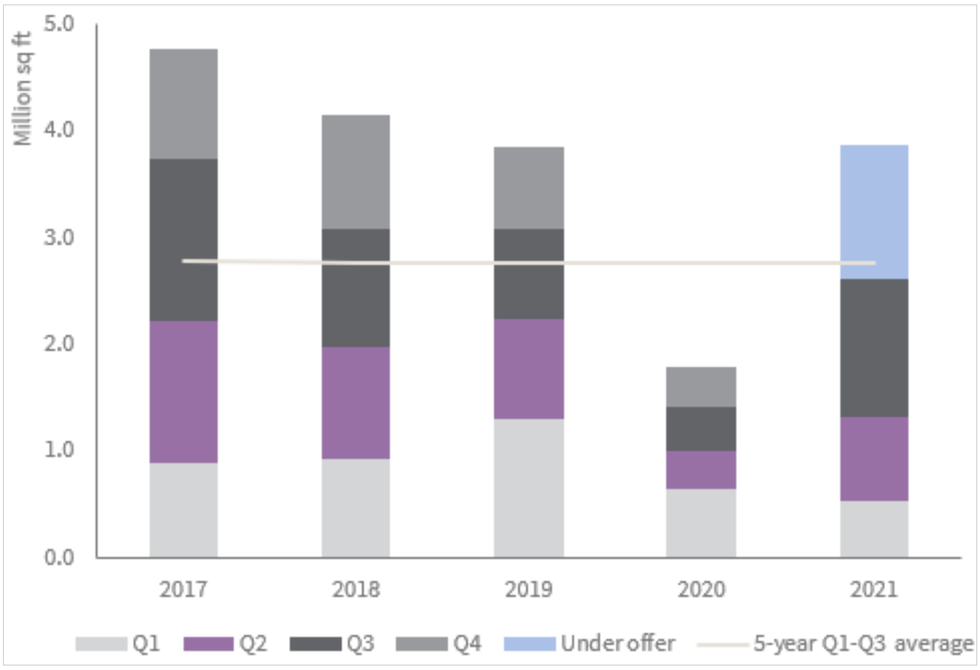
Central London Market Q3 2021

West End Market Review – Q3 2021

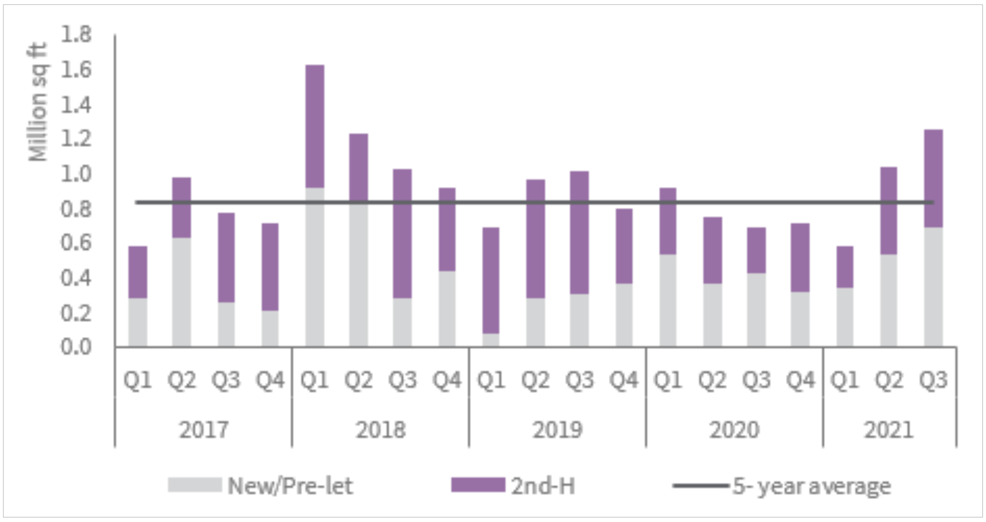
Occupier take-up

Sizeable transactions augment quarterly take-up

- Take-up volumes were strong in the third quarter, surpassing Q2 levels whilst also recording the highest quarterly volumes since Q1 2019. Volumes reached 1.3 million sq ft, in comparison to 791,000 sq ft in Q2 and were well ahead of the 10-year quarterly average of 879,000 sq ft. This provided a boost to year-to-date volumes which stood at 2.6 million sq ft, just below the 10-year average of 2.8 million sq ft. Importantly, this means that West End 2021 year-to-date figures have now surpassed total take up for 2020, which was just 1.8 million sq ft.
- Take-up was driven by strong showings from the TMT sector, which recorded the highest amount of take-up at 551,000 sq ft in Q3, which equated to 43% of total take up. This was followed by the service sector, which includes flexible workplaces, and banking & finance at 308,000 and 238,000 sq ft respectively.
- TMT take-up was lifted by Facebook's leasing of the entire building at 1 Triton Square, totalling 310,000 sq ft (56% of TMT take-up and 24% of total take-up). Likewise, the service sector figures were enhanced by The Office Group's pre-let of 170,000 sq ft at R8 Handyside in Kings Cross, the largest deal recorded this year by a flexible office space provider. The deal accounted for 48% of total Central London flexible office space take-up this year and provided a welcome boost for an unusually quiet subsector.

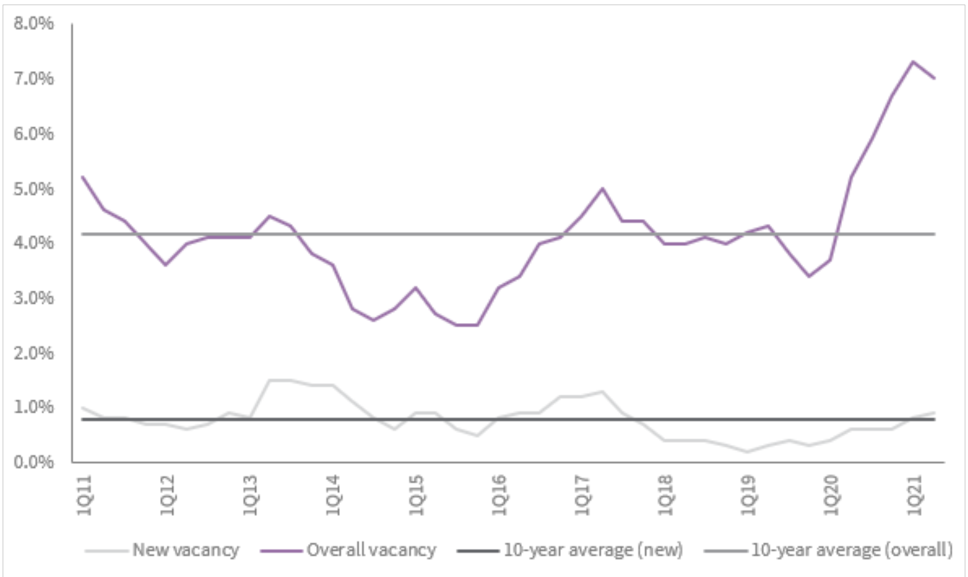


- Space under offer rose by 22% to 1.26 million sq ft at quarter end which was the highest level recorded since Q1 2018. Figures at the end of Q3 were 67% above the 10-year average of 754,000 sq ft, suggesting that there could be strong levels of take up in Q4.
- Active demand fell by 5% to 3.6 million sq ft but remained above the long-term average of 3.4 million sq ft. The banking & finance sector was the most active, accounting for 29% of floorspace required, followed by TMT at 27%.



Supply declines again

- Supply fell for the second consecutive quarter to 7.0 million sq ft, a fall of approximately 1%. This contraction was brought about by a decrease in the level of second-hand space available, which fell slightly to 6.1 million sq ft. Contrastingly, new supply rose by 10% to stand at 954,000 sq ft at quarter end. The overall vacancy remained stable as 7.0%, remaining above the 10-year average of 4.1%. The new vacancy rate rose slightly from 0.9% to 1.0%, above the 10-year average of 0.8%.



- Tenant-controlled supply fell by 7% to 2.2 million sq ft, the latest signal that levels of space being released by tenants is plateauing. That being said, levels of tenant-controlled supply remain well above pre-pandemic figures and accounted for 31% of supply on the market. Large volumes of tenant space remained available in properties such as 80 Strand, WC2 (176,000 sq ft), 160 Great Portland Street, W1 (89,000 sq ft) and Elms House, W6 (86,000 sq ft).

- Completions were limited and only two schemes completed speculatively in Q3. Refurbishment of 1 Newman Street, W1 and 20 Balderton Street, W1 contributed a combined total of 69,000 sq ft of completed speculative space. Other completions consisted entirely of pre-let space, notably P2 Handyside Street, N1 and 5 Marble Arch, W1 which were pre-let to Facebook (194,000 sq ft) and Bridgepoint Capital (78,000 sq ft) respectively.

- Approximately 6.3 million sq ft of space is currently under construction in the West End, of which 37% is pre-let. There were no new speculative starts in Q3, which is unprecedented. Only

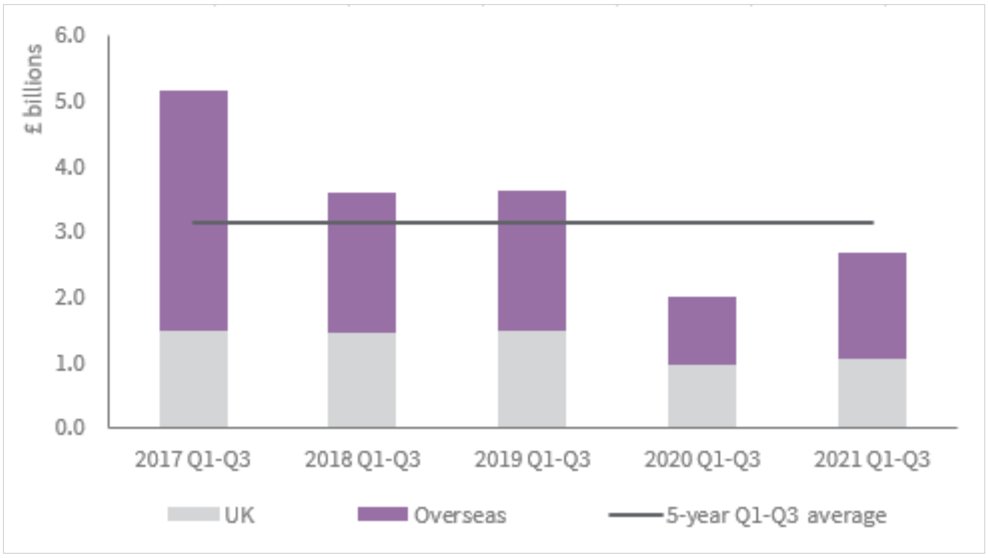
Building R8, King's Cross Central, N1C started construction and the building will provide flexible space in a partnership between King's Cross Central and The Office Group. It is due to complete in 2024.

Rents return to pre-pandemic levels

- Prime rents in the core saw an uplift to £117.50 per sq ft, negating the falls seen during the pandemic, whilst rent free periods remained stable at 24 months (assuming a 10,000 sq ft floor plate and a 10-year term). On a submarket basis, there were slight rental increases in Euston, Kensington & Chelsea, Mayfair, Paddington, St James's and Victoria.

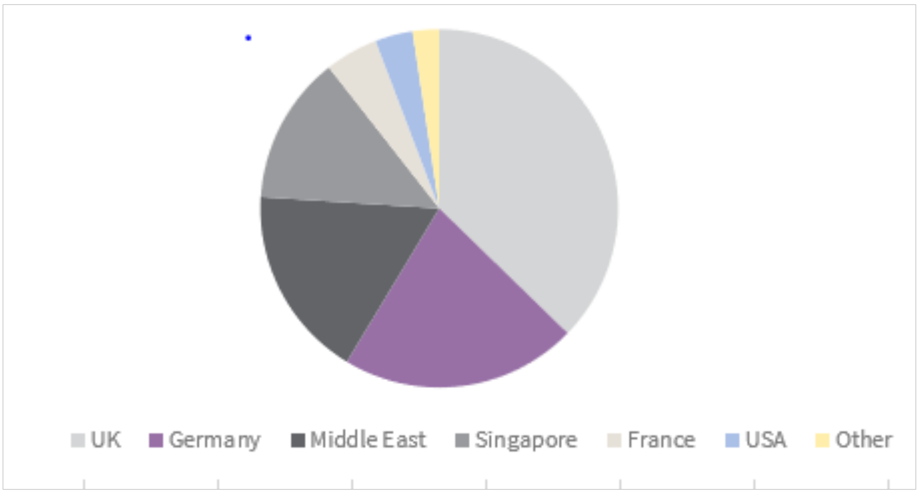
Investment volumes remain below YTD average

- Investment volumes reached £1.3 billion in Q3, slightly below the 10-year average of £1.4 billion but a quarter-on-quarter increase of 64%. It brought year-to-date volumes to £2.7 billion which was 33% higher than the total in the same period last year but still below the 10-year average of £3.7 billion.



- Overseas capital accounted for the larger proportion of investment volumes in Q3, accounting for 63% of total investment in West End offices. Middle Eastern investors were the most active of overseas investors, accounting for 17% of take-up in a single deal. The deal was incidentally the largest of the quarter and saw a private investor purchase 47-50 New Bond Street, W1 for close to the asking price of £230 million which reflected a yield of 3.3% and a capital value of £4,633 per sq ft. UK investors accounted for 37% of total volumes across seven transactions.

- Full year volumes are expected to be roused by a strong fourth quarter with some sizeable deals having already exchanged and a significant amount of stock currently under offer.



- Prime yields remained unchanged at 3.50% but trending stronger across all lot sizes at the end of the quarter.