January to March

1. In the West End office leasing market, after a slow start to the year, Savills reported take up of 335,275 sq ft across 27 transactions in February (double the previous month's figure). Due to the low levels of space acquired in January year-to-date take-up was 25% below the 10-year average. Supply fell by 4.2% to 7.3m sq ft.

2. The 'flight to quality' trend continued. Occupiers cite the importance of strong sustainability credentials playing a part in their selection of offices as they seek to meet ESG (Environmental – Social – Corporate Governance) targets, such as buildings with the environmental certification of BREEAM 'Excellent' ratings. Furthermore, tenants have increasingly focused on more central locations as workers value proximity to nearby retail and leisure facilities post-pandemic.

3. After several months of remaining static, the vacancy rate dropped 30 bps from the previous month to 6.1%. This was primarily due to space being withdrawn, the vast majority of which was Grade B tenant-controlled space, predominantly concentrated in fringe markets such as Hammersmith and Vauxhall, Nine Elms & Battersea. It is worth noting that typically Grade B tenant space makes up just 4% of annual take-up. Savills expect this to be a temporary drop, as they forecast the West End vacancy rate to rise to 7.2% by the end of the year, with a record level of development completions set for delivery in 2023. On the plus side c200,000 sq ft of space has been placed under offer and active demand has increased to 3.88m sq ft, the highest since September. Average Grade A rents increased to £90 per sq ft. This stands in contrast to average Grade B rents, which have declined significantly to £40 per sq ft.

4. In the City office leasing market, Savills reported take-up of 268,341 sq ft in February. The 12-month rolling average has fallen for the third consecutive month. Caution surrounding the macroeconomic environment is leading to space remaining under offer for longer (2.1m sq ft is under offer which is 49% above the long-term average of 1.4m sq ft).

5. Agents are reporting occupiers are now reassessing requirements, with many including a 'Stay Put' option in their shortlists. The argument being that unless moving to best-in-class space, the cost of dilapidations and fit-out is too high to warrant moving to marginally better-quality space. This has further intensified the polarisation in the market, with 94% of take-up this year being Grade A. Average Grade A rents stand at £68 per sq ft with average Grade B rents improving to £50 per sq ft.

6. Total City supply has decreased marginally, settling at 13.4m sq ft, the vacancy rate is 9.5% which is high compared to the long-term average (6.3%). However, the bifurcation within the market means the vacancy rate amongst prime stock is far lower.

7. City investment volume for the January to March period reached £1.641bn across 24 deals, reflecting an average lot size of £68.38m, which is 17% and 18% lower than the five- and ten-year average, respectively. It was a solid quarter of investment activity with four deals in excess of £100m, which represented 70% of the total quarterly transaction volume. Agents reported a fall in values across the market as sellers adjust their pricing expectations. Even with falling values, there generally continues to be a disparity between sellers' and buyers' pricing expectations. Savills prime City yield stands at 4.50% and is under outward pressure.

8. West End investment volumes in the quarter totalled £675m across twelve transactions, with the majority of this activity taking place in March (58% by deal number). In January and February activity had been subdued, with only two and three transactions occurring in these months respectively. There was an uptick in March, with seven deals exchanging which were skewed towards smaller lot sizes. Savills prime West End yield stands at 4.00%.