RESEARCH

Knight Frank

Q3 2013

CENTRAL LONDON

Quarterly – Offices

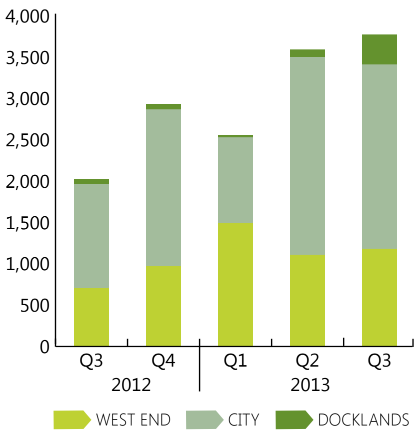
HIGHLIGHTS

- Take-up increased to 3.8 m sq ft, 77% higher than the same quarter last year. Activity was driven by acquisitions by technology, media and telecoms (TMT) tenants, who accounted for 30% of all deals.
- Supply fell to 16.4 m sq ft reflecting a vacancy rate of 7.2%. This is 15% below the long-term average. Central London supply will likely fluctuate over the next few quarters as a number of speculative development schemes enter the figures to counter balance space lost through take-up.
- Investment turnover reached £5.0 bn, driven by continued strong overseas demand for Central London assets and the return of UK institutions to the market. Turnover is now at its highest level since mid-2007 and there is renewed downward pressure on prime yields in the City.

CENTRAL LONDON OVERVIEW

- Take-up rose by 6% to 3.8 m sq ft, the highest quarterly total for 3 years.
- Supply continued to fall to 16.4 m sq ft, representing a vacancy rate of 7.2%.
- Speculative under construction fell significantly as 1.2 m sq ft of space reached completion.
- Investment turnover rose to £5.0 bn, the highest for six years.

FIGURE 1
Central London take-up by quarter & sub-market
Q3 2012 - Q3 2013 (000's sq ft)



Demand and take-up

The strong leasing activity continued into the third quarter, which saw 3.8 m sq ft of take-up. This is the highest level for three years and a stark contrast to the corresponding quarter last year, which saw just 2.1 m sq ft of deals. News International and Ogilvy & Mather (WPP) signed the two largest transactions of the quarter, acquiring 430,000 sq ft at London Bridge Quarter and 226,000 sq ft at Sea Containers House respectively. This year has seen some of the largest TMT deals ever signed in Central London, with the sector accounting for 30% of all take-up during the third quarter.

Occupier sentiment continued to improve, resulting in an increase in prime headline rents in both the West End and City markets. This is particularly significant considering the length of time rents have been stable in both markets; one year in the case of the West End and almost three years in the case of the City.

Supply & development

Supply continued its downward trend to stand at 16.4 m sq ft at the end of the quarter, reflecting a vacancy rate of 7.2%. While the volume of new and refurbished space available rose, due mainly to 25 Churchill Place entering the figures, there was a significant reduction in second-hand availability. The supply of second-hand units has fallen by around 2.0 m sq ft over the last 6 months, with some units withdrawn for reoccupation, and others for redevelopment.

Although there is 5.5 m sq ft under construction speculatively in Central London, this has fallen considerably in just three months; there is now 900,000 sq ft less speculative space under construction than at the mid-year point. Perhaps most significant is the relative paucity of space due for completion in 2015. More than 80% of all space currently under construction speculatively is due for practical completion before the end of 2014. This is likely to lead to strong rental growth across the Central London markets in 2014 as tenants compete for the tightening supply of quality units.

Investment

The third quarter saw particularly strong investment turnover across all markets, with more than £5.0 bn of assets purchased, 31% higher than the previous quarter and the highest since mid-2007. However, as has characterised this cycle, turnover levels are more representative of the stock being released to the market during any particular quarter than fluctuations in the strong demand for Central London commercial real estate. Such is investors' appetite for Central London stock, more than 80% of available assets in the City, and 45% of West End assets, are already under offer.

Although interest from overseas purchasers has characterised this cycle, there was renewed interest from domestic investors as the UK funds increased their allocations to commercial real estate. For the first time in two years, more than half of quarterly purchases were by UK investors. This renewed focus on London offices from the UK funds, and the continuing strengthening of the occupational market, has placed upward pressure on pricing across Central London.

FIGURE 2
Central London availability by quarter & sub-market
Q3 2012 - Q3 2013 (000's sq ft)

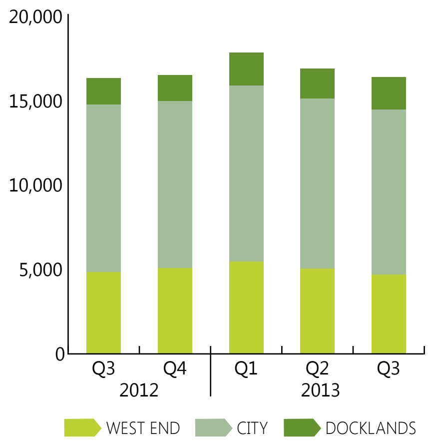
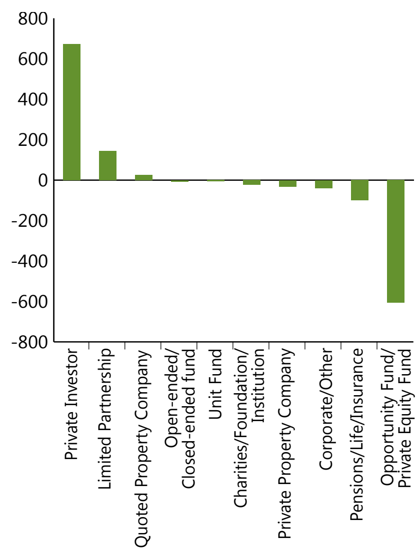


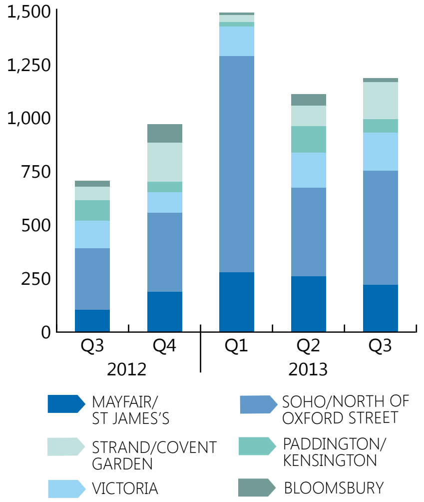
FIGURE 3
Central London net investment
Q3 2013 (£ m's)



WEST END

- Take-up rose from 1.1 m sq ft to 1.2 m sq ft.
- Availability fell to 4.7 m sq ft by the end of Q3.
- Prime headline rents increased by 3% to £97.50 per sq ft.
- Investment turnover in the third quarter totalled £2.6 bn.

FIGURE 1
West End take-up by quarter & sub-market
Q3 2012 - Q3 2013 (000's sq ft)



Take-up in the third quarter of the year rose by nearly 9% from 1.1 m sq ft to 1.2 m sq ft, quarter-on-quarter. This represents an increase of 68% on the same quarter of 2012, and brings levels on par with the long-term average. Furthermore, there was a 65% rise in the number of deals over 10,000 sqft in the West End. Take-up of new and refurbished stock was more than double that of the previous quarter, totalling circa 350,000 sq ft which equals the long-term average.

Supply & development

Availability in the West End fell for a second consecutive quarter and is now below 5.0 m sq ft for the first time in 12 months. Supply dropped from 5.1 m sq ft to 4.7 m sq ft in Q3, nearly 28% below the long-term average. The current vacancy rate in the West End now stands at 5.1%, the lowest level since Q2 2008. There is currently 1.7 m sq ft of new and refurbished space on the market, up from 1.1 m sq ft a year ago, due to approaching development completions.

The volume of space under construction speculatively fell by nearly 11%, from 2.9 m sq ft to 2.6 m sq ft. Over 500,000 sq ft completed in the third quarter which included circa 320,000 sq ft at 10 Brock Street, Regent's Place, NW1, where the majority is already let and the last remaining floors under offer.

Rental profile

The prime headline rent in the West End has increased for the first time since Q2 2012 from £95.00 per sq ft to £97.50 per sq ft. There have also been pockets of rental growth in other sub-markets including North of Mayfair, West End North, Noho and Victoria. Rent free periods have come in from 20 months to 18 months on a 10-year term certain.

Investment

Investment turnover totalled nearly £2.6 bn in the third quarter, 123% above the level recorded for the previous quarter and 167% above the long-term average. Prime yields remained at 4.00%. Private investors were the most active purchaser type in Q3, accounting for 44% of deal volume. Furthermore, UK buyers were the most active purchasers and accounted for more than 56% of all acquisitions by value.

The German private investor, Sirosa, made two leading market deals in Q3, which included the completion of the largest asset acquisition ever recorded in the West End. Sirosa purchased 99-121 Kensington High Street for £225 m and 80 Strand for £610 m. Transaction levels were also boosted by British Land's purchase of the Paddington Central Estate for £476 m reflecting a NIY of 5.30%.

FIGURE 2
West End availability by quarter & sub-market
Q3 2012 - Q3 2013 (000's sq ft)

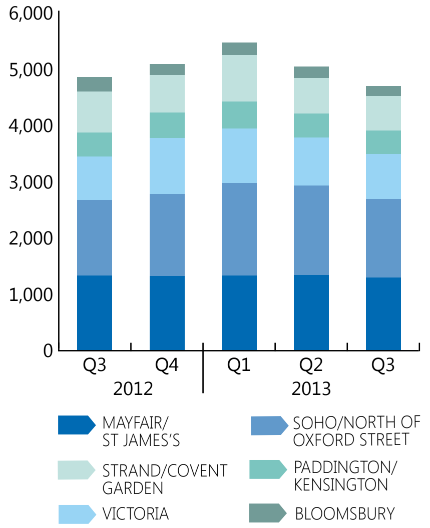
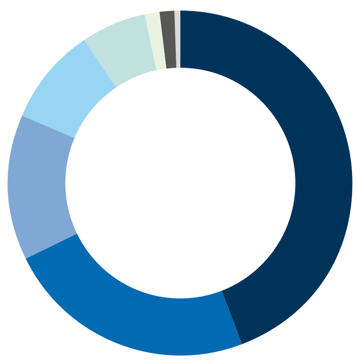


FIGURE 3
West End investment by purchaser
Q3 2013 (£m)



PRIVATE INVESTOR	£1,135 M
QUOTED PROPERTY COMPANY	£598 M
PRIVATE PROPERTY COMPANY	£352 M
PENSION/LIFE/INSURANCE	£232 M
LIMITED PARTNERSHIP	£155 M
CHARITIES/FOUNDATION/ INSTITUTION	£38 M
CORPORATE/OTHER	£32 M
OPEN-ENDED/ CLOSED-ENDED FUND	£12 M

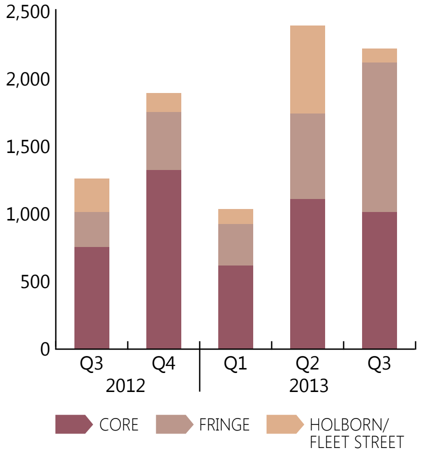
CITY

- Availability edged down from 10.1 m sq ft to 9.8 m sq ft.
- Take-up well above average at 2.2 m sq ft for Q3 2013.
- Non-core sub-markets account for half of take-up.
- Prime rents increase to £57.50 per sq ft.

FIGURE 1

City take-up by quarter & sub-market

Q3 2012 - Q3 2013 (000's sq ft)



Demand and take-up

Take-up was 2.2 m sq ft for Q3 2013, compared to a ten year average figure of 1.6 m sq ft. Half of all take-up in Q3 occurred in the districts outside the core, particularly Southbank. On a quarter-on-quarter basis take-up was down compared to the 2.4 m sq ft transacted in Q2. With 1.2 m sq ft under offer, the market will probably see below average take-up in Q4; although we are forecasting full year take-up to exceed 6.8 m sq ft, compared to 5.8 m sq ft for 2012.

The largest deals of the quarter came from media firms acquiring newly developed space in the Southbank. News International took The Place (430,000 sq ft), while Ogilvy & Mather acquired 226,000 sq ft at Sea Containers House. Law firms were also active in the market, with Cameron McKenna signing at Cannon Place (130,000 sq ft).

Supply and development

Supply levels fell quarter-on-quarter, from 10.1 m sq ft to 9.8 m sq ft, with most of the decline occurring in the fringes. The vacancy rate in the City currently stands at 8.3%, versus a ten year average figure of 9.9%. In the Holborn district the vacancy rate is just 5.1%.

There is currently 3.1 m sq ft of speculative development under construction, which is down on the previous quarter (4.0 m sq ft).

Rental profile

City Core prime rents increased to £57.50 per sq ft. With the pipeline contracting and demand on the rise, we see further rental growth ahead.

Investment

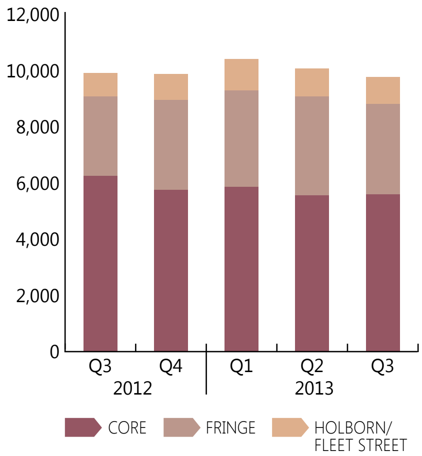
The sales volume was £2.2 bn in Q3 2013, which is up over 8.5% on Q3 2012, and 30% higher than Q2. With £2.9 bn of stock under offer (leaving just £500 m of stock actually available), the market is on course for a strong second half for 2013. The largest Q3 deal was the sale of 30 Gresham Street (a core asset let to Commerzbank) for £335 m to Samsung Asset Management.

Prime yields hardened by 25 bps to 4.75% as robust demand and limited supply pushed up prices. With rental growth re-emerging, we expect to see more interest in short income assets and sites.

FIGURE 2

City availability by quarter & sub-market

Q3 2012 - Q3 2013 (000's sq ft)

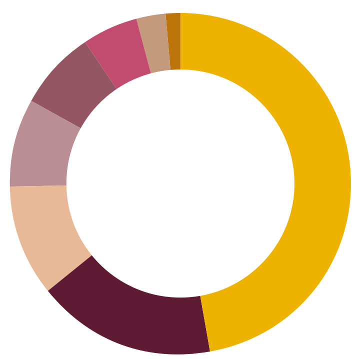


"The largest deals of the quarter came from media firms acquiring newly developed space in the Southbank."

FIGURE 3

City investment by purchaser

Q3 2013 (£m)

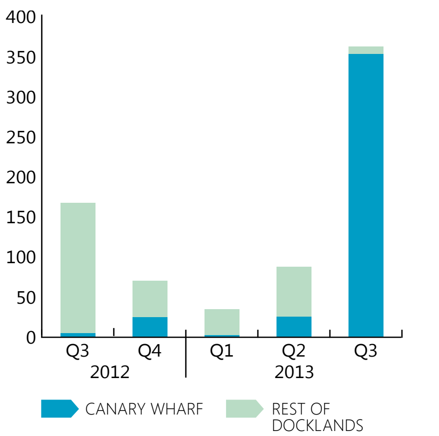


PENSION/LIFE/INSURANCE	£1,048 M
PRIVATE PROPERTY COMPANY	£382 M
CORPORATE/OTHER	£229 M
PRIVATE INVESTOR	£187 M
QUOTED PROPERTY COMPANY	£167 M
OPPORTUNITY FUND	£116 M
OPEN-ENDED/ CLOSED-ENDED FUND	£61 M
CHARITIES/FOUNDATION/ INSTITUTION	£29 M

DOCKLANDS

- Take-up rises to 363,000 sq ft.
- KPMG deal boosts activity.
- Availability increases to 1.9 m sq ft.
- Investment volume was £287 m.

FIGURE 1
Docklands take-up by quarter & sub-market
Q3 2012 - Q3 2013 (000's sq ft)



Demand & take-up

The Docklands market in Q3 saw its highest quarterly take-up figure since Q4 2010, reaching 363,000 sq ft. While a single deal, KPMG acquiring 206,000 sq ft at 30 North Colonnade, accounted for the majority of activity, even if we exclude this deal take-up still increased on a quarter-on-quarter comparison.

The market benefited in Q3 from existing Canary Wharf occupiers taking additional space. HSBC signed on two floors totalling 54,000 sq ft at One Canada Square, a building close to the banking group's global headquarters. Also, Shell International took an extra 38,000 sq ft in 40 Bank Street. Outside of Canary Wharf, activity levels were marginal with less than 9,000 sq ft of space acquired.

Supply & Development

Availability increased slightly from 1.8 m sq ft in Q2 to 1.9 m sq ft in Q3, as more space became available outside of Canary Wharf. In particular, 164,000 sq ft of space was placed on the market at Anchorage House, which is part of the East India Dock complex found to the north east of Canary Wharf. This takes the Docklands vacancy rate to 9.0%.

Rental Profile

Prime rents remained unchanged at £36.00 per sq ft.

Investment

The Docklands investment volume was £287 m in Q3. Notable deals include Canary Wharf Group buying the long leasehold of 15 Westferry Circus, E14, for £128 m from administrators, reflecting a net initial yield (NIY) of 6.07%. Outside of Canary Wharf, a private investor bought the Thames Quay Estate for £82 m (NIY: 5.75%), and the BA Pension Fund paid £77 m for South Quay Plaza II & III.

FIGURE 2
Docklands availability by quarter & sub-market
Q3 2012 - Q3 2013 (000's sq ft)

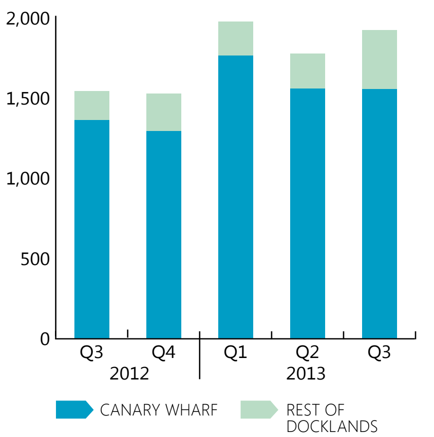
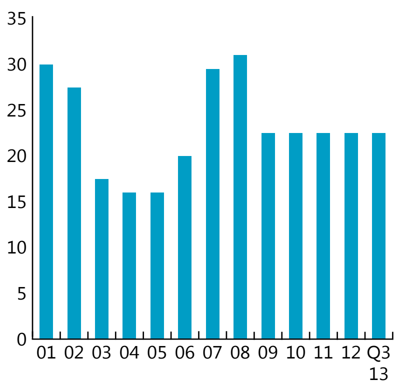


FIGURE 3
Rest of Docklands prime rent
2000-2013 (Prime £/sq ft)



"The Docklands market in Q3 saw its highest quarterly take-up figure since Q4 2010, reaching 363,000 sq ft."

KEY STATISTICS

Central London office market

Availability (m sq ft)	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	3 months % change	12 months % change
West End	4.87	5.10	5.48	5.05	**4.74**	-6.2%	-2.7%
City	9.92	9.89	10.42	10.09	**9.78**	-3.0%	-1.4%
Docklands	1.54	1.53	1.98	1.78	**1.93**	8.4%	25.0%
Central London	16.33	16.52	17.88	16.92	**16.45**	-2.8%	0.7%

Vacancy Rate (%)	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	3 months % change	12 months % change
West End	5.3	5.6	6.0	5.5	**5.1**	n/a	n/a
City	8.5	8.4	8.9	8.6	**8.3**	n/a	n/a
Docklands	7.2	7.1	9.2	8.3	**9.0**	n/a	n/a
Central London	7.1	7.2	7.8	7.3	**7.2**	n/a	n/a

Take-up (m sq ft)	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	3 months % change	12 months % change
West End	0.71	0.98	1.49	1.09	**1.19**	8.8%	68.1%
City	1.26	1.90	1.04	2.40	**2.23**	-7.0%	76.5%
Docklands	0.17	0.07	0.03	0.09	**0.36**	311.3%	114.3%
Central London	2.14	2.95	2.57	3.58	**3.79**	5.9%	77.1%

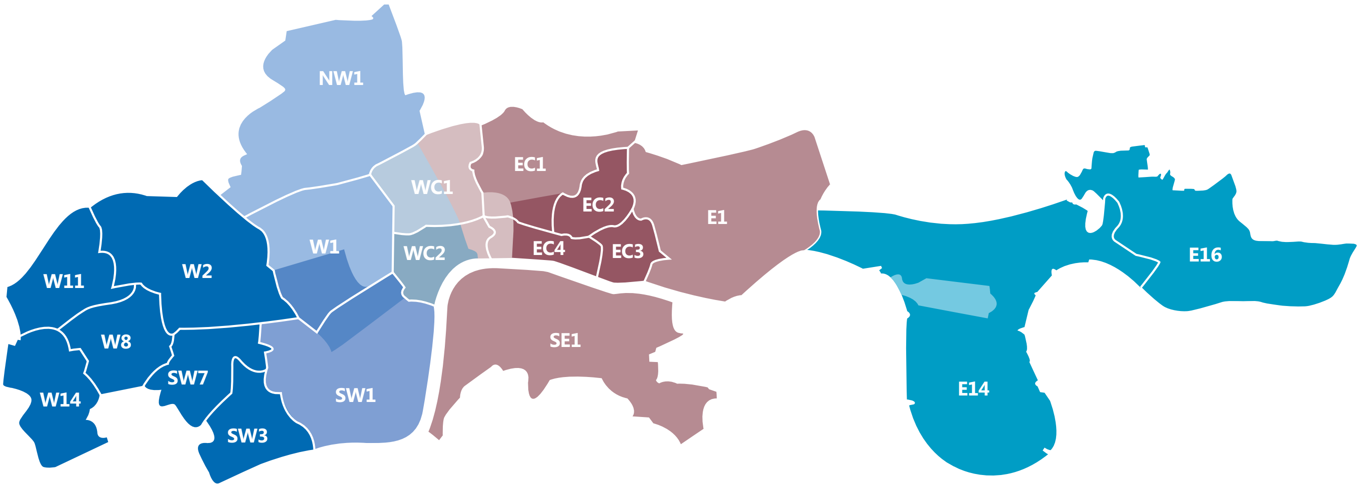
Active Requirements (m sq ft)	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	3 months % change	12 months % change
West End	2.40	2.04	1.93	1.43	**1.45**	1.3%	-39.6%
City	4.00	3.32	3.43	4.05	**3.80**	-6.1%	-4.9%
Docklands	0.15	0.08	0.05	0.15	**0.05**	-66.7%	-66.7%
Unspecified Central London	2.20	1.80	2.35	2.03	**1.30**	-36.0%	-41.0%
TOTAL Central London	8.75	7.23	7.75	7.66	**6.60**	-13.8%	-24.6%

Under Construction (m sq ft)	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	3 months % change	12 months % change
West End	2.03	2.75	2.67	2.89	**2.58**	-10.7%	27.0%
City	5.40	5.71	6.00	6.43	**5.82**	-9.5%	7.8%
Docklands	0.53	0.53	0.53	0.53	**0.53**	0.8%	0.8%
Central London	7.95	8.98	9.20	9.84	**8.93**	-9.3%	12.3%

Investment (£ m)	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	3 months % change	12 months % change
West End	1065.2	1509.6	957.2	1142.6	**2551.5**	123.3%	139.5%
City	2043.0	2226.0	1101.1	1712.4	**2219.5**	29.6%	8.6%
Docklands	0	54.7	511.6	1000.0	**287.0**	-71.3%	n/a
Central London	3108.2	3790.2	2569.9	3855.0	**5058.0**	31.2%	62.7%

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
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Global