

West End Office Market Watch



2019 take-up set to reach 4.2m sq ft with the Tech & Media sector continuing to drive demand

Take-up for November reached 267,068 sq ft across 25 transactions, which boosted year-to-date take-up to 3.8m sq ft. However this is down 16% on the same period over 2018 and 19% on 2017, years where we saw record levels of take-up.

Whilst pre-lets have continued to drive leasing activity and have accounted for over 1m sq ft of space let, there have been no pre-lets over 150,000 sq ft. This is in contrast to 2017 and 2018 where transactions of this size boosted take-up by 827,337 sq ft and 595,000 sq ft respectively.

Despite this, take-up still remains above the 10-year long-term average of 3.5m sq ft by 8% and we expect take-up will reach 4.2m sq ft by the end of December, which is in line with take-up levels we saw over 2016. With demand continuing to remain strong, we are anticipating take-up over 2020 will also be up on the long-term average.

The largest transaction we saw complete in November was to London Transport Museum who acquired TFL's sublease of the entire building at Albany House, 84 Petty France, SW1, (60,469 sq ft).

The Tech and Media sector continues to be the key driver of demand across the West End and has accounted for 25% of space let this year, followed by the Insurance & Financial sector with 21%. The Serviced Office Provider sector has continued to boost leasing activity and has so far accounted for 19% of take-up which equates to 649,335 sq ft.

Underlying demand continues to remain robust with space under offer at 1.7m sq ft, up 12% on the average

amount we have seen over the past two years. Central London and West End requirements currently stand at 5m sq ft. The Tech & media sector accounts for the largest proportion of this total at 30%, followed by the Insurance & Financial sector with 20%.

This year we have seen 2.3m sq ft of new developments and extensive refurbishments complete, which is down on the 2.9m sq ft we predicted would complete at the start of the year. In total around 80% of this space let prior to completion.

Supply has remained at the same level for the third consecutive month with 4.5m sq ft available, equating to a vacancy rate of 4.0%. We could potentially see supply rise at the start of next year to 4.4%, if 250,000 sq ft of tenant space from Pearson at 80 Strand, WC2 is released in Q2 2020 in addition to the 180,000 sq ft of speculative space in the development pipeline scheduled for the first half of 2020.

If the vacancy rate rises to 4.4% over the next year, this would be the highest vacancy rate we have seen since April 2011, with the long-term average vacancy rate at 4.2%. However there still will be no risk of oversupply with this increase as supply would equate to around 14 months' worth of take-up at the rate we have seen over the last 10 years, well below the 20 months oversupply mark.

The average prime rent achieved so far this year currently stands at £119.64 per sq ft, which is up 13% on the previous year, whilst the average Grade A rent currently stands at £79.18 per sq ft, up 3% on 2018's £76.81 per sq ft.

3.8m sq ft

year-to-date take-up is up 8% on the long-term average



25%

The Tech & Media sector has accounted for a quarter take-up

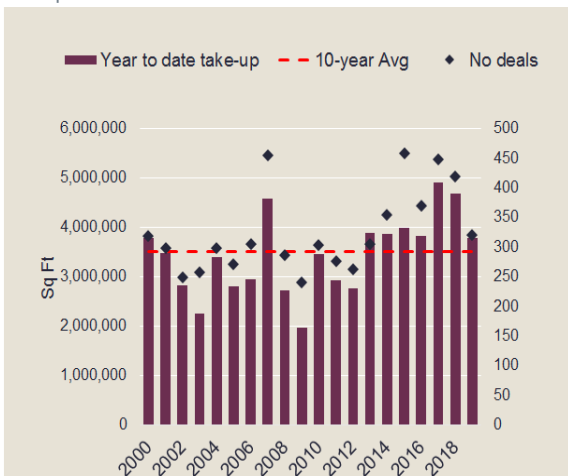


40 bps

The vacancy rate is set to move out to 4.4% next year

West End year-to-date take-up

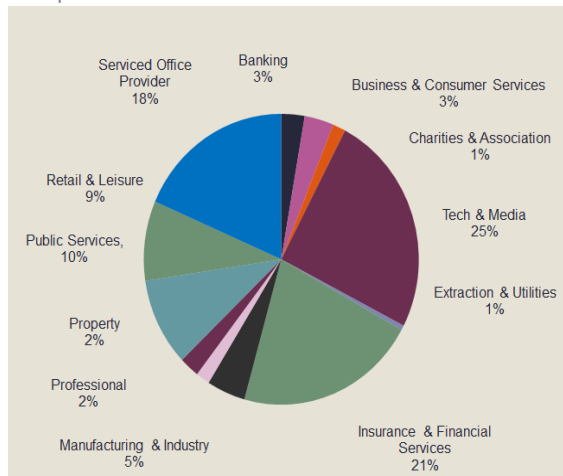
Graph 1



Source: Savills

Take-up by business sector

Graph 2



27%

of the development pipeline for the next four years has already been pre-let

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Dec-18	457,935	87%	5,138,164
Jan-19	230,577	84%	4,984,921
Feb-19	585,354	85%	5,279,615
Mar-19	420,802	76%	5,256,379
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	462,026	83%	4,283,721
Aug-19	151,140	43%	4,434,861
Sep-19	319,776	89%	4,471,563
Oct-19	478,534	86%	4,801,264
Nov-19	276,068	67%	4,599,391

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Nov 18	4,531,136	-4%	82%
Jan 19 - Nov 19	3,792,426	-16%	80%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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	-	-
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	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
4,734,611	63%	-2.8%	3.9%
4,797,457	65%	1.3%	3.9%
4,810,098	60%	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	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	58%	-0.6%	4.0%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	467,515	1,086,891	1,554,406	63%
2021	1,071,487	2,591,818	3,663,305	44%
2022	1,033,535	2,537,779	3,571,314	3%
2023	142,000	1,102,977	1,244,977	0%
Total	2,714,537	7,319,465	10,034,002	27%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.0m
West End Active Requirements (sq ft)	4.0m
West End Total Requirements (sq ft)	5.0m
% change on 12 month ave	5%
Total under offer (sq ft)	1.8m
Under offer this month (sq ft)	150,642
% change on average (total)	151%
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 November transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Albany House, 84 Petty France, SW1	Entire	60,469	B	£40.00	London Transport Museum	TFL
338 Euston Road, NW1	9-14	44,505	A	Confidential	Storey	British Land
Belgrave House, Buckingham Palace Road, SW1	6	30,639	A	£65.00	Charterhouse	Vitol
40 Grosvenor Place, SW1	1pt	18,050	A	£90.00	Lockheed Martin Corporation	Rockspring
123 Victoria Street, London, SW1	4pt	18,022	A	£58.57	Sprinklr	Ophir Energy

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
245 Hammersmith Road	W6	214,000	40,000 sq ft under offer
1 Jermyn Street	SW1	120,000	Quoting £87.50 psf
Elms House, Hammersmith	W6	96,260	Under offer
Euston Tower, Euston Road	NW1	63,820	Short-term leases
The Foundry, 77 Fulham Palace Road	W6	57,515	Under offer
The White Building, Notting Hill	W11	58,396	Quoting 42.50 psf

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