

City Office Market Watch



Take-up and requirements increase month on month, although under-offers continue to fall

Please note that this piece is not intended as an analysis of COVID-19 on the office market, rather a factual analysis of the current market metrics.

Encouragingly July saw a further increase in leasing activity with 355,089 sq ft of take-up in the City, bringing the total for the year to date to 2.2m sq ft, which is 40% down on this point last year and 39% down on the 10-year average. The 12-month rolling take-up is now at 5.4m sq ft, which is 17% down on the 10-year average, and the lowest it has fallen to since May 2013.

The largest deal to complete last month saw Baker & McKenzie LLP acquire levels G and 6 - 13 (152,690 sq ft) at 280 Bishopsgate, EC2. The leading global law firm agreed a 15-year term ahead of their 2023 lease expiry at their current offices at 100 New Bridge Street, EC4. The scheme, which is being developed by CBRE Global Investors and King Street Real Estate in partnership with Arax Properties is undergoing a comprehensive refurbishment and is set to be completed in Q3 2021.

Also last month, we saw JA Kemp acquire the whole of The Stills, 76 Turnmill Street, EC1 (37,867 sq ft). The patent attorney agreed to a straight 15-year lease at £75.00/sq ft with 31 months rent free. They will be moving from their current address at 14 South Square, WC1 at the start of next year.

The Professional Services sector continues to be the primary source of demand across the market having accounted for 35% of take-up so far this year. There has been good levels of demand from the Tech & Media sector and the Insurance & Financial Services sector accounting for 20% and 14% respectively.

At the end of July there is currently 7.9m sq ft of available supply, equating to a vacancy rate of 5.8%, which is up on this point last year by 100bps but still down on the long-term average of 6.6%. Currently, 81% of supply is of a grade A standard, which is down on the 5-year average of 84%.

We have continued to see tenant sub-let space arrive to the market over the past month. At the end of July tenant space had increased by 12% on the previous month settling at 2.64m sq ft, equating to 33% of total supply. This is up on the 5-year average of a 24% share and we are expecting this trend to continue throughout the remainder of this year.

While the development pipeline is fairly constrained over the next 5 years, we are expecting 3.9m sq ft of completions next year, of which 29% is already pre-let leaving 2.7m sq ft of space still to arrive. There is 772,000 sq ft of speculative space scheduled to complete in Q1 2021, and therefore will be added to current supply figures at the end of Q3, which will result in pushing the vacancy rate to 6.4% based off the current supply figure.

While we are still seeing the level of potential requirements increase (rising from 3.25m sq ft at the end of Q2 to 3.53m sq ft at the end of July) the level of active requirements has also increased by 2% over the same time period, settling at 5.59m sq ft. This brings the total level of requirements to 9.12m sq ft, which is 3% up on the long-term average and in-line with the 12-month average.

We only saw an additional 58,439 sq ft of space be placed under-offer last month, bringing the total level of under offers to 991,982 sq ft. This is down on the long-term average by 24%, and the lowest it has fallen to since March 2017.



355,089 sq ft
of take-up in last month was the lowest July take-up since 2011



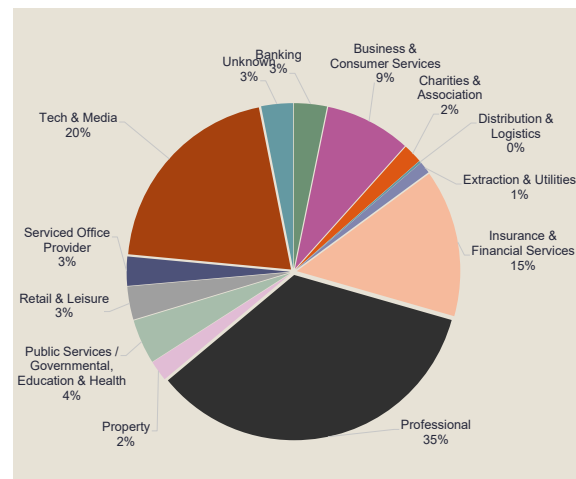
8.1 years
is the current average lease term



£66.64/sq ft
is the current 2020 average grade A rent, which is actually the highest figure for the first 7 months of the year on record

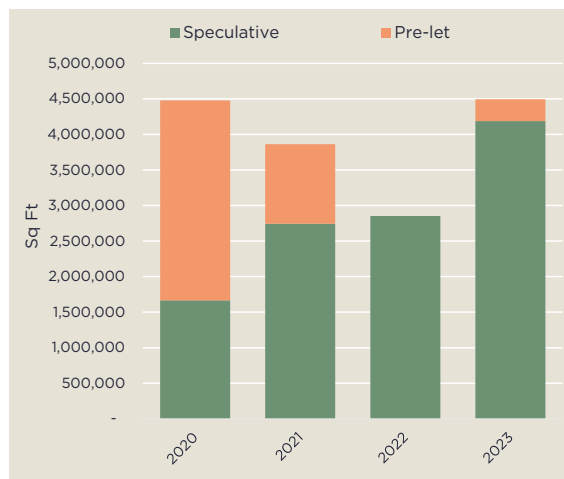
City 2020 take-up by business sector

Graph 1



City development pipeline

Graph 2



150 deals
so far this year, which is down by 79 on this point last year

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Aug-19	438,735	76%	7,220,662
Sep-19	590,824	75%	7,025,568
Oct-19	726,377	71%	6,901,902
Nov-19	797,973	91%	6,870,399
Dec-19	613,711	74%	6,814,236
Jan-20	229,658	77%	6,800,297
Feb-20	666,407	97%	7,192,013
Mar-20	441,261	79%	6,994,058
Apr-20	170,571	100%	6,717,763
May-20	89,960	93%	6,301,785
Jun-20	242,998	86%	6,094,390
Jul-20	355,089	91%	5,363,564

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Jul 19	3,646,616	-10%	80%
Jan 20 - Jul 20	2,195,944	-40%	89%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
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
Apr-20	£95.00	£71.71	N/A		
May-20	£79.00	£70.00	N/A		
Jun-20	£72.00	£64.39	£47.00	£80.70	25
Jul-20	£80.00	£68.24	£42.50		

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
7,219,970	80%	0.7%	5.3%
7,770,557	80%	7.6%	5.7%
7,772,292	81%	0.0%	5.7%
7,907,629	81%	1.7%	5.8%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	1,884,960	2,592,902	4,477,862	63%
2021	2,353,429	1,508,726	3,862,155	29%
2022	1,705,591	1,146,247	2,851,838	0%
2023	1,131,323	3,363,363	4,494,686	7%
Total	7,075,303	8,611,238	15,686,541	27%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	3.5m
City Active Requirements (sq ft)	5.6m
City Total Requirements (sq ft)	9.1m
% change on 12 month ave	0%
Total under offer (sq ft)	1m
Under offer this month (sq ft)	58,439
% change on average (total)	-24%
Landlord controlled supply	67%
Tenant controlled supply	33%

*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
280 Bishopsgate, EC2	G, 6 - 13	152,690	A	Confidential	Baker & McKenzie LLP	CBREGi/Arax
The Stills, 76 Turnmill Street, EC1	Building	37,867	A	£75.00	JA Kemp	LGA
77 Coleman Street, EC2	4, 5, 6	27,674	A	£73.65	Amundi	Kajima
135 Bishopsgate, EC2	9	19,994	A	£72.50	TP ICAP	British Land/GIC
Tenter House, 45 Moorfields, EC2	4, 9	18,981	B	£25.00	Crossrail	Freshwater
70 St Mary Axe, EC3	5	16,517	A	£67.50	Vattenfall	Nuveen Real Estate
Fetter Yard, 86 Fetter Lane, EC4	1	14,995	A	£57.50	The Workshop Technologies	Europa Capital/Hobart Partners
Broadgate West, 9 Appold Street, EC2	3	12,979	A	£45.00	Shawbrook Bank	ION Trading Limited
Salesforce Tower, 110 Bishopsgate, EC2	23	12,582	A	Confidential	Rider Levell Bucknall	Tibco
70 St Mary Axe, EC3	11 part	9,180	A	£76.00	Cubico	Nuveen Real Estate

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
TwentyTwo Bishopsgate	EC2	420,228	further 50,935 sq ft under offer
Sixty London Wall	EC2	324,621	
155 Bishopsgate	EC2	159,290	
Aldgate Tower	E1	140,255	
Kaleidoscope Farringdon	EC1	90,884	
100 Bishopsgate	EC2	83,881	
The Hickman, 2 Whitechapel Rd	E1	76,327	
Broadwalk House, 5 Appold Street	EC2	59,674	
Script, 44 Featherstone Street	EC1	51,056	
Fetter Yard, 86 Fetter Lane	EC4	49,840	further 14,995 sq ft under offer

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