

West End Office Market Watch



2021 leasing activity is 2.3% higher than the 10-year long-term average

At the start of 2021 it would not have seemed plausible to say that take-up for the year would be above the 10-year long-term average. However, after a busy December, in which 612,861 sq ft transacted, it brought the year-end total to 4.19m sq ft, this was across 326 transactions. As a result, the total volume of deals was 2.3% higher than the 10-year long-term average, and 132% higher than 2020's total volume.

This swift turnaround in activity was helped by six transactions completing that were over 100,000 sq ft, one of which occurred in December. Daily Mail's acquisition of the Ground, and 2nd to 4th floors (126,133 sq ft) at 99 Kensington High Street, W8, was the 5th largest transaction to complete in 2021. Since our records began 2017 was the only year to beat six 100,000 transactions in a year which is a strong indication that occupier appetite for office leasing is returning.

Although the percentage of Grade A transactions to complete in December is lower than what we have seen occur over the past few months, making up 72% of the months total, the demand for high quality space has not dampened. Overall, Grade A transactions make up 85% of 2021's total, this is 8% higher than the average Grade A share we have seen over the past 10-years.

This heightened demand for top quality space, coupled with the burgeoning conversation surrounding ESG in 2021 has fed through into activity picking up for BREEAM rated buildings. In 2021, BREEAM rated buildings that were above 5,000 sq ft, accounted for 60% of leasing activity, reaching 2.2m sq ft. From this total, 77% have achieved a BREEAM accreditation of 'Excellent' or 'Outstanding', which suggests that occupiers are becoming increasingly more interested

in what an office space has to offer by way of ESG credentials.

This demand for quality space has inevitably impacted rents across the West End. The average prime rent for Q4 2021 stood at £116.00 per sq ft, which contributed to the average prime rent for the whole of 2021 to stand at £120.00 per sq ft, this is 7.1% higher than 2020's average.

Further to this, average Grade A rents have also increased, albeit at a smaller rate than prime rents. At the end of 2021 average Grade A rents reached £82.33 per sq ft, 2.9% higher than where it stood at the end of 2020. Conversely, Grade B rents have seen a 9.9% drop from 2020, to reach a total of £55.00 per sq ft. This is an indication of the dampening demand for this type of second hand space, therefore it will be interesting to monitor what impact this will have on rents going forward, especially as the rate of new development completions coming on to the market is particularly high this year.

Despite adding in 387,479 sq ft of new speculative Q2 2022 completions to supply we still saw the total amount of available space decrease from last month. As it stood in December the total reached 7.5m sq ft, which equates to a vacancy rate of 6.4%. This is 60 bps down from its peak in April 2021, however is still above the 10-year long-term average by 230 bps.

We expect to continue to see this total come down as the rate at which tenant supply is coming on to the market has slowed drastically since the beginning of 2021. As it stood at the end of December, the total amount of tenant supply reached 2.1m sq ft, which accounts for 28% of the overall total. This is the lowest percentage share for tenant supply since May 2020, and is 16% lower than its peak in April 2021.



4.19m sq ft
2021 take-up

6.4%

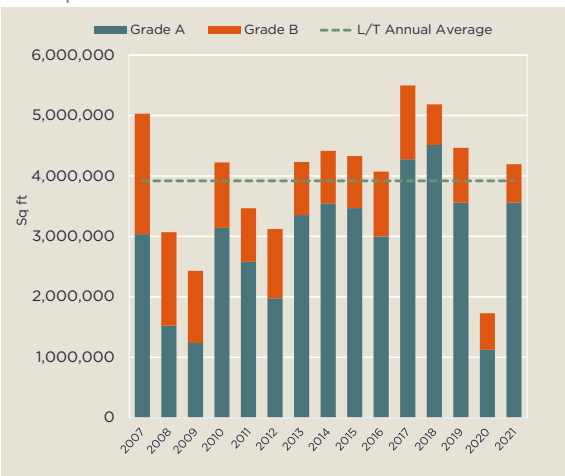
West End vacancy rate down 10 bps from previous month



Tech & Media sector account for 34% of take-up in 2021

West End take-up (2007-2021)

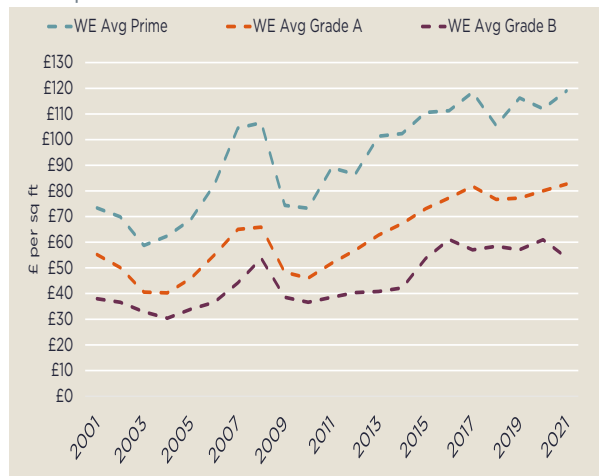
Graph 1



Source: Savills

West End Rental averages (2001-2021)

Graph 2



Average Prime rent at the end of 2021 stood at £120.00

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jan-21	54,436	82%	1,582,945
Feb-21	171,553	69%	1,523,949
Mar-21	383,838	82%	1,744,295
Apr-21	135,196	84%	1,834,969
May-21	295,885	87%	2,015,784
Jun-21	244,971	82%	2,067,407
Jul-21	591,959	84%	2,575,023
Aug-21	307,234	85%	2,741,250
Sep-21	624,206	85%	3,182,290
Oct-21	477,335	88%	3,598,795
Nov-21	292,474	87%	3,804,332
Dec-21	612,861	85%	4,191,948

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Dec 20	1,806,097	-60%	66%
Jan-Dec 21	4,191,948	132%	85%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Jan-21	£90.00	£89.50	£59.50	-	-
Feb-21	£140.00	£89.00	£62.00	-	-
Mar-21	£122.50	£86.00	£66.70	£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	-	-
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

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
7,172,337	59%	1.5%	6.3%
7,452,274	58%	3.9%	6.6%
7,803,002	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%
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%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2022	1,001,501	2,459,628	3,461,129	42%
2023	1,213,043	2,035,119	3,248,162	10%
2024	487,004	845,621	1,332,625	11%
2025	791,200	2,114,880	2,906,080	0%
Total	3,492,748	7,455,248	10,947,996	18%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.4m
West End Active Requirements (sq ft)	5.0m
West End Total Requirements (sq ft)	6.3m
% change on 12 month ave	-7%
Total under offer (sq ft)	1.37m
Under offer this month (sq ft)	125,321
% change on average (total)	-22%
Landlord controlled supply	72%
Tenant controlled supply	28%

*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
99 Kensington High Street, W8	G,2,3,4	126,133	A	Confidential	Daily Mail	Sirosa
Central St Giles, WC2	7	42,577	A	£75.12	Confidential	Mindshare
20 Grosvenor Street, SW1	Building	39,681	B	Confidential	Confidential	KPMG
Park House, 116 Park Street, W1	7-8	31,949	A	Confidential	EFG	Park House Ltd
7 Howick Place, SW1	G,1	31,455	B	£57.46	Sweaty Betty	U+I

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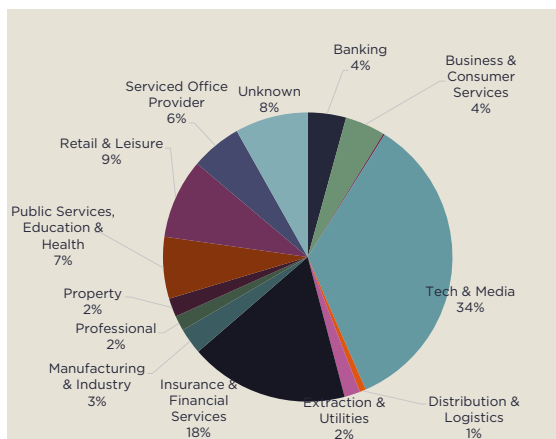
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In Focus - Business sector

Business sector take-up 2021

Graph 3



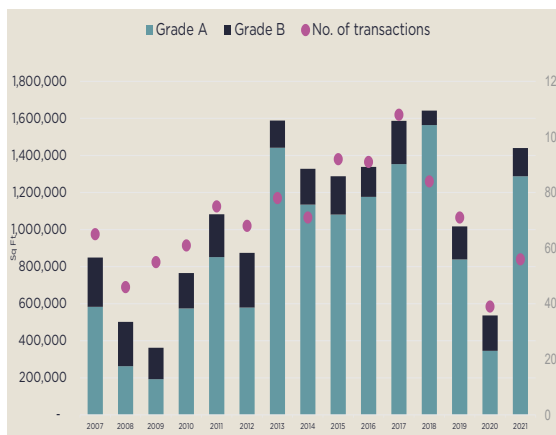
In keeping with tradition for the West End the Tech & Media sector has accounted for the largest business sector take-up in 2021. It made up 34% of the overall total, reaching 1.4m sq ft across 56 transactions. This was also 21% above this sectors 10-year long-term average for take-up, which indicates that this sector shows no signs of slowing down.

Tech & Media was also responsible for 4 of the 6 100,000 sq ft transactions to take place in 2021. Further to this, Facebook was accountable for 515,048 sq ft of these transactions due to their decision to pre-let two new developments at 1 Triton Square, NW1, and S3, York Way, N1.

The majority, 88%, of deals were sized at 10,000 sq ft or below, and 71% were made up of Grade A transactions, highlighting the growing disparity for second hand space by big tech occupiers.

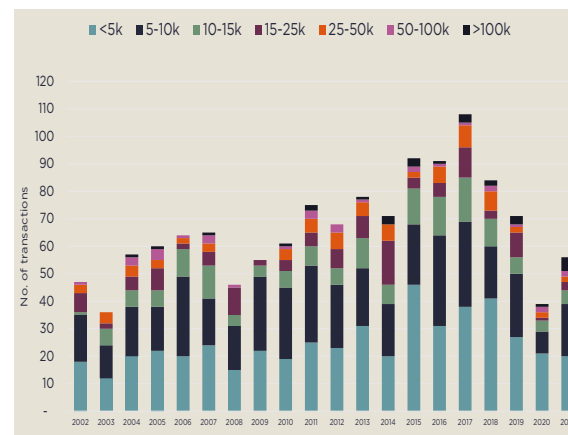
Tech & Media take-up (2007-2021)

Graph 4



Tech & Media take-up by size band (2002-2021)

Graph 5



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