

West End Office Market Watch



Tenant requirements increase, whilst supply rises as leasing activity continues to remain subdued

July take-up reached 60,182 sq ft, with 6 transactions completing during the month. This brought year to date take-up to 1.1m sq ft, down 56% on the long-term average and 64% on the end of the same period in 2019. 12 month rolling take-up currently stands at 2.9m sq ft.

The largest transaction to complete in July was at 7 Swallow Place, W1, where G Network acquired 24,000 sq ft on the pt 3rd, pt 6th, 4th and 5th floors on terms which remain confidential at present. Another notable transaction to complete was at 20 St James's Street, W1, where Harrison Street acquired the 3rd floor (6,519 sq ft), on a 10 year lease at £112.50 per sq ft. This is the highest rent that has been achieved in the West End since the start of lockdown in March.

We saw this year's largest monthly decrease to space under offer, with space under offer standing at 1m sq ft, down 22% on the previous month's 1.3m sq ft. A significant quantity, (28%) of this reduction was a result of Lazard's failure to complete on Invesco's 20 Manchester Square, W1 development (100,000 sq ft).

However the overall amount of space under offer still remains up on the long-term average by 40%. Whilst space under offer has decreased, we saw an increase to both active and potential tenant requirements across Central London, reflecting the increasing amount of occupiers who are putting their searches on hold and reviewing their options.

At the end of July, Central London and West End tenant requirements stood at 7.5m sq ft, up 15% on the previous month. Active requirements at 4.7m sq ft were at their highest level in 3 months, whilst potential tenant requirements were at a high level at 2.8m sq ft, the likes of which we have not seen since the end of 2017.

Supply continued to rise over the month, largely as a result of the slight uptick to tenant controlled space. At the end of July tenant controlled space accounted for 31% of supply. Whilst this was only up 1% on the previous month, tenant controlled supply was up from 1.6m sq ft to 1.8m sq ft in July.

The vacancy rate at the end of the month stood at 4.9%, up 20 bps on the previous month, with supply standing at 5.6m sq ft. This is up from 4.0% at the end of the same period in 2019.

We expect supply will continue to rise over the second half of this year as there is around 630,000 sq ft of speculative space scheduled for delivery over the first half of 2021, (we include completions due in the next six months to our supply figures). And we are expecting tenant controlled space to continue to rise.

Currently there are only two developments (61,273 sq ft in total), scheduled for completion during the second half of this year and development completions for 2020 is expected to reach just 806,500 sq ft. This is the lowest level of annual completions for the west End for over 9 years. 58% of 2020's pipeline so far has let prior to completion.

We are anticipating 10.8m sq ft will complete between 2021 and 2024, 30% of these developments will be refurbishments an 29% of this has already been pre-let. Development activity is set to reach a record level in 2022 with 3.6m sq ft scheduled for completion at present Development activity in Kings Cross accounts for 25% of this total and over a quarter (27%) of this has already been pre-let.

4.9%

The vacancy rate is up 90 bps on the start of the year



7.5m sq ft

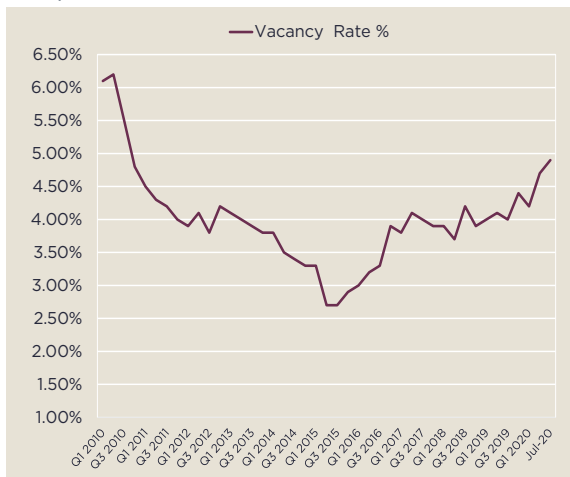
West End and Central London requirements are up 15% on the previous month

1m sq ft

Space under offer was down 22% on the previous month

West End vacancy rate

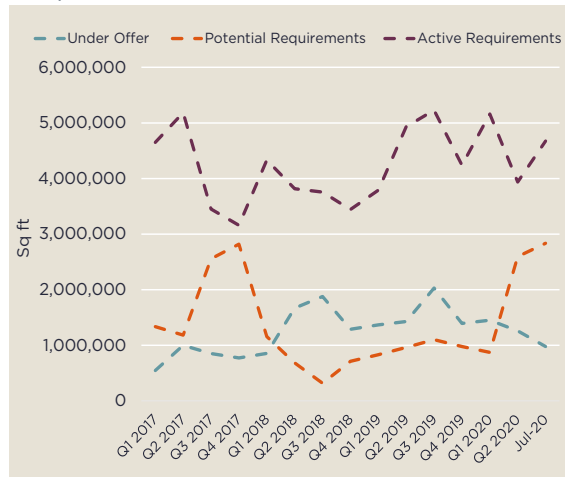
Graph 1



Source: Savills

Underlying Demand

Graph 2



10.8m sq ft

is scheduled for delivery between 2021 and 2024

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Aug-19	151,140	79%	4,435,028
Sep-19	319,776	80%	4,471,730
Oct-19	478,534	81%	4,801,431
Nov-19	293,023	80%	4,267,483
Dec-19	654,769	80%	4,464,317
Jan-20	277,588	12%	4,511,328
Feb-20	220,109	40%	4,146,083
Mar-20	160,932	43%	3,886,213
Apr-20	41,723	45%	3,627,080
May-20	108,913	49%	3,430,923
Jun-20	184,706	55%	3,353,406
Jul-20	60,182	56%	2,951,395

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19-Jul 19	2,567,075	-24%	81%
Jan 20-Jul 20	1,054,153	-56%	56%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Aug-19	£95.34	£86.00	£52.50	-	-
Sep-19	£120.00	£74.14	£52.50	£120.00	21
Oct-19	£135.00	£81.08	£52.88	-	-
Nov-19	£102.50	£72.21	£63.82	-	-
Dec-19	£92.50	£74.18	£52.77	£114.00	20
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	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
4,684,337	64%	-5.1%	3.8%
4,541,472	59%	-3.0%	4.0%
4,571,005	54%	0.7%	4.0%
4,544,486	62%	-0.6%	4.0%
4,932,348	61%	8.5%	4.4%
4,740,257	58%	-3.9%	4.2%
5,054,819	65%	6.6%	4.5%
4,799,913	68%	-5.0%	4.2%
4,838,872	73%	0.8%	4.3%
4,962,053	79%	2.5%	4.4%
5,364,966	87%	8.1%	4.7%
5,626,844	100%	4.9%	4.9%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,055,404	2,500,607	3,556,011	61%
2022	973,467	2,660,776	3,634,243	27%
2023	1,044,750	867,377	1,912,127	1%
2024	350,000	1,734,268	2,084,268	0%
Total	3,278,516	7,763,028	11,186,649	28%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	2.8m
West End Active Requirements (sq ft)	4.7m
West End Total Requirements (sq ft)	7.5m
% change on 12 month ave	22%
Total under offer (sq ft)	1.0m
Under offer this month (sq ft)	65,210
% change on average (total)	40%
Landlord controlled supply	69%
Tenant controlled supply	31%

*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 July transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
7 Swallow Place, W1	3(s), 6(s), 4,5	24,000	A	Confidential	G Network	
80 Charlotte Street, W1	G,LG	13,100	A	£70.00	Lee & Thompson	Arup
11-12 St. James's Square, SW1	2 R	9,129	B	£69.50	Blackstone	Dubai International Financial
20 St James's Street, SW1	3	6,519	A	£115.00	Harrison Street	Greenoak

Savills contacts

Please contact us for further information

Ed Betts

Director
West End Agency
0207 758 3887
ed.betts@savills.com

Hunter Booth

Director
West End Agency
0207 409 8832
hunter.booth@savills.com

Victoria Bajela

Associate Director
Research
0207 409 5943
victoria.bajela@savills.com

Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
80 Strand	WC2	253,000	Q2 2020 - sublease
245 Hammersmith Road	W6	214,000	
Elms House, Hammersmith	W6	96,260	Under offer
Millbank Tower	SW1	74,254	
210 Euston Road	NW1	63,963	Now exchanged
33 Cavendish Square	W1	60,133	
The Foundry, 77 Fulham Palace Road	W6	57,515	
The White Building, Notting Hill	W11	58,396	Quoting 42.50 psf

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