

RESEARCH

# Central London office analysis

Q3 2019

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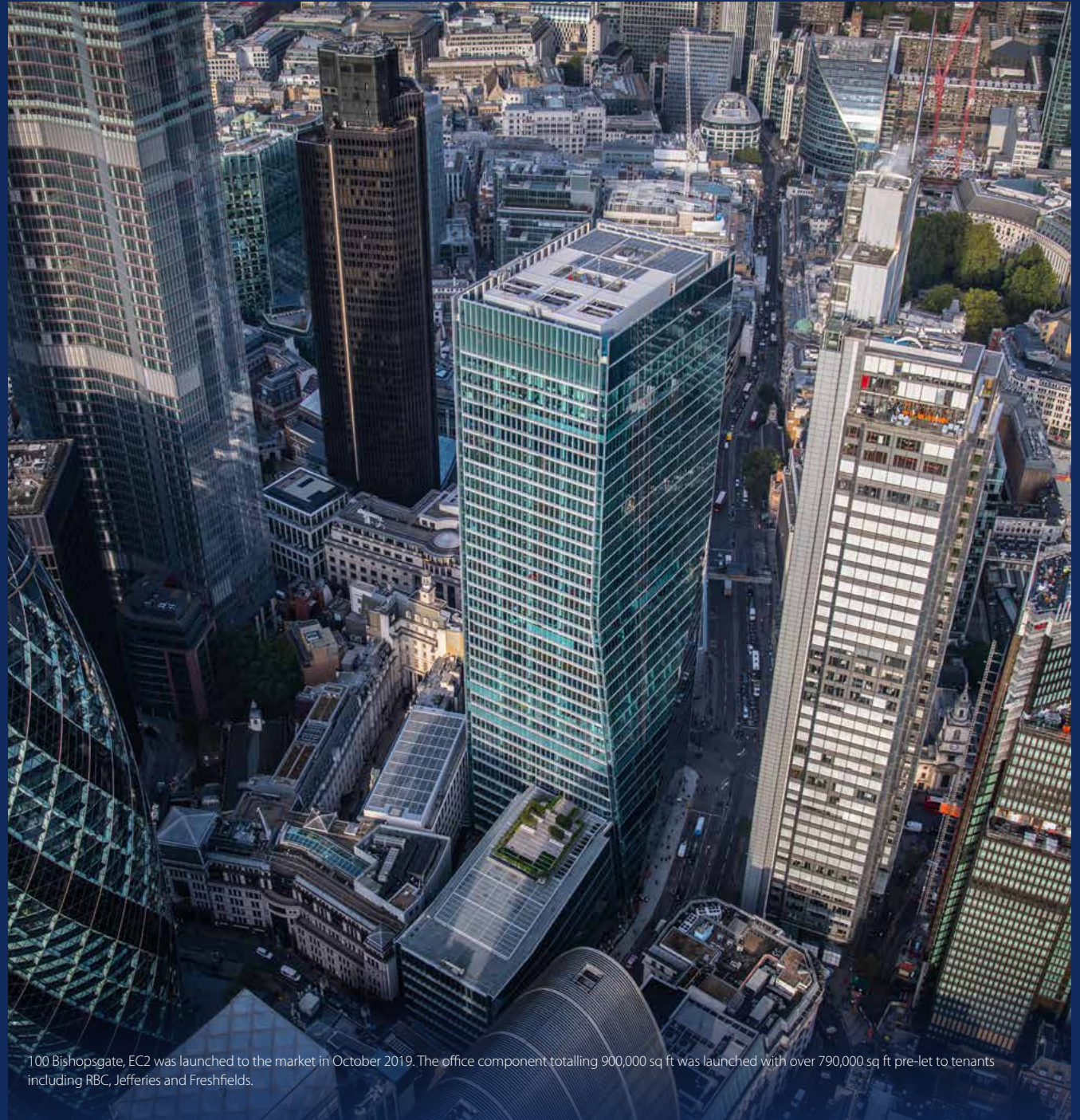
## OCCUPATIONAL MARKET

Central London take-up totalled 3.3 million sq ft in Q3 2019 which was 11% up on Q2 2019 and 29% up on the 10-year average.

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## INVESTMENT MARKET

Investment volumes reached £2.6 billion for Q3 2019 which was 41% below the 10-year average but 55% above Q2 2019's £1.7 billion.



100 Bishopsgate, EC2 was launched to the market in October 2019. The office component totalling 900,000 sq ft was launched with over 790,000 sq ft pre-let to tenants including RBC, Jefferies and Freshfields.

**NICK ROCK**

Principal



**Take-up continues to surpass the average (10-year and 5-year) with continued strong transactional activity in the 50,000 sq ft + size bands showing high profile occupiers continue to commit to London**

## Occupier market – in brief

### OCCUPATIONAL DEMAND REMAINS STRONG

In the (potential) final run up to Brexit, the fundamentals of the Central London occupier market remain strong. Take-up continues to be well in excess of both the ten and five year average, with continued strong transactional activity for lots in excess of 50,000 sq ft, highlighting the fact that large businesses continue to commit to London. In Q3 these businesses included BT Group (328,000 sq ft at 1 Braham Street, E1), Diageo (130,000 sq ft at Turner House, W1) and Bridgepoint (83,000 sq ft at Marble Arch Place, W1), all three of which were acquired for the businesses' global headquarters.

The Central London market continues to be characterised by constrained supply for the best quality space, particularly under-construction supply that continues to see strong levels of demand. As a result, tenants continue to have to consider their future space requirements far earlier than would seem necessary or risk launching their search in a market starved of quality options. It is likely that the coming months will see a further increase in the number of pre-construction pre-lets, particularly where investors are nervous to commence with schemes without pre-committed income.

Ordinarily, current market conditions would result in noticeable upward pressure on headline rents; however underlying uncertainty in the wider economy has put a dampener on rental growth for the time being. Nevertheless, rent free periods have begun to fall for the best quality space and rent free periods are on average 10-20% lower where a 10-year lease has a 5 year break clause.

### FLEXIBLE OFFICES

Conversely, secondary and smaller floor plates continue to underperform relative to prime stock, partly due to economic and Brexit uncertainty, but also because this space comes into direct competition with serviced offices. Serviced office take-up accounted for a record 31% of all activity for Q3 2019, significantly above the 15% recorded for Q2 2019 and equating to just over 1 million sq ft. WeWork were the largest acquirer of space in Q3 with 11 deals, although this will clearly drop off for year-end following their announcement of a hold on leasing activity.

The last year has seen a significant drop off in demand for units below 5,000 sq ft as a result of growing serviced office demand. This presents a significant risk to landlords with overexposure to smaller unit sizes. Our latest report 'Avoid a void' looks at the serviced office market in more detail and examines the various solutions landlords are implementing to reduce the risks in their portfolios. These include Cat A+ fit-outs and own-brand flexible office provisions. In the wake of WeWork's failed IPO and ongoing cash-flow issues, however, investors with an exposure to serviced offices are looking to adopt contingency plans.

### YEAR-END OUTLOOK

Take-up for the year-to-date has totalled 9.0 million sq ft which is in line with Q1-Q3 take-up volumes for the same period in 2018. With significant amounts of space currently under offer in Central London, we expect year-end volumes to surpass 12 million sq ft, significantly above the long-term average of just below 10 million sq ft.

Despite a slowdown in investment volumes for 2019 to date, strong occupational market fundamentals may boost investment volumes for year-end. Investor interest picked up in Q3 for opportunistic stock and Q4 looks set to see further interest opportunistic stock, helping ensure London retains its position as an office location for leading global businesses.

# Central London

## TAKE-UP

Central London take-up totalled 3.3 million sq ft in Q3 2019 which was 11% higher than Q2 2019 and 29% up on the 10-year average of 2.6 million sq ft. During the quarter there were three transactions over 100,000 sq ft which together accounted for 22% of the quarter's activity by total sq ft. The average deal size rose to 22,200 sq ft in Q3 2019 due to a rise in the number of deals above 50,000 sq ft to 13, compared with 9 deals in the previous quarter.

Pre-lets accounted for 34% of take-up for the quarter, in line with Q2 2019 but a significant increase on Q1 2019. There were a total of 14 pre-lets of which over half were above 50,000 sq ft. The largest pre-let was to BT Group who acquired 328,000 sq ft at 1 Braham Street, E1 which was the second largest deal of the year to-date. In the West End, Diageo acquired 129,000 sq ft at Turner House, Great Marlborough Street, W1. The building will undergo a full refurbishment and is due to complete in spring 2021.

The serviced offices sector accounted for the highest proportion of take-up across Central London at 31%. This represented a large increase in serviced office take-up on previous quarters, increasing 129% on Q2 2019 to just over 1 million sq ft for Q3 alone. WeWork was the largest acquirer of space with 11 acquisitions in total, primarily their acquisition of EMA's 285,000 sq ft at 25 Churchill Place, E14. The TMT & Creative and Financial Services sectors were the next top performing sectors by total sq ft, accounting for 20% and 19% respectively.

## AVAILABILITY AND DEVELOPMENT

Availability fell to 11.8 million sq ft for Q3 2019 which was down marginally on the start of the year but is up on the 10-year average by 3%. The development pipeline continues to be very subdued following strong pre-letting activity for Q3 2019.

The under construction pipeline, which currently totals 16.4 million sq ft is 52% pre-let. With three months to go until year end, remaining space due for completion in 2019 totals 3.5 million sq ft, of which 81% is pre-let. Q3 2019 saw 15 buildings complete comprising 600,000 sq ft of available space, including Bechtel House, W6 (242,000 sq ft) and Export Building @ Republic, E14 (186,000 sq ft).

Post 2019 there is currently 13.0 million sq ft under construction, of which 44% is pre-let. Developments over 100,000 sq ft are 47% pre-let overall, with particularly limited supply over this size in the West End where there are only two developments with availability above this size.

## RENTAL GROWTH

Central London rents grew by 1.6% over the year to Q3 2019. In the City, a number of submarkets saw marginal rental growth due to constrained supply coupled with strong demand.

Rent free periods are largely stable at 24 months for space on a 10-year straight lease, although these increasingly vary where the lease contains an element of flexibility, and also for the most highly sought after space.

## KEY DEALS - Q2 2019

Address	Occupier	Sq Ft
1 Braham Street, E1	BT Group Plc	328,094
25 Churchill Place, E14	WeWork	284,704
Turner House, Great Marlborough Street, W1	Diageo	129,243
22 Bishopsgate, EC2	Convence	99,297
The Post Building, New Oxford Street, WC1	Nationwide Building Society	88,510

## TOP TENANT SECTORS



## KEY STATS THIS QUARTER

### TOTAL TAKE-UP FOR Q3

**3.3 million sq ft**

**▲ 29%**

UP ON THE 10-YEAR QUARTERLY AVERAGE

**5.35%**

VACANCY RATE

### UNDER CONSTRUCTION

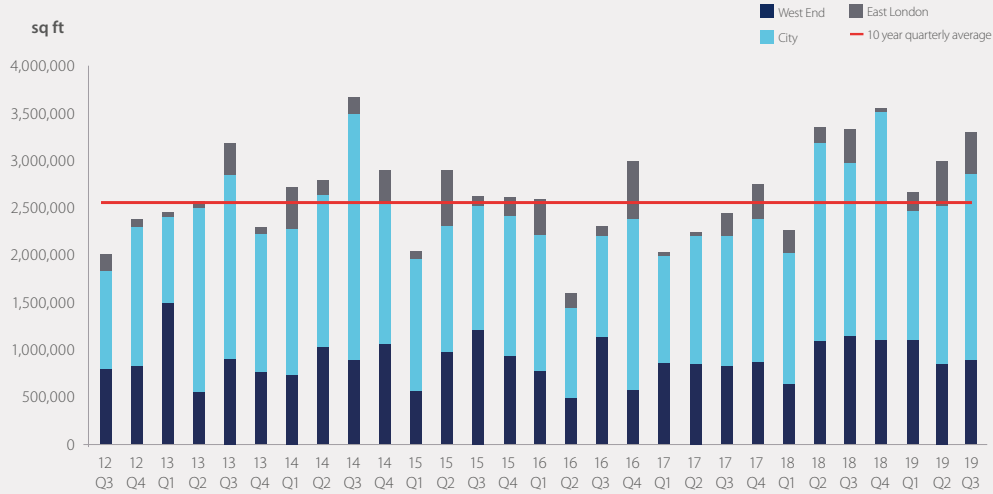


**16.4 million sq ft**

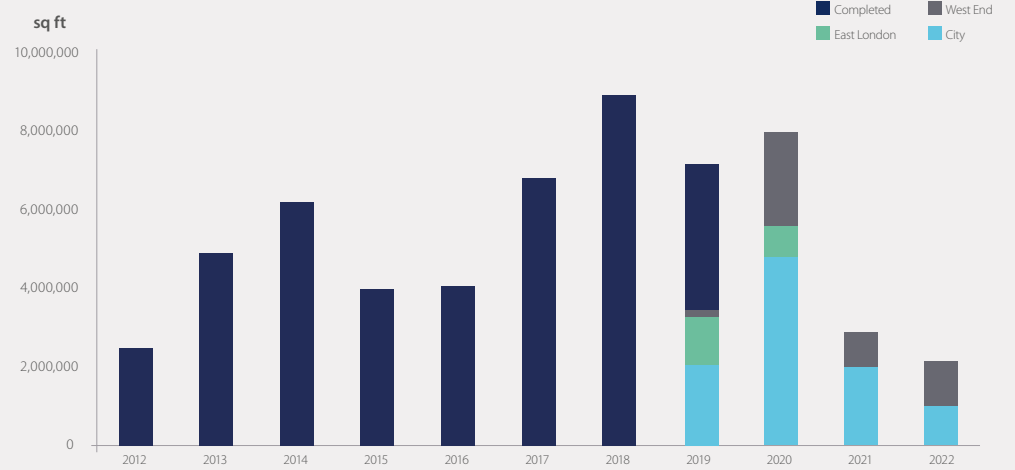
**52%**  
pre-let



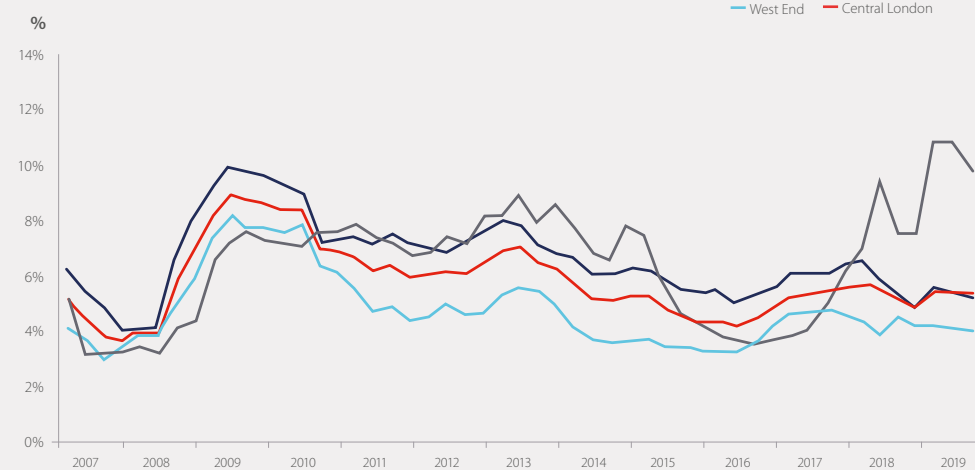
CENTRAL LONDON TAKE-UP



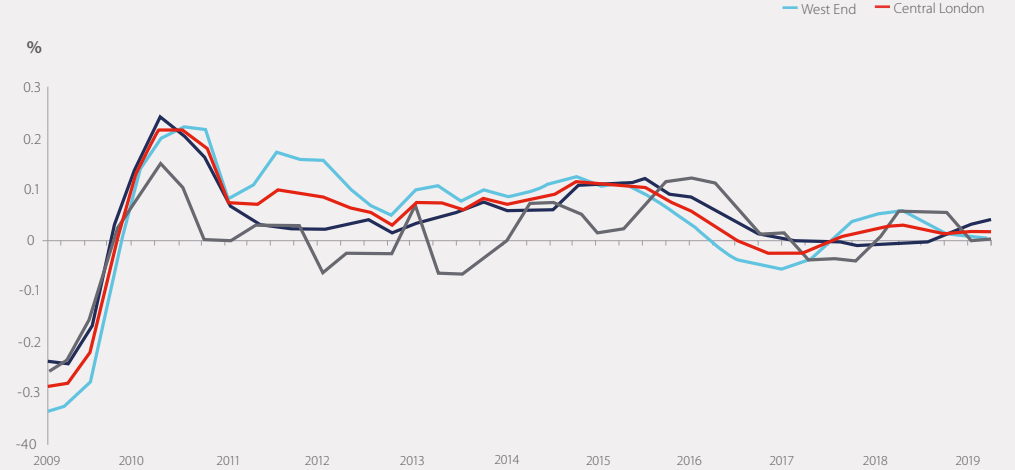
UNDER CONSTRUCTION



OFFICE AVAILABILITY RATES



PRIME RENTAL GROWTH



## West End

### TAKE-UP

West End take-up reached 900,000 sq ft for Q3 2019, a 5% increase on Q2 2019 and 7% above the 10-year average of 850,000 sq ft. Diageo's acquisition of 129,000 sq ft at 14-18 Great Marlborough Street was the only deal over 100,000 sq ft for the quarter with a further 53 deals recorded. Pre-lets accounted for 23% of take-up for Q3. Lettings for new existing stock accounted for a further 22% and comprised key deals including Nationwide's acquisition of all remaining space at The Post Building, WC1 and Triton Investment Advisors' acquisition of The Marq, SW1 totalling 18,000 sq ft.

Financial services accounted for 31% of take-up making it the largest acquirer of space for Q3, significantly above Q2's 7%. This was primarily as a result of Bridgepoint's acquisition of 78,000 sq ft at Marble Arch Place, W1, the third largest West End deal of the quarter. The Serviced Offices sector at 23% accounted for the second highest proportion of take-up and a significant increase on 9% for Q2 2019. The consumer and private services sector came in a close third at 18% of take-up.

Diageo's acquisition meant Soho accounted for the largest proportion of West End take-up with 21%, despite only seeing 6 deals transact. Mayfair accounted for 11% of quarterly take-up while St James's had a weak quarter with only 5.5% of take-up. The largest deal in Mayfair & St James's was Halkin's acquisition of 23,000 sq ft at Hanover House, W1.

### AVAILABILITY AND DEVELOPMENT

Availability in the West End fell marginally to 3.7 million sq ft in Q3 2019, a 2% decrease on Q2 and 5% down on the ten-year average. This was the third consecutive decline in West End availability. The overall vacancy rate consequently fell to 3.96%, falling below the five-year average.

The low availability of West End office space has pushed tenants toward pre-letting properties under construction further in advance of their completion dates. Of the new office space completed in Q3 2019, 50% was pre-let, meaning 2.9 million sq ft was available to lease. The majority of development in the West End's pipeline has been pre-let, accounting for 71% of the 4.6 million sq ft of space under construction. Of the 43 buildings under construction, 11 (26%) have been entirely let prior to their completion. In Q3 2019 three pre-lets transacted including Bridgepoint at Marble Arch Place, W1, and Diageo at Turner House, W1 and Fora at 22 Berners Street, W1.

### RENTAL GROWTH

West End rents stayed relatively stable, falling marginally by 0.3% over the year to Q3 2019. Rents were stable across most West End submarkets with the exception of Soho where rents fell marginally to £95.00 per sq ft, and Hammersmith where rents fell to £52.50 per sq ft, reflecting low demand compared with the level of supply.

### KEY DEALS - Q3 2019

Address	Occupier	Sq Ft
Turner House, 18 Great Marlborough Street, W1	Diageo	129,243
The Post Building, WC1	Nationwide	88,510
Marble Arch Place, W1	Bridgepoint	78,397
The Media Village, W1	The Office Group	46,231
Liberty House, W1	The Office Group	35,738

### TOP TENANT SECTORS



Financial services  
31%



Serviced offices  
23%

### KEY STATS THIS QUARTER

#### TOTAL TAKE-UP FOR Q3

**900,000 sq ft**

▲ 7%

UP ON THE 10-YEAR QUARTERLY AVERAGE

**3.96%**

VACANCY RATE

#### UNDER CONSTRUCTION



**4.6 million sq ft**

71%  
pre-let

**£115.00 per sq ft**

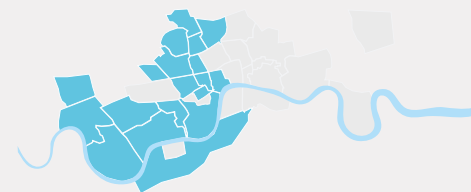
PRIME RENT



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# City

## TAKE-UP

Take-up in the City totalled 2.0 million sq ft in across 88 deals during the quarter. This was the highest quarterly total for 2019 and was 35% above the ten-year average of 1.5 million sq ft despite a fall in the number of transactions. This was driven by an increase in larger lettings as eight deals in excess of 50,000 sq ft completed during the quarter.

The TMT and Creative sector achieved the highest take-up in Q3 accounting for 30% of activity, in part due to BT Group's acquisition of 328,000 sq ft at 1 Braham Street, E1. Serviced offices accounted for 26% of the take-up for the quarter and four of the top five largest deals overall including to Covene who acquired 99,000 sq ft at 22 Bishopsgate, EC2 and Knotel who acquired 82,000 sq ft at 55 Basinghall Street, EC2.

Serviced office take-up rose to 522,000 sq ft for Q3 2019, up 46% on the same time last year and 43% on the previous quarter, WeWork accounted for 31% of all serviced office take-up for Q3 2019 alone.

Pre-lets accounted for a record breaking 41% of City take-up for Q3 across 10 deals, up from 23% in Q2 2019 across seven deals. Just one deal accounted for 40% of pre-let take-up, the BT deal at 1 Braham Street, E1. Similar to Q2 2019, the majority of City pre-letting activity was within City Core where seven pre-lets were agreed. In addition, leasing of existing Grade A stock accounted for a further 23% of activity.

## AVAILABILITY AND DEVELOPMENT

Availability in the City decreased to 6.0 million in Q3 2019, a 2% fall on Q2 2019. Limited supply of Grade-A offices compared to demand continues to erode the space available across the City. This trend is reflected in the declining vacancy rate, which now stands at 5.44%, below the five-year quarterly average of 5.7%.

Eight developments completed during the quarter totalling 468,000 sq ft. 74% of this space was pre-let on completion, including the only two developments completed over 100,000 sq ft during the quarter. These were Premier Place, 2.5 Devonshire Square, EC2 and 51 Eastcheap, EC3.

A further 1.9 million sq ft is due to complete by year-end 2019, 76% of which is currently pre-let. This leaves 469,000 available. In total, 54 developments are currently under construction in the City totalling 9.9 million sq ft. Of these developments, 40% are already pre-let leaving 5.9 million sq ft available.

## RENTAL GROWTH

City rents grew by 3.9% over the year to Q3 2019 which was largely due to marginal growth across a number of supply constrained submarkets. Rents grew in City Core, Holborn, Clerkenwell, London Bridge, Northern City, Shoreditch and West City. Clerkenwell prime rents reached £72.50 per sq ft for Q3. Increasingly, rents in the £80s are achieved in submarkets where institutional grade buildings are a new feature. Rent free periods are stable at 24 months.

## KEY DEALS - Q3 2019

Address	Occupier	Sq Ft
1 Braham Street, E1	BT Group Plc	328,094
22 Bishopsgate, EC2	Covene	99,297
55 Basinghall Street, EC2	Knotel	82,198
22 Bishopsgate, EC2	Cooley	74,625
68 King William Street, EC4	IWG	62,000

## TOP TENANT SECTORS



TMT & creative  
30%



Serviced offices  
26%

## KEY STATS THIS QUARTER

### TOTAL TAKE-UP FOR Q3

**2.0 million sq ft**

**▲ 35%**

UP ON THE 10-YEAR QUARTERLY AVERAGE

**5.44%**

VACANCY RATE

### UNDER CONSTRUCTION



**9.9 million sq ft**

**40%**  
pre-let

**£70.00 per sq ft**

PRIME RENT



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# East London

## TAKE-UP

Take-up in East London was 420,000 sq ft in Q3 2019. This is down on the Q2 figure but remains 68% above the ten-year average. Similarly to Q2, the majority of the quarterly take-up was generated through one deal, the WeWork acquisition of 285,000 sq ft at 25 Churchill Place, E14, which represented 68% of Q3 take-up across East London.

Canary Wharf continued to dominate take-up in the market, accounting for 81% of activity. The two deals which took place in Stratford were both pre-lets to the government and services sector with an average unit size of 40,000 sq ft. These deals: HMRC's acquisition of 59,000 sq ft at M7, Westfield Avenue, E20 and The Insolvency Service's acquisition of 21,000 sq ft at One Westfield Avenue, E20, were the second and third largest deals of the quarter in East London respectively.

WeWork's 25 Churchill Place, E14 deal positioned the serviced offices sector as the most prominent of the quarter in terms of take-up, despite being the sector's only transaction. Government and services provided the greatest number of deals at three, as well as the second largest amount of space acquired at 88,000 sq ft, equating to 21% of total East London take-up for Q3.

## AVAILABILITY AND DEVELOPMENT

Availability for Q3 2019 fell 5% on the previous quarter with availability of 2.1 million sq ft recorded; however it continues to be up on the 10-year average by 56%. Although letting activity was strong for Q3, there was an increase in tenant-offered space on the market, primarily Credit Suisse's availability at 1 Cabot Square, E14 (194,000 sq ft) and 17 Columbus Courtyard, E14 (187,000 sq ft).

There is currently 1.9 million sq ft under construction in East London of which 68% is pre-let, unchanged from the preceding quarter. The largest development currently under construction is Blackstone's Cargo at 25 North Colonnade, E14 where 341,000 sq ft is available due to complete Q4 2020. There is a further large proportion of available space in the planning pipeline, including nearly 800,000 sq ft at 10 Bank Street, E14 which is available for pre-let.

## RENTAL GROWTH

Prime rents saw no growth over the year to Q3 2019 and were stable relative to Q2 2019. Rents stand at £42.50 per sq ft in Canary Wharf and £45.00 per sq ft in Stratford. Rent free periods are also stable at 30 months.

## KEY DEALS - Q3 2019

Address	Occupier	Sq Ft
25 Churchill Place, E14	WeWork	284,704
M7, 14 Westfield Avenue, E20	HMRC	58,747
One Westfield Avenue, E20	The Insolvency Service	21,282
1 Canada Square, E14	St James' Place Wealth Management	14,445
7 Westferry Circus, E14	Smartest -energy Ltd	11,195

## TOP TENANT SECTORS



Serviced offices  
68%



Government & services  
21%

## KEY STATS THIS QUARTER

### TOTAL TAKE-UP FOR Q3

**420,000 sq ft**

**▲ 68%**

UP ON THE 10-YEAR QUARTERLY AVERAGE

**10.82%**

VACANCY RATE

### UNDER CONSTRUCTION



**1.9 million sq ft**

**68%**  
pre-let

**£42.50 per sq ft**

PRIME RENT



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# Midtown

## TAKE-UP

Take-up in Midtown in Q3 2019 was 280,000 sq ft, a 34% decrease from Q2 and 17% down from the 5 year average. Fewer deals and a lack of large-scale transactions have contributed to this fall. There were 19 deals across the quarter, none of which were over 50,000 sq ft.

The serviced office sector accounted for the largest amount of take-up in Q3, equating to 27% of the total sq ft acquired. Two of these serviced office deals, Hana's 38,000 sq ft lease of St Martin's Court and WeWork's 25,000 sq ft at 165 Fleet Street, were the second and third largest deals of the quarter respectively. The largest deal was at Ludgate London, EC4 where Intermediate Capital Group acquired 47,000 sq ft. This was the only Financial Services transaction for the quarter and accounted for 17% of all Midtown take-up for Q3 2019.

The strongest take-up activity was seen in the Chancery Lane and West City submarkets, with 31% and 30% of the total respectively. This was not due to a particularly good performance in either of these areas, but rather a poor performance in the Clerkenwell submarket where take-up was its lowest since Q1 2018.

## AVAILABILITY AND DEVELOPMENT

Midtown availability rose to 1.0 million sq ft for Q3 2019, up 8% on Q2 2019 and reflecting a vacancy rate of 2.9%. An additional 156,000 sq ft of under construction supply was added to supply during Q3 2019 which is projected to complete in Q1 2020. This includes 68,000 sq ft at Fetter Yard, EC4 and 38,000 sq ft at The Stills, EC1.

The under construction development pipeline currently comprises 1.1 million sq ft, of which 35% is currently pre-let, an increase on last quarter following Intermediate Capital Group's acquisition of 95,000 sq ft at Ludgate London, EC4. Unlike other markets, there are a number of options currently available for tenants to pre-let including Smith & Charter (166,000 sq ft), Bloom Clerkenwell (135,000 sq ft) and Kaleidoscope (97,000 sq ft). Following strong letting activity during H1 2019, it is likely that delays to the Elizabeth Line have put a temporary halt on demand in such locations.

## RENTAL GROWTH

Midtown prime rents currently stand at £68.50 per sq ft, increasing from £66.50 per sq ft in Q2 2019 and up from £65.00 per sq ft around the same time last year. Bloomsbury rents are currently stable at £80.00 per sq ft. Rent free periods in both submarkets are stable at 24 months.

## KEY DEALS - Q3 2019

Address	Occupier	Sq Ft
Ludgate London, 55 Ludgate Hill, EC4	Intermediate Capital Group	47,323
St Martins Court, EC4	Hana	38,049
165 Fleet Street, EC4	WeWork	25,433
1 Bartholomew Close, EC2	Sopear Steria	19,605
The Johnson Building, 77 Hatton Garden, EC1	Oktra	18,481

## TOP TENANT SECTORS



Serviced offices  
27%



Financial services  
17%

## KEY STATS THIS QUARTER

### TOTAL TAKE-UP FOR Q3

**280,000 sq ft**

▼ **17%**

DOWN ON THE 5-YEAR QUARTERLY AVERAGE

**2.9%**

VACANCY RATE

### UNDER CONSTRUCTION



**1.1 million sq ft**

**35%**  
pre-let

**£68.50 per sq ft**

PRIME RENT



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Occupier market

Central London map

Central London markets

Investment

Investment commentary

Investment data

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Charts

West End

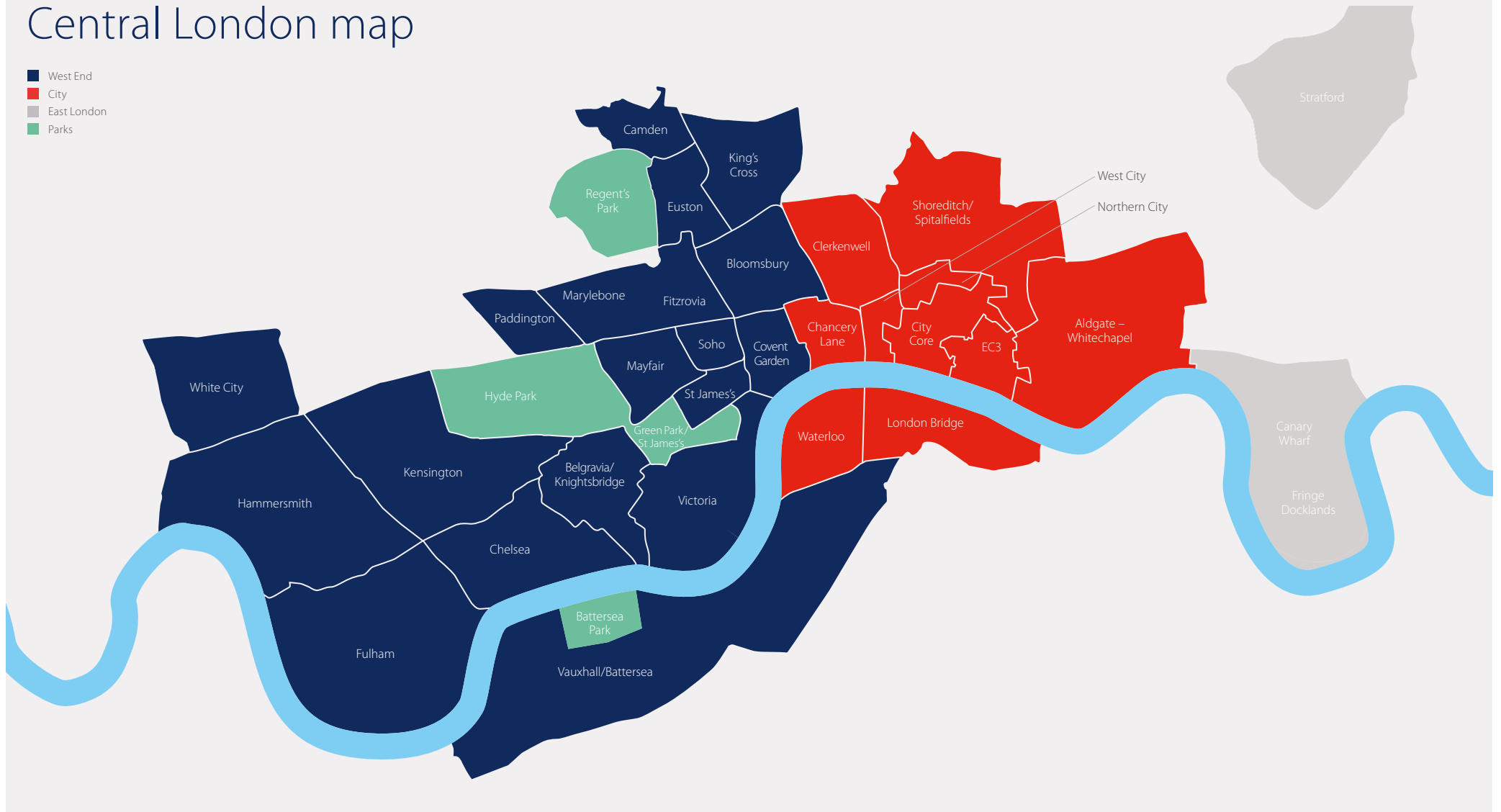
City

East London

Midtown

# Central London map

- West End
- City
- East London
- Parks



# 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)	■ City	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	City Tower	£90.00	24	£26.77	£127.02
St James's	£115.00	24	£49.00	£174.25	Holborn	£68.50	24	£29.24	£107.99
Soho	£95.00	24	£43.73	£148.98	City Core	£70.00	24	£27.13	£107.38
Belgravia / Knightsbridge	£92.50	24	£41.62	£144.37	West City	£70.00	24	£27.13	£107.38
Chelsea	£95.00	22	£38.99	£144.24	Clerkenwell	£72.50	24	£24.50	£107.25
North of Oxford St	£85.00	24	£41.62	£136.87	EC3	£67.50	24	£27.92	£105.67
Kensington	£72.50	22	£46.36	£129.11	London Bridge	£65.00	24	£27.40	£102.65
Fitzrovia	£82.50	24	£35.56	£128.31	Waterloo	£67.50	24	£23.97	£101.72
Covent Garden	£85.00	24	£31.61	£126.86	Northern City	£70.00	24	£20.81	£101.06
King's Cross	£80.00	24	£33.19	£123.44	Shoreditch/Spitalfields	£67.50	24	£18.97	£96.72
Victoria	£77.50	24	£35.50	£123.25	Aldgate/Whitechapel	£57.50	24	£21.07	£88.82
Bloomsbury	£80.00	24	£31.87	£122.12					
Euston	£75.00	24	£29.24	£114.49	■ East London	Prime headline rent (£ per sq ft)	Rent free period (months)	Business rates (£ per sq ft)	Total occupancy costs (£ per sq ft)
Paddington	£75.00	24	£28.19	£113.44	Canary Wharf	£42.50	30	£13.43	£66.18
Camden	£60.00	24	£28.19	£98.44	Stratford	£45.00	30	£8.96	£64.21
Battersea PS	£60.00	24	£16.07	£86.32	Other Docklands	£32.50	30	£10.54	£53.29
Hammersmith	£52.50	24	£22.13	£84.88					
Vauxhall	£58.00	24	£16.07	£84.32					
Fulham	£47.50	24	£21.07	£78.82					
White City	£55.00	24	£8.96	£74.21					

**CHRIS GORE**

Principal

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**The market remains robust at both ends of the risk curve. There is a certain flight for safety present in the market which is driving increased appetite for prime stock.**

## Investment market – in brief

### Q3 VOLUMES SHOW IMPROVEMENT

Whilst activity picked up during Q3 2019 to £2.6 billion, investment volumes are still significantly behind where they were this time last year. Investor confidence remains somewhat fragile given market uncertainty, and volumes are further restricted by lower levels of available stock that are driving lower overall transaction volumes.

The lack of openly marketed investment opportunities has prompted many investors to pursue 'off market' investments. Key transactions of note over the quarter included Brockton's acquisition of Telephone House, EC2 for £106 million, clients of CBRE Global Investors' acquisition of The Buckley Building, EC1 for £103 million, clients of Goldstone's acquisition of Forum St Pauls, EC2 for £80.75 million and Crown Estate's strategic acquisition of 16 St James's Street, SW1 for £77.5 million.

### THE CORE MARKET AND VALUE ADD MARKET

The market remains robust at both ends of the risk curve. There is a certain flight for safety present in the market which is driving increased appetite for prime stock. Trophy, long income deals such as 8 Finsbury Circus, EC2 (£260 million) and 23 Savile Row, W1 (£277 million) respectively traded during Q3 2019 at yields of around 4%. On a relative value basis, London remains attractively priced with some discounts in excess of 100 basis points to prime yields in Paris, Frankfurt, Tokyo and New York.

With strong occupational fundamentals, driven by robust pre-letting activity and potential for supply shortfall, interest in opportunistic stock has also picked up. Examples include the sale of the BT Building, 81 Newgate Street, EC1 (£210 million), 280 Bishopsgate, EC2 (£183 million) and 55 Broadway, SW1 (£120 million). All three traded during the quarter after competitive bidding processes. M&Gs high profile £875 million acquisition of 40 Leadenhall, nicknamed Gotham City, CITs acquisition of Colechurch House and TOG's acquisition of Chancery Exchange, all completed at the start of Q4 showing positive signs that investors continue to believe in life after Brexit.

### KOREAN INVESTMENT

Peculiarly one of the most active buyers last year could become one of the most active sellers in the coming months, as a number of Korean institutions continue to struggle to sell down stakes in overseas investments worth around €1bn, with real estate in London making up the bulk of the unsold assets. JLL has already been engaged by Hana Alternative Asset Management to sell Sanctuary Buildings, SW1 less than a year after it was purchased for £285 million. Other assets potentially mooted for sale include Cannon Green, EC4, One Poultry, EC2 and 125 Shaftsbury Avenue, WC2.

### NERVOUS BUYERS OR NERVOUS SELLERS

We have seen some international investors waiting to see if sellers will take discounted prices for their assets given the continued Brexit uncertainty. However, sellers are countering this point by stating that the devaluation in Sterling is already providing overseas investors with a discount.

Some sellers have indeed begun to pull assets where there remains some perception they could be underselling in a market with a false sense of paralysis. Examples include Brookfield and Oxford pulling their quiet sale of London Wall Place, EC2, Columbia Threadneedle pulling the £200 million sale of 21 St James's Square, SW1, once under offer, and GPE's withdrawal of 160 Old Street, EC1.

As the year draws to an end total investment volumes could be boosted by the completion of a handful of large sales which are currently in the market or under offer. These include The Post Building (£700m), Nova (50% share at £450m) and Sanctuary Buildings (£285m).

# Investment commentary

Investment volumes totalled **£2.6 billion** in Q3 2019 which was **41% below the 10-year average** but **55% above Q2 2019's record low of £1.7 billion**. There were **46 deals** recorded for the quarter which was above Q2's 37 deals but below the 10-year average of 60. The largest transaction of the quarter was Lazari's acquisition of 23 Savile Row, W1 for **£277 million, 4.14% NIY**. This was the largest Mayfair/St James's investment transaction since the sale of Burlington Arcade, W1 to Motcomb Estates for **£297 million in May 2018**.

Investment was strongest in the City for Q3 2019 where volumes reached **£1.8 billion**, just 8% below the 10-year average and 186% above Q2 2019. There were 32 transactions recorded in the City in Q3 which was above the 20 transactions recorded in Q2 2019 and also above the 10-year average of 30 transactions. There was a return to larger deals in Q3 with seven investment transactions over **£100 million**, compared to just one in the previous quarter. The largest City transaction was Stamford Land's acquisition of 8 Finsbury Circus, EC2 for **£260 million**.

Purchaser activity was mainly from overseas investors that accounted for 89% of all investment volumes, reflecting trends from previous quarters. Domestic investment made up a further 8% of investment volumes and included Fabrix Capital's purchase of Blackfriars Crown Court, SE1 for **£64 million**. With the exception of Blackfriars Crown Court, SE1, there was a further **£83.8 million** of investment by UK purchasers.

In the West End investment market, volumes reached **£756 million** for Q3 2019; this is still considerably down on the average but was an 82% improvement on the first quarter of the year. There were 14 deals recorded, of which two were above **£100 million**; Lazari's purchase of 23 Savile Row, W1 for **£277 million** which was the largest West End deal of the year to date, and Integrity International's purchase of 55 Broadway, SW1 for **£122.5 million**.

Despite a clear dominance by overseas investment in the City, the majority of purchaser activity in the West End was from UK Prop Co's that accounted for 76% of all volumes, up from 53% in Q2. There was a lack of overseas investment in larger lot sizes; the top three West End acquisitions were all by UK purchasers suggesting the limited Grade A occupational stock is driving investor activity for potential development opportunities. Nevertheless, UK funds continue to be net sellers including Legal & General at 16 St James's Street, and Aviva's sales of 33 Kingsway, WC2 and 33 Neal Street, WC2.

There were no investment deals in the East London market for Q3 2019 unlike the start of the year when there were four deals recorded with total volumes of **£1.4 billion**. A strong H1 2019 means Q1-Q3 volumes are still up 83% on the same time last year, largely due to the **£1.1 billion** acquisition of 25 Canada Square, E14 by Citi Group.

## YIELDS

Prime yields were stable in Q3 2019 at 4.25% in the City and 3.50% in the West End.



**A strong H1 2019 means Q1-Q3 volumes are still up 83% on the same time last year, largely due to the £1.1 billion acquisition of 25 Canada Square, E14 by Citi Group.**

## KEY STATS THIS QUARTER

### TRANSACTION VOLUMES

**£2.6 billion**

▼ **41%**

DOWN ON THE 10-YEAR QUARTERLY AVERAGE

### VOLUMES BY CITY

#### CITY

**£1.8 billion**

#### WEST END

**£756 million**

#### EAST LONDON

**£0 million**

### VOLUMES BY INVESTOR TYPE



UK INSTITUTIONS

**3%**



OVERSEAS INVESTORS

**69%**



UK PROPERTY COMPANIES

**25%**

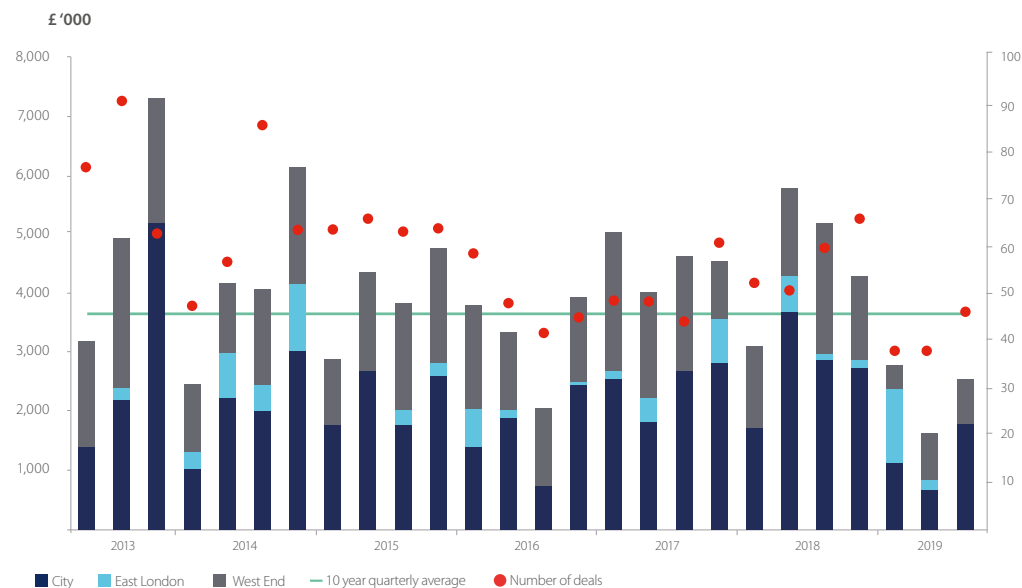
**3.50%**

WEST END PRIME YIELD

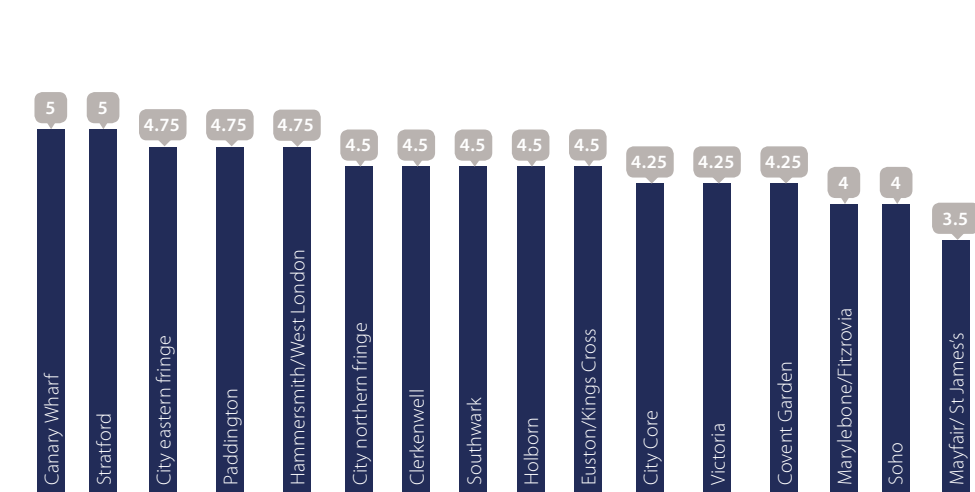
**4.25%**

CITY PRIME YIELD

### CENTRAL LONDON QUARTERLY VOLUMES VS NUMBER OF DEALS



### CENTRAL LONDON YIELDS



### LARGEST INVESTMENT DEALS OF Q3 2019

Address	Price (£m)	Yield (%)	Month	Purchaser
23 Savile Row, W1	277	4.14	Jul-19	Lazari Investments
8 Finsbury Circus, EC2	260	3.98	Jul-19	Stamford Land
8 Salisbury Square, EC4	211	4.60	Jul-19	Wing Tai
81 Newgate Street, EC1	210	4.33	Jul-19	Orion Capital Managers
280 Bishopsgate, EC2	183		Jul-19	CBRE Global Investors

### NEWLY AVAILABLE ON MARKET Q3 2019

Address	Vendor	Price (£m)	Yield (%)
The Post Building, WC1	Brockton / Oxford Properties	£700	4.50
Sanctuary Building, SW1	Hana Alternative Asset Management	£285	4.00
Orion House, WC2	WELPUT	£130	4.75
Aurum, 30 Lombard Street, EC3	McKay Securities	£76	4.20
Telephone Exchange, E1	Columbia Threadneedle	£45	3.49

Occupier market

Central London map

Central London markets

Investment

Investment commentary

Investment data

Contact

Central London

Charts

West End

City

East London

Midtown

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



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