

# City Office Market Watch



## City was seeing a strong first quarter until the lockdown began last month

Despite the COVID-19 lockdown beginning last month, take-up for March reached 495,806 sq ft across 43 deals, bringing the total for Q1 to 1.4m sq ft, which is up on this point last year by 20% and in-line with the 10-year average for the first quarter of the year. The 12-month rolling take-up is now at 6.9m sq ft, which is 7% up on the 10-year average. This piece is not intended as an analysis of COVID-19 on the office market, rather a factual analysis of Q1.

The largest deal to complete last month saw Queen Mary University of London acquire the whole of the new Schroders scheme, Dept W, 81 Mile End Road, E1 equating to 75,742 sq ft across ground and 3 upper floors. The space was taken on confidential terms.

Also last month, we saw two deals happen at 25 Copthall Avenue, EC2. ISDA acquired part level 3 (14,159 sq ft) on confidential terms, and World Wide Technologies acquired level 1 (21,000 sq ft) on a 10-year term with a break in the 5th year at £54.00/sq ft with 12 plus 9 months rent free.

So far this year, the majority of demand has come from the Professional Services sector at 30%, however, this has been skewed due to the Linklater's deal and the relatively small amount of data to analyse included in just one quarter. There has also been continued strong demand from Tech & Media and the Insurance & Financial services sector, who have accounted for 21% and 13% respectively. Interestingly, the Serviced Office Provider sector only accounted for 4% of take-up throughout the first quarter, equating to just 60,558 sq ft, significantly down on the 221,950 sq ft they had transacted by this point last year.

At the end of Q1 2020 there is currently 7.2m sq ft of available supply, equating to a vacancy rate of 5.3%, which is up on Q1 last year by 30bps but down on the long-term average of 6.6%. This is also the 66th consecutive month of the vacancy rate being sub 6%. Currently, 80% of supply

is of a grade A standard, which is down on the 5-year average of 84%. The majority of supply (58%) is within the City core, and therefore has a higher vacancy rate of 6.5%, compared with just 4.4% in the fringe. If we assume that no more supply is added at the current rate of demand (avg 12-month rolling take-up) then there is currently only 12.4 months' worth of supply remaining.

It seems likely that supply in the City will begin to rise over the next 12 months due to the lack of take-up expected over Q2. Currently, tenant controlled space accounts for 25% of available supply, which is slightly up on the 5-year average of 24%, however, it is likely that this will start to increase due to the impact of the pandemic on employment, although to what extent remains unclear.

At the end of Q1 this year, the current average prime rent is £80.43/sq ft, which is up on Q1 last year by 3.2% and is the third highest quarterly prime rent on record. Meanwhile, the average grade A rent has settled at £65.42/sq ft for the quarter, up on Q1 last year by 2%, and is the second highest quarterly average on record.

At the end of Q1 this year, the percentage of deals over £60.00/sq ft has risen to 66% (compared with 47% for the 5-year average) or 44 deals out of 67 known rents. In fact, we have already seen 20 deals achieved over £70.00/sq ft, roughly half of the amount achieved over the whole of 2018.

At the end of Q4 2019, the average grade A rent in the City Fringe of £65.09/sq ft was actually £00.94 higher than that of the City Core at £64.15/sq ft. This trend has remained throughout the first quarter of this year as the City Fringe Q1 2020 average grade A rent of £66.81/sq ft is £2.14 higher than that of the City Core at £64.67/sq ft, although this is still a fairly small dataset which can be skewed easily by a few large rents.



**87%**  
of take-up so far this year has been of a grade A standard

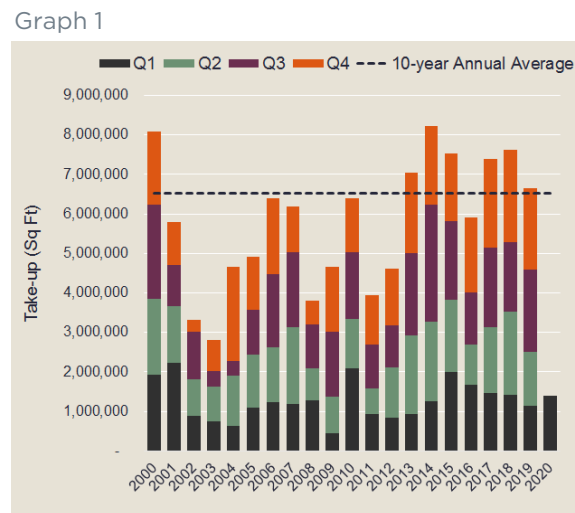


**23 months**  
is the current average for months given rent free on a straight 10-year lease



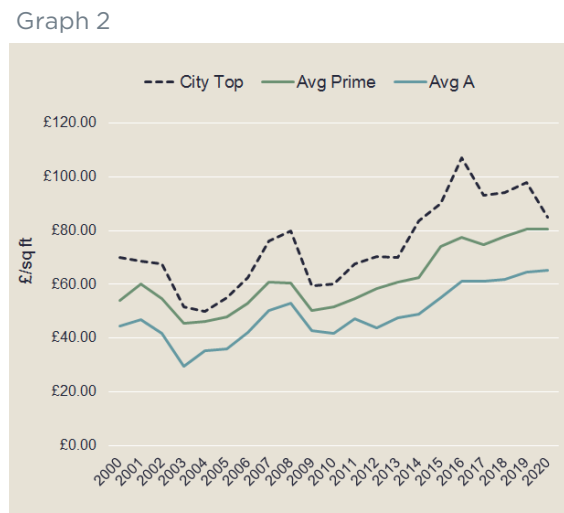
**30%**  
of the 3.2m sq ft expected to complete next year is already pre-let, leaving just 2.3m sq ft

### City take-up by quarter



Source: Savills

### City rents



**circa 1.9m sq ft**  
is currently under-offer in the City, up on the long-term average by 49%

## Analysis close up

### Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Apr-19	407,221	76%	7,328,111
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	495,806	78%	6,937,503

### Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Mar 19	1,153,157	-19%	75%
Jan 20 - Mar 20	1,386,685	20%	87%

### Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Apr-19	£83.00	£72.63	£45.63		
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

### Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,717,804	74%	-0.1%	5.0%
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%

### Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	2,538,311	2,763,888	5,302,199	48%
2021	1,870,928	1,371,194	3,242,122	30%
2022	1,621,549	1,122,289	2,743,838	0%
2023	407,615	4,907,961	5,315,576	6%
Total	6,438,403	10,165,332	16,603,735	23%

### Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	1.4m
City Active Requirements (sq ft)	6.9m
City Total Requirements (sq ft)	8.3m
% change on 12 month ave	-13%
Total under offer (sq ft)	1.9m
Under offer this month (sq ft)	442,534
% change on average (total)	49%
Landlord controlled supply	75%
Tenant controlled supply	25%

\*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 March transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Dept W, 81 Mile End Road, E1	G, 1, 2, 3	75,742	A	Confidential	QMUL	Schroders
1 Fetter Lane, EC4	Building	23,474	A	Confidential	The Brew	Hagag Group
1 Appold Street, EC2	5	22,964	A	£55.00	Tide Banking	Deutsche Bank (Sub-Lessor)
1 Finsbury Circus, EC2	Part 1	22,657	A	£64.50	Stephenson & Harwood	COLI
25 Copthall Avenue, EC2	1	21,000	A	£54.00	World Wide Technologies	Starwood
10 Bishops Square, E1	Part 3	18,500	B	£55.00	Investigo	Allen & Overy (Sub-Lessor)
1 London Wall, EC2	9	17,497	A	£65.00	DBS	Hansa Invest
125 London Wall, EC2	Part 6	16,399	A	£55.00	Sanne Group	Arax Properties
25 Copthall Avenue, EC2	Part 3	14,159	A	Confidential	ISDA	Starwood
Devon House, 58 - 60 St. Katharines Way,	Part 2	12,239	A	Confidential	Dynata	Blackstone

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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	further 27,116 sq ft under offer
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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