



July sees over 1m sq ft of take-up due to high pre-letting, ensuring supply will remain constrained

Take-up for July reached 1,026,352 sq ft across 29 deals, resulting in the total for the year reaching 3.5m sq ft, which is down on this point last year by 17%. However, this is the largest single month of take-up since August 2017 and is now up on the 10-year average take-up to the end of July by 2%. This brings the 12-month rolling total to 6.9m sq ft, of which 85% has been of a grade A standard.

We expect to see take-up continue at this strong rate for the remainder of the year as there is currently just under 2m sq ft of space under-offer, which is up on the long-term average by 51%.

The largest deal to complete in July saw BT Group pre-let the whole of One Braham Street, E1 equating to 328,011 sq ft, which is also the largest deal of the year so far. It is believed the telecommunications giant agreed a 15-year lease at a blended rent in the late £50's/sq ft. While the Starwood/Aldgate Developments scheme, which is due for completion in Q2 2020, is now entirely pre-let, there is a possibility that BT will bring a portion of the space back to the market available for sub-let.

Also in July, we saw Cooley acquire levels 22 - 24 at TwentyTwo Bishopsgate, EC2 equating to 74,628 sq ft. This is now the sixth pre-let at the Axa scheme resulting in a total of 391,000 sq ft now being pre-let. It is believed there is an additional 360,000 sq ft of space currently under-offer. Assuming all of these transactions complete prior to expected completion of the building in Q1 next year, that would result in the building being delivered to the market with approximately 59% pre-let.

At the end of July, the Insurance & Financial services sector has accounted for 21% of take-up. However, the Serviced Office sector continued their growth across London

having also accounted for 21% of take-up so far this year. Last month saw three deals to WeWork alone equating to 84,026 sq ft, and IWG pre-let the whole of 68 King William Street, EC4 equating to 78,000 sq ft, which is the third largest deal this year to a serviced office provider.

Total City supply fell last month following the strong levels of take-up and currently stands at 6.4m sq ft, falling by 3% on the end of last month and equating to a vacancy rate of 5.0%, which is down on July 2018 by 30 bps, and down on the long term average by 160 bps.

Last month saw five pre-completion lettings across the City equating to 591,000 sq ft or 58% of the month's take-up. We have now seen 963,000 sq ft of pre-completion lettings deals this year equating to 28% of take-up. The high amount of pre-letting is a continuation of a trend we saw last year, where we saw a record number of pre-lets for over 50,000 sq ft.

Currently, we are anticipating 5.8m sq ft of new space to complete next year of which 24% has been pre-let, however this increases to 34% if we include the space which is currently under-offer. It is likely that we will still see the vacancy rate rise next year, although it should remain below the long-term average of 6.6%. Furthermore, supply will remain constrained beyond next year, as 2021 is only expected to see a total of 1.5m sq ft of speculative space complete, and 2022 currently has 2.3m sq ft of speculative space scheduled to complete. With pre-letting expected to continue at a strong rate, the City market should remain under-supplied for the foreseeable future, resulting in average rental growth of 2.2% per annum for the next 5 years.

11 pre-lets

so far this year compared with 12 at this point last year



£64.99/sq ft

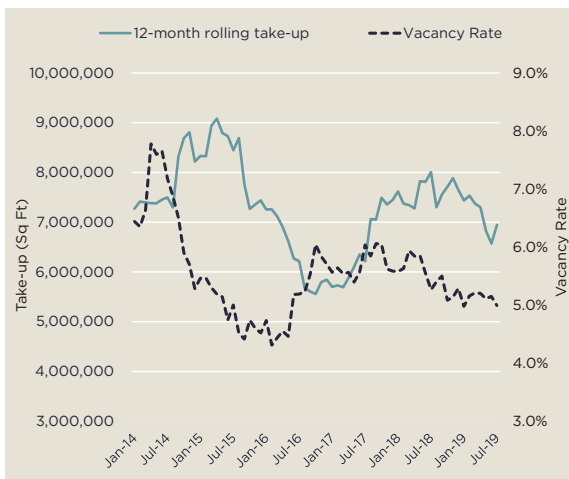
is the current average grade A rent, up on last year by 5.2%



492,000 sq ft went under-offer last month alone

12-month rolling take-up & vacancy rate

Graph 1



Source: Savills

City future pipeline

Graph 2



10.5m sq ft

of current City and Central London requirements

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Aug-18	329,294	83%	7,301,906
Sep-18	785,918	85%	7,559,689
Oct-18	850,043	97%	7,716,377
Nov-18	829,476	83%	7,885,451
Dec-18	669,875	89%	7,645,915
Jan-19	243,597	87%	7,437,180
Feb-19	274,698	78%	7,535,228
Mar-19	627,854	69%	7,375,220
Apr-19	388,341	75%	7,301,558
May-19	501,292	88%	6,827,352
Jun-19	420,272	86%	6,570,773
Jul-19	1,026,352	87%	6,947,012

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - July 18	4,181,309	16%	84%
Jan 19 - July 19	3,482,406	-17%	82%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Aug-18	£75.00	£67.64			
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	£77.94	23
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	£97.50	£68.49	£45.25		

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
6,717,804	74%	-0.1%	5.2%
6,595,845	74%	-1.8%	5.1%
6,647,554	73%	0.8%	5.2%
6,444,820	73%	-3.0%	5.0%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	2,878,371	2,924,750	5,803,121	24%
2021	1,625,988	564,000	2,189,988	31%
2022	2,308,262	545,626	2,853,888	20%
2023	561,920	3,042,305	3,604,225	3%
Total	7,374,541	7,076,681	14,451,222	19%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.4m
City Active Requirements (sq ft)	8.1m
City Total Requirements (sq ft)	10.5m
% change on 12 month ave	6%
Total under offer (sq ft)	2.0m
Under offer this month (sq ft)	491,566
% change on average (total)	51%
Landlord controlled supply	74%
Tenant controlled supply	26%

*Average prime rent is for preceeding 3 months

** Average rent free on leases of 10 years with no breaks for preceeding 3 months

Note: Completions due in the next 6 months are included in the current supply figures

Significant July transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
One Braham, 1 Braham Street, E1	Building	328,011	A	Confidential	BT Group Plc	Starwood/Aldgate Developments
68 King William Street, EC4	Building	77,852	A	Confidential	IWG	Black Mountain
TwentyTwo, 22 Bishopsgate, EC2	22, 23, 24	74,628	A	Confidential	Cooley	Axa
100 Liverpool Street, EC2	6	60,192	A	Confidential	Bank of Montreal	British Land/GIC
Ludgate London, 55 Ludgate Hill, EC4		50,000	A	Confidential	Intermediate Capital Group	Goldman Sachs/Greycoat
Fen Court, 120 Fenchurch Street, EC3	12, 13	45,645	A	Confidential	WeWork	M&G Real Estate
Riverscape, 10 Queen Street Place, EC4	1, 2 North	44,702	A	£66.00	Ion Trading	Knight Frank AM
The Scalpel, 52-54 Lime Street, EC3	32, 33, 34	21,769	A	circa £85.00	Convex	WR Berkley
The Scalpel, 52-54 Lime Street, EC3	28, 29	17,382	A	circa £82.50	Britannia Financial	WR Berkley
The Shard, London Bridge Street, SE1	Part 22	8,906	A	£97.50	Jellyfish	Teighmore Ltd via REM

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
70 St Mary Axe	EC3	146,007	further 58,602 sq ft under offer
Broadwalk House, 5 Appold Street	EC2	141,388	
The Scalpel, 52 Lime Street	EC3	133,771	
Devon House	E1W	93,684	
Kaleidoscope Farringdon	EC1	90,884	
Broadgate West, 9 Appold Street	EC2	82,099	
30 St Mary Axe	EC3	77,780	further 9,741 sq ft under offer
3 Minster Court	EC3	68,014	
77 Coleman Street	EC2	67,371	
Wenlock Works	N1	64,669	further 63,904 sq ft under offer

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