

West End Office Market Watch

October 2017

2017 take-up has surpassed 2016's total, with Q4 still to come

■ 871,693 sq ft of take-up was recorded in September across 41 transactions. This was the second highest monthly take-up level on record and Q3 2017's take-up is the highest quarterly total on record (Graph 1).

■ September's take-up brought the total take-up for the year to date, to 4.00m sq ft, already above the 3.97m sq ft of take-up recorded in all of 2016 with a quarter of the year remaining.

■ 0.8m sq ft is currently under-offer and so take-up in the West End looks set to exceed the record 4.34m sq ft of take-up recorded in 2015.

■ The largest transaction of the month saw Dentsu Aegis Network pre-let the entire 310,000 sq ft at British Land's 1 Triton Square, NW1 with the terms confidential.

■ Elsewhere, The Boston Consulting Group pre-let floors 5-8 at 80 Charlotte Street, W1 totalling 123,500 sq ft on a 15 year lease at a rent of £85.83 per sq ft. Arup who had already committed to floors 1-3 also took up on option to acquire 19,800 sq ft on the 4th floor.

■ We have recorded 11 pre-lets so far this year totalling 1.25m sq ft (31% of take-up).

■ The prevalence of pre-lets, particularly for larger requirements is unsurprising with just three properties currently available in the West End offering 100,000 sq ft or greater.

■ September also saw WeWork acquire floors 1-3 at 12 Hammersmith Grove, W6 totalling 52,837 sq ft on a 20 year lease at a rent of £55.00 per sq ft. Following the transaction WeWork has now acquired 507.616 sq ft in the West End this year.

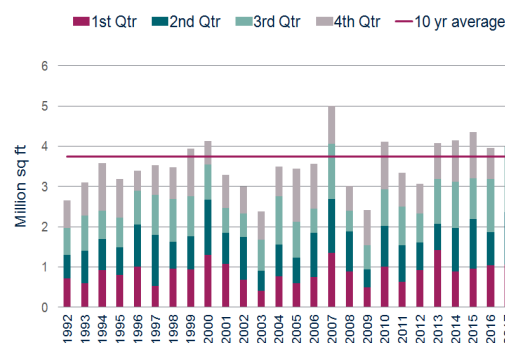
■ At the end of Q3, the Tech & Media sector remains the most active business sector in the West End, accounting for 32% of 2017's take-up. Serviced Office Providers have been the second most active sector, accounting for 19% of this year's take-up, with the Insurance & Financial Services sector third at 12%.

■ Total West End supply fell 3.7% in September to 4.67m sq ft. This resulted in the vacancy rate falling another 10bps to 3.9%. 75% of supply is of a Grade A standard while 27% is tenant controlled.

■ The average prime rent at the end of Q3 was £116.43 per sq ft, 5% above end 2016's average prime rent of £110.22 per sq ft. Similarly, the average Grade A rent at the end of Q3 was £79.60 per sq ft, 3% above 2016's average Grade A rent of £77.25 per sq ft. In contrast, the average Grade B rent was £59.63 per sq ft, 2% below 2016's average Grade B rent of £61.07 per sq ft (Graph 2).

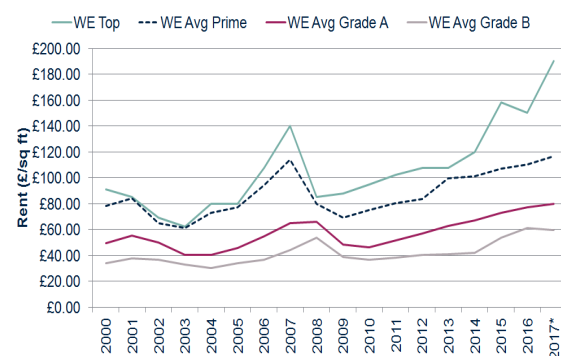
■ The average rent free period on a straight 10 year lease remains at 20 months.

GRAPH 1
West End take-up by quarter



Source: Savills Research

GRAPH 2
West End rents



Source: Savills Research

TABLE 1
Key September Stats

	Stats	Monthly change
Take-up	871,693 sq ft	↑
Supply	4,669,142 sq ft	↓
Vacancy Rate	3.9%	↓
Avg Grade A Rent (psf)	£75.11/sq ft	↓

Source: Savills Research

Analysis close up

TABLE 2

Take-up

	Month	Year to date		
	Sq ft	Sq ft	% change on previous year	% change on average
Oct-16	208,481	3,404,389	-5%	14%
Nov-16	279,071	3,683,460	-7%	13%
Dec-16	285,246	3,968,706	-9%	7%
Jan-17	259,844	259,844	-10%	-15%
Feb-17	450,152	709,996	22%	30%
Mar-17	343,806	1,053,802	1%	10%
Apr-17	205,249	1,259,051	-3%	9%
May-17	348,950	1,608,001	-2%	6%
Jun-17	760,026	2,368,027	28%	30%
Jul-17	513,691	2,881,718	33%	37%
Aug-17	252,774	3,134,492	24%	29%
Sep-17	871,693	4,006,185	25%	40%

TABLE 3

Supply

Total	% Grade A	% chg on prev mnth	Vacancy rate (%)
4,163,322	74%	4.1%	3.4%
4,176,895	76%	0.3%	3.5%
4,748,855	80%	13.7%	3.9%
4,540,123	80%	-4.4%	3.8%
4,584,658	77%	1.0%	3.8%
4,630,437	78%	1.0%	3.8%
4,869,944	76%	5.2%	4.0%
4,817,796	76%	-1.1%	4.0%
4,970,243	74%	3.2%	4.1%
4,920,875	75%	-1.0%	4.1%
4,850,847	75%	-1.4%	4.0%
4,669,142	72%	-3.7%	3.9%

TABLE 4

Rents

£ per sq ft	Top	Average			
		Grade A	Grade B	Prime*	Rent free**
Oct-16	£95.00	£74.57	£45.33	-	-
Nov-16	£107.50	£74.19	£61.97	-	-
Dec-16	£125.00	£84.45	£56.26	£110.22	17
Jan-17	£125.00	£84.41	£41.64	-	-
Feb-17	£120.00	£79.14	£63.42	-	-
Mar-17	£190.00	£85.03	£57.48	£122.39	18
Apr-17	£120.00	£85.12	£53.14	-	-
May-17	£105.00	£75.20	£59.00	-	-
Jun-17	£135.00	£77.49	£65.00	£114.06	20
Jul-17	£110.00	£78.15	£68.15	-	-
Aug-17	£109.00	£76.13	£55.25	-	-
Sep-17	£135.00	£75.11	£45.00	£116.43	20

TABLE 5

Demand & Under Offers

WE Potential demand (sq ft)	2,557,000
WE Active demand (sq ft)	3,450,000
WE Total demand (sq ft)	6,404,000
% change on 12 month ave	20%
Total under offer (sq ft)	851,782
Under offer this month (sq ft)	182,183
% change on ave	42%
Landlord controlled supply	69%
Tenant controlled supply	31%

Demand figures include Central London requirements

TABLE 6

Development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2017	467,000	1,852,000	2,318,000	65%
2018	882,000	1,383,000	2,265,000	47%
2019	426,000	1,016,000	1,442,000	10%
2020	302,000	1,770,000	2,057,000	0%
Total	2,077,000	6,021,000	8,082,000	37%

Completions due in the next 6 months are included in the supply figures

*Average prime rents for preceeding 3 months ** Average rent free on leases of 10 years for preceeding 3 months

TABLE 7
Significant September transactions

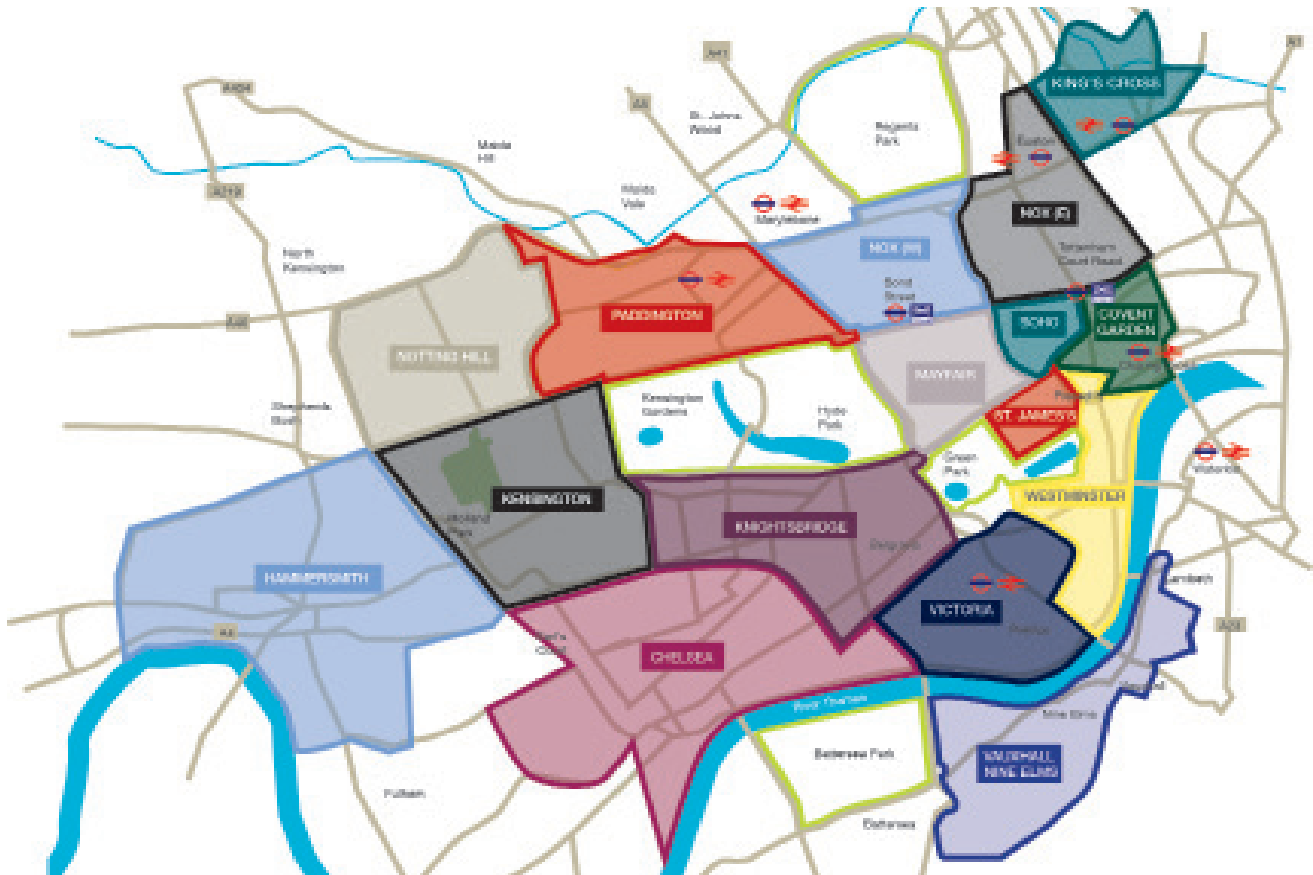
Address	Floor/s	Sq ft	Grade	Achieved rent	Tenant	Lessor
1 Triton Square, NW1	Bldg	310,000	A	Confidential	Dentsu Aegis Networks	British Land
80 Charlotte Street, W1	5-8	123,500	A	£85.83	Boston Consulting Group	Derwent London
12 Hammersmith Grove, W6	1-3	52,837	A	£55.00	WeWork	Aberdeen Asset Management
Victoria House, Southampton Row, WC1	3, P4	31,766	A	Confidential	Stragbag	M1 Real Estate
25 Eccleston Place, SW1	Bldg	25,584	A	£52.50	Central Working	Grosvenor
80 Charlotte Street, W1	p4	19,800	A	£75.00	Arup	Derwent London
The Avenue, 1 Bedford Avenue, WC1	p3, 4	17,090	A	Confidential	Gresearch	Exemplar/Ashby Capital
11 Hanover Square, W1	5-7	12,512	A	£116.00	Summit Partners	Aviva Investors

TABLE 8
Significant supply

Address	Floor/s	Sq ft	Grade	Quoting rent	Lessor	U/O
5 Merchant Square, W2	G-7	159,000	A	£60.00	Marks & Spencer	
Nova North, SW1	3-6, 8-11	140,000	A	NQ	Landsec / CPPIB	p8, 9
The Foundry, 77 Fulham Palace Road, W6	G-4	110,000	A	£57.50	AXA Real Estate Investment Managers	
Nova South, SW1	3-5	88,000	A	NQ	Landsec / CPPIB	p4, 5
25 Wilton Road, SW1	G-6	84,000	A	£70.00+	Royal London	
Verde, SW1	pt2, 3, p4, pt5	71,000	A	£75.00+	Tishman Speyer & PSP	3, p4
King's House, 174 Hammersmith Road, W6	G-6	59,000	A	£59.50	Kier Group	

MAP 1

Savills West End office submarkets



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