

West End Office Market Watch



Second highest monthly take-up since March but activity continues to remain subdued

Take-up in August reached 136,999 sq ft across 9 transactions and was the second largest monthly take-up we have seen since lockdown began in March. This boost was as a result of the completion of The Office Group's pre-let of 210 Euston Road, NW1, (68,182 sq ft), on a 20 year lease, (on terms that remain confidential at present).

This brings year-to-date take-up to 1.2m sq ft, down 57% on the end of the same period in 2019, and similarly 55% on the long-term average. So far this year 121 transactions have completed, down 60% on the average of 303 transactions we have seen complete over the same period in the past 5 years, with leasing activity continuing to remain limited. We expect the recent announced guidelines on continued working from home will likely contribute to sustaining the low levels of completing transactions over the second half of this year.

Another notable transaction to complete, and the highest rent achieved so far this year since lockdown, at £125 per sq ft, was Lazari pre-letting the 2nd and 3rd floors (11,990 sq ft) at 25 Berkeley Square to Mubadala Investment, on a 10 year lease.

The Tech & Media sector has continued to be the key driver of leasing activity, accounting for a third of year-to-date take-up. This is followed by the Insurance & Financial sector with 21%, and then by the Serviced Office Provider and Retail & Leisure sectors, both with a 11% share.

At the end of the month, space under offer stood at 891,000 sq ft, down 9% on the previous month, but continuing to remain above the long-term average, by 27%.

New under offers since lockdown in March, at 192,000 sq ft, have almost equated to the same quantity of transactions that have failed to complete (198,000 sq ft).

Meanwhile underlying occupier demand continues to remain at a high level, with West End and Central London active requirements at 4.6m sq ft, up 9% on the short term average of 4.2m sq ft. The Tech & Media sector accounts for 1.37m sq ft (30%) of these active tenant requirements, followed by the Professional Services sector with 1.25m sq ft (27%).

At the end of August supply stood at 5.5m sq ft, which equates to a vacancy rate of 4.8%, down 10 bps on the previous month, but up 60 bps on the long term average. Grade B space accounts for 47% (2.6m sq ft) of current supply, up from 38% at the end of August in 2019. Tenant controlled supply rose slightly over the month and currently accounts for 32% of supply, up on the long-term average of 25%.

With 85% of the 1.1m sq ft scheduled for delivery in Q1 2021 already pre-let, there is just 163,000 sq ft of speculative space to be added to current supply figures at the end of Q3. We expect the vacancy rate will reach 5.0% at the end of this quarter with the additional anticipated tenant release space.

At the end of August the average prime rent achieved over the year stood at £118.00 per sq ft, albeit the sample size for 2020 is small. The average rent free on a straight 10-year lease has now moved out to 24 months compared to 20 months during 2019.

1.2m sq ft

Take-up is down on the long-term average by 57%



4.6m sq ft

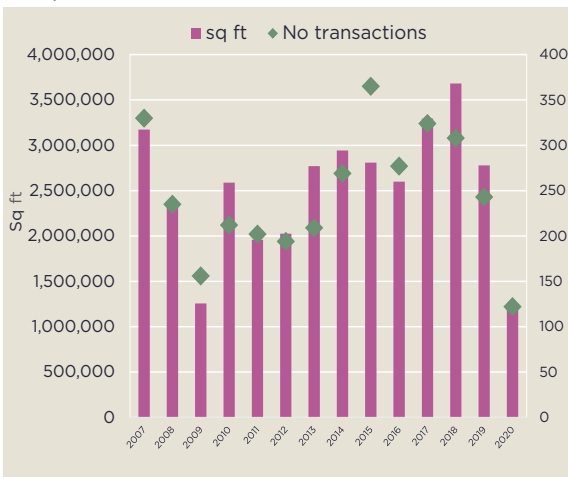
Active West End and Central London requirements were up 9% on the short term average

4.8%

Supply was down 10 bps on the previous month

Year-to-date take-up

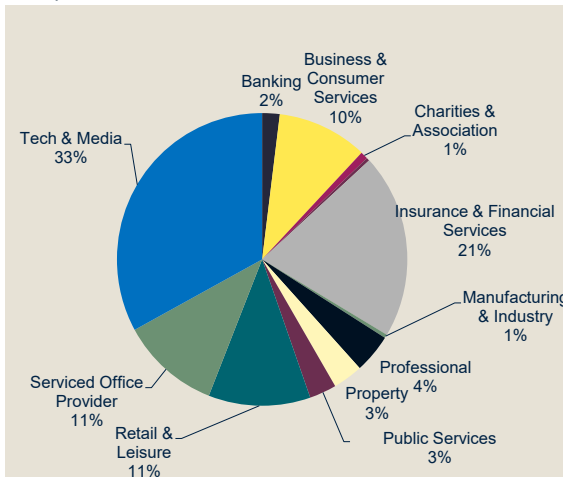
Graph 1



Source: Savills

Take-up by sector

Graph 2



30%

of the 10.8m sq ft of 2021 to 2024 development pipeline has already been pre-let

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Sep-19	319,776	80%	4,471,730
Oct-19	478,534	81%	4,801,431
Nov-19	293,023	80%	4,267,483
Dec-19	654,769	80%	4,464,317
Jan-20	277,588	12%	4,511,328
Feb-20	223,704	40%	4,149,678
Mar-20	160,932	43%	3,889,808
Apr-20	41,723	44%	3,630,675
May-20	108,913	48%	3,434,518
Jun-20	187,678	54%	3,359,973
Jul-20	63,890	56%	2,961,670
Aug-20	136,999	60%	2,943,222

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 19- Aug 19	2,718,215	-25%	79%
Jan 20- Aug 20	1,201,427	-57%	56%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Sep-19	£120.00	£74.14	£52.50	£120.00	21
Oct-19	£135.00	£81.08	£52.88	-	-
Nov-19	£102.50	£72.21	£63.82	-	-
Dec-19	£92.50	£74.18	£52.77	£114.00	20
Jan-20	£72.34	£70.00	£65.39	-	-
Feb-20	£115.00	£80.00	£59.76	-	-
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	£61.53	£100.00	24
Jul-20	£112.50	£91.25	£69.50	-	-
Aug-20	£125.00	£81.83	£61.00	-	-

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
4,541,472	58%	-3.0%	4.0%
4,571,005	57%	0.7%	4.0%
4,544,486	59%	-0.6%	4.0%
4,932,348	56%	8.5%	4.4%
4,740,257	55%	-3.9%	4.2%
5,054,819	53%	6.6%	4.5%
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%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,055,404	2,500,607	3,556,011	61%
2022	1,000,467	2,822,776	3,823,243	25%
2023	1,044,750	705,377	1,750,127	1%
2024	350,000	1,384,268	1,734,268	0%
Total	3,305,516	7,413,028	10,863,649	29%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	2.8m
West End Active Requirements (sq ft)	4.6m
West End Total Requirements (sq ft)	7.4m
% change on 12 month ave	18%
Total under offer (sq ft)	0.9m
Under offer this month (sq ft)	56,708
% change on average (total)	27%
Landlord controlled supply	68%
Tenant controlled supply	32%

*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 August transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
210 Euston Road, NW1	Entire	68,182	A	Confidential	The Office Group	Wellcome Trust
110 Long Acre, London WC2	2,3	17,000	A	Confidential	Confidential	
25 Berkeley Square, W1	2,3	11,990	A	£125.00	Mubadala Investment	Lazari
5 Swallow Place, W1	3,5	8,808	A	£102.00	G Network	Crown Estate

Savills contacts

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
80 Strand	WC2	253,000	Sublease
245 Hammersmith Road	W6	214,000	
Elms House, Hammersmith	W6	96,260	
Warwick House	W14	86,701	Sublease or assignment
Millbank Tower	SW1	61,595	Short term
33 Cavendish Square	W1	60,133	
The Point, 37 North Wharf Road	W2	61,702	Under offer
The White Building, Notting Hill	W11	61,434	Quoting £42.50 psf
Phoenix House, 10 Wandsworth Road	SW8	59,036	Quoting £35.00 psf
The Foundry, 77 Fulham Palace Road	W6	59,036	Quoting £57.50 psf

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