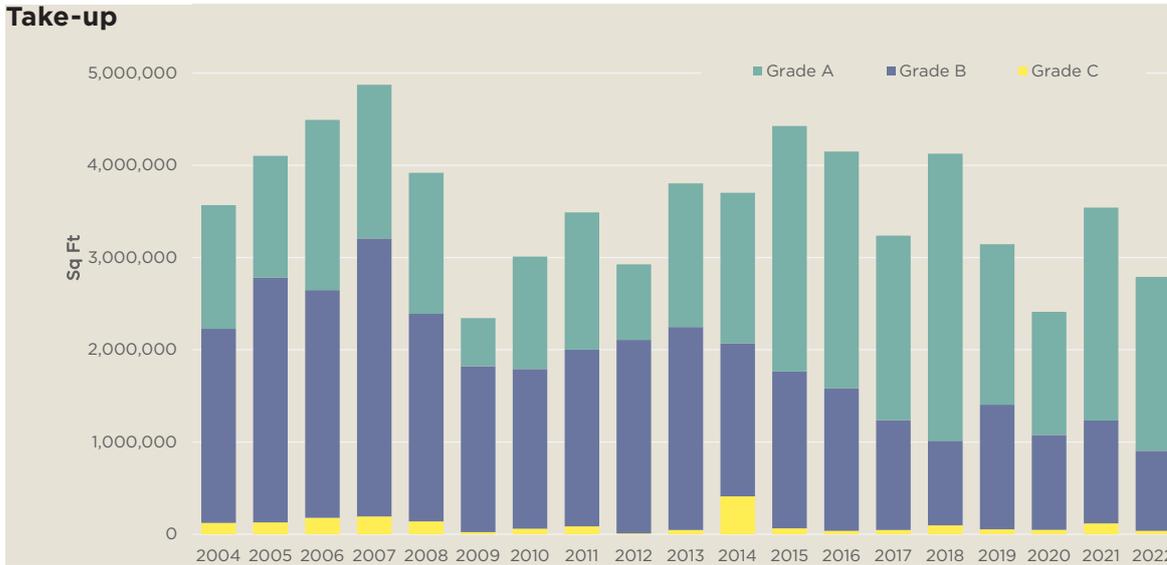


Greater London & South East Offices



Summary Over the course of 2022, take-up improved incrementally each quarter after a slow start in Q1, which resulted in annual take-up being 15% below the five-year average. The polarisation in demand for Grade A and B space continued in 2022, with the highest proportion of space let being Grade A standard since 2018. Supply levels remain below average, and the development pipeline is limited.

Take-up



Source Savills Research

Positive leasing momentum built throughout 2022, with take-up increasing in each quarter

Take-up increased in every quarter throughout 2022, which culminated in annual take-up reaching 2.8 million sq ft - which was 15% below the five-year average. The below average annual take-up can be predominantly attributed to the low levels of leasing activity recorded in Q1, with take-up being 45% below average. The working-from-home guidance implemented for most of January, plus the uncertainty caused by the war in Ukraine, resulted in some companies pausing or aborting relocations. There were also a lack of large deals, with two transactions recorded over 100,000 sq ft in 2022, whereas there were four deals over this threshold in 2021, resulting in lower levels of take-up.

Positive leasing momentum built for the remainder of 2022, which resulted in 890,000 sq ft being transacted in Q4 - the second highest quarterly total in the post-Covid-19 pandemic era. Future economic headwinds lie ahead for the occupational market in 2023. The market has, however, proved resilient after previous economic shocks with demand returning faster than anticipated in 2021, evidenced in take-up being 5% above the five-year average.

The largest deals recorded in Q4 included Haleon pre-letting 115,000 sq ft at The Heights, Weybridge, for a new headquarters, and Sheffield Hallam University pre-let 110,000 sq ft at 3 Brent Cross Town, which was the first office letting at the new mixed use development.

Notable submarkets that experienced high levels of occupier demand in 2022 included Maidenhead, Crawley, St Albans and Weybridge, which recorded their highest levels of take-up in the last five years. The Western Sector was the most active

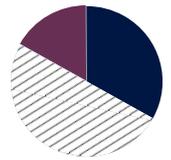
region in the market, accounting for 51% of take-up, which was on par with the long-term average.

There was an uptick in the activity from smaller occupiers. The number of deals recorded between 5,000 and 10,000 sq ft was the highest since 2017. There has also been an increase in demand from occupiers leasing 10,000-19,999 sq ft, with 34 deals recorded in this size band in H2 2022, which was over double the total in H1 2022. The return of the churn of leasing activity from smaller occupiers bodes well for future deal volumes, with the average deal size over the last five years, totalling 16,000 sq ft. There was, however, a reduction in activity from medium-sized occupiers with deals recorded between 20,000-49,999 sq ft, 33% below the five-year average.

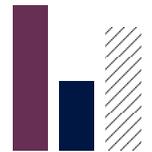
The occupier preference for the best-quality space continued in 2022, Grade A space accounted for 68% of take-up recorded, which was the highest proportion since 2018. This trend has been notable amongst corporate occupiers, demonstrated by 75% of deals over 20,000 sq ft in 2022 being recorded in Grade A buildings. The bias to Grade A space will continue as occupiers are seeking work environments to help attract and retain staff.

Technology companies continued to be the most active business sector in the market, accounting for 23% of take-up. The sector has been the most active occupier type across the market in four of the last five years. Notable technology occupiers who have acquired over 20,000 sq ft in 2022 included Lenovo, Huawei, Ultra Electronics, Tech Data and Rapid 7.

Key Data Points



68%
Grade A space accounted for 68% of take-up in 2022



5%
Supply is 5% below the 10-year average.



60%
Average Grade A rents command a 60% premium to average B/C rents

SUPPLY LEVELS REMAIN BELOW AVERAGE, WITH THE DEVELOPMENT PIPELINE LIMITED

Supply levels across the market area have increased marginally by 6% since the end of 2021, with 14.9 million sq ft available. This is, however, 5% below the ten-year average. The provision of Grade A space is skewed towards the Western Sector, with the geographic region, accounting for 63% of available Grade A supply.

There have been limited development and comprehensive refurbishment announcements in recent months amidst rising build and finance costs. There is currently 1.6 million sq ft under construction or comprehensive refurbishment, which equates to six months of take-up in an average year.

RECORD RENTS CONTINUE TO BE ACHIEVED ACROSS THE MARKET

The occupier preference in the market is for best-in-class space that is amenity-rich and can satisfy ESG criteria. Occupiers are prepared to pay a premium to secure this type of space, resulting in record-high rents being achieved across the market. This was evident in Q4 2022, as record rents were achieved in St Albans, Watford, Heathrow, Richmond and Windsor.

The polarisation in demand between Grade A and B/C office space has been reflected in the rental gap being at its widest level in the last ten years. At the end of 2022, there was a 60% premium for average Grade A rents when compared to average Grade B/C rents. This gap is expected to widen further, reflecting the ongoing flight to quality in the market.

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
2022 Take-up	2.8 million sq ft	-22%
2022 Grade A Take-up	1.9 million sq ft	-20%
Average Deal Size	13,990 sq ft	-18%
10-Year Average Take-up	3.5 million sq ft	-
5-Year Average Take-up	3.3 million sq ft	-

Supply

	Data	Change from Q4 2021
Total Supply	14.9 million sq ft	+5%
Grade A Supply	7.3 million sq ft	+6%
In-Town Supply Proportion	49%	-1%
Out-of-Town Supply Proportion	51%	+1%
Development Pipeline (Under Construction)	1.6 million sq ft	

Source Savills Research

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