City Office Market Watch

June 2018

No sign of a slow-down as the City 12-month rolling take-up hits highest level since Sept 2015

Supply and demand snapshot

■ Take-up for the month reached 870,113 sq ft across 31 transactions, with an average deal size of 28,253 sq ft. However, it is important to note that this includes the Chinese Embassy buying Royal Mint Court, EC3 (589,417 sq ft) for their own occupation. Without this deal the average deal size for the month is 9,547 sq ft.

■ This brings total take-up for 2018 to 2.7m sq ft, which is 10% up on this point last year, and 30% up on the 10-year average for the first five months of the year.

■ The 12-month rolling take-up rose to 7.6m sq ft, which is 25% up on this point last year, and the highest it has been since September 2015.

■ Last month saw three separate deals at The Minster Building, EC3. The largest of which saw serviced office provider Spaces acquire 37,000 sq ft across levels part G and 6. The fourth floor was also let in two separate deals to Tower Research Capital and Make It Cheaper, both acquiring circa 17,400 sq ft.

■ Also in May, Insurance firm Coverys acquired the 6th floor (15,994 sq ft) of One Creechurch Place, EC3 on confidential terms. As the 10th floor is currently under-offer, there is only circa 53,500 sq ft remaining to be let in the Helical scheme.

■ Following the Chinese Embassy deal at Royal Mint Court, EC3, the Public Services/ Governmental, Education & Health sector has now accounted for the greatest proportion of take-up so far this year at 22%.

■ Beyond this, the balance of demand in the market has arisen from the Insurance & Financial services sector accounting for 19%, the Professional services sector at 15%, and the Tech & Media sector at 11%.

■ Total City supply stands at 7.4m sq ft at the end of May, equating to a vacancy rate of 5.8%, which is up on this point last year by 40bps, but in parallel with the 5-year average.

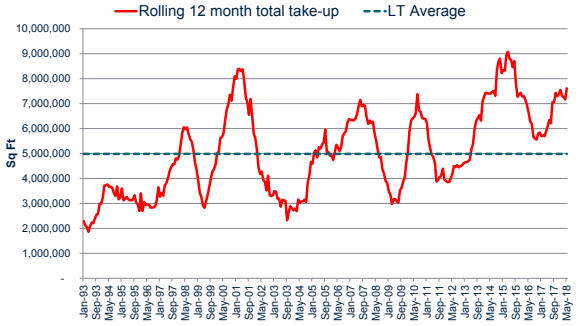
■ The City Core has the majority of the supply at 4.7m sq ft, which equates to a vacancy rate of 7.1%, compared with the City Fringe which has 2.7m sq ft of supply, and a vacancy rate of 4.4%. We anticipate the vacancy rate in both markets to remain stable for the next quarter, as all of the new space scheduled to achieve completion in Q4, and therefore to be added to supply, is currently under-offer.

■ We are expecting just under 2m sq ft of office space to complete in the first quarter of 2019. However, 1.4m sq ft of this is either pre-let or under-offer, leaving circa 600,000 sq ft of speculative space. We would expect more of this to let or go under-offer in the next 6 months, further helping to keep the vacancy rate at a stable level.

■ We also anticipate take-up levels to remain strong for the next quarter as there is currently 2.2m sq ft under-offer, which is 68% up on the long term average.

GRAPH 1

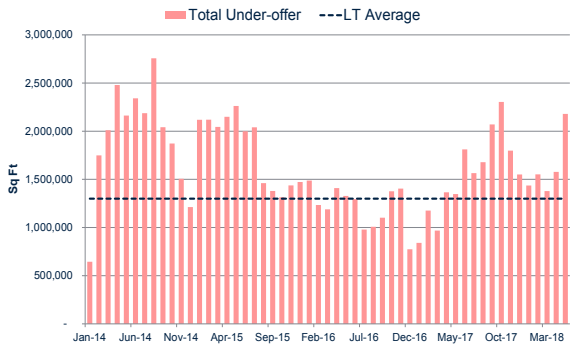
City 12-month rolling take-up



Source: Savills Research

GRAPH 2

Total under-offer in the City



Source: Savills Research

TABLE 1

Key May Stats

	May stats
Take-up	870,113 sq ft
2018 Take-up	2,707,312 sq ft
Supply	7,372,085 sq ft
Vacancy Rate	5.8%
Top Rent	£77.50/sq ft
Avg Grade A Rent	£62.17/sq ft

Analysis close up

TABLE 2

Monthly take-up

	Sq ft	% Grade A	12 month rolling take-up
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	447,705	100%	7,546,148
Feb-18	176,650	90%	7,304,291
Mar-18	789,512	82%	7,267,851
Apr-18	423,332	88%	7,168,937
May-18	870,113	97%	7,613,898

TABLE 3

Year to date take-up

	Sq ft	% change on previous year	% Grade A
Jan 17 - May 17	2,466,580	11%	81%
Jan 18 - May 18	2,707,312	10%	91%

TABLE 4

Rents

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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
Apr-18	£84.50	£64.81	£49.67		
May-18	£77.50	£62.17	£39.00		

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 (%)
6,708,809	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%
7,362,412	74%	-1.6%	5.8%
7,372,085	72%	0.1%	5.8%

TABLE 6

Development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2018	1,408,772	2,494,063	3,902,835	62%
2019	2,301,931	3,323,392	5,625,323	27%
2020	2,041,538	676,702	2,718,240	8%
2021	1,948,024	979,882	2,927,906	39%
Total	7,700,265	7,474,039	15,174,304	35%

TABLE 7

Demand & Under Offers

City Potential Requirements (sq ft)	2m
City Active Requirements (sq ft)	7.3m
City Total Requirements (sq ft)	9.4m
% change on 12 month ave	8%
Total under offer (sq ft)	2.2m
Under offer this month (sq ft)	684,168
% change on average (total)	68%
Landlord controlled supply	71%
Tenant controlled supply	29%

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 May transactions

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Royal Mint Court, EC3	Building	589,417	A	Owner Occupier	Chinese Embassy	Delancey
The Minster Building, EC3	Part G, 6	37,000	A	Confidential	Spaces	Ivanhoe Cambridge/ Greycoat Real Estate
The Bower, The Tower, 207 Old Street, EC1	7, 8, 9	29,332	A	Confidential		Helical
The Minster Building, EC3	Part 4	17,500	A	Confidential	Tower Research Capital	Ivanhoe Cambridge/ Greycoat Real Estate
The Minster Building, EC3	Part 4	17,300	A	Confidential	Make It Cheaper	Ivanhoe Cambridge/ Greycoat Real Estate
One Creechurch Place, Creechurch Lane, EC3	6	15,994	A	Confidential	Coverys	Helical/HOOPP
The Relay Building, Commercial Street, E1	6	15,881	A	£56.00	Blockchain	Angelo, Gordon & Co/ Hondo Enterprises
Commodity Quay, St Katherines Dock, E1	6	13,093	A	£57.00	DPR Group (Sub-Lessee)	Six Degrees (Sub-Lessor)
Euro Building, 26 - 29 St Cross Street, EC1	Building	12,449	A	£63.55	TTC Consulting London	Takara Trading
99 Bishopsgate, EC2	17	10,727	A	£69.00	Bank of Taiwan	Brookfield

TABLE 9

Significant supply

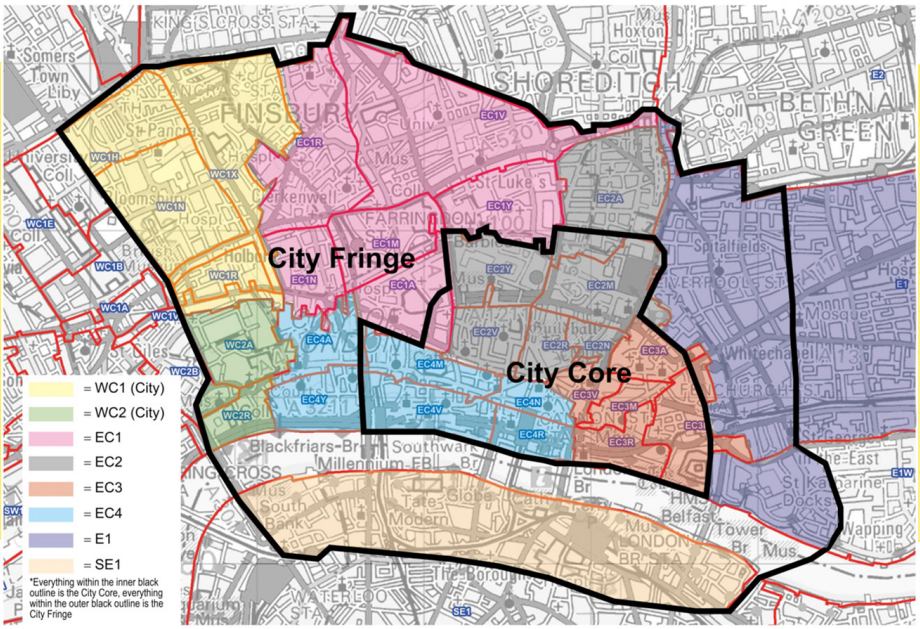
Address	Postcode	Available Sq ft	Comments
The Scalpel, 52 Lime Street	EC3	253,478	
One Bartholomew Close	EC1	158,865	further 54,261 sq ft under offer
Senator House, 85 Queen Victoria St	EC4	109,589	
Salisbury Square House	EC4	108,103	further 19,343 sq ft under offer
The Minster Building	EC3	95,700	further 27,960 sq ft under offer
Two London Wall Place	EC2	85,466	
The Bower (The Tower)	EC1	78,211	
30 St Mary Axe (Swiss Re space)	EC3	74,965	further 40,735 sq ft available from other tenants
Forum St Paul's, Gutter Lane	EC2	56,981	
One Creechurch Place	EC3	53,505	further 15,943 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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