Stable take-up

Pre-lets rising

Investment hampered by low stock levels

Knight Frank

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THE LONDON OFFICE MARKET REPORT

Q3 2019

MARKET ROUNDUP

Despite political noise, take-up remains healthy

◆

Occupiers are increasingly footloose

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Partial recovery in investment turnover

Stable take-up persists

Against a backdrop of heightened political tensions stemming from the ongoing Brexit talks and the first UK General Election this side of Christmas since 1923, office take-up continues to remain healthy across London. Businesses appear more concerned about the lack of office space in the market and are committing to new leases at a steady rate; a remarkable outcome given the background political noise.

Office take-up reached 3.4 million sq ft during Q3, in line with the 10 year average and marginally higher than both Q2 and the same period last year. Active demand levels stand at 10.3 million sq ft, the highest level recorded so far this year.

Limited options are driving moves, while pre-letting activity is also showing signs of strengthening, placing occupiers under pressure to commence searches for alternative accommodation far earlier than has been the case historically.

Increasingly footloose occupiers

Regearing is also gaining momentum as the shortage of supply stymies the ability of some occupiers to relocate.

In markets where choice is particularly limited, such as the West End, occupiers are increasingly footloose. This is helping landlords in the City achieve new record rents in some cases.

For many West End occupiers, the City still offers 'good value'.

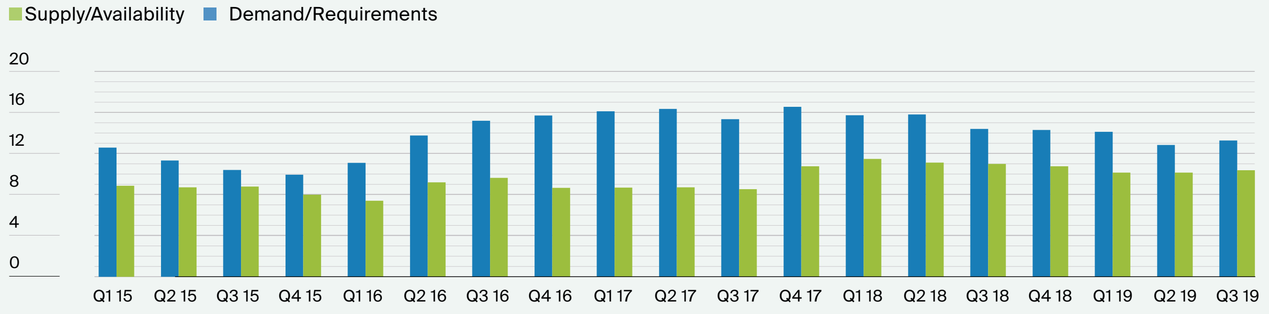
Rent free periods across London are still holding, at roughly 21-24 months on 10 year leases and at about 32-34 months on 15 year leases. That said, there are some pockets of London, such as Southbank and around Crossrail stations, where an ever tightening vacancy rate has compressed rent free periods to nearer 18-20 months, for 10 year leases.

3.4m sq ft

OFFICE SPACE TAKE-UP DURING Q3 2019

Ever tightening supply of space

Sq ft millions



Source: Knight Frank

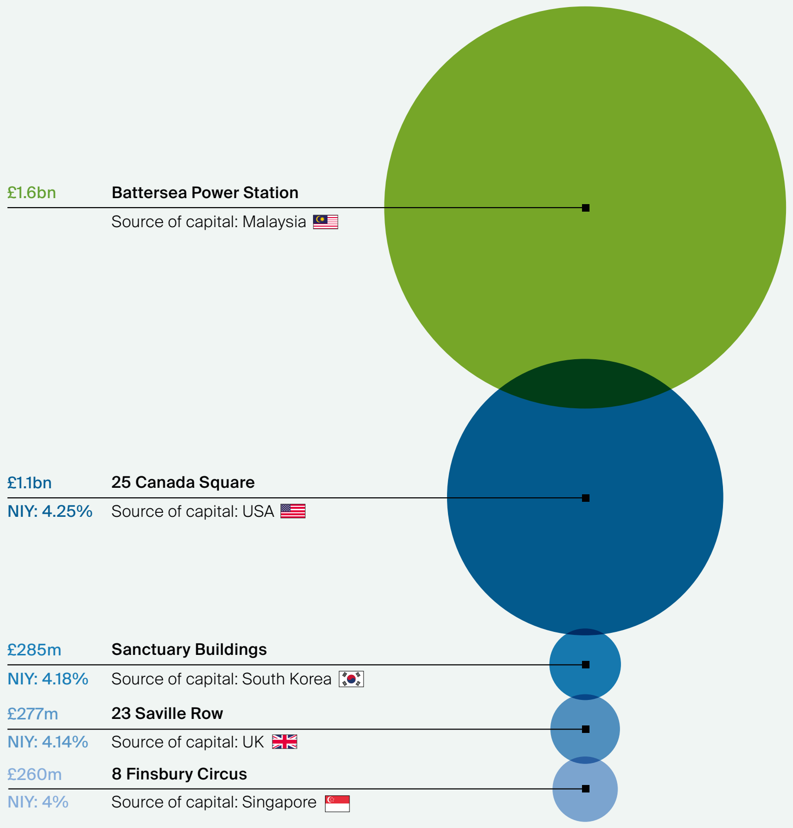
Requirements from the finance, corporate and professional service sectors continue to account for the bulk of demand in the market, standing at 56%.

Investment turnover recovers

Following a weak Q2, investment turnover volumes partially recovered during the third quarter, falling just short of £2.4 billion, underpinned by a resurgence in interest in London assets, particularly from the overseas cohort. We believe this change in risk perceptions around London has been driven by rising geopolitical tensions elsewhere in the world, most notably Asia and the Middle East, which has made London look like a relatively safer haven once more; arguably more so than it did at the start of 2019 as we approached the original Brexit precipice. That said, with political clarity around Brexit appearing to remain elusive, there are still a large number of overseas buyers that would like to be buying in London, but are not prepared to commit before there is more certainty.

While international investors gather on the sidelines in what appear to be increasing numbers, UK investors have leapt to the top of the leader board for London acquisitions, committing almost £1 billion in Q3, taking the nine month total to £2.6 billion. The home team clearly senses an opportunity to secure London assets in a less competitive field, even though yields in the City have now recovered the 25 basis point outward movement from the start of this year, to stand at 4.25% for 10 year income. In the West End, there is a lack of transactional evidence to suggest yields have recovered so they remain at 3.75% this quarter. Despite the compressed yield in the City, London still remains more attractive than many other global gateway locations.

5 Largest London commercial investment deals so far this year



Source: Knight Frank

3 THEMES FOR THOUGHT

1 PRE-LETS RISE AS SUPPLY WEAKENS

The pre-let office market in London has never seen such high levels of activity. Underpinned by an ever-decreasing number of options, we are continuing to see businesses committing to space that is under construction.

During 2018, 2.1 million sq ft of space was let during construction, the highest level since 2007. During the first nine months of 2019, this trend has persisted, with 1.6 million sq ft let while still being built.

What's more, of the 12.5 million sq ft under construction that we are currently tracking, 48% is committed, with a further 1.85 million sq ft under offer, suggesting that the total stands at 53%.

Some notable pre-lets during Q3 2019 include:

- British Telecommunications Plc: One Braham, E1 (310,000 sq ft)
- Diageo: 16 Great Marlborough Street, W1 (105,000 sq ft)
- Convene: 22 Bishopsgate, EC3 (99,000 sq ft)
- Bridgepoint Capital Group: Marble Arch Place,W1 (78,000 sq ft)
- Cooley LLP: 22 Bishopsgate, EC3 (75,000 sq ft)
- Bank of Montreal: 100 Liverpool Street, EC2 (60,000 sq ft)

2 COMMERCIAL MORE VIABLE THAN RESIDENTIAL?

For residential developers in London, the planning environment remains challenging. More stringent affordable housing policies being introduced by City Hall have come at a time when planning committees across the capital have undergone sweeping changes and planning departments remain under-resourced.

Little more than 9,000 private residential units were started in schemes of 20+ private units in the first half of 2019. If that is repeated during the rest of the year, developers will commence less than two thirds of the housing units started during the 2015 peak.

Part of this is due to planning, and managing the viability of developing homes is testing developers. As a result, some are choosing to include a mixture of uses in large-scale developments, in order to keep them viable, or in some cases revisiting consents to include a greater proportion of commercial office space in later phases, likely driven by the strength of the office occupier market.

That said, the government does appear to be listening and recently announced a suite of initiatives intended to speed up the planning process.
At the Conservative Party Conference the Housing Secretary Robert Jenrick announced the Government's "vision" for reforming the planning system.

The 'accelerated planning' green paper, expected in November 2019, will seek views on introducing 'permission in principle' to demolish old commercial buildings for new housing and reducing planning conditions by a third.
As always the devil will be in the detail but any further squeeze on commercial office space stock will only help to sustain upward pressure on rents.

**Contributed by Patrick Gower (Residential Research) and Nick Diment (Residential Development Planning).*

3 INVESTMENT LEVELS HAMPERED BY LOW STOCK

While overall investment into London's office market showed signs of recovering during the third quarter, the total turnover recorded is not a true reflection of the depth of demand.

This is largely down to a lack of stock on the market. During Q3, there was £2.9 billion available on the market, spread across 81 assets. This is 21% down on the total for Q2 2019, reflecting the severity of the shortage of openly marketed investments. Potential sellers remain reluctant to bring assets to market in a politically uncertain environment and one where they are also struggling to invest their own funds.
Demand for value-add stock, that can take advantage of pressures in the occupational market, is particularly strong.

Furthermore, there was £2.4 billion of commercial office assets under offer at the end of Q3, equating to a 38% rise on Q2 and the highest level recorded in 12 months, underscoring the strengthening of purchaser appetite.

Investors interested in London have decisions to make. The occupier market dynamics, in particular rising rents, are a clear opportunity, as is for many, the weak pound. However, with Brexit extended and an election looming, not all will have the courage to take advantage of these in the short term.

THE LONDON OFFICE MARKET REPORT Q3 2019

LONDON OFFICE MARKET

Performance dashboard Q3 2019

Key performance indicators

	▲ £3.4m TAKE-UP (SQ FT)	▲ 13.1m AVAILABILITY (SQ FT)	▲ 5.7% VACANCY RATE	▼ 12.5m UNDER CONSTRUCTION (SQ FT)
Change on				
Q2 2019	8% ▲	3% ▲	4% ▲	-7% ▼
LTA	3.3 million sq ft	15.7 million sq ft	6.8%	9.2 million sq ft

4.25% CITY YIELD ▼

3.75% WEST END YIELD ◀▶

4.75% DOCKLANDS YIELD ◀▶

Prime headline rents
per sq ft

£30 - £40	
£40 - £50	
£50 - £60	
£60 - £70	
£70 - £80	
£80 - £90	
£90+	

WEST END

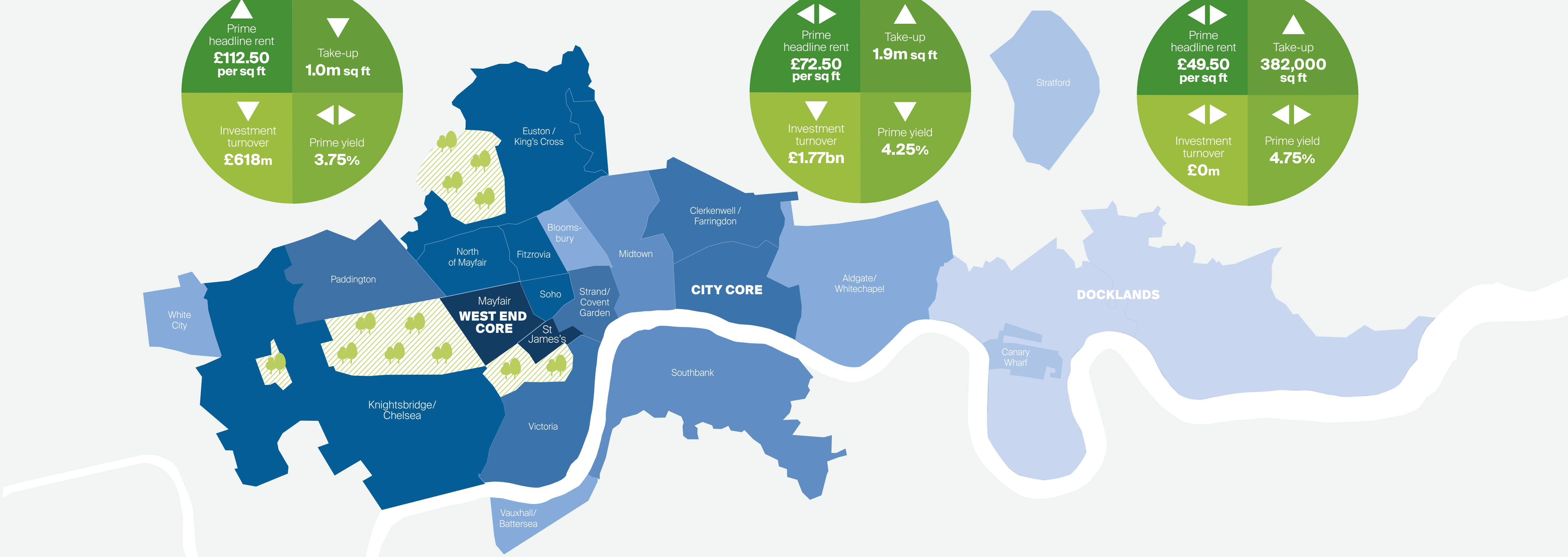
- ▲ Prime headline rent **£112.50 per sq ft**
- ▼ Take-up **1.0m sq ft**
- ▼ Investment turnover **£618m**
- ◀▶ Prime yield **3.75%**

CITY

- ◀▶ Prime headline rent **£72.50 per sq ft**
- ▲ Take-up **1.9m sq ft**
- ▼ Investment turnover **£1.77bn**
- ▼ Prime yield **4.25%**

DOCKLANDS

- ◀▶ Prime headline rent **£49.50 per sq ft**
- ▲ Take-up **382,000 sq ft**
- ◀▶ Investment turnover **£0m**
- ◀▶ Prime yield **4.75%**



Source: Knight Frank

MARKETS IN REVIEW

THE CITY

▲£72.50	▲1.9m	▼6.1m	▲£1.77bn	▼ 4.25%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Rents remain stable but incentives see downward pressure

Prime headline rents remain stable in the City Core at £72.50 per sq ft, underpinned by falling availability and strengthening demand levels. The availability of stock is at the lowest since the start of 2016, which has in turn driven vacancy rates down to 5.0%.

Despite this, rent free periods have remained at 24 months on a typical 10 year lease, although we are beginning to see downward pressure, with increasing examples of tighter rent frees.

Robust occupier activity despite Brexit delay

The delay to Brexit has done little to dent demand, with occupier activity in the City rising for the second consecutive quarter this year. Take-up in the third quarter increased by 22% from 1.6 million sq ft in Q2, to almost 2 million sq ft in Q3.

The level of take-up of new and refurbished stock was the second highest since Q2 2018 and double the levels recorded in Q2 2019. There was a high level of occupier activity in the City Core, accounting for 60% of total take-up in the wider City market.

There were 113 deals in the City during the third quarter, seven of which were over 50,000 sq ft, compared to five in Q2. The average deal size in the City now stands at a little over 17,000 sq ft, albeit, 59% of transactions were below 10,000 sq ft.

The largest deal was BT's acquisition at One Braham, Braham Street, E1 totalling circa 310,000 sq ft. The tech (26%), flexible office (25%) and financial (19%) sectors were the most active in Q3, accounting for 70% of take-up. Despite the strong level of occupier activity, tightness of supply has meant that we are seeing a greater number of businesses consider lease regears, especially those in modern buildings who are taking a more cost effective route.

Active requirements rise

Active demand in the City increased for a third consecutive quarter, up by 10% quarter-on-quarter to 5.6 million sq ft by the end of Q3. Levels are at the highest since Q1 2006. Requirements have been bolstered by West End occupiers, drawn to the City by the promise of greater options for large floor plates and also by cost savings. Requirement levels are now 33% above the long-term average of 4.2 million sq ft.

The level of active searches over 50,000

sq ft increased further from 27 to 29 during Q3. However, there are just 20 buildings available with over 50,000 sq ft, 13 of which are located in the City Core and just eight of these are of new and refurbished stock.

Refurbished stock down, while supply tightens

Despite the increased level of occupier activity in Q3, supply levels remained stable at 6.1 million sq ft. This was attributable to the increased level of new stock entering the supply figures as they near completion.

There is approximately 2.5 million sq ft under offer across the City market. The current vacancy rate in the City market is now at 5.0% and 5.7% in the City Core submarket.

The supply of new and refurbished stock totalled 1.8 million sq ft at the end of Q3, nearly half the long-term average. There are just three buildings that could offer an occupier over 100,000 sq ft. All located in the City Core, these include: 70 St Mary Axe, EC3; The Scalpel, 52-54 Lime Street, EC3 and Vintners Place, EC4. We are currently tracking ten active requirements for space in excess of 100,000 sq ft by occupiers exclusively targeting the City that are not yet under offer.

Looking ahead at the supply pipeline, total under construction levels in the City are currently 6 million sq ft, of which 40% is already committed, leaving 3.6 million sq ft of speculative space under construction. There is 4.5 million sq ft under construction which is due to complete in the next 12 months, 52% of which is committed.

This leaves just 2.3 million sq ft of speculative space coming through in the next 12 months, which equates to approximately nine months of supply, assuming average levels of new and refurbished take-up.

Investment up, but much hinges on political clarity

Despite the uncertainty surrounding Brexit, demand for London assets is strengthening, reflecting the city's position as a global investment safe haven. The figure for assets under offer in the City currently stands at a 12 month high of £1.2 billion, which is also 32% up on Q2 of this year. The rising demand and shortage of availability in the City has compressed yields by 25bps to 4.25% for 10 year income.

Furthermore, comparing Q1-Q3 2019 against 2018 as a whole, investors from the Middle East, North America and Europe look set to match, if not better their investment commitments to London's office market this year.

Looking ahead to 2020, we expect to see a marked increase in overseas investment activity, especially as the government continues to message that a conclusion to Brexit may be near. We feel this will be instrumental in unlocking pent up demand as investors are waiting for greater political clarity before committing to London.

MARKETS IN REVIEW

WEST END

▲£112.50	▼1.0m	▲4.6m	▼£618m	◆3.75%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Occupier activity remains subdued

We continued to witness subdued levels of occupier activity in the West End during the third quarter. Take-up in Q3 was a little over 1 million sq ft, just 2% below the level recorded in Q2, but 16% below the long-term average of 1.2 million sq ft.

Despite this, there are a number of positive indicators that the market remains stable and resilient whilst the ongoing political uncertainty continues.

The competition for Grade A units over 50,000 sq ft still remains a significant market driver. Pre-let activity is still strong, highlighted by the recent acquisition from Diageo at 16 Great Marlborough Street totalling 105,000 sq ft.

Tracking evidence throughout the quarter, prime rents increased from £107 per sq ft in Q2, to £112.50 per sq ft in Q3, with incentives remaining stable between 21-24 months' rent free on a typical 10 year term.

There were over 170 deals in the West End in Q3, with an average deal size of nearly 6,000 sq ft. 73% of transactions completed were below 5,000 sq ft, making it the most significant component of the market and mirroring the fact that c. 40% of the market is comprised of sub-5,000 sq ft floor plates. The majority (49%) of occupier activity was located in the north of the West End, particularly, Marylebone, Fitzrovia and Soho, as the supply remains under pressure in other submarkets.

It's not all about TMT

The financial sector overtook the TMT sector during the course of the third quarter, increasing its share of take-up from 19% in Q2 to 38% in Q3, with the TMT sector accounting for just 10%. Two significant deals from the finance sector made up over half of all financial take-up during the quarter; Nationwide Building Society acquired the remaining floors totalling circa 89,000 sq ft at The Post Building, WC1, and Bridgepoint Capital Group completed their deal at Marble Arch Place, 5 Marble Arch, W1, acquiring 78,000 sq ft.

The TMT sector remains the most active over the last 12 months, with take-up from this sector totalling nearly 1 million sq ft. It is worth mentioning that it's not just tech businesses that remain active, but we are recording strong demand from a range of businesses. The flexible office cohort accounted for 17% of take-up in Q3, up from 9% in Q2.

Above average active demand

Despite the weaker levels of occupier activity during 2019, the level of office space requirements remained stable quarter-on-quarter, totalling 2.2 million sq ft, currently 8% ahead of the long term average. The TMT sector is now the most active in our demand profile, accounting for 34%, followed by finance (31%) and corporates (25%).

There are currently 15 active requirements over 50,000 sq ft that are focussed on the West End. Occupiers who are looking for sizeable units, especially for new and refurbished options, appear to be launching their search well in advance of their lease events to secure to right option and are not necessarily bound by a specific geography, or postcode, but are instead happy to consider options across London.

Half of 12 month pipeline committed

Availability in the West End increased by 3% from 4.5 million sq ft in Q2 to 4.6 million sq ft, however supply levels are still 16% below the long-term average.

These conditions have translated into a vacancy rate of 5.3%, compared to a long-term average of 6.1%.

The supply of new and refurbished office space fell below the 1 million sq ft mark at the beginning of the year for the first time since Q4 2011 and has continued to decline since, now standing at 814,000 sq ft, 45% below the long-term average. The shortage of options on the market is clearly exacerbating take-up levels, but also the reduction in options is driving West End occupiers to consider other locations in London.

Looking forward at the development pipeline, there is nearly 5.7 million sq ft under construction in the West End, 62% of which is already committed. Furthermore, 50% of the 1.5 million sq ft under construction and due for completion the next 12 months is already committed.

This leaves just 745,000 sq ft of speculative stock, which equates to just over five months of supply, assuming average levels of new and refurbished take-up.

Investment slowdown continues

Investment turnover in Q3 totalled £618 million, down 29% on Q2 and 55% below the long-term average. There were 12 transactions during the quarter, the largest of which was the sale of 23 Savile Row, purchased by a UK investor for £277 million.

Whilst many traditional West End buyers continue to cite political uncertainty as a concern, the biggest cause of reduced turnover is a lack of stock, particularly in the all-important middle-market. Demand is strongest in the sub £100 million range, but this segment of the market has a very limited number of options being openly marketed.

MARKETS IN REVIEW

DOCKLANDS & STRATFORD

£49.50	382k	2.4m	nil	4.75%
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER	PRIME YIELD

Leasing activity remains strong

The headline figures (above) are arguably misleading. Despite a decrease on Q2, for the second consecutive quarter the Docklands and Stratford market saw an above average level of office take-up. Just over 382,000 sq ft of space was let, which is 19% above the long-term average.

The key deal of the quarter was WeWork acquiring of a sublease from the EMA totalling circa 283,000 sq ft at 30 Churchill Place, E14.

In Stratford, Her Majesty's Revenue & Customs signed a pre-let at 14 Westfield Avenue, E20, totalling 58,500 sq ft on a 25 year lease.

So far this year, we have seen just under 1.1 million sq ft of take-up, on par with the same period last year. There is a further 203,000 sq ft under offer in the Docklands and Stratford market. Should this all complete by the end of the year, take-up will have exceeded the long-term average by 36%.

Finance or flexible offices?

Unsurprisingly, it was the flexible office sector that was the most active during the quarter, accounting for 74% of total take-up, followed by the public sector (19%).

However, it is still the financial sector that has acquired the majority of stock over the last 12 months, totalling 373,000 sq ft, which equates to 35% of all space let.

Strong active requirements

Looking at active requirements in this market during Q3, levels of demand are still well above average at 764,000 sq ft. Furthermore, we are tracking a number of occupiers currently located in other submarkets across London who are actively considering the Docklands and Stratford as part of their wider search.

Availability set to fall

Supply in Docklands and Stratford totalled 2.4 million sq ft, increasing 12% on Q2 and 51% above the long-term average. We believe supply has now peaked and levels are likely to fall over the next 12 months as occupier seeking Grade A stock at competitive rents consider this market for their next move.

There is a total of 777,000 sq ft of new and refurbished stock available, with just five 100,000 sq ft+ options in the Docklands.

These include the Import & Export Buildings (R1 & R2) Republic, E14, Altitude, Royal Albert Dock, E16, 15 Westferry Circus, E14, Here East, E15, and 40 Bank Street, E14.

In Stratford itself, supply remains limited, with just over 226,000 sq ft available on the market.

The current vacancy rate is 11.3% for the whole Docklands market, with Canary Wharf at 9.2%.

A tightening development pipeline

Despite the seemingly high vacancy rates when compared to other submarkets in London, future supply remains tight. Looking at the development pipeline, there is close to 905,000 sq ft of office space under construction due to complete by the end of 2023.

However, approximately 16% of this is already either pre-let, or under offer.

There is just over 552,000 sq ft due to complete next year, all of which is currently untenanted. This includes 20 Water Street in Wood Wharf, totalling 211,000 sq ft and Cargo, 25 North Colonnade, E14 (341,000 sq ft).

Mixed rental profile

The prime headline rent remained stable across the Docklands market: £49.50 per sq ft in Canary Wharf, Stratford at £44 per sq ft and the Rest of Docklands at £32.50 per sq ft.

Lack of investment stock continue

There were no investment transactions during the third quarter of the year. The supply of investment stock is extremely limited, with just two assets available in Canary Wharf, one of which is already under offer.

A lack of transactional evidence has meant that we have left our prime yield for the Docklands unchanged in Q3 at 4.75%.

IN FOCUS

SOUTHBANK

▲ £70	▼ 47k	▲ 475k	▼ £108m
RENT (PER SQ FT)	TAKE-UP (SQ FT)	AVAILABILITY (SQ FT)	INVESTMENT TURNOVER

Demand Weakens

Take-up in Southbank totalled almost 47,000 sq ft during Q3, significantly lower than the level recorded in Q2. After a relatively strong number of lease deals in Q2, take-up levels in Q3 were the lowest we have recorded since Q4 2009, and well below the long-term average of circa 214,000 sq ft. So far this year take-up has totalled 284,000 sq ft, significantly behind the 888,000 sq ft recorded in 2018.

There were no deals over 10,000 sq ft in Q3. The largest deal was at The Shard, where retailer, Jellyfish, acquired just under 9,000 sq ft, achieving the highest rent of the year in SE1. The professional sector has been the most active sector during the year so far, accounting for 36% of take-up, followed by the flexible office sector (23%) and the TMT sector (14%).

Severe lack of new and refurbished stock

Availability in Southbank increased 11% quarter-on-quarter from 428,000 sq ft in Q2 to 475,000 sq ft in Q3, however, supply levels remain significantly below the long-term average of just over 1 million sq ft. Of the total amount of offices available to let on the market, new and refurbished supply totals less than 30,000 sq ft and there are no units over 100,000 sq ft.

The current vacancy rate now stands at 2.5%; the lowest in London.

Future supply heavily restricted

Over the last 12 months, there has been no development completions. The most recent was the completion of One and Two Southbank Place, both of which are already committed. Looking forward at the development pipeline, there is just one scheme currently under construction speculatively in Southbank; Bankside Yards totalling 220,000 sq ft which is due to complete in Q4 2021.

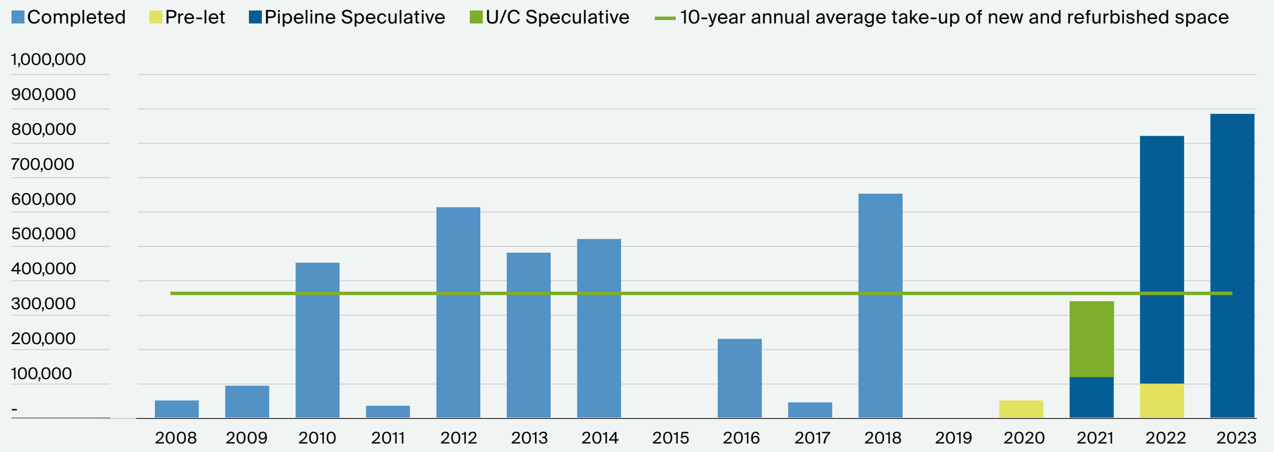
The prime rent remained steady at £70 per sq ft during Q3, primarily due to a lack of transactions in this market.

Investment turnover impacted by lack of options

There were five investment transactions during the third quarter in Southbank, with a total turnover of £108 million, 28% below the £150 million recorded in Q2.

The largest transaction was the sale of Blackfriars Crown Court, purchased by Fabrix Capital for just over £65 million.

Southbank development pipeline
sq ft



Source: Knight Frank

MARKET OUTLOOK

West End rents set to reach £125 per sq ft by 2023

While prime headline office rents in the City Core and Docklands Core held steady in Q3, rental rates in the West End continued to rise, with prime rents now standing at £112.50 per sq ft. This puts rents in the West End within touching distance of the pre Brexit referendum peak of £115 per sq ft.

Despite the ongoing Brexit talks, we are still seeing many occupiers pressing ahead with expansion or relocation plans. This is of course against a backdrop of a supply starved environment and an office development pipeline that continues to be raided, which is why we are forecasting continued rent rises over the next five years.

Our forecasts indicate that prime headline office rents in the West End Core will end 2019 at £115 per sq ft, up 9.5% on 2018. We then expect rents to grow by an average of 2.1% per annum between 2020 and 2023, delivering total growth of 19% by the end of 2023. By this stage, rents are predicted to stand at £125 per sq ft.

Soho (£104 per sq ft), Fitzrovia (£102 per sq ft) and Marylebone (£104 per sq ft) are all also expected to join the £100 per sq ft rent club by 2023 as strong rental growth in the West End Core ripples outward.

Limited supply pipeline to underpin growth forecasts

Looking at the current development pipeline projections, the West End has a speculative pipeline of 2.1 million sq ft, due to complete by the end of 2022. The long term average annual take-up rate in the West End is a little over 4.9 million sq ft, suggesting there is just over five months of supply remaining, all other things being equal. However it is worth pointing out that the biggest segment of the West End market, c. 40%, falls in the sub 5,000 sq ft floor plate bracket, which is where vacancy rates (c.10%) are almost double those of London (5.7%).

Still, while this projected five-year growth rate of 19% appears strong, it equates to an average annual increase of just £2.50 per sq ft.

Southbank projected to see highest rate of rental growth

Beyond the West End Core, submarkets such as Southbank and the City Core remain relatively good value when compared to the West End. This, combined with a higher number of larger floor plate options (in the City market), plus a limited amount of speculative construction means our rental growth projections suggest these two locations will experience higher rates of growth over the next five years.

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> **Submarkets such as Southbank and the City Core remain relatively good value when compared to the West End, which is why our rental projections suggest they will see higher rates of rental growth than most other parts of London.**
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> ◆◆

In fact, Southbank and the City Core are projected to experience office rent rises of 21.4% and 21.5%, respectively; the strongest rates in London. Like the West End, the availability of stock in the City Core (6.1 million sq ft) is at the second lowest level this year and at level not seen in four years. It is also currently 29% below the long term average, with 40% of space under construction already committed.

For a market like Southbank, vacancy rates for prime space are currently sitting at 2.5% and with limited development planned between now and 2023, rents are expected to come under upward pressure, with vacancy rates expected to ease further. Southbank's strategic location across from the City and the proximity of one of London's main commuter rail stations – Waterloo – makes it a highly desirable location and also arguably Central London's last main regeneration opportunities.

It is however a relatively small submarket, with just 19 million sq ft of prime office space, or about 8% of total stock in London. The tone of this submarket could easily be altered by a few large schemes.
That said, limited development, or indeed redevelopment opportunities are likely to negate the threat of this, at least in the medium term.

KEY YEAR END SUBMARKET FORECASTS

		2019	2020	2021	2022	2023
WEST END CORE	Rent (per sq ft)	£115.00	£116.50	£118.00	£121.00	£125.00
	Growth (y/y)	9.5%	1.3%	1.3%	2.5%	3.3%
CITY CORE	Rent (per sq ft)	£75.00	£79.00	£82.00	£83.50	£85.00
	Growth (y/y)	7.1%	5.3%	3.8%	1.8%	1.8%
CANARY WHARF	Rent (per sq ft)	£49.50	£51.00	£52.00	£53.50	£55.00
	Growth (y/y)	5.3%	3%	2%	2.9%	2.8%

Source: Knight Frank

KEY STATISTICS

	Q1 19	Q2 19	Q3 19	% CHANGE 3 MONTHS	% CHANGE 12 MONTHS
TAKE-UP (sq ft)					
WEST END	1.26m	1.05m	1.03m	-2%	-35%
CITY	1.40m	1.62m	1.97m	22%	18%
DOCKLANDS	0.22m	0.47m	0.38m	-19%	-22%
TOTAL LONDON	2.88m	3.14m	3.38m	8%	-10%
AVAILABILITY (SQ FT)					
WEST END	4.94m	4.47m	4.59m	3%	-7%
CITY	6.53m	6.08m	6.14m	1%	-23%
DOCKLANDS	2.51m	2.15m	2.40m	12%	83%
TOTAL LONDON	13.98m	12.70m	13.13m	3%	-8%
VACANCY RATE					
WEST END	5.8%	5.2%	5.3%	n/a	n/a
CITY	5.3%	4.9%	5.0%	n/a	n/a
DOCKLANDS	10.6%	10.6%	11.3%	n/a	n/a
TOTAL LONDON	5.5%	5.5%	5.7%	n/a	n/a
UNDER CONSTRUCTION (SQ FT)					
WEST END	5.08m	4.80m	5.65m	18%	144%
CITY	6.11m	6.72m	5.99m	-11%	3%
DOCKLANDS	1.95m	1.95m	0.91m	-53%	-41%
TOTAL LONDON	13.14m	13.47m	12.55m	-7%	30%
DEVELOPMENT COMPLETIONS (SQ FT)					
WEST END	0.20m	0.62m	0.02m	-97%	n/a
CITY	0.95m	0.22m	0.89m	305%	-52%
DOCKLANDS	0m	0m	1.04m	n/a	n/a
TOTAL LONDON	1.15m	0.84m	1.95m	132%	6%
INVESTMENT TURNOVER					
WEST END	£2.75bn	£0.87bn	£0.62bn	-29%	-72%
CITY	£1.08bn	£0.82bn	£1.77bn	116%	-37%
DOCKLANDS	£1.25bn	£0	£0	n/a	n/a
TOTAL LONDON	£5.08bn	£1.69bn	£2.39bn	41%	-53%
PRIME YIELDS					
WEST END	3.75%	3.75%	3.75%	n/a	n/a
CITY	4.50%	4.50%	4.25%	n/a	n/a
DOCKLANDS	–	4.75%	4.75%	n/a	n/a

Source: Knight Frank

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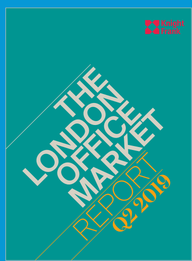

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The London Investor Bulletin

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General Note

This report has been prepared by Knight Frank Research, the research and consultancy division of Knight Frank. Knight Frank Research gratefully acknowledges the assistance given by the London office teams in the compilation and presentation of this material. Certain data sourced from LOD. All graph data sourced by Knight Frank.

Technical Note

The following criteria have been adopted in the preparation of this report.

i. All floorspace figures quoted in this report refer to sq ft net.

ii. Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.

iii. Availability refers to all space available for immediate occupation, plus space still under construction which will be completed within six months and which has not been let.

iv. Availability and take-up are classified into three grades:

New/refurbished: Space under construction which is due for completion within six months or space which is currently on the market and is either new or completely refurbished.

Second-hand A Grade: Previously occupied space with air-conditioning.

Second-hand B Grade: Previously occupied space without air-conditioning.

v. Demand figures quoted in this report refer to named requirements for over 10,000 sq ft.

vi. Under construction figures quoted in this report refer to developments of over 20,000 sq ft which are currently underway. They do not include properties undergoing demolition.

vii. Investment figures quoted in this report refer to accommodation where the majority of income/potential income is from office usage and comprises transactions of £1 m and above.

The data includes standing investments, site purchases and funding transactions.

viii. This report is produced to standard quarters.

Quarter 1: January 1 – March 31,
Quarter 2: April 1 – June 30,
Quarter 3: July 1 – September 30,
Quarter 4: October 1 – December 31

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