

City Office Market Watch



Supply continues to rise, but predominantly due to Q1 2021 completions, rather than tenant space

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 picked up last month as people returned from the summer break, but it still remained muted in a historic context. September saw just 161,924 sq ft of take-up in the City, bringing the total for the year to date to 2.3m sq ft, which is 50% down on both this point last year and the 10-year average for the first three quarters. The 12-month rolling take-up is now at 4.5m sq ft, which is 31% down on the 10-year average, and the lowest it has fallen to since September 2012.

Aside from Storey acquiring the part second floor (45,058 sq ft) at 100 Liverpool Street, EC2, the largest deal to complete last month saw Hardwicke Chambers acquire levels 1 - 6 at One Gray's Inn, 19 - 21 High Holborn, WC1 (19,978 sq ft). They took the space on a 15 year lease with no breaks at a confidential rent.

The Professional Services sector continues to be the primary source of demand across the market having accounted for 33% of take-up so far this year. There has been good levels of demand from the Tech & Media sector and the Insurance & Financial Services sector accounting for 19% and 15% respectively.

At the end of September there is currently 8.8m sq ft of available supply, equating to a vacancy rate of 6.5%, which is up on this point last year by 90bps but still down on the long-term (15 year) average of 6.7%. Currently, 83% of supply is of a grade A standard, which is down on the 5-year average of 84%.

We have continued to see tenant sub-let space arrive to the market over the past month. At the end of September tenant space accounts for 2.81m sq ft, equating to 32% of

total supply. This is up on the 5-year average of a 24% share and we are expecting this trend to continue throughout the remainder of this year.

We add in new supply that is completing within the next six months into current supply, therefore at the end of Q3 we added in Q1 2021 completions. This included schemes such as One Portsoken Street, E1 (233,000 sq ft), 2 Gresham Street, EC2 (180,459 sq ft) and 88 Leadenhall Street, EC3 (100,000 sq ft). In total there was 772,066 sq ft of Q1 completions that we added to supply, which contributed to the significant rise in supply.

The Insurance & Financial Services sector have accounted for the greatest proportion of the tenant supply since lockdown began with a 27% share. They are then followed by Business & Consumer Services and Tech & Media who have accounted for 20% and 16% respectively. The Professional Services sector, who have accounted for the greatest proportion of take-up this year, have only accounted for 15% of the post-lockdown tenant supply.

We are aware of 100 units of tenant space that have come to the market since we entered lockdown, and units for less than 10,000 sq ft account for 59%. Therefore, the majority of the tenant space is for small units.

Last month we saw 206,878 sq ft of space be placed under offer, the most notable being 190,000 sq ft at Stonecutter Court, EC4.

The average prime rent for Q3 in the City settled at £77.00/sq ft, which is down on Q2 by 4.6% and Q3 last year by 11.9%. The average grade A rent for Q3 settled at £64.27/£sq ft, which is down on Q2 by 5.6% and Q3 last year by 3.7%.



539,624 sq ft
of take-up in Q3, the lowest Q3 since 2004



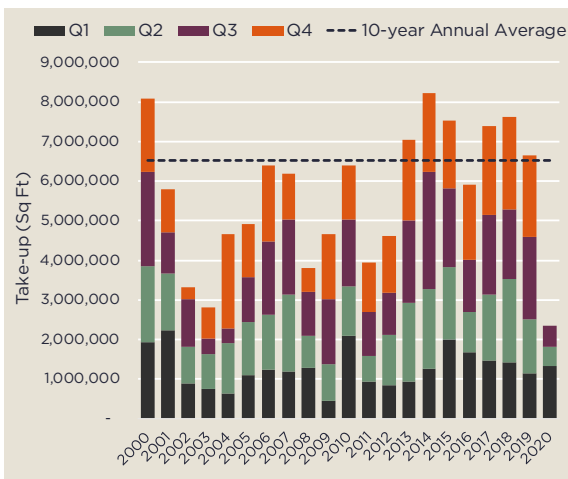
174 deals
so far this year, which is the lowest at this point of the year since 2004



67%
of all the known achieved rents this year have been over £60.00/sq ft

City take-up by quarter

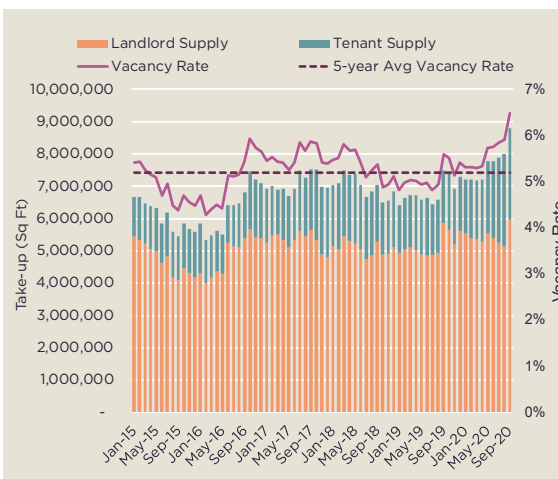
Graph 1



Source: Savills

City landlord and tenant supply

Graph 2



864,878 sq ft
of space is under offer in the City, down on the long-term average by 33%

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Oct-19	726,377	71%	6,901,902
Nov-19	797,973	91%	6,870,399
Dec-19	613,711	74%	6,814,236
Jan-20	229,658	77%	6,800,297
Feb-20	666,407	97%	7,192,013
Mar-20	441,261	79%	6,994,058
Apr-20	170,571	100%	6,717,763
May-20	89,960	93%	6,301,785
Jun-20	208,347	83%	6,059,739
Jul-20	333,556	90%	5,307,380
Aug-20	44,144	100%	4,912,789
Sep-20	161,924	82%	4,483,889

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Sep 19	4,676,175	-12%	79%
Jan 20 - Sep 20	2,345,828	-50%	89%

Rents

Table 5

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
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	£69.83	£40.40		
Feb-20	£82.00	£66.48	£48.75		
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	£50.00		
Jun-20	£72.00	£64.39	£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	£60.88	£42.21	£77.00	25

Supply

Table 2

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

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	2,118,128	1,508,726	3,626,854	31%
2022	1,590,892	1,146,247	2,737,139	0%
2023	1,481,323	3,363,363	4,844,686	6%
2024	2,332,388	1,864,385	4,196,773	5%
Total	7,522,731	7,882,721	15,405,452	11%

Demand & Under-offers

Table 6

City Potential Requirements (sq ft)	3.6m
City Active Requirements (sq ft)	6.3m
City Total Requirements (sq ft)	9.9m
% change on 12 month ave	9%
Total under offer (sq ft)	0.9m
Under offer this month (sq ft)	206,878
% change on average (total)	-33%
Landlord controlled supply	68%
Tenant controlled supply	32%

*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 September Transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
100 Liverpool Street, EC2	Part 2	45,058	A	Confidential	Storey	British Land/GIC
One Gray's Inn, 19 - 21 High Holborn, WC1	1 - 6	19,978	A	Confidential	Hardwicke Chambers	The Honourable Society of Gray's
Lacon House, 84 Theobalds Road, WC1	Part 1	11,688	A	Confidential	Mobility Trader (HeyCar)	Brightcove
12 Arthur Street, EC4	1	8,759	A	Confidential	UPP	CIT
1 Minster Court, Mincing Lane, EC3	9	8,134	A	£52.50	DL Insurance	M&G Real Estate
The Walkie-Talkie, 20 Fenchurch Street, EC3	Part 5 South	7,987	A	£69.00	Ocorian (UK) Ltd	Tokio Kiln

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
TwentyTwo Bishopsgate	EC2	441,939	further 50,935 sq ft under offer
Sixty London Wall	EC2	324,621	
One Portsoken Street	E1	232,094	
2 Gresham Street	EC2	178,199	
155 Bishopsgate	EC2	159,290	
Aldgate Tower	E1	140,255	
LDN:W, 3 Noble Street	EC2	112,399	
88 Leadenhall Street	EC3	98,522	
Kaleidoscope Farringdon	EC1	90,884	
Southworks, 17 - 21 Rushworth Street	SE1	70,000	

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