UK Commercial – February 2019

MARKET IN MINUTES

Savills Research

City Office Market Watch

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City sees a slow start to the year, but with 1.9m sq ft under-offer, it isn't expected to last long

With the current Brexit negotiations still on-going we always expected to see a lack of large deals completing in the first quarter, as occupiers try to hold out for clarity before committing to new leases. Therefore, January saw just 263,571 sq ft of take-up, down on the same month last year by 42%, and down on the 10-year average for the month of January by 27%. The 12-month rolling take-up has therefore fallen to 7.4m sq ft, the lowest since April last year.

However, this was certainly not due to a lack of deals as there was 26 across the whole of the month, down on January last year and the 10-year average by just five deals. The average deal size for the month was 10,137 sq ft, compared with 14,591 sq ft for January last year.

We are not expecting take-up levels to remain at this low level for the remainder of the year, as 678,165 sq ft went under-offer in January. This brings the total amount of space under-offer in the City to 1.9m sq ft, up on the long-term average by 46%.

The largest deal to complete in January saw energy firm Bulb acquire levels 9, part 10, 11 and 12 totalling 65,444 sq ft at 155 Bishopsgate, EC2 on an assignment from Barings for undisclosed terms. There is currently no more space remaining in the building.

Also in January, The Open Society Foundations acquired levels 3 and 4 (28,621 sq ft) of Herbal House, 10 Back Hill, EC1. The international grant-making network founded by George Soros will move from their current office space in Millbank Tower, SW1. The confirmed lease terms are unknown, although levels 1 and 2 were let at the end of last year at £67.00/sq ft.

Total City supply at the end of January stood at 6.4m sq ft, falling by 5.9% on the end of the year and equating to a vacancy rate of 5.0%, which is down on January 2017 by 60 bps, and down on the long term average by 160 bps. This is the 15th consecutive month of the vacancy rate being sub 6% and the lowest the vacancy rate has been since May 2016.

At the start of the year we add in all speculative space scheduled to complete in Q2 of this year. Notable additions to supply included; 152,988 sq ft of refurbished space in Hays Galleria, SE1, 91,000 sq ft of refurbished space at Devon House, E1 and 36,779 sq ft of refurbished space at 20 Red Lion Street, WC1.

While the level of vacancy is currently very low in the City, we do anticipate it to gently rise over the course of this year. As it stands, there is still 1.7m sq ft (22 Bishopsgate accounts for 62% of this) of speculative new supply scheduled to complete in the second half of the year, and therefore still be added in. To put this into context, even if 50% of this space is pre-let before it is due to be added in, the vacancy rate will still rise by 60 bps.

Rents appear to have remained unchanged despite the lack of take-up with the top rent achieved in the month being £83.50/sq ft for the 17th floor of The Tower at The Bower, EC1. Similarly, the average grade A rent for the month was £64.07/sq ft, the sixth highest monthly figure from the last 12 months.

59%

of January take-up was within the City core

678,165 sq ft

was placed under-offer last month

31%

of City supply is within the EC3 postcode

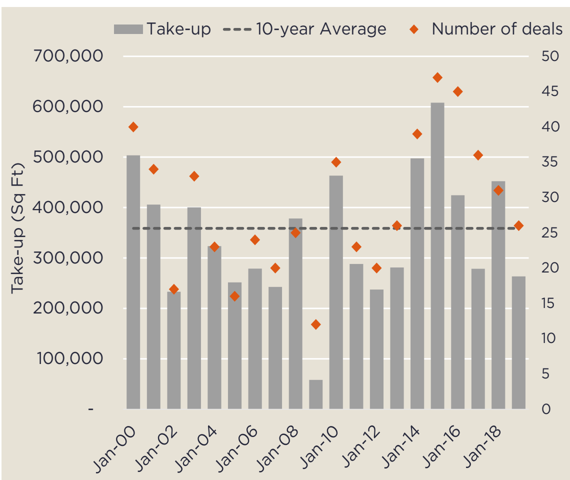
FOR LEASE

23%

of City supply is tenant space, the lowest this metric has been since June 2017

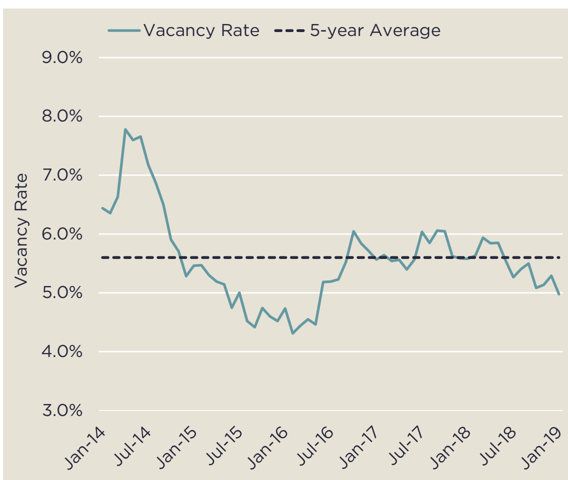
City January take-up

Graph 1



City vacancy rate

Graph 2



Source: Savills

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Feb-18	176,650	90%	7,375,725
Mar-18	820,944	80%	7,377,975
Apr-18	332,827	83%	7,182,714
May-18	971,570	95%	7,725,012
Jun-18	676,861	69%	7,711,298
Jul-18	650,113	75%	7,906,237
Aug-18	324,927	84%	7,197,527
Sep-18	800,467	86%	7,469,859
Oct-18	890,128	98%	7,666,632
Nov-18	843,039	84%	7,849,269
Dec-18	658,728	89%	7,598,586
Jan-19	263,571	84%	7,409,825

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
7,109,327	75%	0.9%	5.6%
7,483,419	76%	5.3%	5.9%
7,362,412	74%	-1.6%	5.8%
7,372,085	72%	0.1%	5.8%
7,034,850	73%	-4.6%	5.5%
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%

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18	452,332	62%	100%
Jan 19	263,571	-42%	84%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2019	2,160,165	2,820,657	4,980,822	43%
2020	2,558,005	1,420,933	3,978,938	12%
2021	1,812,200	1,506,855	3,319,055	34%
2022	769,674	1,855,828	2,625,502	0%
Total	7,300,044	7,604,273	14,904,317	25%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Feb-18	£70.00	£61.75			
Mar-18	£94.00	£64.91	£40.07	£79.79	23
Apr-18	£84.50	£64.81	£49.67		
May-18	£77.50	£62.17	£39.00		
Jun-18	£72.50	£59.67	£37.88	£75.19	23
Jul-18	£85.50	£60.31	£45.97		
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	£64.07	£41.75		

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.4m
City Active Requirements (sq ft)	6.9m
City Total Requirements (sq ft)	9.3m
% change on 12 month ave	-0.4%
Total under offer (sq ft)	1.9m
Under offer this month (sq ft)	678,165
% change on average (total)	46%
Landlord controlled supply	77%
Tenant controlled supply	23%

*Average prime rent is for preceeding 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 January transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
155 Bishopsgate, EC2	9, part 10, 11, 12	65,444	A	Confidential	Bulb	Barings
Herbal House, 10 Back Hill, EC1	3, 4	28,621	A	Q. £60.00	Open Society Foundations	Aerium
New City Court, 20 St Thomas Street, SE1	3	19,256	B	Confidential	TBC	GPE
125 London Wall, EC2	6	16,399	A	Q. £52.50	TBC	JP Morgan
Holborn Gate, 326 - 330 High Holborn, WC1	6	16,261	A	Confidential	TBC	TBC
Salisbury Square House, 8 Salisbury Square, EC4	7	14,725	A	£73.50	Competition Appeals Tribunal	Cheyne Capital/ Greycoat
The Bower, The Tower, 207 Old Street, EC1	17	8,428	A	£83.50	TBC	Helical
Forum St Paul's, 33 Gutter Lane, EC2	5	7,861	A	£68.00	Hitachi Consulting	Aviva
100 Wood Street, EC2	Part 2	7,000	A	Q. £55.00	Broadstone	Ponte Gadea
White Collar Factory, 100 City Road, EC1	14	6,100	A	Q. £75.00	TBC	Box.com (Sub-Lessor)

Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
70 St Mary Axe	EC3	174,420	
The Scalpel, 52 Lime Street	EC3	143,770	further 37,412 sq ft under offer
30 St Mary Axe	EC3	125,568	
100 Bishopsgate	EC3	118,339	further 21,679 sq ft under offer
One Bartholomew	EC1	115,917	further 42,948 sq ft under offer
Broadwalk House, 5 Appold Street	EC2	113,528	
3 Minster Court	EC3	102,560	
Devon House	E1W	93,684	
Two London Wall Place	EC2	50,558	further 46,931 sq ft under option
The Bower (The Tower)	EC1	50,311	

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

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