



## With requirements and under-offers on the rise, we are anticipating an active Q2

While there is a sense of nervousness in the market due to the current political climate, the frequency of deals being completed should help provide some much required assurances for the London office market. There were a total of 42 deals in February alone, bringing the total for the year to 67, which is the most for this time period since 2016, and up on the 10-year average by 9 deals. Although, to the end of February, there have only been 8 deals over 10,000 sq ft, resulting in the average deal size being just 7,660 sq ft.

Take-up for February reached 274,698 sq ft, resulting in the total for the year reaching 538,269 sq ft, which is down on this point last year by 18%, and down on the 10-year average for the first two months by 29%. This brings the 12-month rolling total to 7.48m sq ft, which is up on the 5-year average by 2.7%.

The largest deal to complete in February saw global tobacco firm Philip Morris acquire part of the 4th floor totalling 48,000 sq ft at 1 New Change, EC4 on an assignment from K&L Gates for £61.00/sq ft on a lease until 2031.

Also in February, WeWork continued with their expansion plan and acquired the whole of 40 Mitre Street, EC3 (13,799 sq ft). The serviced office provider took the space on a lease at £55.00/sq ft, for an undisclosed length of time.

At the end of February, the Insurance & Financial services sector has accounted for the greatest amount of take-up this year at 17%. They are followed by the Extraction & Utilities sector who have accounted for 15%, largely due to Bulb acquiring 76,000 sq ft at 155 Bishopsgate, EC2 in January. The TMT sector is continuing to show good levels of demand for City office space, accounting for 13% of total take-up (Graph 1).

Total City supply at the end of February stood at 6.7m sq ft, rising by 3.6% on the end of last month and equating to a vacancy rate of 5.2%, which is down on February 2018 by 40 bps, and down on the long term average by 140 bps.

At the current rate of demand, we believe there is only 10.7 months of supply remaining if no more supply was added to the market (Graph 2). This is well below the 10-year average mark of 17.4 months, suggesting the market is still in the landlords favour.

While we are not forecasting rental growth in the City this year, it is evident that good buildings in good locations are still achieving high rents. So far this year, the average grade A rent is £64.97/sq ft, which is up on the same period last year by 8.7%. While this may be more of a function of analysing a small data set, it is still encouraging to see how the level of low supply and constant levels of demand for City office space is ensuring that the high levels of rent are at least maintained and in some instances leading to rental increases.

We are expecting the second quarter to be more active than the first, due to the number of requirements for City and Central London office space has risen to 9.9m sq ft. This is up on the 12-month average by 5%, and up on the 5-year average by 12%.

Furthermore, the total amount of space currently under-offer rose last month to 2.03m sq ft, which is up on the long-term average by 56%. This doesn't even include BT, who are rumoured to be under-offer for circa 200,000 sq ft on the future Aldgate development One Braham Street, E1. This will help keep supply low in this market which is expecting four schemes to complete in 2020 currently amounting to 732,539 sq ft of supply.

**82%**

of take-up to date has been of a grade A standard



**85,467 sq ft**

has been taken up by Insurance & Financial services, equating to 17%

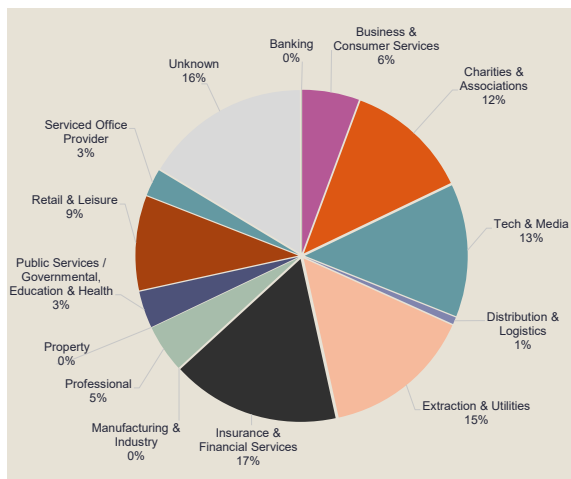


**9.9m sq ft**

of City or Central London requirements, of which 74% is active

### City 2019 take-up by business sector

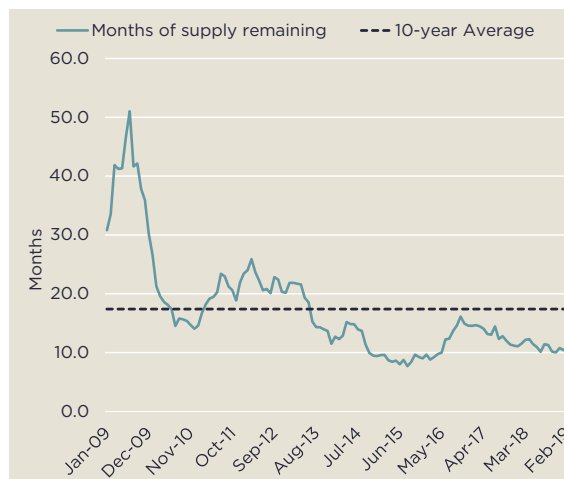
Graph 1



Source: Savills

### Supply & demand balance

Graph 2



**21%**

of speculative space to arrive next year is within the E1 postcode

## Analysis close up

### Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Mar-18	820,944	80%	7,377,975
Apr-18	332,827	83%	7,182,714
May-18	971,570	95%	7,725,012
Jun-18	676,861	69%	7,711,298
Jul-18	650,113	75%	7,906,237
Aug-18	324,927	84%	7,197,527
Sep-18	800,467	86%	7,469,859
Oct-18	890,128	98%	7,666,632
Nov-18	843,039	84%	7,849,269
Dec-18	658,728	89%	7,598,586
Jan-19	238,522	89%	7,384,776
Feb-19	274,698	77%	7,482,824

### Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Feb 18	628,982	-10%	97%
Jan 19 - Feb 19	513,220	-18%	82%

### Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Mar-18	£94.00	£64.91		£79.79	23
Apr-18	£84.50	£64.81	£49.67		
May-18	£77.50	£62.17	£39.00		
Jun-18	£72.50	£59.67	£37.88	£75.19	23
Jul-18	£85.50	£60.31	£45.97		
Aug-18	£75.00	£67.64	£48.38		
Sep-18	£77.50	£59.52	£45.16	£76.71	24
Oct-18	£83.00	£70.45	£41.50		
Nov-18	£69.00	£59.68	£48.78		
Dec-18	£77.50	£64.66	£49.17	£76.85	22
Jan-19	£83.50	£64.07	£41.75		
Feb-19	£76.00	£66.38	£45.50		

### Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
7,483,419	76%	5.3%	5.9%
7,362,412	74%	-1.6%	5.8%
7,372,085	72%	0.1%	5.8%
7,034,850	73%	-4.6%	5.5%
6,679,703	73%	-5.0%	5.3%
6,854,116	72%	2.6%	5.4%
7,035,243	74%	2.6%	5.5%
6,501,808	72%	-7.6%	5.1%
6,569,635	74%	1.0%	5.1%
6,826,661	72%	3.9%	5.3%
6,426,517	74%	-5.9%	5.0%
6,656,045	71%	3.6%	5.2%

### Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2019	2,172,949	2,820,657	4,993,606	43%
2020	2,558,005	1,456,933	4,014,938	12%
2021	1,861,531	1,506,855	3,368,386	34%
2022	769,674	1,855,828	2,625,502	0%
Total	7,362,159	7,640,273	15,002,432	25%

### Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	2.6m
City Active Requirements (sq ft)	7.3m
City Total Requirements (sq ft)	9.9m
% change on 12 month ave	5%
Total under offer (sq ft)	2.0m
Under offer this month (sq ft)	379,070
% change on average (total)	56%
Landlord controlled supply	76%
Tenant controlled supply	24%

\*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 February transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
1 New Change, EC4	Part 4	48,000	A	£61.00	Philip Morris	K&L Gates (Assignor)
40 Mitre Street, EC3	Building	13,799	B	£55.00	WeWork	
20 Furnival Street, EC4	1, 2, 3	11,317	A	£59.50	McFarlanes	
1 Aldermanbury Square, EC2	2	9,843	A	£61.00	River & Mercantile	Hewlett Packard (Sub-Lessor)
30 Cannon Street, EC4	5	9,370	A	£72.00	Aveva Solutions	Romulus
The Hallmark Building, 52 Leadenhall Street, EC3	Part 4	9,100	A	£58.00	Capital Markets Trading	Henderson Global Investors
24 King William Street, EC4	6	8,503	A	£67.50	Arcadia Asset Management	Beltane/ Angelo Gordon
Forum St Paul's, 33 Gutter Lane, EC2	4	8,198	A	Confidential	Hermes GPE	Aviva
City Tower, 40 Basinghall Street, EC2	17	6,363	A	£76.00	Northern Fides	GPE
Tower 42, 25 Old Broad Street, EC2	35A, 35B	6,084	A	£67.50	Automation Anywhere	Kirsh Group

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## Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
70 St Mary Axe	EC3	174,420	
The Scalpel, 52 Lime Street	EC3	143,770	further 37,412 sq ft under offer
Broadwalk House, 5 Appold Street	EC2	113,528	
30 St Mary Axe	EC3	107,196	further 18,372 sq ft under offer
3 Minster Court	EC3	102,560	
100 Bishopsgate	EC3	97,144	further 42,874 sq ft under offer
Devon House	E1W	93,684	
One Bartholomew	EC1	76,962	further 62,452 sq ft under offer
Two London Wall Place	EC2	50,558	further 23,659 sq ft under option
The Bower (The Tower)	EC1	50,311	

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