

# City Office Market Watch

October 2017

After an active Q3, take-up is expected to surpass the long-term annual average of 5.5m sq ft

## Supply and demand snapshot

■ Take-up for September was 493,390 sq ft, bringing total take-up for 2017 to 4.8m sq ft, which is 20% up on this point last year, and 11% up on the long-term average take-up for the first three quarters. 80% of transactions to-date have been of a grade A standard.

■ The 12-month rolling take-up at the end of September was 6.7m sq ft, which is 19% above the same point in 2016 and 33% up on the long-term average.

■ With the 10-year average for the last quarter take-up being 1.5m sq ft, we forecast take-up will be circa 6.3m sq ft at the end of the year, this will make 2017 the fifth consecutive year to surpass the long-term average.

■ A notable transaction to complete in September saw Metro Bank acquire levels lower ground to second of 20 Old Bailey, EC4 amounting to 65,054 sq ft. The bank acquired the space on a 15-year lease and joins Barings Bank and Withers, who have already signed in the building.

■ Also in September, Mitie Group acquired 29,824 sq ft at The Shard, SE1 on level 12. They have taken the space on a 10 year lease at a confidential rent. The building is now entirely let.

■ In the year to the end of September, the Tech & Media sector accounted for the greatest proportion of take-up at 23%. This is followed by the Professional services sector at 15% and the Banking sector, largely due to the Deutsche Bank transaction at 21 Moorfields, now accounting for 13%. The Insurance &

Financial services sector are next at 11%. There has been continued strong activity from Served Office Providers who have accounted for 6% of take-up to-date.

■ Total City supply stands at 7.5m sq ft at the end of September, equating to a vacancy rate of 6.1%, up on this point last year by 60 bps, however still down on the 10-year average by 50 bps.

■ At the end of September, there was circa 2.1m sq ft of current and future supply under-offer, which is up on the long-term average by 59%.

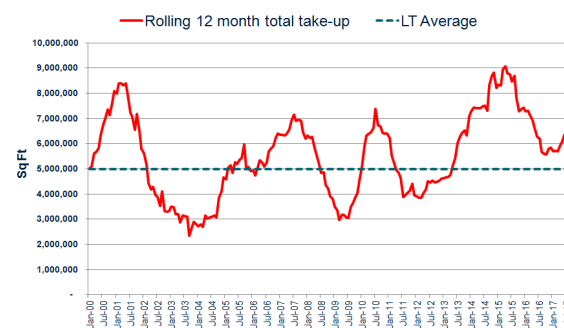
■ At the end of Q3, the average prime rent in the City is £73.40/sq ft, which is down on 2016 by 5%, but up on the 10-year average by 20%.

■ The average grade A rent has only fallen on last year by 0.1% and is currently at £61.01/sq ft at the end of Q3, however it is still up on the 10-year average by 23%.

■ We have seen incentives rise on a straight 10-year lease from 19 months last year to 23 months at the end of Q3. This is the highest quarterly average since Q3 2013.

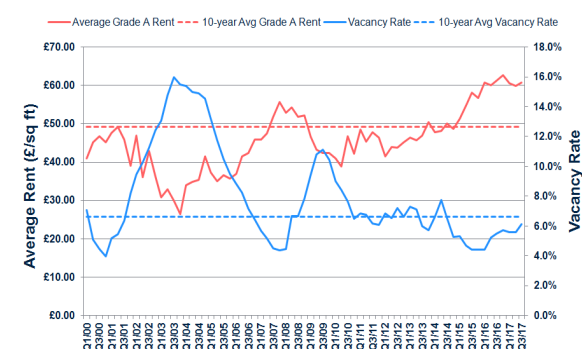
■ There is 11m sq ft of new developments and refurbishments expected to achieve PC between 2018 and 2020. However, 25% of this space is already pre-let resulting in 7.7m sq ft of speculative space being scheduled to arrive, the greatest amount being in 2019 at 4m sq ft.

GRAPH 1  
City 12-month rolling take-up



Source: Savills Research - data accurate to end of September 2017

GRAPH 2  
City avg grade A rent & vacancy rate



Source: Savills Research - data accurate to end of September 2017

TABLE 1  
Key September Stats

	September stats
Take-up	493,390 sq ft
2017 Take-up	4,782,422 sq ft
Supply	7,532,867 sq ft
Vacancy Rate	6.1%
Top Rent	£70.00/sq ft
Avg Grade A Rent	£60.81/sq ft

# Analysis close up

TABLE 2  
Monthly take-up

	Sq ft	% Grade A	12 month rolling take-up
Sep-16	537,493	61%	5,606,259
Oct-16	254,974	93%	5,558,334
Nov-16	795,695	55%	5,795,117
Dec-16	823,510	97%	5,846,037
Jan-17	274,723	63%	5,696,216
Feb-17	418,507	93%	5,726,287
Mar-17	825,952	77%	5,696,548
Apr-17	522,246	90%	5,885,604
May-17	425,152	77%	6,099,424
Jun-17	685,853	78%	6,342,338
Jul-17	367,508	79%	6,117,018
Aug-17	763,892	86%	6,695,505
Sep-17	493,390	72%	6,651,402

TABLE 3  
Year to date take-up

	Sq ft	% change on previous year	% Grade A
Jan 16 - Sep 16	3,971,858	-32%	81%
Jan 17 - Sep 17	4,782,422	20%	80%

TABLE 4  
Rents

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Sep-16	£71.50	£58.08	£42.12	£81.00	19
Oct-16	£90.00	£64.16	£42.67		
Nov-16	£78.00	£62.10	£45.30		
Dec-16	£75.00	£62.40	£45.50	£77.50	20
Jan-17	£74.50	£61.88	£45.42		
Feb-17	£65.00	£54.70	£30.00		
Mar-17	£75.00	£60.59	£49.29	£72.08	22
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

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 (%)
6,825,047	90%	5.7%	5.5%
7,467,041	86%	9.4%	6.0%
7,212,782	87%	-3.4%	5.8%
7,099,076	88%	-1.6%	5.7%
6,920,422	87%	-2.5%	5.6%
7,013,984	85%	1.4%	5.6%
6,888,892	86%	-1.8%	5.5%
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%

TABLE 6  
Development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2017	2,069,099	2,323,462	4,392,561	60%
2018	1,691,907	2,411,720	4,103,627	47%
2019	1,308,383	3,541,170	4,849,553	18%
2020	998,643	1,092,430	2,091,073	27%
Total	6,068,032	9,368,782	15,436,814	39%

TABLE 7  
Demand & Under Offers

City Potential Requirements (sq ft)	3.7m
City Active Requirements (sq ft)	4.5m
City Total Requirements (sq ft)	8.2m
% change on 12 month ave	-7%
Total under offer (sq ft)	2.1m
Under offer this month (sq ft)	446,059
% change on average (total)	59%
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 September transactions

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
20 Old Bailey, EC4	LG, Part G, 1, 2	65,054	A	Confidential	Metro Bank	Blackstone
The Shard, London Bridge Street, SE1	12	29,824	A	Confidential	Mitie Group	Teighmore Ltd via REM
Aldgate House, 33 Aldgate High Street, EC3	2	26,248	B	£52.50	Taboola Europe	Hermes
Aldgate House, 33 Aldgate High Street, EC3	1	26,190	B	£51.50	Transperfect	Hermes
70 Gracechurch Street, EC3	3	25,289	A	Confidential	Unknown	XL Catlin
17 Bevis Marks, EC3	Building	22,444	B	Confidential	Gumshoe Productions	City Corporation
20 Fenchurch Street, EC3	14	18,332	A	£70.00	CGI/Logica	Royal Sun Alliance
Nexus Place, 25 Farringdon Street, EC4	2	14,640	A	£58.50	Trendstream	Cornerstone
230 Blackfriars Road, SE1	4, 5	14,593	B	£35.91	Media Math	Confidential

TABLE 9  
Significant supply

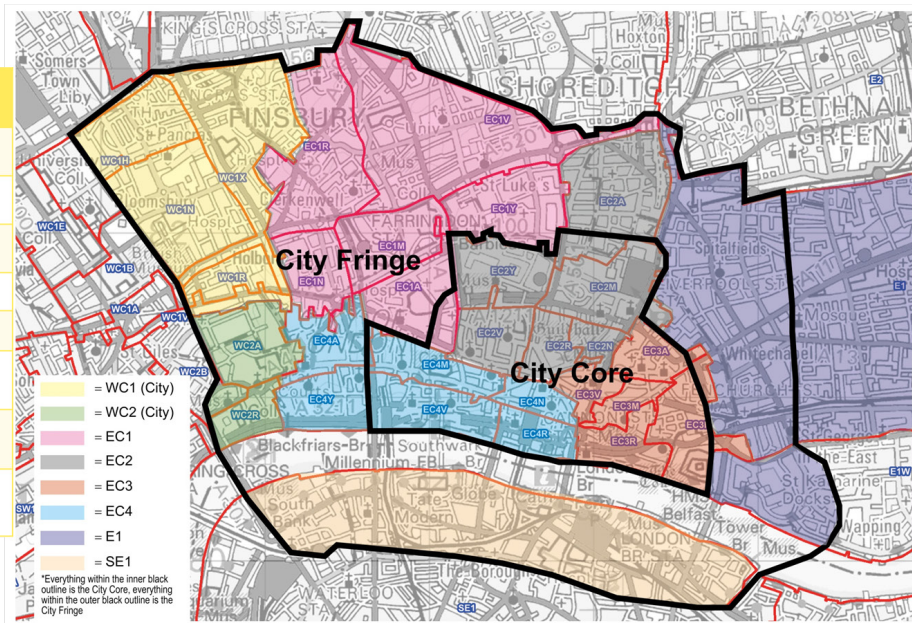
Address	Postcode	Available Sq ft	Comments
3 Minster Court	EC3	269,060	
Salisbury Square House	EC4	144,324	
30 St Mary Axe	EC3	138,008	further 9,946 sq ft under offer
Angel Court	EC2	131,170	further 30,570 sq ft under offer
The Spice Building, 8 Devonshire Sq	EC2	123,856	
Senator House, 85 Queen Victoria St	EC4	109,589	
1 Appold Street	EC2	98,146	
Creechurch Place	EC3	97,918	further 181,411 sq ft under offer
Two London Wall Place	EC2	81,839	further 35,295 sq ft under offer
Forum St Paul's, Gutter Lane	EC2	62,788	
30-32 Lombard Street	EC3	57,350	

MAP 1

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

City 2017 Q3 stats

City Fringe	
Q3 Take-up (sq ft)	474,245
2017 Take-up (sq ft)	2.19m
10-year avg TU (sq ft)	1.99m
Supply (sq ft)	2.52m
Vacancy Rate	5.3%
Avg Prime Rent (£/sq ft)	£72.25
Avg Grade A Rent (£/sq ft)	£60.50
2018 spec completions (sq ft)	0.72m



City Core	
Q3 Take-up (sq ft)	1.15m
2017 Take-up (sq ft)	2.59m
10-year avg TU (sq ft)	3.83m
Supply (sq ft)	5.01m
Vacancy Rate	6.7%
Avg Prime Rent (£/sq ft)	£74.20
Avg Grade A Rent (£/sq ft)	£61.50
2018 spec completions (sq ft)	1.45m

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