LONDON STILL A SAFE HAVEN FOR INVESTORS AS INVESTMENT HITS £3.74BN IN Q2 2016

- London office investment rises by just under 20% to £3.74bn in Q2 2016
- £553m investment in London retail, increasing by 47% on Q1 2016
- Average lease lengths signed in H1 fall from 9.5 to 7.8 years as businesses search for flexibility

Investment in London offices reached £3.74bn in Q2 2016, an increase of 19% on Q1, and demonstrating London’s credentials as a ‘safe haven’ for investors, according to the latest research from BNP Paribas Real Estate.

This brings total volumes for H1 2016 to £6.88bn, 12% ahead of the 10-year H1 average. Asia Pacific investors accounted for 40% of this total, purchasing £2.64bn in assets. Appetite from foreign investors was particularly marked in the City, where they made up 92% of capital deployed so far this year.

The acquisition of Aldgate Tower, E1 by China Life and Brookfield for £346m was the largest investment deal of the quarter.

Take-up levels for H1 2016 was 5.08m, in line with expectations following three consecutive years of above-average demand. The slight fall in take-up is combined with a significant fall in lease lengths from 9.5 years to 7.8 years in H1 2016, showing increased cautiousness and search for greater flexibility amongst occupiers.

A number of significant deals were signed in the West End and Midtown, including 66 Wigmore Street, W1, with 54,885 sq ft taken by Shern Clinic, and 37,446 sq ft of space acquired by Mishcon de Reya at Weston House, WC1.

In the City the largest deal recorded was Beaufort House, EC3 where Amazon took 47,101 sq ft of space.
Vacancy rate rose to 5.43% in Q2 2016, up from 4.72% in Q1 driven by rationalization on the part of occupiers as well as 2016 developments entering supply. However this is likely to be subdued in the long term as new developments are delayed due to tighter controls on funding.

Retail investment reached £553m in the second quarter, an increase of 47% on Q1, mirroring the pick-up in activity seen in the commercial office market. The largest deal of the quarter was the purchase of 61-79 Oxford Street by China Estates from BA Pension Fund, for £183m at a yield of 2.5%. Overseas investors represented just below 40% of total retail investment.

In the retail occupier market, the Bond Street submarket saw a record rent set with LVMH taking space at 14 Bond Street for £2000/ sq ft ZA. Despite post-referendum uncertainty, Q2 activity remained strong with little movement in vacancy rates.

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