



The Future of Real Estate Data

London Office Market Analysis

A market on pause



TURNING THE TIDE: SEASIDE REGENERATION

Many seaside towns are caught in a cycle of decline borne out of the collapse in demand for traditional domestic beach holidays. The increase in popularity of low-cost foreign package holidays has eroded the local economies on which many coastal industries were once built.

Download the report for the full overview of the continued role of the real estate community in regenerating the UK's seaside economies.
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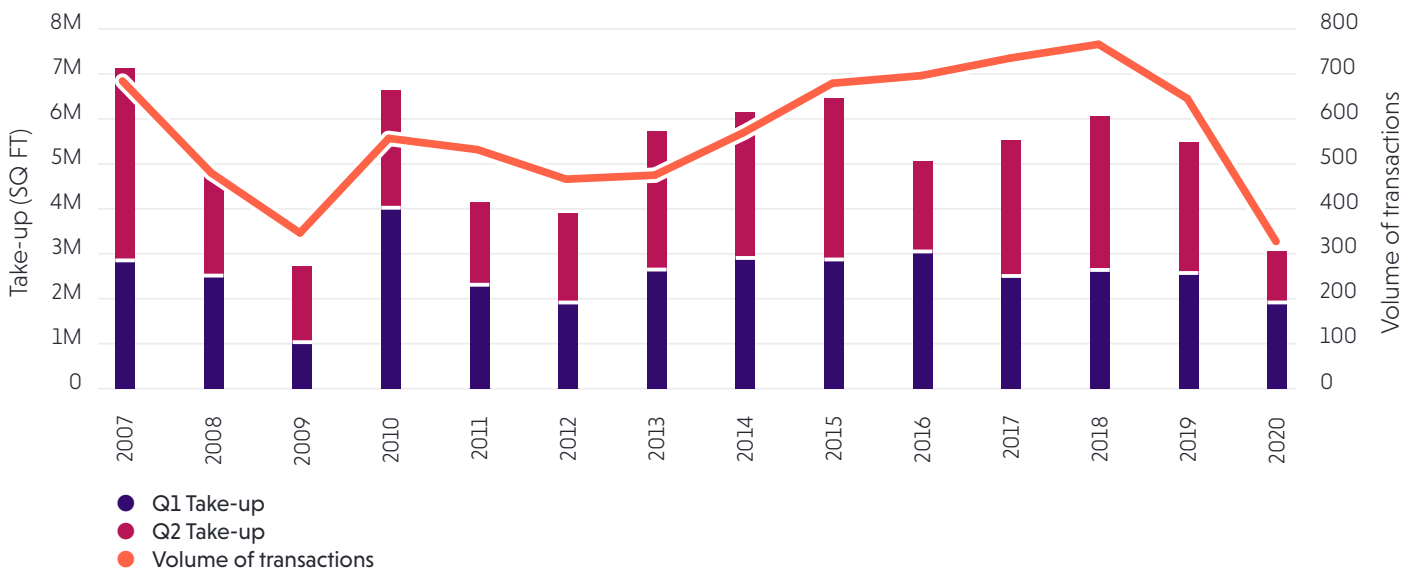
With the Covid-19 pandemic leading to a global shutdown at the tail end of Q1, the second quarter of 2020 was never going to be the most active of periods. But, as EG's analysis using **Radius Data Exchange** shows **a slowdown in activity does not mean a total stop.**

An understandably quiet three months in London office activity saw just over 1m sq ft of new lettings and £515m in investment recorded – among the lowest quarterly figures since EG's analysis of the market began.

same period last year, down by 63% on the five-year quarterly average, and represents the second-lowest quarter recorded by EG for take-up since this analysis began in 2002. Q1 2009's total of 1.03m sq ft remains the nadir of activity by square footage.

London offices saw a total of 1.14m sq ft in take-up across Q2 2020. This was down by 61% on the

LONDON OFFICE H1 ACTIVITY, 2007-2020



The total number of deals completed in Q2 was lower than any other on record, however, with just 103 individual transactions getting over the line. Perspective should enable us to realise that these leasing figures are actually a testament to the intrinsic resilience of a market that can see more than 100 individual deals complete, spanning more than 1m sq ft, during a three-month period in which unprecedented lockdown measures were imposed.

Although some of the charts and comparable figures look predictably bleak, there can perhaps be some comfort for those involved in the market that, despite the challenges there remains a residual feeling from occupiers that London office space is going to form part of whatever workplace segmentation strategy they adopt moving forward.

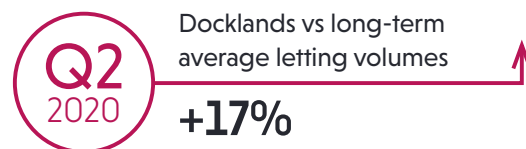
Breaking letting activity down into submarkets indicates the blanket quietness of the three-month period – except for Docklands, which managed to achieve a 17% uptick on long-term average letting volumes by playing host to two of the largest four deals to complete during Q2 - a 205,000 sq ft letting for BP at 25 North Colonnade and a 45,000 deal for Barts Health at 20 Churchill Place, both E14.

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LONDON OFFICE TAKE-UP BY SUBMARKET Q2 2020

	City Core	City Fringe	Docklands	Midtown	Southbank	West End	TOTAL
Take-up Q2 2020	424,734	64,609	268,651	90,763	65,673	229,057	1,143,487
VS Q2 2019	-53.5%	-79.1%	-44.5%	-56.8%	-65.7%	-71.2%	-60.6%
VS 5 yr avg just Q2	-57.3%	-85.3%	17.0%	-80.1%	-65.9%	-69.3%	-63.1%
VS 10yr avg just Q2	-57.5%	-83.2%	16.8%	-80.3%	-65.3%	-68.2%	-61.9%

While most would have been expecting this to be the first of a few relatively sedate quarterly periods for market activity – and anticipating an associated correction in rents and capital values – the crucial thing for those closely involved in the London office market is in trying to accurately predict when and how sharply those values might begin to recover.

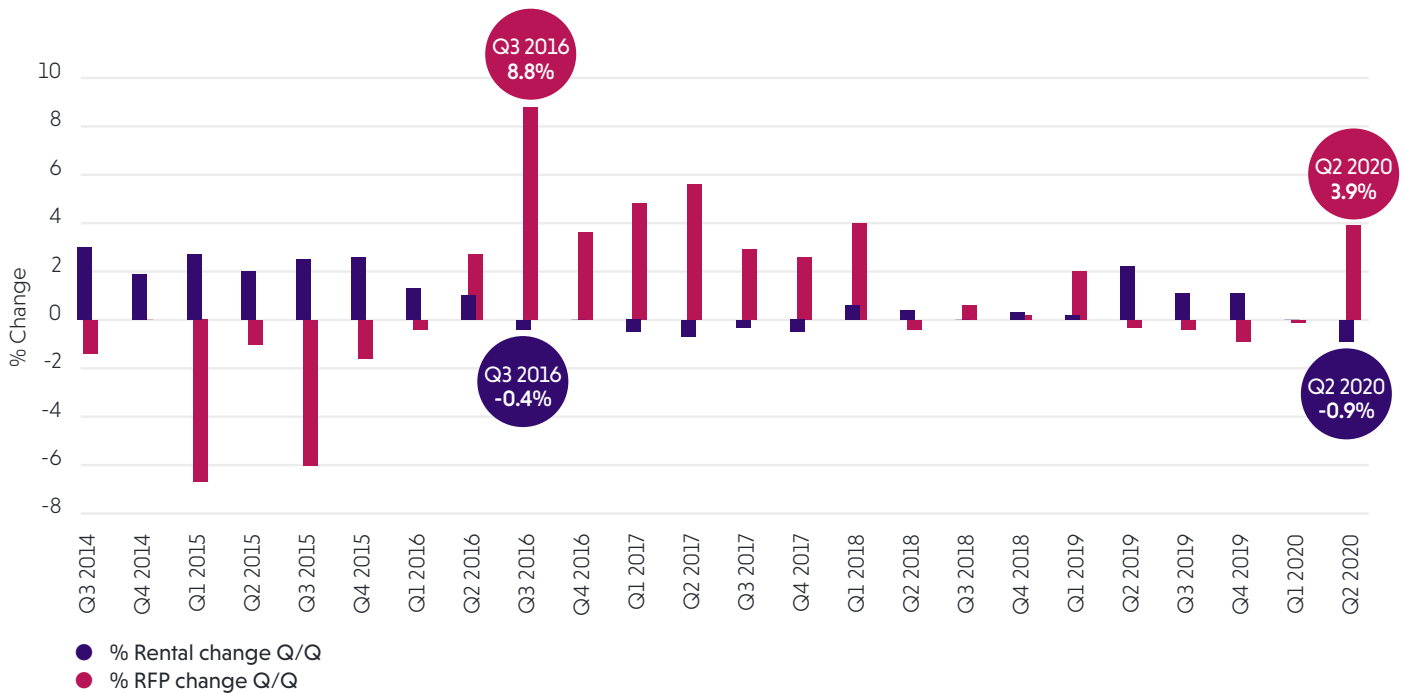


We can look at two datasets to ascertain what the shape of rental movements might be in the short-to-medium term.

Firstly, our panel of agency experts' data on aggregated rental tone and monthly rent-free periods

for grade-A space indicate a broadly similar quarter-on-quarter pattern to that which we saw in the three months immediately following the EU referendum; which is that rent-free periods have been pushed outwards quite aggressively, and rents have fallen.

LONDON-WIDE Q/Q CHANGES IN RENTS & RENT-FREE PERIODS , Q3 2014 - Q2 2020



The third quarter of 2016 was the start of seven consecutive quarterly periods post-referendum in which rent-free periods were perpetually extended, and only in the final one of those – Q1 2018 – did the panel once again supply data which indicated quarter-on-quarter rental upticks across London.

However, not only is the immediate rental drop greater than that seen in Q3 2016 (0.9% vs 0.4%), it is also more widespread.

Four years ago, eight out of the 11 submarket areas featured in the survey saw a rental drop

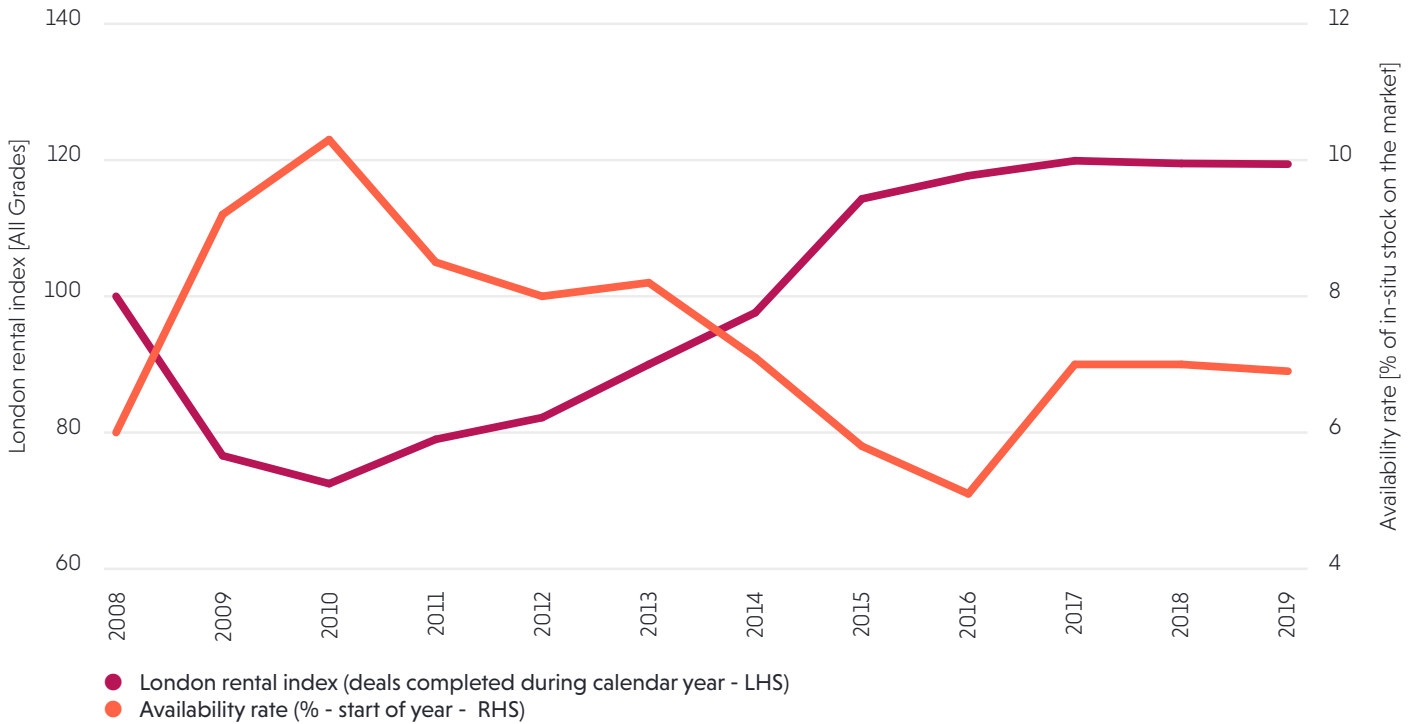
while three saw marginal rental growth against the previous quarter. This time, none of the areas saw any growth compared with Q1 2020, with ten out of 11 showing a fall in rental tone.

Given that we are experiencing a profound economic shock that will be much more substantive in its impact on the market than the wobbles off the back of a democratic exercise, it is probably worthwhile going back further than the consensus data allows in order to gain a fuller understanding of that which is likely to transpire.

Our rental index from 2008 onwards shows how London’s office rents moved during and after the global financial crisis, with average rents dropping by 27% across the capital from 2008 to 2010,

followed by a steady recovery that saw the market fully recover to 2008 levels by early 2015 (albeit that recovery came much sooner in certain submarkets).

RENTAL INDEX (ALL GRADES - BASE 2008) VS AVAILABILITY RATE, 2008 – 2019



Availability rates at the start of each year in question are also shown so that the impact of supply dynamics on rental movements can be assessed – and it is immediately noticeable how that 27% rental tumble was underpinned by a sharp outward drift in the availability rate from 6% at the start of 2008 to 10.3% by the end of 2009.

Critical to the emergence of that supply glut was the fact that in 2008 and 2009, new-build office completions were only 46% and 32% pre-let respectively, meaning that roughly 7.3m sq ft of unlet new supply entered the market either just before or during a period of massive, unforeseen economic upheaval.

At present, the development pipeline is in a much healthier position. Projects which completed in 2019, for example, were two-thirds pre-let by square footage, and for those buildings which are scheduled to complete in the second half of 2020, almost 60% of the space is pre-let.

That appetite for new-build or newly-refurbished high grade space which has bolstered the letting market in London in recent years will be one mechanism which prevents the supply rate drifting out too far – and as such is likely to insulate the market from experiencing an elongated ‘Nike swoosh’ rental pattern as occurred between 2008 and 2015.

An associated qualitative factor to consider when predicting rental movement is the scale of office occupiers’ decade-long attitude change to aspects such as connectivity, sustainability and employee wellbeing – all of which have underpinned that flight to quality which has enabled development space to enjoy such strong pre-let metrics.

Pre-let level of buildings which are due to complete in H2 2020.

Q2 2020 **60%**

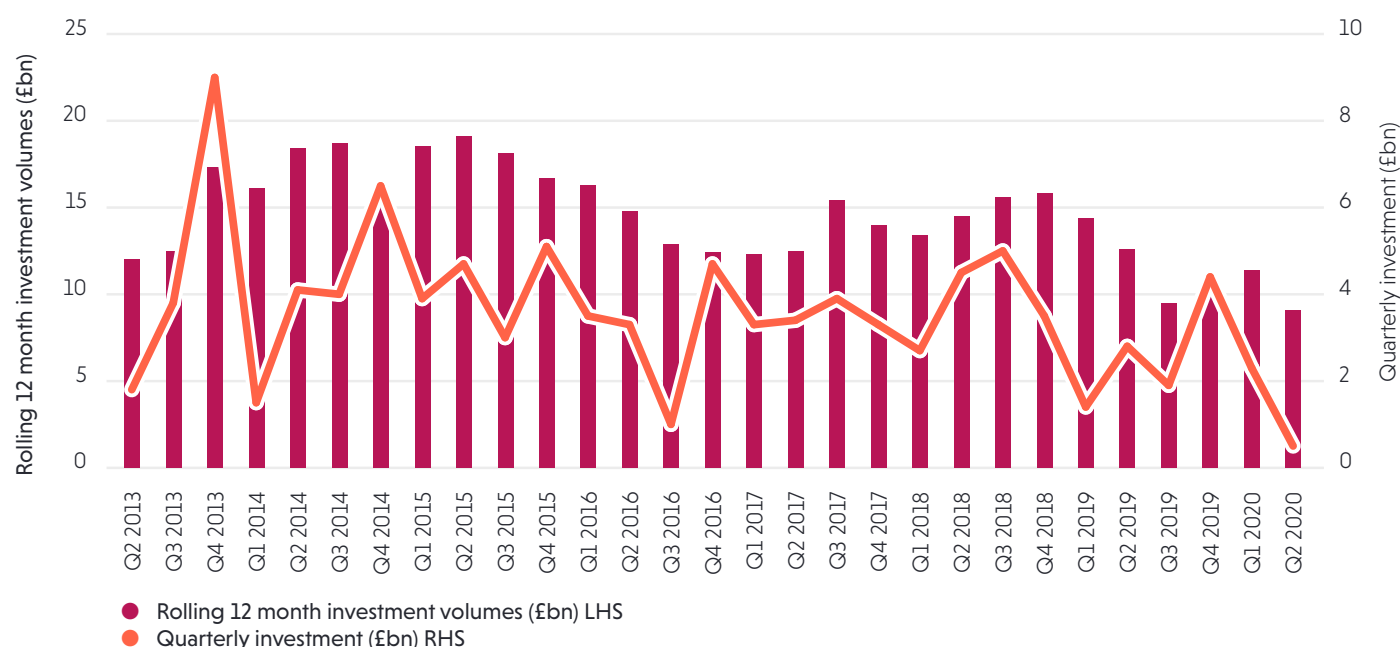
For example, if overall demand is concentrated more heavily towards that development space – even with a general reduction in quantum of space requirements for individual businesses – is there an extent to which vacated second-hand space could keep flowing onto the market without having a commensurate drag-factor on overall rents?

Going by historical data, the critical elements which command attention are firstly how far occupational incentivisation moves in the short term regarding prime rental tone and other incentives such as rent-

free periods (as happened from Q3 2016 onwards), and then whether those immediate shifts in lease mechanics help to maintain the healthy supply rate of the development pipeline in particular.

If it is maintained at a relatively healthy level, the London-wide recovery in average rental tone ought to be quicker than that which happened post-GFC wherein the bounce-back was somewhat restrained by the fact that both second-hand and newly completed unlet space flooded onto the market.

LONDON OFFICES QUARTERLY & ROLLING 12-MONTH INVESTMENT



Investors will, of course, be closely monitoring shifts in any of those lease dynamics which materially impact the income-producing ability of a physical asset, and may be able to take advantage of an associated increase in vendors' propensity to sell at re-priced values, as we have already seen in some cases in July.

The shallow overall spend in Q2 2020 represents an 85% drop on the long term quarterly average for office investment – but with lockdown now being gradually eased and vendors broadly beginning to accept some leeway on pricing, we can reasonably expect activity to pick up from this low berth during the second half of the year.

That activity may well be focused on what can broadly be deemed as 'opportunities' in an environment such as this – with Great Portland Estates explicitly saying as much following the publication of its results in May.

Some of those second-hand vacancies mentioned earlier, therefore, might not actually fuel large outward movements in the overall availability rate, but instead prove the catalyst for investment into and regeneration of well-located office premises which have come to an accelerated end of their cycle, and are available at relatively attractive price points which would otherwise never have emerged.

Many will be hoping that the scenario of a short, sharp economic recession from which the country – and the London office transactional market - can quickly recover is still in play, but weaker-than-expected GDP data from May has reduced the likelihood of the optimal 'V'-shaped recovery.

The platform for any bounce-back in commercial office activity in particular will, of course, have to come organically from market forces (or as a natural part of that wider national recovery). Simply put, there isn't a governmental policy lever which can be 'pulled' to encourage more business occupation or investment in core office markets such as London in the same way that activity in the residential market is hoped to be corralled by the Stamp Duty holiday.

In fact, there is a possibility that we soon encounter moves which dampen commercial investment on the whole, with an apparently 'routine' review into Capital Gains Tax being commissioned at the same time as the Office for Budget Responsibility revealed an eye-watering amount of additional taxes would now need to be raised in order to satisfactorily reduce the UK's debt-to-DGP ratio without implementing severe austerity measures.

On the occupational side of things, a rather uninspiring 'Go Back To Work' message from the Prime Minister in early July was evidently unheeded by office-based firms which are instead continuing to support employees in conducting operations remotely until such time as they can phase a return to their office space.

Businesses are well equipped to analyse for themselves what the optimal segmentation of core office and remote working is for their own individual goals – but with a Leesman survey from June indicating that the workforce feels around 15% more productive when working remotely, it would follow that firms are beginning to question exactly how much core space is required in future.

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Focus will also intensify on Britain's looming trade deal deadline with the European Union – and what exactly that means for specific sections of London's occupier base which, in addition to adapting to extensive shifts in working patterns brought about as a result of Covid-19, may also have to revise their space requirements in a geographical sense if satisfactory trade agreements are not reached with the bloc.

The UK's primary office market is facing a daunting three-pronged challenge. Not only will it need to navigate difficult economic realities without the type of direct government help available to other real estate sectors, it will also have to begin planning for the possibility of stringent barriers being erected to high-level service trade; and do so during a period in which the value of large-scale communal office occupation will be increasingly called into question.

CITY CORE

JLL climbed back to the top of the City Core submarket league table, advising on more than 266,000 sq ft across 10 transactions to secure a 63% market share, and regain the title it last won in the final quarter of 2019.

JLL acted alongside second-placed CBRE on the largest deal in the City in Q2; namely the 86,000 sq ft letting to Covington & Burling at 22 Bishopsgate, EC2.

Knight Frank rose from sixth place in last quarter's reckoning to complete the podium finishers this time out. Underpinning this rise was acting jointly with victors JLL on both the 40,800 sq ft letting to Arcadis at EightyFen, EC3, and the 29,000 sq ft deal for CDW at One New Change, EC4.

CITY FRINGE

In what was a particularly quiet City Fringe market during Q2, Colliers International advised on just over 34,000 sq ft across 11 individual transactions to take its third successive quarterly title.

Critical to Colliers' victory was acting on the 6,000 sq ft letting to Alexander McQueen at 159-173 St John Street, as well as disposing of 5,900 sq ft to Feed Communications at 8-14 Vine Hill, both EC1.

The largest deal in the City Fringe this quarter was a 12,200 sq ft transaction at Devon House, E1, which was the foundation for sole disposing agent Cushman & Wakefield's ascension to second place this quarter from fifth place in Q1.

DOCKLANDS

Cushman & Wakefield secured the Docklands submarket title this quarter by advising the landlord on two major lettings in Canary Wharf.

It acted alongside second-placed Knight Frank on the 206,000 sq ft letting to BP at 25 North Colonnade, E14; as well as acting with third-placed CBRE on the 45,100 sq ft deal for Barts Health at 20 Churchill Place, also E14.

CITY CORE LEAGUE TABLE Q2 2020

Agency	Sq ft disposed	No. of deals	Market share %
JLL	266,840	10	62.8%
CBRE	192,539	7	45.3%
Knight Frank	98,167	5	23.1%
BH2	51,540	5	12.1%
Cushman & Wakefield	25,615	2	6.0%

Disposals only

CITY FRINGE LEAGUE TABLE Q2 2020

Agency	Sq ft disposed	No. of deals	Market share %
Colliers International	34,184	11	52.9%
Cushman & Wakefield	20,121	4	31.1%
Anton Page	15,983	6	24.7%
JLL	1,346	1	2.1%

Disposals only

DOCKLANDS LEAGUE TABLE Q2 2020

Agency	Sq ft disposed	No. of deals	Market share %
Cushman & Wakefield	250,727	2	93.3%
Knight Frank	205,592	1	76.5%
CBRE	63,059	2	23.5%
JLL	17,924	1	6.7%

Disposals only

MIDTOWN

Midtown specialist Farebrother claimed victory in the submarket this quarter, advising on just over 39,000 sq ft across seven individual deals to secure a 43% market share.

Critical to this success was acting on a 15,000 sq ft deal to The Workshop at Barnard's Inn, EC4; as well as advising the landlord on a 7,900 sq ft disposal to The UN Refugee Agency at Chancery Exchange, also EC4.

Knight Frank acted on the largest deal in Midtown this quarter – an 18,700 letting at 120 Holborn, EC1, which propelled its rise from fourth in last quarter's table to a second-place finish on this occasion.

SOUTHERN FRINGE

Knight Frank and JLL jointly advised on a pair of transactions totalling just over 41,600 sq ft at Riverside House, SE1, in order to finally topple Union Street Partners from top spot in the Southern Fringe after four consecutive quarterly victories for the South Bank specialist.

USP, meanwhile, acted on almost 16,700 sq ft across four deals to claim third place in the standings – the largest of which was a 5,900 sq ft letting to Annapurna Recruitment at 58-72 Upper Ground, SE1.

WEST END

A dominant showing for Knight Frank in the West End this quarter having advised on just under 109,000 sq ft to secure a 47.6% market share, and leapt from 11th place in last quarter's submarket table to take top spot this time around.

It advised on the two largest transactions to complete in the West End in Q2 – a 65,000 sq ft letting at Dormeuil House; and a 38,600 sq ft deal at Oxford House, both W1.

Last quarter's victor, Edward Charles & Partners, has to settle for second place on this occasion – the 10,800 sq ft letting to boohoo.com at Euston Tower, NW1, on which it jointly advised with Cushman & Wakefield, was its largest individual disposal of the quarter.

MIDTOWN LEAGUE TABLE Q2 2020

Agency	Sq ft disposed	No. of deals	Market share %
Farebrother	39,007	7	43.0%
Knight Frank	27,591	2	30.4%
CBRE	15,228	3	16.8%
Colliers International	10,833	3	11.9%
BNP Paribas Real Estate	9,405	1	10.4%

Disposals only

SOUTHERN FRINGE LEAGUE TABLE Q2 2020

Agency	Sq ft disposed	No. of deals	Market share %
Knight Frank	41,678	2	63.5%
JLL	41,678	2	63.5%
Union Street Partners	16,670	4	25.4%
Hanover Green	7,325	1	11.2%

Disposals only

WEST END LEAGUE TABLE Q2 2020

Agency	Sq ft disposed	No. of deals	Market share %
Knight Frank	108,920	5	47.6%
Edward Charles & Partners	24,173	4	10.6%
Cushman & Wakefield	15,432	2	6.7%
Colliers International	14,069	4	6.1%
Tuckerman	11,284	4	4.9%

Disposals only

OVERALL LONDON LEASING DISPOSALS

Knight Frank's showing in the West End was supplemented by a top-three placement in four out of the other five submarkets enabling its rise from eighth place in last quarter's table to first place for London office disposals in Q2.

It acted on six out of the largest ten lettings during the three-month period, ending with a total of just over 490,000 sq ft to achieve a 42% market share, and its first leasing victory since the second quarter of 2018.

JLL's City Core submarket victory anchored its climb from 5th place last time out to 2nd position in the current standings – claiming a 29% market share through acting on just under 336,000 sq ft of lettings during the three-month period.

Cushman & Wakefield complete the podium finishers largely thanks to the large deals on which it advised in the Docklands this quarter, while Midtown victor Farebrother propels itself into the top ten this quarter, achieving a 7th-place finish overall.

LONDON OFFICE INVESTMENT LEAGUE TABLE Q1 2020

Cushman & Wakefield retained top spot for investment advisory this quarter, claiming a 25% market share through acting on £222.5m during the three-month period.

BH2 climbed to second place this quarter having advised on £180m to secure a 20.4% market share, while Savills retained its third position from Q1 having claimed a 16% market share.

All three podium finishers acted on the largest deal of the quarter - Union Investment's acquisition of Procession House, EC4, from Goldman Sachs and Greycoat for £140m.

LONDON LEASING LEAGUE TABLE Q2 2020

Agency	Sq ft disposed	No. of deals	Market share %
Knight Frank	490,202	16	42.1%
JLL	335,778	15	28.9%
Cushman & Wakefield	311,895	10	26.8%
CBRE	275,515	13	23.7%
Colliers International	70,881	20	6.1%
BH2	51,540	5	4.4%
Farebrother	39,007	7	3.4%
Edward Charles & Partners	37,927	6	3.3%
Savills	36,708	6	3.2%
BNP Paribas Real Estate	25,807	3	2.2%

Disposals only

LONDON OFFICE INVESTMENT LEAGUE TABLE Q2 2020

Agency	Total transacted	Market share %
Cushman & Wakefield	£222,500,000.00	25.2%
BH2	£180,000,000.00	20.4%
Savills	£140,000,000.00	15.9%
JLL	£88,500,000.00	10.0%
Michael Elliott	£80,480,000.00	9.1%
Fineman Ross	£48,500,000.00	5.5%
Colliers International	£46,000,000.00	5.2%
James Andrew International	£40,000,000.00	4.5%
Knight Frank	£36,500,000.00	4.1%

Find out more about our specialist insight
and discover the data behind the report.

Call the team on **0207 911 1476**

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