

West End Office Market Watch



Two major pre-lets provide boost to February take-up

After a muted start to the year, leasing activity rebounded in February to reach 335,275 sq ft across 27 transactions, marking the highest monthly take-up for February since 2019, and more than double the previous month's figure. However, as a result of the low levels of space acquired in January, year-to-date take-up still remained 25% below the 10-year average at 479,961 sq ft.

Once again, pre-lets played a prominent role in take-up figures this month, accounting for the two largest transactions to take place. The larger of the two was PIMCO's acquisition of the 5th to 9th floors (106,000 sq ft) at Derwent's 25 Baker Street, W1 development for a blended rent of £103.00 per sq ft on a 15-year lease. The second was Virgin Media's pre-let of the 4th to 9th floors (83,000 sq ft) at British Land's 3 Sheldon Square, W2 development, relocating staff from two of their current offices in Hammersmith and Slough. The rent is believed to be in the high £70s. Combined these two transactions made up roughly half of this month's take-up, reflecting the continued demand for prime, high quality space in spite of lower take-up levels overall.

These two transactions are also illustrative of trends we are witnessing in the 'flight to quality'. Both occupiers cited the importance of strong sustainability credentials playing a part in their decision as they seek to meet ESG targets, with both buildings achieving BREEAM 'Excellent' ratings. Furthermore, tenants have increasingly focused on more central locations as workers value proximity to nearby retail and leisure facilities post-pandemic.

The Insurance & Financial Services Sector accounted for the largest share of take-up once again this month, at 44%, with take-up in this sector largely made of a number of smaller deals in core locations.

In terms of sub-market, activity continues to be concentrated in the core, with Mayfair representing the largest number of YTD transactions at 23% of the total, followed by St James's at 14%.

On the rental side we witnessed a new record rent achieved for fully fitted space in NOX East. Business 3.0's lease of the Part 3rd floor at Wells & More, 45 Mortimer Street, W1 achieved a rent of £140.00 per sq ft. There has been a growth in occupiers acquiring fitted space as a result of the lower upfront fit out costs with costs and timelines continuing to rise. These factors are particularly relevant given the uncertain economic conditions and growth of hybrid working.

After several months of remaining static, the vacancy rate dropped 30 bps from the previous month to 6.1%. This was primarily due to space being withdrawn, the vast majority of which was Grade B tenant-controlled space, predominantly concentrated in fringe markets such as Hammersmith and VNEB (Vauxhall, Nine Elms & Battersea). It is worth noting that typically Grade B tenant space makes up just 4% of annual take-up. We expect this to be a temporary drop however, with Savills' latest forecast anticipating the West End vacancy rate to rise to 7.2% by the end of the year, with a record level of development completions set for delivery in 2023.

While take-up remains below the historical average for this point in the year, two indicators provide an encouraging outlook. Firstly, 206,181 sq ft of additional space was placed under offer this month, 11% above the 10-year average. Furthermore, active demand has increased for the second successive month to 3.88m sq ft, the highest since September. The Insurance & Financial Services Sector continues to make-up the largest share of these requirements at 24%.



335,275 sq ft across 27 transactions



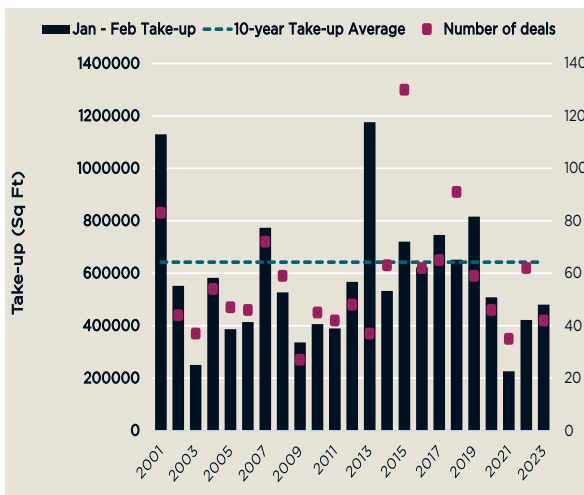
Vacancy rate fell 30bps to 6.1%

3.9m sq ft

Total active requirements for the West End or Central London as a whole

Historic West End YTD take-up

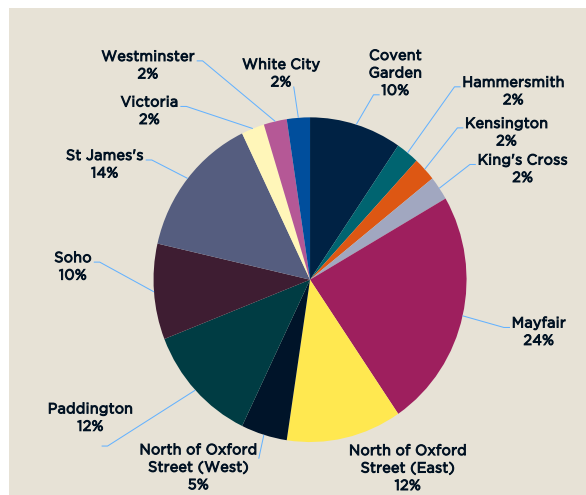
Graph 1



Source: Savills

Number of transactions by sub-market (YTD)

Graph 2



The Insurance & Financial Services Sector accounts for 44% of February's take-up

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Mar-22	293,585	85%	4,419,563
Apr-22	206,190	87%	4,490,557
May-22	334,709	84%	4,538,286
Jun-22	1,037,962	96%	5,331,277
Jul-22	271,593	70%	5,010,911
Aug-22	372,703	85%	5,070,146
Sep-22	626,034	91%	5,008,893
Oct-22	368,703	87%	4,880,663
Nov-22	234,944	91%	4,810,117
Dec-22	493,067	95%	4,661,290
Jan-23	144,686	98%	4,556,174
Feb-23	335,275	94%	4,719,451

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan - Feb 22	421,800	87%	83%
Jan - Feb 23	479,961	14%	95%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Mar-22	£180.00	£83.20	£57.50	£121.66	24
Apr-22	£87.50	£68.30	£52.20	-	-
May-22	£200.00	£83.40	£54.86	-	-
Jun-22	£150.00	£92.44	50.33	£119.50	24
Jul-22	£115.00	£78.96	£51.56	-	-
Aug-22	£135.00	£83.45	£54.25	-	-
Sep-22	£150.00	£87.05	49.56	119.58	23
Oct-22	£105.00	£85.50	66.50	-	-
Nov-22	£97.50	£73.04	£59.38	-	-
Dec-22	£185.00	£91.55	£61.17	£128.76	23
Jan-23	£130.00	£84.36	-	-	-
Feb-23	£140.00	£90.65	£40.00	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
7,568,880	67%	2.8%	6.5%
7,455,752	66%	-1.5%	6.4%
7,181,238	66%	-3.7%	6.2%
6,859,966	66%	-4.5%	5.9%
6,481,308	65%	-5.5%	5.6%
6,920,273	64%	6.8%	5.9%
7,194,772	67%	4.0%	6.1%
7,425,226	68%	3.2%	6.3%
7,491,284	68%	0.9%	6.4%
7,579,822	72%	1.2%	6.4%
7,632,319	76%	0.7%	6.4%
7,309,299	81%	-4.2%	6.1%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2023	1,789,687	2,785,171	4,574,858	30%
2024	1,199,894	645,000	1,844,894	20%
2025	1,261,960	1,775,084	3,037,044	5%
2026	286,286	2,550,000	2,836,286	5%
Total	4,537,827	7,755,255	12,293,082	17%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.93m
West End Active Requirements (sq ft)	3.88m
West End Total Requirements (sq ft)	5.81m
% change on 12 month ave	-1%
Total under offer (sq ft)	1,389,318
Under offer this month (sq ft)	206,181
% change on average (total)	21%
Landlord controlled supply	81%
Tenant-controlled supply	29%

*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
25 Baker Street, W1	5th-9th	106,000	A	£103.00	PIMCO	Derwent
3 Sheldon Square, W2	4th-9th	83,000	A	High £70s	Virgin Media	British Land
The Adelphi, 1-11 John Adam Street, WC2	Part 5th, 10th	31,505	A	c.£90.00	Conde Nast	Pontegadea
80 Strand, WC2	Part 8th	13,688	A	£80.00	BCI Partners	Pearson
25 Golden Square, W1	1st	8,793	A	£106.00	Stonepeak Partners	USS Investment Management

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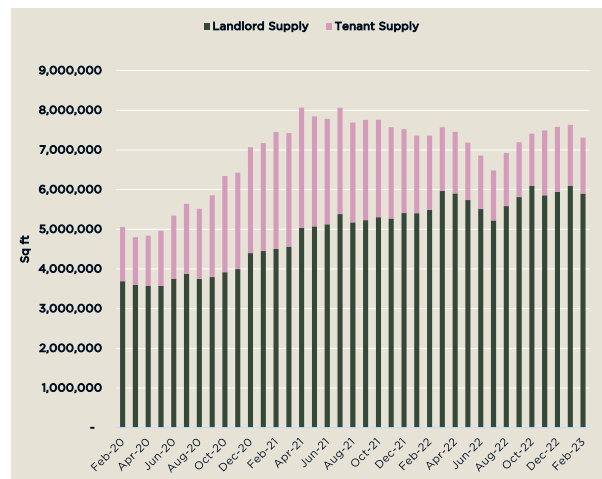
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In Focus - Tenant-controlled supply analysis

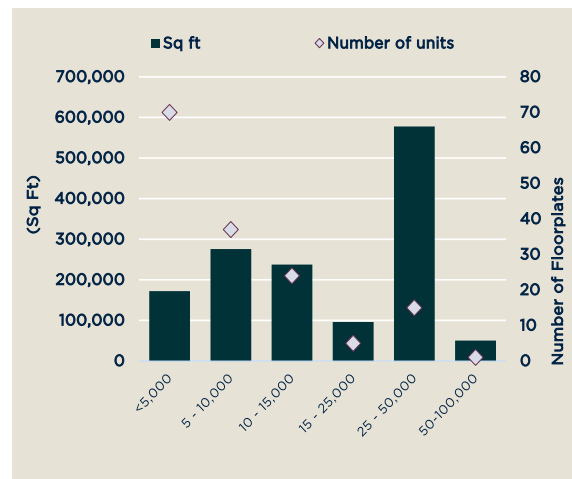
West End landlord vs tenant supply

Graph 3



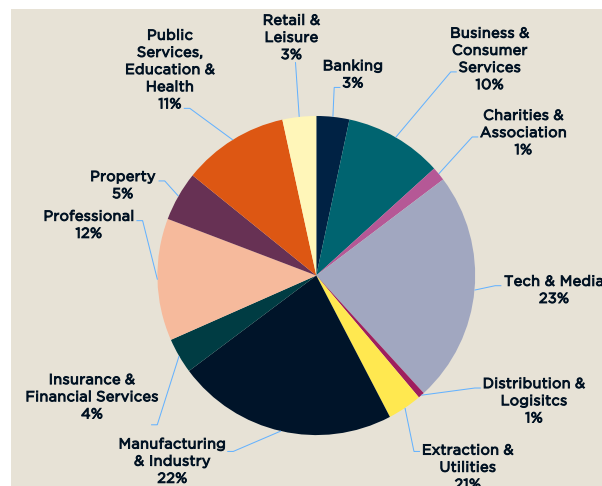
West End tenant supply by floorplate size

Graph 4



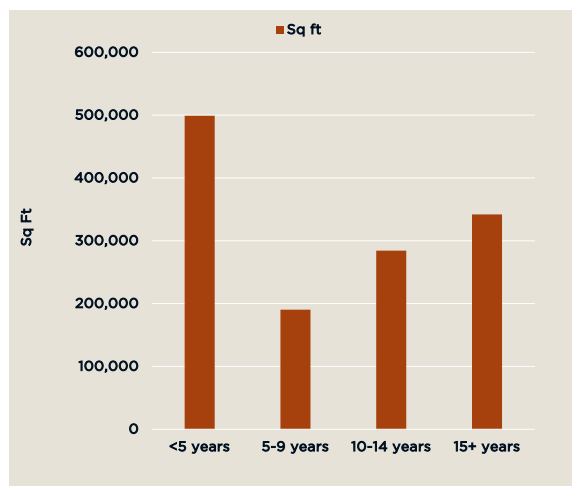
West End tenant supply by business sector

Graph 5



West End tenant supply by lease term

Graph 6



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