

West End Office Market Watch



Underlying demand continues to remain strong, though a short-term drop is expected

It is difficult to currently forecast the impact on the West End office market COVID-19 will have. The difficulty in leasing space in the current climate will certainly have an impact on take-up going forward. However, the inevitable delays to the development pipeline will result in further constraints on supply, especially for larger occupiers, who already have limited options available to them. Therefore, we are likely to see the continuation of large pre-lets throughout 2020, which will help compensate for the short-term decrease of small to medium sized lettings. Moreover, with the lack of new supply being launched to the market at the moment, it is unlikely the short-term drop in demand will result in a drastic increase of the vacancy rate in the short term.

During February West End take-up reached 212,829 sq ft across 20 transactions. This brought year to date take-up to 456,371 sq ft. This was down 44% on the same period over 2019 and down 28% on the long term average for the end of February. The volume of transactions, at 38, is the lowest volume for this period in 7 years. Around 75% of space that has been let so far this year is of Grade A standard.

The largest transaction to complete during the month was Google's pre-let of 32,000 sq ft at Argent's Q1 development on confidential terms. This scheme is due for completion later this year in Q3.

The Tech & Media sector has so far accounted for 50% of take-up (194,398 sq ft), followed by the Insurance & Financial sector with 17% and the Serviced Office Provider sector with 14%.

Despite the lower level of transactional activity we have seen so far this year, space under offer was up by 17% on the previous month, with an additional 301,219 sq ft going under offer during February. This brought the overall amount of space under offer to 1.5m sq ft, (up 115% on the long-term average). In addition to this, West End and Central London active requirements were up 2% on the previous month and stood at 5.3m sq ft. 43% of West End and Central London active requirements are sized 25,000 sq ft and over.

Albeit the sample size of data is smaller, the average Grade A rent achieved so far this year stands at £71.73 per sq ft, which is down 7% on £76.83 per sq ft achieved over the same period in 2019. The highest rent achieved over 2020 so far has been £115 per sq ft at 1 Curzon Street, with Gulf International taking the part 1st floor (21,745 sq ft) on a 15 year lease.

Supply at the end of the month stood at 5m sq ft which equates to a vacancy rate of 4.5%, up 10 bps on the previous month. Current supply equates to 13 months' worth of take-up at the average rate we have seen over the past 5 years and over two thirds of supply is of grade A standard. Landlord controlled space, increased by 1% over the month to 73%.

55% of the development pipeline for the next two years has already been pre-let and a further 10% is currently under offer. 28 speculative schemes over 100,000 sq ft set to deliver between 2020 and 2023.



38 transactions
transaction volumes were down 44% on the long term average

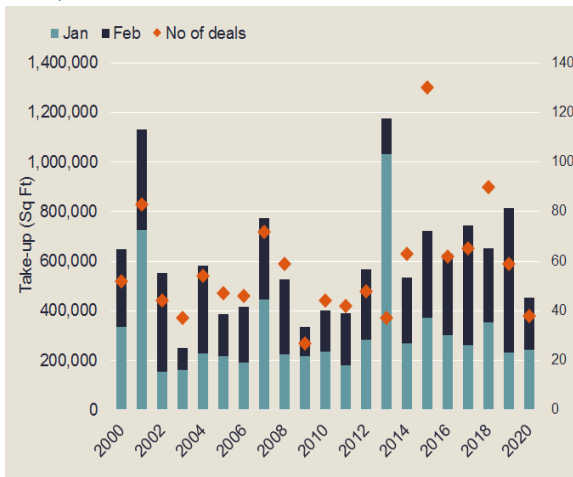


5.3m sq ft
active requirements were up 17% on the previous month

1.5m sq ft
was under offer at the end of February, this was up 17% on the previous month

West End year to date take-up

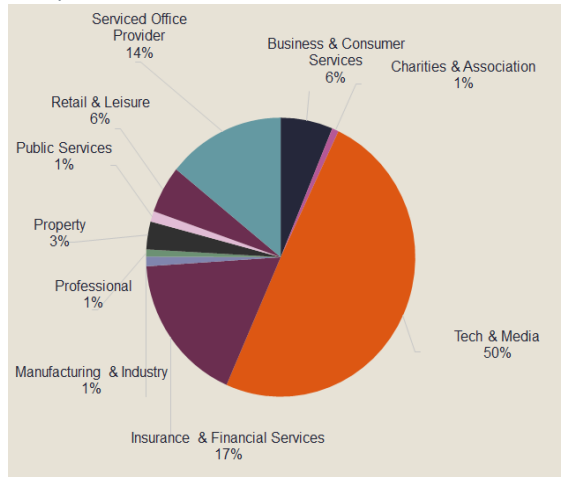
Graph 1



Source: Savills

Take-up by sector

Graph 2



55%
of the development pipeline for 2020-2021 has been pre-let

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Mar-19	420,802	82%	5,256,379
Apr-19	300,856	83%	5,267,479
May-19	305,070	80%	5,277,408
Jun-19	262,223	81%	5,014,343
Jul-19	462,193	81%	4,283,888
Aug-19	151,140	79%	4,435,028
Sep-19	319,776	80%	4,471,730
Oct-19	478,534	81%	4,801,431
Nov-19	293,023	80%	4,267,483
Dec-19	654,769	80%	4,464,317
Jan-20	243,542	68%	4,477,282
Feb-20	212,829	73%	4,104,757

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19-Feb 19	815,931	21%	85%
Jan 20-Feb 20	456,371	-44%	73%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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	-	-
Sep-19	£120.00	£74.14	£52.50	£120.00	21
Oct-19	£135.00	£81.08	£52.88	-	-
Nov-19	£102.50	£72.21	£63.82	-	-
Dec-19	£92.50	£74.18	£52.77	£114.00	20
Jan-20	£72.34	£70.00	£65.39	-	-
Feb-20	£115.00	£80.00	£59.76	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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	70%	-1.5%	4.0%
4,684,337	64%	-5.1%	3.8%
4,541,472	59%	-3.0%	4.0%
4,571,005	54%	0.7%	4.0%
4,544,486	62%	-0.6%	4.0%
4,932,348	61%	8.5%	4.4%
4,740,257	58%	-3.9%	4.2%
5,054,819	66%	6.6%	4.5%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	509,515	952,921	1,462,436	66%
2021	602,864	2,557,626	3,160,490	50%
2022	1,141,309	1,983,653	3,124,962	3%
2023	715,000	1,478,556	2,193,556	0%
Total	2,968,688	6,972,756	9,941,444	27%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.9m
West End Active Requirements (sq ft)	5.3m
West End Total Requirements (sq ft)	7.2m
% change on 12 month ave	26%
Total under offer (sq ft)	1.5m
Under offer this month (sq ft)	301,219
% change on average (total)	115%
Landlord controlled supply	73%
Tenant controlled supply	27%

*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
Q1 Kings Cross, Handyside Street, NIC	Entire	32,000	A	Confidential	Google UK	Argent
245 Hammersmith Road, W6	9	24,604	A	Confidential	Achilles	Legal & General, MEC
1 Curzon Street, W1	1pt	21,745	A	£115.00	Gulf International	Astrea Asset Management
10 Portman Square, W1	3	18,534	A	£87.50	Apollo Management	Arrowgrass Capital
Moreau House, 116 Brompton Road, SW3	1-3	17,589	A	Confidential	St James's Place Wealth Management	APML Estate
87-91 Newman Street, W1	1,2	15,908	A	£60.00	Knotel	Lazari Investments

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
80 Strand	WC2	253,000	Q2 2020 - sublease
245 Hammersmith Road	W6	214,000	40,000 sq ft under offer
Elms House, Hammersmith	W6	96,260	Under offer
Millbank Tower	SW1	80,782	
210 Euston Road	NW1	63,963	Under offer
33 Cavendish Square	W1	60,133	
The Foundry, 77 Fulham Palace Road	W6	57,515	
The White Building, Notting Hill	W11	58,396	Quoting 42.50 psf

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