

West End Office Market Watch



Take-up declines in Q2, but positive outliers remain

Total take-up during June reached 279,934 sq ft across 37 transactions, taking the overall Q2 figure to 683,975 sq ft, down 30% on the 10-year average. This resulted in H1 leasing activity totalling 1.47m sq ft, down 25% on the 10-year average.

The largest transaction to complete this month was Eisler Capital's pre-let of the entirety of 4th to 5th floors at Landsec's Lucent, 1 Sherwood Street, W1 development (49,287 sq ft), on terms which remain confidential at present. However, the rent is believed to be just over £100 per sq ft.

Although H1's leasing activity paints a negative picture there were some notable outliers. We saw two other transactions to the Insurance & Financial Services sector, in addition to Eisler. First was 3i's acquisition of the 1st and 2nd floors at 1 Knightsbridge, SW1 (48,202 sq ft) for a rent around £100 per sq ft. The other

involved Point 72 who expanded their current footprint at 8 St James's Square, SW1 through leasing the 4th floor (10,141 sq ft) by way of an assignment. In fact, take-up for the Insurance & Financial Services sector is up 74% on the 10-year average, and is the second strongest H1 we have recorded.

The strength of this sector also helps to explain high level of activity taking place in the core relative to the rest of the market. For example, H1 take-up in Mayfair was up 54% on the 10-year average. In contrast, the proportion of take-up made up from fringe sub-markets has fallen to 22%, the lowest since 2018.

The increased divergence in the market is also evident in average rents. At the end of H1 the average prime rent stood at £132.94 per sq ft, up 11% from H1 2022. Average Grade B rents meanwhile continued to decline, falling by 8% to £47.01 per sq ft.

Unsurprisingly, this year's elevated development pipeline, combined with subdued levels of leasing activity, has led to a notable increase in supply this month. Overall supply increased 9% to 8.6m sq ft, largely as a result of c. 800,000 sq ft of speculative developments being added at the end of the quarter. Consequently, this led to a 50 bps rise in the vacancy rate to 7.2%. However, tenant-controlled supply remains stable, increasing by less than 1%, and now accounts for just 18% of total supply, the lowest since October 2022.

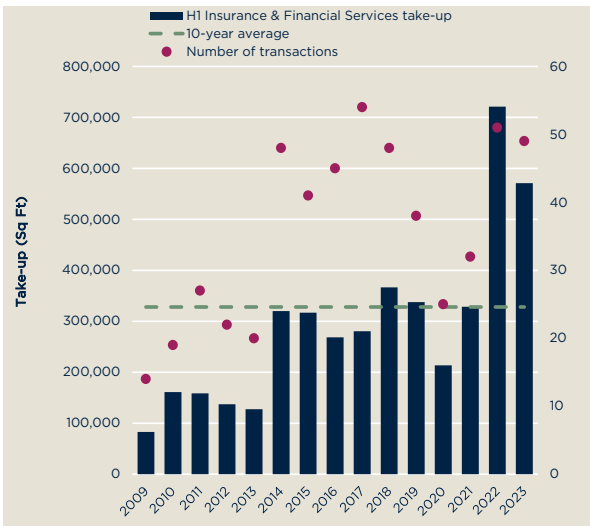
Encouragingly, active demand continues to remain buoyant with 42% of new active requirements added last month looking for space of 25,000 sq ft or larger. Similarly, although lower this month, under offers stand at 1.15m sq ft, up 15% on the 10-year average. However, the lengthening transaction times that we have witnessed in recent months has meant that this has yet to translate to an uptick in take-up.

Key Stats

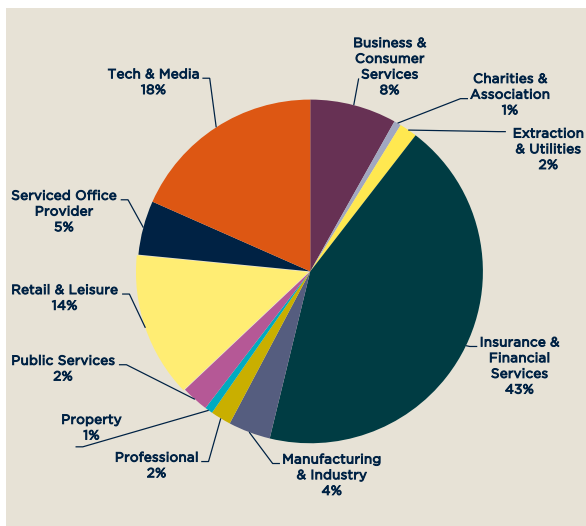


1.43m sq ft year-to-date take-up, across 162 transactions, down 25% on the 10-year average

Historical H1 Insurance & Financial Services sector take-up



H1 2023 take-up by business sector



Source Savills Research



50% of H1 take-up is 'BREAAAM' 'Excellent' or 'Outstanding'



17% of the 2023-26 pipeline is pre-let

West End Take-up (YTD)

% change on the 5-year average

-18%

% change on the 10-year average

-25%

West End Prime Rents

West End H1 2023 Prime Rent (per sq ft)

£132.94

% change on H1 2022

11%

Source Savills Research

Year-to-date take-up

Table 1

	Sq ft	% change on previous year
Jan - Jun 22	2,238,345	75%
Jan - Jun 23	1,468,343	-34%

Development pipeline

Table 2

Sq ft	Refurb	Devs	Total	% Pre-let
2023	1,412,147	2,558,537	3,970,684	34%
2024	1,365,258	899,116	2,264,374	25%
2025	1,384,732	1,551,084	2,935,816	6%
2026	585,582	3,144,740	3,730,322	4%
Total	4,747,719	8,153,477	12,901,196	17%

Significant June transactions

Table 3

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Lucent, 1 Sherwood Street, W1	4th-5th	49,287	A	Confidential	Eisler Capital	Landsec
1 Knightsbridge, SW1	1st-2nd	48,202	A	c. £100.00	3i	Abu Dhabi Investment Authority
80 Strand, WC2	6th South	25,273	A	Confidential	Spencer Stuart	Strandbrook
Berkeley Square House, Berkeley Square, W1	7th	12,395	A	Confidential	Confidential	BEAM
8 St James's Square, SW1	4th	10,141	A	£151.00	Point 72	CD&R

Savills contacts

Please contact us for further information

Hunter Booth

Director
West End Agency
0207 409 8832
hunter.booth@savills.com

Andrew Barnes

Director
Central London Tenant Rep
0207 499 8644
andrew.barnes@savills.com

Victoria Bajela

Director
Research
0207 409 5943
victoria.bajela@savills.com

Deri Ashford

Analyst
Research
0207 409 5903
deri.ashford@savills.com

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