

# West End Office Market Watch



## Quarterly take-up the highest it's been in 3 years

A flurry of deals in September took monthly take-up to 595,986 sq ft, across 31 transactions. This is the highest monthly take-up we have seen since December 2019, highlighting the growing momentum we are seeing amongst occupiers deciding to re-activate requirements or upgrade their offices.

This growing momentum is perhaps best illustrated by analysis of Q3 activity, which saw 1.5m sq ft of leasing transactions complete overall, across 91 deals. This is the highest quarterly take-up to occur since Q3 2018, and brought the year-to-date total to 2.75m sq ft, 92% above where it stood this time last year. Although, Q1-Q3 take-up is still down on the 10-year long-term average by 11%, largely due to the subdued first and second quarters.

The largest transaction to complete last month, and also the largest of the year so far, was Facebook's assignment from Aegis at 1 Triton Square occupying the whole building (312,000 sq ft) on a 15-year lease with a rent that is confidential at present.

As well as strong levels of take-up there is also a large amount of space under offer in the West End. Last month saw 223,945 sq ft of space go under offer, taking the total to 1.3m sq ft. This is 28% above the long-term average and also 24% above where it stood at the end of Q2.

Looking further at this space the demand for high-quality office space becomes clear. Grade A space and new stock in the development pipeline make up 82% of the total amount of space under offer, while Grade B demand continues to fall. This trend of 'flight to quality' is one which was present before the pandemic, however, Covid-19's catalytic effect on creating a two-tier market has become clearer as 2021 has progressed.

This also translates into rental resilience across the market, as we are yet to see any significant falls in average Prime and Grade A rents. In fact, in Q3 the average Prime rent reached £120.00 per sq ft, taking the year-to-date average to £118.25 per sq ft, where it stood at the end of 2019. Similarly the average Grade A rent achieved so far this year stands at £82.67 per sq ft, a rise of 3% from 2020. Comparatively, over the same time period, we have seen average Grade B rents fall by 10% to reach £54.81 per sq ft.

With momentum beginning to pick up again it is not surprising that requirements across Central London and the West End also continue to remain at high levels. At the end of September active requirements reached 5.3m sq ft with the Professional, Tech & Media, and Insurance & Financial sectors all accounting for 23% of active requirements each.

Although month on month supply since the start of this year has not been consistently decreasing, on average it has fallen by 1%, whilst last year on average it grew 3.6% per month. At the end of September the total level of supply reached 7.8m sq ft, which equates to a vacancy rate of 6.7%, this is 40 bps lower than its peak in April 2021, however, it is still considerably higher than the long-term average of 4.6%.

Despite this, we have seen a significant amount of tenant space withdrawn from the market so far this year. As it stood at the end of last month 480,334 sq ft of grey space had been withdrawn from the West End which suggests that we could expect to see the levels of supply come down over the next quarter as the knee-jerk reactions performed by occupiers at the start of the pandemic begin to be retracted in favour of them re-occupying their space once again.



**1.5m sq ft**

Q3 take-up is the highest quarterly total since Q3 2018

**7.8m sq ft**

Total supply equates to a vacancy rate of 6.7%



Space under offer is 28% above long-term average

### West End rents (2001- YTD 2021)

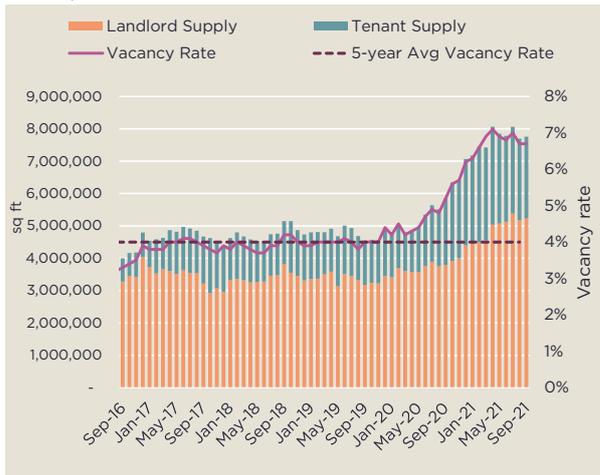
Graph 1



Source: Savills

### Monthly supply (2016-2021)

Graph 2



YTD average Prime rent reached £118.25

# Analysis close up

## Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Oct-20	60,830	66%	2,441,707
Nov-20	86,937	66%	2,235,621
Dec-20	225,245	66%	1,806,097
Jan-21	49,172	81%	1,577,681
Feb-21	171,553	68%	1,518,685
Mar-21	383,838	82%	1,739,031
Apr-21	132,383	83%	1,826,892
May-21	291,198	87%	2,003,020
Jun-21	258,415	78%	2,068,087
Jul-21	567,599	81%	2,551,343
Aug-21	307,234	83%	2,717,570
Sep-21	595,986	85%	3,130,390

## Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan-Sep 20	2,859,411	-53%	66%
Jan-Sep 21	3,130,350	92%	85%

## Rents

Table 5

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

## Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
6,317,748	57%	8.2%	5.6%
6,443,512	58%	2.0%	5.7%
7,065,552	57%	9.7%	6.2%
7,172,337	59%	1.5%	6.3%
7,452,274	58%	3.9%	6.6%
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%

## Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2022	872,633	2,225,313	3,097,946	35%
2023	1,223,043	2,588,465	3,811,508	7%
2024	647,204	1,897,530	2,544,734	6%
2025	636,000	1,989,000	2,625,000	0%
Total	3,378,880	8,700,308	12,079,188	13%

## Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.6m
West End Active Requirements (sq ft)	5.3m
West End Total Requirements (sq ft)	6.9m
% change on 12 month ave	-1%
Total under offer (sq ft)	1.32m
Under offer this month (sq ft)	223,945
% change on average (total)	28%
Landlord controlled supply	67%
Tenant controlled supply	33%

\*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 September transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
1 Triton Square, NW1	Entire	312,000	A	Confidential	Facebook	Aegis
121-141 Westbourne Terrace, W2	LG-5	59,350	B	£52.50	Future Publishing	WPP
Ingeni Building, 17 Broadwick Street, W1	Entire	28,000	A	Mid £90s	Copper Co	Global Holdings
62 Buckingham Gate, SW1	LG,3	27,016	A	£68.50	Millenium Capital	Chime

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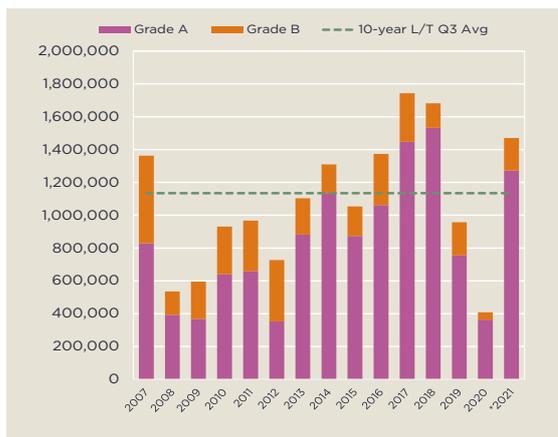
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## In Focus - Take-up

### Q3 take-up (2007-2021)

Graph 3

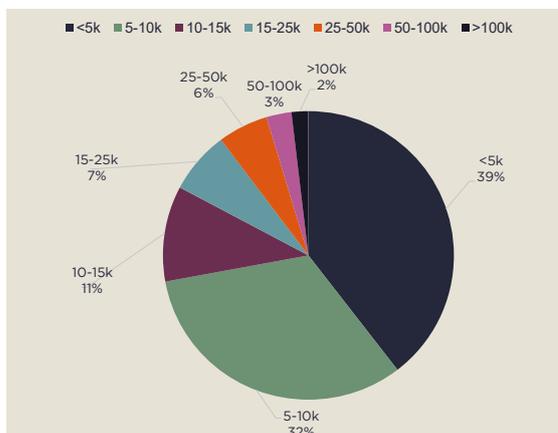


As mentioned above, and as shown in Graph 3, take-up this quarter has been very strong which has allowed us to recognise some growing trends within the market. One of which is occupiers preferences for Grade A space which has accounted for 85% of take-up so far this year. We expect this trend to continue as occupiers make greater attempts to attract employees back to work through a number of ways, such as offering better amenities, more collaborative spaces, and good natural light and ventilation.

This then feeds into a stronger desire to occupy a building with better BREEAM credentials. For example, this year out of the take-up of Grade A buildings, 58% of these have been awarded a BREEAM rating of 'Very Good' or above. This is compared to 34% of available Grade A supply which have BREEAM credentials of 'Very Good' or above, which suggests that high-quality, greener buildings are in high demand.

### YTD take-up by size band

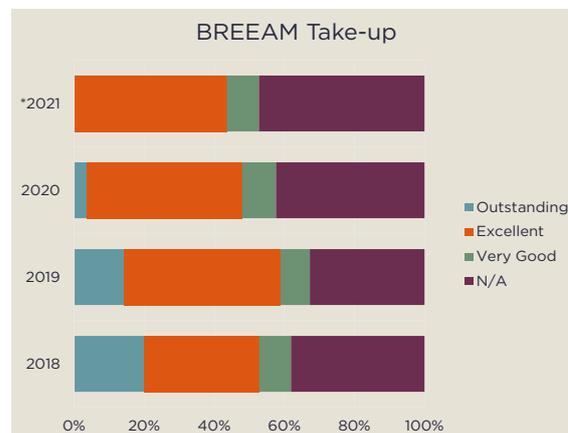
Graph 4



### BREEAM ratings of take-up

#### (2018-YTD 2021)

Graph 5



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