

City Office Market Watch



City under offers at record level whilst leasing activity remains subdued

July take-up reached 419,029 sq ft across 34 transactions. Whilst this was the highest monthly take-up we have seen for July since 2019, year-to-date take-up, at 2.88m sq ft, remains 17% down on the long-term average for this period.

July leasing was boosted by pre-lets at M&G Real Estate's 40 Leadenhall development, EC3, which accounted for over a third of the month's leasing activity, with Kirkland & Ellis having exercised its option on the 15th to 18th floors (85,000 sq ft). This is in addition to its pre-let of the 19th to 34th floors last year. The other pre-let to occur at 40 Leadenhall, was on the part 8th and 9th floors, with Acrisure RE acquiring 60,000 sq ft on confidential terms.

In spite of below average levels of leasing activity, space under offer continued to increase in July, with a further 362,280 sq ft going under offer. Overall space

under offer stood at 2.8m sq ft at the end of the month. This is up on the long-term average by 104%, with transaction timelines continuing to remain elevated, though the average time deals are taking to complete has come in from 7 months to 6.4 months.

Similarly, high levels of underlying demand are also reflected by the rising levels of active Central London & City requirements. In July, active requirements increased by a further 6% to 9.3m sq ft. This is up 27% on the 5-year average as we continue to see strong levels of demand from Insurance & Financial sector.

Overall supply stood at 13.5m sq ft, which equates to a vacancy rate of 9.7%. This was down 10 bps on the previous month, partly as a result of the continued reduction to tenant-controlled space, with tenant space falling by another 4% to 3m sq ft. This is the lowest level of tenant-controlled

space in two years, with more businesses recalling employees to the office or setting minimum weekly office days.

The increased divergence in the market between the best quality space continues with the average prime rent at the end of July standing at £88.27/sq ft, which is up 2% on the same period a year earlier, (in line with our prime rental forecast for this year), meanwhile the average Grade B rent was down 4% on the same period and we expect this gap will continue to become more pronounced over the remainder of the year. Between now and 2027, we are forecasting prime rental growth of 3.4% per annum, and negative rental growth of -0.7% for Grade B space.

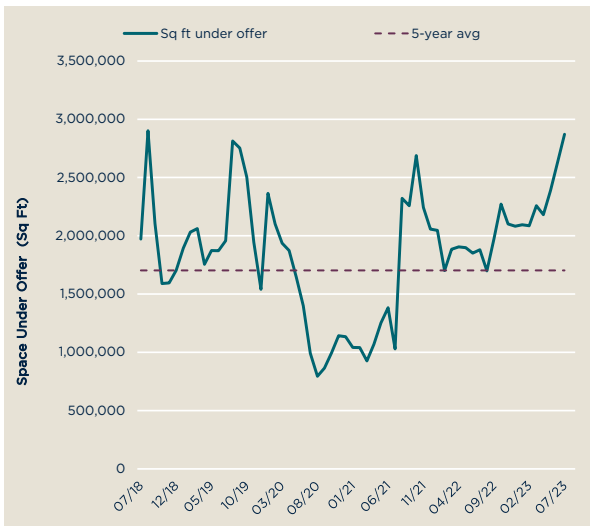
We are currently anticipating development completions will reach 3.9m sq ft this year. This is down 22% on the 4.9m sq ft we expected at the start of the year with some schemes being moved out in 2024.

Key Stats



YTD take-up at the end of July stood at 2.9m sq ft, down 7% on the 5-year average

Monthly City under offers (2018 - 2023)



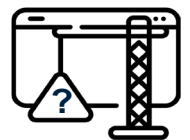
Development Pipeline 2023 - 2027



Source Savills Research



The Insurance & Financial sector accounts for 32% of Central London & City active requirements

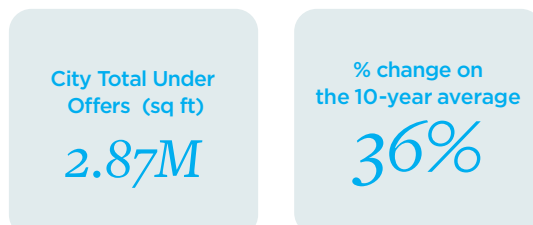


45% of the 2024-2027 is yet to start construction

City Take-up (YTD)



City Under Offer



Source Savills Research

Year-to-date take-up

Table 1

	Sq ft	% change on previous year
Jan - Jul 22	3,335,211	7%
Jan - Jul 23	2,875,274	-14%

Development pipeline

Table 2

Sq ft	Refurb	Devs	Total	% Pre-let
2023	2,466,951	2,466,951	4,933,902	36%
2024	2,841,510	2,841,510	5,683,020	23%
2025	1,152,931	1,152,931	2,305,862	11%
2026	2,466,909	2,466,909	4,933,818	20%
Total	8,928,301	8,928,301	17,856,602	27%

Significant July transactions

Table 3

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
40 Leadenhall Street, EC3	15-18	85,129	A	Confidential	Kirkland and Ellis	M&G Real Estate
40 Leadenhall Street, EC3	8pt, 9	60,000	A	Confidential	Acrisure RE	M&G Real Estate
22 Bishopsgate, EC2	6	26,168	A	£85.00	Westfield Securities	AXA IM
Capital House, 85 King William Street, EC4	6, 7	24,056	A	£81.05	Redburn (Rothschild)	DWS
Eighty Fen, 80 Fenchurch Street, EC3	9	19,810	A	£74.50	Hampshire Trust	Partners/Exemplar

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