OLYMPIC PARK LETTINGS BOOST CENTRAL LONDON OFFICE TAKE UP BY 50% AS WEST END AND CITY RENTS HIT ALL TIME HIGH

- Olympic park deals and Google letting in King’s Cross sees ‘fringe’ locations come of age as undersupply in City and West End pushes rents to record highs
- Retail occupier and investment markets remain robust

Major lettings at the Queen Elizabeth Olympic Park and Google’s decision to expand further in to King’s Cross boosted Q2 central London office take up by almost 50%, research from BNP Paribas Real Estate has revealed.

The deals mark a “seminal moment” in the transformation of areas once considered fringe locations for office occupiers as the West End and City continued to see near record levels of undersupply, the global property adviser said in its Central London Office & Retail Market report.

The research revealed that core central London markets had less than one year’s supply of office space remaining, with vacancy rates of just 3.9% in the West End and 5.7% in the City. This helped to push prime rents to record highs of £125 per sq ft and to £65 per sq ft, respectively.

Occupiers took 4.2m sq ft in Central London in Q2, up 47% on the first three months of the year and 38% above the 10-year average.

The figures were boosted by the first lettings at The International Quarter in Stratford – 425,000sq ft taken by the Financial Conduct Authority and 260,000 sq ft by Transport for London in deals on which BNP Paribas Real Estate advised, as well as Google’s decision to lease more than 180,000 sq ft at King’s Cross.

Daniel Bayley, Head of Central London Offices at BNP Paribas Real Estate, said: “The two major deals in Stratford will be regarded as a seminal moment in the ongoing transformation of the area into an important business district, kick-starting a major development. With the levels of supply in the West End and City unlikely to improve dramatically in the foreseeable future, the move out from the core is a trend that is set to continue.

“Following a quiet first quarter, Q2 proved to be very strong for the London office market with take-up being 38% above the 10-year average. Take-up got stronger the further east you went.
“There was also a good recovery in the Docklands market with 580,000 sq ft of take-up in Q2 boosted by 388,000 sq ft letting to Deutsche Bank. The City also saw good levels of activity despite supply levels remaining at near record low levels and, at 1.68m sq ft, 22% ahead of the 10 year average.”

The volume of office investment transactions in Central London reached £3.96bn for the second quarter in a row bringing the H1 2015 volume to £7.92bn, 2% higher than the first half of 2014 and 10% higher than in 2013. Both 2013 and 2014 delivered investment totals of circa £20bn, surpassing the previous record highs seen during the peak of the last cycle. During the first six months of the year large City deals involving overseas capital accounted for 47% of overall Central London volumes, an increase from around 37% in both H1 2013 and H1 2014.

In the West End, office take-up increased by 13% in Q2 2015 to reach 757,150 sq ft, giving a total for the first half of 2015 of 1.43m sq ft, 16% below the same period in 2014. Despite this, BNP Paribas Real Estate said it remained optimistic regarding demand, with several larger requirements announced, including those of Twitter and Microsoft.

Office investment volumes in the West End reached £1.2bn in Q2, bringing the H1 2015 total to £2.26bn. Although 21% below the same period last year the figure is 20% above the five-year average for H1 investment volumes. Prime yields now stand at 3.25%, down from 3.5% the previous quarter. This yield compression has been driven by chronic lack of supply and insatiable appetite for prime product as London continues to look increasingly attractive to investors looking for low risk and guaranteed returns.

In the City, demand for offices remained robust during the second quarter with take-up totalling 1.68m sq ft. Although only 1% ahead of the Q1 volume it is some 14% higher than the five-year quarterly average. H1 saw 3.35m sq ft of deals completed, 18% ahead of the same point in 2014 which, at 7.31m sq ft, was one of the highest annual volumes ever recorded in the City office market. With no deals of over 70,000 sq ft recorded during the quarter it was the sheer number of deals that helped keep the leasing market buoyant.

The Media Tech sector continued to help drive the high level of demand for space in the City and was responsible for 22% of overall take-up.

The office market in Midtown saw take-up fall to 210,000 sq ft in Q2 compared with 219,000 sq ft in Q1. The largest deal was 37,588 sq ft at The Adelphi, which was let to global professional accounting body ACCA at a rent of £75/sq ft. Supply in Midtown saw a slight rise in Q2 to 1.24m sq ft. This was due to a number of development completions entering the supply figures. This along with the fall in take-up has pushed vacancy rates up to 6.28% and although an increase since Q1, vacancy rates still lie slightly below the average on 6.5%.
With no new office space available in Midtown for the subsequent half of 2015, supply will inevitably begin to contract, placing further pressure on prime rents for the remainder of the year. BNP Paribas Real Estate is predicting prime rental growth of 8.5% per annum this year.

In Docklands, Deutsche Bank took 388,000 sq ft of offices at 10 Upper Bank Street, a deal that helped push take-up in Q2 to 583,022 sq ft, a significant increase from the previous quarter and 133% up on the 10-year quarterly average of 250,000 sq ft. The report suggested that supply constraints in other London submarkets will cause increasing demand for the high quality, economical space that is available within the Canary Wharf location.

In the retail property market, with the exception of Regent Street, all major Central London retail pitches witnessed a reduction in their levels of vacancy in Q2 2015.

Investment in the West End’s retail market stood at £761.9m in Q2, representing an 82.3% increase compared to Q2 2014 and the highest quarterly volume in the past 5 years, comfortably above the three-year average.

**Central London key indicators**

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<th>Q2 2015</th>
<th>Q1 2015</th>
<th>Q2 2014</th>
<th>Change Q-on-Q</th>
<th>Change Y-on-Y</th>
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<tr>
<td>Take-up (m sq ft)</td>
<td>4.2</td>
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<td>Supply (m sq ft)</td>
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<td>Vacancy rate (%)</td>
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<td>Investment Volume (£bn)</td>
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<td>3.96</td>
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<tr>
<td>West End prime yields (%)</td>
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<td>City prime yields (%)</td>
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<td>4.00</td>
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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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