AVISON YOUNG

RESEARCH

Central London office analysis

Q2 2019

View >

OCCUPATIONAL MARKET

Central London take-up totalled 3.0 million sq ft for Q2 2019 which was 12% above Q1 2019 and 19% above the 10-year average.

INVESTMENT MARKET

Q2 2019 investment volumes totalled £1.7 billion which was the lowest quarter since Q1 2010 and 119% below the 10-year average.

Avison Young were appointed by Helical plc to project manage One Bartholomew Close, EC1 which reached completion in December 2018. The building is 215,000 sq ft of new grade-A office space arranged over 11 floors, plus ground floor and 2 levels of basement. Located in Farringdon, it is the centrepiece in the Barts Square development. The majority of the building is now let to a range of tenants including The Trade Desk and The University of Chicago Booth School of Business.

JEREMY PROSSER
Principal

"Take-up continued to be strongest for prime office supply with prelets accounting for 30% of all take-up for the quarter and new existing stock accounting for a further 34%

Occupier market – in brief

Q2 2019 saw strong leasing activity well above the long term average with take-up reaching 3.0 million sq ft in Central London, with strong performance across all London markets.

Tenant demand was dominated by Financial Services, making up 30% of take-up for the quarter. Serviced office take-up accounted for 15% of take-up for the quarter albeit there was a lack of larger serviced office deals with a fall in the average deal size to 23,000 sq ft, down 39% on the average size over the last two years. The largest serviced office transaction was to WeWork at 133 Houndsditch, EC3 totalling 49,000 sq ft. The reduction in deal size is potentially an indication of an absence of larger leasing opportunities on the market.

Having said that, Q3 has already seen WeWork take a sublet of EMA's 280,000 sq ft building at Churchill Place, E14 following a court ruling that EMA would be unable to exit their lease on the grounds of frustration. Continued interest from serviced office operators in larger buildings reflects their ambition to attract larger corporate occupiers. In June, HSBC took 1,100 desks at WeWork's Two Southbank Place, SE1 centre; following from Facebook's acquisition of space at WeWork's 125 Shaftesbury Avenue, WC2 last year, both examples of serviced offices becoming a mainstream option for large corporates.

The TMT & Creative sector took a backseat for Q2 2019 accounting for just 7% of take-up in Central London, down from 15% in Q1 2019 and 22% in Q4 2018. The fall in tech demand may indicate the absence of a single large FAANG deal for Q2, or alternatively the greater attractiveness of serviced office space to certain companies within the sector given the element of flexibility which can be essential to a fast growing company, in addition to a trendier office environment.

By grade, traditional take-up continued to be strongest for prime office stock with prelets accounting for 30% of all take-up for the quarter and existing Grade A take-up for a further 34%. This continues to be particularly evident in the larger size bands.

Three deals were recorded in Q2 over 100,000 sq ft which were all prelets which is simultaneously limiting supply in the development pipeline. Indeed, 25 Cannon Street, EC4 was leased by Brewin Dolphin ahead of redevelopment starting and following a one and a half year search for suitable office premises.

Furthermore, limited supply means tenants increasingly have to consider a wider range of locations to find office space. Rumoured interest in Soho Place, W1 from a tenant currently located in Mayfair reflects a lack of suitable availability in their historic location. In addition this also reflects the rising importance of overall quality of space and place in the war for talent.

The short term development pipeline is notably constrained with very little available space due for completion by the end of this year, a result of the strong preletting activity in 2017 and 2018. Although landlords are nervous about commencing new schemes, longer term construction activity has finally picked up with several new schemes now fully underway including: 6-8 Bishopsgate, EC3, 80 Fenchurch Street, EC3, Kaleidoscope, EC1 and Bloom Clerkenwell, EC1.

Although demand continues to be very strong for the best stock, demand for units below 5,000 sq ft continues to fall off with smaller tenants increasingly turning to serviced office operators for their space requirements. As such, landlords are facing extended void periods sometimes up to double what would usually be expected for this type of space. In response, landlords are recalibrating their offering through their own bespoke plug and play solutions, often referred to as Cat A+; in addition to an increasing number of landlord-owned serviced office providers. There are multiple examples of Cat A+ solutions eroding the marketing void by over 50% with units also known to be achieving rental premiums and reducing incentives.

Central London

TAKE-UP

Central London take-up totalled 3.0 million sq ft for Q2 2019, 12% above Q1 2019 and 19% above the 10-year average. There were three transactions over 100,000 sq ft during the quarter including EBRD's acquisition of 365,000 sq ft at 5 Bank Street, E14.

Demand for Grade A space continues to remain strong with prelets accounting for over 30% of all take-up for the quarter, a considerable increase from 19% in Q1 2019. In addition to the deal to EBRD, other significant prelets included Brewin Dolphin & Co's acquisition of 114,000 sq ft at 25 Cannon Street, EC4 and G Research's acquisition of 103,000 sq ft at Soho Place, 1 Oxford Street, W1.

The top performing sector overall was Financial Services which accounted for 30% of the quarter's take-up in 26 deals. The next top performing sector, Serviced Offices, was some way behind accounting for 15% of take-up in 18 deals. The largest serviced office deal of the quarter was to WeWork at 133 Houndsditch, EC3 who acquired 49,000 sq ft.

Overall, serviced offices accounted for 440,000 sq ft of take-up in Q2 2019 which was 21% down on Q1 2019. The largest acquirer of space was WeWork which acquired 130,000 sq ft across four deals, followed by Knotel which acquired 71,000 sq ft across five deals.

AVAILABILITY AND DEVELOPMENT

Availability fell to 10.1 million sq ft in Q2 2019 which was 23% down on Q1 2019 and 15% down on the 10-year average. The development pipeline continues to be somewhat subdued totalling 16.8 million sq ft in Q2 2019, currently 49% prelet. The figure is an 8.5% decline on Q1 2019 construction levels at which point the pipeline was 46% prelet.

Space under construction and due for delivery by the end of 2019 totals 5.1 million sq ft, of which currently 75% is prelet. Occupiers are increasingly having to start their search much earlier in order to find suitable space. Buildings over 100,000 sq ft due for delivery by year end are currently 85% prelet with just two developments available to tenants with requirements in excess of this level; 100 Bishopsgate, EC2 and Wenlock Works, N1.

In comparison, developments due for delivery post 2019 total 11.8 million sq ft and are currently only 38% prelet. These developments are continuing to see strong interest from tenants with Q2 prelets such as those to Reinsurance Group of America (22 Bishopsgate, EC2), G-Research (Soho Place, W1) and Smith & Williamson (Gresham St Pauls, EC2), further limiting availability due for delivery from 2020 onwards.

RENTAL GROWTH

Prime rents grew by 2% on a rolling annual basis to Q2 2019 but are largely stable on a quarterly basis. Marginal rental growth is expected in markets that are seeing a more pronounced lack of supply including City Core.

Prime City rents grew to £70.00 per sq ft for Q2 2019. Prime West End rents are stable at £115.00 per sq ft. Rent free periods remain stable at 24 months, decreasing slightly for the best stock in the best locations, a trend which is likely to continue into the near future.

KEY DEALS - Q2 2019

Address	Occupier	Sq Ft
5 Bank Street, E14	EBRD	365,000
25 Cannon Street, EC4	Brewin Dolphin	114,388
Soho Place, W1	G-Research	102,600
Westminster City Hall, SW1	Parliamentary Estates	95,963
Senator House, EC4	Quilter	93,827

TOP TENANT SECTORS

Financial services **30%**

Serviced offices **15%**

KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2

3.0 million sq ft

▲ **19%**

UP ON THE 10-YEAR QUARTERLY AVERAGE

4.7%

VACANCY RATE

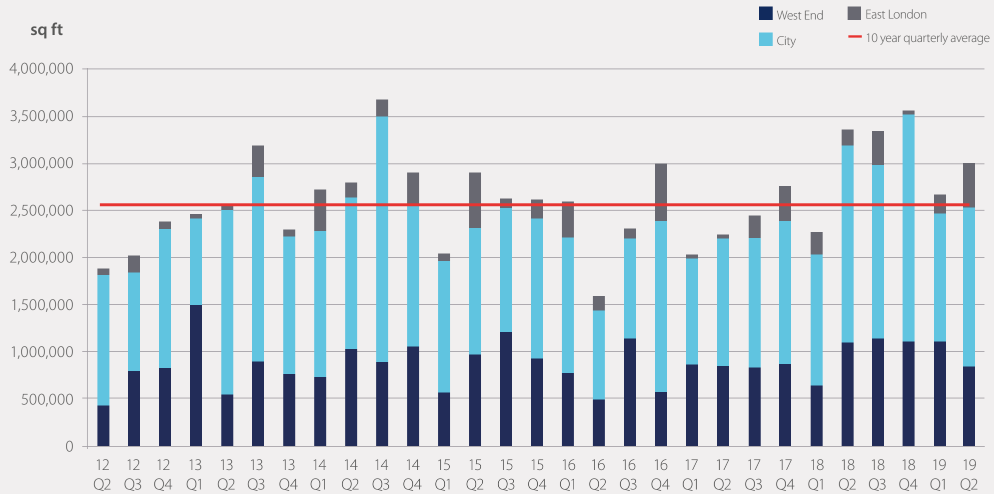
UNDER CONSTRUCTION

16.8 million sq ft

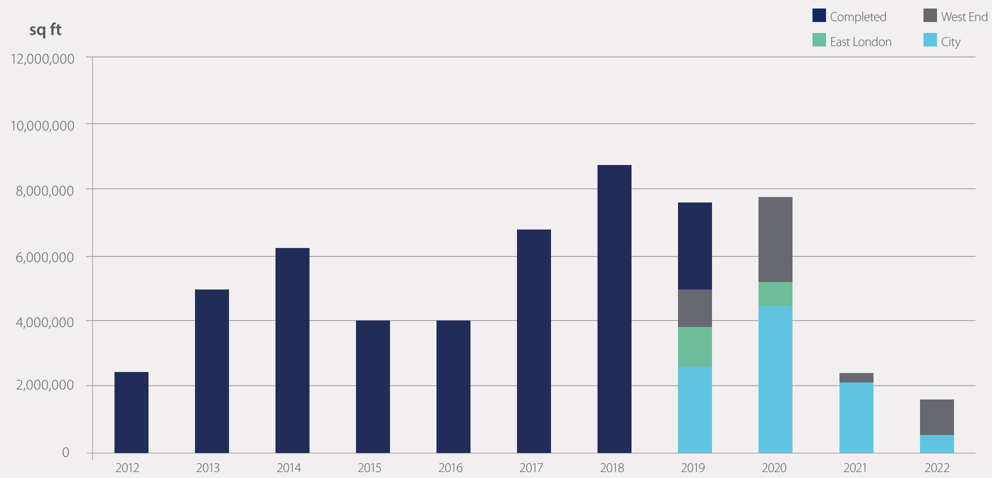
49%

prelet

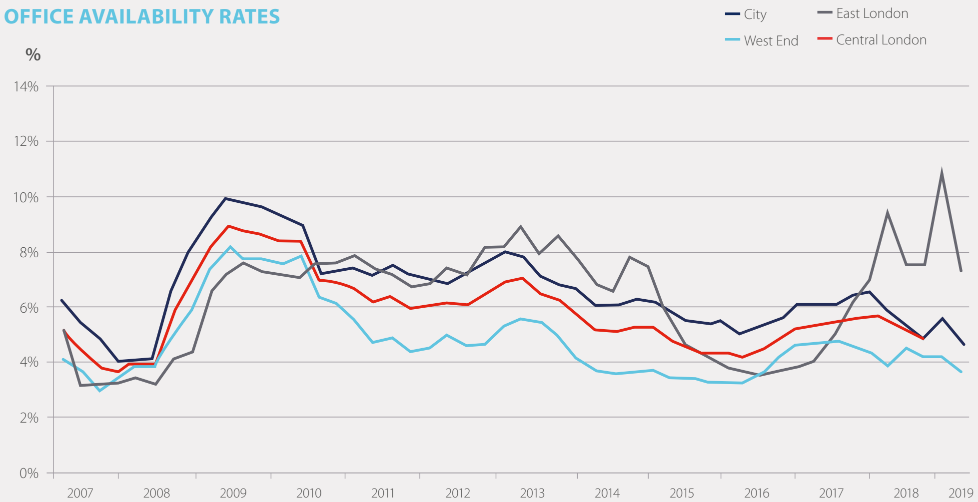
CENTRAL LONDON TAKE-UP



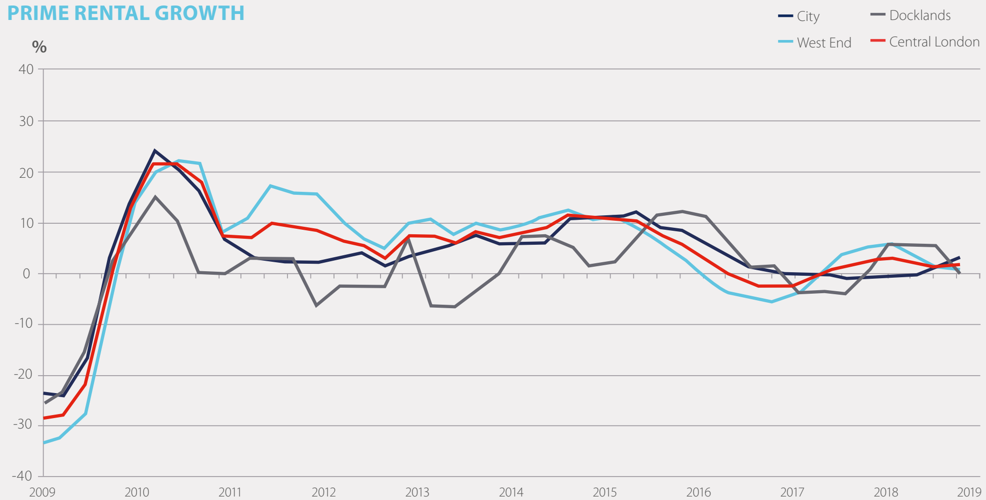
UNDER CONSTRUCTION



OFFICE AVAILABILITY RATES



PRIME RENTAL GROWTH



West End

TAKE-UP

West End take-up totalled 860,000 sq ft for Q2 2019 which was down on Q1 2019 but up 3% on the 10-year quarterly average. The largest West End deal of the quarter was to G-Research at Derwent London's Soho Place taking the building to 53% let ahead of its completion in 2022.

The majority of take-up for the quarter was within the Government and Services sector accounting for 17% of take-up, largely due to Parliamentary Estates' acquisition of 96,000 sq ft at Westminster City Hall, SW1. The Consumer and Private Services sector accounted for the second highest proportion of take-up at 16%. The largest deal within this sector was Li & Fung's acquisition of 50,000 sq ft at Westworks, White City, W12. Despite being the second largest sector in Q1 2019, serviced offices accounted for just 80,000 sq ft of take-up in Q2 2019, 9% of the quarterly total compared to 20% last quarter.

By submarket, Victoria performed the best, recording 190,000 sq ft of take-up for the quarter across nine deals, of which two were greater than 20,000 sq ft. Mayfair and St James's had a relatively weak quarter with 85,000 sq ft of take-up, which was 9% below the 10-year average. The largest Mayfair & St James's deal was to Knotel at 130 Jermyn Street, SW1, acquiring 16,000 sq ft.

AVAILABILITY AND DEVELOPMENT

Availability fell to 3.3 million sq ft in Q2 2019 which was down on Q1 2019 by 18% and on the 10-year average by 20%. The West End vacancy rate now stands at 3.57% which is the lowest it has been since mid-2016. Take-up of new and under construction space made up 55% of all letting activity for Q2 2019 and therefore Grade A space is increasingly limited with little new supply entering the market.

The West End development pipeline currently comprises 5.1 million sq ft of space under construction, of which 66% is currently prelet. This is down 12% on Q1 2019. The pipeline is further constrained in buildings above 100,000 sq ft where the total under construction is 4.0 million sq ft and 80% is already prelet.

RENTAL GROWTH

West End rents grew by 0.7% on a rolling annual basis to Q2 2019 but were stable across the board quarter-on-quarter. The best Grade A stock continues to achieve record rents with the record broken at 30 Berkeley Square in April where Steadview Capital Management will pay £250 per sq ft on 2,700 sq ft. Rent free periods are stable at 24 months.

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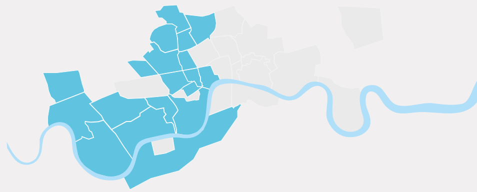
KEY DEALS - Q2 2019

Address	Occupier	Sq Ft
Soho Place, W1	G-Research	102,600
Westminster City Hall, SW1	Parliamentary Estates	95,963
The Met Building, W1	WPP	51,357
Westworks, W12	Li & Fung Europe	50,432
40 Grosvenor Place, SW1	Liberty Commodities	37,200

TOP TENANT SECTORS

Government and Services 17%

Consumer and Private Services 16%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2

860,000 sq ft

▲ **3%**

UP ON THE 10-YEAR QUARTERLY AVERAGE

3.6%

VACANCY RATE

UNDER CONSTRUCTION

5.1 million sq ft

66% prelet

£115 per sq ft

PRIME RENT

City

TAKE-UP

City take-up reached 1.7 million sq ft for Q2 2019 which was 22% above Q1 2019 and 14% above the 10-year average. There was a total of 92 deals recorded which was a fall on Q1 during which 97 deals were recorded. Take-up was boosted by several larger deals including Brewin Dolphin's acquisition of 114,000 sq ft at 25 Cannon Street, EC4 and three further deals above 50,000 sq ft. Brewin Dolphin's acquisition was the first deal in the City this year over 100,000 sq ft, compared to four during H1 2018.

Financial Services was the largest acquirer of space in Q2 2019 accounting for 27% of all take-up for the quarter. There were 19 deals recorded within this sector and it was therefore also the top performing sector by number of deals. Key Financial Services deals included those to Brewin Dolphin and Quilter's acquisition of 94,000 sq ft at Senator House, EC4. The second largest tenant sector for Q2 was Serviced Offices that accounted for 22% of take-up, of which the largest deal was to WeWork at 133 Houndsditch, EC3 taking 49,000 sq ft.

Prelets continue to dominate City take-up accounting for 23% of take-up in Q2 2019 across seven deals, all of which were over 20,000 sq ft. 91% of preletting activity in the City was within core City markets despite strong availability elsewhere. In addition, new existing supply accounted for a further 40% of take-up for Q2 2019 in the City.

AVAILABILITY AND DEVELOPMENT

City availability fell to 5.2 million sq ft in Q2 2019, a significant drop on Q1 2019, largely due to increasingly limited development supply and a lack of new space on the market. The vacancy rate now stands at 4.7%.

The City development pipeline currently stands at 9.8 million sq ft and is currently 36% prelet. Although the City development pipeline saw several new starts in Q1 2019 including The Featherstone Building, EC1 totalling 125,000 sq ft and The Bailey, EC4 totalling 115,000 sq ft, the near term pipeline is still very constrained. Development supply projected to complete by year end currently totals 2.6 million sq ft, of which 74% is currently prelet, leaving just 680,000 sq ft available.

RENTAL GROWTH

City rents grew by 3.5% on a rolling annual basis to Q2 2019 with certain markets seeing rental growth due to ongoing supply constraints. City Core rents increased to £70.00 per sq ft, up from £67.50 per sq ft at the start of the year but previously unchanged since Q1 2018. Other submarkets to see rental growth included Clerkenwell, West City and Northern City; Clerkenwell rents in particular grew to £72.50 per sq ft in Q2 2019, having increased 4% to £70.00 per sq ft as recently as Q4 2018. Rent free periods are currently stable across all submarkets at 24 months.

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KEY DEALS - Q2 2019

Address	Occupier	Sq Ft
25 Cannon Street, EC4	Brewin Dolphin	114,388
Senator House, EC4	Quilter	93,827
Gresham St Pauls, EC2	Smith & Williamson	86,795
Premier Place, EC2	Squire Patton Boggs	58,351
133 Houndsditch, EC3	WeWork	49,000

TOP TENANT SECTORS

Financial services **27%**

Serviced offices **22%**

KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2

1.7 million sq ft

▲ **14%**

UP ON THE 10-YEAR QUARTERLY AVERAGE

4.7%

VACANCY RATE

UNDER CONSTRUCTION

9.8 million sq ft

36%
prelet

£70.00 per sq ft

PRIME RENT

East London

TAKE-UP

East London take-up continues to grow reaching 470,000 sq ft for Q2 2019, 90% above the 5-year average. This is the highest level of take-up recorded since Q4 2010, and was largely due to EBRD's acquisition of 365,000 sq ft at 5 Bank Street, E14 which has taken the building to fully let ahead of its completion in late 2019. That single deal accounted for 77% of East London take-up and there were an additional five deals during the quarter with an average size of 21,000 sq ft.

All take-up for the quarter was within the Canary Wharf submarket. Low take-up in Stratford reflects currently limited availability of which the majority is at International Quarter which requires a prelet before commencement. The interest in the Canary Wharf office market is largely the result from discounted rents with improved connectivity also playing a part in its greater appeal as an office market. EBRD for example will be relocating from 155 Bishopsgate, EC2 on completion of its HQ in Q3 2019.

Since the start of Q1 2019, Financial Services have accounted for the vast majority of take-up in East London at 68%. The rise in proportion of Financial Servivces take-up to 83% for Q2 2019 is mostly due to EBRD's acquisition of 365,000 sq ft at 5 Bank Street, the largest deal of the quarter. By number of deals, Financial Services is still top, but closely followed by the Manufacturing and Industry and Government and Services sectors that each accounted for 23%.

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AVAILABILITY AND DEVELOPMENT

Availability dropped to 1.6 million sq ft in Q2 2019 reflecting a vacancy rate of 7.3%, down on Q1 2019 by 49%. Prior to Q2 2019, the space at 5 Bank Street made up 18% of total availability on the market. Following the letting of the remainder of the building, availability in the East London market has dropped significantly.

The East London under construction pipeline currently comprises 1.9 million sq ft of which a high proportion at 69% is currently prelet. Despite a large proportion of prelet space in the East London pipeline, there is a significant level of space currently within the planning pipeline including 10 Bank Street, E14 totalling nearly 800,000 sq ft and additional sites at Wood Wharf including The Frameworks and 7 Charter Street, E14 that together will offer almost 400,000 sq ft to the market.

RENTAL GROWTH

East London saw no rental growth on a rolling annual basis relative to Q2 2019 with Canary Wharf rents currently stable at £42.50 per sq ft and Stratford rents at £45.00 per sq ft. Rent free periods are unchanged at 24 months.

KEY DEALS - Q2 2019

Address	Occupier	Sq Ft
5 Bank Street, E14	EBRD	365,000
Import Building, E14	Anglia Ruskin University	32,762
Columbus Building, E14	Revolut	24,016
15 Westferry Circus, E14	PKF Littlejohn	21,684
5 Greenwich View Place, E14	Tower Hamlets	16,760

TOP TENANT SECTORS

Financial Services
83%

Government & services
11%

KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2

470,000 sq ft

▲ **90%**

UP ON THE 5-YEAR QUARTERLY AVERAGE

7.3%

VACANCY RATE

UNDER CONSTRUCTION

1.9 million sq ft

69%
prelet

£42.50 per sq ft

PRIME RENT

Midtown

TAKE-UP

Midtown take-up totalled 420,000 sq ft for Q2 2019 which was 22% above the 5-year average and 29% above Q1 2019. The largest deal of the quarter was to Quilter at Senator House, EC4 where the wealth manager acquired 94,000 sq ft. In comparison to Q1 2019 where no deals were recorded over 30,000 sq ft, Q2 has seen three deals above this figure. By number of deals, however Q2 2019 was down slightly on Q1 with 23 deals recorded, compared with the 28 deals in the first quarter of this year.

In line with the rest of Central London, Financial Services was the largest acquirer of space accounting for 27% of the total. The Business Services sector followed behind in second place accounting for 17% of take-up from which the largest deal was at 35 Farringdon Street, EC4 totalling 41,000 sq ft to Law Business Research. The majority of Midtown take-up was contained within the Clerkenwell submarket where 46% of the quarter's activity was based and an increase of 45% on Q1 2019.

AVAILABILITY AND DEVELOPMENT

Midtown availability was unchanged on Q1 2019 at 960,000 sq ft. Despite strong letting activity, 380,000 sq ft of new supply was added to the market in Q2 which prevented a fall in vacancy. The vacancy rate currently stands at 2.7%.

The under construction development pipeline comprises 1.1 million sq ft, of which 28% is currently prelet to tenants such as Live Nation at the Farmiloe Building, EC1 and Deloitte Digital at Athene Place, EC4. Although there is 780,000 sq ft of available development stock on the market, the majority is within developments under 100,000 sq ft with just two developments offering in excess of this level: Bloom Clerkenwell totalling 135,000 sq ft and Charterhouse Place totalling 170,000 sq ft.

RENTAL GROWTH

Midtown prime rents are currently stable at £66.50 per sq ft, having undergone rental growth at the end of 2018. With limited Grade A supply, pressure on rents will continue and rents are therefore likely to rise in the future.

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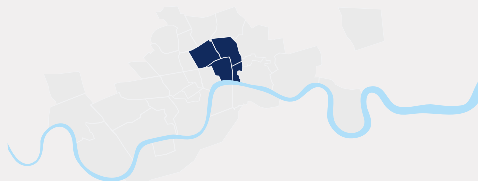
KEY DEALS - Q2 2019

Address	Occupier	Sq Ft
Senator House, EC4	Quilter	93,827
1 Bartholomew Close, EC1	University of Chicago Booth	43,245
35 Farringdon Street, EC4	Law Business Research	41,214
50 Chancery Lane, WC1	ETC Venues	28,491
20 Farringdon Road, EC4	Indeed.com	25,134

TOP TENANT SECTORS

Financial services
27%

Business services
17%



KEY STATS THIS QUARTER

TOTAL TAKE-UP FOR Q2
420,000 sq ft

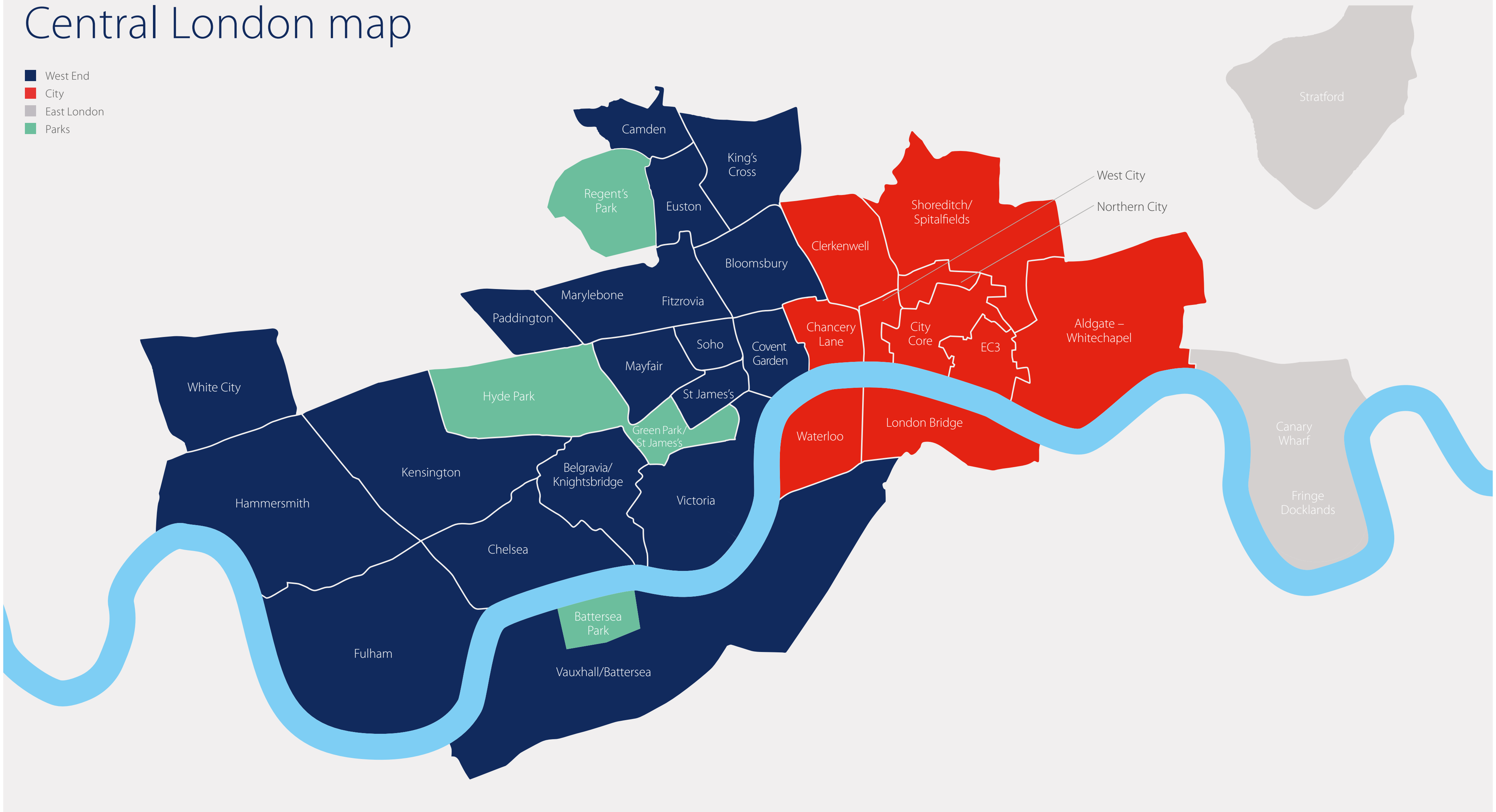
▲ **22%**
UP ON THE 5-YEAR QUARTERLY AVERAGE

2.7%
VACANCY RATE

UNDER CONSTRUCTION
1.1 million sq ft
28%
prelet

£66.50 per sq ft
PRIME RENT

Central London map



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	£48.75	£174.00
St James's	£115.00	24	£46.50	£171.75
Soho	£95.00	24	£41.50	£146.75
Belgravia / Knightsbridge	£92.50	24	£39.50	£142.25
Chelsea	£95.00	22	£37.00	£142.25
North of Oxford St	£85.00	24	£39.50	£134.75
Kensington	£72.50	22	£44.00	£126.75
Fitzrovia	£82.50	24	£33.75	£126.50
Covent Garden	£85.00	24	£30.00	£125.25
King's Cross	£80.00	24	£31.50	£121.75
Victoria	£77.50	24	£33.50	£121.25
Bloomsbury	£80.00	24	£30.25	£120.50
Euston	£75.00	24	£27.75	£113.00
Paddington	£75.00	24	£26.75	£112.00
Camden	£60.00	24	£26.75	£97.00
Battersea PS	£60.00	24	£15.25	£85.50
Hammersmith	£52.50	24	£21.00	£83.75
Vauxhall	£58.00	24	£15.25	£83.50
Fulham	£47.50	24	£20.00	£77.75
White City	£55.00	24	£8.50	£73.75

City	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
City Core	£70.00	24	£25.75	£106.00
Clerkenwell	£72.50	24	£23.25	£106.00
West City	£70.00	24	£25.75	£106.00
Holborn	£66.50	24	£27.75	£104.50
EC3	£67.50	24	£26.50	£104.25
London Bridge	£65.00	24	£26.00	£101.25
Waterloo	£67.50	24	£22.75	£100.50
Northern City	£67.50	24	£19.75	£97.50
Shoreditch/Spitalfields	£65.00	24	£18.00	£93.25
City Tower	£80.00	24		£90.25
Aldgate/Whitechapel	£57.50	24	£20.00	£87.75

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	£42.50	24	£12.75	£65.50
Stratford	£45.00	24	£8.50	£63.75
Other Docklands	£32.50	24	£10.00	£52.75

CHRIS GORE
Principal

"Whilst H1 was subdued, early evidence suggests H2 2019 will be more positive with over £850 million of transactions exchanging in the first three weeks of July.

Investment market – in brief

H1 INVESTMENT VOLUMES SLUMP

Q2 saw less than £1.7 billion transact across Central London, the lowest quarterly investment volume since 2010 and significantly down on the corresponding period last year where transaction volumes reached around £5.8 billion. The half year total of £3.2 billion is also over 100% down on the £9 billion transacted in H1 2018. Whilst economic and political uncertainties are key issues, investors are contending with, the continuing lack of supply which has been the main driver for a more subdued investment market. There is currently only £1.5 billion of investment currently being openly marketed, many of which continue to be concentrated in large lot sizes, such as 21 St James's Square, SW1 (£200 million) or been lingering on the market, such as 1 Lyric Square, W6 (£105 million), The Epworth, EC2 (£78 million) and Plantation Place South (£159 million). The lack of openly marketed investments has made many investors pursue off market opportunities, which made up a third of the total investment volumes for Q2, including the sales of 30 South Colonnade and 10 Noble Street, two of the three largest investment transactions for the quarter.

H2 PROJECTIONS MORE POSITIVE

In spite of the political uncertainty, investor sentiment remains positive with competitive bidding on many properties that have come to the market, particularly value add investments, given the favourable occupational market dynamics. Across all lot sizes we are seeing a broad and diverse range of capital chasing value add opportunities. Paxton House and 23 Essex Street are examples of sub £15 million lots which collectively had over 100 inspections and received over 20 bids, before going significantly ahead of asking price. 280 Bishopsgate, at the larger end of the spectrum, received extensive interest from a range of Funds, PE investors, Prop Cos, REITs and Privates, with multiple offers received ahead of asking in the first round and competitive tensions pushing pricing significantly ahead of this level in the second round.

Whilst H1 was subdued, early evidence suggests H2 2019 will be more positive with over £850 million of transactions exchanging in the first three weeks of July. There is currently a further £1.4 billion also under offer.

MIXED PROSPECTS FOR UK FUNDS

Unlike the first quarter, where UK Funds were net sellers, this quarter it was more mixed with 29 of the 37 transactions during the quarter involving UK Funds, 13 of these buying and 16 selling. Key buy transactions include RLAM acquisition of 25 Soho Square, W1 for £75 million, Clearbell's acquisition of 65 Kingsway, WC2 for £59 million and CCLA's acquisition of Palace House, SE1 for £48 million. Whilst key sales include M&G's sale of 15 Regent Street, W1 and 10 Noble Street, EC2, Aviva Inventors sales of 25 Soho Square, W1 and 4 Matthew Parker Street, SW1 and Schroders sales of 12 Appold Street, EC2 and Palace House, SE1. Many of these sales are driven by increased liquidity pressures among the funds, in the wake of the on-going redemptions issue. This has proved to be a key concern for the Bank of England and FCA, who launched a scathing review of the £1.2 trillion open-ended fund market last Thursday, in the publication of its latest financial stability report.

RENEWED HK INVESTMENT IN UK

Hong Kong investors have showed renewed interest in the form of increased investment activity in the second quarter of the year, something distinctively lacking over the first quarter of the year. We expect would be buyers to shrug off concerns over Brexit, as they look back towards the safe havens in London, whilst anxieties build over political tensions in their own country. We expect a number of core assets including 8 Finsbury Circus and 21 St James's Square to receive strong interest from Hong Kong investors, as cheap sterling (amid Brexit) and political uncertainties in their home market present the perfect storm for this prolific buyer group to return.

KEY STATS THIS QUARTER

TRANSACTION VOLUMES

£1.7 billion

▼ 119%

DOWN ON THE 10-YEAR AVERAGE

VOLUMES BY CITY

CITY	WEST END	EAST LONDON
£631 million	£869 million	£156 million

VOLUMES BY INVESTOR TYPE

OWNER OCCUPIER	OVERSEAS INVESTORS	UK PROPERTY COMPANIES
£287 million	£743 million	£625 million

3.50%
WEST END PRIME YIELD

4.25 %
CITY PRIME YIELD

Investment commentary

Q2 2019 investment volumes totalled £1.7 billion which was the lowest quarter since Q1 2010 and 119% below the 10-year average. Although volumes were down on Q1 2019 by 67%, there were 37 deals recorded for the quarter, only slightly below the 38 deals recorded in Q1 2019; instead the difference in investment volumes was accounted for by the Q1 acquisition of 25 Canada Square, E14 by Citi Group for £1.1 billion, 4.23% NIY.

Investment volumes fell in all London submarkets on their respective averages with City market volumes falling most dramatically, down 208% on the 10-year average to £631 million for Q2 2019. In total there were 20 transactions recorded in the City market in Q2, which was just 47% down on the average. The largest deal of the quarter was Property Reserve Inc's acquisition of 10 Noble Street, EC2, for £103.8 million. In comparison 2018 saw 24 deals above this level in the City alone.

The majority of purchaser activity in the City market was made up by overseas investors who accounted for 58% of total volumes, mostly in line with proportions from previous quarters. Interestingly, owner occupation investment volumes reached £94.8 million in Q2 2019, 54% above the 10-year average and accounting for 15% of all City investment for the quarter. UK purchasers made up the remainder at 27%.

West End investment volumes totalled £869 million in Q2 2019 with 15 deals recorded. Whilst volumes fell 63% on the 10-year average and it being the lowest Q2 since 2011, the performance in Q2 was an improvement on Q1 2019, rising 109% by total volumes and 50% by number of deals. The largest deal of the quarter was Brockton's acquisition of 35 North Wharf Road, W2 for £220.5 million which was the largest deal of the year so far but surpassed by seven larger deals in 2018.

By purchaser type, UK investors made up the majority in the West End in Q2 2019 at 53%. Interestingly, overseas investors made up just 25% in Q2 2019, the lowest proportion of overseas investment since Q2 2006. Owner occupation in the West End reached £192.5 million in Q2 2019 which was 193% above the 10-year average and accounted for 22% of all West End investment for the quarter.

Paddington was the best performing submarket in Q2 2019 recording £220.5 million of investment although largely the result of a single deal at 55 North Wharf Road. St James's was the next best performing submarket by investment volumes with £200 million worth of transactions recorded across three separate deals, in line with Covent Garden which also recorded three deals and investment volumes of £91.5 million.

East London investment volumes fell 116% on the 10-year average to £156 million for Q2 2019. By number of deals, East London performed in line with the average with two deals transacted, also the same as last quarter. The largest deal was Cindat Capital Management's acquisition of 30 South Colonnade, E14 for £135 million.

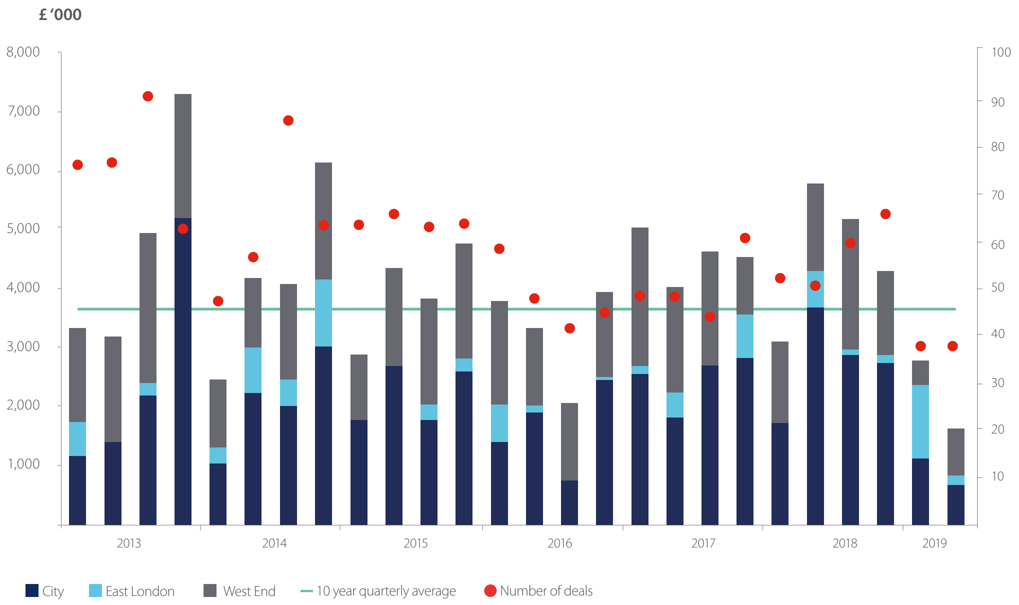
YIELDS

Prime yields were stable in Q2 2019 at 4.25% in the City and 3.50% in the West End.

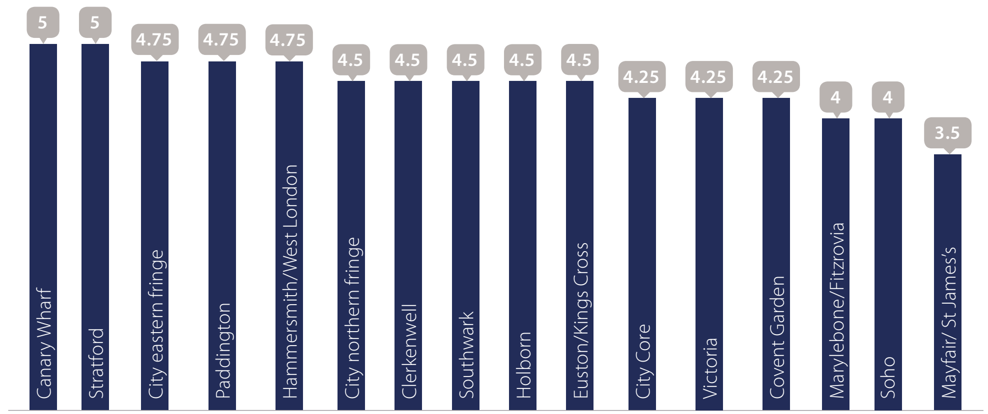
"By purchaser type, UK investors made up the majority in the West End in Q2 2019 at 53%. Interestingly, overseas investors made up just 25% in Q2 2019, the lowest proportion of overseas investment since Q2 2006

Avison Young advised a private Spanish investor on the off market acquisition of 9-12 King Street, EC2 for £18.5 million, 4.00% NIY

CENTRAL LONDON QUARTERLY VOLUMES VS NUMBER OF DEALS



CENTRAL LONDON YIELDS



LARGEST INVESTMENT DEALS OF Q2 2019

Address	Price (£m)	Yield (%)	Month	Purchaser
35 North Wharf Road, W2	221	4.8	Apr-19	Brockton Everlast Inc
30 South Colonnade, E14	135	9.0	Jun-19	Cindat Capital Management
10 Noble Street, EC2	104	4.4	May-19	Property Reserve Inc
Film House, Wardour Street, W1	100		May-19	WeWork
21 Dartmouth Street, SW1	88.9	3.75	May-19	UK Government

NEWLY AVAILABLE ON MARKET Q2 2019

Address	Vendor	Price (£m)	Yield (%)
8 Finsbury Circus, EC2	Mitsubishi Estate	260	4.00
21 St James's Square, SW1	Columbia Threadneedle	200	3.57
133 Houndsditch, EC3	Madison International	170	5.00
20 Vauxhall Bridge Road, SW1	Penguin Random House	74	4.00
The Minories Collection, EC3	DTZ Investors	66.5	5.73

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

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