July to September

1. In the West End office leasing market, Savills reported take up of 549,143 sq ft in September. This is 55% above the 10-year average monthly take-up figure. Savills saw 1.2m sq ft of leasing transactions complete overall in the quarter, across 119 deals, bringing year-to-date take-up to 3.48m sq ft, 19% above where it stood this time last year and 12% above the 10-year average. 86% of year-to-date take-up has been of Grade A standard.

2. The average quarterly prime rent reached £119.58 psf, taking the year-to-date average to £121.96 psf, up 2% on the end of 2021. Similarly, the average Grade A rent achieved so far this year stands at £83.67 psf, again, a rise of 2% from 2021. Comparatively, over the same time period, we have seen average Grade B rents fall by 2% to reach £53.86 psf.

3. Since July, supply has started slowly creeping up settling at 7.2m sq ft, which equates to a vacancy rate of 6.1%. This is 100bps lower than its peak in April 2021, however it is still considerably higher than the long-term average of 4.6%. Despite overall supply rising Savills have continued to see overall vacancy across the core decreasing. The buoyancy of the occupational and development markets, as a result of continued strong occupier demand for new space, has meant a quarter of next year's development pipeline has already been pre-let. Between 2023 and 2026 Savills are currently anticipating 12m sq ft to complete, of which 14% is pre-let. With uncertainty over build costs and increased demands and expense of sustainability requirements, some of the forecast development starts could get delayed.

4. In the City office leasing market, Savills reported a strong month in September following a subdued July and August – take-up in September soared to 737,475 sq ft, this is up 42% on the ten-year monthly average. The figure was achieved across 47 transactions – the highest number of monthly transactions since December 2019.

5. Despite a fruitful September, the quarterly take-up reached 1.2m sq ft – this is down 42% on the quarter's ten-year average. Moreover, year-to-date take-up reached 4.3m sq ft across 300 transactions. Comparatively, this is up 54% on the same point last year, but down marginally on the long-term average by 4%. As occupiers are facing increasing scrutiny with regard to achieving sustainability goals, whilst also striving to get people back to the office, there continues to be a preference for premium office space. This is reflected by 89% of take-up year-to-date being of Grade A quality.

6. Supply last month rose to 13.4m sq ft in the City, equating to a vacancy rate of 9.6%, the highest since the October to December quarter of 2005. The availability of prime office space remains slightly undersupplied, with 43% of current supply consisting of space that has been newly developed or comprehensively refurbished

and will inevitably contribute to year-on-year prime rental growth in the coming years.

7. Savills have continued to see an increase in average rents so far this year. The average Grade A City rent for the year to date is £67.18 psf – up on last year's annual figure by 4%. The preference for best-in-class space continues to direct occupier decision-making, where 68% of under offers are on recently completed space or are still in the development pipeline. With the continuation of an undersupply of the prime office availability, developments that have started construction and/or are nearing completion will be the target for demand, as there is less risk of significant delays, this will fuel the strong pre-letting trend.

8. In the West End investment Market, Savills recorded a slowdown in September transactional activity, with volumes of £174m across five transactions. Year-to-date volumes stand at £5.16bn which is in line with the 10-year average and 32% ahead of the 5-year average. However, analysis on a quarterly basis illustrates that both the volume and quantity of quarterly transactions were each down 25% on the 10-year averages. Such dampened activity is easily explained by the growing cost of finance, following the Bank of England's seventh base rate increase so far this year, coupled with a volatile SONIA (Sterling Overnight Index Average) swap rate.

9. In spite of the change in sentiment and in-keeping with the September trend of a busy marketing period, 21 buildings with a combined guide price of £770m were marketed during the month. There is now a burgeoning supply of potential options for brave buyers, Savills estimate some 70% of 2022 sales unsold. However, a significant amount of current stock is lingering; 39% of openly available assets were marketed pre-H2.

10. Due to the weakened Sterling and consequential currency discount for overseas investors, it will be interesting to monitor how overseas interest develops in the coming months and beyond, especially now owners are compromising on pricing.

11. In the City investment market, Savills confirmed the total transaction volumes for September 2022 were in line with the highest September on record with 5 transactions totalling £1.037bn transacted (2021 saw £1,013bn). 93% of September's volume was across two transactions: 21 Moorfields, EC2 and Kaleidoscope, EC1. Savills is tracking a further £1.9bn of stock which is under offer across 23 transactions, and a further £5.4bn across 90 transactions available in the market.

12. Despite expecting to bolster the economy with the announcement of a mini budget which included ambitious plans for growth, the announcement increased volatility in the financial markets, resulting in a fall in the value of the pound and followed by the Bank of England's bond buying intervention. The value of the British pound fell close to parity with the US dollar for the first time since 1985 reaching $1.04. For context, before the Global Financial Crisis the value of the pound vs the dollar was as high as $2 and before Brexit it offered between $1.45 and $1.70.

13. Having experienced some renewed confidence in the London market at the beginning of September, the increased volatility resulting from the mini budget led

to SONIA rising above 5.0% for the first time this year. Investors are showing signs of caution, however for those overseas investors (particularly $ USD pegged currencies) who do not require 3rd party financing to close transactions are starting to see signs of real opportunity arising with the outward yield movement.

14. Savills Prime City yield was moved outward from 4.00% to 4.25% in October which is an outward movement of 50 bps from the historic low of 3.75% seen earlier this year. This compares to a West End Prime Yield of 3.50%, which was also moved outward from 3.25%.