

West End Office Market Watch



A near record-breaking June brings H1 take-up above the long-term average

The first 5 months of the year saw average monthly take-up reach around 230,000 sq ft, as we were seeing deals take much longer to complete which resulted in unusually high levels of space under-offer. The same cannot be said for June however, as we saw 1m sq ft complete, across 40 transactions, which is the third highest monthly take-up we have ever recorded.

As a result of a busy June, at the end of H1 take-up reached 2.17m sq ft across 187 transactions. This is 13% above the 10-year long-term average and 68% higher than where leasing activity stood at the end of H1 last year. The main driver of the increased activity has been from pre-lets, with 7 of the 10 largest transactions being pre-lets sized 40,000 sq ft and above which is a promising sign of market sentiment going forward.

The largest transaction to complete in June, and the largest of the year so far, was Capital International's pre-let of the 8th to 16th floors (220,000 sq ft) at Paddington Square, W2. This was on a 12-year lease with the achieved rent currently confidential.

As occupiers are facing increasing scrutiny with regards to achieving sustainability goals, whilst also striving to get people back in the office, there continues to be a preference for premium office space. This is reflected by 89% of take-up year-to-date being of Grade A quality, and in June alone Grade A transactions accounted for the overwhelming majority, with 98%. Furthermore, buildings with a BREEM rating of 'Very Good' or above have accounted for 52% of leasing activity.

Unsurprisingly, with such a busy month for take-up, we have seen the volume of active requirements across central London and the West End reduce by 15% from the previous month to reach 3.6m sq ft. The Insurance

& Financial Services sector accounted for the largest business sector, with 28%. This was closely followed by the Tech & Media sector which accounted for 25% of the total volume of active requirements.

Along with active requirements reducing, we have also seen the level of space under-offer start to drop last month as it coalesces into deals. As it stood at the end of June we were tracking 1.1m sq ft of space under-offer, and although this is lower than the total we have seen over the year so far, it is still 15% above the long-term average.

Supply has also continued to fall, in fact last month the vacancy rate was the lowest it has been since November 2020, standing at 5.9%, that is even in spite of 534,159 sq ft of speculative Q4 2022 completions being added into supply. The total volume of space stood at 6.9m sq ft, a 4.5% reduction from the previous month, and 66% is made up of Grade A buildings.

The buoyancy of the occupational and development markets, as a result of continued strong occupier demand for new space, has meant that 63% of this year's development pipeline has been pre-let. This year and next year continue to be record years for new developments in the West End and between 2022-2026 we are currently anticipating 13m sq ft to complete. The sub-market with the most amount of newly developed or refurbished stock is King's Cross & Euston with 3.2m sq ft, this is followed by Covent Garden and Victoria both with 1.4m sq ft.



1m sq ft transacted in June making it the third highest monthly take-up on record



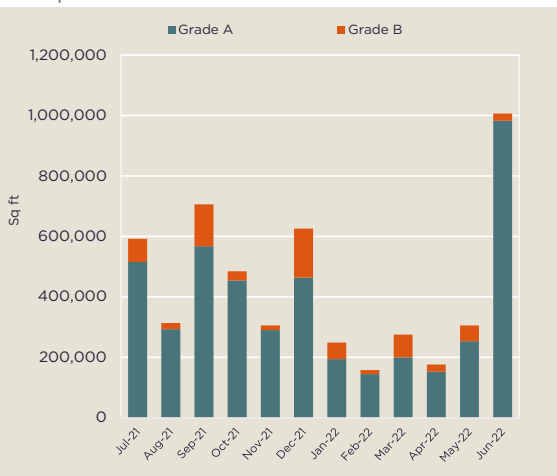
89% of transactions so far this year were of Grade A standard

5.9%

Vacancy rate is the lowest it's been since November 2020

Monthly Take-up (July 2021-June 2022)

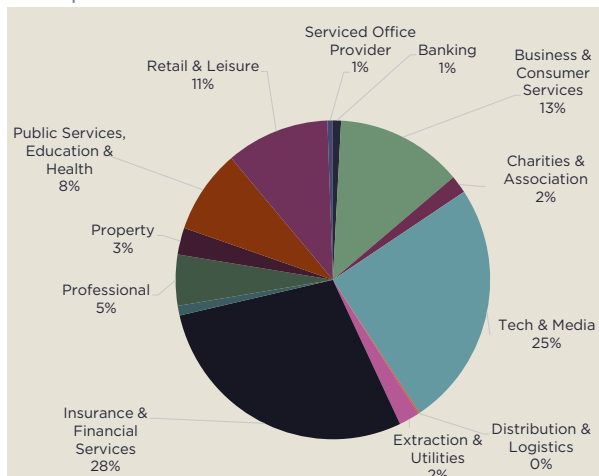
Graph 1



Source: Savills

Central London & West End Active Requirements

Graph 2



Average Prime rent for H1 stood at £119.38 psf

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jul-21	591,959	84%	2,579,582
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	79%	4,383,821
Apr-22	175,964	80%	4,424,589
May-22	305,426	81%	4,434,130
Jun-22	1,006,186	89%	5,195,345

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Jun 21	1,290,438	26%	88%
Jan-Jun 22	2,168,778	68%	89%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
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
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

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
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%
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%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2023	1,542,539	1,771,924	3,314,463	12%
2024	898,004	1,310,642	2,208,646	7%
2025	589,909	1,759,880	2,349,789	8%
2026	270,000	1,900,000	2,170,000	3%
Total	3,300,452	6,742,446	10,042,898	8%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.86m
West End Active Requirements (sq ft)	3.59m
West End Total Requirements (sq ft)	5.45m
% change on 12 month ave	-18%
Total under offer (sq ft)	1.12m
Under offer this month (sq ft)	81,422
% change on average (total)	15%
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 June transactions

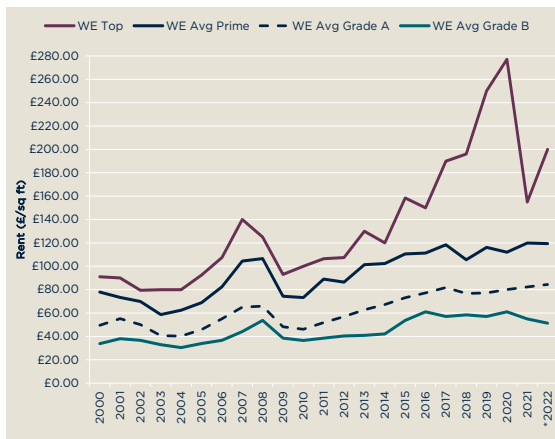
Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Paddington Central, W2	8-16	220,000	A	Confidential	Capital International	Sellar Group
Belgrove House, WC1	Building	195,114	A	Confidential	MSD	Precis Group
Paddington Central, W2	4-6	75,452	A	£78.70	Paymentsense	Sellar Group
20 Carlton House Terrace, SW1	LG,5-9	67,000	A	Confidential	BP	Clivedale Properties
22 Baker Street, W1	Building	52,122	A	Confidential	Forsters	Lazari Investments

In Focus - Rents

West End Average Rents (2000-2022)

Graph 3

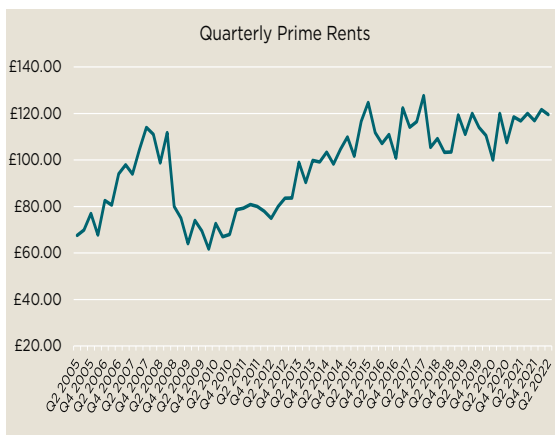


Due to the ongoing demand for prime office space, evidenced in the text above, we are yet to see any downward trends for average prime rent across the West End. At the end of the first half of the year the average prime rent stood at £119.38 per sq ft, which is similar to where it stood at the end of last year, but is a 6.6% rise from the end of 2020. Similarly we have witnessed average Grade A rents increase, and at the end of H1 2022 they have risen by 2.5% from the end of 2021 to stand at £84.37 per sq ft.

As occupiers seem to be ready and willing to pay higher rents for best in class space the lessening demand for Grade B offices has caused rents to fall. As it stood at the end of June Grade B rents had fallen by 6.7% from the end of 2021 to stand at £51.31 per sq ft. Going forward, if the demand for prime office space sustains itself, it will be interesting to track the effect this will have on Grade B rents across the West End, and if we could see greater falls.

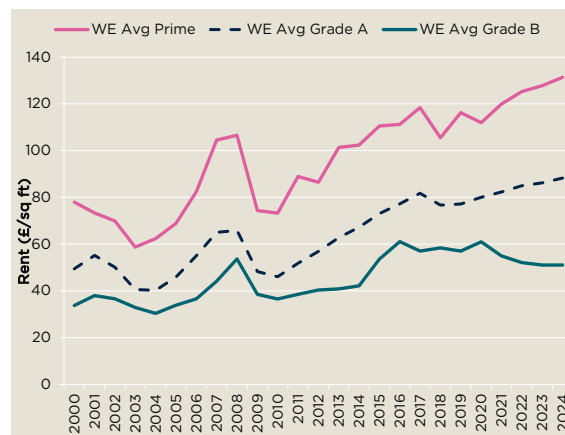
West End Quarterly Prime Rents (2005-2022)

Graph 4



West End Rental Forecasts (2000-2024)

Graph 5



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