

City Office Market Watch

August 2016

Record top rent achieved as Kames Capital take expansion space

Supply and demand snapshot

■ Take-up for July was 592,830 sq ft, bringing the year-to-date City total to 3.2m sq ft, which is 28% down on this point last year but 11% up on the long term average for take-up to the end of July. Furthermore, 82% of all transactions to date have been of a Grade A standard.

■ July's activity has brought the 12-month rolling take-up figure to 6.2m sq ft, which is still 25% up on the long-term average.

■ The largest deal of the month was the acquisition of 33 Central, EC4 (227,689 sq ft) by Wells Fargo. The American bank bought the building for their own occupation.

■ Another notable deal for July was the acquisition of the 7th floor at Lacon House (22,474 sq ft) by Exterion Media. The media company took the space at the new refurbishment on a straight 10-year lease at £65.00/sq ft.

■ So far this year, Insurance & Financial services have accounted for the greatest amount of take-up at 24%. They are followed by Tech & Media (12%), Banking (11%), and Retail & Leisure (11%). Professional services have accounted for just 10% of take-up so far this year, compared with their 26% share at this point last year (Graph 2).

■ Total City supply stood at 6.4m sq ft, equating to a vacancy rate of 5.2%, up on this point last year by 0.2%. The vacancy rate is still considerably low in historic context, with the 10-year average at 6.7%.

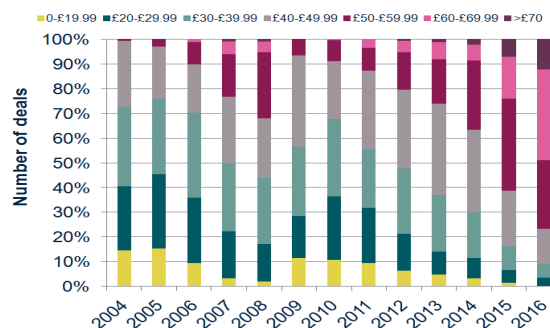
■ There is currently 0.98m sq ft of space under-offer in the City, which is 25% down on the long-term average. Of this, 130,955 sq ft went under-offer in June, which is 55% down on the average monthly amount for the last year.

■ We saw the record top rent in the City surpassed this month when Kames Capital took more space within The Leadenhall Building, which is where they currently are. They took level 43 (6,967 sq ft) on an 11 year lease at £107.00/sq ft.

■ Graph 1 clearly displays how rents have risen since 2009 in the City. So far this year, 49% of deals have been £60/sq ft or above, compared with just 6% in 2007. Furthermore, historically the £40 - £49.99/sq ft bracket has accounted for the most deals with a long term average of 29%, compared with just 14% this year.

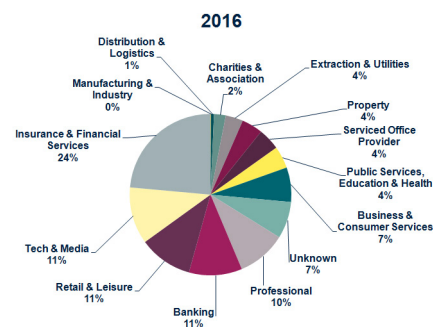
■ With the amount of space going under-offer in the City easing, it is easy to assume take-up will begin to suffer. While this may be true to a certain extent, it is possible the slow-down could be a function of the time of the year, with the summer months being traditionally the quietest. Moreover, it is encouraging to see the number of requirements for the City rose by 1m sq ft (13% up) over the last month, and is now 21% up on the 12-month average.

GRAPH 1
Number of deals by rent bracket



Source: Savills Research

GRAPH 2
City take-up by business sector



Source: Savills Research

TABLE 1
Key July Stats

	July stats
Take-up	592,830 sq ft
2016 Take-up	3,222,133 sq ft
Supply	6,411,014 sq ft
Vacancy Rate	5.2%
Top Rent	£107.00/sq ft
Avg Grade A Rent	£64.19/sq ft

Analysis close up

TABLE 2
Monthly take-up

	Sq ft	% Grade A
Jul-15	649,077	93%
Aug-15	724,348	93%
Sep-15	608,635	91%
Oct-15	302,899	75%
Nov-15	558,912	93%
Dec-15	772,590	87%
Jan-16	420,887	83%
Feb-16	399,236	82%
Mar-16	841,219	81%
Apr-16	316,885	87%
May-16	210,438	98%
Jun-16	440,638	71%
Jul-16	592,830	83%

TABLE 3
Year to date take-up

	Sq ft	% change on previous year	% Grade A
Jan 15 - Jul 15	4,472,586	5%	84%
Jan 16 - Jul 16	3,222,133	-28%	82%

TABLE 4
Rents

£ per sq ft	Top achieved	Average			Rent free**
		Grade A	Grade B	Prime*	
Jul-15	£81.00	£58.18	£39.19		
Aug-15	£90.00	£61.94	£42.38		
Sep-15	£75.00	£55.00	£39.15	£80.20	21
Oct-15	£70.00	£53.05	£36.80		
Nov-15	£64.00	£58.45	£28.75		
Dec-15	£76.79	£57.60	£44.08	£69.52	18
Jan-16	£95.00	£60.57	£21.00		
Feb-16	£77.50	£62.84	£43.36		
Mar-16	£75.00	£56.89	£46.77	£78.13	21
Apr-16	£79.50	£59.73	£42.17		
May-16	£71.20	£63.70			
Jun-16	£71.00	£58.11		£74.14	17
Jul-16	£107.00	£64.19	£47.62		

Completions due in the next 6 months are included in the supply figures

TABLE 5
Supply

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,177,038	87%	5.7%	5.0%
5,582,209	87%	-9.6%	4.5%
5,452,795	86%	-2.3%	4.4%
5,854,776	88%	7.4%	4.7%
5,681,604	88%	-3.0%	4.6%
5,583,260	89%	-1.7%	4.5%
5,848,356	88%	4.7%	4.7%
5,325,841	88%	-8.9%	4.3%
5,483,368	90%	3.0%	4.4%
5,619,663	89%	2.5%	4.5%
5,511,110	88%	-1.9%	4.5%
6,401,861	89%	16.2%	5.2%
6,411,014	90%	0.1%	5.2%

TABLE 6
Development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2016	1,857,072	3,274,429	5,131,501	43%
2017	2,358,661	1,141,544	3,500,205	28%
2018	1,287,734	3,577,778	4,865,512	33%
2019	600,825	2,779,644	3,380,469	0%
Total	6,104,292	10,773,395	16,877,687	28%

TABLE 7
Demand & Under Offers

City Potential Requirements (sq ft)	2.6m
City Active Requirements (sq ft)	7.3m
City Total Requirements (sq ft)	9.9m
% change on 12 month ave	21%
Total under offer (sq ft)	0.98m
Under offer this month (sq ft)	130,955
% change on average	-25%
Landlord controlled supply	80%
Tenant controlled supply	20%

*Average prime rents for preceeding 3 months

** Average rent free on leases of 10 years with no breaks for preceeding 3 months

N.B. We have amended our historic stock figures, resulting in a slight change of our historic vacancy rates (Aug 2015)

TABLE 8
Significant July transactions

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
33 Central, King William Street, EC4	Building	227,689	A	Owner Occupied	Wells Fargo	HB Reavis
Principal Place, E1	1 - 15	85,791	A	£52.00	Amazon	Brookfield/ENPAM
31 Jewry Street, EC3	Building	58,966	B	£35.00	David Game Tutorial College	Sir John Cass
Salters Hall, 4 Fore Street, EC2	Building	22,736	A	Confidential	ABRSM	Worshipful Company of Salters
Lacon House, 84 Theobalds Road, WC1	7	22,474	A	£65.00	Exterion Media	Blackstone
Cannon Bridge House, 25 Dowgate Hill, EC4	4 Part	20,999	A	Confidential	Historic England	Blackstone
Thames Court, 1 Queenhithe, EC4	3 Part	19,993	A	£57.00	Alphasights	Rabobank
The Leadenhall Building, EC3	27	12,901	A	£71.00	Amlin	British Land/Oxford Properties
The Leadenhall Building, EC3	32	11,091	A	Confidential	Rothsay Life	British Land/Oxford Properties
The Leadenhall Building, EC3	43	6,967	A	£107.00	Kames Capital	British Land/Oxford Properties

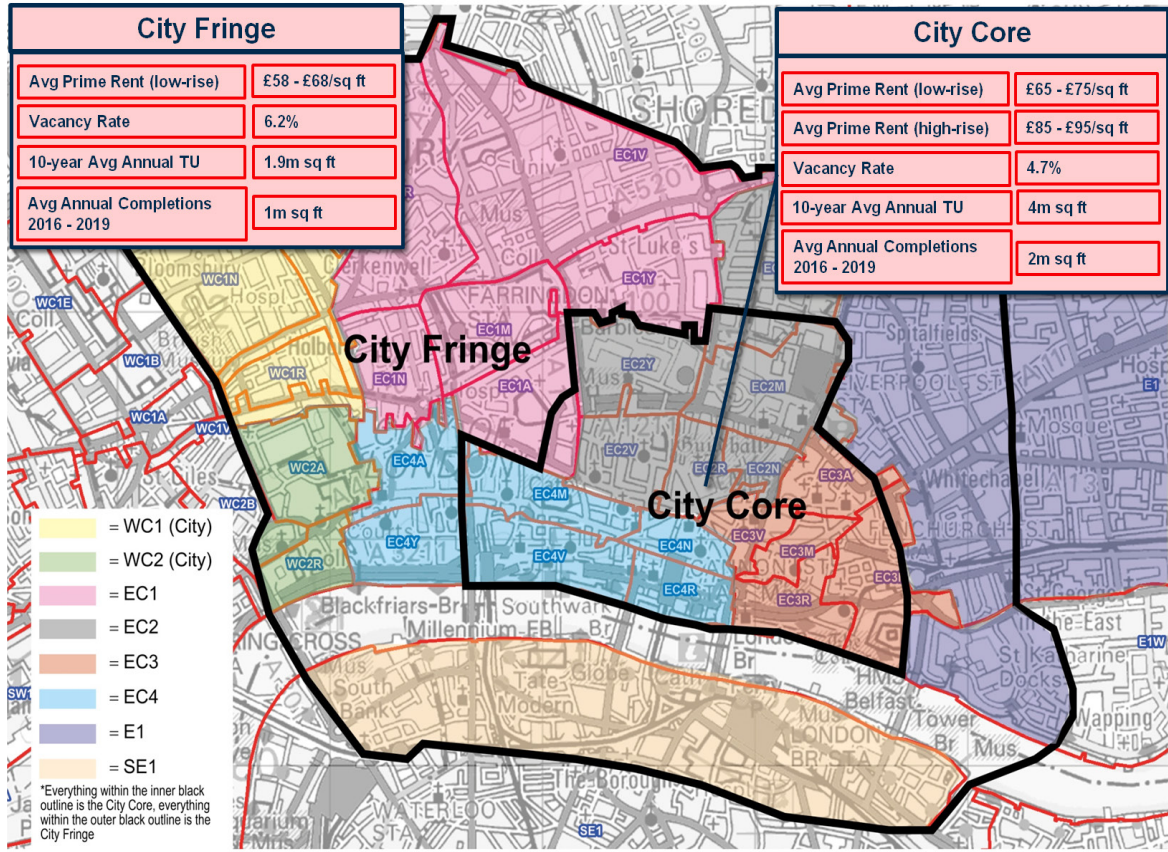
TABLE 9
Significant supply

Address	Postcode	Available Sq ft	Comments
Angel Court	EC2	311,590	
Creechurch Place	EC3	282,139	
Lacon House	WC1	159,184	
Herbal House	EC1	110,867	
Whitechapel Building	E1	95,821	further 58,132 sq ft under offer
The Shard	SE1	84,992	further 17,002 sq ft under offer
Cannon Place	EC4	83,386	
8 Finsbury Circus	EC2	79,489	
International House	E1	68,007	further 33,139 sq ft under offer
1 King William Street	EC4	57,355	further 37,420 sq ft under offer
The Monument Building	EC3	53,495	further 8,475 sq ft under offer

MAP 1

Savills City office market area (updated at the end of each quarter)

City 2016 Q2 stats



Source: Savills – end of Q2 2016

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