

City Office Market Watch



May sees an uptick in the level of requirements, although more are being placed on hold

Leasing transactions were muted last month with just 90,305 sq ft of take-up in the City, bringing the total for the year to date to 1.6m sq ft, which is 23% down on this point last year and 31% down on the 10-year average for this part of the year. The 12-month rolling take-up is now at 6.2m sq ft, which is 4% down on the 10-year average. 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.

The largest deal to complete last month saw Trainline acquire level six (18,063 sq ft) at 120 Holborn, EC1 on a lease until June 2026 at £66.00/sq ft. They also extended their leases on the second and third floors until June 2026.

Also last month, we saw two deals complete at Brookfield's 100 Bishopsgate, EC2. Law Debenture Corporation acquired part level eight south (12,500 sq ft) on a straight 10-year lease at £73.00/sq ft. IS Prime (ISAM) acquired part level 10 north (12,416 sq ft) on a 10-year lease at £79.00/sq ft as well. There is now just 83,881 sq ft remaining in the building.

The Professional Services sector continues to account for the majority of take-up with a 33% share at the end of May. They are followed by the Tech & Media sector and the Insurance & Financial Services sector at 23% and 16% respectively.

There are currently 8.9m sq ft of requirements targeting the City/Central London, which is in-line with the long-term average but down on the 12-month average by 5%. Professional services account for the greatest proportion of this at 28%, followed by Tech & Media at 20% and Insurance & Financial Services at 16%. It is important to note however, that since our last edition while total requirements have increased by 4%, the percentage share that is deemed to be active has decreased from 82% to 63% showing how a number of occupiers are now re-evaluating their options.

At the end of May this year there is currently 7.8m sq ft of available supply, equating to a vacancy rate of 5.7%, which is up on this point last year by 90bps and the 5-year average by 50bps but down on the long-term average of 6.6%. Currently, 80% of supply is of a grade A standard, which is down on the 5-year average of 84%.

We have started to see more tenant space arrive to the market over the last few weeks. Tenant controlled space has now risen to 2.2m sq ft in the City equating to a 29% share. This is the highest percentage share since August 2018, and the greatest quantum of space since 2009. However, available landlord supply is still constrained resulting in the overall vacancy rate still being significantly below the long-term average.

There was only 63,478 sq ft placed under offer in May, which although small is actually an increase on April by 15%. Currently there is 1.6m sq ft under offer in the City, which encouragingly is still up on the long-term average by 27%. Therefore, once some form of normality resumes hopefully in the coming months we should start to see some of these deals complete.

So far this year we have not seen any negative effects on headline rents despite the lack of take-up and rise in supply. In fact, the average grade A rent for 2020 for the year-to-date is £67.13/sq ft, up on last year by 3% and the 5-year annual average by 15%.

However, we have begun to see incentives move out instead, for example, last year on average occupiers were seeing 20 - 22 months rent free on a straight 10-year lease, and this has now moved out to 22 - 24 months.



90,305 sq ft
of take-up in May was the lowest amount of monthly take-up since Jan 2009



32%
of the 1.6m sq ft that is currently under offer is under offer on future pipeline



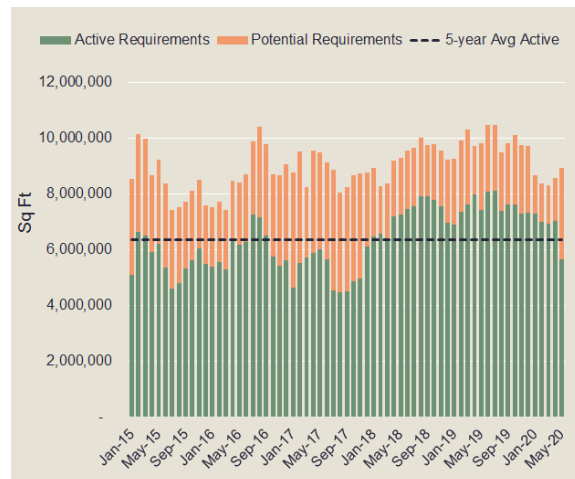
26%
of the pipeline until the end of 2023 is already pre-let



112 deals
so far this year, which is down by 48 on this point last year

City/Central London requirements

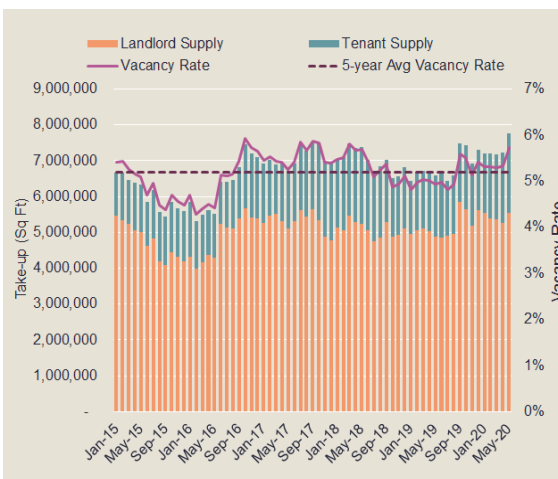
Graph 1



Source: Savills

City supply and vacancy rate

Graph 2



Source: Savills

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jun-19	441,285	84%	6,617,673
Jul-19	1,080,760	91%	7,048,320
Aug-19	423,956	75%	7,142,982
Sep-19	587,979	75%	6,945,043
Oct-19	713,018	71%	6,808,018
Nov-19	797,973	91%	6,776,515
Dec-19	597,334	76%	6,703,975
Jan-20	229,658	77%	6,690,036
Feb-20	663,256	97%	7,078,601
Mar-20	438,990	79%	6,882,722
Apr-20	165,653	100%	6,641,154
May-20	90,305	93%	6,230,167

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - May 19	2,061,670	-28%	78%
Jan 20 - May 20	1,587,862	-23%	89%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jun-19	£72.00	£61.41	£51.25	£77.22	23
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	£76.38			
May-20	£79.00	£72.50			

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,647,554	73%	0.8%	5.0%
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%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	2,158,200	2,592,902	4,751,102	57%
2021	2,068,870	1,508,726	3,577,596	27%
2022	1,705,591	1,146,247	2,851,838	0%
2023	1,131,323	3,363,363	4,494,686	7%
Total	7,063,984	8,611,238	15,675,222	26%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	3.3m
City Active Requirements (sq ft)	5.6m
City Total Requirements (sq ft)	8.9m
% change on 12 month ave	-5%
Total under offer (sq ft)	1.6m
Under offer this month (sq ft)	63,478
% change on average (total)	27%
Landlord controlled supply	71%
Tenant controlled supply	29%

*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 May transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
120 Holborn, EC1	6	18,063	A	£66.00	Trainline	UOL
100 Bishopsgate, EC2	8 Part (south)	12,500	A	£73.00	Law Debenture Corporation	Brookfield
100 Bishopsgate, EC2	10 Part (north)	12,416	A	£79.00	IS Prime (ISAM)	Brookfield
12 Arthur Street, EC4	7	8,685	A	£72.00	Nedbank	CIT
70 St Mary Axe, EC3	9 Part	8,000	A	£73.50	Samsung	Nuveen Real Estate
30 St Mary Axe, EC3	11 Part	7,717	A	Confidential	Forresters	Saffra
Riverside House, SE1	10	6,887	A	Confidential	Veritas Investment Management	Alduwaliya
8-10 Old Jewry, EC2	6	6,041	B	Confidential	LineData	Orchard Street
20 Red Lion Street, WC1	3	5,952	A	Confidential	Sphere Digital Recruitment	Mayfair Capital
62 Cornhill, EC3	1	4,044	A	£65.00	LuxDeco	Ryan Speciality Group (Sub-Lessor)

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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	
Kaleidoscope Farringdon	EC1	90,884	
100 Bishopsgate	EC2	83,881	
Fetter Yard, 86 Fetter Lane	EC4	49,840	further 14,995 sq ft under offer
Script, 44 Featherstone Street	EC1	51,056	
Devon House	E1W	48,701	
The Hickman, 2 Whitechapel Rd	E1	48,125	further 28,202 sq ft under offer
The Scalpel, 52 Lime Street	EC3	28,556	

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