

West End Office Market Watch



December brings a new record rent, as supply continues to rise with a vacancy rate at 6.2%

Take-up at the end of December reached 205,780 sq ft, across 22 transactions which is largely in line with the average number of transactions that have completed on a monthly basis, since March. This was also up by 63% from the previous month.

In line with expectation, year-end take-up, at the end of December, stood at 1.7m sq ft. This amounts to a 63% fall in take-up this year compared to 2019, and is down 62% on the 10-year long-term average.

The largest transaction to complete during December was CPPIB's lease of the Ground, 1st, and 4th floors, (42,173 sq ft), at 40 Portman Square. They have also decided to take a revisionary lease on the 2nd, 5th and 6th floors. Choosing to remain in their current location is a decision we have seen many other occupiers decide to do also. Another notable transaction was 30 Berkeley Square, W1, with OCI Limited taking part of the 6th floor, (2,703 sq ft), at a rent of £277 per sq ft. This has set a new record rent for the West End, as it is the highest rent achieved since our records began.

This record rent was excluded from the average prime rental figures, and so at the end of this quarter, the average prime rent achieved stood at £107.50. This is down 10% from the previous quarter, and down 5.7% from last year's fourth quarter. However, the average Grade A rent was in line with 2019, as it stood at £79.97, a 1% increase.

December ended positively for the total amount of supply under offer, as it stood at 983,821 sq ft. This is 41% higher than the long-term average, and up 16% on December 2019.

December saw a notable increase of supply, as the total stood at 7.1m sq ft, this is up 9.7% on the previous month, and 43% higher than that of December 2019. This takes the overall vacancy rate to 6.2%, the highest it has been in 10 years, and up 50bps from last month.

However, in part this rise is due to the addition of speculative Q2 2021 completions, which were added to supply at the end of this quarter, adding 588,149 sq ft to supply. Most notably the development of Ilona Rose House, WC2, which has added 82,239 sq ft of Grade A space to supply.

Similar increases in vacancy rates can also be seen in Manhattan, where at the end of this year, the vacancy rate was up by 4% from the previous year, the highest it has been since 1999, illustrating how the London office market is reacting similarly to other international markets.

The steady increase in the release of tenant controlled supply that has been shown over the past few months has also contributed to driving up the level of supply. A further 233,198 sq ft was released in December, which raised the level of tenant controlled space to 2.6m sq ft, a 9.6% increase on the previous month.

The end of this year saw development completions reach 781,340 sq ft. This is down 66% from last year, and is the lowest level of annual completions for the West End for over nine years. However, development prospects look more positive in 2021 as there is currently over 2.3m sq ft of developments scheduled for completion in the first half of next year, however, 82% of which has already been pre-let.



£277.00

New record rent set for the West End at 30 Berkeley Square

6.2%

Vacancy rate is up 50bps from the previous month

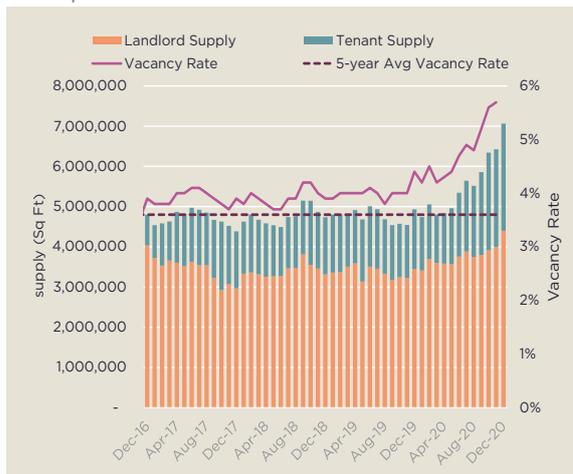


82%

of the developments scheduled for delivery during the first half of 2021 have already been pre-let

West End Supply and Vacancy

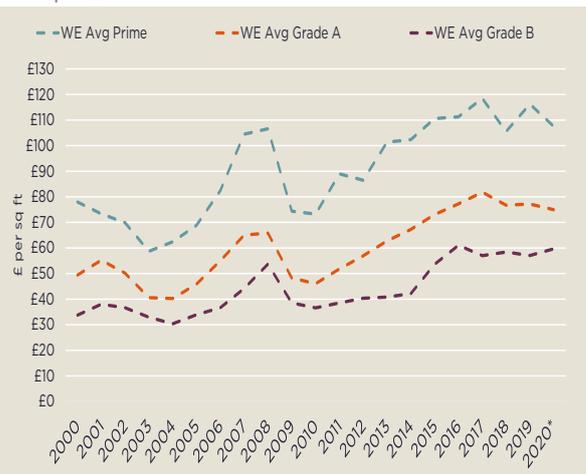
Graph 1



Source: Savills

West End Rents

Graph 2



7.2m sq ft

West End and Central London requirements are up 7% from the long-term average

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jan-20	277,588	15%	4,511,328
Feb-20	223,704	42%	4,149,678
Mar-20	160,932	44%	3,889,808
Apr-20	41,723	46%	3,630,675
May-20	108,913	50%	3,434,518
Jun-20	187,678	55%	3,359,973
Jul-20	63,890	57%	2,961,670
Aug-20	147,578	61%	2,958,108
Sep-20	174,851	65%	2,813,183
Oct-20	57,368	65%	2,392,017
Nov-20	77,132	64%	2,176,126
Dec-20	205,780	65%	1,727,137

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19 - Dec 19	4,464,317	-5%	80%
Jan 20- Dec 20	1,669,438	-63%	64%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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
Apr-20	£78.50	£78.50	£44.00	-	-
May-20	£100.00	£93.13	£68.23	-	-
Jun-20	£90.00	£82.16	£61.53	£100.00	24
Jul-20	£112.50	£91.25	£69.50	-	-
Aug-20	£125.00	£81.83	£61.00	-	-
Sep-20	£82.50	£74.21	£63.47	£120.00	24
Oct-20	£100.00	£86.66	£62.93	-	-
Nov-20	£75.00	n/a	£68.30	-	-
Dec-20	£277.00	£69.20	£61.00	£107.50	24

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
4,740,257	55%	-3.9%	4.2%
5,054,819	53%	6.6%	4.5%
4,799,913	55%	-5.0%	4.2%
4,838,872	55%	0.8%	4.3%
4,962,053	54%	2.5%	4.4%
5,364,966	54%	8.1%	4.7%
5,626,844	53%	4.9%	4.9%
5,513,246	53%	-2.0%	4.8%
5,838,546	55%	5.9%	5.2%
6,317,748	57%	8.2%	5.6%
6,443,512	58%	2.0%	5.7%
7,065,552	57%	9.7%	6.2%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	925,902	2,651,869	3,577,771	59%
2022	1,069,900	2,694,937	3,764,837	29%
2023	959,950	2,883,976	3,843,926	4%
2024	478,102	1,506,889	1,984,991	0%
Total	3,421,475	9,035,361	12,456,836	26%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	2.8m
West End Active Requirements (sq ft)	4.3m
West End Total Requirements (sq ft)	7.2m
% change on 12 month ave	7%
Total under offer (sq ft)	983,821
Under offer this month (sq ft)	29,912
% change on average (total)	-3%
Landlord controlled supply	62%
Tenant controlled supply	38%

*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 December transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
40 Portman Square, W1	G, 1, 4	42,173	A	Confidential	CPPIB	EPF
20 Air Street, W1	3	30,294	A	£87.50	Twitter	Telefonica
Euston House, 24 Eversholt Street, NW1	G, LG	24,420	A	Confidential	Department of Work and Pensions	Arax Properties
30 Berkeley Square, W1	6pt	2,703	A	£277.00	OCI Limited	Phillips

Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
245 Hammersmith Road	W6	214,000	Quoting £55.00-65.00 psf
80 Strand	WC2	151,245	space available on sub-lease by Pearson
80 Strand	WC2	170,000	space available on direct lease
Elms House, Hammersmith	W6	96,260	
Warwick House	W14	86,701	Sublease or assignment
Debenhams, Henrietta Place	W1	64,314	Quoting £29.50 psf
111 Buckingham Palace Road	SW1	61,924	Quoting £58.00-75.00 psf
The White Building, Notting Hill	W11	61,434	Quoting £42.50 psf
Phoenix House, 10 Wandsworth Road	SW8	59,036	Quoting £35.00 psf

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