MARKET IN MINUTES
Savills Research

UK Commercial – November 2022

# City Office Market Watch

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## Slow October take-up, but under offers continue to soar

The City experienced the lowest monthly take-up since November 2020, totalling 159,036 sq ft across 23 transactions. This brings total take-up for the year to 4.5m sq ft across 327 transactions, this is 10% down on the 10-year average. The 12-month rolling take-up has reduced by 6% on its post-Covid-19 peak in June, settling at 6m sq ft. Comparatively, the long-term average is 6.4m sq ft.

The current headwinds facing the market have further emphasised the preference for high stock office space. In October, 98% of take-up was of Grade A quality, whilst 90% of year-to-date take-up has been of such quality. Sustainability and amenity offering remains high on occupier decision making, as 71% of take-up so far this year has been BREEAM rated 'Very Good' or higher.

Corplay's acquisition of the fourth floor at 8 Moorgate, EC2 proved to be the largest transaction last month at 17,858 sq ft. The sporting charity are thought to be paying £61.00/sq ft.

In the second largest transaction in October, Burford Capital acquired the fourth floor at Paternoster House, 65 St Paul;s Churchyard, EC4 (10,879 sq ft) on a 10-year term with a break option in the seventh. The legal finance firm are agreed a rent of £73.50/sq ft with 26 months' rent free.

The Professional Services sector remains dominant accounting for 24% of year-to-date take-up. Once again, followed by the Insurance & Financial Services sector and Business & Consumer Services sector, accounting for 17% and 14%, respectively. It has been a telling narrative since the start of the pandemic, collectively, the three sectors have accounted for 60% of total take-up. In comparison, the sector accounted for 31% of take-up in the two years prior to Covid-19.

Occupiers with an active requirement considering options in the City and Central London settled at 7.5m sq ft. This is down 16% on this year's peak. It is, however, up 12% on the long-term average. The Professional Services and Insurance & Financial Services sector account for 45% of total active requirements, followed by the Tech & Media sector (23%). Despite the economic downturn, there appears to be a sustained occupier optimism, we are yet to see any strong indication that occupiers are seeking to take less space. The largest proportion, reflecting 45% of occupiers with an active requirement, are currently seeking to acquire a greater amount of space when they relocate, in contrast to only 26% seeking to reduce it.

Sentiment in the market remains robust, demonstrated by the increased amount of space is being put under offer, this certainly bodes well for the levels of leasing activity going into next year. In the last two months alone, over 750,000 sq ft of space has been placed under offer, bringing the total to 2.3m sq ft across the City of London, up 62% on the long-term average.

At the end of October there is currently 13.5m sq ft of available supply, equating to a vacancy rate of 9.6%, which is up on this point last year by 300bps. Currently, 86% of supply is of a grade A standard, which is down on the 10-year average of 80%. With rising supply but an intrinsic under supply of Prime office stock (43%), the majority of supply comprises vanilla Grade A space. This quality of unit is experiencing faltering demand and spending longer periods of time vacant.

The City has witnessed an uptick in tenant-controlled stock entering the market,. Currently, there is 3.7m sq ft tenant supply on the market, of which half a million sq ft has entered the market in the last three months.

**4.5m sq ft**
YTD take-up, across **327** transactions

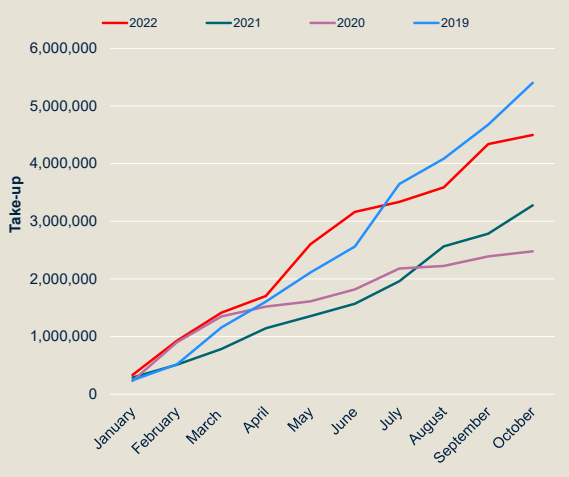
Vacancy rate stabilises at **9.6%**

**2.3m sq ft** of under offers, **62%** above the LTAV

The Professional Services sector accounts for **24%** of annual take-up

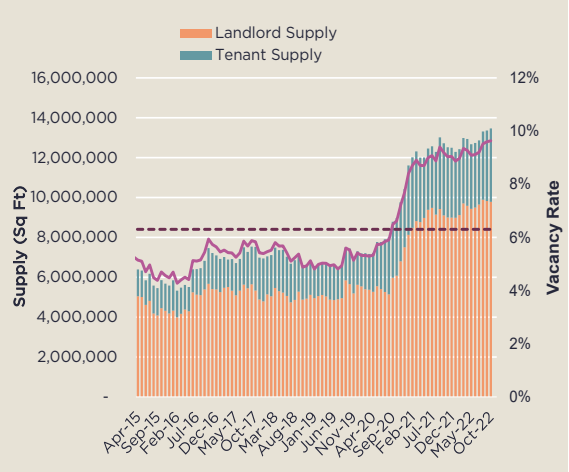
### City year-to-date take-up comparison

Graph 1




### City landlord vs tenant supply

Graph 2




Source: Savills

## Analysis close up

### Monthly take-up

Table 1

| | Sq ft | % Grade A | 12 month rolling take-up |
|---|---|---|---|
| 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 | 897,729 | 94% | 6,061,729 |
| Jun-22 | 562,665 | 85% | 6,409,946 |
| Jul-22 | 174,124 | 80% | 6,191,247 |
| Aug-22 | 249,173 | 91% | 5,837,904 |
| Sep-22 | 752,112 | 86% | 6,369,813 |
| Oct-22 | 159,036 | 98% | 6,035,236 |

### Supply

Table 2

| Total | % Grade A | % chg on prev month | Vacancy rate (%) |
|---|---|---|---|
| 10,650,326 | 85% | -2% | 9.1% |
| 10,621,121 | 85% | 0% | 9.0% |
| 10,480,419 | 85% | -2% | 8.9% |
| 10,593,090 | 85% | 1% | 9.0% |
| 11,244,397 | 87% | 5% | 9.3% |
| 11,205,122 | 87% | 0% | 9.3% |
| 10,968,947 | 87% | -2% | 9.1% |
| 10,976,118 | 86% | 0% | 9.1% |
| 11,053,414 | 86% | 1% | 9.2% |
| 11,457,850 | 86% | 3% | 9.5% |
| 11,565,779 | 86% | 1% | 9.6% |
| 11,601,755 | 86% | 0% | 9.6% |

### Year to date take-up

Table 3

| | Sq ft | % change on previous year | % Grade A |
|---|---|---|---|
| Jan - Oct 21 | 3,277,730 | 32% | 90% |
| Jan - Oct 22 | 4,497,539 | 37% | 90% |

### Development pipeline

Table 4

| Sq ft | Refurb | Devs | Total | % Pre-let |
|---|---|---|---|---|
| 2023 | 1,311,851 | 2,757,378 | 4,069,229 | 29% |
| 2024 | 1,697,265 | 2,134,300 | 3,831,565 | 19% |
| 2025 | 2,232,267 | 1,585,340 | 3,817,607 | 10% |
| 2026 | 2,181,329 | 2,814,256 | 4,995,585 | 12% |
| Total | 7,422,712 | 9,291,274 | 16,713,986 | 17% |

### Rents

Table 5

| £ per sq ft | Top | Average | | | |
|---|---|---|---|---|---|
| | | Grade A | Grade B | Prime* | Rent free** |
| Nov-21 | £84.50 | £70.14 | £33.25 | | |
| Dec-21 | £94.50 | £64.75 | | £83.06 | 25 |
| 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 | 23 |
| Jul-22 | £87.00 | £71.63 | £45.27 | | |
| Aug-22 | £90.00 | £71.15 | £35.15 | | |
| Sep-22 | £103.50 | £67.51 | £45.12 | £85.61 | 24 |
| Oct-22 | £73.50 | £63.02 | £37.50 | | |

### Demand & Under-offers

Table 6

| | |
|---|---|
| City Potential Requirements (sq ft) | 2.6m |
| City Active Requirements (sq ft) | 7.5m |
| City Total Requirements (sq ft) | 10.1m |
| % change on 12 month ave | -3% |
| Total under offer (sq ft) | 2.3m |
| Under offer this month (sq ft) | 336,770 |
| % change on average (total) | 62% |
| 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 October transactions

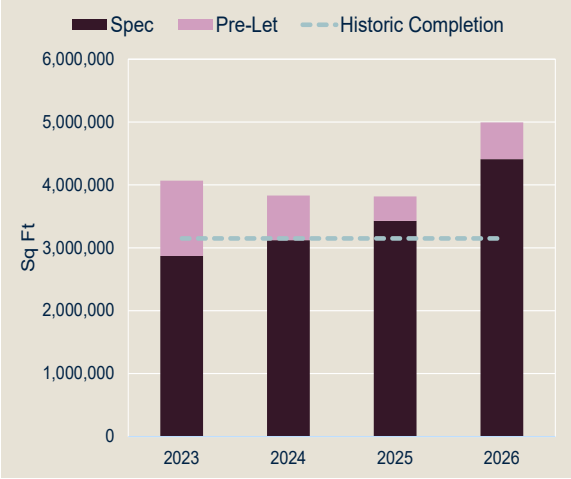
Table 7

| Address | Floor/s | Sq ft | Grade | Rent achieved | Tenant | Lessor |
|---|---|---|---|---|---|---|
| 8 Moorgate, EC2 | 4 | 17,858 | A | £61.00 | Corplay | Clothworkers Company |
| 222 Bishopsgate, EC2 | Building | 13,772 | A | Confidential | Confidential | Goldstone |
| Paternoster House, 65 St Pauls Churchyard, EC4 | 4 | 10,879 | A | £73.50 | Burford Capital | CRI |
| Goldings House, Hays Galleria,Tooley Street, SE1 | 5 | 8,976 | A | £70.00 | Kobalt Music | St Martins Property Investment Limited |
| 130 Wood Street, EC2 | 4 | 8,626 | A | £55.00 | Buzzacott | NTT |

## In Focus - Development pipeline

### City development pipeline 2022-2026

Graph 3



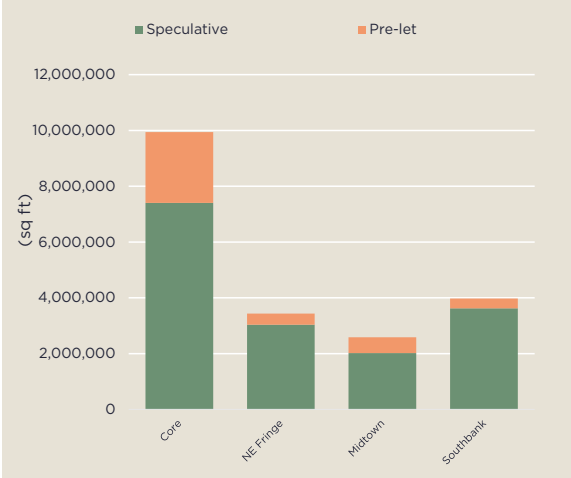

This month's 'In Focus' looks into the development pipeline, amidst rapidly rising costs. The current pipeline looks healthy with a total of 16.7m sq ft of space due to complete between 2023 and 2026, with 17% already pre-let. On average the City of London is expected to see 4.15m sq ft complete each 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 will be questioned in the context of current cost inflation.

Between 2023 and 2026 the City Core is expected to see nearly 10m sq ft scheduled for completion, with 26% pre-let. This is the same amount of space as the three other submarkets combined, of which just 13% is pre-let, half that of the Core.

The current headwinds being faced in the economic downturn has resulted in delayed starts and pushed back completion dates. Chart 5 compares the Q3 2021 pipeline to the Q3 2022 pipeline, 24% of schemes have been delayed by up to a year and a further 10% have been delayed by more than 12 months.

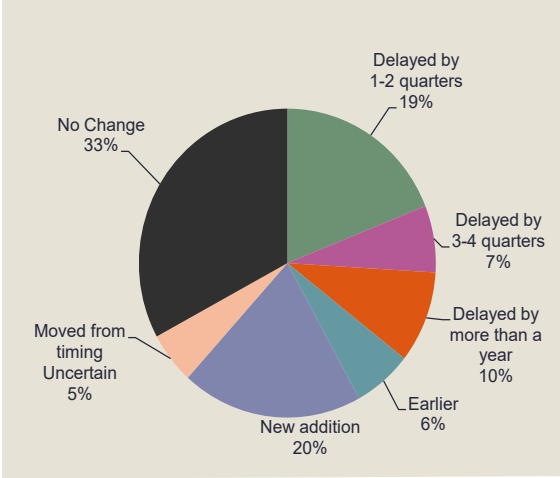
### City development pipeline by sub-market

Graph 4




### City development pipeline slippages

Graph 5

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