RESEARCH

Q4 2010

CENTRAL LONDON

Quarterly – Offices

Knight Frank

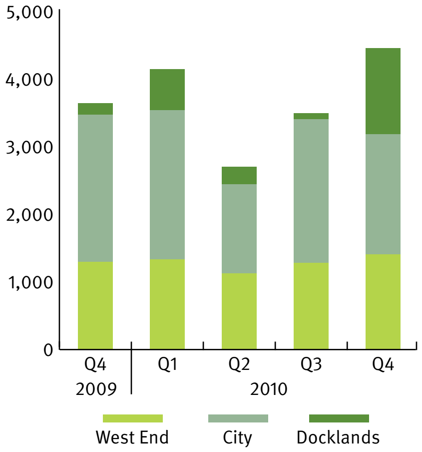
HIGHLIGHTS

- Take-up rose to 4.5 m sq ft in the final quarter of 2010, the highest since mid-2007. This final quarter boost took annual take-up to almost 15.0 m sq ft, 22% higher than average. A resurgent financial sector drove the strong leasing activity.
- Availability continued on its downward trend due to a limited development pipeline and the rapid fall in the supply of second-hand space due to renewed tenant confidence. A number of development schemes commenced on site as developers with available funds look to take advantage of potential future under-supply and rental growth.
- The Central London investment market continued to gather strength as positive forecasts for the occupational market fuelled investors’ appetite. Prime yields remained under pressure as supply failed to meet demand.

CENTRAL LONDON OVERVIEW

- **Take-up totalled 4.5 m sq ft, 50% higher than the long-term average.**
- **Availability fell to 18.4 m sq ft having fallen by 20% since the start of the year.**
- **1.5 m sq ft of developments commenced speculatively, although overall construction remains limited.**
- **Investment turnover reached £3.4 bn, the highest for more than 3 years.**

Figure 1
Central London take-up by quarter & sub-market
Q4 2009 - Q4 2010 (000's sq ft)



Demand and take-up

The final quarter of 2010 recorded the strongest level of take-up across Central London since the beginning of the credit crunch. There were almost 4.5 m sq ft of transactions in Q4 2010, the highest level since Q3 2007 and nearly 50% above the long-term quarterly average. This takes the total for 2010 to 14.8 m sq ft, the highest since 2007 and 22% higher than the long-term annual average.

Leading this recovery in transaction levels has been the financial sector, from the hedge funds in the West End Core to the large banks in the City & Docklands. The financial sector acquired 6.5 m sq ft in 2010, accounting for 35% of Central London take-up. This is the highest level of activity from this sector since before the recession and points to the ongoing commitment to London of some of the world's largest financial institutions.

Supply & development

Availability fell to 18.4 m sq ft, 6% lower than the previous quarter and 25% below its peak in mid-2009. Significantly, the fall in Q4 2010 was attributable to a drop of around 1.5 m sq ft in the availability of second-hand space, indicating that the release of tenant space has slowed considerably. Second-hand space availability has fallen by around 3.5 m sq ft since peaking at 16.8 m sq ft in Q3 2009. The volume of available new and refurbished space rose slightly to 5.3 m sq ft due to 396,636 sq ft at Cannon Place, EC4 which is due for completion in Q2 2011, entering our figures, although levels remain 25% below the long-term average.

The limited availability of quality space has led a number of developers to start building speculatively with a view to deliver schemes into a market where the supply of new and refurbished units will be at unprecedented low levels. There is currently 4.0 m sq ft under construction, 1.5 m sq ft of which commenced during Q4 2010. However, with two major City schemes totalling almost 850,000 sq ft due to complete in the next 6 months, construction levels are likely to remain under control.

Investment

Investment turnover rose considerably in the final quarter to £3.4 bn, the highest for more than three years. Although the quarter saw the highest number of £100 m+ purchases since Q3 2007, overall activity was strong across all lot sizes and markets, reflecting the anticipation of further positive rental growth in the occupational market through to 2015.

Foreign investors have been the most active investor type during 2010 accounting for almost three-quarters of Central London purchases. Looking ahead, demand from foreign investors is likely to remain strong along with UK Institutions re-entering the market. Opportunity and private equity investors may also focus on any assets available through distress or corporate recovery. In the City, prime yields stabilised at 5.25% while in the West End yields hardened further to 4.00%

Figure 2
Central London availability by quarter & sub-market
Q4 2009 - Q4 2010 (000's sq ft)

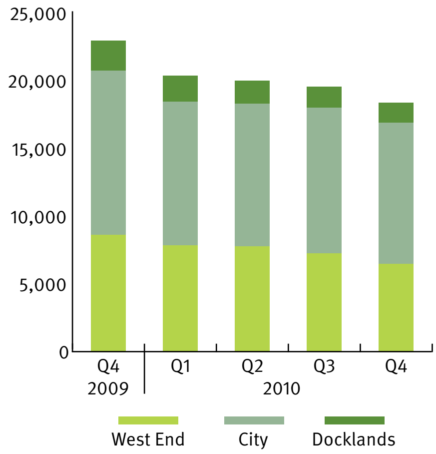
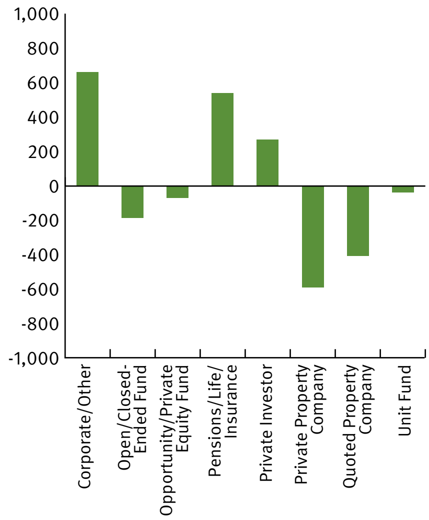


Figure 3
Central London net investment
Q4 2010 (£ m's)



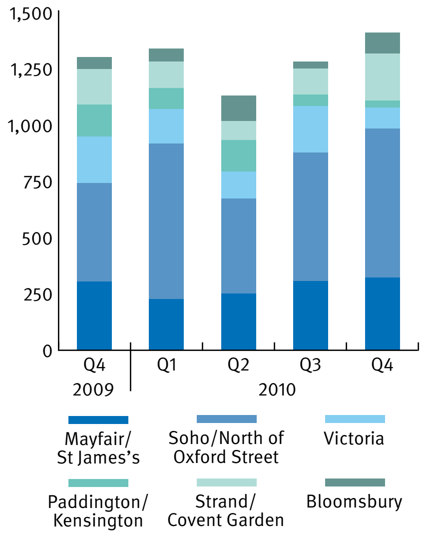
WEST END

- **Take-up rose to 1.4 m sq ft, 8% higher than this time last year.**
- **Availability continued to fall and stands at 6.5 m sq ft.**
- **Prime headline rents have risen by 31% this year to £85.00 per sq ft.**
- **Investment turnover for the final quarter of 2010 totalled £1.1 bn, bringing the total to £4.6 bn.**

Figure 1

West End take-up by quarter & sub-market

Q4 2009 - Q4 2010 (000's sq ft)



Demand & take-up

Take-up in the final quarter totalled 1.4 m sq ft, which is 10% higher than the previous quarter and a level not seen since Q2 2008. Total take-up for the year reached 5.2 m sq ft, 11% higher than the ten-year long-term average. Although just one deal (BNP Paribas's purchase of Building B1, at King's Cross Central totalling 350,000 sq ft) accounted for 25% of total take-up in Q4.

Active requirements fell a further 10% this quarter to 1.7 m sq ft as a number of medium-sized requirements were satisfied, but total demand is only 4% below levels seen this time last year. Demand remains subdued but we expect it to pick up in the later part of 2011, as the economy strengthens.

Supply & development

Availability has fallen for the fifth consecutive quarter to 6.5 m sq ft taking the vacancy rate in the West End to 7.1%. During the course of the year, supply has fallen by 25%, taking levels 9% below the ten-year average. Although levels of new & refurbished space have remained the same since Q3 at 1.3 m sq ft, the volume of second-hand space has fallen by 13%.

The volume of space under construction speculatively increased slightly this quarter to 1.5 m sq ft. Although a number of schemes started in the second half of the year, levels are still 15% below Q4 2009. There is less than 500,000 sq ft of new and refurbished space coming to the market in 2011, with only two schemes providing 100,000 sq ft or more.

Rental profile

The prime headline rent rose by 3% from £82.50 per sq ft to £85.00 per sq ft in the final quarter of the year taking the annual rise in 2010 to 31%. If availability continues to fall as we expect, we will see further rises in rents throughout 2011. Rent free periods continue fall gradually and are now at 18 months on a ten-year term certain.

Investment

Turnover for the year totalled £4.6 bn in the West End, 77% higher than in 2009. In the fourth quarter turnover was £1.1 bn, nearly 19% higher than last quarter and would have been close to the Q2 level of £1.7 bn if the Crown Estate's 25% interest in Regent Street had not transacted just into the New Year. This is 32% above the ten-year average.

The two largest transactions of Q4 where both undertaken by a new entry to the market, the Malaysian Employee Pension Fund (EPF), who bought 40 Portman Square for £181m and 1 Sheldon Square for c£157m reflecting a net initial yield of 5.50% and 5.75% respectively.

Figure 2

West End availability by quarter & sub-market

Q4 2009 - Q4 2010 (000's sq ft)

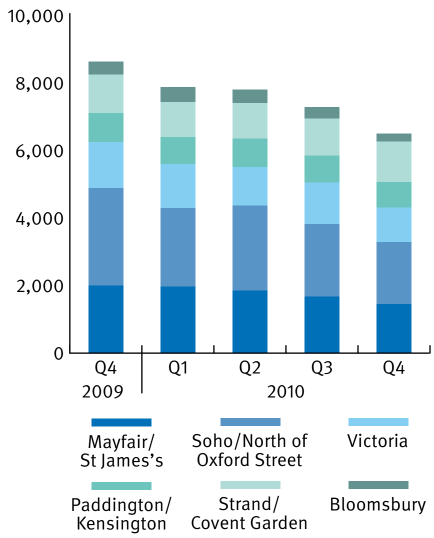
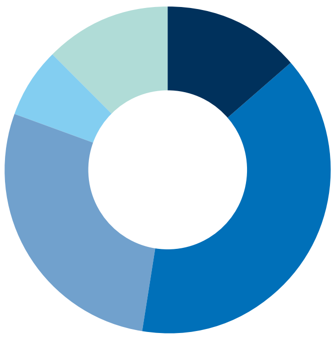


Figure 3

West End investment by purchaser

Q4 2010



Open-ended/ Closed-ended Fund	£139 m
Pension/Life/Insurance	£396 m
Private Investor	£286 m
Private Property Company	£71 m
Quoted Property Company	£127 m

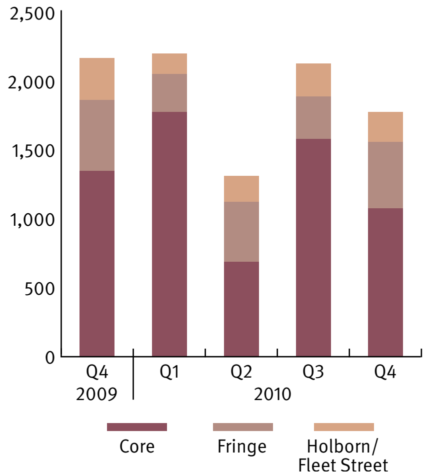
CITY

- **Take-up rose to 1.8 m sq ft, taking annual take-up to 7.4 m sq ft.**
- **Availability fell to 10.4 m sq ft as second-hand availability decreased.**
- **Prime city rent increased to £55.00 per sq ft.**
- **Investment turnover increased to £1.7 bn, taking the annual total to £5.1 bn.**

Figure 1

City take-up by quarter & sub-market

Q4 2009 - Q4 2010 (000's sq ft)



Demand and take-up

Take-up in the final quarter of 2010 totalled 1.8 m sq ft, 13% higher than the long-term quarterly average. This has taken annual take-up to 7.4 m sq ft, an increase of almost 30% on 2009 and 12% higher than average. However, once again activity involving medium-sized units remained subdued in the final quarter. Excluding Bloomberg's forward purchase of Walbrook Square for its 500,000 sq ft occupational requirement, there were no transactions in excess of 50,000 sq ft in the City.

In December, volatility in the financial markets and the continued uncertainty in the Eurozone caused demand to slow. However, the recovering global economy should provide City occupiers with increased confidence as 2011 progresses, leading to increased activity.

Supply and development

Having briefly increased by 2% in Q3 2010, City availability resumed its downward trend in the final quarter and is now 10.4 m sq ft, reflecting a vacancy rate of 8.9%. This represents a year-on-year fall in availability of 15%. This drop in supply is particularly encouraging given the inclusion of 389,000 sq ft at Cannon Place in the figures which is due for completion in Q2 2011. The availability of second-hand space is declining and now totals 6.9 m sq ft, down 8% on the previous quarter.

A number of schemes, such as London Bridge Place (419,000 sq ft), commenced on site in Q4 2010 in response to falling supply. Speculative construction activity in the City is now 2.6 m sq ft, although more than 90% in just five buildings. This represents a rise of 50% on the previous quarter's level, but importantly is still 20% below the long-term average level and considerably lower than 6.5 m sq ft under construction at the beginning of 2008.

Rental profile

Prime rents in the City Core rose for the fifth consecutive quarter, finishing the year at £55.00 per sq ft. Levels are now 25% higher than 12 months ago, which is one of the strongest rental growth rates in more than 20 years. Further rental growth is expected in 2011 as demand exceeds supply for new and refurbished space. Rent free periods are between 21 and 24 months for a 10-year term certain.

Investment market

City investment turnover rose further in the final quarter to £1.7 bn, taking the total investment volume for 2010 to £5.1 bn. Although this is a considerable improvement on the £2.2 bn seen in 2009, purchasing activity remains limited by a lack of supply. A number of large lot size deals contributed significantly to total turnover, with the ten largest deals of 2010 totalling £2.2bn – equal to the previous year's total turnover. The largest transaction of the quarter, and of the year, was JP Morgan Asset Management's purchase of the Bishop's Square Estate for £557 m.

Prime yields remained at 5.25% for the third consecutive quarter, as confidence in the outlook for the occupier market fuelled demand for prime assets. There remains a strong appetite for City offices, in particular from overseas funds, which will maintain pressure on pricing in the near-term.

Figure 2

City availability by quarter & sub-market

Q4 2009 - Q4 2010 (000's sq ft)

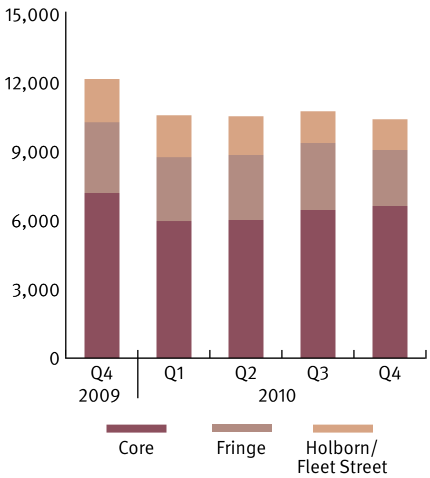
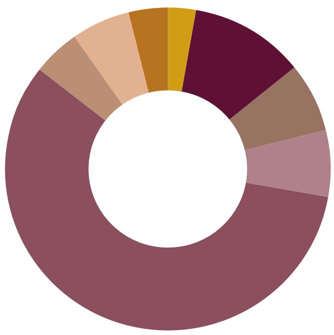


Figure 3

City investment by purchaser

Q4 2010

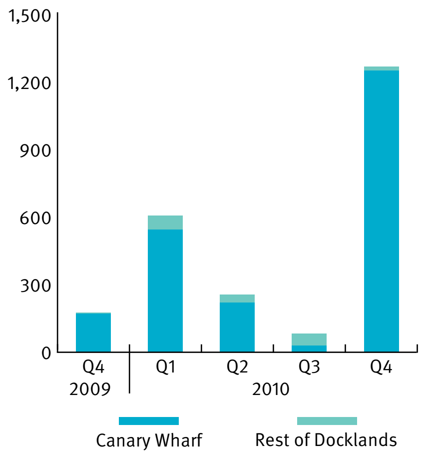


Charities/Foundation/ Institution	£48 m
Corporate/Other	£187 m
Open-ended/ Closed-ended Fund	£116 m
Opportunity Fund	£110 m
Pension/Life/Insurance	£960 m
Private Investor	£78 m
Private Property Company	£97 m
Quoted Property Company	£60 m

DOCKLANDS

- **JPMorgan deal boosts take-up...**
- **...and removes uncertainty on the future of 25 Bank Street.**
- **Availability continues to fall.**
- **Prime rents at Canary Wharf unchanged.**

Figure 1
Docklands take-up by quarter & sub-market
Q4 2009 - Q4 2010 (000's sq ft)



Demand & take-up

Docklands recorded a strong finish to the year, largely due to JPMorgan Chase purchasing 25 Bank Street for its own occupation. This very large transaction disguised other major deals, such as MF Global taking 103,000 sq ft at 5 Churchill Place, and HSBC acquiring 82,000 sq ft at One Canada Square. Also, NYSE took 29,000 sq ft in One Canada Square. However, moving into the new year the deal pipeline has thinned out for now.

Outside of Canary Wharf activity appears to have weakened further, with just 19,000 sq ft acquired in Q4 – the lowest quarter of 2010, and consistent with 2009 levels. A shortage of quality stock is deterring tenant interest, and focussing activity on Canary Wharf.

Supply and development

Supply declined for a fifth consecutive quarter, and currently stands at 1.5 m sq ft, reflecting a vacancy rate of 7.0%. At Canary Wharf it is lower still, at 6.3%. While we may see some more tenant release space come to the market in 2011, the majority of firms are now looking to retain 'grey' space to house future growth. We expect a slow but steady decline in availability in 2011.

That the future of the former-Lehman headquarters, 25 Bank Street, has been settled removes a major area of supply uncertainty facing the Docklands market. JPMorgan Chase still intend to develop the Riverside South site, although at present there is no significant office development underway in Docklands.

Rental profile

Prime rents in Canary Wharf on whole floors remained unchanged at £36.00 per sq ft, which has been the case for nine months now. While the vacancy rate is very low, demand is not yet buoyant enough to result in many incidences of competitive bidding.

Investment market

The above mentioned JPMorgan Chase deal at 25 Bank Street was the main feature of the investment transaction volume. The building was sold by Canary Wharf for £495 m.

Figure 2
Docklands availability by quarter & sub-market
Q4 2009 - Q4 2010 (000's sq ft)

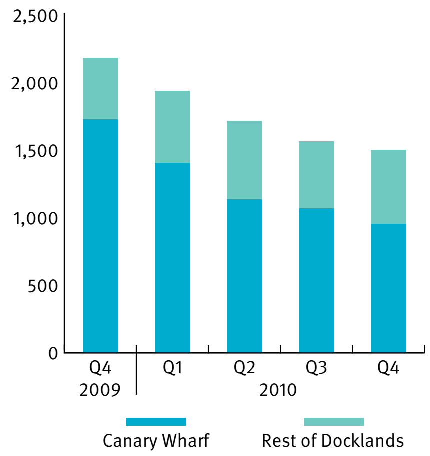
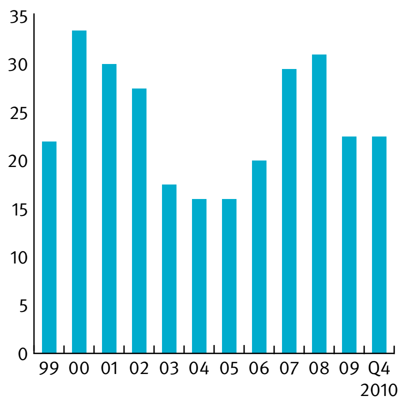


Figure 3
Rest of Docklands prime rent
1999-2010 (Prime £/sq ft)



Key statistics

Central London office market

Availability (m sq ft)	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	3 months % change	12 months % change
West End	8.64	7.88	7.81	7.29	**6.51**	-10.6%	-24.6%
City	12.18	10.59	10.54	10.77	**10.41**	-3.4%	-14.5%
Docklands	2.19	1.94	1.72	1.57	**1.51**	-3.8%	-31.1%
Central London	23.01	20.42	20.07	19.63	**18.43**	-6.1%	-19.9%

Vacancy Rate (%)	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	3 months % change	12 months % change
West End	9.5	8.7	8.6	8.0	**7.1**	n/a	n/a
City	10.4	9.0	9.0	9.2	**8.9**	n/a	n/a
Docklands	10.2	9.1	8.0	7.3	**7.0**	n/a	n/a
Central London	10.2	9.0	8.9	8.6	**8.1**	n/a	n/a

Take-up (m sq ft)	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	3 months % change	12 months % change
West End	1.30	1.34	1.13	1.28	**1.41**	10.0%	8.3%
City	2.17	2.20	1.32	2.13	**1.78**	-16.5%	-18.1%
Docklands	0.18	0.61	0.26	0.08	**1.27**	n/a	619.8%
Central London	3.65	4.15	2.70	3.50	**4.46**	27.5%	22.2%

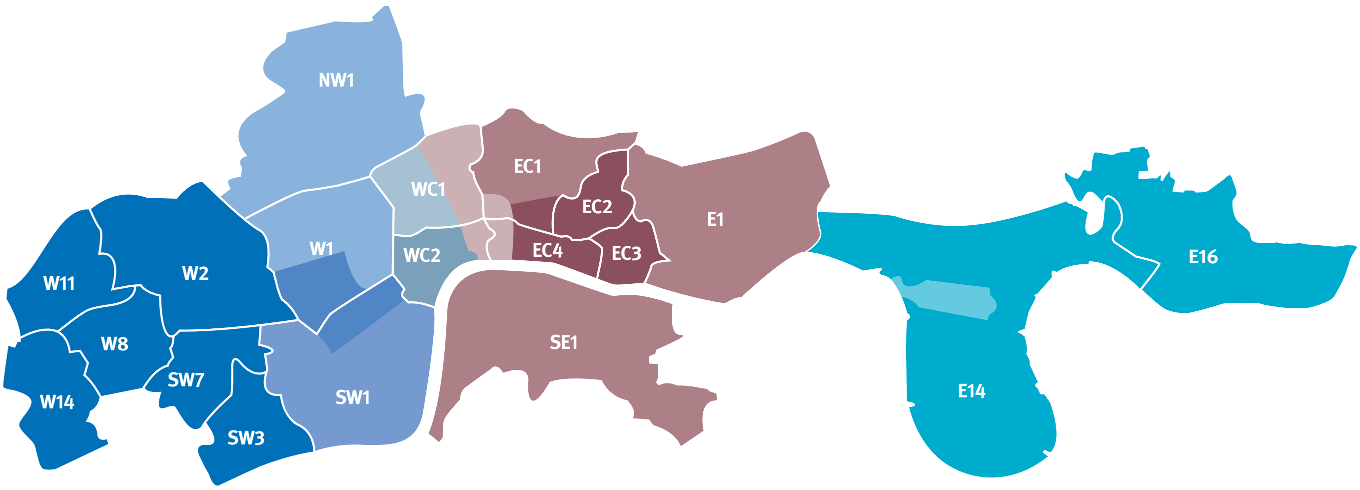
Active Requirements (m sq ft)	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	3 months % change	12 months % change
West End	1.79	1.88	2.11	1.91	**1.73**	-9.5%	-3.7%
City	4.67	3.73	4.34	3.05	**3.42**	12.0%	-26.8%
Docklands	0.50	0.48	1.00	0.00	**0.06**	n/a	-87.9%
Unspecified Central London	1.24	0.88	0.89	1.64	**0.96**	-41.8%	-23.0%
TOTAL Central London	8.20	6.86	9.92	6.60	**6.16**	-6.7%	-24.9%

Under Construction (m sq ft)	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	3 months % change	12 months % change
West End	1.70	1.44	1.25	1.36	**1.45**	6.8%	-14.7%
City	4.73	3.83	3.30	1.88	**2.67**	41.9%	-43.6%
Docklands	0.00	0.00	0.00	0.00	**0.00**	0.0%	0.0%
Central London	6.43	5.26	4.55	3.24	**4.12**	27.2%	-36.0%

Investment (£ m)	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	3 months % change	12 months % change
West End	794.2	944.9	1685.0	915.3	**1088.0**	18.9%	37.0%
City	572.0	689.8	1029.6	1638.3	**1703.9**	4.0%	197.9%
Docklands	1135.5	20.0	134.6	5.8	**495.0**	8434.5%	-56.4%
Central London	2501.7	1654.7	2849.2	2559.4	**3286.9**	28.4%	31.4%

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
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