MARKET IN MINUTES
Savills Research

UK Commercial – July 2023

Greater London & South East Offices

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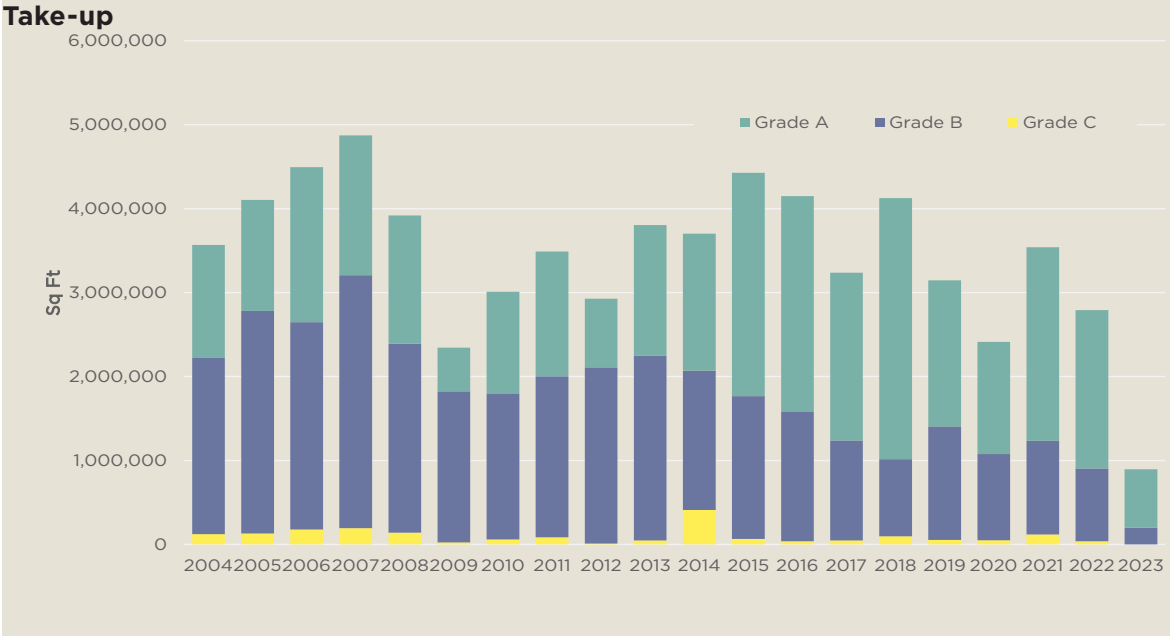
Summary Take-up at the end of H1 2023 reached 895,000 sq ft, which was 22% below H1 22 and 37% below the five-year average. The flight to quality continued in the market with the highest proportion of take-up ever recorded being grade A standard. Supply levels have increased marginally and the development pipeline remains constrained.

Take-up



Source Savills Research

Corporate requirements set to boost take-up in the second half of the year after muted activity in H1

Take-up across the Greater London & South East market at the end of H1 2023 was subdued with 895,000 sq ft recorded which was 37% below the five year average . The current challenging macroeconomic environment has weakened office demand in the first half of the year with office relocations being delayed or taking longer to conclude. Take-up levels in Q2 broadly mirrored what was experienced in Q1, with take-up reaching 427,000 sq ft only 8% below the previous quarter. The Western Sector continues be the most active geographic region of the market area, accounting for 40% of wider market take-up.

Smaller occupiers have been the most active across the market with 83% of deals recorded being below 20,000 sq ft. There has been a lack of corporate activity in the market with 12 deals recorded above 20,000 sq ft which is 29% below the five year average.

Notable transactions included LGC leasing 48,000 sq ft of laboratory-enabled space at The Priestley Building, Surrey Research Park, Guildford . The University of Creative Arts acquired 35,000 sq ft at Parkside House, Epsom, highlighting the continued growth of the education sector across the Greater London and South East office market.

The polarisation in occupier demand between grade A and grade B buildings is becoming more evident as demand is focussed on best in class office space with strong environmental accreditations This flight to quality in the market is reflected in the grade A proportion of total market take-up being at its highest level ever recorded, with 78% of take-up recorded as grade A.

Public Sector & Education occupiers have been the most active business sector, accounting for 32% of take-up in H1 2023 underpinned by a growth in student numbers across the region. Insurance and Financial Services have also seen above average levels of take-up for H1 amounting to 71,000 sq ft. A notable deal for this sector was Gallagher Insurance leasing 22,000 sq ft at Eastwood House, Chelmsford.

There has been a contraction in demand from technology occupiers, with take-up recorded from the sector 74% below the five year average for H1 2023. The fall in demand from the technology sector can partly explain the reduction in take-up recorded across the market. The sector is traditionally the most active occupier type accounting for the highest level of annual take-up over the last five years.

Whilst take-up has been muted in the first half of the year, it is expected that the second half of the year will experience higher levels of leasing activity. There is currently 939,000 sq ft currently either under offer or in advanced negotiations with 38 requirements above 20,000 sq ft. Notable requirements include McDermott, PepsiCo, Wood Group, Mott MacDonald and Abbvie all searching for over 50,000 sq ft.

Key Data Points

78%
Grade A space accounted for 78% of take-up in H1 2023

4%
Supply is 4% above the 10-year average.

Record rents continue to be achieved across the market

SUPPLY LEVELS MARGINALLY RISING WITH THE DEVLOPMENT PIPELINE REMAINING LIMITED

At the end of H1 2023, there was 15.6 million sq ft available across the market area which represents a 2% increase since the end of 2022. The increase in supply has predominately been caused by secondary space being returned to the market, since 2020 the availability of grade B space has increased by 18%. The greatest provision of grade A space is located in the Western Sector, accounting for 65% of overall grade A supply.

The development pipeline remains constrained with relatively high build and finance costs weakening developer appetite to speculative develop across the market. There is currently 1.7 million sq ft under construction or comprehensive refurbishment which equates to six months of take-up.

RECORD HIGH HEADLINE RENTS CONTINUE TO BE ACHIEVED DESPITE THE CHALLENGING ECONOMIC CLIMATE

New rental highs continue to be achieved in best-in-class buildings, exemplified at The Create Building in Crawley, which achieved the highest headline rent ever recorded in the town. The new development was speculatively developed by Crawley Borough Council and offers 77,000 sq ft of prime grade A office space.

This trend is set to continue, we are aware of further record high headline rents that are set to be achieved across other submarkets later in the year. Incentives are however moving out reflecting the challenging macroeconomic environment.

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
H1 2023 Take-up	895,000 sq ft	-22%
H1 2023 Grade A Take-up	696,000 sq ft	+9%
Average Deal Size	12,428 sq ft	-10%
10-Year Average H1 Take-up	1.59 million sq ft	-
5-Year Average H1 Take-Up	1.43 million sq ft	-

Supply

	Data	Change from Q4 2022
Total Supply	15.6 million sq ft	+2%
Grade A Supply	7.8 million sq ft	+2%
In-Town Supply Proportion	49%	-1%
Out-of-Town Supply Proportion	51%	+1%
Development Pipeline (Under Construction)	1.7 million sq ft	

Source Savills Research

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