

# City Office Market Watch



## Rising rents in the City as we see a new annual record for the number of deals over £70.00/sq ft

Take-up for October reached 514,283 sq ft across 35 deals, resulting in the total for the year reaching 5.1m sq ft, which is down on this point last year by 17%. This brings the 12-month rolling total to 6.6m sq ft, of which 84% has been of a grade A standard, compared with the long-term average of 67%.

The largest deal to complete last month saw Deloitte Digital pre-let the remaining 79,197 sq ft of Athene Place, 66 Shoe Lane, EC4, which they had already committed to taking 73,980 sq ft of back in November last year. The lease will run co-terminus with their first lease, which is due to expire in 2035. The building is due to complete in Q2 next year, at which point Deloitte Digital will move in.

Also last month we saw two more deals at TwentyTwo Bishopsgate, EC2. Global insurance firm Canopus has pre-let levels 29 and 30 equating to 52,336 sq ft on a 10-year lease. They will be moving from the Lloyds Building, EC3 at the start of next year once the building completes. We also saw American data analytics provider Verisk pre-let levels 26 and 27 equating to 50,418 sq ft. That brings the total amount of space pre-let at the building to 517,000 sq ft with a further 257,000 sq ft known to be under-offer.

At the end of October, the Serviced Office Provider sector remains the source of the most demand having accounted for 24% of total take-up so far this year. They are followed by the Insurance & Financial services sector and the Tech & Media sector who have accounted for 20% and 19% respectively. It should be noted that, while the Professional services sector have accounted for 13% of take-up this year, they currently account for the greatest proportion of the 10.1m sq ft of requirements, at 27%.

Total City supply slightly fell last month by 0.7% and currently stands at 7.4m sq ft, equating to a vacancy rate of

5.6%, which is up on this point last year by 70 bps, but still down on the long term average by 100 bps.

While we do not envisage the market will enter a period of 'oversupply' next year, we will most likely see the vacancy rate gently rise. Currently, there is a total of 5.4m sq ft of new supply expected to complete in 2020, of which 40% is already pre-let resulting in 3.2m sq ft of speculative space still to arrive. However, 1.1m sq ft of this space is already being accounted for in current supply, leaving just 2.1m sq ft to be added.

Furthermore, we are not expecting to see supply outstrip demand in the near future as beyond next year, 2021 is even more constrained. There is only 2.8m sq ft of new supply anticipated, of which 31% is already pre-let leaving just 2m sq ft of speculative supply for 2021. However, the pipeline then picks up slightly with 3.6m sq ft (16% pre-let) scheduled for 2022 and 6m sq ft (0% pre-let) scheduled for 2023. Although, it is likely some of the schemes in 2023 will be pre-let prior to completion and some will be pushed out into the following year.

The consolidation of prime grade A rents at over £60.00/sq ft is witnessed below in Graph 2. At the end of October, 56% of the known rents achieved this year have been £60.00+/sq ft, this is the highest proportion on record and up on the whole of last year by 6%. We have already seen 46 known rents for £70.00+/sq ft (over 20% of deals), which is up on the whole of last year by 7 and already setting an annual record with two more months to go. At the other end of the spectrum, there have only been 39 known rents for less than £50.00/sq ft, down on this point last year by 18, showing cheap grade B space is very scarce in the City currently.

**308**

transactions so far this year, compared with 364 at this point last year



**95%**

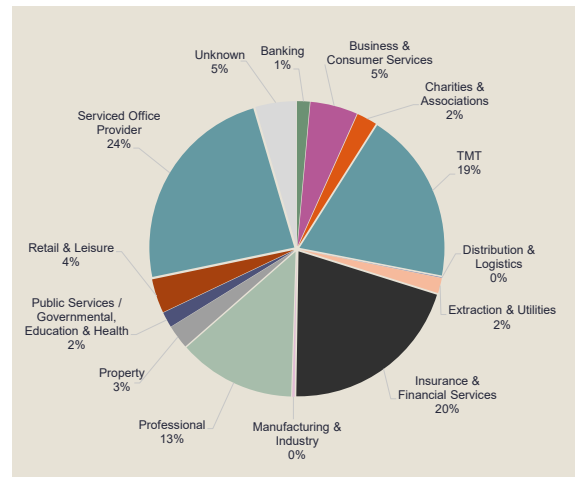
of October's take-up was for grade A space



With 2.5m sq ft under-offer, that is **92%** up on the long-term average

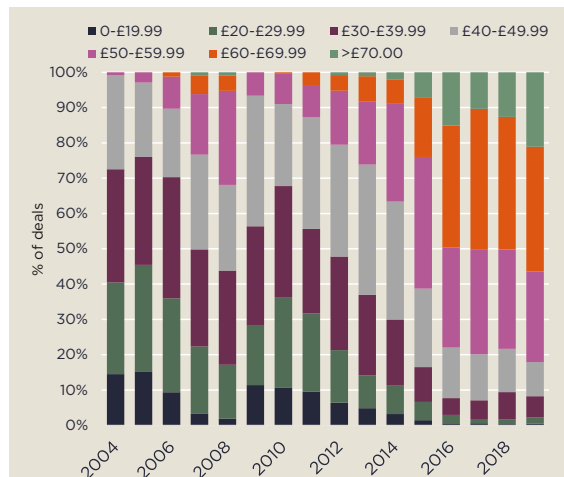
### City take-up by business sector

Graph 1



### City deals by rent band

Graph 2



**24%**

of all current supply is for tenant controlled space

## Analysis close up

### Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Nov-18	829,476	83%	7,889,939
Dec-18	669,874	89%	7,650,402
Jan-19	243,597	87%	7,441,667
Feb-19	274,691	78%	7,539,708
Mar-19	634,869	69%	7,386,715
Apr-19	407,312	76%	7,328,202
May-19	501,292	88%	6,853,330
Jun-19	432,245	86%	6,608,724
Jul-19	1,061,722	91%	7,020,333
Aug-19	420,900	75%	7,111,939
Sep-19	588,067	75%	6,914,088
Oct-19	514,283	95%	6,578,328

### Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Oct 18	6,151,052	5%	86%
Jan 19 - Oct 19	5,078,978	-17%	83%

### Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
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
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		

### Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,569,635	74%	1.0%	5.0%
6,826,661	72%	3.9%	5.2%
6,426,517	74%	-5.9%	4.9%
6,656,045	71%	3.6%	5.0%
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%

### Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	2,565,645	2,801,541	5,367,186	40%
2021	1,761,518	1,050,063	2,811,581	31%
2022	1,998,241	1,638,322	3,636,563	16%
2023	1,902,282	4,075,069	5,977,351	0%
Total	8,227,686	9,564,995	17,792,681	20%

### Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.5m
City Active Requirements (sq ft)	7.6m
City Total Requirements (sq ft)	10.1m
% change on 12 month ave	3%
Total under offer (sq ft)	2.5m
Under offer this month (sq ft)	517,868
% change on average (total)	92%
Landlord controlled supply	76%
Tenant controlled supply	24%

\*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 October transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Athene Place, 66 Shoe Lane, EC4	LG, 2, 3, 4, 5	79,197	A	Confidential	Deloitte Digital	Ivanhoe Cambridge/Greycoat
TwentyTwo, 22 Bishopsgate, EC2	29, 30	52,336	A	Confidential	Canopius	Axa
TwentyTwo, 22 Bishopsgate, EC2	26, 27	50,418	A	Confidential	Verisk	Axa
1 Bow Churchyard, EC4	Building	39,281	A	Confidential	Shoosmiths LLP	Aviva Investors
One Bartholomew, EC1	3, 4	38,156	A	Confidential	BDP Pitman LLP	Helical/Ashby Capital
Ludgate London, 55 Ludgate Hill, EC4	1 East, 2	33,666	A	£64.50	Crowe UK LLP	Goldman Sachs/Greycoat
17 St Helens Place, EC3	3, 4, 5	24,000	A	Confidential	WeWork	CSI
One Bartholomew, EC1	9	19,451	A	Confidential	CallSign	The Trade Desk (Sub-Lessor)
70 St Mary Axe, EC3	10	17,463	A	£72.00	Travel Fusion	Nuveen Real Estate
70 St Mary Axe, EC3	part 14	6,832	A	£76.00	National Bank of Canada	Nuveen Real Estate

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## Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
TwentyTwo Bishopsgate	EC2	490,070	further 256,984 sq ft under offer
155 Bishopsgate	EC2	160,846	
Kaleidoscope Farringdon	EC1	90,884	
77 Coleman Street	EC2	67,371	
1 Old Jewry	EC3	64,746	
The Scalpel, 52 Lime Street	EC3	64,124	further 44,260 sq ft under offer
Devon House	E1W	60,940	
Broadgate West, 9 Appold Street	EC2	60,715	further 21,384 sq ft under offer
100 Liverpool Street	EC2	60,058	further 20,344 sq ft under offer
70 St Mary Axe	EC3	50,946	further 69,227 sq ft under offer

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