MARKETBEAT

UNITED KINGDOM

Offices Q2 2024

	YoY Chg	12-Mo. Forecast
9.9% Vacancy Rate	▲	▼
2.8 million sq ft Take-up	▲	▲
£1,834 million Investment Volume	▼	▲

KEY ECONOMIC INDICATORS

	YoY Chg	12-Mo. Forecast
0.7% UK Quarterly GDP Growth, Q2 2024	▲	▬
4.4% UK Unemployment Rate, Apr 2024	▲	▲
5.00% Interest rate, Aug 2024	▬	▼

Source: Moody's; ONS

ECONOMY: First rate cut in four years marks the start of a shift in sentiment

The 0.7% growth in GDP across the UK economy in Q1 2024, combined with inflation falling to 2.3% in April – its lowest level since July 2021 – and the increasing slack in the labour market with unemployment rising to 4.4%, all contributed to the Bank of England's (BoE) decision to cut rates to 5.00% in August, down from 5.25%. The fine margin by which this was decided reflects concerns around the 'stickier' nature of inflation in certain areas of the economy, particularly in the services sector. While this is only one facete of real estate activity, it will have a ripple effect on sentiment, with a subsequent uptick in activity anticipated over the short to medium-term as a result. Additionally, the positive economic growth supports a positive outlook for office demand over the medium-term, with strong businesses translating into take-up activity.

OCCUPIER FOCUS: Grade A accounts for record share of take-up as occupiers seek out the best spaces

Take-up in Q2 2024 totalled 2.8 million sq ft of office space in the Big Five (Birmingham, Bristol, Edinburgh, Leeds and Manchester) and Central London. This figure stood 19% above Q1 2024 but was still 5% below the five-year quarterly average. Leasing in the Big Five totalled 816,000 sq ft, 3% below the five-year average, whilst Central London leasing rose to 2.1 million sq ft, also 3% below the five-year average. Activity in Grade A assets increased sharply to 2.1 million, 51% above the last quarter and 20% above the five-year average. This was driven by Central London, where a record 77% of take-up was of Grade A space. In the Big Five, the shortage of Grade A space is increasingly impacting leasing activity, with the 2.3 million sq ft of Grade A space available being equivalent to just 1.1 years' supply. Overall availability totalled 7.3 million sq ft across the Big Five, up 8% on the quarter and amounting to a vacancy rate of 9.2%. In Central London, the strength of the development pipeline has pushed up supply in the short-term, which stood at 27.3 million sq ft in Q2 reflecting a 9.4% vacancy rate.

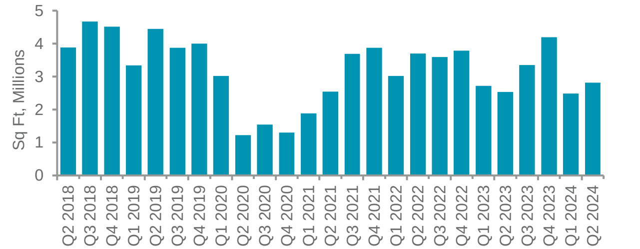
Across the development pipeline, a total of 18.6 million sq ft was under construction – an increase of 7% on the quarter, driven by new starts in Central London. Of the space under construction, 42% has been pre-let, leaving 10.7 million available. In addition, while the short-term pipeline is strong, the delivery of new space to market is projected to fall away sharply from 2026 with 82% of the current pipeline due to complete in 2025 or before. This leaves just 2.1 million sq ft of space to be delivered in 2026 and 2027 – well below 1.0 years' supply. The pipeline in the regions is particularly tight, with no new schemes projected to complete beyond 2026 at the close of Q2 despite evident tenant demand. The BoE's cut to base rates, along with the strength in the occupational markets at the top end, may provide enough of a catalyst for developers to commence construction on new schemes – particularly given the strong rental growth story.

With occupiers increasingly focusing on 'best-in-class' space and the amenity offer and specification of buildings rising, prime headlines rents across the markets increased by 4.5% on average over the past year, at £140.00 psf in the West End, increasing to £82.50 psf in the City and hitting £48.00 psf in Bristol – the highest achieved across the regions.

INVESTMENT FOCUS: Vendors and buyers look to gauge new pricing levels

Investment volumes in Q2 2024 totalled £1.8 billion, 43% Q1 2024 and 130% above Q2 2024, but still remained 40% below the 5 year average. Central London had the majority of the purchases, amounting to £1.7 billion, whilst the Big Five continued to struggle, reporting only £110.0 million of activity, the lowest figure since pre-2013. However, the BoE cut to interest rate – and the prospect of more to come – is expected to shift sentiment, with sellers and buyers both reviewing pricing as a result, enabling a step up in activity. Prime Yields for West End and City markets remained at 4.00% and 5.75% respectively, whilst in the Big Five yields moved out to 7.00% for all markets with the exception of Leeds, which is at 7.25%. The outlook for the time being is stable, with an indication that we are nearing or at the bottom of the market, depending on the expectant interest rate cuts.

TAKE-UP, BIG FIVE & CENTRAL LONDON



AVAILABILITY & VACANCY RATE, BIG FIVE & CENTRAL LONDON

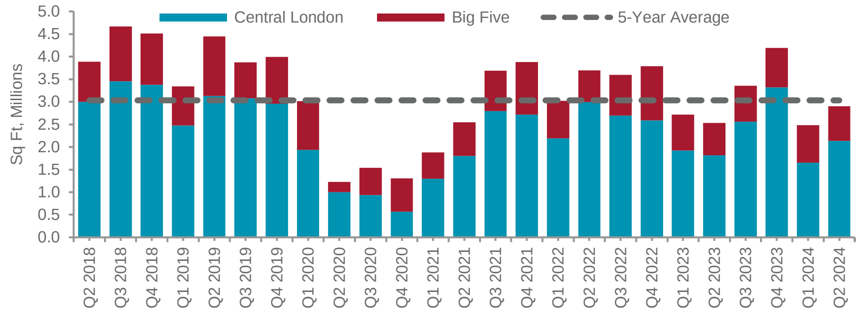
MARKETBEAT

UNITED KINGDOM

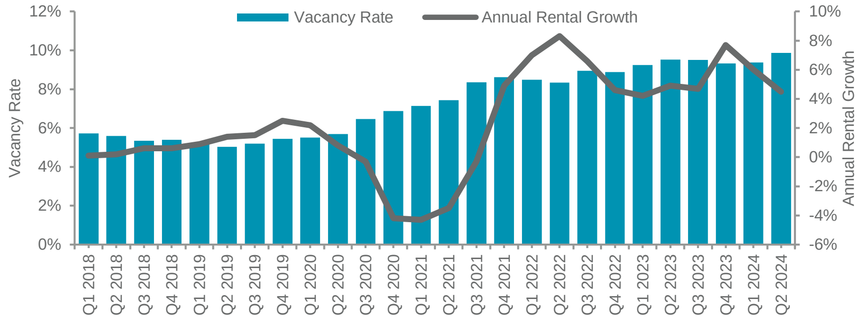
Offices Q2 2024

Chart book

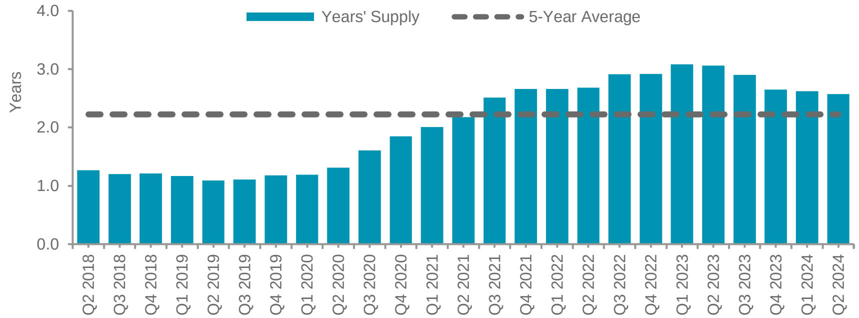
TAKE-UP, QUARTERLY



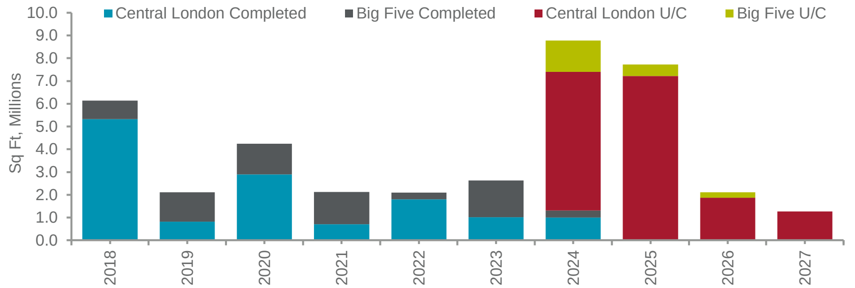
VACANCY RATE & ANNUALISED RENTAL GROWTH



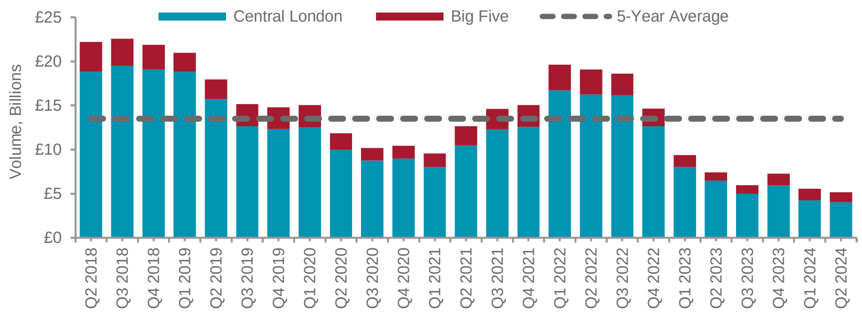
YEARS' SUPPLY



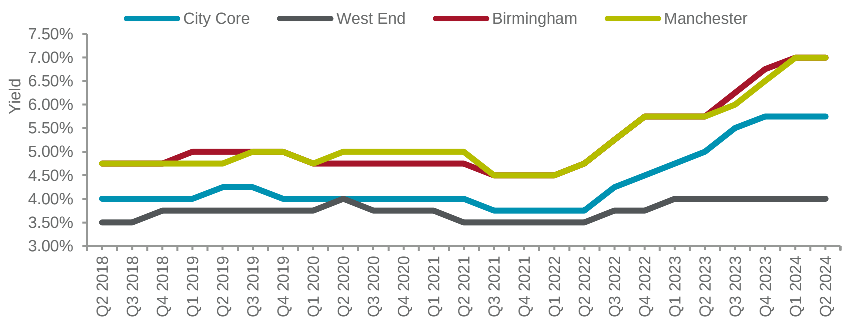
DEVELOPMENT COMPLETIONS & PIPELINE



INVESTMENT VOLUMES, ROLLING 12-MONTHS



PRIME YIELDS



Source: Cushman & Wakefield Research

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MARKET STATISTICS

SUBMARKET	INVENTORY (SQ FT)	AVAILABILITY (SQ FT)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP (SQ FT)	SPECULATIVE UNDER CONSTRUCTION (SQ FT)	PRIME RENT (PSF)	PRIME YIELD
Birmingham	18,905,000	1,082,021	5.70%	177,665	636,312	£42.00	5.75%
Bristol	14,100,000	899,732	6.40%	77,253	373,164	£42.50	6.00%
Edinburgh	9,280,177	719,682	7.80%	148,132	56,177	£42.50	5.75%
Leeds	13,301,879	1,397,836	10.51%	146,042	290,000	£37.00	6.00%
Manchester	22,700,000	3,085,283	13.60%	179,073	620,963	£40.00	5.75%
BIG FIVE TOTALS	**78,287,056**	**7,184,554**	**-**	**728,165**	**1,976,616**	**-**	**-**
West End	114,007,900	8,160,992	7.16%	439,382	4,375,889	£140.00	4.00%
City	146,113,802	14,354,549	9.82%	1,533,115	4,946,768	£82.50	5.75%
East London	24,075,848	3,564,083	14.80%	113,892	354,926	£55.00	6.75%
CENTRAL LONDON TOTALS	**284,197,550**	**26,079,624**	**-**	**2,086,389**	**9,677,583**	**-**	**-**
UK TOTALS	**362,484,606**	**33,264,178**	**-**	**2,814,554**	**11,654,199**	**-**	**-**

KEY LEASE TRANSACTIONS

PROPERTY	MARKET	TENANT	SIZE (SQ FT)	TYPE
2 Finsbury Avenue, EC2	Central London	Citadel	251,901	Pre-let
Three Snowhill	Birmingham	UK Government	58,697	New Lease
One Temple Quay	Bristol	Great American	20,365	New lease
Quay 2	Edinburgh	Azets Holdings	12,706	New Lease
Joseph's Well	Leeds	Leeds Teaching Hospital NHS Trust	43,731	New lease
No.1 Spinningfield's	Manchester	Cubo	59,431	New lease

KEY SALES TRANSACTIONS

PROPERTY	MARKET	SELLER / BUYER	SIEZ (SQ FT)	PRICE (MILLION)
130-134 New Bond Street, W1	Central London	Oxford Properties / Blackstone	31,134	£226.5
Houghton Street, Oldbury	Birmingham	Unknown / TopLabs Prosthetics	45,000	£10.0
40 Torpichen Street	Edinburgh	Cervidae / Prudential	56,068	£15.8
Redcliff Quay & The Landings	Bristol	L&GIM / Skelton Group	108,932	£16.1
St George House, Great George St	Leeds	Unknown / YPP Group	43,498	£10.0
Barnett House	Manchester	Canada Life / Satis Group	30,000	£10.0

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