RESEARCH

Central London office analysis

Q1 2020

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OCCUPATIONAL MARKET

Take-up totalled 2.4 million sq ft in Q1 2020 which was 28% below Q4 2019 but only 8% down on the 10-year average. March take-up was around a third of Q1 2020 take-up suggesting COVID-19 had limited immediate impact on ongoing deals.

INVESTMENT MARKET

Investment volumes reached £2.4 billion for Q1 2020 which was 22% below the Q1 10-year average and only 12% below the same period last year representing only a slight Q1 slowdown in investment volumes.

Avison Young has successfully let 23,000 sq ft at The Point, Paddington on behalf of BT.
A further 16,500 sq ft is under offer and 45,000 sq ft available

JEREMY PROSSER
Principal

> Occupiers are continuing to commit to space where there is a paucity of good quality stock and their decision making is long term and strategic. In contrast, smaller, footloose occupiers are pausing while they consider their wider business challenges over real estate.

Occupier market – in brief

COVID-19

Welcome to our latest Central London quarterly report providing an overview of the office market for Q1 2020; please note we have changed the boundaries of the City and West End markets to reflect an updated perception of the market, please do let me know if you have any queries.

The arrival of COVID-19 to the London office market has not been without an impact. Despite the monetary and fiscal measures, being carried out by the UK Government, the UK will soon enter a recession which could surpass that experienced during the global financial crisis. The true economic cost and the speed of rebound does not yet have a broad consensus.

The restrictions caused by the virus have put new activity on hold with viewings temporarily suspended and the delivery of office fit-outs in question. There is also increasingly less certainty over the future of the economy with smaller and footloose occupiers, in particular, pausing in the short-term while they consider wider business challenges over real estate, many occupiers that had been considering growth are reassessing for the time being. In contrast, occupiers of all sizes continue to commit to space where there is a paucity of good quality stock and their decision making is longer term and strategic. A number of larger occupiers placed space under offer during March and April; however the transactions will have to adapt to the associated COVID-19 challenges ahead.

Notwithstanding the above, the market fundamentals were healthy which puts the Central London market in good stead entering a recession. Q1 2020 was set to see healthy levels of demand with 1.6 million sq ft of take-up recorded in January and February, 76% above the same period in 2019. Last year was the second strongest year since 2001, below 2018's total by only 2%. London is and will continue to be an attractive location for business, despite the unprecedented level of hopefully short-term disruption ahead.

Furthermore, the development pipeline continues to see very low availability which should hold the occupational market in good stead when the market starts moving again. At the end of Q1 2020, the pipeline was 51% pre-let, with just 3.0 million sq ft of new space available, equating to only two quarters of normal Grade A take-up. On this basis, the future pipeline should continue to be constrained for the short-term, especially where most construction sites are adjusted to new processes and therefore progressing slowly. However, we will need to keep a close eye on occupiers releasing space back to the market by reducing their space requirements and so the size of their office portfolios.

THE WAY WE WORK

As we all gradually adjust to a home-working culture, and companies implement short-term return to work strategies, will this cause a long-term shift in working practices and will this mean tenants occupy less space in the future as a result? Although the shift will most likely cause more widespread adoption of video-conferencing technologies, the collaborative potential of an office is far above what we could expect through home-working full time, and from a client perspective nothing can beat proper face-to-face interaction.

Indeed, the further we delve into the realms of working from home, the more appealing the office seems, particularly when considering the importance of ensuring strong economic growth to ensure a downturn is effectively tackled. Although the threat of a renewed outbreak will remain on people's minds, this may translate into a change in commuting patterns, or utilisation of local offices or flexible office providers who can offer an office setting without risking infection. This is in addition to the risks brought by economic retraction and potential short-medium term measures on the restriction of movement which may discourage organisations from committing to longer leases under uncertain economic conditions.

The last few weeks have put pressure on the performance of serviced office providers, with the heads of more than 30 flexible workspace businesses writing to Chancellor Rishi Sunak warning "hundreds" of operators could go bankrupt because of declining membership in light of the outbreak. There is no doubt that operators are struggling, with the flexibility of their offering having turned against them somewhat, and there is likely to be an element of accelerated sector consolidation. The journey back to 'normal' may yet see serviced offices again become more attractive to those corporates who are willing to pay for flexibility, while also potentially enabling faster structural change in the office market.

At the corporate level, the return to the office may see companies reconsider what the office can do to enable healthy, productive workers. Companies are likely to adopt greater flexible working practices, especially with the technology set up in order to do so, enabling a better work life balance for employees. Healthier workplaces, which were already being talked about prior to the crisis, are likely to become even more important as companies better recognise the role the office can and should play, with specific tailored workplaces targeted to the needs of individual workforces, although hot-desking is likely to become less popular as workers worry about more about hygiene and shared spaces.. There is no doubt we are in a period of major structural change, the role of the office is changing but will not become less important.

Central London

TAKE-UP

Take-up totalled 2.4 million sq ft in Q1 2020 which was 28% below Q4 2019 but only 8% down on the 10-year average. March take-up comprised a third of Q1 2020 take-up suggesting COVID-19 had no immediate impact, however a significant drop off in Q2 is expected without a significant supply of under offer stock to rely on.

There were three deals above 100,000 sq ft recorded during the quarter which was in line with Q4 2019 by total sq ft. However, the first quarter of the year saw limited transactional activity within the 10,000 to 49,999 sq ft and 50,000 to 99,999 sq ft size bands, the former falling 37% relative to Q4 and the latter falling by 58%.

By sector, there was no overwhelming majority unlike in previous quarters. The Professional Services sector accounted for the highest proportion with 24%, followed by the TMT & Creative sector which accounted for 19%, and largely accounted for by multiple acquisitions by Google throughout the quarter. The level of serviced office take-up fell significantly for Q1 2020 most likely due to COVID-19. Serviced office take-up fell 66% on Q4 2019 to around 180,000 sq ft, a 7% proportion of take-up compared to Q4's 16%.

Pre-letting activity made up 39% of all take-up for Q1 2020, up from 23% in Q4 2019. By total sq ft, pre-lets rose to 930,000 sq ft, up 22% on the last quarter of 2019. Significant pre-lets included Linklaters' acquisition of 310,000 sq ft at 20 Ropemaker Street, EC2 and BP's acquisition of 240,000 sq ft at 25 North Colonnade, E14. Continued strong pre-letting activity highlights the fact that large occupiers are still willing and able to take long-term views on their business requirements.

AVAILABILITY

Total availability increased in the Central London market to 12 .1 million sq ft for Q1 2020, up 11% on the Q4 2019 but still 9% below the 5-year quarterly average of 13.6 million sq ft. This can be partially attributed to the deflated take-up figure for the quarter.

The development pipeline for Central London has reduced slightly to 14.3 million sq ft currently under construction, of which 51% has been pre-let leaving 7.3 million sq ft still available. For buildings due for completion in 2020, under construction supply totals 7.3 million sq ft of which 62% has been pre-let. This is skewed towards buildings in excess of 100,000 sq ft, with pre-lettings for buildings in this category rising to 67%, compared to the 41% for those below 100,000 sq ft. No major office developments completed in Q1 2020, following the closure of several sites and movement restrictions which hindered construction across the capital.

RENTAL GROWTH

Prime rents across Central London stayed relatively stable for Q1 2020 with some upwards movement in the first half of Q1. Prime West End rents are unchanged at £115.00 per sq ft, prime City rents saw marginal uplift to £72.50 per sq ft, up from £70.00 per sq ft at the end of last year. Prime rent free periods are stable at 24 months with no change recorded across the submarkets. The arrival of COVID-19 has potentially altered the picture. Although it is too early to pinpoint a figure, we are seeing some examples of requests for lower headline rents and longer rent holidays from prospective tenants, and landlords are more willing to offer longer rent free periods to get deals over the line.

KEY DEALS - Q1 2020

Address	Occupier	Sq Ft
20 Ropemaker Street, EC2	Linklaters	307,195
25 North Colonnade, E14	BP	243,973
286 Euston Road, NW1	Google	134,859
16 Old Bailey, EC4	IPG Mediabrands	93,161
80 Fenchurch Street, EC3	Convene	67,245

TOP TENANT SECTORS

Professional Services
24%

TMT & Creative
19%

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 Q1

2.4 million sq ft

▼ **8%**

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

4.05%

VACANCY RATE

UNDER CONSTRUCTION

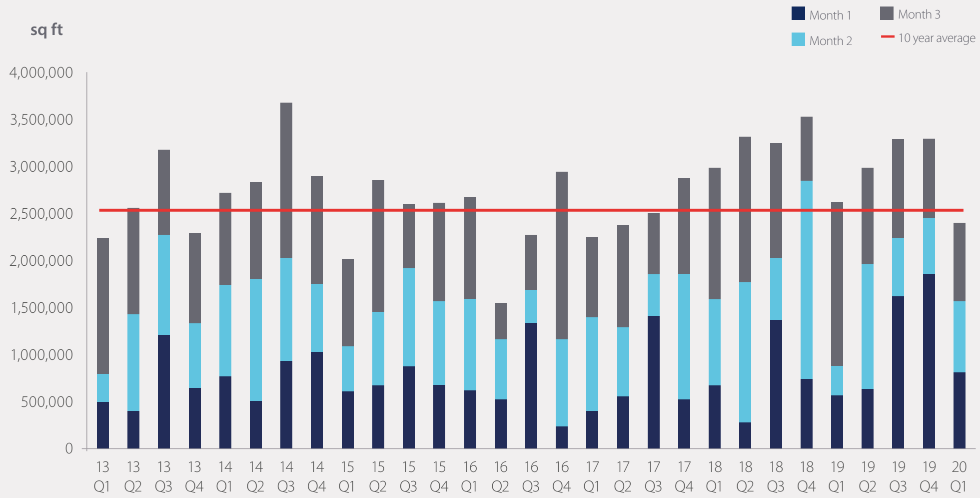
14.3 million sq ft

51%
pre-let

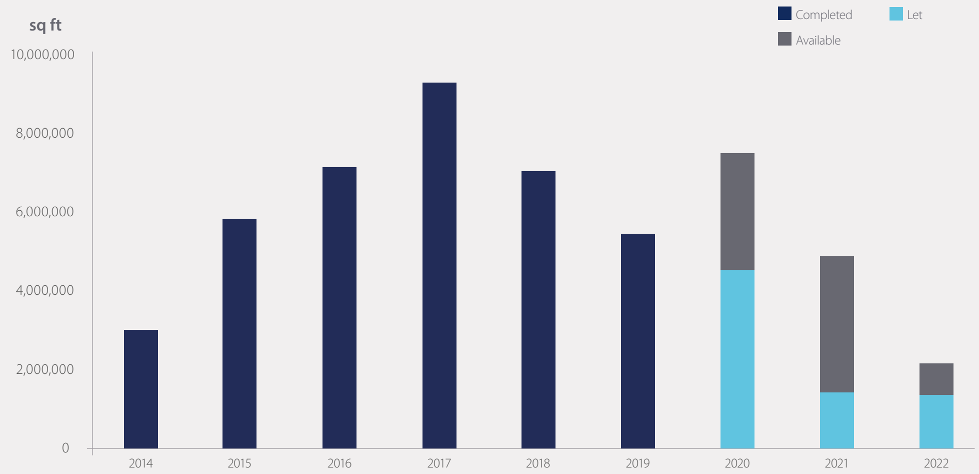
Occupier market | Central London map | Central London markets | Investment | Investment commentary | Investment data | Contact

Central London | **Charts** | West End | City | East London | Tech Belt / Southbank / Midtown

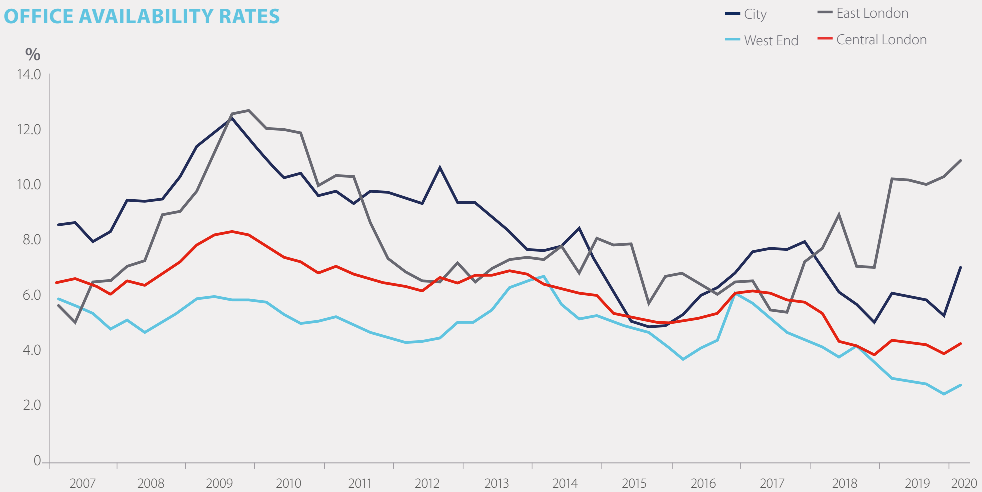
CENTRAL LONDON TAKE-UP



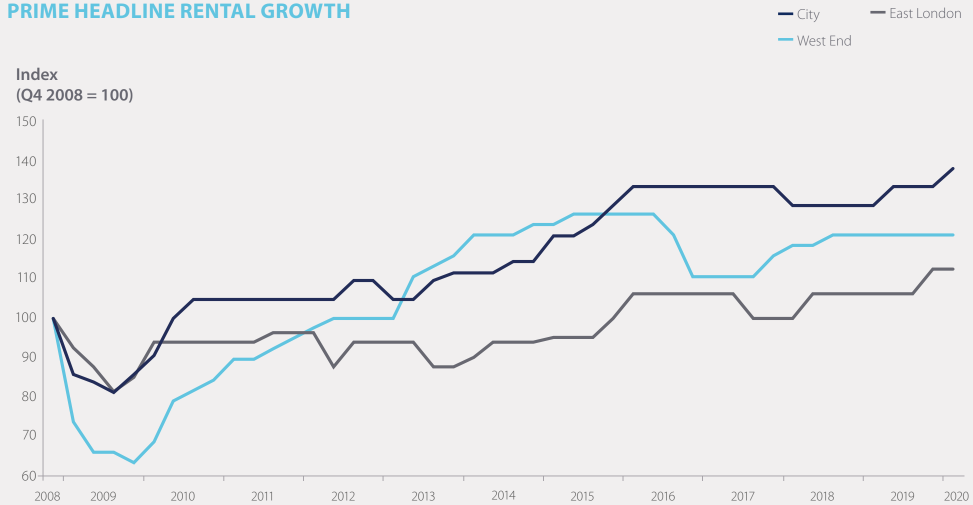
UNDER CONSTRUCTION



OFFICE AVAILABILITY RATES



PRIME HEADLINE RENTAL GROWTH



West End & West London[1]

TAKE-UP

West End and West London take-up fell sharply on Q4 2019 to 450,000 sq ft, down 29% on the 10-year average. This was largely due to a lack of larger deals with no transactions recorded over 50,000 sq ft. The largest deal was to Mindspace at the Metro Building, W6 where the co-working brand acquired 35,000 sq ft. There were a further six deals over 20,000 sq ft, of which a further two were in Hammersmith and White City.

Financial services accounted for 29% of take-up for the quarter, in a sense more resilient to uncertainty than their creative counterparts which accounted for just 11%. The largest Financial Services transaction was to Gulf International Bank who acquired 22,000 sq ft at 1 Curzon Street, W1. St James's Place Wealth Management acquired 19,000 sq ft at 116 Brompton Road, SW3.

Pre-letting activity was limited accounting for just 17% of take-up in Q1, across four pre-lets. As the pipeline of new stock continues to be limited in the core West End there are limited opportunities for occupiers. Combined Hammersmith and White City take-up was 58% above the same period last year with 130,000 sq ft of take-up on record. This reflects the market's capacity to provide for larger space requirements, and at a significantly lower rent.

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AVAILABILITY

Availability in the combined West End and West London submarkets reduced to 2.6 million sq ft in Q1 2020, a decline of 13% quarter-on-quarter and significantly below the 10-year average. The decreased figure is attributed to the West London submarket where availability fell due to strong letting activity in the Hammersmith and White City submarkets. As a result of the limited availability, the vacancy rate for the combined West End and West London is just 2.62%.

The submarkets have a total development pipeline of 2.7 million sq ft, with the largest development being Paddington Cube, W2, where 360,000 sq ft is due to complete in 2021. By the end of 2020, 982,000 sq ft is due to complete, 70% of which has been pre-let already. The scarcity of supply has driven up pre-letting activity in the West End and West London with occupiers needing to think further ahead to secure their spaces.

No developments completed in either of the Western submarkets in the first quarter of 2020, meaning that the acute shortage of Grade A supply will persist at least in the short term. Only four developments are currently scheduled to complete in 2022, totalling 429,000 sq ft, suggesting that availability in the West End submarket will remain highly constrained in the long term as well. This trend is most prevalent in the West London submarket, where only one development of 18,000 sq ft is due to complete in 2022.

RENTAL GROWTH

Prime West End rents remained stable at £115.00 per sq ft for the seventh consecutive quarter. There was marginal uplift in rents in Victoria, where rents rose to £80.00 per sq ft, up from £77.50 per sq ft at year end, and in Covent Garden where rents rose to £90.00 per sq ft, up from £85.00 per sq ft

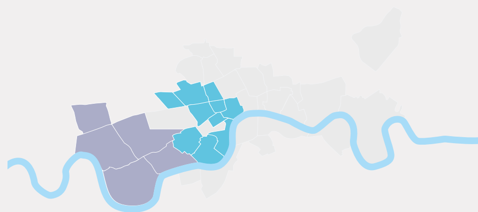
KEY DEALS - Q1 2020

Address	Occupier	Sq Ft
Metro Building, W6	Mindspace	34,838
Scale Space, W12	DNA Electronics	30,360
UK House, W1	Octopus Energy	29,000
245 Hammersmith Road, W6	Achilles Theraputics	24,604
The Point, W2	Dun & Bradstreet	23,181

TOP TENANT SECTORS

Professional Services **29%**

TMT & Creative **13%**



[1]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.

[2]Q1 2020 West End take-up historic definitions - 640,000 sq ft, 26% down on the 10-year quarterly average.

[3]Q1 2020 West End vacancy historic definitions - 3.41%

[4]Q1 West End pipeline historic definitions - 4.7 million sq ft, 56% pre-let

KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q1

450,000 sq ft[2]

▼ 29%

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

2.62%[3]

VACANCY RATE

UNDER CONSTRUCTION

2.7 million sq ft[4]

33%
pre-let

£115.00 per sq ft

PRIME RENT

City[1]

TAKE-UP

City take-up fell 15% on the previous quarter, largely due to higher levels of uncertainty in the latter half of Q1, but was still up 13% on the 10-year average and 14% above the same period last year. The largest deal in the City overall was at 20 Ropemaker Street, EC2 where Linklaters took over 300,000 sq ft for their new HQ, the largest City transaction since the Chinese Embassy's owner-occupation purchase of Royal Mint Court, EC3.

Relative to Q4 2019, the strongest fall was within the 10,000-49,999 sq ft size band which saw total volumes fall by 39%. Conversely, the 50,000 and 99,999 sq ft size band saw total volumes rise by 56% reflecting heightened confidence by larger occupiers able to see past the uncertainty. By sector, Professional Services companies made up the majority of take-up accounting for 44% (440,000 sq ft). TMT & Creative and Financial Services each accounted for an additional 16%. Where previously the serviced office sector has been active in the City market, Q1 saw its proportion unsurprisingly fall to just 3%, down from 12% in the final quarter of last year.

Pre-letting volumes totalled 510,000 sq ft in Q1 2020 which was a record 50% of City take-up and almost double the Q4 2019 proportion of 27%. There were a total of six pre-lets including acquisitions by Knotel and Convene early in the quarter. Convene took 67,000 sq ft at 80 Fenchurch Street, EC3 which was the serviced office operator's second London acquisition following on from their acquisition of 100,000 sq ft at 22 Bishopsgate, EC2 last summer.

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AVAILABILITY

Availability in the City has increased to 4.8 million for Q1 2020 which is an increase on Q4 2019 but remains marginally below the 10-year average of 5.2 million sq ft. The increased availability has pushed the vacancy rate to 6.47%, the highest observed in the City since Q1 2018.

The additional stock which came to the market in Q4 2019 is yet to dissipate, possibly influenced by movement restrictions as a result of COVID-19 which slowed transactional activity latterly in Q1 2020. These factors, as well as the added space brought by developments which are soon to complete, including over 100,000 sq ft at 1 Noble Street, EC2 and the remaining space at Gresham St Pauls, EC2 contributed to the increase in City availability.

The 23 developments currently under construction in the City will contribute 6.2 million sq ft. Of this, 3.5 million is due to complete in 2020 with 52% already pre-let, leaving 1.7 million sq ft available. Developments in the City's pipeline are of considerable scale, with 18 of the total 23 being in excess of 100,000 sq ft, the largest of which – 22 Bishopsgate, EC2 – is over 1.2 million sq ft.

RENTAL GROWTH

The City Core prime rent saw marginal uplift for Q1 2020 to £72.50 per sq ft, up from £70.00 per sq ft at the end of last year. The City Tower rent is stable at £90.00 per sq ft but there are examples of certain developments achieving in excess of this level. Rent free periods are stable at 24 months.

KEY DEALS - Q1 2020

Address	Occupier	Sq Ft
20 Ropemaker Street, EC2	Linklaters	307,195
16 Old Bailey, EC4	IPG Mediabrands	93,161
80 Fenchurch Street, EC3	Convene	67,245
The Scalpel, EC3	Chaucer Group	44,260
Exchequer Court, EC3	ERM	24,201

TOP TENANT SECTORS

Professional Services **44%**

TMT & Creative **16%**

[1]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.

[2]Q1 2020 City take-up historic definitions - 1.4 million sq ft, 5% down on the 10-year quarterly average.

[3]Q1 2020 City vacancy historic definitions - 5.70%

[4]Q1 2020 City pipeline historic definitions - 9.0 million sq ft, 45% pre-let

KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q1

1.0 million sq ft[2]

▲ **13%**

UP ON THE 10-YEAR QUARTERLY AVERAGE

6.47%[3]

VACANCY RATE

UNDER CONSTRUCTION

6.2 million sq ft[4]

46%
pre-let

£72.50 per sq ft

PRIME RENT

East London

TAKE-UP

East London take-up dramatically rose 176% on Q4 2019 to 360,000 sq ft in Q1 2020, one of only two Central London markets to record a quarter-on-quarter increase. Take-up was also 48% up on the long-term average. There were a total of nine deals during Q1 of which the largest was to BP at Blackstone's refurbishment of 25 North Colonnade, E14.

The strong performance in East London reflects strong performance in the West of London too. A lack of supply and elevated pricing elsewhere has driven occupiers away from central locations towards areas that are able to cater for larger requirements and at lower rents, reflecting risks to an occupier's income stream. Indeed, there are only seven other developments across Central London that could currently provide for a space requirement over 200,000 sq ft, and of which a significant proportion is already under offer.

The Manufacturing & Industry sector made up 68% of take-up due solely to the 25 North Colonnade deal, the remaining take-up was relatively evenly split between the Financial Services and Government & Services sectors.

AVAILABILITY

East London has recorded an increase in availability for the fourth consecutive quarter, rising to 2.6 million sq ft for Q1 2020, up from 2.5 million sq ft in Q4 2019 and 55% above the 10-year quarterly average. This figure is the highest availability recorded in the submarket since Q4 2005 and is matched by a vacancy rate of 10.56%, exceeding 10% for the first time since Q3 2010.

Four office buildings are currently under construction in the East London submarket, all of which are scheduled to complete in 2020 subject to COVID-19 delays, delivering a combined 1 million sq ft. Within these developments, 70% of the space has been pre-let, with two sites fully-let. There remains 308,000 sq ft available in the East London development pipeline, the majority of which is located at Wood Wharf, 20 Water St, E14, which remains entirely available. There is substantial development potential within the submarket, as there is currently planning permission for 8.9 million sq ft of office space in the market.

RENTAL GROWTH

Prime rents are stable in East London at £45.00 per sq ft in both Canary Wharf and Stratford. Healthy leasing activity and the market's relative value compared to the City and West End may hold rental levels steady for the short-term. Rent free periods are stable at 30 months for 10 years.

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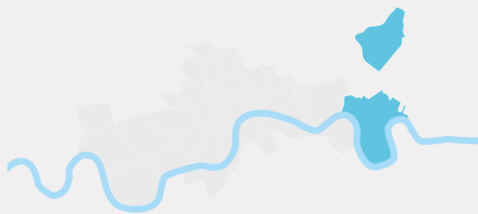
KEY DEALS - Q1 2020

Address	Occupier	Sq Ft
25 North Colonnade, E14	BP	243,973
1 Canada Square, E14	Fisher Investments	42,231
1 Canada Square, E14	UCL	22,217
15 Westferry Circus, E14	HireRight	16,999
Import, Republic, E14	Global Banking School	10,406

TOP TENANT SECTORS

Manufacturing & Industry
68%

Financial Services
12%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q1
360,000 sq ft

▲ **48%**
UP ON THE 10-YEAR QUARTERLY AVERAGE

10.56%
VACANCY RATE

UNDER CONSTRUCTION
1.0 million sq ft
70%
pre-let

£45.00 per sq ft
PRIME RENT

Tech Belt

Take-up in the Tech Belt market remained relatively stable for Q1 2020 totalling 380,000 sq ft, a fall of just 14% on Q4 2019 and 11% on the 10-year average. The largest deal for the quarter was Google acquiring 130,000 sq ft at Euston Tower, NW1. Google also completed at Q1 Handyside acquiring 35,000 sq ft at the King's Cross Central development. The TMT & Creative sector made up 54% of all take-up for the quarter as a result. The Business Services sector made up the second largest proportion of take-up at 23% including acquisitions by MVF Global at Wenlock Works, N1 and Investigo at 10 Bishops Square, E1.

Tech Belt availability has declined for the fourth consecutive quarter, down to 1.1 million sq ft for Q1 2020 which is 33% below the 5-year average. There is a 2.64% vacancy rate within the submarket, the lowest since Q1 2019. The decreasing supply has meant that occupiers are having to begin their search for space sooner through pre-letting transactions. As a result, the 3.1 million sq ft development pipeline has been 65% pre-let, with notable occupiers including Google, BT Group, Anglo American and WeWork, although there will inevitably be question marks over the latter in the short-term. The pre-letting proportion increases to 80% in developments due to complete in 2020.

Rental levels in the Tech Belt have remained stable for Q1 2020 with no upwards pressure following from growth in Tech Belt prime rents throughout 2019. The highest rents are in King's Cross at £80.00 per sq ft, followed by Clerkenwell where rents are stable at £75.00 per sq ft, an increase from £70.00 per sq ft at the beginning of 2019. Rent free periods are stable at 24 months.

Southbank

Take-up in the Southbank market rose to 72,000, up 48% on Q4 2019 but still significantly below the 10-year average of 170,000 sq ft. There were eight deals in the market during the quarter of which the largest was to ECS Europe that acquired 14,000 sq ft at 2 More London Riverside, SE1. However, due partly to a lack of supply there were no larger deals recorded. The most active sector by total sq ft was the Professional Services sector which accounted for 26%, followed by the TMT & Creative sector which accounted for 24%.

Southbank has recorded an increased availability to 562,000 sq ft for Q1 2020, a substantial increase on the previous quarter's figure but still below the 5-year average of 694,000 sq ft. Although availability has increased quarter-on-quarter, the vacancy rate remains below 2% at 1.81% for Q1 2020. Over 1.0 million sq ft of office space is currently under construction, of which 61% is pre-let leaving just 397,000 sq ft available including 220,000 sq ft Bankside Yard, SE1.

Southbank rental levels are stable at £70.00 per sq ft in Waterloo and £65.00 per sq ft in Southwark. Battersea rents saw marginal uplift to £62.50 per sq ft, up from £60.00 per sq ft in Q4 2019. Rent free periods are stable at 24 months.

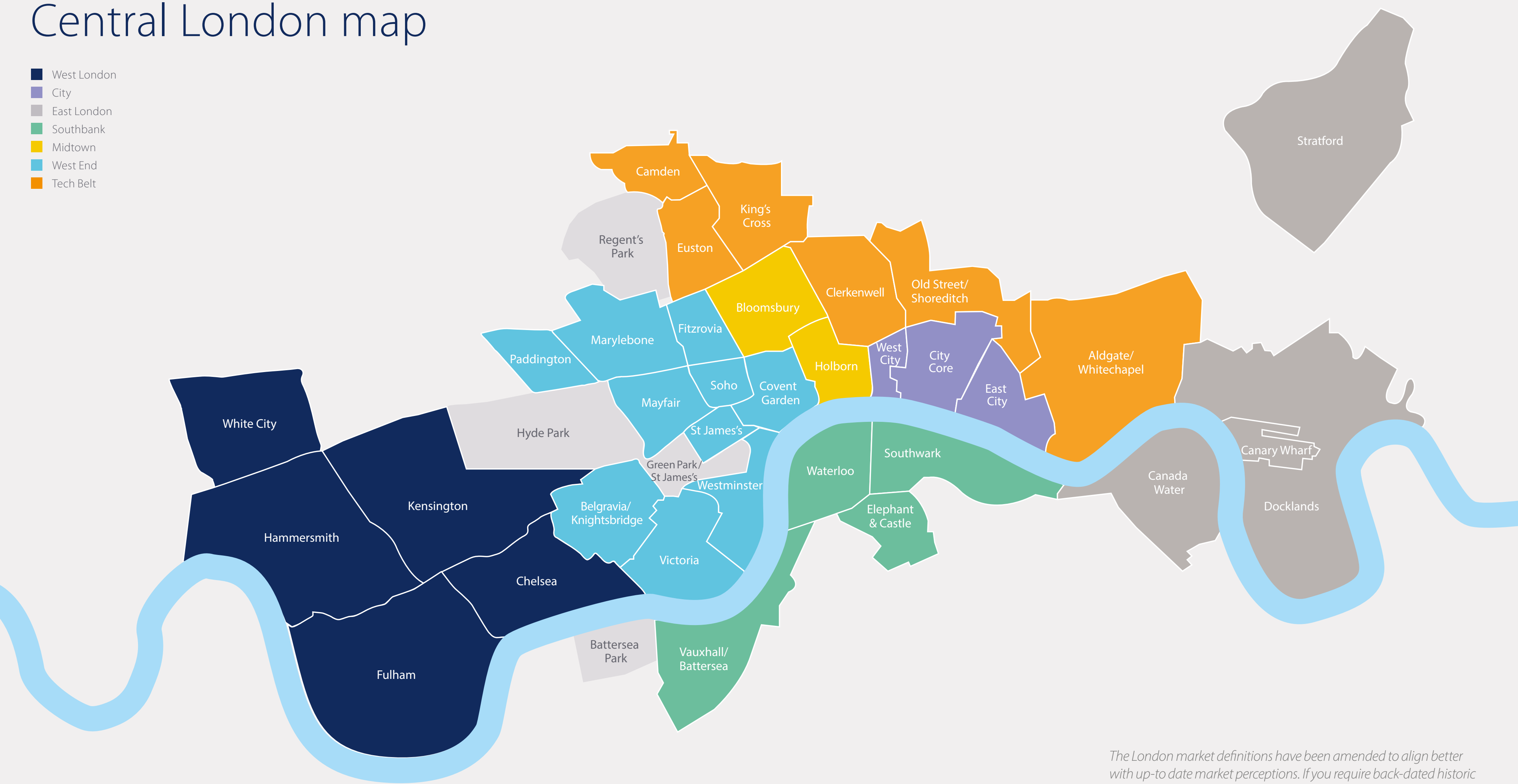
Midtown

Midtown take-up fell significantly to 110,000 sq ft for Q1 2020, down 66% on Q4 2019 and 40% on the 10-year average. Similar to the West End, there were no larger deals with only two deals recorded over 20,000 sq ft and just eight deals overall. The largest was at 1 Fetter Lane where The Brew, a co-working operator, acquired 23,000 sq ft. On the border of the West End and Midtown, University College Hospital acquired 20,000 sq ft at Queen's Yard, Tottenham Court Road, W1, in a transaction which reflects the growth in the healthcare sector since the start of the year.

The Professional Services sector accounted for the majority of take-up for Q1 2020 at 36% with Capgemini acquiring 18,000 sq ft at 40 Holborn Viaduct, EC1 and Cru London acquiring 13,000 sq ft at Mid City Place, WC1. Although the two largest deals of the quarter belonged to sectors outside of the Professional Services sphere, the remaining take-up was evenly split between the other sectors.

Midtown recorded a record low availability of 383,000 sq ft in Q1 2020, 27% below Q4 2019 and significantly below the 10-year average. This has driven a record-low vacancy rate of 1.38%, the lowest of any of the Central London submarkets in Q1 2020. Midtown's development pipeline consists of three sites with a combined contribution of 267,000 sq ft, all of which are scheduled to complete in 2020. The only pre-letting activity within the submarket is Deloitte Digital's occupation at Athene Place, 66 Shoe Lane, the largest development currently under construction in Midtown, taking 100% of the 167,000 sq ft site. In Holborn, rents saw marginal uplift to £72.50 per sq ft, up from £70.00 per sq ft at the end of last year. Bloomsbury rents are currently stable at £80.00 per sq ft, as are rent free periods 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	£51.37	£176.62
St James's	£115.00	24	£49.00	£174.25
Soho	£95.00	24	£43.73	£148.98
Knightsbridge/Belgravia	£92.50	24	£41.62	£144.37
Covent Garden	£90.00	24	£31.61	£131.86
Marylebone	£85.00	24	£41.62	£136.87
Fitzrovia	£82.50	24	£35.56	£128.31
Victoria	£80.00	24	£35.50	£125.75
Paddington	£75.00	24	£28.19	£113.44

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	£38.99	£144.24
Kensington	£72.50	22	£46.36	£129.11
White City/Shepherd's Bush	£60.00	24	£8.96	£79.21
Hammersmith	£59.00	24	£22.13	£91.38
Fulham	£47.50	24	£21.07	£78.82

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	£31.87	£122.12
Holborn	£72.50	24	£29.24	£111.99

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	£23.97	£104.22
Southwark	£65.00	24	£27.40	£102.65
Battersea/Nine Elms	£62.50	24	£16.07	£88.82
Vauxhall	£58.00	24	£16.07	£84.32

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	24	£26.77	£127.02
City Core	£72.50	24	£27.13	£109.88
West City	£70.00	24	£27.13	£107.38
East City	£67.50	24	£27.92	£105.67

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	£33.19	£123.44
Euston	£75.00	24	£29.24	£114.49
Clerkenwell	£75.00	24	£24.50	£109.75
Old Street/Shoreditch	£67.50	24	£18.97	£96.72
Camden	£60.00	24	£28.19	£98.44
Aldgate/Whitechapel	£57.50	24	£21.07	£88.82

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	£13.43	£68.68
Stratford	£45.00	30	£8.96	£64.21
Docklands	£32.50	30	£10.54	£53.29

CHRIS GORE
Principal

> **The restrictions put in place by the Government, which are no means unique to the UK, have presented a logistical challenge to deals when inspections and surveys aren't possible. Despite this there is still activity mainly from those deals that were already under offer when the lockdown was announced.**

Investment market – in brief

A promising start to the year following the UK General Election result was promptly overshadowed by the arrival of the COVID-19 pandemic. The restrictions put in place by the Government, which were by no means unique to the UK, have presented a logistical challenge to deals when inspections and surveys aren't possible. Despite this there is still ongoing activity, mainly from those deals that were already under offer when the lockdown was announced. Some deals have fallen by the way side with either the buyer or the seller pulling out or where they failed to agree on pricing and with no comparable evidence it will come down to the fundamentals of the deal and the willingness of, or pressure on, either side to perform.

DEAL COMPLETION

Around £715 million worth of investments transacted during March including Oxford Properties £252 million 50% sale of Watermark Place, EC3 to Union Investments who already owned the other 50%, the £92 million sale of 70 Wilson Street, EC2 to UBS and the £79 million sale of Ted Baker's HQ, the 'Ugly Brown Building' to the BA Pension Fund. With the London investment market so reliant on overseas investors, a slowdown in activity is likely to be compounded by the restrictions on overseas travel. Indeed, 58% of the deals that actually transacted in March 2020 were unusually from UK investors. We naturally expect a fall in investment volumes in Q2 2020 with no real new supply expected to be released in the short term.

PROGRESSING TRANSACTIONS

Although transactional activity is likely to dry up during Q2 2020, market sentiment has not with several deals currently progressing through due diligence, however some have inevitably stalled prior to exchange. Examples include Camden Market, NW1 (Vendor: LabTech, quoting £1.2 billion) which has received bids; 1 London Wall Place, EC2 (Vendor: Brookfield, quoting £500 million) which is rumoured to be under offer to South Korea's Samsung, White City Place, W12 (Vendor: AIMCo, Mitsui Fudosan & Stanhope, quoting £250 million) which is rumoured to be under offer to a North American investor, 20 Churchill Place, E14 and Plantation Place, EC3 are under offer with Brookfield, and 75 King William Street, EC2 which are both under offer to Stanhope for in the region of £130 million post COVID-19 crisis.

Investor interest for London stock is largely focused on prime properties suggesting an ongoing flight to safety. Trophy assets let on long leases or Government let assets are currently in high demand and we may see yields harden for this small group of London properties. A headline grabbing deal was the sale of London's Ritz Hotel in late March by the Barclay brothers to a private Qatari investor for around £800 million, despite the negative impacts the current restrictions are having on the hospitality industry, and the fact the Ritz is closed for the first time in its history.

Furthermore, weak sterling and record low interest rates have caused a resurgence in investor interest from Asian buyers whose home markets are beginning to come out the other side of the pandemic and resultant lockdowns. The sale of White City Place has reportedly attracted strong investor demand from a range of Asian buyers including the Hong Kong Monetary Authority (HKMA), Peterson Group and Nan Fung. The sale of 1 New Oxford Street, WC1 has also received rumoured bids from Hong Kong and Singaporean investors, although believed to be short of the guide price. Practical difficulties presented by lockdown restrictions have been partly overcome through virtual property viewings using 3D technology and vendor surveys.

WITHDRAWN ASSETS

COVID-19 has temporarily stalled or postponed several sales as the current uncertainty over pricing has caused vendors to adopt a 'wait and see' attitude. A number of vendors have withdrawn their assets from the market including the 50% sales of the Nova Estate, SW1 which was under offer to ARA but has now been withdrawn by CPPIB, The Cabot, 25 Cabot Square, E14 which was withdrawn by Hines, and The Eversholt, NW1 which was withdrawn by Aviva despite rumoured strong first round bidding.

Uncertainty over pricing and a hit to the share price of prop cos, REITS and institutional investors has put a break on purchaser interest, as has the availability of debt. The majority of purchasers who have pulled out have been those with a heavy exposure to the stock market, or too heavily reliant on debt. Examples include Aberdeen Standard who pulled out of buying 90 Bartholomew Close, albeit it sold to LLF in April for around £48.5 million reflecting a minimal price chip, and Blackstone who pulled out of buying The Cabot, E14. The reduced competition for assets has the potential to cause upwards pressure on yields, dependent on the length of the uncertainty. We are seeing an increasing number of investors looking for distressed sellers and bargains in the London market, but right now there seems to be a lack of both.

Investment commentary

Investment volumes reached £2.4 billion for Q1 2020 which was 22% below the Q1 10-year average and only 12% below the same period last year, thus representing only a slight Q1 slowdown due to the COVID-19 virus. There were a total of 33 transactions recorded in Q1, significantly below the Q1 10-year average of 56. March recorded £715 million of transactional activity which was 50% below the March 5-year average with only 11 transactions recorded, compared to 22 in 2019.

There were six transactions with a lot size over £100 million of which the largest was the sale of the Sanctuary Buildings, SW1 to Legal & General for £300 million, 2.75% NIY. Watermark Place, EC3 sold to Union Investments for £252 million and Holborn Links Estate, WC1 sold to Tristan and Cording Capital for around £245 million. Out of line with historic trends, overseas investors accounted for a smaller proportion of purchaser activity with 56% of total volumes, compared to the UK's 41%. As a comparison, overseas investors accounted for 77% of total volumes in Q4 2019.

There was £660 million of investment in the City in Q1, which was 52% below the 5-year average. There were a total of seven transactions recorded which was below the 5-year average of 12. The West End recorded volumes of £840 million which was 27% below the average, 11 transactions were recorded which was below the 5-year average of 17. East London investment totalled just £55 million for the quarter with only just two transactions, and overall volumes were 82% down on the 5-year average.

In the City and West End, overseas purchasers made up the majority of investment with 64%, of which Europe was the largest region accounting for 40%. Investment from South East Asia was limited with just £95 million, making up just 6% of volumes, down from 21% in the final quarter of last year. UK institutions and prop cos made up 33% of investment which was above Q4 2019's 19%.

> "In the City and West End, overseas purchasers made up the majority of investment with 64%, of which Europe was the largest region accounting for 40% of the total

Investment volumes were buoyed by good performance across the Midtown and Tech Belt markets. Midtown recorded £359 million of investment in Q1 2020 which was 6% above the 5-year average with three deals recorded, of which the largest was the sale of Holborn Links Estate to Tristan and Cording Capital for £245 million signifying continued strong investor interest for trophy assets. In the Tech Belt, volumes reached £420 million which was 9% above the 5-year average with eight transactions recorded of which the largest was the sale of the Ugly Brown Building, NW1 to BA Pension Fund for £79 million. Good performance in the Tech Belt, despite a lack of larger transactions, indicates potential opportunity for further yield compression.

The majority of investment in Midtown and Tech Belt was from UK purchasers accounting for 58%, compared to 42% from overseas, the remaining proportion was accounted for by owner occupier deals. The slowdown in demand from overseas may allow UK investors to re-enter the market where previously they were priced out, higher levels of domestic investment is a trend we may see continue.

YIELDS

Prime yields were stable across Central London for Q1 2020 for the majority of Q1 2020 at 3.50% in West End and 4.00% in the City. There is currently very little evidence to base post-COVID-19 pricing off with the majority of deals having been on hold since mid-March. Once the picture becomes clearer we are likely to see some upwards movement, with the possible exception of trophy long-income assets which remain in strong demand from investors.

KEY STATS THIS QUARTER

TRANSACTION VOLUMES

£2.4 billion

▼ **22%**

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

VOLUMES BY MARKET

CITY	WEST END	EAST LONDON
£660 million	£840 million	£55 million

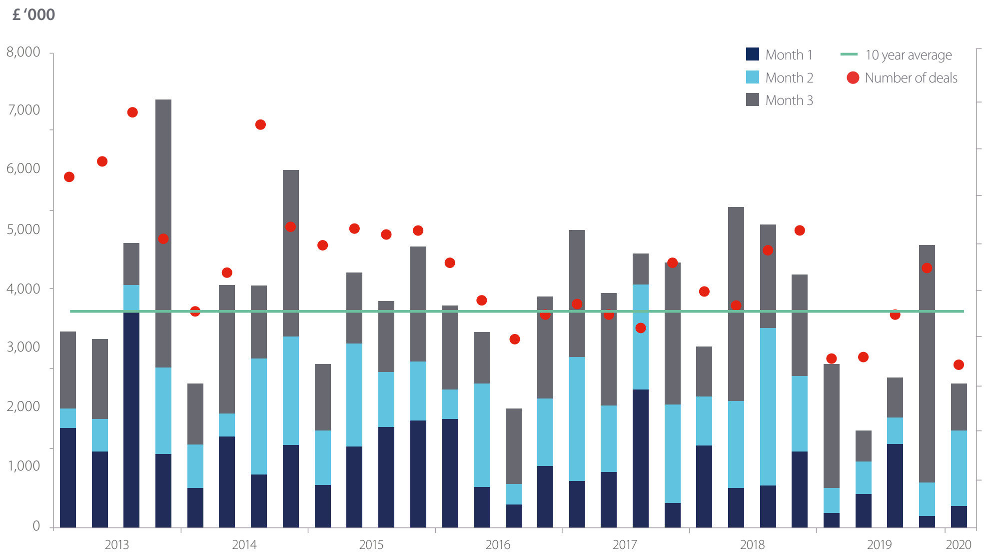
VOLUMES BY INVESTOR TYPE

OVERSEAS INVESTORS	UK INSTITUTIONS	UK PROPERTY COMPANIES
56%	37%	3%

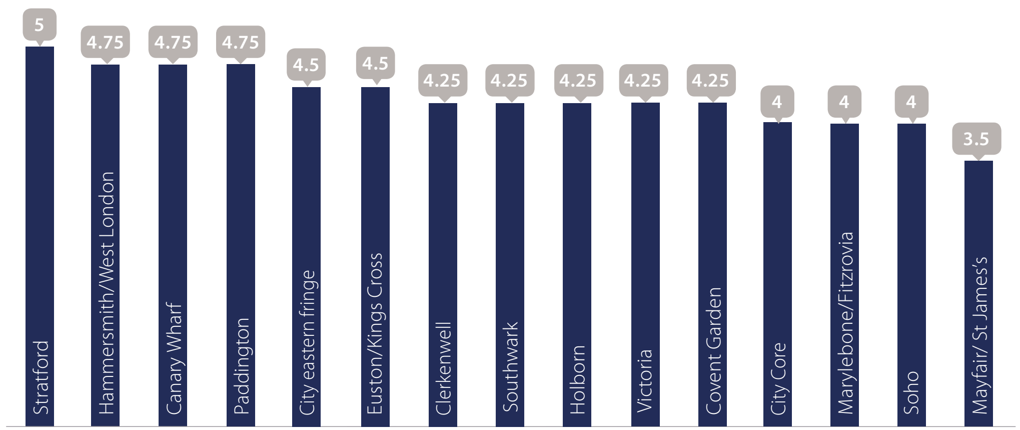
▶ **4.00%** CITY PRIME YIELD

▶ **3.50%** WEST END PRIME YIELD

CENTRAL LONDON QUARTERLY VOLUMES VS NUMBER OF DEALS



CENTRAL LONDON YIELDS Q1 2020



LARGEST INVESTMENT DEALS OF Q1 2020

Address	Price (£m)	Yield (%)	Month	Purchaser
Sanctuary Buildings, SW1	300	2.75	Feb-20	Legal & General
Watermark Place, EC3	252	4.25	Mar-20	Union Investments
Holborn Links Estate,WC1	245	3.11	Feb-20	Tristan Capital Partners
Procession House, EC4	143	4.30	Feb-20	Union Investments
144-146 New Bond Street, W1	130	1.70	Feb-20	Trophaeum Asset Management

NEWLY AVAILABLE ON MARKET Q1 2020

Address	Vendor	Price (£m)	Yield (%)
1 London Wall Place, EC2 (U/O)	Brookfield	500	3.65
1 New Oxford Street, WC1 (bids)	Nuveen/BA Pension Fund	190	4.00
5 Fleet Place, EC4 (AVL)	Poly	182.5	TBC
Cannon Green, EC4 (AVL)	Kiwoom AM	140	4.50
Eversholt Building, NW1 (W/D)	Aviva	105	TBC

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

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