



# What occupiers want

## London's new hotspots



## REPORT

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## EXECUTIVE SUMMARY

When it comes to commercial property, few cities are as closely watched as London, one of the world's most dynamic CRE markets.

How that market develops will shape the city's future, delivering billions of pounds of deals. But how can we get ahead of that curve?

One of the best ways is to map the changes in occupier demand, which provides a powerful indicator of where tomorrow's deals are more likely to occur.

This report draws on hundreds of thousands of live data points from EG to find out exactly where occupiers are looking.

### **This report reveals:**

- The current deal hotspots in each sector
- How outer London has stolen a march on the centre when it comes to office deals
- Which boroughs have defied the drop in retail sentiment
- Which borough has seen demand rise in all three sectors
- The capital's most efficient planning pipelines

## CRE IN 2023

Having overcome the one-time uncertainties resulting from Brexit and the pandemic, 2023 began facing a new set of questions.

While it is possible we may avoid the much forecasted recession, inflation remains stubbornly high. At the same time, an enduring cost of living squeeze has hit consumer spending, lowering expectations of a speedy recovery.

The CRE sector is not immune. After 12 interest rate increases, buyers now face significantly higher borrowing costs. Meanwhile, capital markets have been hesitant, with acquisitions static through 2022.

Additionally, new EPC standards (which will render all buildings below a certain energy efficiency standard unsellable or lettable) have created a new uncertainty. Research from EG estimates that these new rules could see almost 150m sq ft of London's CRE stock stranded by 2030.

Underneath the headlines, though, the data paints a different picture – at least for certain sectors and regions. Can this help identify the shape of future deals?



## ENQUIRY DATA: Who is looking where

While occupier transactions may have dipped across 2022, real-time enquiry data suggests that 2023 may prove more fruitful when it comes to deals.

Compared to Q1 2022 (in which the market was still riding its post-pandemic high), enquiries fell just 14% year-on-year in Q1 2023.

Of the three main CRE sectors, industrial was the least affected (down 4.5%), followed by retail (down 12.1%) and then office (23.2%).

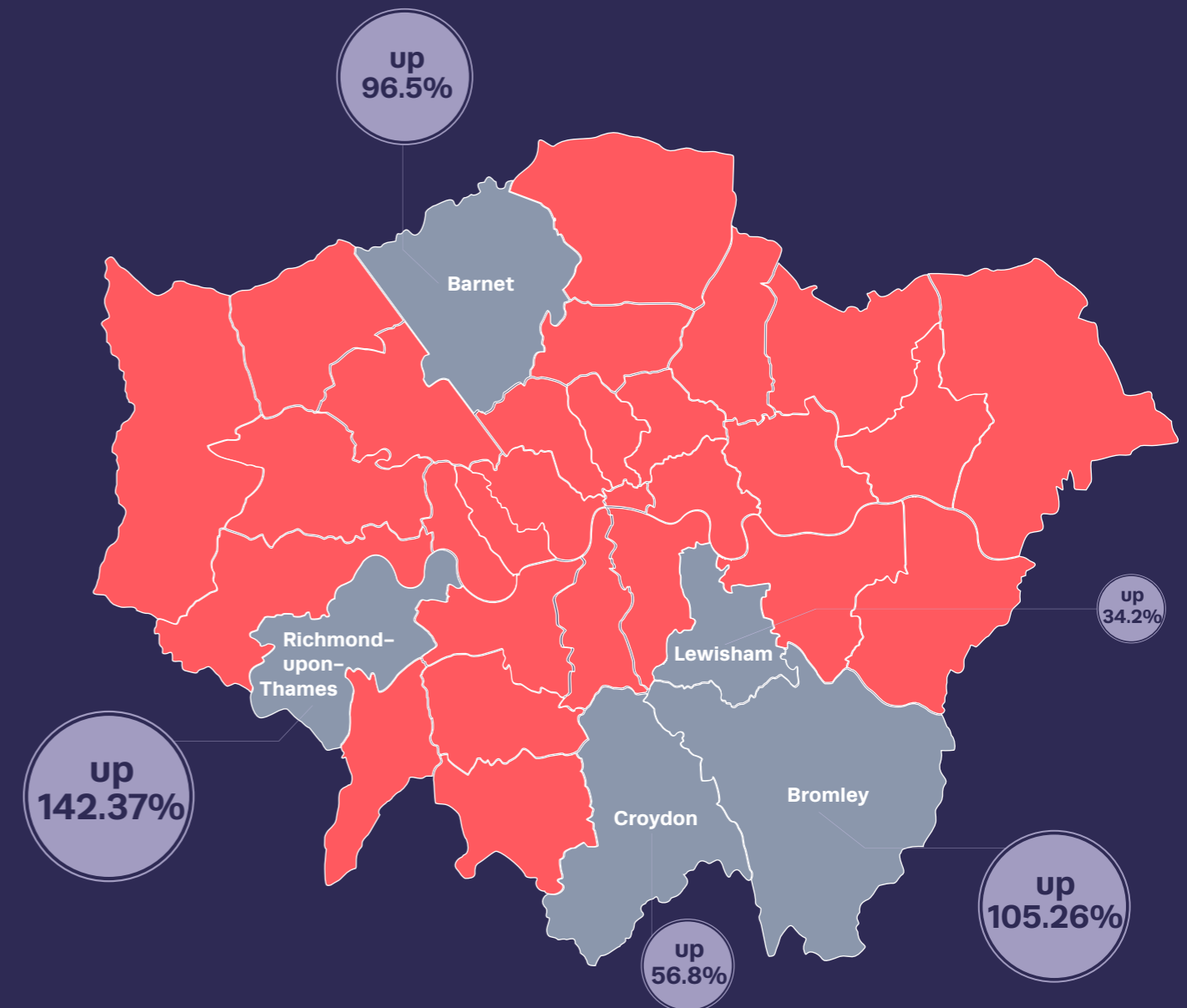
Enquiry data also reveals a divide between inner and outer London. This could be explained by the outsized impact of institutional investors on the central London market.

In Q1 2023, overall enquiries fell just 7% in outer London, compared to 17% in inner London. Though, in both markets, a number of individual boroughs performed well above average, with some even managing to exceed enquiries from Q1 2022.

These included Richmond-upon-Thames and Bromley in outer London, and Lewisham in inner London.

“ **The retail sector was the only major CRE market for which inner boroughs outperformed the suburbs.** ”

## Biggest growth in enquiries: Q1 2023 v Q1 2022

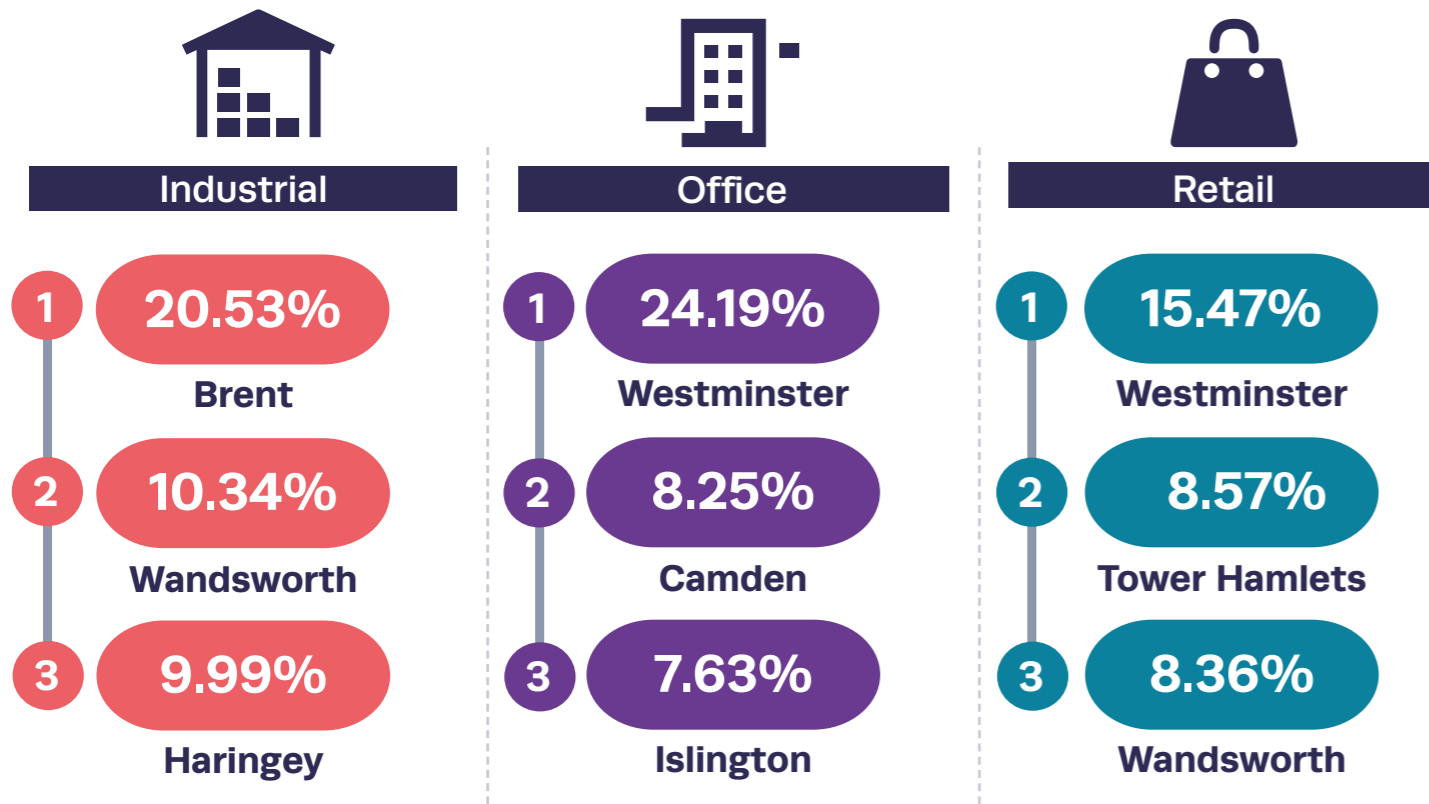


A number of boroughs arise as key drivers of demand within the major CRE markets.

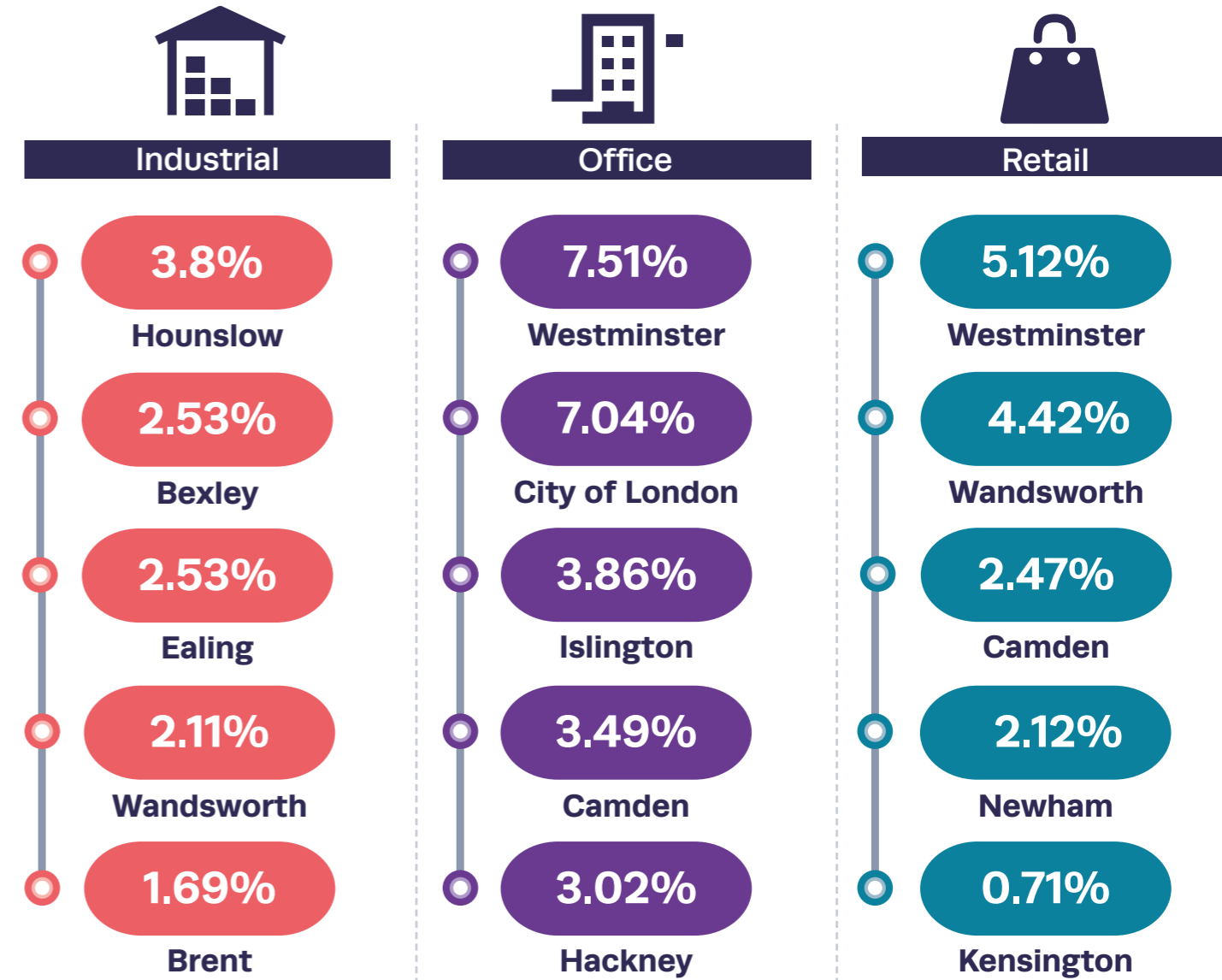
In the office market, the City adjacent boroughs of Camden and Islington have performed particularly well, while the north London borough of Brent attracted the most industrial enquiries, followed by Wandsworth and Haringey.

By contrast, central London continues to be the underlying driver of retail deals. The sector was the only one of the three for which inner boroughs outperformed the suburbs, with inner London enquiries down just 10.8% on Q1 2022.

## Which boroughs have driven demand in Q1 2023?



## The London boroughs driving deals in Q1 2023



### DEAL DATA:

#### What do the numbers show?

Overall, deals in Q1 2023 were down 44.7% on the strong performance seen at the beginning of last year, with a 35.4% drop in space transacted (lettings and occupier sales).

As expected, the picture varies between sectors. Office deals performed slightly better, with a 40.6% drop year-on-year, while industrial and retail fell 48.5% and 55.8% respectively.

Most importantly, localised data reveals the boroughs which have outperformed their sector average – perhaps the strongest case for optimism this year.

For offices, deals fell just 4.9% year-on-year in Hackney, followed by 8.6% in Islington and 15.9% in Tower Hamlets; much less than the 40.6% drop across the city as a whole.

For industrial premises, the least affected boroughs were Lambeth, where deals were flat year-on-year, followed by Hounslow (down 10%) and Southwark (down 25%).

The impact of concentrated hotspots is even more pronounced in the retail market. Despite having the largest headline drop in deals, it is the only sector to see some boroughs exceed their Q1 2022 totals, with Wandsworth and Westminster up 13.6% and 7.4% respectively.



## PLANNING DATA: Where is supply rising fastest?

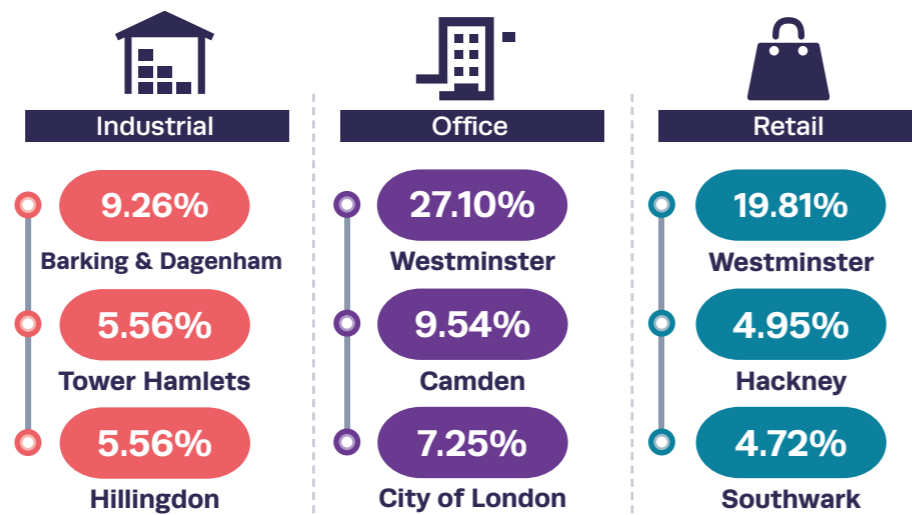
For the first three months of the year, non-residential planning applications fell by 10.7% year-on-year.

Again, there is a clear variance across sectors. Industrial applications are up 17.8% but it is outweighed by a 48.8% drop in office applications.

Crucially, though, approval rates have remained consistent. Of those Q1 2023 applications which have received a decision, 78.8% were approved.

Encouragingly, it is the office sector that has the highest approval rate: at 88.8% (excluding the larger number of applications which are awaiting decision).

### The boroughs driving planning applications



A detailed inspection of planning applications also reveals a small number of super-performing boroughs i.e. areas that have processed the largest percentage of their share of the planning pipeline.

In Q1 2023, those boroughs were Richmond-upon-Thames, Kingston-upon-Thames and Barking & Dagenham

### The most efficient planning pipelines in Q1 2023

#### Richmond-upon-Thames:



63.3% of Q1 2023 applications processed

60% approved applications

#### Kingston-upon-Thames:



63.1% of Q1 2023 applications processed

52.6% approved applications

#### Barking & Dagenham:



57.1% of Q1 2023 applications processed

50% approved applications

## BOROUGHES IN THE SPOTLIGHT

### Tower Hamlets – 6.2% of 2023 office deals

Spiking rents may have made office occupiers look beyond the prime central locations. But it isn't the only thing bringing occupiers to Tower Hamlets.

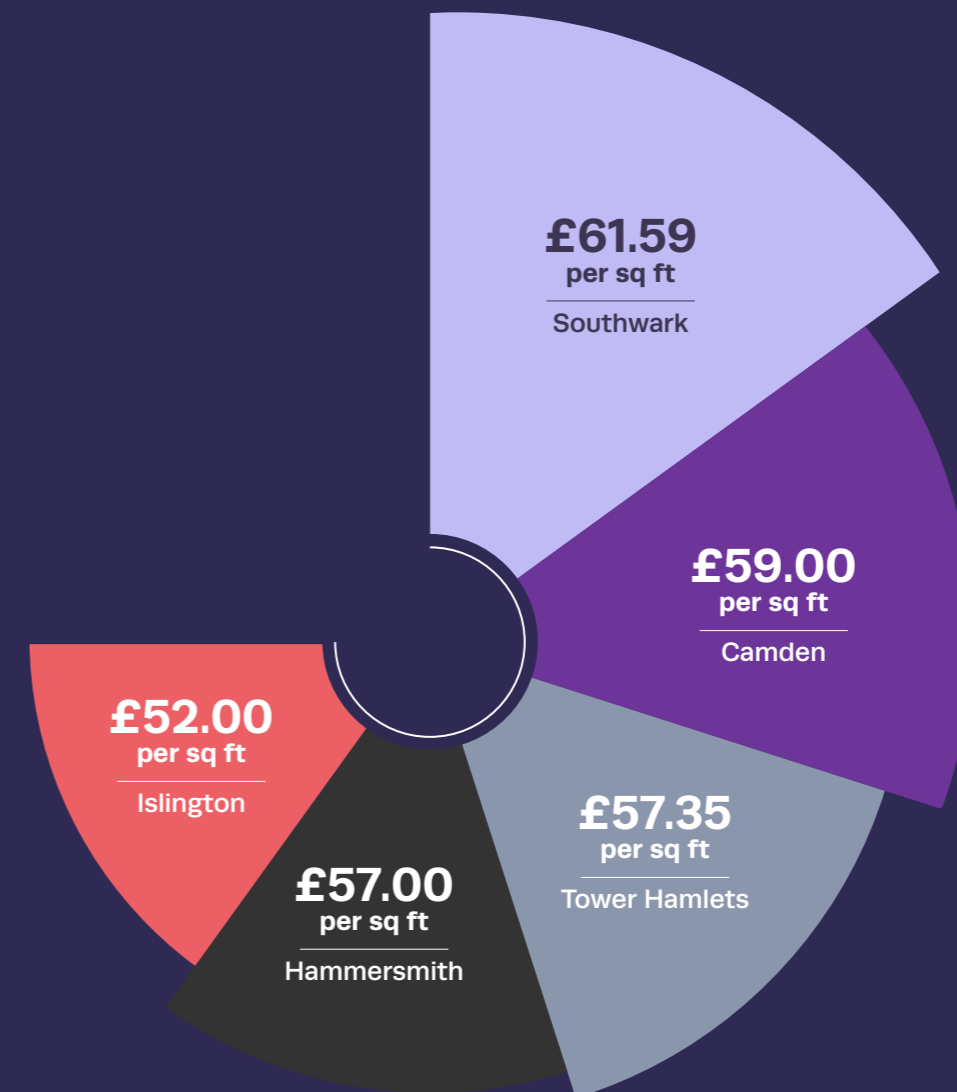
The borough is home to a number of grade-A office developments, designed to capture surplus demand from the City.

In Q1 2023, it accounted for 6.2% of office deals, compared to 4.39% in the same period last year.

Unsurprisingly, this has affected rents, with the average rent up 19.3% year-on-year. On recent deals, occupiers have paid only £4.68 per sq ft less than those in the City proper.

There are more encouraging signs for the longer-term though. Tower Hamlets currently provides 1 in 20 office planning applications, with 46% of recent applications receiving approval (and 54% awaiting decision).

### Average office rent (Q1 2023)



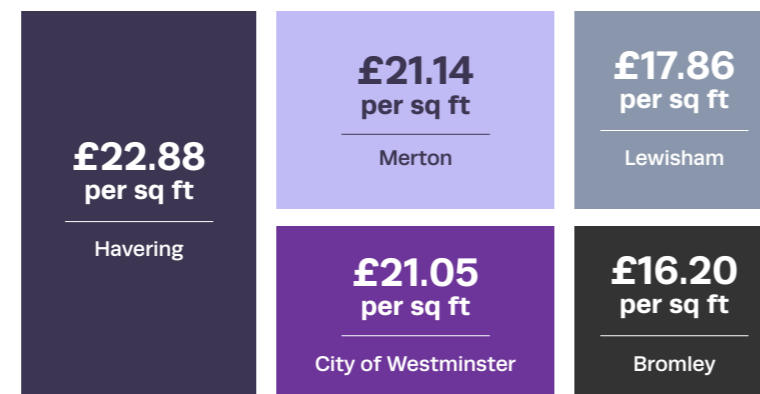


## CITY OF WESTMINSTER: Retail deals up 7.4%

In a cost of living crisis, retail success stories can be hard to find. Yet the heart of the West End is one such example. In Q1 2023, deals were up 7.4% on last year, with transactions amounting to more than 1.5m sq ft.

Significant deals included steakhouse Gaucho taking on 6,200 sq ft in Covent Garden, and fashion brands Hackett and Dqsquared2 signing new leases on New Bond Street.

### Average retail rent (deals Q1 2023)



In the office market, Westminster comfortably retains top spot for deals, despite a 50% drop in transactions. Office rents, meanwhile, have risen yet again: this time to £90 per sq ft (a 15.7% rise).





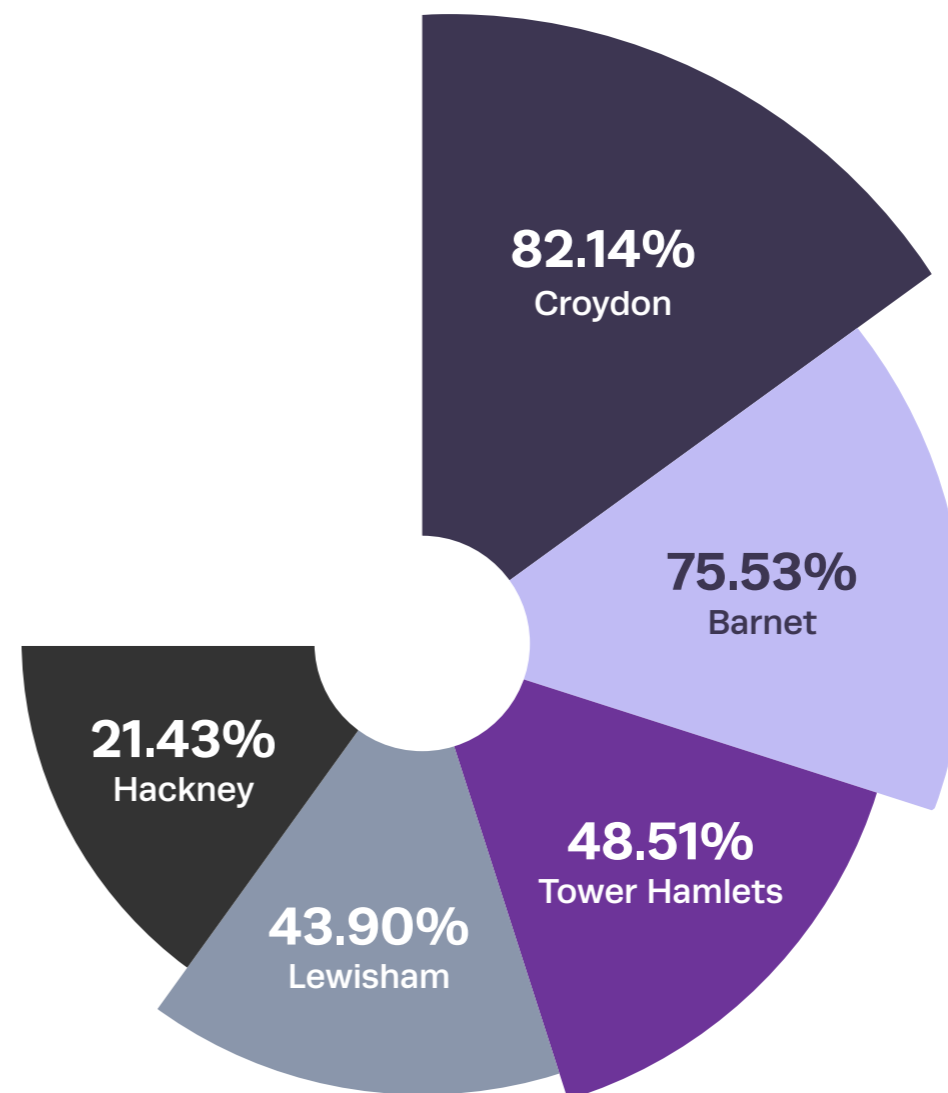
**BARNET:**  
96% rise in occupier demand

Of all London boroughs, Barnet has seen the third-largest jump in demand year-on-year, with a 96% rise in overall enquiries.

Crucially, though, it is the only borough to see a rise in all three sectors, with demand for industrial and retail space up 85% and 76% respectively. This puts the borough in an exceptionally strong position for the rest of 2023.

The north London hotspot also produced the highest number of non-residential planning applications in outer London, with a 26% rise on last year.

Rise in retail interest (YoY, Q1)



## CONCLUSION : What's next in 2023?

Over the years, London has developed a knack for defying the doubters. Will it do the same in 2023?

Against a tricky economic backdrop, the capital continues to deliver prestige deals. In April 2023, entrepreneur and podcast sensation Steven Bartlett confirmed an 11,000 sq ft lease within the Truman Brewery estate in E1. The lease is a powerful reminder of the capital's attraction to a new generation of businesses and founders.

In the retail sector, a new breed of destination retailers continue to demonstrate their strength, bringing retailers and shoppers away from Oxford Street. In Q1 2023, both Westfield Stratford City and the newly renovated Battersea Power Station proved a major draw, resulting in 6 new leases between them.



Beneath the headlines, the data suggests a number of emerging hotspots, consistently delivering deals well beyond the West End. For offices, Islington has seen demand rise 20% year-on-year, while Camden has seen a much smaller drop than the rest of central London.

For retail, the east London boroughs of Hackney, Tower Hamlets and Newham have all seen a rise in demand. While industrial destinations to watch include Barnet, Lewisham and Hammersmith.

If these new hotspots can sustain these levels of demand, and crucially continue to convert them to deals, they could provide a welcome boost for London's CRE sector.



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