

City Office Market Watch

December 2018

With vacancy low, take-up high and rental growth forecast for prime rents, the City appears unaffected by Brexit

Supply and demand snapshot

Take-up continued to edge closer to eclipsing last year with 843,039 sq ft being transacted in November, of which grade A accounted for 84%. There were a total of 30 transactions with an average deal size of 28,101 sq ft.

This brings total take-up for 2018 to 6.9m sq ft, which is actually 7% up on this point last year, and 33% up on the 10-year average for take-up to the end of November. There have been a total of 383 transactions so far this year, which is down on this point last year (417), but up on the 10-year average of 353.

With close to 300,000 sq ft already being let in December at the point of writing, we expect total take-up for the year to finish at circa 7.3m sq ft, slightly below the 7.4m sq ft achieved last year.

Last month saw WPP Group commit to leasing the whole of One Southwark Bridge Road, SE1, the previous headquarters of The Financial Times, who will be moving back to Bracken House, EC4. The building situated on the river has been bought by M&G, who already had WPP in place to lease the entire 210,000 sq ft building.

Also in November, Deloitte Digital acquired levels G, 1, 6 - 9 (87,543 sq ft) of Athene Place, 66 Shoe Lane, EC4. The building was previously occupied by Deloitte, and will now undergo refurbishment before their digital arm takes occupation. They have signed a 15-year lease at a blended average rent of £69.00/sq ft (£79.00/sq ft on the 9th), with 34 months rent free.

At the end of November, the Tech & Media sector has pushed in front, becoming the largest source of demand in the City, with 22% of take-up so far this year. Insurance & Financial services are next accounting for 18%, while the Serviced Office Provider continues to be active, coming in third with an 11% share. There were six deals from the SOP sector in November alone, totalling 169,076 sq ft, of which WeWork accounted for 116,680 sq ft with deals at Friars Bridge Court, SE1 (99,824 sq ft) and Linen Court, N1 (16,856 sq ft).

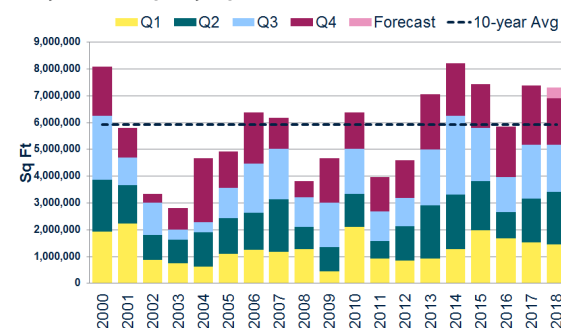
Total City supply at the end of November stood at 6.6m sq ft, equating to a vacancy rate of 5.2%, which is down on this point last year by 40 bps, and down on the long term average by 140 bps. This is the 13th consecutive month of the vacancy rate being sub 6%.

The majority of supply (61%) is within the City core, which therefore has a higher vacancy rate of 6.8%, compared with 3.7% in the City fringe.

With a month to go it looks very likely that City rents will hold firm this year, and even with modest rental growth at the higher end of the spectrum. At the end of November, the average grade A rent is £61.24/sq ft, just slightly up on last year by 0.4%. However, the average prime rent is currently at £79.25/sq ft, up on last year by 5.9%, and the highest average prime rent on record.

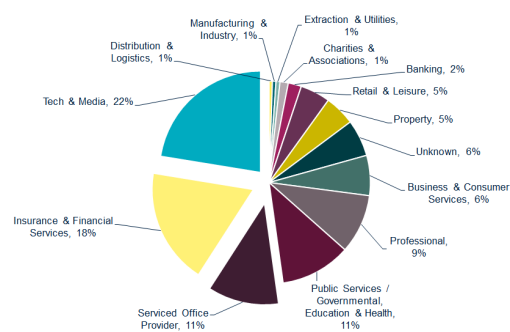
Despite the current uncertainty surrounding our negotiations with the EU, we still expect to see good levels of demand from occupiers of all sizes at the start of next year. This is due to the number of City and Central London requirements currently standing at an impressive 9.5m sq ft, 3% up on the 12-month average and 9% up on the long term average.

GRAPH 1
City take-up by quarter



Source: Savills Research

GRAPH 2
City take-up by business sector



Source: Savills Research

TABLE 1
Key November Stats

| | November stats |
|------------------|-----------------|
| Take-up | 843,039 sq ft |
| 2018 Take-up | 6,900,945 sq ft |
| Supply | 6,569,635 sq ft |
| Vacancy Rate | 5.2% |
| Top Rent | £69.00/sq ft |
| Avg Grade A Rent | £59.68/sq ft |

Analysis close up

TABLE 2
Monthly take-up

| | Sq ft | % Grade A | 12 month rolling take-up |
|--------|---------|-----------|--------------------------|
| Nov-17 | 659,823 | 88% | 7,297,946 |
| Dec-17 | 898,730 | 94% | 7,373,166 |
| Jan-18 | 452,332 | 100% | 7,550,775 |
| Feb-18 | 176,650 | 90% | 7,308,918 |
| Mar-18 | 817,852 | 80% | 7,300,818 |
| Apr-18 | 332,827 | 83% | 7,111,399 |
| May-18 | 955,443 | 97% | 7,641,690 |
| Jun-18 | 676,861 | 69% | 7,630,496 |
| Jul-18 | 650,113 | 75% | 7,825,435 |
| Aug-18 | 307,863 | 83% | 7,099,661 |
| Sep-18 | 800,467 | 86% | 7,366,339 |
| Oct-18 | 887,498 | 98% | 7,616,459 |
| Nov-18 | 843,039 | 84% | 7,799,675 |

TABLE 5
Supply

| Total | % Grade A | % chg on prev month | Vacancy rate (%) |
|-----------|-----------|---------------------|------------------|
| 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% |
| 7,362,412 | 74% | -1.6% | 5.8% |
| 7,372,085 | 72% | 0.1% | 5.8% |
| 7,034,850 | 73% | -4.6% | 5.6% |
| 6,679,703 | 73% | -5.0% | 5.3% |
| 6,854,116 | 72% | 2.6% | 5.4% |
| 7,035,243 | 74% | 2.6% | 5.6% |
| 6,501,808 | 72% | -7.6% | 5.1% |
| 6,569,635 | 74% | 1.0% | 5.2% |

TABLE 3
Year to date take-up

| | Sq ft | % change on previous year | % Grade A |
|-----------------|-----------|---------------------------|-----------|
| Jan 17 - Nov 17 | 6,474,436 | 29% | 82% |
| Jan 18 - Nov 18 | 6,900,945 | 7% | 86% |

TABLE 6
Development pipeline

| Sq ft | Refurb | Devs | Total | % Pre-let |
|-------|-----------|-----------|------------|-----------|
| 2019 | 2,333,903 | 3,254,345 | 5,588,248 | 38% |
| 2020 | 2,399,622 | 1,088,648 | 3,488,270 | 9% |
| 2021 | 2,587,180 | 1,379,077 | 3,966,257 | 29% |
| 2022 | 0 | 1,536,380 | 1,536,380 | 0% |
| Total | 7,320,705 | 7,258,450 | 14,579,155 | 25% |

TABLE 4
Rents

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

TABLE 7
Demand & Under Offers

| | |
|-------------------------------------|---------|
| City Potential Requirements (sq ft) | 2m |
| City Active Requirements (sq ft) | 7.6m |
| City Total Requirements (sq ft) | 9.5m |
| % change on 12 month ave | 3% |
| Total under offer (sq ft) | 1.6m |
| Under offer this month (sq ft) | 232,212 |
| % change on average (total) | 23% |
| Landlord controlled supply | 75% |
| Tenant controlled supply | 25% |

Demand figures include Central London requirements

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

*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 November transactions

| Address | Floor/s | Sq ft | Grade | Rent achieved | Tenant | Lessor |
|---|---------------------|---------|-------|--------------------------|--------------------------------|--------------------------------|
| One Southwark Bridge Road, SE1 | Building | 210,000 | A | Confidential | WPP Group | M&G Real Estate |
| Friars Bridge Court, 41 - 45 Blackfriars Road, SE1 | Mezz, 1 - 8 | 99,824 | A | Confidential | WeWork | Kennedy Wilson |
| Athene Place, 66 Shoe Lane, EC4 | G, 1, 6, 7, 8, 9 | 87,543 | A | £69 (overall average) | Deloitte Digital | Ivanhoe Cambridge/ Greycoat |
| Park House, 16 Finsbury Circus, EC2 | 3, 4, 5 | 71,881 | A | Confidential | Alvarez & Marsal Europe Ltd | DeAWM |
| TwentyTwo Bishopsgate, EC2 | 12, 13 | 49,730 | A | Confidential | Beazley | Axa |
| Johnson Building, 77 Hatton Garden, EC1 | 2 | 22,153 | A | £62.50 | Metropolitan Housing Trust | Derwent |
| The Bond Works, 77-79 Farringdon Road, EC1 | Building | 21,037 | A | Confidential | Spaces | NFU Mutual |
| Moor House, 120 London Wall, EC2 | 4 | 20,321 | A | £61.00 | Citadel LLC | Deka |
| Regis House, 45 King William Street, EC4 | 2 | 11,961 | A | c. £65.00 | Wilkins Kennedy London | Private Investor |
| 60 Fenchurch Street, EC3 | 6, 7 | 9,876 | A | £61.50 | Cunningham Lindsey | Frogmore |

TABLE 9

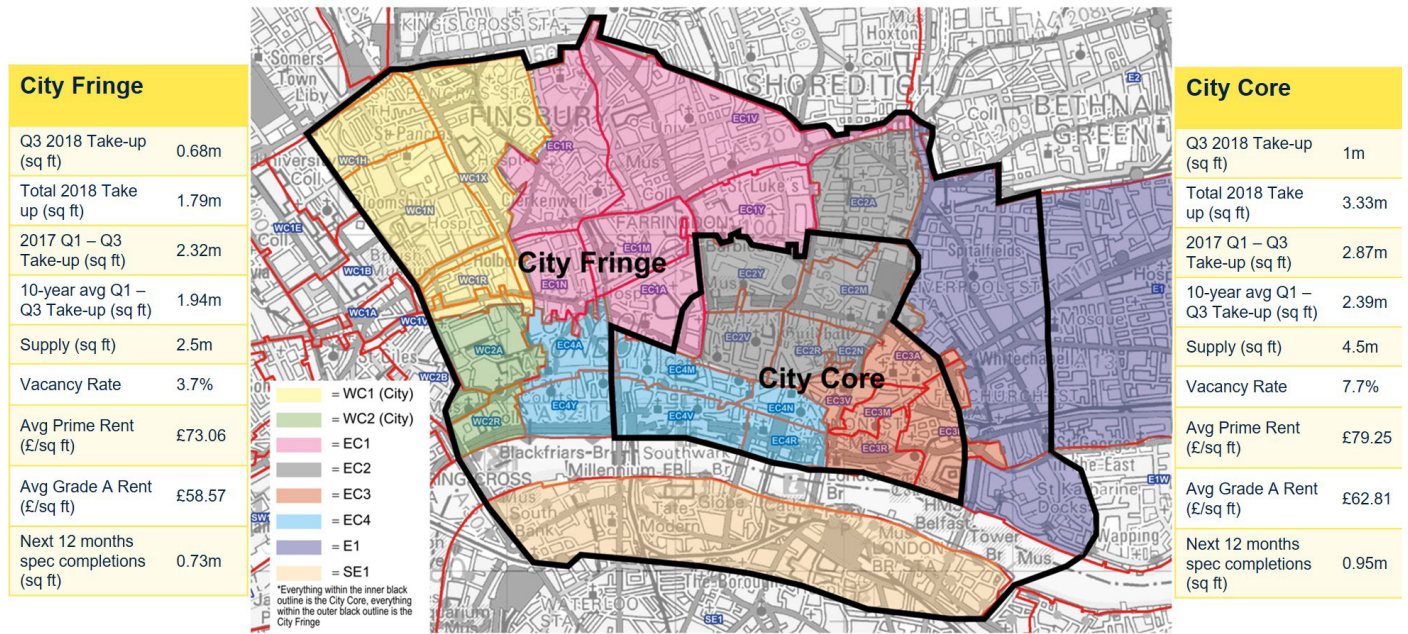
Significant supply

| Address | Postcode | Available Sq ft | Comments |
|------------------------------|----------|--------------------|-----------------------------------|
| The Scalpel, 52 Lime Street | EC3 | 181,182 | |
| 70 St Mary Axe | EC3 | 174,420 | |
| One Bartholomew | EC1 | 158,865 | |
| 100 Bishopsgate | EC3 | 118,339 | further 21,679 sq ft under offer |
| 3 Minster Court | EC3 | 102,560 | |
| 30 St Mary Axe | EC3 | 92,573 | |
| Two London Wall Place | EC2 | 74,217 | further 23,272 sq ft under option |
| The Bower (The Tower) | EC1 | 50,311 | further 8,428 sq ft under offer |
| 100 Wood Street | EC2 | 46,045 | further 20,947 sq ft under offer |
| Forum St Paul's, Gutter Lane | EC2 | 31,290 | further 18,170 sq ft under offer |

MAP 1

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

City 2018 Q3 stats



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