

City Office Market Watch



Q2 take-up figures up marginally on previous quarter, whilst requirements and under offers continue to rise

Take-up for Q2 2021 reached 790,622 sq ft, bringing the H1 total take-up to 1.57m sq ft across 118 deals and a marginal increase on Q1 take-up (779,068 sq ft). Comparatively, in terms of space H1 2021, is down 14% on the same point last year and down on the five-year average by 38%.

We have continued to see Grade A space being the strong preference for occupiers within the City, as 89% of H1 take-up has been of such quality, with the 'Flight to Quality' showing no signs of slowing.

The largest transaction to complete in June saw Depop acquire the second floor at 20 Farringdon Street, EC4 (33,500 sq ft). The clothing company app signed on a five-year lease from Derwent, with terms remaining confidential.

Other notable transactions include: public relations firm SEC Newgate acquired the entirety of 14 Greville Street, EC1 (14,049 sq ft) on a 10-year term at £55.00/sq ft. Law firm Goodwin Procter acquired the seventh floor at Bow Bells House, 11 Bread Street, EC4 (13,834 sq ft) on a short, three-year deal at £57.50/sq ft. The top rent achieved in June saw Loomis Sayles sign the sixth floor of 77 Coleman Street, EC2 (8,115 sq ft) on a 10-year term with a break option in the fifth year, at £82.50/sq ft and 24 months rent free.

At the halfway point of the year, the Professional Services sector remains the largest in terms of take-up, accounting for 23%. The Insurance & Financial Services sector and the Public Services/Governmental, Education & Health sector followed behind with 16% and 15% respectively. A delve into the Professional Services take-up reveals 54% of deals were under 10,000 sq ft

June saw City supply reach 12.5m sq ft; this equates to a vacancy rate of 9.0%. Compared to June levels last year, this is up 330 bps and also unsurprisingly up on the long-term average of 6.6%. The increase in supply can be partially attributed to the addition of 200,000 sq ft of developments

due to complete in Q4 2021. Furthermore, Q4 will see JLT's space at the St Botolph Building, 138 Houndsditch, EC3 (290,000 sq ft) released onto the market. We anticipate the vacancy rate to peak at 9.3% in 2022 due to 6.2m sq ft of space due to complete between now and the end of next year of which only 18% is pre-let.

Further analysis of supply reveals, 84% of supply was of Grade A standard, which is in line with the five-year average. The majority of supply (61%) is within the City core and, therefore, has a higher vacancy rate of 11.7%, compared with just 6.6% in the fringe.

With the continued relaxation of regulations and 'Freedom Day', demand for office space across Central London and the City has continued to increase. Currently, total requirements stand at 10.2m sq ft across central London and the City. This is made up of 8.0m sq ft of active demand and 2.2m sq ft potential demand.

As to be expected following an increase in requirements, we have seen the total space under offer increase by a third since January 2021 reaching 1.38m, this is up 6% on the long-term average of 1.3m sq ft. Additionally, June saw 226,031 sq ft being placed under offer - this is the highest so far since March 2020.

The current average prime rent for H1 settled at £80.39/sq ft, which is down on last year by 1%. Meanwhile, the average grade A rent has settled at £62.72/sq ft, which is also down on last year by 7.9%. Furthermore, during the pandemic we have experienced the increase in incentives being offered. At the end of H1 the average months rent free on a straight 10-year lease, with no break, came to 27 months.



790,622 sq ft
of take-up in Q2, across
68 deals



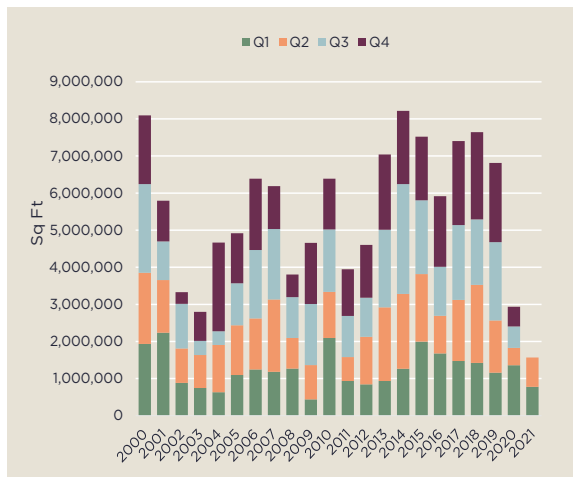
Highest monthly under
offer figure since
September 2019
(226,031 sq ft)



Total under offers (sq ft)
are up **33%** on the start
of 2021

City quarterly take-up

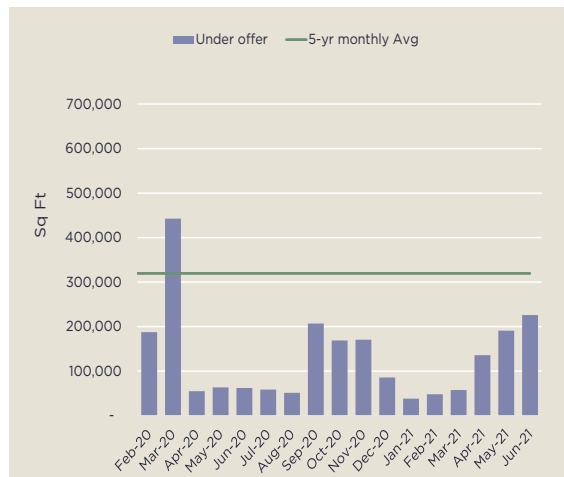
Graph 1



Source: Savills

City monthly under offers

Graph 2



118 deals so far this year,
down **14%** on this time
last year

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jul-20	362,467	91%	5,356,637
Aug-20	44,144	100%	4,962,046
Sep-20	164,364	80%	4,535,586
Oct-20	90,155	96%	3,899,364
Nov-20	114,071	88%	3,215,462
Dec-20	325,760	82%	2,927,511
Jan-21	290,033	97%	2,979,900
Feb-21	217,455	90%	2,526,463
Mar-21	271,580	94%	2,348,907
Apr-21	361,127	83%	2,539,463
May-21	203,005	78%	2,652,508
Jun-21	226,490	88%	2,670,651

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - Jun 20	1,818,564	-29%	89%
Jan - Jun 21	1,569,690	-14%	89%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jul-20	£80.00	£67.13	£37.50		
Aug-20	£70.00	£61.85			
Sep-20	£80.00	£61.20	£47.97	£77.00	25
Oct-20	£64.00	£61.51	£55.00		
Nov-20	£78.00	£67.93	£43.00		
Dec-20	£85.00	£65.09	£39.81	£75.00	23
Jan-21	£81.50	£66.64	£50.00		
Feb-21	£81.50	£58.42	£33.63		
Mar-21	£108.75	£66.70	£55.00	£82.50	28
Apr-21	£72.00	£61.50	£43.34		
May-21	£74.50	£60.77	£58.85		
Jun-21	£82.50	£62.28	£43.50	£77.25	27

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
10,419,978	84%	6.7%	7.6%
11,609,763	82%	11%	8.4%
12,009,405	83%	3%	8.7%
12,312,231	84%	3%	8.9%
12,004,918	84%	-2%	8.7%
12,004,541	84%	0%	8.7%
12,457,214	84%	4%	9.0%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,603,374	739,548	2,342,922	8%
2022	1,456,900	2,458,114	3,915,014	21%
2023	1,488,468	2,454,393	3,942,861	16%
2024	1,766,696	2,482,349	4,249,045	12%
Total	6,315,438	8,134,404	14,449,842	15%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.2m
City Active Requirements (sq ft)	8.0m
City Total Requirements (sq ft)	10.2m
% change on 12 month ave	4%
Total under offer (sq ft)	1.4m
Under offer this month (sq ft)	226,031
% change on average (total)	-3%
Landlord controlled supply	75%
Tenant controlled supply	25%

*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 June transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
20 Farringdon Street, EC4	2	33,500	A	Confidential	Depop	Derwent
14 Greville Street, EC1	Building	14,049	A	£55.00	Sec Newgate	Iznak Properties
Bow Bells House, 11 Bread Street, EC4	7	13,834	A	£57.50	Goodwin Proctor	Bank of Ireland
Watermark Place, 1 Angel Lane, EC4	Part 8	13,500	A	£63.00	Metlife	Nomura
CityPoint, 1 Ropemaker Street, EC2	17	11,926	A	Confidential	Simpson Thacher Bartlett	Brookfield

Savills contacts

Please contact us for further information

Peter Thursfield
Director
City Agency
020 7409 8928
pthursfield@savills.com

Stuart Lawson
Director
City Agency
020 7409 8920
slawson@savills.com

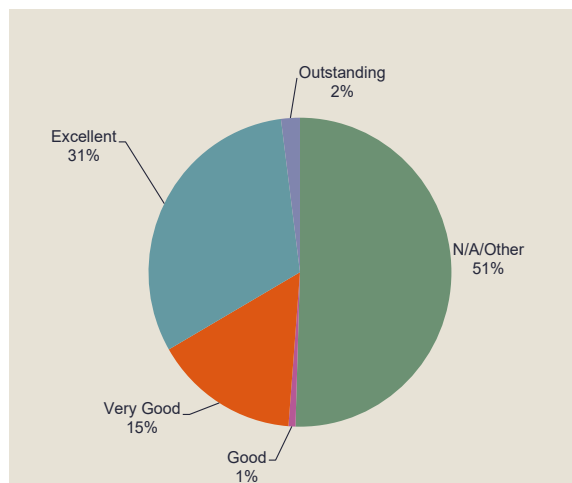
Josh Lamb
Director
City Agency
020 7409 8991
jlamb@savills.com

Will Wilson
Analyst
Research
020 7409 8791
will.wilson@savills.com

In Focus - The BREEAM Rating

Take-up (2018-2021)

Graph 3



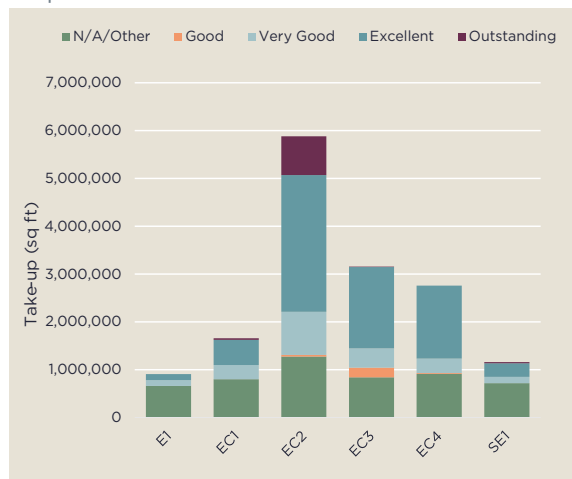
This month's In Focus looks at the BREEAM sustainability rating, as the attention to ESG grows exponentially. Looking at graph 3, we can see that 49% of transactions since the start of 2018 have been of BREEAM rating Good or above, with 31% being rated Excellent. In terms of quantum of space, two thirds of total take-up has been of BREEAM rating Very Good or higher (66%), showing a clear occupier preference for premium and sustainable office space.

As per graph 4, 30% of total take-up (sq ft) has been located in EC2, including 18% being Excellent rated. This is followed EC3 and EC4 who account for 15% and 11% respectively.

With demand for sustainable office space increasing, developers are targeting the higher BREEAM ratings. 62% of development set to complete between 2021 and 2024 are BREEAM rated Very Good and above, with the majority aiming for Excellent and above.

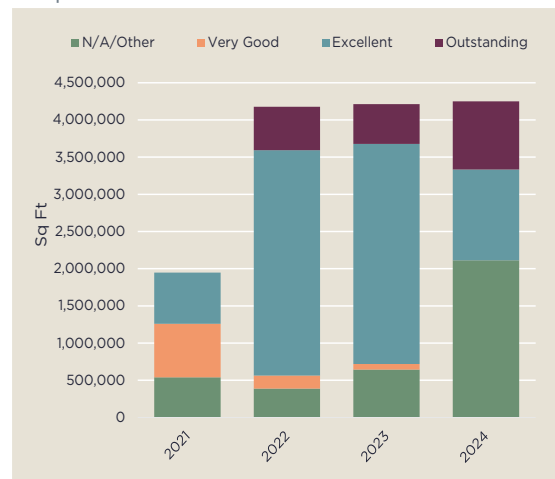
Take-up by location (2018-2021)

Graph 4



Development pipeline

Graph 5



Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

