

# CENTRAL LONDON

Office Q3 2020

	YoY Chg	12-Mo. Forecast
<b>6.0%</b> Vacancy Rate	▲	▲
<b>1.0 M</b> Q3 2020 Take-Up sq ft	▼	▲
<b>£105.00</b> Prime rent, London WE	▼	▼

KEY INDICATORS  
Q3 2020

	YoY Chg	12-Mo. Forecast
<b>32.6 M</b> UK Employment	▼	▼
<b>4.5%</b> UK Unemployment Rate	▲	▲
<b>0.10%</b> Interest rate	▼	■

Source: ONS

### ECONOMY: Recovery underway but strength of growth uncertain

UK GDP rose by 2.1% month-on-month in August, which represented the fourth consecutive monthly increase. The economy is now well out of recession but the recovery has been slowing down, and expectations are for even flatter growth once September's data is released. However, the economy is slowly regaining the initial losses caused by lockdown; GDP for August was estimated to be 9% below its February level compared to 25% below in April.

It would now seem that the recovery will not be as sharp as had previously been thought, particularly given the likelihood of increasing local lockdowns as we move into the fourth quarter. However, the growth forecast for office-based jobs remains stronger than that for total jobs, and some sectors such as technology are proving their counter-cyclical credentials.

### TAKE-UP: Activity continued to fall as tenants await improved trading conditions

Leasing activity was particularly subdued during the summer as the full effects of the Coronavirus lockdown were felt. Take-up fell for the fifth consecutive quarter to 908,000 sq ft, the lowest quarterly total since the Global Financial Crisis, and 66% below the five-year quarterly average. At the quarter-end around 2.4 m sq ft remained under offer, 36% below the level recorded at the beginning of lockdown.

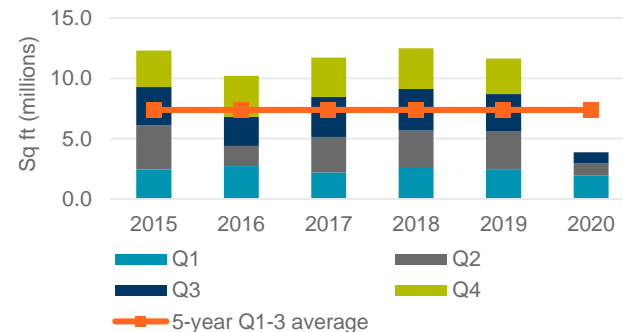
The legal sector was the most active sector during the quarter, accounting for almost a quarter of all take-up and the only transaction in excess of 100,000 sq ft: Baker McKenzie acquired 152,690 sq ft at 280 Bishopsgate.

### SUPPLY: Tenant release space begins to place upward pressure on vacancy rates

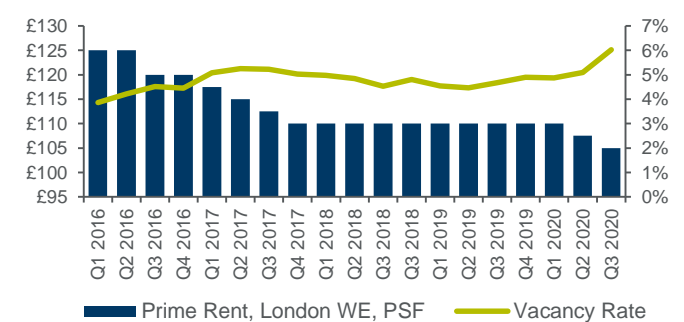
Availability rose sharply to 16.8 m sq ft, representing a quarter-on-quarter increase of 18%, the largest single quarter gain since 2007. The rise reflects both ongoing subdued leasing activity and the release of some tenant space back to the market. The vacancy rate is now 6.0% which is the highest since 2013, 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 remained relatively low at 2.7%, just slightly above the five-year average of 2.3%.

### 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 to 9.4 m sq ft in the third quarter after rising sharply in the previous quarter. This is largely due to Baker McKenzie's pre-let of 152,690 sq ft at 280 Bishopsgate.

Although current speculative construction is high by historic standards, we expect levels to continue to fall as new schemes are delayed or leases extended as occupiers navigate Coronavirus-related uncertainty. We expect almost 1.4 m sq ft of speculative space to reach practical completion in the final quarter of the year, which will help bring levels back in line with the five-year average figure of 8.0 m sq ft.

## INVESTMENT: Momentum starting to build

Investment turnover in Central London rose to £1.3 bn in the third quarter after exceptionally low activity in the previous quarter. Although levels remain well below the five-year quarterly average of £3.8 bn, there is a significant backlog of deal activity and volumes have started to improve. Early signs suggest that the final quarter of the year will see turnover continue to increase, particularly given the £3.34 bn of stock under offer at quarter-end.

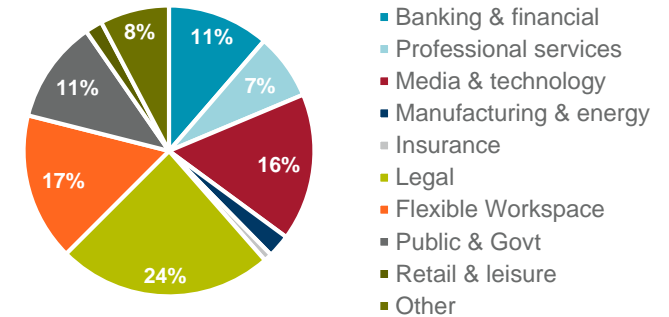
There were three sales in excess of £100 m during the quarter, the largest of which was Link REIT's purchase of The Cabot, 25 Cabot Square, E14 from Hines for £380 m, the largest deal of the year so far. Asia Pacific purchasers were the dominant source of capital into Central London in Q3 2020, accounting for 45% of all turnover, while UK investors accounted for 30% of turnover. The amount of available stock has risen considerably; at the quarter-end there was £5.1 bn on the market, well above the £2.1 bn available this time last year.

Prime yields remained stable at 4.00% in the City and hardened by 25 basis points to 3.75% in the West End, reflecting the improving sentiment and weight of demand.

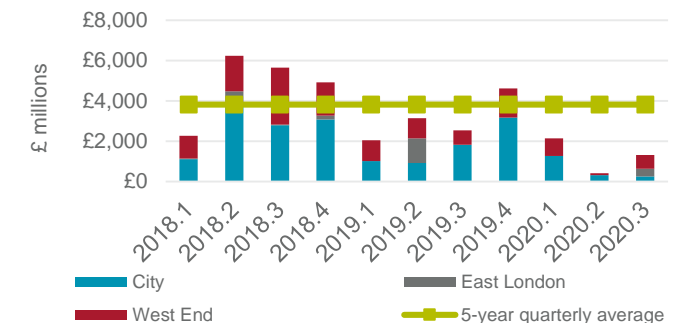
## Outlook

- The easing of lockdown restrictions has led the way for the economy to recover, albeit at a slower rate than had previously been forecast. The prediction of further growth during the rest of this year and the next, should help support the recovery of occupier demand should local lockdown restrictions begin to ease.
- We expect to see supply levels continue to fall as the declining number of development starts counter-balances the release of tenant space to the market, which so far has involved relatively small units. Once demand recovers, the supply profile will help support prime rental growth.
- The final quarter of 2020 will see vastly improved investment turnover, with early indications suggesting that more than £2.0 bn of stock will transact in October alone. Turnover has been restricted by a lack of availability, but we are likely to see greater liquidity over the coming 12 months with a number of large assets across Central London attracting interest.

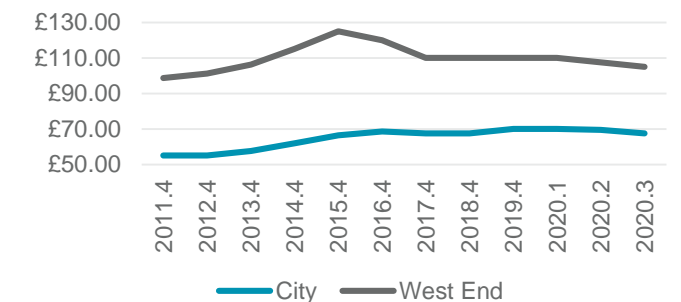
## LEASING VOLUMES BY BUSINESS SECTOR



## 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	5,067,527	4.4%	363,925	1,179,802	2,447,747	£105.00	3.75%
City	140,136,149	9,205,486	6.6%	510,035	2,298,658	6,076,673	£67.50	4.00%
East London	23,411,422	2,536,844	10.8%	33,938	400,317	1,177,664	£42.00	4.50%
<b>CENTRAL LONDON TOTALS</b>	<b>279,219,896</b>	<b>16,809,857</b>	<b>6.0%</b>	<b>907,898</b>	<b>3,872,777</b>	<b>9,702,084</b>	-	-

## KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
280 Bishopsgate	City Core	Baker McKenzie	152,690	Pre-let (Under construction)
Copyright Building	Fitzrovia	Netflix	87,150	Second-hand Grade A
Scotia House, Finsbury Square	City Core	City University	74,379	Second-hand Grade A

## KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SELLER / BUYER	SF	PRICE
The Cabot, E14	Hines / Link REIT	481,866	£380.0M
Commonwealth House, WC1	Nuveen / Sun Venture	109,300	£175.0M
Fleet Place House, EC4	Beijing Capital Development Holdings / M&G	90,327	£111.7M

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