

# City Office Market Watch



## Inevitable drop in take-up for April, although still a significant amount is under offer in the City

Despite being in 'lockdown' for the entirety of the month, take-up for April reached 165,653 sq ft across 6 deals, bringing the total for the year to date to 1.5m sq ft, which is slightly down on this point last year by 4% and 16% down on the 10-year average for this part of the year. The 12-month rolling take-up is now at 6.6m sq ft, which is 3% up on the 10-year average. Please note that this piece is not intended as an analysis of COVID-19 on the office market, rather a factual analysis of the market metrics.

The largest deal to complete last month saw Covington & Burling LLP acquire levels 51 - 54 (85,768 sq ft) at TwentyTwo Bishopsgate, EC2. The Washington-based law firm will be moving from their current headquarters at 265 Strand, WC2 when the building achieves practical completion in the final quarter of this year.

Also last month, we saw SAP acquire levels 19 and 20 (20,782 sq ft) at The Scalpel, Lime Street, EC3. They have taken the space at the City tower on a 15-year lease at £79.00/sq ft with 34 months rent free. The scheme, which completed in 2018 is now circa 92% let with just 28,556 sq ft remaining available.

The Professional Services sector continues to account for the majority of take-up with a 34% share at the end of April. They are followed by the Tech & Media sector and the Insurance & Financial services sector at 23% and 15% respectively. We anticipate these three sectors to be the primary source of demand for the remainder of the year, especially as the Serviced Office Provider sector have hit pause on acquiring new space, currently accounting for just 4% of take-up so far this year.

At the end of April this year there is currently 7.2m sq ft of available supply, equating to a vacancy rate of 5.3%, which is up on this point last year by 30bps but down on the long-term average of 6.6%. Currently, 80% of supply is of a grade A standard, which is down on the 5-year average of 84%.

We have started to see a slight uptick in tenant supply, rising from a 25% share in March (1.79m sq ft) to a 27% share at the end of April (1.95m sq ft), which is still below the long-term average of 29%. While this is by no means enough tenant supply to begin to affect rents negatively, it is proving our expectations to be correct, and the more tenant controlled space we see arrive to the market in the next 6 months could result in a negative effect on rents.

Some of the notable tenant supply that has come to the market since lockdown began in mid-March includes 65,000 sq ft at the Blue Fin, SE1 building from HSBC, 20,300 sq ft at Aldgate Tower, E1 from Groupon, 17,000 sq ft at 1 Angel Court, EC2 from The Prudential, and 16,500 sq ft at 3 Waterhouse Sq, EC1 also from The Prudential.

Since the start of lockdown in mid-March, we have seen circa 382,000 sq ft of deals fall away in Central London, of which 85% is from the City (326,000 sq ft), the most notable being Salesforce withdrawing from 113,500 sq ft at 80 Fenchurch Street, EC3.

However, since the start of lockdown we have also seen circa 239,000 sq ft of space be placed under offer across Central London, of which 59% (141,677 sq ft) has come directly from the City.

At the end of April there is currently 1.9m sq ft of space under offer in the City, which is up on the long-term average by 44%. Of this 1.9m sq ft, 500,000 sq ft of it is under offer on future developments and refurbishments, the largest being JLL under offer to acquire 180,000 sq ft at 1 Broadgate, EC2, which is due for completion currently in 2025.



**165,553 sq ft** of take-up in April was the lowest amount of monthly take-up since February 2009



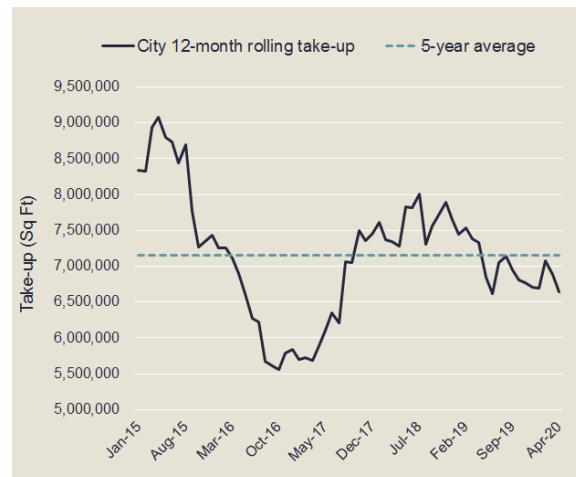
**69%** of the 1.9m sq ft that is currently under offer is under offer in the City Core



**26%** of the pipeline until the end of 2023 is already pre-let

### City 12-month rolling take-up

Graph 1



Source: Savills

### City development pipeline

Graph 2



**circa 8.5m sq ft** of active and potential requirements are currently targeting the City

## Analysis close up

### Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
May-19	501,292	88%	6,853,239
Jun-19	441,285	84%	6,617,673
Jul-19	1,080,760	91%	7,048,320
Aug-19	423,956	75%	7,142,982
Sep-19	587,979	75%	6,945,043
Oct-19	713,018	71%	6,808,018
Nov-19	797,973	91%	6,776,515
Dec-19	597,334	76%	6,703,975
Jan-20	229,658	77%	6,690,036
Feb-20	661,221	97%	7,076,566
Mar-20	438,990	79%	6,880,687
Apr-20	165,653	100%	6,639,119

### Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Apr 19	1,560,378	-17%	75%
Jan 20 - Apr 20	1,495,522	-4%	89%

### Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
May-19	£80.00	£64.24	£54.17		
Jun-19	£72.00	£61.41	£51.25	£77.22	23
Jul-19	£98.00	£68.49	£45.25		
Aug-19	£85.00	£68.29	£53.70		
Sep-19	£92.21	£67.67	£50.91	£87.38	23
Oct-19	£79.00	£64.64	£49.83		
Nov-19	£77.50	£63.30	£45.00		
Dec-19	£87.50	£63.25	£48.29	£78.03	23
Jan-20	£84.00	£69.75	£40.40		
Feb-20	£82.00	£67.34	£48.75		
Mar-20	£77.50	£60.66	£46.94	£80.43	23
Apr-20	£95.00	£76.38			

### Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,595,845	74%	-1.8%	4.9%
6,647,554	73%	0.8%	5.0%
6,444,820	73%	-3.0%	4.8%
6,599,029	72%	2.4%	4.9%
7,494,152	78%	13.6%	5.6%
7,441,712	77%	-0.7%	5.5%
6,923,583	75%	-7.0%	5.1%
7,301,561	79%	5.5%	5.4%
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%

### Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	2,158,200	2,592,902	4,751,102	57%
2021	1,975,039	1,506,180	3,481,219	28%
2022	1,858,591	1,146,247	3,004,838	0%
2023	787,845	3,148,363	3,936,208	8%
Total	6,779,675	8,393,692	15,173,367	26%

### Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	1.5m
City Active Requirements (sq ft)	7.0m
City Total Requirements (sq ft)	8.6m
% change on 12 month ave	-9%
Total under offer (sq ft)	1.9m
Under offer this month (sq ft)	54,992
% change on average (total)	44%
Landlord controlled supply	73%
Tenant controlled supply	27%

\*Average prime rent is for preceding 3 months

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

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

## Significant April transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
TwentyTwo, 22 Bishopsgate, EC2	51 - 54	85,768	A	Confidential	Covington & Burling LLP	Axa
1 New Change, EC4	3	29,030	A	Confidential	CDW	ION Trading Limited
The Scalpel, 52-54 Lime Street, EC3	19, 20	20,782	A	£79.00	SAP	WR Berkley
25 Fenchurch Avenue, EC3	1, Part 2	19,156	A	£56.50	Aegis	Willis Towers Watson
70 St Mary Axe, EC3	Part 9	8,000	A	Confidential	Hewlett Packard (MicroFocus)	Nuveen Real Estate
262 High Holborn, WC1	8	2,917	A	£75.00	Elliot UK Advisers	South Yorkshire Pensions Authority

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## Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
TwentyTwo Bishopsgate	EC2	354,552	further 116,611 sq ft under offer
Sixty London Wall	EC2	240,158	further 84,463 sq ft under offer
155 Bishopsgate	EC2	139,290	further 20,000 sq ft under offer
Kaleidoscope Farringdon	EC1	90,884	
100 Bishopsgate	EC2	81,681	
Fetter Yard, 86 Fetter Lane	EC4	64,840	
Script, 44 Featherstone Street	EC1	51,056	
Devon House	E1W	48,701	
The Hickman, 2 Whitechapel Rd	E1	48,125	further 28,202 sq ft under offer
The Scalpel, 52 Lime Street	EC3	28,556	

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