

CENTRAL LONDON

Office Q1 2021

6.8%

Vacancy Rate

YoY Chg



12-Mo. Forecast



1.3 m sq ft

Q1 2021 Take-Up



£102.50

Prime rent, London WE



ECONOMY: Return to growth in first quarter

The UK economy expanded by 0.4% in February after contracting by 2.2% in the first month of the year. The return to growth came after retailers reported increased sales and construction output increased. The recovery is expected to gather pace as lockdown restrictions are eased and the vaccine programme progresses, driven by an overall increase in business activity and consumer spending.

The UK unemployment rate fell for the second consecutive month to 4.9%, a level supported largely by the government's job retention scheme and an increase in hiring as employers look forward to the reopening of the economy. While unemployment is currently relatively stable, the planned end of the job retention scheme in September 2021 still represents a risk for an estimated 4.7 m employees who remained furloughed in March.

TAKE-UP: Activity starting to pick up but remains below average

Take-up during the first quarter of 2021 reached 1.28 million sq ft, the highest quarterly volume since the onset of the pandemic. Despite a 117% increase in leasing activity compared to Q4 2020, take-up activity remains 39% below the five-year average level.

At the end of March, there was 2.2 million sq ft under offer across Central London, representing a 23% shortfall against the five-year average level. However, this volume of active demand suggests that market will continue to pick up in the short to medium term, especially with the continued vaccine rollout prompting a return to the office for a number of occupiers.

SUPPLY: Tenant space still increasing but at a slower rate

Availability rose for the fourth consecutive quarter to 19.1 m sq ft, a quarter-on-quarter increase of 5% and 40% higher than March 2020. The rise reflects both ongoing subdued leasing activity and the release of some tenant space back to the market. The vacancy rate is now 6.8% which is the highest since 2010, but well below the peak of 7.7% seen during the Global Financial Crisis and the 10.7% seen in the early part of the last decade. Newly built/refurbished stock accounted for 45% of total supply at the end of March, equating to 8.6 million sq ft.

KEY INDICATORS Q1 2021

32.4 M

UK Employment

YoY Chg



12-Mo. Forecast



4.9%

UK Unemployment Rate



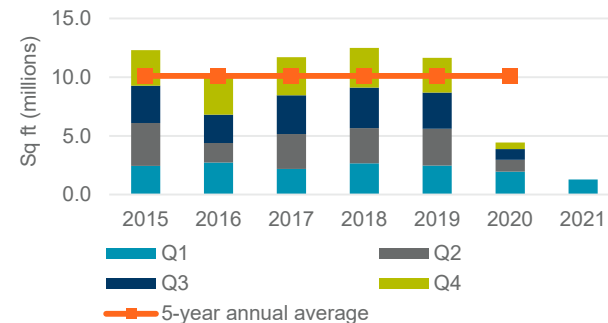
0.10%

Interest rate

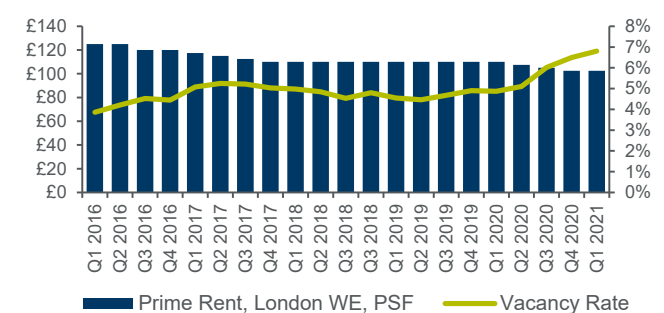


Source: ONS

LEASING VOLUMES



OVERALL VACANCY RATE & PRIME RENT



FUTURE SUPPLY: Development pipeline becoming more restricted

The volume of speculative space under construction that is scheduled to complete by the end of 2021 reached 2,4 million sq ft at the end of March, with an additional 3.1 million sq ft of speculative space set to deliver by the end of 2022.

We expect the lack of new construction contracts being signed to have an impact on the delivery of newly built/refurbished space in the medium to long term (2023 and beyond) as COVID-19 forces developers to delay their schemes.

INVESTMENT: Market slowed down by travel restrictions and lack of stock

There was £1.3 billion of investment across the Central London market in the first quarter of 2021, reflecting a 43% shortfall against the same period in 2020, and was 50% below the five-year average. The West End market saw the highest proportion of investment activity during Q1, accounting for 57% of total investment activity (£717 million). The City saw a further £547 million invested during Q1, whilst there was no investment activity in East London during the first three months of the year. The restrictions on international travel are hampering activity, which is exacerbated by a lack of suitable stock.

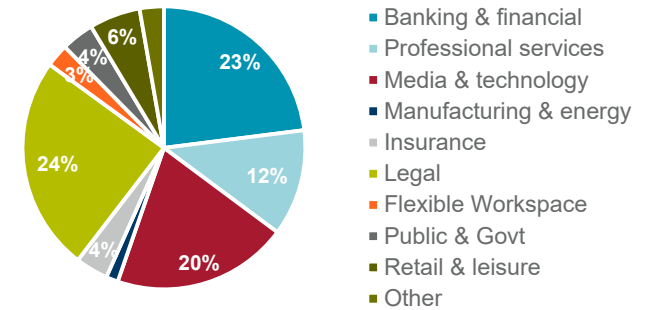
There were two sales in excess of £100 million traded during Q1, and eight further transactions between £50 million and £100 million. The largest transaction was Wing Tai Properties' purchase of 66 Shoe Lane, EC4 from Henderson Park & Endurance Land for £255 million, reflecting an initial yield of 4.16%.

Prime yields remained stable in both the City and West End at 4.00% and 3.75% respectively, reflecting the improving sentiment and weight of demand.

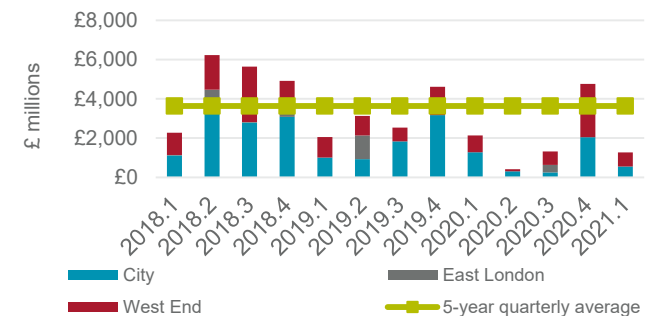
Outlook

- Occupier sentiment is gradually improving, and office viewings are picking up heading into Q2. The next three to six months will likely still see below average take-up volumes although the phased re-opening of the economy should boost activity in the second half of 2021 and beyond.
- Supply levels are anticipated to continue on an upward trend, although the rate of tenant space being released is expected to slow as occupiers gain a firmer understanding of their office needs going ahead. The development pipeline remains relatively restricted, and as such a significant uptick in the volume of New Grade A space is unlikely.
- We expect investors to continue to seek opportunities to deploy capital in London in the remainder of 2021, driven by increased confidence fuelled by the vaccine rollout. Activity levels are expected to be improved once the international travel restrictions are lifted, which should improve investor sentiment.

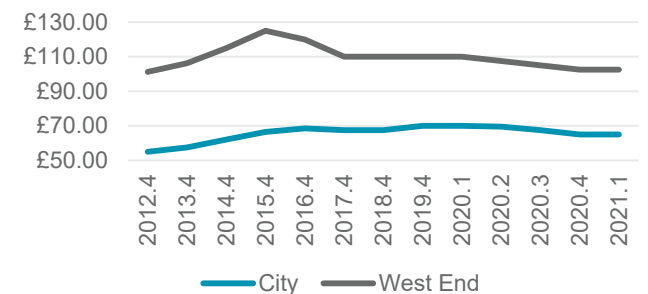
LEASING VOLUMES BY BUSINESS SECTOR



INVESTMENT VOLUMES



PRIME RENT, PSF



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	AVAILABILITY (SF)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP (SF)	12 MONTH TAKE-UP(SF)	SPECULATIVE CONSTRUCTION (SF)	PRIME RENT (per sq ft)	PRIME YIELD
West End	115,668,129	5,858,198	5.1%	423,498	1,236,430	2,337,825	£102.50	3.75%
City	141,548,214	10,662,843	7.5%	776,983	2,146,802	6,131,741	£65.00	4.00%
East London	23,411,422	2,575,177	11.0%	81,337	401,003	741,131	£42.50	4.50%
CENTRAL LONDON TOTALS	280,627,764	19,096,218	6.8%	1,281,818	3,784,235	9,210,697	-	-

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1 Leadenhall Street	City Core	Lathan & Watkins	246,000	Pre-let
Kaleidoscope, 4 Lindsey Street	Clerkenwell	TikTok/ByteDance	86,163	New / Refurbished
82 Baker Street	North of Oxford Street	Brevan Howard	71,779	Assignment

KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SELLER / BUYER	SF	PRICE
66 Shoe Lane	Hender Park & Endurance Land / Wing Tai Properties	156,997	£255.0M
Saffron House, Kirby Street	Columbia Threadneedle / M&G	72,976	£78.3M
The Lever Building	Amsprop / Merseyside Pension Fund	30,637	£38.14M

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