

West End Office Market Watch



Subdued start to 2023, but under offers provide cause for optimism

Leasing activity got off to a slow start this year with take-up reaching just 142,751 sq ft in January across 14 transactions, down 43% on the previous January. It is also the lowest figure we have recorded since 2011, with the exception of 2021 when the UK had just entered a third national lockdown. The number of transactions was also the lowest since April 2021.

In a continuation of a theme from the previous year, two of the largest transactions that completed this month were pre-lets. The larger of the two was Hayfin's acquisition of the 4th and 5th floors at Grosvenor's 65 Davies Street, W1 development on terms which are confidential at present. The other pre-let to complete was for the 5th to 7th floors of Hines's comprehensive refurbishment of The Burlian, 80 New Bond Street, W1 to UPL, at a reported £130.00 per sq ft on a 10-year lease. The latter was also responsible for the highest rent to have been recorded this month.

The largest transaction however to complete in January was WeWork's lease of the 5th floor at Sky Hub, 123 Buckingham Palace Road, SW1 (29,659 sq ft) on confidential terms. This marks the company's first lease in the West End since 2019, having previously acquired the 2nd and 4th floors in 2019 and 2018 respectively. This follows renewed optimism from the Serviced Office Provider after reporting that occupancy at its London office operations had rebounded strongly from 63% at the end of 2021 to 83% at the end of last year. Furthermore, it has also benefited from a reported refinancing of its debt.

Despite the largest deal this month coming from the Serviced Office Provider sector, the Insurance & Financial Services sector remained the largest by take-

up for the sixth consecutive month, following on from its record take-up last year. This is the case for both total area and number of transactions, albeit based on a small sample size.

Although January's take-up figure portrays a negative outlook for the start of the year, under offers suggest the market remains in a strong position. In January, an additional 287,799 sq ft of space was placed under offer. This is the largest monthly figure since January 2022 and is 55% above the 10-year average. Total space under offer now stands at 1.39m sq ft, up 23% on the 10-year average.

Overall supply increased for the fourth consecutive month, albeit marginally by 0.7%, to 7.6m sq ft. This left the vacancy rate unchanged for the third month in a row at 6.4%. There was also little change in the proportion of supply controlled by tenants vs landlords, with landlord controlled space increasing by 2bps to 80% thanks to a 6% drop in overall tenant-controlled supply. The main reason for this decrease was the withdrawal of some tenant-controlled stock from the market.

The 2023-2026 development pipeline is set to see 10.3m sq ft of speculative space delivered. 30% of the record 4.6m sq ft due for completion this year has already been pre-let. Looking further ahead, 20% of space due in 2024 has been committed to, although development completions are expected to be quieter at 1.8m sq ft. Given the strong pre-letting activity we have witnessed in recent years, coupled with the under-supply of prime stock, we anticipate that demand for the newest space will remain robust.



142,751 sq ft of take-up, across 14 transactions



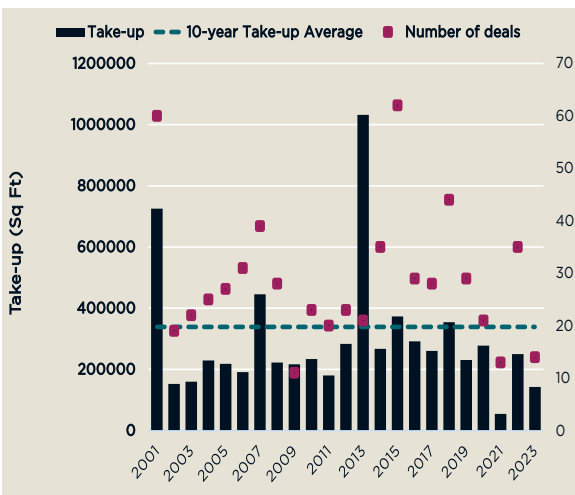
Vacancy rate remains unchanged at 6.4%

1.4m sq ft

Total space under offer

Historic West End January take-up

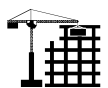
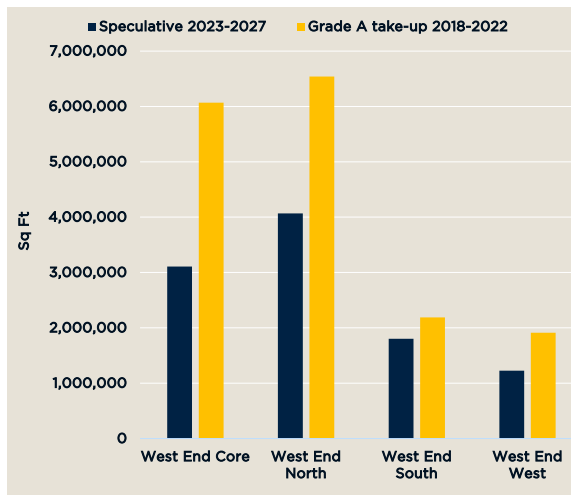
Graph 1



Source: Savills

West End spec pipeline vs historic 5-year take-up

Graph 2



17% of the 2023-26 pipeline has been pre-let

Analysis close up

Monthly take-up

Table 1

| | Sq ft | % Grade A | 12 month rolling take-up |
|--------|-----------|-----------|--------------------------|
| Feb-22 | 171,998 | 90% | 4,511,125 |
| Mar-22 | 293,585 | 85% | 4,419,563 |
| Apr-22 | 206,190 | 87% | 4,490,557 |
| May-22 | 325,968 | 83% | 4,529,545 |
| Jun-22 | 1,037,962 | 96% | 5,322,536 |
| Jul-22 | 268,461 | 69% | 4,999,038 |
| Aug-22 | 376,579 | 85% | 5,062,149 |
| Sep-22 | 621,233 | 91% | 4,996,095 |
| Oct-22 | 383,780 | 88% | 4,882,942 |
| Nov-22 | 231,393 | 92% | 4,808,845 |
| Dec-22 | 466,437 | 95% | 4,633,388 |
| Jan-23 | 142,751 | 98% | 4,526,337 |

Year to date take-up

Table 3

| | Sq ft | % change on previous year | % Grade A |
|--------|---------|---------------------------|-----------|
| Jan 22 | 249,802 | 359% | 78% |
| Jan 23 | 142,751 | -43% | 98% |

Rents

Table 5

| £ per sq ft | Top achieved | Average | | | |
|-------------|--------------|---------|---------|---------|-------------|
| | | Grade A | Grade B | Prime* | Rent free** |
| Feb-22 | £135.00 | £79.00 | £37.12 | - | - |
| Mar-22 | £180.00 | £83.20 | £57.50 | £121.66 | 24 |
| Apr-22 | £140.00 | £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 | £125.00 | £73.04 | £59.38 | - | - |
| Dec-22 | £185.00 | £91.55 | £61.17 | £128.76 | 23 |
| Jan-23 | £130.00 | £84.36 | - | - | - |

Supply

Table 2

| Total | % Grade A | % chg on prev month | Vacancy rate (%) |
|-----------|-----------|---------------------|------------------|
| 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% | 6.4% |
| 7,579,822 | 72% | 1.2% | 6.4% |
| 7,632,319 | 76% | 0.7% | 6.4% |

Development pipeline

Table 4

| Sq ft | Refurb | Devs | Total | % Pre-let |
|-------|-----------|-----------|------------|-----------|
| 2023 | 1,789,687 | 2,785,171 | 4,574,858 | 30% |
| 2024 | 1,199,894 | 645,000 | 1,844,894 | 20% |
| 2025 | 1,261,960 | 1,775,084 | 3,037,044 | 5% |
| 2026 | 286,286 | 2,550,000 | 2,836,286 | 5% |
| Total | 4,537,827 | 7,755,255 | 12,293,082 | 17% |

Demand & Under-offers

Table 6

| | |
|-----------------------------------------|-----------|
| West End Potential Requirements (sq ft) | 2.10m |
| West End Active Requirements (sq ft) | 3.54m |
| West End Total Requirements (sq ft) | 5.64m |
| % change on 12 month ave | -5% |
| Total under offer (sq ft) | 1,389,318 |
| Under offer this month (sq ft) | 287,799 |
| % change on average (total) | 23% |
| Landlord controlled supply | 80% |
| Tenant-controlled supply | 20% |

*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 January transactions

Table 7

| Address | Floor/s | Sq ft | Grade | Rent achieved | Tenant | Lessor |
|------------------------------------------|----------|--------|-------|---------------|---------------------------|-----------------------------|
| Sky Hub, 123 Buckingham Palace Road, SW1 | 5th | 26,659 | A | Confidential | WeWork | Gaw Capital |
| 65 Davies Street, W1 | 4th-5th | 22,885 | A | Confidential | Hayfin | Grosvenor |
| The Burlian, 80 New Bond Street, W1 | 5th-7th | 14,218 | A | £130.00 | UPL | Hines |
| I-Hub, 80 Wood Lane, W12 | 8th | 11,968 | A | £55.00 | ADC Therapeutics | Imperial College Thinkspace |
| 51 Berkeley Square, W1 | Building | 9,824 | A | £68.00 | Private Irish Hospitality | WRM Capinvest |

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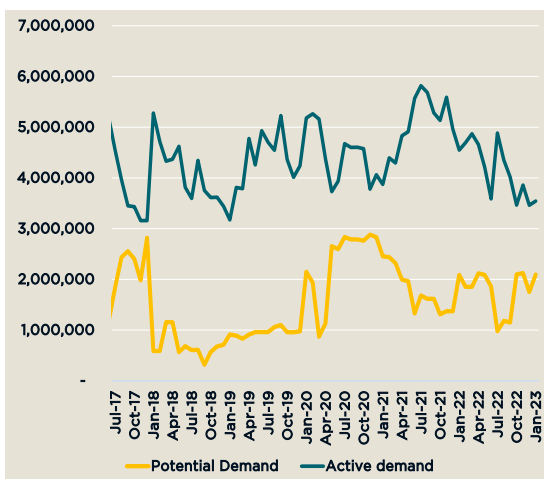
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In Focus - Demand analysis

West End active vs potential requirements

Graph 3



While take-up has had a slow start to the year, it is worth taking a long-term perspective. A useful indicator to use for this is through looking at current active requirements.

At the end of January 2023, there was 3.54m sq ft of active requirements for the West End or Central London as a whole (excluding City specific searches). This is down 20% on the long-term average. Encouragingly however, of the active requirements added over the last three months, 11 have been for occupiers seeking space of 25,000 sq ft or greater. This provides cause for optimism for the market over the coming months.

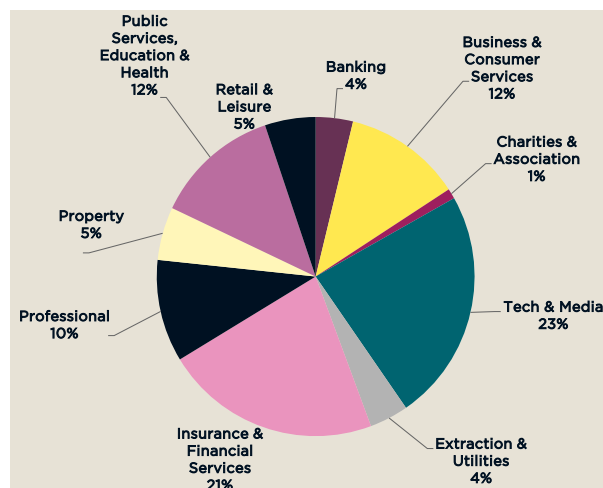
Taking a further look at the type of occupiers that are seeking space reveals that the Tech and Media sector accounts for the largest amount of space at 23%, in spite of the challenges faced by some in the industry. This is followed closely by Insurance & Financial Services (21%), although both make-up a smaller proportion than they did this time last year, reflecting greater sector diversity amongst occupiers seeking space.

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West End demand by business sector

Graph 4



West End demand by size band

Graph 5



WE Core - Mayfair, St James's, Soho, Covent Garden
WE South - Victoria, Westminster, Knightsbridge
WE North - North of Oxford St. West, North of Oxford St. East, King's Cross & Euston, Paddington
WE West - Hammersmith, Kensington, Chelsea, Notting Hill, White City