MARKET IN MINUTES

Savills Research

Greater London & South East Offices

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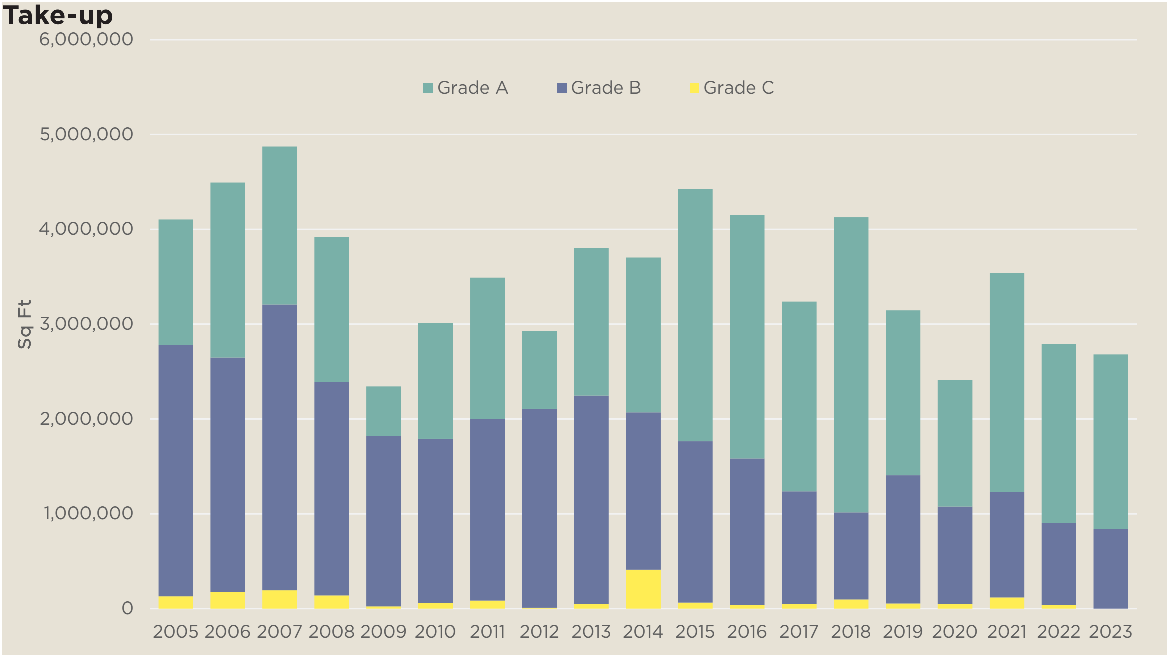
Summary Over the course of 2023, take-up grew throughout the year after a slow start in H1, which resulted in annual take-up reaching 2.7 million sq ft, which is 17% below the five-year average and 5% below the 2022 total. Additionally, for the first time since 2018, supply has started to fall and record rents have been achieved in several sub-markets throughout the year.

Take-up



Source Savills Research

Take-up in Q4 2023 is the highest quarterly total since 2018, bringing the annual total in-line with 2022

Leasing activity improved in the second half of the year, which culminated in annual take-up reaching 2.7 million sq ft. This was 5% and 17% below 2022 and the five year average, presenting an initial indication of the market achieving a stabilised take-up level after the Covid-19 pandemic. The increase in leasing activity was notable in H2 23 with take-up 93% above the total recorded in H1 23. The challenging macro-economic environment resulted in transactions either being delayed or taking longer to conclude in the first half of the year.

Positive leasing momentum built throughout 2023, with Q4 23 take-up reaching 1.1 million sq ft, which was the highest quarterly total since Q4 18. This take-up level can predominately attributed to an increase in deals recorded over 20,000 sq ft amounting to 16, but in particular the rise in deals over 50,000 sq ft, with four deals recorded in Q4 2023. The uptick in activity in medium sized occupiers was evident throughout the year, with 32 deals recorded between 20,000 and 50,000 sq ft, 45% above the total recorded in 2022.

The improved sentiment can largely be attributed to corporate occupiers gaining a clearer understanding of their workspace requirements, greater certainty over the macro-economic outlook and moving early, well in advance of their lease expiries to secure the dwindling supply of prime, Grade A offices.

The largest deals recorded in Q4 included Lonza who acquired a cleared site of 184,500 sq ft, previously known as the Murdoch, Hutton and Faraday buildings in Thames Valley Park, Reading for £35 million. They are proposing to use this space to create a 400,000 sq ft office, R&D and manufacturing facility. Wood Group also leased 119,000 sq ft at 400 Longwater Avenue, Reading and Air Products leased 78,000 sq ft at 1000 Hillswood Park, Chertsey.

These deals have highlighted the increased activity from the Manufacturing & Industry sector (including pharmaceutical occupiers), which has been the most active business sector in 2023, accounting for 35% of take-up. Other notable occupiers who have acquired more than 20,000 sq ft in 2023 included Stanley Black & Decker, EasyJet and Nomad Foods.

Notable submarkets that experienced high levels of occupier demand in 2023 included Reading, Guildford, Maidenhead, Slough, Croydon, Woking and Farnborough, all of which performed above their five-year average take-up levels. The Western Sector continued to be the most active in the market during 2023, accounting for 44% of take-up.

Throughout 2023 it was clear that occupiers favoured the best-quality spaces, with Grade A space accounting for 69% of overall take-up. When removing owner occupier transactions, the Grade A proportion rises to 80%. We expect this momentum to continue into 2024, with demand for prime Grade A offices becoming more prevalent as 41% of space that has completed construction in 2023 or is scheduled to complete in 2024 has been let during construction or is currently under offer, which will support the significant rental growth we anticipate to materialise over the course of 2024.

Key Data Points

69%

Grade A space accounted for 69% of take-up in 2023

1%

Supply (all grades) is 1% above the 10-year average.

£

11 submarkets achieved record rents in 2023

SUPPLY STARTS TO FALL FOR THE FIRST TIME SINCE 2018

Supply levels across the market area, including all grades, have started to fall marginally by 1% since the end of 2022, with 15.1 million sq ft available. This is 1% above the ten-year average, however this is the first time since 2018 where supply has started to fall. The market vacancy rate is currently 8.8%, with the Grade A vacancy rate at just 4.5%. The provision of Grade A space is skewed towards the Western Sector, accounting for 64% of Grade A supply. We expect there to be a rise in available secondary office space, as over the next five years 74% of lease expiries involve tenants who have occupied their space for over 10 years at point of expiry. The majority of these tenants are expected to relocate with these buildings requiring significant refurbishment to appeal to a modern occupier's requirement.

Development activity was limited in 2023 with seven schemes completing. The pipeline is constrained with only 1.6 million sq ft of available space under construction. This equates to six months of take-up in an average year, demonstrating the future supply shortage of prime Grade A office space.

BEST IN CLASS BUILDINGS CONTINUE TO SET NEW RECORD RENTS ACROSS THE MARKET

Throughout 2023 we have seen several submarkets achieve new headline rents for best-in-class, amenity-rich office space. The dwindling supply of prime Grade A space means occupiers are prepared to pay a premium to secure this type of product. This was evident in 2023, as record rents were achieved in Maidenhead, Crawley, Stockley Park, Chertsey, Reading and Bracknell. Notably, Maidenhead and Crawley experienced 37% and 32% prime headline rental growth in 2023 where £51.00 per sq ft and £37.50 per sq ft were achieved.

New rental tones will continue to be set throughout 2024, with seven submarkets currently predicted to achieve record rents for buildings under construction or comprehensive refurbishment. This trend will accelerate the polarisation in rental performance between prime and secondary buildings.

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
2023 Take-up	2.7 million sq ft	-5%
2023 Grade A Take-up	1.8 million sq ft	-2%
Average Deal Size	15,465 sq ft	+13%
10-Year Average Take-up	3.5 million sq ft	-
5-Year Average Take-Up	3.2 million sq ft	-

Supply

	Data	Change from Q3 2023
Total Supply	15.1 million sq ft	-1%
Grade A Supply	7.7 million sq ft	+1%
In-Town Supply Proportion	52%	+2%
Out-of-Town Supply Proportion	48%	-2%
Development Pipeline (Under Construction)	1.6 million sq ft	-

Source Savills Research

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