TAKE-UP OF LONDON OFFICE SPACE FALLS IN Q1 DESPITE “ROBUST DEMAND”

- Take-up was below 3 million sq ft for first time in eight consecutive quarters

Despite persistent and robust demand for space in central London take-up of office accommodation saw a drop of 36% in the first quarter of 2015 according to research from BNP Paribas Real Estate, the leading property adviser.

The figure of 2.87 million sq ft was the first time in eight consecutive quarters that take-up was below 3 million sq ft, The last time take-up was below this level was in Q1 2013. The first quarter of the year is traditionally the quietest for take-up and while there are fewer large requirements, demand from small and mid-sized businesses is solid. Competition for sub-5,000 sq ft units is intense and rents have been forced up across London and Q1 saw a record breaking rent of £185 pr sq ft achieved in St James’s.

Recent history has seen the Media Tech sector driving Central London take-up and, in Q1, the sector performed well again, accounting for 21% of total take-up. Another persistent trend that looks set to continue in 2015 is the growth in prominence of serviced office operators. The sector accounted for 12% of take-up during the quarter. The total amount of space absorbed by these firms is 2 million sq ft since the beginning of 2013, almost double the amount taken between 2005 and 2012.

Central London’s office investment market enjoyed a healthy start to 2015 with £3.86 billion of transactions making it the highest first quarter investment volume since 2007 (£3.87 billion). With transactions of £1.72 billion the City market enjoyed its most active first quarter since 2006 (£2.3 billion), making up 45% of the Central London total.

Take-up in the City reached 1.67m sq ft in Q1, despite being 6% below Q4 14 take-up, the figure was still 13% ahead of the five year quarterly average of 1.48m sq ft. Deloitte’s 275,000 sq ft pre-let at Land Securities’ 1 New Street Square provided the largest boost to the overall take-up figure. Serviced Office sector’s appetite for significant chunks of prime space in the City continued into 2015, with WeWork’s 168,000 sq ft deal at the recently completed Moor Place taking the sector’s share of overall take-up to 12%.
Supply levels continued on a downward trend with only 5.32m sq ft of available space recorded at the end of the quarter and the favourable landlord conditions continue to squeeze rents upwards, with prime rents now at £64.00 per sq ft, up from £62 per sq ft in Q4 14.

Daniel Bayley, head of Central London Offices at BNP Paribas Real Estate, said: “Availability is now fast approaching the previous historic low recorded in 2006 and the current vacancy rate of just 6.0% is one of the lowest on record. With an average office development completion volume of 3.3m sq ft per annum due over the next three years, the talk of an extended ‘supply crunch’ in the City perhaps looks baseless. However, it is important to remember that a third of the total space set to be delivered over the next three years has already been pre-let and the risk of an oversupply of space looks minimal.”

During Q1 the West End saw leasing transactions of 0.67m sq ft - 21% below the long term quarterly average but on a par with Q1 2014. BNP Paribas Real Estate’s research revealed a lack of large individual deals with just one deal in excess of 50,000 sq ft recorded - Facebook’s 65,000 sq ft acquisition at Regent’s Place, NW1. Victoria saw very low levels of take-up, with just four deals totalling 21,000 sq ft.

In addition to the Facebook transaction the Media Tech sector accounted for 31% of total take-up in the West End. Deals included BMG Chrysalis acquiring 23,000 sq ft at 5 Merchant Square in Paddington.

Investment activity in the West End was also muted when compared with the previous quarter with transaction volumes reaching £1.05bn, 51% below Q4. The lack of larger lot size opportunities was a major contributor to the figures. Norges Bank’s £190m purchase of Queensbury House, Old Burlington Street in Mayfair was the largest transaction of the quarter.

Take up in Midtown struggled to match the buoyant level recorded during Q4 and take-up reached just 219,000 sq ft in Q1 compared with 345,000 sq ft in Q4 14. BNP Paribas Real Estate is tracking 412,000 sq ft of space under offer, 280,000 sq of which is at Aldwych Quarter.

In the Docklands take-up was 117,236 sq ft in Q1, 69% lower than the previous quarter and less than half the 10 year quarterly average. However, with a market that relies mainly on large corporate deals to boost performance BNP Paribas Real Estate anticipates that supply constraints in other London submarkets should see increasing demand for the high quality, economical space that is available within the Canary Wharf location.
## Central London key indicators

<table>
<thead>
<tr>
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<th>Q1 2015</th>
<th>Q4 2014</th>
<th>Q1 2014</th>
<th>Change Q-on-Q</th>
<th>Change Y-on-Y</th>
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</thead>
<tbody>
<tr>
<td>Take-up (m sq ft)</td>
<td>2.87</td>
<td>4.49</td>
<td>3.13</td>
<td>+36%</td>
<td>-8%</td>
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<tr>
<td>Supply (m sq ft)</td>
<td>11.90</td>
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<td>16.34</td>
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<tr>
<td>Vacancy rate (%)</td>
<td>5.39%</td>
<td>5.10%</td>
<td>7.42%</td>
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<td>-202bp</td>
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<tr>
<td>Investment Volume (£bn)</td>
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<td>7.99</td>
<td>3.23</td>
<td>-52%</td>
<td>+19%</td>
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<tr>
<td>West End prime yields (%)</td>
<td>3.50</td>
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<td>-25bp</td>
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<tr>
<td>City prime yields (%)</td>
<td>4.00</td>
<td>4.00</td>
<td>4.50</td>
<td>0bp</td>
<td>-50bp</td>
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</tbody>
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BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 37 countries with approximately 180 offices and 3,800 employees (16 wholly owned and 21 by its Alliance network that represents today more than 3,000 people). BNP Paribas Real Estate is a subsidiary of BNP Paribas. For more information: [www.realestate.bnpparibas.com](http://www.realestate.bnpparibas.com)

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