

City Office Market Watch



With delays for future schemes expected, the constraint on supply is anticipated to get tighter

It is difficult to currently forecast the impact on the City office market COVID-19 will have. The difficulty in leasing space in the current climate will certainly have an impact on take-up going forward. However, the inevitable delays to the development pipeline will result in further constraints on supply, especially for larger occupiers, who already have limited options available to them. Therefore, we are likely to see the continuation of large pre-lets throughout 2020, which will help compensate for the short-term decrease of small to medium sized lettings. Moreover, with the lack of new supply being launched to the market at the moment, it is unlikely the short-term drop in demand will result in a drastic increase of the vacancy rate in the short term.

Take-up for February reached 655,897 sq ft across 33 deals, bringing the total for the year to date to 885,536 sq ft, which is up on this point last year by 71% and up on the 10-year average for the year to date by 18%. The 12-month rolling take-up is now at 7.1m sq ft, which is 16% up on the 10-year average.

The largest deal to complete last month saw law firm Linklaters acquire levels 1 to 14 (307,195 sq ft) at the future Old Park Lane & CO-RE City tower 20 Ropemaker Street, EC2 on confidential terms. The scheme is due for completion in Q1 2023 and is now 72% pre-let leaving just 117,080 sq ft of available office space. Linklaters will be moving from their current office in Silk Street, which they have occupied for 30 years.

Also last month, we saw two deals happen resulting in the entire pre-letting of Endurance Land's The Bailey, 16 Old Bailey, EC4. IPG Mediabrands acquired 85,573 sq ft across levels lower ground, and 2 to 8, while Knotel acquired 21,108 sq ft across levels ground and 1. They both committed to paying a rent in the mid-£60's/sq ft.

Due to the large pre-let from Linklaters, the Professional Services sector has accounted for the greatest proportion of take-up so far this year at 46%. The Tech & Media sector continued to show a strong preference for the City accounting for 26%, while the Insurance & Financial Services sector accounted for 16%. Activity from the Serviced Office Provider sector remained muted as they have only accounted for 5% of take-up so far this year.

Total City supply remained flat last month and currently stands at 7.2m sq ft, equating to a vacancy rate of 5.4%, which is up on this point last year by 40 bps, but still down on the long term average by 120 bps.

While we are expecting there to be a fall in space going under-offer for the foreseeable future, it was encouraging to see just under 190,000 sq ft of space go under-offer in March. This brings the total amount of space under-offer to 2.1m sq ft, which is up on the long-term average by 62%.

We 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 £68.43/sq ft, up on Q4 last year by 7.2%. In fact, in the last six months alone we have seen 46 rents achieved over £70.00/sq ft, or 30% of all known rents in that time period. To put that into context, that is more than in any full calendar year apart from 2019.

The amount of active requirements for the City and Central London have decreased slightly on last month and currently stands at 7m sq ft. However, the level of potential requirements remained stable at 1.4m sq ft, bringing the total to 8.4m sq ft, which is down on the 12-month average by just 14%.



92%
of take-up so far this year has been of a grade A standard



36%
of all space achieving practical completion between Q2 2020 - Q2 2021 is already pre-let



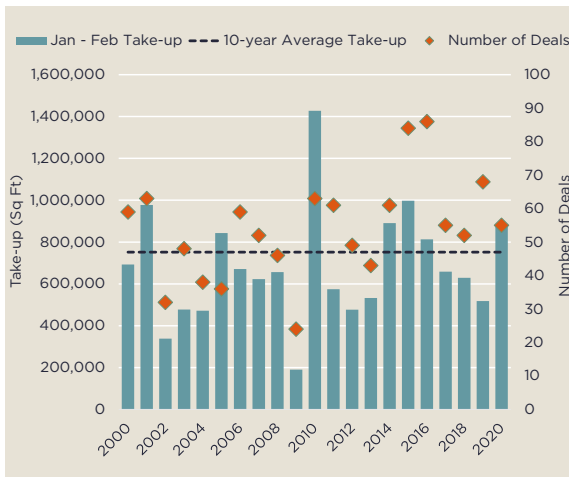
9 buildings
can satisfy a similar 300,000 sq ft requirement to that of Linklaters between now and Q4 2023



426,000 sq ft
of the 2.1m sq ft is under-offer on future supply

City take-up and number of deals

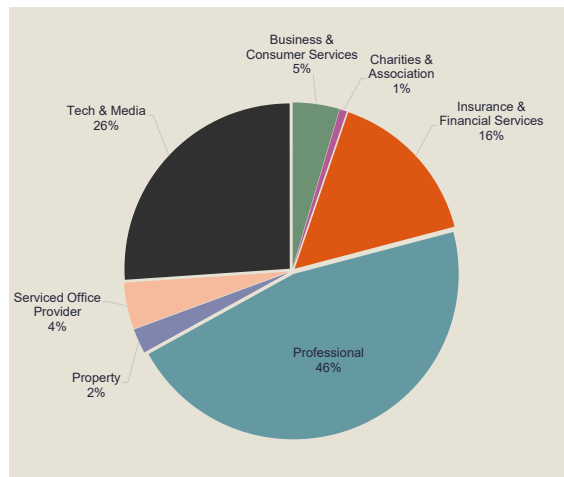
Graph 1



Source: Savills

City take-up by business sector

Graph 2



Source: Savills

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Mar-19	634,869	69%	7,386,715
Apr-19	407,221	76%	7,328,111
May-19	501,292	88%	6,853,239
Jun-19	441,285	84%	6,617,673
Jul-19	1,080,760	91%	7,048,320
Aug-19	423,956	75%	7,142,982
Sep-19	587,979	75%	6,945,043
Oct-19	713,018	71%	6,808,018
Nov-19	797,973	91%	6,776,515
Dec-19	597,334	76%	6,703,975
Jan-20	229,639	77%	6,690,017
Feb-20	655,897	97%	7,071,223

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Feb 19	518,288	-18%	82%
Jan 20 - Jan 20	885,536	71%	92%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
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
Jul-19	£98.00	£68.49	£45.25		
Aug-19	£85.00	£68.29	£53.70		
Sep-19	£92.21	£67.67	£50.91	£87.38	23
Oct-19	£79.00	£64.64	£49.83		
Nov-19	£77.50	£63.30	£45.00		
Dec-19	£87.50	£63.25	£48.29	£78.03	23
Jan-20	£84.00	£68.78	£40.40		
Feb-20	£82.00	£67.29	£48.75		

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,727,363	73%	1.1%	5.1%
6,717,804	74%	-0.1%	5.1%
6,595,845	74%	-1.8%	5.0%
6,647,554	73%	0.8%	5.0%
6,444,820	73%	-3.0%	4.9%
6,599,029	72%	2.4%	5.0%
7,494,152	78%	13.6%	5.7%
7,441,712	77%	-0.7%	5.6%
6,923,583	75%	-7.0%	5.2%
7,301,561	79%	5.5%	5.5%
7,199,122	79%	-1.4%	5.4%
7,203,744	79%	0.1%	5.4%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	2,651,399	2,763,888	5,415,287	47%
2021	1,690,469	1,371,194	3,061,663	32%
2022	1,621,549	1,122,289	2,743,838	0%
2023	407,615	4,907,961	5,315,576	6%
Total	6,371,032	10,165,332	16,536,364	23%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	1.4m
City Active Requirements (sq ft)	7.0m
City Total Requirements (sq ft)	8.4m
% change on 12 month ave	-14%
Total under offer (sq ft)	2.1m
Under offer this month (sq ft)	187,527
% change on average (total)	62%
Landlord controlled supply	75%
Tenant controlled supply	25%

*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 February transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
20 Ropemaker Street, EC2	1 - 14	307,195	A	Confidential	Linklaters	Old Park Lane/ CORE
The Bailey, 16 Old Bailey, EC4	LG, 2 - 8	85,573	A	Mid £60's	IPG Mediabrands	Endurance Land
The Bailey, 16 Old Bailey, EC4	G, 1	21,108	A	Mid £60's	Knotel	Endurance Land
40 Holborn Viaduct, EC1	4	17,962	A	£61.00	Capgemini Plc	Nuveen Real Estate
100 Liverpool Street, EC2	Part 7	15,531	A	£77.00	RPMI Railpen	British Land/GIC
The Scalpel, 52-54 Lime Street, EC3	5	15,004	A	£72.00	Convex	WR Berkley
1 London Wall, EC2	10	14,045	A	Confidential	Jump Trading	Hansa Invest
55 Gresham Street, EC2	3	13,143	A	£65.00	Global Reach Group	Investec
City Point, 1 Ropemaker Street, EC2	32	13,044	A	£72.50	BAM Construct	Brookfield
55 Gresham Street, EC2	2	12,993	A	£65.00	Buck Consultants	Investec

Savills contacts

Please contact us for further information

Peter Thursfield

Director
City Agency
020 7409 8928
pthursfield@savills.com

Josh Lamb

Director
City Agency
020 7409 8891
jlamb@savills.com

Ben Raywood

Associate Director
Research
020 7409 8791
braywood@savills.com

Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
TwentyTwo Bishopsgate	EC2	354,552	further 186,453 sq ft under offer
Sixty London Wall	EC2	222,136	further 102,485 sq ft under offer
Kaleidoscope Farringdon	EC1	90,884	
155 Bishopsgate	EC2	82,723	further 78,123 sq ft under offer
100 Bishopsgate	EC2	81,681	further 27,116 sq ft under offer
The Hickman, 2 Whitechapel Rd	E1	76,327	
One New Change	EC4	67,197	
Fetter Yard, 86 Fetter Lane	EC4	64,840	
The Scalpel, 52 Lime Street	EC3	49,338	
Devon House	E1W	48,701	

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

