

West End Office Market Watch



Strong start to the year with space under offer at 1.3m sq ft and active requirements up by 42%

Take-up during January reached 238,242 sq ft across 16 transaction. This was up 6% on the same point last year, however down on the long-term average by 30%. Overall 12-month rolling take-up currently stands at 4.4m sq ft. Grade A space accounted for 70% of space that was let over the month.

The largest transaction to complete last month was at Euston Tower, NW1 with Google taking a sub-lease of 134,859 sq ft on terms which remain confidential at present.

Whilst take-up was down on the long term average, underlying demand continues to remain robust with 1.3m sq ft under offer at the end of the month, up 23% on the average amount we have over the past two years.

Future pipeline developments account for around 40% of space currently under offer and we are anticipating pre-lets will account for around a third of leasing activity over the year.

The total amount of active requirements we are tracking across the West End and Central London stood at 5.2m sq ft at the end of January, up 42% on the average amount we have seen over the past two years and up 22% on the previous month.

Insurance & Financial sector occupiers account for a quarter of these requirements and the Tech & Media sector for 19%. The rest of active demand is fairly evenly spread across the remaining sectors. There is an additional 2.1m sq ft of potential future tenant requirements.

After temporarily rising to 4.4% at the end of Q4, the vacancy rate at the start of this year dropped 20 bps to 4.2%, with supply standing at 4.7m sq ft.

We have seen the proportion of supply that is of Grade A standard reduce from accounting for 74% of overall supply in 2015, to making up 59% of at the start of this year, with the amount of Grade B space on the market doubling over the same period.

Supply continues to remain predominantly landlord controlled with tenant controlled space accounting for 28% of supply. There are currently only 25 floors across the core West End sub-markets which could satisfy a single floor requirement over 10,000 sq ft, only eight of these floors are over 15,000 sq ft.

We anticipate the vacancy rate will remain broadly around 4.0% this year, with just 318,629 sq ft of speculative space scheduled for delivery over the second half of 2020. Supply is expected to remain constrained until 2022, with 50% of the development pipeline for 2021 already having been pre-let.

There is currently 7.3m sq ft of extensive refurbishments and new developments scheduled for delivery over the next four years. Currently 26% of this has already been pre-let. There is a further 1.7m sq ft which is currently schedule for delivery over 2024, which may change with the passage of time depending on levels of developer confidence and potential planning or construction delays.

4.2%

the vacancy rate is down 20 bps on the previous month



1.3m sq ft

Space under offer is up on the long-term average by 85%

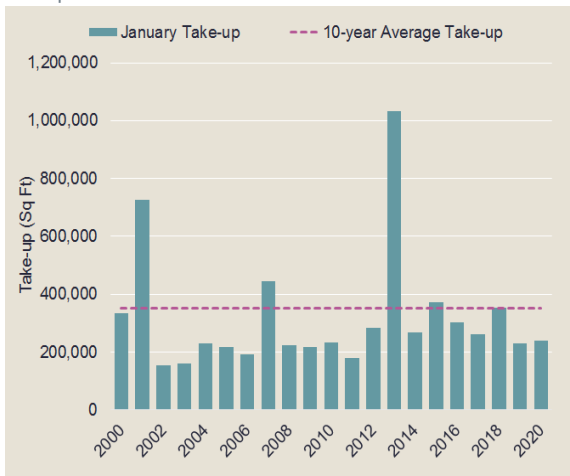


64%

of the number of all leases signed in the last 6 months have been for less than 10 years

West End January take-up

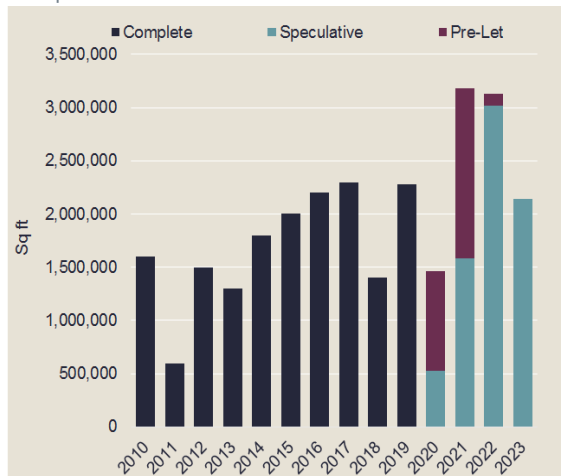
Graph 1



Source: Savills

Development Pipeline

Graph 2



26%

of the future pipeline for 2020 - 2023 has already been pre-let

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Feb-19	585,354	85%	5,279,615
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	238,242	70%	4,471,982

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19	230,577	-29%	84%
Jan 20	238,242	3%	70%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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	-	-
Dec-19	£92.50	£74.18	£52.77	£114.00	20
Jan-20	£72.34	£70.00	£65.39	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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	62%	-0.6%	4.0%
4,932,348	61%	8.5%	4.4%
4,740,257	59%	-3.9%	4.2%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	509,515	952,921	1,462,436	64%
2021	602,864	2,578,626	3,181,490	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	6,993,756	9,962,444	26%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	2.1m
West End Active Requirements (sq ft)	5.2m
West End Total Requirements (sq ft)	7.3m
% change on 12 month ave	35%
Total under offer (sq ft)	1.3m
Under offer this month (sq ft)	168,069
% change on average (total)	84%
Landlord controlled supply	72%
Tenant controlled supply	28%

*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 January transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Euston Tower, 286 Euston Road, NW1	Various	134,859	A	Confidential	Google UK	Mapeley Estates
Liberty House, 222 Regent Street, W1	1-5	35,738	B	£72.34	The Office Group	Sirosa
1 New Oxford Street, WC1	1	11,473	A	Confidential	Credit Karma	Nuveen
LSQ, 30 Panton Street, SW1	6pt	6,600	B	Confidential	Green Street Advisors	ACA Compliance

Savills contacts

Please contact us for further information

Ed Betts

Director
West End Agency
0207 758 3887
ed.betts@savills.com

Hunter Booth

Director
West End Agency
0207 409 8832
hunter.booth@savills.com

Victoria Bajela

Associate
Research
0207 409 5943
victoria.bajela@savills.com

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
210 Euston Road	NW1	63,963	
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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