Q3 2024

Soho Office Market Snapshot

DEVONO

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Soho, whilst one of the smallest of the West End office submarkets, packs a punch in the workplace stakes and has gained widespread appeal among a diverse range of occupiers, the composition of which has been changing post-pandemic. Those attracted to this area may well have to make compromises with their search requirements amidst dwindling supply of premium space and rapidly rising rents

In this report we look at how office leasing activity has changed, not just in 2024 so far, but the post-pandemic period as a whole. This report examines how activity has evolved, not only throughout 2024 but across the entire post-pandemic period. We delve into emerging sectors, rental trends, and the availability of space, offering insights into the shifting dynamics of the Soho office market and our projections for the year ahead. Whether you are about to embark on a new office search or have an impending rent review or are simply interested in the Soho area, read on.

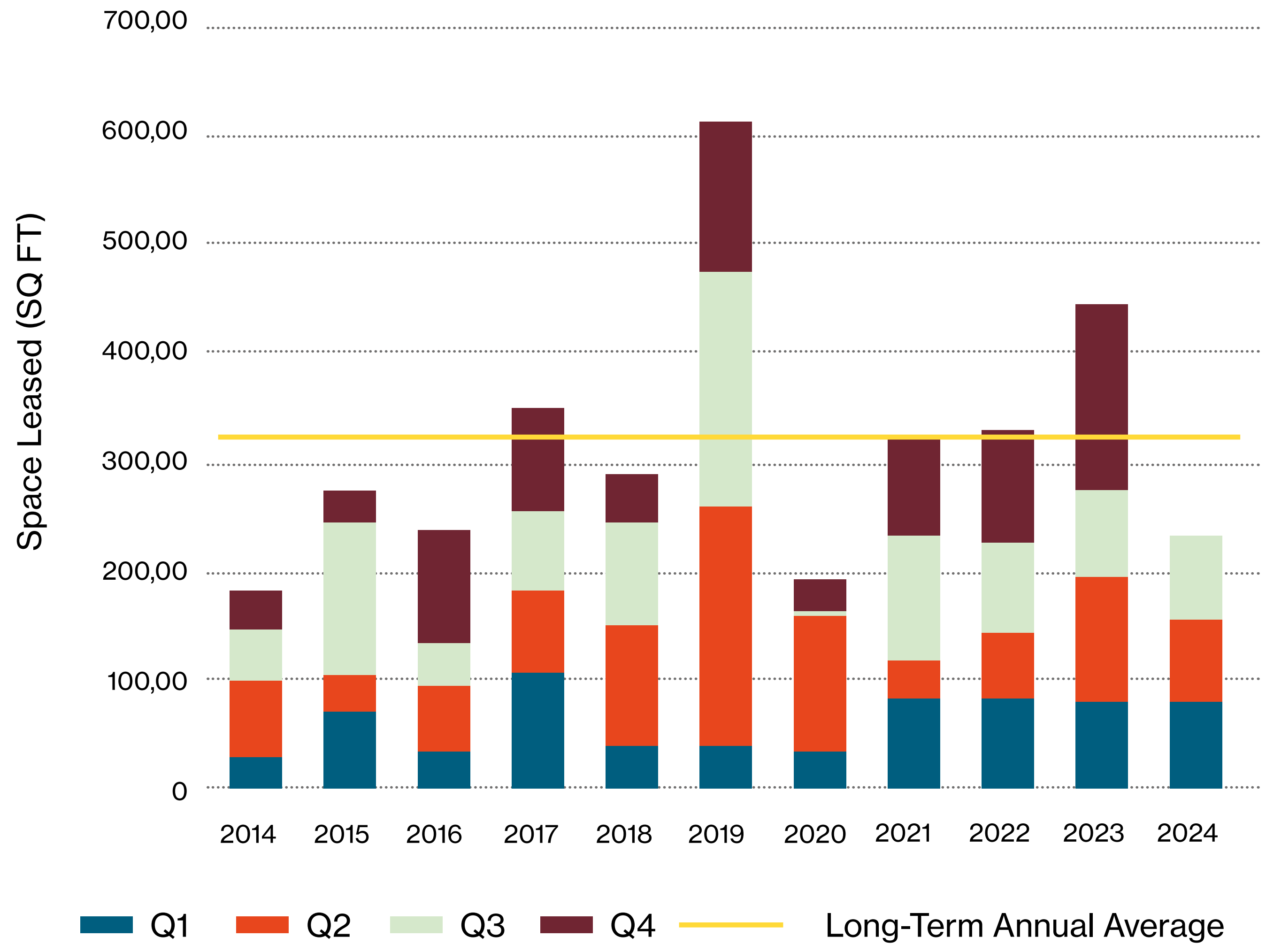
Shaun Dawson,
Head of Insights,
Devono

Headline Stats

Leasing	**98** Deals Transacted In 2023 – Historic High	**c.73k** SQ FT Leased In Q3 2024 – Lowest Quarterly Level Since Q2 2022	**42%** Average Financial Sector Share Of Space Leased Post-Pandemic (2020-2024)
Rents	**£115.00** PSF Prime Grade A Rent – Up 18% Over 5 Yrs	**£87.50** PSF Prime Grade B Rent – Up 9% Over 12 Months	**20-22** Months Rent-Free Incentive On A 10-Yr Lease
Availability	**c.363k** SQ FT Of Space Available As Of Q3 2024	**36%** Of The Space Available Is Grade A	**9,244** SQ FT – Average Size Of Grade A Space Available In Soho

Leasing

Soho Office Market:
Leasing Activity, 2014-2024



Source: Devono Insights

Soho has long been a unique corner of central London. A vibrant area where the corporate world mixes with the artistic and creative, side-by-side with retail, leisure and entertainment; the area is often among the first to spring to mind when the West End is mentioned. While its reputation as a “trendy” area has long proved a draw, there has been a transformative uptick in occupier interest following the pandemic.

From 2021, each year we have seen the annual number of deals transacted hit a new historic high, culminating in 98 being registered at the end of 2023, pushing the total space leased to 445,173 sq ft, the largest volume since 2019. This is despite the size of the deals being much smaller; in 2024 so far, the average deal size stands at 3,157 sq ft, 41% lower than the average between 2015-2019.

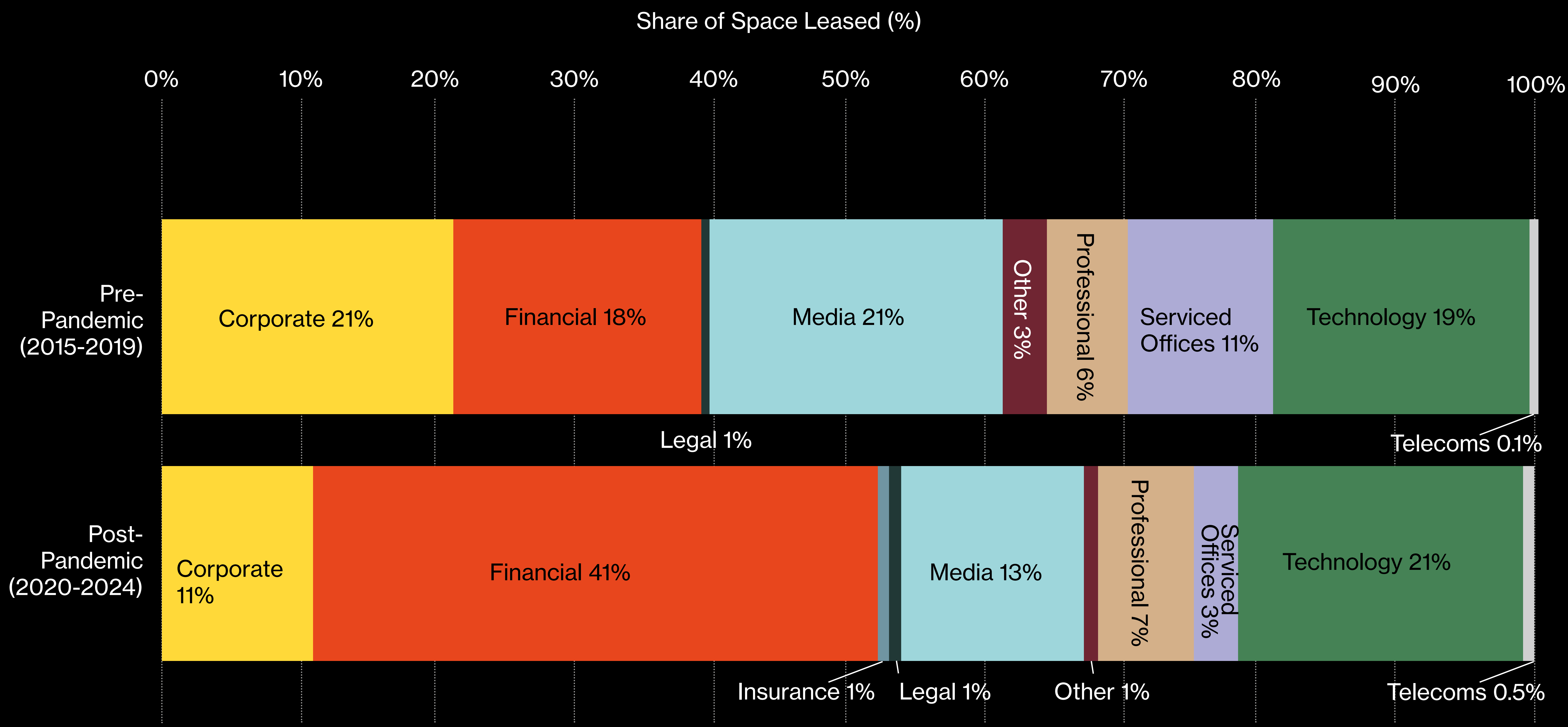
The boost to deal activity, as in other West End submarkets, has largely come from the wide attributes of its office locations in addition to the actual workspace. Attracting the workforce, in greater frequency, back to the office has been high on business leaders’ agendas, and Soho delivers on this front.

Having said this, our research shows that leasing activity in Q1-Q3 2024 has seen momentum slow somewhat. The volume of space leased is 15% below the level for the same period in 2023, whereas neighbouring West End submarkets saw a recent uptick in deal activity. The reduction in larger deals, with no deals in excess of 12,000 sq ft, has certainly been felt in the numbers as Q3 2024 is Soho’s lowest quarterly total since Q2 2022. Despite this, demand for space in Soho in 2024 has remained comparatively high, with the total number of transactions for the Q1-Q3 period coming in just above the long-term annual average.

Soho Office Market: Share Of Space Leased By Sector, Pre And Post Pandemic, 2015-2024

Who Is Leasing?

Soho, like many other business districts across central London, is not spared of change. Over the past decade, renewed commercial and residential development, the opening of the Elizabeth Line and repositioning of leisure and retail have influenced the sectors that are making Soho their home.



Source: Devono Insights

TENANT	SECTOR	SIZE (SQ FT)	ADDRESS	YEAR	QUARTER
Eisler Capital Financial Services	Financial	49,287	Lucent, 1 Sherwood Street	2023	Q2
Kraken Technologies	Technology	28,640	UK House, 2 Great Titchfield Street	2023	Q4
Verition Fund Management	Financial	25,500	Lucent, 1 Sherwood Street	2024	Q1
Capstone Investment Advisors	Financial	19,000	UK House, 2 Great Titchfield Street	2024	Q1
Chatham Financial	Financial	14,762	68 Broadwick Street	2023	Q4
Ares	Financial	13,841	68 Broadwick Street	2023	Q4
Digital Media Services UK	Media	12,569	7-11 Lexington Street	2023	Q4
Allstate Northern Ireland	Insurance	11,444	1 Dean Street	2024	Q3
Argentex	Financial	10,238	25 Argyll Street	2023	Q1
OGCI Climate Investments	Other (Association)	9,215	25 Argyll Street	2023	Q3

Devono *supporting* Soho searches

TENANT	SECTOR	ADDRESS	PERIOD	SIZE (SQ FT)	LEASE TYPE
PLP	Corporate	12 Golden Square	Q3 2024	4,192	New Lease
Confidential	Financial	8-10 Brewer Street	Q3 2024	4,357	New Lease
Ara Venn	Financial	30 Golden Square	Q1 2024	4,408	New Lease
Kinnevik UK	Financial	30 Golden Square	Q4 2023	4,316	New Lease
Highland Europe	Financial	30 Golden Square	Q4 2022	8,976	New Lease
King	Technology	Ampersand, 180 Wardour Street	Q3 2021	65,170	Rent Review
X (Twitter)	Technology	20 Air Street	Q4 2020	30,177	Renewal

Financial Sector Leads The Charge

Our research has shown that different sectors have been spearheading office leasing activity, in particular the financial sector. Whilst the area is the location of choice for a diverse range of businesses, our analysis of pre and post-pandemic leasing highlights a shift in the ranking.

The average financial sector share of total space leased post-pandemic (2020-2024) rocketed to a dominant 42% share compared to only 16% pre (2015-2019), with 2023 seeing the highest annual number of financial firms taking space in Soho since before 2004, with a total of 19.

Delving a little deeper into financial sector activity in 2024, we can see that there is a healthy mix of new businesses choosing Soho as well as existing occupiers recommitting to the area but to newer spaces. However, that is not to say that we haven't seen some sizeable financial occupiers dipping their toe into the Soho market this year, with the largest financial sector deal of 2024 in Soho having been transacted by Verition Fund management, who have chosen to expand into Soho having previously been in nearby St James's.

Tech Firms Double Down

Technology firms have been leasing larger spaces with the sector's share of space leased post-pandemic hitting 22% compared to 16% pre-pandemic, as the average deal size over these respective periods rose from 8,451 sq ft to 9,505 sq ft. In addition, we are seeing tech firms commit to Soho in greater numbers post-pandemic, with more tech sector deals in 2024 so far than in any full-year period since 2004.

The increased presence of these two sectors represents a marked change from an area that was synonymous with the media sector. Their share of leasing has dropped, taking comparatively less space post-pandemic (2020-2024) with a share equating to only 13%, relegating them from the most active sector to third place. Yet, looking at last quarter (Q3) in isolation, the media sector has returned to the forefront with a commanding share of 23% of the space leased.

Our analysis also shows that the insurance sector has been active, taking space in this market for the first time since before 2004, with Allstate and MassMutual both taking spaces in Q3, although it should be noted that these are subdivisions which are more specifically focused on technology and venture capital respectively.

Availability

What Is Being Leased?

Access to prime Grade A or even prime Grade B office space is slim in a market that is made up of a significant level of old stock. It is no surprise that leasing of the better-quality spaces is relatively strong. Yet initial space search requirements are compromised when filtering down options on cost, quality, location and amenities.

Comparing the pre and post pandemic levels of leasing, we can see that 16% of the deals transacted post-pandemic were for Grade A spaces, down from 19% pre-pandemic. This is quite a considerably smaller proportion than in say the City, where the Grade A spaces accounted for 24% of the deals transacted post-pandemic, and even some of the larger West End submarkets such as King's Cross, where this figure was 26%.

> *Grade A spaces, down from 19% pre-pandemic level ... We expect many more developers to come forward with new schemes*

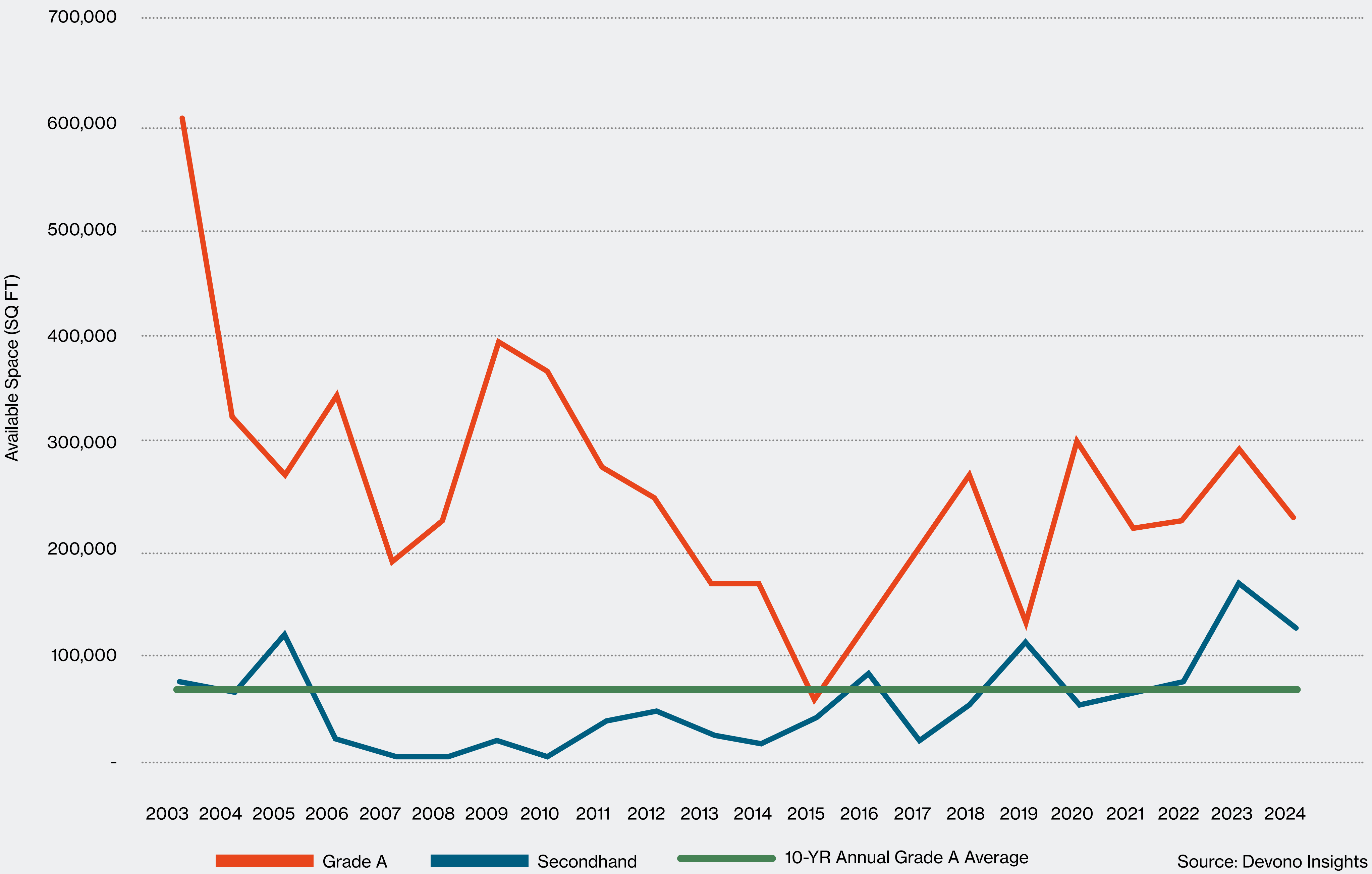
Our analysis shows that while Soho offers a range of space quality, the market's smaller size limits tenant choice, and availability has been shrinking (total down 23% since the end of last year). Specifically, Grade A space has seen a sharp contraction, with the average size dropping from 17,189 sq ft in Q4 2023 to just 9,244 sq ft in Q3 2024. This tightening of Grade A supply has left limited options for larger occupiers, evidenced by the absence of deals over 50,000 sq ft since 2021.

As a result, many occupiers who would typically choose Grade A offices are being steered towards the upper tier of the secondhand space market. These businesses remain committed to providing high-quality work environments for their teams, prioritising premium secondhand spaces that, while slightly older, still offer excellent standards. Notably, 74% of the deals completed in Soho this year have been for such spaces.

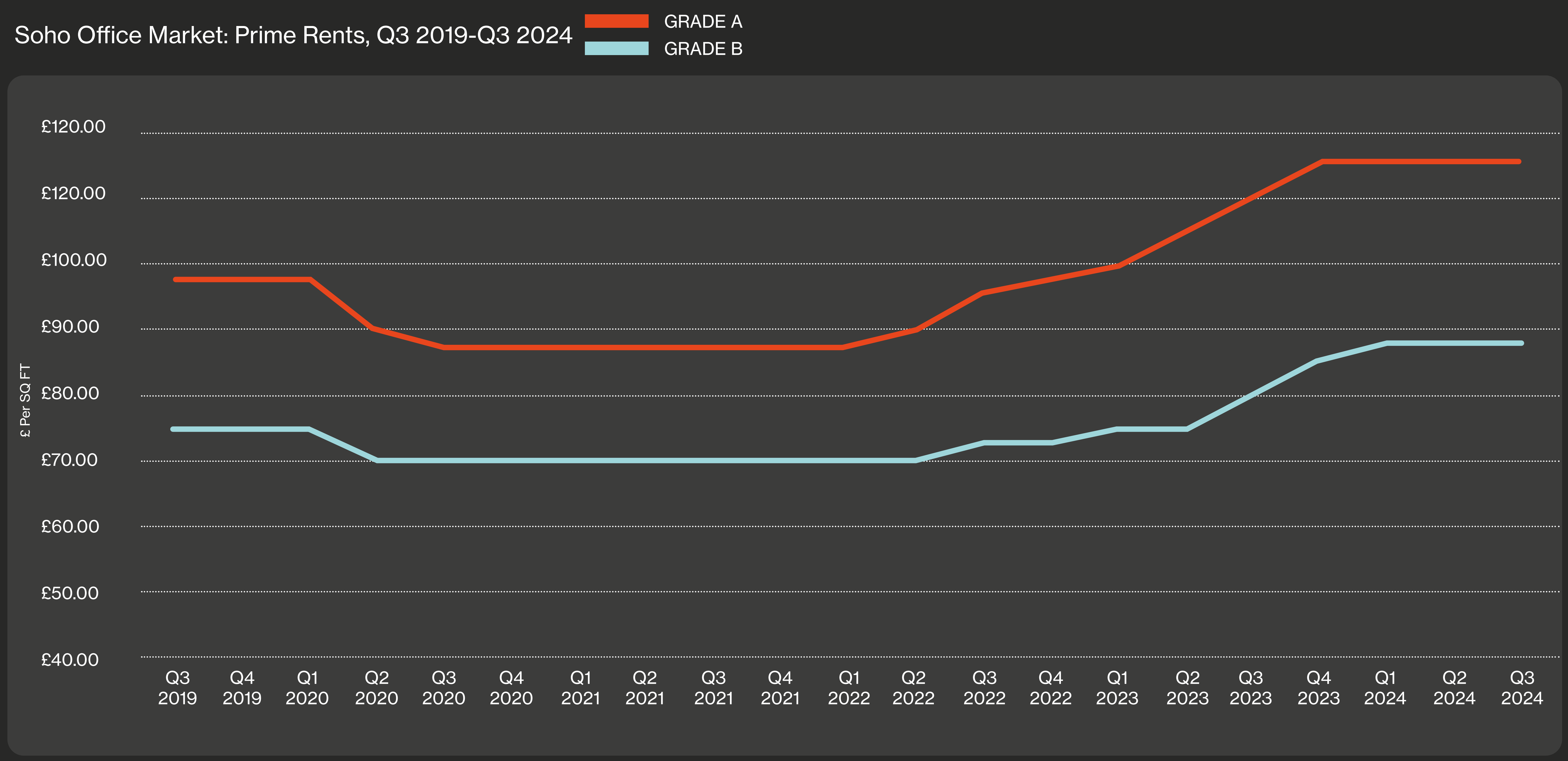
That being said, for tenants that are hoping for more optionality in Grade A, developers are pushing ahead with new schemes. Soho's media cluster on Wardour Street is the centre of much of this development, with GPE's new flex offering at 141 Wardour Street set to launch during the first half of next year and Film House up the road will be available to occupy following refurbishment at the end of 2025.

We expect many more landlords/developers to come forward with new developments and upgrade their existing spaces, not necessarily to meet EPC legislation but to provide what tenants want and differentiate from the rest of the available stock.

Soho Office Market: Availability By Grade, 2003-2024



Source: Devono Insights



Source: Devono Insights

Rents

Paying The Price For Quality

For many occupiers, the preference for prime secondhand spaces has largely been driven by the quality of available spaces that meet size requirements. However, another key factor has undoubtedly been the level of rental growth in Soho.

Prime Grade A rents are now at £115.00 per sq ft, tied with the Clerkenwell/Farringdon area for the second highest in central London. However, the Prime Grade B rent is currently set at only £87.50 per sq ft, 24% lower, and in fact the average achieved rent for a better-quality secondhand space in Q3 2024 was £70.22 per sq ft.

Although this does reflect that there are significant savings to be made for those that opt for the prime Grade B spaces, it should be acknowledged that tenants are still paying significantly more for these spaces than they once were, as Grade B rents have risen by 17% over the past five years, a rate of growth that is similar to that for the Grade A options (18%).

The pressure for further rental growth is likely to heighten as more and more new developments and refurbishment schemes are brought forward.

The heightened level of rental growth is softened somewhat by the generous level of rent-free incentives that landlords are providing. On a 10-year term businesses could achieve 20-22 months rent-free.

Flexible office options are increasingly becoming the solution for businesses seeking both flexibility and access to some of the best available spaces.

The pressure for further rental growth is likely to heighten

Grade A flexible (serviced) offices can be leased at a significantly lower cost than in other West End areas, with rents starting as low as £850 per desk per month (pdpm), which is more affordable compared to locations like Mayfair, Paddington, Knightsbridge, and North of Oxford Street.

Top-tier serviced spaces can command desk rates of up to £1,400 pdpm. As with leasehold spaces, it's likely that flexible occupiers will continue to prefer high-quality secondhand spaces. Prime Grade B offices are available for around £700 pdpm, offering a 38% discount compared to the average Grade A space.

The competition amongst flexible office providers remains quite fierce and as such we expect that to subdue pricing in the short-term.

Outlook

The outlook for London's Soho office market is one of resilience despite some challenges, namely supply squeeze and higher rents. The area's attractiveness continues to be strong and the robust demand that we have highlighted is expected to continue with over 600 active requirements for space in Soho over the next 18 months.

Soho's office market will build upon its vibrancy from its diverse business community, its strengthened transport links, and future developments. This will in part lead competition for office space to intensify, particularly among small to medium-sized companies, putting pressure on landlords to realign their offerings to meet growing ESG and workforce standards.

Our outlook for the market in 2025:

Competition for space is expected to be robust heading into 2025, fuelled by small to medium-sized requirements.

101 office leases expire between January 2025 to July 2026, adding to the competition for space.

Occupier demand for the best-in-class space will be maintained, met by a low level of supply in the short term.

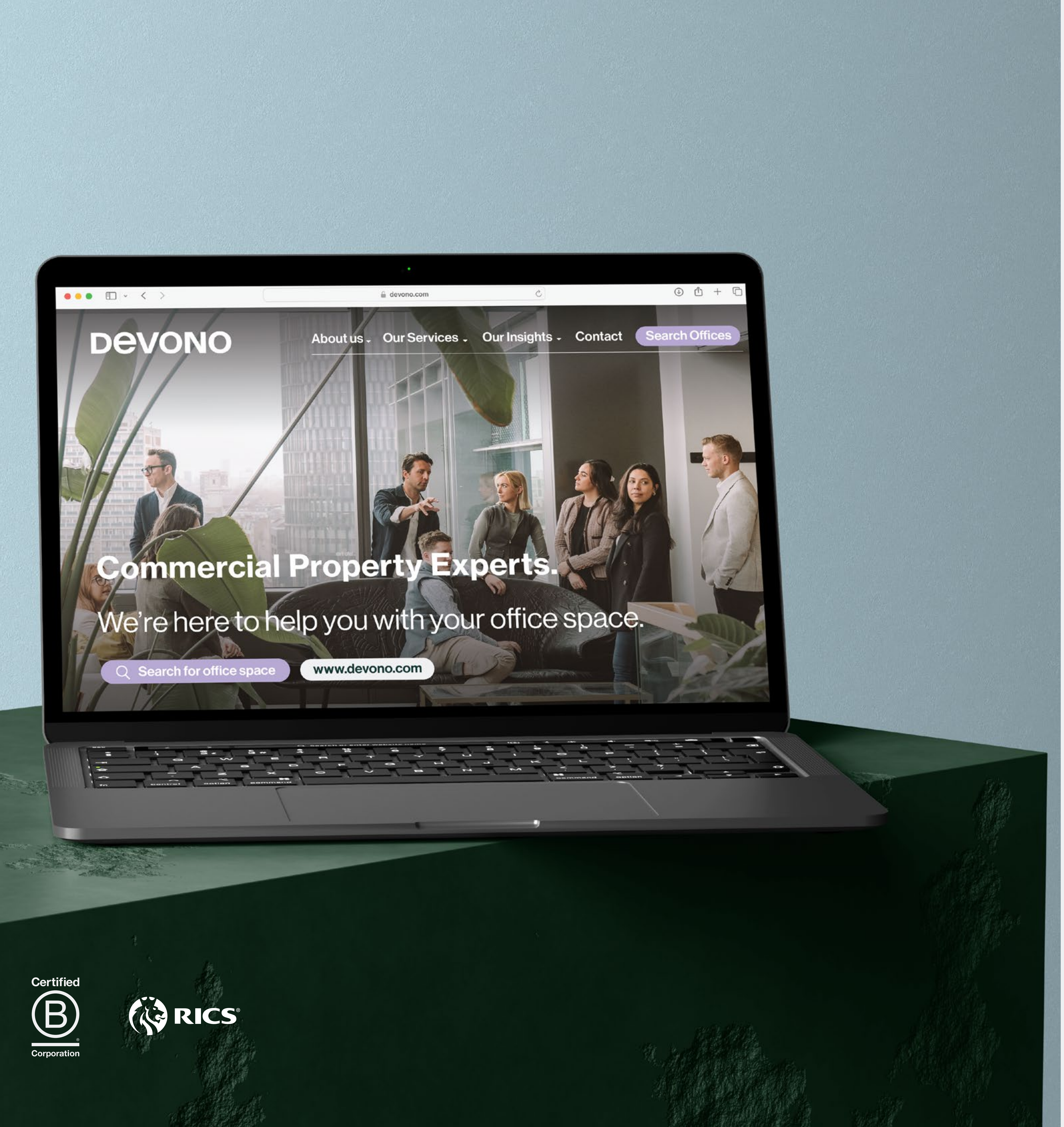
Landlords repositioning their spaces as a result of ESG and workforce standards will set new rental tones for refurbished spaces.

A greater concentration of the top occupier sectors to dominate leasing.

Limited choice of options could force existing occupiers to look beyond Soho.

Residential and Hotel development to reduce the volume of office stock.

A greater concentration of the top occupier sectors to dominate leasing.



About Devono

Devono is the UK's leading occupier-only advisory firm, proudly accredited as a B Corp and regulated by the RICS. We specialise in delivering tailored commercial real estate solutions that align with the diverse needs and strategic objectives of businesses across all sizes and sectors.

A significant part of our role is helping our clients understand and define their occupational requirements. We carefully consider factors such as talent acquisition and retention, headcount projections, operational priorities, and cost efficiency. This ensures we craft a forward-thinking brief that not only meets today's needs but also lays the foundation for a sustainable and adaptable occupational strategy.

At Devono, our mission is to navigate real estate opportunities in a way that positively shapes company culture, enhances productivity, and drives financial performance – creating lasting value for our clients and their teams.

Our Services

- Leasehold Office Agency
- Service Charge Consultancy
- Workplace Consultancy
- Design & Build
- Dilapidations & Building Surveys
- Occupier Disposal
- Rent Reviews
- Flexible Office Agency
- Managed Offices

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