

# City Office Market Watch



## We are expecting rental falls in H2 before rebounding next year once normality returns

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

Encouragingly June saw an increase in leasing activity with 242,998 sq ft of take-up in the City, bringing the total for the year to date to 1.84m sq ft, which is 28% down on this point last year and 36% down on the 10-year average for the first half. The 12-month rolling take-up is now at 6.1m sq ft, which is 6% down on the 10-year average.

The largest deal to complete last month saw Arcadis acquire levels five and six (40,654 sq ft) at Eighty Fen, 80 Fenchurch Street, EC3 on a 15-year lease at £69.00/sq ft with 27 months rent free. The Partners/YardNine scheme recently achieved practical completion and is now 44% let with 135,000 sq ft remaining available.

Also last month, we saw Avenir Global acquire levels 5 and 6 (34,791 sq ft) at Riverside House, 2a Southwark Bridge Road, SE1 on a straight 10-year lease at £70.00/sq ft. The Montreal based holding and management company will be moving from their current space in 160 Blackfriars Road, SE1. There is now just 38,468 sq ft remaining available across levels 7 - 9 and 11.

The Professional Services sector continues to account for the majority of take-up with a 31% share at the end of H1. They are followed by the Tech & Media sector and the Insurance & Financial Services sector at 23% and 15% respectively. Interestingly, the Serviced Office Provider sector has only accounted for 3% of take-up so far this year equating to just 62,593 sq ft, down on the 555,676 sq ft they had transacted by this point last year.

At the end of Q2 2020 there is currently 7.8m sq ft of available supply, equating to a vacancy rate of 5.7%, which is up on Q2 last year by 70bps but down on the long-term average of 6.6%. This is also the 69th consecutive month of

the vacancy rate being sub 6%. Currently, 81% of supply is of a grade A standard, which is down on the 5-year average of 84%. The majority of supply (57%) is within the City core, and therefore has a higher vacancy rate of 6.9%, compared with just 4.9% in the fringes.

It seems likely that supply in the City will begin to rise over the next 12 months due to COVID-19. Currently, tenant controlled space accounts for 30% of available supply, which is up on the 5-year average of 24%, however, it is likely that this will continue to increase due to the impact of the pandemic on unemployment and occupiers reassessing their office requirements, although to what extent remains unclear. Since the start of lockdown in mid-March we have seen 1m sq ft of tenant supply arrive to the market, however circa half of this was already planned to be brought to the market anyway. The sectors that have accounted for the greatest proportion of tenant supply so far have been the Insurance & Financial services sector at 16%, the Tech & Media sector at 15%, and the Banking sector at 15%.

We are forecasting the City vacancy rate to reach 6.5% by the year-end, just 10bps below the long-term average. We are then expecting this to reach a high of 8.0% by the end of 2022 before falling to 7.3% by the end of 2024.

At the end of H1 this year, the current average prime rent is £81.80/sq ft, which is up on last year by 1.4%. Meanwhile, the average grade A rent has settled at £66.49/sq ft, which is also up on last year by 3.0%, although this is still only analysing a small number of deals, and we are expecting the rental falls to come in the second half of the year.

We are forecasting Q4 2020 average prime rents to fall by 7.1% in comparison with Q4 2019. These are then expected to rebound next year with a 6.6% increase. On average we are forecasting 2.5% per annum increases for average prime rents over the next 5 years.



**503,529 sq ft** of take-up in Q2 was the lowest amount of quarterly take-up since Q1 2009



**62,152 sq ft** was placed under-offer last month



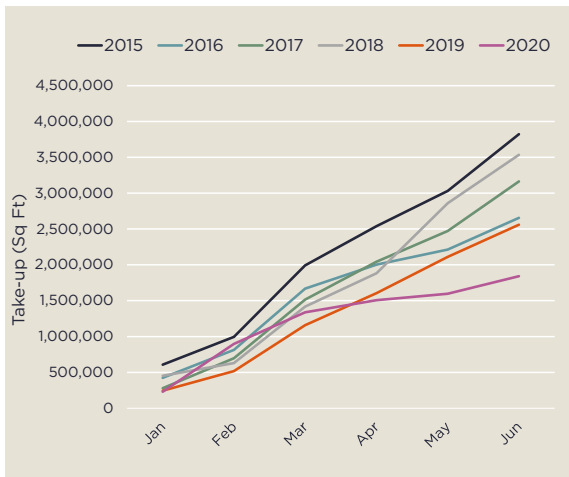
**3.8m sq ft** of new space is set to complete next year, of which 25% is already pre-let, leaving just **2.9m sq ft** of spec space still to arrive



**134 deals** so far this year, which is down by 60 on this point last year

### City cumulative take-up for H1

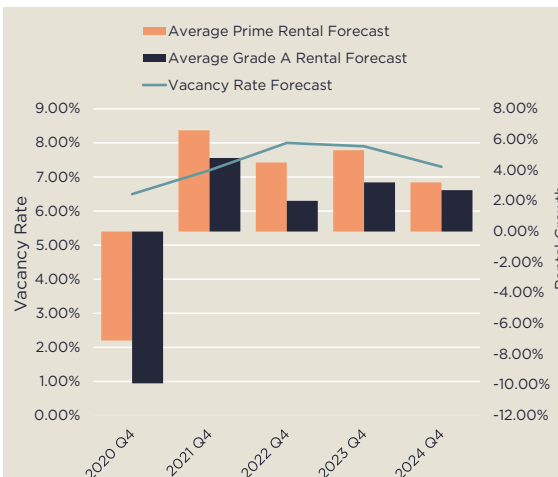
Graph 1



Source: Savills

### City vacancy rate and rental forecasts

Graph 2



Source: Savills

## Analysis close up

### Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jul-19	1,085,915	91%	7,111,221
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

### Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Jun 19	2,560,701	-28%	76%
Jan 20 - Jun 20	1,840,855	-28%	89%

### Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
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
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

### Supply

Table 2

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

### Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	1,911,417	2,592,902	4,504,319	61%
2021	2,334,429	1,508,726	3,843,155	25%
2022	1,705,591	1,146,247	2,851,838	0%
2023	1,131,323	3,363,363	4,494,686	7%
Total	7,082,760	8,611,238	15,693,998	26%

### Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	3.3m
City Active Requirements (sq ft)	5.5m
City Total Requirements (sq ft)	8.7m
% change on 12 month ave	-6%
Total under offer (sq ft)	1.4m
Under offer this month (sq ft)	62,152
% change on average (total)	8%
Landlord controlled supply	70%
Tenant controlled supply	30%

\*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 June Transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Eighty Fen, 80 Fenchurch Street, EC3	5, 6	40,654	A	£69.00	Arcadis	Partners/Exemplar
Riverside House, SE1	5, 6	34,791	A	£70.00	Avenir Global	Alduwaliya
3 More London Riverside, SE1	4 part	34,651	A	Confidential	Ocado	Norton Rose Fullbright (Sub-Lessor)
The Walkie-Talkie, 20 Fenchurch Street, EC3	30	27,833	A	Confidential	Baker Botts	Jane Street Capital (Assignor)
22 Shand Street, SE1	G, 1, 2, 3	15,004	B	Confidential	(Undisclosed Media)	Hermes Real Estate
20 Gracechurch Street, EC3	3 part	12,086	A	£67.77	AXA XL	Aviva
The Bureau, 90 Fetter Lane, EC4	2	9,378	A	£72.00	Miniclip Limited	Evans Randall
The Eye, 110 High Holborn, WC1	6	8,862	A	£64.50	Claranet Limited	UOL
159-173 St John Street, EC1	3	5,971	A	£65.00	Alexander McQueen	Meritcape
Stylus, 116 Old Street, EC1	1	5,437	A	£71.50	Greensill	Coastview Estates

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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	264,810	further 59,811 sq ft under offer
155 Bishopsgate	EC2	159,290	
Aldgate Tower	E1	140,255	
Kaleidoscope Farringdon	EC1	90,884	
100 Bishopsgate	EC2	83,881	
Script, 44 Featherstone Street	EC1	51,056	
Fetter Yard, 86 Fetter Lane	EC4	49,840	further 14,995 sq ft under offer
Devon House	E1W	48,701	
The Hickman, 2 Whitechapel Rd	E1	48,125	further 28,202 sq ft under offer

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