

# West End Office Market Watch



## Space under offer continues to grow despite a quiet month for leasing activity

February has been a quiet month for take-up, with only 129,901 sq ft completing, across 18 transactions. This brings the year-to-date total to 356,566 sq ft, which is still 58% above where it stood last year. However, when this is compared to the average take-up we usually see in the first 2 months of the year, it is 46% below the 10 year average.

The largest transaction to complete last month was Warburg Pincus's acquisition of the 4th and 5th floors, (22,850 sq ft) at Stirling Square, SW1, with terms remaining confidential at present, though the rent achieved is believed to be well in excess of £150 per sq ft.

However, what February has lacked in leasing activity it has made up for it with the level of space under offer. Continuing on from a busy January, February saw 244,129 sq ft of additional space go under-offer, keeping the total amount of space under offer at around 1.6m sq ft across the West End, which is 14% above the 5 year average. From this total, 68% of this is Grade A and 41% consists of space that is currently under development or extensive refurbishment, highlighting the intensified demand for better quality space. Further to this, the large majority, 82%, of space that is under offer is located in the core West End submarkets, namely North of Oxford Street East, Covent Garden, and Mayfair which have a combined total of 519,583 sq ft of space under offer.

This impending period of heightened transaction volumes, coupled with a stable number of active requirements across the West End and Central London, bodes well for the activity in the forthcoming months. At the end of the month, total number of active requirements stood at 4.7m sq ft. 21% of these were occupiers seeking 50,000 sq ft or more.

In line with expectation the Tech & Media sector account for the largest volume of active requirements with 28%, this is closely followed by the Insurance & Financial sector which accounts for 26%. It is worth noting that in the West End financial sector occupiers in particular have been leading take-up activity so far this year, almost mirroring their requirements, accounting for 29% of leasing activity that has taken place over 2022.

Looking to supply, the vacancy rate has remained at 6.3%, the same level it was at in January, and is down 30 bps on February 2021. At the end of the month total supply stood at 7.36m sq ft, with Grade A space accounting for 63% of this total. At present 48% of supply consists of new supply, space that has been redeveloped or extensively refurbished in the past decade.

We are continuing to see the level of grey space decrease and we have also tracked approximately 170,000 sq ft of supply that has been withdrawn from the market. Looking closer at this figure, 17% of this is made up of occupiers who had lease expiries in 2022, a sign that some of the occupiers with space on shorter terms are reabsorbing their space. Tenant controlled space at the end of the month stood at 1.9m sq ft, down 38% on the peak of 3m sq ft in April 2021.

So far this year we have seen the lowest level of Grade B take-up on record as occupier appetite for newer quality space continues to grow. At present Covent Garden accounts for the largest proportion, 20% of available Grade B space in the West End and over two thirds of this space is on sub 5,000 sq ft floorplates. It also accounts for the second highest volume of tenant-controlled space across the West End (12%).

**1.6m sq ft**

Space under offer is up 14% on the 5 year average

**4.7m sq ft**

Total active requirements for Central London and West End



Vacancy rate has remained at 6.3%

### Volume under offer (Feb 21- Feb 22)

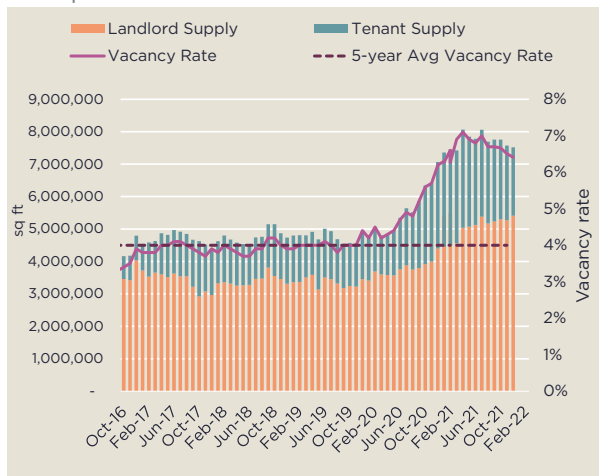
Graph 1



Source: Savills

### Available supply (2016-2022)

Graph 2



11.8m sq ft of developments set to complete between 2022-2025

# Analysis close up

## Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Mar-21	383,838	82%	1,744,295
Apr-21	135,196	84%	1,834,969
May-21	295,885	87%	2,015,784
Jun-21	244,971	82%	2,067,407
Jul-21	591,959	84%	2,575,023
Aug-21	307,234	85%	2,741,250
Sep-21	624,206	85%	3,182,290
Oct-21	477,335	88%	3,598,795
Nov-21	292,474	87%	3,804,332
Dec-21	612,861	85%	4,191,948
Jan-22	226,665	79%	4,364,177
Feb-22	129,901	83%	4,322,525

## Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Feb 21	225,989	-56%	69%
Jan-Feb 22	356,566	58%	83%

## Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Mar-21	£122.50	£86.00	£66.70	£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
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	-	-

## Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
7,803,002	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%
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%

## Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2022	1,013,478	2,187,109	3,200,587	43%
2023	1,507,743	1,984,800	3,492,543	10%
2024	631,004	1,806,642	2,437,646	6%
2025	795,909	1,853,880	2,649,789	0%
Total	3,948,134	7,282,431	11,780,565	16%

## Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.9m
West End Active Requirements (sq ft)	4.7m
West End Total Requirements (sq ft)	6.5m
% change on 12 month ave	-4%
Total under offer (sq ft)	1.63m
Under offer this month (sq ft)	244,129
% change on average (total)	49%
Landlord controlled supply	75%
Tenant controlled supply	25%

\*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 February transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
Stirling Square, SW1	4,5	22,850	A	Confidential	Warburg Pincus	Tristan Capital Partners
90 Whitfield Street, W1	2	18,893	A	£75.00	Michael Kors	Derwent London
Stirling Square, SW1	2	14,000	A	Confidential	Low Carbon	Tristan Capital Partners
1 Berkeley Street, W1	3	10,929	A	Confidential	Starwood Capital Europe Advisors	Crosstree
Middlesex House, 32-34 Cleveland Street, W1	2	10,550	A	£65.45	Ryder Architecture	Publicis

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## In Focus - Development pipeline

### Development pipeline (2022-2025)

Graph 3

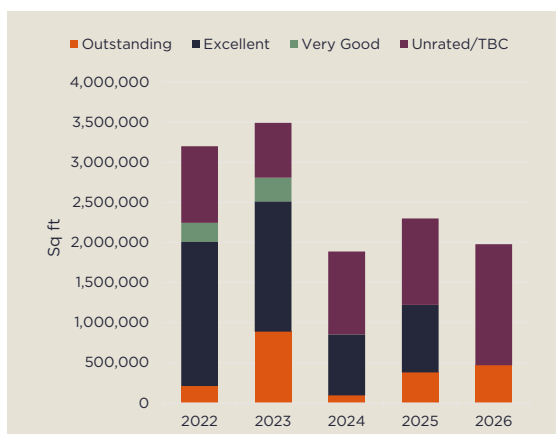


We are currently set to see record levels of development activity across the West End over the next two years, with a peak at 3.5m sq ft currently anticipated for 2023. In total just shy of 12m sq ft will be delivered over the next four years. Around 16% of this has already been pre-let and over half of the space that has been acquired prior to completion is located in the King's Cross & Euston sub-market.

But prime supply across the Central West End sub-market area is expected to remain constrained with this area only accounting for only a third of 2022 - 2025's speculative completions. Outside of this area the King's Cross & Euston sub-market accounts for 21% of speculative completions for the next four years, followed by Covent Garden with 20% and by Hammersmith with 15%, predominantly as a result of the London Olympia development, W14, which is expected to complete at the end of 2024.

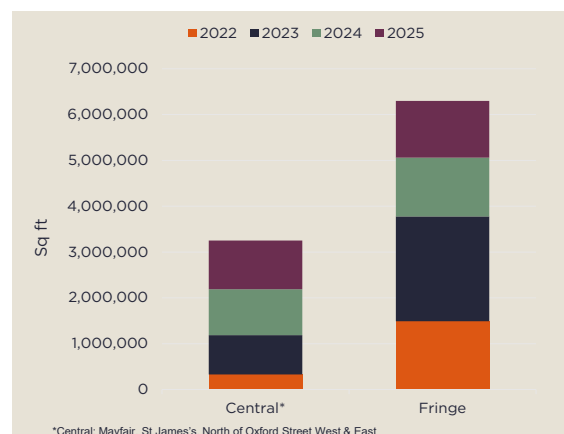
### BREEAM development pipeline (2022-2026)

Graph 4



### Speculative pipeline Central vs Fringe

Graph 5



\*Central: Mayfair, St James's, North of Oxford Street West & East

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