

West End Office Market Watch



Strongest Q1 take-up in over 6 years

Leasing activity across the West End continued to remain resilient over the first quarter of this year, amidst the continued uncertainty, with occupiers remaining undeterred and pushing forward to complete on 98 transactions. Overall 1.2m sq ft completed making it the highest amount of take-up we have seen over the first quarter in over 6 years, and up 30% on the long-term average.

In March we saw 429,750 sq ft complete across 42 transactions, the vast majority of which were across core West End sub-markets. The largest transaction to complete this month was Glencore's acquisition of the 2nd to 4th floors at Great Portland Estate's 18-19 Hanover Square, W1, (52,691 sq ft), on a 20 year lease at £116.00 per sq ft. The other notable transaction to complete this month was at Derwent London's Brunel Building, W2, with Splunk pre-letting the remaining three floors, on a 12 year lease at £74.50 per sq ft. The Brunel Building is now fully pre-let ahead of its anticipated completion in Q2 2019.

The Tech & Media sector continues to account for the largest share of take-up for the year so far, at 25%, while the Insurance & Financial sector and the Serviced Office Provider sector both followed, each with a 21% share. The volume of transactions to Financial sector occupiers has continued to be a key driver of leasing activity, accounting for a quarter of transactions so far this year.

Albeit the sample size of data on a quarterly basis is smaller, the increased competition to secure the best space, in light of the increasing awareness occupiers have of the West End's supply constraints, and the higher level of upcoming lease events, is beginning to reflect on rents in certain sub-markets. Whilst we are not expecting to see rental growth this year, evidence suggests prime rents remain stable, with the average prime rent standing at £119.30 per sq ft, up 13% on Q1 2018.

This is the highest average prime rent we have seen since the end of 2017.

Supply remained at 4.8m sq ft and the vacancy rate at 4.0%. The most notable new addition to supply was 245 Hammersmith Road, W6 (242,447 sq ft), which is expected to complete in Q3 this year.

We anticipate supply will remain broadly at the same level over the next year, with 70% of the space which is scheduled for delivery over 2019 already pre-let. The majority of the speculative space expected to be delivered over the coming year has already been accounted for in our supply figures (which takes into account space which is expected to complete over the next 6 months). This leaves only an additional 27,081 sq ft of speculative space at Embassy Gardens, SW8, which is expected to be delivered in the final quarter of this year.

Both space under offer and office requirements remain above their long-term averages at 1.3m sq ft and 4.6m sq ft, respectively. We expect West End and Central London requirements to increase over the second quarter, with a number of prominent financial occupiers launching searches in advance of upcoming lease expiries and we have already seen 300,000 sq ft of additional Central London requirements reported since the start of April.

Around half of the West End & Central London requirements are for space between 10-20,000 sq ft, and just over a quarter of requirements are for Tech & Media sector occupiers. With market fundamentals remaining positive, we expect take-up this year will be well above the long-term average with occupiers continuing to remain committed to being in the West End.



1.2m sq ft was let over the first quarter, up 30% on long-term average



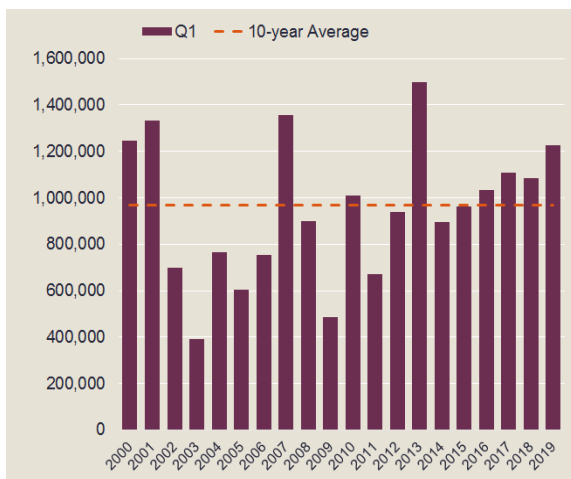
£119.30 PSF was the average prime rent at the end of Q1 2019



4.6m sq ft Central London & West End tracked demand was up 2% on the average for the past 12 months

West End Q1 take-up 2000-2019

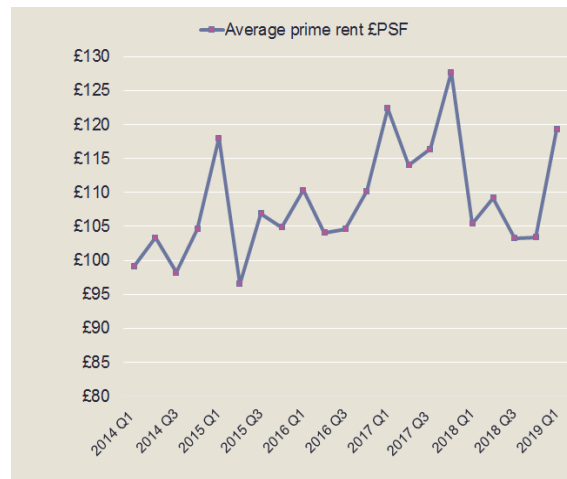
Graph 1



Source: Savills

Average prime rents by quarter

Graph 2



1.3m sq ft remained under offer at the end of Q1 2019

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Apr-18	289,756	81%	5,436,994
May-18	295,141	80%	5,392,159
Jun-18	525,288	83%	5,155,783
Jul-18	1,192,648	85%	5,847,143
Aug-18	283,074	84%	5,866,980
Sep-18	148,833	84%	5,106,918
Oct-18	481,494	82%	5,216,397
Nov-18	361,500	82%	5,232,699
Dec-18	478,802	82%	5,144,858
Jan-19	224,205	55%	5,015,439
Feb-19	571,406	75%	5,296,185
Mar-19	429,750	74%	5,281,897

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Mar 18	1,088,322	1%	78%
Jan 19 - Mar 19	1,225,361	13%	74%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Apr-18	£86.00	£70.90	£62.50	-	-
May-18	£185.00	£79.80	£64.69	-	-
Jun-18	£104.00	£72.16	£51.17	£109.20	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	-	-
Mar-19	£130.00	£75.80	£62.56	£119.30	22

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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	56%	5.5%	3.9%
4,760,149	56%	0.4%	3.9%
5,147,690	70%	8.1%	4.2%
5,146,841	67%	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	59%	0.3%	4.0%
4,803,390	64%	-0.1%	4.0%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2019	1,144,051	1,410,558	2,554,609	71%
2020	549,751	1,262,919	1,812,670	42%
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	39%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	0.8m
West End Active Requirements (sq ft)	3.8m
West End Total Requirements (sq ft)	4.6m
% change on 12 month ave	2%
Total under offer (sq ft)	1.4m
Under offer this month (sq ft)	365,166
% change on average (total)	95%
Landlord controlled supply	73%
Tenant controlled supply	27%

*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
18-19 Hanover Square, W1	2-4	52,691	A	£116.00	Glencore	GPE
Brunel Building, W2	3-5	49,600	A	£74.50	Splunk	Derwent
3 Shortlands, W6	1,2,6	45,352	A	£40.57	Hammersmith & Fulham	Romulus
Mediaworks, White City, W12	3pt	29,000	A	£52.50	Ralph & Russo	Stanhope/Mitsui
24 Portland Place, W1	Entire	21,080	A	£83.00	Cleveland Clinics	Howard De Walden
UK House, Oxford Street, W1	7pt	15,590	A	£78.00	Yext	
Cassini House, St James's Street, SW1	4-5	13,653	A	Confidential	Shore Capital Stockbrokers	BMO Real Estate
20 St James's Street, SW1	5-6	13,127	A	£120.00	Exodus Point Capital	Welput

Savills contacts

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
245 Hammersmith Road	W6	242,477	
Euston Tower, Euston Road	NW1	151,970	Short term leases - Not quoting
64 Victoria Street	SW1	96,574	Under offer to SOS
Elms House, Hammersmith	W6	96,260	Sublease from Jacobs Engineering
The Post Building, New Oxford Street	WC1	86,511	Guiding high £80's psf
The Foundry, 77 Fulham Palace Road	W6	68,179	Quoting £57.50 psf
The White Building	W11	71,754	

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