



# Q2 2011 CENTRAL LONDON

Quarterly – Offices  
**Knight Frank**

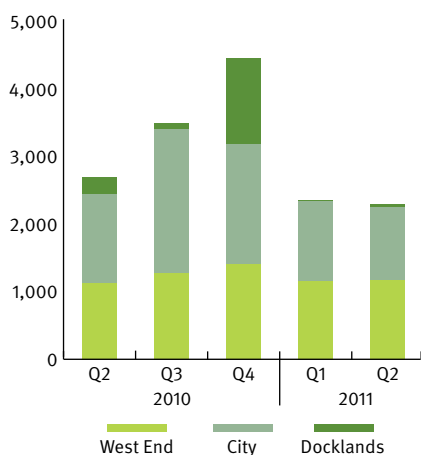
## HIGHLIGHTS

- Take-up totalled 2.3 m sq ft, 23% below the long-term average. While activity for smaller units remains healthy, an ongoing lack of large unit transactions has kept take-up levels low. However, a total of 200,000 sq ft in two transactions have taken place since the quarter-end and a further 500,000 sq ft is likely to sign in three more deals during the third quarter.
- The vacancy rate continued to fall across all markets and is now 6.9%, well below the average of 9.1%. Falling levels of second-hand space and limited development activity will place further pressure on supply over the next 12 months.
- Investment turnover returned to long-term average levels, although a pronounced lack of available investment stock means that turnover figures do not represent the strength of demand for Central London offices. Prime yields remained stable across the market.

# CENTRAL LONDON OVERVIEW

- **Take-up totalled 2.3 m sq ft, with activity in the West End at average levels while a lack of large unit transactions restricted totals in the City.**
- **Availability fell for the seventh consecutive quarter and now totals 16.0 m sq ft.**
- **Speculative development activity rose to 5.4 m sq ft.**
- **Investment turnover totalled £2.7 bn, in line with the long-term average.**

Figure 1  
**Central London take-up by quarter & sub-market**  
Q2 2010 - Q2 2011 (000's sq ft)



## Demand and take-up

Take-up remained constrained across Central London in the second quarter, as limited volumes of new and refurbished space were transacted. Total take-up for the second quarter was 2.3 m sq ft, 23% below the long-term average, although transactions involving new and refurbished space totalled just 387,000 sq ft, compared to a long-term quarterly average of 1.2 m sq ft. The West End saw activity broadly in line with the long-

term average, although the City total was restricted by the continuing absence of large unit transactions.

Post-quarter end transactions and deals under offer will provide the impetus for an increase in activity in the second half of the year. In the few weeks since June the City has seen almost 200,000 sq ft in two deals to Trowers & Hamblins and Expedia and the potential for a further 500,000 sq ft in deals to Aon, Cameron McKenna and PwC should provide a welcome boost to both annual take-up and market sentiment.

## Supply & development

Availability continued to fall across Central London, with total supply now 16.0 m sq ft, its lowest level for three years. Second-hand supply is now back to its pre-Lehman Brothers level and the supply of new and refurbished space is now similar to pre-credit crunch levels. We anticipate a continued reduction in supply levels over the next 12 months due to gradually improving occupier sentiment and a lack of new development schemes completing speculatively.

A number of developers with the ability to secure funding have commenced schemes, and speculative construction activity is now 5.4 m sq ft, a 75% rise over the last nine months. Given current construction levels, speculative completions are still likely to remain below average take-up of new and refurbished space between now and 2014.

## Investment

Investment turnover totalled £2.7 bn in the second quarter, just above the long-term average level and 30% above the previous quarter. The ongoing lack of available assets pegged back activity in the West End, while the City recorded its highest total for four years, boosted by the sale of the Aviva Tower to a private far eastern investor.

In the West End, UK-based investors dominated the purchaser profile as demand for asset management opportunities remained strong and largely unsatisfied. In the City, overseas money was focused on

larger lot sizes and, as in previous quarters, accounted for the majority of purchases. Prime yields remained stable across Central London as investors' appetite for Central London offices remained stable.

Figure 2  
**Central London availability by quarter & sub-market**  
Q2 2010 - Q2 2011 (000's sq ft)

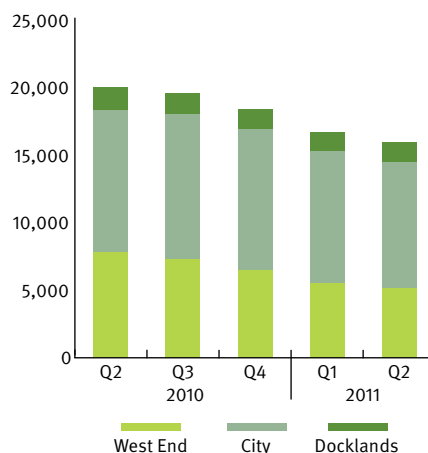
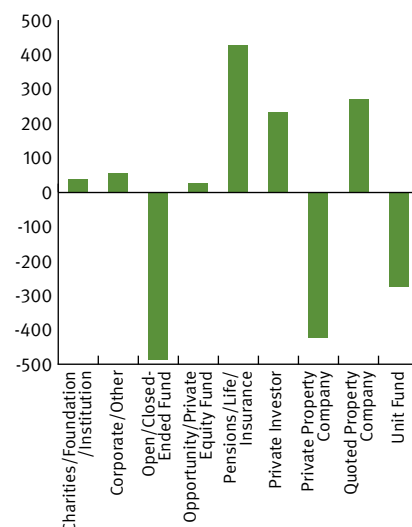


Figure 3  
**Central London net investment**  
Q2 2011 (£ m's)

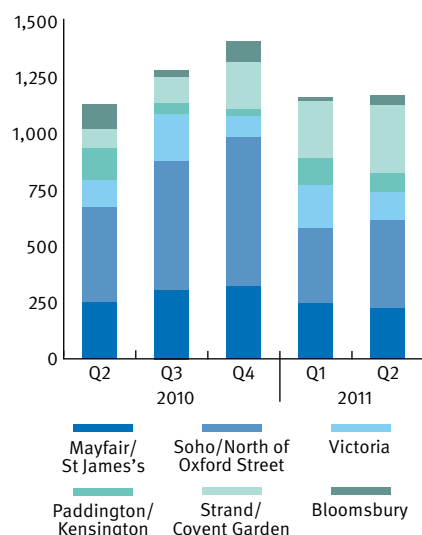




# WEST END

- **Take-up steadied at 1.1 m sq ft, on par the same quarter last year.**
- **Availability continued to fall and stands at 5.1 m sq ft.**
- **Prime headline rents rose by 3% to £92.50 per sq ft.**
- **Investment turnover for the second quarter totalled £830 m.**

Figure 1  
**West End take-up by quarter & sub-market**  
Q2 2010 - Q2 2011 (000's sq ft)



## Demand & take-up

Take-up totalled 1.1 m sq ft, broadly in line with the long-term average and significant against the backdrop of an uncertain global economy. Take-up of second-hand space was strong, while transactions involving new and refurbished space were more than 30% below average. This is considered more a symptom of a lack of availability rather than weak demand

One of the key sectors driving demand is the Technology, Media & Telecoms sector, which accounted for three of the five largest deals during the quarter. Along with a strengthening specialist financial sector, demand is likely to remain healthy for the increasingly limited available space.

## Supply & development

The West End vacancy rate is now 5.6%, the lowest level for three years. Quality units are in increasingly short supply, with vacancy rates for new and refurbished space currently at 1.1%. New and refurbished units are at a premium in the Core, where levels of availability are currently 64% below the long-term average.

The volume of space under construction speculatively has increased by 10% this quarter to 2.0 m sq ft, 15% higher than average. Recent announcements that some of the space at King's Cross Central may be built speculatively have led to an increase in the volume of space that could potentially be delivered in 2013. However, the lack of existing available units as 2013 approaches is likely to result in a considerable portion of this space being accounted for by pre-letting activity.

## Rental profile

The prime headline rent rose to £92.50 per sq ft in Q2, up from £90.00 per sq ft in the first quarter. Rents free periods are currently at 18 months on a 10-year lease. With supply constraints, and steady take-up we are expecting further growth in the second half of the year.

## Investment

Turnover in the second quarter of 2011 totalled £830 m, fractionally above the long-term average of £819 m. The largest transaction of the quarter was Marble Arch Tower, W1, an off market purchase by Almacantar for £80 m at c4.75%. High net worth individuals continue to target Core freehold opportunities, maintaining the current low yields which are stable at 4.00%.

The imbalance between supply and demand for assets continues to drive pricing as investors look to get equity committed to the West End. Demand remains particularly strong from Far Eastern based investors however the UK institutions continue to be active for asset management opportunities. Current stock stands at c£690 m, which is less than the total transactions in Q2. A shortage of stock, particularly lot sizes of £50 - £100 m, could act as a brake on

activity in the second half of the year. Also putting further pressure on the market is the relaxation of planning regulations where office buildings are being sold for potential conversion to residential accommodation.

Figure 2  
**West End availability by quarter & sub-market**  
Q2 2010 - Q2 2011 (000's sq ft)

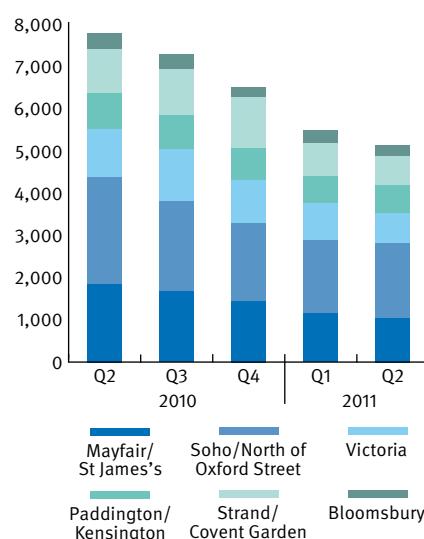


Figure 3  
**West End investment by purchaser**  
Q2 2011

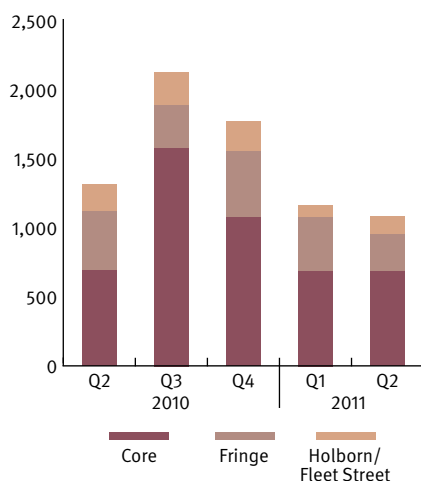


Corporate/Other	£44 m
Charities/Foundation/Institution	£37 m
Opportunity Fund	£94 m
Pension/Life/Insurance	£189 m
Private Investor	£113 m
Private Property Company	£178 m
Quoted Property Company	£131 m
Unit Fund	£41 m

## CITY

- **Take-up low at 1.1 m sq ft, but 85% increase in space under offer.**
- **Availability fell to 9.4 m sq ft, down 11% on a year ago.**
- **Prime headline rents unchanged at £55.00 per sq ft.**
- **Highest quarterly investment turnover since 2007.**

Figure 1  
**City take-up by quarter & sub-market**  
Q2 2010 - Q2 2011 (000's sq ft)



### Demand and take-up

Take-up in the City was 1.1 m sq ft in Q1 2011, compared to the long-term average of 1.5 m sq ft, confirming that demand was subdued in the first half. This reflects the volatile conditions in the global capital markets, which has cast a shadow over sentiment. The City saw no deals of over 50,000 sq ft, although there are signs that the larger unit market is starting to pick-up.

In July, Trowers & Hamlin signed on 99,000 sq ft at 3 Bunhill Row, and Expedia acquired 82,000 sq ft at the Angel Building. Also, there has been an 85% increase in the volume of space under offer to 1.7 m sq ft since the start of the year. Deals under offer include Aon at The Leadenhall Building (192,000 sq ft), CMS Cameron McKenna at Principal Place

(191,000 sq ft), and PwC at London Bridge City (157,000 sq ft). Take-up is expected to rise in the second half, although, we expect a gradual improvement not a rebound.

### Supply and development

Supply fell to 9.4 m sq ft, down 10.8% on a year ago and 4.0% quarter-on-quarter. This reduced the vacancy rate to 8.0%, its lowest level for three years. Most of the fall in supply was in the City Core, with availability in the Fringes unchanged on the previous quarter. It is noteworthy that the last time take-up fell below 1.2 m sq ft in a quarter, yet supply fell, was fifteen years ago. This demonstrates the flow of new supply coming on to the market has become remarkably weak.

The volume of space under construction speculatively is now 3.3 m sq ft, effectively double the level just nine months ago. We expect this to rise further in the coming months. For instance, some of the potential deals mentioned above, such as Aon at The Leadenhall Building, are pre-lets which will kick-start work on buildings where there will be speculative space.

### Rental profile

The prime headline rent remained unchanged at £55.00 per sq ft in Q1, as subdued demand has limited incidences of competitive bidding. However, we believe that with demand starting to improve and supply contracting, rental growth will occur in the second half of this year.

### Investment market

Investment turnover in Q2 was almost £1.9 bn. This is the strongest quarterly volume recorded since 2007, and well above the long-term average of £1.4 bn. As with previous quarters, large deals inflated the figures – the two biggest deals alone accounting for 23% of turnover. Foreign buyers remain active, with a private overseas investor purchasing the Aviva Tower for £288 m. We are also seeing more activity from UK institutions, with Invesco buying 1 Finsbury Circus for £141.5 m.

Prime yields remained steady at 5.25%, hiding the fact that pricing for good secondary assets continues to improve as buyers move up the risk curve in search of returns. A number of overseas investors are more income-driven, focussing more on initial yield than overall returns.

Figure 2  
**City availability by quarter & sub-market**  
Q2 2010 - Q2 2011 (000's sq ft)

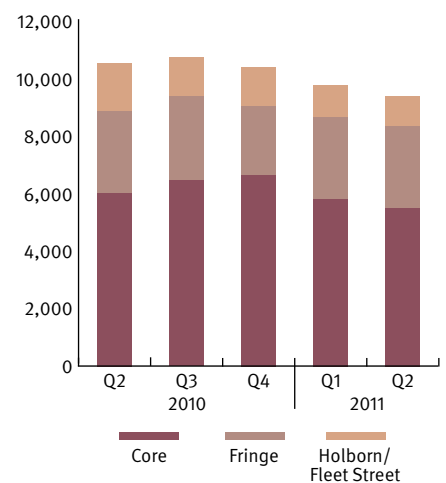
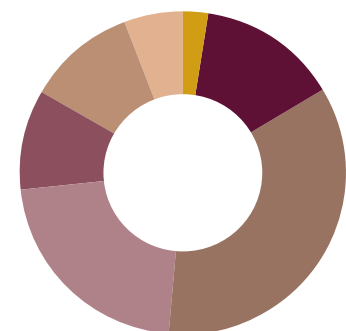


Figure 3  
**City investment by purchaser**  
Q2 2011



Corporate/Other	£51 m
Opportunity Fund	£260 m
Pension/Life/Insurance	£653 m
Private Investor	£409 m
Private Property Company	£185 m
Quoted Property Company	£203 m
Unit Fund	£106 m

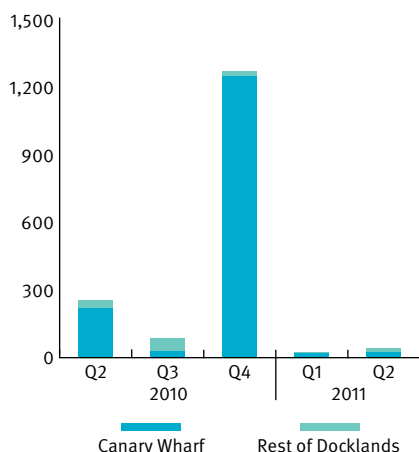




# DOCKLANDS

- **Take-up in Q2 was subdued at just 41,000 sq ft.**
- **Availability remained stable, at 1.4 m sq ft.**
- **Prime headline rents for Canary Wharf unchanged at £36.00 per sq ft.**
- **No investment deals signed in the first half of the year.**

Figure 1  
**Docklands take-up by quarter & sub-market**  
Q2 2010 - Q2 2011 (000's sq ft)



## Demand & take-up

Take-up levels remained low in Q2, totalling 41,000 sq ft bringing levels to just 66,000 sq ft this year. The largest deal of the quarter was at One Canada Square, in which MetLife took c22,000 sq ft Level 50, the only transaction so far this year over 10,000 sq ft. Of active occupier requirements, the European Medicines Agency are believed to be in exclusive negotiations for a substantial pre-let of 25 Churchill Place, the last available site in the core of Canary Wharf.

Long periods of negligible take-up are common in the Docklands – which tends

to see occasional spikes of activity.

Nevertheless, the slow market reflects the difficult conditions in the global financial markets, and we are not expecting any significant improvement in demand for institutional length lease term space in the near-term.

## Supply and development

There was little change in supply levels this quarter, remaining stable at 1.4 m sq ft reflecting a vacancy rate of 6.7% (with the same rate for Canary Wharf). With no new development under construction, there is no pipeline pressure on supply, which will remain the case until the end of next year when LOCOG space comes back to the market.

There have been press reports that a number of large global banking groups are considering further redundancies. Many of the figures on job losses quoted are for global job losses, and it is not apparent how many roles lost will be in London. Nevertheless, it is possible we could see more tenant release space come to the market in the near-term.

## Rental profile

Prime headline rents for whole floors in Canary Wharf remained at £36.00 per sq ft for the fifth consecutive quarter, as the lack of transactions provide little rental evidence of any movement.

## Investment market

There have been no investment deals so far this year, largely due to a lack of supply. However, the largest asset currently available in Central London is 25 Canada Square which is on the market for £1.0 bn recently reduced from £1.1 bn. The building is let on a long lease to Citigroup with indexed uplifts. The asset is principally available by way of a “stapled debt” structure.

Figure 2  
**Docklands availability by quarter & sub-market**  
Q2 2010 - Q2 2011 (000's sq ft)

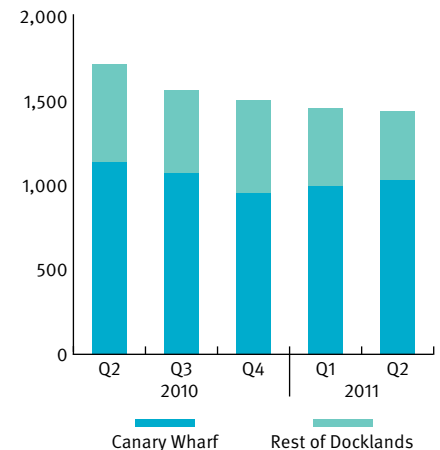
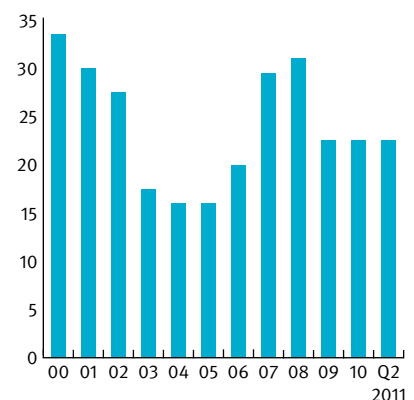


Figure 3  
**Rest of Docklands prime rent**  
2000-Q2 2011 (Prime £/sq ft)



## Key statistics

### Central London office market

Availability (m sq ft)	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	3 months % change	12 months % change
West End	7.81	7.29	6.51	5.49	<b>5.13</b>	-6.5%	-34.3%
City	10.54	10.77	10.41	9.79	<b>9.40</b>	-4.0%	-10.8%
Docklands	1.72	1.57	1.51	1.46	<b>1.44</b>	-1.2%	-16.1%
Central London	20.07	19.63	18.43	16.74	<b>15.97</b>	-4.6%	-20.4%

Vacancy Rate (%)	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	3 months % change	12 months % change
West End	8.6	8.0	7.1	6.0	<b>5.6</b>	n/a	n/a
City	9.0	9.2	8.9	8.4	<b>8.0</b>	n/a	n/a
Docklands	8.0	7.3	7.0	6.8	<b>6.7</b>	n/a	n/a
Central London	8.9	8.5	8.0	7.3	<b>6.9</b>	n/a	n/a

Take-up (m sq ft)	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	3 months % change	12 months % change
West End	1.13	1.28	1.41	1.16	<b>1.14</b>	-1.6%	1.0%
City	1.32	2.13	1.78	1.17	<b>1.09</b>	-7.3%	-17.4%
Docklands	0.26	0.08	1.27	0.03	<b>0.04</b>	62.2%	-84.1%
Central London	2.70	3.50	4.46	2.36	<b>2.27</b>	-3.8%	-16.0%

Active Requirements (m sq ft)	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	3 months % change	12 months % change
West End	2.11	1.91	1.73	1.72	<b>1.90</b>	10.7%	-10.0%
City	4.34	3.05	3.42	4.95	<b>4.79</b>	-3.1%	10.6%
Docklands	1.00	0.00	0.06	0.06	<b>0.50</b>	733.3%	-50.0%
Unspecified Central London	0.89	1.64	0.96	0.92	<b>0.62</b>	-32.9%	-30.6%
TOTAL Central London	9.92	6.60	6.16	7.64	<b>7.81</b>	2.2%	-21.3%

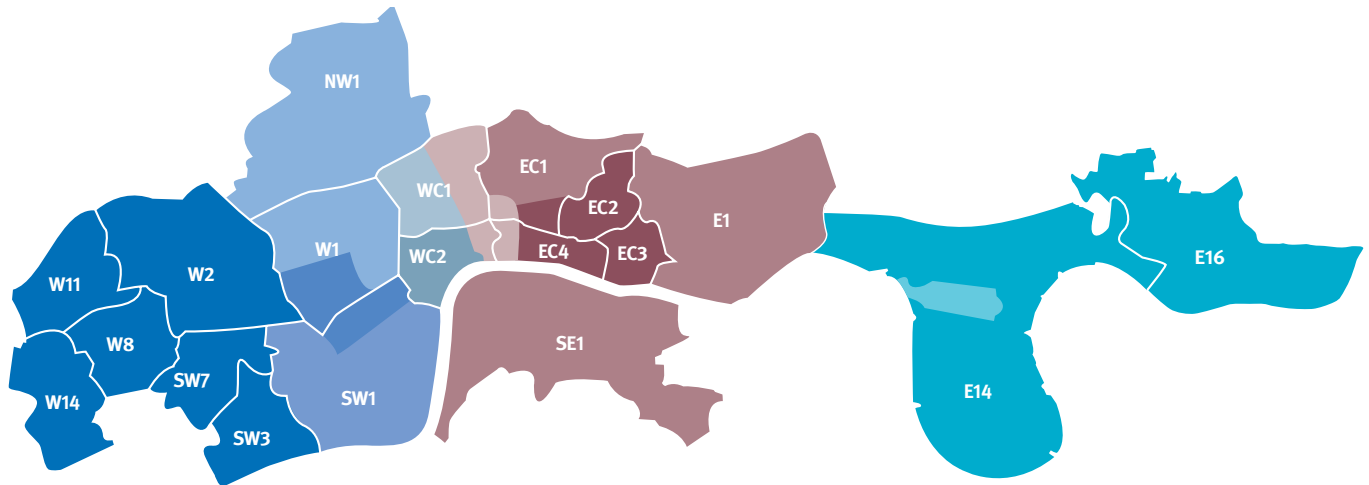
Under Construction (m sq ft)	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	3 months % change	12 months % change
West End	1.25	1.36	1.43	1.77	<b>1.95</b>	10.2%	55.5%
City	3.30	1.88	2.67	3.28	<b>3.45</b>	5.4%	4.7%
Docklands	0.00	0.00	0.00	0.00	<b>0.00</b>	n/a	n/a
Central London	4.55	3.24	4.10	5.05	<b>5.40</b>	7.1%	18.7%

Investment (£ m)	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	3 months % change	12 months % change
West End	1685.0	915.3	1088.0	667.3	<b>829.5</b>	24.3%	-50.8%
City	1029.6	1638.3	1703.9	1394.4	<b>1866.6</b>	33.9%	81.3%
Docklands	134.6	5.8	495.0	0.0	<b>0.0</b>	n/a	n/a
Central London	2849.2	2559.4	3286.9	2061.7	<b>2696.1</b>	30.8%	-5.4%

Source: Knight Frank



## 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 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).



## Americas

USA  
Bermuda  
Brazil  
Canada  
Caribbean  
Chile

## Australasia

Australia  
New Zealand

## Europe

UK  
Belgium  
Czech Republic  
France  
Germany  
Hungary  
Ireland  
Italy  
Monaco  
Poland  
Portugal  
Romania  
Russia  
Spain  
The Netherlands  
Ukraine

## Africa

Botswana  
Kenya  
Malawi  
Nigeria  
South Africa  
Tanzania  
Uganda  
Zambia  
Zimbabwe

## Asia

Cambodia  
China  
Hong Kong  
India  
Indonesia  
Macau  
Malaysia  
Singapore  
Thailand  
Vietnam

## The Gulf

Bahrain  
Abu Dhabi, UAE

## Commercial Research

### James Roberts, Partner

Head of Commercial Research  
+44 (0) 20 7629 8171  
james.roberts@knightfrank.com

### John Snow, Partner

Head of Central London Offices  
+44 (0) 20 7629 8171  
john.snow@knightfrank.com

### Patrick Scanlon, Associate

Central London Research  
+44 (0) 20 7629 8171  
patrick.scanlon@knightfrank.com

### Hayley Reid, Senior Analyst

Central London Research  
+44 (0) 20 7629 8171  
hayley.reid@knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank Research Reports are also available at [KnightFrank.com](http://KnightFrank.com)

## © Knight Frank LLP 2011

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.

Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

## 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