



Expect a busy final quarter with 2.8m sq ft currently under-offer in the City

Take-up for August reached 421,421 sq ft across 26 deals, resulting in the total for the year reaching 3.9m sq ft, which is down on this point last year by 13%. However, this is in-line with the 10-year average to the end of August. This brings the 12-month rolling total to 7m sq ft, of which 85% has been of a grade A standard, compared with the long-term average of 67%.

We saw an additional 1m sq ft of space go under-offer last month, notable large potential deals include all of the upper floors at Wenlock Works, N1 (105,000 sq ft), levels ground and fourth to sixth at Broadwalk House, EC2 (121,000 sq ft), IPG are rumoured to be under-offer on 91,000 sq ft at 16 Old Bailey, EC4 and Rabobank are believed to be under-offer on circa 119,000 sq ft at The Bloom, EC1.

This brings the total amount of space currently under-offer in the City to 2.8m sq ft, which is up on the long-term average by 116%, and the highest since August last year, but also the second highest since our records began in 2005. Therefore, we can expect to see an active final quarter and it is now very likely that total take-up for the year will surpass 6m sq ft, which seemed highly unlikely at the end of Q1.

The largest deal to complete in August saw Convene acquire levels 3 - 6 at TwentyTwo Bishopsgate, EC2 equating to 99,297 sq ft. The US based serviced office provider has chosen this space to be their first international location outside of the US. The flexible workspace operator acquired the space at a rent of £65.00/sq ft on a straight 15-year lease. The building is expected to complete in Q1 next year, with the Convene offering ready in September.

Also in August, we saw international law firm Kingsey Napley LLP acquire levels G - 5 at the new refurbishment

Twenty Bonhill, EC2, which is due for completion in Q3 next year. They will be relocating from Clerkenwell where they currently reside in three buildings and will move into the new space in January 2021. They agreed a 15-year lease with no breaks at a rent of £62.00/sq ft with 36 months rent free.

Total City supply slightly rose last month by 2.4% and currently stands at 6.6m sq ft, equating to a vacancy rate of 5.1%, which is down on August 2018 by 40 bps, and down on the long term average by 150 bps.

However, while supply is low across the City as a whole, it varies quite notably on a postcode basis. For example, EC4 is the most constrained market with a vacancy rate of just 3%, followed by EC1 at 4.5%. The majority of the available supply in the City is concentrated in the square mile, with EC2 having a vacancy rate of 5.2%, but EC3 is significantly in front at 9.4%.

As expected, the average grade A rental growth in these markets over the last year has been influenced by the level of the vacancy rate. EC3 and EC2, which have the highest vacancy rates, have also seen the smallest rental growth over the last year at 1.3% and 3.4% respectively. This is compared to EC4 and EC1 which are more constrained and have seen rental growth of 5.7% and 8.2% respectively.

However, there is only a combined 2.3m sq ft of new speculative space expected to arrive in EC2 and EC3 next year, of which circa 0.5m sq ft is currently under-offer and expected to complete before the year-end. Therefore, there is just approximately 1.8m sq ft of new space being delivered into EC2 and EC3 next year, and the combined 5-year average grade A take-up for these postcodes is 3m sq ft, suggesting vacancy rates here could fall, and we could witness stronger rental growth.

237 deals

so far this year compared with **286 last year**



21%

of take-up has come from both the Insurance & Financial services sector and the Serviced Office sector

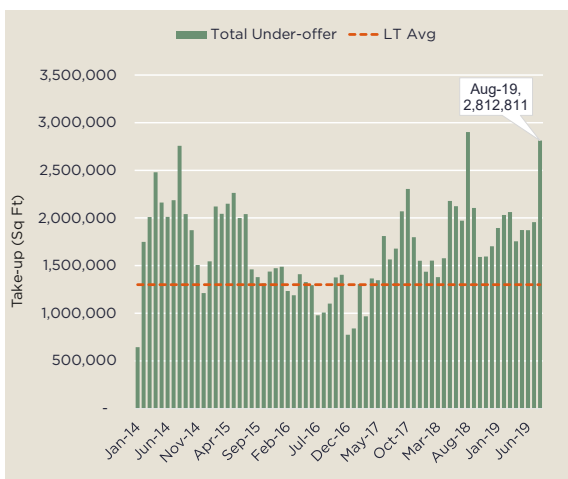


25%

of the available supply is tenant sub-let space

Total space under-offer in the City

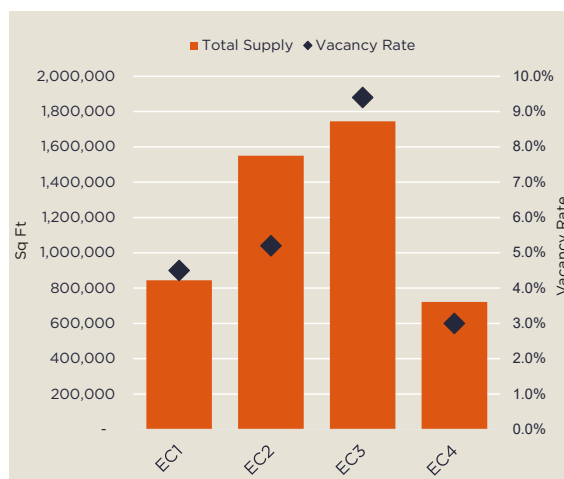
Graph 1



Source: Savills

Supply and vacancy rates

Graph 2



51%

of leases signed this year have been for 10-years or more

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Sep-18	785,918	85%	7,564,177
Oct-18	850,043	97%	7,720,865
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	618,056	70%	7,369,902
Apr-19	393,486	75%	7,297,563
May-19	501,292	88%	6,822,691
Jun-19	428,218	86%	6,574,058
Jul-19	1,033,047	88%	6,956,992
Aug-19	421,421	74%	7,049,119

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Aug 18	4,515,091	-3%	84%
Jan 19 - Aug 19	3,913,808	-13%	81%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
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
Jul-19	£97.50	£68.49	£45.25		
Aug-19	£85.00	£68.29	£53.70		

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
6,444,820	73%	-3.0%	5.0%
6,599,029	72%	2.4%	5.1%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	2,592,925	2,891,858	5,484,783	31%
2021	1,605,047	1,127,883	2,732,930	25%
2022	1,888,588	1,062,277	2,950,865	19%
2023	1,579,202	3,559,784	5,138,986	0%
Total	7,665,762	8,641,802	16,307,564	18%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.1m
City Active Requirements (sq ft)	7.4m
City Total Requirements (sq ft)	9.5m
% change on 12 month ave	-3%
Total under offer (sq ft)	2.8m
Under offer this month (sq ft)	1,003,616
% change on average (total)	116%
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 August transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
TwentyTwo Bishopsgate, EC2	3, 4, 5, 6	99,297	A	£65.00	Convене	Axa
Twenty Bonhill, EC2	G - 5	51,344	A	£62.00	Kinglsey Napley LLP	The Max Barney Estate
Gresham St Pauls, EC2	7, 8, 9	49,654	A	Confidential	Numis	AFIAA/Stanhope
146 Brick Lane, E1	B, G, Mezz, 1, 2	49,145	B	Confidential	Urban Outfitters	Digitas Lbi Ltd
Johnson Building, 77 Hatton Garden, EC1	LG, G, 1 (part B)	18,481	B	£47.50	OKTRA	Derwent London
1 Fredericks Place, EC2	LG, 2, 3, 4, 5	12,438	A	Confidential	MJ Hudson	The Mercers' Company
The Hallmark Building, 52 Leadenhall Street,	4	8,664	A	£42.50	Brooke Hospital for Animals	Nuveen Real Estate
Forum St Paul's, 33 Gutter Lane, EC2	3	8,099	A	£65.50	Carey Olsen LLP	Aviva
Forum St Paul's, 33 Gutter Lane, EC2	6	7,515	A	£71.50	Knight Frank LLP	Aviva
Spectrum, 160 Old Street, EC1	7	6,935	A	£85.00	SenSat Ltd	GPE

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
70 St Mary Axe	EC3	142,496	further 12,500 sq ft under offer
The Scalpel, 52 Lime Street	EC3	118,232	further 15,539 sq ft under offer
Kaleidoscope Farringdon	EC1	90,884	
Broadgate West, 9 Appold Street	EC2	82,099	
3 Minster Court	EC3	68,014	
77 Coleman Street	EC2	67,371	
30 St Mary Axe	EC3	64,361	further 9,741 sq ft under offer
Devon House	E1W	60,940	further 32,744 sq ft under offer
Fetter Yard, 86 Fetter Lane	EC4	60,848	
Wenlock Works	N1	23,841	further 104,732 sq ft under offer

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