

West End Office Market Watch



Take-up declines in November but remains above the long-term average

Take-up dropped in November compared to the previous month, with take-up reaching 179,116 sq ft across 23 transactions. This brought YTD take-up to 4.1m sq ft across 388 transactions, up 13% on the same point last year, and above the 10-year average by 14%, despite the dip this month. Furthermore, it should be noted that for nine out of the last ten years, take-up has picked up in December, as landlords and tenants aim to complete deals before the end of the year.

The largest transaction to complete last month was Dorchester Services' pre-let of the 3rd floor of the Abu Dhabi Investment Authority's 1 Knightsbridge, SW1 development (23,960 sq ft), on a 15-year lease for a confidential rent. The refurbishment is due to complete this quarter.

The demand for high-quality office space continues with 90% of take-up this month being of Grade A quality, compared to the long-term average of 72%. In fact, total Grade B take-up so far this year stands at just 496,735 sq ft, down 38% on the long-term average for this point in the year.

The ongoing demand for high-quality space is also reflected in the rental figures as rents for the highest quality space continues to climb. The average Grade A rent so far for this year is £83.84 per sq ft, a new record, and up 3% on this point last year, and 14% higher than the 10-year average. This stands in contrast to the trend that average Grade B rents have followed, which have fallen 8% from their peak in 2020 as occupiers seek higher-quality space in an attempt to lure workers back to the office post-pandemic.

Perhaps the most notable take-away from supply last month though was the significant 24% increase in tenant-controlled space to 1.6m sq ft, the biggest monthly increase since December 2020. Driving this uptick was the decision by tech giant Meta not to occupy its 350,000 sq ft office at 1 Triton Square, for which it signed a lease only last year. Instead it will now seek to sublease the entire space. This comes off the back of similar announcements by other major tech firms that are seeking to reduce their property portfolios in a bid to cut costs, amid tough economic conditions.

The large increase in tenant-controlled space counteracted the fall in landlord controlled space this month, resulting in overall supply rising to 7.9m sq ft and a vacancy rate of 6.4%, up 10 bps from the previous month. It also forced the proportion of tenant-controlled space to 22%, the highest level since February, although still below the long-term average of 30%.

On top of this, total under offers only suffered a minor decline, standing at 1.4m sq ft, remaining 53% higher than the 10-year average. This suggests the market remains in a strong position going into the new year despite the challenges in the wider economy.

The development pipeline also displays signs of market resilience with 4m sq ft of space set to complete next year, 36% of which has already been pre-let. This is in addition to the 8m sq ft scheduled for delivery between 2024 and 2026, in spite of rising material costs.



YTD take-up is 4.1m sq ft across 388 transactions

6.4%

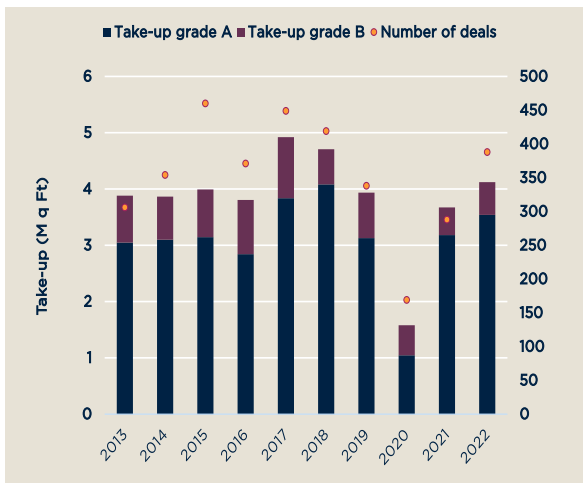
Vacancy rate rises 10 bps

3.9m sq ft

Total active requirements for Central London and West End

West End historical Jan-Nov take-up

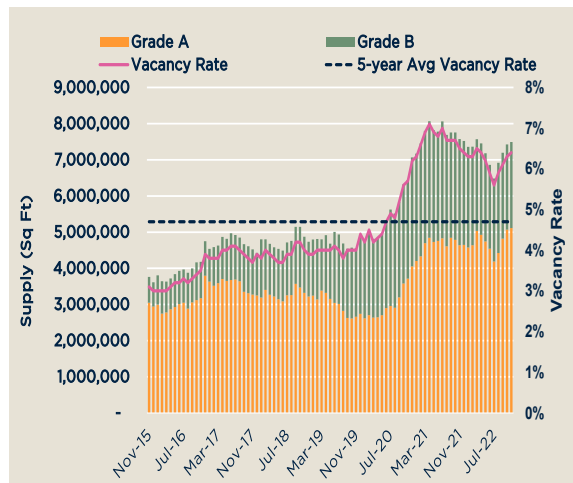
Graph 1



Source: Savills

West End supply and vacancy rate

Graph 2



22%

of supply is tenant-controlled

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Dec-21	641,894	85%	4,315,314
Jan-22	248,705	78%	4,509,583
Feb-22	171,998	83%	4,510,028
Mar-22	309,667	80%	4,434,548
Apr-22	197,262	81%	4,496,614
May-22	318,407	82%	4,528,041
Jun-22	1,029,814	88%	5,312,884
Jul-22	298,153	86%	5,019,078
Aug-22	412,148	86%	5,117,758
Sep-22	600,445	87%	5,030,916
Oct-22	354,767	86%	4,888,750
Nov-22	179,116	86%	4,762,376

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Nov 21	3,673,420	133%	87%
Jan-Nov 22	4,120,482	12%	86%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Dec-21	£120.00	£73.67	£52.77	£116.86	24
Jan-22	£160.00	£89.36	£41.71	-	-
Feb-22	£135.00	£79.00	£37.12	-	-
Mar-22	£180.00	£83.20	£57.50	£121.66	24
Apr-22	£87.50	£68.30	£52.20	-	-
May-22	£200.00	£83.40	£54.86	-	-
Jun-22	£150.00	£92.44	£50.33	£119.50	24
Jul-22	£115.00	£78.96	£51.56	-	-
Aug-22	£135.00	£83.45	£54.25	-	-
Sep-22	£150.00	£87.05	£49.56	£119.58	23
Oct-22	£105.00	£85.50	£66.50	-	-
Nov-22	£97.50	£73.04	£59.38	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
6,481,308	65%	-5.5%	5.6%
6,920,273	64%	6.8%	5.9%
7,194,772	67%	4.0%	6.1%
7,425,226	68%	3.2%	6.3%
7,491,284	68%	0.9%	6.3%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2023	1,381,076	2,689,584	4,070,660	36%
2024	1,454,667	662,762	2,117,429	7%
2025	1,103,960	2,351,880	3,455,840	10%
2026	160,000	2,245,000	2,405,000	0%
Total	4,099,703	7,949,226	12,048,929	16%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	2.12m
West End Active Requirements (sq ft)	3.86m
West End Total Requirements (sq ft)	5.98m
% change on 12 month ave	-3%
Total under offer (sq ft)	1,373,084
Under offer this month (sq ft)	95,934
% change on average (total)	22%
Landlord controlled supply	78%
Tenant-controlled supply	22%

*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 November transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
1 Knightsbridge, SW1	3rd	23,960	A	Confidential	Dorchester Services	Abu Dhabi Investment Authority
10 Bloomsbury Way, WC1	8th-9th	22,963	A	£81.20	North Highland	Genius Sports Group
80 Strand, WC2	1st	19,939	A	Confidential	Vitality	Pearson
Lucent, 1 Sherwood Street, W1	6th	19,566	A	Confidential	Centreview Partners	Landsec
10 Eastbourne Terrace, W2	2nd-3rd	12,055	A	£69.50	Bark	Landsec

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

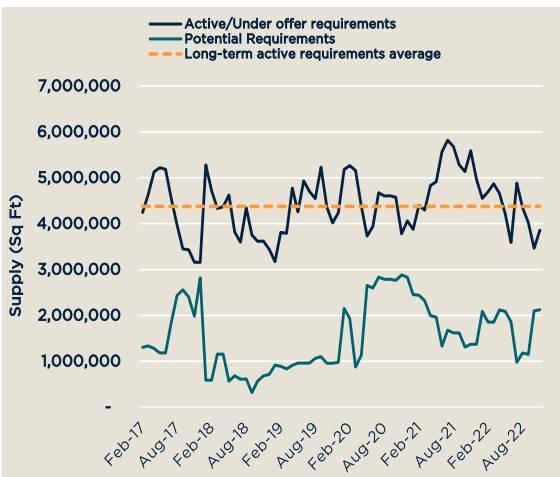
Deri Ashford

Analyst
Research
0207 409 5903
deri.ashford@savills.com

In Focus - West End and Central London Demand

Historic West End and Central London demand

Graph 3



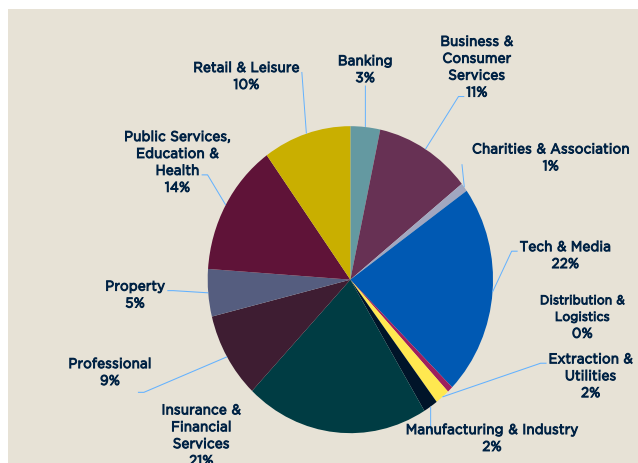
In spite of the economic headwinds occupiers, with an active requirement looking at space in the West End and Central London rose 11% to 3.9m sq ft. However, this still remains 13% below the long-term average.

Breaking the figures down by sector reveals a relatively diverse demand base. The Tech & Media sector accounts for the largest proportion at 22% of active demand, followed by the Insurance & Financial Services sector (21%), and the Business & Consumer Services sector (11%). It will be interesting to track sector demand over the coming year, particularly given the significant lay-offs being made by larger tech companies.

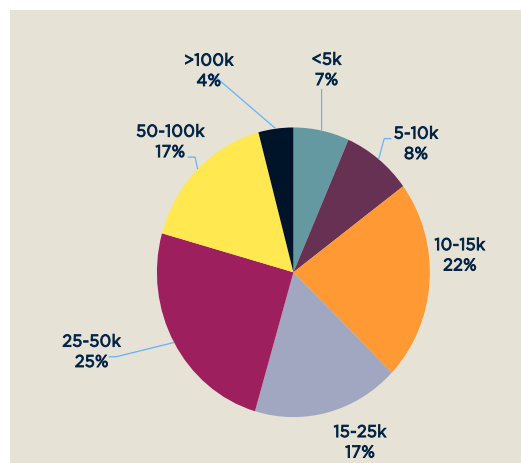
The size of recent active requirements paints an encouraging picture going forward with six new requirements over 50,000 sq ft being added. As a result, 46% are now seeking space over 25,000 sq ft, while the proportion of those looking for less than 10,000 sq ft standing at just 24%.

West End and Central London active demand by sector

Graph 4



Graph 5



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