Savills Research
UK Commercial

City Office Market Watch

May 2018

City keeps on surprising with a low and stable vacancy rate and early signs of rental growth

Supply and demand snapshot

■ Take-up for the month reached 438,908 sq ft across 26 transactions, with an average deal size of 16,881 sq ft.

■ This brings total take-up for 2018 to 1.8m sq ft, which is 10% down on this point last year, but 10% up on the 10-year average for the first four months of the year. The 12-month rolling take-up fell to 7.2m sq ft, which is still 22% up on this point last year.

■ A notable transaction to exchange in April saw Bryan Cave Leighton Paisner pre-let the whole (122,315 sq ft) of MED Holding's Governors House, 5 Laurence Pountney Hill, EC4.

■ Also in April, serviced office provider Spaces, which was bought by Regus back in 2015, took 40,107 sq ft across levels LG - 3 at The Epworth, 25 City Road, EC1. The space was let at an overall average of £60.00/sq ft. The new refurbishment is now fully let as NTT Data have previously acquired levels 4 - 6.

■ So far this year, the majority of take-up within the City has come from the three primary sectors. The Insurance & Financial services sector lead the way having accounted for 26%. The Professional services are close behind accounting for 22%, and the Tech & Media sector continue to take space accounting for 14%. The serviced office sector has only accounted for 7%, however we anticipate this to steadily increase over the next quarter as a number of centres are under-offer.

■ Total City supply stands at 7.4m sq ft at the end of April, equating to a vacancy rate of 5.8%, which is up on this point last year by 20bps, but in parallel with the 5-year average.

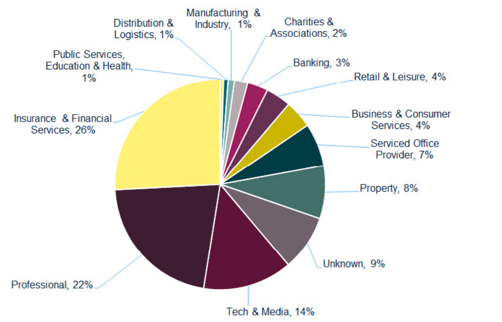
■ The vacancy rate has not risen as much as we expected it would at the start of the year. This is a result of continued good levels of demand, and future schemes being pre-let. At the end of Q2, we will only be currently adding in approximately 160,000 sq ft of new space, of which over 100,000 sq ft is already under-offer.

■ The average grade A rent for the whole City so far this year is £62.11/sq ft, which is 3.5% up on 2017. This is another trend that we were not expecting to see at the start of the year, although it is likely this will come down as the size of the data sample increases becoming less skewed by the outliers.

■ Demand ticked up this month as the amount of Central London & City requirements increased from 8.4m sq ft last month to 9.2m sq ft at the end of April. This is 5% up on the long-term average.

GRAPH 1

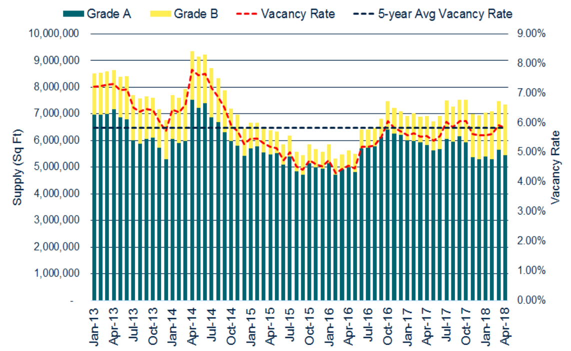
City take-up by business sector



Source: Savills Research

GRAPH 2

City supply and vacancy rate



Source: Savills Research

TABLE 1

Key April Stats

	April stats
Take-up	438,908 sq ft
2018 Take-up	1,838,630 sq ft
Supply	7,362,412 sq ft
Vacancy Rate	5.8%
Top Rent	£84.50/sq ft
Avg Grade A Rent	£64.81/sq ft

Analysis close up

TABLE 2
Monthly take-up

	Sq ft	% Grade A	12 month rolling take-up
Apr-17	522,246	90%	5,885,604
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	439,224	100%	7,537,667
Feb-18	176,650	90%	7,295,810
Mar-18	783,897	82%	7,253,755
Apr-18	438,908	90%	7,170,417

TABLE 3
Year to date take-up

	Sq ft	% change on previous year	% Grade A
Jan 17 - Apr 17	2,041,428	2%	82%
Jan 18 - Apr 18	1,838,630	-10%	89%

TABLE 4
Rents

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Apr-17	£81.50	£63.73	£48.07		
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		

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 (%)
6,914,578	84%	0.4%	5.6%
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%

TABLE 6
Development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2018	1,393,457	2,505,065	3,898,522	62%
2019	2,301,931	3,324,773	5,626,704	27%
2020	1,926,388	676,702	2,603,090	8%
2021	1,948,024	979,882	2,927,906	39%
Total	7,569,800	7,486,422	15,056,222	35%

TABLE 7
Demand & Under Offers

City Potential Requirements (sq ft)	2m
City Active Requirements (sq ft)	7.2m
City Total Requirements (sq ft)	9.2m
% change on 12 month ave	5%
Total under offer (sq ft)	1.6m
Under offer this month (sq ft)	403,551
% change on average (total)	21%
Landlord controlled supply	72%
Tenant controlled supply	28%

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 April transactions

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Governors House, 5 Laurence Pountney Hill, EC4	Building	122,315	A	Confidential	Bryan Cave Leighton Paisner (BCLP)	MED Holdings
Cooper & Southwark, 61 Southwark Street, SE1	Building	64,443	A	£65.86	CBRE FM Team	HB Reavis
The Epworth, 25 City Road, EC1	LG, G, 1, 2, 3	40,107	A	£60.00	Regus (Spaces)	Bayford Properties Limited
Thames Exchange, 10 Queen Street Place, EC4	Part 3	33,500	B	£62.00	IRIS	Tabung Haji
Spectrum, 160 Old Street, EC1	4	18,527	A	Confidential	Confidential	GPE
Angel Court, 1 Angel Court, EC2	21, 22	17,500	A	Confidential	Confidential	Mitsui Fudosan/Stanhope
Vintners Place, 68 Upper Thames Street, EC4	Part 3	16,512	A	Confidential	Confidential	Crescent Hieghts
70 Gracechurch Street, EC3	7	14,701	A	Confidential	JDX Consulting	XL Capital
City Point, 1 Ropemaker Street, EC2	17	11,891	A	£66.50	Regus (Spaces)	Brookfield
Salesforce Tower, 110 Bishopsgate, EC2	34 Part West	5,726	A	£84.50	Autonomy Capital	Heron International plc

TABLE 9

Significant supply

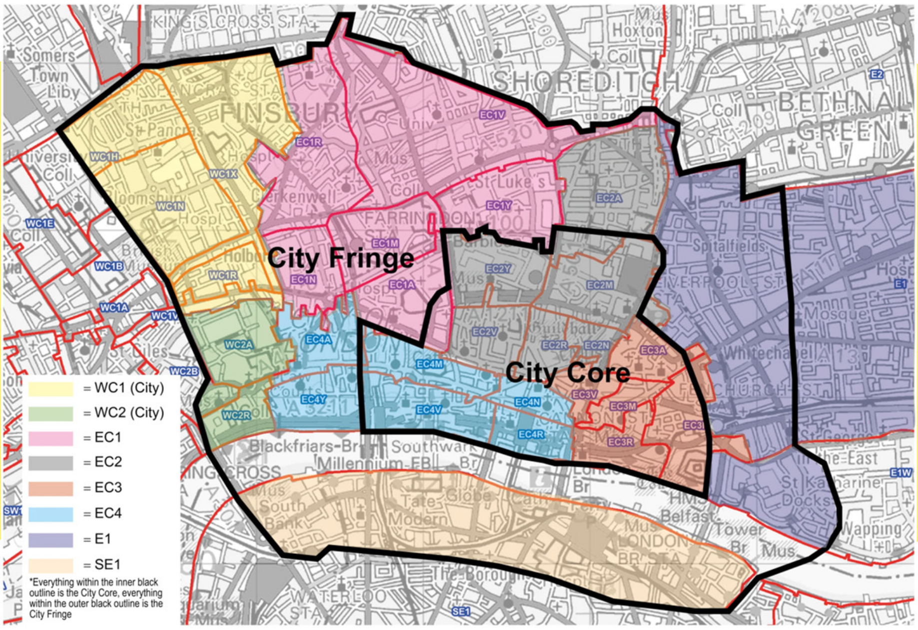
Address	Postcode	Available Sq ft	Comments
The Scalpel, 52 Lime Street	EC3	252,877	further 15,539 sq ft under offer
One Bartholomew Close	EC1	213,126	
3 Minster Court	EC3	123,660	
Senator House, 85 Queen Victoria St	EC4	109,589	
Salisbury Square House	EC4	108,103	further 36,221 sq ft under offer
Two London Wall Place	EC2	93,862	
30 St Mary Axe (Swiss Re space)	EC3	85,751	further 54,154 sq ft available from other tenants
The Bower (The Tower)	EC1	78,211	further 29,332 sq ft under offer
Creechurch Place	EC3	69,448	
Forum St Paul's, Gutter Lane	EC2	56,981	

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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