Overview

GDP growth fell back to 0.3% in the three months to November, down from 0.4% in the previous period. While manufacturing output shrank, the service sector grew by 0.3%, which is positive for the offices sector. The construction sector grew by 0.6%. The employment rate was estimated at 75.7%, the joint highest since comparable estimates began in 1971, however such continued ‘full’ employment suggests new job creation will slow. The rate of inflation fell to 2.1% in December, the lowest for almost two years and close to the Bank of England’s target of 2.0%. The declining inflation rate lessens the chance of any imminent rise in the base rate.

Occupier focus

Take-up in the UK office market remained comfortably above average in the final quarter to record a strong annual performance. In Central London, take-up in the final quarter reached 3.4 m sq ft, boosting the annual total to its highest level since 2010. Supply increased from the previous quarter, although levels remain below the same point last year.

In the UK regions, there was a strong finish to the year, helping take-up reach the highest level on record. The Glasgow and Manchester markets witnessed particularly strong activity, the former recording almost double its average leasing activity over the course of the year. Supply fell to its lowest level in over 10 years; the vacancy rate across the UK market is currently 7.3%. The availability of Grade A space is particularly low with such levels not seen since 2006.

Investment focus

UK office investment fell to £4.1 bn quarter-on-quarter, 37% below the 5-year average. Turnover for the full year totaled £22.1 bn, a year-on-year fall of 12%. Overseas capital dominated over the year, accounting for 58% of all purchases. Investment into London offices fell to its lowest level since the EU referendum, due mainly to a fall in the number of large unit sales.

Outlook

The majority of the UK markets will continue to see healthy occupier demand in the first quarter of 2019; in London, the professional and technology sectors are active, while in the regions the government and flexible workspace providers will drive leasing activity. The strong fundamentals of UK real estate will continue to attract global investors. However, caution will be the theme in the first quarter as geo-political factors weigh on sentiment.
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