



INSIGHT

Central London office analysis

Q2 2021

Occupier market

There continues to be a slow but sure uptick in demand for central London offices, with the second quarter of 2021 being the most active quarter since the onset of the pandemic in terms of signed deals. Additionally, while the market continues to move relatively slowly in terms of occupiers committing to space, an increasing number of large businesses are looking to commit to office space in the short-medium term with JLL, IBM and ITV all committing to significant new premises during the quarter.

Investment market

After a quiet first quarter, the second quarter of the year was relatively buoyant. Investment was close to that seen in the final quarter of 2020 and very much in line with an 'average' quarter as liquidity continues to increase. We also continue to see diversity in the type of deals transacting across the market, particularly with regard to core and value add opportunities. At the larger end of the market, there were ten deals that completed over £100 million.

AVISON
YOUNG



JEREMY PROSSER
Principal

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While June's 'Freedom Day' ended up being pushed back until July, government guidance with regards to working from home has now been lifted – for what is hopefully the last time.

Occupier market in brief

BUILDING MOMENTUM

There continues to be a slow but sure uptick in demand for central London offices, with the second quarter of 2021 being the most active quarter since the onset of the pandemic in terms of signed deals. Additionally, while the market continues to move relatively slowly in terms of occupiers committing to space, an increasing number of large businesses are looking to commit to office space in the short-medium term with JLL, IBM and ITV all committing to significant new premises during the quarter.

This is adding to a building momentum of activity across central London, with other large occupiers such as Inmarsat and Travers Smith appearing close to acquiring space in the near future. In fact, some markets are relatively buoyant with Clerkenwell seeing continued tech demand with Depop and TikTok increasing their floor prints significantly and Snap inc under offer in the area. The legal sector, which has been a relatively consistent source of demand during the last 18 months, continues to see activity with Allen & Overy currently in the market for a new HQ of c.300,000 sq ft.

FREE FOR SUMMER

While June's 'Freedom Day' ended up being pushed back until July, government guidance with regards to working from home has now been lifted for what is hopefully the last time. As a result, various metrics across our UK Cities Recovery Index – including office occupancy itself – are ticking up slowly but surely. Work commissioned by Landsec showed that over 70% of London's workers are already back to the office at least one day a week.

While we do not expect office occupancy to bounce back to pre-pandemic levels against a backdrop of high coronavirus cases (and the current pingdemic) during the summer holidays, we are nevertheless seeing a willingness from people to get back to the office where possible. This is only likely to really increase come September, with the same Landsec research suggesting that 80% will be more comfortable returning by then. This will likely provide even more clarity for those businesses who are still trying to understand their workers' 'hybrid' preferences post-pandemic.

BRINGING FLEXI BACK

We are seeing more positive noises from flexible office providers, who are seeing a return of both existing and new clients. TOG is the latest flexible working business to announce a record quarter boosted by Ocado's doubling of its footprint at the White Collar Factory. Toby Courtauld of GPE used the announcement of their annual results to state that he believes that flexible workspace could be the dominant offering across their portfolio and was a key area for growth through new development opportunities.

Central London

TAKE-UP

Take-up across central London rose to 1.9 million sq ft in Q2 2021, 49% above the previous quarter and more than double the activity seen during the final quarter of 2020. Take-up for the quarter was still 20% down on the 10-year quarterly average, though a number of larger deals were under offer close to the quarter-end including Travers Smith being near to committing to 190,000 sq ft at Stonecutter Court.

IBM's acquisition of 157,000 sq ft of sub-let space at Southbank Place was the largest deal of the quarter. There were two other deals in excess of 100,000 sq ft during the quarter – JLL taking 134,000 sq ft at 1-2 Broadgate, EC2 and ITV committing to 120,000 sq ft at the former BBC Broadcasting Centre in Wood Lane, W12.

The TMT and Creative sector was the most active of the quarter comprising 25% of take-up. This was followed by the Consumer and Private services sector and the Financial services sector that accounted for 19% and 15% respectively.

AVAILABILITY

Availability rose for the sixth consecutive quarter, albeit at a marginal rate compared to what we had seen over the last year. The amount of available space now totals circa 22.9 million sq ft that is a 6% rise on the previous quarter and a significant 73% increase year-on-year.

The vacancy rate for central London has risen from 7.5% to 7.9% and is now over 2.6 percentage points above the quarterly 10-year average, although there continues to be divergence between old and new space. Furthermore, we are starting to see a retraction of second-hand and grey space from the market, as occupiers who had been willing to 'chance their arm' offering sub-let space now seem more likely to be looking at how best to utilise and / or improve their space rather than reduce their footprint.

RENTAL GROWTH

There is continuing resilience in the rental market for good quality grade A space with headline rents holding up in all submarkets and a number of our core markets seeing a return to pre-pandemic levels. Prime headline rents are £72.50 psf in City Core, £115 psf in Mayfair and St James's and £47.50 psf in Stratford.

There has been a growing divergence in rents for new, grade A stock that is securing high rents compared to second-hand grade B stock that may face downward rental pressure where it does not meet more stringent occupier requirements.

OUTLOOK

After the 18 months we have had, there is now plenty to be positive about. There is a growing number of occupiers committing to the market – albeit there continues to be a tiered market – alongside increased levels of office occupancy and a return to activity across many parts of society as seen in our UK Cities Recovery Index. Looking forward, with the vaccine rollout running well and restrictions loosening there is much to be optimistic about for the future too.

KEY DEALS Q2

Address	Occupier	Sq Ft
Southbank Place, SE1	IBM	157,000
1-2 Broadgate, EC2	JLL	134,000
BBC Broadcast Centre, W12	ITV	120,000
41 Blackfriars Road, SE1	SinLab	93,000
1 Knightsbridge	Babylon Health	85,000

TOP TENANT SECTORS



TMT &
Creative
25%



Consumer and
Private Services
19%



Financial
Services
15%



The London market definitions have been amended to align better with up-to date market perceptions. If you require back-dated historic data, please let the Research team know.

KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2

1.9 million sq ft

▼ **20%**

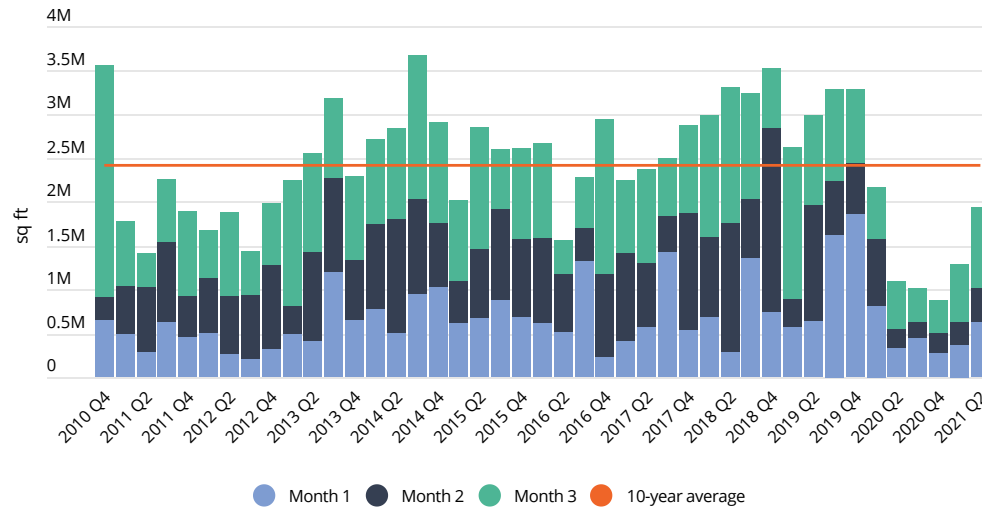
DOWN ON THE 10-YEAR
QUARTERLY AVERAGE

7.9%

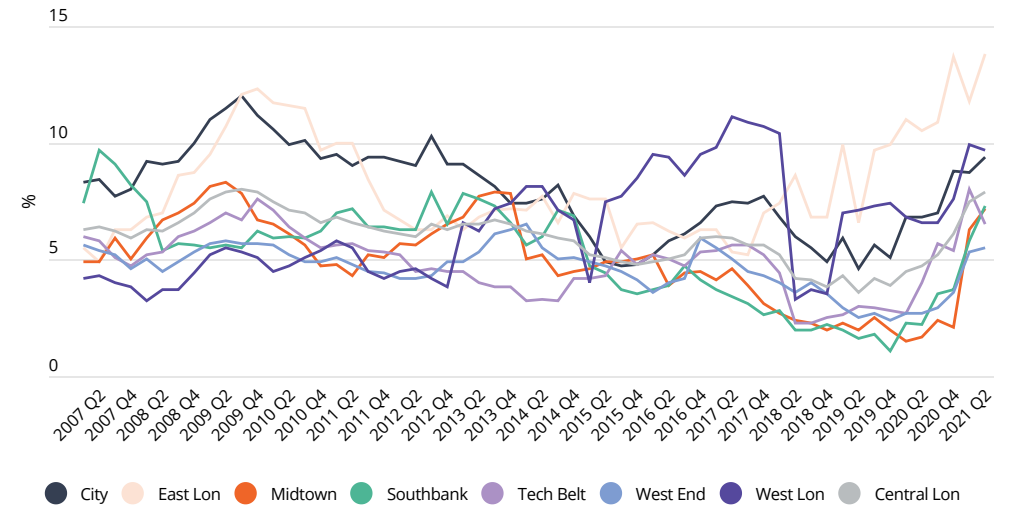
VACANCY RATE

Occupier charts

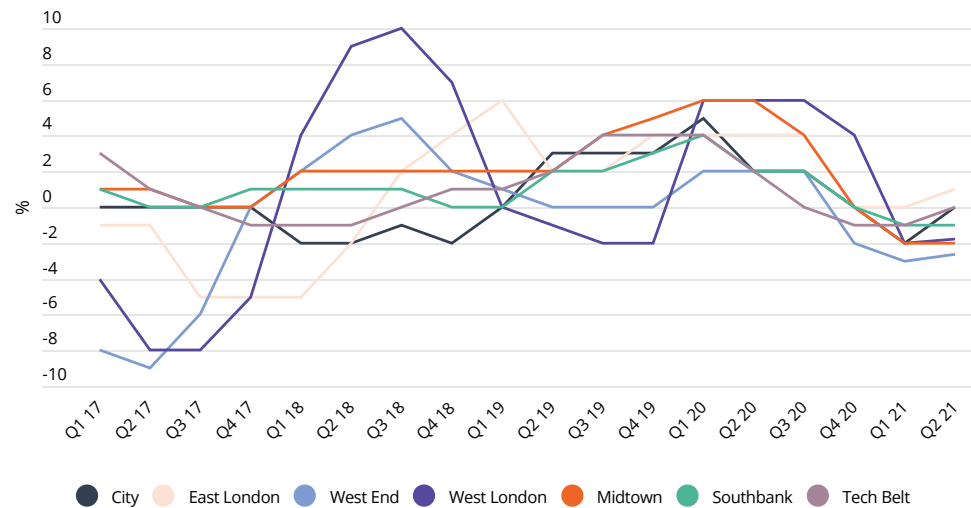
CENTRAL LONDON TAKE-UP



OFFICE AVAILABILITY RATES



PRIME HEADLINE RENTAL GROWTH



City

Quarter-on-quarter, take-up in the City decreased 30% from 525,000 sq ft in Q1 2021 to just 367,000 sq ft in Q2 2021. This total for the second quarter of 2021 is circa 60% below the 10-year average.

The largest deal of the quarter was JLL committing to 134,000 sq ft at 1-2 Broadgate, EC2. Elsewhere, two of the largest deals of the quarter were at 60 London Wall, where Mondrian took 38,000 sq ft and Digital Realty took 24,000 sq ft both of which were deals that were on the cards before the start of the first lockdown in March 2020. There were 6 other deals over 10,000 sq ft spread across the City.

Professional services was the most active sector of the quarter with 42% of activity. This was followed by the financial services sector that accounted for 22% of take-up in the City.

Availability in the City increased from 6.5 million sq ft to 7.1 million sq ft during the quarter. Availability is now at its highest level since mid-2012 and has been boosted particularly by increased tenant / grey space – although we are starting to see occupiers withdraw much of this space from the market.

Prime headline rents have increased back to pre-covid levels of £72.50 per sq ft in the face of increased demand. Rent free periods continue to be 24-26 months on a ten-year term, although the upward pressure that we had previously seen has dissipated somewhat. In the three months to March 2021, the MSCI rental growth index grew by 0.6% in the City. The Avison Young index for City submarkets is stable y-o-y having increased by 2.2% during the quarter.

KEY DEALS Q2

Address	Occupier	Sq Ft
1-2 Broadgate, EC2	JLL	134,000
60 London Wall, EC2	Mondrian Investment Partners	38,000
60 London Wall, EC2	Digital Realty (uk) Limited	24,000
1 Angel Lane, EC4	MetLife Investment Ltd	14,000
Bow Bells House, EC4	Goodwin Procter	14,000

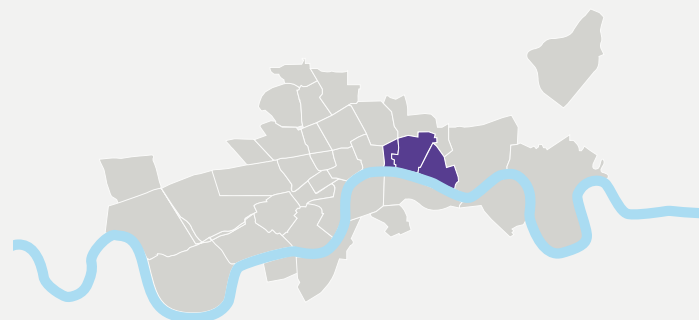
TOP TENANT SECTORS



Professional Services
40%



Financial Services
22%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2

367,039 sq ft

▼ 57%

DOWN ON THE 10-YEAR
QUARTERLY AVERAGE

9.4%

VACANCY RATE

£72.50 per sq ft

PRIME RENT



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West End & West London

Take-up across the West End and West London totalled 641,600 sq ft in Q2 2021. This is 32% up on the 486,000 sq ft transacted in Q1 2021 and the highest quarterly total since Q4 2019.

The largest deal of the quarter across these submarkets was in West London where ITV took 120,000 sq ft at the former BBC Broadcast Centre at Wood Lane. The next largest deal this quarter was Babylon Health acquiring 85,000 sq ft at 1 Knightsbridge Green, SW1 followed by Boohoo committing to the entire 46,000 sq ft in Soho at 10 Great Pulteney Street, W1.

The market saw a broad range of demand during the quarter, with take-up balanced across the three sectors of consumer and private services, financial services and TMT – accounting for 28%, 26% and 22% respectively.

Availability in the West End now stands at 4.6 million sq ft. The vacancy rate has increased marginally from 5.3% in 2021 Q1 to 5.5% in 2021 Q2, the highest it has been since the beginning of 2017. In West London, availability remained stable at 1.5 million sq ft during the quarter and the vacancy rate is now 9.7%.

Prime headline rents in Mayfair and St James's have come back up to £115 per sq ft, as evidenced by the recent deals in Medici Courtyard, having fallen during the depths of the pandemic. The MSCI rental index is up 0.33% in the three months to end-June, while the Avison Young index for the West End remains 2.6% down y-o-y, and down 1.8% across West London.

KEY DEALS Q2

Address	Occupier	Sq Ft
BBC Broadcast Centre, W12	ITV plc	120,000
1 Knightsbridge Green, SW1	Babylon Health	85,000
10 Great Pulteney Street, W1	Boohoo	46,000
50 Berkeley Street, W1	Bain Capital	32,000
Avon House, Kensington Village, W14	Spaces	30,000

TOP TENANT SECTORS



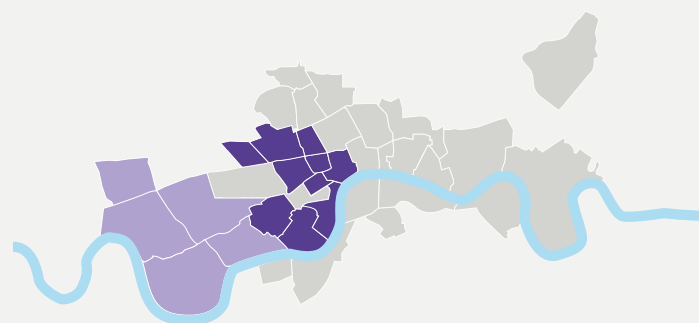
Consumer and
Private Services
28%



Financial
Services
26%



TMT &
Creative
22%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2

641,636 sq ft

▲ 6%

UP ON THE 10-YEAR
QUARTERLY AVERAGE

6.1%

VACANCY RATE

£115.00 per sq ft

PRIME RENT



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East London

East London saw 210,700 sq ft of take-up across seven deals during the second quarter of the year. This is the second highest quarterly total since mid-2019 and in line with 10-year quarterly average of 214,000 sq ft. Q2 far exceeded the activity seen during Q1 when just 11,300 sq ft was transacted across one deal.

Availability in East London is now 3.4 million sq ft. The vacancy rate increased to 13.8% from 11.8% in the previous quarter and is now six percentage points over the ten-year quarter-end average.

For the sixth consecutive quarter, prime headline rents have remained stable in East London at £45 per sq ft with rent free periods of 30 months on a 10-year term. The Avison Young rental index for all East London submarkets is up 1% y-o-y.

KEY DEALS Q2

Address	Occupier	Sq Ft
1 Bank Street, E14	Apple	67,000
20 Water Street, E14	JLL	39,000
Import Building - Republic, E14	LCA Education	31,000
10 South Colonnade, E14	NHS Property Services Limited	25,000
Here East, E15	University of Staffordshire	18,000

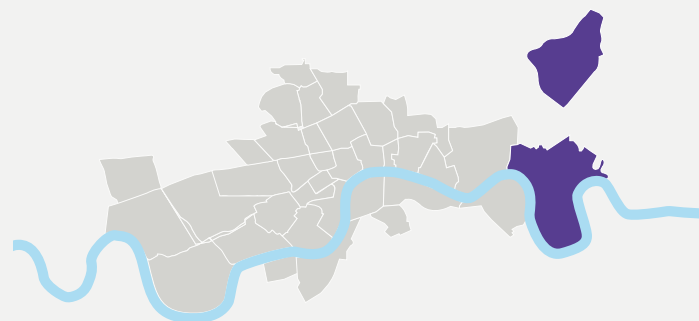
TOP TENANT SECTORS



TMT & Creative
32%



Professional Services
30%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2
210,675 sq ft



INLINE WITH THE 10-YEAR
QUARTERLY AVERAGE

13.8%
VACANCY RATE

£47.50 per sq ft
PRIME RENT



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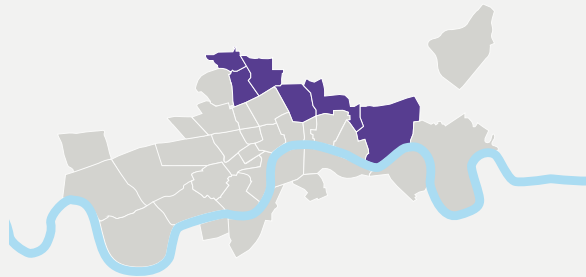
Tech Belt

Take-up in the Tech Belt increased quarter-on-quarter by 53% to 292,300 sq ft in Q2. This is the highest total since 2020 Q1 although it is still 29% below the 10-year quarterly average.

There is increased liquidity in the market, with 24 deals completing during the quarter. The largest was Depop taking 33,500 sq ft at 20 Farringdon Road (EC1), while Cinch Cars took 20,100 sq ft at The Fjord (N1) and McBains acquired 19,500 sq ft at West Layton House (EC1).

With increased activity and a decrease in the supply of tenant / grey space, the vacancy rate in the Tech Belt has decreased to 6.5% with the amount of available space now at 2.6 million sq ft - albeit at a higher level of supply than we had during the end of 2020.

King's Cross continues to report the highest rents in the submarket at £80.00 per sq ft, followed by Clerkenwell at £77.50 where rents have increased during the quarter. Rent free periods also remained flat in the Tech Belt at 24 months on a 10-year term. The Avison Young rental index for the Tech Belt is up 1% y-o-y.



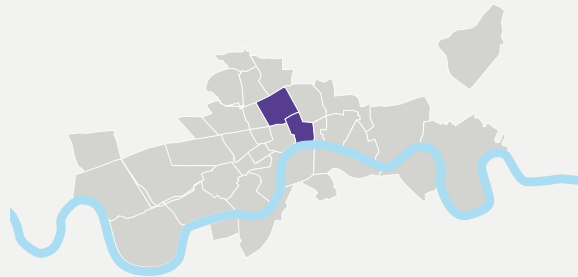
Midtown

Take-up in Midtown increased from a meagre 48,500 sq ft in Q1 2021 to 78,900 sq ft in Q2 2021, similar to levels seen during the final quarter of 2020. Take-up is still 56% below the 10-year quarterly average.

There were just seven deals in Midtown with the largest being G Research taking 23,800 sq ft at The Avenue, WC1. The only other deal above 10,000 sq ft was X+Why taking 13,300 sq ft at 4-7 Fulwood Place, WC1.

Availability in Midtown in Q1 was 1.9 million sq ft with the vacancy rate standing at 7.2% which is above the 10-year average.

Rents in Midtown continue to remain stable with prime headline rents at £80.00 per sq ft in Bloomsbury with rent free periods of 24 months, whilst in Holborn prime rents are £70.00 per sq ft with rent free periods of 26 months. According to the Avison Young Midtown index, rents are 2% down y-o-y.



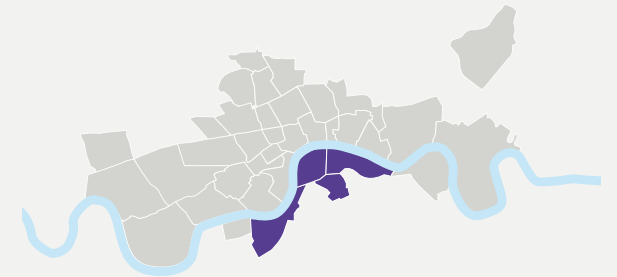
Southbank

After a quiet first quarter of the year, the Southbank saw a flurry of activity during Q2 2021, with 341,500 sq ft completing during the quarter. This was the highest quarterly activity since Mid-2017 and was double the ten-year quarterly average.

Two of the four largest deals of the quarter were done on the Southbank, with IBM committing to 157,100 sq ft at Southbank Place, SE1 and Synlab committing to taking 93,000 sq ft at 41 Blackfriars Road, SE1.

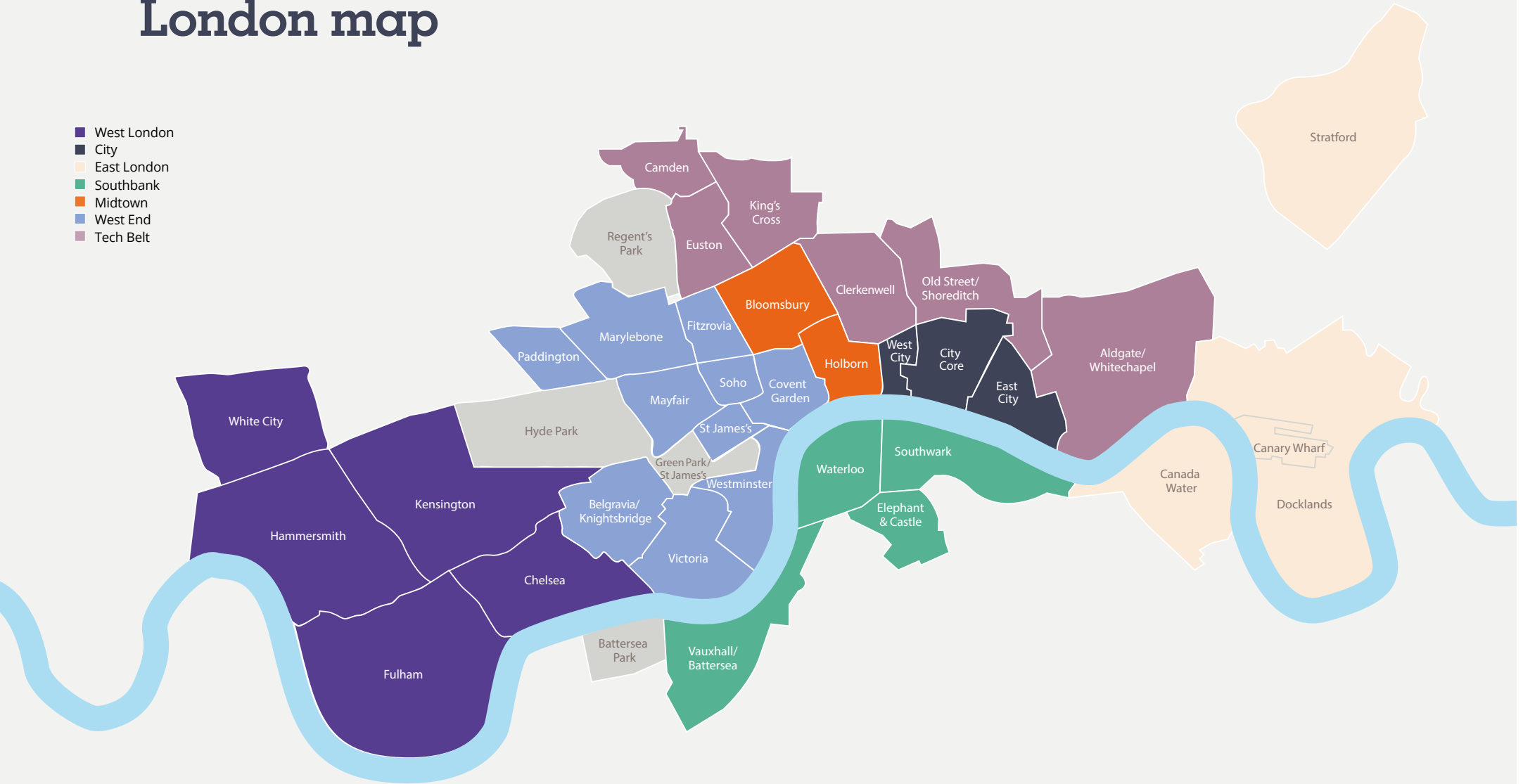
Availability in Southbank remains high, with 1.7 million sq ft available and a vacancy rate of 7.3%.

The Avison Young rental index for Southbank is stable y-o-y. Prime rents in Waterloo are stable at £70 per sq ft, with rents in Southwark at £65 per sq ft. Rent free periods also remain stable at 24 months on a ten-year term.



Central London map

- West London
- City
- East London
- Southbank
- Midtown
- West End
- Tech Belt



The London market definitions have been amended to align better with up-to date market perceptions. If you require back-dated historic data, please let the Research team know.

Central London markets

West End	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Mayfair	£115.00	24	£52.19	£177.44
St James's	£115.00	24	£49.78	£175.03
Soho	£90.00	24	£44.43	£144.68
Belgravia / Knightsbridge	£90.00	24	£42.29	£142.54
Marylebone	£82.50	24	£42.29	£135.04
Covent Garden	£82.50	24	£32.12	£124.87
Fitzrovia	£85.00	24	£36.13	£131.38
Victoria	£77.50	24	£36.07	£123.82
Paddington	£75.00	24	£28.64	£113.89

West London	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Chelsea	£90.00	24	£39.61	£139.86
Kensington	£70.00	24	£47.10	£127.35
Hammersmith	£58.00	24	£22.48	£90.73
White City	£60.00	24	£9.10	£79.35
Fulham	£45.00	24	£21.41	£76.66

Midtown	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Bloomsbury	£80.00	24	£32.38	£122.63
Holborn	£70.00	24	£29.71	£109.96

Southbank	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Waterloo	£70.00	24	£24.35	£104.60
Southwark	£65.00	24	£27.84	£103.09
Vauxhall / Battersea	£59.50	24	£16.33	£86.08

City	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
City Tower	£90.00	26	£27.20	£127.45
City Core	£72.50	26	£27.56	£110.31
West City	£70.00	26	£27.56	£107.81
East City	£67.50	26	£28.37	£106.12

Tech Belt	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
King's Cross	£80.00	24	£33.72	£123.97
Euston	£72.50	24	£29.71	£112.46
Clerkenwell	£77.50	24	£24.89	£112.64
Camden	£60.00	24	£28.64	£98.89
Old Street/ Shoreditch	£67.50	24	£19.27	£97.02
Aldgate/ Whitechapel	£55.00	26	£21.41	£86.66

East London	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Canary Wharf	£45.00	30	£13.64	£68.89
Stratford	£47.50	30	£9.10	£66.85
Docklands	£32.50	30	£10.71	£53.46



CHRIS GORE

Principal

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Going into the final quarter, we do expect there to be new stock coming to the market as vendors look to make the most of the relatively deep selection of investors in the market.

Investment market in brief

REBOUND

After a quiet first quarter, the second quarter of the year was relatively buoyant. Investment was close to that seen in the final quarter of 2020 and very much in line with an 'average' quarter as liquidity continues to increase. We also continue to see diversity in the type of deals transacting across the market, particularly with regard to core and value add opportunities. At the larger end of the market, there were ten deals that completed over £100 million.

The increase in activity is set against a backdrop of increased occupier activity and relative upward pressure on rental levels. Despite the increase in activity, we are continuing to see international travel restrictions act as a relative handbrake with the majority of Asian investors still relatively absent from the market. However, the increase in overseas investment during the quarter highlights the fact that we are seeing some investors able to find a way to work within the restrictions with German investors being particularly active this quarter. As restrictions ease for travellers from different regions, we could see more activity due to pent up demand - not just from Covid but from Brexit - for central London office stock that is good value when compared to many European markets.

HEAVYWEIGHTS

We are seeing a weight of capital that is eager to invest in the market, with a number of well-known heavyweight investors setting new market levels in terms of pricing. Kennedy Wilson purchased One Embassy Gardens during the quarter on the strength of the Nine Elms Battersea market, recycling their divestment from Friars Court; Dekka are close to completing on 8-10 Moorgate at a yield of 3.85%, Bureau and 8 St James's Square, and are continuing to track other investment opportunities.

Other notable, market-making deals include Union's purchase of 1 Braham Street which breaks down to 4.15% in what was previously seen as a fringe submarket and Cassini House in the West End going under offer to a Hong Kong investor at what is rumoured to be sub-3.5%. Since the end of the quarter Brookfield have acquired the Addleshaw Goddard-occupied Milton Gate, while Barings have bought Capital House from DWS for £130.5 million; Tishman Speyer have bought Angel Square from Derwent London and the VP refurbishment of 68 King William Street has found a buyer, after strong interest from other parties.

HERE COMES THE SUMMER

Despite the fact that we are now entering the summer, there continues to be active demand although we are unlikely to see new buildings coming to the market over the next month. Going into the final quarter, we do expect there to be more investment stock coming to the market as vendors look to make the most of the relatively deep pool of investors in the market. Prime assets including Kaleidoscope are likely to be of particular interest following Helical's leasing success with the building fully let to TikTok in Q1.

Investment commentary

A busy second quarter of the year saw investment volumes total over £3.5 billion, with c.£2 billion transacting in the final month alone. The quarterly volume was 5% above the five-year quarterly average and 75% up on the volumes transacted during the first quarter of the year. The total investment volume was across 44 transactions, the most since Q4 2019.

There were ten deals completed in excess of £100 million during the quarter. The highest value transaction was of the 550,000 sq ft 30 Fenchurch Street, EC3 (formerly known as Plantation Place) in the City that had been under offer for over 15 months. Brookfield acquired the building for £635 million that represents a yield of 4.5%. Elsewhere, Union Investment purchased the newly completed 1 Braham Street, E1 from Aldgate Developments for circa £480m at a net initial yield of c. 4.15%.

Prime yields in Q2 2021 continued to remain stable across central London. Prime net initial yields are 4% in the City and 3.5% in the West End.

KEY STATS THIS QUARTER

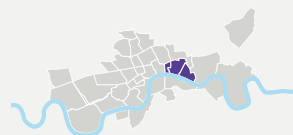
TRANSACTION VOLUMES

£3.5 billion

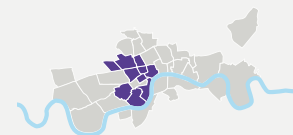
▲ 5%

UP ON THE 10-YEAR QUARTERLY AVERAGE

VOLUMES BY MARKET



CITY
£2381 million



WEST END
£1061 million



EAST LONDON
£13 million

VOLUMES BY INVESTOR TYPE



OVERSEAS INVESTORS
£2.4 billion



UK INSTITUTIONS
£385 million



UK PROPERTY COMPANIES
£172 million

CITY PRIME YIELD

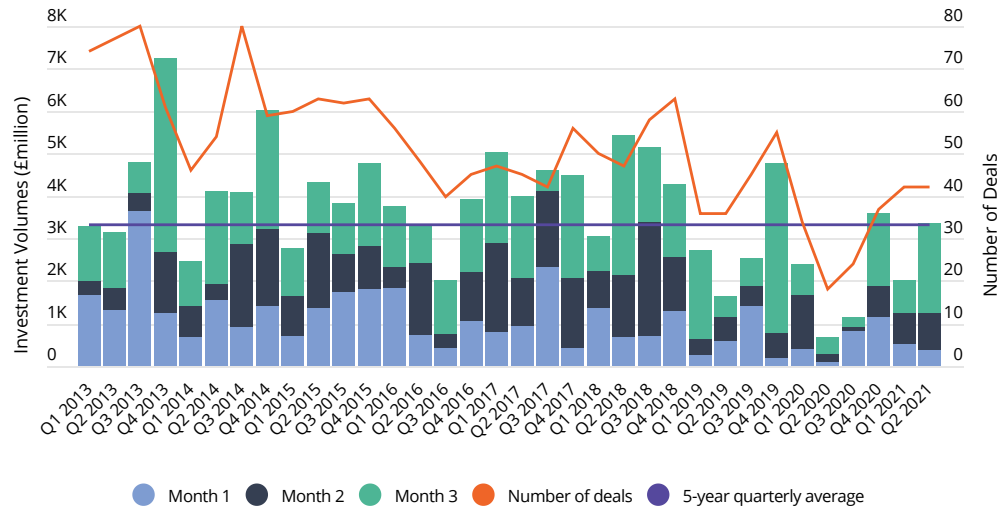
▶ 4.00%

WEST END PRIME YIELD

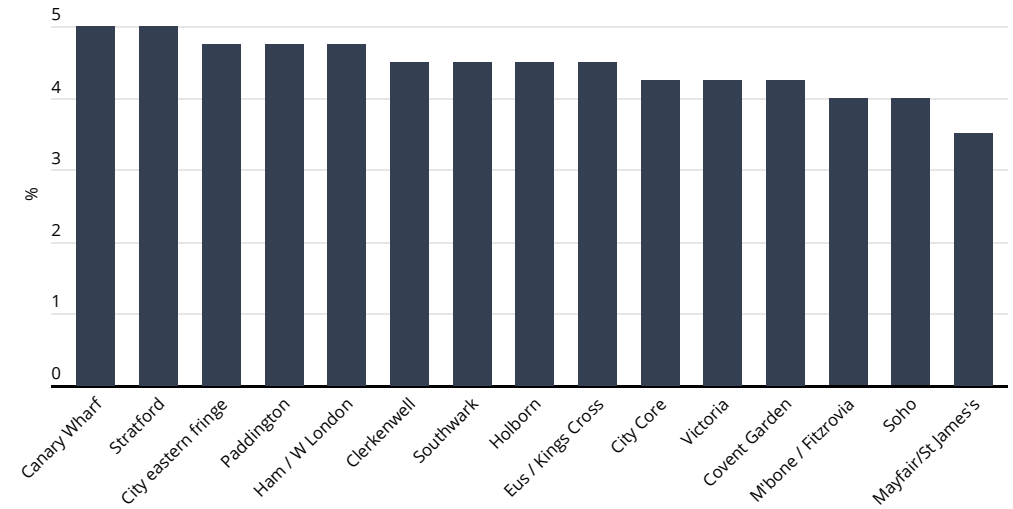
▶ 3.50%

Investment data

CENTRAL LONDON QUARTERLY VOLUMES VS NUMBER OF DEALS



CENTRAL LONDON YIELDS Q2 2021



LARGEST INVESTMENT DEALS OF Q2 2021

Address	Price (£m)	Yield (%)	Month	Purchaser
30 Fenchurch Street, EC3	635	4.5	June	Brookfield
1 Braham Street, E1	480	4.15	May	Union Investment RE
3 Minster Court, EC3	353	4.5	June	Suntec REIT
110 Bishopsgate, EC2	195		May	Madison International Realty
One Embassy Gardens, SW8	177.5	4.36	June	Kennedy Wilson Europe

Should you wish to discuss any details
within this update please get in touch



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