



City of London achieves the highest average quarterly Prime rent

Take-up for December reached 417,937 sq ft across 28 deals, bringing Q4 take-up to 1.4m sq ft. Historically, the final quarter of the year is the most active, as landlords and tenants look to transact before the Christmas break. This was not the case in 2022, with take-up being 22% down on the Q4 long-term average.

Annual take-up for the year reached 5.8m sq ft, which is up on 2021 by 21%, but down on the 10-year annual average by 8%. The additional 77 deals completed in Q4, brings the total for the year to 387, which was up on 2021 by 98 deals, but still down on the 10-year average of 407 deals.

Grade A space remained the clear preference as it accounted for 92% of take-up, which is up on the 10-year average of 83%. Sustainability credentials and the amenity offering remained high on occupiers wishlists with 62% of all transactions being rated 'Excellent' or 'Outstanding'. This trend will continue to drive decision-making throughout 2023, with a dwindling supply of Prime and increasing environmental pressures creating a rush to acquire the best space.

The largest deal to transact in December, saw Knotel acquire the fourth, fifth and sixth floors at The Hallmark Building, 52 Leadenhall Street, EC3 (51,202 sq ft). This was reportedly on a managed agreement.

Another notable letting saw a confidential party acquire part of the first and entire second floor at Riverbank House, 2 Swan Lane, EC3 (48,230 sq ft). This is the first deal to transact since the comprehensive refurbishment of the reception.

On behalf of consumer healthcare provider Haleon, Instant Managed Offices acquired the 8th and 9th floors of Triptych, SE1 in May 2022. Similarly, last month Haleon, with Instant Offices, acquired the 3rd, 4th and 5th floors, under another

managed arrangement. As a result, Triptych is now fully let across six transactions, all occurring in 2022 and within 8 months of practical completion.

Throughout 2022, the Professional Services sector has consistently dominated take-up figures, accounting for 29% of total take-up. The Insurance & Financial Services sector contributed to 18%. Since Covid-19, both sectors have shown strong resilience through the tumultuous economic environment and have accounted for 47% of total take-up in that time frame.

Total City supply has increased marginally, settling at 13.4m sq ft. Since August, the vacancy rate has remained between 9.5% and 9.6%. Despite the high vacancy rate compared to the long-term average (6.3%), the bifurcation within the market means vacancy rate amongst Prime stock is far lower.

Moreover, the market is experiencing increasing 'stickiness' amongst the lesser quality space. The churn rate of Grade B units has halved since 2019. The average void period length has increased from 13 months to 26 months, further demonstrating the disconnect between demand in supply, with void periods extending on Grade B space but headline rents rising on Prime units.

Taking a look at the future supply of Prime office stock, the development pipeline is scheduled to see 16.3m sq ft complete between 2023 and 2026. High levels of pre-letting over the last two years has resulted in 36% of the 4.9m sq ft due to complete in 2023 having been let prior to completion. A fifth of the 4.2m sq ft scheduled for completion in 2024 has been pre-let. Between 2023 and 2026, 22% of the development pipeline has been pre-let. We anticipate combination of inflationary pressures and high interest rates will lead to delayed development start dates and therefore, delivery.



5.82m sq ft
take-up, in 2022 across
387 transactions



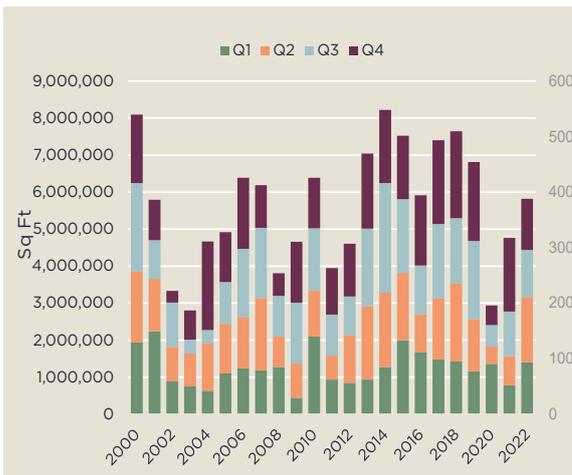
92% of take-up was
Grade A quality



£88.36/sq ft
Highest quarterly average
Prime rent

City quarterly take-up

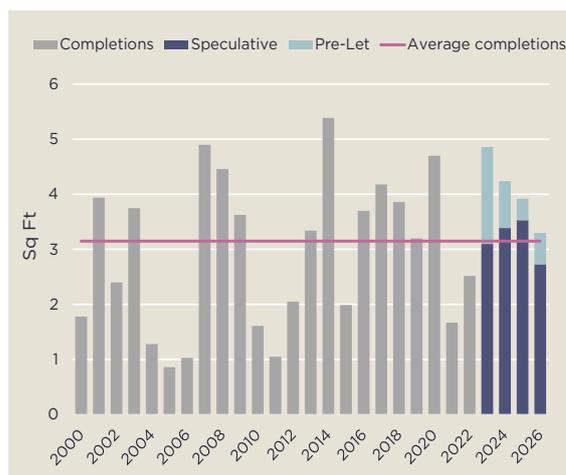
Graph 1



Source: Savills

City 2023 to 2026 development pipeline

Graph 2



The Professional
Services sector
accounted for **26%** of
annual take-up.

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jan-22	333,682	82%	4,859,076
Feb-22	592,347	93%	5,228,914
Mar-22	488,201	92%	5,445,535
Apr-22	288,470	91%	5,372,878
May-22	897,729	93%	6,061,729
Jun-22	562,665	91%	6,409,946
Jul-22	172,117	91%	6,189,240
Aug-22	256,626	91%	5,843,350
Sep-22	845,413	90%	6,468,560
Oct-22	153,318	91%	6,128,265
Nov-22	815,422	92%	6,184,304
Dec-22	417,937	92%	5,823,927

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - Dec21	4,815,427	65%	93%
Jan - Dec 22	5,823,927	21%	92%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jan-22	£85.00	£64.75	£51.75	£83.06	25
Feb-22	£77.00	£69.93	£40.00		
Mar-22	£103.50	£68.13	£44.00		
Apr-22	£87.50	£65.26	£43.75	£83.84	25
May-22	£90.00	£69.83	£45.07		
Jun-22	£105.00	£67.83	£47.12		
Jul-22	£87.00	£65.85	£45.27	£83.72	23
Aug-22	£90.00	£71.63	£35.15		
Sep-22	£103.50	£71.15	£45.12		
Oct-22	£73.50	£67.51	£37.50	£85.61	24
Nov-22	£107.00	£63.02	£60.94		
Dec-22	£93.00	£73.58	£49.50	£88.36	23

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
13,309,212	86%	3%	9.5%
13,413,477	86%	1%	9.6%
13,464,167	86%	0%	9.6%
13,238,224	85%	-2%	9.5%
13,354,569	86%	1%	9.6%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2023	1,552,430	3,312,132	4,864,562	36%
2024	2,168,339	2,062,529	4,230,868	20%
2025	2,336,233	1,585,340	3,921,573	10%
2026	1,420,776	1,899,324	3,320,100	18%
Total	7,477,778	8,859,325	16,337,103	22%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.4m
City Active Requirements (sq ft)	7.9m
City Total Requirements (sq ft)	10.3m
% change on 12 month ave	-2%
Total under offer (sq ft)	2.1m
Under offer this month (sq ft)	305,328
% change on average (total)	49%
Landlord controlled supply	75%
Tenant controlled supply	25%

*Average prime rent is for preceding 3 months

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

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

Significant December transactions

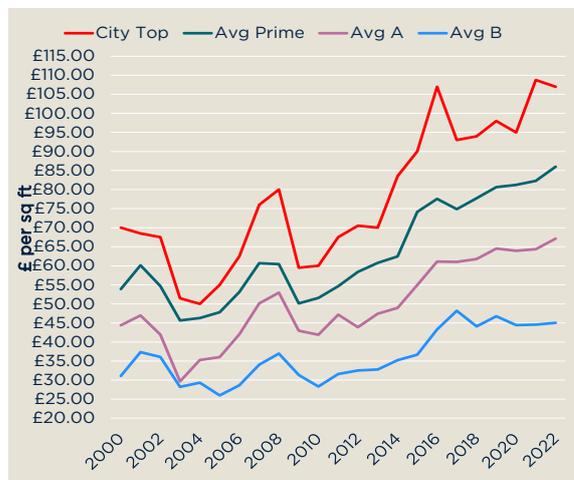
Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
The Hallmark Building, 52 Leadenhall Street, EC3	4, 5, 6	51,202	A	Conf.	Knotel	M & G
Riverbank House, 2 Swan Lane, EC4	part 1, 2	48,230	A	Conf.		Man Group plc
Capital House, 85 King William Street, EC4	2, 3	28,385	A	£72.50	Rothschild & Co	Barings
Broadgate Tower, Princes Street, EC2	23, 24	26,326	A	£72.50	Aldermore Bank	British Land/GIC
Triptych, 185 Park Street, SE1	3, 4, 5	25,823	A	£70.00	Instant Managed Offices Ltd	JTRE

In Focus - City Rents

City rents

Graph 3



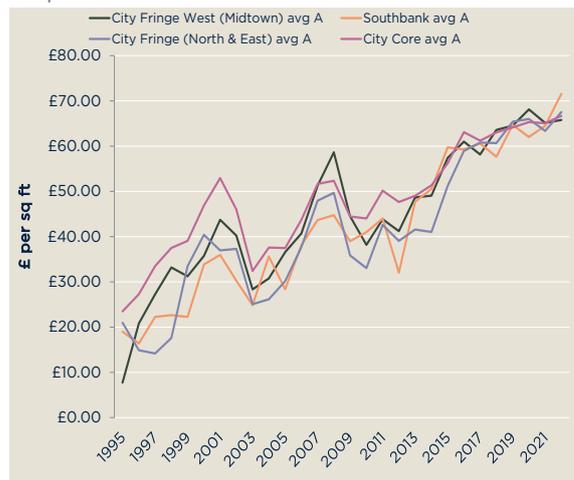
Q4 average Prime rent reached £88.36/sq ft, this is a record setter for the City of London. Annual average Prime rents increased 4.5%, settling at £86.03/sq ft. Similarly, average grade A rents increased 4.2%, to reach £67.13/sq ft. The bifurcation between the 'best' and the 'rest' is becoming increasingly pronounced. Between now and 2026, we are forecasting Prime rents are increase 3.4% year-on-year, compared to -0.7% for Grade B space.

In 2022, Southbank was the best performing sub-market, averaging £71.55/sq ft, this was partially due to a reduced number of transactions and the flurry of activity around Triptych, SE1 and Arbor, Bankside Yards, SE1. For the second time ever, the N&E Fringe average Grade A rent settled higher than the City Core, a difference of £0.84/sq ft (£67.52/sq ft).

Looking forward, the City Core and Southbank are forecasted to see the highest rental growth, averaging 3.4% over the next five years, The N&E Fringe is predicted to experience the least rental growth at just 2.3% year-on-year.

City average Grade A by sub-market

Graph 4



City Prime rental growth forecasts

Graph 5



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