

	YoY Chg	12-Mo. Forecast
5.6% Vacancy Rate	▲	▲
0.3 m sq ft Take-Up	▼	▲
£107.50 psf Prime rent, London WE	■	▼

KEY INDICATORS Q2 2020

	YoY Chg	12-Mo. Forecast
33.0 M UK Employment	▲	▼
3.9% UK Unemployment Rate	▲	▲
0.10% Interest rate	▼	■

Source: ONS

ECONOMY: Unprecedented contraction raises uncertainty over shape of recovery

Despite positive movement in May, the economy failed to recover from the record falls seen in March and April 2020. GDP grew by 1.8% in May following a fall of 20.4% in April, the biggest monthly fall on record. After output shrank by 2% in the first three months of the year, data for Q2 is likely to confirm that the UK economy is in recession. Jobs data for the three months to May showed that there has not yet been a significant fall in the employment rate, which was 76.4%, just 0.2% down on the previous quarter.

Forecasts suggest a swift recovery in 2021 as restrictions are lifted and the economy starts to function as normal. However, there remains a great deal of uncertainty around when the spread of Covid-19 might be contained and the implications of Brexit.

OCCUPIER FOCUS: Take-up contracts while supply remains under control for now

Occupier take-up contracted dramatically in the second quarter as lockdown restrictions effectively closed the market. Despite relatively healthy levels of demand going into lockdown, the inability to conduct viewings and due diligence provided a barrier to activity. The UK regions saw a significant slowdown in take-up as just 0.3 m sq ft was leased, well below the five-year quarterly average of 1.3 m sq ft. In London, take-up fell to 1.0 m sq ft, 63% below the five-year quarterly average.

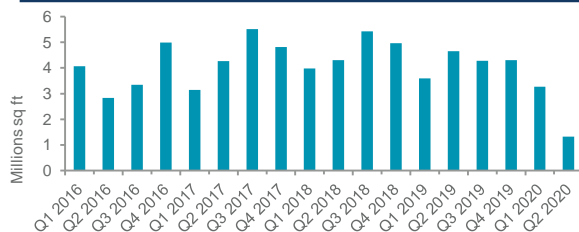
The vacancy rate remained under control at 5.6%, marginally higher than the previous quarter. In the UK regions, availability fell by 2% to 7.6 m sq ft, one of its lowest levels since before the global financial crisis. However, in London supply increased by 5% to 14.3 m sq ft, reflecting an increase in second-hand space coming to the market. Rents remained stable in the majority of markets, although the City and West End saw rents fall by 0.7% and 2.3% to £69.50 per sq ft and £107.50 per sq ft respectively.

INVESTMENT FOCUS: Lack of supply continues to constrain turnover

UK office investment turnover fell to £884 m in the second quarter, the lowest for at least 10 years and an 80% fall year-on-year. Similarly to the leasing market, activity was stifled by lockdown restrictions. A lack of stock continued to weigh on activity, although investor demand remains strong and a backlog of stock coming to the market should boost turnover in the second half of the year.

Prime yields softened in selected markets reflecting concessions made to ensure deals completed during lockdown. However, we expect the UK's competitive pricing and depth of demand to exert downward pressure on yields once lockdown measures ease further.

TAKE-UP, BIG EIGHT + LONDON



OVERALL VACANCY & PRIME RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	AVAILABILITY (SF)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP (SF)	12-MONTH ROLLING TAKE-UP(SF)	UNDER CNSTR (SF)	PRIME RENT (per sq ft)	PRIME YIELD
Birmingham	18,270,869	961,023	5.3%	61,474	665,945	1,113,341	£34.50	4.75%
Bristol	16,500,000	403,232	2.4%	52,934	730,589	687,679	£38.00	5.00%
Cardiff	10,500,000	546,291	5.2%	25,351	104,190	517,986	£25.00	5.50%
Edinburgh	11,622,039	660,293	5.7%	13,888	215,529	182,000	£35.50	4.75%
Glasgow	13,503,429	1,025,520	7.6%	28,727	813,654	1,426,067	£34.50	5.25%
Leeds	12,469,195	905,278	7.3%	22,128	473,672	271,560	£32.00	5.00%
Manchester	20,544,089	2,634,665	12.8%	75,375	1,055,371	730,171	£37.50	5.00%
Newcastle	6,972,231	486,000	7.0%	35,272	124,667	106,000	£25.00	5.75%
BIG EIGHT TOTALS	110,381,852	7,622,302	6.9%	315,149	4,183,617	5,034,804	-	-
West End	115,672,326	4,338,955	3.8%	266,477	2,823,650	6,218,635	£107.50	4.00%
City	140,136,149	7,673,519	5.5%	472,179	5,522,314	10,046,548	£69.50	4.00%
East London	23,411,422	2,285,057	9.8%	275,122	654,625	1,133,459	£44.50	4.50%
CENTRAL LONDON TOTALS	279,219,896	14,297,531	5.1%	1,013,778	9,000,589	17,398,642	-	-
UK TOTALS	389,601,748	21,919,833	5.6%	1,328,927	13,184,206	22,433,446	-	-

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	MARKET	TENANT	Size (Sq ft)	TYPE
Cargo, E14	London	BP	205,592	Pre-let
22 Bishopsgate, EC2	London	Covington & Burling	85,896	Pre-let
25 Golden Square, W1	London	Roxor Gaming	65,869	Pre-let
B1, 50 Summerhill Road	Birmingham	DWP	48,787	Lease

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	MARKET	SELLER / BUYER	SF	PRICE
10 Fenchurch Street	London	Chuang's China Group/Private Hong Kong	77,540	£95.2 m
Halo @ Finzels Reach	Bristol	Fiera & CBREGI/Tesco PF	116,000	£70.0 m
10 George Street	Edinburgh	KP International/La Francaise	70,000	£50 m

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