

# CENTRAL LONDON

Office Q4 2020

	YoY Chg	12-Mo. Forecast
<b>6.5%</b> Vacancy Rate	▲	▲
<b>567,794 sq ft</b> Q4 2020 Take-Up	▼	▲
<b>£102.50</b> Prime rent, London WE	▼	▼

**KEY INDICATORS Q4 2020**

	YoY Chg	12-Mo. Forecast
<b>32.5 M</b> UK Employment	▼	▼
<b>4.9%</b> UK Unemployment Rate	▲	▲
<b>0.10%</b> Interest rate	▼	■

Source: ONS

**ECONOMY: Lockdown measures halt recovery in final quarter**

The economy contracted in November after six months of recovery-driven growth. GDP fell by 2.6% month-on-month due to the effect of the second lockdown, driven by a slowdown in the services sector which shrank by 3.4%. Given the stricter restrictions introduced in December, growth is expected to remain weak over the next few months. Despite this, at the end of November GDP was 22% higher than its April low, although it remains 9% below its February level.

The extension of the government’s job retention scheme is believed to have slowed the rise of the unemployment rate, which was 4.9% at the end of October, although early estimates for November suggest a slight drop in the number of payroll employees. The unemployment rate has risen sharply during 2020 and is now at its highest level since 2016 although it remains comfortably below its peak of 8.4% in the years following the global financial crisis.

**TAKE-UP: Activity continued to fall although sentiment has started to strengthen**

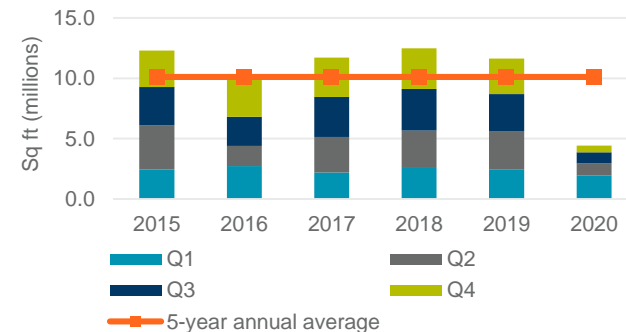
Leasing activity during 2020 has been significantly impacted by both Covid-19 restrictions and Brexit uncertainty. Take-up fell to 567,794 sq ft in the final quarter of the year, the lowest quarterly total on record and 78% below the five-year quarterly average of 2.5 m sq ft. This took the total leasing volume for the year to 4.4 m sq ft, the lowest annual total on record.

There were encouraging signs that sentiment had started to improve towards the year-end, which should help drive activity in 2021. The Brexit trade deal has removed a degree of uncertainty from the market, while a growing number of businesses indicated their intentions to return to the office once restrictions are lifted. The rollout of the vaccination programme, along with Latham & Watkins’ pre-let of 430,000 sq ft at 1 Leadenhall after the quarter-end, have also helped to bolster sentiment.

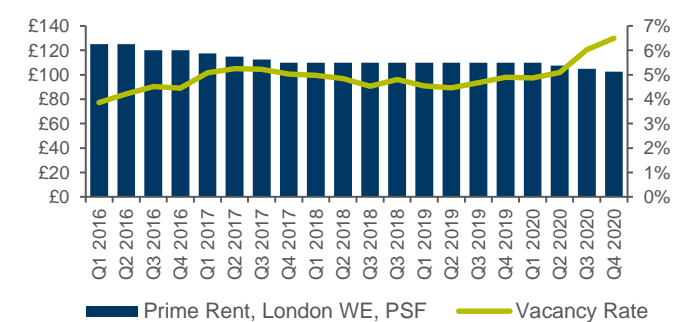
**SUPPLY: Limited leasing activity continued to place upward pressure on supply**

Availability rose for the third consecutive quarter to 18.2 m sq ft, a quarter-on-quarter increase of 8% and 34% higher than March 2020. The rise reflects both ongoing subdued leasing activity and the release of some tenant space back to the market. The vacancy rate is now 6.5% which is the highest since 2010, but well below the peak of 7.7% seen during the Global Financial Crisis and the 10.7% seen in the early part of the last decade. The availability of new and refurbished space rose slightly to 2.9%, just slightly above the five-year average of 2.4%.

**LEASING VOLUMES**



**OVERALL VACANCY RATE & PRIME RENT**



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## FUTURE SUPPLY: Speculative construction has peaked

The volume of speculative space under construction fell for the second consecutive quarter to 8.4 m sq ft. This is a 10% fall from the previous quarter's level and slightly above the five-year average level.

There is currently 3.5 m sq ft under construction speculatively that is due for completion in 2021, two-thirds of which is expected to complete in the first half of the year and is already counted in the supply figures. This should help ease pressure on supply as 2021 progresses.

## INVESTMENT: Momentum starting to build

The Central London investment experienced a flurry of activity in the final quarter as confidence returned to the market as hopes of a Covid-19 vaccine improved. Turnover for Q4 2020 totalled £4.8 billion, more than the previous three quarters combined and marginally higher than the same quarter last year.

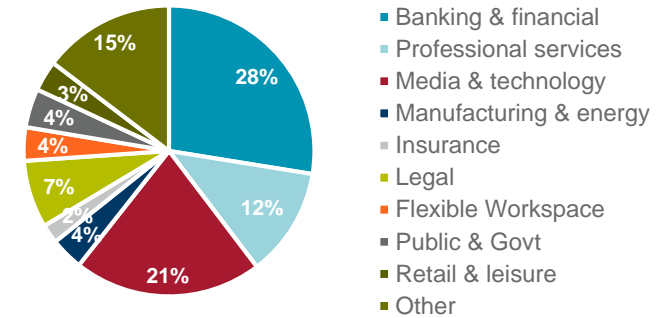
There were 14 sales in excess of £100 million during the quarter, the largest of which was Sun Ventures' purchase of 1&2 Ludgate from Landsec for £552 m, which was also the largest deal of the year. Overseas buyers dominated the purchaser profile during the quarter, accounting for 83% of all turnover. European and Asia Pacific investors were particularly active accounting for 25% and 33% of turnover respectively. The improved activity reflects the release of pent-up demand, but also confidence in London's long-term position as a global business location.

Prime yields remained stable in both the City and West End at 4.00% and 3.75% respectively, reflecting the improving sentiment and weight of demand.

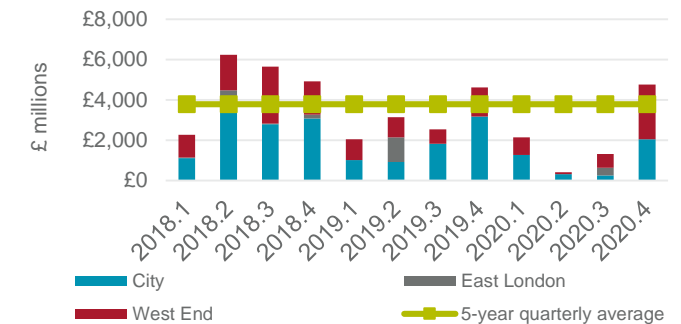
## Outlook

- Occupier sentiment had started to improve towards the end of 2020 on news of the Covid-19 vaccine. We expect to see improved levels of take-up in 2021, but any significant increases are likely to be in the second half of the year and activity is unlikely to return to average levels within this timeframe. However, a number of businesses are now indicating that full-time remote working is not a long-term strategy, which will help support leasing activity.
- Supply levels are likely to continue to increase given the relatively low levels of occupier demand currently in the market. However, there is evidence of relatively healthy demand for large pre-lets from businesses taking a long-term view of their London occupation, which will help to keep speculative construction levels under control. We expect prime headline rents to come under further downward pressure in 2021.
- We expect investors to continue to seek opportunities to deploy capital in London in 2021, driven by increased confidence after the agreement of a Brexit deal, and the good news of a vaccine rollout. There has been strong interest from overseas investors in the final quarter of 2020 despite travel restrictions; this will only improve as we move through the year.

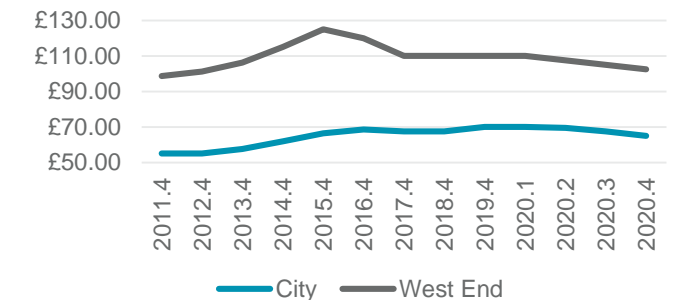
## LEASING VOLUMES BY BUSINESS SECTOR



## INVESTMENT VOLUMES



## PRIME RENT, PSF



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## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	AVAILABILITY (SF)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP (SF)	YTD OVERALL TAKE-UP(SF)	SPECULATIVE CONSTRUCTION (SF)	PRIME RENT (per sq ft)	PRIME YIELD
West End	115,668,129	5,674,736	4.9%	157,247	1,379,503	2,257,330	£102.50	3.75%
City	141,548,214	9,883,000	7.0%	395,958	2,651,871	5,441,981	£65.00	4.00%
East London	23,411,422	2,630,757	11.2%	14,589	410,923	741,131	£42.50	4.50%
<b>CENTRAL LONDON TOTALS</b>	<b>280,627,764</b>	<b>18,188,493</b>	<b>6.5%</b>	<b>567,794</b>	<b>4,442,297</b>	<b>8,440,442</b>	-	-

## KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
40 Portman Square	North of Oxford Street	CPPIB	42,173	Second-hand Grade A
Devon House, St Katharine's Way	Aldgate / Whitechapel	NCH at Northeastern Ltd	38,786	New / Refurbished
30-35 Drury Lane	Covent Garden	Hines	35,737	Pre-let

## KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SELLER / BUYER	SF	PRICE
1&2 New Ludgate	LandSec / Sun Venture	389,615	£552.0M
1 London Wall Place	Brookfield / AGC Equity Partners	309,477	£480.0M
The Nova Estate	CPPIB / Ara Dunedin Asset Management	561,031	£430.6M

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