2.47 million sq ft

2019 Q1 Central London take-up volume
SUMMARY & OUTLOOK

Summary

Take-up in Q1 2019 reached 2.47 million sq ft, which was in line with the five-year Q1 average but, 7% below the volumes transacted in Q1 2018.

Take-up has been characterised by several large transactions taking place each quarter, but the start of 2019 saw a reduction in the number of 100,000 sq ft deals, with just two taking place in the first three months of the year.

Despite what might be seen as a relatively subdued start to the year in terms of leasing activity, the volume of space under offer was 13% ahead of the five-year average, with 3.1 million sq ft under offer across Central London at the end of March.

Supply had seen a slight uptick at the end of 2018, but Q1 2019 saw the return of a decline in the volume of available space on the market. At the end of March, there was 12.6 million sq ft available which equated to a vacancy rate of 4.65%. Supply was 11% below the ten-year average at the end of the quarter.

Prime rents held firm in both the City Core and Mayfair & St James’s, although there were some pockets of rental growth in peripheral submarkets where there was limited supply of quality space.

Q1 2019 investment volumes reached £2.04 billion, which was 10% below the same period in 2018, and 42% below the five-year Q1 average.

Unlike the last few quarters, demand was characterised by £50-100 million transactions, unlike last quarter where £100 million+ lot sizes dominated the transaction profile.

Domestic UK buyers were the most active in the first quarter of 2019, accounting for 44% of investment volumes across Central London. This was followed by investors from the Asia Pacific region who accounted for a further 22% of investment activity, equating to just under £446 million.

Prime yields remained stable at 3.75% in the West End, and 4% in the City.

Outlook

Once again, the uncertainty surrounding the UK’s membership of the European Union has been extended, this time until 31st October. Whilst this may impact some occupiers’ decision-making in the short term, there are still active requirements looking beyond Brexit.

The occupational market in London has held up well in response to this uncertainty, but there is increasing caution as to how long this resilience will continue.

With that said, there are reasons for optimism. Both the professional services and tech sectors are forecast to account for the majority of London’s GDP growth in the next five years, which should translate to further need to increase headcount.

Oxford Economics highlights other positives for London, including: the continued high performance of London’s universities and colleges; an unusually young population; flexible labour market; and relatively easy access to finance. These strengths could help counteract the negative impact from Brexit as well as the threats to the global economy.

The volume of space under offer at the end of Q1 suggests that take-up activity in the immediate future should be at least in line with the long-term average, although there is reason to be cautious about how many large transactions will take place if current take-up trends continue.

Supply levels are anticipated to continue a downward trend as the lack of speculative space being delivered continues to be eroded by pre-letting. Greater levels of refurbishment may well alleviate some pressure on supply in certain submarkets, but the likelihood is that occupiers will have an increasingly restricted choice of quality space going ahead.

The investment market is expected to see continued activity from UK investors, although Asian money is likely to continue to target the capital during the remainder of 2019.
KEY LEASING HIGHLIGHTS

CENTRAL LONDON

Q1 2019 take-up stood at 2.47 million sq ft

Number of transactions signed over 50,000 sq ft in Q1 2019

7.5 million sq ft speculatively under construction

In line with 5-year Q1 average

Two were in excess of 100,000 sq ft

53% pre-let or under offer

Key occupier transactions Q1 2019

Regents Place, 10 Brock Street, NW1
174,000 sq ft
Euston
New lease

Building S1, King’s Cross Central, N1C
125,000 sq ft
King’s Cross
Pre-let

155 Bishopsgate, EC2
76,000 sq ft
City Core
Assignment

The Cabot, 25 Cabot Square, E14
71,000 sq ft
Canary Wharf
New lease

Take-up by sector Q1 2019

25%
Media & tech

22%
Flexible workplace

15%
Banking & Financial (inc. insurance)

10%
Professional services (inc. legal)
LEASING MARKET
CENTRAL LONDON

Take-Up
Leasing activity in Q1 was almost exactly in line with the five-year average volume, with 2.47 million sq ft transacted between January and March. This was 7% below the leasing activity seen in Q1 2018.

The largest transaction in Q1 was Facebook’s 174,000 sq ft acquisition at 10 Brock Street, NW1, closely followed by Sony Music’s 125,000 sq ft transaction at the S1 Building in King’s Cross, N1C. There were no 100,000 sq ft+ transactions in the City during Q1, the first time since 2013.

The media & tech sector was the most active during Q1, accounting for 25% of leasing volumes. The flexible workspace sector accounted for a further 22% of leasing activity in Q1.

Pre-letting continued to bolster leasing volumes in the first quarter of 2019, with over 492,000 sq ft pre-let in the three months to March, representing 20% of total take-up.

The volume of space under offer remained high, with 3.14 million sq ft under offer at the end of March. This was 13% ahead of the five-year average and would suggest that momentum will continue in the short term at least.

Supply
Following a slight increase in Q4 2018, supply levels across Central London decreased by 5% during Q1 to 12.6 million sq ft, equating to a vacancy rate of 4.65%. At the end of March, supply was 11% below the 10-year average.

The proportion of new grade A space continues to decline, accounting for 45% of total supply at the end of the first quarter, with a total of 5.7 million sq ft available.

At the end of March 2019, there were twelve units able to satisfy a requirement of 100,000 sq ft or larger, compared to eighteen units available at the end of the same period last year.

The proportion of tenant controlled space remained stable at 28%, equating to 3.5 million sq ft.

The volume of speculative space under construction increased by 9% quarter on quarter to 7.5 million sq ft, with 2.8 million sq ft of this anticipated to deliver in the remainder of 2019. 53% of all space under construction is pre-let, which in turn could force occupiers to look even further ahead of lease events to secure the right space.
Prime rents in Central London have grown by an average of 0.5% over the quarter.

Rents increased by 0.6% on average year-on-year.

West End rents increased by an average of 0.2% in the year to March 2019

Average annual growth of 1.7% was recorded in the wider City

East London rents were stable year on year

Annual rental change of notable submarkets

- Clerkenwell (+3.8%)
- Shoreditch (+3.8%)
- Paddington (+3.6%)
- Southbank (+2.3%)

All other submarkets remained stable year-on-year
KEY INVESTMENT HIGHLIGHTS

CENTRAL LONDON

2019 Q1 investment volumes were **£2.04 billion**

10% below Q1 2018

Prime yields

**4.00%**

City

**3.75%**

West End

2019 Q1 investment volumes were **£2.04 billion**

10% below Q1 2018

Prime yields

**4.00%**

City

**3.75%**

West End

Source: Cushman & Wakefield

**Key investment transactions Q1 2019**

127 Kensington High Street, W8

£170 m

Purchaser: Ashby Capital

Vendor: Columbia

Threadneedle

Ibex House, 42-47 Minories, EC3

£121.25 m

Purchaser: Henderson Park / Dukelease

Vendor: Harel

169 Union Street, SE1

£100 m

Purchaser: Brockton Everlast

Vendor: Nuveen

Euston House, 24 Eversholt Street, NW1

£95 m

Purchaser: Arax Properties / Eurazeo

Vendor: Stenprop

**Purchaser origin Q1 2019**

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>44%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>22%</td>
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<tr>
<td>Middle East</td>
<td>13%</td>
</tr>
<tr>
<td>Europe</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>
INVESTMENT MARKET
CENTRAL LONDON

**Investment volumes**

A total of £2.04 billion was invested in Central London in Q1, 10% below the £2.27 billion transacted during Q1 2018. 2019 Q1 volumes were 42% below the 5-year Q1 average.

The West End market saw a slightly greater share of investment activity in Q1, with £1.03 billion transacted in the first three months of 2019. The City market saw £1.01 billion transacted, 49% below the five-year Q1 average. There was no investment activity in the East London market during Q1, although this will change as we head into Q2 due to space currently under offer.

The £50-£100 million lot size was the most active during Q1, which demonstrated a shift away from the dominance of large lot sizes that has been the case in the first quarter of the previous four years.

There were four transactions over £100 million in Q1; including Ashby Capital’s purchase of 127 Kensington High Street (£170 million), Henderson Park’s acquisition of Ibex House (£121.25 million) and Brockton Everlast’s purchase of 169 Union Street (£100 million).

**Sources of capital**

UK buyers were the most active in the first quarter of 2019, accounting for 44% of investment volumes across Central London. This was followed by investors from the Asia Pacific region who accounted for a further 22% of investment activity, equating to just under £446 million.

Private investors continued to target the Central London office market, accounting for 64% of investment volumes. Funds were the next most active purchaser type, accounting for 27% of volumes.

One challenge for investors remains accessing suitable stock. At the end of March, there was an estimated £4.4 billion of assets on the market. This is up on Q4 2018 when approximately £3.8 billion of commercial properties were available or had bids received.

Prime yields remain unchanged in the City at 4.00% and at 3.75% in the West End.

4

*Transactions in excess of £100m across Central London in Q1 2019*

![Central London investment volumes 2014-2019 Q1](source)

![Central London investment by purchaser 2019 Q1](source)
Facebook have acquired 170,000 sq ft across the ground to fifth floors
LEASING MARKET
WEST END

Take-Up

Q1 take-up in the West End reached 1.04 million sq ft, which was 29% above the five-year Q1 average. Q1 2019 take-up was 11% ahead of the same period in 2018. This was the most active first quarter since 2013.

New Grade A space accounted for 58% of all take-up during the first three months of 2019. There was a total of 51 transactions above 5,000 sq ft in Q1, with 26 of those between 5,000 – 10,000 sq ft. Larger transactions helped boost take-up to above average levels, with two transactions above 100,000 sq ft taking place in Q1.

The media & tech sector accounted for 41% of take-up in Q1, followed by the flexible workplace sector which accounted for an additional 16%.

Pre-letting continued to play an important role in the West End market, accounting for 23% of total take-up. There was a diverse profile of occupiers committing to pre-let space, including Sony Music, Spaces, Glencore and Paymentsense.

The volume of space under offer increased by 19% over the quarter, with a total of 851,879 sq ft under offer at the end of March. This was 14% ahead of the five-year average, and should boost take-up volumes heading into the second quarter of 2019.

Supply

Supply volumes fell by 8% quarter on quarter, with 4.33 million sq ft available at the end of March, equating to a vacancy rate of 3.97%. Supply is now at its lowest level since Q2 2016.

Newly built or refurbished space accounted for 49% of total supply at the end of March, falling from 52% at the end of 2018.

Supply remains 4% above the five-year average (4.15 million sq ft) but 5% below the ten-year average (4.55 million sq ft).

Across the West End there was just one building able to accommodate an immediate requirement in excess of 100,000 sq ft, although there were an additional fifteen buildings with 50,000-100,000 sq ft available. There are sixteen schemes above 50,000 sq ft, nine of which are located in Hammersmith or White City.

3.97%
West End vacancy rate
LEASING MARKET
WEST END

Future Supply

The development pipeline for the next five years looks increasingly restricted, with pre-let transactions insulating against any anticipated future uptick in supply volumes.

At the end of March, 70% of space under construction and due to complete in the remainder of 2019 was pre-let.

2020 could see up to an additional 1.22 million sq ft of speculative space come online, although this figure will likely be further eroded by pre-letting activity. At the end of Q1, 43% of space under construction and due to reach practical completion in 2020 was pre-let.

This lack of anticipated speculative space is likely to be most acute in 2021, when 86% of the space currently under construction for delivery in that year is pre-let or under offer.

There are just three schemes under construction able to accommodate a 100,000 sq ft+ requirement for occupation in 2020. These are 206 Marylebone Road (150,000 sq ft), Ilona Rose House (where 122,000 sq ft remains available) and Stephenson House which will provide 146,000 sq ft in Q4 2020.

1.49m sq ft
Speculative space under construction

Key upcoming schemes (under construction)

<table>
<thead>
<tr>
<th>Address</th>
<th>Completion Date</th>
<th>Total Size (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>206 Marylebone Road</td>
<td>Q1 2020</td>
<td>150,000</td>
</tr>
<tr>
<td>Ilona Rose House, W1</td>
<td>Q2 2020</td>
<td>122,000</td>
</tr>
<tr>
<td>5 Marble Arch</td>
<td>Q3 2020</td>
<td>95,000</td>
</tr>
<tr>
<td>Stephenson House, NW1</td>
<td>Q4 2020</td>
<td>146,000</td>
</tr>
<tr>
<td>Soho Place, 1 Oxford Street, W1</td>
<td>Q4 2021</td>
<td>209,000</td>
</tr>
</tbody>
</table>

Source: Cushman & Wakefield
West End investment volumes reached £1.03 billion during Q1, representing a 9% slowdown compared to the same period last year (£1.14 billion). This represented a 34% decline against the five-year Q1 average volume.

There was a noticeable decline in sales of large lot sizes, with just two transactions exceeding £100 million, compared to five in the previous quarter. The £50-100 million lot size was the most active, accounting for 38% of Q1 investment volumes across 6 transactions.

The average lot size transacted in Q1 2019 was £57.36 million, up from £51.62 million at the same point in 2018.

UK investors accounted for 47% of investment volumes during Q1, with Asian capital the next most active accounting for an additional 28%. Asian investors were the biggest net spenders, with domestic UK investors the dominant net sellers.

Q1 investment was dominated by private money targeting the West End, representing 80% of investment volumes, following the trend seen across Central London. Institutions and funds both accounted for 9% of investment volumes during the first quarter.

As seen across Central London as a whole, there is a shortage of available stock, with just £2.6 billion of assets on the market or subject to bids at the end of March. There is currently £945 million under offer, suggesting strong turnover in Q2.

Prime West End yields remained stable at 3.75%, which saw the gap between prime West End yields and ten-year bonds grow to 2.48%; the largest gap since Q3 2016.

3.75%
West End prime yield
100 Liverpool Street, EC2

71,000 sq ft pre-let to Milbank LLP

40,000 sq ft pre-let to Peel Hunt
LEASING MARKET

CITY

Take-Up

A lack of larger transactions resulted in a slowdown of City take-up volumes over the first quarter of the year to reach 1.3 million sq ft. This was 12% below the same period in 2018 (1.47 million sq ft) and 10% below the five-year Q1 average of 1.45 million sq ft.

Pre-letting activity was subdued, accounting for just 14% of take-up volumes, falling short of the average proportion of 25%. This should revert back to trend, with 683,000 sq ft of pre-let space under offer across the City submarkets.

The largest transaction of the quarter saw energy supplier Bulb agree to take over Barings’ 76,000 sq ft lease at 155 Bishopsgate, EC2. Other notable transactions included IWG acquiring 74,000 sq ft at the Alpheus Building, EC2 for their No18 brand and Milbank LLP pre-letting 71,000 sq ft at 100 Liverpool Street, EC2.

The flexible workspace sector accounted for the largest share of take-up across the City during the first quarter of 2019, taking almost 300,000 sq ft or 23% of total leasing volumes. Banking & financial and media & technology occupiers remained active with a 15% and 14% share respectively.

Space under offer remained high at the end of Q1 totalling 1.8 million sq ft, 16% ahead of the five-year quarterly average of 1.5 million sq ft and 49% above the same period in 2018. This should help to sustain leasing volumes moving into the latter part of 2019.

Supply

Supply decreased marginally in Q1 to 6.1 million sq ft, reflecting a vacancy rate of 4.4%. Total supply remains 6% below the five-year quarterly average of 6.4 million sq ft and 24% below the ten-year quarterly average of 7.9 million sq ft.

New Grade A supply decreased quarter on quarter to stand at 2.9 million sq ft, 11% below the five-year quarterly average of 3.3 million sq ft.

Second hand supply remained stable for the second consecutive quarter to stand at 3.2 million sq ft, or just over half of total available space. Sublease space totalled 1.5 million sq ft, reflecting 24% of availability.

The lack of options for occupiers seeking larger units remains, with just four buildings capable of accommodating a requirement in excess of 100,000 sq ft within the next six months, compared to eight buildings at the same point in 2018. The largest unit available was 70 St Mary Axe, EC3, where a total of 166,000 sq ft remains available.

4.4%

City vacancy rate

City leasing volumes by quarter 2014-2019 Q1

City take-up by sector 2019 Q1

Source: Cushman & Wakefield
LEASING MARKET

CITY

Future Supply

Total space under construction stood at 7.9 million sq ft. At the end of March, 3.7 million sq ft or 47% was pre-let or under offer, which should continue to place downward pressure on Grade A supply over the next 12 months.

The total volume of speculative space under construction increased over the quarter to 4.2 million sq ft, up from the 3.1 million sq ft at the end of 2018. This was driven by a number of new starts, notably 8 Bishopsgate, EC2 (572,000 sq ft) due to complete in late 2022.

4.2m sq ft
Speculative space under construction

The largest speculative schemes due for completion in 2019 are 22 Bishopsgate, EC2 (40% of which has been pre-let or is under offer) and Wenlock Works, N1 (131,000 sq ft). Key developments under construction and due to complete in 2020 include 60 London Wall, EC2 (346,000 sq ft), One Braham, E1 (318,000 sq ft) and 80 Fenchurch Street, EC3 (238,000 sq ft).

There is a further 3.4 million sq ft of space which could come forward before the end of 2021, albeit, at the end of Q1 2019, just 1.3 million sq ft of this space had a planning application submitted or approved.

Key transactions Q1 2019

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Size (Sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulb</td>
<td>155 Bishopsgate, EC2</td>
<td>76,000</td>
</tr>
<tr>
<td>No18</td>
<td>The Alpheus Building, 20 Finsbury Circus, EC2</td>
<td>74,000</td>
</tr>
<tr>
<td>Milbank LLP</td>
<td>100 Liverpool Street, EC2</td>
<td>71,000</td>
</tr>
<tr>
<td>The University of Chicago Booth School of Business</td>
<td>One Bartholomew, EC1</td>
<td>43,000</td>
</tr>
<tr>
<td>Peel Hunt</td>
<td>100 Liverpool Street, EC2</td>
<td>40,000</td>
</tr>
<tr>
<td>Product Madness</td>
<td>1 Finsbury Avenue, EC2</td>
<td>29,000</td>
</tr>
</tbody>
</table>

Source: Cushman & Wakefield
The Cabot, 25 Cabot Square, E14

72,000 sq ft let to Spaces

22,000 sq ft let to Office of Rail and Road
LEASING MARKET
EAST LONDON

Take-Up
Take-up in the East London market strengthened over the first quarter of 2019 with 123,000 sq ft leased. This was a significant increase on the 48,000 sq ft transacted in the previous quarter but 46% below the five-year Q1 average of 227,000 sq ft.

The flexible workspace sector took the largest share of take-up during Q1 with a 58% share of total leasing volumes, followed by public & government occupiers with 35% or 43,000 sq ft of space transacted.

The largest transaction of the quarter saw Spaces acquire 72,000 sq ft at The Cabot, 25 Cabot Square, whilst The Office of Rail and Road took a further 22,000 sq ft of space, bringing the building to fully let. Another notable deal saw the Nursing & Midwifery Council lease 22,000 sq ft of space at One Westfield Avenue in Stratford.

At the end of March, there was 521,000 sq ft of space under offer across East London, 4% ahead of the five-year quarterly average and 8% above the 482,000 sq ft recorded during the same period in 2018. As such, leasing activity is anticipated to pick up into the latter half of 2019.

Supply
Availability remained unchanged quarter on quarter after the increase seen at the end of 2018 to stand at 2.2 million sq ft, reflecting a vacancy rate of 9.9%. Total availability was 4% above the 2.1 million sq ft available during the same period last year and 29% ahead of the five-year quarterly average of 1.7 million sq ft.

Second-hand units remained stable over the quarter but continue to dominate availability in East London, accounting for 69%, or 1.5 million sq ft of Q1 supply. Tenant release space accounted for 72% or 1.1 million sq ft of total space available.

At the end of March there were seven buildings across East London which could accommodate a requirement in excess of 100,000 sq ft: the largest is 30 Churchill Place, E14 (287,000 sq ft).

9.9%
East London vacancy rate
LEASING MARKET
EAST LONDON

Future Supply

At the end of March, there was 2.5 million sq ft of space under construction, of which 1.4 million sq ft (53%) was pre-let or under offer.

The total volume of speculative space under construction increased over the quarter to 1.2 million sq ft, up from the 835,000 sq ft at the end of 2018. This was driven by a number of new starts: The Cargo Building, 25 North Colonnade (346,000 sq ft) due to complete in late 2020 and 3 Westfield Avenue, IQL (350,000 sq ft) due to complete in 2021.

There were nine schemes speculatively under construction at the end of the quarter. The largest was 5 Bank Street, E14, where the remaining 419,000 sq ft is under offer to EBRD, and is due to complete in Q2 2019.

1.2 million sq ft
Speculative space under construction

<table>
<thead>
<tr>
<th>Development schemes under construction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Address</strong></td>
</tr>
<tr>
<td>Dane’s Yard, Sugar House Island, E15</td>
</tr>
<tr>
<td>5 Bank Street, E14</td>
</tr>
<tr>
<td>Export Building, Republic, E14</td>
</tr>
<tr>
<td>2 Redman Place (S9), IQL, E20</td>
</tr>
<tr>
<td>Building A, M7 Site, 14 Westfield Avenue, E15</td>
</tr>
<tr>
<td>20 Water Street, Wood Wharf, E14</td>
</tr>
<tr>
<td>15 Water Street, Wood Wharf, E14</td>
</tr>
<tr>
<td>The Cargo Building, 25 North Colonnade, E14</td>
</tr>
<tr>
<td>3 Westfield Avenue, IQL, E20</td>
</tr>
</tbody>
</table>
INVESTMENT MARKET
CITY AND EAST LONDON

4.00%
City prime yield

The momentum seen in the latter part of 2018 failed to carry over in 2019. Investment activity in the City and East London submarkets slowed over the first quarter of 2019 to stand at £1.01 billion. This represents an 11% decrease on the £1.14 billion transacted during Q1 2018 and 49% below the five-year Q1 average of £1.97 billion.

The fall in volumes was largely due to a lack of large transactions with just two deals in excess of £100 million transacted, compared to eight deals in the previous quarter and four in the corresponding period in 2018. As a result, the average lot size stood at just over £41.9 million for the first quarter of 2019, down from £51.6 million for the same period in 2018.

The largest transaction saw Henderson Park and Dukelease purchase Ibex House, 42-47 Minories, EC3 for £121.25 million, reflecting a net initial yield of 4.96%. Another notable transaction was Brockton Everlast’s purchase of 169 Union Street, SE1 for £100 million.

UK investors were the most active purchasers during Q1 2019 with 41% share of total investment volumes, equating to £413.6 million. Middle Eastern investors accounted for a further 27% of total volumes, boosted by Brockton Everlast’s purchase of the aforementioned 169 Union Street, SE1 and Devonshire Quarter, EC3 for £95 million.

The large imbalance between supply and demand will remain a key feature of the market in 2019. At the end of March, there was an estimated £2.07 billion of assets on the market. This is down on the same time last year when approximately £2.89 billion of commercial properties were available or had bids received.

Prime office yields in the City and Midtown remained stable at 4.00%.

41%
Of all investment came from UK investors in 2019 Q1

Source: Cushman & Wakefield
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 6 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.