

City rents continue to grow despite the lull in take-up, driven by the continued low vacancy rate

Take-up for June reached 426,168 sq ft across 26 deals, resulting in the total for the year reaching 2.5m sq ft, which is down on this point last year by 30%, and down on the 10-year average for the first half by 11%. This brings the 12-month rolling total to 6.6m sq ft, of which 84% has been of a grade A standard.

Out of the 181 deals in the first half of the year, only one has been over 100,000 sq ft, compared with an average of 7 per annum for the last five years. The less than 5,000 sq ft bracket has performed well this year, accounting for 34% of the number of deals, up from a 24% share last year. The City core is still accounting for the majority of take-up with a 69% share so far this year.

The largest deal to complete in June was actually an owner occupier deal. WeWork purchased 99 Queen Victoria Street, EC4 from OIF for £68.00M, 6.39% or £746/sq ft. The 88,518 sq ft building is currently occupied by Sumitomo Mitsui Banking Corporation, although they are expected to exercise their break option in 2021, which will allow WeWork full control of the entire building, hence why it is being included as an occupational deal as well.

Also in June, we saw Squire Patton Boggs acquire levels 6 - 8 at Premier Place, 2 1/2 Devonshire Sq, EC2 equating to 52,391 sq ft. The international law firm will be moving from their current office at 7 Devonshire Square, EC2 and into the refurbished Greycoat & Morgan Stanley scheme once it completes in September. They have signed a 15-year lease subject to a mutual 7 year break at a blended rent of £70.10/sq ft.

At the end of the H1, the majority of demand has come from the Insurance & Financial services sector, who have accounted for 24% of all leasing take-up and 86% of this has

been within the City core. They have accounted for 36 deals so far this year, which is actually up on this point last year by 6. The Serviced Office Provider sector has continued to expand throughout the first half of this year accounting for 23% of take-up over 20 transactions. These amount to 555,676 sq ft, up on this point last year by 5 deals and 59% in terms of quantum of space. WeWork are showing no signs of slowing down having accounted for 7 deals and 276,469 sq ft alone.

There has been continued stable demand from the Professional services sector who have accounted for 14% of take-up so far this year. However, surprisingly the Tech & Media sector has only accounted for 9% or 209,368 sq ft at the end of Q2 compared with 539,485 sq ft over the same period last year. This could be due to a number of the larger Tech & Media requirements having been satisfied over the last few years, but also could be a sign that some of these occupiers are choosing to take space in serviced offices as opposed to traditional leases.

Total City supply at the end of Q2 stood at 6.6m sq ft, falling by 0.8% on the end of last month and equating to a vacancy rate of 5.2%, which is down on Q2 2018 by 30 bps, and down on the long term average by 140 bps. This is the 20th consecutive month of the vacancy rate being sub 6%.

In the first half of 2019, the average prime rent (average of the top 10% of the known achieved rents) slightly rose on 2018 by 0.1% to £77.85/sq ft with a range from £85.00/sq ft (top rent for H1) to £72.50/sq ft. The average grade A rent for the first half has also continued to rise, up on last year by 3.9% and settling at £64.18/sq ft, and the average grade B rent has risen on last year by 5.8% and is now at £46.64/sq ft. Average incentives have remained stable, currently at 22 - 24 months for a 10 year lease.

181 deals

in H1 this year, which is the lowest since 2012



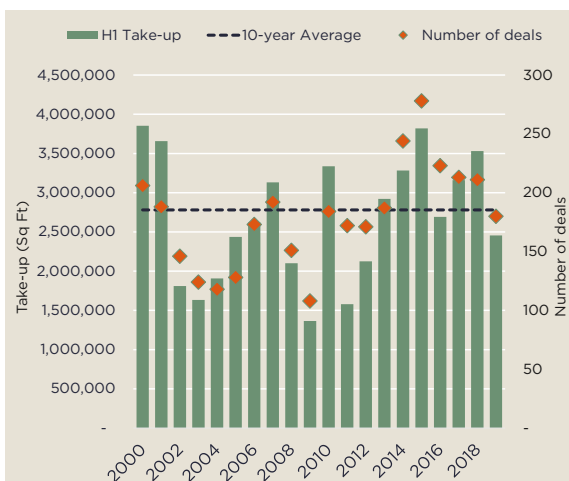
20 deals so far this year have been over £70.00/sq ft



30 deals from the Tech & Media sector at the end of H1, the lowest over this time period since 2011

H1 City take-up

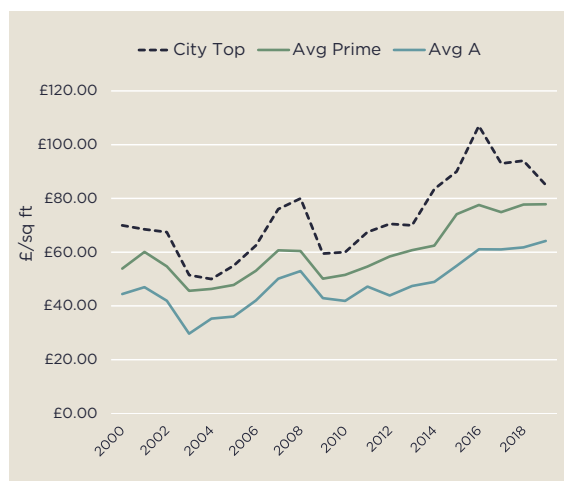
Graph 1



Source: Savills

City rents

Graph 2



12 months

of supply remains in the City at the current rate of take-up

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jul-18	650,113	75%	8,006,249
Aug-18	329,294	83%	7,301,906
Sep-18	785,918	85%	7,559,689
Oct-18	850,043	97%	7,716,377
Nov-18	829,476	83%	7,885,451
Dec-18	669,875	89%	7,645,915
Jan-19	243,597	87%	7,437,180
Feb-19	274,698	78%	7,535,228
Mar-19	627,854	69%	7,375,220
Apr-19	388,341	75%	7,301,558
May-19	501,292	88%	6,827,352
Jun-19	426,168	89%	6,576,669

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - June 18	3,531,196	12%	86%
Jan 19 - June 19	2,461,950	-30%	80%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jul-18	£85.50	£60.31			
Aug-18	£75.00	£67.64	£48.38		
Sep-18	£77.50	£59.52	£45.16	£76.71	24
Oct-18	£83.00	£70.45	£41.50		
Nov-18	£69.00	£59.68	£48.78		
Dec-18	£77.50	£64.66	£49.17	£76.85	22
Jan-19	£83.50	£63.53	£42.00		
Feb-19	£76.00	£66.38	£45.43		
Mar-19	£85.00	£63.32	£48.50	£77.94	23
Apr-19	£83.00	£72.63	£45.63		
May-19	£80.00	£64.24	£54.17		
Jun-19	£72.00	£61.41	£51.25	£77.22	23

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,679,703	73%	-5.0%	5.3%
6,854,116	72%	2.6%	5.4%
7,035,243	74%	2.6%	5.5%
6,501,808	72%	-7.6%	5.1%
6,569,635	74%	1.0%	5.1%
6,826,661	72%	3.9%	5.3%
6,426,517	74%	-5.9%	5.0%
6,656,045	71%	3.6%	5.2%
6,727,363	73%	1.1%	5.2%
6,717,804	74%	-0.1%	5.2%
6,595,845	74%	-1.8%	5.1%
6,647,554	73%	0.8%	5.2%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2019	1,985,341	1,503,857	3,489,198	60%
2020	2,821,020	2,924,750	5,745,770	16%
2021	2,214,376	564,000	2,778,376	45%
2022	1,153,674	2,608,404	3,762,078	0%
Total	8,174,411	7,601,011	15,775,422	27%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.4m
City Active Requirements (sq ft)	8.1m
City Total Requirements (sq ft)	10.5m
% change on 12 month ave	7%
Total under offer (sq ft)	1.9m
Under offer this month (sq ft)	192,776
% change on average (total)	44%
Landlord controlled supply	73%
Tenant controlled supply	27%

*Average prime rent is for preceding 3 months

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

Note: Completions due in the next 6 months are included in the current supply figures

Significant June transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
99 Queen Victoria Street, EC4	Building	88,518	A	Confidential	WeWork (Owner Occupier)	OIF (Vendor)
Premier Place, 2 1/2 Devonshire Square, EC2	6, 7, 8	52,391	A	£70.10	Squire Patton Boggs	Greycoat
133 Houndsditch, EC3	4, part 5	46,056	A	Confidential	WeWork	Madison/TIAA Henderson
Two London Wall Place, EC2	6, 7	23,272	A	£67.50	MacIntyre Hudson	Brookfield/Oxford Properties
Chapter House, 1-2 Cranwood Street, EC1	2, 3, 4	17,696	A	£72.00	Ebiquity PLC	LBSP
24 King William Street, EC4	5, 7, 8	16,707	A	Confidential	Mills & Reeve	Beltane/Angelo Gordon
80 Old Street, EC1	3, 4, 5	15,500	A	£59.50	Knotel	easyHotel
Salesforce Tower, 110 Bishopsgate, EC2	5	12,947	A	£52.50	Fenchurch Advisory Partners	Partnership Assurance (Assignor)
45 Eagle Street, WC1	LG, G, 1, 2	9,182	A	Confidential	Knotel	AFT Properties Limited
Chapter House, 1-2 Cranwood Street, EC1	1	7,535	A	£67.60	TotallyMoney Limited	LBSP

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
70 St Mary Axe	EC3	204,616	
Broadwalk House, 5 Appold Street	EC2	141,388	
The Scalpel, 52 Lime Street	EC3	133,771	further 25,642 sq ft under offer
Wenlock Works	N1	128,573	
30 St Mary Axe	EC3	107,097	
Devon House	E1W	93,684	
One Bartholomew	EC1	76,962	
100 Bishopsgate	EC3	74,938	
The Minster Building	EC3	68,014	further 39,900 sq ft under offer
77 Coleman Street	EC2	67,371	

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