OFFICE SHORTAGE TO PERSIST IN 2016 FOLLOWING STANDOUT YEAR FOR CENTRAL LONDON MARKET

- Central London office supply falls 16% to start the year at 9.5m sq ft following 13.9m sq ft of deals in 2015
- London office investment volumes total £18.08m, with City office volumes hitting £9.12bn – the highest total since 2006

Central London’s shortage of office space and strong employment market will continue to drive increases in rents and capital values in 2016 following a third year of above-trend take-up, BNP Paribas Real Estate said today.

The global property adviser found the Central London vacancy rate started the year at 4.33%, with total supply standing at 9.53m, a fall of 16% and the lowest level of available space since 2000.

Head of Central London Leasing Dan Bayley said: “The supply and demand imbalances that have been a major feature of the recent outperformance of London real estate are set to persist.

“Prospects for employment growth remain robust and the supply response to the low level of vacancy should be somewhat tapered by rising construction costs and the continued shortage of speculative development finance. We do not foresee any risk of oversupply of space in the near term.”

Across central London, take-up totalled 13.91m sq ft. Total City take-up was 6.33m sq ft, 14% above the 10-year average, with the ‘Techbelt’ – Shoreditch, Clerkenwell and Aldgate – taking one-third of the total (34%) and recording the City’s highest rental growth in 2015, of 14.3% to £60 per sq ft, as the submarket shed its secondary submarket image.
Dan Bayley said: “Take-up in these locations has outpaced demand in the City’s traditional core markets. With Media Tech employment set to grow significantly, the popularity for product in this area will only increase. Such is the demand we expect to see one of the strongest rental growth performances of 2016.”

Central London office investment totalled £18.08bn, with prime yields ending the year at 4% in the City and 3.25% in the West End.

City offices saw investment volumes hit £9.12bn in 2015, the highest since 2006, boosted by £3.15bn of deals in the final quarter. Despite fears of a slowdown from Asia Pacific, investors from the region dominated, deploying £2.8bn (31% of the total), with North American investors accounting for £2.4bn (26%).

Richard Garside, Head of City Investment, said: “The outlook for Central London offices remains positive and with the good underlying occupational market conditions, demand for investment opportunities will remain strong.”

The BNP Paribas Real Estate Central London and Retail Market research also found that investment in West End retail hit £2.28bn, a 55% increase on 2014, with £573.3m of deals recorded in Q4, largely driven by overseas investors. Oxford Street was the primary beneficiary of spending by foreign buyers, with 66% of the £1.2bn spent on the street coming from overseas.

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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 3,200 people).

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