UK Commercial – December 2021

SPOTLIGHT

Savills Research

Central London Occupier Spotlight

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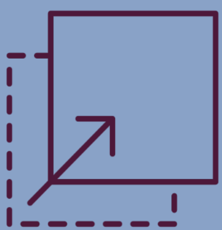
Business sector analysis ● Office demand ● Occupier migration ● Talent

Key occupier statistics

The Insurance & Financial sector has accounted for 23% of transactions that have completed so far this year



The overall median size of space sought by occupiers with an active requirement over 10,000 sq ft equates to a 27% increase on their existing footprint

The Professional Services sector accounts for 2.5m sq ft of active demand. This is up 81% on the same period in 2017

Central London's resilient business sectors

Despite the continued uncertainty, occupier requirements are yet to significantly change

It has been well over a year and a half since the start of the pandemic, and whilst there is still uncertainty as businesses adapt their workplace strategies to accommodate for hybrid working, there are encouraging signs for the occupational market.

Year to date take-up (as at the end of November) stood at 7.4m sq ft, already surpassing 2020's annual total by 54%. In addition to this, active demand currently stands at 9.7m sq ft, up 19% on the end of last year, as there continues to be a sustained appetite for best-in-class office space.

Although take-up, on the whole, is still down 22% on the long-term average, the Tech & Media sector has continued to be a key driver of leasing activity this year and has accounted for 23% of take-up.

Whilst the overall quantity of space and number of transactions to this sector is down, the sector has accounted for four of this year's transactions sized over 100,000 sq ft (Facebook, ITV, Snapchat and IBM). Additionally the sector accounts for 20% (2m sq ft) of active demand.

Our analysis of Tech & Media sector occupiers with an active requirement over 10,000 sq ft indicates 43% of these occupiers are seeking to acquire a similar amount of space, (based on the amount of space they currently occupy).

27% are new entrants to the Central London market or are moving out of serviced office space, and around 28% are increasing their overall footprint by at least 10,000 sq ft. Less than 2% of these occupiers are seeking to significantly reduce their footprint.

We have also continued to see particularly strong demand from the Insurance & Financial Services sector (or more specifically the Financial Services sector). The sector has accounted for 1.4m sq ft, (19%) of the overall amount of space acquired this year and also the highest volume of transactions to complete so far this year (23%).

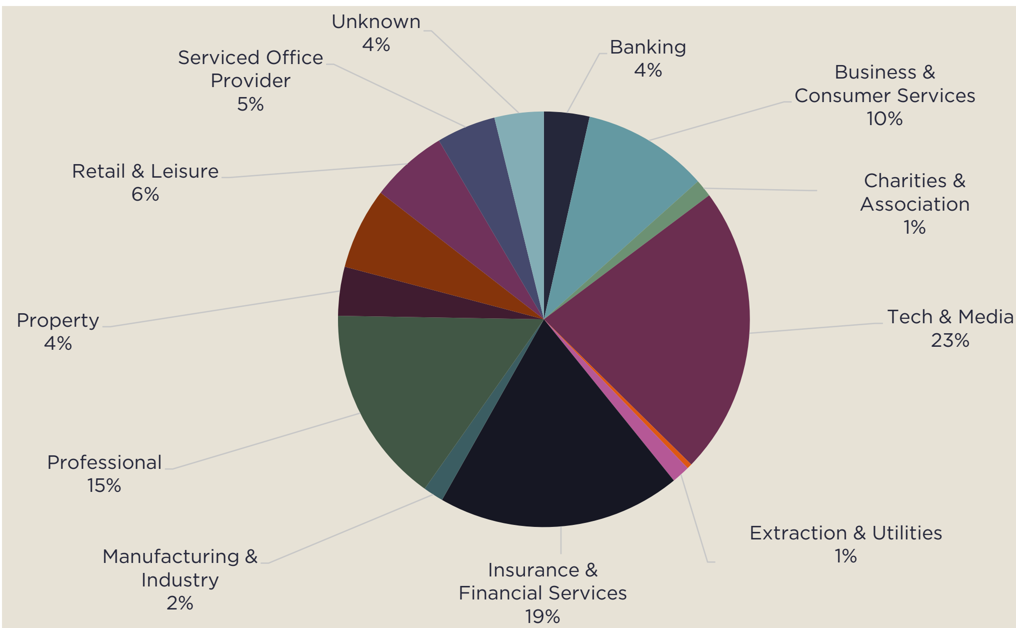
Our analysis of Insurance & Financial sector occupiers, acquiring 10,000 sq ft or more this year, reveals these occupiers took in total an additional 230,000 sq ft due to business expansion. This is when the space they have taken is compared to their previous footprint.

34% of Financial sector occupiers acquiring space this year have taken it in the City Core, and a further 23% in Mayfair, illustrating the continued popularity of these sub-markets with the broad range of Financial Services sector occupiers in Central London.

Despite the continued popularity of these two locations, and whilst being footloose has been more associated with the Tech & Media sector, our analysis of both this year's transactions and current active demand indicates that Financial sector occupiers, particularly those based in the West End, were more product-driven than location-driven.

31% of occupiers who have relocated to a new sub-market or changed their primary postcode this year were Insurance & Financial sector occupiers. Further to this, the sector also accounts for 27% of occupiers

Chart 1: Central London year-to-date sector take-up (by sq ft)



Source: Savills Research

Occupier migration analysis

The increasingly product-driven nature of Central London occupiers, continues to be reflected by the number of footloose occupiers who have changed sub-market or primary postcode.

59% of this year's relocating occupiers changed their sub-market location or primary postcode. Over the past five years, 60% of occupiers have changed sub-market or primary postcode.

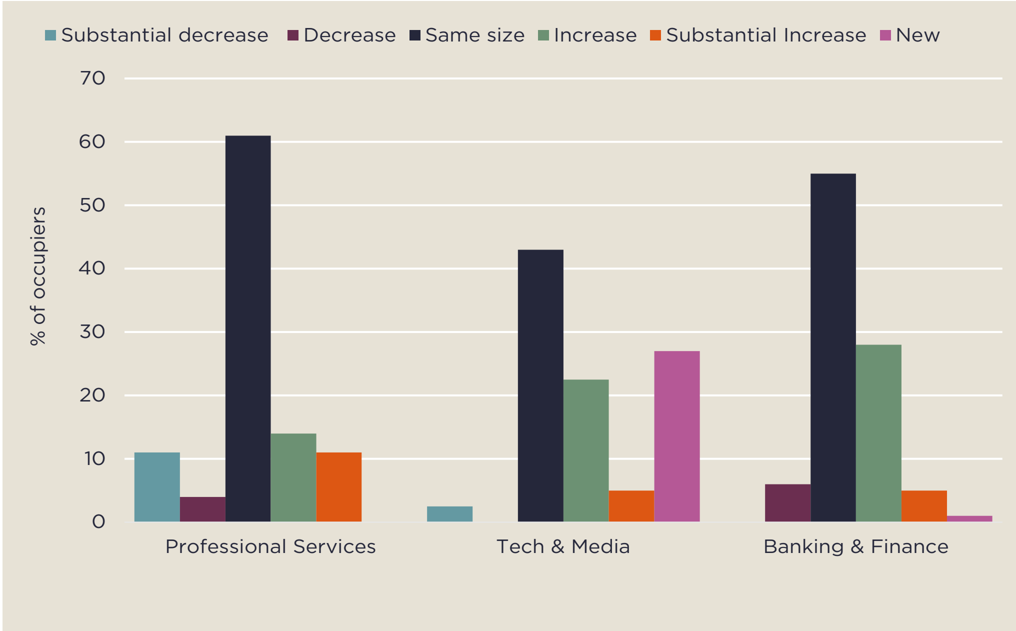
10 years

The higher volume of corporate occupiers with upcoming lease events is reflected by the fact that 51% of relocating occupiers were at their previous locations for 10 or more years.

53%

of West End occupiers with an active requirement over 10,000 sq ft are prepared to look anywhere across Central london (as opposed to having West End/ City-specific requirement). This compares to 16% for occupiers currently based in the City.

Chart 2: Active demand analysis 10,000sq ft+



Source: Savills Research

Looking forward in the short term, our analysis of current active requirements over 10,000 sq ft indicates that while the majority of Financial sector occupiers are seeking a similar amount of space, there were more companies expanding than contracting.

55% of Financial sector occupiers with an active requirement are searching for a similar amount of space to the amount they currently occupy.

The average additional space sort by occupiers seeking a similar amount of space was up 13% (or the equivalent of an extra 5,300 sq ft) on their current occupancy. A further 27% of Financial occupiers were currently seeking to acquire 10,000 sq ft or more of additional space.

The overall amount of occupiers seeking to decrease their footprint by 10,000 sq ft or more only accounted for 5% of Financial sector occupiers with an active requirement of this size.

We have also seen particularly strong demand from the Professional Services sector this year, and whilst this sector only accounted for the third largest share of take-up, at 15%, it has accounted for the largest proportion of pre-letting activity (33%).

This has largely been attributable to Law firms (who account for 92% of professional Services take-up this year), with many coming to the end of long leases and choosing to secure new, premium office space.

Notable transactions to law firms this year include Allen & Overy's pre-letting of 254,000 sq ft at 2 Broadgate, EC2 and earlier on in the year, Latham & Watkins' acquisition of 200,000 sq ft, at Brookfield's 1 Leadenhall development, EC3.

The resilience of the sector is also reflected by the fact that the overall quantity of space acquired by the sector is 18% up on the amount that has been acquired over this period, in the five years prior to the pandemic.

This was the highest increase in comparison to almost all the other sectors, which were in the negative territory. The Business & Consumer Services sector was the only other sector to see an increase on take-up over this period, and was up 2% on its pre-pandemic average for this period.

The number of transactions undertaken by firms within the Professional Services sector has also remained unchanged on pre-Covid levels.

We are set to continue to see high levels of demand from the sector with active requirements from firms in the Professional Services sector currently standing at 2.5m sq ft, up 81% on the same period five years ago.

Overall our analysis indicates that if all occupiers with a current active requirement over 10,000 sq ft, were to acquire space in line with the minimum size of their requirement, this would still represent an increase of 7% on their current footprint.

The median size of active Central London requirements over 10,000 sq ft would equate to a 27% increase in the overall footprint of these occupiers, though some of these occupiers may choose to stay put instead.

> *"London's talent base, and wider financial ecosystem, continues to make it the location of choice for many of Europe's most ambitious Fintech companies who are particularly footloose"*
> *Paul Bennett, Director - Central London Agency*

Flexible office demand

Enquiries across Central London for flexible office space were up 20% this year when compared to pre-Covid levels, according to Workthere's latest research.

The Tech & Media sector continues to be the key driver of demand and accounted for 28% of enquiries, which is no surprise considering the higher degree of flexibility required by start-ups.

The Professional Services sector and the Insurance & Financial Services sectors have appeared to be relatively resilient throughout the pandemic both in the traditional office market and also in flexible office space, each accounting for 14% of all enquiries. The broad appeal of flexible office space is key to London's occupier ecosystem.

The average size of enquiry for the tech sector was 14 desks, with the creative industry looking for an average of 10 desks per enquiry

Flexible office workers are much more likely to feel in control of their office design than conventional office workers. 38% of conventional office space workers feel like they have no control over their office design, whereas only 20% of flexible office workers felt that way

What can we expect for 2022?

We expect to see sustained high levels of demand for good quality space

Between 2022-2024 there is the equivalent of 8.5m sq ft of occupiers with lease events across Central London per annum. At present, the equivalent of around 20% of this consists of occupiers actively considering their options.

Around 40% of these occupiers have been at their current location for more than 10 years. While some of these occupiers will stay on at their existing locations, the heightened demand we have seen from occupiers for better quality space with good sustainability credentials, better building amenities, (such as showers, cycle facilities and terrace space), for brand- and talent-related reasons suggests we will continue to see more occupiers using this as an opportunity to upgrade their office space.

Almost half of this year's take-up has been in buildings rated BREEAM Excellent or Outstanding, reflecting the strong preference occupiers have for buildings with better environmental credentials.

And while around 23% of space acquired this year was in EPC rated A-C buildings, we can see a growing bias from occupiers begin to form for buildings with better EPC ratings ahead of future MEES regulations. This will be a particularly important consideration for those occupiers who are looking to acquire space on longer terms, when current sustainability targets are taken into consideration.

As we head towards the end of the year, we are still very much in the midst of pandemic-related uncertainty, with occupancy rates across Central London at around 25% at the end of November. Whilst we expect to see this increasing during 2022, it's unlikely to reach pre-Covid levels.

We could see more occupiers delaying decisions to get further clarity on what hybrid working means for them as a firm. There will continue to be a heavy bias towards new or refurbished space with better amenity provisions, with some occupiers choosing to downsize but upgrade the quality of space they are seeking.

We are currently anticipating that take-up for 2022 will reach at least 8.2m sq ft, with businesses continuing to focus on assessing their office space needs over the first half of the year.

The future of London office demand

Attracting talent and investment for innovation will remain key for the occupational market

This year London has retained its top spot as the most globally attractive city to work in, in the Global Talent Survey carried out by The Network and Boston Consulting Group. It remains a top location, particularly for those working in the Professional, Financial and Tech & Media sectors.

Its reputation as a hub of creativity continues to attract talent and continued investment into innovative sectors. Over recent years we have also seen big tech firms remaining committed to being in London, for example, Apple acquired an additional 78,500 sq ft at 22 Bishopsgate, EC2 and Facebook committed to an additional c. 300,000 sq ft at 1 Triton Square, NW1 , this year.

Along with the continued innovation created by the high concentration of Tech & Media firms based in London, there is also the wider innovation coming from other business sectors expanding their own technology-related roles and functions.

Since 2019, London has attracted over £14.9 bn of Fintech venture capital funding and ranks as the top European City in our European Fintech Occupier index for 2021, as the City continues its evolution as a global financial centre.

Another notable area that has attracted investment during this period is the SaaS (Software as a Service) subsector. This subsector has attracted around £7.7bn since 2019, and the pandemic has encouraged more and more businesses to invest in their own digital/tech initiatives.

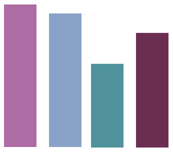
Mobile app technology-related companies based in London have also attracted a significant amount of venture capital investment since 2019. In total, the subsector has received over £7.1bn in funding.

Oxford Economics' latest forecasts are predicting a 6% increase to employment across the Professional, Scientific, Technology, and Financial sectors, over the next five years.

The high demand and competition we have seen this year for talent, particularly software-related workers, and the continued high levels of investment into innovative sectors, will likely see the war for talent continue to intensify in London.

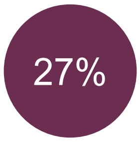
Increasingly companies have been viewing the office as an important tool that can be utilised to retain and attract talent to their business and set themselves apart from their competitors. Our *What Workers Want 2019* survey already indicated 39% of London workers considered the design/fit-out/location elements of their workplace as things they would most like to change about their workplace.

Whilst there is still a high degree of uncertainty, the underlying investment and talent dynamics bode well for the office market. The way the office is used will continue to evolve at a more rapid rate with more divergence from occupier to occupier.



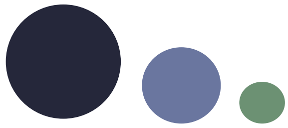
7.8m sq ft

We anticipate 2021 take-up will reach at least 7.8m sq ft



Pre-lets

have accounted for over a quarter of leasing activity this year



26%

The Professional Services sector accounts for over a quarter of active requirements

£14BN

Fintech sector

has attracted £14bn in venture captial investment since 2019

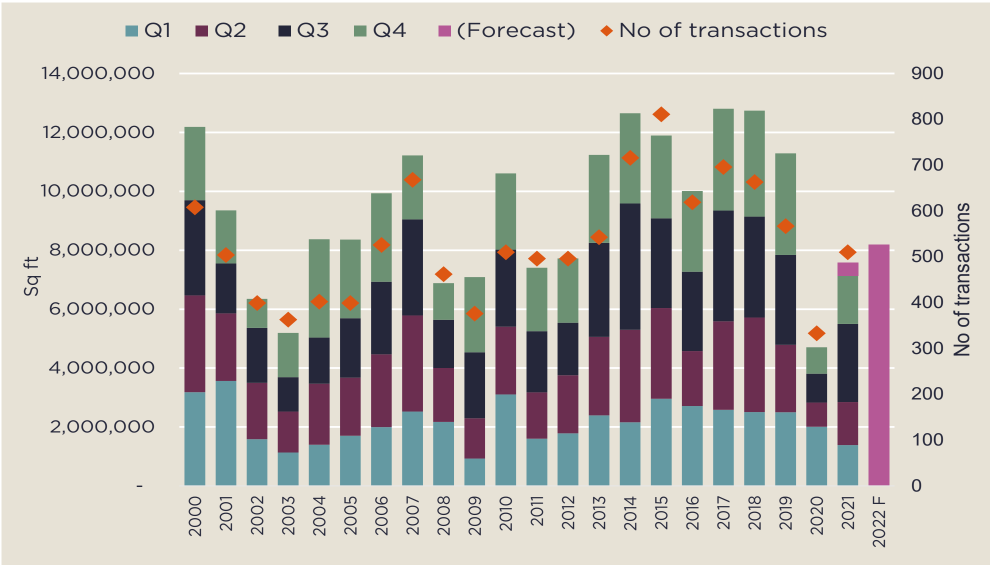
London Office FiT 2021 Survey Responses

Having good-quality IT infrastructure and good mobile signal were considered the most important features for the ideal workplace

40% of London respondents worked from their kitchens, living rooms or dining rooms. A further 22% worked mainly from their bedroom

Having a managed flow of people was considered the most important factor for making workers feel more comfortable about returning to the office more frequently

Chart 3: Central London annual take-up



Source: Savills Research

Has the pandemic impacted London's appeal to workers in terms of living?

London's residential renters

The Covid-19 pandemic caused mainstream residential rents to fall in major cities as lockdowns reduced the demand for urban living. Nowhere was this trend more pronounced than in London, and by March 2021, rents had fallen -9.5% across the capital.

However, we have now in the recovery period, with strong demand returning, particularly from students and young workers.

In the first 10 months of 2021, rents have risen by 6.7% in London. The recovery is now in full swing with growth of 2.0% and 2.2% in September and October, respectively. This suggests that the reasons that people rent in London remain largely unchanged and that demand for city centre living is once again here to stay.

With the majority of people preferring to work two or three days from home or in the office, the office will continue to be important for facilitating work functions and activities better suited to the office, for example, meetings, networking and collaboration.

+6%

Proximity to place of work

was up 6% on the previous quarter in terms of importance for residential buyers

Return to the city is emerging

A net balance of +3% of applicants surveyed (Sept 2021) said a city centre had become more attractive compared to -21% in June 2021

Source: Savills Residential Research Clients and Applicant Survey

Savills Commercial
We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team

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