

West End Office Market Watch



Supply drops for the first time since August 2020 while leasing activity picks up again

Last month levels of leasing activity picked up again as May's transactional activity totalled 280,239 sq ft, across 20 transactions. This brings year-to-date take-up to 980,348 sq ft, which is a 21% increase from this same point last year, but up 117% from April's total.

16 of these transactions were above 5,000 sq ft, and from this total, nine have achieved a BREEAM rating of 'Excellent' or 'Very Good', which means so far this year, 47% of the total number of transactions above this size have all achieved a BREEAM rating of 'Very Good' or above.

The largest transaction to complete this month, and so far this year, was at One Southbank Place, SE1 with IBM acquiring a sub-lease from Shell, of the 3rd to 10th floors on a 12-year term at a rent believed to be in the mid-£70s. Following this was G-Research's acquisition of the 5th to 7th floors (23,809 sq ft) at 1 Bedford Avenue, WC1 at a rent of £90 psf and a 12-year term.

As take-up shows positive signs, a similar story can be said of the total amount of space under offer, which has increased by 5% from the previous month and is also up by 19% on the long-term average, coming to a total of 1.1m sq ft. In May, 160,885 sq ft of space went under offer, the largest of which was the 1st and 2nd floors at 1 Fitzroy Place, W1, which came to a total of 36,268 sq ft.

Office occupier requirements across central London and the West End have remained largely stable over May, reaching a total of 6.9m sq ft. Active requirements account for 4.9m sq ft (71%) of the total. This is the highest it has been since the start of the pandemic in March 2020.

The business sector that accounts for the largest amount of active requirements is the Tech & Media sector with 25%, closely followed by the Professional sector with 23%, and lastly the Insurance & Financial Sector which accounts for 22%.

The uptick in activity we have witnessed last month across the West End and central London, and the fact that we are beginning to see pockets of tenants beginning to withdraw office space from the market, has led to a decline in the amount of available supply. This is the first decrease we have seen since August 2020. Supply currently stands at 7.6m sq ft, 2.7% down from April's total, leading to a vacancy rate of 6.9%.

From this total, 60% is of Grade A standard, where it has remained for the past three months, and currently 2.8m sq ft of available supply is tenant controlled. This is down 9% on April's total, but still remains above the long-term average of 1.2m sq ft.

Albeit the sample size is smaller, we are yet to see a fall in rents materialise across the West End, with May's average Grade A rent reaching £83.76, 8% above the 2019 average.

For the remainder of 2021, there is 2.5m sq ft of space set to be delivered, with three schemes already having been completed so far this quarter, and 53% of these have already been pre-let. We are anticipating a further 11.2m sq ft of extensive refurbishments and developments to complete between 2022-2025, 12% of which have already been pre-let.



1.1m sq ft

Total amount of space under offer is up 19% on the long-term average

6.9%

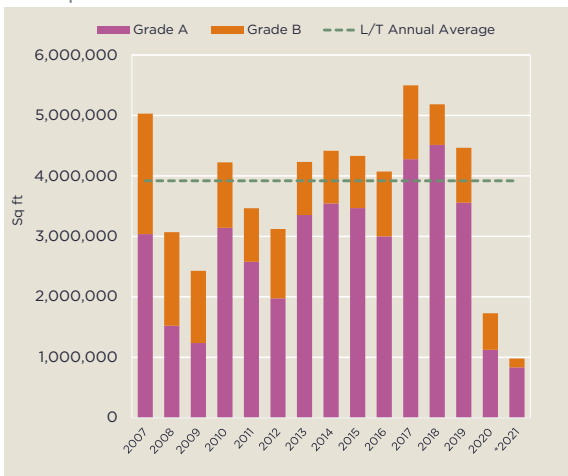
Vacancy rate is down 20 bps from the previous month



May take-up is up by 21% from the same point last year

YTD take-up (2007-2021)

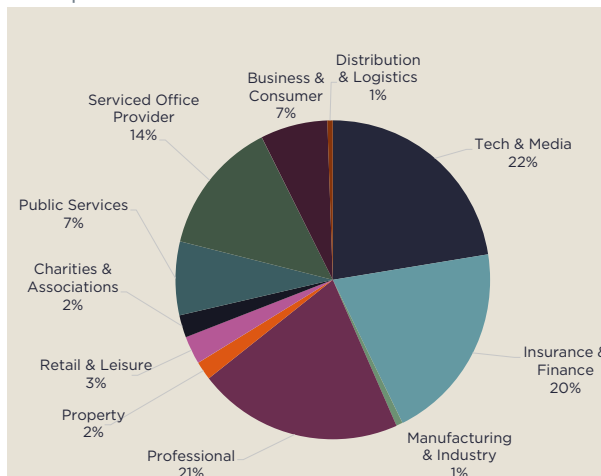
Graph 1



Source: Savills

Active Requirements by business sector (May 2021)

Graph 2



53% of developments set to complete in 2021 have been pre-let

Analysis close up

Monthly take-up

Table 1

| | Sq ft | % Grade A | 12 month rolling take-up |
|--------|---------|-----------|--------------------------|
| Jun-20 | 187,678 | 55% | 3,359,973 |
| 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% | 1,890,039 |

Year to date take-up

Table 3

| | Sq ft | % change on previous year | % Grade A |
|------------|---------|---------------------------|-----------|
| Jan-May 20 | 812,860 | -56% | 46% |
| Jan-May 21 | 980,348 | 21% | 85% |

Rents

Table 5

| £ per sq ft | Top achieved | Average | | | |
|-------------|--------------|---------|---------|---------|-------------|
| | | Grade A | Grade B | Prime* | Rent free** |
| Jun-20 | £90.00 | £82.16 | £61.52 | £100.00 | 24 |
| 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 | - | - |

Supply

Table 2

| Total | % Grade A | % chg on prev month | Vacancy rate (%) |
|-----------|-----------|---------------------|------------------|
| 5,364,966 | 54% | 8.1% | 4.7% |
| 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% |

Development pipeline

Table 4

| Sq ft | Refurb | Devs | Total | % Pre-let |
|-------|-----------|-----------|------------|-----------|
| 2021 | 1,080,531 | 2,475,778 | 3,556,309 | 62% |
| 2022 | 739,746 | 2,116,847 | 2,856,593 | 36% |
| 2023 | 1,183,043 | 2,167,000 | 3,350,043 | 4% |
| 2024 | 547,204 | 2,146,530 | 2,693,734 | 4% |
| Total | 3,550,524 | 8,906,155 | 12,456,679 | 28% |

Demand & Under-offers

Table 6

| | |
|---|---------|
| West End Potential Requirements (sq ft) | 2.0m |
| West End Active Requirements (sq ft) | 4.9m |
| West End Total Requirements (sq ft) | 6.9m |
| % change on 12 month ave | 0% |
| Total under offer (sq ft) | 1.1m |
| Under offer this month (sq ft) | 160,855 |
| % change on average (total) | 19% |
| Landlord controlled supply | 64% |
| Tenant controlled supply | 36% |

*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 May transactions

Table 7

| Address | Floor/s | Sq ft | Grade | Rent achieved | Tenant | Lessor |
|---------------------------|---------|---------|-------|---------------|-------------------------------|---------------|
| One Southbank Place, SE1 | 3-10 | 132,061 | A | Mid £70s | IBM | Shell |
| 1 Bedford Avenue, WC1 | 5-7 | 23,809 | A | £90.00 | G-Research | Ashby Capital |
| 16 St James's Street, SW1 | 4,5 | 11,411 | A | £105.00 | Genesis Investment Management | Crown Estate |
| 12 Golden Square, W1 | 4-6 | 9,238 | A | £98.30 | Northwood Investors | Diageo Plc |

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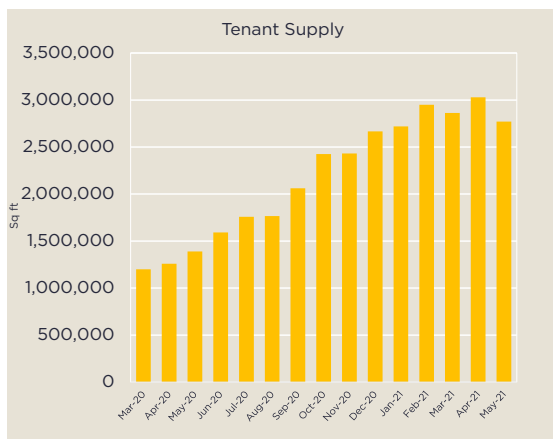
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In Focus - Withdrawn Tenant Space

Tenant Supply (Mar 2020 - May 2021)

Graph 3



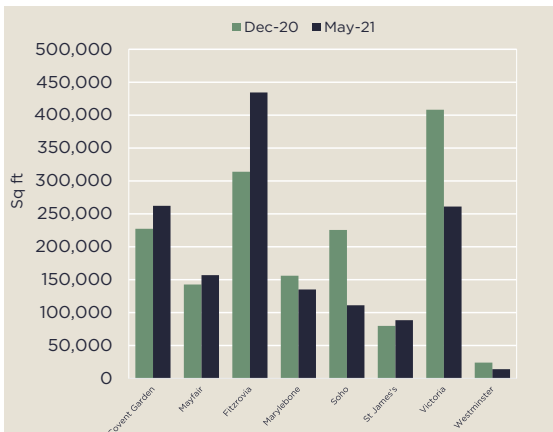
Much of the attention has been towards the gradual increase of tenant supply that has come onto the market since the start of the pandemic in March 2020, but increasingly some occupiers have chosen to withdraw their tenant space from the market, which is an encouraging sign of occupier confidence.

Most notably was the House of Commons choosing to remain at 64 Victoria Street which led to a 56,536 sq ft decrease in available supply, (they are considering disposing of two floors at a later date). Consequently, Victoria and Westminster have seen large drops in their available tenant supply since December 2020, falling by 36% and 41%, respectively.

Overall, the total amount of supply has fallen by 215,247 sq ft last month, and as a result, the tenant supply now accounts for 36% of available supply - this is the lowest it has been since September 2020.

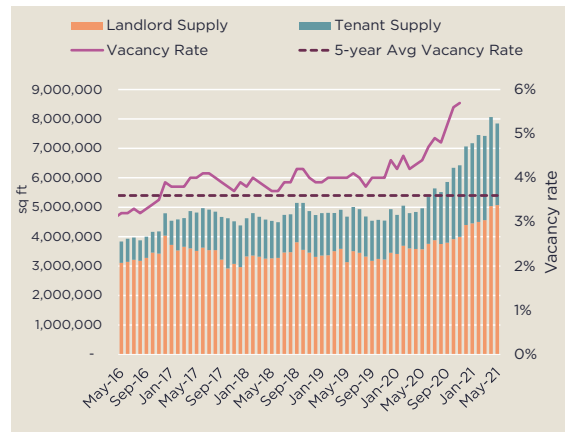
Tenant Supply by Core Sub-markets (Dec 20 - May 21)

Graph 4



Available Supply (2016-2021)

Graph 5



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