

West End Office Market Watch



Lowest Q1 take-up in 12 years with transactional activity down a third on the long term average

Over March take-up reached 153,891 sq ft across 23 transactions with COVID-19 isolation measures taking grip over the latter half of the month. This brought year to date take-up to 617,747 sq ft, down 35% on the long-term average for the first quarter. The volume of transactions to complete so far this year was also down on the average we have seen complete over this period by over a third (36%).

Whilst the impact of the pandemic continues to evolve, we expect to see more re-negotiations occurring over the next quarter and anticipate take-up for 2020 will be down by 30% on the long-term average, with the supply and demand dynamic supporting a more resilient level of leasing activity than was seen after the 2007/2008 financial crash.

The largest transaction to complete over the month and since the start of lockdown was Dun & Bradstreet's acquisition of the sub-lease of the 2nd floor (23,108 sq ft) at The Point, W2, at a passing rent of £60.00 per sq ft.

Space under offer continued to remain high with an additional 133,902 sq ft going under offer over the month. This compares with 16,500 sq ft worth of transactions which fell through as a result of Covid-19, the equivalent of 12% of the volume that went under offer over the month. In total at the end of the quarter space under offer stood at 1.4m sq ft, this is up 107% on the long-term average.

We have continued to see strong demand from the Tech & Media sector which has accounted for 48% of leasing activity, followed by the Insurance & Financial with 18% and the Business & Consumer Services sector with 12%.

Active West End & Central London requirements remained broadly stable over the month standing at 5.2m sq ft, down 2% on the previous month with demand for newly developed space continuing to remain outstripped by supply.

Total supply at the end of the month stood at 4.8m, which equates to a vacancy rate of 4.2%. This is down 20 bps on the end of February, despite 189,000 sq ft of Q3 speculative completions being added to supply. 55% of current supply is of grade A standard, down from 70% at the end of the same period in 2019.

Whilst we are expecting to see tenant controlled supply rise over the next few quarters, as at the end of the first quarter this was yet to materialise with it currently accounting for 25% of overall supply, down 3% since the start of the year. There has already been evidence of a marginal uptick of tenant controlled space since the start of April, which is the equivalent of a 2% rise.

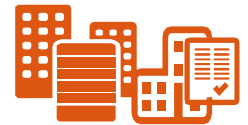
Average prime rents at the end of Q1 stood at £110.50 per sq ft, down 7% on Q1 2019 and the average Grade A rent stood at £73.94 per sq ft, down 5% on Q1 last year. Whilst the sample size remains small, the average rent free period achieved stood at 23 months, moving out by 3 months from 20 months in Q4 2019. The average rent free period has remained between 20-22 months since Q3 2018.

During 2020, 1.1m sq ft is scheduled for delivery, this is down from the 1.5m sq ft we anticipated at the start of the year with 500,000 sq ft being pushed out further into Q1 2021 due to delays on construction sites. As a result the overall space that has been pre-let in 2020 has reduced to 55% and in 2021 increased to 55%.



1.5m sq ft

space under offer is 107% higher than the long-term average



617,747 sq ft

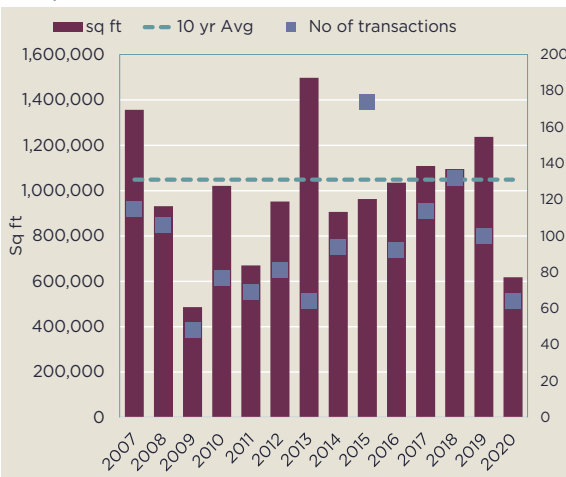
take-up was down 35% on the long-term average for Q1

5.2m sq ft

Active requirements remained broadly stable over the month

Q1 2007-2020 take-up

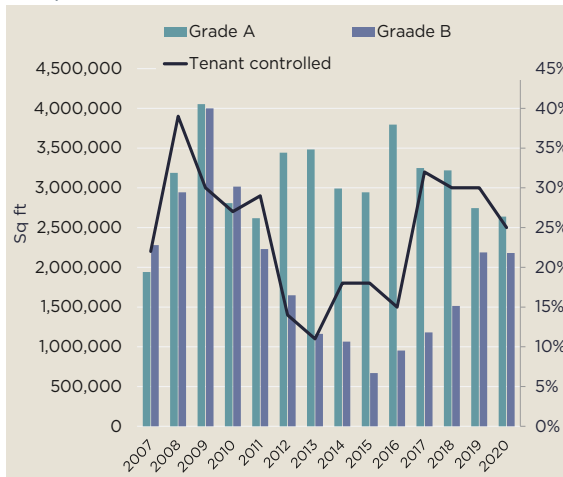
Graph 1



Source: Savills

Supply & tenant controlled space

Graph 2



1.1m sq ft

is scheduled for delivery this year, down 500,000 sq ft as a result of construction delays

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Apr-19	300,856	87%	5,267,479
May-19	305,070	63%	5,277,408
Jun-19	262,223	92%	5,014,343
Jul-19	462,193	83%	4,283,888
Aug-19	151,140	46%	4,435,028
Sep-19	319,776	89%	4,471,730
Oct-19	478,534	87%	4,801,431
Nov-19	293,023	64%	4,267,483
Dec-19	654,769	77%	4,464,317
Jan-20	246,442	68%	4,480,182
Feb-20	217,414	77%	4,112,242
Mar-20	153,891	73%	3,845,331

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19-Mar 19	1,236,733	11%	82%
Jan 20-Mar 20	617,747	-47%	64%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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	-	-
Mar-20	£92.00	£73.94	£57.47	£110.50	23

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
4,799,913	69%	-5.0%	4.2%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	254,515	812,635	1,067,150	55%
2021	902,864	2,673,912	3,576,776	55%
2022	1,157,002	1,833,653	2,990,655	4%
2023	715,000	1,478,556	2,193,556	0%
Total	3,029,381	6,798,756	9,828,137	27%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	0.9m
West End Active Requirements (sq ft)	5.2m
West End Total Requirements (sq ft)	6.1m
% change on 12 month ave	4%
Total under offer (sq ft)	1.5m
Under offer this month (sq ft)	133,902
% change on average (total)	-6%
Landlord controlled supply	75%
Tenant controlled supply	25%

*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 March transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
The Point, 37 North Wharf Road, W2	2	23,108	A	£60.00	Dun & Bradstreet	EE
Queen's Yard, 179a, Tottenham Court Road, W1	2-4	20,152	B	£69.50	University College Hospital	
71-81 Whitfield Street, W1	G	13,036	A	Confidential	Lee & Thompson	
Bond Street House, 14 Clifford Street, W1	2-5	11,458	A	£89.50	Channel	
Rolling Stock Yard, 188 York Way, N7	7-8	10,650	A	£69.50	Xero	Newmark

Savills contacts

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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	
Elms House, Hammersmith	W6	96,260	Quoting £42.50 psf
210 Euston Road	NW1	63,963	Under offer
Millbank Tower	SW1	62,204	
33 Cavendish Square	W1	60,133	
Phoenix House, 10 Wandsworth Road	SW8	59,036	Quoting £35.00 psf
The White Building, Notting Hill	W11	58,396	Quoting 42.50 psf

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