

City Office Market Watch



Rents hold strong in Q1, with Serviced Office Providers showing no signs of slowing down

While the lack of a decision surrounding Brexit may cause a drag on the investment market in London, the occupational market continues to outperform expectation. Occupiers have seemingly come to terms with the long drawn out nature of the Brexit negotiations, and continue to commit to office space in the capital, in particular for smaller deals. There were 33 occupational deals in March alone, bringing the total for the year to date to 100, which is up on this point last year by eight deals, and the 10-year average by five. This is also joint fourth most deals in the first quarter in the last 20 years.

Take-up for March reached 637,850 sq ft, resulting in the total for the year reaching 1.16m sq ft, which is down on this point last year by 20%, and down on the 10-year average for the first quarter by 12%. This brings the 12-month rolling total to 7.3m sq ft, which is actually up on the 5-year average by 0.2%. Therefore, while we are still seeing a steady churn of deals, they are generally within the smaller sub 10,000 sq ft size-bracket, resulting in the average deal size for Q1 being just 11,447 sq ft, compared with 15,760 sq ft at this point last year.

The largest deal to complete in March saw international law firm Milbank LLP pre-let levels 8 and 9 (68,275 sq ft) at the British Land/GIC future new development 100 Liverpool Street, EC2. They are scheduled to move in to their new office in early 2021, moving from their current offices in 10 Gresham Street, EC2 and 125 Wood Street, EC2. They will be joined by UK independent corporate broking/advisory house Peel Hunt LLP, who also committed to pre-letting part of the 7th floor (40,000 sq ft) in March this year. The scheme is now 60% pre-let, with just 174,000 sq ft remaining.

Also in March, we saw three deals from Serviced Office Provider WeWork, who continue their rapid expansion across central London. They acquired levels 4, 8, 9, & 10 at 2 Minster Court, EC3 (50,091 sq ft at £61.50/sq ft), the whole of 12 Moorgate, EC2 (35,000 sq ft), and levels 2 - 6 at Dixon House, 1 Lloyd's Avenue, EC3 (32,133 sq ft).

Following these deals, at the end of Q1, the Serviced Office Provider sector has actually accounted for the greatest proportion of City office take-up at 20%, followed by the Insurance & Financial Services sector at 18%. There has been a fairly slow start to the year from the Tech & Media sector who have only accounted for 10% of take-up

Total City supply at the end of March stood at 6.7m sq ft, rising by 1.1% on the end of last month and equating to a vacancy rate of 5.2%, which is down on March 2018 by 70 bps, and down on the long term average by 140 bps.

The low supply coupled with the continued stronger than expected demand, has resulted in City rents maintaining their previous levels, and even rising in some instances. At the end of Q1, the average prime rent is £78.60/sq ft, compared with £79.79/sq ft for this point last year, but up on Q4 2018 figure of £76.85/sq ft. The average grade A rent for the first quarter settled at £64.12/sq ft, which is up on this point last year by 3.7% (£61.84/sq ft), and Q4 2018 by 1.7% (£63.06/sq ft). While it is very encouraging to see these high averages for the first quarter, we must remember that they are averages from a relatively small data set. As the year progresses, and the sample data size increases, we believe it is likely these rents will start to reduce slightly.

72%

of take-up to date has been in the City core



45%

of all deals signed this year have been for 10 years or more

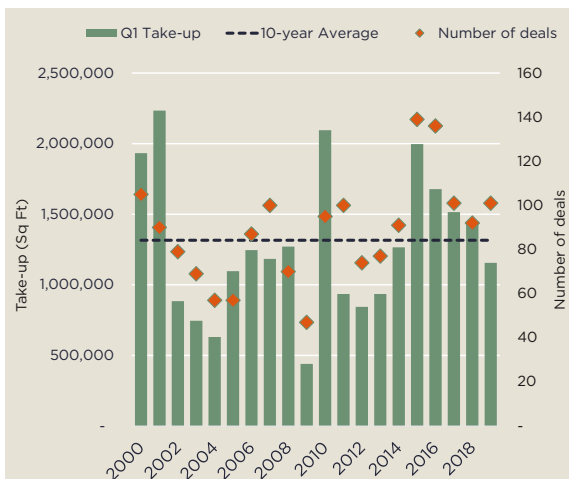


24%

of supply is tenant sub-let space

City Q1 take-up

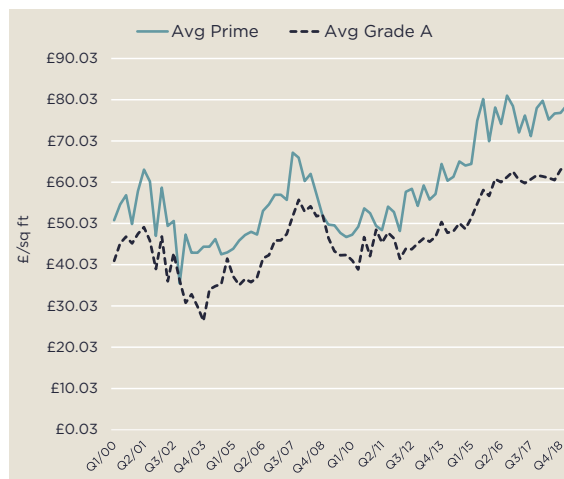
Graph 1



Source: Savills

City rents

Graph 2



50%

of all rents achieved this year have been over £60/sq ft

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Apr-18	332,827	86%	7,182,714
May-18	971,570	89%	7,725,012
Jun-18	676,861	85%	7,711,298
Jul-18	650,113	84%	7,906,237
Aug-18	324,927	84%	7,197,527
Sep-18	800,467	84%	7,469,859
Oct-18	890,128	86%	7,666,632
Nov-18	843,039	86%	7,849,269
Dec-18	658,728	86%	7,598,586
Jan-19	243,597	85%	7,389,851
Feb-19	274,698	82%	7,487,899
Mar-19	637,850	74%	7,304,805

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Mar 18	1,449,926	-13%	87%
Jan 19 - Mar 19	1,156,145	-20%	74%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Apr-18	£84.50	£64.81			
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		
Nov-18	£69.00	£59.68	£48.78		
Dec-18	£77.50	£64.66	£49.17	£76.85	22
Jan-19	£83.50	£63.53	£42.00		
Feb-19	£76.00	£66.38	£45.43		
Mar-19	£85.00	£63.32	£48.50	£78.60	23

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
7,362,412	74%	-1.6%	5.8%
7,372,085	72%	0.1%	5.8%
7,034,850	73%	-4.6%	5.5%
6,679,703	73%	-5.0%	5.3%
6,854,116	72%	2.6%	5.4%
7,035,243	74%	2.6%	5.5%
6,501,808	72%	-7.6%	5.1%
6,569,635	74%	1.0%	5.1%
6,826,661	72%	3.9%	5.3%
6,426,517	74%	-5.9%	5.0%
6,656,045	71%	3.6%	5.2%
6,727,363	73%	1.1%	5.2%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2019	2,172,949	2,778,857	4,951,806	45%
2020	2,561,182	1,456,933	4,018,115	14%
2021	1,786,531	1,246,855	3,033,386	37%
2022	949,674	1,751,380	2,701,054	0%
Total	7,470,336	7,234,025	14,704,361	27%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.7m
City Active Requirements (sq ft)	7.6m
City Total Requirements (sq ft)	10.3m
% change on 12 month ave	7%
Total under offer (sq ft)	2.1m
Under offer this month (sq ft)	159,806
% change on average (total)	59%
Landlord controlled supply	76%
Tenant controlled supply	24%

*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
100 Liverpool Street, EC2	8, 9	68,275	A	Confidential	Milbank LLP	British Land / GIC
1 Angel Lane, EC4	7, Part 8	53,011	A	Confidential	Mastercard	Nomura (Sub-Lessor)
2 Minster Court, Mincing Lane, EC3	4, 8, 9, 10	50,091	B	£61.50	WeWork	M&G Real Estate
100 Liverpool Street, EC2	Part 7	40,000	A	Confidential	Peel Hunt	British Land / GIC
12 Moorgate, EC2	Building	35,000	A	Confidential	WeWork	SRE
Dixon House, 1 Lloyds Avenue, EC3	2 - 6	32,133	A	Confidential	WeWork	Mapfre
6 New Street Square, EC4	3, 4	24,000	A	£57.40	Alix Partners	
Two London Wall Place, EC2	8, 9	23,272	A	£67.00	IFM Investors	Brookfield / Oxford Properties
One Bartholomew, Barts Square, EC1	8	19,619	A	Confidential	The Trade Desk	Helical / Ashby Capital
1 Creechurch Place, Creechurch Lane, EC3	4	16,002	A	£64.00	Hyperion	Helical / HOOP

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
70 St Mary Axe	EC3	174,420	
The Scalpel, 52 Lime Street	EC3	142,275	further 47,857 sq ft under offer
Wenlock Works	N1	128,573	further 23,659 sq ft under option
Broadwalk House, 5 Appold Street	EC2	113,528	
30 St Mary Axe	EC3	107,196	
3 Minster Court	EC3	102,560	
Devon House	E1	93,684	
One Bartholomew	EC1	76,962	further 19,504 sq ft under offer
100 Bishopsgate	EC3	74,938	further 65,080 sq ft under offer
The Bower (The Tower)	EC1	50,311	

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