

West End Office Market Watch



Under offers continue to pick up pace despite subdued levels of leasing activity

A similar theme from March continued into April whereby leasing activity remained subdued but under-offers carried on gaining momentum. Last month the total amount of take-up reached 169,881 sq ft, across 18 transactions. This brought the year-to-date total to 821,986 sq ft, which is 10% above where it stood at the end of April 2021, however it is 33% below the January-April 10-year average for leasing activity.

The largest transaction to complete was DS Smith's pre-let of the 3rd floor (25,203 sq ft) at the Paddington Square development, which is due to complete next quarter. At present the terms remain confidential. This was one of five pre-lets to occur so far this year, with the total amount of space pre-let standing at 80,724 sq ft.

There is a further 785,782 sq ft of new developments or extensive refurbishments under offer, this is across 11 schemes that are all scheduled to complete between 2022-2025, which suggests we could see the level of pre-lets across the West End increase over the course of the year. At the end of last month the total amount of space under offer stood at 1.9m sq ft and the preference for newer, better quality office space is further illustrated by the type of space that has gone under offer last month. Of the 278,936 sq ft of space that went under offer in April 72% is of Grade A standard.

Prime rents across the West End have continued to remain under upward pressure. As it stood at the end of last month the average prime rent for 2022 so far stood at £121.66 psf, the highest prime rent we have ever recorded for this market. The dichotomy between Grade A and B rents becomes more apparent if the prime rent is compared to the falling Grade B average, with it standing at £52.38 psf at the end of April, the lowest we have witnessed since 2014.

Overall, supply reached 7.46m sq ft at the end of April, which is 1.5% lower than where it stood at the end of March, and 7.6% down from April 2021's peak of 8.1m sq ft. The vacancy rate has also fallen by 10 bps from the previous month to reach 6.4%.

As supply has fallen slightly the level of requirements across central London and the West End has risen somewhat. At the end of April the total volume of requirements stood at 6.78m sq ft, with active requirements accounting for 4.66m sq ft of this space. In terms of which business sectors account for the largest volume of these requirements the Insurance & Financial Services sector and the Tech & Media sector still remain the largest business sectors, accounting for 26% and 24% respectively.

44% of occupiers with an active requirement across central London and the West End, within these two sectors, are seeking to lease the same amount of space they are currently occupying whilst 19% are increasing their footprint by roughly around 10,000 sq ft or above. Only 5% of Tech & Media and Insurance & Financial Service occupiers are looking to decrease their footprint which is a positive sign for these sectors' future occupational demand. However, it is not yet clear if this could change as businesses are still figuring out their workplace strategies.

As we continue to look ahead the development pipeline continues to remain robust despite rising construction costs. Between 2022-2025 there is 11.3m sq ft of extensive refurbishments and developments that are scheduled to complete, 17% of which has been pre-let. Over half of these schemes (58%) are due to complete either this year or by the end of 2023.



Between 2022-2025 11.3m sq ft of developments are scheduled to complete



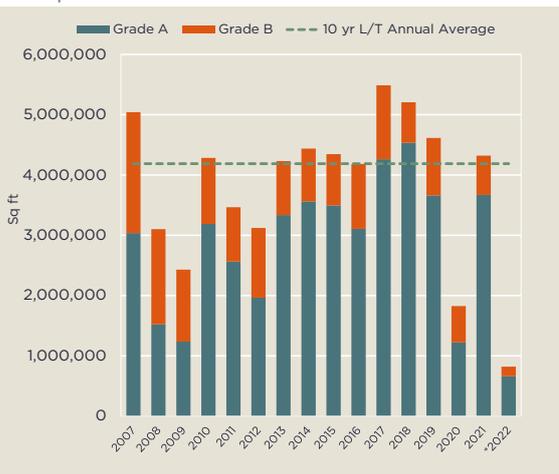
278,936 sq ft went under offer in April

4.66m sq ft

Total number of active requirements across the West End and Central London

YTD take-up by grade (2007-2022)

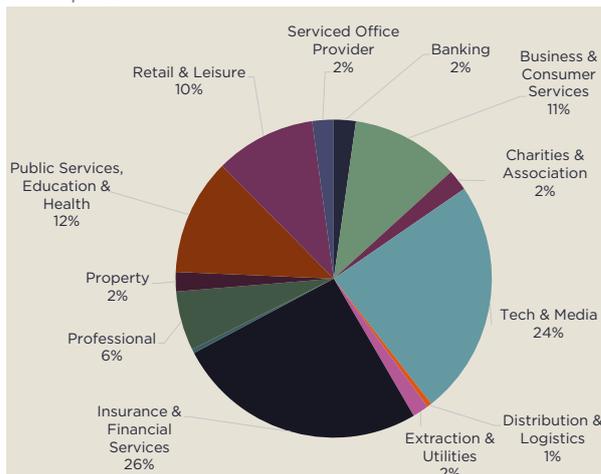
Graph 1



Source: Savills

Central London & West End active requirements

Graph 2



The total volume of supply has fallen by 7.6% from April 2021

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
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
Apr-22	169,881	75%	4,389,409

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Apr 21	749,582	5%	85%
Jan-Apr 22	821,986	10%	75%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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
Apr-22	£162.50	£73.25	£46.50	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
7,455,752	66%	-1.5%	6.4%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2022	881,729	2,151,019	3,032,748	49%
2023	1,659,361	1,827,083	3,486,444	9%
2024	723,004	1,510,642	2,233,646	7%
2025	795,909	1,759,880	2,555,789	0%
Total	4,060,003	7,248,624	11,308,627	17%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	2.1m
West End Active Requirements (sq ft)	4.7m
West End Total Requirements (sq ft)	6.8m
% change on 12 month ave	-1%
Total under offer (sq ft)	1.88m
Under offer this month (sq ft)	278,376
% change on average (total)	81%
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 April transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Paddington Square, W2	3	25,203	A	Confidential	DS Smith	Sellar Group
Orchard Place, SW1	2 (West)	21,574	A	£74.75	Capital.com	Abu Dhabi Financial Group / North Acre
45 Cadogan Gardens, SW3	2-4	15,779	A	Confidential	Confidential	-
101 New Cavendish Street, W1	Pt1	11,965	A	£67.50	Fintech Partners	BentallGreenOak
4 Bentinck Street, W1	Building	7,838	A	Confidential	TDR Capital	Howard de Walden Estates

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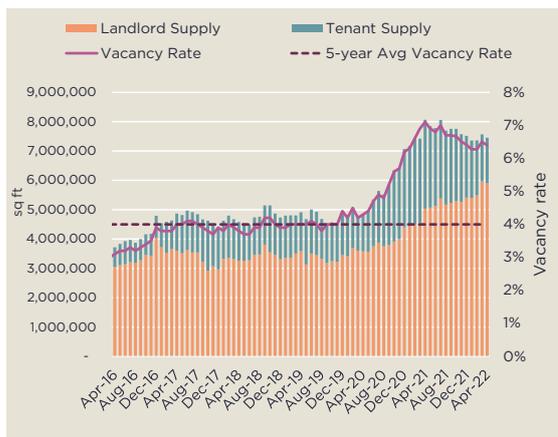
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In Focus - Tenant supply

Available supply (2016-2022)

Graph 3



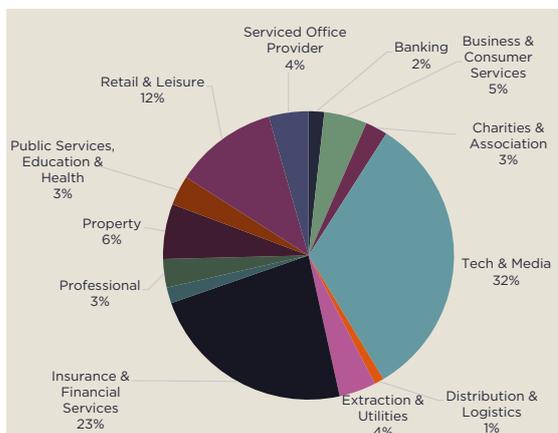
After intense speculation over the impact of rising tenant supply, at the end of 2021 and so far in 2022 it has continued to fall at a fast pace. At the end of last month tenant supply stood at 1.55m sq ft, the lowest it has been since May 2020, with the total also having consecutively decreased month on month since September 2021. Unsurprisingly the tenant space that was put on to the market since the start of the pandemic makes up the majority of this space, accounting for 72%.

We have seen the total decrease as much of the space has been withdrawn from the market. So far this year tenant space that has been removed from supply has reached 219,432 sq ft, 58% of the overall total of withdrawn space, with companies such as Informa and IQPC Ltd removing their space from the market. Furthermore, tenant space that has been re-let this year has all been made up of Grade A space, and 55% of this has been on the market for less than a year, highlighting how better quality space is preferential amongst occupiers.

Tenant supply by business sector

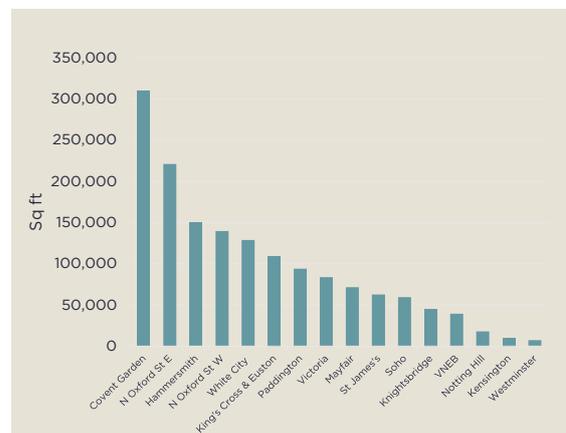
(Mar 2020-Apr 2022)

Graph 4



Tenant supply by sub-market

Graph 5



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