

West End Office Market Watch



December brings year-end boost to leasing, as financial sector take-up hits a near record level

December take-up reached 654,769 sq ft across 54 transactions. This was the highest monthly take-up for December in almost 10 years and helped boost year-end take-up to 4.4m sq ft, beating our initial expectations for the year. Whilst take-up for 2019 was down 13% on 2018's near record level, it was still up 12% on the long-term average of 3.9m sq ft.

The largest transaction to complete in December was L'Oreal's pre-let of 120,217 sq ft at Stanhope & Mitsui Fudosan's Gateway Central development, W12, White City, on terms which remain confidential at present. This was the third largest transaction we saw complete over the year and brought the overall annual volume of pre-lets to 1.2m sq ft.

The second largest transaction that completed during the month was the assignment of the 4th, 10th to 12th floors at the Zig Zag Building, SW1, taken by financial firm Neuberger Berman.

In total, whilst the Tech & Media sector continued to account for the largest proportion of take-up at 25%, space let to Insurance & Financial sector occupiers reached a near record level of 910,000 sq ft. This is the second highest take-up to this sector on record, only narrowly overtaken by 2007's 920,000 sq ft total.

Over the past three years we have seen year on year increases to the overall sq ft acquired by Insurance & Financial sector occupiers. In total the sector accounted for 22% of annual take-up, which is the highest proportion of annual West End take-up this sector has ever accounted for (see Graph 1).

Current levels of demand from the Insurance & Financial sector virtually mirror the levels of sector take-up we saw during 2019, with the sector accounting for 21% of Central London wide and West End specific requirements. As a result we expect to see continued strong levels of take-up during 2020 from the sector.

MindSpace's acquisition of 34,500 sq ft at the Metro Building, W6, in December, saw the total amount acquired by the Serviced Office Provider sector reach just shy of 700,000 sq ft for the year, which accounts for 17% of take-up. This is down 29% on the average amount we have seen taken by the sector in the West End over the past two years and is in contrast with the City, which saw serviced offices take-up more space than any other occupier type.

Underlying demand continues to remain robust with active Central London and West End requirements at the end of December stood at 4.2m sq ft. Space under offer at the end of the year stood at 1.4m sq ft, remaining up on the long-term average and we expect to see strong leasing activity over the start of this year as a result.

Total West End supply rose at the end of the month to 4.9m sq ft, which equates to a vacancy rate of 4.4%. Just under two thirds, (63%), of the development pipeline for 2020 has already pre-let and only around 300,000 sq ft of speculative deliveries are expected for the second half of 2020.

At the end of the year the average prime rent achieved stood at £116.83 per sq ft, up 11% on the previous year, whilst the average Grade A rent stood at £77.26 per sq ft, up 4% on the previous year.



910,000 sq ft
Insurance and Financial sector take-up reached its second highest level on record

31%

The Tech & Media sector accounts for almost a third of Central London & West End requirements

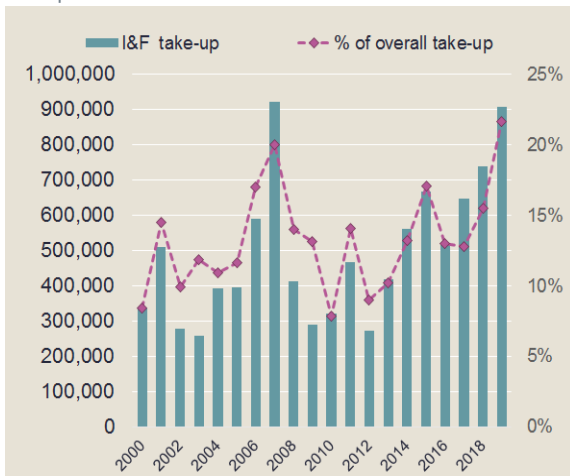


27%

of the developments scheduled for delivery during the next three years have already been pre-let

Insurance & financial sector take-up

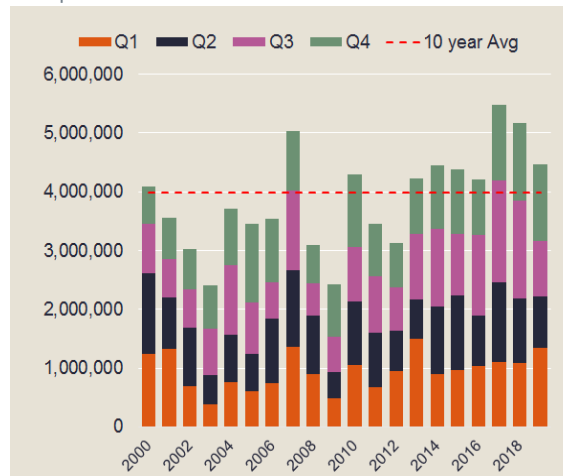
Graph 1



Source: Savills

West End take-up by quarter

Graph 2



28%

pre-lets accounted for over a quarter of space let over the year

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jan-19	230577	84%	4,984,921
Feb-19	585,354	85%	5,279,615
Mar-19	420,802	82%	5,256,379
Apr-19	300,856	83%	5,267,479
May-19	305,070	80%	5,277,408
Jun-19	262,223	81%	5,014,343
Jul-19	462,193	81%	4,283,888
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%	4,616,513
Dec-19	654,769	80%	4,922,252

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Dec 18	5,138,164	-4%	82%
Jan 19- Dec 19	4,464,317	-13%	80%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Jan-19	£85.25	£72.02	£51.50	-	-
Feb-19	£118.00	£71.39	£63.00	-	-
Mar-19	£130.00	£75.80	£62.56	£119.33	22
Apr-19	£250.00	£76.79	£55.16	-	-
May-19	£102.50	£73.43	£54.30	-	-
Jun-19	£115.00	£82.58	£69.00	£111.00	20
Jul-19	£120.00	£84.18	£62.57	-	-
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

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
4,797,457	65%	1.3%	3.9%
4,810,098	60%	0.3%	4.0%
4,803,390	64%	-0.1%	4.0%
4,914,843	63%	2.3%	4.0%
4,679,894	60%	-4.8%	4.0%
5,009,154	61%	7.0%	4.1%
4,935,604	70%	-1.5%	4.0%
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	58%	-0.6%	4.0%
4,932,348	56%	8.5%	4.4%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	467,515	1,086,891	1,554,406	63%
2021	1,071,487	2,607,986	3,679,473	43%
2022	1,033,535	2,537,779	3,571,314	3%
2023	142,000	1,102,977	1,244,977	0%
Total	2,714,537	7,335,633	10,050,170	27%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.0m
West End Active Requirements (sq ft)	4.2m
West End Total Requirements (sq ft)	5.2m
% change on 12 month ave	0%
Total under offer (sq ft)	1.4m
Under offer this month (sq ft)	83,064
% change on average (total)	99%
Landlord controlled supply	70%
Tenant controlled supply	30%

*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 December transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Gateway Central, W12	Entire	120,217	A	Confidential	L'Oréal	Stanhope, Mitsui Fudosan
Zig Zag, Victoria Street, SW1	4, 10-12	41,818	A	Confidential	Neuberger Berman	Deutsche Bank
30 Cleveland Street, W1	Entire	39,382	A	Confidential	Take Two Interactive	UK & European
62 Buckingham Gate, SW1	6pt-7	37,120	A	£76.14	Baringa Partners	Rolls Royce
Metro Building, 2 Chalkhill Road, W6	6-8	34,500	A	£53.00	Mindspace	Patrizia
Zig Zag, Victoria Street, SW1	3	22,817	A	Confidential	Cheniere Marketing	Deutsche Bank
111 Buckingham Palace Road, SW1	4pt	22,817	A	Confidential	Mediatonic	Kennedy Wilson

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
80 Strand	WC2	253,000	Q2 2020 -Sublease
245 Hammersmith Road	W6	214,000	40,000 sq ft under offer
1 Jermyn Street	SW1	120,000	Quoting £87.50 psf
Elms House, Hammersmith	W6	96,260	Under offer
Euston Tower, Euston Road	NW1	63,820	Short-term leases
The Foundry, 77 Fulham Palace Road	W6	57,515	Under offer
The White Building, Notting Hill	W11	58,396	Quoting 42.50 psf

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