

West End Office Market Watch



Q1 sees prime rents rise despite subdued leasing activity

March was the strongest month for take-up so far this year, albeit this quarter has been quiet in comparison to previous years. Leasing activity last month reached 264,341 sq ft, across 25 transactions, this took Q1's total to 652,105 sq ft across 79 transactions. This was both 35% and 20% below the 10-year long-term average by volume and number of leasing transactions respectively.

The paucity of transactions that completed in the quarter is not reflective of a lack of appetite however, and this is illustrated by the unusually large quantum of stock currently under offer. At the end of last month, from the stock currently available, there was 1.30m sq ft of space under offer. This is 86% above the long-term average, with the largest space under offer being the 315,500 sq ft of remaining space at the Paddington Square development, which is principally under offer to Capital Group who are taking approximately 200,000 sq ft of space.

From this 1.30m sq ft of space, 82% is classified as Grade A whilst 78% of Q1 take-up was also made up of Grade A space. As expected the demand for better quality office space still remains ubiquitous amongst occupiers across Central London which has resulted in an increase of prime office rents so far this year. At the end of the first quarter the average prime rent stood at £121.66 per sq ft, a 1.5% rise from where it stood at the end of last year.

Average Grade A rents still remain strong at £82.78 per sq ft whilst the average Grade B rent has fallen by 13% from the end of last year to reach £48.05 per sq ft as demand for this type of office space continues to lessen, albeit this is based on a smaller amount of transactions.

Q1 saw the highest rent achieved since December 2020, with VG LNG Marketing leasing the 1st floor (3,462 sq ft) at 80 Grosvenor Street, W1, at a rent of £180.00

per sq ft and a lease length of 10 years. This rent is indicative of the appetite for prime office space, particularly in Mayfair and St James's, which will continue to put upward pressure on the best quality stock.

Looking ahead, there is set to be 3m sq ft of extensive refurbishments and developments to complete this year, and a further 3.6m sq ft in 2023, which will be a record year for the West End. From this 6.6m sq ft 26% has already been pre-let, and there is also a strong amount of space under offer. However, with building costs expected to rise by a further 3.8% this year, and with 51% of the schemes between 2022-2026 yet to start construction delays will be likely as developers will be forced to review the viability of their schemes.

Last month supply rose slightly to reach 7.6m sq ft, however, in part this rise is due to the addition of speculative Q3 2022 completions, which were added to supply at the end of this quarter, adding 606,624 sq ft to supply. Consequently the vacancy rate has risen in March to reach 6.5%, 20 bps higher than the previous month and above the 10-year long-term average of 4.1%. However, we are still seeing the available tenant supply decline as it reached 1.6m at the end of last month, an 18% fall from the start of the year.

As well as seeing demand for prime office space we are also seeing continued favouritism for offices that have been accredited with a BREEAM rating or a top EPC rating. In Q1 37% of take-up was made up of offices with BREEAM ratings of 'Very Good' or above, while those that had an EPC rating of 'C' or higher made up 42% of leasing activity. This suggests that sustainability credentials still remain at the forefront of occupiers minds, a theme we anticipate will continue throughout the remainder of the year.



Space under offer is up 86% on the long-term average

£121.66

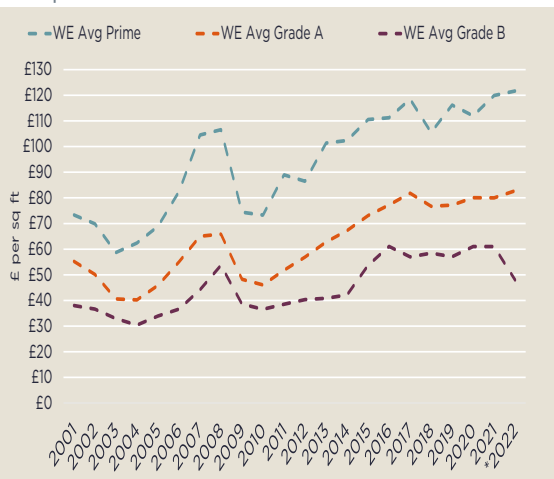
Average prime rent for Q1 has risen by 1.5% from last year



Vacancy rate risen slightly to 6.5%

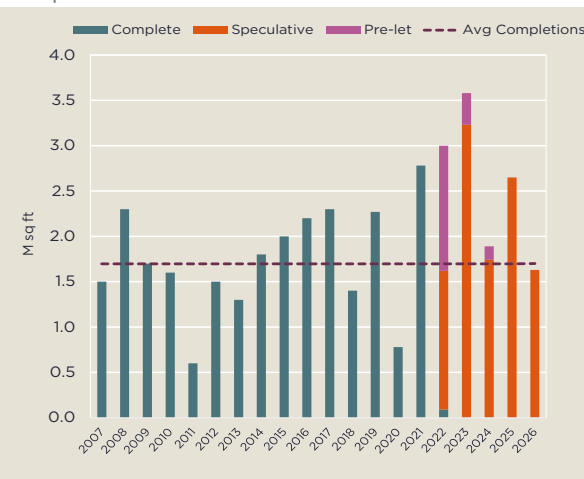
West End average rents (2001-2022)

Graph 1



Development pipeline (2022-2026)

Graph 2



6.6m sq ft of extensive refurbishments and developments completing in 2022-2023

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Apr-21	135,196	85%	1,839,528
May-21	295,885	88%	2,020,343
Jun-21	244,971	83%	2,071,966
Jul-21	591,959	84%	2,579,582
Aug-21	313,468	86%	2,752,043
Sep-21	705,687	84%	3,274,564
Oct-21	484,361	87%	3,698,095
Nov-21	305,490	86%	3,916,648
Dec-21	625,602	85%	4,317,005
Jan-22	240,322	79%	4,502,891
Feb-22	147,442	77%	4,478,780
Mar-22	264,341	71%	4,354,724

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Mar 21	614,386	-9%	83%
Jan-Mar 22	652,105	6%	71%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Apr-21	£121.00	£95.50	£70.00	-	-
May-21	£117.50	£83.76	N/A	-	-
Jun-21	£115.00	£78.53	£58.67	£116.75	26
Jul-21	£111.25	£73.02	£69.13	-	-
Aug-21	£155.00	£77.13	£46.66	-	-
Sep-21	£127.50	£82.36	£54.36	£120.00	24
Oct-21	£136.50	£81.45	£45.83	-	-
Nov-21	£117.50	£82.98	£58.79	-	-
Dec-21	£120.00	£73.67	£52.77	£116.86	24
Jan-22	£150.00	£80.96	£45.44	-	-
Feb-22	£95.00	£72.50	£37.81	-	-
Mar-22	£180.00	£83.90	£60.94	£121.66	24

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
8,065,784	60%	3.4%	7.1%
7,850,537	60%	-2.7%	6.9%
7,780,829	61%	-0.9%	6.8%
8,062,280	60%	3.6%	7.0%
7,689,936	60%	-4.6%	6.7%
7,755,911	62%	0.9%	6.7%
7,758,457	62%	0.0%	6.7%
7,575,307	61%	-2.4%	6.5%
7,520,627	62%	-0.7%	6.4%
7,359,960	62%	-2.1%	6.3%
7,362,908	63%	0.0%	6.3%
7,568,880	67%	2.8%	6.5%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2022	813,478	2,187,109	3,000,587	46%
2023	1,707,743	1,877,800	3,585,543	10%
2024	631,004	1,256,642	1,887,646	8%
2025	795,909	1,853,880	2,649,789	0%
Total	3,948,134	7,175,431	11,123,565	17%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.9m
West End Active Requirements (sq ft)	4.9m
West End Total Requirements (sq ft)	6.8m
% change on 12 month ave	-1%
Total under offer (sq ft)	1.53m
Under offer this month (sq ft)	165,078
% change on average (total)	86%
Landlord controlled supply	79%
Tenant controlled supply	21%

*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
80 Strand, WC2	9,10	30,805	B	late £50s	Darktrace	Pearsons
80 Charlotte Street, W1	3	29,191	A	£85.00	Perella Weinberg	Arup
6 St James's Square, SW1	LG-1	28,707	A	£65.00	Stonehage Fleming	Rio Tinto
The Adelphi, 1-11 John Adam Street, SW1	4	25,338	A	£75.00	Economist	ACCA
111 Buckingham Palace Road, SW1	Pt1	13,941	A	£63.50	Verisure	Kennedy Wilson

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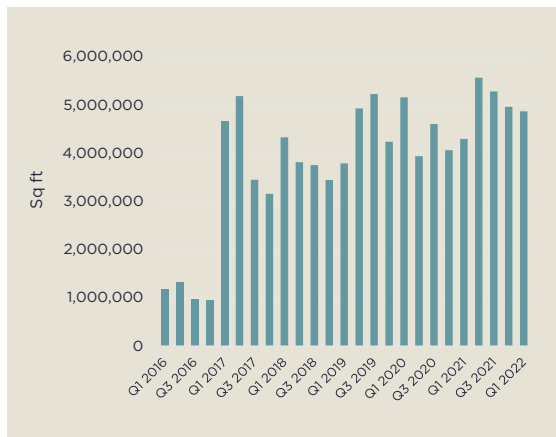
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In Focus - Active Demand

West End & Central London active requirements (2016-2022)

Graph 3



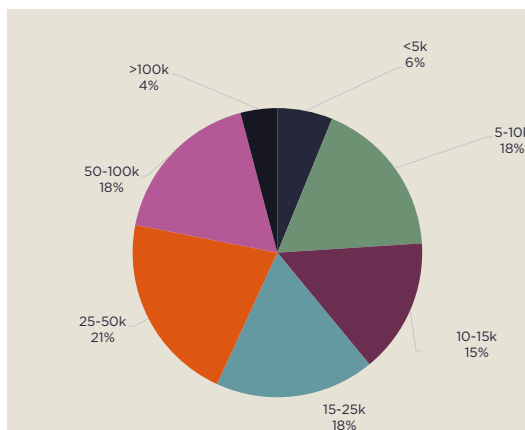
The resilience of the volume of active requirements across the West End and Central London over the past 2 years has been a point of interest. Despite initial expectations at the start of the pandemic active requirements did not diminish, and at the end of last month they reached 4.9m sq ft, this is 13% higher than where they stood at the end of Q1 2021.

As well as the total volume increasing the number of occupiers who are increasing their floorplate size by 10k and above account for 34% of active requirements across Central London and the West End, highlighting the appetite for office space has not wavered.

In line with expectation the Tech & Media account for the largest volume of active requirements, with 26%. This is closely followed by the Insurance & Financial sector which accounts for 25%.

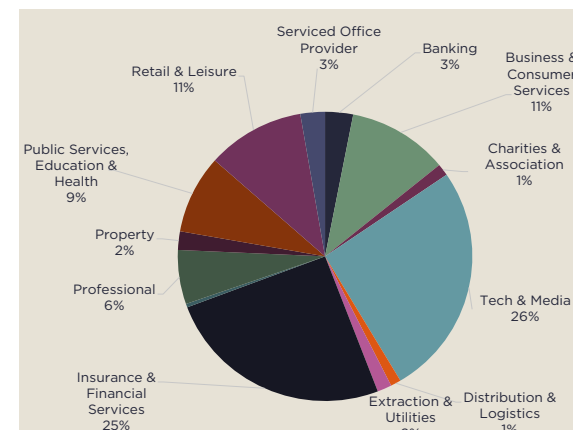
Number of active requirements by size band (2022 YTD)

Graph 4



Active requirements by business sector (2022 YTD)

Graph 5



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