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New lettings spark London's office market back into life

Developers report recovery in interest as companies make tentative return to work

High-specification, brand new offices have achieved higher than expected rents but older stock has commanded less than anticipated © Jason Alden/Bloomberg

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London's office market is showing signs of life as companies begin a tentative return to work and lease new space ahead of the loosening of coronavirus restrictions.

Inquiries, viewings and new lettings all edged up in the first three months of the year, according to office developer Workspace Group. The company agreed 150 new lettings in March, more than double the 71 recorded in January.

Rival Derwent London said on Thursday it had agreed £1.3m worth of new lettings in the year to date and signalled that tenants on its £5.4bn London estate were keen to return to offices as the economy reopens.

The willingness of employers to take on office space will soothe fears among property owners that the pandemic may result in a wholesale shift to homeworking and hollowed out office demand.

"We're back at pre-Covid levels and it doesn't seem like a false dawn, it looks like a consistent return of customers," said Graham Clemett, Workspace chief executive.

The number of people occupying the company's buildings had also increased, said Clemett, up from 20 per cent of pre-coronavirus levels at the end of March to 30 per cent at the end of April.

The government's current advice is that anyone who can work from home should do so but life has nonetheless been returning to offices across the capital. A review of social distancing measures due by May 17 may prompt an update to the guidance, with a series of other restrictions set to be loosened on that date.

“I think we’ve reached the tipping point in terms of occupancy,” Clemett said. “We’re seeing our existing customers coming back. Workers are returning faster to suburban locations than to city centre offices, he added.

Tenants looking for space have been able to negotiate discounts. Across the deals agreed by Derwent over the past four months, average rents agreed were 3 per cent below what they were estimated to be in December 2020.

Tenants’ demands have shifted over the past year too.

A recent survey conducted by property agent Knight Frank suggested coronavirus had emphasised the importance of offices as collaborative spaces that support employee wellbeing, rather than environments designed to maximise productivity.

“Our number one finding is that occupiers see the office as a way to promote corporate culture,” said Lee Elliott, head of global occupier research at Knight Frank. “They are looking for much more hospitality-driven space, giving people a reason to invest in their commute — both financially and psychologically.”

Employers are also increasingly attuned to the energy efficiency of their offices as they look to burnish their green credentials.

That means the recovery in the office market is likely to be patchy. Of the space let by Derwent this year, high-specification, brand new stock has achieved higher than expected rents but older stock has commanded less than anticipated, dragging the overall average down.

That pattern is likely to be repeated across the market, pushing rents down in less desirable areas and on older buildings that are less in demand.

The “flight to quality” was nothing new, said Paul Williams, Derwent chief executive. However, there are signs the two-tier market will be reinforced in the aftermath of coronavirus.

Millions of square feet of office space has hit the sublet market in London at discount rents during the pandemic, the vast majority of it in older buildings, according to Savills data.