RESEARCH

Central London office analysis

Q3 2020

Occupational market

First, the good news: despite the subdued activity levels this quarter we are seeing a number of large occupiers continuing to commit long term to London. Baker McKenzie took 153,000 sq ft at DUO, 280 Bishopsgate, EC2 that will complete in late 2021 while The Office Group signed a 20 year lease for the entire building at 210 Euston Road, NW1.

Investment market

Investment activity was markedly improved in Q3 2020 compared to the previous quarter, both in terms of volume and number of deals. Volumes increased to £1.2 billion from £682 million in Q2 but remained 67% down on the 10-year quarterly average. The relaxation of some restrictions during the summer provided only partial relief to investors with restrictions on travel, reignited Brexit negotiations and a typical summer lull continuing to have an impact.

AVISON YOUNG

JEREMY PROSSER
Principal

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Take-up across Central London fell to 1.0 million sq ft in Q3 2020 which was 7% below the previous quarter and 59% below the 10-year average.

Occupier market in brief

GOOD NEWS AND BAD NEWS

First, the good news: despite the subdued activity levels this quarter we are seeing a number of large occupiers continuing to commit long term to London. Baker McKenzie took 153,000 sq ft at DUO, 280 Bishopsgate, EC2 that will complete in late 2021 while The Office Group signed a 20 year lease for the entire building at 210 Euston Road, NW1.

In addition, the demand we are still seeing is coming from a diverse range of occupiers across central London. The professional services, financial services and TMT & creative sectors are still very present in the market while Q3 saw active non-traditional occupiers with large deals to serviced office operators and universities.

Less positively, the pandemic has affected existing requirements but also raised questions for most businesses as to the long term future of how much office space they require. These questions have arisen not only due to the economic uncertainty caused by COVID but also from the aftermath of the working from home experiment it forced.

NOT AT HOME

While working from home has been less problematic than many predicted at the beginning of lockdown, surveys on its overall effect on productivity continue to produce mixed results. For example, the Understanding Society Covid-19 Study found that 30% of those surveyed felt they got more work done at home while 30% believed their productivity had dropped. What is clear though is that working from home is negatively affecting younger workers. A survey by Oktra found 66% felt it reduced their productivity, 50% feared it would harm their career and 90% missed the social interaction of the office. Furthermore, research by LSE found that Londoners between 20 and 39 had only 9.3 square metres of personal space on average to themselves in lockdown.

Evidence of employees wanting at least a partial return to the office is seen in surveys of Google staff that all continue to work from home. One survey showed that 62% of staff wanted to work partly from home and partly from the office, but also that interest in permanent working from home was significantly reducing. Between May and June the number of staff that wanted to permanently work remotely halved from 20% to 10%, while the proportion that wanted to work full time in the office showed a slight increase.

Encouragingly, a number of firms have made clear their commitment to getting workers back into the office. PwC has committed to keeping all its office space while a number of other businesses have provided an array of incentives with Bloomberg staff able to claim up to £55 a day to cover commuting costs and Goldman Sachs offering free food and access to an onsite nursery. The UK Government was previously also greatly encouraging the return to the office with minsters even warning employees that working from home would make them more 'vulnerable' to losing their jobs. This came as the CBI warned that if the PM did not encourage workers back to the office, city centres would become "ghost towns" and thousands of local businesses dependent on passing trade would be greatly harmed.

TWO TIER MARKET

There is still a great amount of rental uncertainty as the market recalibrates to unfolding events in a context of scarce comparable evidence. If there is a fall in rents due to reduced demand, it is expected that they will recover quickly due to such limited supply and a diminishing development pipeline. What is more certain is the emergence of a more pronounced two-tier market as was seen following the global financial crisis.

At one end of the market for second-hand grade B product, there is a perceived increase in risk and lack of active occupiers. As a result, we have seen here some rental falls plus increased tenant incentives as Landlords focus on minimising risk rather than maximising returns.

At the other end for new Grade A space, we are seeing continued strong pre-letting activity and demand from those occupiers who are fortunate to be able to take a long-term view on the growth of their business. Also, the pandemic has brought health and wellbeing even more to the heart of real estate decision making and so further fuelled demand for this high quality space. With limited supply of this good quality stock in most markets, landlords here are currently confident that they are able to find tenants and uphold rental values.

Central London

TAKE-UP

Take-up across Central London fell to 1.0 million sq ft in Q3 2020 which was 7% below the previous quarter and 59% below the 10-year average.

The largest deal of the quarter was the law firm Baker & McKenzie taking 153,000 sq ft at 280 Bishopsgate, EC2. This was followed by Netflix trebling its office space in London by taking 87,000 sq ft at the Copyright office building, 30 Berners Street, W1.

July was the strongest month recording 45% of the quarter's take-up. This was followed by a weak August that only accounted for 18% before activity picked up greatly in September.

Only ten deals over 20,000 sq ft completed during the quarter, compared to the ten-year average of 28. These deals accounted for 52.5% of the quarter's take-up.

Professional services accounted for the most take-up by tenant sector with 30% - accounted for primarily by the Baker & McKenzie acquisition. This was followed by the TMT & Creative and Government & Services sectors that each accounted for 16% of activity.

AVAILABILITY

Availability rose for the third consecutive quarter to 14.3 million sq ft, a 13% rise on Q2. The central London vacancy rate has subsequently risen for the third quarter in a row to reach 4.8% from 4.3% in Q2. The largest increases in availability were recorded in the Southbank and Tech Belt markets which rose by 56% and 44% respectively. Despite these increases, availability remains 6.6% below the 10-year average.

Seventeen developments completed during the quarter totalling 1.7 million sq ft, similar to the amount of space delivered to the market during the second quarter of the year. The largest building to complete was the fully let 320,000 sq ft One Braham, followed by EightyFen that has 55% of its total 240,000 sq ft still available.

The under construction pipeline remained stable during the quarter, and currently totals 14.2 million sq ft, 38% of which is already pre-let. This leaves 8.8 million sq ft of available space, of which 4.7 million sq ft is planned to complete by the end of 2021.

RENTAL GROWTH

We are continuing to see a relative resilience in the rental market, with headline rents holding up in the vast majority of our submarkets. We have nevertheless seen an increase in incentives in a number of submarkets. Prime headline rents at the moment are £72.50 per sq ft in the City, £115 per sq ft in the West End and £45.00 per sq ft in East London.

Although rental values have remained stable to date, the following months could see this change as the reality of Covid-19's impact on the economy sets in and occupiers potentially reconsider their space needs following the initial return to the workplace.

KEY DEALS

Address	Occupier	Sq Ft
280 Bishopsgate, EC2	Baker & McKenzie	152,690
Copyright office building, 30 Berners Street, W1T	Netflix	87,000
210 Euston Road, NW1	The Office Group	68,182
76 Turnmill St, EC1	J A Kemp	45,273
100 Liverpool Street, EC2	Storey	45,058

TOP TENANT SECTORS

Professional Services
30%

TMT & Creative
16%

Government & Services
16%

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 Q3

1.0 million sq ft

59%

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

4.8%

VACANCY RATE

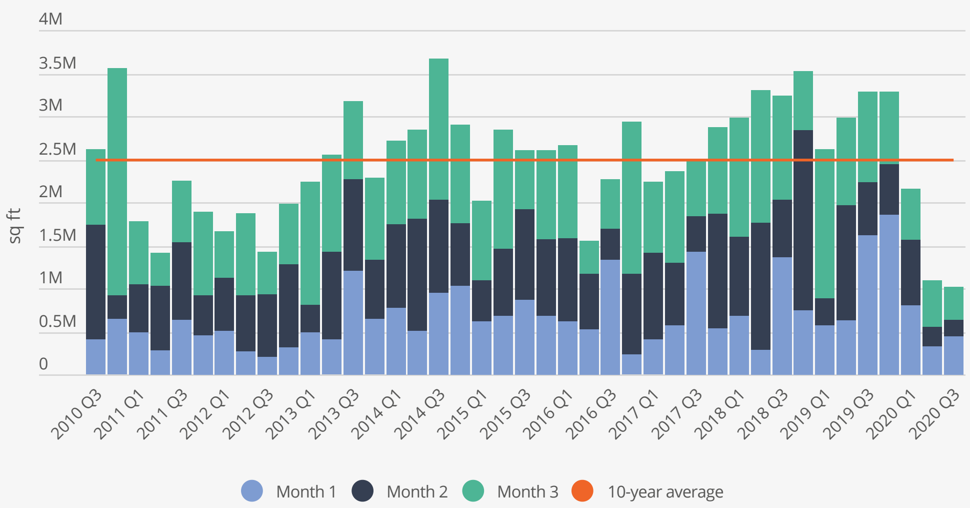
UNDER CONSTRUCTION

14.2 million sq ft

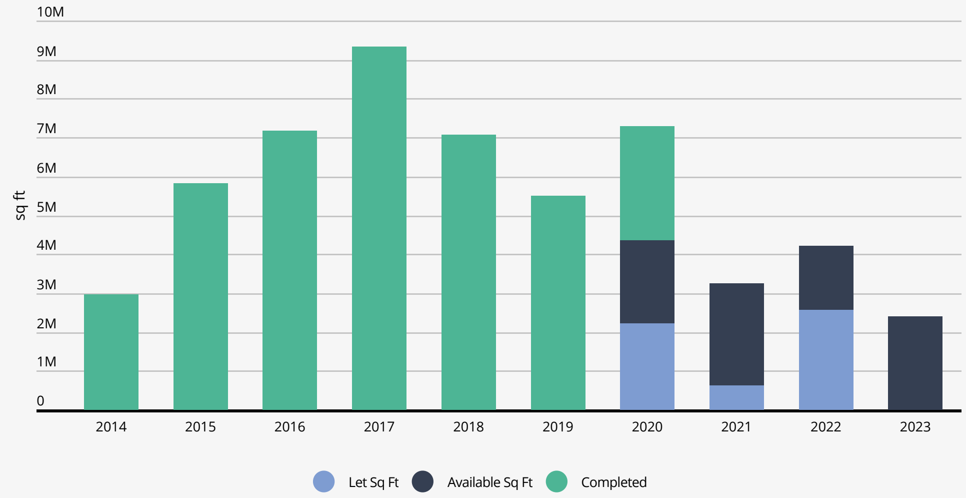
38%

pre-let

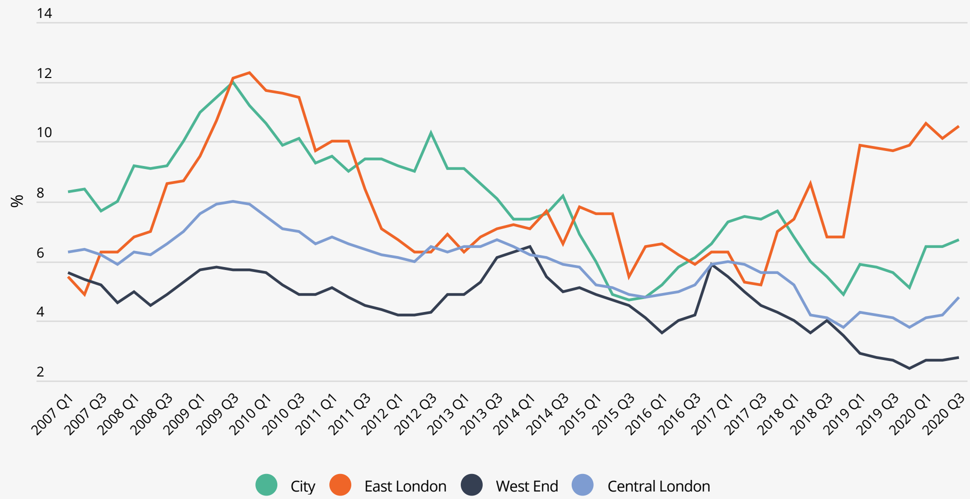
CENTRAL LONDON TAKE-UP



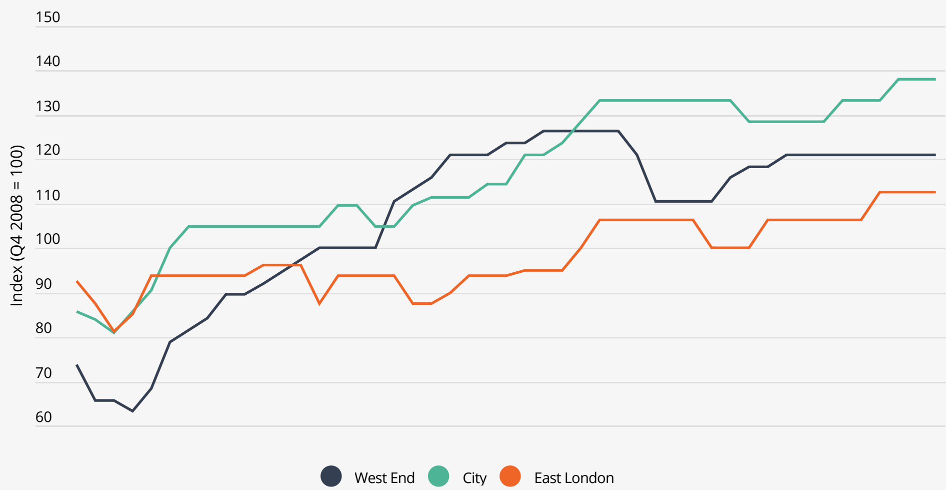
UNDER CONSTRUCTION



OFFICE AVAILABILITY RATES



PRIME HEADLINE RENTAL GROWTH



City

Take-up in the City increased from 350,000 sq ft in Q2 2020 to 416,000 sq ft in Q3. Nevertheless, this was still the third lowest quarterly total in the last decade, and was 53% below the 10-year average. The largest deal during the quarter was Baker & McKenzie taking 153,000 sq ft at 280 Bishopsgate, EC2 meaning that for the third quarter in a row a legal deal has been the biggest of the quarter. This deal helped make July the strongest month with 65% of the quarter's activity.

After a dip in August, activity greatly picked up in September primarily due to two deals in East City with non-traditional occupiers. These were Storey taking 45,100 sq ft at 100 Liverpool Street and Northeastern University taking 38,600 sq ft at Devon House, St Katharine Docks, E1. The only other deal above 20,000 sq ft was Amundi taking 27,700 sq ft across three floors at 77 Coleman Street, EC2.

Professional Services was the most active sector accounting for 46% of take-up followed by Financial Services with 21%. After three consecutive quarters of declining take-up by serviced office operators (with no activity in Q2) they accounted for 11% of Q3 take-up. In contrast, the TMT & Creative sector was relatively quiet this quarter.

Availability in the City has increased for a fourth consecutive quarter and is now 5 million sq ft. This has led to an increase in the vacancy rate from 6.5% to 6.7%. Despite the increase in available space, availability remains below the 10-year average of 5.1 million sq ft. Whilst we have seen an increase in the amount of tenant offered space, this is still at relatively low levels for now.

The development pipeline for the City totals 7.3 million sq ft, with 32% of this space currently pre-let. 1.3 million sq ft has completed so far this year, with a further 2.5 million sq ft scheduled for completion during the final quarter. Of this, 38% has been pre-let, leaving 1.4 million sq ft available. Looking further ahead, 25% of the 4.8 million sq ft of development in the City pipeline between 2021 and 2023 has already been pre-let

The largest space still to complete in 2020 is 22 Bishopsgate, EC2, which is now 63% pre-let. Slightly longer term, there is 880,000 sq ft available at Gotham City, 40 Leadenhall Street, EC3, due for completion in Q1 2023 and there are rumoured to be a number of pre-lets in discussion here.

Prime rents have remained stable in the City for Q3 2020 at £72.50 and £90.00 for a tower floor. Rent free periods have edged up to 25 months, the first increase since Q3 2017. MSCI's rental growth index for the City contracted by 0.2% in the three months to September 2020.

JEREMY PROSSER
Principal
+44 (0)20 7911 2865
jeremy.prosser@avisonyoung.com

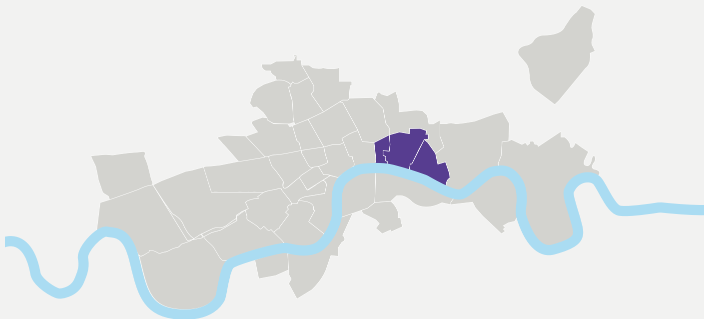
KEY DEALS

Address	Occupier	Sq Ft
280 Bishopsgate, EC2	Baker & McKenzie LLP	153,000
100 Liverpool Street, EC2	Storey	45,000
Devon House, 58-60 St Katherines Dock, E1W	Northeastern University	39,000
77 Coleman Street, EC2	Amundi	28,000
135 Bishopsgate, EC2	TP ICAP	20,000

TOP TENANT SECTORS

Professional Services
46%

Financial Services
21%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q3
415,700 sq ft

52.3%
DOWN ON THE 10-YEAR QUARTERLY AVERAGE

6.7%
VACANCY RATE

UNDER CONSTRUCTION
7.3 million sq ft
35%
pre-let

£72.50 per sq ft
PRIME RENT

West End & West London

West End/West London take-up totalled 296,000 sq ft for Q3 2020 that was 52% below the 10-year quarterly average despite a strong end to the quarter.

During September alone, we saw 155,000 sq ft of office space transact in the market accounting for 53% of the quarterly total. Comparatively, take-up in July and August was subdued, reporting 69,000 sq ft and 72,000 sq ft respectively. The largest deal of the quarter was at the Copyright Office Building, 30 Berners Street, W1, where Netflix leased 87,000 sq ft of space in late September.

This deal helped contribute to TMT & Creative being the most active sector of the quarter, responsible for 51% of the overall activity, followed by Financial Services with 17%. Financial Services also accounted for the highest number of transactions by sector, with 6 of the 21 deals observed across the quarter, followed by Government and Public Services with 5 deals.

The Netflix deal meant that Fitzrovia saw the greatest volume of take-up between the submarkets. Mayfair saw 50,000 sq ft of leasing activity with the largest deal being G Network's acquisition of 24,000 sq ft at 7 Swallow Place, W1.

Availability increased in the West End to 2.3 million sq ft, up 6.2% on the previous quarter. The vacancy rate increased for a second consecutive quarter to 2.8%, the highest observed since Q1 2019. In West London availability also increased, reaching 500,000 sq ft with a vacancy rate of 3.3%. Although the submarket's vacancy is up on the previous quarter, it remains considerably below the 10-year average of 6.5%.

The long-term limitations to supply and the prestige of the area may provide some resilience against a weight of tenant offered space coming onto the market, with occupiers keen to hold on to their space where they can.

The supply of new space in the submarket continues to be constrained with the total under construction declining to 2.1 million sq ft. Only 17% of this is pre-let however, leaving 1.7 million sq ft available. The majority of this is due to complete in 2021, with 852,000 sq ft scheduled to come to market. 2022 currently has 765,000 sq ft due for completion, including Paddington Square, W2, which is expected to deliver 363,000 sq ft of office space – the largest development in the pipeline.

Prime rents and rent free periods remained stable in the West End/West London submarket for Q3 2020. The prime West End rent is currently £115.00 per sq ft on 24 months' rent free. The MSCI West End and Midtown rental growth index fell 0.9% in the three months to September 2020.

NICK ROCK
Principal
+44 (0)7046 6517
nick.rock@avisonyoung.com

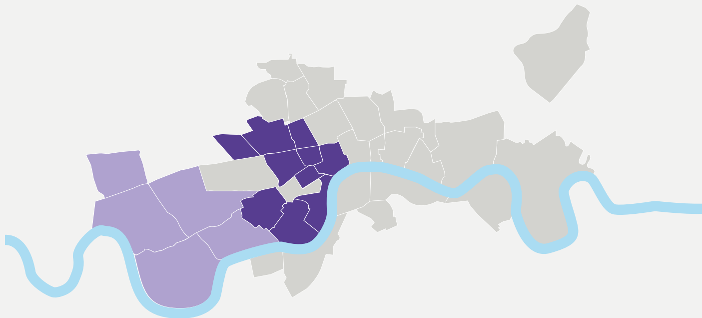
KEY DEALS

Address	Occupier	Sq Ft
Copyright Office Building, W1	Netflix	87,000
7 Swallow Place. W1	G Network	24,000
2 Cavendish Square, W1	HCA Investment	18,000
22-24 Glenthorne Rd, W6	Romanian Embassy	17,000
110 Long Acre, WC2	Peleton	17,000

TOP TENANT SECTORS

TMT & Creative
51%

Financial Services
17%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q3
296,000 sq ft

52%
DOWN ON THE 10-YEAR QUARTERLY AVERAGE

2.83%
VACANCY RATE

UNDER CONSTRUCTION
2.1 million sq ft
17%
pre-let

£115.00 per sq ft
PRIME RENT

East London

Take-up in East London achieved 22,000 sq ft in Q3 2020, 91 % down on the 10-year quarterly average and the lowest figure recorded for the submarket since Q1 2011.

Only one deal was transacted in East London across the quarter. This was the 22,000 sq ft lease of the second floor of the Export Building, Republic, E14, by Anglia Ruskin University, expanding on their Republic footprint on the 3rd floor of the Import Building.

The vacancy rate for East London increased to 10.5% during the quarter, up from 10.2% in Q2. This is far above the10-year average of 7.6% while available stock rose by 3.7% to 2.6 million sq ft.

There is just 696,000 sq ft of office space under construction in East London. Of this, 55% has been pre-let leaving just 313,000 sq ft available. All three of the projects currently being constructed are due for completion in 2020. The largest of these is Cargo, 25 North Colonnade, E14, where 67% of the 306,000 sq ft has been pre-let by BP, while 20 Water Street, E14, has 211,000 sq ft available ahead of its Q4 scheduled completion.

Prime headline rents have remained stable in the East London submarket at £45 per sq ft with rent free periods of 30 months.

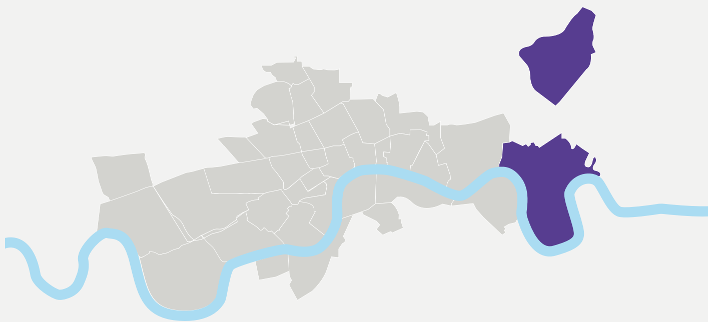
ALASDAIR GURRY
Director
+44 (0)20 7911 2831
alasdair.gurry@avisonyoung.com

KEY DEALS

Address	Occupier	Sq Ft
Export Building, Republic, E14	Anglia Ruskin University	22,000

TOP TENANT SECTORS

Government & Services
100%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q1
22,000 sq ft

91%
UP ON THE 10-YEAR QUARTERLY AVERAGE

10.56%
VACANCY RATE

UNDER CONSTRUCTION
696,000 sq ft
55%
pre-let

£45.00 per sq ft
PRIME RENT

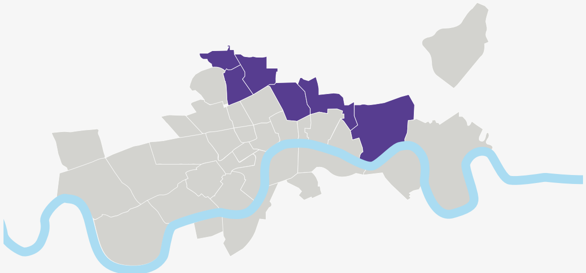
Tech Belt

Take-up in the Tech Belt market rose from 137,000 sq ft in Q2 2020 to 186,000 in Q3.The ten deals were spread across different sectors with the largest being The Office Group taking all of the 68,000 sq ft at 210 Euston Road, NW1. This was followed by the patent and trademark attorneys JA Kemp taking 45,000 sq ft across six floors at 76 Turnmill St, EC1.

Availability increased for the second consecutive quarter in the Tech Belt, rising to 2.3 million sq ft for Q3 2020. At 43% above the 10-year average, this is the highest figure recorded for the submarket since Q1 2010, with a corresponding increase in vacancy to 5.6%.

There continues to be limited supply in the pipeline with 58% of the 2.8 million sq ft currently under construction already pre-let. 341,000 sq ft is due to complete this year, of which 29% is already pre-let. A further 697,000 sq ft of space is due to come to the market in 2021. This leaves 118,000 sq ft of space due to complete in 2022, although 60% of this has already been let.

Rents in the Tech Belt remain stable as they have done for this year. King's Cross continued to report the highest rents in the submarket at £80.00 per sq ft, followed by Clerkenwell at £75.00. Rent free periods also remained flat in the Tech Belt at 24 months.



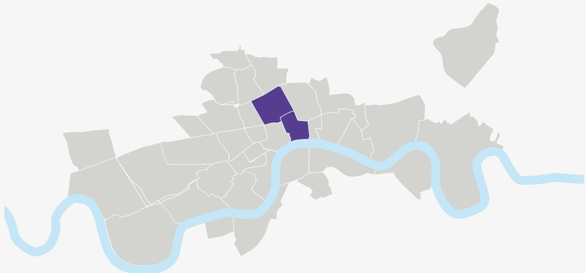
Midtown

There was little activity in Midtown, with just 55,100 sq ft transacted across three deals. The largest deal of the quarter was Hardwicke Chambers taking 20,500 sq ft at 1 Gray's Inn Rd, WC1. Elsewhere Secret Escapes took 19,500 sq ft at 120 Holborn, EC1 and The Workshop Technologies acquired 15,000 sq ft at Fetter Yard, 86 Fetter Lane, EC4.

Although availability in Midtown increased for a second quarter to 619,000 sq ft, it remains considerably below the 10-year average of 1.1 million sq ft. Midtown currently has a vacancy rate of just 2.2%, the lowest of all the central London submarkets.

Following the completion of Fetter Yard, EC4 and 262 High Holborn, WC1 in Q2 2020, the 167,000 sq ft 66 Shoe Lane, EC4 (formerly known as Athene Place) is the only development currently under construction and due to complete this year.

Midtown rents remained stable in Q3 2020, with the highest observed in Bloomsbury and Holborn at £80.00 and £72.50 respectively. Rent free periods have continued at 24 months across the submarket.



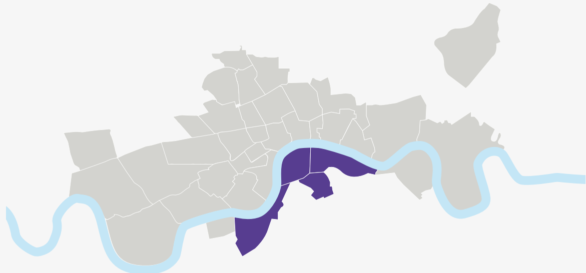
Southbank

37,600 sq ft of take-up transacted across Southbank during the quarter. The four deals that transacted was an improvement on the one recorded during Q2. Of the four deals, the largest was IQEQ taking 18,300 sq ft at 3 More London, SE1 followed by Zwift taking 7,500 sq ft at 150 Long Lane, SE1.

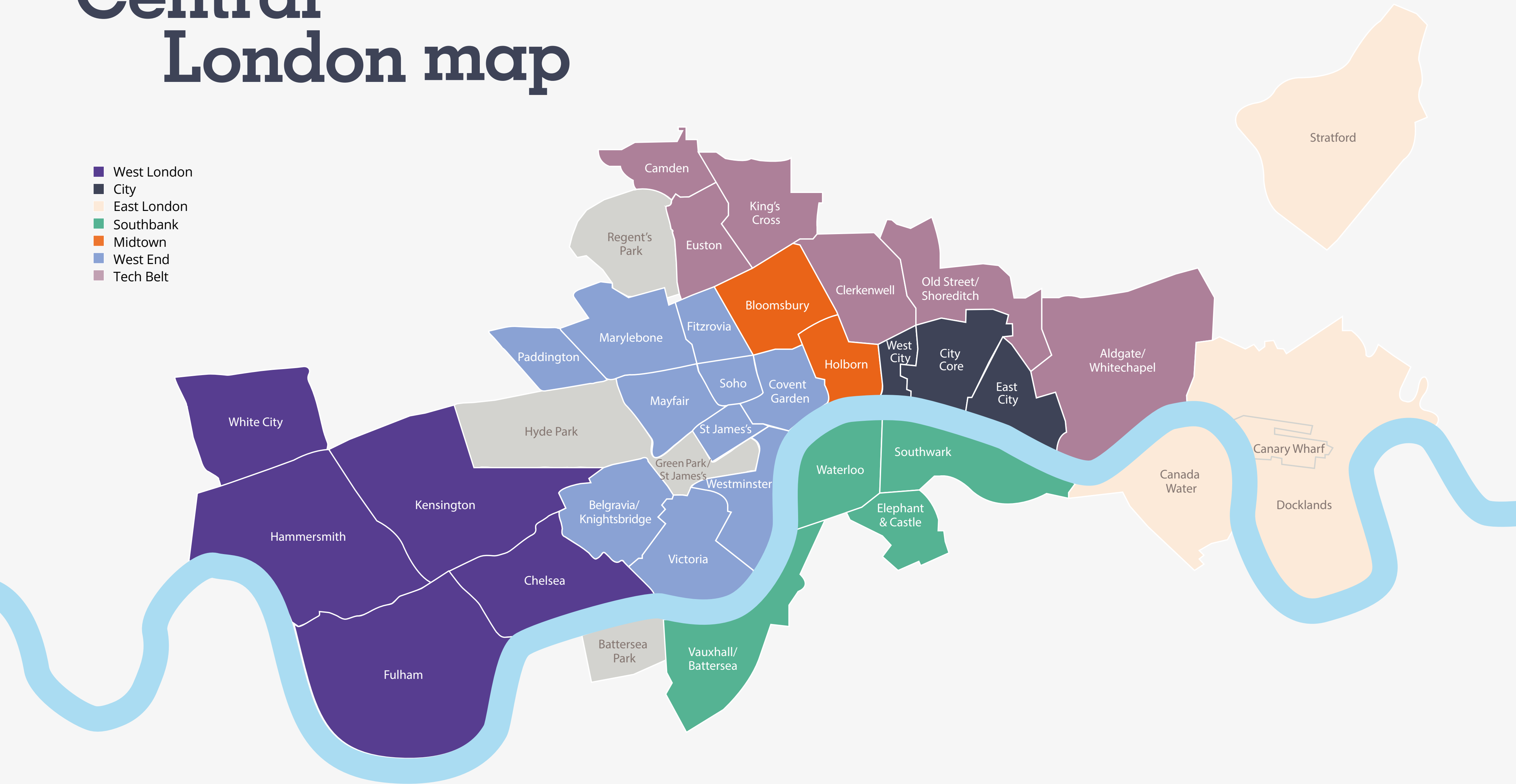
Availability in the Southbank rose to 854,000 sq ft in Q3, a 57% increase on the previous quarter. As a result, the vacancy rate has increased to 2.8%, up from 1.8% in the previous quarter and the highest observed since Q1 2018.

There is a total of 927,000 sq ft under construction in the submarket as of Q3 2020, none of which is set to complete this year. A high proportion (65%) of the development pipeline has been pre-let, predominantly due to the 550,000 sq ft Battersea Power Station which has been 100% pre-let by Apple and IWG's No18.

Across the Southbank, rents have remained flat in Q3 2020. Waterloo rental values continue to be the highest in the submarket at £70.00 per sq ft, followed by Southwark with £65.00 per sq ft. Rent free periods have also been stable over the quarter at 24 months.



Central London map



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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	£95.00	24	£44.43	£149.68
Knightsbridge/ Belgravia	£92.50	24	£42.29	£145.04
Marylebone	£85.00	24	£42.29	£137.54
Covent Garden	£90.00	24	£32.12	£132.37
Fitzrovia	£82.50	24	£36.13	£128.88
Victoria	£80.00	24	£36.07	£126.32
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	£95.00	22	£39.61	£144.86
Kensington	£72.50	24	£47.10	£129.85
Hammersmith	£58.00	24	£22.48	£90.73
White City/ Shepherd's Bush	£60.00	24	£9.10	£79.35
Fulham	£47.50	24	£21.41	£79.16

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	£72.50	24	£29.71	£112.46

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
Battersea/Nine Elms	£62.50	24	£16.33	£89.08
Vauxhall	£58.00	24	£16.33	£84.58

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	24	£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	£75.00	24	£29.71	£114.96
Clerkenwell	£75.00	24	£24.89	£110.14
Camden	£60.00	24	£28.64	£98.89
Old Street/ Shoreditch	£67.50	24	£19.27	£97.02
Aldgate/ Whitechapel	£57.50	24	£21.41	£89.16

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	£45.00	30	£9.10	£64.35
Docklands	£32.50	30	£10.71	£53.46

CHRIS GORE
Principal

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Investment activity was markedly improved in Q3 2020 compared to the previous quarter, both in terms of volume and number of deals. Volumes increased to £1.2 billion from £682 million in Q2 but remained 67% down on the 10-year quarterly average.

Investment market in brief

IMMATERIAL UNCERTAINTY

Investment activity was markedly improved in Q3 2020 compared to the previous quarter, both in terms of volume and number of deals. Volumes increased to £1.2 billion from £682 million in Q2 but remained 67% down on the 10-year quarterly average. The relaxation of some restrictions during the summer provided only partial relief to investors with restrictions on travel, reignited Brexit negotiations and a typical summer lull continuing to have an impact. Furthermore, The RICS only lifted their Material Uncertainty Clause in July.

Whilst there is a dearth of activity, we remain well above the levels seen during the bottoms of the cycle in the dot com crash and the GFC when volumes were £777 million and £840 million respectively. Furthermore, there is little upward pressure on prime yields as of yet with London remaining well priced compared to many of its European counterparts.

ANY MORE FOR CORE?

The material uncertainty that plagued Q2 of 2020 has pushed investors to become more risk-averse, favouring quality stock typically at the core end of the market. The majority of properties transacted in this bracket have achieved pre-Covid or similar pricing. Transactional evidence for this includes The Cabot, 25 Cabot Square, E14, which sold for £380 million; 1 New Oxford Street, WC1, that exchanged for £174 million; and 7 Soho Square, W1, going for £78 million.

On a month-by-month basis across the quarter, July was by far the busiest month, recording 72% of Q3 investment volumes and 54% of transactions. This may be reflective of the release of some pent-up demand which accrued during the Q2 restrictions which impeded valuations and site visits for investors, particularly those from outside of the UK.

Nevertheless, activity continues to be dominated by overseas investors who accounted for 78% of the total investment volume for the quarter. While the majority of overseas capital was contributed from Asia at 48% of the quarterly total by volume - including the two largest deals of the quarter - over half of overseas investors by number were based in mainland Europe. Purchases made from this region include the Wellington Block, WC2 by Dutch firm APG for £76.5 million and 8-12 Warwick Lane, EC4 by a private Danish investor for £44 million.

By vendor, the US reported the greatest release of assets at £613 million that was 53% of the quarterly total. The UK sold the most in terms of numbers of transactions, tallying 13 across the quarter.

There has been some interest in seeking out value-add opportunities, typically focusing on the smaller end of the market, with UK investors being the primary drivers. In the current risk-averse climate, larger value-add stock or buildings with a significant letting risk posed by periphery locations or aspirational pricing continue to struggle to attract substantial interest.

Central banks across the globe have moved to lower interest rates in an effort to get money moving – a trend which is expected to remain for some time. Consequently, debt is relatively inexpensive for those who can access it. However, many lenders are requiring increased assurances on risk, with the uncertain economic backdrop being heightened by significant perceived structural shifts. Investors looking to borrow may therefore face increased scrutiny when purchasing even traditionally high-security assets.

INTO THE LOOKING GLASS

Demand is expected to pick up in the final quarter of 2020, with significant headline deals already eclipsing Q3 volumes. In October so far, there have been several high value transactions including One London Wall Place, EC2, at £480 million; Nova, SW1, where Suntec REIT purchased a 50% stake for £431 million; and Chanel's purchase of their HQ, 159 New Bond Street, W1, for £310 million – a step above the reported £240 million asking price.

There remains a growing weight of supply and demand – both of which have been held up by the pandemic. The resolve at the core end of market will become clearer with properties like 66 Shoe Lane, EC4 and New Ludgate, EC4 reaching advanced stages of negotiation and The Scalpel, EC3 and 100 Bishopsgate, EC3 set to test the record yields set for City towers in 2017 once again.

Additional reassurances of the current and future strength in the market can be found in the volume of prime stock that is presently under offer. Deka has placed an offer to purchase British Land's Clarges Estate in Mayfair, W1, for £180 million. This is one of several assets that British Land is looking to sell off in order to focus on campus developments in London, with some £4 billion worth of assets expected to be disposed of in the medium-term. Elsewhere, 16-17 Connaught Place, W2, is under offer from the Italian pension fund ENPAM; GLL have placed an offer on Yalding House, W1; and Morgan Capital Partners have reportedly produced an offer for Kirby Street, EC1.

Several of the recently completed and potential transactions have provided a return of best bids which can be taken as a sign of buoyancy in the market. These have also revealed strong competitive tensions on top tier properties including 1 St James's Square and 64 St James's Street in SW1 along with 7 Newgate Street, EC1 and 100 Fetter Lane, EC4 among others.

Investment commentary

Investment volumes reached £1.2 billion in Q3 2020, 67% down on the 10-year quarterly average. Despite being below average, Q3 investment was considerably higher than the previous quarter, when just £682 million was transacted. At the end of Q3 2020, investment YTD totalled £4.2 billion, 39% and 69% down on the same period in 2019 and 2018 respectively.

The majority of activity for Q3 came in July, with the monthly total of £835 million accounting for 72% of the quarter's investment. Despite the strong start, volumes fell off in August to only £92 million - the lowest monthly total recorded since February 2009 - while September saw just £235 million transact.

A total of 23 deals transacted across the quarter, 60% down on the 10-year average of 58, with two single building sales in excess of 100,000 sq ft. The largest of these was 25 Cabot Square, E14, with 482,000 sq ft being purchased by Link REIT of Hong Kong for £380 million with a 5% NIY. This was followed by the 110,000 sq ft purchase of 1 New Oxford Street, WC1, for £174 million with a 4.2% NIY by the Singaporean firm Sun Venture. Overseas investment accounted for 78% of the quarterly total with European and Asian investors particularly active.

The West End saw the most significant volume of investment with £627 million of activity worth 54% of the quarterly total. Conversely in East London, Link REIT completed on the only deal of the quarter in buying the Cabot from Hines. Other markets were particularly quiet, with the most notable deals being CLI Dartriver's acquisition of 4-12 Norton Folgate, E1 and Hampshire City Council Pension Fund's purchase of 6 Brewhouse Yard, EC1.

Prime yields remained relatively stable across Central London for Q3 2020. Prime yields are 3.50% in the West End and 4.00% in the City.

KEY STATS THIS QUARTER

TRANSACTION VOLUMES

£1.2 billion

▼ 67%

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

VOLUMES BY MARKET

CITY	WEST END	EAST LONDON
£44 million	£627 million	£380 million

VOLUMES BY INVESTOR TYPE

OVERSEAS INVESTORS	UK INSTITUTIONS
78%	21%

▶ 4.00%

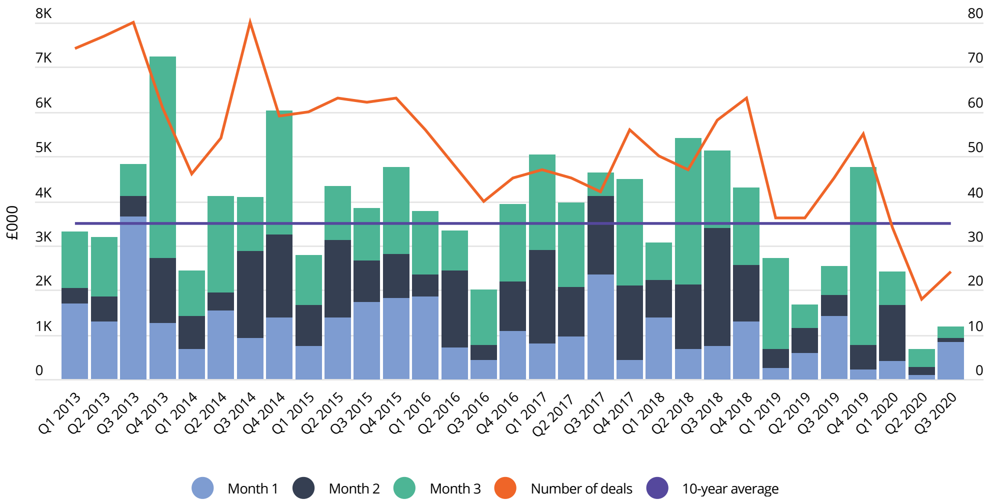
CITY PRIME YIELD

▶ 3.50%

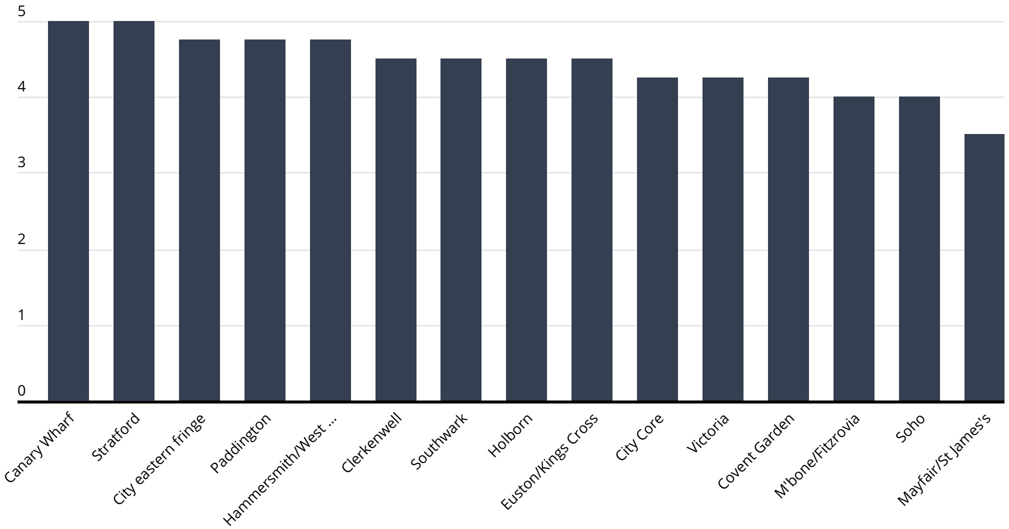
WEST END PRIME YIELD

Investment market data

CENTRAL LONDON QUARTERLY VOLUMES VS NUMBER OF DEALS



CENTRAL LONDON YIELDS Q3 2020



LARGEST INVESTMENT DEALS OF Q3 2020

Address	Price (£m)	Yield (%)	Month	Purchaser
The Cabot, 25 Cabot Square, E14	380	4.86%	Jul-20	Link REIT
1 New Oxford Street, WC1	174	4.20%	Jul-20	Sun Venture
7 Soho Square, W1	78	3.98%	Sep-20	Hines Pan-Euro Core Fund
103 Mount Street, W1	78	4.06%	Jul-20	STARS REI
Wellington St / Exeter St, WC2	76.5		Sep-20	APG

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

Jeremy Prosser
Principal, City Agency
+44 (0)20 7911 2865
jeremy.prosser@avisonyoung.com

Nick Rock
Principal, West End Agency
+44 (0)7046 6517
nick.rock@avisonyoung.com

Alasdair Gurry
Director, City and Docklands Agency
+44 (0)20 7911 2831
alasdair.gurry@avisonyoung.com

Chris Gore
Principal, Central London Investment
+44 (0)20 7911 2036
chris.gore@avisonyoung.com

Jamie Olley
Principal, Central London Investment
+44 (0)20 7911 2802
jamie.olley@avisonyoung.com

Daryl Perry
Head of UK Research
+44 (0)20 7911 2340
daryl.perry@avisonyoung.com

John O'Brien
Assistant Researcher
+44 (0)20 7911 2659
john.o'brien@avisonyoung.com

Visit us online
avisonyoung.co.uk/research

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