

West End Office Market Watch



Take-up reaches 1.2m sq ft while supply continues to fall and prime rents remain stable

As we have come to the halfway point in the year, transactional activity across the West End is showing tentative signs of recovery. Take-up in June reached 216,467 sq ft, across 24 transactions. This brought Q2 take-up to 625,821 sq ft, and although this was down 33% on the 10-year long-term average, this was up 9.6% from Q1 2021, and subsequently becomes the strongest quarter since Covid restrictions began in March 2020.

At the end of H1, take-up came to 1.2m sq ft, across 114 transactions. This is 20% up from June 2020, however, it is still important to note that this was still down by 39% on the average amount we have seen let over the H1 period over the past 10 years.

Only four transactions over 50,000 sq ft have completed so far this year, one of which occurred in June. This was Babylon Health's acquisition of the 1st to 4th floors (63,580 sq ft), at 1 Knightsbridge Green, on a 3-year lease, with the rent currently confidential. The second largest was Cinch Cars acquisition of the entire building (20,800 sq ft) at The Fjord building, N1, with all terms currently confidential.

Space under offer remained largely stable from the previous month, with the total reaching 1.07m sq ft. Space under offer in the development pipeline was up 42% from Q1 illustrating the strong demand for newly developed office space amongst office occupiers.

Further to this, we have seen a large number of office occupiers choosing to re-activate their searches, across Central London and the West End this month. The total number of active requirements reached 5.57m sq ft in June, this is a 13% increase from the previous month, representing 82% of the long-term average.

Over half (55%) of these active requirements are sized 15,000 sq ft or less, and the largest business sector to account for these active requirements is the Professional sector with 28%.

Following on from May, the total level of available supply has also decreased further in June, reaching 7.8m sq ft, equating to a vacancy rate of 6.8%. The vacancy rate is now down 10bps from the previous quarter but still up on the long term average of 4.5%.

Alongside this, the total amount of tenant supply has also decreased, as it stood at 2.66m sq ft at the end of June. This is a 4% decrease from May, and a 7% decrease from Q1, as we saw more occupiers withdrawing their space from the market.

As supply is showing signs of decreasing, we are yet to see any significant falls in headline rents across the West End. At the half way point of this year, the average prime rent stands at £116.75 per sq ft. Although this is down on the previous quarter by 1.5%, it is up by 16.7% from this same point last year, as landlords continue to favour greater incentives by way of extended rent free periods. The current average rent free period stands at 26 months, having moved out by 2 months from the previous quarter, and out by 6 months from the 5-year average.

Development activity still remains strong, and as pre-lets continue to be a key driver of leasing activity, 28% of the development pipeline has already been pre-let. This leaves around 8.97m sq ft of speculative space for delivery between 2021 and 2024.



£116.75

Average prime rent decreased by 1.5% from previous quarter



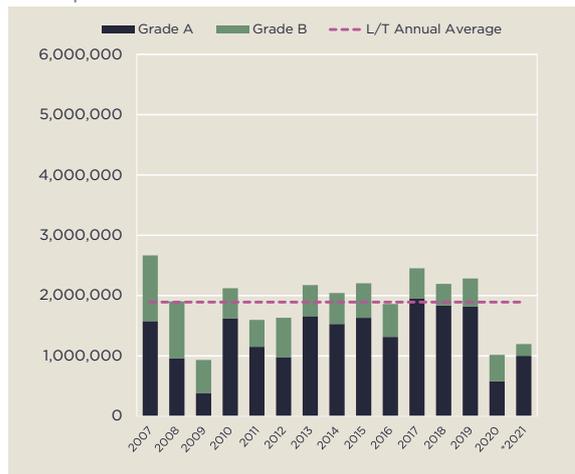
H1 take-up reached 1.2m sq ft, across 114 transactions



Active requirements reached 5.6m sq ft in June

H1 take-up (2007-2021)

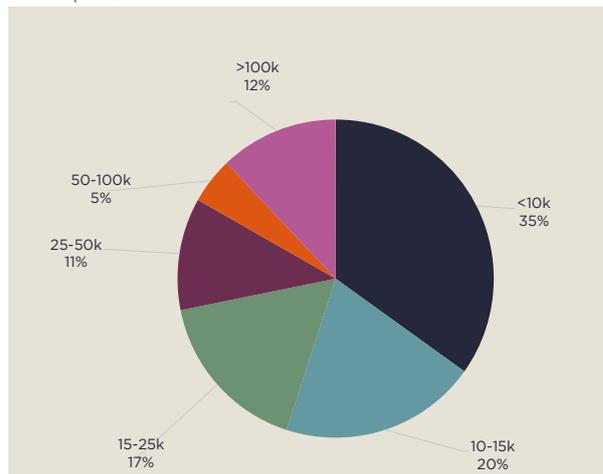
Graph 1



Source: Savills

Active Requirements by size band (June 2021)

Graph 2



Tenant supply has fallen by 7% from Q1

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jul-20	63,890	57%	2,961,670
Aug-20	147,578	61%	2,958,108
Sep-20	174,851	65%	2,813,183
Oct-20	57,368	65%	2,392,017
Nov-20	77,132	64%	2,176,126
Dec-20	205,780	65%	1,727,137
Jan-21	45,087	70%	1,494,636
Feb-21	156,647	62%	1,427,579
Mar-21	369,260	79%	1,635,907
Apr-21	129,115	81%	1,723,299
May-21	280,239	85%	1,894,625
Jun-21	216,647	84%	1,923,414

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Jun 20	1,000,538	-52%	55%
Jan-Jun 21	1,196,815	20%	84%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Jul-20	£112.50	£91.25	£69.50	-	-
Aug-20	£125.00	£81.83	£61.00	-	-
Sep-20	£82.50	£74.21	£63.47	£120.00	24
Oct-20	£100.00	£86.66	£62.93	-	-
Nov-20	£75.00	n/a	£68.30	-	-
Dec-20	£277.00	£74.97	£61.00	£107.50	24
Jan-21	£90.00	£89.50	£59.50	-	-
Feb-21	£140.00	£89.00	£62.00	-	-
Mar-21	£122.50	£86.00	n/a	£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

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
5,626,844	53%	4.9%	4.9%
5,513,246	53%	-2.0%	4.8%
5,838,546	55%	5.9%	5.2%
6,317,748	57%	8.2%	5.6%
6,443,512	58%	2.0%	5.7%
7,065,552	57%	9.7%	6.2%
7,173,456	59%	1.5%	6.3%
7,452,396	58%	3.9%	6.6%
7,801,307	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%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,080,531	2,324,325	3,404,325	64%
2022	739,746	2,273,709	3,013,455	34%
2023	1,183,043	2,367,000	3,550,043	4%
2024	547,204	1,946,530	2,493,734	5%
Total	3,550,524	8,911,564	12,462,088	28%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.3m
West End Active Requirements (sq ft)	5.6m
West End Total Requirements (sq ft)	6.9m
% change on 12 month ave	0%
Total under offer (sq ft)	1.07m
Under offer this month (sq ft)	62,445
% change on average (total)	14%
Landlord controlled supply	68%
Tenant controlled supply	32%

*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
1 Knightsbridge Green, SW1	1-4	63,580	A	Confidential	Babylon Health	WPP
The Fjord Building, NW1	Entire	20,440	A	Confidential	Cinch Cars	Savills Investment Management
90 York Way, N1	6	14,512	B	£65.50	Eurostar	Boots
101 New Cavendish Street, W1	3	12,091	A	£71.00	Iwoca	Schroder Property Managers

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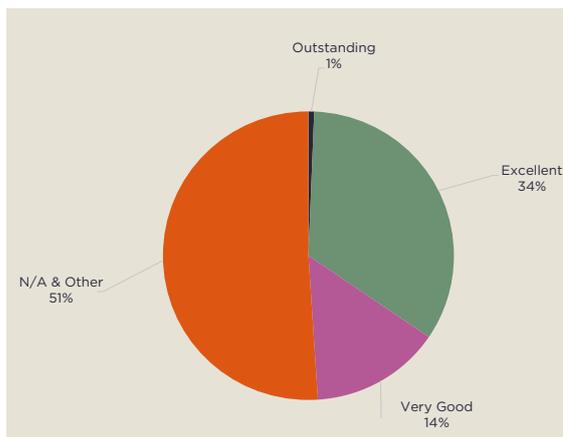
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In Focus - BREEAM

BREEAM YTD Take-up (2021)

Graph 3

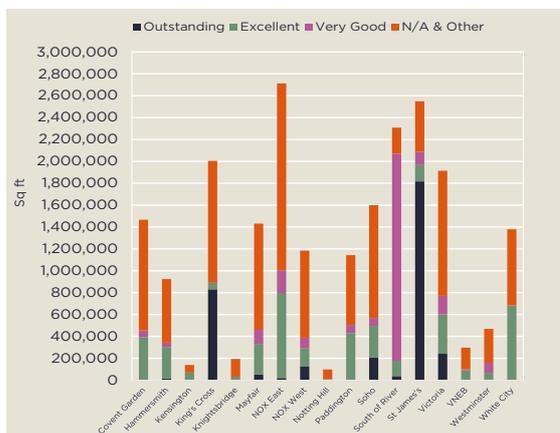


As we are seeing a global push towards a greener future, a buildings sustainability status has increasingly become more important to office occupiers. This can be illustrated from the leasing activity in 2021, as 45% of the transactions that have completed have been in buildings with a BREEAM rating of 'Very Good' or above. Furthermore, if we look back further and consider all transactions above 5,000 sq ft between 2018-2021, this number increases to 62%, the large majority (52%) of which were classed as 'Excellent' or 'Outstanding'.

Similarly, this interest in the BREEAM rating of a building is shown through the number of pre-lets of future office developments. Between 2021-2022, 17% of new office schemes, that have targeted a BREEAM rating of 'Excellent' or above, have already been pre-let. This suggests that developers may aspire to make their buildings more green in a bid to make them more desirable.

BREEAM Take-up by Submarket (2018-2021)

Graph 4



BREEAM Development Pipeline (2021-2025)

Graph 5



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