Lack of assets and increasingly selective buyers set to maintain pricing of London core offices

2 years ago

According to Savills, the international real estate advisor, availability of core opportunities in Central London has declined almost 60% since its peak in Q1 2022. Conversely, the amount of core plus opportunities has increased significantly and now accounts for over 50% of available stock.

Savills figures show investment turnover in Central London in 2022 totalled £13.5 billion, in line with 2021 turnover, but down on the long-term average by 19%. A record Q1 (360% up on 2021 and 85% above the 10-year average) accounted for 46% of 2022 turnover; H1 as a whole contributed two thirds of the yearly total volume. Wider economic and political challenges impacted activity in the second half of the year, with only £1.2 billion transacting in the fourth quarter, the lowest Q4 volume since 1998 and down on the long-term average by 80%, the firm reports.

The analysis shows that international investors continued to be the main driver of London activity, accounting for 77% of turnover, as they continued to strengthen their foothold in the market. Asia Pac investors took the majority share, accounting for a third of investment turnover in 2022, more than doubling the quantum they were responsible for in 2021, followed by US and European investors. Investors from the Middle East accounted for 45% of Q4 turnover off the back of two transactions.

Richard Garside, Head of Central London investment at Savills, comments: “The start of 2022 demonstrated that demand for Central London offices was as strong as ever, but this quickly changed, driven by uncertainty around both local and global political and economic shocks, giving investors good reason to pause as shown in the Q4 figures. How this plays out in 2023 will be defined to some extent by these wider factors and some old school fundamentals of supply and demand. Our investment stock tracker is showing an ongoing lack of best-in-class core assets, suggesting that pricing of these buildings will continue to be cushioned from pressures felt elsewhere in the market as investors are becoming more and more selective”.