A market for affordable workspace

Early findings



London Property Alliance

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Market Dynamics

The Central London office market exhibits significant structural changes following the pandemic, characterised by:

A pronounced flight-to-quality trend resulting in market bifurcation

Persistently elevated vacancy rates in lower-grade office stock, particularly in non-core locations

Escalating construction costs challenging new development viability

Significant rental growth for best-in-class spaces

Concerns that mandatory affordable workspace provisions may render development schemes financially unviable

CAZ- policies

Camden

Affordable Workspace Strategy aimed at providing space at below-market rates for local entrepreneurs and businesses. Focuses on working with existing workspace owners, identifying council-owned spaces, and utilizing vacant high street properties

Westminster

not a mandatory requirement, Westminster's City Plan encourages the provision of affordable workspace in commercial developments

Draft guidance suggests that for developments **exceeding 1,000 sq m** of certain commercial uses, **10% of the space** as affordable would be encouraged

Kensington & Chelsea

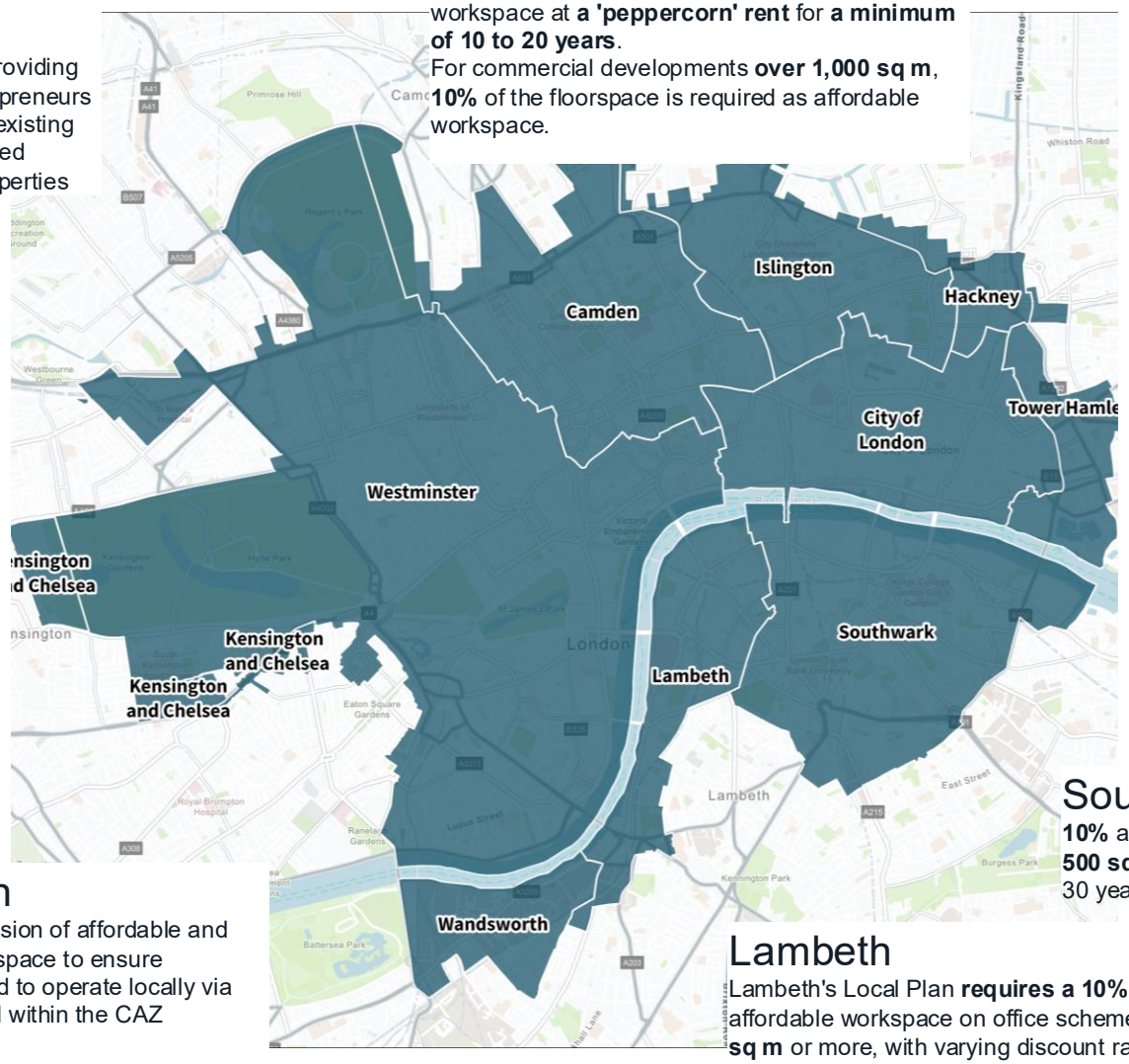
In designated Opportunity Areas new developments **must provide 10% or more** of their on-site commercial floorspace as affordable workspace.

For all other new developments exceeding **5,000 sq m**, the same requirement of **10% or more** affordable commercial floorspace applies

Islington

negotiates with developers to provide affordable workspace at **a 'peppercorn' rent** for **a minimum of 10 to 20 years**.

For commercial developments **over 1,000 sq m**, **10%** of the floorspace is required as affordable workspace.



Hackney

Requires that **10%** of commercial developments of **1,000 sq m** or more is offered as affordable workspace.

The level of discount on market rent varies, with a cap of **40% in Shoreditch and 60% elsewhere** in the borough

Tower Hamlets

requires major commercial developments of at least **1,000 sq m** to allocate a portion (10%) of their space as "affordable." This space must be offered at a rental rate **at least 10% below** the current market rate for a minimum of ten years.

City of London

not a mandatory requirement

encourages the provision of affordable workspace and views it as a significant public benefit when considering planning applications

Southwark

10% affordable workspace in schemes **over 500 sq m** of new employment floorspace for 30 years

Lambeth

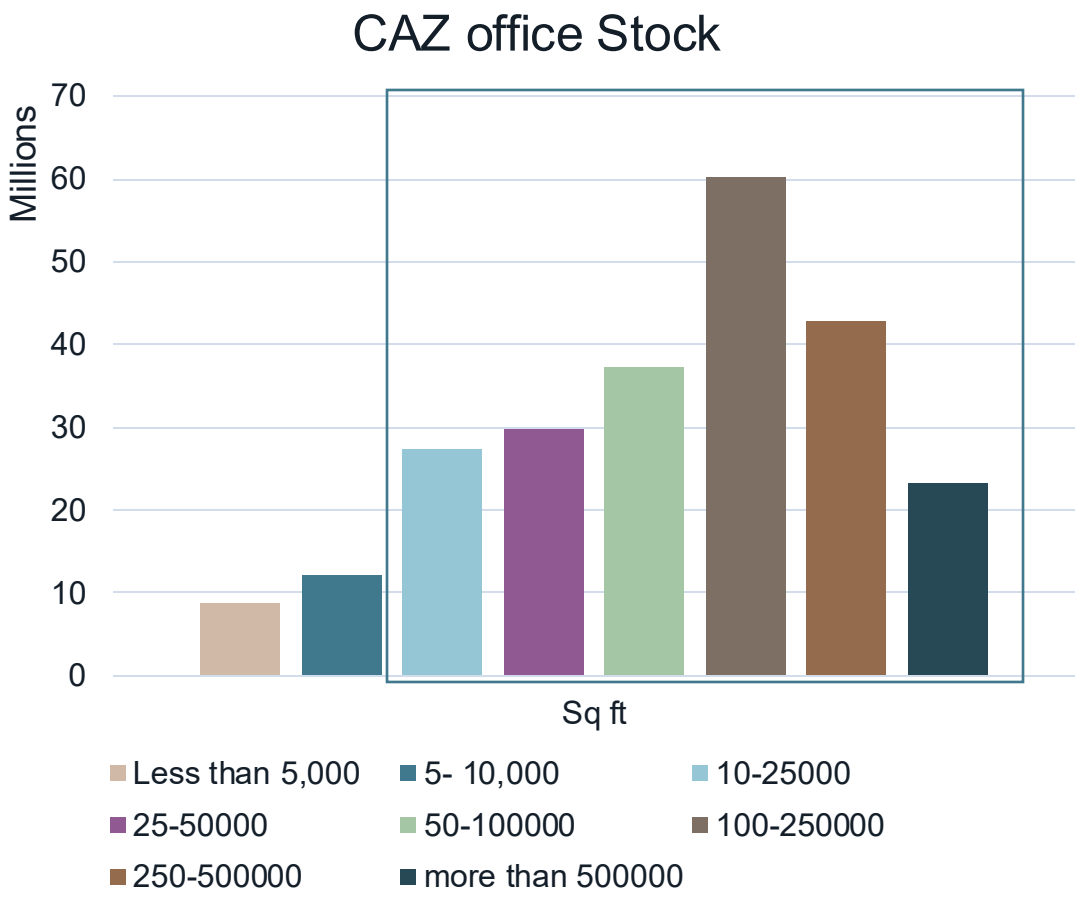
Lambeth's Local Plan **requires a 10% provision** of affordable workspace on office schemes of **1,000 sq m** or more, with varying discount rates depending on the location

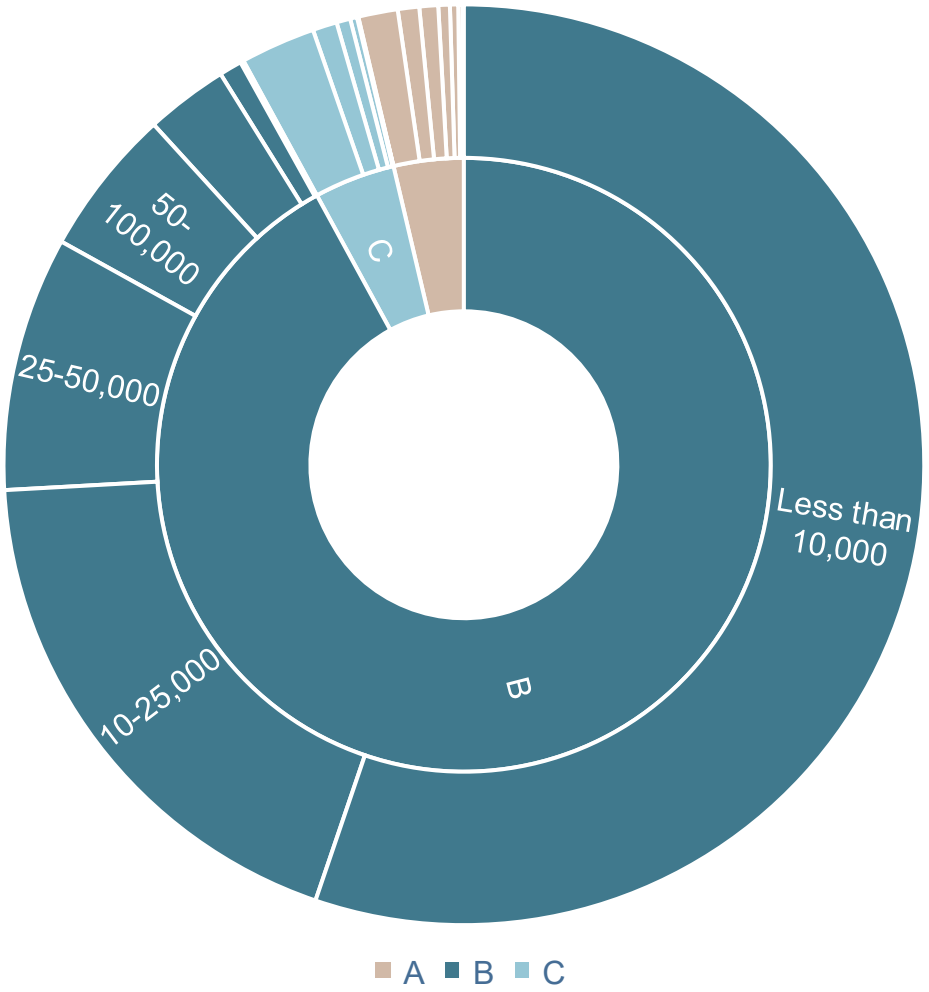
Wandsworth

encourages the provision of affordable and lower-cost business space to ensure businesses can afford to operate locally via the local plan- limited within the CAZ

Most office stock is not Grade A and is small scale

26% classed as Grade A by footprint and only 4% by number

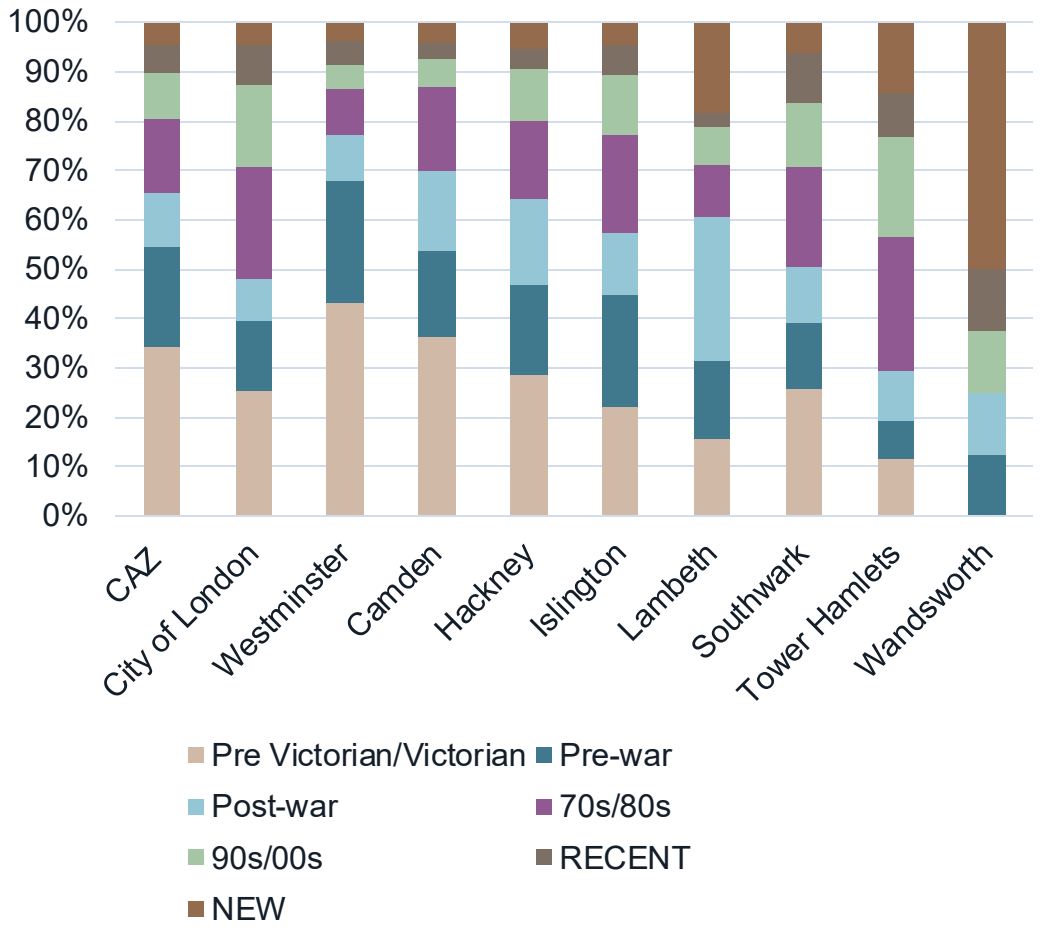




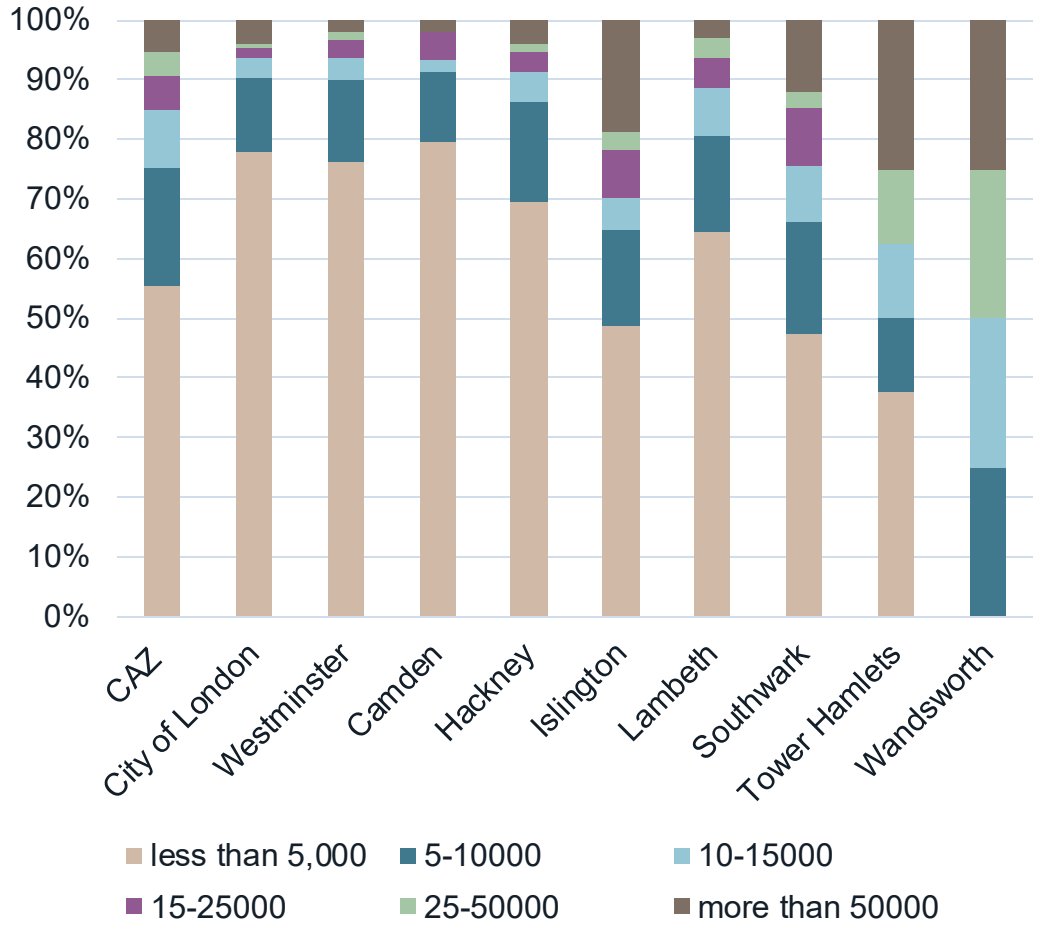
Most stock is dated and has smaller floorplates

By number

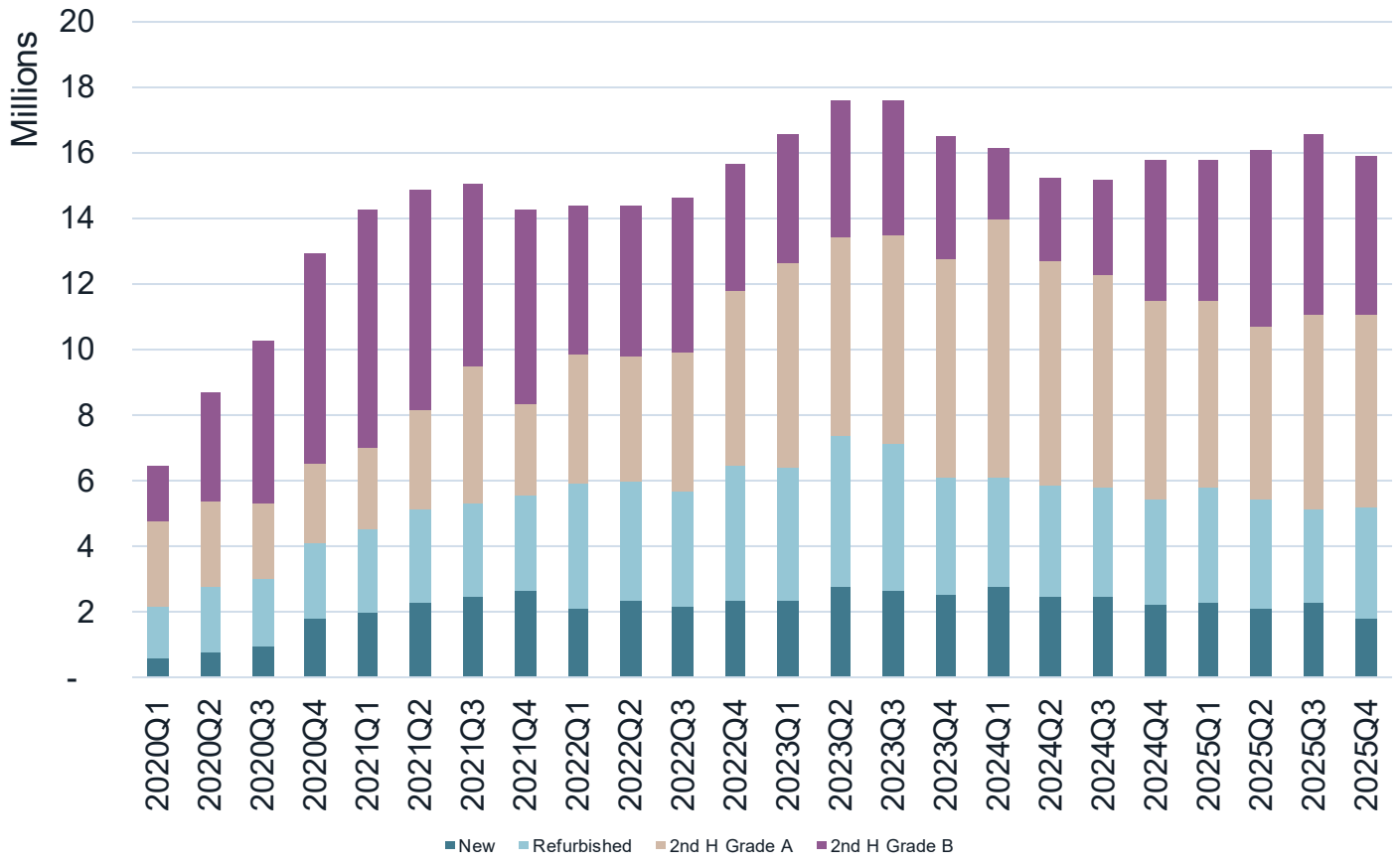
By date originally constructed



By average floorplate size



Supply is stubbornly high- with second hand space proving less attractive to occupiers



Change since 2020

1.5X

Total supply has increased by 146% since Q1 2020

67%

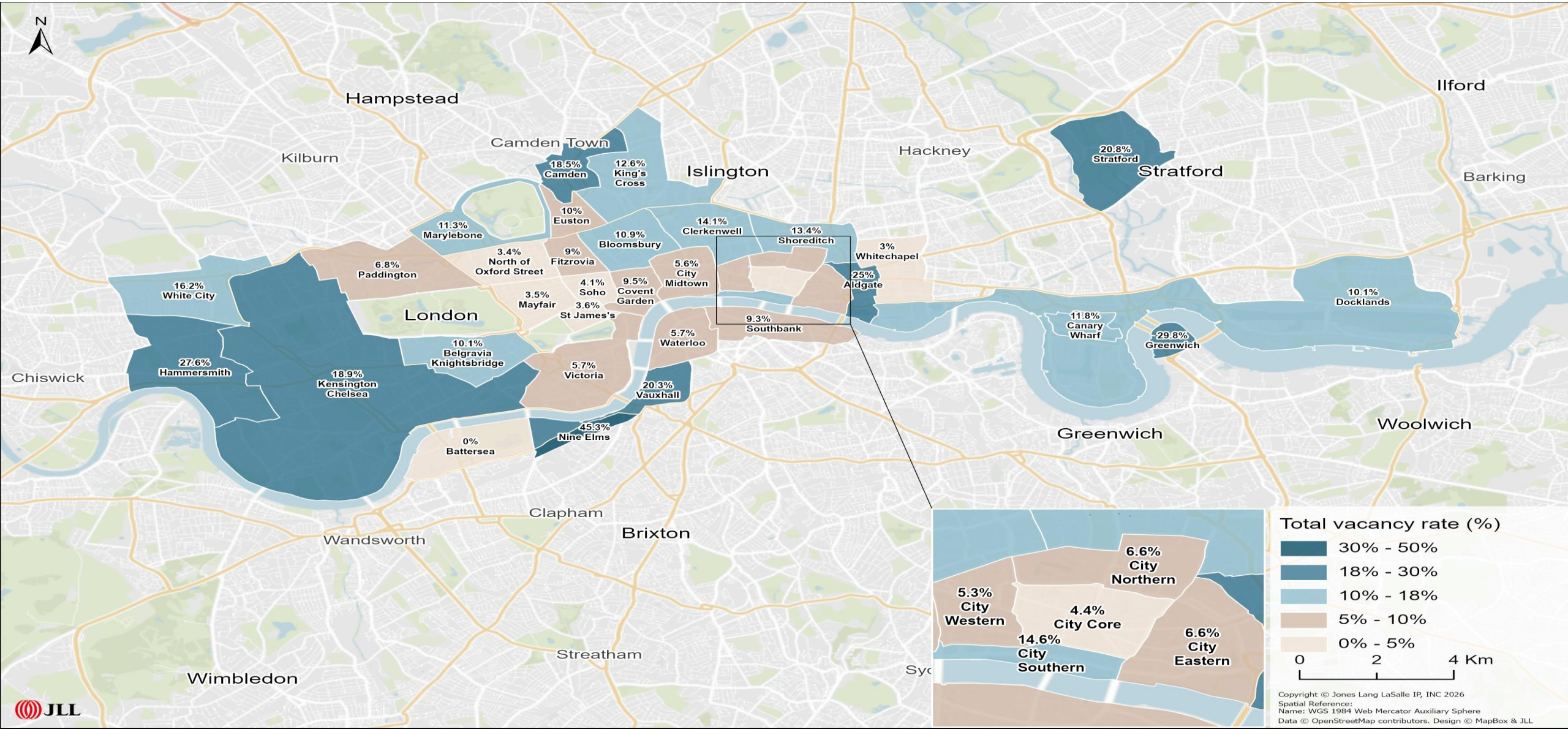
Proportion of the market that is second hand space Trending up since mid 2023 and similar proportion to 2020

Shift to Grade A

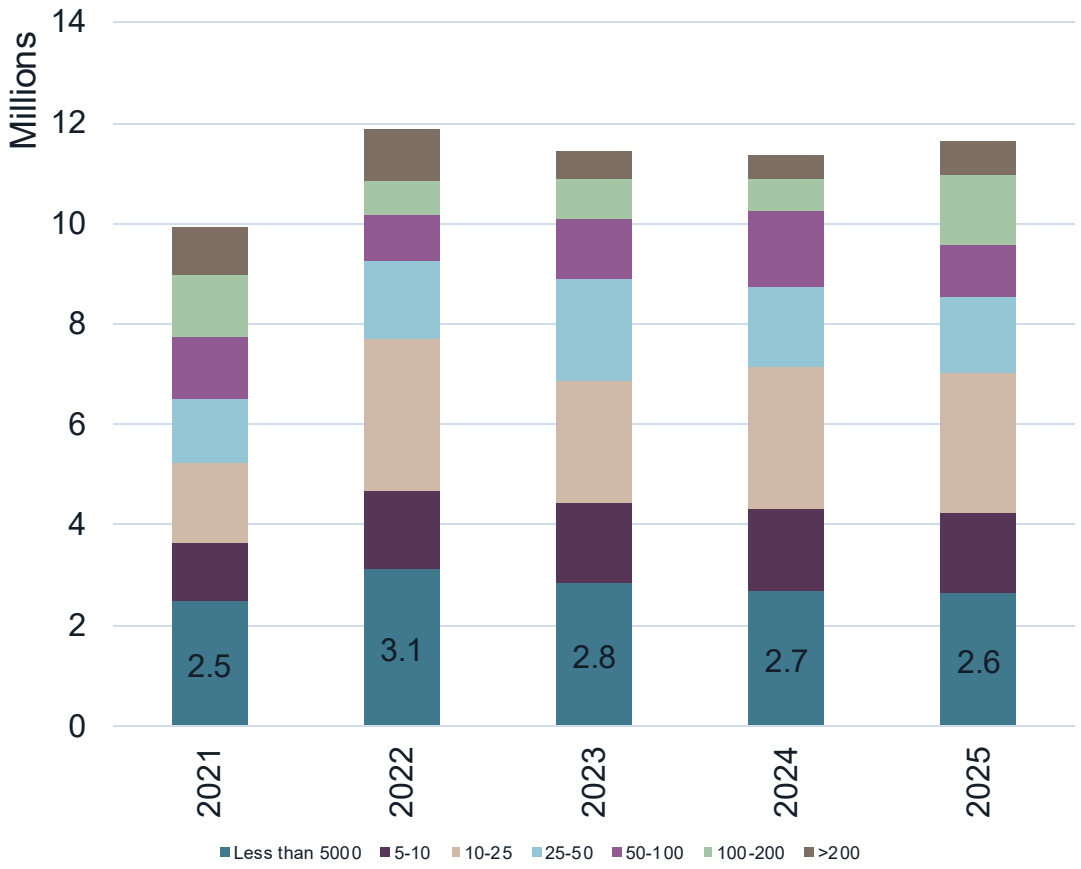
More 2nd H Grade A space than Grade B on market for last three years

Central London total vacancy rates by submarket

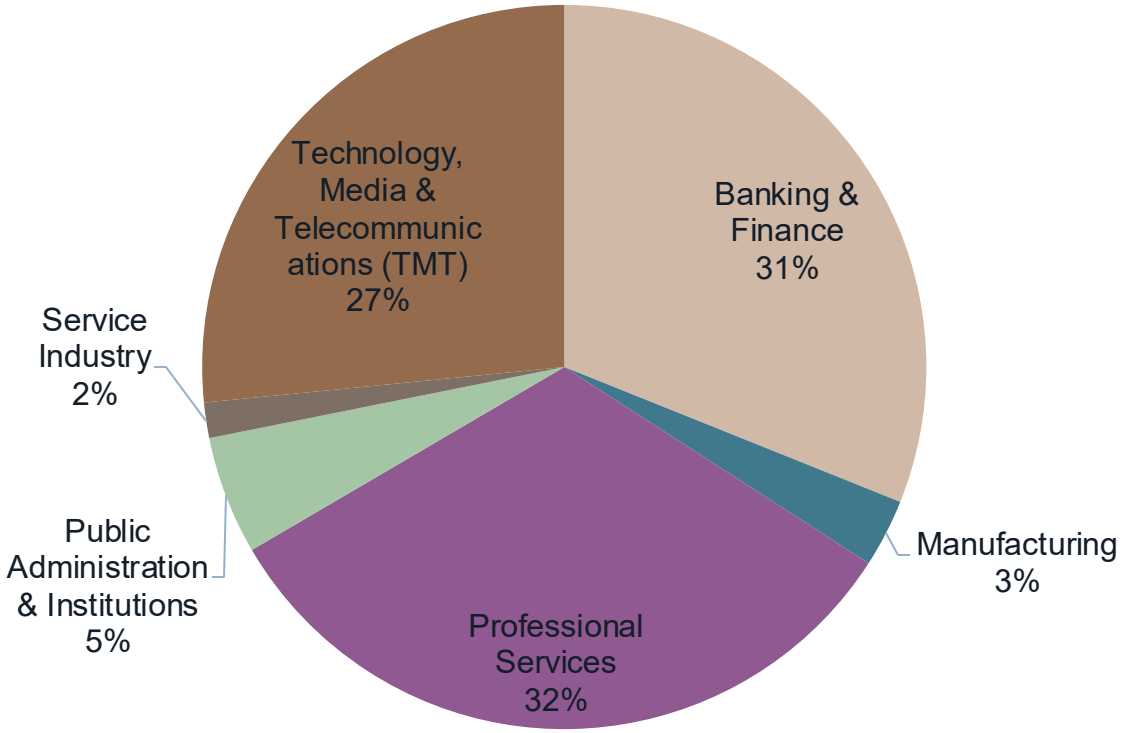
Total vacancy by submarket, Q4 2025



Small units account for nearly a quarter of traditional leasing market



Less than 5,000 sq ft = less than 50 people
(Micro and small businesses)



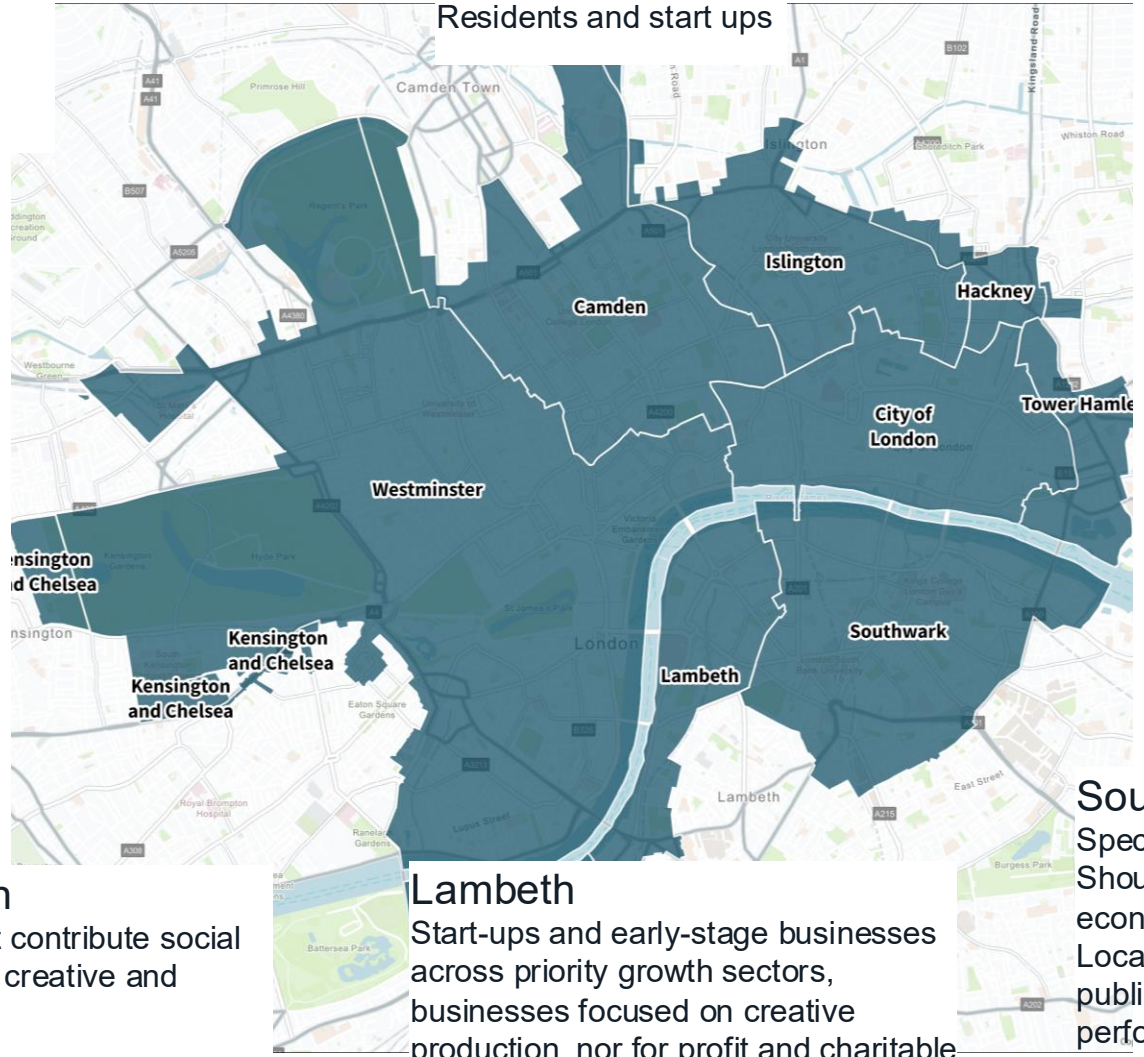
Average size
1,900 sq ft – less than 20 people
C1500 transactions

CAZ- target sectors

Camden
No specific target sector
Start ups. Freelancers and small businesses

Islington
Limited information
Residents and start ups

Hackney
Priority for local business
No specific target sector



Tower Hamlets
Should satisfy 2 or more criteria
Turnover not more than £10.2m
Balance sheet total not more than £5.1m
Employees not more than 50
.

Westminster
End Users to be start-up and early-stage businesses <5 yrs
Local businesses at risk of leaving the borough
<10 employees

City of London
n/a

Kensington & Chelsea
Creative industries and smaller businesses

Wandsworth
Businesses that contribute social value, including creative and charity industry

Lambeth
Start-ups and early-stage businesses across priority growth sectors, businesses focused on creative production, nor for profit and charitable organisations supporting Lambeth economy

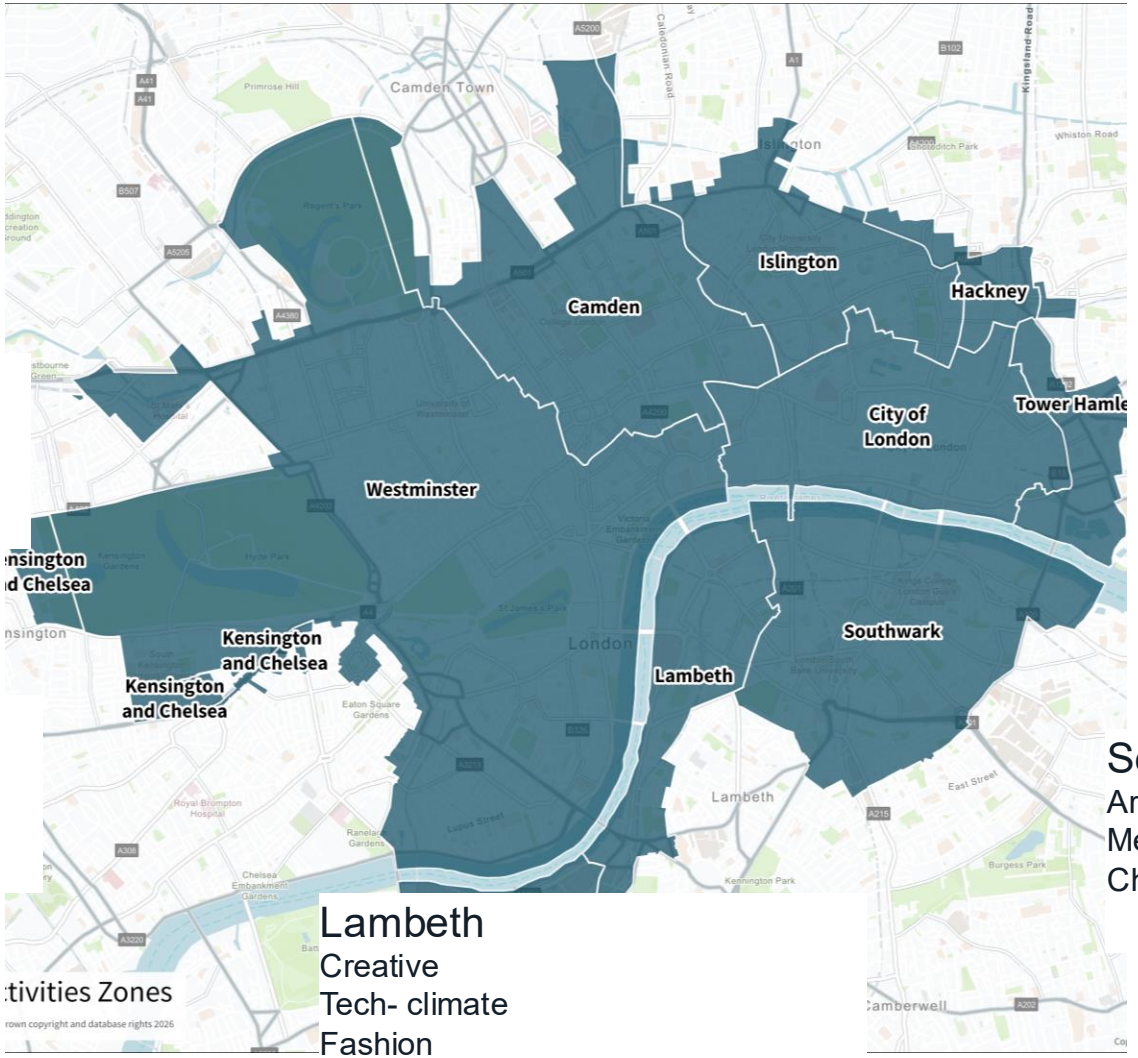
Southwark
Specific criteria for eligible businesses
Should have social, cultural or economic goal.
Local businesses including charities, public health, creative and artists, performance and maker space, disadvantaged groups

Who are the occupiers in affordable workspaces?

Islington
Social enterprises
Fashion industry
Technology

Camden
Creative & digital
Life science & biotech

Wandsworth
Media
Creative
Food business
Artists
Technology



Hackney
Artists & makers
Media & design
Charities & Social enterprises

Tower Hamlets
Creative
Cultural
Knowledge-based industries
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Southwark
Art & Creative
Media
Charities & Social sector

Lambeth
Creative
Tech- climate
Fashion
Social enterprises
Built environment

Serviced offices have expanded rapidly as an alternative space option

	Landlord operated	Traditional operator	Managed offices	Total flex space
Number of centres	54	503	217	774
M sq ft	1.43	12.65	2.18	16.26
% opened 2021-2025	75%	18%	59%	29%

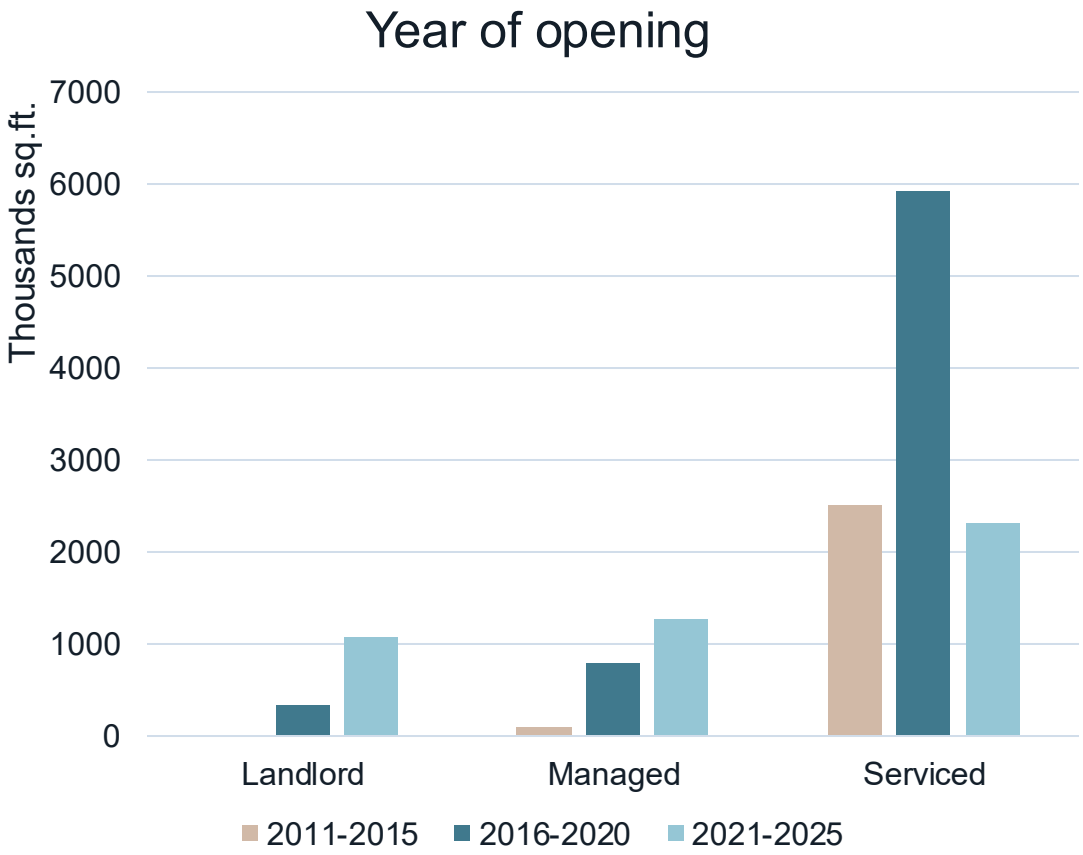
Net new openings 2011-2025

+13.5 million sq ft

+645 centres

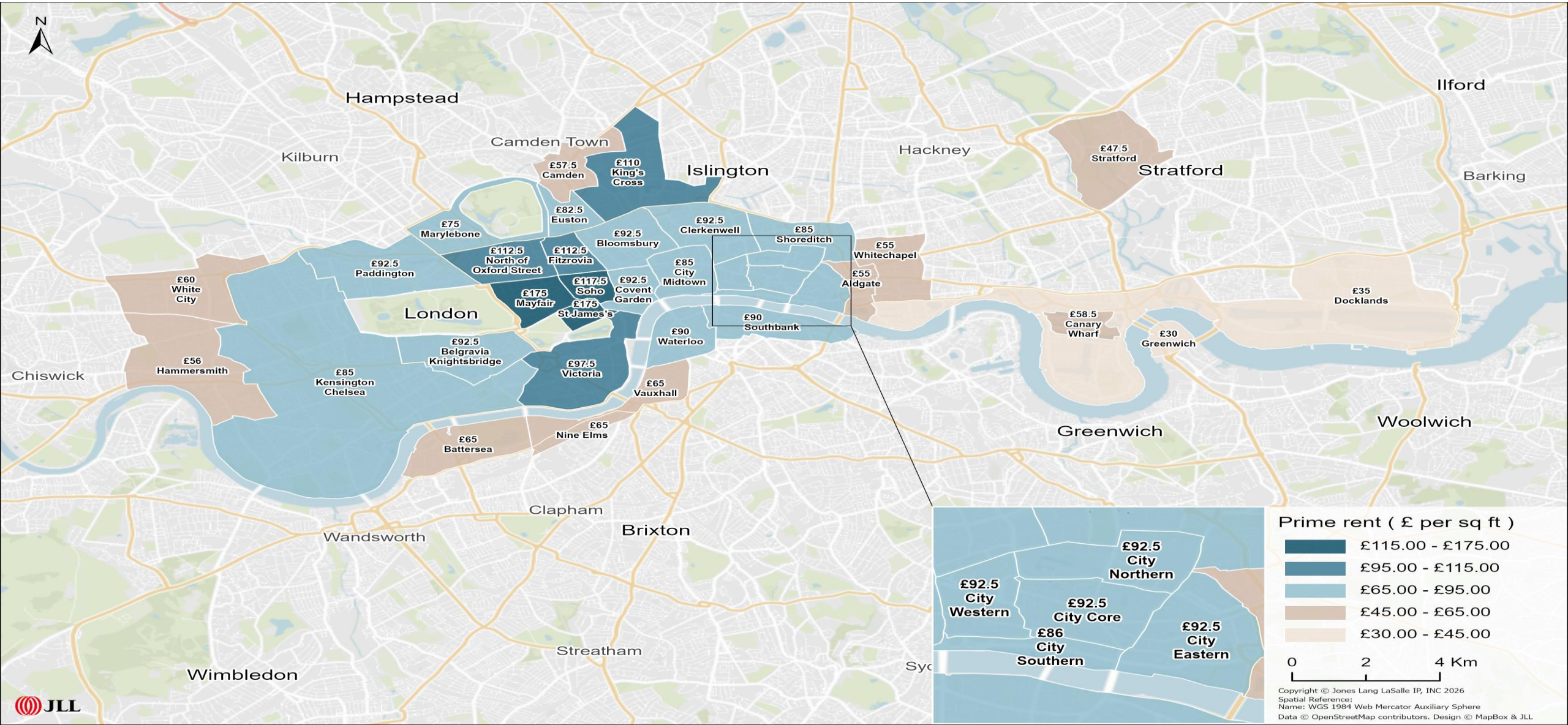


total flex space as % of office stock



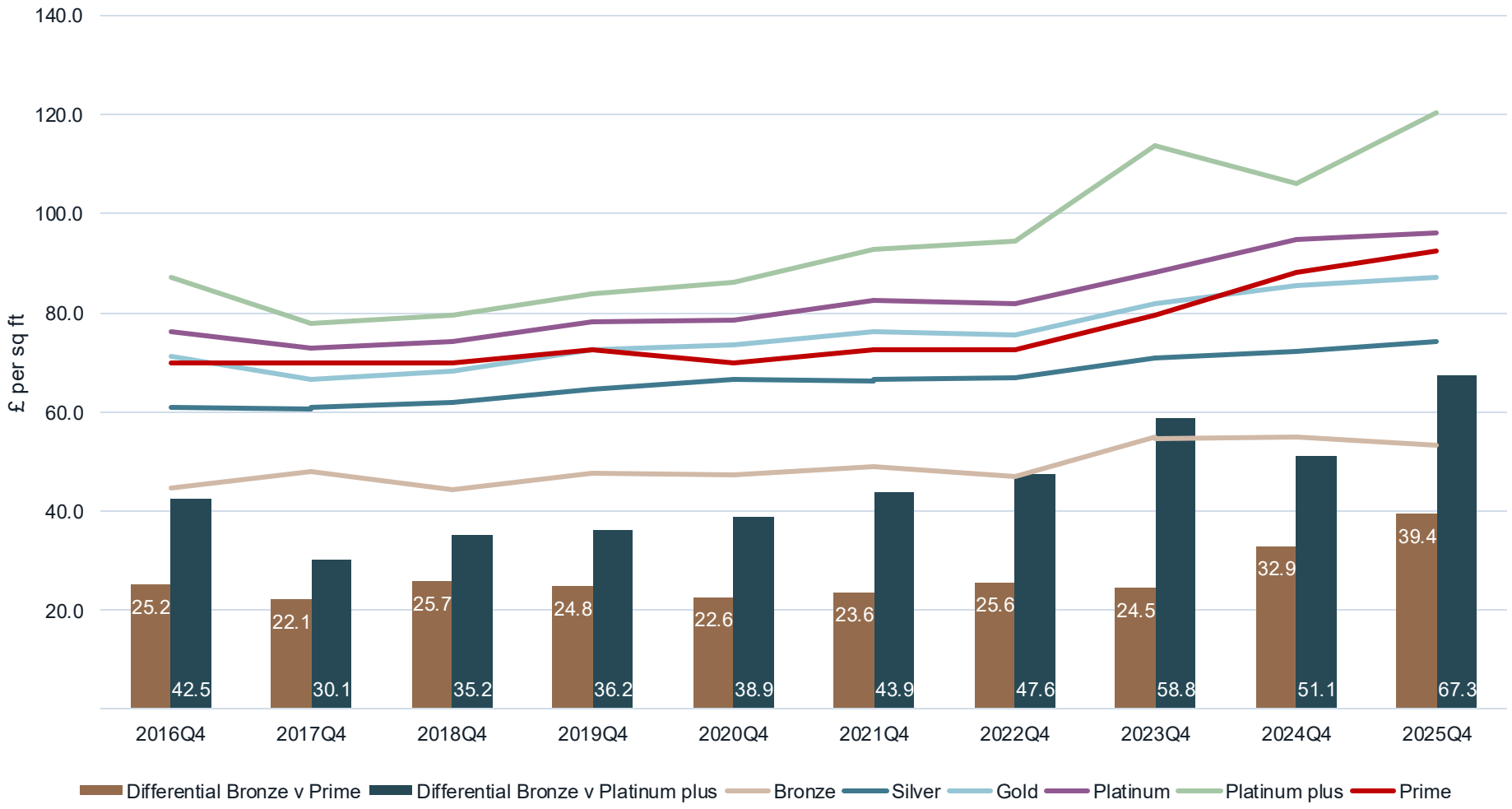
Central London prime rents by submarket

Prime rent by submarket, Q4 2025 (£ per sq ft per annum)



Differential between best and rest is widening

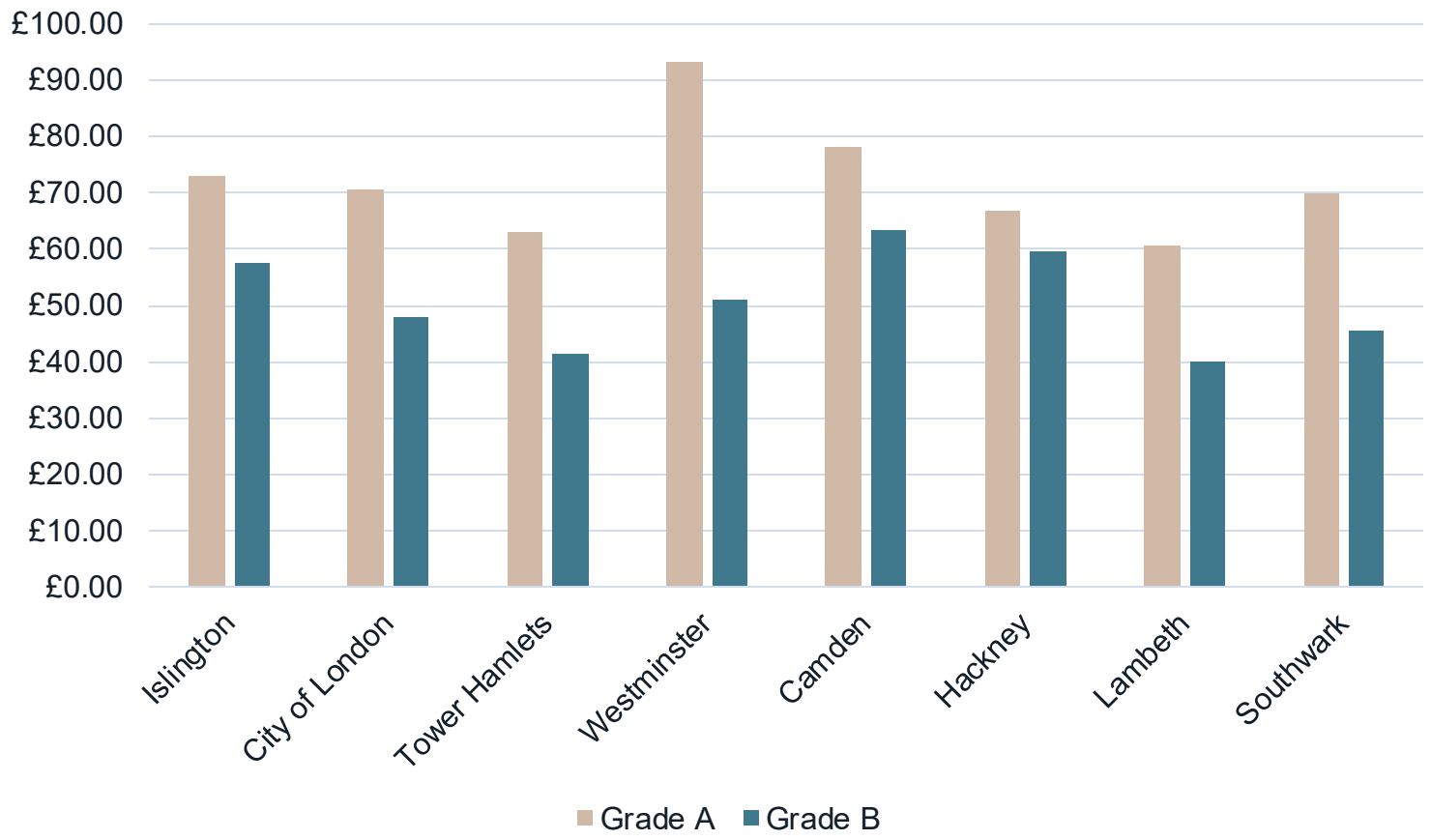
Average achieved discount between top and bottom tier of market 127% (2025)



- Differential between market rent (prime) and average bottom 10% of transactions has widened over last three years
- Differential between bottom and top of the market has been steadily widening since 2020
- Flight to quality and lack of best in class space has seen top rents escalate

Based on city core submarkets

Average asking rents by Local Authority and Grade



Grade A discount to Westminster

Grade A discount to Grade B



Annual change in Grade A asking rents

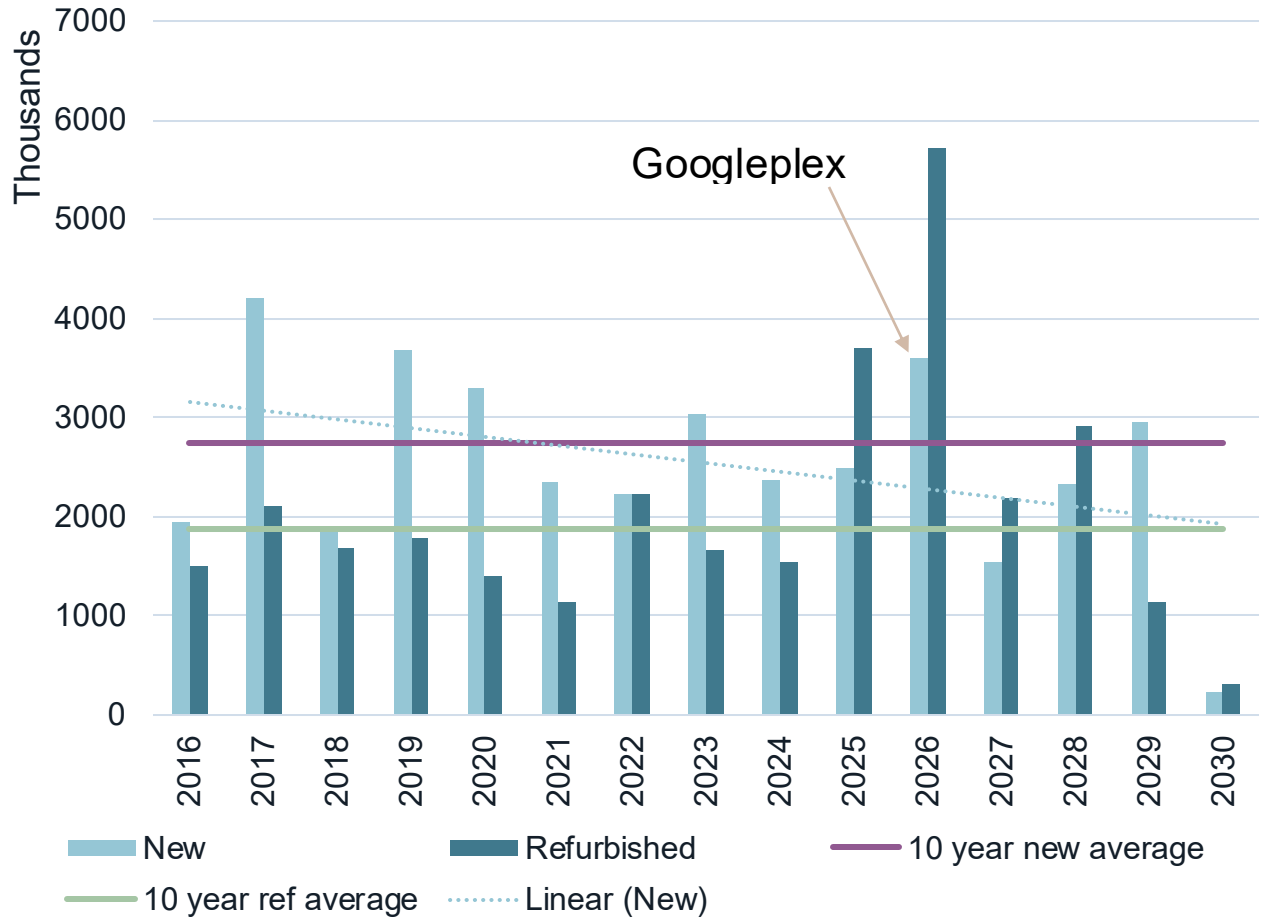


Annual change in Grade B asking rents

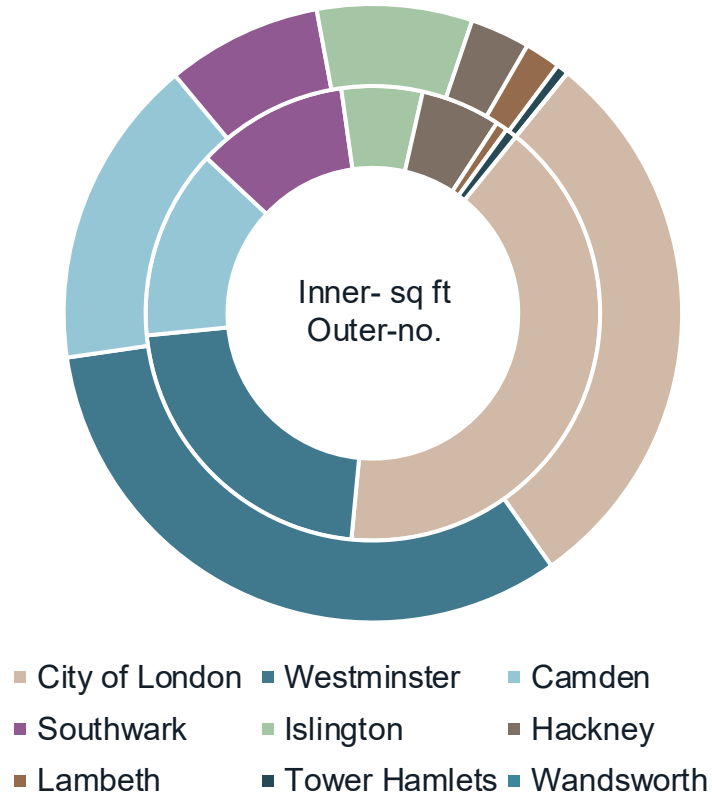


Development focused on Westminster and the City of London

Shortfall of nearly 11 million sq ft over the next five years



CAZ pipeline by LA (2026-2030)



Forecasts relate to under construction or with minimal barriers to starting

Is the market failing to deliver space for SMEs?

Sub- 5,000 sq ft transactions (=Small enterprises) are the engine of the Central London leasing market

Market delivers range of well-managed, lower-grade buildings which meet range of occupier needs, particularly among SMEs and cost-conscious tenants.

Gap between rents at top of market and Grade B widening- as best in class space becomes more expensive

Supply remains elevated in non-core and secondary quality spaces

In summary…

Developers recognise the importance of SMEs to the ecosystem and are supportive of the ambition to support local businesses, however..

Large, best-in-class offices do not necessarily provide suitable spaces or the best environment for small organisations to thrive

Financial viability is often a challenge for third party operators- fit out/service charges and rates all add up

Developers often take a further financial hit- undermining overall development viability

Context around wider marketplace provision

Understanding the genuine need for affordable workspaces- how many businesses are seeking space that can't be satisfied via the market

Flexibility around market rent and around quantum of space

Greater flexibility in policy application

Are there other social value initiatives that would better support the objectives of the policy?

Thank you



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