

West End Office Market Watch



Tenant-controlled space reaches a three-year low as supply continues to reduce

Following on from the record level of activity we saw last month, July take-up reached 237,000 sq ft across 29 transactions. This brings year-to-date take-up to 2.3m sq ft, which is up 5% on the long-term average for the same period. The continued strong appetite from occupiers for locations in the core sub-markets is reflected by the fact that half of July's transactions completed in Soho, Mayfair St James's and North of Oxford Street.

The largest transaction to complete in July was SaltPay's acquisition of 25,000 sq ft on the 15th to 18th floors at Windsor House, Victoria Street, SW1. Another notable transaction to complete was Winton Capital's acquisition of the 4th and 5th floors, (24,574 sq ft) at Hooper's Court, Basil Street, SW3 on a 10 year term at £107 per sq ft.

Encouragingly we continued to see the quantity of tenant-controlled space on the market continue to decrease, with a 7% reduction being seen over the month. At 1.26m sq ft tenant-controlled space is now also down 15% on the end of 2019, where it stood at 1.4m sq ft and the lowest level of tenant-controlled space we have seen in almost three years. Sub 5,000 sq ft Grade B floorplates make-up 45% of the tenant-controlled space currently on the market and over half of all available tenant space is available on a term of 5 years or less.

With this we also saw an overall reduction to West End supply, with the vacancy rate moving down by 30 bps over the month, to stand at 5.6% at the end of July. Mayfair saw the largest monthly sub-market reduction to supply with the vacancy rate moving down 60 bps on the previous month to 3.8%. This was followed by NOX East moving down 40 bps to 3.9% at the end of July.

Despite the headwinds, there is yet to be any sign of occupiers changing their preferences or office space requirements with space under offer slightly up on the previous month at 1.2m sq ft. There has been a noticeable increase to the length of time it is taking for transactions to complete.

Covent Garden accounts for the largest proportion of space under offer with 17% followed by North of Oxford Street West with 16% and then by North of Oxford Street East and Victoria, both accounting for 12% of space under offer.

The sustained demand for better quality space is reflected by the fact that offices of Grade A quality account for 74% of space under offer at present. In terms of floor plate size, 44% of Grade A space that is under offer (by number), is on floor plates sized 5,000 sq or less, illustrating the continued sustained appetite for better quality space from occupiers of all sizes.

Active and potential Central London requirements (excluding any city specific requirements) stood at 5.9m sq ft at the end of July, with active requirements increasing by 36% over the month with more occupiers activating their searches since the end of H1.

Financial sector companies account for over half of the quantum of occupiers with a West End only specific requirement. This year we have continued to see the particularly strong levels of demand we saw from Asset Management, Investment Management and Private Equity firms during 2021. So far this year already the sub-sector has accounted for 589,500 sq ft of take-up, already very close to overtaking high level (600,000 sq ft) of take-up we saw from this sub-sector in 2021.



5.6%

The vacancy rate moved down by 30 bps in July



1.26m sq ft

tenant-controlled space is at its lowest level in three years

£81.73 psf

The average Grade A rent is up 1% on the same period during 2021

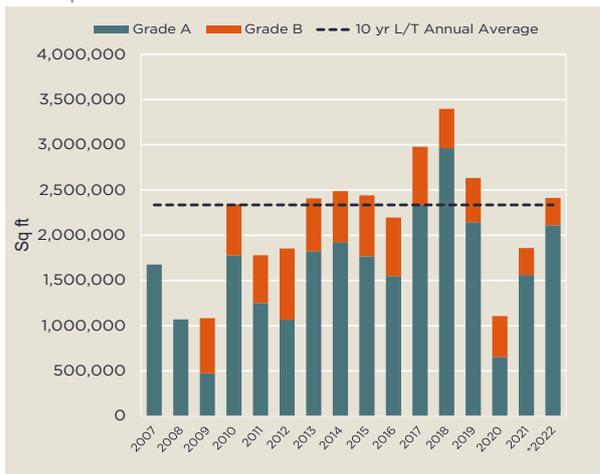
Tenant-controlled supply

Graph 1



West End Year-to-date take-up

Graph 2



15%

of 2023's development pipeline has already been pre-let

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
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	248,705	78%	4,511,274
Feb-22	157,388	83%	4,497,109
Mar-22	275,109	80%	4,383,821
Apr-22	182,918	81%	4,431,543
May-22	305,426	82%	4,441,084
Jun-22	1,006,186	89%	5,202,299
Jul-22	237,150	87%	4,847,490

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Jul 21	1,857,595	-23%	87%
Jan-Jul 22	2,412,882	30%	84%

Rents (£ per sq ft)

Table 5

	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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	-	-
May-22	£200.00	£80.63	£59.92	-	-
Jun-22	£150.00	£91.67	n/a	£119.50	24
Jul-22	£115.00	£77.83	£57.30	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
7,181,238	66%	-3.7%	6.2%
6,859,966	66%	-4.5%	5.9%
6,859,966	66%	-4.5%	5.9%

Development pipeline (sq ft)

Table 4

	Refurb	Devs	Total	% Pre-let
2023	957,336	1,771,924	2,729,260	15%
2024	1,474,609	1,390,642	2,865,251	5%
2025	589,909	1,759,880	2,349,789	8%
2026	270,000	1,900,000	2,170,000	3%
Total	3,291,854	6,822,446	10,042,898	8%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	0.98m
West End Active Requirements (sq ft)	4.88m
West End Total Requirements (sq ft)	5.86m
% change on 12 month ave	-11%
Total under offer (sq ft)	1.19m
Under offer this month (sq ft)	194,229
% change on average (total)	24%
Landlord controlled supply	81%
Tenant controlled supply	19%

*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
Windsor House 42-50 Victoria Street, SW1	15-18	25,000	B	Confidential	SaltPay	London Underground
Hooper's Court, Basil Street, SW3	4-5	24,574	A	£107.00	Winton Capital	Olayan Europe/ Chelsfield
One Embassy Gardens, SW8	9-10	21,281	A	£63.50	Perrigo	Ballymore
10 Old Burlington Street, W1	3-5	19,710	A	Confidential	Confidential	Norges Bank
50 Eastbourne Terrace, W2	1	14,089	A	Confidential	Cerner	Invesco/ Yard Nine

Savills contacts

Please contact us for further information

Jon Gardiner

Director - Head of Central London Office Leasing
0207 409 8828
jgardiner@savills.com

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

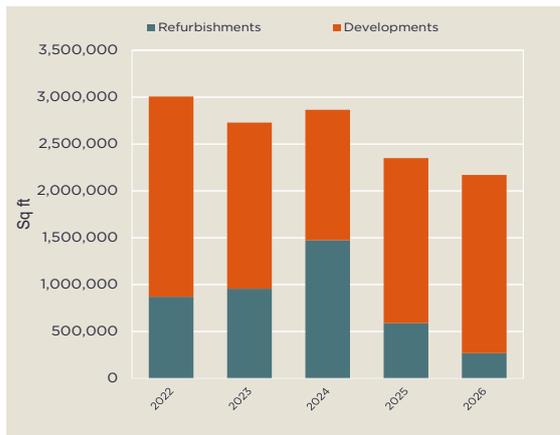
Victoria Bajela

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

In Focus - Development Pipeline

New developments vs refurbishments

Graph 3



The buoyancy of the occupational market, coupled with the growing focus on improving energy efficiency, particularly with MEES coming into view over the next few years, has resulted in a robust development pipeline despite the continued upwards pressure on costs and project timescales.

We are current anticipating 12.6m sq ft of development completion between now and 2026. Currently Around 8% of 2023 - 2026 pipeline has been pre-let with a further 5% believed to be under offer at present.

A record 3m sq ft is expect to delivered by the end of this year, although at present only 5% of this has completed. With half of this year's scheduled completions expected in Q4, there is an increased likelihood we could see some of these schemes being pushed out into early 2023 with the typical construction delays at play.

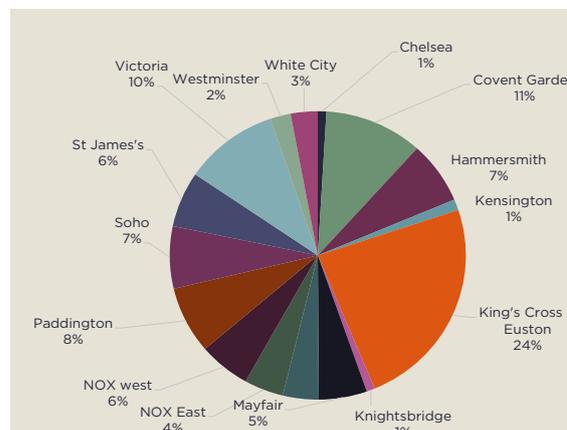
2023-2026 pipeline by BREEAM rating

Graph 4



Speculative space by sub-market (2023-2026)

Graph 5



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