

9.2%

Vacancy Rate

YoY Chg



12-Mo. Forecast



3.7 million sq ft

Take-up



£1,434 million

Investment Volume



KEY ECONOMIC INDICATORS

0.5%

UK Quarterly GDP Growth, Q2 2024

YoY Chg



12-Mo. Forecast



4.1%

UK Unemployment Rate, July 2024



5.00%

Interest rate, Sept 2024



Source: Moody's; ONS

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

The UK economy had a strong first half of the year, with GDP rising by 0.5% in Q2, and the unemployment rate falling to 4.1% following month-on-month with consensus suggesting a further 25bps cut in November and the BOE governor Andrew Bailey suggesting that future interest rate decreases since May. Growth has been enabled by a significant easing in global inflationary pressures. As a result, on the 1st of August, the Monetary Policy Committee (MPC) at the Bank of England (BoE) voted narrowly to cut the base rate from 5.25% to 5% after two months of CPI at 2%. Since then, the MPC voted 8-1 to keep rates on hold in September, cuts may be "a bit more aggressive". Should interest rate cuts continue to materialise, investment activity in real estate could increase as capital markets respond to the cheaper cost of financing. Additionally, sustained strong economic performance should translate into optimism within the office sector, with take up increasing as businesses grow.

OCCUPIER FOCUS: Occupancy market continues growth in spite of regional supply shortages

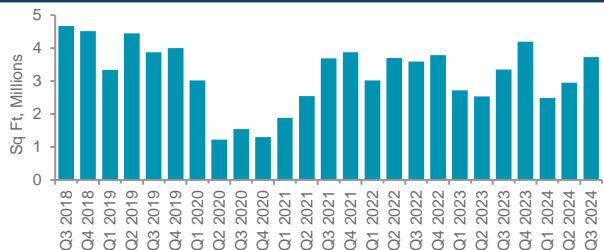
Take-up in Q3 2024 totalled 3.7 million sq ft of office space in Central London and the 'Big Five' regions (Birmingham, Bristol, Edinburgh, Leeds and Manchester). This figure is 26% above both Q2 take-up and the five-year quarterly average. Grade A activity increased by 9% on the quarter to 2.3 million, which is 33% higher than the five-year quarterly average. Although activity in Grade A assets has risen by 9% in London and 10% in the Big Five, the shortage of Grade A supply in regional areas is constraining take-up. This is reflected in Grade A take-up in the Big Five, which represents just 46% of all activity—a significantly lower proportion than Central London's 70%. 2.1 million sq ft of Grade A space was available across the Big Five at the end of Q3, which equates to a 1.03 years' supply and further evidence the significant shortfall of supply in the regions. Overall, availability decreased by 7% to 7.1 million sq ft, equating to a 9.0% vacancy rate. Central London also experienced a decrease in availability, with the 27.0 million sq ft available equating to a 9.3% vacancy rate.

Across Central London and the Big Five's development pipeline, 18.1 million sq ft of space was under construction at the end of the quarter, marking a 4% decrease from Q2. 44% of all space under construction has already been pre-let, leaving 10.1 million sq ft available to lease. 75% of all space is due to be delivered before 2026 indicating a strong short-term pipeline. On the other hand, supply looks constrained in the longer-term, and is particularly pronounced in the regions with no schemes due beyond Q2 2026. Prime headline rents have increased by 4.3% over the past year. The 'flight to quality' towards Grade A space in Central London has continued to reflect in upwards pressure on rents, with headline rents in the City and the West End increasing to £85.00 psf and £142.50 psf during Q3. Headline rents held in the Big Five during Q3, with Bristol still setting the highest rent across the regions at £48.00 psf. We expect rents across the regions to increase in the near-future as occupiers compete for the remaining 'best-in-class' space. These increasing rents, coupled with further expected interest rate cuts, could incentivise developers that hold planning permission on schemes to begin construction and begin to alleviate the supply constraints present across the Big Five regions.

INVESTMENT FOCUS: Stable yields and rate cuts prime investors for uptick in activity

Investment volumes totalled 1.4 billion for Q3, which represents a 21% decrease on Q2 and 50% below the five-year quarterly average. Despite still accounting for the majority of the purchases, investment in Central London fell from £1.7 billion to £1.3 billion. Whilst investment in the Big Five regions for Q3 remains 75% below the five-year average at £107 million, it was 14% higher than Q2. This quarter marked the first time in four years the Bank of England cut interest rates, with further cuts and an uptick in investment activity expected to follow. Yields in the West End and City markets remained stable at 5.75% and 4.00% respectively, whereas yields in the regions all moving inwards by 25 bps. A stable yield outlook, combined with expected rate cuts, could mark the start of an investment cycle with investors now positioned for an uptick in activity.

TAKE-UP, BIG FIVE & CENTRAL LONDON

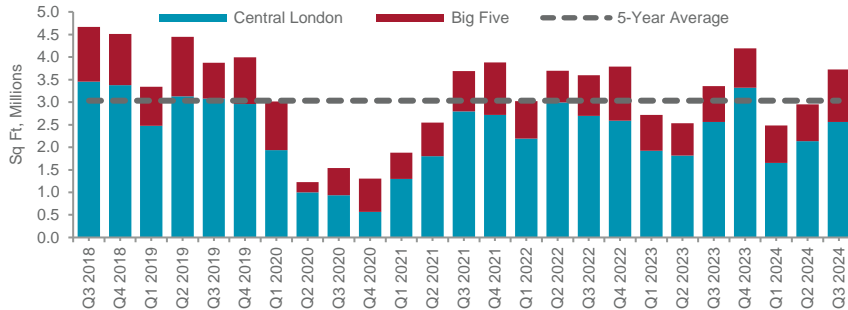


AVAILABILITY & VACANCY RATE, BIG FIVE & CENTRAL LONDON

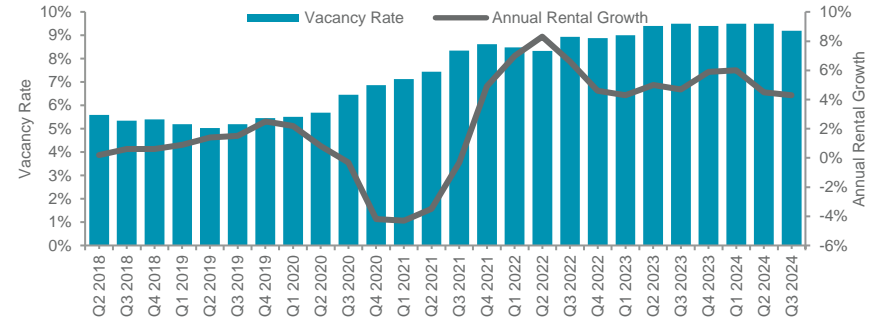


Chart book

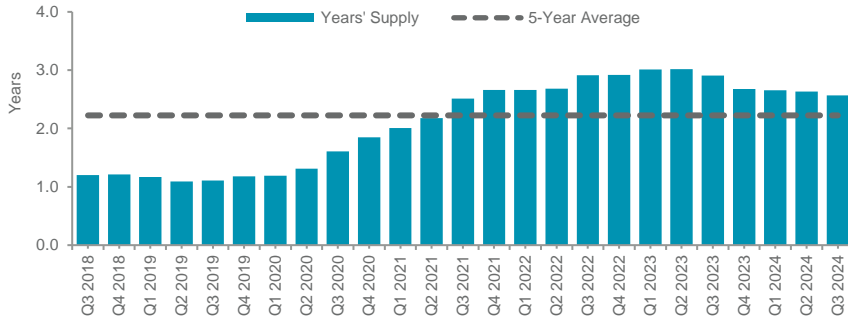
TAKE-UP, QUARTERLY



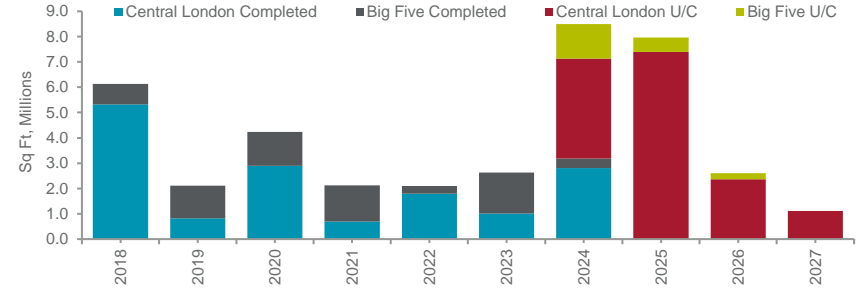
VACANCY RATE & ANNUALISED RENTAL GROWTH



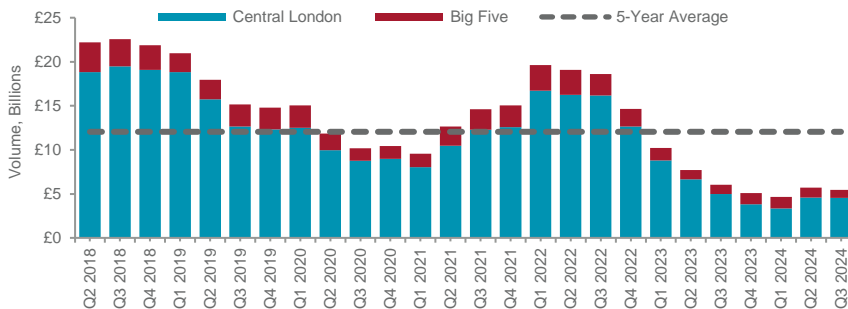
YEARS' SUPPLY



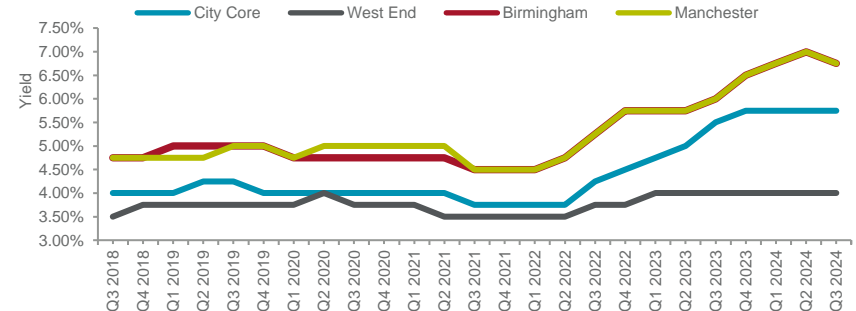
DEVELOPMENT COMPLETIONS & PIPELINE



INVESTMENT VOLUMES, ROLLING 12-MONTHS



PRIME YIELDS



Source: Cushman & Wakefield Research

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	19,150,000	1,208,860	6.31%	348,690	747,000	£43.75	6.75%
Bristol	14,433,356	1,044,265	7.24%	86,157	443,668	£48.00	6.75%
Edinburgh	9,280,177	711,766	7.67%	114,591	81,799	£45.50	6.75%
Leeds	13,701,879	1,174,665	8.57%	146,372	0	£40.00	7.00%
Manchester	22,915,000	2,993,981	13.07%	470,721	475,550	£44.00	6.75%
BIG FIVE TOTALS	79,480,412	7,133,537	-	1,166,531	1,748,017	-	-
West End	114,578,405	8,042,501	9.59%	958,848	4,047,376	£142.50	4.00%
City	146,916,429	14,090,478	13.91%	25,991	4,271,654	£85.00	5.75%
East London	24,075,848	3,754,443	15.59%	1,496,020	0	£55.00	6.75%
CENTRAL LONDON TOTALS	285,570,682	25,887,422	-	2,480,859	8,319,030	-	-
UK TOTALS	365,051,094	33,020,959	-	3,647,390	10,067,047	-	-

KEY LEASE TRANSACTIONS

PROPERTY	MARKET	TENANT	SIZE (SQ FT)	TYPE
M Building, Oxford Street	Central London	BDO	221,156	New Lease
10 Woodcock Street	Birmingham	Aston University	189,053	Freehold
The Fairfax	Bristol	BLOCK	21,235	New lease
30 Lothian Road	Edinburgh	Diligenta Ltd	30,327	New Lease
Yorkshire House	Leeds	University of Law	15,241	New lease
4 Angel Square, NOMA	Manchester	BNY Mellon	196,443	New lease

KEY SALES TRANSACTIONS

PROPERTY	MARKET	SELLER / BUYER	SIZE (SQ FT)	PRICE (MILLION)
Atlantic House	Central London	CBRE IM / Royal London Asset Management	263,157	£180.0
14 St George Street	Central London	Chinese Estates / Oval Real Estate	50,894	£131.0
The Mint Building, St Andrew Square	Edinburgh	Pontegadea / Hines HECF Sarl	70,467	£42.5
1-2 Lochside Way	Edinburgh	LondonMetric Property / Private Individual	42,401	£6.0
Arkwright House	Manchester	PGIM / Hillcrest Private Equity	85,003	£20.0
81 Fountain Street	Manchester	Blackrock / Kier Group	36,911	£12.0

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