

West End Office Market Watch



Pre-lets help to boost February take-up

Leasing activity in February reached 547,604 sq ft across 23 transactions. Whilst the number of transactions reflects the continued air of trepidation and was the lowest volume in over 5 years, the quantum of space taken suggests that, on the whole, occupiers have remained undeterred by the current political uncertainty.

Overall take-up for the month was the largest sq ft on record for a February, with leasing activity being boosted by pre-lets. So far this year 754,376 sq ft has been let, up 24% on the long-term average for the same period and we are anticipating that leasing activity over the first quarter of this year will reach around 1.1msq ft.

Continued confidence was further marked by the amount of space that remains under offer, which increased to 1.3m sq ft at the end of February, remaining substantially above the long term average of 650,000 sq ft. In addition to this, we also saw a further 600,000 sq ft of new West End & Central London requirements over the month bringing the total demand we are tracking to 4.7m sq ft, its highest point in 8 months. As a result of increased demand over the first couple of months of this year, we expect leasing activity to pick up over the second quarter.

The largest transaction to complete in February was Sony's pre-let of 1st - 7th floors, (125,000 sq ft), at S1, 4 Handyside Street, N1C, on confidential terms. The other notable pre-let to complete was at 127 Kensington High Street, W8, with Spaces (Regus) acquiring the ground to 3rd floors (69,330 sq ft), on a 15 year lease. Another notable transaction to complete over the month was at 25 Wilton Road, SW1, with Spaces (Regus) taking the entire building (82,555 sq ft) on a 17 year lease on confidential terms.

Almost one third of the volume of transactions to complete in the first two months of the year have been concentrated around the Soho and North of Oxford Street East sub-markets.

So far this year the Tech & Media sector has accounted for just under 200,000 sq ft of space let, 27% of take-up. Over the month four further lettings to Serviced Office Providers boosted the sector's overall share to 19% of take-up. The remainder of take-up has been fairly evenly spread with the Insurance & Financial, Extractions & Utilities and Public Services sectors each accounting for a 12% share.

The vacancy rate remains stable and current supply stands at 4.8m sq ft, equating to a vacancy rate of 4.0%, up 10 bps on the previous month. Current supply equates to 12 months of take-up at the average annual take-up over the past 5 years.

Whilst we are not expecting to see any rental growth this year, average Grade A rents stood at £76.74 per sq ft at the end of February, up 7% on average rents over Q4 2018. Over 2019 so far rent free periods for 10 year leases with a 5th year tenant break option have remained at the same level of 20 months. Low supply and continued strong demand for space across the West End are continuing maintaining rents and incentive levels, despite signs that many occupiers have become price sensitive as a result of the ongoing Brexit negotiations.

For larger occupiers the very restricted supply of prime offerings able to accommodate requirements of a significant quantum is creating increasing competition for prime space in core sub-markets (St James's & Mayfair), and as a result prime rents for this product continue to remain stable.



24%

Take-up was 24% up on the long-term average for the same period



4.7m sq ft

of West End and Central London requirements, up 2% on the long-term average

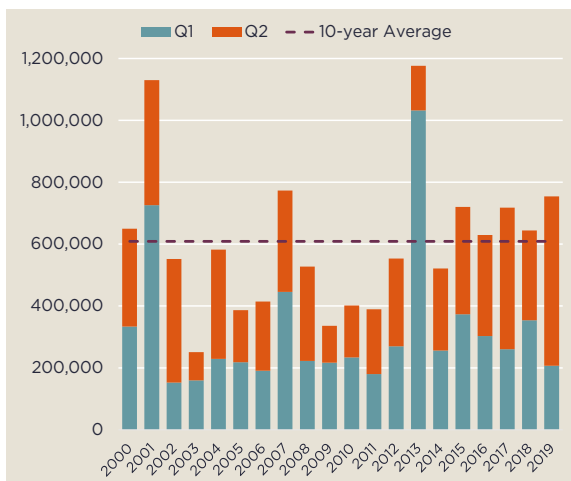


27%

The Tech & Media sector has accounted for just over a quarter of space let over 2019

Jan-Feb take-up

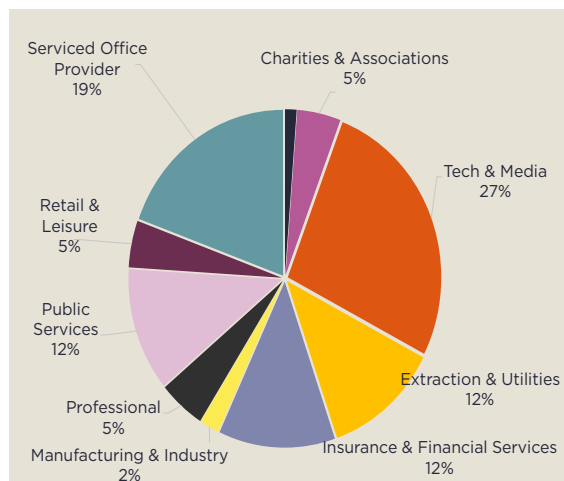
Graph 1



Source: Savills

Take-up by sector

Graph 2



£76.74 psf

was the average achieved Grade A rent for 2019 so far

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Mar-18	444,038	76%	5,390,387
Apr-18	289,756	79%	5,467,190
May-18	295,141	79%	5,422,355
Jun-18	525,288	82%	5,185,979
Jul-18	1,192,648	84%	5,877,339
Aug-18	283,074	84%	5,897,176
Sep-18	148,833	83%	5,137,114
Oct-18	477,941	82%	5,243,040
Nov-18	349,030	82%	5,246,872
Dec-18	457,935	82%	5,138,164
Jan-19	206,772	60%	4,961,116
Feb-19	547,604	79%	5,218,060

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Feb 18	644,284	-10%	83%
Jan 18 - Feb 18	754,376	-17%	87%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Mar-18	£98.62	£71.68	63.25	£105.44	20
Apr-18	£86.00	£70.90	£62.50	-	-
May-18	£185.00	£79.80	£64.69	-	-
Jun-18	£104.00	£72.16	£51.17	-	24
Jul-18	£120.00	£79.53	£60.40	-	-
Aug-18	£150.00	£78.27	£68.24	-	-
Sep-18	£92.50	£74.69	£54.95	£103.30	22
Oct-18	£100.00	£75.65	£55.03	-	-
Nov-18	£100.00	£75.64	£55.03	-	-
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	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
4,674,771	61%	-2.6%	3.9%
4,583,388	59%	-2.0%	3.8%
4,536,129	58%	-1.0%	3.7%
4,492,323	60%	-1.0%	3.7%
4,741,176	55%	5.5%	3.9%
4,760,149	55%	0.4%	3.9%
5,147,690	69%	8.1%	4.2%
5,146,841	66%	0.0%	4.2%
4,871,727	63%	-5.3%	4.0%
4,734,611	63%	-2.8%	3.9%
4,797,457	65%	1.3%	3.9%
4,810,098	60%	0.3%	4.0%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2019	1,144,051	1,410,558	2,554,609	68%
2020	549,751	1,262,919	1,812,670	31%
2021	1,162,197	2,028,800	3,190,997	31%
2022	213,535	1,378,030	1,591,565	0%
Total	3,069,534	6,080,307	9,149,841	36%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	0.9m
West End Active Requirements (sq ft)	3.8m
West End Total Requirements (sq ft)	4.7m
% change on 12 month ave	2%
Total under offer (sq ft)	1.3m
Under offer this month (sq ft)	412,642
% change on average (total)	63%
Landlord controlled supply	70%
Tenant controlled supply	30%

*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 February transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
S1, Handyside Street, N1	1-7	125,000	A	Confidential	Sony	Argent
Parnell House, 25 Wilton Road, SW1	Entire	82,555	A	Confidential	Spaces (Regus)	Royal London
127 Kensington High Street, W8	G-3	69,330	A	Confidential	Spaces (Regus)	Ashby Capital
21 Dartmouth Street, SW1	Entire	50,760	A	£62.50	House of Commons	Quadrum
123 Buckingham Palace Road, SW1	4	38,668	A	Confidential	WeWork	Gaw Capital
Elizabeth House, 39 York Road, SE1	pt7	30,047	B	Confidential	Challenge Partners	HB Reavis
The Clockwork Building, 40 Beavor Lane, W6	Various	25,183	A	Confidential	Hammersmith & Fulham	Stone Real Estate
1 Curzon Street, W1	pt2	20,783	A	£118.00	PJT Partners	
Shropshire House, 2-10 Capper Street, WC1	PtG,1	16,911	A	Undisclosed	Entertainment One	
2 Pancras Square, N1C	pt7	15,133	A	£57.00	AstraZeneca	

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
Euston Tower, Euston Road	NW1	151,970	Short term leases - Not quoting
Elm House, Brook Green	W6	102,000	Sublease until 2025
64 Victoria Street	SW1	96,574	Under offer
The Post Building, New Oxford Street	WC1	86,511	Quoting high £80's psf
The Foundry, 77 Fulham Palace Road	W6	68,179	Quoting £57.50 psf
Phoenix House, 10 Wandsworth Road	SW8	59,036	Available on 3 year leases
The White Building, Evesham Street	W11	58,397	Ground to 4th floors

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