

CENTRAL LONDON

Office Q2 2020

| | YoY Chg | 12-Mo. Forecast |
|---|---------|-----------------|
| 5.1% Vacancy Rate | ▲ | ▲ |
| 1.0 M Q2 2020 Take-Up sq ft | ▼ | ▲ |
| £107.50 Prime rent, London WE | ▼ | ▼ |

KEY INDICATORS
Q2 2020

| | YoY Chg | 12-Mo. Forecast |
|---|---------|-----------------|
| 75.7% London Employment Rate | ▼ | ▼ |
| 5.2% London Unemployment Rate | ▲ | ▲ |
| 0.10% UK Interest rate | ▼ | ■ |

Source: ONS

ECONOMY: Unprecedented contraction raises uncertainty over shape of recovery

Despite positive movement in May, the economy failed to recover from the record falls seen in March and April 2020. GDP grew by 1.8% in May following a fall of 20.4% in April, the biggest monthly fall on record. After output shrank by 2% in the first three months of the year, data for Q2 is likely to confirm that the UK economy is in recession. Jobs data for the three months to May showed that there has not yet been a significant fall in the employment rate, which was 76.4%, just 0.2% down on the previous quarter.

Forecasts suggest a swift recovery in 2021 as restrictions are lifted and the economy starts to function as normal. However, there remains a great deal of uncertainty around when the spread of Covid-19 might be contained, and the possibility that Brexit trade negotiations fail, resulting in steep tariffs and supply chain disruption for UK businesses next year.

TAKE-UP: Activity fell to lowest since 2009 as lockdown measures impact leasing

Leasing activity in the second quarter fell dramatically as the effect of lockdown measures became apparent. Take-up totalled just 1.0 m sq ft, 63% below the five-year average and the lowest quarterly total since the Global Financial Crisis (GFC) when just 724,000 sq ft was leased.

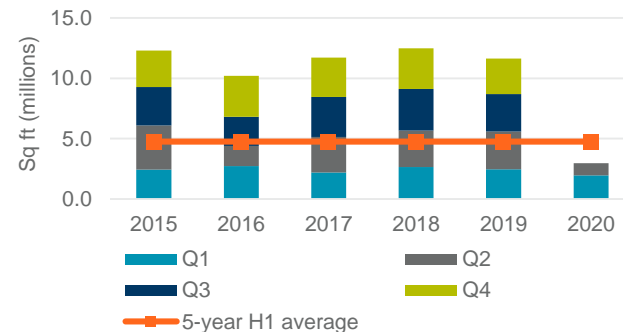
The largest transaction of the quarter was BP's acquisition of 205,000 sq ft at Blackstone's Cargo, 25 North Colonnade, E14. Despite the low overall leasing volumes, there were also significant transactions in the City and West End, where Covington & Burling and Roxor Gaming acquired 86,000 sq ft and 66,000 sq ft respectively.

SUPPLY: Fall in take-up drives supply levels upwards

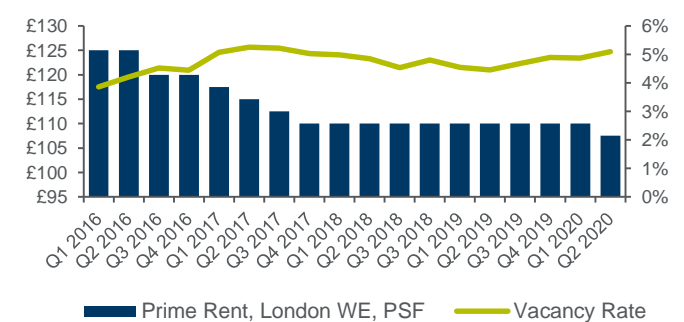
Availability rose by 5.1% from the previous quarter's level to 14.3 m sq ft as the normal 'churn' of space slowed due to suppressed levels of take-up. The vacancy rate is now 5.1%, the highest since 2017 but well below the levels seen in the aftermath of the GFC when the vacancy rate reached 7.8%.

While the availability of new and refurbished space remained stable, there was a 12% rise in the availability of second-hand space.

LEASING VOLUMES



OVERALL VACANCY & PRIME RENT



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FUTURE SUPPLY: Construction rises but will soon rebalance

The volume of speculative space under construction increased over the quarter from 8.1 m sq ft to 9.5 m sq ft, the highest since 2016. A number of new schemes commenced on site, including 280 Bishopsgate where Baker McKenzie has pre-let 153,000 sq ft since the quarter-end.

We expect speculative construction levels to fall again later this year; there is more than 2.0 m sq ft due to complete in the second half of the year, which should bring levels down to comfortably below the five-year average of 7.9 m sq ft.

INVESTMENT: Lack of availability stifles turnover

Investment turnover in Central London fell to just £412 m in the second quarter, an 87% fall year-on-year and 89% below the five-year average for Q2. There was only one sale in excess of £50 m: Chuang's China Group's sale of 10 Fenchurch Street to a private Hong Kong investor for £95.24 m reflecting a net initial yield of 4.25%.

European purchasers were the dominant source of capital into Central London in Q2 2020, accounting for 42% of all turnover, while UK investors accounted for 19% of turnover. Domestic investors were the biggest sellers during the quarter, accounting for 46% of London sales.

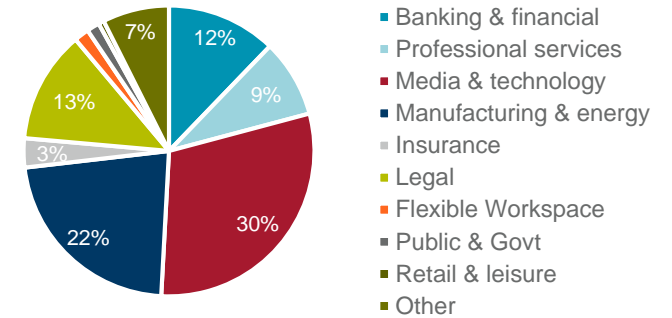
The amount of available stock on the market has risen during the quarter, with an estimated £2.5 bn on the market at the end of June. However, levels remain well below the £3.6 bn available in Q2 2019.

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

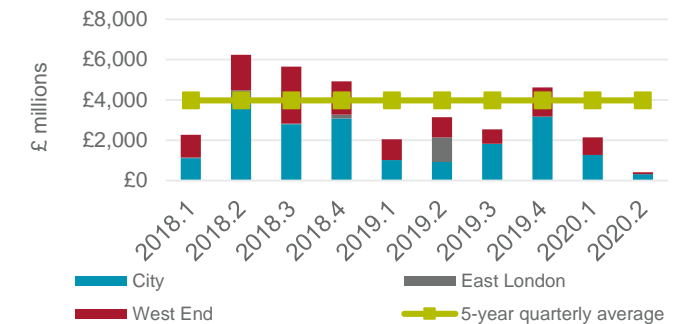
Outlook

- 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.
- While we have started to see the return of physical viewings and some major transactions complete, the third quarter is likely to return below-average levels of take-up as new transactions take their time to work towards exchange. While some tenants have returned unwanted space to the market, we do not expect to see a large-scale release, which should help keep supply under control.
- The persistent lack of investment stock availability has suppressed sales volumes for 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.

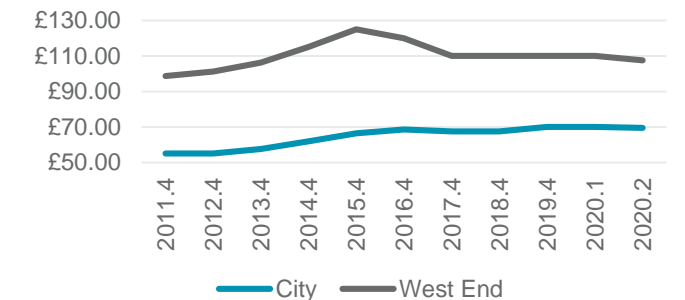
LEASING VOLUMES BY BUSINESS SECTOR



INVESTMENT VOLUMES



PRIME RENT, PSF



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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 | 115,672,326 | 4,338,955 | 3.8% | 266,477 | 815,877 | 2,556,112 | £107.50 | 4.00% |
| City | 140,136,149 | 7,673,519 | 5.5% | 472,179 | 1,782,623 | 6,100,389 | £69.50 | 4.00% |
| East London | 23,411,422 | 2,285,057 | 9.8% | 275,122 | 366,379 | 819,262 | £44.50 | 4.50% |
| CENTRAL LONDON TOTALS | 279,219,896 | 14,297,531 | 5.1% | 1,013,778 | 2,964,879 | 9,475,763 | - | - |

KEY LEASE TRANSACTIONS Q2 2020

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|----------------------|--------------|---------------------|---------|------------------------------|
| Cargo, E14 | Canary Wharf | BP | 205,592 | Pre-let (Under construction) |
| 22 Bishopsgate, EC2 | City Core | Covington & Burling | 85,896 | Pre-let (Under construction) |
| 25 Golden Square, W1 | Soho | Roxor Gaming | 65,869 | Pre-let (Off-plan) |

KEY SALES TRANSACTIONS Q2 2020

| PROPERTY | SELLER / BUYER | SF | PRICE |
|---------------------------|--|--------|--------|
| 10 Fenchurch Street, EC3 | Chuang's China Group / Private Hong Kong | 77,540 | £95.2M |
| 90 Bartholomew Close, EC1 | Helical & Baupost / La Francaise RE Partners | 30,929 | £48.5M |
| Chapter House, EC1 | LBS Properties / Private HNWI | 33,982 | £46.0M |

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