

CENTRAL LONDON REPORT

MARKETBEAT – Q2 2022



**CUSHMAN &
WAKEFIELD**

SUMMARY

Central London take-up totalled 3.0 million sq ft for Q2, improving by 66% on the same period of 2021. Activity was also 25% above the five-year Q2 average of 2.4 million sq ft.

So far this year, Central London has seen 5.2 million sq ft of leasing activity. This figure is 15% above the five-year YTD average.

The banking & finance sector represented the largest portion of Q2 take-up, accounting for 19% of total volumes. The media & technology sector was also active, accounting for 18% of leasing volumes. The legal sector was similarly active with a 16% share of take-up.

Total space under offer fell by 23% over the quarter, to 2.7 million sq ft at the end of June. Under offer volumes are now 11% below the five-year quarterly average of 2.9 million sq ft.

Availability declined by 0.7% in Q2 to 23.1 million sq ft, this is the second consecutive quarter in which supply has fallen. This still however indicates a 19% year-on-year increase in supply. The fall in both space under offer and available space is due in part to continued strong leasing activity.

The availability rate dipped to 8.11%, a marginal decrease on last quarter when availability was at 8.18%.

Newly built/refurbished stock accounted for 42% of total supply at the end of June, equating to 9.8 million sq ft.

“Supply has declined for the second consecutive quarter, indicating demand for office space is outpacing the supply of office space.”

After a strong start to 2022, a total of £3.0 billion was invested in Central London in Q2. Q2 investment volumes were 45% below the previous quarter’s volumes of £5.4 billion.

H1 2022 investment volumes reached £7.5 billion, 93% above the same period in 2021 and 43% above the five-year H1 average.

There were five transactions in excess of £100 million and seven further transactions between £50-£100 million.

The majority of investment in Q2 2022 has taken place in the City, where £1.15 billion has been transacted. A further £1.8 billion has been transacted in the West End. Investment activity in the City has dropped quarter on quarter, West End investment again exceeded quarterly average figures.

Asia Pacific investors were the dominant source of capital into Central London during Q2 2022 accounting for 40% of total turnover. UK investors represented a further 24%.

As at the end of Q2, prime yields remained at 3.75% and 3.50% in the City and West End markets, respectively. We expect a softening of yields further into the year.



2022 Q2 take-up stood at 3.0 million sq ft
10% above the five-year Q2 average



2.6 million sq ft under offer across London at end of June
11% below the five-year quarterly average



2022 Q2 investment volumes were £2.1 billion
40% below five-year quarterly average

28

Number of transactions signed over 25,000 sq ft in 2022 Q2
16 more transactions than in Q1 2022



10.9 million sq ft speculatively under construction
39% of space is pre-let or under offer



Prime yields across London
3.75% City 3.50% West End

Leasing activity across Central London noticeably improved during the first half of 2022, with 5.2 million sq ft of office space leased during the period, 46% of which was for grade A space.

Though we have spoken about the flight to quality trend for some time, the data for the market is now showing clear evidence of this. Supply volumes continued to erode, substantiated by robust demand and as at the end of Q2, there was 23.1 million sq ft available across the market, of which 42% is grade A space. This was the lowest grade A proportion since the end of 2010. Furthermore, the supply pipeline for the next five years looks constrained, with 39% of space under construction and due for delivery by 2026 already pre-let.

All that being said, the market appears to have moved away from the slightly unusual trends of 2020 and 2021, and the traditional supply and demand dynamics have returned – robust demand resulting in falling supply levels coupled with rising rental values on prime space. Though this bodes well for the market, as we move into the second half of the year, we do expect activity to be slightly more subdued, particularly over the summer months.

This activity can, in part, be attributed to some strong economic fundamentals. According to their latest figures, Moody’s Analytics are forecasting GDP in London to grow by 5.2%, downgraded on previous revisions but nonetheless positive and ahead of the 3.7% growth forecast across the UK. This recovery is expected to continue over the next five years, with average annual growth of 2.9% forecast for London’s economy.

However, there are still many headwinds which are likely to impact on activity as we move into the second half of the year, which the market is well aware of. The immediate concern is cost inflation, which will continue to impact on future office developments, something which is already evident as schemes are continually being pushed back. To add to this, the on-going instability within the UK Government is also likely to create some short-term uncertainties, particularly as we approach the summer recess, with the leadership contest occupying headlines over other important issues.

In the investment market, H1 was strong (£8.4 billion), however only £3 billion was traded during Q2 signifying a slowdown from the first three months of the year. Though yields have remained unchanged at 3.75% in the City and 3.50% in the West End, we anticipate some softening of values over the coming months. Lending options remain positive and active and the slowdown in investment volumes and softening of yields is largely due to investors taking pause while the market finds its price level. So the current issue is not one of liquidity, but of pricing instead.

“Traditional supply and demand dynamics have returned – strong demand resulting in falling supply levels coupled with rising rental values.”

5.2% Projected Inner London GDP growth in 2022

2.1% Projected Inner London GDP growth in 2023

3.7% Projected UK GDP growth in 2022

1.0% Projected UK GDP growth in 2023

Source: Moody’s Analytics (June 2022)

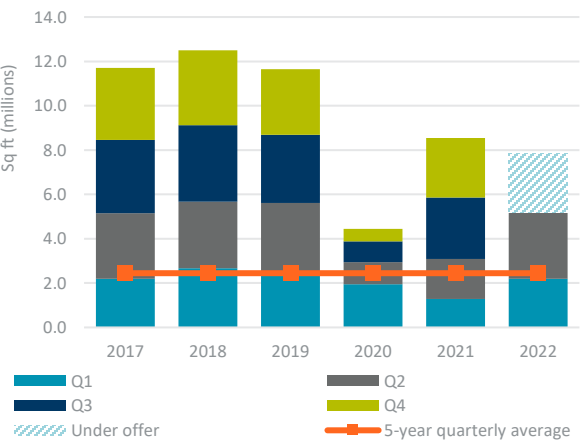
CENTRAL LONDON OVERVIEW

TAKE-UP

Central London take-up totalled just below 3 million sq ft in Q2, an increase of 66% on the volume transacted during the corresponding period in 2021, and 22% above the five-year quarterly average. Of the quarter's take-up, 45% of leasing volumes took place in the West End, 53% across the City and 2% in East London

This took take-up for the first half of the year to 5.2 million sq ft, a significant improvement on the 3.1 million sq ft that traded in H1 2021.

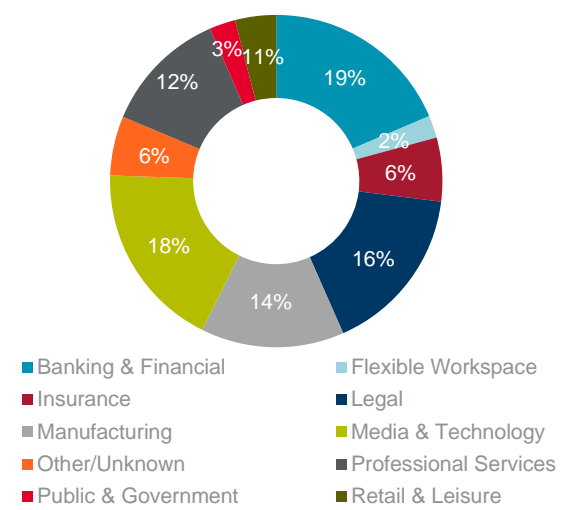
LEASING VOLUMES – 2017-2022 Q2



Pre-let space accounted for 29% of H1 2022 leasing volumes, with a further 676,000 sq ft under offer at the end of June.

During Q2, nine of the ten largest deals were pre-lets, the largest of which was Capital Group's 220,000 sq ft lease at Paddington Square, W2. Furthermore, Kirkland & Ellis committed to a total of 305,813 sq ft across two leases at 40 Leadenhall Street, EC3.

TAKE-UP BY SECTOR – 2022 Q2



Banking and financial occupiers acquired the majority of space during Q2, accounting for 19% of take-up, or 556,600 sq ft. The media & technology sector remained active with an 18% share of leasing volumes, closely pursued by the legal businesses (16%).

The level of space under offer declined in Q2 to 2.7 million sq ft, attributed to some large deals completing during the quarter. Under offer volumes are now 11% below the five-year quarterly average, but were 16% above the same period of 2021.

KEY OCCUPIER TRANSACTIONS – 2022 Q2

KIRKLAND & ELLIS LLP	CAPITAL GROUP®	MSD
40 LEADENHALL STREET, EC3	PADDINGTON SQUARE, W2	BELGROVE HOUSE, WC1
305,813 SQ FT	220,000 SQ FT	196,000 SQ FT
City Core	Paddington	Bloomsbury
Pre-let, Under Construction	Pre-let, Under Construction	Pre-let, Off-plan

SUPPLY

Central London supply declined marginally to 23.1 million sq ft by the end of June, representing a quarter-on-quarter decrease of 0.7%, and a 19.6% increase year-on-year. The vacancy rate reduced again, to 8.11%, marking the second consecutive quarterly decline.

At the end of June, there was 9.8 million sq ft of newly built or refurbished space being marketed, equating to 42% of total supply. This was the lowest proportion of available grade A space since Q4 2010, and depicting the well spoken "flight to quality" trend that has been seen across London in recent years.

Tenant-controlled supply remains a key factor of the market, accounting for 26%, or 6 million sq ft, of total supply at the end of Q2. This was a 13% increase over the quarter, while the proportion was below the 5 and 10-year quarterly average of 29% and 27% respectively.

At the end of Q2 there were 31 buildings able to satisfy a requirement of 100,000 sq ft or larger (excluding spaces under offer), ten of which were classified as tenant-controlled supply. This is down on the Q1 figure of 36 buildings.

CENTRAL LONDON OVERVIEW

FUTURE SUPPLY

Close to 1.7 million sq ft of office space has completed across Central London during the first half of 2022, with a further 5.4 million sq ft due to complete by the end of the year. Of this upcoming supply, 2.3 million is speculatively under construction, while 3.1 million sq ft is under construction with pre-lets or under offer secured.

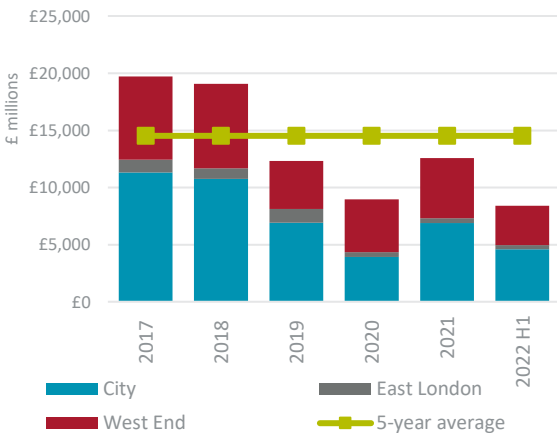
In the shorter term, there is 765,000 sq ft of speculative space due to complete by the end of 2022, with a further 2.44 million sq ft due in 2023. Looking further ahead, there is 660,000 sq ft of speculative space under construction that could complete in 2024.

INVESTMENT

There was £3.0 billion of investment across the Central London markets in the second quarter of 2022, reflecting a 45% quarterly decline. This took volumes for H1 2022 to £8.4 billion.

The highest proportion of investment activity during Q2 2022 occurred in the West End, accounting for 61% of total investment (£1.84 billion), while £1.15 billion was invested across the Wider City.

INVESTMENT VOLUMES – 2017-2022 H1



Five sales in excess of £100 million traded during Q2, and seven further transactions between £50 million and £100 million.

The largest transaction was GIC's acquisition of 75% of Paddington Central, W2 for £694 million from British Land. Followed by Goldman Sachs and Greycoat's £370 million purchase of 15 Newgate Street, EC1.

KEY INVESTMENT TRANSACTIONS – 2022 Q2

PADDINGTON CENTRAL, W2 (75% STAKE)	15 NEWGATE STREET, EC1	40 STRAND, WC2
£694m	£370m	£195m
Purchaser: GIC	Purchaser: Goldman Sachs & Greycoat	Purchaser: Sinar Mas Land
Vendor: British Land	Vendor: Shimao Group	Vendor: LandSec

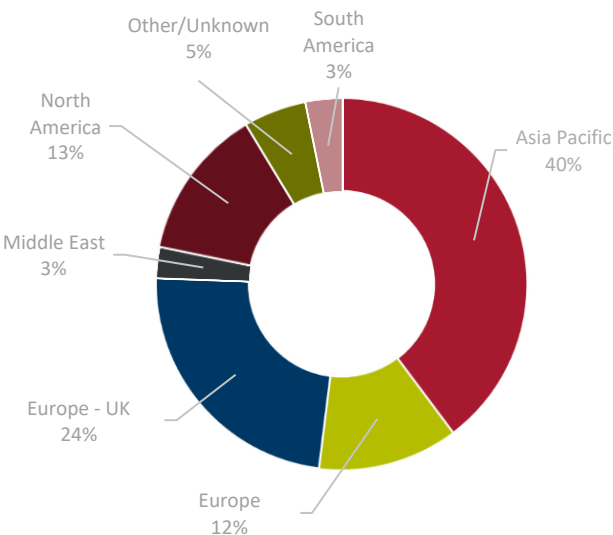
The average lot size for Central London overall reached £68.06 million in the second quarter of 2022, compared to £150.06 million during Q1.

Asian purchasers were the dominant source of capital into Central London in Q2 2022, accounting for 40% of all turnover, whilst investors from the UK and North America took a 24% and 13% share respectively.

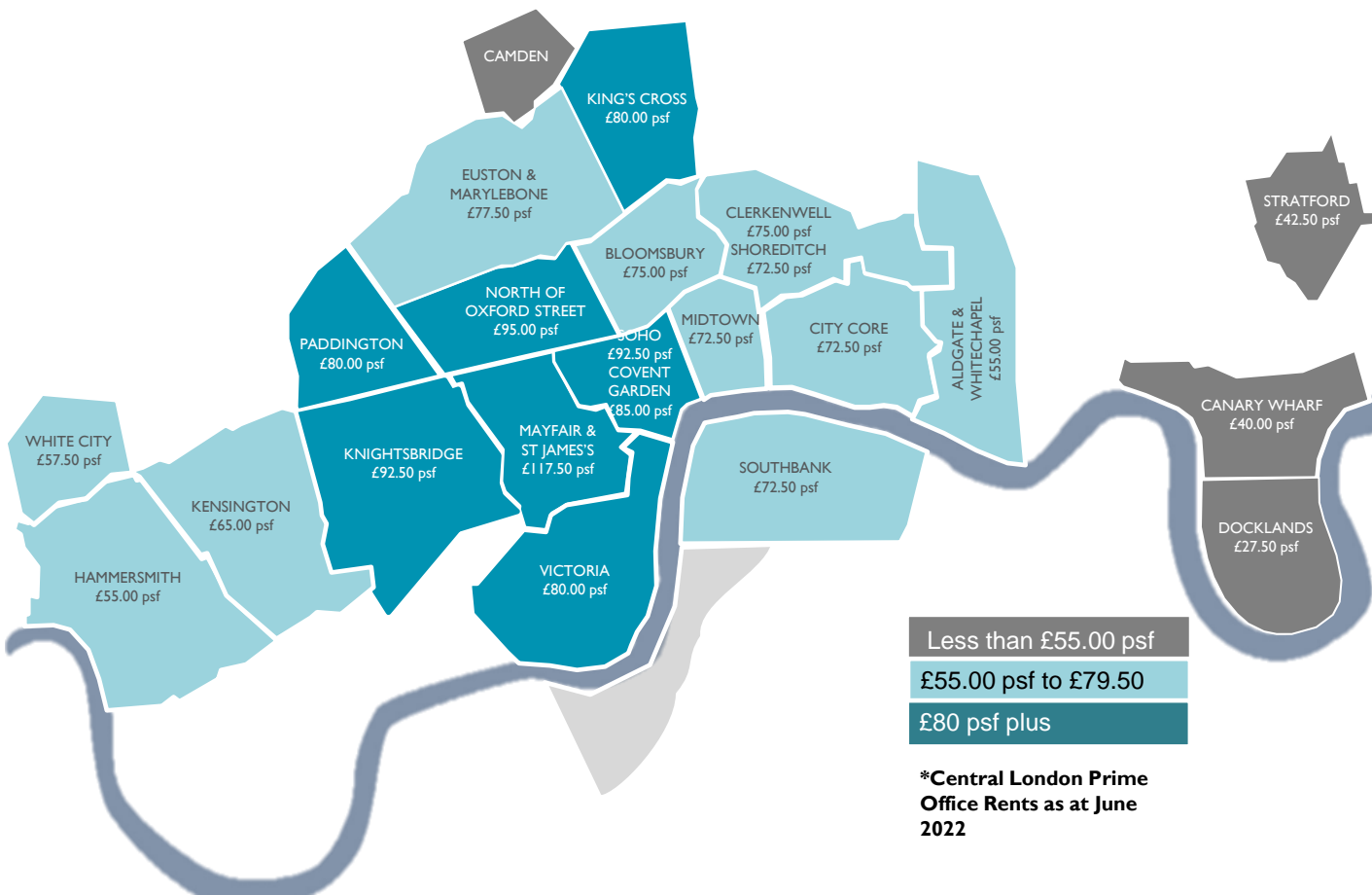
The amount of available stock once again increased during Q2 2022; at the end of June there was £6.61 billion available or at bids stage in Central London. Furthermore, £4.34 billion was under offer at the end of the quarter.

Prime yields remained unchanged at 3.5% in the West End and 3.75% in the City, however the current headwinds are pointing to changes in the market, and as a result we may see yields start to soften in the coming months.

INVESTMENT BY PURCHASER ORIGIN – 2022 Q2



PRIME RENTS



Prime rents in Central London have either **improved or remained stable** over the quarter across all submarkets

Prime rents have **increased by an average of 7.2% over the last 12 months**, and are forecast to rise by, on average, a further 6.9% in the core markets by the end of 2022.



Average annual rental change across London markets

- City – average annual change of **9.3%**
- East London – average annual change of **0.0%**
- West End – average annual change of **8.8%**



Vacancy rates broadly improved across the submarkets again this quarter.

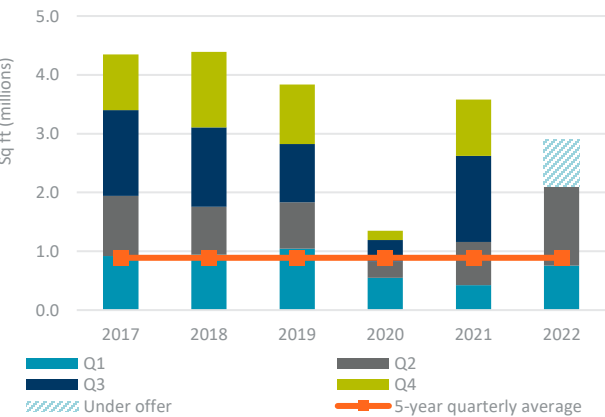
WEST END OVERVIEW

TAKE-UP

Take-up in the West End reached 1.34 million sq ft in the second quarter of 2022, which was 52% above the five-year quarterly average. West End take up in Q2 2022 is an improvement of 83% on Q2 2021, and 79% quarter-on-quarter.

H1 volumes reached 2.1 million sq ft, 20% ahead of the five-year H1 average, this is the highest H1 leasing volume since 2006.

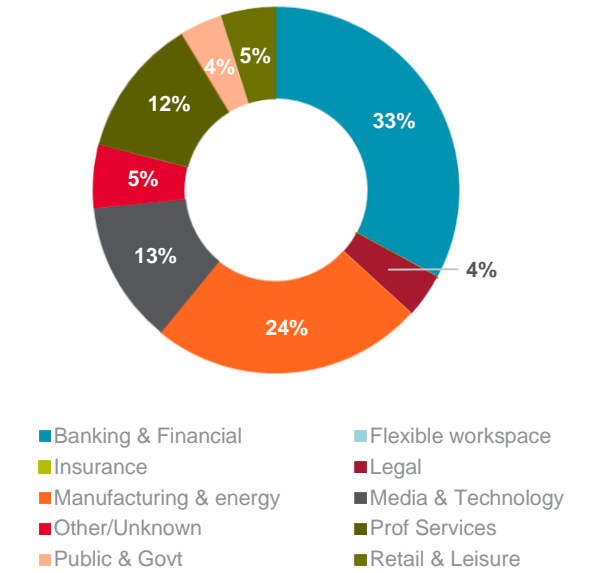
LEASING VOLUMES – 2017-2022 Q2



Notable transactions to conclude during the second quarter of 2022 saw Capital Group acquire 220,000 sq ft of pre-let space in Paddington and MSD acquire 196,000 sq ft Belgrove House. The average transaction size during the second quarter of 2022 was 22,862 sq ft, and there was a total of 59 deals that concluded between April and June.

The banking & finance sector accounted for the largest share of 2022 Q2 take-up with 33% of leasing volumes, with the manufacturing & energy sector accounting for a further 24%.




TAKE-UP BY SECTOR – 2022 Q2



There were 10 pre-let transactions during Q2. Two occupiers committed to spaces over 100,000 sq ft. Three further pre-let transactions between 50,000 and 100,000 sq ft took place during the quarter. There was an additional 183,128 sq ft of pre-let space under offer at the end of June which would suggest a continued trend of pre-letting.

The total volume of space under offer at the end of June fell to 796,284 sq ft, mainly due to high levels of take-up in Q2. The volume of space under offer at the end of June was 25% below the five-year average.

KEY OCCUPIER TRANSACTIONS – 2022 Q2

 PADDINGTON SQUARE, W2 220,000 SQ FT Paddington Pre-let	 BELGROVE HOUSE, WC1 196,000 SQ FT Bloomsbury Pre-let Off-Plan	 20 CARLTON HOUSE TERRACE, SW1Y 67,429 SQ FT St James's Pre-let
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SUPPLY

Supply fell by 4% in the West End over the quarter, with 6.97 million sq ft available at the end of June. The vacancy rate falling to 5.93%. Supply levels have risen by 19% year-on-year.

Newly built or refurbished space accounted for 48% of total supply at the end of June, the amount of available Grade A space has increased by 17% from the end of the corresponding period in 2021.

At the end of June, there was a total of 1.29 million sq ft of tenant-controlled space being marketed in the West End, which has risen slightly quarter-on-quarter. The West End market has been better insulated from the increase in tenant space when compared to the City and East London markets.

Across the West End there were eight buildings able to accommodate an immediate requirement in excess of 100,000 sq ft at the end of June. Additionally, there were fourteen buildings with 50,000-100,000 sq ft available, down from twenty last quarter.

WEST END OVERVIEW

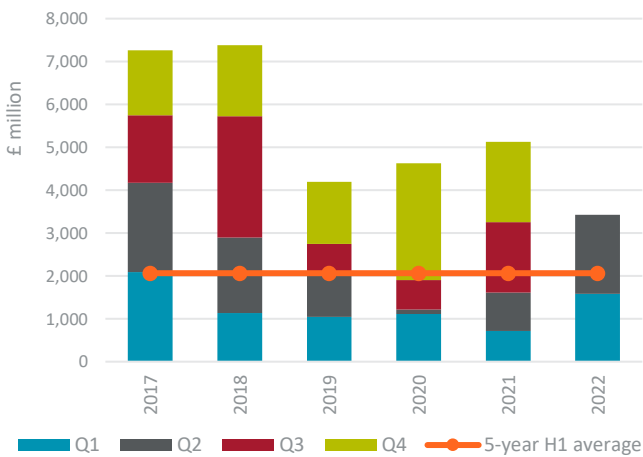
FUTURE SUPPLY

The development pipeline for the next five years looks increasingly restricted, with pre-let transactions insulating against any significant future uptick in New Grade A supply volumes. At the end of June, 55% of space under construction in the development pipeline was pre-let or under offer, leaving a total of 4.67 million sq ft of speculative space under construction.

In the shorter term, there is 765,000 sq ft of speculative space due to complete by the end of 2022, with a further 2.44 million sq ft due in 2023. Looking further ahead, there is 660,000 sq ft of speculative space under construction that could complete in 2024.

INVESTMENT




INVESTMENT VOLUMES – 2017-2022 Q2



West End investment volumes reached £1.84 billion during the second quarter of 2022, which combined with the Q1 total brings investment 66% above the five-year half-year average. Investment volumes rose by 16% quarter-on-quarter.

There were 4 transactions above £50 million during Q2 and the average lot size this quarter was £158.24 million.

KEY INVESTMENT TRANSACTIONS – 2022 Q2

		
PADDINGTON CENTRAL, W2 (75% STAKE)	40 STRAND, WC2	SELKIRK HOUSE, 1 MUSEUM STREET, WC1
£694m	£195m	£115m
Purchaser: GIC Vendor: British Land	Purchaser: Sinar Mas Land Vendor: LandSec	Purchaser: BC Partners Vendor: Labtech Investments

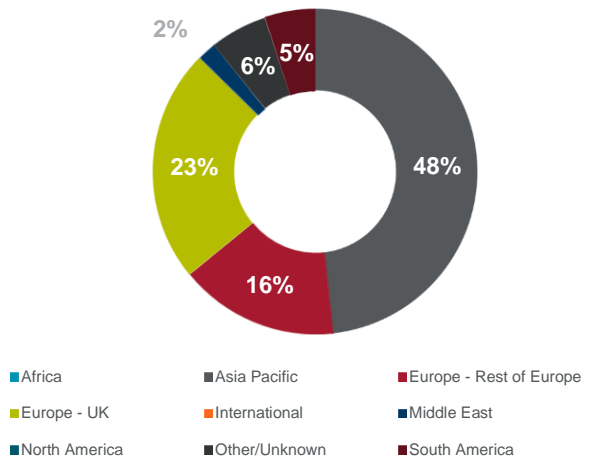
The largest transaction was GIC’s acquisition of Paddington Central for £694 million. The next largest deal was Sinar Mas Land’s purchase of 40 Strand, WC2 from LandSec for £195 million, reflecting a net initial yield of 4.26%.

Asian investors accounted for 48% of total turnover during 2022 Q2, with UK capital the next most active accounting for an additional 23% of investment volumes.

The amount of available stock on the market increased during the quarter, with an estimated £2.34 billion available or at the bids stage at the end of June 2022. There was an additional £1.34 billion under offer at the end of Q2, which should help to bolster investment turnover in the short to medium term.

Prime West End yields remained 3.50% at the end of Q2 2022, reflecting the continued weight of demand across the capital.

INVESTMENT BY PURCHASER ORIGIN – 2022 Q2

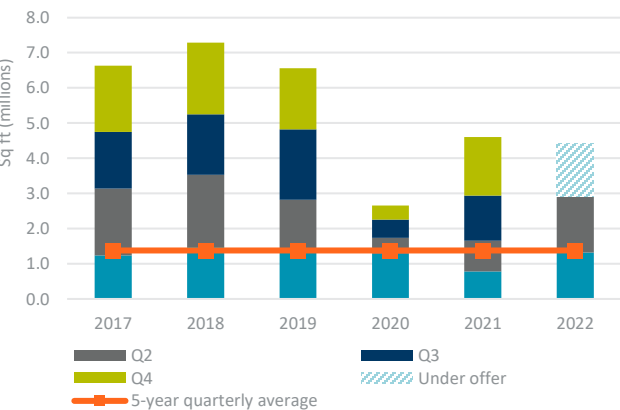


CITY OVERVIEW

TAKE-UP

A total of 1.6 million sq ft was let across the City submarkets in the second quarter of 2022. Q2 leasing volumes were 20% higher than the previous quarter and 80% above the same period last year. This took H1 take-up to 2.9 million sq ft, the highest H1 total since 2018, and 15% ahead of the five-year H1 quarterly average.

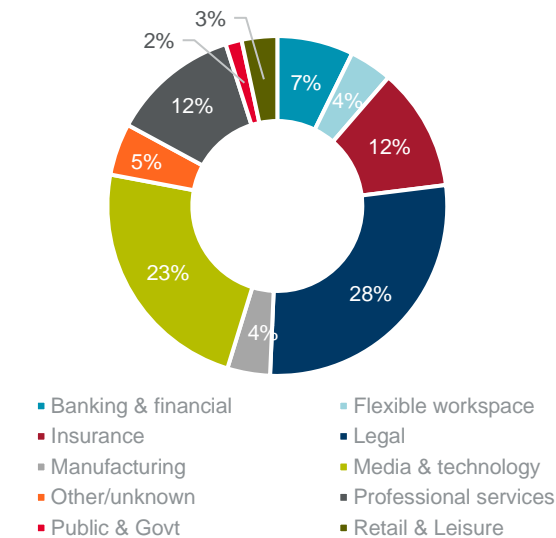
LEASING VOLUMES – 2017-2022 Q2



Pre-letting activity continued to be key driver of the leasing market so far this year, accounting for 25% of H1 transaction volumes. Q2 2022 saw some large pre-let deals complete across the City. Kirkland & Ellis signed a lease for 305,813 sq ft at 40 Leadenhall Street, EC3, putting it in the top three largest transactions so far this year.

Other notable leasing transactions include Chubb pre-letting 85,000 sq ft also at 40 Leadenhall Street, EC3, while Holman Fenwick willan pre-let 59,700 sq ft 8 Bishopsgate, EC2.

TAKE-UP BY SECTOR – 2022 Q2



Legal occupiers took the most space across the City during Q2, taking 439,081 sq ft, or 28%, of total leasing volumes. The media & technology sector were also active, taking a 23% market share, equating to 368,628 sq ft.

Space under offer decreased quarter-on-quarter to 1.5 million sq ft at the end of June. Total space under offer is 9% below the five-year quarterly average of 1.7 million sq ft and 15% higher than the 1.3 million sq ft that was under offer at the end of June 2021. The leasing activity at 40 Leadenhall this quarter was a key driver in bring the volume of space under offer down, and with the increase in leasing activity so far this year, we can expect the volume of space under offer to continue to reduce further over the coming months.

KEY OCCUPIER TRANSACTIONS – 2022 Q2

KIRKLAND & ELLIS LLP	CHUBB	holman fenwick willan hfw
40 LEADENHALL STREET, EC3	40 LEADENHALL STREET, EC3	8 BISHOPSGATE, EC2
305,813 SQ FT	85,000 SQ FT	59,705 SQ FT
City Core	City Core	City Core
Pre-let, Under Construction	Pre-let, Under Construction	Pre-let, Under Construction

SUPPLY

Availability in the City declined by 1.1% this quarter to reach 12.8 million sq ft at the end of Q2, reflecting a vacancy rate of 8.93%.

The supply of newly built or refurbished space fell during the quarter to 5.56 million sq ft. As a result, the grade A vacancy rate also reduced to 3.88% at the end of the quarter. Second hand supply accounted for over half (57%) of total supply at the end of June.

There are at present 10 buildings that are capable of accommodating a Grade A space requirement in excess of 100,000 sq ft, of which two can accommodate over 200,000 sq ft. This represents a decrease from 15 buildings in Q1 that had 100,000 sq ft on the market.

CITY OVERVIEW

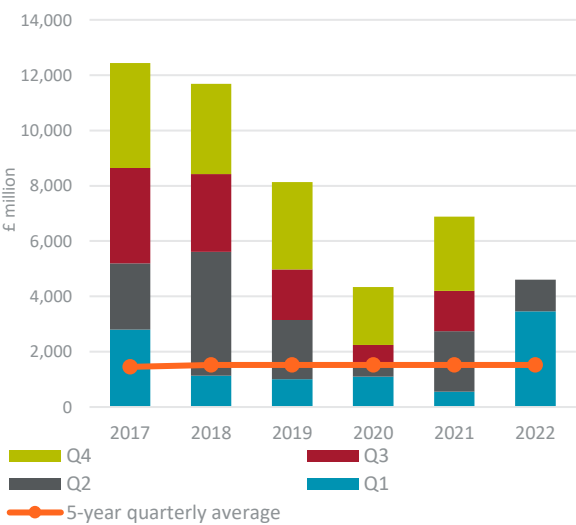
FUTURE SUPPLY

The development pipeline for the next five years is restricted, with pre-let transactions impeding any significant future increase in New Grade A supply volumes.

At the end of June, 45% of space under construction in the development pipeline (2022-2026) was pre-let or under offer, leaving a total of 5.6 million sq ft of speculative space under construction. Of this speculative figure, 1.5 million sq ft is due to complete by the end of 2022, while 2.2 million sq ft will complete with pre-lets already secured.

INVESTMENT

INVESTMENT VOLUMES – 2017-2022 Q2



Turnover for Q2 2022 totalled £1.15 billion. This was 41% below the five-year quarterly average level and was limited by the absence of deals in excess of £500 million.

There was good activity with the smaller lot sizes, with 21 transactions below £100 million taking place during the quarter, while a further three deals were within the £200-£500 million price bracket. As a result, the average lot size decreased to £50.13 million during Q2.

The largest deal of the quarter was Goldman Sachs and Greycoat’s acquisition of 15 Newgate Street, EC1 for £370 million. The next largest transaction was Kingboard’s purchase of 2 London Wall Place from Brookfield for £302 million, reflecting a 3.98% net initial yield.

KEY INVESTMENT TRANSACTIONS – 2022 Q2

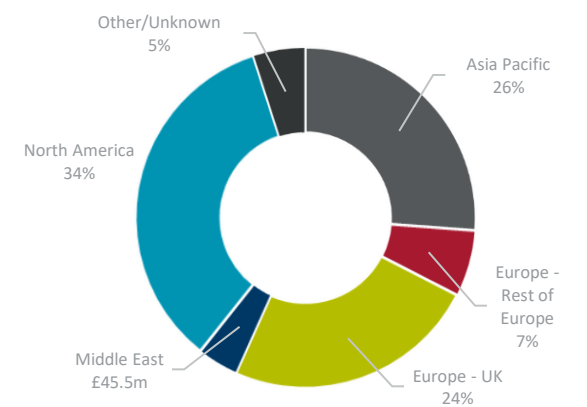
15 NEWGATE STREET, EC1	2 LONDON WALL PLACE, EC2	22 KINGSWAY, WC2
£370m	£302m	£88.6m
Purchaser: Goldman Sachs & Greycoat Vendor: Shimao Group	Purchaser: Kingboard Vendor: Brookfield	Purchaser: Scape Living Vendor: Lasalle Investment Management

North American purchasers were the dominant source of capital during the second quarter of 2022, accounting for 34% of all investment volumes. Asia Pacific and UK investors were also active, taking a 26% and 24% share in Q2 volumes, respectively.

The amount of stock on the market in the City and East London has increased during the quarter, with an estimated £4.27 billion of assets on the market, including those subject to bids. There was an additional £3.01 billion of assets under offer at the end of June, which should help to bolster investment turnover in the coming months.

Prime City yields remained at 3.75% at the end of Q2, however due to the current headwinds that are affecting the market, yields may be pushed out by end of the year.

INVESTMENT BY PURCHASER ORIGIN – 2022 Q2

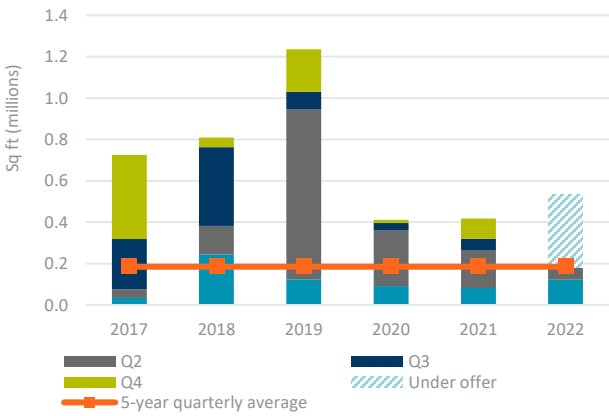


EAST LONDON OVERVIEW

TAKE-UP

There was 59,423 sq ft transacted in East London this quarter. Take-up for the corresponding period in 2021 was 181,926 sq ft, equating to a 67% decrease in leasing activity year-on-year. Q2 2022 figures fell short by 68% of the five-year quarterly take-up average of 185,228 sq ft.

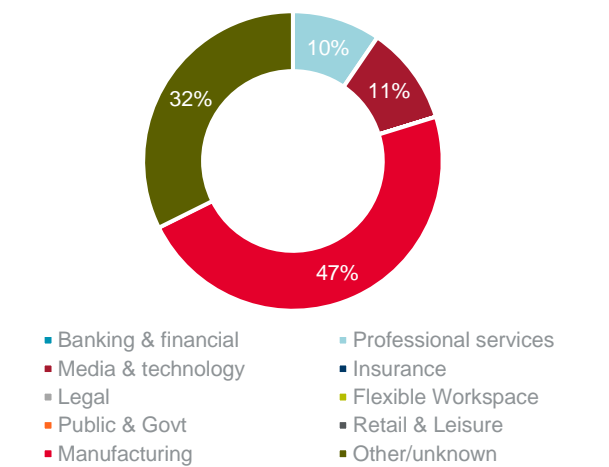
LEASING VOLUMES – 2017-2022 Q2



The largest transaction to conclude during the quarter was a 19,222 sq ft lease in Canary Wharf to NYK Shipping. Also in Canary Wharf, Chevron took 14,913 sq ft of office space at 1 Westferry Circus. There were three other deals in East London this quarter, two of which were below 10,000 sq ft.

The manufacturing & energy sector accounted for the largest share of take-up over the quarter with 47% of total leasing volumes. The professional services sector and the tech sector were the only other known active sectors this quarter, with a 11% and 10% share of take-up in Q2 2022 respectively.




TAKE-UP BY SECTOR – 2022 Q2



The volume of space under offer in East London at the end of June was 351,091 sq ft, the second consecutive rise quarter-on-quarter (102%).

The volume of space under offer still represents a figure 38% higher than the five-year quarterly average of 254,643 sq ft.

KEY OCCUPIER TRANSACTIONS – 2022 Q2

		
1 CABOT SQUARE, E14	1 WESTFERRY CIRCUS, E14	1 HARBOUR EXCHANGE SQUARE, E14
19,222 SQ FT	14,913 SQ FT	13,268 SQ FT
Canary Wharf	Canary Wharf	Outside Canary Wharf
Sublease	New lease	New lease

SUPPLY

Supply across East London submarkets rose over the quarter to 3.4 million sq ft, reflecting a vacancy rate of 13.87%. The total supply figure for Q2 2022 is 40% above the five-year quarterly average of 2.3 million sq ft.

Grade A supply totalled 886,705 sq ft at the end of June, 2% less than the 903,309 sq ft available at the end of Q2 2021. Second-hand units continue to dominate availability in East London, accounting for 73%, or 2.4 million sq ft of total supply.

At the end of Q2 there were seven buildings which could accommodate a requirement in excess of 100,000 sq ft, two of which can accommodate requirements over 200,000 sq ft. The largest unit on the market is 20 Canada Square, where 250,000 sq ft of second-hand space is available.

FUTURE SUPPLY

At the end of June, there was just 751,289 sq ft of speculative space under construction across East London which is due to complete over the next five years. There was a further 720,505 sq ft of pre-let or under offer space under construction in the East London market.



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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.