UK Commercial – June 2021

MARKET IN MINUTES

Savills Research

City Office Market Watch

savills

May take-up stumbles, however, also shows highest monthly under offer figures so far this year

Take-up for May was muted, with figures reaching 170,178 sq ft - this was down 50% on April's figure; however, this compares positively to May 2020 (89,960 sq ft). Although the overall sq ft acquired over the month was low, May recorded the joint highest number of deals this year (19), bringing the total number of deals for 2021 to 82. As we look towards the end of Q2, year-to-date take-up currently sits at 1.29m, which is only down 20% on this time last year but still 38% down on the five-year average. We have continued to see Grade A space dominate being the preference within the City, as 90% of year-to-date take-up has been of such quality.

A notable transaction saw Digital Realty acquire part of the fifth floor at 60 London Wall, EC2 (23,906 sq ft). The data centre services firm signed a 10-year lease with a break in the fifth year, at £68.50/sq ft with a total rent-free period of 28 months.

There was increased activity on the Southbank where PRS for Music acquired three units across three buildings at Hays Galleria, SE1. The first floors of the Hays Lane Building, Goldings House and Tea Auction Building (28,212 sq ft) were acquired by the royalties company on 15-year terms at a blended rent of £61.67/ sq ft.

Last month, demand across the City appeared more evenly spread, with the Business & Consumer Services sectors accounting for 28% of May take-up. Following closely behind were the Charities and Association sector and the Public Services/Governmental, Education and Health sector, which accounted for 17% and 16% respectively. However overall, the Professional Services sector still dominates take-up accounting for just over a quarter for the year so far, a clear trend continuing on from 2020.

Supply fell for the second consecutive month as we have begun to see some tenant space being withdrawn that entered the market since the start of the first Covid-19 lockdown. City supply settled at 12.0m sq ft; this equates to a vacancy rate of 8.7%. However, compared to May last year, this is up 300 bps and also unsurprisingly up on the long-term average of 6.6%.

A number of large developments and refurbishments are expected to complete by the end of the year. For example, the St Botolph Building, 138 Houndsditch, EC3 and CIT Group's Hylo 103-105 Bunhill Row, EC1, collectively bringing over half a million sq ft of office space to the market before the end of 2021. Therefore, we anticipate the vacancy rate to rise slightly to 8.8% by the end of the year and to 9.3% in 2022.

The development pipeline will continue to supply premium office space to the market, which will feed the 'flight to quality' trend witnessed over the last 18 months. With this in mind, at the end of May, 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 11.3%, compared with just 6.3% in the fringe.

As the success of the Covid-19 vaccine rollout continues and with the relaxation of regulations on the horizon, we have witnessed a rising demand for office space across central London and the City. We have seen a 20% increase in the total space under offer since January 2021 (1.25m sq ft). Additionally, May saw 190,966 sq ft being placed under offer - this is the highest so far since September 2020.

Currently, of the 10.0m sq ft of total requirements across central London and the City, 7.1m sq ft is active demand and 2.9m sq ft potential demand. 38% of occupiers with an active central London and City requirement are increasing or expanding their current office footprint, this is compared to 14% who are seeking to reduce the space they occupy.

170,178 sq ft
of take-up in May, across 19 deals

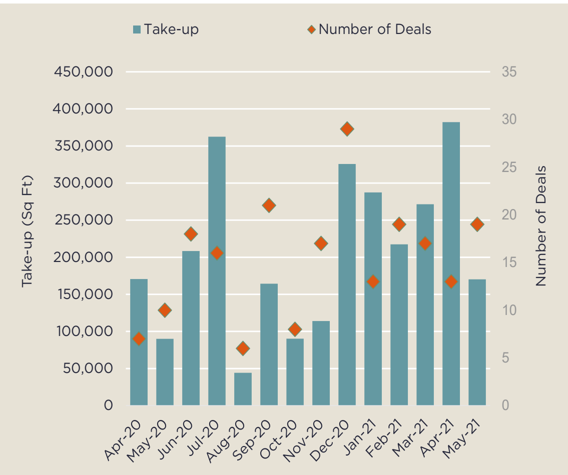
'Flight to Quality': **90%** of year-to-date take-up has been Grade A

20% increase in the total space under offer since January **(1.25m sq ft)**

82 deals so far this year, down **31%** on this time last year

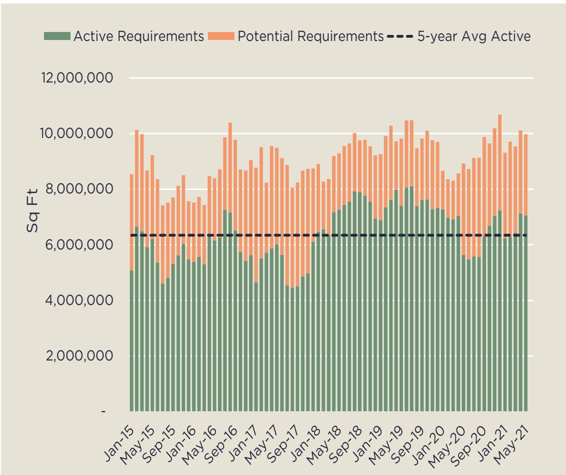
City monthly take-up since April 2020

Graph 1



Central London and the City requirements

Graph 2



Source: Savills

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jun-20	208,347	83%	6,080,085
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	337,631	86%	2,515,967
May-21	170,178	81%	2,588,746

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
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%

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - May 20	1,610,217	-24%	89%
Jan - May 21	1,286,877	-20%	90%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,863,044	1,303,548	3,166,592	28%
2022	1,197,230	1,894,114	3,091,344	4%
2023	1,424,198	3,046,178	4,470,376	16%
2024	1,766,696	2,482,349	4,249,045	12%
Total	6,251,168	8,726,189	14,977,357	15%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Jun-20	£72.00	£64.34	£47.00		
Jul-20	£80.00	£67.13	£37.50	£80.70	25
Aug-20	£70.00	£61.85			
Sep-20	£80.00	£61.20	£47.97		
Oct-20	£64.00	£61.51	£55.00	£77.00	25
Nov-20	£78.00	£67.93	£43.00		
Dec-20	£85.00	£65.09	£39.81		
Jan-21	£81.50	£66.64	£50.00	£75.00	23
Feb-21	£81.50	£58.42	£33.63		
Mar-21	£108.75	£66.70	£55.00		
Apr-21	£72.00	£62.80	£43.34	£82.50	28
May-21	£73.50	£62.63	£58.85		

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.9m
City Active Requirements (sq ft)	7.1m
City Total Requirements (sq ft)	10.0m
% change on 12 month ave	8%
Total under offer (sq ft)	1.3m
Under offer this month (sq ft)	190,966
% change on average (total)	-4%
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 preceding 3 months

Note: Completions due in the next 6 months are included in the current supply figures

Significant May transactions

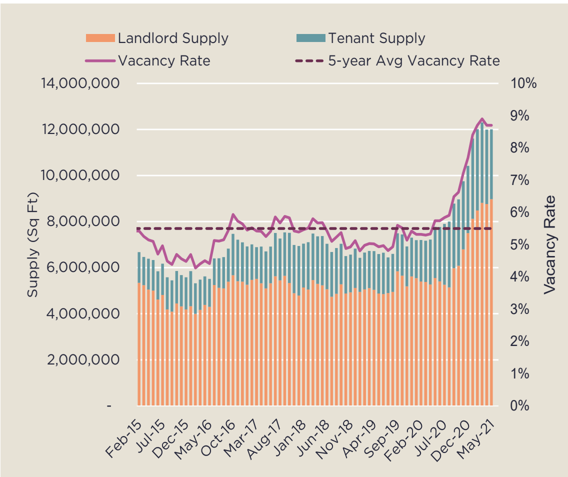
Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Hays Galleria, SE1	1	28,212	A	£61.00	PRS for Music	St Martin's Property Investment
60 London Wall, EC2	5 part	23,906	A	£68.50	Digital Realty	LIM
25 Settles Street, E1	LG, G, 1	19,171	A	£50.00	DWP	Castlebridge
30 St Mary Axe, EC3	31	10,901	A	£72.50	Neo Energy	Safra
LDN:W, 3 Noble Street, EC2	9	8,977	A	£74.40	Isio	MEAG

In Focus - Tenant Supply

City Supply

Graph 3



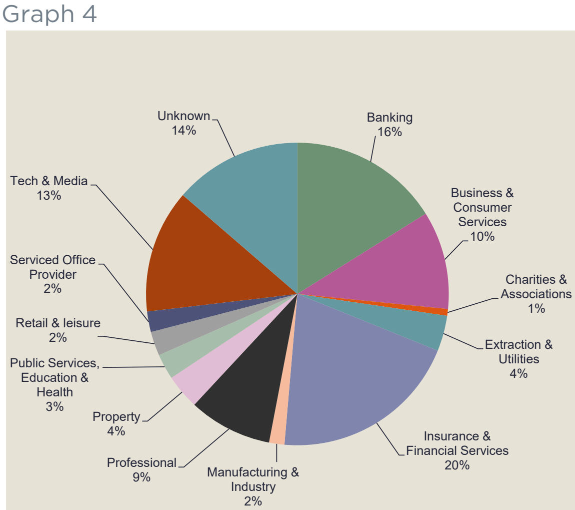
This month's In Focus takes a deeper look at the tenant-controlled supply in the City. 2021 has differed from last year as we have seen a slowing of tenant controlled supply entering the market. In terms of quantum (sq ft), it has fallen 12% since the beginning of the year - currently settling at 3.0m sq ft. This decrease, means 25% of supply is tenant-controlled - this is 1% lower than the five-year average.

As graph 4 depicts, the Insurance & Financial Services sector has released the greatest quantum (sq ft) of tenant-controlled space onto the market since the start of the first lockdown. The Banking sector wasn't far behind, accounting for 16%, followed by the Business and Consumer Services sector with 10%.

When looking at where this space has become available, EC2 and EC4 account for 48% of all tenant-controlled space entering the market since the first lockdown. This was followed by SE1 with 18%, whilst E1 and EC3 each accounted for 12%.

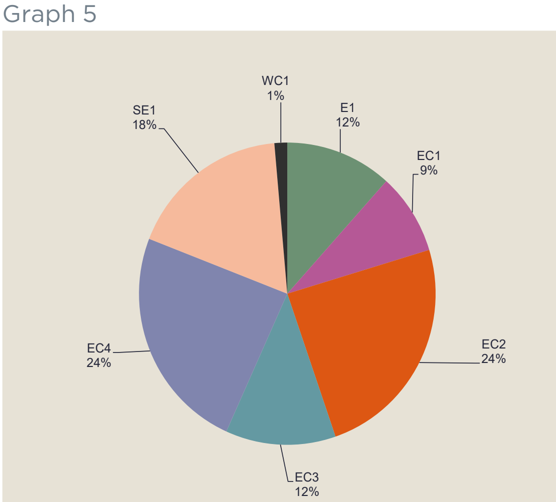
Tenant-controlled sector analysis since first lockdown

Graph 4



Tenant-controlled supply by postcode since first lockdown

Graph 5



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

savills