

West End Office Market Watch



Summer sees uptick in activity as take-up, under-offers, and active requirements are all on the rise

Leasing activity picked up over July to reach 276,007 sq ft, across 24 transactions. This brought year-to-date take-up to 1.55m sq ft, 46% above where it was this time last year. It is also the third highest monthly since the start of the pandemic, only 30% behind March, and 2% behind May 2021.

Although month on month take-up since the start of this year has not been consistent given the lockdown at the start of the year, on average leasing activity has risen by 56% per month from January. Almost three quarters of these completed transactions have been for 10,000 sq ft or less.

This increased activity coupled with a high amount of space under offer bodes well for the levels of leasing activity we have seen in recent months and for the rest of the year. Last month 127,750 sq ft of space went under offer, bringing the total to 1m sq ft across the West End, up 6% on the long-term average.

In total the Tech & Media sector accounted for 18% of the space that was let over the month. Partly due to the largest transaction to complete in July being Smart's acquisition of the entire building at 136 George Street, W1 (44,500 sq ft) on a 15-year lease at a rent of £81.25 per sq ft.

This brought year-to-date take-up for the Tech & Media sector to 363,129 sq ft, which equates to 26% of the overall level of take-up we have seen complete this year. Alongside the Insurance & Financial sector, which also accounts for 26%, both make up the largest sectors for leasing activity so far this year.

Last month supply reached 8.1m sq ft, which takes the vacancy rate to 7.0%, 20 bps up from the previous month, and up on the long-term average of 4.5%. From this total 33% is made up of tenant supply, which is 6% up on the 5-year average.

Part of the reason for this increase is due to the 83,094 sq ft of tenant space that came on to the market last month, 61% of which came from Li & Fung sub-letting the 5th floor at WestWorks, W12 on an assignment until 2029. However, it is important to note that the rate of tenant supply is still slowing from April 2021, where it reached its peak as the current 2.8m sq ft of available tenant space is down 12% from April.

From the total amount of available space 1.8m sq ft (21%) has a BREEAM rating of 'Very Good' or above. However, only 17% of these buildings that have come onto the market since January 2021 have been awarded a BREEAM rating of 'Excellent' or 'Outstanding'.

Whereas, within this same timeline, buildings with the 'Excellent' or 'Outstanding' ratings have accounted for 32% of take-up, which suggests that offices with green initiatives are proving to be more popular amongst office occupiers across the West End.

Currently there are 12.7m sq ft of new developments and extensive refurbishments scheduled to complete over the next four years. As it stands 3.6m sq ft (29%) of these have already been pre-let, and 2021-2023 are set to be record years for development completions for the West End as many developers push on with their current timelines, but 34% of these have already been pre-let.



1.6m sq ft

Take-up 46% above same point last year

7.0%

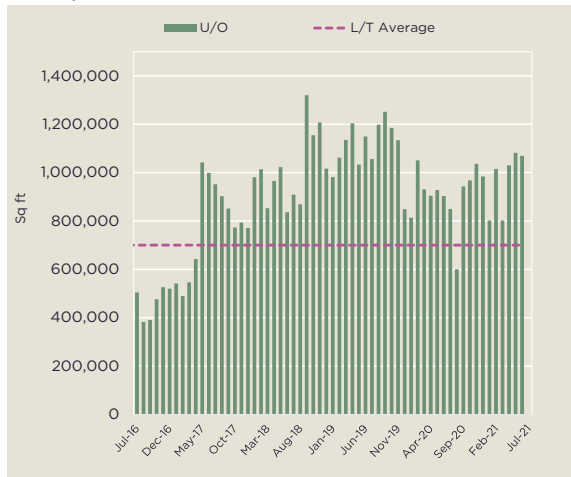
Vacancy rate up 20 bps from previous month



Space under-offer up 6% on the long-term average

Space under-offer (2016-2021)

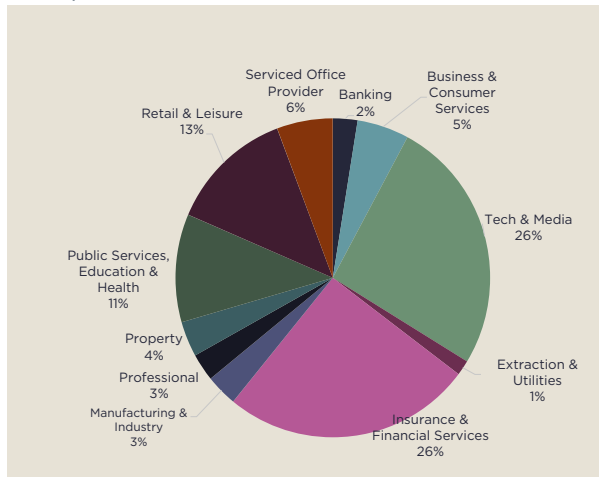
Graph 1



Source: Savills

Take-up by business sector (January-July 2021)

Graph 2



Tech & Media make up the largest proportion of take-up

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Aug-20	147,578	61%	2,958,108
Sep-20	174,851	65%	2,813,183
Oct-20	57,368	65%	2,392,017
Nov-20	77,132	64%	2,176,126
Dec-20	205,780	65%	1,727,137
Jan-21	49,172	72%	1,498,721
Feb-21	168,480	65%	1,443,497
Mar-21	393,076	80%	1,675,641
Apr-21	125,930	82%	1,759,641
May-21	280,239	86%	1,931,174
Jun-21	262,845	82%	2,006,341
Jul-21	276,007	82%	2,218,458

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Jul 20	1,064,428	-59%	57%
Jan-Jul 21	1,555,749	46%	82%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Aug-20	£125.00	£81.83	£61.00	-	-
Sep-20	£82.50	£74.21	£63.47	£120.00	24
Oct-20	£100.00	£86.66	£62.93	-	-
Nov-20	£75.00	n/a	£68.30	-	-
Dec-20	£277.00	£74.97	£61.00	£107.50	24
Jan-21	£90.00	£89.50	£59.50	-	-
Feb-21	£140.00	£89.00	£62.00	-	-
Mar-21	£122.50	£86.00	n/a	£118.50	27
Apr-21	£121.00	£95.50	£70.00	-	-
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	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
5,513,246	53%	-2.0%	4.8%
5,838,546	55%	5.9%	5.2%
6,317,748	57%	8.2%	5.6%
6,443,512	58%	2.0%	5.7%
7,065,552	57%	9.7%	6.2%
7,173,456	59%	1.5%	6.3%
7,452,396	58%	3.9%	6.6%
7,801,307	60%	4.7%	6.9%
8,065,784	60%	3.4%	7.1%
7,850,537	60%	-2.7%	6.9%
7,780,829	61%	-0.9%	6.8%
8,062,280	60%	3.6%	7.0%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,077,531	2,324,325	3,401,856	64%
2022	739,746	2,273,709	3,013,455	34%
2023	1,183,043	2,378,465	3,561,508	4%
2024	547,204	2,127,530	2,674,734	10%
Total	3,547,524	9,104,029	12,651,553	29%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.7m
West End Active Requirements (sq ft)	5.8m
West End Total Requirements (sq ft)	7.5m
% change on 12 month ave	7%
Total under offer (sq ft)	1.03m
Under offer this month (sq ft)	127,750
% change on average (total)	6%
Landlord controlled supply	67%
Tenant controlled supply	33%

*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
136 George Street, W1	Entire	44,500	A	£81.25	Smart	Native Land
The Point, 37 North Wharf Road, W2	PtG,1	35,904	A	Confidential	Confidential	BT
6-8 Greencoat Place, SW1	Entire	32,400	B	£69.00	Fora	Derwent London
The Hudson, 350 Kennington Lane, SE11	LG-2	23,262	A	£52.50	University of Coventry	Aviva

Savills contacts

Please contact us for further information

Hunter Booth

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

Andrew Barnes

Director
Central London Tenant Rep
0207 499 8644
andrew.barnes@savills.com

Victoria Bajela

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

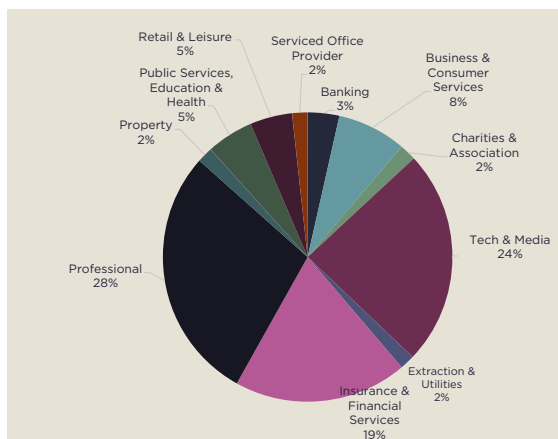
Emma Mason

Research Analyst
Research
0207 409 5903
emma.mason@savills.com

In Focus - Active and Potential Requirements

Active requirements by business sector

Graph 3

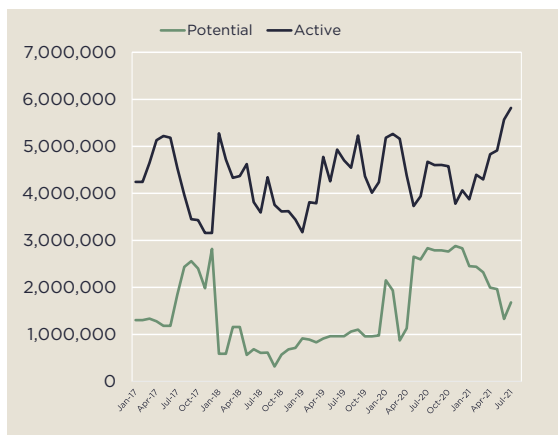


In recent months the levels of active and potential requirements across Central London and the West End have been diverging from one another. Since the end of April 2021 active requirements have increased by an average of 8% every month, to reach 5.8m sq ft last month. Whereas potential requirements have gone down by an average of 3% within the same period, which illustrates an improvement in occupier sentiment.

The Professional, Tech & Media, and Insurance & Financial Services sectors made up the largest proportion of demand at the end of July, accounting for 28%, 24%, and 19% respectively. Only 8% of occupiers have requirements sized 100,000 sq ft or above, with the highest proportion unsurprisingly remaining at 10,000 sq ft and below across the West End and Central London.

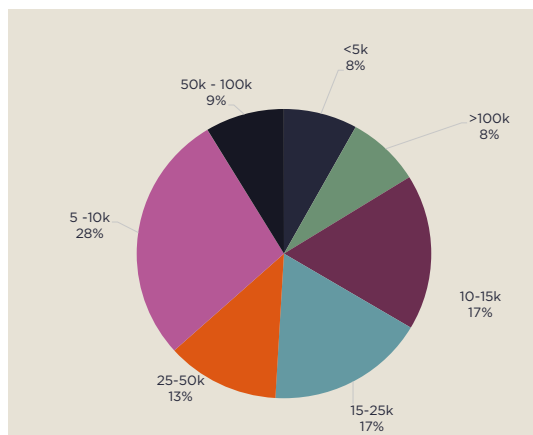
Central London & West End requirements (2017-2021)

Graph 4



Active requirements by size band (July 2021)

Graph 5



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