Savills Research
UK Commercial

City Office Market Watch

April 2018

A number of pre-lets result in an active first quarter for the City

Supply and demand snapshot

■ As a result of five pre-lets in March, take-up for the month reached 783,897 sq ft across 36 transactions, with an average deal size of 21,774 sq ft.

■ This brings total take-up for 2018 to 1.4m sq ft, which is 8% down on this point last year, but 7.5% up on the 10-year average for the first quarter of the year. The 12-month rolling take-up fell to 7.2m sq ft, which is still 27% up on this point last year.

■ A notable transaction to complete in March saw Sidley Austin pre-let levels 12 - 20 (133,776 sq ft) at TH Real Estate's new development 70 St Mary Axe, EC3. The international law firm will be moving their entire operations from their current residence at Woolgate Exchange, EC2 after the scheme achieves completion in Q1 2019.

■ Also in March, Charles Taylor Plc signed on 70,591 sq ft across the upper ground, ground and first floors on a 20 year lease at a rent of £57.50/sq ft. The insurance company will be consolidating from various offices including Lloyds Chambers, 1 Portsoken Street, E1. There is still 172,400 sq ft of available space in 3 Minster Court, EC3 across levels 2 - 8.

■ So far this year, we have seen good levels of demand from the Insurance and Financial services and the Professional services sectors, who have accounted for 32% and 20% respectively. However, the Serviced Office Provider sector has been quiet, accounting for just 4%.

■ The Tech & Media sector have continued to take space, accounting for 14% of Q1 take-up. Interestingly, 70% of the 197,000 sq ft let by this sector was taken in the City core, as opposed to their traditionally favoured northern and eastern fringe market.

■ Total City supply stands at 7.5m sq ft at the end of Q1, equating to a vacancy rate of 5.9%, which is up on this point last year by 40bps, but down on the 10-year average by 70 bps.

■ Following 200,000 sq ft going under-offer in March alone, there is currently 1.4m sq ft under-offer in the City.

■ The average prime rent for Q1 is £79.79/sq ft, which is up on the prime rent for Q4 2017 by 2.3%. This has been partly aided by the top rent of £94.00/sq ft being achieved when Jellyfish acquired part level 28 (9,752 sq ft) at The Shard, SE1.

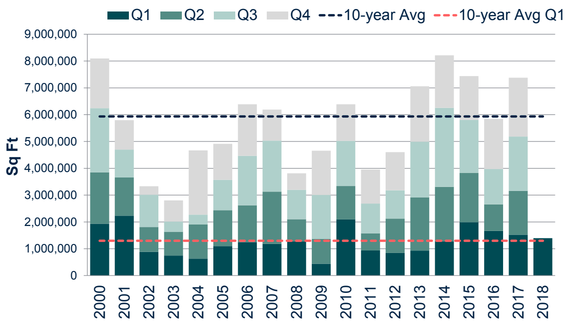
■ The differential between the average grade A rent of the City core and the City fringe has increased to £3.65/sq ft. This is due to the City core rising to £62.50/sq ft for Q1, while the fringe fell to £58.85/sq ft.

■ The average months rent free on a 10-year lease in the City remains at 23.

■ As a result of good pre-letting activity, the development pipeline is now 30% pre-let from now until the end of 2021. This will assist in keeping the vacancy rate low, and countering a potential dip in take-up over the next two years as the market moves through the cycle.

GRAPH 1

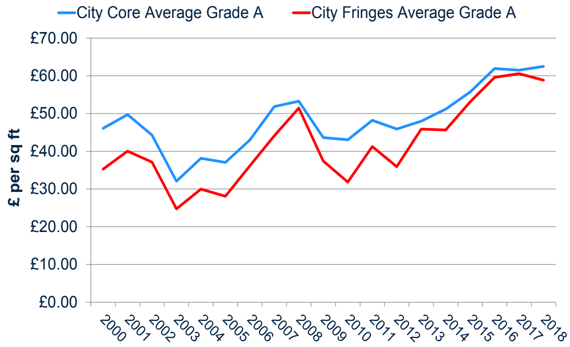
City take-up by quarter



Source: Savills Research

GRAPH 2

City rents



Source: Savills Research

TABLE 1

Key March Stats

	March stats
Take-up	783,897 sq ft
2018 Take-up	1,394,328 sq ft
Supply	7,483,419 sq ft
Vacancy Rate	5.9%
Top Rent	£94.00/sq ft
Avg Grade A Rent	£64.91/sq ft

Analysis close up

TABLE 2

Monthly take-up

	Sq ft	% Grade A	12 month rolling take-up
Mar-17	825,952	77%	5,696,548
Apr-17	522,246	90%	5,885,604
May-17	425,152	77%	6,099,424
Jun-17	688,055	78%	6,344,540
Jul-17	455,174	83%	6,206,886
Aug-17	1,033,637	90%	7,055,118
Sep-17	533,789	67%	7,051,414
Oct-17	637,378	86%	7,433,818
Nov-17	659,823	88%	7,297,946
Dec-17	898,730	94%	7,373,166
Jan-18	439,175	100%	7,537,618
Feb-18	171,256	90%	7,290,367
Mar-18	783,897	82%	7,248,312

TABLE 3

Year to date take-up

	Sq ft	% change on previous year	% Grade A
Jan 17 - Mar 17	1,519,182	-9%	79%
Jan 18 - Mar 18	1,394,328	-8%	89%

TABLE 4

Rents

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Mar-17	£75.00	£60.59	£49.29	£72.08	22
Apr-17	£81.50	£63.73	£48.07		
May-17	£75.00	£61.05	£48.50		
Jun-17	£75.00	£57.17	£46.29	£76.21	22
Jul-17	£75.00	£59.33	£47.25		
Aug-17	£72.00	£64.07	£49.00		
Sep-17	£70.00	£60.81	£44.10	£71.21	23
Oct-17	£93.00	£67.56	£46.35		
Nov-17	£68.00	£60.31	£45.00		
Dec-17	£81.00	£60.92	£53.63	£78.00	23
Jan-18	£65.00	£61.17			
Feb-18	£70.00	£61.75	£44.00		
Mar-18	£94.00	£64.91	£40.07	£79.79	23

Completions due in the next 6 months are included in the supply figures

TABLE 5

Supply

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,888,892	86%	-1.8%	5.5%
6,914,578	84%	0.4%	5.6%
6,708,809	84%	-3.0%	5.4%
6,916,749	82%	3.1%	5.6%
7,505,292	81%	8.5%	6.0%
7,267,650	82%	-3.2%	5.8%
7,532,867	82%	3.6%	6.1%
7,515,814	79%	-0.2%	6.0%
6,986,583	77%	-7.0%	5.6%
6,944,511	76%	-0.6%	5.6%
7,043,635	77%	1.4%	5.6%
7,109,327	75%	0.9%	5.6%
7,483,419	76%	5.3%	5.9%

TABLE 6

Development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2018	1,409,316	2,505,065	3,914,381	57%
2019	2,072,666	3,324,773	5,397,439	29%
2020	1,991,523	676,702	2,668,225	3%
2021	1,948,024	979,882	2,927,906	19%
Total	7,421,529	7,486,422	14,907,951	30%

TABLE 7

Demand & Under Offers

City Potential Requirements (sq ft)	2m
City Active Requirements (sq ft)	6.3m
City Total Requirements (sq ft)	8.4m
% change on 12 month ave	-4%
Total under offer (sq ft)	1.4m
Under offer this month (sq ft)	202,431
% change on average (total)	6%
Landlord controlled supply	73%
Tenant controlled supply	27%

Demand figures include Central London requirements

*Average prime rents for preceeding 3 months

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

N.B. We have amended our historic stock figures, resulting in a slight change of our historic vacancy rates (Aug 2015)

TABLE 8

Significant March transactions

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
70 St Mary Axe, EC3	12 - 20	133,776	A	Confidential	Sidley Austin LLP	TH Real Estate
3 Minster Court, EC3	UG, G, 1	70,591	A	£57.50	Charles Taylor Plc	Ivanhoe Cambridge/ Greycoat & FREO Group
One Angel Court, EC2	Part 3, 4, 23, 24	58,295	A	£84.00 (Floors 23 & 24)	The Prudential	Mitsui Fudosan/ Stanhope
Aurum, 30 Lombard Street, EC3	Building	57,350	A	Confidential	St James's Place	McKay Securities Plc
38 Finsbury Square, EC2	Building	48,751	B	£32.50	Monzo	Bloomberg (Assignor)
Aldgate Tower, E1	11, 12	39,821	A	£55.00	Groupon	Tag Worldwide (Assignor)
100 Bishopsgate, EC2	36, 37	39,440	A	Confidential	Paul Hastings LLP	Brookfield
Fen Court, 120 Fenchurch Street, EC3	1	33,017	A	£66.50	Argo Underwriting	Generali/CORE
10 Bishops Square, E1	Part 8	28,810	A	£56.50	Akin Gump	Allen & Overy (Sub-Lessor)
The Shard, SE1	Part 28	9,752	A	£94.00	Jellyfish	South Hook Gas Company (Sub-Lessor)

TABLE 9

Significant supply

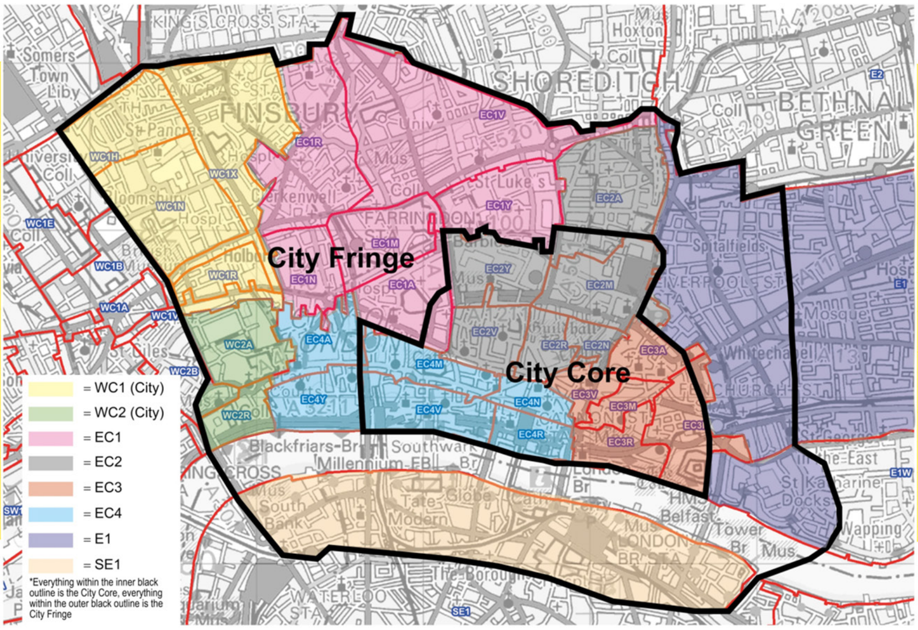
Address	Postcode	Available Sq ft	Comments
The Scalpel, 52 Lime Street	EC3	252,877	further 15,539 sq ft under offer
One Bartholomew Close	EC1	213,126	
3 Minster Court	EC3	172,400	further 27,960 sq ft under offer
Salisbury Square House	EC4	144,324	
55 Gresham Street	EC2	121,569	
Senator House, 85 Queen Victoria St	EC4	109,589	
Two London Wall Place	EC2	93,862	
30 St Mary Axe (Swiss Re space)	EC3	85,751	further 46,386 sq ft available from other tenants
The Bower (The Tower)	EC1	78,211	further 29,332 sq ft under offer
Creechurch Place	EC3	69,448	further 15,943 sq ft under offer
Forum St Paul's, Gutter Lane	EC2	56,981	further 5,807 sq ft under offer

MAP 1

Savills City office market area (updated at the end of each quarter)

City 2018 Q1 stats

City Fringe	
Q1 Take-up (sq ft)	0.32m
2017 Q1 Take-up (sq ft)	0.85m
10-year avg Q1 Take-up (sq ft)	0.55m
Supply (sq ft)	2.7m
Vacancy Rate	4.5%
Avg Prime Rent (£/sq ft)	£70.00
Avg Grade A Rent (£/sq ft)	£58.85
Next 12 months spec completions (sq ft)	0.85m



City Core	
Q1 Take-up (sq ft)	1.1m
2017 Q1 Take-up (sq ft)	0.7m
10-year avg Q1 Take-up (sq ft)	0.75m
Supply (sq ft)	4.8m
Vacancy Rate	7.2%
Avg Prime Rent (£/sq ft)	£78.90
Avg Grade A Rent (£/sq ft)	£62.50
Next 12 months spec completions (sq ft)	1m

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