

City Office Market Watch



December delivers with highest take-up in 26 months, bringing annual figure to 4.8m sq ft

Take-up for December reached 778,341 sq ft across 34 deals, giving a total for the year of 4.8m sq ft, which was up on 2020 by 65% but down on the 10-year annual average by just under a quarter (23%). The additional 56 deals done in Q4, brings the total for the year to 289, which was up on 2020 by 55 deals, but still down on the 10-year average of 407 deals.

Grade A space remained the clear preference as it accounted for 93% of take-up, which is up on the 10-year average of 83%. Moreover, the average deal size in 2021 settled at 16,662 sq ft, up both on last year and the 10-year average, which were 12,476 sq ft and 15,485 sq ft, respectively. This can partially be attributed to pre-lets in excess of 100,000 sq ft accounting for 24% of annual take-up

The largest deal to complete last month saw BPP University acquire levels 1 - 3 at the Alfred Equities scheme at One Portsoken, 1 Portsoken Street, E1 (87,284 sq ft), which completed in Q2 2021. The terms remain confidential. Also last month, we saw Braze acquire part of the ninth & tenth (48,697 sq ft) at Exchange House, Exchange Square, EC2, on a 15-year term at £80.00/sq ft.

December witnessed more activity at TwentyTwo Bishopsgate, EC2. William Blair acquired the 47th to 49th floor (78,318 sq ft) at a blended rent of £87.50/sq ft. Additionally, Royal Sun Alliance took floors 5 & 6, following a move out of 20 Fenchurch Street, EC3. Following these two deals, total space taken in the tower amounts to 322,671 sq ft for 2021.

Throughout 2021, the Professional Services sector has consistently dominated take-up figures, accounting for just over a quarter of total take-up (26%). The Insurance & Financial Services sector contributed to 21% of annual take-up, this was followed by the Business & Consumer Services

sector, 14%.

Total City supply settled for a second consecutive month on 12.5m sq ft, even following the addition of development schemes due for completion in Q2 2022. This equates to a vacancy rate of 9.0%, which is down 40 bps on the peak in September, but still up on the long term average by 300 bps.

Additionally, 41% of current supply consists of space that has been newly developed or comprehensively refurbished in the past 10 years. For the fourth consecutive month, 28% of supply is tenant release space, this is up on the long term average of 25%. The majority of supply (60%) is within the City Core and which consequently has a higher vacancy rate of 11.4% compared to 6.9% in the City Fringe.

During Q4 2021, 936,593 sq ft went under offer, taking the total current figure to 2.1 m sq ft, which is up significantly on the long-term average by 58%, therefore we expect to see above average levels of take-up for the first quarter of 2022, as the hangover of transactions from 2021 come to fruition.

A key trend of 2021 has been the increasing bias for prime office space and the divergence between best in class and lesser quality office space. The average prime rent for 2021 settled at £82.30/sq ft, up on 2020 by 3.1% and the highest annual figure on record. Also, in 2021 we saw 58 deals over £70.00/sq ft, this accounts for 20% of total deals, this is up by 9 deals on last year and up 12 on the five-year average. Moreover, the average grade A rent for 2021 settled at £64.37/sq ft, down marginally on 2020 by 1.1%, highlighting the growing disparity within Grade A quality.

Looking forward, 4.4m sq ft of space is due for completion this year, 33% of which is already pre-let, leaving 3.0m sq ft of space left to be delivered speculatively in 2022. The pipeline between 2022 and 2025 is expected to deliver 16.8m sq ft. , of which 18% is currently pre-let.



4,815,427 sq ft
take-up, across **289**
deals



The Professional Services sector accounted for **26%** of annual take-up



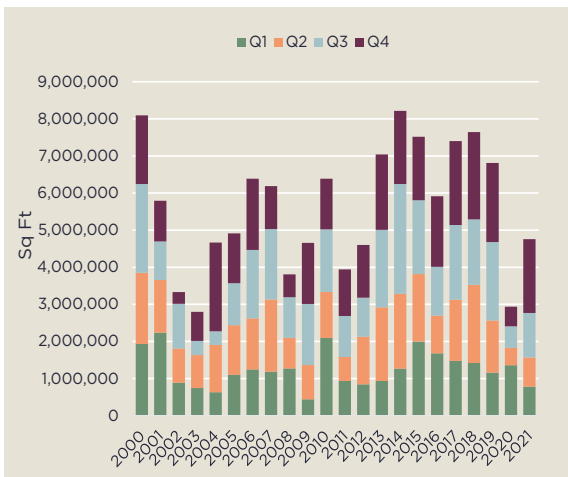
33% of 2022 pipeline is pre-let



£82.30/sq ft
2021 average prime rent,
the highest on record

City quarterly take-up

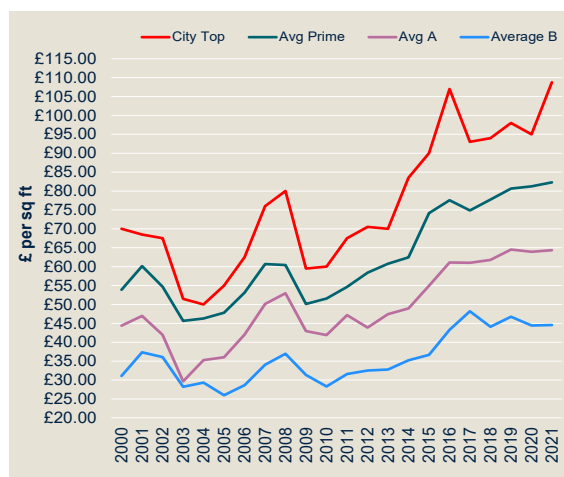
Graph 1



Source: Savills

City rents

Graph 2



Source: Savills

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jan-21	290,033	97%	284,751
Feb-21	222,509	90%	492,935
Mar-21	271,580	96%	784,122
Apr-21	361,127	83%	1,145,249
May-21	208,878	79%	1,354,127
Jun-21	214,448	81%	1,568,575
Jul-21	392,823	88%	1,961,398
Aug-21	602,516	96%	2,563,914
Sep-21	220,203	90%	2,784,117
Oct-21	493,613	90%	3,277,730
Nov-21	759,383	97%	4,037,113
Dec-21	778,314	100%	4,815,427

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - Dec 20	2,919,525	-57%	88%
Jan - Dec 21	4,815,314	64%	93%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jan-21	£81.50	£66.64	£50.00		
Feb-21	£81.50	£58.42	£33.63		
Mar-21	£108.75	£67.88	£55.00	£82.50	28
Apr-21	£72.00	£61.50	£43.34		
May-21	£74.50	£60.77	£58.85		
Jun-21	£82.50	£62.28	£43.50	£77.25	27
Jul-21	£107.25	£73.27	£54.94		
Aug-21	£81.50	£68.42	£48.75		
Sep-21	£83.00	£67.49	£49.43	£80.67	27
Oct-21	£75.00	£64.13	£44.50		
Nov-21	£84.50	£70.14	£33.25		
Dec-21	£94.50	£64.75		£83.06	26

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
11,609,763	82%	11%	8.4%
12,009,405	83%	3%	8.7%
12,312,231	84%	3%	8.9%
12,004,918	84%	-2%	8.7%
12,004,541	84%	0%	8.7%
12,457,214	84%	4%	9.0%
12,566,227	86%	1%	9.1%
12,289,019	85%	-2%	8.9%
13,010,829	86%	6%	9.4%
12,718,905	86%	-2%	9.2%
12,516,925	85%	-2%	9.0%
12,490,925	85%	0%	9.0%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2022	1,955,099	2,480,564	4,435,663	33%
2023	1,843,353	2,611,164	4,454,517	16%
2024	1,747,856	2,473,673	4,221,529	16%
2025	1,797,776	1,879,931	3,677,707	11%
Total	7,344,084	9,445,332	16,789,416	19%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.2m
City Active Requirements (sq ft)	7.5m
City Total Requirements (sq ft)	9.7m
% change on 12 month ave	-2%
Total under offer (sq ft)	2.1m
Under offer this month (sq ft)	134,858
% change on average (total)	58%
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
One Portsoken, 1 Portsoken Street, E1	1, 2, 4	87,284	A	Confidential	BPP University	Alfred Equities
TwentyTwo, 22 Bishopsgate EC2	47, 48, 49	78,318	A	£87.50	William Blair	AXA
6-8 Bishopsgate, EC2	6, 7, 8	62,235	A	Confidential	Holman Fenwick Willan	Mitsubishi Estates/Stanhope
20 Fenchurch Street, EC3	15, 16, 17	59,793	A	£75.00	Kennedys	RSA
Exchange House, Exchange Square, EC2	part 9 & 10	48,697	A	£80.00	Braze	British Land/GIC

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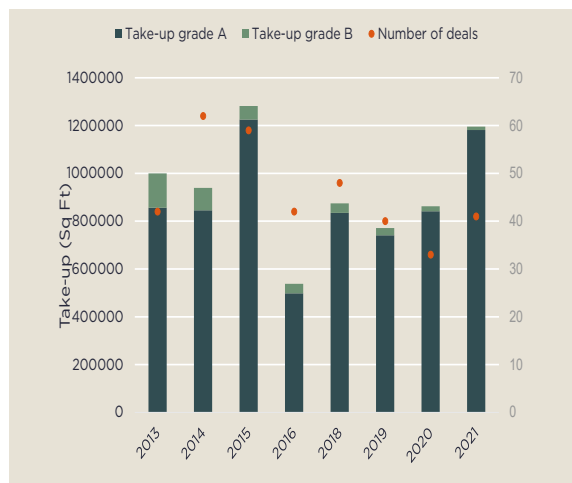
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In Focus - The Professional Services sector

City Professional Services sector

Graph 3



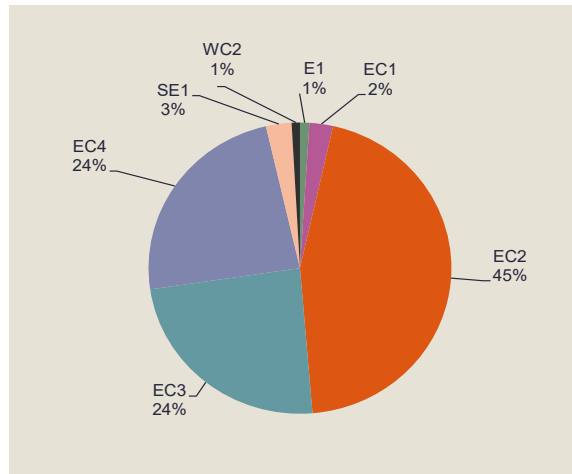
This month's In Focus' turns its attention to the Professional Services sector due to its prominent role in the City of London annual take-up in 2021. As seen in graph 3, the sector's annual take-up reached 1.2m sq ft across 41 deals. This is the second highest figure in the last ten-years and up 30% on the ten-year average. It is clear the sector favours grade A quality, as 99% of take-up was of such quality, as the ever increasing polarisation continues.

The Professional Services sector continues to favour the City Core submarket, in terms of quantum of space, 92% of take-up occurred in EC2, EC3, & EC4. With nearly half of all take-up occurring in EC2 (45%).

2021 has undoubtedly been the year of pre-lets, accounting for a third of total annual take-up. The Professional Services sector accounted for 45% of all pre-lets this year totalling 714,957 sq ft. Most recently Holman Fenwick Willan acquired floors 6, 7 & 8 at 6-8 Bishopsgate, EC2 (62,235 sq ft).

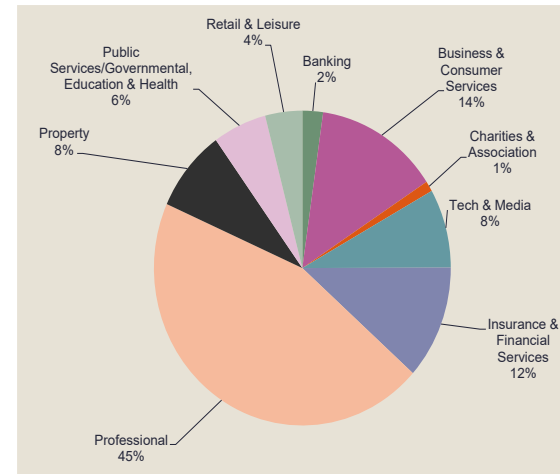
City 2021 Professional Services Sector take-up by postcode

Graph 4



City pre-lets by business sector

Graph 5



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