Greater London & South East Offices
Market Watch

January 2017

2016 total take-up is 6% above the long-term average

Snapshot of deals, supply and rents

■ Take-up in 2016 reached 3.8 million sq ft and there is 438,975 sq ft currently under offer. 2016 represented a robust year for the Greater London and South East office market, although 2016 take-up was 8% below 2015's total, it was still 6% above the long term average of 3.6 million sq ft. Q4 was particularly strong with 1.09 million sq ft being transacted, this highlighted the strong occupier demand currently within the market post the EU referendum. The Western Sector continued to be the strongest office market in the region as it witnessed the highest level of take-up across the South East accounting for 1.8 million sq ft. This equated for 47% of all take-up across the South East region.

■ There were eleven deals this year over 50,000 sq ft, the largest being Lidl's 220,000 sq ft acquisition in Tolworth. Although the majority of activity was within the smaller size bands. The average deal size across the entire market is only 15,299 sq ft and 84% of deals in the market this year have been under 20,000 sq ft underlining that the majority of the market is comprised of churn of existing local occupiers.

■ The theme of decentralisation of occupiers from central London relocating certain operations to more cost effective locations has continued in 2016. Macquarie are under offer at R+ in Reading where they will relocate their asset finance team from the City of London. There are currently large requirements in the market from Virgin Media, Sony, Jacobs and Atkins who are all individually searching for in excess of 50,000 sq ft in the South East.

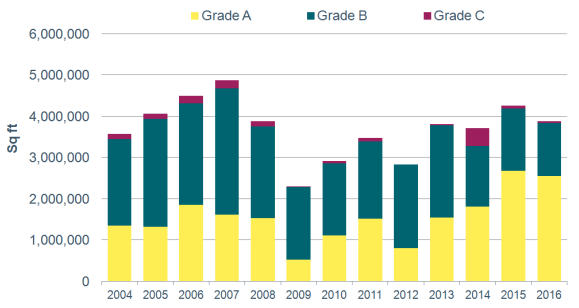
■ Contrary to previous years the technology sector was not the most active in the South East office market in 2016 as the manufacturing and industry business sector was the most active accounting for 22% of all space transacted this year. The pharmaceutical sector which is part of this business sector has been very active this year acquiring 337,000 sq ft of office space, which is nearly double the amount in 2015.

■ Total supply currently stands at 16.4 million sq ft which is a 2% fall from 2015. Available Grade A space has increased by 69% from 2015 with 6.5 million sq ft available as developers have responded to a chronic lack of grade A supply. Grade B and C offices have continued to be converted to alternative uses further reducing supply. The vacancy rate is 7.7% which is the lowest since 2001. There is 2.2 million sq ft is currently under construction across 18 separate schemes.

■ Rental growth has been a key theme in 2016 with many core markets either achieving record rents or cycle high rents. This has been caused by a lack of grade A supply in certain markets and new speculative stock setting new rental tones. We expect rental growth to ease in the markets where more than one building is being speculatively developed as there will be competition between the new buildings.

GRAPH 1

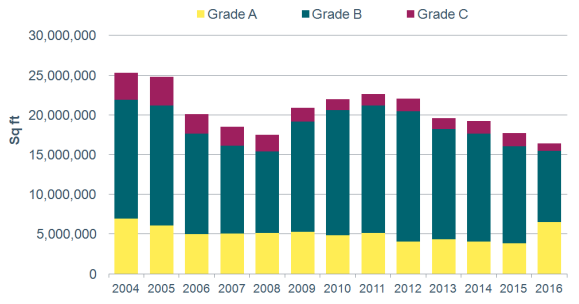
Take-up by grade



Source: Savills Research

GRAPH 2

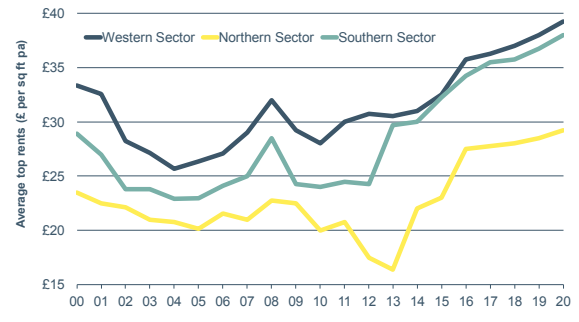
Availability by grade



Source: Savills Research

GRAPH 3

Average top rental forecasts



Source: Savills Research

Key Occupier Data (over 5,000 sq ft)

Supply (over 5,000 sq ft)
Current:
16.4m sq ft

Grade A:
8.9m sq ft (54%)

Take-Up (over 5,000 sq ft)
2016: 3.8m sq ft
2015: 4.2m sq ft
2014: 3.6m sq ft

2016 Q4: 1.09m sq ft
2015 Q4: 959,477 sq ft
2014 Q4: 1.33m sq ft

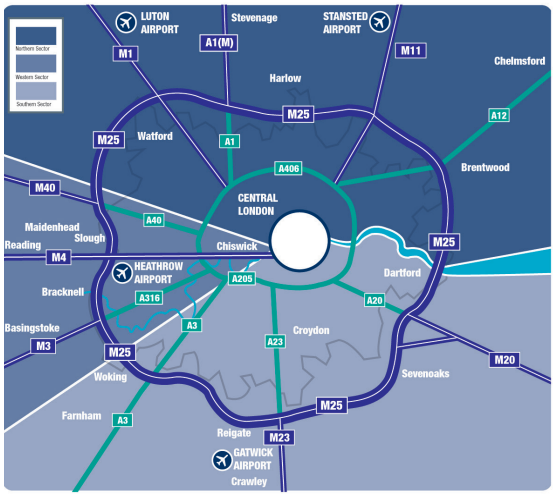
Long term average annual take-up:
3.6m sq ft

Five year average annual take-up:
3.6m sq ft

Definitions & statistical notes	
Property criteria	Transactions and supply recorded for units in excess of 5,000 sq ft
Grade A	All new development (including speculative schemes reaching practical completion within six months, plus major refurbishments)
Grade B	Space previously occupied, completed or refurbished in the last 10 years
Grade C	Space previously occupied, completed or refurbishment more than 10 years ago

MAP 1

Savills M25 market area



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