

City Office Market Watch

October 2018

The City continues to defy sceptics with rents at record levels with just a quarter remaining

Supply and demand snapshot

Take-up picked up in September with 769,837 sq ft being transacted, of which grade A accounted for 81%. There were a total of 40 transactions with an average deal size of 19,246 sq ft.

This brings total take-up for 2018 to 5.1m sq ft, which is just 1% down on this point last year, but 18% up on the 10-year average for take-up to the end of Q3. There have been a total of 313 transactions so far this year, which is down on this point last year (329), but up on the 10-year average of 295.

At the end of Q3, the City fringe has only accounted for 35% of take-up, significantly down on last year (47%), but slightly up on the 10-year average (34%).

Last month saw TP ICAP pre-let levels 2 - 4 & 11 (122,525 sq ft) at 135 Bishopsgate, EC2 on a 15 year lease. The refurbished British Land scheme is scheduled to complete in Q1 next year. The remaining space is either under-offer or under-option.

Also in September, LinkedIn pre-let the whole of The Ray, 119 Farringdon Road, EC1 (82,910 sq ft). The tech company will move from its current location at Castlewood House on New Oxford Street.

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 Q3. However, the Tech & Media sector is close behind as expected, accounting for 19%. Appetite from Serviced Office Providers remains strong, as they account for 12%.

The average prime rent for 2018 at the end of Q3 is £79.69/sq ft, which is up on last year by 6.5%, and is currently the highest annual average prime rent on record with just a quarter to go.

The average grade A rent is £61.25/sq ft for 2018, which is up on last year by 0.4%, and is also currently the highest annual average grade A rent on record.

A recent trend over the last few years has seen the difference between the average grade A rent in the City core and the City fringe become smaller, to a point where just £0.91/sq ft separated them last year. However, this difference has increased significantly this year to £4.24/sq ft, which is likely a function of a lack of new supply in the fringe this year that would be able to command high rents.

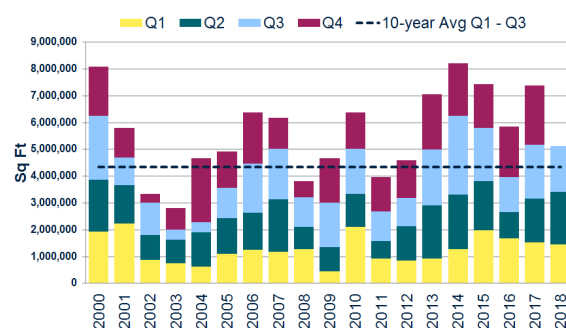
Total City supply at the end of Q3 stood at 7m sq ft, equating to a vacancy rate of 5.6%, which is down on this point last year by 50 bps, and down on the long term average by 100 bps. This is the eleventh consecutive month of the vacancy rate being sub 6%.

Currently, 74% of supply is of a grade A standard, which is down on the 5-year average of 84%.

The majority of supply (64%) is within the City core, and therefore has a higher vacancy rate of 7.7% compared with just 3.7% in the fringes.

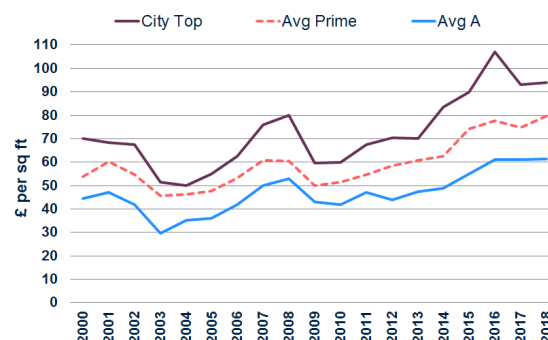
If we assume that no more supply is added, at the current rate of demand (avg 12-month rolling take-up), then there is only 11.5 months worth of supply, which is significantly below the oversupply trigger point of 20 months

GRAPH 1
City take-up by quarter



Source: Savills Research

GRAPH 2
City rents



Source: Savills Research

TABLE 1'
Key September Stats

	September stats
Take-up	769,837 sq ft
2018 Take-up	5,126,085 sq ft
Supply	7,035,243 sq ft
Vacancy Rate	5.6%
Top Rent	£77.50/sq ft
Avg Grade A Rent	£59.52/sq ft

Analysis close up

TABLE 2
Monthly take-up

	Sq ft	% Grade A	12 month rolling take-up
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	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	955,428	97%	7,641,675
Jun-18	676,861	69%	7,630,481
Jul-18	644,961	76%	7,820,268
Aug-18	299,337	84%	7,085,968
Sep-18	769,837	81%	7,322,016

TABLE 3
Year to date take-up

	Sq ft	% change on previous year	% Grade A
Jan 17 - Sep 17	5,177,235	30%	81%
Jan 18 - Sep 18	5,126,085	-1%	84%

TABLE 4
Rents

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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		
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

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 (%)
7,532,867	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%
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%

TABLE 6
Development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2019	2,352,701	3,254,345	5,607,046	33%
2020	2,244,887	1,133,390	3,378,277	9%
2021	2,596,091	1,379,077	3,975,168	28%
2022	0	1,536,380	1,536,380	0%
Total	7,193,679	7,303,192	14,496,871	23%

TABLE 7
Demand & Under Offers

City Potential Requirements (sq ft)	1.9m
City Active Requirements (sq ft)	7.9m
City Total Requirements (sq ft)	9.8m
% change on 12 month ave	7%
Total under offer (sq ft)	2.1m
Under offer this month (sq ft)	448,443
% change on average (total)	62%
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
135 Bishopsgate, EC2	2, 3, 4, 11	122,525	A	Confidential	TP ICAP	British Land/GIC
The Ray, 119 Farringdon Road, EC1	Building	82,910	A	Confidential	LinkedIn	Viridis
Blue Fin Building, 110 Southwark Street, SE1	Part B, 5	62,549	A	£68.00	Datamonitor	Time Inc (Sub-Lessor)
99 Bishopsgate, EC2	3, 4	48,822	A	£55.00	Reed Business Information	Brookfield
20 Farringdon Street, EC4	2, 3, 4, 5	34,575	A	Confidential	Hubhub	HB Reavis
The Walbrook Building, 23-29 Walbrook, EC4	1	34,551	A	£50.53	The Vanguard Group	Arthur J Gallagher (Sub-Lessor)
Mid City Place, 71 High Holborn, WC1	Part 1, Part 3	33,041	A	£60.00	Playtech Group	Willis Towers Watson
The Minster Building, 3 Minster Court, EC3	7	22,996	A	£66.00	Lyst	Ivanhoe Cambridge/Greycoat/FREO Group
The Scalpel, 52-54 Lime Street, EC3	1	14,938	A	£70.00	Axis Speciality Limited	WR Berkley
Spectrum, 160 Old Street, EC1	6	10,989	A	£66.00	Robert Bosch Limited	GPE

TABLE 9

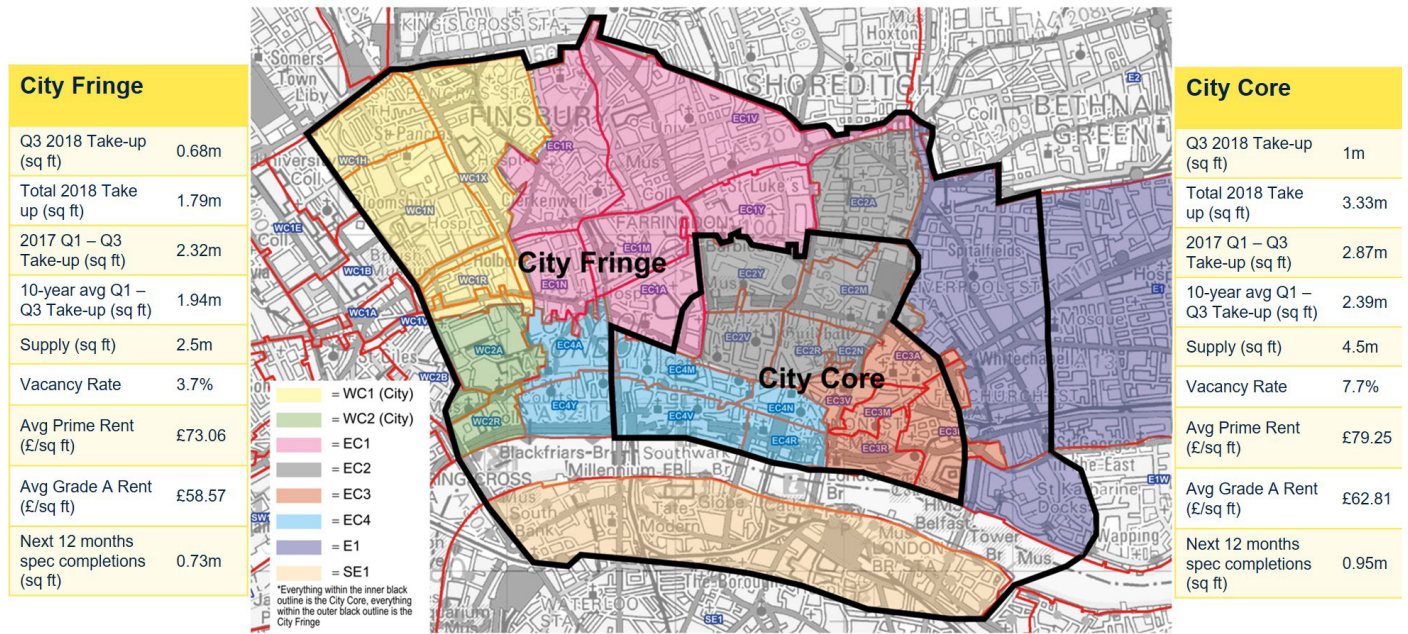
Significant supply

Address	Postcode	Available Sq ft	Comments
The Scalpel, 52 Lime Street	EC3	181,182	further 72,296 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 (Swiss Re space)	EC3	101,290	
100 Bishopsgate	EC3	97,932	further 50,922 sq ft under offer
The Bower (The Tower)	EC1	78,211	
Two London Wall Place	EC2	73,830	further 23,659 sq ft under offer
100 Wood Street	EC2	53,425	further 13,567 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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