

City Office Market Watch



Supply continues to rise, but predominantly due to Q1 2021 completions, rather than tenant space

Please note that this piece is not intended as an analysis of Covid-19 on the office market, rather a factual analysis of the current market metrics.

December 2020 saw 301,307 sq ft of take-up across 26 transactions, this was up on November take-up figures (109,313 sq ft). Comparing to December 2019 take-up figures last month were down 51%. Total 2020 take-up was suppressed at 2.8m sq ft, which is a 58% drop on 2019 total take-up and still 56% down on the 10-year average.

The largest deal that completed last month saw City University acquire levels LG-7 (73,746 sq ft) at 33 Finsbury square, EC2. This was a new lease from the landlord at £55.12 per sq ft on a 25-year term.

Another notable transaction that completed last month Britannia Financial's acquisition of floor 30, 31, 35 (22,719 sq ft) of The Scalpel, 52 Lime Street, EC3 on a 10-year lease at £85.00 per sq ft, with a premium paid for the top floor. Additionally, DWS signed on the first and second floor (28,718 sq ft) at 45 Cannon Street from OpenText at £65.50 per sq ft.

The Professional Services sector continues to be the primary source of demand acquiring 31% of the total 2020 take-up. The Insurance and Financial services sector and Tech & Media then followed with 16% and 15% respectively. A particular mention to the Serviced Office Provider sector that saw take-up of 107,651 sq ft in 2020, which is a 92% down on the 2019 figure of 1,504,871 sq ft.

At the end of 2020, average prime rent increased to £81.21 from £81.17 in 2019. This was accompanied with an 1.7% increase in average grade A rent from £64.53 in 2019 to £65.66 in 2020. The Q4 2020 average Grade A rent in the City Fringe was £65.90/sq ft, this was actually £00.46

higher than that of the City Core at £65.44/sq ft.

Supply at the end of the year stood at 10.4m sq ft, equating to a vacancy rate of 7.7%. Unsurprisingly, this is up on the end of Q4 2019 by 230 bps and above the long-term (15-year) average of 6.7%. At present, 84% of supply is of grade A standard, which is also the average Grade A supply we have seen over the past five years. The majority of supply (58%) is within the City Core and consequently has a higher vacancy rate of 9.3% compared to 6.1% in the City Fringe.

From an international perspective, Manhattan saw stalled leasing amount to record vacancies. Records were broken as the pandemic produced soaring levels of sub-leasing. The end of 2020 witnessed a 15.1% vacancy rate, up 4% from 2019 and the highest since 1999. New leases in Q4 2020 dropped 64% from Q4 2019 levels, illustrating the international impact of Covid-19 on the office leasing market.

Encouragingly, we have observed an increase in both potential and active requirements during the month. The level of potential City and Central London requirements increased to 3.4m sq ft, this a 9.2% increase on the previous month and 45% higher than at the end of 2019. Moreover, the level of active demand increased 4.1% from November to 7.2m sq ft. However, this is marginally down by 1.2% on the active requirements for December 2019.

During Q4 2020, 425,427 sq ft went under offer, this is up 34% on the end of Q3 2020. Moreover, this figure is down 49% on Q4 2019 where 841,410 sq ft went under offer.

Looking forward, 3.7m sq ft in space due for completion in 2021, 35.5% of which is already pre-let, leaving 2.3m sq ft of space left to be delivered speculatively. 2022 has 2.9m sq ft in the pipeline and 5.1m sq ft is currently scheduled for 2023.



486,403 sq ft
of take-up in Q4 across
50 deals



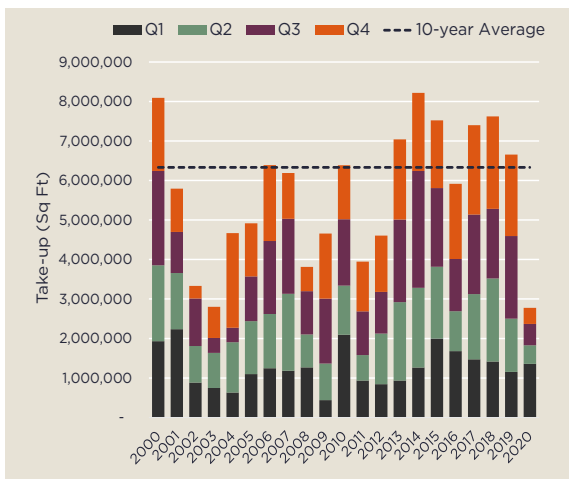
229 deals
during 2020, which is
the lowest yearly
transaction since 2004



£65.66/sq ft
is the annual 2020
average grade A rent, a
1.7% increase on 2019
average grade A rents

City take-up by quarter

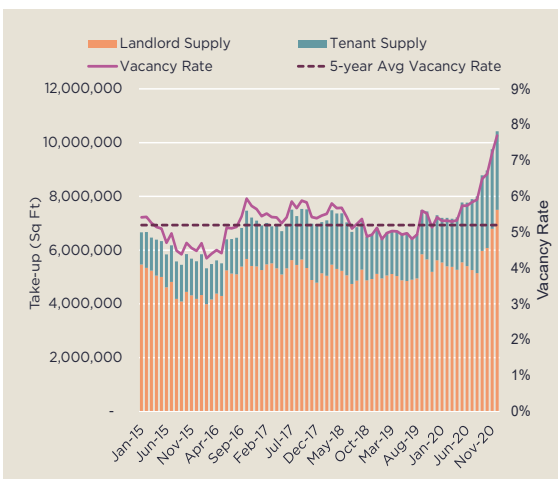
Graph 1



Source: Savills

City landlord and tenant supply

Graph 2



3.7m sq ft
of space is due for
completion in 2021 in the
City

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jan-20	237,644	77%	6,808,283
Feb-20	670,892	92%	7,204,484
Mar-20	449,136	87%	7,014,404
Apr-20	170,571	88%	6,738,109
May-20	89,960	89%	6,322,131
Jun-20	208,347	88%	6,080,085
Jul-20	333,556	88%	5,327,726
Aug-20	44,144	89%	4,933,135
Sep-20	164,364	88%	4,506,675
Oct-20	56,887	88%	3,837,185
Nov-20	106,591	88%	3,145,803
Dec-20	243,442	88%	2,775,534

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Dec 19	6,814,236	-11%	79%
Jan 20 - Dec 20	2,767,548	-59%	88%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jan-20	£79.00	£68.11	£40.40		
Feb-20	£77.50	£66.48	£48.75		
Mar-20	£87.50	£62.60	£51.67	£80.43	23
Apr-20	£84.00	£71.71	N/A		
May-20	£82.00	£70.00	£59.50		
Jun-20	£77.50	£64.34	£47.00	£80.70	25
Jul-20	£95.00	£67.13	£37.50		
Aug-20	£79.00	£61.85	N/A		
Sep-20	£72.00	£61.20	£47.97	£77.00	25
Oct-20	£80.00	£59.52	N/A		
Nov-20	£70.00	£67.18	£43.00		
Dec-20	£80.00	£63.21	£41.00	£78.83	23

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
7,199,122	79%	-1.4%	5.3%
7,203,744	79%	0.1%	5.3%
7,171,009	80%	-0.5%	5.3%
7,219,970	80%	0.7%	5.3%
7,770,557	80%	7.6%	5.7%
7,772,292	81%	0.0%	5.7%
7,907,629	81%	1.7%	5.8%
7,999,889	81%	1.2%	5.9%
8,784,217	83%	9.8%	6.5%
8,966,457	83%	2.1%	6.6%
9,764,541	82%	8.9%	7.2%
10,419,978	84%	6.7%	7.6%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,974,210	1,515,675	3,659,041	34%
2022	1,638,283	1,180,412	2,818,695	0%
2023	1,613,613	3,515,735	5,129,348	6%
2024	2,332,388	1,864,385	4,196,773	5%
Total	7,558,494	8,076,207	15,803,857	11%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	3.4m
City Active Requirements (sq ft)	7.2m
City Total Requirements (sq ft)	10.6m
% change on 12 month ave	13%
Total under offer (sq ft)	1.1m
Under offer this month (sq ft)	85,711
% change on average (total)	-13%
Landlord controlled supply	72%
Tenant controlled supply	28%

*Average prime rent is for preceeding 3 months

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

Note: Completions due in the next 6 months are included in the current supply figures

Significant December transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
33 Finsbury Square, EC2	LG-7	73,746	A	£55.12	City University	
Moor House, 120 London Wall, EC2	1 part, 2	35,211	A	N/A	StoneX	Deka Immobilien
45 Cannon Street, EC4	1 - 2	28,718	A	£65.50	DWS	OpenText
60-72 Upper Ground, SE1	Part 1	23,570	B	£25.00	Proposition Studios	MEC
The Scalpel, 52 Lime Street, EC3	30, 31, 35	22,719	A	£85.00	Britannia Financial	W R Berkley
90 High Holborn, WC1	G	11,716	A	£70.00	Quinn Emanuel Urquhart & Sullivan LLP	

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
TwentyTwo Bishopsgate	EC2	471,163	Further 50,935 sq ft under offer
Sixty London Wall	EC2	324,621	Further 59,811 sq ft under offer
One Portsoken Street	E1	232,094	
2 Gresham Street	EC2	178,199	
Aldgate Tower	E1	173,398	
155 Bishopsgate	EC2	159,290	
LDN:W, 3 Noble Street	EC2	100,680	
88 Leadenhall Street	EC3	98,522	
Kaleidoscope Farringdon	EC1	90,884	
68 King William Street	EC4	75,852	Recently completed a major refurb

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