UK Commercial – November 2019

MARKET IN MINUTES

Savills Research

West End Office Market Watch

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Supply set to remain constrained with two thirds of 2020's developments already pre-let

Take-up at the end of October reached 391,464 sq ft, with a further 29 transactions completing over the month. This brought year to date take-up to 3.45m sq ft, up 7% on the long term average, as the Tech/media & Financial services sector continue to drive take-up across the West End.

Over the year so far we have seen a high concentration of leasing activity around Soho and the North of Oxford Street sub-markets. In total transactions across this area have accounted for over a quarter of the number of transactions that have completed (82).

The Tech & Media sector has accounted for 25% of year to date take-up, whilst the Insurance & Financial sector followed behind with a 21% share and the Serviced Office Provider sector with 18%.

We saw this year's largest transaction complete during the month, with Facebook acquiring the Ground to 4th floors (144,525 sq ft), at Regent's Place, 10 Brock Street, NW1, which was previously occupied by Debenhams.

Another notable transaction to complete during the month was Apollo's pre-let of the 2nd to 4th floors at Derwent London's 1 Soho Place development, W1, which is scheduled for completion in Q4 2021.

Around 36% of the space that has been pre-let during this year has been in Soho and already 50% of the development pipeline for the next 5 years in this sub-market has already been pre-let. In total, across the West End as a whole, 27% of the 2020-2023 development pipeline has been pre-let and at least a further 10% is currently under offer.

Notable pipeline developments currently under offer include 20 Manchester Square, W1, (100,000 sq ft), 1 Wood Crescent, W12, (110,000 sq ft), and Oxford House, 1 Newman Yard, W1 (80,000 sq ft).

Supply has remained at the same level with the vacancy rate at 4.0%, down 20 bps on the same period a year earlier. We expect supply to continue to remain constrained over the next year, with 63% of the extensive refurbishments and developments scheduled for completion over the next year already pre-let and virtually all the remaining speculative space scheduled for delivery in 2020 currently under offer.

In 2021, 45% of the scheduled deliveries have already been pre-let. With around 600,000 sq ft of the development pipeline currently under offer, pre-letting will continue to significantly reduce future speculative deliveries.

Underlying demand continues to remain robust with space under offer standing at 1.78m sq ft at the end of the month, up 19% on the average amount we have seen over the last 12 months.

The quantum of occupiers actively searching to acquire space across the West End and Central London at present equates to 4.3m sq ft. The Tech and Media sector continues to be the main driver of demand and accounts almost a third (31%) of active and potential West End and Central London requirements. The Insurance & Financial sector is the next largest sector driving demand (21%).

3.45m sq ft

year to date take-up is up 7% on the long-term average

27%

of the development pipeline for the next 4 years has already been pre-let

25%

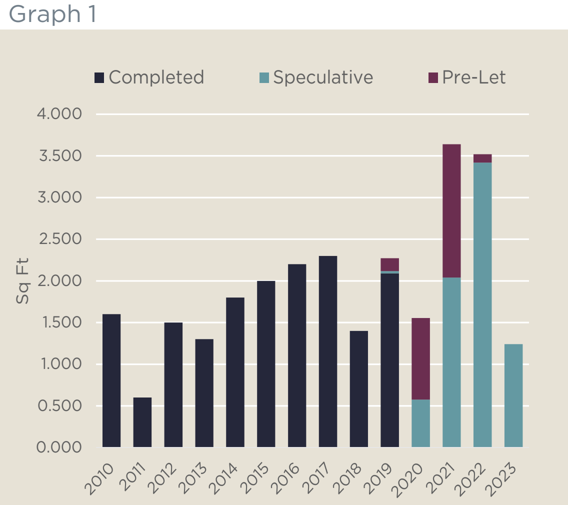
The Tech & Media sector has accounted for a quarter of year to date take-up

1.8m sq ft

is currently under offer across the West End

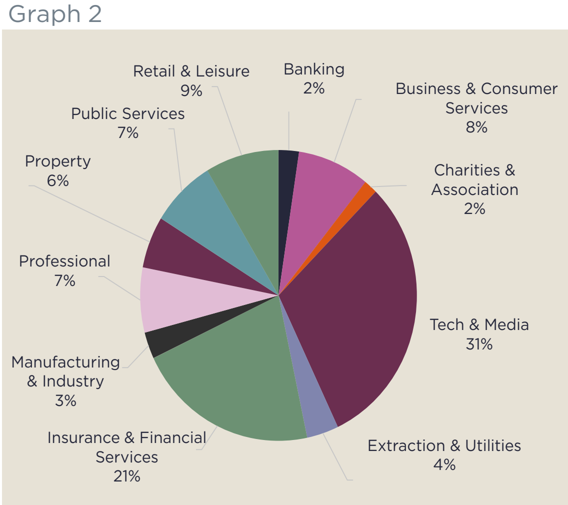
West End Development Pipeline

Graph 1



Central London Requirements by sector

Graph 2



Source: Savills

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Nov-18	349,030	84%	5,246,872
Dec-18	457,935	87%	5,138,164
Jan-19	235,461	81%	4,989,805
Feb-19	585,354	84%	5,284,499
Mar-19	420,802	73%	5,261,263
Apr-19	300,856	87%	5,272,363
May-19	317,111	60%	5,294,333
Jun-19	262,223	73%	5,031,268
Jul-19	462,026	77%	4,300,646
Aug-19	151,140	43%	4,451,786
Sep-19	321,103	89%	4,489,815
Oct-19	391,464	95%	4,732,446

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
4,871,727	63%	-5.3%	4.0%
4,734,611	63%	-2.8%	3.9%
4,797,457	65%	1.3%	3.9%
4,810,098	59%	0.3%	4.0%
4,803,390	64%	-0.1%	4.0%
4,914,843	63%	2.3%	4.0%
4,679,894	60%	-4.8%	4.0%
5,009,154	60%	7.0%	4.1%
4,935,604	70%	-1.5%	4.0%
4,684,337	63%	-5.1%	3.8%
4,541,472	59%	-3.0%	4.0%
4,571,005	55%	0.7%	4.0%

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Oct 18	4,164,563	-5	82%
Jan 19- Oct 19	3,447,540	-17%	79%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	467,515	1,086,891	1,554,406	63%
2021	1,071,487	2,591,818	3,663,305	44%
2022	1,033,535	2,355,779	3,389,314	3%
2023	142,000	1,102,977	1,244,977	0%
Total	2,714,537	7,137,465	9,852,002	27%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Nov-18	£100.00	£75.64	£55.03	-	-
Dec-18	£105.00	£83.75	£59.50	£103.40	19
Jan-19	£85.25	£72.02	£51.50	-	-
Feb-19	£118.00	£71.39	£63.00	-	-
Mar-19	£130.00	£75.80	£62.56	£119.33	22
Apr-19	£250.00	£76.79	£55.16	-	-
May-19	£102.50	£73.43	£54.30	-	-
Jun-19	£115.00	£82.58	£69.00	£111.00	20
Jul-19	£120.00	£84.18	£62.57	-	-
Aug-19	£95.34	£86.00	£52.50	-	-
Sep-19	£120.00	£74.14	£52.50	£120.00	21
Oct-19	£135.00	£81.08	£52.88	-	-

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.0m
West End Active Requirements (sq ft)	4.3m
West End Total Requirements (sq ft)	5.3m
% change on 12 month ave	5%
Total under offer (sq ft)	1.8m
Under offer this month (sq ft)	151,747
% change on average (total)	154%
Landlord controlled supply	71%
Tenant controlled supply	30%

*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 October transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
10 Brock Street, Regent's Place, NW1	G-4	144,525	A	Confidential	Facebook	British Land
1 Soho Place, W1	2-4	83,100	A	Confidential	Apollo	Derwent
10 Bloomsbury Way, WC1	8-9	23,586	A	£69.00	Genius Sports	Criteo
33 Cavendish Square, W1	2	14,926	A	Confidential	Confidential	Lancer
WestWorks, 195 Wood Lane, W12	3pt	13,288	A	Confidential	Huckletree	Stanhope/Mitsui

Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
245 Hammersmith Road	W6	214,000	40,000 sq ft under offer
1 Jermyn Street	SW1	120,000	Quoting £87.50 psf
Elms House, Hammersmith	W6	96,260	Under offer
Euston Tower, Euston Road	NW1	63,820	Short-term leases
Albany House, 94-98 Petty France	SW1	60,000	Under offer
The Foundry, 77 Fulham Palace Road	W6	57,515	Under offer
The White Building, Notting Hill	W11	58,396	Quoting 42.50 psf

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