MARKET IN MINUTES
Savills Research

UK Commercial – June 2022

City Office Market Watch

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Shaping up to be a positive H1, with year-to-date take-up 5% above the 10-year average

Following a couple of significant lettings completing, take-up in May reached 714,683 sq ft across 36 deals. This is the highest monthly take-up since December 2021 and the most number of deals since March 2020, a month largely unaffected by Covid-19. Positively, year-to-date take-up has reached 2.3m sq ft across 151 deals, this is 70% above the same point last year, 5% above the 10-year average.

As occupiers are facing increasing scrutiny with regards to achieving sustainability goals, and battling for the best talent, there continues to be a preference for premium office space. Accordingly, 91% of year-to-date take-up is Grade A quality. This sustained appetite is compared with the long-term average of 83%. Furthermore, 62% of take-up has been for buildings rated BREEAM 'Excellent' or higher, with a fifth being rated 'Outstanding'. Although, with rising materials and energy costs eventually being passed to occupiers, sustainable and technologically enabled buildings will become both attractive and essential.

Last month Kirkland & Ellis acquired at least 215,000 sq ft across multiple upper floors at 40 Leadenhall, EC3, in the most anticipated transaction of 2022. The law firm is set to move into the M&G and Nuveen development upon its completion in December 2023. Additionally, a further two floors in the lower part of the building totaling c.79,000 have been let. The duo of deals takes the development to at least 35% let prior to completion.

Prior to their move to Royal London's development at Holborn Viaduct, EC1, Hogan Lovells have acquired the 7th and part 8th floors at 10 Fleet Place, EC4 (33,138 sq ft) on a 10-year term with a break in the fifth at £67.50/sq ft.

The Professional Services sector remains dominant accounting for 30% of year-to-date take-up, once again, followed by the Business & Consumer Services sector and Insurance & Financial Services sector, accounting for 17% each. It has been a telling narrative since the start of the pandemic, collectively, the three sectors have accounted for 60% of total take-up.

Occupiers with an active requirement considering options in the City and Central London settled at 7.8m sq ft. This has come down slightly from last month but this is to be expected following a flurry of large deals. It is, however, up 16% on the long-term average. The Professional Services and Insurance & Financial Services sector account for 52% of total active requirements, followed by the Tech & Media sector (15%).

Total City supply fell by 2% in May to total 12.7m sq ft and this is the third consecutive month where we have seen a downward movement in availability. The vacancy rate, therefore, decreased by 20 bps to 9.1%, this is compared to the post pandemic peak of 9.4%. Tenant-controlled supply accounts for 26% of total availability, this is marginally up on the long-term average of 25%. Due to the growing divergence between quality of secondhand space, there is a lack of 'grey space' activity once entering the market.

Occupiers are prepared to pay higher rents if in return they secure amenity rich buildings with good connectivity. As such, we have seen rental growth at the prime end of London's office market which now stands at £84.24/sq ft (up from £81.25/sq ft in 2020). In part, rental growth is the product of limited good quality supply, but this is increasingly being fuelled by rises in construction costs that, without rental growth, making new office developments challenging or even unviable. With this being said, the overall average year-to-date Grade A rent has settled at £67.33/sq ft, this is up 5% on 2021. So far this year 36 deals have achieved a rent of over £70/sq ft, this is compared to 16 last year and 30 in 2020.

2.3m sq ft
YTD take-up, across **151** transactions

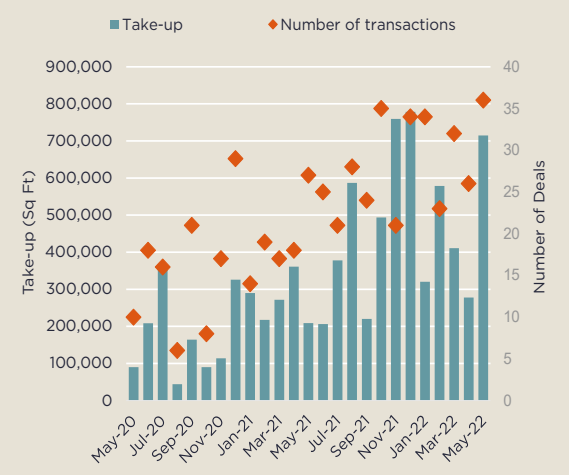
Supply falls for a third consecutive month, equating to a **9.1%** vacancy rate

The Professional Services sector accounts for nearly **33%** of take-up

£84.24/sq ft highest average Prime rent on record

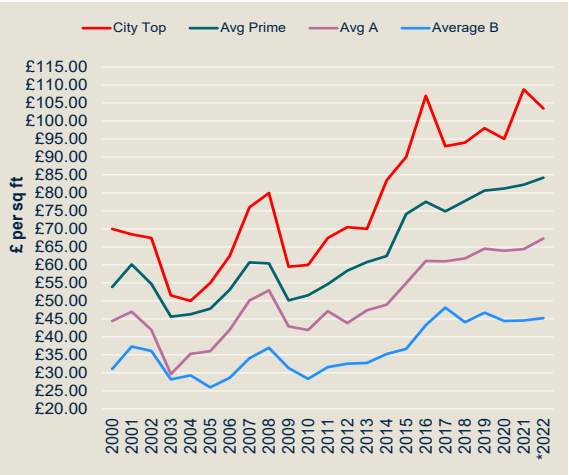
City monthly take-up

Graph 1



City average rents

Graph 2



Source: Savills

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jun-21	214,448	81%	2,669,536
Jul-21	392,823	88%	2,699,892
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	320,104	77%	4,845,498
Feb-22	578,827	100%	5,201,816
Mar-22	410,668	90%	5,340,904
Apr-22	277,662	85%	5,257,439
May-22	714,683	93%	5,763,244

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
12,457,214	84%	4%	9.0%
12,566,227	86%	1%	9.1%
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%

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - May 21	1,354,127	-16%	89%
Jan - May 22	2,301,944	70%	91%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2022	1,753,668	1,990,390	3,744,058	40%
2023	2,126,717	3,053,193	5,179,910	14%
2024	1,946,539	2,226,909	4,173,448	16%
2025	1,180,000	1,271,931	2,451,931	16%
Total	7,006,924	8,542,423	15,549,347	21%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jun-21	£82.50	£62.28	£43.50	£77.25	27
Jul-21	£107.25	£73.27	£54.94		
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		

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.6m
City Active Requirements (sq ft)	7.8m
City Total Requirements (sq ft)	11.5m
% change on 12 month ave	0%
Total under offer (sq ft)	1.9m
Under offer this month (sq ft)	285,801
% change on average (total)	36%
Landlord controlled supply	74%
Tenant controlled supply	26%

*Average prime rent is for preceeding 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 May transactions

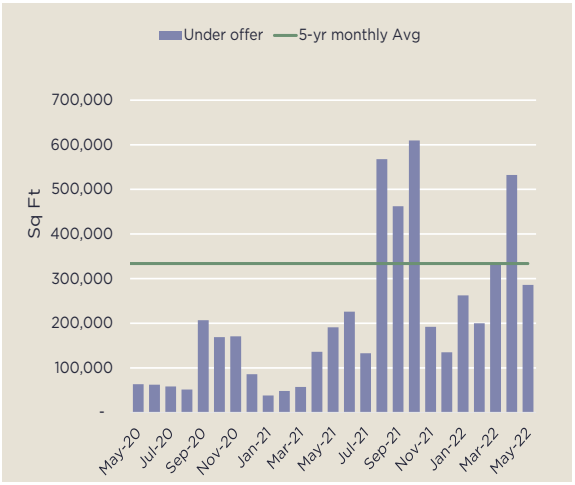
Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
40 Leadenhall, Street, EC3	23-34	215,000	A	Confidential	Kirkland and Ellis	M&G/Nuveen Real Estate
40 Leadenhall, Street, EC3	3, 4	79,000	A	Confidential		M&G/Nuveen Real Estate
10 Fleet Place, EC4	7, 8 part	33,138	A	£67.50	Hogan Lovells	Crosby Group
Hays Galleria, Tooley Street, SE1	3	28,747	A	Confidential	AESOP	St Martins Property Investment Limited
155 Bishopsgate, EC2	2 part	26,759	A	£52.50	British land/GIC	Nomura

In Focus - Under offers

City monthly under offers

Graph 3

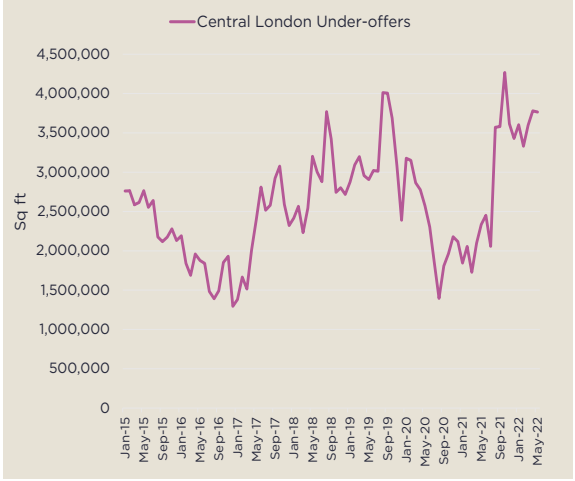


The City market has experienced a strong first half to 2022, both in terms of take-up and space going under offer. In May 285,801 sq ft of space was put under offer and for the last three months the total figure has consistently sat around 1.9m sq ft, which is 36% above the long-term average of 1.4m sq ft. It is certainly the case that in the current climate, office space is staying under offer for longer than usual.

The preference for best in class space continues to direct occupier decision making. As per graph 5, 93% of under offers are of Grade A standard or new developments under-construction, with over 20% of space yet to be completed. Some notable examples include, Reed Smith who are reportedly under offer on c.150,000 sq ft at British Land's Norton Folgate, E1 development. Additionally, Dentons are thought to be under offer on approximately 100,000 sq ft at 1 Liverpool Street, EC2.

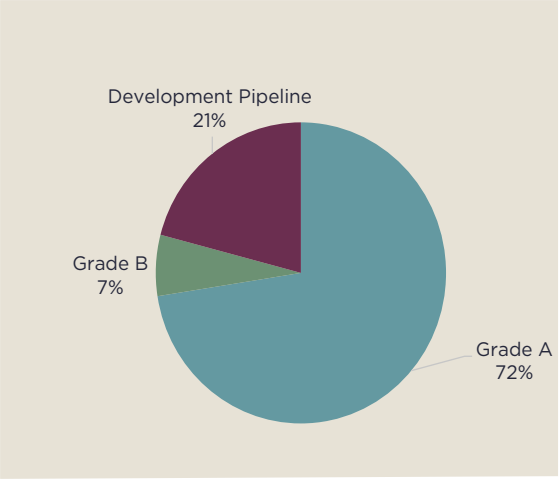
Central London under-offers

Graph 4



Under-offer by grade and development pipeline

Graph 5



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