



Office Q2 2023

9.25%

Q2 2023 Vacancy Rate

YoY
Chg12-Mo.
Forecast

2.53 m sq ft

Q2 2023 Take-Up



£1.86 billion

Q2 2023 Investment Volume

KEY ECONOMIC
INDICATORS

0.1%

UK Quarterly GDP
Growth, Q1 2023YoY
Chg12-Mo.
Forecast

3.8%

UK Unemployment
Rate, Apr 2023

5.0%

Interest rate,
Jun 2023

Source: Moody's; ONS

ECONOMY: Inflation impact remains strong

Stubborn inflationary pressures, resulting in further interest rate hikes up to 5.0% in June 2023, have caused the decade of cheap capital to come to a close. Impacts are wide ranging with the cost of living crunch, combined with rapid mortgage rate rises, hitting consumers and the cost of impacting investment. Real estate as a sector is particularly exposed to this, with the high property prices generally requiring investors to take on debt.

Occupier requirements remain active although deals tend to be taking longer to transact, and growth over 2023 so far has outperformed some expectations, with further growth forecasted across H2. Capital is available for those who produce viable strategies, however the inflationary environment – along with wider changes in real estate demand requirements – are weighing on investor and developer activity currently. The outlook remains pinned on inflation. Expectations are that price rises – and therefore interest rate increases – have peaked, however the multifaceted drivers behind the current spike makes it hard to predict.

OCCUPIER FOCUS: Grade A drives the market for another quarter

Office take-up across the Big Five (Birmingham, Bristol, Edinburgh, Leeds and Manchester) and Central London markets totalled 2.5 million sq ft in Q2 2023. This is a 7% decline versus Q1 2023 and 22% below the five-year quarterly average. A 64% majority of space transacted was Grade A quality, well above the 57% average across the past five years and continuing to evidence the post-pandemic bifurcation trend in office demand. Central London reported 1.8 million sq ft of take-up in the second quarter, with the remaining 716,962 sq ft transacting in the Big Five.

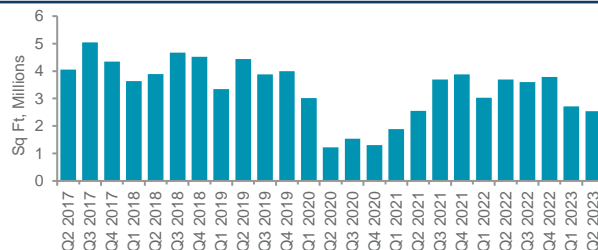
Availability ticked up by 4% to 33.9 million sq ft in Q2 versus Q1, driving the vacancy rate up to its highest level since 2009 at 9.3%. Central London supply rose to a record 27.2 million sq ft following a 10% increase in Grade A available space, primarily due to the 14.4 million sq ft of space under construction – 38% of which is due to complete in H2 2023. Big Five availability also increased by 8%, with Grade A supply rising 19% to 1.9 million sq ft as new space completed. Despite the increase, there is only 1.0 years' supply of Grade A stock in the Big Five and with only 2.5 million sq ft under construction, this imbalance is likely to continue. Even consented schemes are struggling to start work with the elevated cost of capital and construction challenging viability. This is also evident in the Central London market where 68% of the more substantial development pipeline is due to complete by 2024, with noticeably fewer deliveries from 2025.

As a result, Grade A availability is expected to decline in the medium-term as robust demand absorbs existing supply and forthcoming developments. Combined with rising development costs and the elevated price of debt, diminishing supply will fuel prime rental growth as occupiers compete for the best spaces to attract and retain top talent. Prime headline rents in Q2 rose by 4.9% in the year to Q2 2023 averaged across the Big Five and Central London. Of the 23 London submarkets, 13 reported rental growth on the quarter, led by a 7.4% rise in Kensington to £72.50 psf, while four submarkets declined and seven remained level. Edinburgh and Birmingham reported rental growth of 9.0% and 2.4% respectively, while the other Big Five markets held.

INVESTMENT FOCUS: Easing inflation indicates market activity may pick up

Office investment totalled £250 million in the Big Five and £1.6 billion in Central London in Q2 2023, with the combined £1.9 billion being 17% down on Q1 and 48% below the five-year average. Further interest rate rises weighed on activity, reaching 5.0% in June 2023 with prime yields moving +25 bps in the City Core to 5.00% but holding firm in the other markets, while secondary yields softened further. Additional rate increases seem likely in the short-term, bringing further pricing pressures in Q3 and an outward yield forecast. However, indications that inflation may have peaked mean that rates are also likely to be near their top, potentially providing stability and stoking activity in the market with Grade A rental growth and good demand offering opportunities for returns across markets.

TAKE-UP, BIG FIVE + CENTRAL LONDON



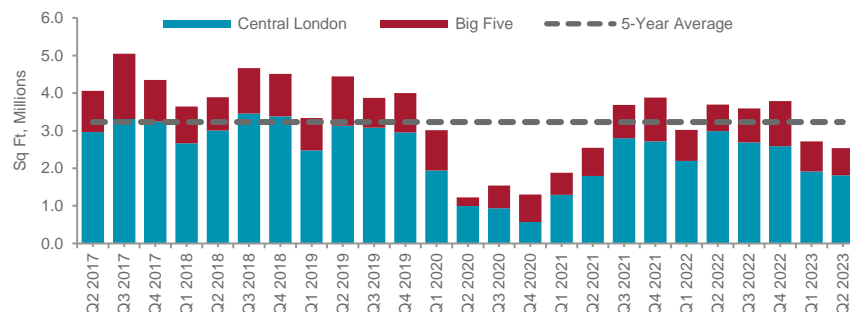
AVAILABILITY & VACANCY RATE, BIG FIVE + CENTRAL LONDON



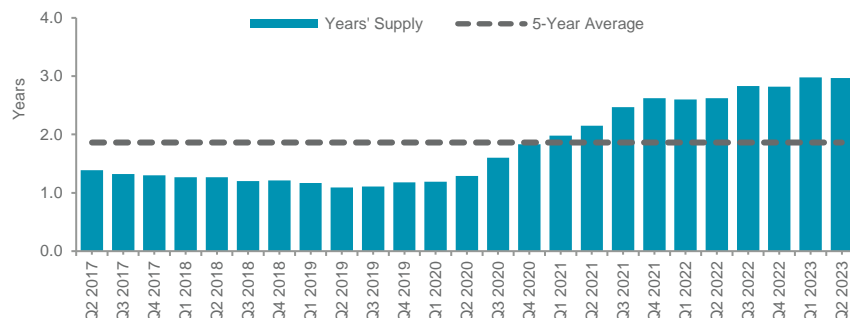


Chart book

TAKE-UP, QUARTERLY



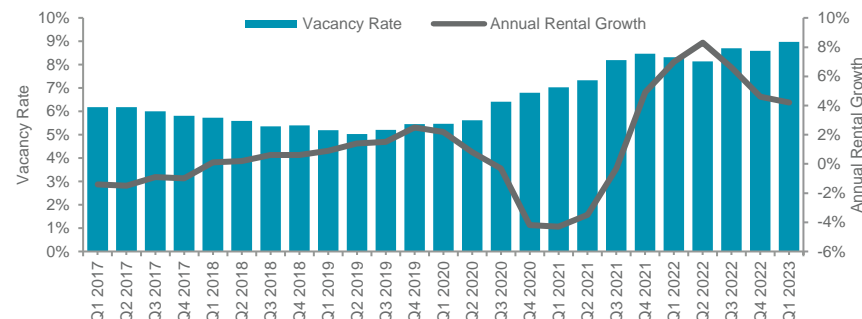
YEARS' SUPPLY



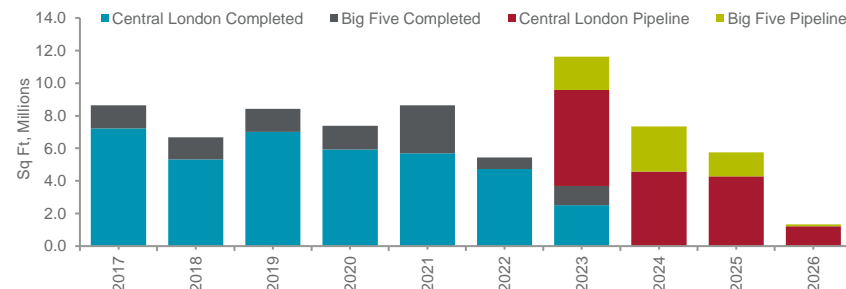
INVESTMENT VOLUMES, ROLLING 12-MONTHS



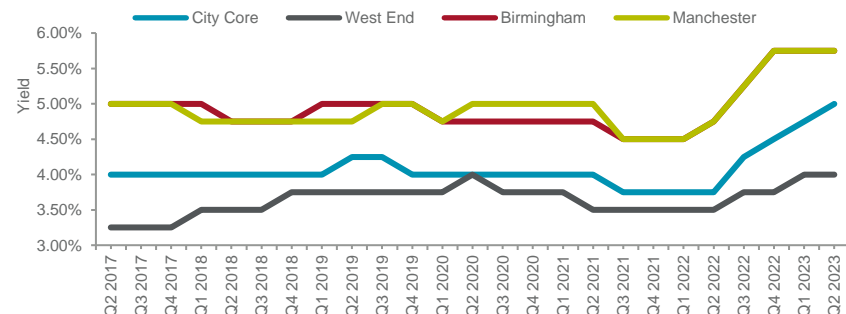
VACANCY RATE & ANNUALISED RENTAL GROWTH



DEVELOPMENT COMPLETIONS & PIPELINE



PRIME YIELDS



MARKET STATISTICS Q2 2023

SUBMARKET	INVENTORY (SF)	AVAILABILITY (SF)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP (SF)	12-MONTH ROLLING TAKE-UP (SF)	SPECULATIVE UNDER CONSTRUCTION (SF)	PRIME RENT (per sq ft)	PRIME YIELD
Birmingham	18,905,000	1,082,021	5.7%	177,665	731,055	636,312	£42.00	5.75%
Bristol	14,100,000	879,838	6.2%	66,050	391,071	373,164	£42.50	5.75%
Edinburgh	9,280,177	719,682	7.8%	148,132	585,850	56,177	£42.50	5.75%
Leeds	13,000,000	881,144	6.8%	146,042	760,453	290,000	£37.00	6.00%
Manchester	22,700,000	3,085,283	13.6%	179,073	1,147,980	620,963	£40.00	5.75%
BIG FIVE TOTALS	77,985,177	6,647,968	8.5%	716,962	3,616,409	1,976,616	-	-
West End	119,166,838	7,033,157	6.9%	549,321	3,265,002	4,592,705	£130.00	4.00%
City	145,087,243	15,175,566	10.5%	1,199,147	4,919,579	3,996,371	£77.50	5.00%
East London	23,745,874	3,824,497	16.1%	68,838	749,722	990,500	£55.00	5.75%
CENTRAL LONDON TOTALS	287,999,954	26,033,220	9.5%	1,817,306	8,934,303	9,579,576	-	-
UK TOTALS	365,985,131	32,681,188	9.3%	2,534,268	12,550,712	11,556,192	-	-

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	MARKET	TENANT	SIZE (SQ FT)	TYPE
Sancroft, Paternoster Sq, EC4	Central London	Goodwin Proctor	89,499	New lease
Berger House, 36-38 Berkeley Sq, W1	Central London	Chanel	86,000	Pre-let
EQ	Bristol	HSBC	11,054	New lease
Louisa Ryland House	Birmingham	Re-Defined	36,343	New lease
2 Freer Street	Edinburgh	Analog Devices	28,086	Sub-lease
West Gate	Leeds	HMCTS	26,328	New lease
3 Piccadilly Place	Manchester	Arup	16,218	New lease

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	MARKET	SELLER / BUYER	SIZE (SQ FT)	PRICE (MILLION)
Sancroft, Paternoster Sq, EC4	Central London	Shimao Group Holdings / Mitsui Fudosan	303,000	£315.0 million
Film House, Wardour Street, W1	Central London	WeWork Investors / Hines	103,000	£130.0 million
Halo, Finzels Reach	Bristol	Tesco Pension Fund / CBRE IM (Hampshire CC)	116,000	£73.0 million
Axis Square, Holliday Street	Birmingham	London & Continental / Select Property	240,000	£40.0 million
Caledonian Exchange	Edinburgh	BlackRock UK Property Fund / Catella APAM	60,000	£25.0 million
One Whitehall Quay	Leeds	Legal & General / Consolidated Property	51,182	£20.0 million
Dalton Place, John Dalton Street	Manchester	Tesco Pension Fund / ValinvestRE	67,500	£28.0 million

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