RESEARCH

Q1 2013

CENTRAL LONDON

Quarterly – Offices

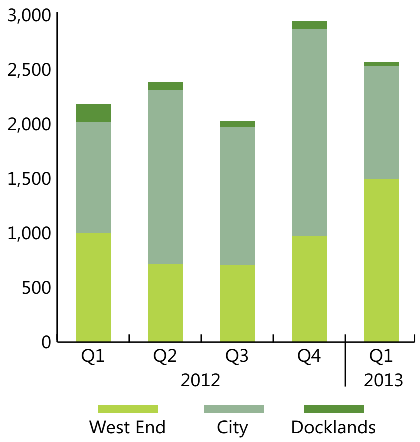
HIGHLIGHTS

- Take-up totalled 2.6 m sq ft, although this was heavily influenced by Google's purchase of its 800,000 sq ft headquarters building which boosted the results in an otherwise slow quarter. However, sentiment remains positive.
- Supply rose to 17.9 m sq ft, although the vacancy rate remains relatively low at 7.8%. There is 9.0 m sq ft under construction, one-third of which is already pre-let.
- Investment turnover fell to £2.6 bn, although interest in Central London assets from both domestic and overseas investors remained strong. Prime yields were stable in both City and West End markets.

CENTRAL LONDON OVERVIEW

- **Take-up rose to 2.6 m sq ft, boosted by Google's 800,000 sq ft purchase at King's Cross Central.**
- **Availability rose by 8% to 17.9 m sq ft, which remains 9% below the long-term average.**
- **There is 9.0 m sq ft under construction, one-third of which is already pre-let.**
- **Prime yields remained stable as investors continued to focus on Central London opportunities.**

Figure 1
Central London take-up by quarter & sub-market
Q1 2012 - Q1 2013 (000's sq ft)



Demand and take-up

Take-up in Central London totalled 2.6 m sq ft in the first quarter of 2013, a fall from the previous quarter's level and around 6% below the 5-year average. Activity was boosted by Google's forward purchase of its 800,000 sq ft headquarters complex at King's Cross Central, although apart from this transaction, leasing activity was relatively weak.

Despite this, market sentiment is relatively healthy and Knight Frank believes that leasing activity will improve during the year. There is strong interest in large City units from occupiers from all business sectors, with the exception of banking. There is renewed activity from the specialist financial sector, while galleries and natural resources companies are focused on prime stock in the West End.

Supply & development

Availability rose to 17.9 m sq ft by the end of the first quarter, reflecting a vacancy rate of 7.8%. The increase was primarily in second-hand units coming to the market, the largest of which was the release of space at 10 Upper Bank Street by Clifford Chance. However, the Central London vacancy rate remains relatively low given the challenging market conditions; there is now almost 7.0 m sq ft less available to lease than in mid-2009, six months after the collapse of Lehman Brothers.

There were no development completions during the quarter, with just one scheme commencing on site – the Aldgate Tower scheme in E1, a 316,000 sq ft development which is due for completion in Q4 2014. There is now 9.0 m sq ft under construction in Central London, more than one-third of which is pre-let. There is relatively little space able to commence speculatively that could complete in 2015, which is likely to lead to the commitment of more space during construction over the next two to three years.

Investment

Investment turnover fell to £2.6 bn in the first quarter, around 30% below the previous quarter's level. Such is the weight of money currently chasing Central London stock, that turnover is becoming less relevant as a measure of investor appetite. Levels of investment purchases are now arguably more influenced by the availability of stock, with quarterly levels rising and falling as product is brought to the market. This dynamic is ensuring that pricing of prime assets remains stable at 4.00% in the West End and 5.00% in the City. Prime yields are unlikely to soften in the near-term as there is little incentive for landlords to sell; returns on other asset classes remain historically low.

Once again overseas investors were the most active purchasers, accounting for almost 80% of all transactions. The majority of overseas money was focused on large lot sizes, with the ten largest sales of the quarter transacting to foreign buyers. However, there was considerable activity from domestic investors, accounting for 30 of the quarter's 57 purchases.

Figure 2
Central London availability by quarter & sub-market
Q1 2012 - Q1 2013 (000's sq ft)

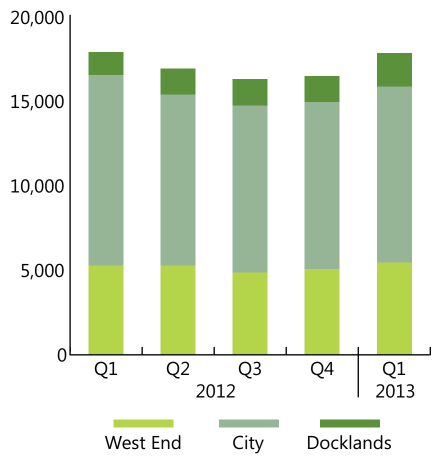
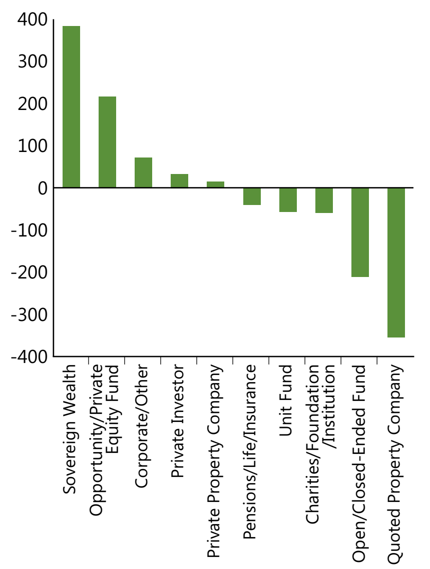


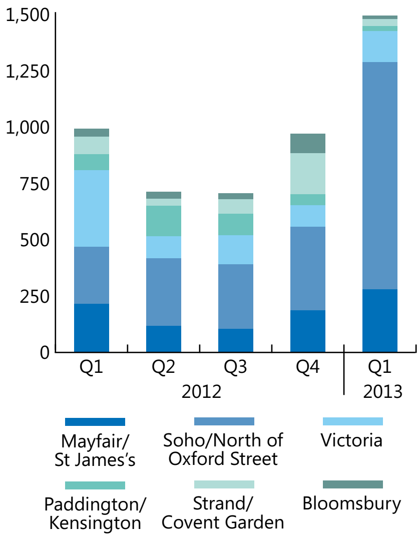
Figure 3
Central London net investment
Q1 2013 (£ m's)



WEST END

- **Take-up increased by 53% to 1.5 m sq ft.**
- **Availability rose by 8% from 5.1 m sq ft to 5.5 m sq ft.**
- **Prime headline rents remained at £95.00 per sq ft.**
- **Investment turnover for the first quarter totalled £957 million.**

Figure 1
West End take-up by quarter & sub-market
Q1 2012 - Q1 2013 (000's sq ft)



Demand & take-up

Take-up in the first quarter of the year increased by 54% in the West End to 1.5 m sq ft, 28% above the long-term average. Although the figures represent a 50% increase on the same quarter last year, it must be noted that the deal to Google (800,000 sq ft) accounted for more than half the total take-up. There has been just 3.0 m sq ft of take-up in the last 12 months, this is almost 30% below the long-term average level.

Following the completion of Google's site purchase, active searches fell by just 5% as a number of new requirements were launched in the first few months of the year. The financial sector accounted for 32% of total active demand with nearly 30 requirements over 10,000 sq ft, its highest level recorded since Q1 2008.

Supply & development

Availability in the West End rose for the second consecutive quarter, levels increased by 9% to 5.5 m sq ft. This represents a vacancy rate of 6.0%, the highest level since the beginning of 2011. Despite the increase in supply, levels are still 18% below the long-term average and there is 5.0 m sq ft less space on the market than there was in 2009. In the Core, there are just six options on the market over 20,000 sq ft of new and refurbished quality.

The volume of space under construction speculatively remained unchanged in Q1 2013 at 1.8 m sq ft. There is 1.1 m sq ft due to complete by the end of the year, including British Land's 10 Brock Street, NW1 (c315,000 sq ft) which is already 53% pre-let and Land Securities' 62 Buckingham Gate, SW1 totalling 255,000 sq ft.

Rental profile

The prime headline rent remained at £95.00 per sq ft for the fourth consecutive quarter. Some out of Core sub-markets have seen rental growth, including North of Mayfair, Noho, Paddington, Covent Garden, and Victoria. Rent free periods in the Core have pushed out from 18 months to 20 months on a 10-year term.

Investment

Turnover in the first quarter of 2013 totalled £960 million, 37% below the level recorded in the previous quarter but 5% above the long-term average. There is already £561 million under offer, accounting for nearly 60% of the current stock available which will contribute to next quarter's turnover. Overseas buyers remained the most active purchasers, reflecting more than 66% of all acquisitions by value. Private investors and opportunity funds were key investors in Q1 2013 accounting for nearly 60% of the market share.

There was continued demand for conversion to residential opportunities, reflected by the sale of Great Minster East, SW1 which was purchased by Barratt Homes Plc for £47 million. The largest transaction of the quarter was the purchase of 151 Buckingham Palace Gate, SW1 by the Malaysian fund Lembaga Tabung Haji. The building was sold for £205 million reflecting a net initial yield of 6.56%. Prime yields remained at 4.00%, unchanged since Q4 2010.

Figure 2
West End availability by quarter & sub-market
Q1 2012 - Q1 2013 (000's sq ft)

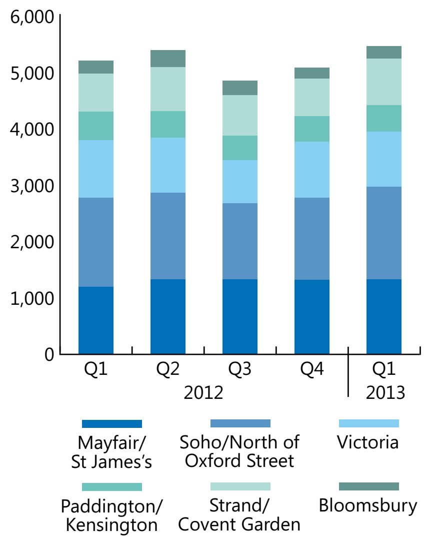
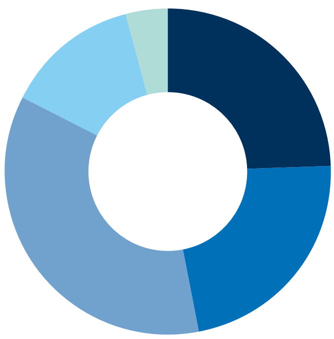


Figure 3
West End investment by purchaser
Q1 2013

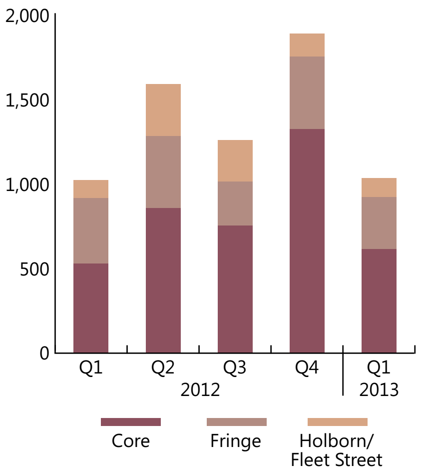


Private Investor	227 m
Private Property Company	209 m
Opportunity Fund	327 m
Pension/Life/Insurance	124 m
Quoted Property Company	37 m

CITY

- **Availability increased from 9.9 m sq ft to 10.4 m sq ft over the course of the quarter, reflecting a vacancy rate of 8.9%.**
- **Take-up fell to just over 1.0 m sq ft, 45% below the previous quarter.**
- **3.8 m sq ft of speculative space under construction, up marginally from 3.7 m sq ft in Q4 2012.**
- **Top normal headline rents remained at £55.00 per sq ft.**

Figure 1
City take-up by quarter & sub-market
Q1 2012 - Q1 2013 (000's sq ft)



Demand and take-up

City take-up was 1.0 m sq ft in Q1, a fall of 45% on the previous quarter and 34% below the ten-year quarterly average figure of 1.6 m sq ft. Letting activity in Q1 came from a range of business sectors including corporates and professional services. The financial sector activity was negligible, and insurance occupiers continue to be an important component of demand.

There were just 11 deals over 20,000 sq ft compared to 20 in Q4 2012. With the high number of larger units under offer currently in the City, take-up levels should increase in the near-term. The largest deal of the quarter was to Liberty Syndicate Management Limited who took circa 67,000 sq ft at 20 Fenchurch Street, EC3. Liberty Mutual Insurance also took circa 51,000 sq ft in the same building.

Supply and development

Supply levels increased by 5% in the first quarter of the year to 10.4 m sq ft, 9% below the long-term average of 11.4 m sq ft. The vacancy rate in the City is now 8.9%, up from 8.5% in the previous quarter, but down 0.7% annually.

There is 1.7 m sq ft under construction that will complete by the end of the year.

Rental profile

The prime headline rent remained unchanged for the tenth consecutive quarter at £55.00 per sq ft with, 27 months rent free on a 10-year term.

Investment

At £1.1bn, investment turnover was 51% down on Q4 2012, and 30% down on the corresponding quarter in 2012. Turnover figures were highly influenced by Ropemaker Place, EC2 which was sold to Axa Real Estate Investment Managers, Ginko Tree Investment and a Far Eastern investor for £472m, equating to a 5% initial yield. There were only two transactions in excess of £100m, reflecting the lack of prime stock. Overseas investors remain dominant, accounting for 76% of transactions by value.

Figure 2
City availability by quarter & sub-market
Q1 2012 - Q1 2013 (000's sq ft)

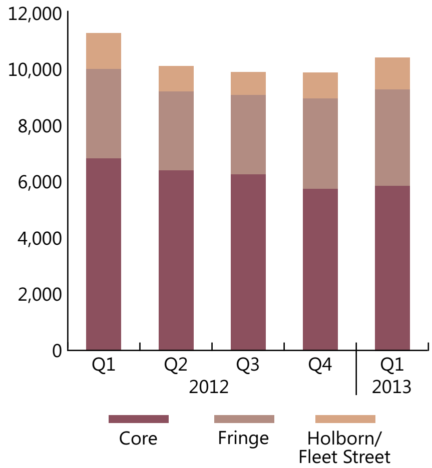
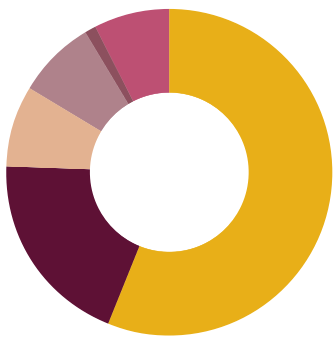


Figure 3
City investment by purchaser
Q1 2013



Pension/Life/Insurance	618 m
Opportunity Fund	214 m
Private Investor	91 m
Private Property Company	84 m
Charities/Foundation/ Institution	14 m
Corporate/Other	80 m

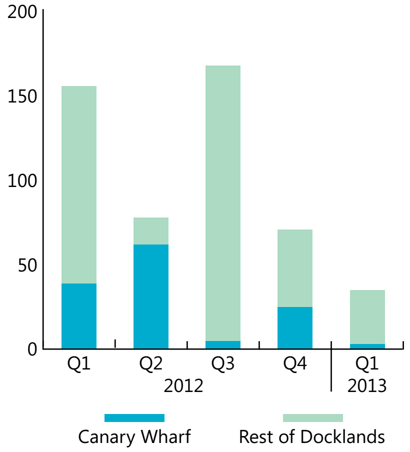
DOCKLANDS

- **Take-up for Q1 fell to 30,000 sq ft.**
- **Availability currently 1.98 m sq ft, reflecting a vacancy rate of 9.2%.**
- **Prime headline rents remained steady at £36.00 per sq ft.**
- **530,000 sq ft under construction.**

Figure 1

Docklands take-up by quarter & sub-market

Q1 2012 - Q1 2013 (000's sq ft)



Demand & take-up

Docklands take-up fell from 70,000 sq ft in Q4 2012 to 30,000 sq ft in Q1 2013. Docklands activity has suffered as a result of downsizing in the banking industry, which historically has been a major source of tenant demand. Of significance in Q1, was the opening of L39, a tech incubator, on the 39th floor of One Canada Square, E14. This is to be run as a serviced office hub backed by Canary Wharf Group and aimed specifically at the financial tech sector.

There were five key deals in Q1; an undisclosed tenant took circa 7,415 sq ft at the Exchange Tower, 2 Harbour Exchange Square, E14 while ITC Global Services took circa 6,793 sq ft at Northern & Shell Tower, 4 Selsdon Way, E14.

Supply & Development

Availability increased in the quarter to 1.9 m sq ft in Q1, from 1.5 m sq ft in Q4 2012 due to Clifford Chance releasing space at 10 Upper Bank Street. The vacancy rate is currently 9.2%, up from 7.1% in the previous quarter.

There is currently 530,000 sq ft of development under construction in the Docklands, which remains unchanged from the previous quarter. Approximately 300,000 sq ft of this space remains available to lease, with the remainder pre-let to the European Medicines Agency.

Rental Profile

Prime rents remained unchanged at £36.00 per sq ft, but pressure on rents and incentives remain on the downside.

Investment

Docklands investment activity increased to £511m in Q1 2013, from £55m in Q4 2012. Three deals signed during the quarter including 5 Canada Square, which had a quoted sale price of £380m, with a net yield of 5%, and 1 and 7 Westferry Circus which had quoted sale prices of £92.5m and £62.5m respectively, and net yields of 10.37% and 6.64%. Meanwhile, 15 Westferry Circus remains under offer and is believed to be £129.5m for the long leasehold, reflecting a net initial yield of 6.00%. The building is let to Morgan Stanley for 14 years.

Figure 2

Docklands availability by quarter & sub-market

Q1 2012 - Q1 2013 (000's sq ft)

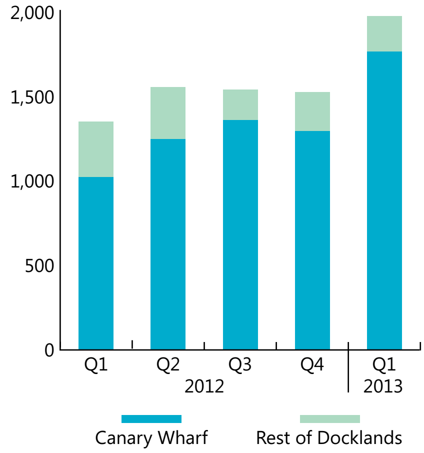
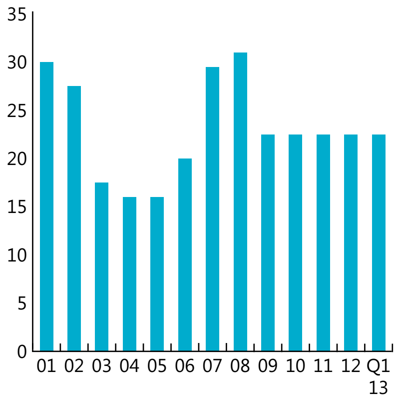


Figure 3

Rest of Docklands prime rent

2000-2013 (Prime £/sq ft)



Key statistics

Central London office market

Availability (m sq ft)	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	3 months % change	12 months % change
West End	5.30	5.28	4.87	5.10	**5.48**	7.5%	3.4%
City	11.29	10.14	9.92	9.89	**10.42**	5.3%	-7.7%
Docklands	1.51	1.56	1.54	1.53	**1.98**	29.5%	31.0%
Central London	18.10	16.98	16.33	16.52	**17.88**	8.2%	-1.2%

Vacancy Rate (%)	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	3 months % change	12 months % change
West End	5.8	5.8	5.3	5.6	**6.0**	n/a	n/a
City	9.6	8.6	8.5	8.4	**8.9**	n/a	n/a
Docklands	7.1	7.1	7.2	7.1	**9.2**	n/a	n/a
Central London	7.9	7.4	7.1	7.2	**7.8**	n/a	n/a

Take-up (m sq ft)	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	3 months % change	12 months % change
West End	0.99	0.71	0.71	0.97	**1.49**	53.4%	50.2%
City	1.03	1.60	1.26	1.90	**1.04**	-45.3%	1.1%
Docklands	0.16	0.08	0.17	0.07	**0.03**	-51.5%	-78.1%
Central London	2.18	2.39	2.14	2.94	**2.57**	-12.7%	17.9%

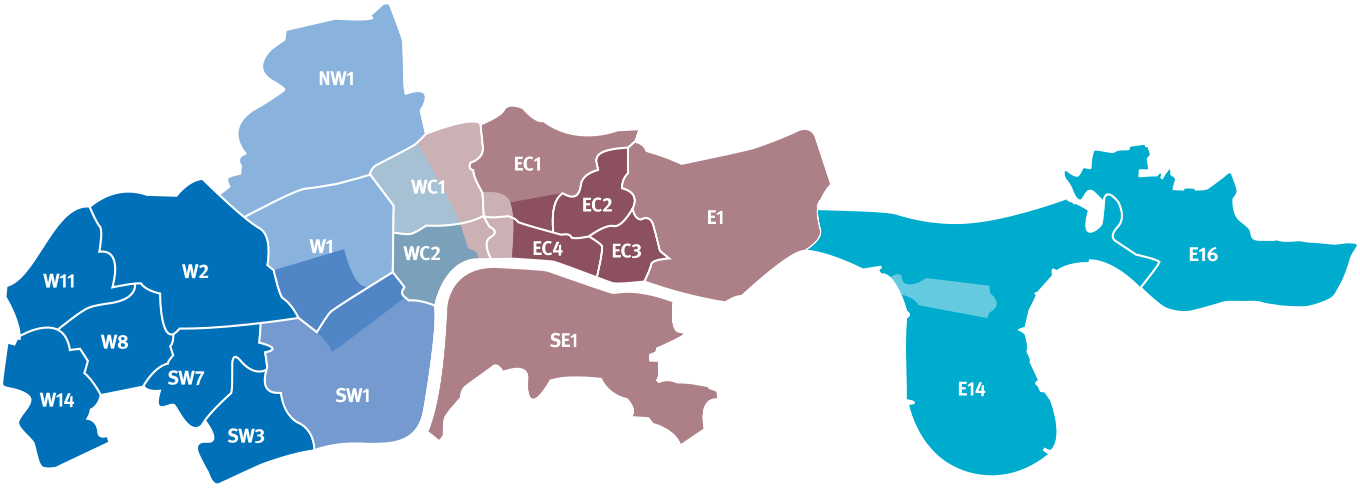
Active Requirements (m sq ft)	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	3 months % change	12 months % change
West End	2.03	2.23	2.40	2.04	**1.93**	-5.2%	-5.0%
City	4.27	4.54	4.00	3.32	**3.43**	3.2%	-19.8%
Docklands	0.22	0.24	0.15	0.08	**0.05**	-41.6%	-79.4%
Unspecified Central London	1.83	2.10	2.20	1.80	**2.35**	30.7%	28.1%
TOTAL Central London	8.36	9.11	8.75	7.23	**7.75**	7.2%	-7.2%

Under Construction (m sq ft)	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	3 months % change	12 months % change
West End	1.87	1.95	2.03	2.75	**2.67**	-2.7%	43.2%
City	5.09	5.81	5.40	5.71	**6.00**	5.2%	17.8%
Docklands	0.53	0.53	0.53	0.53	**0.53**	0.0%	0.0%
Central London	7.49	8.28	7.95	8.98	**9.20**	2.5%	22.9%

Investment (£ m)	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	3 months % change	12 months % change
West End	966.1	1380.7	1065.2	1509.6	**957.2**	-36.6%	-0.9%
City	1565.7	2542.6	2043.0	2226.0	**1101.1**	-50.5%	-29.7%
Docklands	447	0	0	54.7	**511.6**	835.8%	14.5%
Central London	2978.8	3923.3	3108.2	3790.2	**2569.9**	-32.2%	-13.7%

Source: Knight Frank Research

The Central London office market



The West End

Mayfair/St James's
Mayfair and St James's refers to the area bounded by Oxford Street, Regent Street and Park Lane in W1 and by Green Park, St James's Park and The Mall in SW1.

Soho/North of Oxford Street
Soho/North of Oxford Street refers to NW1, and W1 (excluding Mayfair).

Victoria
Victoria refers to SW1 (excluding St James's).

Paddington/Kensington
Paddington/Kensington refers to SW3, SW7, W2, W8, W11, W14.

Bloomsbury
Bloomsbury refers to the area of WC1 bounded by Southampton Row, New Oxford Street, Tottenham Court Road and Euston Road.

Strand/Covent Garden
Strand/Covent Garden refers to the area of WC2 bounded by Kingsway, Aldwych, Victoria Embankment, Charing Cross Road and New Oxford Street.

The City

Core
Core refers to EC2 (excluding EC2A), EC3, EC4 (excluding EC4A and EC4Y), and EC1A.

Fringe
Fringe refers to SE1, E1, EC1 (excluding EC1A and EC1N), and EC2A.

Holborn/Fleet Street
Holborn/Fleet Street refers to EC1N, EC4A, EC4Y, WC1 (excluding Bloomsbury), and WC2 (excluding Strand/Covent Garden).

Docklands

Canary Wharf
Canary Wharf refers to the area comprising Canary Riverside, Westferry Circus, Columbus Courtyard, Cabot Square, Canada Square, Blackwall Place and Heron Quays (East).

Rest of Docklands
Rest of Docklands refers to E14 and E16 including The Royals Business Park (excluding Canary Wharf).

RESEARCH

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General Note

This report has been prepared by Knight Frank Research, the research and consultancy division of Knight Frank. Knight Frank Research gratefully acknowledges the assistance given by the West End, City and Docklands Offices in the compilation and presentation of this material. Certain data sourced from LOD. All graph data sourced by Knight Frank.

Technical Note

The following criteria have been adopted in the preparation of this report.

i. All floorspace figures quoted in this report refer to sq ft net.

ii. Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.

iii. Availability refers to all space available for immediate occupation, plus space still under construction which will be completed within six months and which has not been let.

iv. Availability and take-up are classified into three grades:
New/refurbished: Space under construction which is due for completion within six months or space which is currently on the market and is either new or completely refurbished.
Second-hand A Grade: Previously occupied space with air-conditioning.
Second-hand B Grade: Previously occupied space without air-conditioning.

v. Demand figures quoted in this report refer to named requirements for over 10,000 sq ft.

vi. Under construction figures quoted in this report refer to developments of over 20,000 sq ft which are currently underway. They do not include properties undergoing demolition.

vii. Investment figures quoted in this report refer to accommodation where the majority of income/potential income is from office usage and comprises transactions of £1 m and above.
The data includes standing investments, site purchases and funding transactions.

viii. This report is produced to standard quarters.
Quarter 1: January 1 – March 31,
Quarter 2: April 1 – June 30,
Quarter 3: July 1 – September 30,
Quarter 4: October 1 – December 31

Newmark
Knight Frank
Global