

# West End Office Market Watch



## Under-offers remain at record levels as transactional activity slowly increasing

As we near the half way point of the year transaction volumes are still relatively subdued as leasing deals are taking far longer to complete, however there are signs of improvement. Last month 293,570 sq ft transacted which took the year-to-date total to 1.2m sq ft, across 141 transactions. This is 10% above where it stood at the same point last year, however it is below the 10-year average by 25%, and 11% below the 10-year average by number of transactions.

So far in the year there have been no transactions to complete that have been above 50,000 sq ft, the only other year this was also the case was in 2020. Instead we are seeing transactions sized 10,000 sq ft or below accounting for the largest amount of take-up. At the end of last month transactions below 10,000 sq ft, by number, accounted for 73% of year-to-date take-up. The largest transaction to complete last month, and in fact for the year so far, was Qube Research & Technologies pre-let of the N2 development of the 15th to 12th floors (39,471 sq ft) at a blended rent of £93.50 psf, on a 15-year lease.

In terms of which business sector accounts for the largest proportion of take-up the Insurance & Financial sector still dominates, making up 23% by number and 29% by volume of transactions so far this year. As noted earlier in the year this is primarily made up of financial firms choosing to take up space in the West End.

This is still feeding into the number of active requirements we are tracking across central London and the West End, as the Insurance & Financial sector accounted for the second largest volume of active requirements at the end of May, totaling 24%. The Tech & Media sector is the largest sector, accounting for 38% of active requirements.

In total, the number of requirements across central London and the West End stood at 6.3m sq ft, 4.2m sq ft of which is made up of active requirements. Although the total is 7% below the long-term average we are still not seeing occupiers choosing to significantly downsize their office footprint, despite the fact that agile working is still prevalent across all business sectors. In fact from the total number of West End active requirements 18% are increasing their footprint by 10,000 sq ft or more.

In terms of supply we have witnessed the biggest monthly decrease since August 2021, with the total at the end of May standing at 7.2m sq ft which is 3.7% lower than April's total. This equates to a vacancy rate of 6.2% which is 20bps lower than the previous month and the lowest the vacancy rate has been since December 2020. Although it is worth noting that this is still above the long-term average of 4.1%.

We anticipate the volume of supply will continue to fall with such a large amount of space under offer, coupled with the reduction of tenant supply that is being put on to the market. Further to this, with wider headwinds hitting the market, such as rising inflation and costs of construction, coupled with the ongoing geopolitical situation, it will be interesting to see how the market reacts going into H2.

Undoubtedly the increasing construction costs and supply chain issues will impact scheduled developments across central London, but as it stands there is 11.3m sq ft of extensive refurbishments and developments that are scheduled between 2022-2025 in the West End, 17% of which have already been pre-let. Seven schemes have completed so far this year, there is a further 2.6m sq ft scheduled to complete by the end of 2022, however we anticipate a few of these schemes to be pushed further out into 2023.



Insurance & Financial sector accounts for 73% of take-up YTD



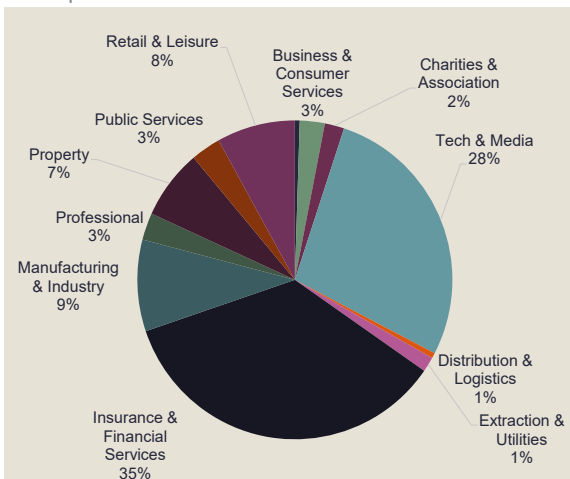
18% of active requirements are increasing their footprint by 10,000 sq ft or above

**6.2%**

Vacancy rate fallen by 20bps from the previous month

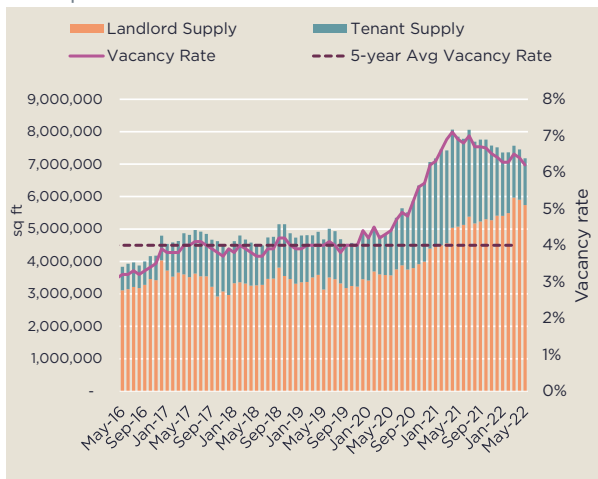
### YTD take-up by business sector

Graph 1



### West End supply

Graph 2



Under-offer total stood at 1.87m sq ft at the end of May

# Analysis close up

## Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Jun-21	244,971	83%	2,071,966
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	268,457	79%	4,377,169
Apr-22	187,051	82%	4,429,024
May-22	293,570	83%	4,426,709

## Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-May 21	1,045,467	26%	88%
Jan-May 22	1,155,171	10%	83%

## Rents

Table 5

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

## Supply

Table 2

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

## Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2022	881,729	2,151,019	3,032,748	49%
2023	1,717,539	1,771,924	3,489,463	9%
2024	723,004	1,510,642	2,233,646	7%
2025	795,909	1,759,880	2,555,789	0%
Total	4,118,181	7,193,465	11,311,646	17%

## Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	2.1m
West End Active Requirements (sq ft)	4.2m
West End Total Requirements (sq ft)	6.3m
% change on 12 month ave	-7%
Total under offer (sq ft)	1.87m
Under offer this month (sq ft)	166,229
% change on average (total)	80%
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 May transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
N2, Bressenden Place, SW1	12-15	40,000	A	£93.50	Qube Research & Technologies	Landsec
1 Newman Street, W1	5,6	27,575	A	Confidential	United Talent Agency	Exane
Battersea Power Station, SW8		25,000	A	Confidential	Sharkninja	BPSDC
70 Broadwick Street, W1	4	17,389	A	£101.50	CDPQ	Shaftesbury
22 Bedford Square, WC2	LG-4	12,607	A	£72.50	Project 32 inc	Bedford Estates

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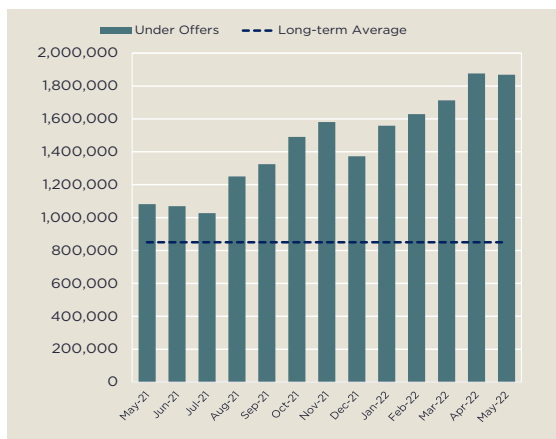
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## In Focus - Under-offers

### Monthly under-offers (2021-2022)

Graph 3

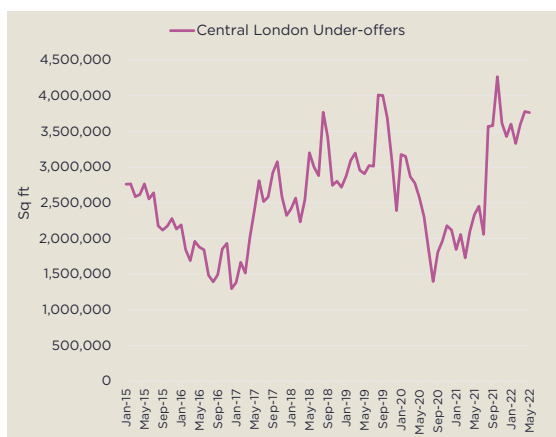


Although leasing activity seems to be stalling this year, under offers are at record levels with the total standing at 1.87m sq ft which is 80% above the long-term average and is also at a similar level to the City. This takes the total for central London to 3.87m sq ft which is the second highest amount we have recorded. In fact, both April and May for the West End have been the two highest months for total amount of space under-offer since our records began.

In May 166,229 sq ft went under-offer, and over a year period, between May 2021 to May 2022, there has been a 5% month-on-month increase, comparatively the year previous to this there was only a 1% month-on-month increase. With such high levels of space under offer it portrays an encouraging picture for businesses committing to returning to the office and for leasing activity over the second half of the year.

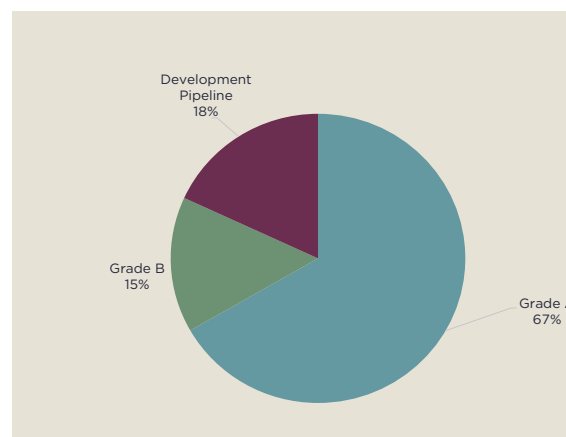
## Central London under-offers (2015-2022)

Graph 4



## Under-offer breakdown by grade and development pipeline

Graph 5



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