

# City Office Market Watch



## A resurgent September sees nearly 750,000 million sq ft in take-up

The City experienced a strong month following a subdued July and August, take-up in September soared to 737,475 sq ft, this is up 42% on the 10-year monthly average. The figure was achieved across 47 transactions, the highest number of monthly deals since December 2019.

Despite a fruitful September, Q3 take-up reached 1.2m sq ft, this is down 42% on the Q3 10-year average. Moreover, year-to-date take-up reached 4.3m sq ft across 300 transactions. Comparatively, this is up 54% on the same point last year, but down marginally on the long-term average by 4%.

Core, prime office space appears to be occupiers' preference, with 2.5m sq ft (58%) of year-to-date take-up located in the City Core, this is 4% up on the 10-year average.

As occupiers are facing increasing scrutiny with regards to achieving sustainability goals, whilst also striving to get people back to the office, there continues to be a preference for premium office space. This is reflected by 89% of take-up year-to-date being of Grade A quality.

Addleshaw Goddard's much-anticipated pre-let of 41 Lothbury, EC2 transacted last month. The law firm is thought to have acquired 114,000 sq ft across part of the ground floor and six upper floors, on a 15-year term paying a blended rent of £75.00/sq ft.

Another notable transaction in September saw Apple continue its acquisition of available floors in 22 Bishopsgate, EC3, transacting on the 20th, 21st and 28th floors (75,280 sq ft). The tech giant already occupies 132,000 sq ft across the 31st to 35th floors and are under offer on a further two floors, this would bring their total occupation to over 250,000 sq ft.

Supply last month, rose to 13.4m sq ft, equating to a vacancy rate of 9.6%, the highest since Q4 2005. The growing discrepancy between the best and the rest is resulting in prime office space being snapped up at an increasing rate, whilst lesser quality supply is left untouched. The 'stickiness' of Grade B space is evident, on average a unit remains on the market for 24.4 months, this is up from 11.6 months in Q4 2016.

The availability of prime office space remains slightly undersupplied, with 43% of current supply consisting of space that has been newly developed or comprehensively refurbished and will inevitably contribute to year-on-year prime rental growth in the coming years.

We have continued to see an increase in average rents so far this year. The average Grade A City rent for the year to date is £67.18/sq ft, up on last year's annual figure by 4%. 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 during the first three quarters of 2022, which now stands at £84.56/sq ft, a record and representing a 3% increase (up from £82.30/sq ft in 2021).

81 lettings in the City year-to-date have achieved rent of over £70/sq ft, equating to 33% of known rents achieved, an uplift from the five-year average of 20%. More impressively, 26 transactions have achieved rents over £80.00/sq ft, in 2020 and 2021 combined, only saw 28 achieve this.

In part, rental growth is due to limited supply of prime and increasing social pressures. Now this dynamic is being compounded by increases in construction costs that, without rental growth, will make new office developments challenging or even unviable.



**4.3m sq ft**  
YTD take-up, across  
**300 transactions**



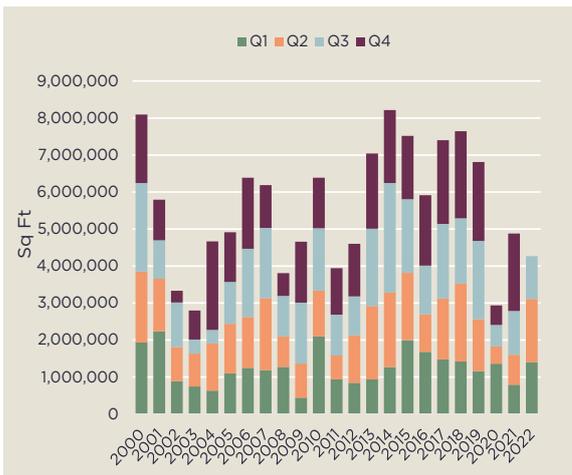
**Q3 2022** prime rent the  
2nd highest on record,  
reaching **£85.61/sq ft**



**33%** of rents achieved  
over **£70.00/sq ft**

### City quarterly take-up

Graph 1



Source: Savills

### City average rents

Graph 2



The Professional  
Services sector accounts  
for **25%** of annual take-  
up

## Analysis close up

### Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
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	888,623	94%	6,052,623
Jun-22	517,742	79%	6,355,917
Jul-22	174,124	77%	6,137,218
Aug-22	249,173	91%	5,783,875
Sep-22	737,475	85%	6,301,147

### Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - Sep 21	2,794,117	17%	90%
Jan - Sep 22	4,269,837	53	89%

### Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Oct-21	£75.00	£64.13	£44.50		
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

### Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
13,309,212	86%	3%	9.5%
13,413,477	86%	1%	9.6%

### Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2023	2,047,028	3,042,883	5,089,911	21%
2024	1,587,690	2,190,795	3,778,485	17%
2025	1,721,676	1,619,840	3,341,516	12%
2026	2,181,329	2,653,256	4,834,585	5%
Total	7,537,723	9,506,774	17,044,497	14%

### Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.8m
City Active Requirements (sq ft)	7.5m
City Total Requirements (sq ft)	10.3m
% change on 12 month ave	-1%
Total under offer (sq ft)	2.0m
Under offer this month (sq ft)	450,622
% change on average (total)	41%
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 preceeding 3 months

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

## Significant September transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
41 Lothbury, EC2	part G, 2-7	114,165	A	£75.00	Addleshaw Goddard	Pembroke Real Estate
TwentyTwo, 22 Bishopsgate, EC2	20, 21, 28	75,280	A	£75.00	Apple	Axa
Premier Place, 2 1/2 Devonshire Square, EC2	6, 7, 8	60,601	A	Confidential	Jane Street Capital	Greycoat
47 Mark Lane, EC3	3, 5, part 6	30,403	A	Nil	VO Curations	DTZi
Warwick Court, 5 Paternoster Square, EC4	1	25,414	A	£71.50	Mitsui Bussan	Mitsubishi Estate London/ Stanhope

## In Focus - Under offers

### City monthly under offers

Graph 3

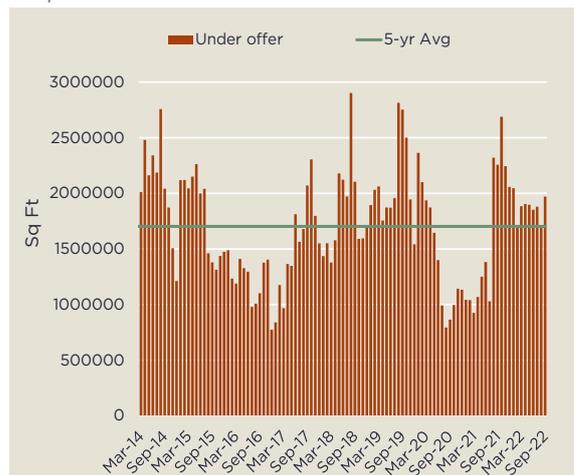


This month's In Focus looks at current under offers. The City market has experienced a relatively strong first three quarters of 2022, with take-up and under offers consistently at a high level, providing a conveyor belt of deals transacting. For five consecutive months, under offers totalled 1.9m sq ft. However, September experienced a flurry of under offers totalling 450,622 sq ft, bringing the total for the City to 2.0m sq ft, this is 43% up on the long-term average 1.4m sq ft. Due to the increasingly protracted legal due diligence process, as well as a number of complicated soon-to-be pre-lettings in the pipeline, office space is staying under offer for longer than usual.

The preference for best-in-class space continues to direct occupier decision-making, where 68% of under offers are on recently completed space or still on the development pipeline. With the continuation of an undersupply of the prime office availability, developments that have started construction and/or are nearing completion will be the target for demand, as there is less risk of significant delays, this will fuel the strong pre-letting trend.

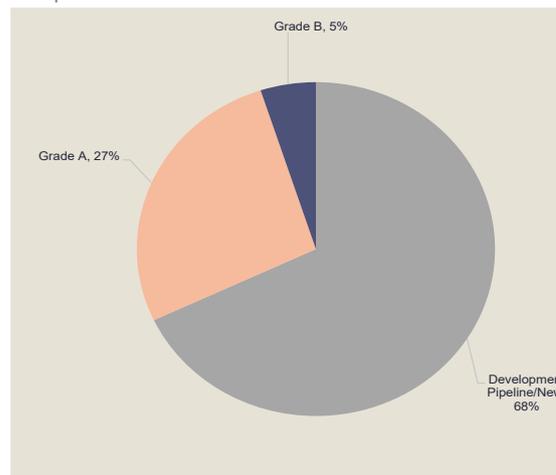
### City total under offers

Graph 4



### City under offers by quality

Graph 5



## Savills contacts

Please contact us for further information

### Stuart Lawson

Director  
City Agency  
020 7409 8920  
slawson@savills.com

### Josh Lamb

Director  
City Agency  
020 7409 8991  
jlamb@savills.com

### Victoria Bajela

Associate Director  
Research  
020 7409 5943  
victoria.bajela@savills.com

### Will Wilson

Analyst  
Research  
020 7409 8791  
will.wilson@savills.com

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