



Summer slowdown but active requirements on the rise

As to be expected with school holidays starting, take-up for July was slightly muted reaching, 144,128 sq ft across 21 deals, equating to an average transaction size of just 6,863 sq ft. This brings total take-up for the year to 3.2m sq ft, 64% up on the same period last year, but down on the 10-year average by 5%.

The sustained demand for Grade A stock continues as 91% of year-to-date take-up has been of such quality. Sustainability remains at the forefront of occupier demand and decision making, with 71% of year-to-date take-up being BREEAM rated 'Very Good' or above.

In the largest transaction to occur last month, PEI Media acquired the fifth floor at 100 Wood Street, EC2 (16,661 sq ft), this is serving as expansion space from the space they already occupy on the 7th floor. The private equity firm signed a 10-year lease with a fifth year break option at £55.00/sq ft, with 25 months' rent free. Another notable July transaction saw 10x Banking acquire part of the fifth floor at Holborn Place, 33 Holborn, EC1 (16,200 sq ft), on a five-year lease at £56.00/sq ft, with 9 months' rent free.

Although a muted month in terms of transactions, 43% achieved rents over £70.00/sq ft. The top rent for July saw M&F Healthcare Communications pay £88.50/sq ft, at the newly completed The Bindery, 53 Hatton Garden, EC1 (3,316 sq ft) on a five-year lease.

The Professional Services sector remains dominant, accounting for 28% of take-up so far this year. The sector has proven its resilience throughout the pandemic, accounting for over a quarter of take-up since the start of 2020. As always, the Insurance & Financial Services sector has been close behind, accounting for 19% in the same period. Spurred on by timely lease events, and environmental & social pressures, both sectors have actively pursued brand new, prime office stock. Conclusively, the

two sectors have accounted for 71% of all pre-lets since the start of 2020.

In July, 226,220 sq ft of space was placed under offer, and for the last four months the cumulative total has consistently sat around 1.9m sq ft, which is 36% above the long-term average (1.4m sq ft). 42% of current under offers are in the development pipeline. This will invariably increase as prime stock remains undersupplied. It should, however, be mentioned that in the current climate, office space is staying under offer for longer than usual. This is due to the increasingly protracted legal due diligence process, as well as a number of complicated soon-to-be pre-lettings in the pipeline.

Despite a subdued amount of transactions completing in July, active requirements for the City and Central London are up 10% on the previous month, reaching 8.5m sq ft. The higher level of corporate occupiers with upcoming lease events partnered with the intensified war for talent, will likely continue to drive occupiers to use this as an opportunity to upgrade on their existing space. Our research suggests that between 2023 and 2026 there are over 21m sq ft of lease events across the City of London.

With the addition of 294,810 sq ft, supply rose marginally last month settling at 12.9m sq ft. This equates to a 9.2% vacancy rate, and an outwards movement of 10 bps on the end of June. Although, this is down on the post-pandemic peak by 20 bps, it is still up 290 bps on the 10-year average of 6.3%. The sustained appetite for better stock is leaving lower quality space 'stuck' on the market. On average, Grade B quality offices stay on the market for 25 months, this is compared to 14 months back in 2016.



3.2m sq ft
YTD take-up, across
221 transactions



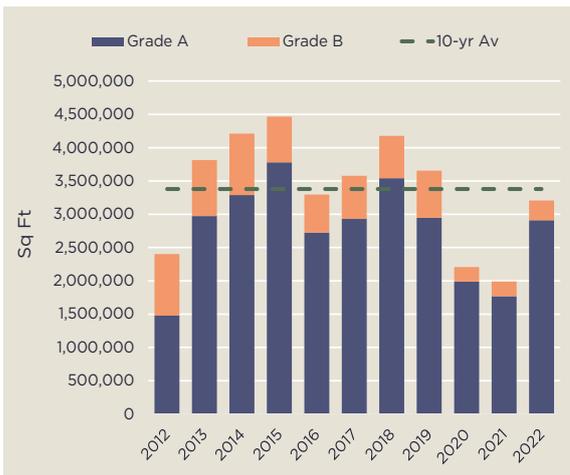
Tender prices forecasted
to increase **7%** in the
next year



42% of under offers
are on the development
pipeline

City year-to-date take-up

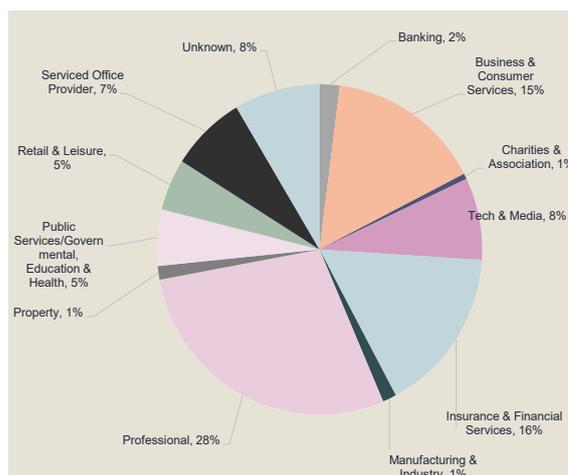
Graph 1



Source: Savills

City take-up by business sector

Graph 2



The Professional
Services sector accounts
for **28%** of annual take-
up

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Aug-21	602,516	96%	3,258,264
Sep-21	220,203	90%	3,314,103
Oct-21	493,613	90%	3,717,561
Nov-21	759,383	97%	4,362,873
Dec-21	778,314	100%	4,815,427
Jan-22	333,682	82%	4,859,076
Feb-22	592,347	98%	5,228,914
Mar-22	488,201	90%	5,445,535
Apr-22	288,470	85%	5,372,878
May-22	882,948	95%	6,046,948
Jun-22	486,785	84%	6,319,285
Jul-22	144,128	86%	6,070,590

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - Jul 21	1,961,398	-10%	88%
Jan - Jun 22	3,216,561	64%	91%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Aug-21	£81.50	£68.42	£48.75		
Sep-21	£83.00	£67.49	£49.43	£80.67	27
Oct-21	£75.00	£64.13	£44.50		
Nov-21	£84.50	£70.14	£33.25		
Dec-21	£94.50	£64.75		£83.06	26
Jan-22	£85.00	£69.93	£51.75		
Feb-22	£77.00	£68.13	£40.00		
Mar-22	£103.50	£65.26	£44.00	£83.84	25
Apr-22	£87.50	£69.83	£43.75		
May-22	£90.00	£67.83	£45.07		
Jun-22	£105.00	£65.85	£47.12	£83.72	25
Jul-22	£87.00	£71.63	£45.27		

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
12,289,019	85%	-2%	8.9%
13,010,829	86%	6%	9.4%
12,718,905	86%	-2%	9.2%
12,516,925	85%	-2%	9.1%
12,490,925	85%	0%	9.0%
12,285,458	85%	-2%	8.9%
12,424,204	85%	1%	9.0%
12,985,821	87%	5%	9.3%
12,933,492	87%	0%	9.3%
12,669,761	87%	-2%	9.1%
12,715,255	86%	0%	9.1%
12,862,646	86%	1%	9.2%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2023	2,002,584	2,992,378	4,994,962	20%
2024	1,417,889	1,818,594	3,236,483	20%
2025	1,994,676	1,437,840	3,432,516	11%
2026	2,989,307	1,815,256	4,804,563	6%
Total	9,878,477	9,897,389	19,775,866	19%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.0m
City Active Requirements (sq ft)	8.5m
City Total Requirements (sq ft)	10.5m
% change on 12 month ave	2%
Total under offer (sq ft)	1.9m
Under offer this month (sq ft)	226,220
% change on average (total)	34%
Landlord controlled supply	75%
Tenant controlled supply	25%

*Average prime rent is for preceeding 3 months

** Average rent free on leases of 10 years with no breaks for preceeding 3 months

Note: Completions due in the next 6 months are included in the current supply figures

Significant July transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
100 Wood Street, EC2	5	16,661	A	£55.00	PEI Media	Ponte Gadea
Holborn Place, EC1	5 part	16,200	A	£56.00	10x Banking	Sainsburys
Spectrum, 160 Old Street, EC1	5	12,437	A	£75.00	Faculty Science	Robert Bosch Limited
3 More London Riverside, SE1	5 part	10,300	A	Confidential	Canonical	Norton Rose Fulbright
125 Wood Street, EC2	5	8,849	A	£73.50	Oppenheimer	Orchard Street

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In Focus - Development Pipeline

Development pipeline 2023-2026

Graph 3



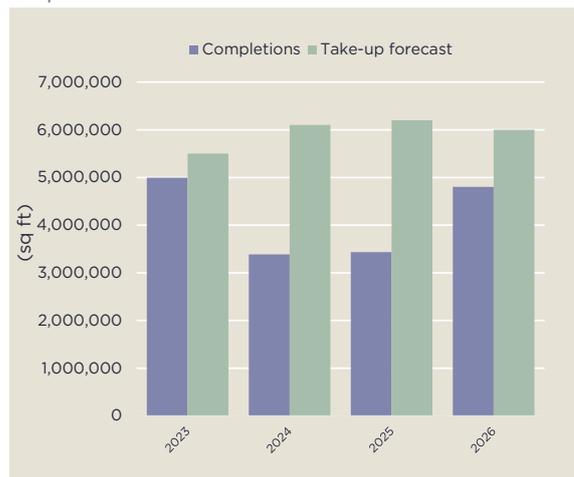
This month's 'In Focus' looks into the development pipeline, amidst rapidly rising costs. The current pipeline looks extremely healthy with a total of 16.6m sq ft of space due to complete between 2023 and 2026, with a fifth already pre-let. On average the City of London is expected to see 4.15m sq ft complete each year until 2026, this is compared to the historic annual figure of 3.15m.

Although the pipeline looks robust, the certainty and viability of schemes are being questioned in the context of the current cost inflation. Moreover, graph 4 shows completions against take-up forecasts and with the sustained demand for prime stock showing no let up, the undersupply of best-in-class looks to become even more strained.

It should be mentioned that rising construction costs will inevitably affect developments and their associated build costs. With 39% of the pipeline yet to start construction, it is to be expected that some will experience both delays in starts and subsequent completion dates.

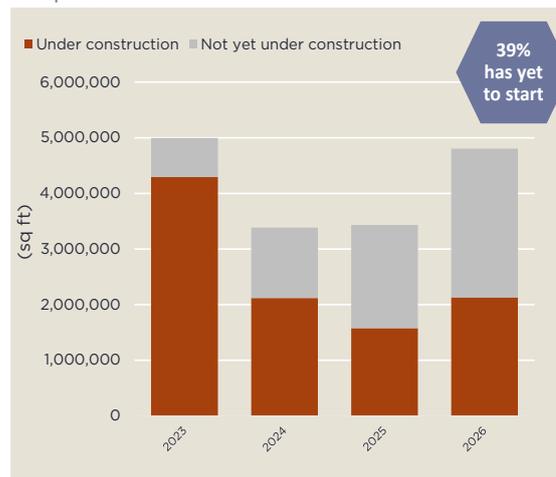
Completions and take-up forecast comparisons

Graph 4



Development pipeline status

Graph 5



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