



A modest summer sees take-up fall below the average

Although a slight pick-up from July, last month's take-up reached 245,818 sq ft across 23 transactions, resulting in the total take-up for 2022 reaching 3.5m sq ft. This is down 10% on the 10-year average. The 12-month rolling take-up has fallen for the second consecutive month, now totalling 5.7m sq ft.

What remains constant is the sustained demand for prime offices. 91% of year-to-date take-up has been of Grade A quality. Sustainability remains at the forefront of occupier demand and decision making, with 61% of year-to-date take-up being BREEAM rated 'Excellent' or above.

In the largest transaction last month, Squire Patton Boggs acquired part of the second and the eighth floor at 60 London Wall, EC2 (54,874 sq ft) on a 10-year term at £72.50/sq ft. The move was prompted by Jane Street Capital expanding within Premier Place, 2-5 Devonshire Square, EC2 to occupy the entirety of the property.

Another notable transaction in August saw Snowflake acquire the fifth and sixth floors at 1 Crown Place, EC2 (36,328 sq ft) on a 10-year term with a break option in the fifth. The cloud-based computing firm is thought to be paying £76.50/sq ft with 24 months' rent free.

The Professional Services sector remains dominant, accounting for 28% of take-up so far this year. The sector's demand for best-in-class office space has certainly aided total take-up, with law firms looking to stay competitive and attract workers back to the office. This looks to continue as the vast majority of space under offer on the development pipeline is to the Professional Services Sector.

In August, 208,424 sq ft of space was placed under offer, and for the first time in four months the cumulative total has dipped, settling at 1.7m sq ft. This is still 21% above the long-term average (1.4m sq ft). Moreover, 75% of under-offers are on space that has been recently developed/

comprehensively refurbished or still in the development pipeline. Noting the high level of under-offers, we currently predict an annual take-up of 5.5m sq ft, a 12% increase on 2021.

With the addition of c.600,000 sq ft, supply rose last month settling at 13.3m sq ft. This equates to a 9.5% vacancy rate, and an outwards movement of 30 bps on the end of July. It is the highest post-pandemic vacancy rate by 10 bps and up on the 10-year average of 6.3%. 37% of the supply added in August was tenant controlled, this is relatively high compared to the monthly average of 24% and the second highest month this year.

Rising interest rates are amongst a cocktail of headwinds facing both landlords and tenants. With the increasingly reduced viability of schemes becoming more apparent amid rising construction costs, it is likely that prime rental growth will continue. Savills forecasts a year-on-year growth rate of 3.3% for the next five years.

Although the development pipeline looks relatively healthy compared to previous years, the challenges facing developers will inevitably lead to delays as they begin to consider their options. It should be mentioned that 37% of the 2023 to 2026 development pipeline is yet to start construction. Currently, 16.8m sq ft is scheduled to complete between 2023 and 2026, equating to 4.2m sq ft per year, this is compared to the historic average of 3.2m sq ft.

The pre-letting market remains resilient as occupiers flock to amenity rich, sustainable buildings. Almost half of the 2022 pipeline has been pre-let (48%), 2023 shows the same trend with 22% of the 5m sq ft scheduled for completion committed. With an ongoing under-supply of prime office space, coupled with the issues mentioned for developers, the appetite for those buildings already built or close to practical completion will only grow, and we can anticipate the strong pre-letting trend to carry on.



3.5m sq ft
YTD take-up, across
246 transactions



Supply rises to **13.3m sq ft** equating to a vacancy rate of **9.5%**



3.3% year-on-year growth for prime office space

City 12-month rolling take-up

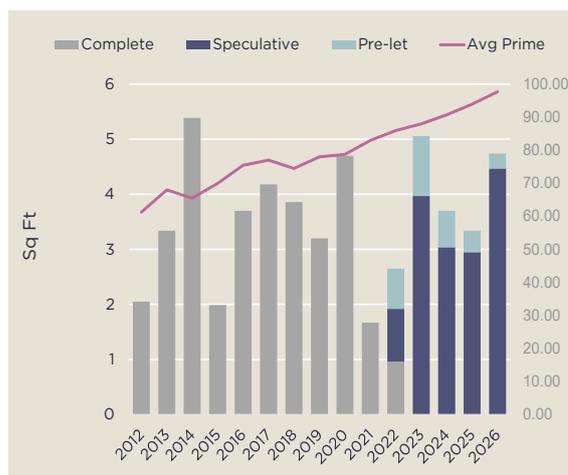
Graph 1



Source: Savills

City development pipeline

Graph 2



The Professional Services sector accounts for **28%** of annual take-up

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
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	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	885,141	95%	6,049,141
Jun-22	486,785	84%	6,321,478
Jul-22	153,968	87%	6,082,623
Aug-22	245,818	93%	5,725,925

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - Aug 21	2,563,914	15%	90%
Jan - Aug 22	3,474,412	36%	91%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
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		
Jun-22	£105.00	£65.85	£47.12	£83.72	25
Jul-22	£87.00	£71.63	£45.27		
Aug-22	£90.00	£71.15	£35.15		

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
12,715,255	86%	0%	9.1%
12,862,646	86%	1%	9.2%
13,309,212	86%	3%	9.5%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2023	2,019,364	3,042,883	5,062,247	20%
2024	1,506,690	2,190,795	3,697,485	18%
2025	1,721,676	1,619,840	3,341,516	12%
2026	2,181,329	2,665,256	4,736,585	6%
Total	7,429,059	9,518,774	16,837,833	14%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	1.8m
City Active Requirements (sq ft)	7.8m
City Total Requirements (sq ft)	9.6m
% change on 12 month ave	-8%
Total under offer (sq ft)	1.7m
Under offer this month (sq ft)	208,424
% change on average (total)	21%
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 August transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
60 London Wall, EC2	2 part, 8	54,874	A	£72.50	Squire Patton Boggs	LaSalle Investment Management
1 Crown Place, EC2	5, 6	36,328	A	£76.75	Snowflake	AlloyMtd
1 New Change, EC4	4	23,056	A	£66.00	Cynergy Bank	Landsec
John Stow House, 18 Bevis Marks, EC3	3 - 7	15,316	B	£35.00	Clock House Property	Meron Holdings
HYLO, 103-105 Bunhill Row, EC1	17	6,577	A	£89.50	Cero Generation Services	CIT

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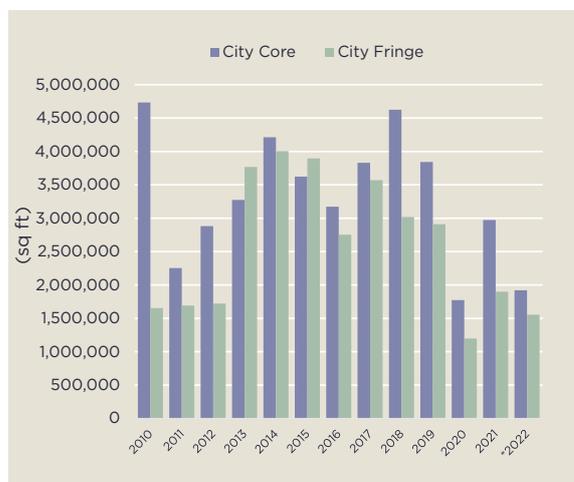
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In Focus - City Core

City Core and City Fringe take-up

Graph 3



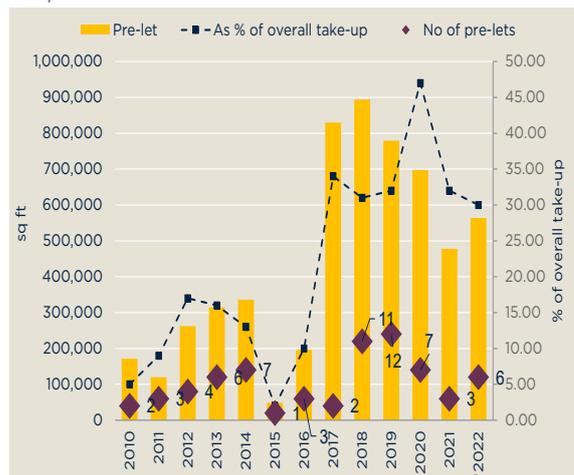
This month's 'In Focus' looks at the City Core, the sub-market has been the focus of many occupiers over the last two years due to the solid pipeline supplying prime, well-connected office space. Take-up so far this year has reached 1.9m sq ft across 129 deals, this is 55% of the City's take-up and marginally down on the 10-year average of 2.1m.

91% of take-up in the sub-market has been of Grade A quality, this has been contributed to by the flurry of pre-lets which have transacted in 2022. Since the start 2021, over 1.0m sq ft of the City Core development pipeline has been pre-let, accounting for 30% of total take-up, this compares to 27% in the Fringe markets over the same timeframe. We will invariably see this figure rise as there is c.450,000 sq ft of development pipeline under offer in the City Core.

The City Core has experienced strong rental growth across the board, with average prime rents (excluding top tower floors) increasing 2% on last year, settling at £84.14/sq ft. Similarly average Grade A has reached a record £67.57/sq ft, up 4% on the end of 2021.

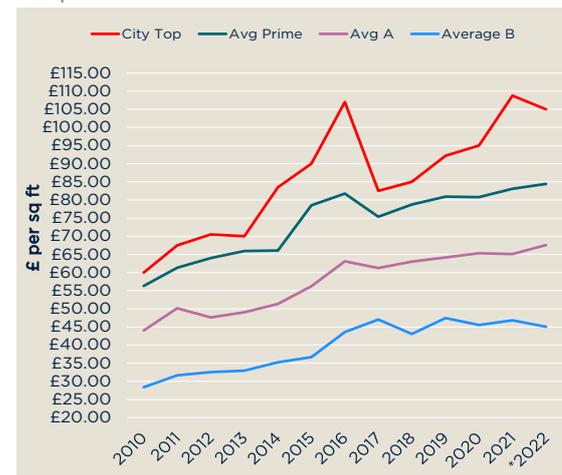
City Core pre-lets

Graph 4



City Core rents

Graph 5



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