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Why London remains the ultimate city of the future

Assessing the prospects for London real estate in a post-Brexit, post-COVID world

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It takes Aviva Investors

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Main responsibilities

Jonathan leads the UK Real Estate Research team. He has a significant role in influencing individual funds' investment strategies as well as leading the house location strategy. Jonathan is also part of the senior team that challenge and give guidance on investment and portfolio construction decision-making, working across equity, debt and long income mandates. As part of his role, he manages the thought leadership and insight programme for the wider Real Assets Research team.

Experience and qualifications

Prior to joining Aviva Investors, Jonathan worked in JLL's EMEA Research and Consulting team.

Jonathan holds a MSc in Real Estate from Reading University's College of Estate Management and a BSc in Geography from University College London. He also holds the Investment Management Certificate and is a committee member for AREF's Research and Information Committee and an active member of ULI, SPR, INREV and CREFC.

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Introduction

The UK has endured a turbulent period since 2016. The Brexit vote changed the country's relationship with its largest trading partner, the European Union (EU). The COVID-19 pandemic put extreme pressure on public finances and led to fundamental shifts in working patterns. And, in 2022, a gloomy macro environment, escalating cost-of-living crisis and unprecedented political turmoil weighed on the economic outlook.

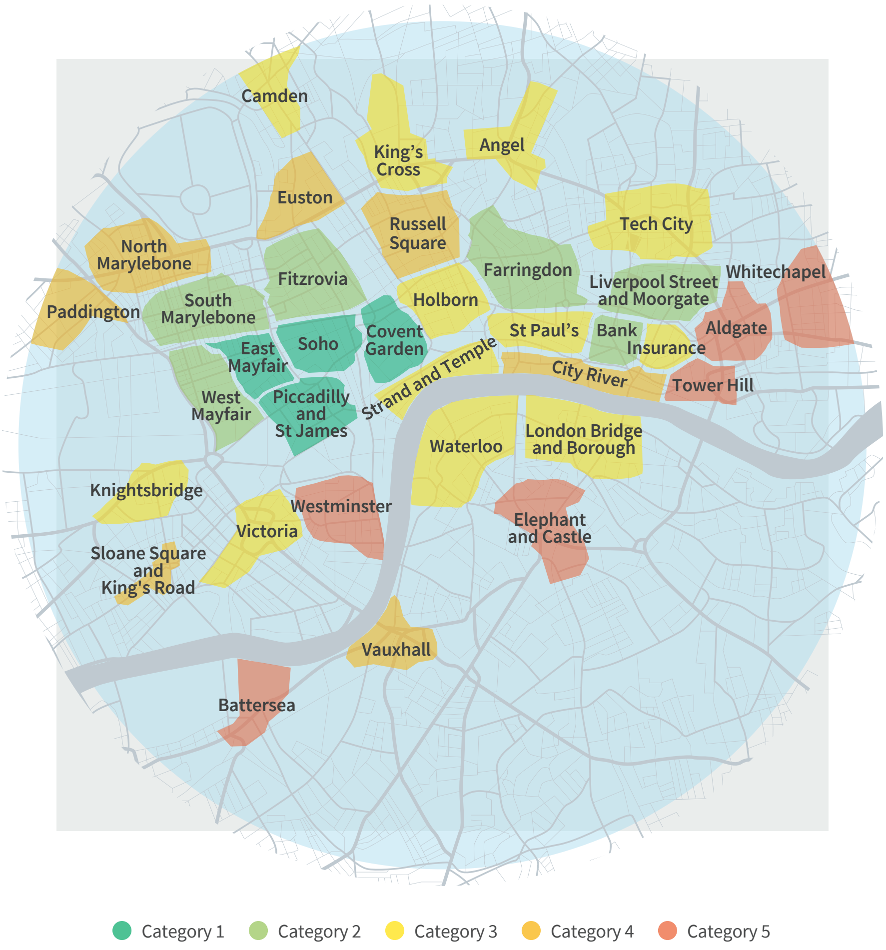
However, the UK retains major strengths, nowhere more so than in the capital. London remains a global knowledge hub and fulcrum for capital and innovation, a place where industry clusters fizz with creativity and ideas. The city's scale and world-class culture continue to attract bright students and highly skilled workers.

> London remains a global knowledge hub and a fulcrum for capital and innovation

While these positive characteristics remain intact, the disruptions of recent years have affected the city's property markets in a variety of ways. Office occupancy rates have dropped as more people work flexibly and remotely. And while demand is rising for high-quality, environmentally friendly buildings, weaker assets and those in peripheral locations continue to suffer.

Against this fast-changing backdrop, investors will need to adopt a selective and nuanced approach, taking into account supply-and-demand dynamics and net-zero considerations, among other factors.

Figure 1. **Map of central London office sub-markets**



Note: See *Investing in London real estate requires a nuanced, selective approach* for breakdown.
Source: Aviva Investors, November 2022.

In this paper, we look at the key characteristics of London's real estate markets; examine the impact of recent political and economic developments; and analyse the relative resilience of the city's office sub-markets.

Our analysis shows demand is likely to remain strongest in locations with abundant amenities in the largest residential catchments, especially those that can be accessed via public transport and bicycles. Locations that currently look to provide good value to office occupiers on an average rental basis include Soho, Mayfair, Farringdon, Liverpool Street, East London's Tech City and the area around London Bridge station (see Figure 1).

The rise of the knowledge economy

COVID-19 accelerated the transition to a "network economy", based on knowledge-intensive services. In such an economy, highly skilled people are the key economic resource and business success requires access to networks of expertise to exploit opportunities for innovation.

Cities vary significantly in their suitability for this role, however.[1] The best-placed office markets are distinguished by the following factors:

1. Deep pools of talent, especially highly skilled labour
2. Well-established clusters of knowledge-intensive activity
3. The scale that facilitates the development of more-extensive knowledge networks[2]

Figure 2. **Global Cities Human Capital Index**

Source: Aviva Investors. Data as of November 2022.

London exhibits exceptional strength in these factors and counts among the leading cities in the transition to the network economy. In a post-Brexit world, we don't expect economic growth to be as strong as it was historically; however, London seems sure to retain its position near the top of the rankings. Its principal advantages include talent, clusters, scale and governance and connectedness.

1. 'Cities of the future', Aviva Investors, February 7, 2017.
2. 'Real estate: the rise of the metropoles', Aviva Investors, June 22, 2018.

Talent: London offers a deep pool of skilled workers and world-class educational facilities

For knowledge-intensive economic activity, the educational attainment of the workforce matters as much as its numerical size.

In this respect, London rates as a global leader. Its workforce is relatively young, international and highly educated. Almost 40 per cent of London's workers were born outside the UK and approximately 60 per cent are educated to tertiary level.

London's workforce is relatively young, international and highly educated

London is also home to world-class educational and research institutions, enabling the further development of human capital. It has the highest concentration of top universities of any city in the world, with 15 institutions in the top 500, well ahead of second-placed Paris.

London is also a global leader in culture, giving it an edge in the competition for world-class talent: the city scores first for "cultural experience"[3] and "cultural interaction"[4] in global rankings.

Clusters: London has multiple, globally significant clusters of knowledge-intensive activity

Clustering can bring advantages to firms by enabling them to exchange ideas, innovate, attract talent and deliver new products to the marketplace. Industry clusters are a boon to the markets in which they are located, contributing disproportionately to economic growth, creating better-paying jobs and facilitating a virtuous cycle that cannot be easily replicated or designed.[5]

London is home to multiple clusters of knowledge-intensive activity. According to the Centre for Cities, six of the UK's seven largest clusters are in London. The organisation notes these clusters are all of global significance, and all are growing.[6]

London is home to multiple clusters of knowledge-intensive activity

At a neighbourhood level, the post-pandemic rise in working-from-home and virtual conferencing technology means clusters are somewhat less important than they had been historically. But significant academic evidence shows clusters still matter for innovation and growth (see *Why urban density and face-to-face contact matters for innovation*).

Scale: London's size facilitates the development of deep information

Information can be codified and shared, and extensive knowledge networks maintained, across great distances. But in spite of the virtual working revolution, deep knowledge and expertise are most easily shared face-to-face.

Larger cities enjoy particular advantages in the network-economy era. They allow for the exchange of tacit knowledge and facilitate the development of deep and extensive knowledge networks.

3. Andres Mendoza Pena, '2018 global cities report', Kearney, 2018.
4. 'Global Power City Index 2018', Institute for Urban Strategies, The Mori Memorial Foundation, 2018.
5. 'Industrial revolutions: capturing the growth potential', Centre for Cities, 2014.
6. 'Industrial revolutions: capturing the growth potential', Centre for Cities, 2014.

London is one of Europe's two megacities, along with Paris. It is the world's fourth-largest city economy and the largest in Europe, generating 23 per cent of UK GDP.[7] It has a working-age population of over 6.1 million people; this is more than four times the average for Europe's major cities, and second in Europe only to Paris's 6.5 million.[8] Over 50 per cent of the world's largest 100 companies have a significant presence in London.

Governance and connectedness

London benefits from regulatory and cultural strengths that underpin economic activity within the city. They facilitate understanding and ease of doing business between people based in London and elsewhere. These long-standing strengths are proving especially beneficial in a globalised, knowledge-intensive economy. They include London's time zone, its national language being the international business language, legal and regulatory framework, commercial history and improving digital connectivity.

London benefits from a host of regulatory and cultural strengths

Why urban density and face-to-face contact matters for innovation

Research shows bringing people together in dense clusters is the best way to spur innovation. Patents per capita are 20 per cent higher in larger metropolitan areas with twice the employment density, such as London.[9] Patents are also granted disproportionately in larger urban centres, showing increasing returns on innovation with respect to population size.[10]

Dense urban areas, like central London, seem to be especially good at generating new and unconventional ideas.[11] Inventors moving into clusters substantially increase both their patent counts and citations.[12] Even as new technologies diffuse, the local hubs that generate them hold onto disproportionate shares of employment in those technologies, particularly for higher-skilled jobs.[13]

Moreover, in-person collaboration is necessary for creativity and innovation, according to Stanford academic Nicholas Bloom.[14] His research shows face-to-face meetings are essential for developing new ideas and keeping staff motivated and focused.

Similarly, Edward Glaeser of Harvard University co-authored research which discovered that when two people are in close proximity, they take in an infinitely larger amount of information by watching each other than when they are far apart.[15]

Such research indicates London is well placed to thrive as the knowledge economy becomes more important. It also suggests that, despite the rise in remote working, physical presence in offices remains vitally important to idea transmission and creativity – factors likely to support demand for London office space over the longer term.

However, the rise in virtual meetings will reduce the importance of clusters at the neighbourhood or street level. This trend has informed our analysis of the relative strengths of some London office sub-markets (see analysis in *Investing in London real estate requires a nuanced, selective approach*).

7. Oxford Economics, May 2019.
8. Oxford Economics, May 2019.
9. Gerald Carlino, Satyajit Chatterjee and Robert Hunt, 'Matching and learning in cities: Urban density and the rate of invention', Federal Reserve Bank of Philadelphia, July 2005.
10. Luís M. A. Bettencourt, et al., 'Growth, innovation, scaling, and the pace of life in cities', PNAS, April 24, 2007.
11. Enrico Berkes and Ruben Gaetani, 'The geography of unconventional innovation', Rotman School of Management Working Paper No. 3423143, July 19, 2019.
12. Enrico Moretti, 'The effect of high-tech clusters on the productivity of top inventors', National Bureau of Economic Research, September 2019.
13. May Wong, 'Big ideas are getting harder to find', Stanford Institute for Economic Policy Research, September 25, 2017.
14. May Wong, 'Big ideas are getting harder to find', Stanford Institute for Economic Policy Research, September 25, 2017.
15. Edward L. Glaeser, Vernon Henderson and Robert P. Inman, 'The future of urban research: Nonmarket interactions', Brookings-Wharton Papers on Urban Affairs, 2000.

Brexit, climate crisis, COVID-19, stagflation: How is London weathering the storms?

London's knowledge-economy credentials have helped it develop and maintain one of the world's largest and most sophisticated office markets. Key features of the market are robust occupier demand, restricted new supply and high levels of liquidity and transparency. All of these should remain despite the challenges of Brexit, the pandemic and, latterly, a potential stagflationary environment.

Even before the onset of the current economic uncertainty, a polarisation in the office market could be observed. Lower-value locations are challenged by the prospect of greater automation and demand for commoditised space has been hit by the rise of co-working. The rise in working-from-home will add to these stresses and is also accelerating longer-term office occupation trends. Many corporates will also be looking at reducing the density of their space, which will lead to a change in requirements.

> Many corporates will be looking at reducing the density of their space

In this section, we look in more detail at how recent political and economic developments have affected London real estate markets.

Brexit

Brexit has not simply impacted exports to the EU; it has also reduced the openness and competitiveness of the UK economy. This is likely to result in lower productivity and wages in the decade ahead.[16] According to research from the Mayor of London, Brexit will potentially cost London's economy around £9.5 billion a year – with the capital's service sectors bearing the brunt of the downturn.[17]

We expect financial services and insurance GVA activity (economic activity) to decline around ten per cent for the period 2016 to 2026. The 2020 UK-EU trade deal reduced immediate economic disruption, but did little for UK financial services companies seeking access to EU markets. For such firms, uncertainty seems set to continue for some time, and the sector is unlikely to be a source of significant job creation.

While a dramatic decline in demand for office space from financial sector tenants is unlikely, some shrinkage is expected; ultimately, the after-effects of the COVID-induced working revolution are more likely to influence demand patterns.

COVID-19

COVID-19 led to a fundamental shift in the nature of work. Lockdowns forced millions of people to adapt to remote working. Facing a sudden need to cut costs, many global chief executives embraced hybrid working to reduce their spending on property.

> The ways in which companies use their office space are likely to be reshaped by the pandemic into the future

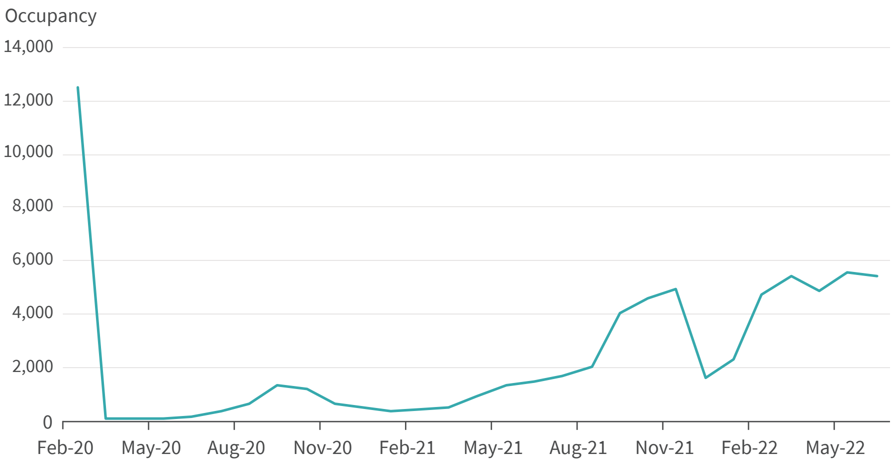
The ways in which companies use office space are likely to be reshaped by the pandemic into the future. Because of this, we have concerns for locations outside central London that historically competed on cost. Valuations of more-functional offices in weaker locations will continue to be challenged.

16. 'Brexit has damaged Britain's competitiveness, and will make us poorer in the decade ahead,' Resolution Foundation, June 22, 2022.
17. Mayor of London and London Assembly, 'Brexit could cost London's economy £9.5bn a year,' Greater London Authority, February 10, 2021.

The call-centre industry provides an instructive case study as to how COVID-19 changed working patterns. Before the pandemic, only 3.8 per cent of the UK's call-centre workers worked remotely, according to ContactBabel; by November 2020, homeworking among call-centre staff was at 75 per cent. This trend looks set to continue: a recent poll of 107 call-centre managers and directors found just four anticipate a full return to the office, while some major call-centre operators will allow staff to remain at home permanently.[18]

Offices and employers are still having to work harder to entice in-person attendance. This trend, coupled with office costs being a low percentage of overall outlay, is creating a drive for best-in-class space.

Figure 3. **Demand for London offices sees a partial recovery**



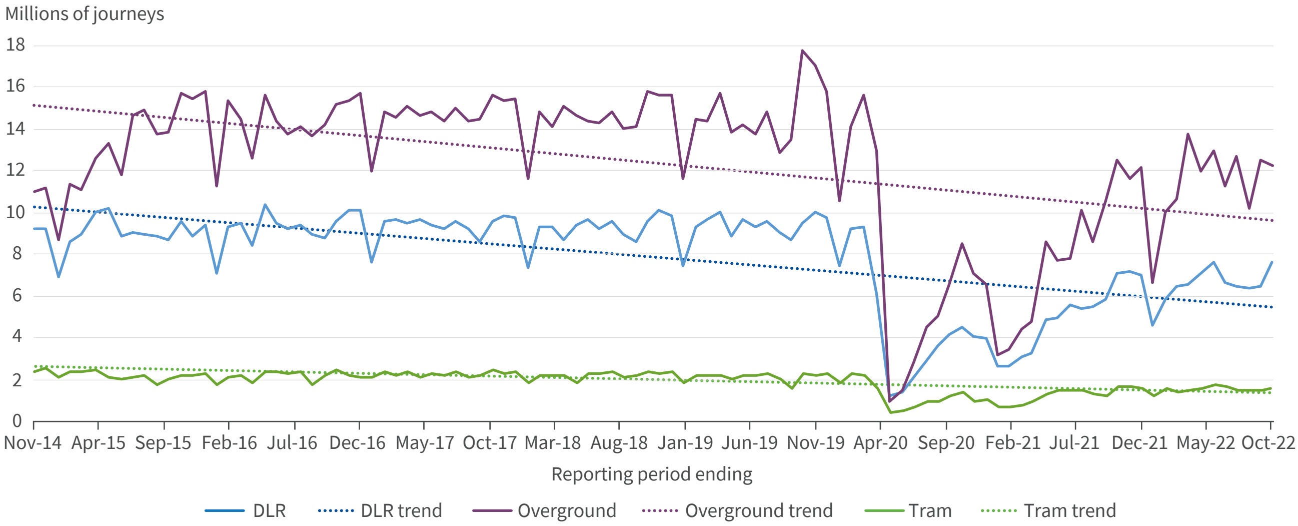
Source: Savills. Data as of June 2022.

Since 2016, we have divested from peripheral locations that competed on cost; we have accelerated this strategy since the pandemic. Even in central London, occupancy levels have dropped. We do not expect them to return to levels observed pre-pandemic for five-days a week, but they will potentially normalise for Tuesday to Thursday.

Nevertheless, demand has started to recover, and the number of people utilising workspaces continued to accelerate in 2022. Appetite remains particularly robust for the highest-quality space.

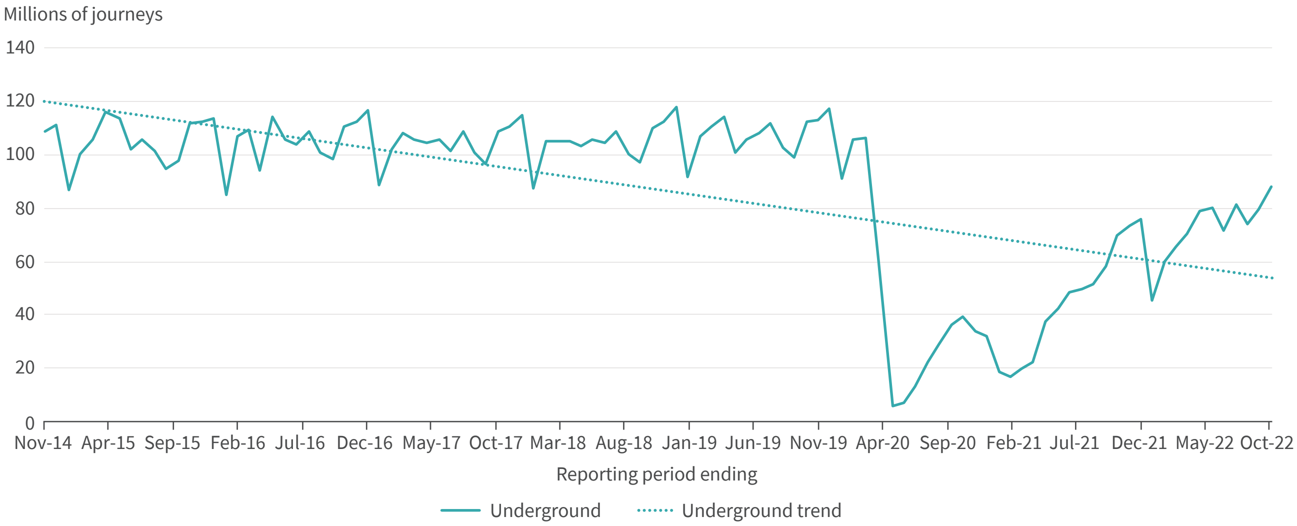
18. "HSBC has confirmed its 1,200 call centre staff will remain at home permanently. Outsourcer Capita has said many of its 16,000-strong call centre workforce in the UK can do the same, while rival Teleperformance has indicated many of its 10,000 employees will be allowed to continue working remotely once the pandemic subsides." From: Oliver Barnes and George Hammond, 'Death of the call centre? Workers ring in the changes during WFH era', Financial Times, May 14, 2021.

Figure 4. **Transport For London journey numbers (DLR, overground, and tram)**



Source: TFL. Data as of October 15, 2022

Figure 5. **Transport For London journey numbers (underground)**

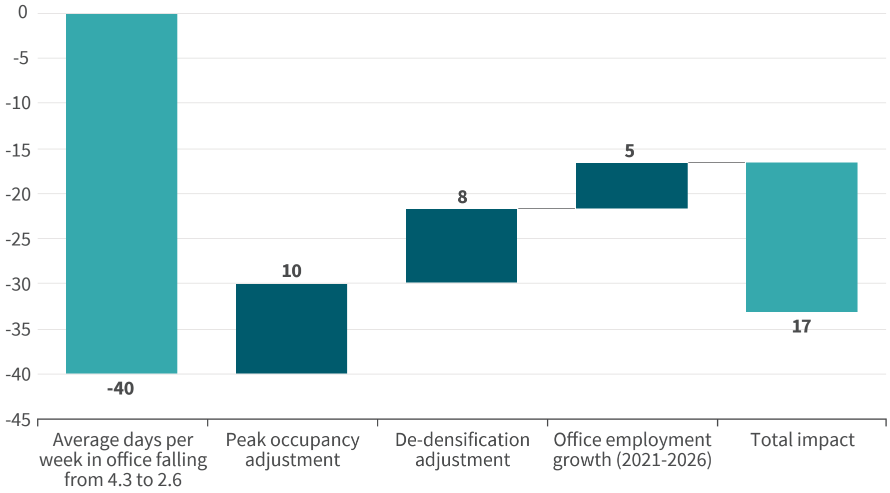


Source: TFL. Data as of October 15, 2022

According to Knight Frank, central London take-up totalled just below three million square feet in the second quarter of 2022, a 66 per cent year-on-year increase and 22 per cent above the five-year quarterly average.

There are further nuances: although hybrid working has been adopted by many companies, demand for desks varies significantly across the working week. Businesses will need to be able to manage midweek peaks before downsizing can be considered and implemented (see Figures 6 and 7).

Figure 6. **Working from home impact on office demand**



Source: Aviva Investors, CBRE. Data as of November 2022.

According to data from JLL, rent accounts for around nine per cent of the total costs of a typical office occupier, with payroll accounting for 89 per cent. Given this relative affordability, along with the fact face-to-face interaction in offices is vital in spurring collaboration and innovation, we continue to believe high-quality office space in the densest urban locations, including central London, will remain sought after, especially assets that accommodate hybrid working.

Stagflation

The UK has proved less resilient in the face of economic headwinds than many comparable nations: it was the only G7 economy not to have re-attained its pre-pandemic output level by the end of the second quarter of 2022.

Not surprisingly, the outlook for UK real estate deteriorated as economic turmoil, inconsistency in fiscal policy and elevated inflation led to a rapid rise in interest rates and gilt yields: in December 2022, we forecast negative GDP growth of -1.0 per cent for 2023. This outlook has negative implications for property values and suggests UK real estate must undergo re-pricing before fair value can be achieved.

> The UK has proved less resilient in the face of economic headwinds than many comparable nations

Real estate yields are likely to impacted by elevated debt costs. Whilst we don’t expect spreads to grow substantially, as interest rates rise we expect lending rates to do the same, with a negative impact on equity valuations. These conditions may lead to unique opportunities to originate value, especially from distressed sellers who need to free up additional capital.

The climate transition

Another key factor influencing the capital's real estate markets is the accelerating climate transition. The pressing need to mitigate the significant carbon emissions associated with the built environment is already influencing real estate markets across the world, and London is no exception.

Carbon-intensive real assets are likely to be affected by new green regulations and shifting demand patterns. They may also be vulnerable to the physical risks of climate change, including extreme heat: London had its hottest day on record in 2022, when temperatures reached 40.2 degrees Celsius.

Office occupiers are looking for energy-efficient properties as they try to meet net-zero commitments and create modern, comfortable, resilient workplaces for their staff. This is having an impact on supply and demand within the capital.

Supply and demand: Central London supply is heavily restricted, supporting rental growth

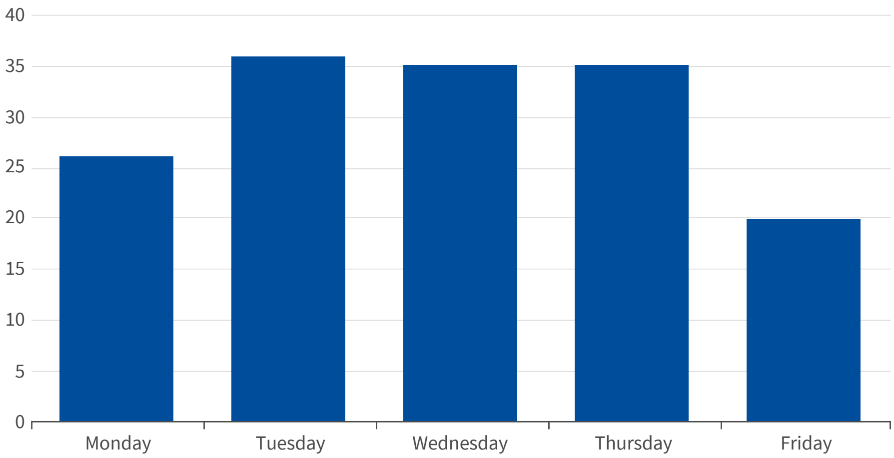
As a result of elevated supply-chain costs due to COVID-19 lockdowns and the more challenging economic environment, there has been a shortage in the development of grade-A, environmentally friendly space.

Central London continues to boast a diverse and dynamic office occupier base, with activity driven largely by banking and finance, professional services and technology and media. Relative take-up by sector has altered somewhat in recent years: in particular, the share taken by technology companies has grown at the expense of banking and finance occupiers. We expect demand to continue to be broad based going forward, with ebbs and flows within each economic sub-sector.

Central London continues to boast a diverse and dynamic office occupier base

Of equal importance is the extent of restrictions on new supply.[19] The impact of the pandemic and difficult post-COVID economic environment has led to significantly reduced development in London.

Figure 7. **London average weekly office occupancy levels (per cent)**

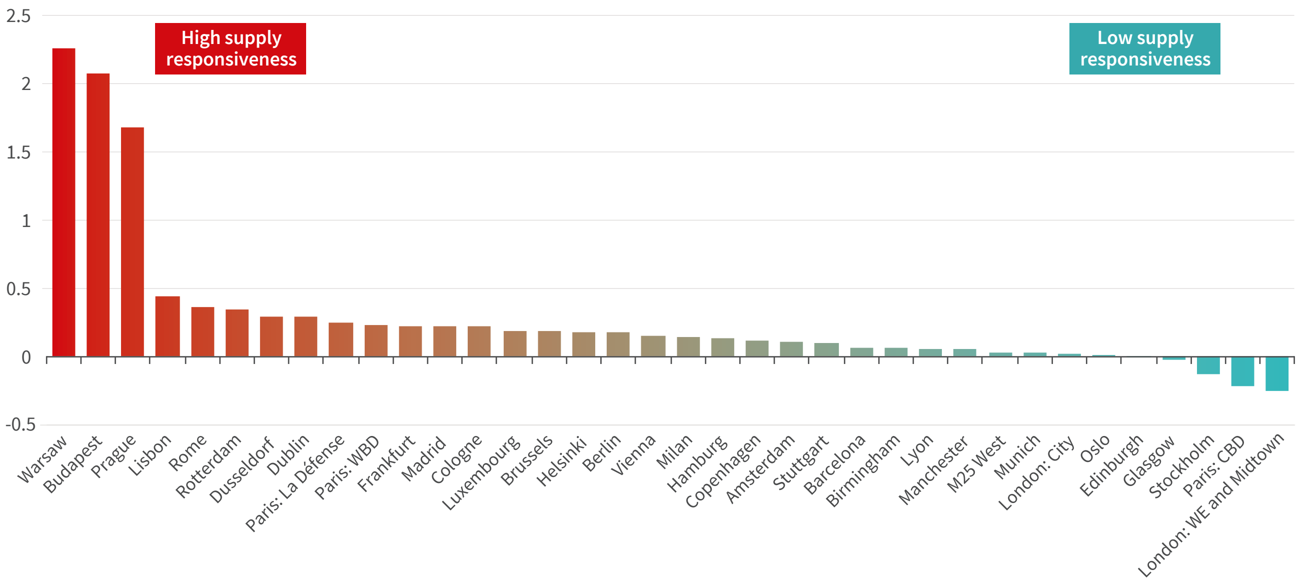


Source: Remit Consulting. Data as of November 2022.

According to Cushman & Wakefield, central London supply declined marginally to 23.1 million sq ft by the end of June 2022, representing a quarter-on-quarter decrease of 0.7 per cent. There was 9.8 million sq ft of newly built or refurbished space being marketed, equating to 42 per cent of total supply – the lowest proportion of available grade-A space since Q4 2010.

Strikingly, new-build vacancies continued to fall, standing at 1.3 per cent at the end of September, according to JLL. Occupiers are increasingly aware of the limited choice available and looking for and committing to new offices much earlier.

Figure 8. **Supply responsiveness by city (1994-2018 average) calculated by net additions as a percentage of stock (net supply) minus net absorption as a percentage of stock (net demand)**

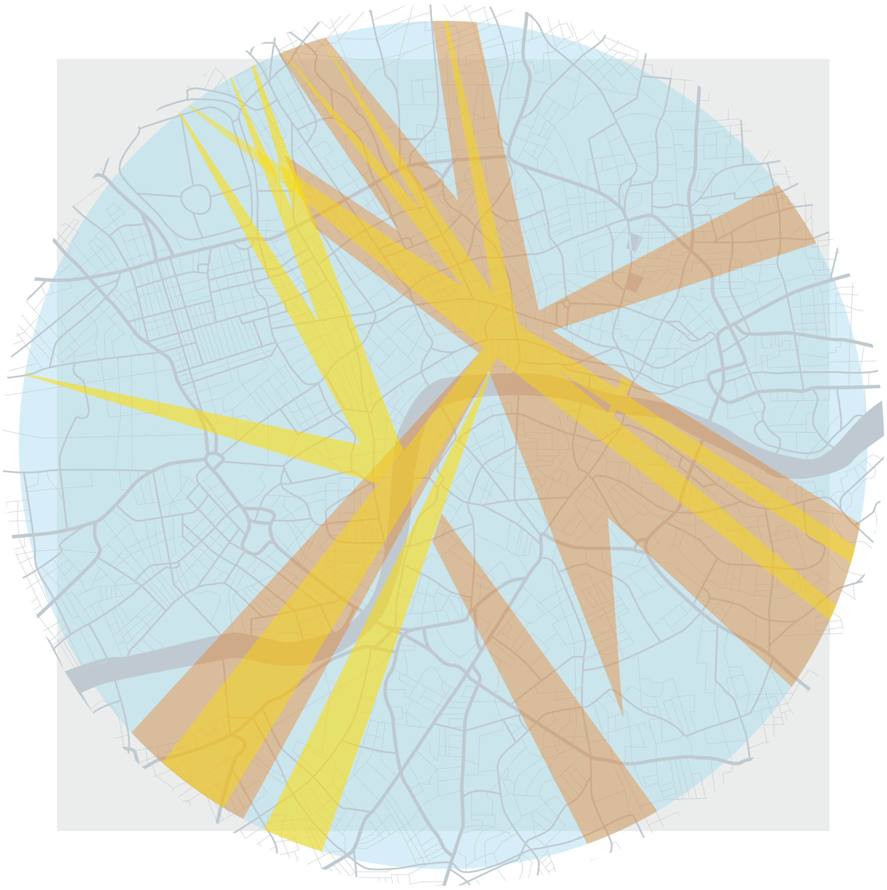


Source: PMA, Aviva Investors. Data as of August 2019.

As well as economic factors, restricted supply can also be attributed to regulatory, fiscal, topographical and other barriers to development, which are much more significant in some markets than others (see Figure 8). UK regulatory restrictions are onerous compared with other European countries – especially in central London given its wealth of historic buildings and cultural sites and the need to protect certain sightlines (see Figure 10). For example, an estimated 70 per cent of the core West End is in a conservation area.[20]

19. 'Real estate supply: the forgotten part of the equation', Aviva Investors, May 31, 2018.

Figure 9. **Artist's impression of central London's protected and restricted sightlines**



Source: GLA, Aviva Investors, November 2022.

Figure 10. **Artist's impression of central London's conservation areas**

Source: Inner London Councils, Aviva Investors, November 2022.

20. Paul C. Cheshire and Christian A.L. Hilber, 'Office space supply restrictions in Britain: The political economy of market revenge', June 2008.

Investing in London real estate requires a nuanced, selective approach

Given the headwinds for the UK and London economy, the ongoing structural shifts in work caused by the pandemic and the impact of the climate transition, along with other long-term supply/demand dynamics, a more selective investment approach is needed.

Investment activity is focusing on new and refitted grade-A space, as employers adapt to hybrid working. There is a growing focus on amenities and creating a productive and collaborative environment for employees. Offices with strong green credentials will be increasingly attractive to occupiers as attempts to minimise carbon footprints and bring benefits local communities continue.

> There is a growing focus on amenities and creating a productive and collaborative environment for employees

Analysing these factors at the sub-market level helps us categorise different types of locations. As well as the occupier outlook, we take into account factors such as connectivity to talent – based on accessibility via public transport or bicycle – and the quality of amenities such as restaurants, bars, cafes, retail outlets and other leisure options.

Here are the categories we use for office sub-markets in our analysis, along with the risk appetite we believe is appropriate for investment in each area.

Category 1
Sub-markets most likely to experience strong demand and growth.
Risk appetite: Any type of risk is generally acceptable at micro-location and asset level due to strength of demand.

Category 2
Resilient sub-markets that are supported by a number of demand drivers.
Risk appetite: The asset must have the potential to differentiate; brand-enhancing space and good rail connectivity are essential.

Category 3
Sub-markets supported by some demand drivers, including rapidly improving locations.
Risk appetite: The asset must be proximate to established high-value neighbourhoods and have the potential to differentiate.

Category 4
Sub-markets where we would only wish to hold the strongest assets unless there was a compellingly priced opportunity.
Risk appetite: Due to location risk, there is a need to minimise asset-level risk; assets must be the best building in the location or offer a significant discount.

Category 5
Sub-markets where we generally have a low appetite for exposure.
Risk appetite: We are unwilling to take on any risk and generally limit our exposure unless pricing is very attractive.

Which sub-markets look best placed?

We have updated our 2019 sub-markets location analysis to reflect the latest assessment of environmental risks and the way COVID-19 has accelerated existing trends. The map in Figure 12 shows how our latest analysis categorises central London locations (see *Appendix* for in-depth analysis of the relevant sub-markets).

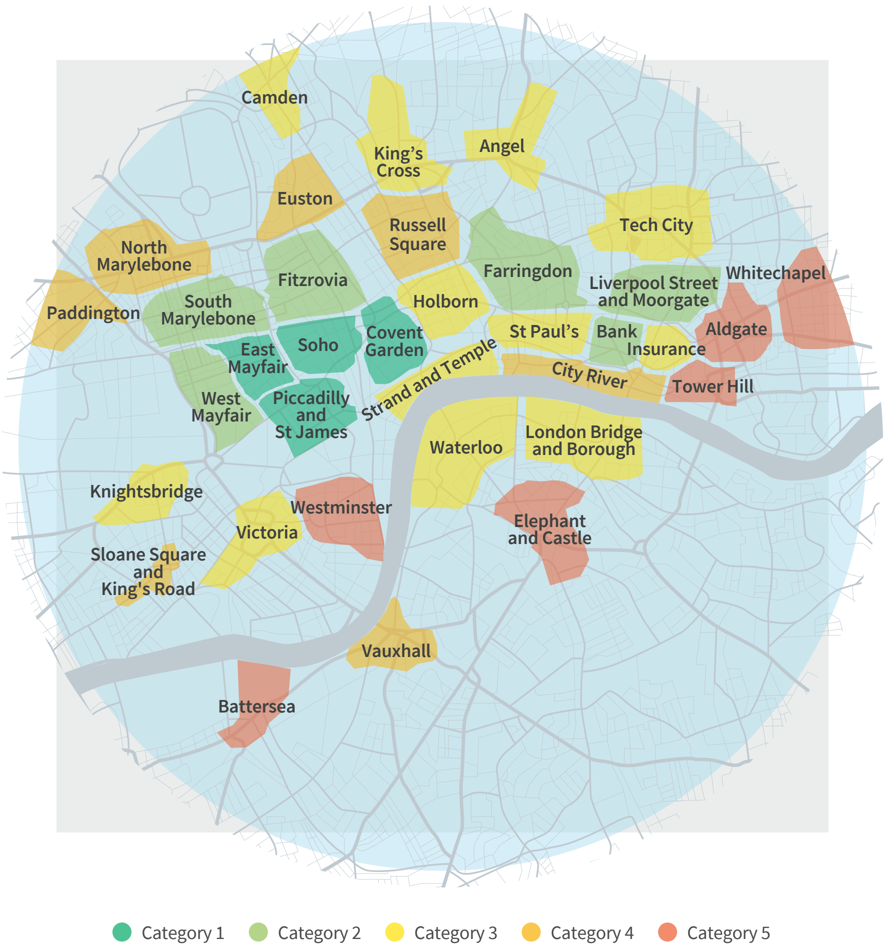
The importance of green space and cycling access in particular have become pertinent in recent years, so we have added indicators for both. We have also expanded the geography of locations to include emerging and non-central locations like Camden, Elephant and Castle, Knightsbridge and Stratford.

Previously, we included cost of space in the demand-side analysis, but our experience undertaking similar analysis in European cities shows it is better to compare rents and demand indices to spot mispricing afterwards.

We have separated forward-looking indicators from today's index to more easily identify the positive trajectory of some sub-markets. We have also down-weighted clusters as the rise of the hybrid workplace means they are of less importance at a neighbourhood level, even if they are still vital at the city level.

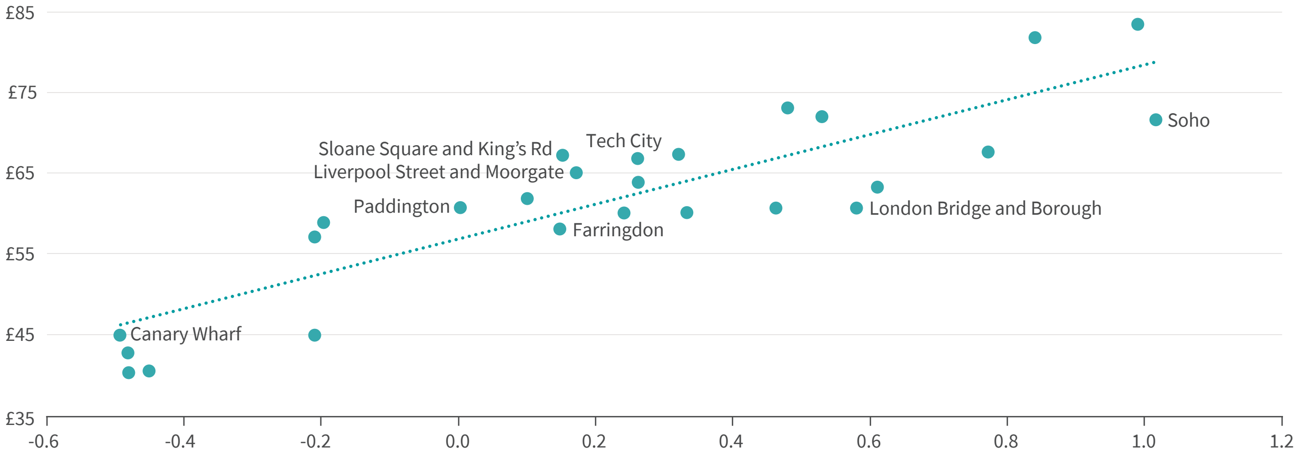
> The importance of green space and cycling access have become pertinent in recent years

Figure 11. **Map of central London office sub-markets**



Source: Aviva Investors, November 2022.

Figure 12. **Demand index for sub-markets and rents**



Source: Aviva Investors. Data as of November 2022.

Why asset selection is critical for success

Historically, it was possible to gain suitable investment returns by taking a directional bet on the overall market. A more active approach is now required. An average building is not going to outperform; indeed, given the headwinds, it may offer suboptimal returns.

After extensive conversations with occupiers across our central London portfolio, which comprises more than £5 billion of assets across debt and equity, along with other potential tenants, we have developed a scorecard aimed at assessing the resilience of building specifications (see Figure 13). Alignment with net-zero targets is an increasingly important factor.

Each occupier search is unique; however, there are some aspects upon which all companies place a high value – for example, volume of space, a clear and efficient floor-plate configuration and good natural light, which is notably important for employees' wellbeing.

Companies place a high value on volume of space, a clear and efficient floor-plate configuration and good natural light

Within the matrix, each element has been weighted to reflect their relative importance. Some elements are more permanent than others; for example, it is difficult to influence the view from a building or the floor-to-ceiling height, which is ultimately dictated by the existing structure. These have been categorised as "immovables", as they cannot be readily changed.

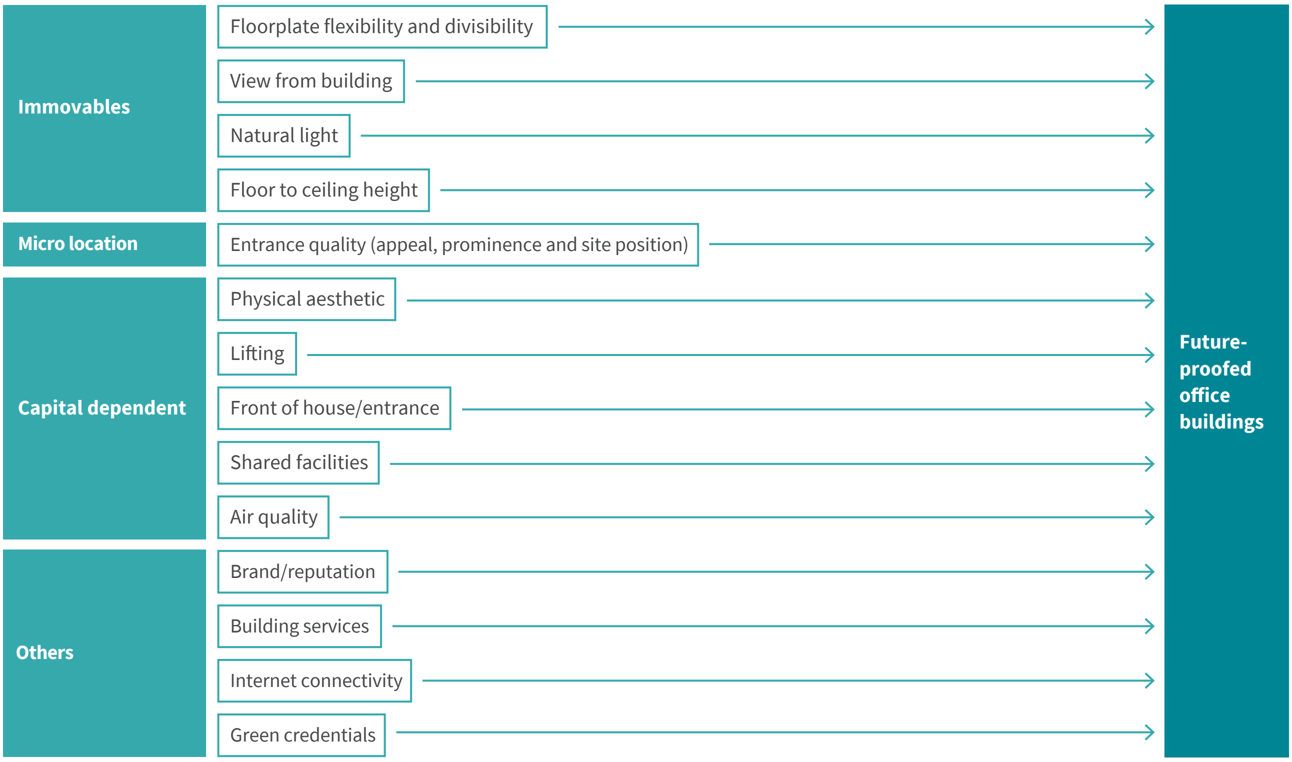
The micro location of buildings is becoming increasingly important as occupiers are selecting office premises that reflect their brand to employees and customers. These factors can also be challenging to influence unless you have control over the public realm surrounding the building.

Less weight is placed on the next category, "capital dependent", as these elements of the building can be improved by investing money to yield improvements – for example, by installing eco-friendly cycling facilities or refurbishing the reception or lifts.

Finally, “others” captures additional items an occupier may place importance on, such as certifications and the brand or reputation of a building.

This matrix places greater weight on buildings with high-quality spaces that can be adapted in response to evolving occupier needs and is a useful tool for helping us identify future-proofed office buildings.

Figure 13. **Future-proofed office buildings: Key specifications**



Source: Aviva Investors, November 2022.

Key takeaways

- London is a prime example of a city economy which continues to benefit enormously from the rise of the knowledge economy
- Despite clear headwinds to demand, there is still a strong investment case for London offices, cyclically and structurally
- A selective investment approach at a sub-market and asset level will determine investment success

Appendix

Profiles of resilient sub-markets

Liverpool Street and Moorgate

The largest central London sub-market in terms of floorspace, hosting part of the City's world-leading financial services cluster, including many international banks.

It has access to a large pool of talent via public transport and a strong bicycle catchment. Even before the opening of the Elizabeth line, it benefited from excellent rail connectivity.

Strong amenities within and near the office market, like Spitalfields Market and Broadgate Circle, boost its attractiveness.

At present, average rents appear well below where our demand index suggests they should be, indicating potential growth relative to other locations.

Geographic constraints on development, such as conservation areas and sightlines, are relatively limited by central London standards near Liverpool Street and Moorgate and it is designated an Intensification Area by the Greater London Authority (GLA), allowing for world-class office development opportunities.

Soho

The most favourable market according to our demand index, Soho enjoys excellent connectivity, with the Elizabeth line adding further strength.

It scores very well for amenities, with strong leisure anchors and world-class restaurants at every price point, along with leading shopping experiences on its doorstep. It has played host to the creative and media cluster since the 1920s, although its dominance in this respect has diminished in recent years as some companies have moved to other areas of London.

This is a market with significant structural impediments to development. It is dominated by a conservation area, with listed buildings and protected views also imposing major constraints. While Westminster Council is keen on mixed-use developments in the area, activity has historically been hindered by a slow planning process that prioritises in-keeping redevelopments.

Average rents don't fully reflect the connectivity and amenities available for offices in this location, potentially creating investment opportunities.

East Mayfair

One of the highest-ranking sub-markets on both our demand and competition propensity indices, East Mayfair scores very well for amenities, with a pleasant public realm and high-end restaurant and bar scene, as well as luxury retailing.

Given the cachet of this location, average rents have always been elevated compared to the rest of the city. We believe this location offers significantly greater value than those further west such as West Mayfair, Knightsbridge and Sloane Square.

Meanwhile, development is difficult. Most of the market is located in a conservation area. There are a high number of listed buildings, restricting viable development. In addition, the City of Westminster borough's agenda focuses heavily on protecting the area's historic character.

The difficulties in developing new space, alongside its well-established financial services and property clusters, point to a resilient rental outlook.

Insurance Quarter

A medium-sized market, home to one of the most deeply rooted clusters in the capital.

With Lloyd's of London at its centre, the insurance cluster has long drawn in businesses focussed on general insurance and reinsurance, along with intermediaries and specialist support professions and services. Connectivity is the area's other major strength; nearby Bank and Liverpool Street stations have some of the largest public transport catchments in London.

This market is relatively weak in terms of amenities, however, with its leisure offering largely limited to Leadenhall Market. Compared to other leading sub-markets, the café and restaurant scene and public realm are underdeveloped. However, the City of London Corporation's "24-hour City" leisure economy initiatives may address some of these shortcomings.

Though it is situated in a conservation area, the City of London is supportive of development in this market and the current development pipeline is substantial. At present, average rents fairly reflect the connectivity and amenity credentials of this location.

Farringdon and Clerkenwell

A larger-than-average market, its excellent connectivity is its most noticeable strength. The new Crossrail station has added considerably to its already strong Underground and national rail links. While the public realm is not bad, we have scored its amenities as generally weaker than other locations, notably the West End.

Given its transport credentials, Farringdon and Clerkenwell is a relatively good-value location and has succeeded in developing a varied occupier base. Some of this success has come from pulling media tenants from Soho and finance-related tenants from the City.

Development is constrained by a large conservation area and protected views to St Paul's. However, the GLA has now designated this market as an intensification area and it also falls within the remit of three councils – Camden, Westminster and the City – that compete to bring new office development and associated revenues into their jurisdictions. These features mean development is likely to be robust over the longer term. Provided it is undertaken with purpose and vision, this could help grow the area's brand.

Tech City

This market has grown strongly in recent years and has become larger than average in terms of floorspace. This growth has been driven by the rapidly evolving tech cluster, now Europe's largest, and one that has benefited from considerable historic government support. This market continues to offer good value to occupiers, despite a slowdown in tech firm requirements in late 2022.

On the demand side, this market scores well for public realm and for amenities, boosted by a strong café, restaurant and bar scene and unique shopping experiences. Less positively, it ranks poorly in terms of public transport connectivity, with this weakness set to persist for the foreseeable future. It does perform reasonably well in terms of bike catchment, however, as there are a number of inner-city residential neighbourhoods in close proximity.

Meanwhile, a relatively loose supply side may keep a lid on rental pressures. Tech City is identified by the GLA as an opportunity area and competition from four local authorities encourages development: the current pipeline is relatively significant as a result. Rents appear to offer good value on an average basis compared to more established areas in the City and West End.

London Bridge and Borough

Borough and the area around London Bridge station comprise one of London's most exciting office neighbourhoods. With strong public transport and cycling catchments, it has attracted a wide variety of occupiers. Its amenities, anchored by Borough Market and the South Bank, makes the location very attractive. Indeed, London Bridge and Borough ranks right at the top of the third category, and we expect its dynamism to push it up the standings of future iterations of this analysis.

The office market has been characterised by increasing tenant demand and low vacancy rates, which reflects its strong location and proximity to major transport hubs. Average rents appear to offer very good value for occupiers. This should ultimately offer a good degree of resilience to investment portfolios over the long term.

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