

UNITED KINGDOM Office Market Snapshot

Fourth Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Strong demand to encourage rental growth in some regional markets, but core London markets under pressure	►
Prime Yields:	Stable for core assets as commercial real estate continues to look good value compared to other asset classes.	►
Supply:	A lack of quality stock, particularly in the regional cities will continue to place downward pressure on vacancy levels	◄
Demand:	Relatively positive sentiment should support occupier demand, but flexibility will remain a key driver	▼

Prime Office rents – December 2018

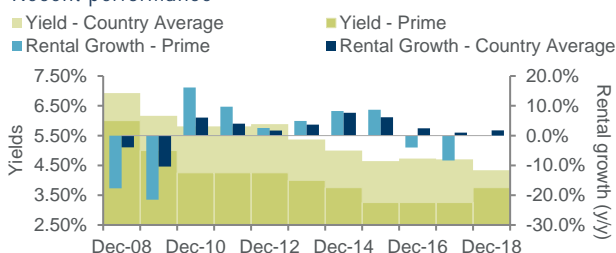
LOCATION	GB£	€	US\$	GROWTH %	
	SQ.FT YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
London (City)	67.50	804	85.2	0.0	3.3
London (West End)	110.00	1,311	138.8	0.0	0.7
Manchester	33.50	399	42.3	0.0	2.2
Birmingham	34.00	405	42.9	3.0	4.3
Bristol	35.00	417	44.2	7.7	4.9
Leeds	30.00	357	37.9	0.0	3.7
Newcastle	24.25	289	30.6	3.2	3.9
Reading	38.50	459	48.6	5.5	5.1
Cardiff	25.00	298	31.5	0.0	2.6
Edinburgh	35.00	417	44.2	4.5	4.6
Glasgow	32.00	381	40.4	8.5	3.1

Prime Office yields – December 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
London (City)	4.00	4.00	4.00	6.75	4.00
London (West End)	3.75	3.50	3.25	6.00	3.25
Manchester	4.75	4.75	5.00	7.25	4.75
Birmingham	4.75	4.75	5.00	7.00	4.75
Bristol	4.75	4.75	5.25	7.25	4.75
Leeds	5.00	5.00	5.25	7.50	5.00
Newcastle	5.50	5.50	5.75	7.50	5.50
Reading	5.00	5.00	5.25	7.50	4.90
Cardiff	5.50	5.50	5.75	8.00	5.50
Edinburgh	4.50	4.75	5.50	7.25	4.50
Glasgow	5.00	5.25	5.50	7.50	5.00

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



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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LOCATION	BUILT STOCK (SQ.FT)	AVAILABILITY (SQ.FT)	VACANCY RATE (%)	TAKE-UP Q4 (SQ.FT)	TAKE-UP YTD (SQ.FT)	TOTAL UNDER CONSTRUCTION (SQ.FT)
Central London (City)	138,556,232	6,321,906	4.56	2,044,180	7,291,019	7,263,224
Central London (West End)	109,038,736	4,691,369	4.30	1,286,104	4,394,261	4,394,261
Central London (East)	21,830,659	2,198,715	10.07	47,542	809,664	2,050,820
Central London (Overall)	269,425,626	13,211,990	4.90	3,377,826	12,494,944	13,733,384
Birmingham City Centre	18,014,589	1,208,327	6.7	277,790	755,137	1,482,988
Bristol City Centre	13,505,718	447,019	3.3	97,272	536,585	279,994
Cardiff City Centre	9,509,348	591,644	6.2	184,247	318,009	442,836
Edinburgh City Centre	11,622,039	472,382	4.1	115,635	557,668	522,662
Glasgow City Centre	13,849,396	1,435,728	10.4	236,001	1,421,845	391,250
Leeds City Centre	12,449,126	1,120,691	9.0	134,579	663,233	66,000
Manchester City Centre	20,139,539	2,390,040	11.6	513,171	1,701,801	1,364,503
Newcastle City Centre	6,865,231	596,734	8.7	31,946	235,140	128,960
Regional Centres (Overall)	106,359,537	7,815,446	7.3	1,590,641	6,192,992	4,679,193

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.FT)	TRANSACTION TYPE
5 Merchant Square	London	WeWork	159,110	Leasehold
1 Southwark Bridge Road	London	WPP Group	150,651	Leasehold
Premier Place	London	Jane Street Europe	150,167	Leasehold
135 Bishopsgate	London	Interpublic	148,818	Leasehold
Belmont Works, Eastside	Birmingham	Birmingham City University	118,240	Leasehold
Hanover Building	Manchester	Amazon	89,449	Leasehold
3 Capital Quarter	Cardiff	Admiral Insurance	65,091	Leasehold

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
30 Gresham Street	London	Samsung Life Insurance / Wing Tai	c4.40%	c457.0
125 Old Broad Street	London	Blackstone / City Developments Ltd	4.65%	429.2
Sanctuary Buildings	London	Blackstone / Hana Financial Group	4.18%	317.8
Thames Valley Park I-III	Reading	FI REM/Fortress / AIP/Valesco/Mirae	-	112.4
1 Tanfield	Edinburgh	Patrizia / Greenridge IM	6.00%	73.8

Source: Cushman & Wakefield/RCA

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