

City Office Market Watch



Leasing activity picks up and space under-offer increases, despite second lockdown

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.

Take-up picked up in November, despite the UK going into a second national lockdown, with 16 transactions completing in the month, up from 6 transactions in October. November take-up equates to 122,932 sq ft, the highest monthly take-up since July but down 77% on the 10 year monthly average.

This brought take-up for the year so far to 2.54m sq ft, down 55% on the 10 year long-term average and 58% on the same period during 2019. Leasing activity has continued to be driven by occupiers acquiring space in Grade A buildings and this has accounted for 88% of take-up.

The largest transaction to complete last month was at 60-72 Upper Ground, SE1, where Proposition Studios took the 10th to 13th floors (23,570 sq ft) at £25.00 per sq ft. The next largest transaction to complete was Four Communication's acquisition of the 5th to 7th floors at the Hickman, Whitechapel Road, London, E1, on a 10 year lease, at £62.15 per sq ft.

The Professional Services sector continues to be the main driver of demand across the City, having so far accounted for 33% of year-to-date take-up, followed by the Tech & Media sector with 19%, and then by the Insurance & Financial sector with 16%.

Encouragingly we continued to see space under offer increasing, with a further 147,580 sq ft going under offer in November. This brings the total amount of of under offers to 1.1m sq ft, the highest level it has been at since June. The Professional Services sector currently accounts for 54% of space under offer where the tenant is known, followed by the Property sector with 20%. Whilst this remains down on the long-term average by 12%, it gives some indication we

could see a pick-up in activity at the start of 2021.

There were also positive signs of building levels of underlying demand, with both active and potential City & Central London requirements up 6% on the previous month, standing at 10.1m sq ft, compared with 9.6m sq ft in October.

The Professional Services sector accounts for over a third, (35%) of the current quantum of tenants actively searching for office space across the Central London & the City. This is followed by the Insurance & Financial and Tech & Media sectors with 25% and 18% respectively.

Supply continued to rise during November and at the end of the month supply stood at 9.7m sq ft, up 9% on the previous month's 9.0m sq ft. This brought the vacancy rate to 7.2%, up 60 bps on the previous month and 30 bps on the long term average of 6.9%. This is the largest outward movement since September and mainly as a result of newly marketed Landlord space in the City Core sub-market area, including 10 Fleet Place, EC4, 10 & 20 Old Baily, EC4.

As expected, tenant controlled supply continued to increase in November. At the end of the month tenant controlled supply stood at 2.9m sq ft, up 3% on a month earlier. This equates to 30% of total supply. 57% of all tenant controlled space is located in the City Core. The EC2 postcode continues to account for the greatest proportion of tenant controlled supply since lockdown in March, with 22%. This is followed by EC4 with 21% and then by SE1 with 18%.

The average prime rent achieved so far this year currently stands at £81.61/sq ft, which is down 2% on 2019 but up 21% on the 10 year average. The average Grade A rent currently stands at £65.73/sq ft, up 2% on 2019 and 23% on the 10 year average.



196 transactions have completed so far this year compared to 373 at the of the same period in 2019



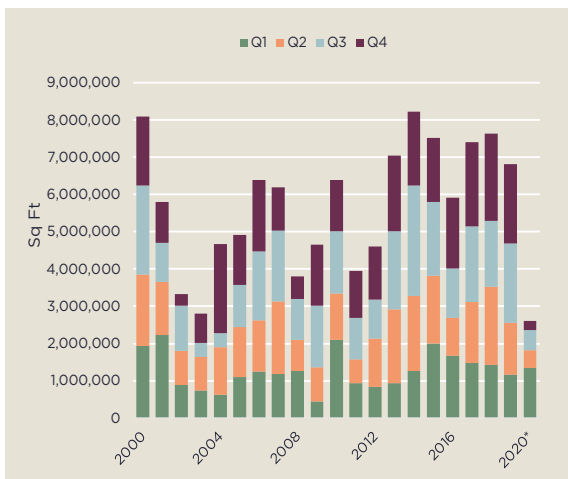
1.1m sq ft Space under offer is up 15% on the previous month



£65.73/sq ft is the current average Grade A rent achieved so far this year

City year-to-date take-up

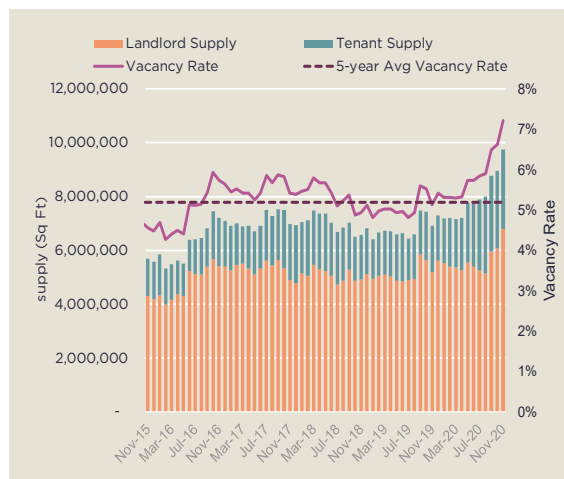
Graph 1



Source: Savills

City supply & vacancy rate

Graph 2



7m sq ft of current City and Central London requirements are active

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
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	449,136	78%	7,001,933
Apr-20	170,571	100%	6,725,638
May-20	89,960	93%	6,309,660
Jun-20	208,347	83%	6,067,614
Jul-20	333,556	90%	5,315,255
Aug-20	44,144	100%	4,920,664
Sep-20	161,924	82%	4,491,764
Oct-20	65,062	81%	3,830,449
Nov-20	122,932	73%	3,155,408

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Nov 19	6,228,882	-11%	80%
Jan 20 - Nov 20	2,541,697	-59%	87%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Dec-19	£87.50	£63.25	£48.29	£78.03	23
Jan-20	£84.00	£69.83	£40.40		
Feb-20	£82.00	£66.48	£48.75		
Mar-20	£77.50	£62.60	£51.67	£80.43	23
Apr-20	£95.00	£71.71	N/A		
May-20	£79.00	£70.00	£59.50		
Jun-20	£72.00	£64.39	£47.00	£80.70	25
Jul-20	£80.00	£67.13	£37.50		
Aug-20	£70.00	£61.85	N/A		
Sep-20	£80.00	£61.20	£42.21	£77.00	25
Oct-20	£64.00	£59.52	N/A		
Nov-20	£78.00	£68.17	£51.00		

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
7,999,889	81%	1.2%	5.9%
8,784,217	83%	9.8%	6.5%
8,966,457	83%	2.1%	6.6%
9,764,541	82%	8.9%	7.2%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,974,210	1,515,675	3,489,885	32%
2022	1,638,283	1,180,412	2,818,695	0%
2023	1,613,613	3,515,735	5,129,348	6%
2024	2,332,388	1,864,385	4,196,773	5%
Total	7,558,494	8,076,207	15,634,701	10%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	3.1m
City Active Requirements (sq ft)	7.0m
City Total Requirements (sq ft)	10.1m
% change on 12 month ave	6%
Total under offer (sq ft)	1.1m
Under offer this month (sq ft)	169,050
% change on average (total)	-12%
Landlord controlled supply	70%
Tenant controlled supply	30%

*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 November Transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
60-72 Upper Ground, SE1	10-13	23,570	B	£25.00	Proposition Studios	Mitsubishi Estate
The Hickman, 2 Whitechapel Road, E1	5,6,7	17,700	A	£62.15	Four Communications	GPE
Tea Building, 56 Shoreditch High St, E1	3.3 3.8 3.9	17,228	B	£59.50	Transferwise	Derwent London
5 New Street Square, EC4	5th pt	14,477	A	£66.00	McGuire Woods	Taylor Wessing
1 Tudor Street, EC4	5	10,136	A	£68.00	Enyo Law	Axa

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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 option
Sixty London Wall	EC2	324,621	
One Portsoken Street	E1	232,094	
2 Gresham Street	EC2	178,199	
155 Bishopsgate	EC2	159,290	
Aldgate Tower	E1	153,833	
LDN:W, 3 Noble Street	EC2	102,899	further 9,500 sq ft is under offer
88 Leadenhall Street	EC3	98,522	
Southworks, 17 - 21 Rushworth Street	SE1	70,000	
Script, 44 Featherstone Street	EC1	51,056	

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