



## London CRE –

how the capital continues to shine



As one of the world's true global cities, London is used to being in the spotlight, and not just in Coronation year.

The city's CRE market has long ranked amongst the most keenly followed in the world. From TikTok's latest move to podcast sensation Steven Bartlett's new headquarters, the office market continues to make headlines.

But what are the trends and sectors that are driving today's deals?

Drawing on exclusive EG Radius data, this report looks at where London's CRE market might be heading in 2023 and which sectors are leading the way.



# CONTENT

I.	Executive summary	05
II.	Offices – yields and rents reach 5 year high	06
III.	Industrial – investment purchases top £1 billion	12
IV.	Retail – deals total 2.4 million sq ft in 2022	16
V.	Build-to-rent – London’s rental premium reaches 74%	18
VI.	EPC – 23% of London CRE rated lower than C	20
VII.	Planning – 77% of office applications approved	22
VIII.	What’s next? London CRE in 2023	24







## EXECUTIVE SUMMARY

As one of the world's true global cities, London is used to being in the spotlight – and not just in Coronation year.

The city's CRE market has long ranked amongst the most keenly followed in the world. But what are the trends and sectors that are driving today's deals?

Drawing on exclusive EG Radius data, this report looks at where London's CRE market might be heading in 2023 and which sectors will lead the march.

The report reveals:

- how office rents have soared to a 5 year high, with TikTok leasing more than 130,000 sq ft of space in Q1 2023
- how industrial investment has topped £1 billion
- the new retail hotspots driving deals
- the best London boroughs for BTR
- the scale of London's EPC challenge
- the strength of the capital's planning pipeline



## OFFICES – YIELDS AND RENTS REACH 5 YEAR HIGH

Home to the largest financial and legal sectors in Europe, as well as thriving tech and creative clusters, London ranks among the world's largest office markets.

Data from EG Radius confirms that the market has not lost its lustre. Last year, occupational sales and lettings totalled 24.16 million sq ft, a 12% rise on 2019, and a 39% jump on 2021.



Office take-up in sq ft: 2018–2019  
Number of Transactions

2018

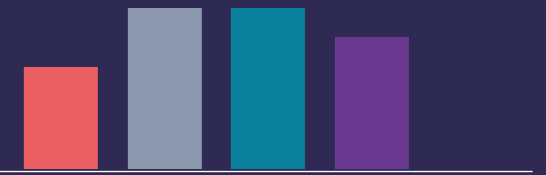
**Q1** 3,969,402

**Q2** 6,255,710

**Q3** 6,228,533

**Q4** 5,128,912

**21,582,557**  
Take-Up  
(Sq ft)



2019

**Q1** 4,637,232

**Q2** 4,861,506

**Q3** 6,203,694

**Q4** 6,255,590

**21,958,022**  
Take-Up  
(Sq ft)

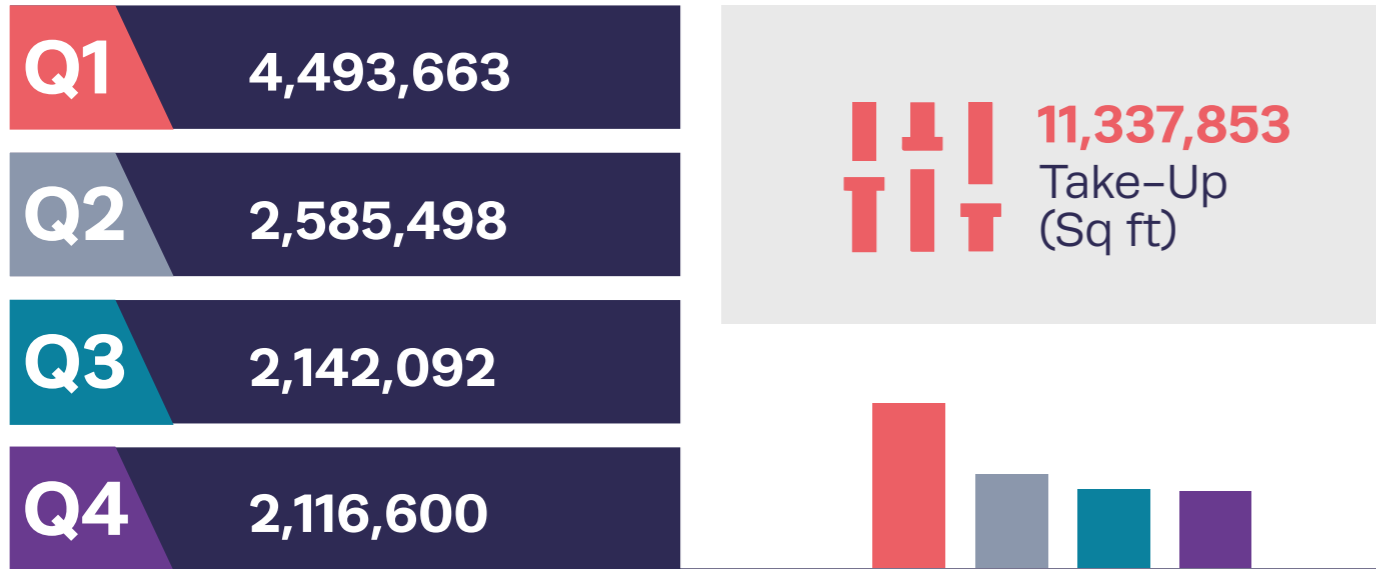




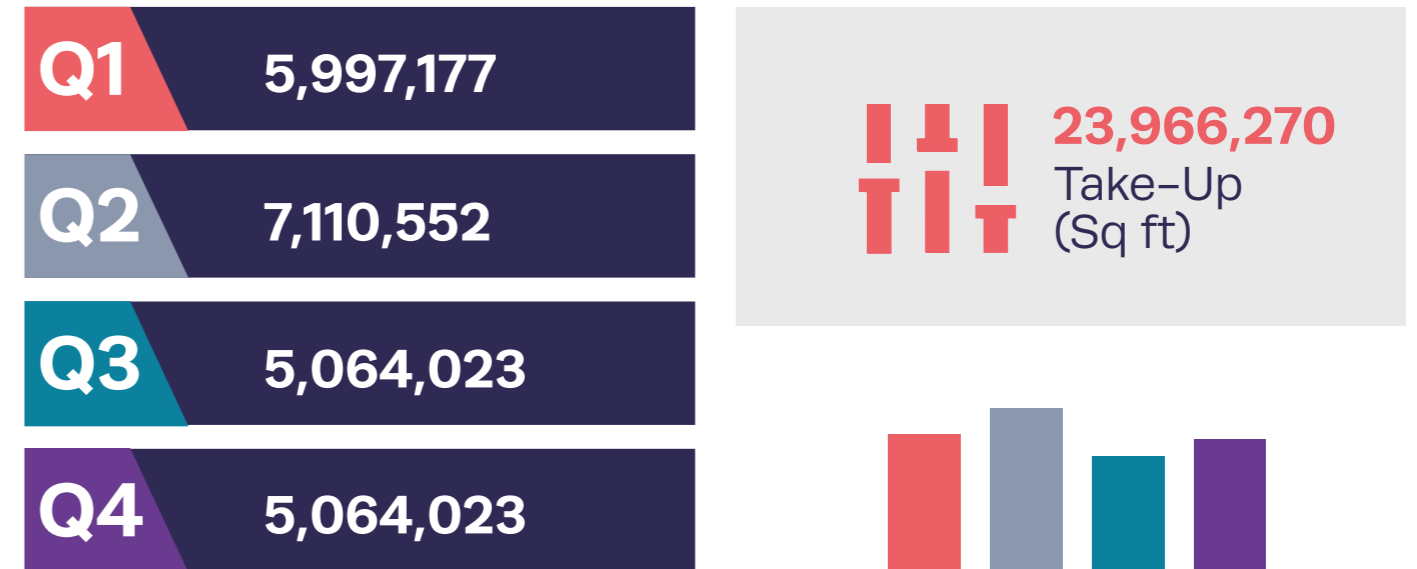
## Office take-up in sq ft: 2020-2022

Number of Transactions

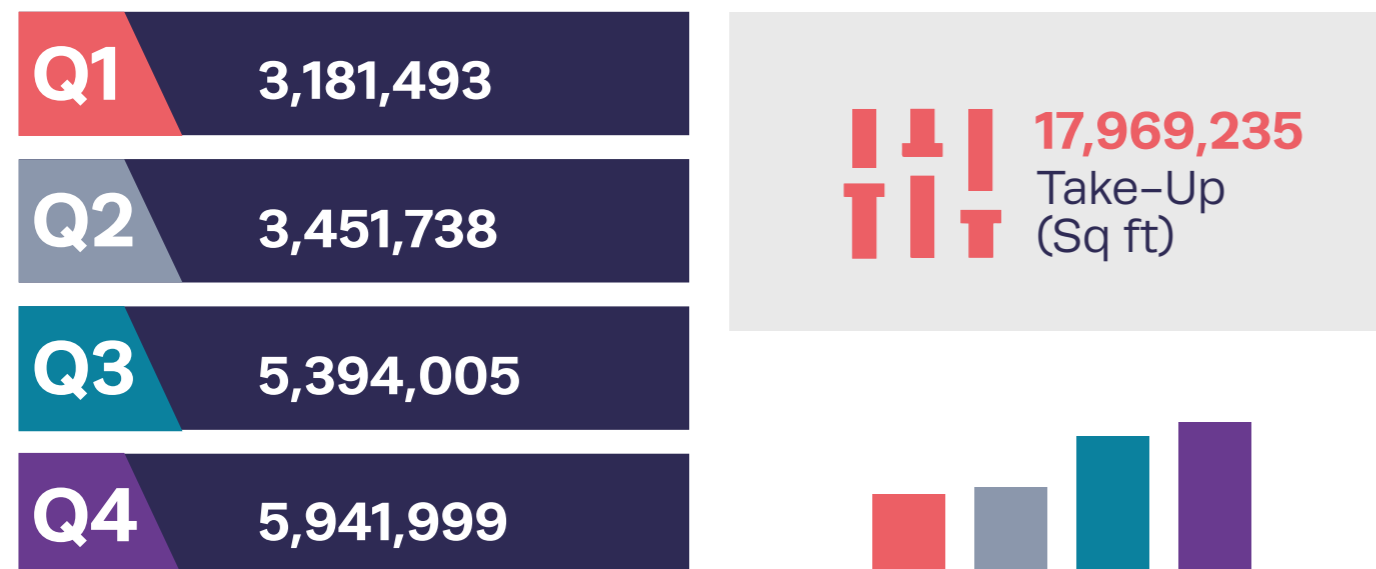
### 2020



### 2022



### 2021



**Average office rent in London is currently £60.05 per sq ft, an 8.9% increase on the 5-year average.**

However, at the end of Q1 2023, transactions have dipped around 24% (by sq ft) against the 5-year average, following a pattern seen in the latter half of 2022, when sales and lettings dropped from their H1 high.

Could higher rents be a reason for the slow down? Data from EG Radius shows that the average office rent in London is currently £60.05 per sq ft, an 8.9% increase on the 5-year average and the highest in that period. This may discourage some occupiers from moving.

At the higher end of the market, the rental squeeze has done little to deter large multinationals, many of which may also benefit from the relative weakness of sterling.



Large deals in Q1 2023 included TikTok leasing 139,404 sq ft at Topland Group's Verdant in the City (rent not disclosed), and investment managers Pimco taking on a new 106,100 sq ft premises on Baker Street (at a rent of £11 million per annum).

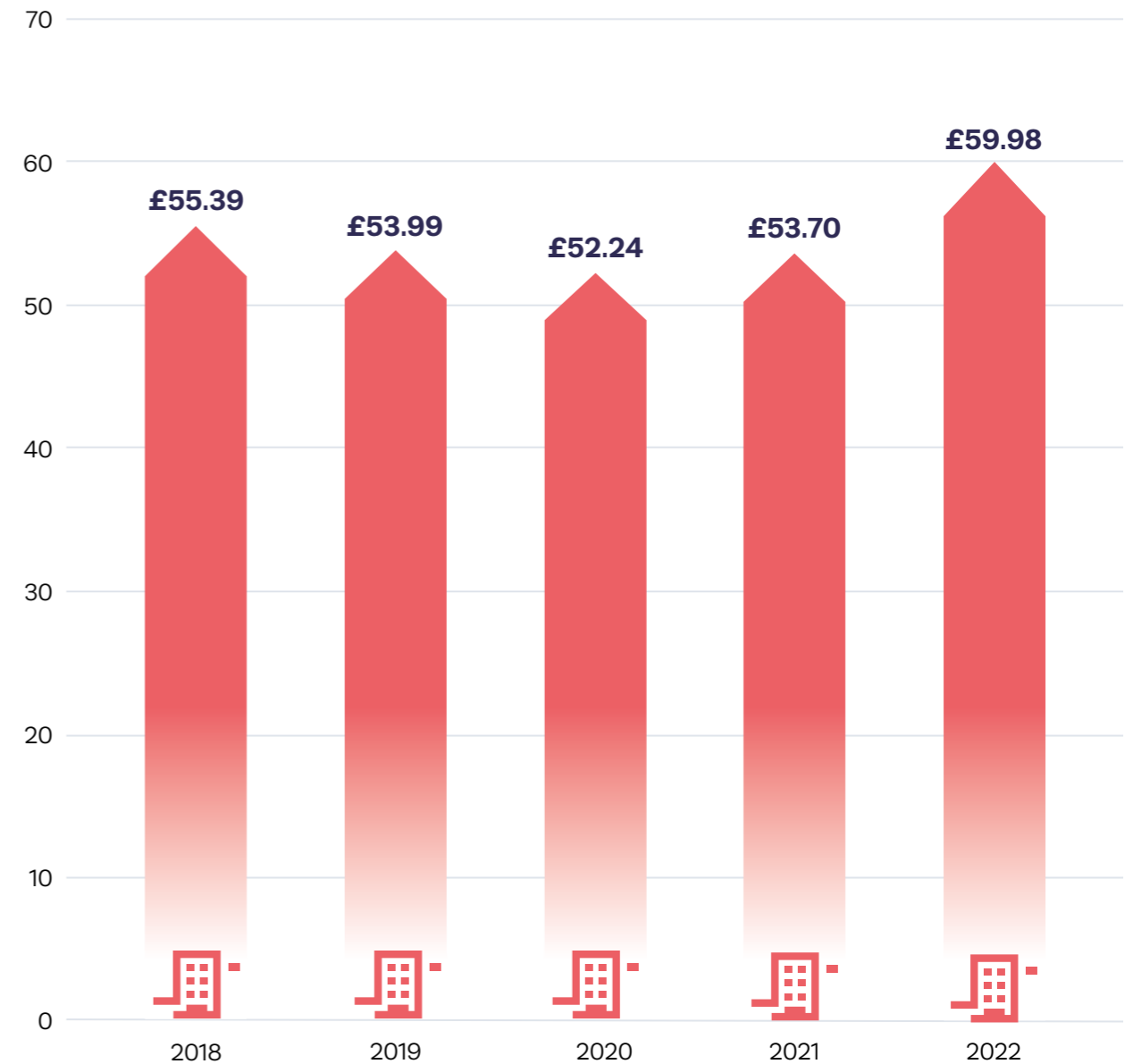
Meanwhile in the most star-studded deal of the year the entrepreneur Steven Bartlett, host of The Diary of a CEO podcast, confirmed he will take a 10-year lease at Truman Estates' 17 Hanbury Street in Spitalfields. EG understands he will pay around £400,000 a year.

"Steven Bartlett is one of our country's most exciting entrepreneurs with a global profile," commented Oli Cohen, a partner at Belcor which acted with Thompson Yates to advise Truman on the deal. "So being part of Truman feels like a perfect fit."

The picture for investors remains positive, with yields hitting 4.8% last year, another 5 year high. Transactions for the year totalled 191, accounting for more than £13 billion.



## Average achieved rent (£ per sq ft)



### Elliott Stern, Founder of Compton said:

“ Since the start of the pandemic, we have witnessed a significant surge in vacated office spaces. For the first time in history, the world of office leasing is competing with people’s homes.

The concept of an office has evolved beyond mere bricks-and-mortar structures, focusing more on how people behave within their office buildings and the level of amenities they provide.

Given the current supply levels and the threat of remote work, developers are being pushed harder to deliver the best possible workspaces, both in terms of form and function. This prospect truly excites me, as we continue to witness the emergence of new schemes that raise the bar.



## INDUSTRIAL – INVESTMENT PURCHASES TOP £1 BILLION

London’s industrial and logistics market has seen significant growth in recent years, with transactions (lettings and occupational sales) hitting a high of 8 million sq ft in 2021, a 33% increase on 2018.

Last year’s market was more subdued, with a 54% drop against the highs of 2021. Throughout the year, EG Radius recorded 392 deals, compared with 597 and 600 in 2018 and 2019 respectively.



### Industrial and logistics take-up in sq ft: 2018–2019 Number of Transactions

#### 2018

**Q1** 1,563,297

**Q2** 1,617,768

**Q3** 1,276,926

**Q4** 1,283,010

**5,741,001**  
Take-Up  
(Sq ft)



#### 2019

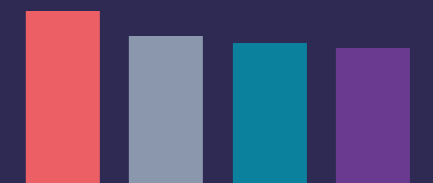
**Q1** 2,854,940

**Q2** 2,436,552

**Q3** 2,321,070

**Q4** 2,246,892

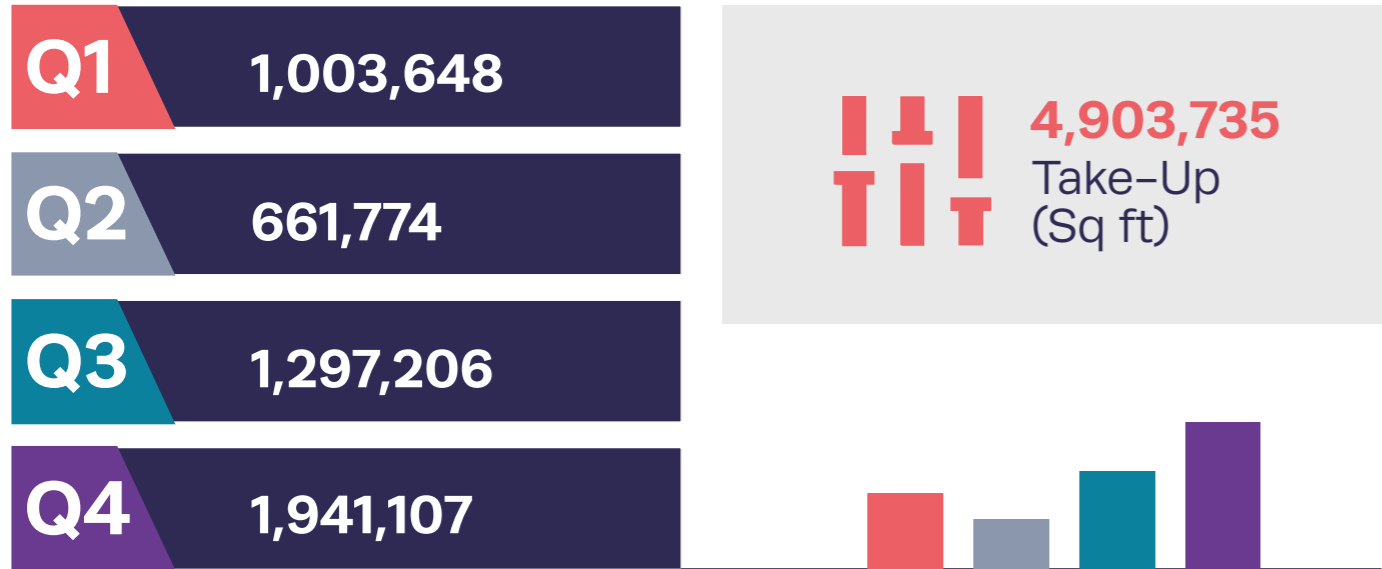
**9,859,454**  
Take-Up  
(Sq ft)



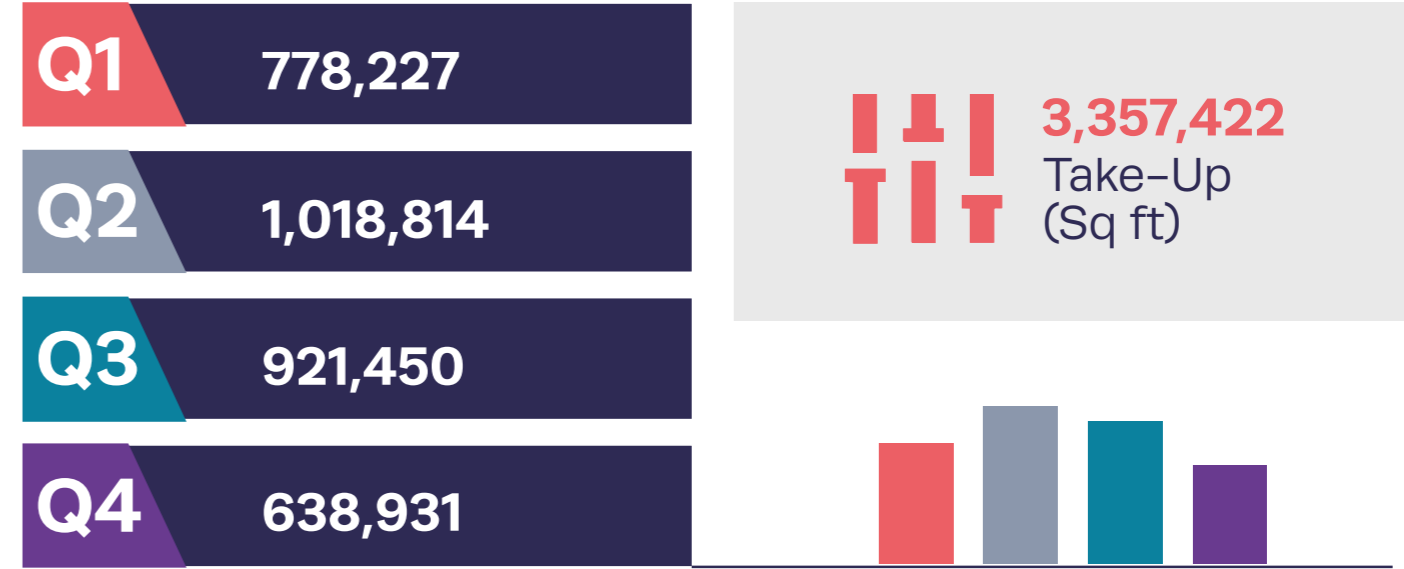


**Industrial and logistics take-up in sq ft: 2020–2022**  
Number of Transactions

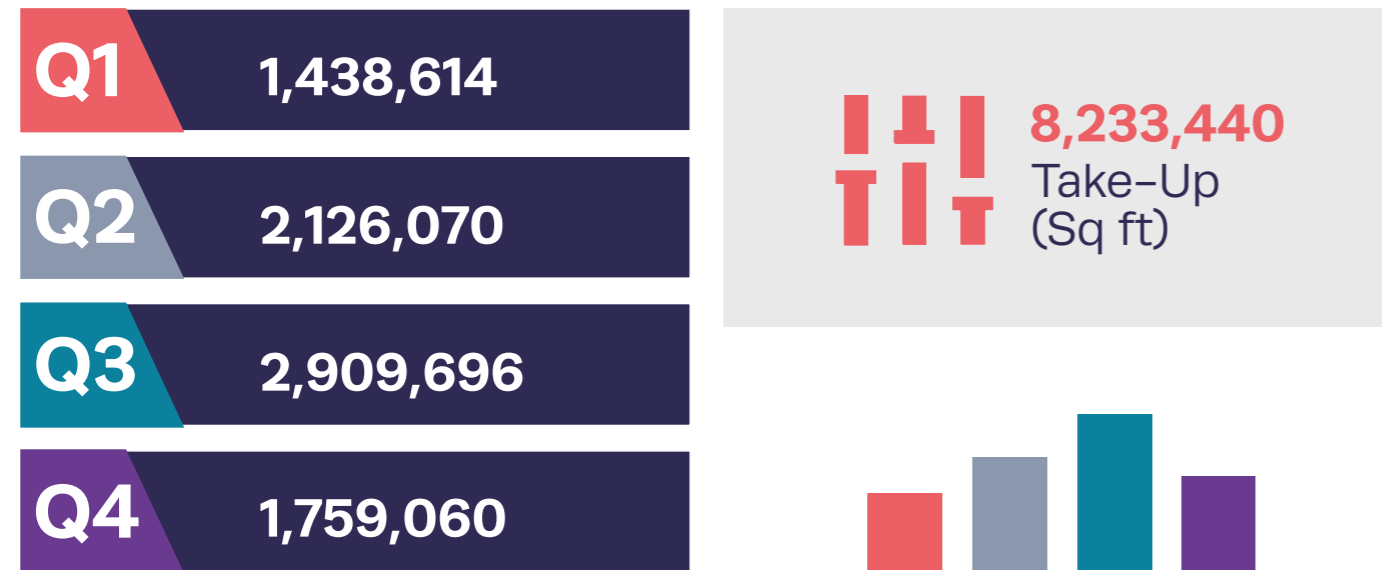
**2020**



**2022**



**2021**



As transactions have dipped, rents have moved in the other direction. 2022 was the fifth year running in which the average rent rose in real terms, and the second year (after 2021) to record a rise of more than 10%.

This trend has continued into this year, with the average rent reaching £20.60 per sq ft in Q1. This represents an 11% rise on the same period in 2022, and 2% rise against last year as a whole.

Rising rents have created clear opportunities for investors. 2022 was the second year running in which acquisitions topped £1 billion – despite a drop in the number of deals. This disparity can be explained by a preference among investors for higher quality and large premises.





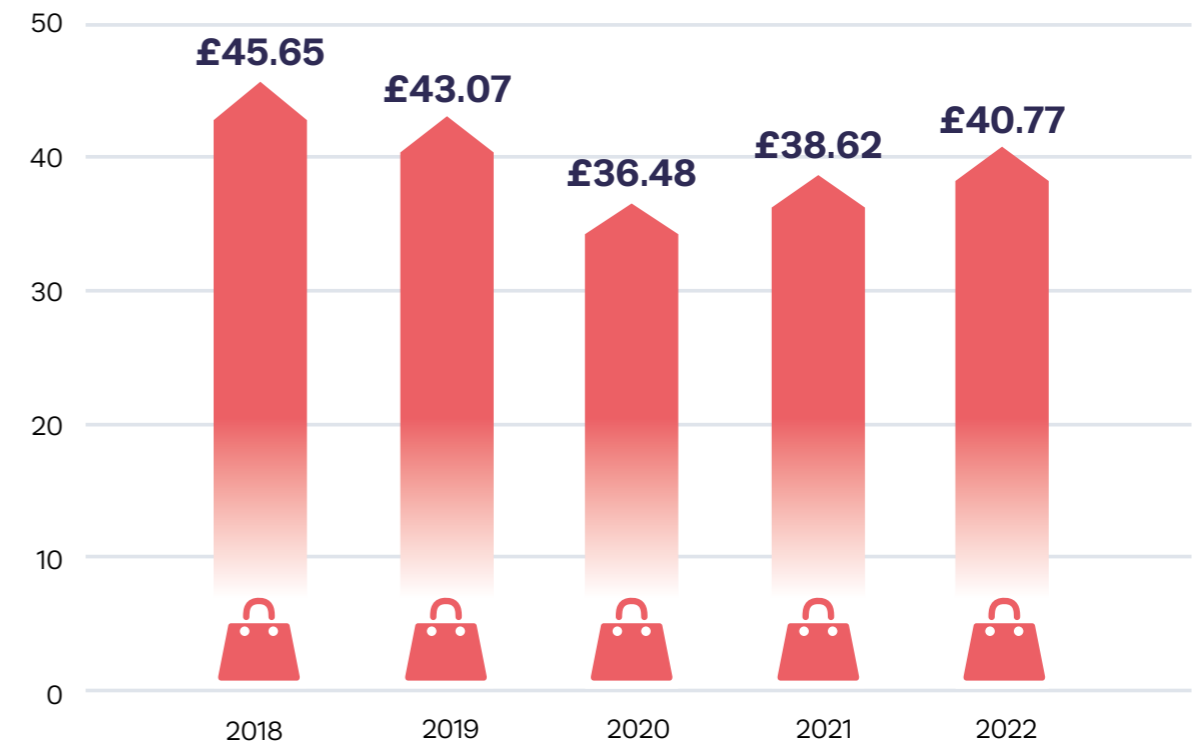
## RETAIL – DEALS TOTAL 2.4 MILLION SQ FT IN 2022

With no shortage of iconic retailers, London has long enjoyed a reputation as one of Europe's finest shopping destinations. But how are its bricks-and-mortar retailers faring?

In 2022, lettings and occupational sales totalled 2.4 million sq ft, maintaining the levels seen in 2020 and 2021 but still below 2018 and 2019. By contrast, rents have risen more quickly: reaching £41.05 per sq ft in 2022.



### Average achieved rent (£ per sq ft)



Destination retailers, particularly those which combine high quality shopping outlets with lifestyle and leisure offerings, have been a key driver of deals.

In Q1 2023, three retailers (Footlocker, Mango and Footasylum) signed 10 year leases at Westfield Stratford City – now firmly established as one of the capital's dominant retail destinations.

The newly unveiled Battersea Power Station, the subject of a £9 billion renovation, has also proved a major draw, with the likes of Lego, Nandos and footwear retailer Office all signing leases in Q1 2023.

As with other sectors, investor activity has been skewed towards larger deals. In 2019, for example, investors made 558 acquisitions totalling £2.56 billion; in 2022, investors made just 143 acquisitions – with purchases totalling £1.1 billion.

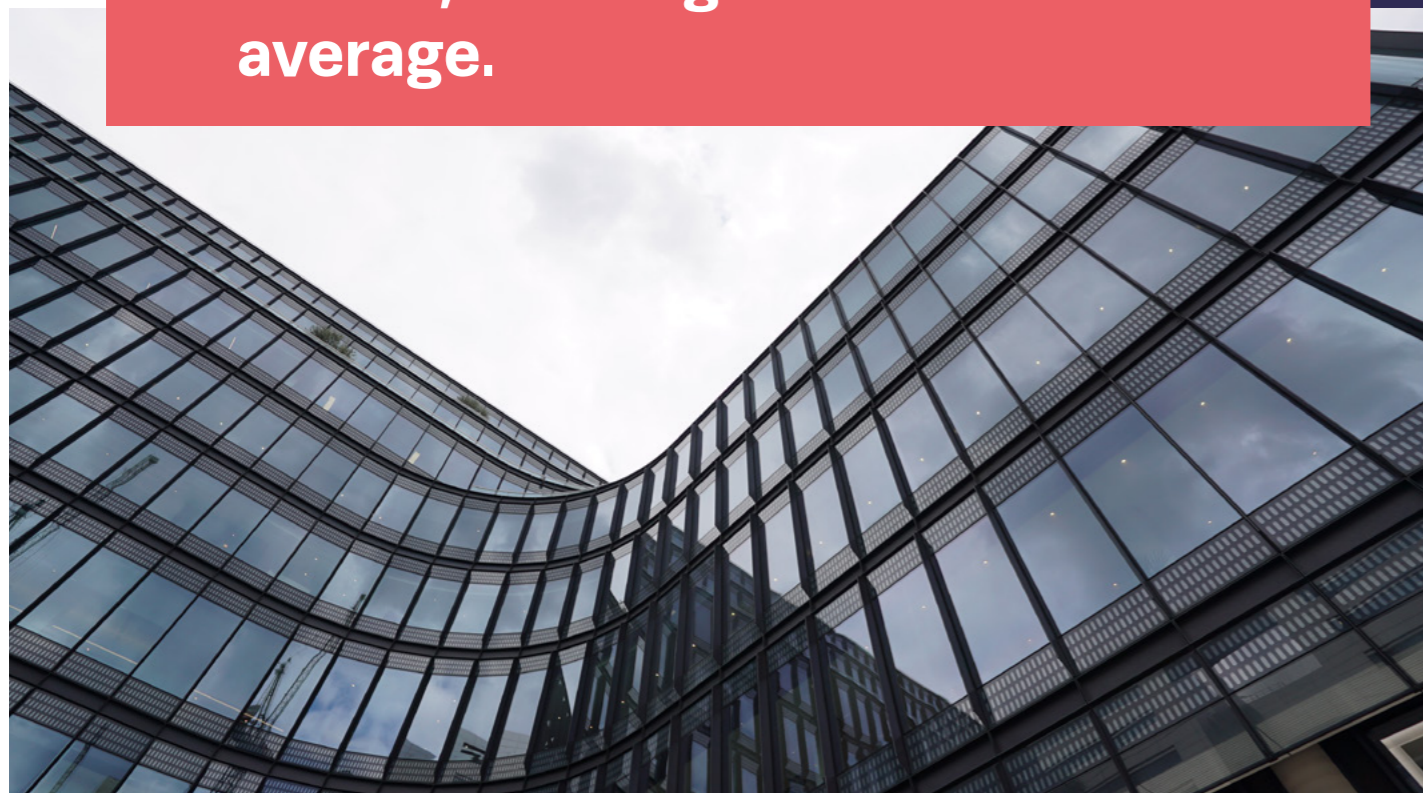


## BUILD-TO-RENT – LONDON'S RENTAL PREMIUM REACHES 74%

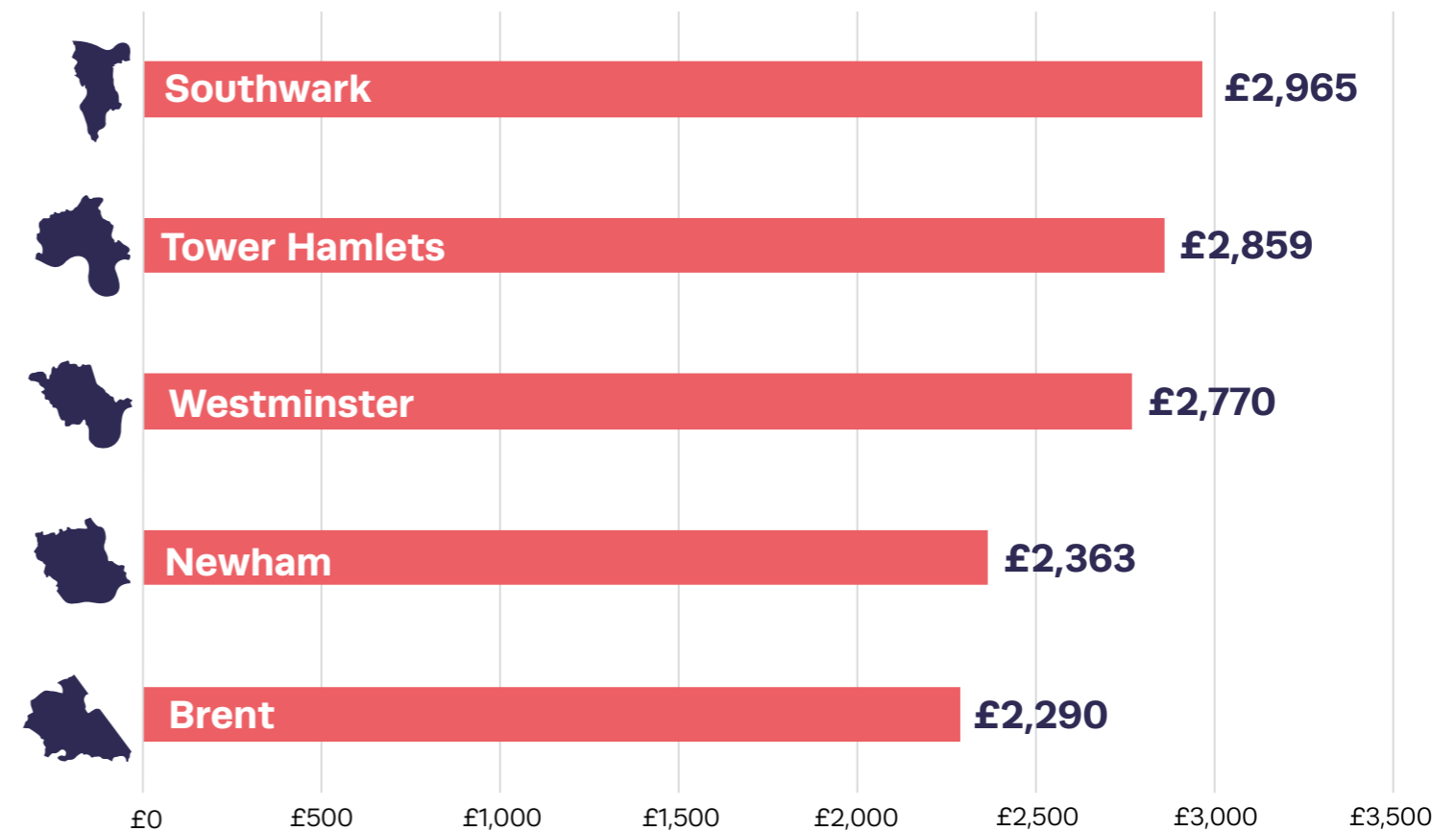
Across the UK, the build-to-rent sector is on the march with London continuing to maximise its first mover advantage.

EG Radius data shows that BTR units in London now command an average asking rent of £2,303 per month, 74% higher than the sector average. This is the largest gap on record, and a powerful indicator of the strength of demand within the capital.

“ Average asking rent of £2,303 per month, 74% higher than the sector average.



BTR: Top 5 London boroughs (average asking rent per month):



The data also reveals variances within London itself, with the typical BTR project in inner London now attracting an average rent of £2,795. This compares with £2,192 in north-west London (home to the premium Madison BTR scheme in Wembley) and £1,957 in north-east London.

BTR hotspots in the capital include Newham, with 15 schemes, and Hounslow, Brent and Westminster, which all have 14 schemes.



## EPC – 23% OF LONDON CRE RATED LOWER THAN C

Over the remainder of the decade, the CRE sector faces a sustainability race, as new rules require owners to meet tougher environmental standards.

As of this spring, any non-domestic premise with an EPC rating lower than E is no longer eligible to be traded or leased. The minimum standard will rise again to C in 2027 and to B in 2030.

How might this affect London? As of the beginning of Q2 2023, EG Radius reveals that 23% of the current office stock is rated less than C (and thus set to be affected by the next uprating in 2027). A further 29% is rated C, meaning it would be ineligible from 2030.

Recent certificates in Canary Wharf provide insight into the scale of the challenge. In August 2022, 26,704 sq ft at 5 Canada Square was assessed as D. In June 2022, 152,577 sq ft at 10 Upper Bank Street, the office building housing law firm Clifford Chance, was rated D.

“ **23% of the current office stock is rated lower than C.** ”

“ With the changing demands of modern tenants and EPC regulations, several buildings will become unsuitable for their intended purposes and will require significant capital investment to reposition them accordingly. I anticipate that many of these buildings will be repurposed for different uses. ”

**Elliott Stern, Founder, Compton**





## PLANNING – 77% OF OFFICE APPLICATIONS APPROVED

With consistently high demand across the CRE sectors, the planning pipeline remains vital to meeting occupier needs, as well as being a strong indicator of market confidence.

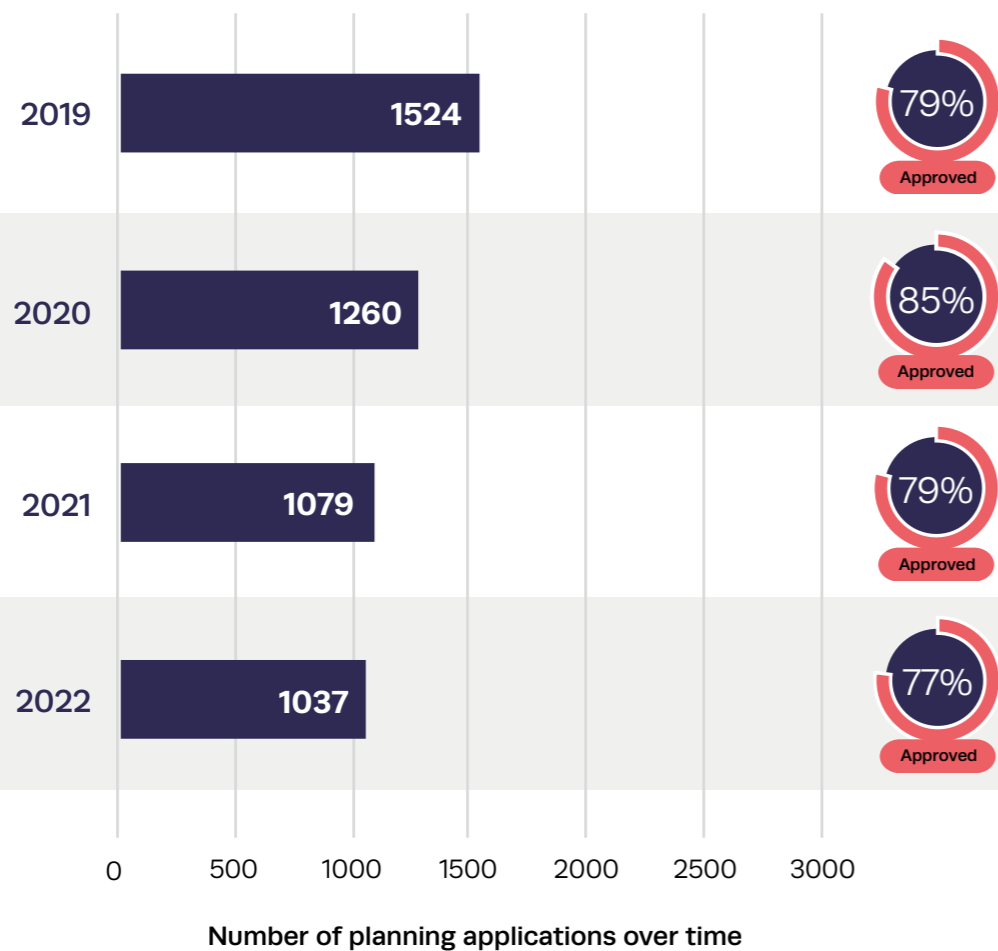
Last year saw a small decline in office applications, with 1037 being filed. This represents a 19% drop compared which the average for the previous three years, meaning that 2023's numbers will be keenly followed.

On the other hand, the office pipeline remains highly efficient, with 77% of applications receiving the greenlight. This compares with 79% in 2021, 85% in 2020, and 79% in 2019.

One particularly encouraging sign is the pipeline of offices currently under construction: with more than 15.3 million sq ft set to complete in 2023. This will be followed by another 13.4 million sq ft next year, and 13.9 million sq ft in 2025.

The retail sector paints a similar picture, with 2232 applications last year (a 14% drop on the recent average) and 67% receiving permission. 3.7 million sq ft of space is currently in construction, with 1.76 million sq ft set to complete this year.

### Office sector



### Retail sector





## WHAT'S NEXT? LONDON CRE IN 2023

Across each of the major CRE sectors, indicators point to London continuing to shine in 2023. Occupier demand remains highly robust, particularly in the commercial centres of the City, Canary Wharf and the West End.

Even with these strong fundamentals, the capital will face some tests in the near future, not least from rising rents and tougher environmental standards.

While these may lead to a short-term drop in deals, they also present significant incentives for investors. If developers can provide high quality and sustainable premises, there is every indication that occupiers will take them.







## Radius

[eg.co.uk](http://eg.co.uk)

0208 4676 1674

[enquiries@eg.co.uk](mailto:enquiries@eg.co.uk)

Access the data in this report and more with EG Radius. **Visit [eg.co.uk/eg-radius](http://eg.co.uk/eg-radius) today.**