

West End Office Market Watch



February sees viewings rise fast and take-up increasing, whilst tenant supply rises steadily

After a subdued January, February has seen an uptick in leasing activity across the West End, which has brought year-to-date take-up to 121,551 sq ft. Last month, take-up reached 90,332 sq ft across 13 transactions - this is a 189% increase from January's leasing levels, a positive growth as leasing activity begins to pick up in the West End.

Similarly, viewing levels rose approximately 180% from January, giving some confidence that we will continue to see a rise in take-up.

The largest transaction to complete in February was Gyroscope Therapeutics' acquisition of 23,815 sq ft at Rolling Stock Yard, N7, with terms confidential at present. The second largest transaction to complete last month was MSQ's acquisition of 20,315 sq ft at 34 Bow Street, WC2, for a 10 year term, at £62.00 psf.

The Tech & Media sector has so far accounted for 34% of take-up (45,672 sq ft), followed by the Manufacturing & Industry sector with 18%, and the Insurance & Financial Services sector with 13%.

While the total amount of space under offer is down 2% on the long-term average, the total amount still remains strong as it stands at 943,290 sq ft. 79% of this space is of Grade A standard, highlighting that the drive for quality still remains strong amongst West End occupiers.

Further to this, from the total amount of space that is under offer, 258,605 sq ft is from sites that are currently under development. 54% of this space is made up from the Belgrove House development in King's Cross, with 140,000 sq ft under offer to MSD.

In addition to this, West End and central London active requirements were up 13% from the previous month, standing at 4.4m sq ft. Out of this total, 35% are requirements sized 25,000 sq ft and above. The Insurance & Financial Services sector continues to dominate active demand across central London and the West End, accounting for 30% overall. They also account for a quarter of the requirements sized over 25,000 sq ft. The second largest sector is Tech & Media with 17%, followed by both the Professional and Business & Consumer sectors accounting for 10% each.

Although underlying demand remains robust, supply still continues to rise at a steady pace. As it stands, supply has reached 7.5m sq ft, which is up by 3.9% from January and an increase of 47% from February last year. This has brought the vacancy rate to 6.6%, 30 bps higher than the previous month.

From the overall amount of supply, 58% is of Grade A standard, and 88% are floorplate sizes of 10,000 sq ft or below. Broken down by sub-market, NOX East holds the largest amount of available supply, accounting for 15%, this is followed by Covent Garden with 13%, and Hammersmith with 11%.

This year 3.1m sq ft of newly refurbished and developed stock is set to complete, and 58% of these have already been pre-let. A further 11m sq ft of new stock is set to complete from 2022-2025; 71% of which are new developments, highlighting that there is confidence amongst developers as demand for quality and strong leasing activity will return to pre-Covid levels in the next few years.



4.4m sq ft
Active and central London requirements were up 13% from January

6.6%

Vacancy rate is up 30 bps from the previous month



February take-up has risen 189% from the previous month

Under offer and active demand

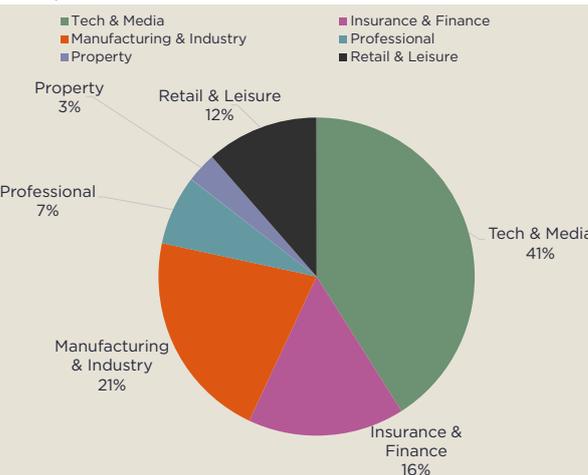
Graph 1



Source: Savills

YTD business sector take-up

Graph 2



73%

of tenant supply come on to the market since lockdown began

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Mar-20	160,932	44%	3,889,808
Apr-20	41,723	46%	3,630,675
May-20	108,913	50%	3,434,518
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	31,219	29%	1,480,768
Feb-21	90,332	62%	1,347,396

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Feb 20	502,292	-39%	76%
Feb 21	121,551	-76%	62%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Mar-20	£92.00	£73.94	£57.47	£110.50	23
Apr-20	£78.50	£78.50	£44.00	-	-
May-20	£100.00	£93.13	£68.23	-	-
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	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
4,799,913	55%	-5.0%	4.2%
4,838,872	55%	0.8%	4.3%
4,962,053	54%	2.5%	4.4%
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%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	987,902	2,709,200	3,697,102	58%
2022	984,454	2,501,861	3,486,315	28%
2023	1,172,589	1,508,833	2,681,422	4%
2024	341,900	2,368,834	2,710,734	4%
Total	3,486,845	9,088,728	12,575,573	27%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	2.4m
West End Active Requirements (sq ft)	4.4m
West End Total Requirements (sq ft)	6.8m
% change on 12 month ave	1%
Total under offer (sq ft)	943,290
Under offer this month (sq ft)	18,658
% change on average (total)	-2%
Landlord controlled supply	60%
Tenant controlled supply	40%

*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
Rolling Stock Yard, N7	G,4,5,6	23,815	A	confidential	confidential	Newark
34 Bow Street, WC2	3	20,315	B	£62.00	MSQ	Telereal Trillium
Nova South, SW1	pt.10	11,583	A	£86.00	Qube Research and Technologies	Land Securities/CPPIB
116 Marylebone Lane, W1	G-3	8,124	B	£71.70	Random 42	Landec/Suntec

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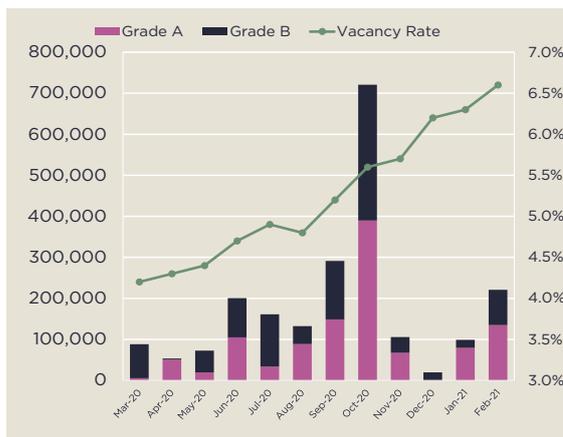
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Tenant Supply

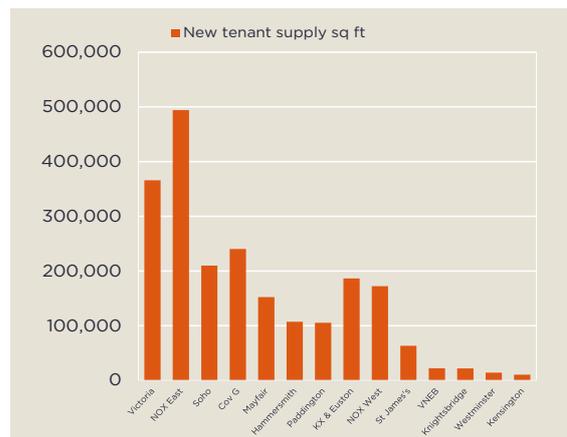
Tenant space (Mar 2020-Feb 2021)

Graph 3



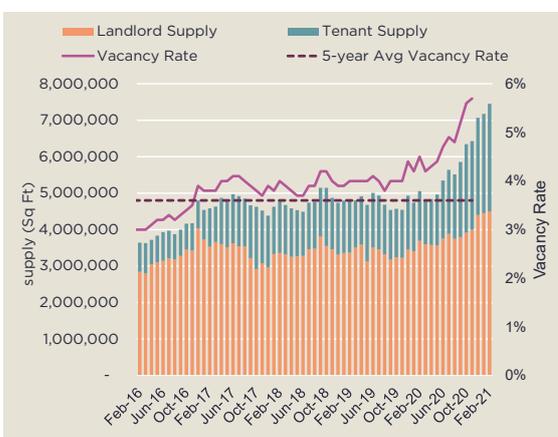
New tenant supply by sub-market

Graph 4



YTD supply (2007-2021)

Graph 5



Unsurprisingly, with the levels of supply ticking up, much of the attention is being directed towards the amount of tenant supply coming onto the market. Currently, the amount of grey space available accounts for 40% of the total supply figure, at 3m sq ft - this is a 146% increase since March 2020.

Of this total tenant supply, 73% has come onto the market since Covid-19 restrictions began on the 16th March 2020. While this number has increased, 52% of this has a lease expiry between now and 2025, so most of this space is for short-term end of leases and will likely get reabsorbed back into the market in the coming years. This is what occurred in the GFC, where much of the tenant stock was reabsorbed by 2011.

Units for sub 10,000 sq ft currently account for 85% of tenant space released since the first lockdown, and broken down by grade, it is a near 50-50 split, with 52% of Covid tenant release space being of Grade A standard. Broken down by sub-market also, Nox East currently has the largest amount of newly released tenant supply, with 494,201 sq ft.

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