UK Commercial – April 2023

MARKET IN MINUTES

Savills Research

Greater London & South East Offices

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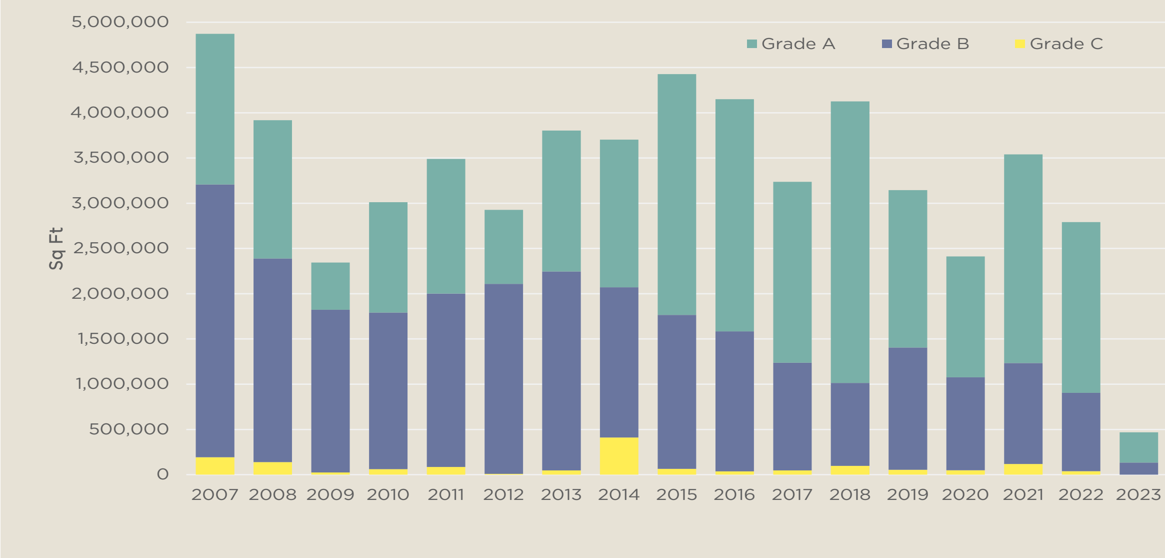
Summary Take-up levels in Q1 2023 have followed a similar path to Q1 2022, with take-up 2% above Q1 2022, but 39% below the five-year average. Best in class space continues to be the occupiers preference, with 72% of take-up being Grade A standard. Supply has increased marginally, which has been predominantly caused by grade B office space being returned to the market. The development pipeline remains constrained.

Take-up



Source Savills Research

Take-up subdued in Q1 2023 but corporate activity expected to increase throughout the year

Leasing activity in the Greater London and South East office market was subdued in Q1 2023, with take-up reaching 467,000 sq ft. This mirrored activity from the first quarter in 2022 with take-up, 2% above that total, but was a 39% fall on the five-year average.

Traditionally the Western Sector accounts for the highest proportion of take-up across the market. However, the Northern Sector (including Greater London northern and eastern submarkets) was the most active in Q1 23, accounting for 49% of take-up recorded. Stratford, Luton and Hemel Hempstead have all experienced above average levels of take-up activity.

The majority of take-up was concentrated in the smaller deal size ranges with 83% of deals recorded below 20,000 sq ft. There was an increase in activity in the 10,000-20,000 sq ft size band, with 12 transactions recorded in Q1 2023. This was 13% above the five-year average for this size band and double the amount recorded in Q1 2022.

There were six deals over 20,000 sq ft, which included Herrington Carmichael leasing 31,000 sq ft at Brennan House, Farnborough for a new headquarters. Technology manufacturer, Keyence acquired 24,000 sq ft at Union, Stockley Park and Arvato leased 25,000 sq ft at Botanica, Ditton Park, Slough.

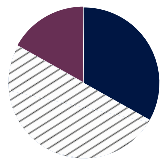
Take-up in Q1 was impacted by the inertia arising from Liz Truss' mini budget. It is expected that activity from larger occupiers will though increase throughout the year. There are currently 2.2 million requirements in the market with 23 requirements over 20,000 sq ft. Air Products, McDermott, Allergan and Wood Group are all searching for over 70,000 sq ft of office space.

The flight to quality in the market has continued with demand concentrated on grade A office space with 72% of the space transacted within Q1 being grade A quality. This is the highest proportion since the start of the Covid-19 pandemic and has risen in three consecutive years. The proportion rises to 77% when focussing solely on the Western Sector demonstrating that the clear occupier preference is for grade A office space that offers strong environmental credentials.

Public Sector & Education occupiers have been the most active business sector, accounting for 42% of take-up. Education sector is a notable growth sector in the region, which has been underpinned by an increase in student numbers. According to HESA there were 423,935 students in London at the end of the 2021/2022 academic year, which represents a 15% increase in the last five years. This equates to an additional 56,695 students.

Submarkets within the Greater London office market have benefitted from the expansion of the education sector. Annual take-up of over 200,000 sq ft was recorded from the sector between 2019 and 2022. A further 144,000 sq ft has been acquired by education occupiers in Q1 2023 across this market area. Teeside University, LMA and Fairfield School of Business have all opened new sites or expanded their existing footprint across the region in the first quarter of the year.

Key Data Points



72%
Grade A space accounted for 72% of take-up in Q1 2023

3%
Supply is 3% above the 10-year average.

£

There were three submarkets which achieved record headline rents in Q1 23

THERE ARE POCKETS OF UNDERSUPPLY AMIDST A LIMITED DEVELOPMENT PIPELINE

At the end of Q1 2023, there has been a marginal increase in supply, with a 1% rise since the end of 2022. Supply levels now amount to 15.4 million sq ft, which is 3% above the 10-year average. The Western Sector still holds the greatest provision of grade A supply, with 65% of such space located in this geographic region. Although supply has increased overall, several submarkets are experiencing supply constraints. Windsor, St Albans, Guildford and Watford all have below two years of grade A supply based upon average take-up levels, which Savills consider as undersupplied.

The development pipeline is constrained with 1.6 million sq ft of available space currently under construction. This equates to six months of take-up in an average year. New development and comprehensive refurbishments announcements have been limited this year amidst rising finance and build costs.

RENTAL GROWTH CONTINUES ON BEST IN CLASS SPACE

Rental growth has continued in the market for the best-in-class stock, with occupiers prepared to pay premium rents to secure the best quality space. This was exemplified in Hemel Hempstead, Stratford and Stockley Park where record high headline rents were all achieved in Q1 2023.

This trend is expected to continue with the supply of prime grade A space limited with only 9% of current availability meeting this standard.

The polarisation in occupier demand has resulted in rental falls for secondary properties. Average grade B rents have fallen consecutively for the last three years and currently stand at their lowest level since 2015.

Key Statistics

The tables below detail key statistics relating to the Greater London & South East office market. Savills Research tracks take-up and supply over 5,000 sq ft.

Take-Up

	Data (Sq Ft)	Year-on-Year Change
Q1 2023 Take-up	467,000 sq ft	+2%
Q1 2023 Grade A Take-up	334,000 sq ft	+4%
Average Deal Size	13,178 sq ft	-5%
10-Year Average Q1 Take-up	837,000 sq ft	-
5-Year Average Q1 Take-up	765,000 sq ft	-

Supply

	Data	Change from Q4 2022
Total Supply	15.4 million sq ft	+1%
Grade A Supply	7.6 million sq ft	No change
In-Town Supply Proportion	50%	+1%
Out-of-Town Supply Proportion	50%	-1%
Development Pipeline (Under Construction)	1.6 million sq ft	No change

Source Savills Research

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