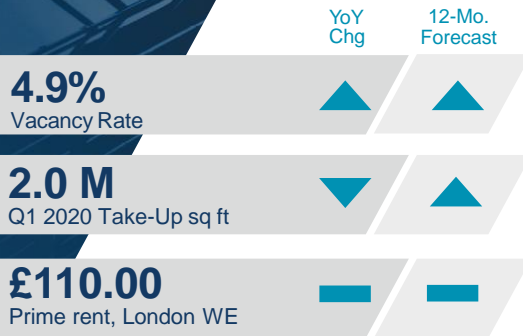


# CENTRAL LONDON

Office Q1 2020



**KEY INDICATORS**  
Q1 2020



Source: ONS

**ECONOMY: Social distancing restrictions to impact growth in the short-term**

The measures taken to control the spread of Covid-19 are expected to have a significant negative impact on the UK economy. Forecasts suggest that the introduction of social distancing measures and the impact on supply chains is likely to cause the UK economy to enter recession in 2020.

There is considerable uncertainty surrounding how long restrictions might remain in place. However once the restrictions are lifted a strong rebound is expected in 2021, with forecasts suggesting the economy will grow by 6.0% driven by loose fiscal spending and stronger consumer spending, while inflation should stay low.

**TAKE-UP: Activity subdued in the first quarter although healthy levels of space under offer**

Take-up in the first quarter fell to 2.0 m sq ft, 33% below the five-year quarterly average and more than 20% below the same quarter last year. Despite this, there remained 3.7 m sq ft under offer at the end of Q1 2020, higher than the same point last year, and 28% above the five-year quarterly average.

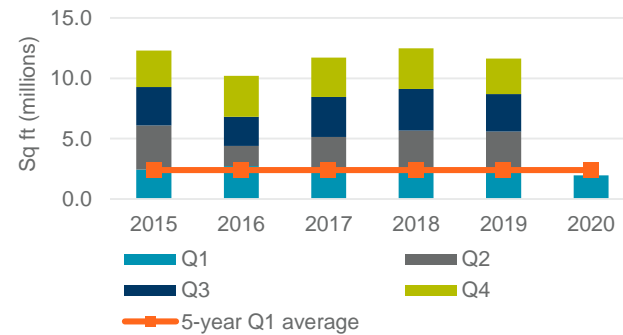
The Media & Tech sector accounted for 25% of take-up during Q1 2020. The legal sector accounted for an additional 21% of take-up volume, driven by Linklater’s acquisition of 307,000 sq ft at Ropemaker place, EC2 which was the largest transaction of the quarter.

**SUPPLY: Supply remained stable although pressure remains on new and refurbished space**

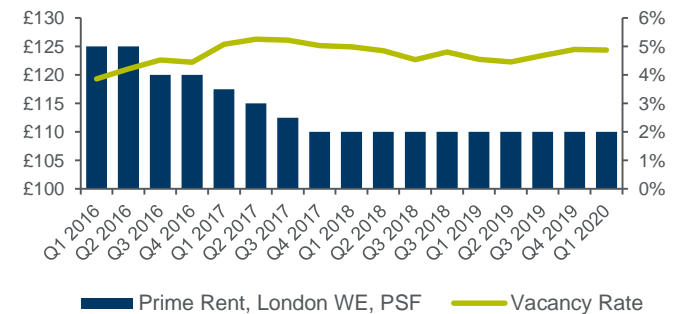
Availability remained stable from the previous quarter’s level at 13.6 m sq ft and broadly in line with the 10-year quarterly average. Although supply has increased year-on-year, the vacancy rate remains relatively low at 4.9%.

The volume of new Grade A space on the market rose for the fourth consecutive quarter to 6.9 m sq ft, although it still accounts for only around 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.

**LEASING VOLUMES**



**OVERALL VACANCY & PRIME RENT**



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## FUTURE SUPPLY: Pre-lets continue to erode speculative space coming to market

The volume of speculative space under construction increased over the quarter from 7.6 m sq ft to 8.2 m sq ft due to work commencing at 40 Leadenhall Street, EC3 (878,000 sq ft). Pre-committed space accounted for 52% of all space under construction; 67% of speculative space due to be delivered in 2020 is already pre-let.

## INVESTMENT: Lack of availability maintains pricing stability

Investment turnover in Central London totalled £2.1 bn in the first quarter, broadly in line with the same quarter last year, although around 30% below the five-year Q1 average of £3.1 bn. There were six sales with lot sizes in excess of £100 m during the quarter, consistent with the quarterly average over the last five years.

Approximately 60% of turnover was in the City, where turnover reached £1.3 bn. The West End saw £860 m invested during Q1 2020, which was 18% below the volume transacted in the same quarter last year.

European purchasers were the dominant source of capital into Central London in Q1 2020, accounting for 42% of all turnover. UK investors accounted for 27% of turnover in the first quarter; domestic investors were the biggest sellers during the quarter, accounting for 60% of London sales.

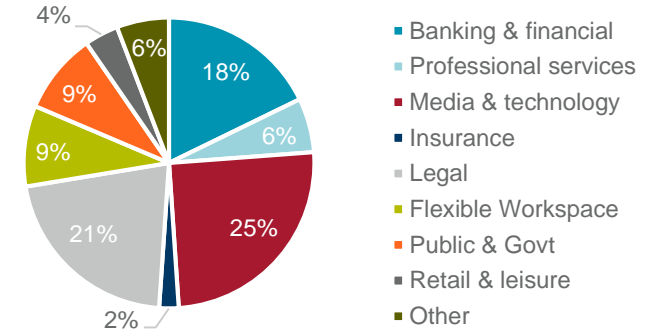
The amount of available stock on the market has continued to reduce, with an estimated £1.4 bn on the market at the end of March. With no significant new sales coming to the market since the lockdown and on-going transactions taking longer to complete, we expect investment activity to remain subdued going into Q2.

Prime yields remained stable at 4.00% in the City and 3.75% in the West End.

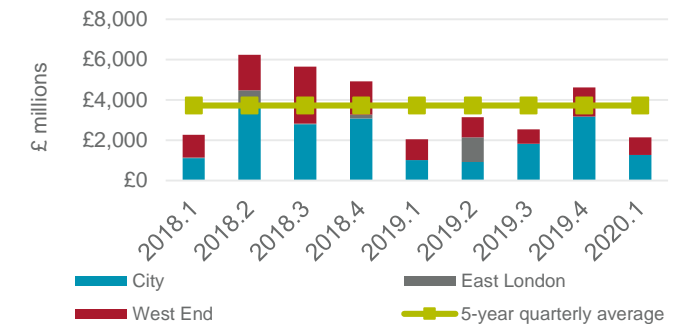
## Outlook

- Once social distancing restrictions are lifted, the economy is likely to recover quickly. However, there is considerable uncertainty over when the easing of restrictions will take place; the quicker normality resumes, the more positive the outlook for London's office market.
- We expect take-up to be subdued in 2020 due to the difficulties in accessing leasing stock for viewings and fit-out work. At the time of writing, very few large requirements have been withdrawn and we expect activity to increase once the restrictions are lifted. Demand for quality, new space remains healthy, which will support prime rental levels.
- The persistent lack of investment stock availability suppressed sales volumes for at least the last year, and is expected to do the same over the coming year. We expect investor demand to remain healthy as downward pressure on gilt yields maintains an attractive spread to real estate.

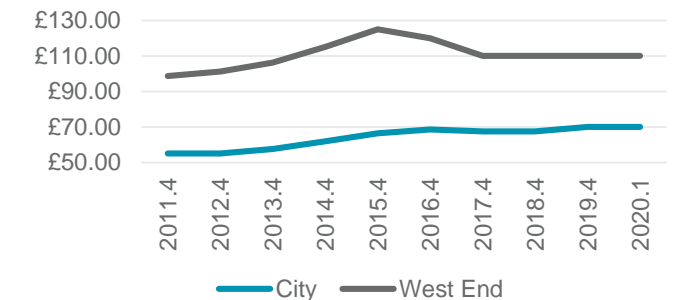
## LEASING VOLUMES BY BUSINESS SECTOR



## INVESTMENT VOLUMES



## PRIME RENT, PSF



## CENTRAL LONDON

Office Q1 2020

## 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	115,486,524	4,259,626	3.7%	549,400	549,400	2,622,867	£110.00	3.75%
City	140,078,421	7,152,179	5.1%	1,310,444	1,310,444	4,825,116	£70.00	4.00%
East London	23,411,422	2,185,577	9.3%	91,257	91,257	699,933	£45.00	4.50%
<b>CENTRAL LONDON TOTALS</b>	<b>278,976,366</b>	<b>13,597,382</b>	<b>4.9%</b>	<b>1,951,101</b>	<b>1,951,101</b>	<b>8,147,916</b>	-	-

## KEY LEASE TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Ropemaker Place, EC2	City Core	Linklaters	307,185	Pre-let (Under construction)
Euston Tower, NW1	Euston	Google	134,895	Second-hand
The Bailey, EC4	City Core	IPG Mediabrands	93,141	Pre-let (Under construction)

## KEY SALES TRANSACTIONS Q1 2020

PROPERTY	SELLER / BUYER	SF	PRICE
Sanctuary Buildings, SW1	Hana Alternative Asset Management/L&G	224,385	£300.0M
Watermark Place, EC3	Oxford Properties/Union Investment	539,994	£252.0M
Guy's & St Thomas' Site, SE1	Guy's & St Thomas' Charity/Stanhope & Baupost	N/A (Site)	£200.0M

**PATRICK SCANLON**

Head of UK Offices Insight

+44 (0) 203 296 4994

[patrick.scanlon@cushwake.com](mailto:patrick.scanlon@cushwake.com)**CHRISTOPHER DUNN**

Associate Director

+44 (0) 203 296 4119

[christopher.dunn@cushwake.com](mailto:christopher.dunn@cushwake.com)**HAYLEY ARMSTRONG**

Senior Analyst

+44 (0) 203 296 2069

[hayley.armstrong@cushwake.com](mailto:hayley.armstrong@cushwake.com)

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