SUMMARY

Take-up in Q4 reached nearly 3.0 million sq ft, bringing the annual total to 11.6 million sq ft, which was 7% lower than 2018 volumes but in line with the five-year annual average.

The largest transaction in Q4 was The Office Group’s acquisition at Chancery House, WC2 (156,000 sq ft). Other significant deals included Deloitte Digital’s acquisition of 142,000 sq ft at Athene Place, EC4, Monzo Bank’s pre-let of 122,000 sq ft at Broadwalk House, EC2 and L’Oréal taking 120,000 sq ft at Gateway Central, White City Place, which underlined the continued appetite for pre-let space.

Take-up was boosted by a greater number of large transactions, with 11 transactions in excess of 50,000 sq ft completing in Q4, bringing the total number of 50,000 sq ft plus deals in 2019 to 47, the highest proportion since 2014.

Despite the strong leasing activity, the volume of space under offer remained resilient, standing at 3.0 million sq ft at the end of December, 4% ahead of the five-year quarterly average.

Supply levels across Central London increased by 5% quarter on quarter to 13.6 million sq ft, as new developments entered supply figures; although this is not the case for every submarket. Total supply at the end of 2019 was 11% ahead of the five-year average of 12.3 million sq ft, but remains in line with the ten-year quarterly average.

A total of £4.6 billion was invested in Central London in Q4, 82% above the £2.5 billion transacted during the previous quarter. This brought the annual 2019 total to £12.3 billion, 36% below the level recorded in 2018 (£19.1 billion) and 30% below the five-year annual average.

Q4 investment volumes were stronger than in the previous three quarters as investor sentiment was boosted by the general election result.

Demand for large lot sizes remained healthy in Q4 with 14 transactions in excess of £100 million completing, up from nine deals in the previous quarter. As a result the average lot size increased to £88.7 million, compared to £58.9 million in Q3.

UK investors were the dominant source of capital into Central London during 2019, accounting for 30% of all turnover, compared to 24% of the market in 2018. This was followed by investors from North America who accounted for a further 27% of 2019 annual investment activity, equating to just over £3.2 billion.

Prime yields moved in to 4.00% in the City during Q4 and remained unchanged in the West End at 3.75%.
The UK political situation stabilised somewhat in the final quarter of 2019, with a decisive general election outcome. With the UK set to leave the EU at the end of January, the focus will shift to trade talks and regulatory alignment. There will likely be a degree of continued uncertainty during 2020, with arrangements concerning the transition period coming under further scrutiny.

This persistent uncertainty will continue to have an impact on aspects of the Central London office market, with Brexit often cited as a contributing factor. Duff & Phelps recently undertook a survey of senior financial services executives which concluded that London had surrendered its position as the world’s top financial centre to New York. However, the survey also found that the predicted mass exodus of financial sector jobs to other European cities is unlikely to take place on a significant scale.

With that said, London still possesses strong fundamentals and has proven its resilience in recent years. London was the leading European city for attracting venture capital funding in 2019, with $9.7 billion committed.

Take-up for 2020 might not quite reach the volumes seen in 2019, with job growth over the next 12 months remaining relatively flat. With just under 3 million sq ft under offer heading into the new year, the momentum in the short to medium term could well be subdued compared to previous years. However, the volume of active demand remained stable at just above the long-term average, so there is no immediate cause for concern.

The occupational market has been characterised by an extended period of low supply, but this trend has reversed heading into 2020, with 13.6 million sq ft available across Central London, equating to a vacancy rate of 5.0%. There is still pressure on newly built or refurbished stock, which accounts for just under half of total supply.

The development pipeline remains restricted, especially over the next two years. Whilst this could provide some upward support to rents, there is consequent impact on occupier choice. In reality, the lack of quality supply available in the short to medium term could force more occupiers to look even further ahead, which will increase the rate of pre-letting.

The persistent lack of investment stock availability suppressed sales volumes in 2019, and is expected to do the same over the coming year.

We expect investor demand to remain strong as downward pressure on gilt yields maintains an attractive spread to real estate.

**OUTLOOK**

“London continues to shift from a finance-led city to being technology-led.

London is often described as the high-tech capital of Europe.”

Source: Oxford Economics

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### Projected Inner London GDP growth

- **2020:** 1.9%
- **2021:** 2.7%

Source: Oxford Economics (January 2020)

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### Year-on-year increase in Venture Capital funding in 2019 – with $9.7bn invested in London

- **87%**

Source: London & Partners (January 2020)

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### The UK secured a third of all European tech investment in 2019.

- **33%**

Source: Tech Nation (January 2020)
TAKE-UP

Leasing activity across Central London remained relatively stable with 3.0 million sq ft transacted in Q4, which was 12% below the volume transacted during the corresponding period in 2018. Take-up reached 11.6 million sq ft in 2019, which was 7% down on take-up volumes at the same point in 2018, but in line with the five year average.

TAKE-UP BY SECTOR – 2019

The flexible workspace sector accounted for 23% of take-up during 2019, followed by the banking & finance sector which accounted for an additional 22% of take-up volumes.

The largest transaction in 2019 was EBRD’s acquisition at 1-5 Bank Street, E14 (358,000 sq ft), closely followed by BT taking 328,000 sq ft at 1 Braham, E1.

TAKE-UP DURING 2019 WAS CHARACTERISED BY LARGER TRANSACTIONS, WITH 47 DEALS OVER 50,000 SQ FT TAKING PLACE, THE HIGHEST PROPORTION SINCE 2014.

The level of space under offer decreased by 21% quarter-on-quarter, to 3.0 million sq ft. This was still 4% ahead of the five-year annual average. At the end of December, there were ten units of 50,000 sq ft or above under offer.

SUPPLY

Central London supply stood at 13.6 million sq ft at the end of December, which equated to a vacancy rate of 5.0%. Supply increased marginally over the quarter, and remained 11% above the five-year average of 12.3 million sq ft. However, supply remains in line with the ten-year average.

Whilst the volume of newly built or refurbished space on the market increased to 6.8 million sq ft, it still accounts for less than half of total supply. This highlights the disconnect between the demand and supply of quality space, given that 59% of take-up in 2019 was New Grade A space.

The volume of tenant-controlled space has remained stable at 3.8 million sq ft, representing 28% of total supply.

The choice for larger occupiers remains limited. At the end of December, there were just 13 units able to satisfy a requirement of 100,000 sq ft or larger (excluding spaces under offer). Six of these units were in Canary Wharf or the Docklands.
FUTURE SUPPLY

The volume of speculative space under construction increased marginally over the quarter from 7.4 million sq ft to 7.6 million sq ft. Pre-committed space accounted for 54% of all space under construction, which in turn could force occupiers to look even further ahead of lease events to secure the right space.

INVESTMENT

A total of £4.6 billion was invested in Central London during the final quarter of 2019, bringing the 2019 total to £12.3 billion. This was 30% below the five-year average and 36% below the volumes transacted in 2018.

Turnover in 2019 was supported by a number of large transactions, with 32 deals concluding at £100 million or more. However, there were 49 transactions above this threshold in 2018.

INVESTMENT VOLUMES – 2015-2019

The average lot size in 2019 was £69.67 million, compared to £72.5 million in 2018.

The City market saw the highest proportion of investment activity in 2019, accounting for 56% of total investment (£6.93 billion). The West End saw £4.19 billion invested during 2019, which was 43% below the volumes transacted in 2018.

The largest deal in 2019 was Citigroup’s acquisition of 25 Canada Square from AGC Equity Partners, with a sale price of £1.075 billion. Ponte Gadea’s purchase of the Post Building on Museum Street was the next largest transaction, with a sale price of £607 million, reflecting a net initial yield of 3.96%.

KEY INVESTMENT TRANSACTIONS – Q4 2019

North American investors were the dominant source of capital into Central London during the fourth quarter of 2019, accounting for 26% of all investment volumes, with UK investors accounting for an additional 25%.

European investors, however, were the biggest net purchasers in Q4 2019, with North American investors representing the biggest net sellers. Funds became more active towards the end of 2019, accounting for 39% of investment in the final quarter, with private money accounting for an additional 34%.

One challenge for investors remains accessing suitable stock. At the end of December, there was an estimated £2.32 billion of assets on the market. There was an additional £1.77 billion of assets under offer at the end of 2019, suggesting there will be some momentum in the short term at least.

INVESTMENT BY PURCHASER ORIGIN – Q4 2019

North America 26%

Europe 21%

UK 25%

Asia Pacific 11%

Middle East 5%

South America 4%

Other/Unknown 8%
Rental growth in City Core during the quarter
Rents increased by 3.7% year-on-year

Average annual rental growth across London markets
- Wider City – average annual growth of 4.0%
- East London – average annual growth of 3.1%
- West End – average annual growth of 1.9%

Biggest annual rental change was recorded in
- Clerkenwell (+8.2%)
- Paddington (+7.1%)
- Southbank (+6.1%)
- Shoreditch (+6.1%)
- Canary Wharf (+5.9%)
- Bloomsbury (+5.8%)
- City Core (+3.7%)
- Stratford (+3.5%)
TAKE-UP

Q4 take-up in the West End reached 1.01 million sq ft, which was up 4% on the five-year quarterly average. This brought annual take-up to 3.85 million sq ft, which was 1% below the five-year average and 12% below the volumes transacted in the corresponding period in 2018.

SUPPLY

Supply volumes fell by 6% over the final quarter of 2019 with 4.05 million sq ft available at the end of December, equating to a vacancy rate of 3.69%. Supply is now at its lowest level since the beginning of 2016.

Newly built or refurbished space accounted for 47% of total supply at the end of December, falling from 52% at the end of 2018. Grade A supply is now at its lowest level since the beginning of 2016.

Pre-letting continued to play an important role in the West End market, accounting for 23% of total take-up in 2019. There was a diverse profile of occupiers committing to pre-let space including Sony Music, L’Oréal, Diageo, G-Research and Bridgepoint.

The banking & finance sector accounted for the joint largest share of 2019 take-up with 23% of leasing volumes, alongside the media & tech sector which counted for a further 23%.

TAKE-UP BY SECTOR – 2019

23% BANKING/FINANCE

23% MEDIA & TECH

15% FLEXIBLE WORKSPACE

The banking & finance sector accounted for the joint largest share of 2019 take-up with 23% of leasing volumes, alongside the media & tech sector which counted for a further 23%.

The volume of space under offer at the end of December totalled 928,502 sq ft, which was 12% ahead of the five-year average, but 30% ahead of 2018 levels.

KEY OCCUPIER TRANSACTIONS – Q4 2019

Pre-letting continued to play an important role in the West End market, accounting for 23% of total take-up in 2019. There was a diverse profile of occupiers committing to pre-let space including Sony Music, L’Oréal, Diageo, G-Research and Bridgepoint.

The banking & finance sector accounted for the joint largest share of 2019 take-up with 23% of leasing volumes, alongside the media & tech sector which counted for a further 23%.

TAKE-UP

Q4 take-up in the West End reached 1.01 million sq ft, which was up 4% on the five-year quarterly average. This brought annual take-up to 3.85 million sq ft, which was 1% below the five-year average and 12% below the volumes transacted in the corresponding period in 2018.

LEASING VOLUMES – 2015-2019

New Grade A space accounted for 58% of all take-up during 2019, down from 63% in 2018. 2019 take-up was boosted by a higher proportion of larger deals, with 16 transactions concluding over 50,000 sq ft, compared to just 10 in 2018. Smaller deals formed a less significant part of take-up in 2019, with just 114 deals between 5,000-10,000 sq ft taking place.

The banking & finance sector accounted for the joint largest share of 2019 take-up with 23% of leasing volumes, alongside the media & tech sector which counted for a further 23%.
INVESTMENT VOLUMES – 2015-2019

West End investment volumes reached £1.45 billion during Q4, bringing the 2019 total to £4.19 billion. 2019 investment volumes were 43% below the same point in 2018, and 40% below the five-year annual average.

There were just two transactions in excess of £100 million during Q4, and unlike during Q3, the £50-£100 million lot size only saw two transactions take place (compared to eight in the previous quarter).

European investors accounted for 43% of investment volumes during Q4, with UK capital the next most active accounting for an additional 35%. Asian investors represented just 15% of Q4 transaction volumes.
CITY OVERVIEW

TAKE-UP
A total of 1.7 million sq ft was transacted in the City market during the final quarter of 2019, marking the second highest quarterly leasing volume of the year. This brought the annual 2019 leasing volumes to 6.6 million sq ft, in line with the five-year annual average but 10% below the same period in 2018.

LEASING VOLUMES – 2015-2019

Take-up was boosted by eight deals over 50,000 sq ft in the final quarter, of which two were in excess of 100,000 sq ft. The largest transaction of the quarter saw The Office Group purchase Chancery House, WC2 (156,000 sq ft), with plans to turn it into their flagship office building. Other notable leasing deals include Monzo’s pre-let of 122,000 sq ft at Broadwalk House, EC2 and 80 Fenchurch Street, EC3, where Convene pre-let 67,000 sq ft for their second location in London.

TAKE-UP BY SECTOR – 2019

The flexible workspace sector accounted for the largest share of take-up across the City during 2019, taking over 1.7 million sq ft or 26% of total leasing volumes. Media & technology and banking & financial occupiers continued to be a staple source of demand for City landlords, taking a 20% and 18% share respectively during the year.

Moving into 2020, a relatively healthy level of under offers, currently 21% ahead of the five-year quarterly average at 1.9 million sq ft, should help to sustain the current levels of leasing activity in the first quarter of the year.

KEY OCCUPIER TRANSACTIONS – Q4 2019

City supply totalled 7.5 million sq ft at the end of December, which equated to a vacancy rate of 5.3%. Total supply remained below the ten-year quarterly average of 7.7 million sq ft.

Availability of newly built or refurbished space has increased by 40% year on year as new developments have entered supply figures. And while the 2020 development completion volumes will be more than double 2019’s (6.5m sq ft versus 2.7m sq ft), continued pre-letting at upcoming developments, along with below average completions in 2021, suggest that any increase in availability will be short term.

The lack of options for occupiers seeking larger units remain, with just six buildings available which are capable of accommodating a requirement in excess of 100,000 sq ft within the next six months. The largest unit available was 22 Bishopsgate, EC2, due to PC in April 2020, which has a total of c.400,000 sq ft remaining available.

SUPPLY
Total space under construction across the City submarkets stood at 9.3 million sq ft. At the end of December, 4.8 million sq ft or 51% was pre-let or under offer, which should continue to place downward pressure on Grade A supply over the next few years.

The volume of speculative space under construction increased over the quarter to 4.5 million sq ft. The largest scheme under construction and due to complete in 2020 is 22 Bishopsgate, (66% pre-let or under offer) and the largest development due to complete in 2021 is HYLO, Bunhill Row, EC1 (261,000 sq ft of office space).

There is a further 3.3 million sq ft of space which could enter the pipeline over the next three years, albeit, at the end of December, just 1.8 million sq ft of this space had a planning application submitted or approved.

The largest deal of the quarter was M&G Real Estate’s purchase of 40 Leadenhall Street, EC3 from Nuveen Real Estate/AIMCO. Another notable deal was Brookfield’s purchase of Oxford Properties’ 50% share of London Wall Place, EC2 for £353.3 million.

North American investors were the most active source of capital during the final quarter of 2019, purchasing £1.1 billion and representing 35% of all investment volumes. UK-based investors remained active with a 20% share of Q4 volumes, totalling £644.5 million.

The challenge for the market is a lack of stock rather than a lack of demand. At the end of December, there was an estimated £1.6 billion of assets on the market. This is down on the same period last year when approximately £2.5 billion of commercial properties were available.

A total of £3.2 billion was invested in the City & East London markets in the final quarter of the year, a quarter-on-quarter increase of 73%. This brought the annual 2019 volumes to £8.1 billion, 24% below the same period in 2018 (£10.8 billion) and 16% lower than the five-year annual average of £9.7 billion.

A total of 11 transactions for lot sizes in excess of £100 million completed during Q4, compared to 13 transactions in Q1-Q3 combined. As a result of the pick up in larger transactions, the average lot size in Q4 increased to just under £96 million, up from £60 million in the previous quarter.
Leasing volumes rebounded in the final quarter of 2019 with a total of 205,000 sq ft transacted, significantly above the previous quarter of 84,000 sq ft. This brought the 2019 annual leasing volume to 1.2 million sq ft, 5% above the five-year annual average of 1.1 million sq ft and 53% ahead of the same period in 2018 (810,000 sq ft).

As a result of the increased leasing volumes during Q4, total space under offer fell over the quarter. At the end of December, there was 108,000 sq ft of space under offer across the East London submarkets. Total space under offer is 75% lower than the five-year quarterly average of 422,000 sq ft and 82% below the same period last year (589,000 sq ft).

There were eight transactions in the East London submarkets over the fourth quarter of 2019, the largest saw Fisher Investments acquire 42,000 sq ft at 1 Canada Square, E14. Another notable deal was Columbus Building, 7 Westferry Circus, E14, where Revolut took a further 32,000 sq ft of space.

The Banking & financial sector accounted for the largest share of take-up over the last 12 months with 41% of total leasing volumes, boosted by the EBRD pre-let of 358,000 sq ft at 5 Bank Street. The Flexible Workspace and Public & Government sectors remained active with 29% and 21% share of volumes respectively.

As a result of the increased leasing volumes during Q4, total space under offer fell over the quarter. At the end of December, there was 108,000 sq ft of space under offer across the East London submarkets. Total space under offer is 75% lower than the five-year quarterly average of 422,000 sq ft and 82% below the same period last year (589,000 sq ft).

There were eight transactions in the East London submarkets over the fourth quarter of 2019, the largest saw Fisher Investments acquire 42,000 sq ft at 1 Canada Square, E14. Another notable deal was Columbus Building, 7 Westferry Circus, E14, where Revolut took a further 32,000 sq ft of space.

The Banking & financial sector accounted for the largest share of take-up over the last 12 months with 41% of total leasing volumes, boosted by the EBRD pre-let of 358,000 sq ft at 5 Bank Street. The Flexible Workspace and Public & Government sectors remained active with 29% and 21% share of volumes respectively.

**TAKE-UP BY SECTOR – 2019**

- **43%** BANKING/FINANCE
- **29%** FLEXIBLE WORKSPACE
- **21%** PUBLIC/GOVERNMENT

**KEY OCCUPIER TRANSACTIONS – Q4 2019**

- **1 CANADA SQUARE, E14**
  - 42,000 SQ FT
  - New lease
  - Canary Wharf

- **COLUMBUS BUILDING, E14**
  - 32,000 SQ FT
  - New lease
  - Canary Wharf

- **2 EXCHANGE TOWER, E14**
  - 32,000 SQ FT
  - Assignment
  - Outside of Canary Wharf

**SUPPLY**

Total availability increased for the second consecutive quarter to 2.1 million sq ft, reflecting a vacancy rate of 9.1%. Total availability was 4% below the 2.2 million sq ft available during the same period last year but 26% higher than the five-year quarterly average of 1.7 million sq ft.

Second-hand units continue to dominate availability in East London, accounting for 72%, or 1.5 million sq ft of Q4 supply. Second-hand supply increased 13% over the quarter with the addition of 194,000 sq ft of space at 1 Cabot Square, E14 from Credit Suisse entering supply figures.

At the end of December there were six buildings which could accommodate a requirement in excess of 100,000 sq ft: the largest is the aforementioned 1 Cabot Square (194,000 sq ft).

**FUTURE SUPPLY**

The total volume of speculative space under construction remained stable over the quarter at 1.3 million sq ft. The majority of construction activity is concentrated in Canary Wharf, as Stratford deliveries remain largely fuelled by preletting.

There were five schemes speculatively under construction, of which the largest is The Turing Building, 3 Westfield Avenue, IQL (350,000 sq ft) due to complete in 2022.
CONTACT

AUTHORS

CHRISTOPHER DUNN
ASSOCIATE DIRECTOR
+44 (0)20 3296 4119
christopher.dunn@cushwake.com

HAYLEY ARMSTRONG
SENIOR INSIGHT ANALYST
+44 (0)20 3296 2069
hayley.armstrong@cushwake.com

RESEARCH & INSIGHT CONTACT

JESSICA TSANG
DATA ANALYST
+44 (0)20 3296 4135
jessica.tsang@cushwake.com

PATRICK SCANLON
HEAD OF UK OFFICES INSIGHT
+44 (0)20 3296 4994
patrick.scanlon@cushwake.com

REPORT DEFINITIONS

• All market statistics relate to units/transactions over 5,000 sq ft
• Supply is defined as space available for immediate occupation and space under construction that is due to complete within the next 6 months and is not let. It includes space under offer.
• Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.
• Under offer relates to units which a potential occupier has agreed in principle to acquire, subject to negotiation.
• Pre-lets include both off-plan – i.e. before construction has started on site – and pre-lets while under construction but prior to practical completion.
• Speculative development relates to newly developed or comprehensively refurbished building undertaken without the benefit of a secured tenant. It excludes buildings due for completion within six months.
• Prime rents relate to a consistently achievable headline rental figure that relate to new prime, well located, high specification units of a standard size (10,000 sq ft) commensurate within the predefined market area, assuming there is always existing demand and available supply.

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