

West End Office Market Watch



Space under offer reaches its highest point in almost a year, while supply reaches 18 month low

Leasing activity slowed over the summer month with just 186,069 sq ft completing across 22 transactions. Despite this, year to date take-up, at 2.72m sq ft, still remains above the long-term average for this period by 9%.

So far this year 235 transactions have completed, down 7% on the long term average volume of 252. Almost three quarters of transactions that have completed have been 10,000 sq ft or less.

The outlook for leasing activity over the remainder of this year remains positive, particularly with space under offer reaching its highest level in almost a year at the end of August. Over the month an additional 377,586 sq ft went under offer and at present there is 1.75m sq ft under offer, up 150% on the long term average. Almost a third of this (32%) is made up from the development pipeline, giving strong indication leasing activity will continue to be driven by pre-lets.

Pipeline new developments and extensive refurbishments in Soho and North of Oxford Street West account for over 60% of space under offer in the development pipeline, with vacancy rates in both sub-markets below 3.5%.

In total Serviced Office Providers accounted for 40% of the space that was let over the month. The largest transaction to complete in August was WeWork's acquisition of the 1st to 5th floors at Avon House, Avonmore Road, W6 (28,479 sq ft) on a 10 year lease on confidential terms.

In addition to this WeWork also took the entire building at 91-93 Baker Street, W1 (9,782 sq ft), on a 10 year lease at £75.00 per sq ft

This brought Serviced Office Provider take-up for the year to 522,450 sq ft, which equates to 21% of take-up. The Tech & Media sector however still continues to account for the largest share of take-up and has accounted for almost a quarter (24%) of space let this year so far.

The vacancy rate at 3.8% was down 20 bps on the previous month and was at its lowest level in over 18 months. Supply currently stands at 4.7m sq ft and there is only one scheme, Battlebridge Place, WC1 (13,649 sq ft) scheduled for delivery over the first quarter of 2020.

The average Grade A rent so far this year stands at £78.55 per sq ft, up 4% on the same period a year earlier, whilst the average prime rent is up 6% on the same period and currently stands at £116.49 per sq ft.

We expect rental growth to continue at the prime level over the coming year, particularly with limited supply increasing competition from occupiers to secure prime core offerings. Average Grade A rents are expected to remain broadly stable over the coming year.

Currently there are 9.8m new developments and extensive refurbishment scheduled to complete over the next four years. 2m sq ft (20%) of this have already been pre-let.



2.72m sq ft

Year to date take-up is up 9% on the long term average

1.75m sq ft

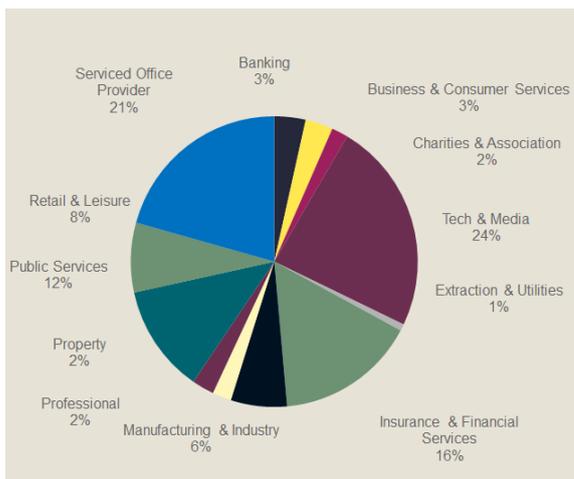
Space under offer is at its highest point since September 2018

£116.49 psf

The average prime rent achieved so far this year is up 6% on the previous year.

2019 Take-up by sector

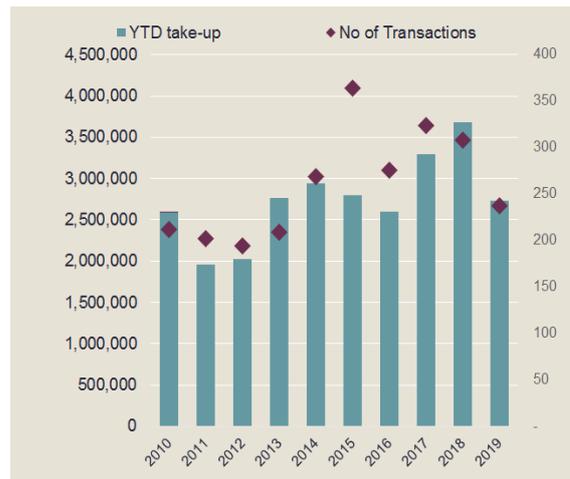
Graph 1



Source: Savills

Jan-August Take-up

Graph 2



9.8m sq ft

of new developments and extensive refurbishments are expected over the next four years

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Sep-18	148,833	70%	5,137,114
Oct-18	477,941	70%	5,243,040
Nov-18	349,030	84%	5,246,872
Dec-18	457,935	87%	5,138,164
Jan-19	235,461	81%	4,989,805
Feb-19	585,354	84%	5,284,499
Mar-19	420,802	73%	5,261,263
Apr-19	300,856	87%	5,272,363
May-19	317,111	60%	5,294,333
Jun-19	231,460	82%	5,000,505
Jul-19	451,512	79%	4,259,369
Aug-19	186,069	35%	4,445,438

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Aug 18	3,631,161	16%	87%
Jan 19- Aug 19	2,728,625	-25%	75%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Sep-18	£92.50	£74.69	£54.95	£103.30	22
Oct-18	£100.00	£75.65	£55.03	-	-
Nov-18	£100.00	£75.64	£55.03	-	-
Dec-18	£105.00	£83.75	£59.50	£103.40	19
Jan-19	£85.25	£72.02	£51.50	-	-
Feb-19	£118.00	£71.39	£63.00	-	-
Mar-19	£130.00	£75.80	£62.56	£119.33	22
Apr-19	£250.00	£76.79	£55.16	-	-
May-19	£102.50	£73.43	£54.30	-	-
Jun-19	£115.00	£82.58	£69.00	£111.00	20
Jul-19	£120.00	£84.18	£62.57	-	-
Aug-19	£95.34	£86.00	£52.50	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
5,147,690	69%	8.1%	4.2%
5,146,841	66%	0.0%	4.2%
4,871,727	63%	-5.3%	4.0%
4,734,611	63%	-2.8%	3.9%
4,797,457	65%	1.3%	3.9%
4,810,098	59%	0.3%	4.0%
4,803,390	64%	-0.1%	4.0%
4,914,843	63%	2.3%	4.0%
4,679,894	60%	-4.8%	4.0%
5,009,154	61%	7.0%	4.1%
4,935,604	71%	-1.5%	4.0%
4,684,337	64%	-6.5%	3.8%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	660,153	1,230,741	1,890,894	42%
2021	714,714	2,113,724	2,828,438	38%
2022	1,033,535	2,373,653	3,407,188	3%
2023	342,000	2,022,977	1,712,000	0%
Total	2,750,402	7,741,095	9,838,520	20%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.1m
West End Active Requirements (sq ft)	4.5m
West End Total Requirements (sq ft)	5.6m
% change on 12 month ave	15%
Total under offer (sq ft)	1.8m
Under offer this month (sq ft)	377,586
% change on average (total)	71%
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 August transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Avon House, Avonmore Road, W14	1-5	28,479	B	Confidential	WeWork	Threadneedle Property Investments
40 Argyll Street, W1	pt2	14,989	A	Confidential	Confidential	Buzzfeed
34 Grosvenor Street, W1	Entire	14,461	B	£25.00	Liberty Retail	European Credit Management
The Peak, 5 Wilton Road, SW1	4	10,818	A	£66.00	Undisclosed	PetroChina
91-93 Baker Street, W1	Entire	9,782	A	£70.00	WeWork	Gertler Properties

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
245 Hammersmith Road	W6	242,477	60,000 sq ft under offer
1 Jermyn Street	SW1	120,000	Quoting £87.50 psf
Euston Tower, Euston Road	NW1	80,942	Short-term leases - Not quoting
Elms House, Hammersmith	W6	96,260	Sublease from Jacobs Engineering
The Foundry, 77 Fulham Palace Road	W6	68,179	Under offer
Albany House, 94-98 Petty France	SW1	60,000	Guiding £40.00 psf
The White Building, Notting Hill	W11	58,396	Quoting 42.50 psf

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