking the largest space, having sublet 44,392 sq ft at 24-28 Bloomsbury Way.

Orega proved to be the most active provider last year, committing to two new centres in Midtown and two in the City, amounting to a total of 141,997 sq ft of new space. Some notable new additions made their way into the market in 2023, including the new provider Grafter, having set up its new "Mayfair House" space covering 9,824 sq ft at 51 Berkeley Square. In turn, we have seen an international entrant to the market in the form of American provider Industrious, who now occupy 20,967 sq ft at 77 Coleman Street.

A WeWork Renaissance

The flexible office sector's business model has come under periods of scrutiny, especially at times of economic distress. And, whilst some businesses have fallen by the wayside, others have risen out of the ashes. Could this be the same for WeWork?

Its restructuring plans and landlord negotiations continue to be played out with the UK operations seemingly faring better than it's US parent.

While WeWork has let go of several buildings in central London to date, we do expect more centres to close in the coming year. Rental increases and the end of rent-free incentives on their leases will further force their hand on some spaces.

It is worth noting that in the wider flex office markets other providers close sites on a regular basis, as they become costly to run, need maintenance or have become obsolete.

WeWork hopes to come out of the current situation fighting, retaining its existing bases and attracting new businesses. As such, rates promoted will remain competitive.

Overview

Providers have doubled down on their commitment to central London, remaining confident in their pursuit of new centres. That being said, we are likely to see some new trends in the sector take hold over 2024.

We are likely to see more provider interest in the fringe areas, especially those more accessible submarkets such as Clerkenwell/Farringdon that are experiencing greater occupier demand. Evidence of this has come from Canary Wharf, where the average Grade A desk rate has increased from £250 pdpm in Q4 2022 to £500 pdpm in Q4 2023.

Occupier demand for ESG friendly spaces will encourage the more well-established providers to target spaces in best-in-class buildings, and so we are likely to see the proportion of Grade A spaces that providers are leasing increase in 2024 compared to 2023.

> 2024 to see providers double down on ESG credentials

As WeWork is expected to relinquish more spaces, we may see one of two outcomes unfold. Either, more established providers seize upon the opportunity to take these spaces, thus increasing their market dominance, or newer players will throw their own hats in the ring so as to firm up their foothold in central London.

Despite the competition on discounts for prospective occupiers that exists in the flex market, as rents remain at historic highs in many locations, we may see providers succumb to the pressure and reduce the extent of the discounts they offer.

Interior design by Dthree Studio for Regal

Flexible Pricing Guide.

	SERVICED OFFICE £ PER DESK, PER MONTH		MANAGED OFFICE £ PER SQ FT	
	GRADE A AVG	GRADE B AVG	GRADE A	GRADE B
WEST END				
MAYFAIR | ST JAMES'S	£1,225	£700	£360	£170
KNIGHTSBRIDGE	£1,200	£625	£180	£140
KING'S CROSS | EUSTON	£1,200	£525	£200	£130
SOHO	£1,125	£575	£260	£150
VICTORIA	£1,075	£525	£195	£130
NORTH OF OXFORD STREET	£1,050	£550	£310	£175
PADDINGTON	£900	£600	£160	£125
CAMDEN	£575	£450	£130	£115
MIDTOWN				
MIDTOWN | WC1	£950	£525	£175	£130
COVENT GARDEN | WC2	£850	£550	£235	£150
CITY				
LIVERPOOL ST | BANK	£925	£475	£220	£145
CLERKENWELL | FARRINGDON	£850	£575	£235	£120
OLD STREET | SHOREDITCH	£850	£400	£165	£80
ALDGATE | ST KATHARINE DOCKS	£625	£425	£140	£100
SOUTH LONDON				
SOUTHBANK: LONDON BRIDGE | WATERLOO	£975	£475	£170	£130
VAUXHALL | NINE ELMS | BATTERSEA	£650	£425	£140	£95
WEST LONDON				
WHITE CITY	£550	£425	£105	£85
HAMMERSMITH	£525	£375	£110	£85
DOCKLANDS				
CANARY WHARF & QUAYS	£500	£250	£105	£85
EAST LONDON				
STRATFORD	£550	£400	£95	£80
HACKNEY| LONDON FIELDS	£450	£350	£95	£75

Data as at end of Q4 2023

Serviced office rates are fully inclusive and based on a Per Desk, Per Month rate (£PDPM) average of a range

Managed office prices are for self contained spaces, price per sq ft basis on a two-year contract, prices will vary on longer terms

Available offices to rent 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.

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 view the available workspace click on the 360 icon to take a virtual tour.

CITY

The Bower, EC1
29,601 sq ft

WEST END

38 Wellbeck Street, W1G
1,886 sq ft

CITY

Alphabeta Building, EC2
Up to 8,990 sq ft

MIDTOWN

Woburn House, WC1H, 5th floor
4,287 sq ft

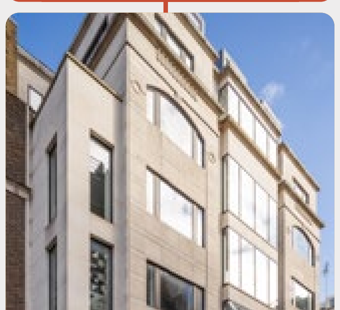
CITY

24 Cornhill, EC3
4,810 sq ft

CITY

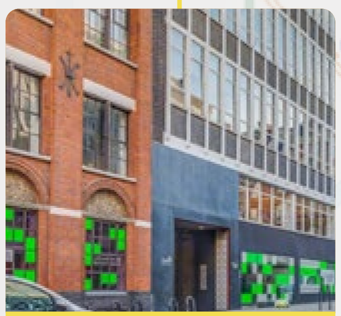
60 New Broad Street, EC2
8,729 sq ft

SOHO



12 Golden Sq, W1F
4,192 sq ft

MIDTOWN

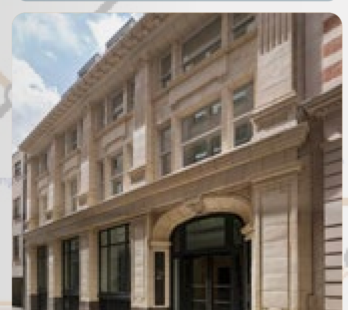


The Courtyard Building, EC1
31,582 sq ft

SOHO

Medius House, W1F
2,314 sq ft

CITY



2 Idol Lane, EC3R
2,907 sq ft

CITY

20 Wood Street, EC2
12,885 sq ft

CITY

Bloom Building, EC1
5,882 sq ft

Why Finance? Why Not?

The Benefits of Finance for Fit out and Interiors from Bluestone

Funding a move to new premises, remodelling your existing space, or opening new sites can incur significant costs. In the current economic climate, when retaining capital is so important, parting with capital can present cashflow challenges or inhibit growth.

Bluestone introduces an alternative approach in the form of finance and its potential benefits to commercial tenants. Budgets can often limit the scope of interiors projects, forcing you to scale back your plans, stagger your plans over time as capital becomes available or delay the project indefinitely. Financing takes the shackles off your vision, significantly reducing the demand on annual budgets and spreading the financial impact over future years.

Rather than paying in full at the start of your project, finance could be a preferable option. Being able to spread the costs over time frees up business capital, can unlock tax benefits, and transforms how tenants think about their budgets and what they can achieve.

bluestone

Why Finance?

Profitable, private companies often unlock significantly greater tax savings when using finance rather than capital to pay for a project through a finance facility that is 100% tax deductible.

Finance can cover 100% of project costs including all pitfalls, labour, professional fees, delivery, dilapidation costs and other intangibles.

Unlike using capital, where the VAT is paid in full upfront, Bluestone can provide facilities ensuring that the VAT is spread throughout the duration of the agreement which can be extremely beneficial for tenants that are unable to reclaim VAT. Finance repayments are fixed throughout the agreement even if interest rates rise in the future giving you cost certainty.

What Can You Finance?

Finance can be arranged to cover the costs of multiple elements of interiors projects (for both Category A and Category B) including but not limited to:

- Fit-out
- Flooring
- Lighting
- Furniture
- Technology
- IT hardware and/or software
- Construction (including labour)
- Carpets
- HVAC systems
- Fire and security systems

In addition to internal refurbishments and interiors, Bluestone provides a wide range of other finance solutions including:

- Asset finance
- Cashflow loans
- Invoice finance
- VAT loans
- Corporation tax loans
- Self-assessment loans
- Vehicle finance
- Property finance

In early 2024 Bluestone launched a transformative rebrand alongside an innovative end-to-end online platform that enables organisations to access quick, competitive finance quotes. They can also submit and track applications through to completion for themselves or their customers with full support from our professional team.

At Bluestone we are proud of our consultative approach to every one of our clients' projects and thanks to our well-established relationships with over 50 diverse funders we can facilitate flexible, bespoke finance that suits an individual tenant's requirements.

Louise Harris,
Director of Finance for interiors,
Bluestone

Case Study

Hydrock is an integrated engineering design, energy, and sustainability consultancy. Bluestone has provided finance for not only Hydrock's commercial fit-out project, but also cashflow loans to cover their VAT bills, Professional Indemnity insurance, and asset finance for IT software and hardware.

"*Bluestone have worked with us for the last decade helping us make purchases and manage our cashflow more effectively. That's enabled us to accelerate some of our growth plans and access the funds required to do that in the most financially effective ways.*"

– Mike Yiannis, Finance Director, Hydrock Ltd

Fortune Favours the Brave

Fortune Favours the Brave. An old saying, but one that has never been more relevant for both occupiers and landlords of today. As we enter 2024 you could be forgiven to think its not all plain sailing for the central London office market. Whispers of "rising vacancy rates" grab headlines and paint a picture of universal volatility within London's office market. We see the reality very differently. As London finally shakes off its Covid hangover, we are about to witness an epidemic of undersupply for best-in-class workspaces in the Capital.

The role of the office has changed. The war for talent, publicly pledged ESG targets and greater emphasis on company culture have resulted in businesses (quite rightly) demanding sustainable, amenity-rich and bespoke workspaces for their employees to thrive. However, an increase in stalled projects, coupled with a reduction of planning applications caused by rising costs, planning uncertainty and a challenging debt market, means supplying these premium workspaces cannot keep up with demand. The result – a polarised office market.

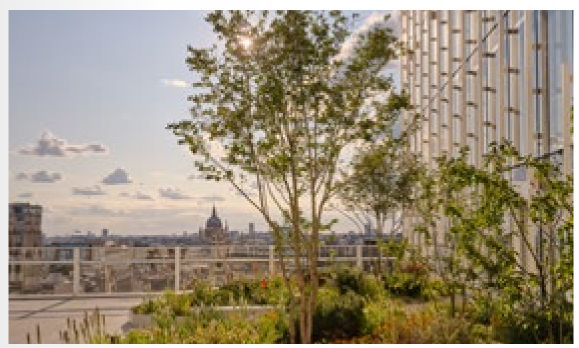
The reality is that businesses will need to be braver than ever to get the new home they want. Instead of waiting until the last minute to look for a new office, organised businesses who begin their search well ahead of any lease events will get the pick of a tight supply. We are seeing this more frequently, with larger, well-advised companies looking for new homes for as far ahead as 2029/2030. Further mitigation of "losing out" on diminishing supply comes in the form of being organised and having a clear brief. Businesses must decipher what is important to their staff; how they see themselves occupying space, what amenities compliment their desired culture and ultimately how much space they need to deliver this. Having this clear brief allows landlords to efficiently offer bespoke solutions and promote a partnership approach.

> The reality is that businesses will need to be *braver* than ever to get the new home they want.

Equally, this is a time for Stanhope and its peers to be brave themselves by redefining what people can achieve from their working environment through product design innovation. When it comes to capturing increased tenant demand, "experience" is the word on everyone's lips. It has never been more important as a landlord to allow people to do more with their working day. "Earning the commute" is front and centre of every design and operational decision we make. A great example of this is at 8 Bishopsgate, where 75,000 sq ft is dedicated to amenity; including a 200-seat auditorium, a kitchen, bar and terrace for all users, in-house cafés and bookable meeting rooms 50 storeys up. Replacing rentable space with amenity is a daunting prospect to many landlords, however we see the benefits through increased demand and a higher rental profile tenants are willing to pay to secure the best working environment for their employees.

As the supply for sustainable, amenity-rich, experience focused workspaces gets outstripped by demand, this is a time for bold moves across the Central London office market, with the bravest likely to come out on top.

Charlie Russell-Jones,
Leasing Director, Stanhope



Harnessing building data to improve sustainability: an overview of NABERS UK

The National Australian Built Environment Rating System (NABERS) is a simple, robust, and comparable sustainability measurement system designed for various building sectors, including hotels, shopping centres, apartments, offices, data centres, and more. The overarching goal of NABERS is to create environmentally friendly buildings that not only benefit the planet but also provide happier and healthier spaces for occupants to thrive in.

First established in Australia in 1998, NABERS has proved to be highly effective in inspiring positive change and promoting sustainability across the built environment. It encourages building owners to prioritise energy and water efficiency, waste reduction, and indoor environmental quality, supporting the transition to a decarbonised future. Over the years, NABERS has helped customers achieve significant savings, with customers reducing their energy usage on average by 30-40% over a 10-year period.

The impact of buildings on global sustainability cannot be underestimated. Buildings are major contributors to climate change, responsible for approximately 40% of the world's carbon emissions, 40% of the world's energy consumption, and 30% of the world's available drinking water usage. By rating buildings, NABERS actively addresses this environmental impact and empowers building owners to make informed decisions that reduce their carbon footprint.

NABERS expanded to the UK in 2020, supporting building owners and developers to reach their sustainability goals.

Unlike design-based energy ratings, NABERS UK measures and rates the actual energy use of offices, helping building owners to accurately track and communicate the energy performance of their buildings. It also helps identify areas for savings and improvements.

There are two types of products available for UK buildings:

NABERS UK Energy for Offices ratings and Design for Performance (DfP).

NABERS UK Energy for Offices ratings measure how energy-efficient an office building is based on its actual energy use and awards a rating on a six-star scale with six stars representing best practice and one star signifying the building is making a start.

A **Design for Performance** agreement enables developers to target a NABERS Energy rating at the design stage of a new office development or refurbishment and verify the building's performance once occupied. This helps to reduce the well-documented performance gap that occurs when buildings use more energy in operation than planned in the designed phase.

Some of the key benefits of NABERS UK Energy for Offices ratings include:

They provide a fair benchmark for a building's energy performance, enabling comparison across the industry.
Equipping building owners with reliable data to communicate their sustainability performance.
An easy-to-understand framework to track improvements over time.
Enables building owners to communicate simply and with confidence that their building has a lower environmental impact and running costs to prospective buyers, renters, procurement teams or hotel guests.

Erika Leesing,
Policy & Partnerships,
NABERS

Outlook 2024

The office market landscape has significantly changed over the past 3-5 years, and 2024 will see many of those changes come into play and define workplace strategies for companies both small and large. Whether it is the impact of national elections, a shift in business optimism, the alignment of ESG goals with real estate, or counting the cost of inflation, our outlook delves into the headwinds that are shaping the next generation of offices.

OUTLOOK 2024

Vote 2024

> Local politics will hold a more *significant* place than in recent years

The year ahead is set to be a pivotal one for politics with several elections being held both here in the UK and overseas. The outcome of these elections looks set to influence the direction of travel for the UK both politically and economically.

Keeping It Local

First up, (aside from by-elections) are local elections across England on the 2nd May, encompassing local authorities, unitary authorities, district councils, mayoralties and council leaders. Local elections are often overlooked or used as protest votes against the current government. This year they will act as a precursor to a looming general election expected later in the year, and so local politics will hold a more significant place than in recent years.

Despite often being overlooked, this year's set of local elections hold immense importance for several reasons, not least of all shaping local and regional policies and services at a time when budgets are constrained due to inflated costs and increased demand.

London Votes

Also on 2nd May, the role of London mayor and assembly is up for grabs. The top position receives the largest personal electoral mandate in the UK with recent mayors receiving close to or in excess of 1 million votes. The incumbent, Sadiq Khan, is bidding for his third term as Mayor.

This year's election looks likely to be dominated by a range of issues from controversial topics such as ULEZ, the congestion zone and the enforcement of 20 mph speed limits across the capital; through to juggling the finances, not least of all with Transport for London which has had to be bailed out since the pandemic. The onus will be on the next mayor to ensure that London is attractive to business, tourists, and inhabitants alike, especially as the capital will continue to compete with domestic and international rivals.

Vote Local

- Vital platform for local democracy
- Acts as a barometer for public sentiment
- Shapes local policies and services – education, planning, housing and transport
- Influences regional development strategies, attracting investment
- Means of highlighting local issues
- Promotes new ideas and new ways of governance
- Encourages sustainability initiatives from a local base
- Empowers local businesses and entrepreneurs

US VOTES

The time has come for the USA to vote once again for its president. Whilst it feels that the country is still reeling from the controversy that encircled the 2020 election results, the polls will open again in November. Looking increasingly likely that it will be a re-run of the previous race with Biden and Trump locking horns, the path to the White House will not be a smooth one.

A shift in policies both domestic and overseas will likely cause consternation, whichever candidate wins the election. History shows that businesses are cautious about making big decisions on hiring, investment and real estate during this period. The repercussions that this election will have globally will likely not be clear this year, but therein lies the problem - market's don't tend to like the unpredictable.

UK VOTES

In addition to local and regional elections in England, the UK will go to the polls in 2024, with strong suggestions that it will be in the autumn. Calls for an early election in May to coincide with the local elections appears to have been squashed with Rishi Sunak signalling his favouring of a later date.

This general election is expected to be significant for a variety of reasons. Several well-known stalwarts from all parties are not seeking re-election; couple this with a redrawing of constituency boundaries and we will see a number of new faces catapulted into the limelight. The Conservative Party hopes to win under a new Sunak mandate, while the Labour party are looking to capitalise on anti-government sentiment at a UK and Scottish level and the Lib Dems are hoping that the wilderness years have come to an end. Whatever the result the direction of the UK's politics is expected to change.

The Workplace & Costs.

Tenant Costs Expected To Rise, At A Lesser Pace

2023 was the year when inflation finally started to fall after nearly 2 years of successive monthly increases, peaking at 11.1% in October 2022. Despite the pace of inflation lessening, previous highs have continued to take hold and hurt the bank balances of businesses and consumers alike. Impacting everything from interest rate rises through to a seasonal hike in the price of brussels sprouts. With expectations high that inflation would continue the same downwards trajectory, December threw a spanner in the works and inflation ticked upwards, ending the year at 4.0%. So, what can we expect in 2024 and what does that mean for office tenants?

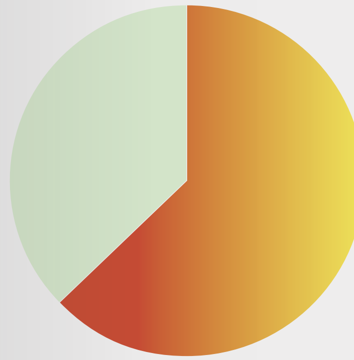
A chorus of economists and the Bank of England expect inflation to ease further over the coming months, with hopes that interest rates will be adjusted downwards at some point later in the year. In the meantime, we expect inflationary pressures to feed through at all levels of operating an office; service contracts, fit-outs, furniture, utility bills, client and employee entertainment costs, and large-scale investments such as new technology to name a few.

> The survey shows that cutting costs and building up cash reserves is the *favoured path* rather than hiring or capital spending

According to the recent Deloitte CFO survey, business optimism for 2024 is high and running above average levels, however whilst this is seen as a welcome boost it does not necessarily translate into increased spending. In fact, the survey shows that cutting costs and building up cash reserves is the favoured path rather than hiring or capital spending – a continuance of a defensive rather than expansionary strategy.

We expect those businesses with significant real estate decisions coming up in 2024-25 will take a more considered rather than cautious approach to the spend on the workplace and workforce, contrary to the higher cost base.

Interior design by Dthree Studio for Regal (Left and right image)



63% of UK respondents predicted a return to full 5-day in office working by **2026.**

Hybrid Working Policy Shift

Hybrid working was seen by many as one of the few silver linings brought to our doorsteps courtesy of the pandemic. It gave the chance for employers to offer greater flexibility to their staff, for some it gave the option to cut operating costs, and others it became a pivotal point of differentiation when attracting new talent. However, the past four years since the beginning of the pandemic for many businesses has been a period of both experimentation and adjustment. Whilst some have fixed their hybrid working policies, there are many more that have not and continue to wrangle with what works best for all parties involved. This transient approach to hybrid working has an impact on the perceived role of the office for business leaders and the workforce, how will this play out in 2024?

Calls from business leaders for a greater frequency of in-office attendance have been growing louder in 2023. Large firms have garnered press attention for rowing back on hybrid working allowances with the likes of PwC, Amazon, Google, Citigroup, BlackRock and Disney all upping the in-office requirement of their staff. With many more companies following suit, this increased volume has started to feed into a rise in UK office occupancy levels, which reached a post-pandemic average high of 36% in 2023, according to data from Remit Consulting. To add further weight to this growing trend, a recent KPMG CEO Outlook survey revealed that 63% of UK respondents predicted a return to full 5-day in office working by 2026.

Whilst we expect more businesses to firm up their hybrid working policy during 2024, it is clear that a significant number of businesses will take longer to find the best fit for them. This fluid position will certainly impact not only the current and future space requirements but will also influence the role of the office in a modern business. For those that have firmed up their hybrid working policy and aligned it with space requirements, makes for a more informed space search and one that can proceed with conviction.

> Gen Z are not only more demanding when it comes to flexible/hybrid working patterns but are also more prone to job-hopping.

Greater Focus On The Office Experience

Increasing in-office attendance on paper may look simple, attracting people back to the office more is no mean feat. While creating a desirable in-office experience has certainly been on the agenda for many firms over 2023, going into 2024 firms will look to up the ante, not only to encourage people back into the office more but using it as a tool to attract and retain staff – with a particular focus on the more junior staff and "Gen Z" workers. Gen Z are not only more demanding when it comes to flexible/hybrid working patterns but are also more prone to job-hopping than other generations, prompting firms to work harder to retain these workers, especially if they push for a greater in-office attendance.

Curating an enticing office experience is not just for the younger generations, the needs of the full range of the workforce irrespective of age, gender or seniority is vital. It is not just the younger generations that have developed greater expectations of the office experience.

There are two forms that this is likely to take in 2024. Firstly, firms will look to improve their in-office offerings, whether that be a lighter touch such as providing lunches for members or a more concerted push to take office space in amenity rich areas likely to appeal to younger team members. In addition, studies have shown that the main reason Gen Z go into the office is to get face-to-face time with their line managers, and so firms will look to ensure that in-office days are centred around not only collaboration between team members but further career development.

New Generation Of Decision Makers

There is a quiet 'change of the guard' of decision makers being ushered in as the rise of Gen X and Millennials taking senior positions gathers pace and significantly influences decisions on working practices and the workplace. Whilst generational change in businesses is not new, the influence of five generations in the workplace at the same time is new and a shift, especially as the voice of the Gen Z generation gets louder as they are expected to account for 27% of the workforce by 2025.

This generational shift, irrespective of whether it is in large corporates or small and medium sized businesses, the result will in varying degrees move the dial on the future of the office and what it looks like. We will see this generational change influence the most important aspects of an office search including where the office is located, the type of space being sought and on what terms (flexible or otherwise), let alone how the office is designed and and how it endeavours to meet the needs of all workers.

The death knell of the office that was rung at the start of the pandemic has been firmly put back in its box now and the return-to-the-office is gathering pace as the younger generations lead the charge. In 2024 we expect seasoned employees to impart their valuable knowledge, whilst the other generations can jump on their digital, creative and innovative skills, heavily influencing future workplace strategies.

> Gen Z are expected to account for
> 27%
> of the workforce by 2025.

Ramping Up Tech In The Workplace

Investment in both workplace and workspace technology is expected to come into its own over the next few years. Alongside advances in products and software, especially to beef up cybersecurity provision, a greater introduction and understanding of the benefits of artificial intelligence, as well as a greater use of proptech to ensure efficiencies, flexibility and cost effectiveness in the workplace are achieved. According to the recent Deloitte CFO survey, 63% of those surveyed see business investment in new technology to increase spending in the long-term, second to labour costs. This highlights the importance of technology to businesses.

One area that will gain more traction in 2024 is investment into proptech and the dissemination of the data collected, in part fuelled by an increase in awareness and responsibility from occupiers, coming from an eagerness to learn from hybrid working patterns and a desire to achieve ESG goals. This could involve implementing technology to make entry and exit from the building as smooth as possible to facilitate agile working, such as smart security systems and meeting room booking web applications.

Equally, landlords will look to improve their level of transparency with the provision of building data for the purpose of meeting sustainability goals. To ensure that the building is operating as sustainably as possible, energy management systems will be improved and, in some cases, integrated with AI to ensure that the building's performance is being assessed accurately. In turn, for the benefit of the tenant we will see a greater engagement with reporting software so that occupiers can receive more up-to-date information on their building's carbon footprint.

The acceleration of the proliferation of workplace technology will also create waves in the employment market as firms look to create greater efficiencies through use of industry-specific technology. These technologies are utilised to automate traditionally laborious clerical tasks associated with the activities of a certain sector.

As a result of the greater adoption of this technology, we are likely to see fewer roles being offered by companies in which a large portion of the responsibilities can be automated.

Design & Fit-out.

Pressure on designers to deliver

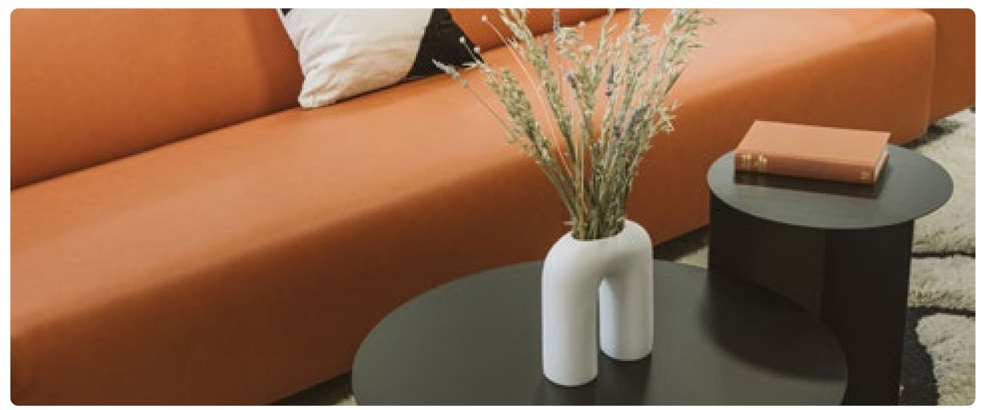
Improve productivity, achieve greater sustainability, facilitate hybrid flexibility, and attract new talent, all with a quality finish, are just some of the driving factors that businesses have when discussing with designers what their new (or refurb of existing) office should achieve. As the world of work turned on its head during the pandemic, the importance of workplace design ratcheted up a few notches too. Layer on the rising cost of an office fit-out and the pressure on designers to deliver that all encompassing office design has risen too. In 2024, we expect that the pressure on designers to produce robust and flexible designs to be maintained, largely as businesses also rise to the challenge of understanding what they truly need from an office.

It all starts with a conversation; execs with managers and staff representatives, then with designers and cost consultants, IT and AV become embedded and ESG goals are considered, until something approaching the optimum fit-out design and solution is settled on. Whilst these conversations add to the planning process, it is clear that the additional time taken ensures that the outcome ticks if not all but then most of the boxes.

It is not just with tenant space that we see the pressure on designers to deliver the optimal solution, it is also being driven by landlords delivering both fitted and non-fitted spaces that appeal to tenants, in what is a very competitive market. The importance of design and quality has never been so high.

Whilst the devil is in the detail, in 2024 the devil this time will be both detail and cost, managing client expectations and delivering on that carefully curated space will continue to be a tightrope. The days when delivering a straightforward open plan office with desks for everyone are slowly disappearing, as collaboration spaces, wellbeing areas, meeting rooms, zoom rooms, and quiet spaces are a few design elements that now need to be factored in to create the office that workers want to work in.

Interior design by Dthree Studio for 11 Westferry Circus (left and right images)



Sustainable office design

The feeling of moving into a fresh new space is one that all workers and businesses look to achieve. However, ripping everything out and starting again, binning all that you had in your former office and buying brand new items takes its toll financially and sustainably and as businesses look to hit targets on both, the drive towards more sustainable office space will pick up pace in 2024.

Education is key, this should come from the office broker/advisor, the designer, the project manager and the landlord, all of who have an important role to feed into any project as sustainable office design is more than just plants and recycling. It is where products come from, the type of transport used, type of materials, the composition of the paint, how much construction is needed, the list can go on. The importance of transparency will increase.

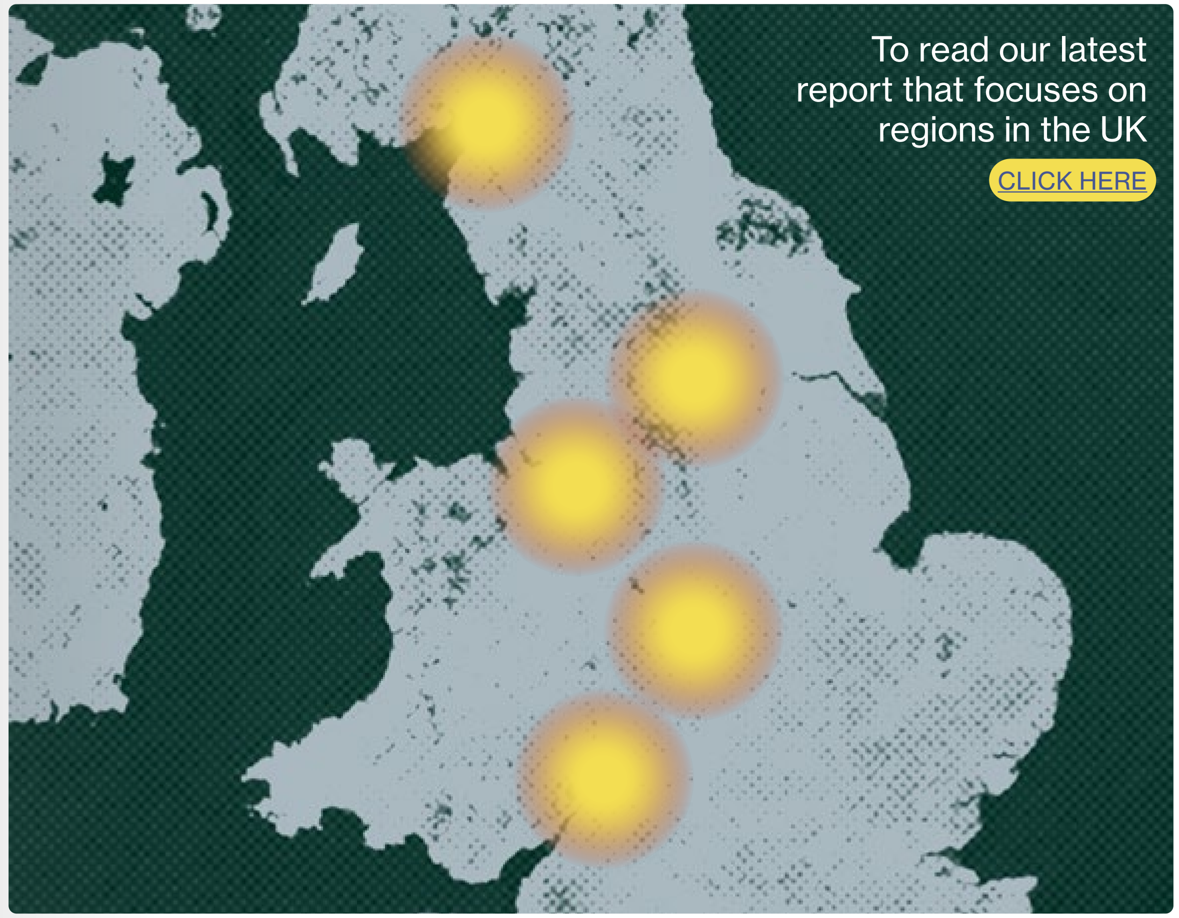
There are pros and cons with all decisions, the same can be said for some sustainable options such as furniture. Re-using existing furniture is a great step, however the downside is that not all recycled furniture will have a manufacturer guarantee, and should anything happen, a new product would have to bought. This is just one example where education and support from a professional will help to make the right decision.

Planning for a sustainable office design should start at the beginning with the office search, this is already evident as more and more businesses are attracted to Grade A and new developments. The importance is having that sustainability brief nailed as early possible, so when it comes to finalising designs it is not inhibited by other factors – as cost, timelines and expectations can derail all best plans.

Contact information
Email: ian@dthreestudio.co.uk
Website: https://dthreestudio.co.uk/
Telephone: 0207 096 9520

OUTLOOK 2024

Leasehold & Flexible Office Market



ESG is fully embedded at every decision stage and every day activities will become a *priority*

Alignment Of ESG, Workforce & Workplace Goals

2024 will see businesses make greater headway in aligning important corporate ESG goals with workforce and workplace strategies. Whether initiatives are industry, business, workforce or even client-led, ensuring that ESG is fully embedded at every decision stage and in every day activities will become a priority, not just for the large corporates, but smaller and medium sized businesses where the scrutiny may well come from internally. Either way, the year ahead will see a more stick than carrot approach to ESG.

Achieving ESG targets solely through workplace solutions is not the definitive approach, by siloing any decisions in isolation to wider decision-making on hybrid working or location of an office will be to the company's detriment, as each strand of ESG policy should influence wider thinking.

Occupier requirements from any workplace are likely to increase in number whether it is from the size of the carbon footprint through to a sustainable design, amenities through to wellbeing provisions, sustainable energy sources through to ethical foods, or work-from-home through to the impact of commuting, the list is exhaustive. But it will be a list that will inform the role of the office, the choice of the office and how workers use it.

Regional Office Renaissance

Regional office hubs have achieved greater attention from business leaders, especially after the pandemic, supporting the roll-out of hybrid-working policies, the ability to access wider talent pools, the access to cheaper residential properties outside of the south east of England for workers and the provision of some of the best-in-class buildings in the UK. Leasing across the main cities has been robust and this is expected to continue into 2024, despite pressure on supply and higher rents in some cities.

It is not just the private sector looking out to the regions more, so is the public sector, as the government renews their pledge to move civil servants out of London. Whilst this sentiment has been expressed by successive governments, the road to achieving this has been slow.

Much noise has been made about levelling up, expect it to get *louder* in 2024

However, a greater mandate for government departments to get workers back to the office is expected to result in the leasing of newer, more efficient spaces in regional locations as we have seen with HMRC leasing across the country. Local transport links have stifled growth for some locations, especially secondary cities and large cities versus key cities.

Much noise has been made by the current government to levelling up, specifically transport links. Expect this to get louder from all parties as they gear up for regional and national elections in 2024, making the regions a political 'hot potato'.

Ahead of these votes, we expect leasing of office space in the key cities across the UK to remain robust, as workers return to the office and businesses eye opportunities.

44%
Clerkenwell & Farringdon

24%
North of Oxford Street

20%
Paddington

20%
Soho

Upward Pressure On Headline Rents

Prime office rents have seen a steady upward trend in 2023 in most major UK office markets and we are seeing similar pressure maintained as we head into 2024. What will drive rents up in 2024?

Tenant demand for existing, new and future Grade A space is expected to increase in 2024, and in those supply restricted markets around the UK and in certain submarkets in London this will lead to further rises in rents, in many cases hitting new benchmarks. The most sustainable development(s) will be highly sought after, as such landlords will be pretty bullish about the rents they seek.

> "...areas with the Elizabeth Line have seen significant rent inflation over the past five-years..."

Proximity to transport links has always proved to boost rents and never more so than after the pandemic and as employers try to entice workers back to the office. In London, office rents in areas around major transport hubs have seen price hikes. While King's Cross rents are now 10% higher than in 2018, areas with the Elizabeth Line have seen significant rent inflation over the past five-years, with North of Oxford Street up by 24%, Soho 20%, Paddington up by 20% and Clerkenwell & Farringdon showing the most growth with a 44% uplift in Grade A rents. Whilst you might reasonably have thought that there is not much further that rents could travel, we do expect location to really be a key factor in fuelling more growth.

The best of Grade B spaces will also feel the heat to increase rents as demand for the best spaces filters through into older properties. Whilst the delta between the two is approximately a third on average, the delta will continue to narrow in 2024, especially in those areas where Grade A supply is limited, such as Mayfair in London.

Despite this, we continue to see opportunities arise for tenants with off-market deals or negotiations on existing or older properties where a deal would kick-start a redevelopment full or partial in the tenants interest.

Growth Spurt For The Flex Industry

The UK flexible office market has stoically emerged from the pandemic and its immediate aftermath with renewed vigour, playing down the pandemic lows and the WeWork woes as well as the administration of BE Offices in 2023 and stating that these troubles are not representative of the wider market. With that do we expect the flexible office market to continue on its expansionary journey in 2024?

What does growth look like? Primarily we expect to see an uplift in leasing activity in both the regional office markets and central London. Many regional cities have been underserved by the flex office, at least by the larger players, and in 2024 we expect this to bring more competitive pricing, better spaces and ultimately more choice. London will not go without as we expect new centres to open, even some that were former WeWork spaces.

Not only will we see an uplift in provider leasing activity, but we predict to see a greater uplift in management agreements with landlords to take on significant tranches of spaces. This is not a new concept, which reduces the lease obligations on the provider and gives the landlord a boosted income, yet has not been as prolifically deployed. With high office availability and increased competition with other buildings landlords are rightfully looking at alternative routes.

Finally, the growth spurt for the industry may well come from further consolidation. The merger of TOG and Fora has proved an interesting template to follow, we could see others emulate this pairing. There are some providers that remain financially stretched as they head into 2024 and these may well be picked off by the larger players in the market.

Blurring Of Lines Between Managed And Leasehold

In 2024 we foresee both the demand for and supply of managed spaces increasing. From the demand side, we are seeing tenants show a greater consideration of managed space, seeing the appeal of being able to fit-out a space as they please whilst maintaining whilst maintaining the month-to-month cost certainty as well as at least a degree of the flexibility of serviced offices. Managed providers will look to meet an increase in enquiries, but the boost to supply will also come from landlords looking to provide their own managed-esque agreements.

We have already seen examples of landlords offering agreements in which they carry out fit outs on behalf of their tenants, the next step is to provide the service agreement alongside. Instant Offices' recent survey shows that over 50% of landlords are hoping to implement flexible office space as part of their portfolio, which is likely to lead to a further blurring of the line between leasehold and managed space as landlords incorporate more elements of managed offerings into their leases.

For the tenant this means greater optionality, providing a perfect choice for those SMEs looking to take that step beyond a serviced office without being locked into a more rigid lease agreement. However, awareness of this type of office space is still thin on the ground amongst tenants, and so it is worth discussing how this option could work with your agent.

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.

Our ultimate goal as an organisation is to navigate real estate opportunities in such a way as to positively influence a company's culture, productivity and financial performance.

Our Services

- Office Agency
- Service Charge Consultancy
- Workplace Consultancy
- Design & Build
- Dilapidations & Building Surveys
- Occupier Disposal
- Rent Reviews
- Flexible Office Agency

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