Central London leasing volumes increased 27% over the second quarter of 2019 to reach 3.1 million sq ft. This brought H1 leasing volumes to 5.6 million sq ft, in line with the corresponding period in 2018 and 4% above the five-year H1 average of 5.4 million sq ft.

Demand from large corporates showed no signs of abating, with 12 transactions over 50,000 sq ft completing in Q2, of which four were in excess of 100,000 sq ft.

The volume of space under offer continued to rise, increasing 9% over the quarter to reach 3.4 million sq ft at the end of June. Total space under offer is now 22% ahead of the five-year quarterly average which should support leasing activity in the latter part of the year.

Supply levels fell for the second consecutive quarter to stand at 12.3 million sq ft, which reflects a vacancy rate of just 4.6%. This was driven by declines in supply in the East London submarket, whilst the City and West End supply volumes remained relatively stable.

Submarkets surrounding the City saw growth in prime rents, with the City Core, Clerkenwell, Shoreditch and Southbank all seeing uplift during the quarter. Prime rents held firm in Mayfair & St James’s and the majority of the West End submarkets.

Central London investment volumes recovered slightly from the slow start in Q1 to reach £3.1 billion in Q2. This brought the total for H1 to £5.1 billion, but volumes remained below the amount transacted during the same period in 2018 and the five-year H1 average.

The slight recovery in investment volumes across central London was supported by five deals over £100 million, up from four in the previous quarter.

North American buyers were the most active in the second quarter of 2019, accounting for over half of investment volumes across Central London. This was followed by investors from the UK who accounted for a further 25% of investment activity, equating to just over £784 million.

The City and Midtown prime yield moved out 25bps earlier this year to 4.25%, although best-in-class assets continue to trade at keener prices, whilst the West End prime yield remained stable at 3.75%.
Over the last nine months the likelihood of a ‘no deal’ exit from the EU has increased. The widely-held assumption is that this will create more uncertainty for businesses, which will in turn dampen activity in the commercial real estate market.

However, the London real estate market has not displayed the symptoms traditionally associated with uncertainty; values have held up, demand is solid and supply is trending downwards.

So, what could change in the near-term to affect the current situation?

The strong fundamentals of the United Kingdom, and particularly London, including low unemployment, low corporate tax rate, transparent legal system and common language have ensured that it has remained firmly on the radar for both occupiers and investors.

In addition, attributes such as access to talent and currency advantage remain favourably to attracting investment.

In the real estate market, the theme is a lack of quality supply, either of new buildings to lease or assets to buy. This has helped maintain values in most markets, and will drive competition moving forward.

We expect the paucity of speculative space in the development pipeline to maintain downward pressure on the vacancy rate. In addition, there is little second-hand space of scale which is likely to be released to the market. The effect will be upward pressure on prime rents.

Investors looking to deploy capital in London have also encountered significant competition for the limited available assets due to the currency advantage enjoyed by overseas investors. As long as the value of the pound remains low, the London market will continue to court strong interest from foreign purchasers.

Both occupier and investors appear to have already priced in Brexit, and have proceeded in their acquisitions. Demand for both occupational and investment stock in Central London appears to have remained healthy.

This demand is driven by London’s strong fundamentals, which in the short to medium-term, are unlikely to change. Despite Brexit, all indicators suggest that London’s commercial real estate market will remain robust.

Occupiers and investors appear to have priced in a ‘no deal’ Brexit; indicators suggest that the London real estate market will remain robust.

<table>
<thead>
<tr>
<th>Inner London GVA growth in 2018</th>
<th>2.5%</th>
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<tbody>
<tr>
<td>Projected Inner London GVA growth in 2019</td>
<td>1.7%</td>
</tr>
<tr>
<td>Projected Inner London GVA growth in 2020</td>
<td>2.6%</td>
</tr>
<tr>
<td>London office-based employment growth in 2019</td>
<td>1.6%</td>
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</table>

Source: Oxford Economics (July 2019)
Leasing activity across Central London gained momentum in Q2, with over 3.1 million sq ft of space transacted, which was 27% above the total recorded during the previous quarter. This brought the 2019 H1 volumes to 5.6 million sq ft, which was in line with the same period in 2018 and 4% above the five-year H1 average of 5.4 million sq ft.

Take-up during the quarter was boosted by an increase in larger transactions, with 12 deals over 50,000 sq ft completing, of which four were in excess of 100,000 sq ft.

Levels of space under offer continued to trend upwards to reach 3.4 million sq ft at the end of June. This is the highest level since Q2 2018 and should support leasing activity in the latter part of the year.

Central London supply stood at 12.3 million sq ft at the end of June, which equated to a vacancy rate of around 4.6%. Supply fell marginally over the quarter, as the high volumes of take-up absorbed supply; levels remained well below the 10-year quarterly average of 14.0 million sq ft.

New Grade A space contracted for the second consecutive quarter, as occupiers focused on upgrading space. At the end of June, newly built or refurbished supply accounted for 5.6 million sq ft, or 46% of total supply, which was the lowest proportion since Q3 2013.

Second hand supply fell 3% over the quarter to 6.7 million sq ft. Of this space, tenant controlled space (i.e. sublet space) accounted for 3.5 million sq ft or 29% of total available space, which is on a par with the previous quarter.

The choice for larger occupiers remains limited. At the end of June, there were just 10 units able to satisfy a requirement of 100,000 sq ft or larger, compared to 15 units available at the end of the same period last year.
North American buyers were the most active in the second quarter of 2019, accounting for over half of investment volumes across Central London, boosted by the aforementioned Citigroup purchase of 25 Canada Square. UK investors represented the second highest proportion of investment turnover at 25%, equating to just over £784 million.

One challenge for investors remains accessing suitable stock. At the end of June, there was an estimated £3.78 billion of assets on the market. This is down on the same period last year when approximately £6.15 billion of commercial properties were available or had bids received.

In the second quarter of 2019, $3.1 billion was invested in Central London, which was 52% above the previous quarter. This brought the total for the first half of the year to $5.1 billion, which was 40% below the corresponding level of $8.5 billion in 2018.

The City and East London markets saw the largest share of Q2 investment turnover at $2.1 billion, an increase from the $1.0 billion invested in the markets during the previous quarter. A total of $971.6 million was transacted across the West End submarkets in Q2, slightly down on the $1.03 billion transacted during the previous quarter.

Turnover in Q2 was supported by five deals over $100 million, up from four in the previous quarter. This included the largest deal of the quarter which was the purchase of 25 Canada Square, E14 by Citigroup for circa $1.08 billion. The second largest deal was Brockton Everlast’s acquisition of Waterside House, 35 North Wharf Road, W2 for $220.5 million. The uptick in large assets resulted in the average lot size increasing to $81.6 million from $48.6 million in the previous quarter.

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Rental growth in Central London peripheral submarkets during the quarter

Rents increased by 1.4% on average over year-on-year.

Average annual rental growth across London markets
- Wider City – average annual growth of 3.6%
- East London – average annual growth of 3.5%
- West End – average annual growth of 0.4%

Biggest annual rental change was recorded in
- Clerkenwell (+8.2%)
- Shoreditch (+6.1%)
- Southbank (+6.1%)
- Canary Wharf (+5.9%)
- Paddington (+3.6%)
- Stratford (+3.5%)
- Bloomsbury (+2.2%)
- City Core (+0.7%)
TAKE-UP

Q2 take-up in the West End reached 785,297 sq ft, which was 7% above the five-year Q2 average. This brought H1 take-up to 1,83 million sq ft, which was 10% ahead of the five-year H1 average and 4.3% ahead of the volumes transacted in the first half of 2018.

Pre-letting continued to play an important role in the West End market, accounting for 24% of total take-up in H1 2019. There was a diverse profile of occupiers committing to pre-let space, including Sony Music, G-Research, Glencore and Paymentsense.

The volume of space under offer increased by 41% over the quarter, with a total of 1.2 million sq ft under offer at the end of June. This was 54% ahead of the five-year average, and should boost take-up volumes heading into the second half of 2019.

LEASING VOLUMES – 2015-2019 Q2

New Grade A space accounted for 65% of all take-up during the second quarter of 2019. There was a total of 49 transactions above 5,000 sq ft in Q2, with 24 of those between 5,000 –10,000 sq ft. Larger transactions helped boost take-up to above average levels, with four transactions above 50,000 sq ft taking place in Q2.

The banking & finance sector accounted for 20% of take-up in Q2, followed by the media & tech sector which accounted for an additional 19%.

TAKE-UP BY SECTOR - Q2 2019

BANKING/FINANCE 20%
MEDIA/TECH 19%
PUBLIC/GOVERNMENT 15%

SUPPLY

Supply volumes remained stable over the quarter, with 4.37 million sq ft available at the end of June, equating to a vacancy rate of 4.01%. Supply is now at its lowest level since Q2 2016 but remains 4% above the five-year average of 4.15 million sq ft.

Newly built or refurbished space accounted for 45% of total supply at the end of June, falling from 52% at the end of 2018.

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 twelve buildings with 50,000-100,000 sq ft available. There was a total of thirteen schemes above 50,000 sq ft, seven of which are located in Hammersmith or White City.

Generally, supply across the West End continues to be restricted, with the volume of newly built or refurbished space particularly acute. Eleven of the fifteen West End submarkets had a vacancy rate of less than 2.0% at the end of Q2.
West End investment volumes reached £971.6 million during Q2, bringing the H1 total to £2 billion. H1 investment volumes were 31% below the same point in 2018, and 44% below the five-year H1 average.

Q2 investment was dominated by private money targeting the West End, representing 38% of investment volumes, following the trend seen across Central London. Funds accounted for a further 22% of investment volumes during Q2, with Sovereign Wealth Funds accounting for an additional 14%.

As seen across Central London as a whole, there is a shortage of available stock, with just £2.4 billion of assets on the market or subject to bids at the end of June. There is currently £1.8 billion under offer, suggesting strong turnover in the second half of the year.

Prime West End yields remained stable at 3.75%, which saw the gap between prime West End yields and ten-year bonds grow to 2.75%, the largest gap since Q3 2016.

UK investors accounted for 51% of investment volumes during Q2, with Middle Eastern capital the next most active accounting for an additional 23%. Middle Eastern investors were the biggest net spenders, with Asian investors the dominant net sellers.
TAKE-UP

A total of 1.5 million sq ft was transacted in the City market in Q2, a 17% increase from the previous quarter. This brought the 2019 H1 total to 2.8 million sq ft, 8% below the five-year H1 average (3.1 million sq ft) and 20% below the same period in 2018.

The flexible workspace sector once again accounted for the largest share of quarterly take-up across the City, taking over 434,000 sq ft or 29% of total leasing volumes. This is the second consecutive quarter where the sector has taken the largest proportion of space. Banking & financial and professional services occupiers remained active with a 20% and 19% share respectively.

Total space under offer increased 17% over the quarter to 2.1 million sq ft, 34% ahead of the five-year quarterly average of 1.5 million sq ft. This should help to sustain leasing volumes moving into the second half of 2019.

Five transactions over 50,000 sq ft completed during the quarter, the largest of which was Brewin Dolphin’s pre-let of 114,000 sq ft at 25 Cannon Street, EC4. Other notable leasing deals include Quilter’s acquisition of 92,000 sq ft at Senator House, EC4 and Gresham St Paul’s, EC2, where Smith & Williamson agreed a pre-let of 87,000 sq ft.

LEASING VOLUMES – 2015-2019 Q2

Supply remained stable over the quarter at 6.2 million sq ft, reflecting a vacancy rate of 4.4%. Total supply remains 2% below the five-year quarterly average of 6.3 million sq ft and 21% below the ten-year quarterly average of 7.8 million sq ft.

New Grade A supply stabilized for the second consecutive quarter at 2.9 million sq ft and remains 7% below the five-year quarterly average of 3.2 million sq ft. Second hand supply also remained stable to stand at 3.2 million sq ft, or just over half of total available space.

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

INVESTMENT VOLUMES – 2015-2019 Q2

Investment activity in the City and East London submarkets doubled during Q2 to stand at £2.1 billion, up from the £1.0 billion transacted during the previous quarter. This brought the 2019 H1 volumes to £3.1 billion, 44% below the £5.6 billion invested during the same period in 2018 and 34% below the five-year H1 average of £4.7 billion.

There were a total of four transactions in excess of £100 million signed during the second quarter of 2019, compared to two deals in the previous quarter. As a result, the average lot size was just under £92.6 million for Q2 2019, up from £41.9 million for Q1 2019.

North American investors were the most active purchasers during the second quarter of 2019 with 70% share of total investment volumes, equating to £1.47 billion, driven by three transactions in excess of £100 million. Asia Pacific and UK investors were also active each accounting for 13% of total investment volumes.

The large imbalance between supply and demand will remain a key feature of the market for the remainder of 2019. At the end of June, there was an estimated £1.6 billion of assets on the market. This is down on the same period last year when approximately £2.9 billion of commercial properties were available or had bids received.

INVESTMENT BY PURCHASER ORIGIN – Q2 2019

CUSHMAN & WAKEFIELD | MARKETBEAT
Take-up in the East London submarkets rebounded in the second quarter of 2019 with 826,000 sq ft leased, the highest quarterly leasing volumes since Q2 2015. This brought the 2019 H1 leasing volumes to 949,000 sq ft, 46% above the five-year H1 average of 648,000 sq ft and significantly ahead of the same period in 2018.

**LEASING VOLUMES – 2015-2019 Q2**

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>5-year H1 average</th>
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<td></td>
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<tr>
<td>2019</td>
<td>1.0</td>
<td>2.0</td>
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</table>

The 358,000 sq ft acquired by the European Bank for Reconstruction and Development (EBRD) at 5 Bank Street was the largest transaction in Q2, and in fact was the largest deal in Central London in 2019. Another notable deal was WeWork’s acquisition of 287,000 sq ft at 30 Churchill Place on a sublease from the European Medicines Agency.

Unsurprisingly, Q2 take-up was dominated by the banking & finance and flexible workspace sectors, which accounted for 40% and 38% of quarterly take-up respectively. The public & government sector (18%) continued to feature across East London.

**SUPPLY**

Total availability fell 18% over the quarter as a result of the high levels of take-up to stand at 1.8 million sq ft, reflecting a vacancy rate of 8.06%. Total availability was 10% below the 2.0 million sq ft available during the same period last year but 6% ahead of the five-year quarterly average of 1.7 million sq ft.

Second-hand supply decreased over the quarter but continue to dominate availability in East London, accounting for 60%, or 1.1 million sq ft of Q2 supply. Tenant release space accounted for 60% or 645,000 sq ft of total space available.

**FUTURE SUPPLY**

At the end of June, there was 2.9 million sq ft of space under construction, of which 1.4 million sq ft (47%) was pre-let or under offer.

The total volume of speculative space under construction increased for the second consecutive quarter to 1.5 million sq ft, up from the 1.2 million sq ft at the end of Q1. This was driven by two new starts at the Wood Wharf development: The Market Building (213,000 sq ft) and Frameworks Building, (250,000 sq ft), both due to complete in late 2022.
REPORT 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 six 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.

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