



9.33%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

4.19 million sq ft

Take-up



£912.0 million

Investment Volume



KEY ECONOMIC INDICATORS

-0.1%

UK Quarterly GDP
Growth, Q3 2023YoY
Chg12-Mo.
Forecast

4.3%

UK Unemployment
Rate, Jul 2023

5.25%

Interest rate,
Feb 2024

Source: Moody's; ONS

ECONOMY: Interest rates are held as inflation continues to trend down but wage growth remains strong

Across the economy, the adjustment to relatively higher interest rates remains paramount. The Bank of England have held rates at 5.25% since August 2023 – a level last seen in February 2008. Expectations are now that the rate will come down latterly in 2024, however this remains pegged on inflation, which in turn is heavily influenced by wage growth along with global supply chain pressures. These factors suggest a slower climb down from the current interest rate to 4.0% in 2025 onwards over the medium term. Modest growth is expected alongside these higher rates, helping to bolster office demand and income returns. Provided that interest rates have peaked and subsequently ease as expected, a degree of short to medium term recovery in total returns for offices is probable.

OCCUPIER FOCUS: Continued prime rental growth as Grade A market share proliferates

A robust end to the year reported 4.2 million sq ft transacting across the Big Five (Birmingham, Bristol, Edinburgh, Leeds and Manchester) and Central London office markets in Q4 – the highest quarterly volume since Q2 2019. This was up 25% on Q3 and 35% above the five-year quarterly average. Big Five Q4 transactions totalled 870,812 sq ft, up 2% against its five-year average, while Central London significantly outperformed its average by 42%, amounting to 3.3 million sq ft. Grade A activity dominated both markets, accounting for a record of 71% of the total leasing volume, exceeding the previous record of 70% set in the last quarter. The 3.0 million sq ft of Grade A space transacted was 68% above the five-year quarterly average and the highest quarterly volume since Q3 2018. Overall, leasing across 2023 as a whole totalled 12.8 million sq ft, 2% below the five-year annual average. Grade A activity however was 19% above the five-year annual average at 8.7 million sq ft which is the highest since 2019 and amounts to 68% of the total 2023 volume – a record high proportion.

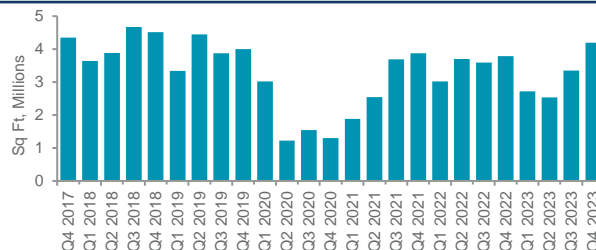
Availability decreased to 34.3 million sq ft in Q4, down 1% versus Q3 and 38% above the five-year average. Much of the development pipeline has now been absorbed into the supply figure, hence availability is likely to have peaked. Grade A supply is expected to gradually erode as the delivery of new space slows and strong demand persists. A total of 17.6 million sq ft is currently under construction across the Big Five and Central London, 38% of which has been pre-let. Of the available under construction space, 58% is due to complete in 2024, rising to 94% completing prior to 2026. This illustrates the significant fall off in development activity from 2026 onwards, driven by the current viability challenges facing new schemes due to inflated construction and borrowing costs.

Occupier demand for the best spaces, combined with rising construction costs pushing up viability requirements, has led to strong rental growth across prime markets, averaging 5.9% over 2023 in the Big Five and Central London. Although availability remains high, these same factors are expected to continue to put upward pressure on prime rents over the year to come, with demand and therefore rental growth concentrating at the top end of the market.

INVESTMENT FOCUS: Purchases for redevelopment hit record high as yields move further out

Office investment volumes totalled £912.0 million in Q4 2023 across the Big Five and South East city centre markets. This was 72% below the five-year quarterly average as the impact of the 14 consecutive rate hikes to 5.25% continues to be felt. Over 2023 as a whole, investment has totalled £5.1 billion which is 67% below the five-year annual average. Office purchases for redevelopment purposes accounted for 17% of the overall volume in Q4, the highest share of activity on record as falls in office values have increased the viability of conversions residential, hotel or mixed uses. Pricing levels are still being established in the new economic environment despite interest rates being held level since August 2023. As such, prime yields have seen further outward movement in most markets, with the City moving out to 5.75% (+25 bps), regional markets moving out by +50 bps and only the West End remaining level at 4.00% in Q4 2023. Further outward movement is expected across most markets, however interest rate stability and the anticipated gradual cuts will help to ease upward pressure on yields over the year ahead.

TAKE-UP, BIG FIVE & CENTRAL LONDON



AVAILABILITY & VACANCY RATE, BIG FIVE & CENTRAL LONDON

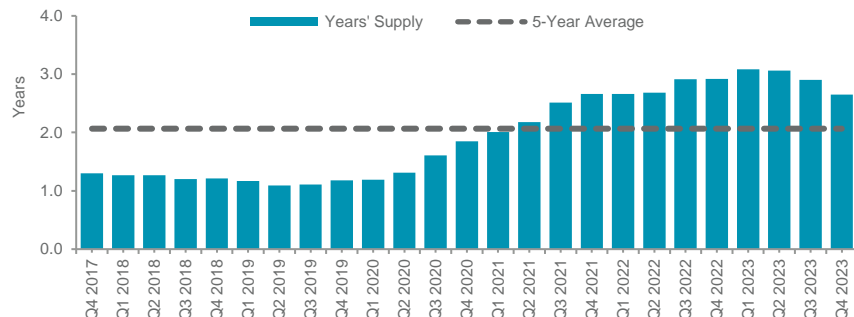


Chart book

TAKE-UP, QUARTERLY



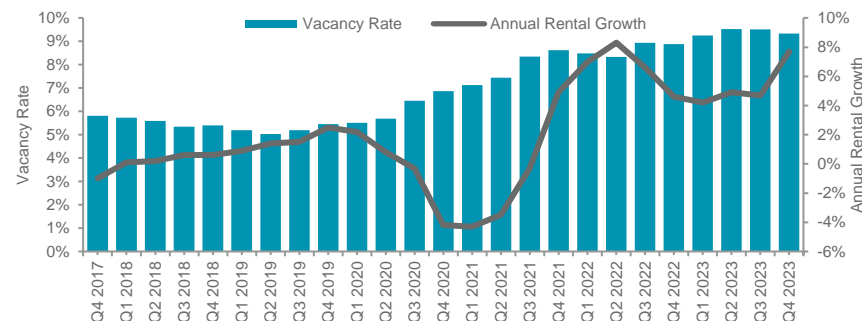
YEARS' SUPPLY



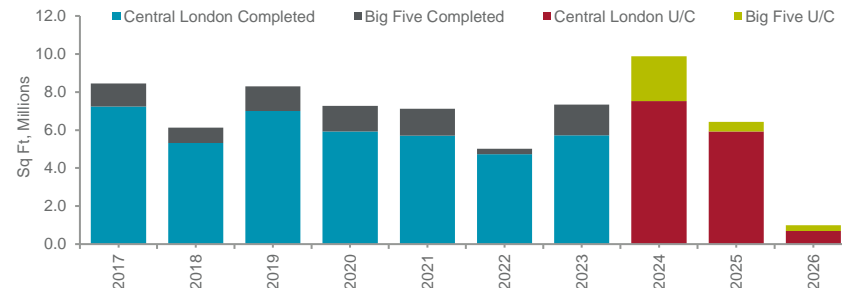
INVESTMENT VOLUMES, ROLLING 12-MONTHS



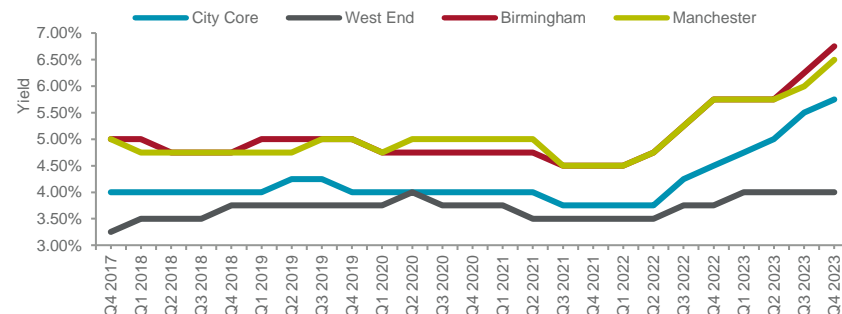
VACANCY RATE & ANNUALISED RENTAL GROWTH



DEVELOPMENT COMPLETIONS & PIPELINE



PRIME YIELDS





MARKET STATISTICS Q4 2023

| SUBMARKET | INVENTORY (SF) | AVAILABILITY (SF) | OVERALL VACANCY RATE | CURRENT QTR TAKE-UP (SF) | SPECULATIVE UNDER CONSTRUCTION (SF) | PRIME RENT (PSF) | PRIME YIELD |
|------------------------------|--------------------|-------------------|----------------------|--------------------------|-------------------------------------|------------------|-------------|
| Birmingham | 18,625,000 | 1,044,075 | 5.60% | 210,348 | 521,280 | £41.00 | 5.75% |
| Bristol | 14,100,000 | 778,317 | 5.50% | 111,130 | 419,821 | £42.50 | 6.00% |
| Edinburgh | 9,280,177 | 617,299 | 6.70% | 239,716 | 110,000 | £39.00 | 5.75% |
| Leeds | 13,000,000 | 949,979 | 7.31% | 210,321 | 254,879 | £36.00 | 6.00% |
| Manchester | 22,500,000 | 2,777,654 | 12.30% | 426,872 | 578,798 | £40.00 | 5.75% |
| BIG FIVE TOTALS | 77,505,177 | 6,167,324 | - | 1,198,387 | 1,884,778 | - | - |
| West End | 113,868,838 | 7,646,806 | 6.72% | 1,070,097 | 3,898,973 | £137.50 | 4.00% |
| City | 145,751,816 | 14,206,462 | 9.75% | 2,208,130 | 3,889,482 | £77.50 | 5.75% |
| East London | 24,075,848 | 3,919,295 | 16.28% | 30,941 | 354,926 | £55.00 | 6.75% |
| CENTRAL LONDON TOTALS | 283,696,501 | 25,772,563 | - | 3,309,168 | 8,143,381 | - | - |
| UK TOTALS | 361,201,678 | 31,939,887 | - | 4,507,555 | 10,028,159 | - | - |

KEY LEASE TRANSACTIONS Q4 2023

| PROPERTY | MARKET | TENANT | SIZE (SQ FT) | TYPE |
|-----------------------|----------------|--------------------|--------------|------------|
| 40 Leadenhall St, EC3 | Central London | Kirkland & Ellis | 194,075 | Pre-let |
| One Centenary Way | Birmingham | Mills & Reeve | 32,088 | New lease |
| 1 Georges Square | Bristol | Dyson | 66,317 | New lease |
| 9 Haymarket Square | Edinburgh | MFMac | 16,435 | Assignment |
| City Square House | Leeds | Barnett Waddingham | 13,466 | New lease |
| Eden | Manchester | BDO | 23,017 | New lease |

KEY SALES TRANSACTIONS Q4 2023

| PROPERTY | MARKET | SELLER / BUYER | SIEZ (SQ FT) | PRICE (MILLION) |
|-------------------------------------|----------------|--|--------------|-----------------|
| Bloom, Cowcross St, EC1 | Central London | UBS Asset Management / HB Reavis | 146,000 | c. £215 million |
| Southside Building, 31 Hurst Street | Birmingham | Paloma Capital / Birmingham Hippodrome | 51,040 | £8.3 million |
| 9-10 St Andrew Square | Edinburgh | Patrizia / Queensway Group, Tristan Capital Partners | 63,195 | Confidential |
| One Whitehall Quay | Leeds | Legal & General / Consolidated Property | 51,182 | £20.0 million |
| One Hardman Boulevard | Manchester | RBS Group / Parthena Reys | 365,542 | Confidential |

KIRAN PATEL

Associate Director,
UK Research & Insight

+44 (0) 753 425 3268
kiran.patel@cushwake.com

HEENA GADHAVI

Associate Director,
UK Research & Insight

+44 (0) 203 296 2037
heena.gadhavi@cushwake.com

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