

# City Office Market Watch



## City supply continues to rise, however Boris Johnson's road map provides increased confidence

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

Take-up for February 2021 reached 133,094 sq ft across eight deals - this is down 80% on February 2020 take-up (670,892 sq ft) and 73% down on the five-year monthly average take-up figure. 2021 year-to-date take-up reached 413,995 sq ft across 16 deals, which is down by 54% on total take-up this time last year (908,536 sq ft across 59 deals).

The 12-month rolling average take-up continued to fall, reaching 3.1m sq ft - this is down 66% on the same point last year. Grade A space remained the clear preference as it accounted for 100% of take-up - this is compared to the 10-year average of 73%.

The largest deal to complete in February saw the International Development Research Centre (IDRC) acquire the ground, 2nd and 3rd floor (46,260 sq ft) at Juxon House, 100 St Paul's Churchyard, EC4 on a 15-year lease on confidential terms. Another transaction to note was Leigh Day acquiring floors 3 - 7 (28,360 sq ft) at Panagram, 27 Goswell Road, EC1 on a 12-year lease at £55.00/sq ft. The 25th floor (9,300 sq ft) at The Walkie-Talkie, 20 Fenchurch Street, EC3 achieved the top rent for February, where Paragon Bank acquired the space on a 10-year lease with a break option at the fifth anniversary for £81.50/sq ft

The Public Services/Governmental, Health and Education sector was the main driver of demand across the City, having so far accounted for 37% of February take-up. This is closely followed by the Professional Services sector (29%) and the Insurance & Financial Services sector (18%). The first two months of 2021 have seen these three sectors dominate take-up, accounting for 86% of the total year-to-date take-up.

The uncertainty that the pandemic has cast over the working environment is still being witnessed in the amount of space under offer. February 2021 figures continued to fall for the third consecutive month to 1.0m sq ft - this is down 56% on this point last year and 20% down on the 10-year long-term average.

However, with the announcement of Boris Johnson's road map, we have witnessed an increase of 4% in total demand requirements from January 2021 to 9.7m sq ft, with both active and potential City & Central London requirements up on the previous month, standing at 3.4m sq ft and 6.3m sq ft, respectively.

The current quantum of tenants actively searching for office space across Central London & the City has been lead by the Tech & Media, the Insurance & Financial Services and the Professional Services sector, accounting for 23%, 22% and 21%, respectively. This is followed by the Public/Governmental, Health and Education sectors with 14%.

Supply continued to rise through February and at the end of the month stood at 12.0m sq ft, up 67% on February 2020's 7.2m sq ft. This increase saw the vacancy rate rise to 8.7%, up 110 bps on the previous month and 200 bps on the 15-year average of 6.7%. When looking at tenant controlled supply, this stands at 29% - this is a slight fall from January (30%), however, it is also the same as long-term average.

Currently, 83% of supply is of Grade A standard - this is 2% higher than the 12-month average and 3% higher than the five-year average of 80%. The majority of supply (61%) is within the City Core, which consequently has a higher vacancy rate of 11.3% compared to 6.5% in the City Fringe.



**133,094 sq ft**  
of take-up so far this year across **8** deals



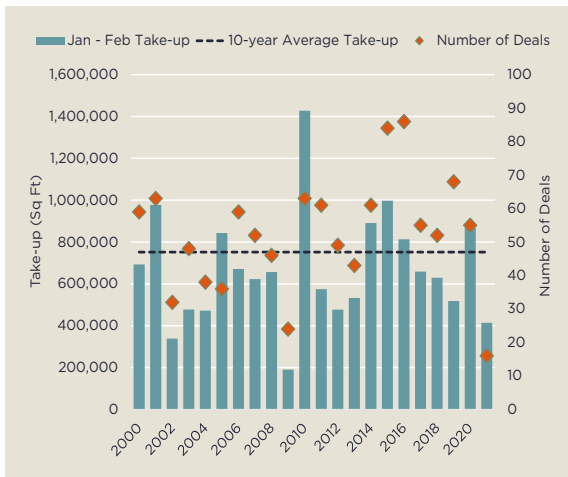
**12.0m sq ft**  
of supply, this is **67%** up on this point last year



**1.0m sq ft**  
is currently under offer, down **56%** on the same point last year

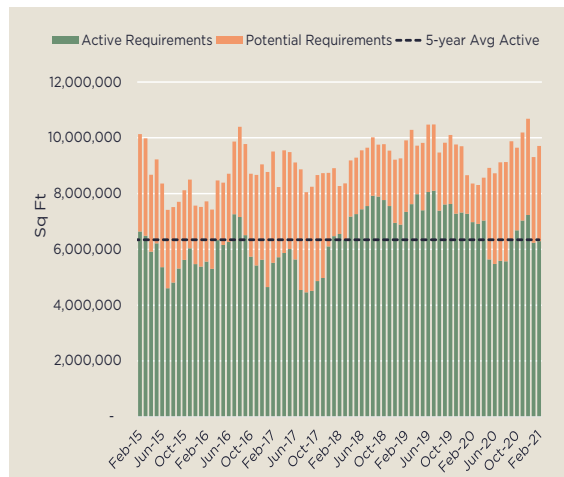
### City January to February take-up

Graph 1



### City active versus potential requirements

Graph 2



**6.3m sq ft**  
of current City and Central London requirements are active

## Analysis close up

### Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Mar-20	449,136	78%	7,014,404
Apr-20	170,571	100%	6,738,109
May-20	89,960	93%	6,322,131
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	280,901	98%	2,970,768
Feb-21	133,094	100%	2,432,970

### Year-to-date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 20 - Feb 20	900,550	74%	87%
Jan 21 - Feb 21	413,995	-54%	99%

### Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Mar-20	£77.50	£62.60	£51.67	£80.43	23
Apr-20	£95.00	£71.71	N/A		
May-20	£79.00	£70.00	£59.50		
Jun-20	£72.00	£64.34	£47.00	£80.70	25
Jul-20	£80.00	£67.13	£37.50		
Aug-20	£70.00	£61.85	N/A		
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	£85.00	£65.44	£50.00		
Feb-21	£81.50	£64.80	N/A		

### Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
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%
12,011,566	83%	3%	8.7%

### Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,951,706	1,380,688	3,332,394	26%
2022	1,110,436	1,551,322	2,661,758	0%
2023	1,312,691	2,492,772	3,805,463	8%
2024	1,744,031	2,105,909	3,849,940	11%
Total	6,118,864	7,530,691	13,649,555	12%

### Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	3.4m
City Active Requirements (sq ft)	6.3m
City Total Requirements (sq ft)	9.7m
% change on 12 month ave	5%
Total under offer (sq ft)	1.0m
Under offer this month (sq ft)	48,165
% change on average (total)	-20%
Landlord controlled supply	71%
Tenant controlled supply	29%

\*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 February Transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Juxon House, 100 St Paul's Churchyard, EC4	G, 2, 3	46,260	A	Confidential	IDRC	GR Properties
Panagram, 27 Goswell Road, EC1	3 - 7	28,360	A	£65.00	Leigh Day	Dorrington
40 Gracechurch Street, EC3	4	12,974	A	Confidential	Plexus	Verisk
100 Victoria Embankment, EC4	2 part	10,149	A	£55.00	HKA	Bristows
138 Cheapside, EC2	3	10,007	A	£62.50	Donnelly Financial	Endurance Land

## Savills contacts

Please contact us for further information

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

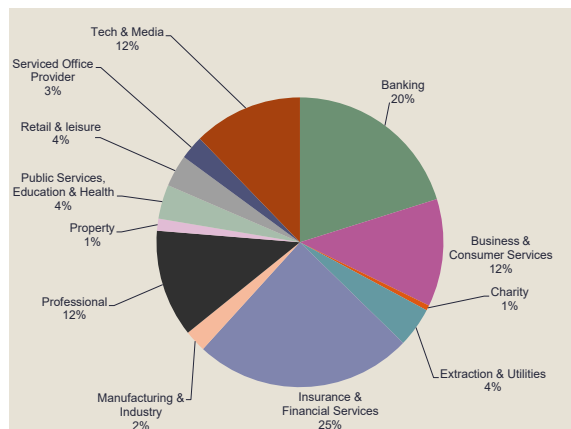
**Josh Lamb**  
 Director  
 City Agency  
 020 7409 8891  
 jlamb@savills.com

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

## In focus - Tenant-controlled supply

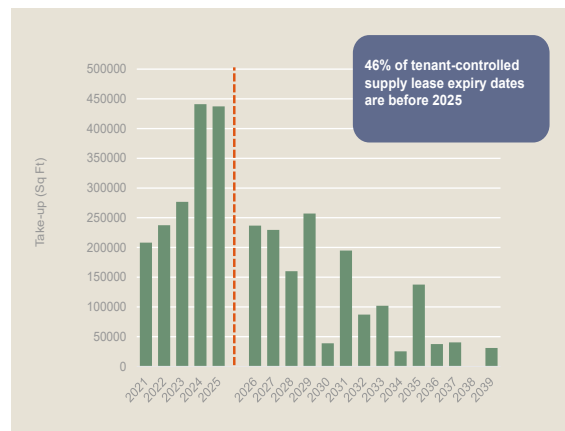
### Tenant sector since Covid-19

Graph 3



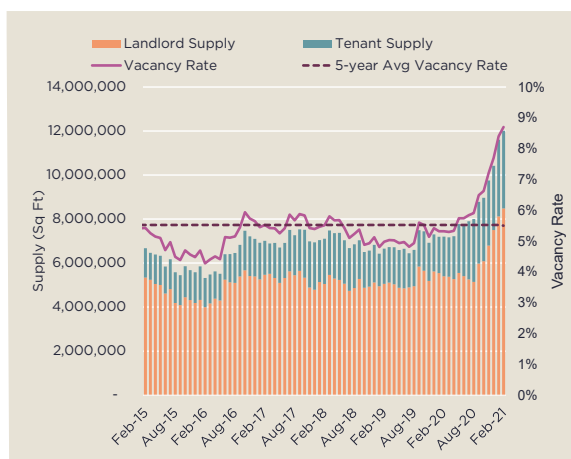
### New tenant supply by lease expiry

Graph 4



### City supply

Graph 5



The steep rise in supply during 2021 is partially contributed to by the 529,806 sq ft of tenant supply entering the market since the start of this year. Moreover, since the start of the pandemic, 80% of new tenant-controlled space have sub 15,000 sq ft floorplates sizes.

Currently, 29% of supply on the market is tenant release space, totalling 3.5m sq ft - this is in comparison to 1.8m sq ft this time last year, an increase of 94%. As shown in Graph 3, the Insurance & Financial Services sector accounts for a quarter of the tenant-controlled supply entering the market since Covid-19. This is followed by the Banking sector, Business & Consumer Services sector and the Tech & Media sector, who account for 20%, 12% and 12%, respectively. Therefore, these four sectors contribute to 69% of the total tenant release space within the City of London market.

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