

City Office Market Watch

November 2018

City expected to finish the year with take-up surpassing 7m sq ft and a vacancy rate of sub 6%

Supply and demand snapshot

Take-up showed no signs of slowing down in October with 812,298 sq ft being transacted, of which grade A accounted for 97%. There were a total of 34 transactions with an average deal size of 23,891 sq ft.

This brings total take-up for 2018 to 5.9m sq ft, which is actually 2% up on this point last year, and 26% up on the 10-year average for take-up to the end of October. There have been a total of 348 transactions so far this year, which is down on this point last year (381), but up on the 10-year average of 325.

The 12-month rolling take-up is currently at 7.5m sq ft, which is up on the 4-year average by 4%. However, with the 10-year average take-up for the last two months of the year being 1.2m sq ft, it is likely the year-end total take-up figure will be closer to 7.1m sq ft.

Last month saw McCann World Group pre-let levels 5 - 9 (147,232 sq ft) at 135 Bishopsgate, EC2 on a 15 year lease at £63.50/sq ft. The refurbished British Land/GIC scheme is scheduled to complete in Q1 next year, and there are only two floors remaining, which are currently under-offer.

Also in October, Jane Street Capital pre-let levels G - 5 (142,030 sq ft) at Premier Place, 2 1/2 Devonshire Square, EC2. The financial trading firm, who are currently situated in 20 Fenchurch Street, will be moving in once the scheme completes in Q3 next year.

Insurance & Financial services continue to be the source of the majority of demand in the City, accounting for 20% of take-up at the end of October. However, as expected, the Tech & Media sector is close behind accounting for 19%. Appetite from Serviced Office Providers

remains strong, as they account for 12%.

October saw some strong rents being achieved. Experian have taken part of level 34 (east) at the Salesforce Tower, 110 Bishopsgate, EC2 at £83.00/sq ft. While this is expected for a tower floor, The Farmiloe Building, EC1 achieved an overall average rent of £80.00/sq ft when Live Nation pre-let the entire 63,396 sq ft building constituting of lower ground to fourth floors.

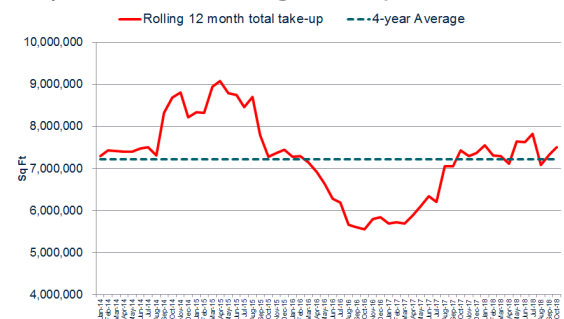
Total City supply at the end of October stood at 6.5m sq ft, equating to a vacancy rate of 5.1%, which is down on this point last year by 90 bps, and down on the long term average by 150 bps. This is the twelfth consecutive month of the vacancy rate being sub 6%, and the lowest it has been since May 2016.

Currently, 72% of supply is of a grade A standard, which is down on the 5-year average of 84%.

At the end of the year, we will be adding in to supply circa 412,000 sq ft of space scheduled to achieve completion in Q2 next year. Factoring in take-up in the last two months, it is highly likely the vacancy rate will finish the year below 6%. We won't see the anticipated rise of the vacancy rate to past the long-term average of 6.6% until the end of Q2 next year, as currently we are expecting 2.1m sq ft of space to complete in Q4 2019 alone.

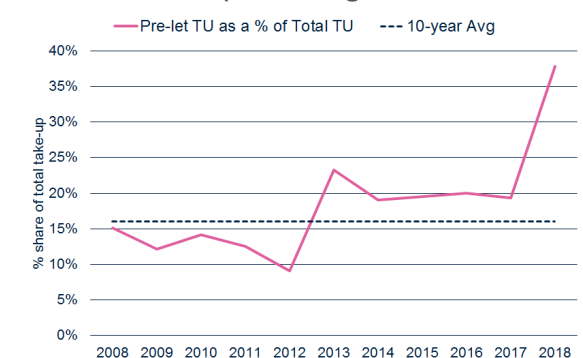
However, we have seen a record number of pre-lets across Central London this year, currently at 25 with two months remaining, which is already up on the previous record of 19 set in 2016. These pre-lets have accounted for 38% of total Central London take-up so far this year, significantly up on the 19% share last year and the 10-year average of 16%. Therefore, if this pre-letting trend continues into next year, we could see the vacancy rate remaining low in a historic context.

GRAPH 1
City 12-month rolling take-up



Source: Savills Research

GRAPH 2
Central London pre-letting market share



Source: Savills Research

TABLE 1
Key October Stats

	October stats
Take-up	812,298 sq ft
2018 Take-up	5,941,778 sq ft
Supply	6,501,808 sq ft
Vacancy Rate	5.1%
Top Rent	£83.00/sq ft
Avg Grade A Rent	£70.45/sq ft

Analysis close up

TABLE 2
Monthly take-up

	Sq ft	% Grade A	12 month rolling take-up
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	452,332	100%	7,550,775
Feb-18	176,650	90%	7,308,918
Mar-18	817,852	80%	7,300,818
Apr-18	332,827	83%	7,111,399
May-18	955,443	97%	7,641,690
Jun-18	676,861	69%	7,630,496
Jul-18	644,961	76%	7,820,283
Aug-18	302,717	84%	7,089,363
Sep-18	769,837	81%	7,325,411
Oct-18	812,298	97%	7,500,331

TABLE 3
Year to date take-up

	Sq ft	% change on previous year	% Grade A
Jan 17 - Oct 17	5,814,613	38%	82%
Jan 18 - Oct 18	5,941,778	2%	86%

TABLE 4
Rents

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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		
Jun-18	£72.50	£59.67	£37.88	£75.19	23
Jul-18	£85.50	£60.31	£45.97		
Aug-18	£75.00	£67.64	£48.38		
Sep-18	£77.50	£59.52	£45.16	£76.71	24
Oct-18	£83.00	£70.45	£41.50		

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 (%)
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%
7,034,850	73%	-4.6%	5.6%
6,679,703	73%	-5.0%	5.3%
6,854,116	72%	2.6%	5.4%
7,035,243	74%	2.6%	5.6%
6,501,808	72%	-7.6%	5.1%

TABLE 6
Development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2019	2,390,363	3,254,345	5,644,708	38%
2020	2,304,887	1,133,390	3,438,277	9%
2021	2,587,180	1,379,077	3,966,257	29%
2022	0	1,536,380	1,536,380	0%
Total	7,282,430	7,303,192	14,585,622	25%

TABLE 7
Demand & Under Offers

City Potential Requirements (sq ft)	2m
City Active Requirements (sq ft)	7.8m
City Total Requirements (sq ft)	9.8m
% change on 12 month ave	6%
Total under offer (sq ft)	1.6m
Under offer this month (sq ft)	406,951
% change on average (total)	22%
Landlord controlled supply	75%
Tenant controlled supply	25%

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 October transactions

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
135 Bishopsgate, EC2	5, 6, 7, 8, 9	147,232	A	£63.50	McCann World Group	British Land/GIC
Premier Place, 2 1/2 Devonshire Square, EC2	G - 5	142,030	A	Confidential	Jane Street Capital	Greycoat/Ivanhoe
The Farmiloe Building, 34-36 St John Street, EC1	Building	63,396	A	£80.00 overall	Live Nation	Standard Life
The Walbrook Building, 23-29 Walbrook, EC4	3	49,234	A	Quoting £63.50	DAC Beachcroft	Xchanging (Sub-Lessor)
Blue Fin Building, 110 Southwark Street, SE1	3	40,085	A	Quoting £68.00	Informa	Time Inc (Sub-Lessor)
201 Bishopsgate, EC2	11	36,135	A	Confidential	Henderson	Mayer Brown (Assignor)
The Scalpel, 52-54 Lime Street, EC3	9, 10	26,791	A	£68.50	National Australia Bank	WR Berkley
The Bureau, 90 Fetter Lane, EC4	5, 6, 7, 8	23,778	A	£76.75	ABN Inbev	Evans Randall
30 St Mary Axe, EC3	30, 31	23,127	A	£73.23	XChanging	Standard Life
One Creechurch Place, Creechurch Lane, EC3	9	15,993	A	£67.50	West of England	Helical/HOOP

TABLE 9

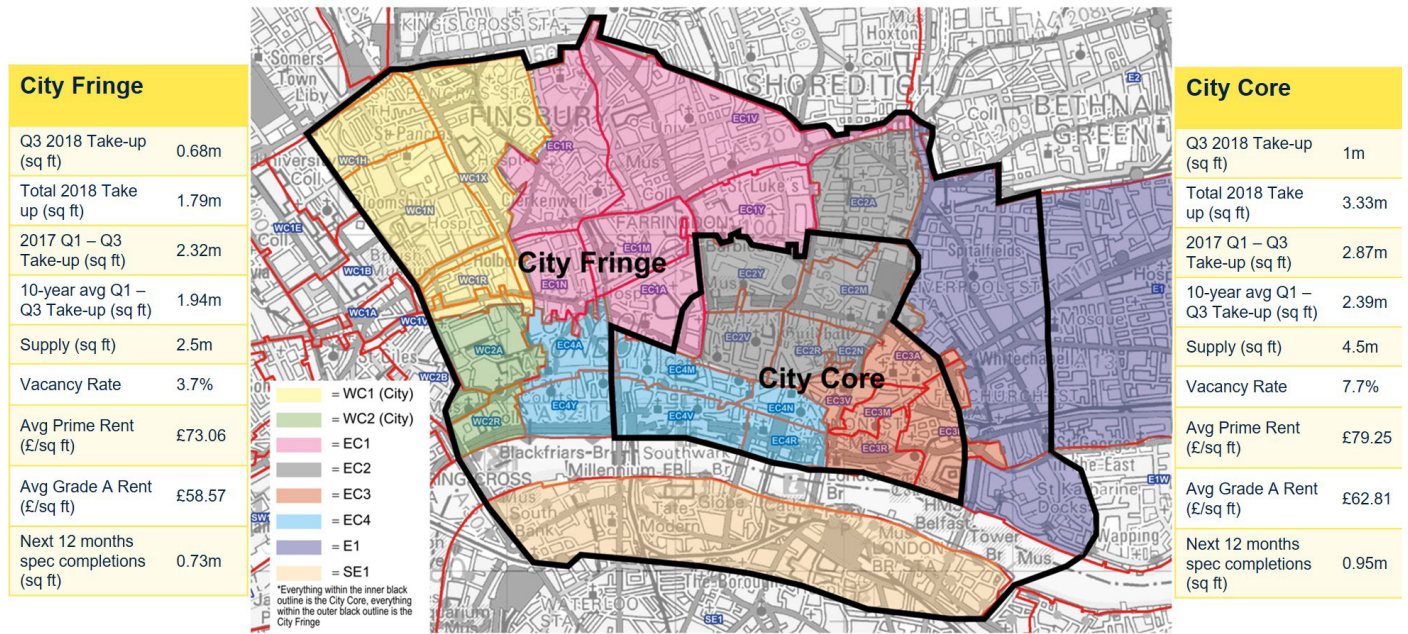
Significant supply

Address	Postcode	Available Sq ft	Comments
The Scalpel, 52 Lime Street	EC3	181,182	further 36,338 sq ft under offer
70 St Mary Axe	EC3	174,420	
One Bartholomew Close	EC1	158,865	
3 Minster Court	EC3	102,560	
30 St Mary Axe	EC3	101,290	
100 Bishopsgate	EC3	97,932	further 50,922 sq ft under offer
The Bower (The Tower)	EC1	58,739	further 19,472 sq ft under offer
Two London Wall Place	EC2	50,558	further 46,931 sq ft under option
100 Wood Street	EC2	46,045	further 20,947 sq ft under offer
Forum St Paul's, Gutter Lane	EC2	31,290	further 18,170 sq ft under offer

MAP 1

Savills City office market area (updated at the end of each quarter)

City 2018 Q3 stats



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