

City Office Market Watch



A low Q1 take-up mirrors economic uncertainty, however requirements continue to grow

Total take-up in March reached 406,524 sq ft across 34 transactions, over double February’s figure. This brings total take-up for Q1 2023 to 1,092,150 sq ft across 72 transactions, this is down on the previous year by 23% and down on the 10-year average by 21%. With slowing take-up, the 12-month rolling average has fallen for the four consecutive month, sitting at 5.5m sq ft.

The attraction to prime office space continues to be a key driver for occupiers, with 92% of take-up this year being of Grade A quality, of which 61% was recently comprehensively refurbished/developed. The focus on sustainable buildings remains a focus for occupiers with over half of Q1 take-up being in buildings with a BREEAM rating of ‘Excellent’ or ‘Outstanding’, we anticipate this figure to increase as the year progresses.

First quarter take-up has been dominated by middle size-bracket transactions. 29% of take-up was in the 25-50,000 sq ft size-bracket,

with 57% of take-up occurring between 15,000 sq ft & 50,000 sq ft, this is compared to the Q1 10-year average of 31%. This is a good indication of sentiment in the market, as occupiers are now more certain on their office requirements post Covid-19.

In March, 269,334 sq ft went under offer, bringing the total across the City to 2.3m sq ft, this is 61% above the long-term average. The lengthening transaction process has led to an accumulation of total space under offer, but also provides a positive outlook for the rest of the year. Moreover, we expect to see sustained take-up for best-in-class office space. Currently, 75% of space under offer is either recently redeveloped or refurbished or still in the development pipeline.

Occupiers with an active requirement considering options in the City and Central London has risen to 8.7m sq ft. This has increased 9% from last month and is up the

long-term average by 12%. The Professional Services and Insurance & Financial Services sector account for 57% of total active requirements, followed by the Banking sector (17%).

Average achieved rents fell in the first quarter of 2023, with average Prime rent falling 5% from 2022 to £81.53/sq ft, although the smaller data set should be considered. Average Grade A rent fell £0.13/sq ft, a marginal decrease on the 2022 figure of £67.13/sq ft. Conversely, Average Grade B rent increased 8% to £48.50/sq ft.

Total City supply rose last month by 2.4% and currently stands at 13.7m sq ft, equating to a vacancy rate of 9.8%. This is the highest figure post pandemic and up considerably on the five-year average of 8.3m sq ft. A contributing factor to this rise is the addition of 310,000 sq ft of speculative schemes scheduled to complete in Q3 2023 being added to availability.

Key Stats



1.1m sq ft
year-to-date take-up,
across **72** deals

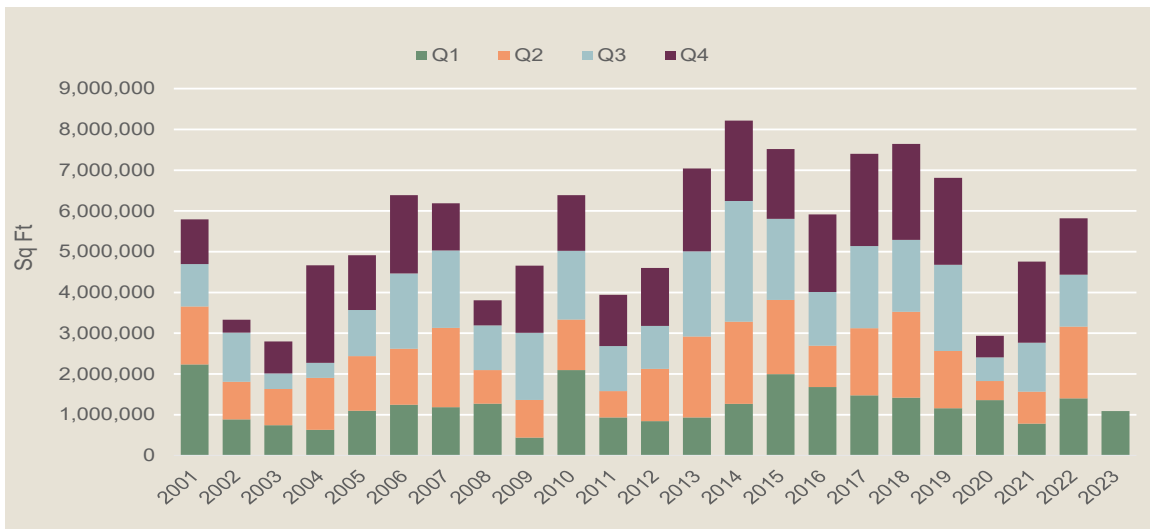


Vacancy rate reaches
new post pandemic peak,
9.8%



Active requirements
increase to **8.7m sq ft**,
the highest since March
2022

Slowing transaction speed is affecting take-up figures



Source Savills Research

Year-to-date take-up Stats

% change on Q1 2022

-23%

BREEAM ‘Excellent’ or higher

51%

City Rents

Q1 Prime rent

£81.53

% change on Q1 2022

-2.7%

Source Savills Research

Year to date take-up

Table 1

	Sq ft	% change on previous year
Jan - Mar 22	1,414,230	80%
Jan - Mar 23	1,092,150	-23%

Development Pipeline

Table 2

	Refurb	Dev	Total	% Pre-let
2023	1,398,825	2,380,951	3,779,776	36%
2024	1,833,389	2,879,110	4,712,499	29%
2025	2,311,123	1,328,840	3,639,963	11%
2026	552,000	2,291,000	2,843,000	21%
Total	6,095,337	8,879,901	14,975,238	25%

Significant March transactions

Table 3

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Holborn Gate, 326 - 330 High Holborn, WC1	1, 5	33,380	A	£59.50	Orega	Hoi Hup
70 Mark Lane, EC3	1, 2	27,832	A	Confidential	Orega	Miller Insurance
The Hickman, 2 Whitechapel Road, E1	3, 4	23,463	A	Confidential	New Look	GPE
10 Fleet Place, EC4	1	19,884	A	£67.50	Mott Macdonald	Wing Tai
3 More London Riverside, SE1	Part 5	18,860	A	£62.50	Collinson	Norton Rose Fullbright

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