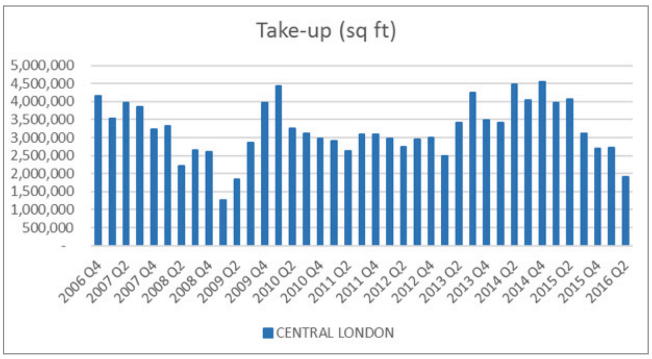
CENTRAL LONDON OFFICE MARKET BRIEFING

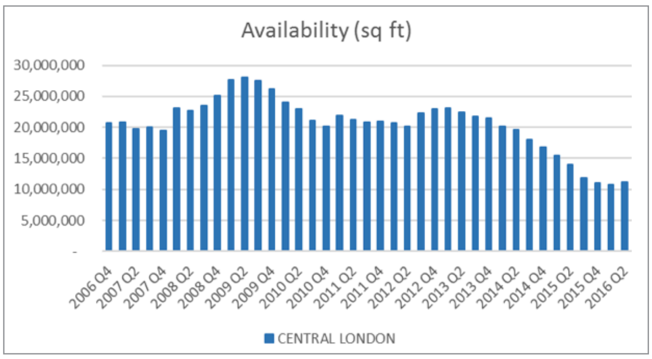
Q2 2016

Leasing Overview

Across Central London as a whole take-up fell significantly to stand at 1.91m sq ft in Q2, a fall of over 29% from Q1. This was the lowest level of activity since Q2 2009. However, performance of the different sub-markets varied markedly, with West End take-up falling by only 2.6%. Supply increased by 4% to 11.2 m sq ft – the first increase in overall supply in over two years. As a result, the Central London vacancy rate increased by 40 basis points (bps) to stand at 4.8%. Notwithstanding the falling take-up and increasing supply, average rents continued to rise across Central London - by 5.7% - to reach £51.88 per sq ft. This trend of increasing rents was seen across each of the major Central London sub-markets. The development pipeline continued to increase over Q2, with 14.2m sq ft under construction, a 2.6m sq ft increase in potential new space over Q1, with nine new projects entering the pipeline over this quarter.

SUPPLY	VACANCY RATE	AVERAGE RENT	CONSTRUCTION	TAKE-UP
4.0%	4.8%	5.7%	14.2 M SQ FT	1.91 M SQ FT





West End leasing

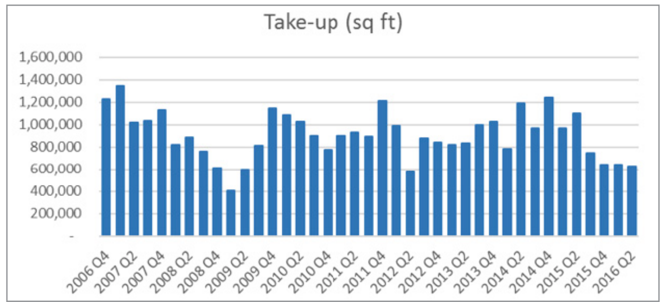
West End take up fell slightly in Q2 to stand at 625,000 sq ft, 2.6% down from Q1. Supply rose by 12% in Q2 to stand at 2.98m sq ft, the first increase in supply since early 2013. This resulted in a 40 bps rise in the vacancy rate to 4.2%, having fallen to record low levels in Q1 2016. The West End vacancy has been in steady decline since it reached a peak of 9.6% in Q2 2009. Despite the uptick in vacancy rate, West End rents maintained their upwards trajectory, with average rents rising to £63.00 per sq ft. Mayfair continues to command the highest level of average rents at £75.59 per sq ft, followed by St James's which also breached the £70.00 per sq ft level, at £71.13 per sq ft.

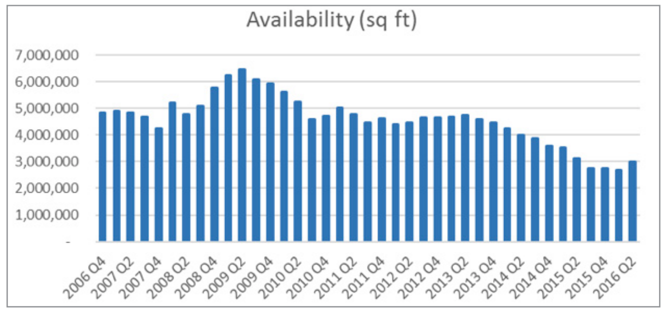
TAKE-UP
507 K SQ FT

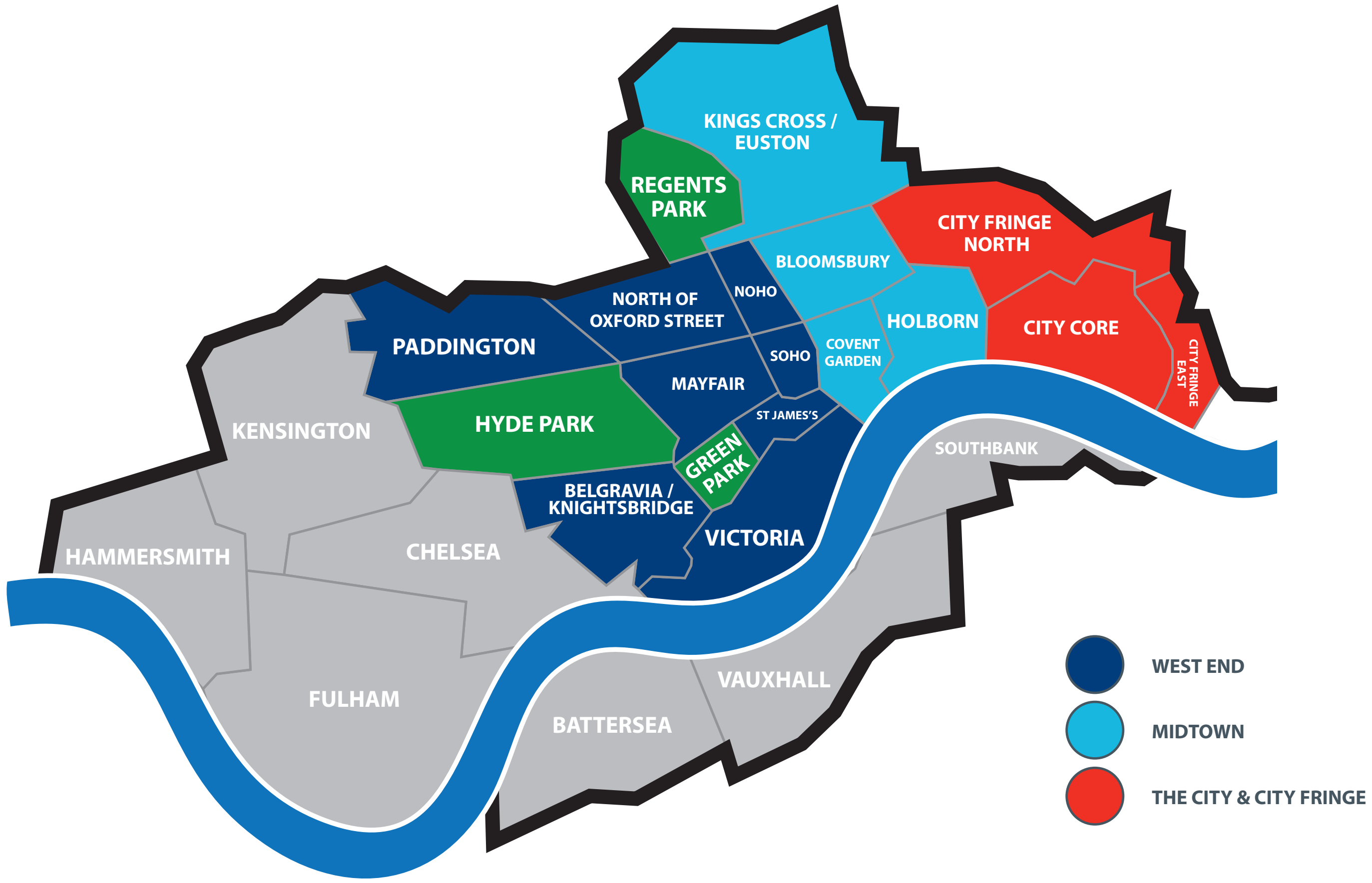
SUPPLY
2.98 M SQ FT

VACANCY RATE
4.2%

AVERAGE RENT
63.00 £ PER SQ FT







Midtown leasing

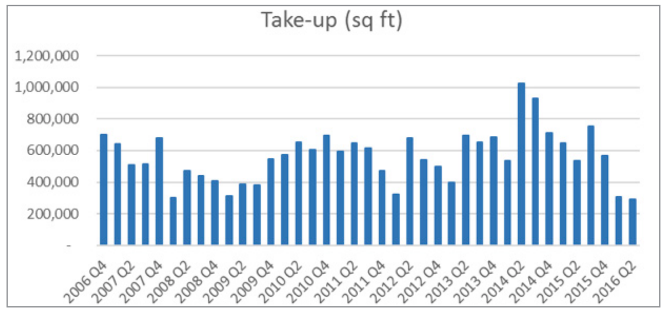
Leasing activity continued to ease off in Q2, with just 292,000 sq ft of new lettings reported, the largest proportion of which took place in Clerkenwell. Midtown supply totalled 1.93m sq ft, largely unchanged from the first quarter. Vacancy rate remained static at 4.5% overall, falling back in Bloomsbury and Clerkenwell but counterbalanced by an increase in available space in King's Cross. Average rents in Midtown rose to £51.43 per sq ft with the highest levels reported in Covent Garden, where average rents are closer to £60.00 per sq ft. There was little change in Q2 in the overall development pipeline, which now stands at 2.2m sq ft.

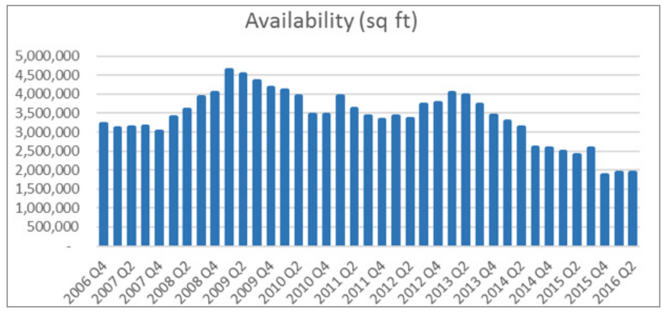
TAKE-UP
292 K SQ FT

SUPPLY
1.93 M SQ FT

VACANCY RATE
4.5%

AVERAGE RENT
51.43 £ PER SQ FT





City leasing

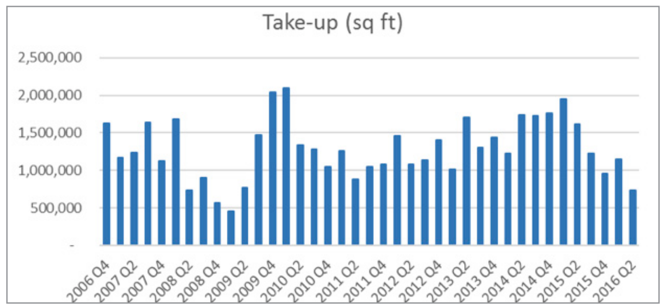
Take up in the City dropped by 35% to 739,000 sq ft in Q2, compared with an average quarterly take up rate of 1.34m sq ft over the five years since 2011. This was the lowest quarterly level reported since Q1 2009. 27% of activity was in fringe city locations. This quarter's largest letting was to WeWork, who signed a 20-year lease agreement at 33 Queen Street. Overall supply rose marginally (3.7%) to stand at 4.43m sq ft, but supply in fringe locations fell back slightly. City vacancy rate edged up to 5.4% overall, compared with the peak level of 17% in early 2009. The fall in supply in fringe locations meant that the vacancy rate here fell to record low levels of 5.9%. Average City rents rose to £53.20 per sq ft – 20% above the five-year average of £44.00 per sq ft. City development pipeline increased by 21% (1.3m sq ft) to stand at 7.62m sq ft.

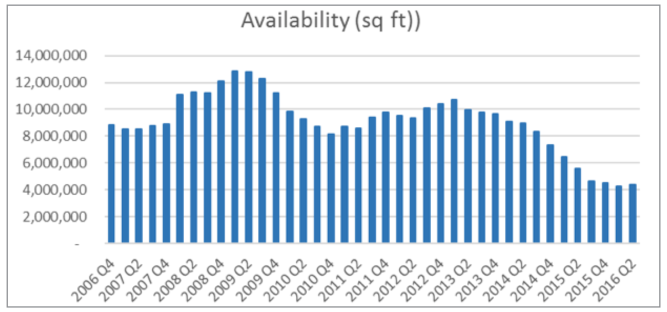
TAKE-UP
739 K SQ FT

SUPPLY
4.43 M SQ FT

VACANCY RATE
5.4%

AVERAGE RENT
53.20 £ PER SQ FT





Investment Overview

Investment transaction volumes across the UK as a whole were £11.5 billion in Q2 2016, which is 43% lower than in the same period last year, but just 12% below the five year average. The Central London office market also recorded a large fall in trading volumes, down to £2.08 billion, which is 29% down for Q2 2016 on the previous year, or down 22.5% against the five year average.

The City of London performed best within Central London, with £1.43 billion transacted in Q2 2016. This is down just 13% against the five year average. The West End recorded just £0.43 billion in Q2 2016, which is down 42% against the 5 year average. Investment yields have been resilient considering the uncertainty in the market, with the West End remaining static in Q2 and a very small softening in City yields.

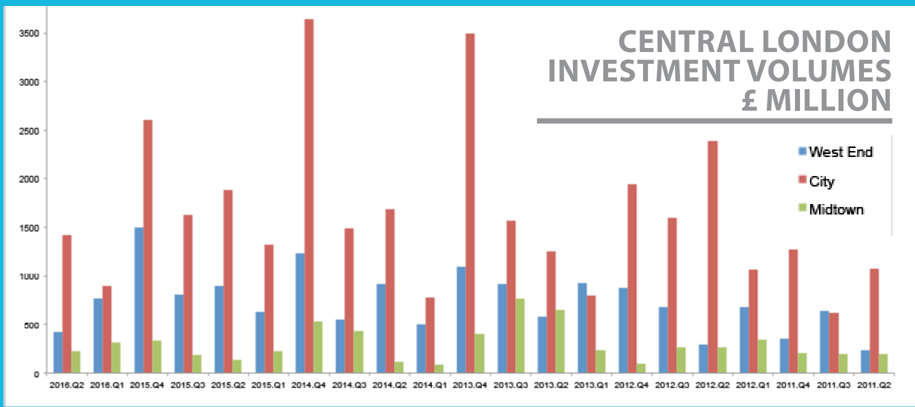
INVESTMENT VOLUMES

2.08

Bn £

The dramatic fall in trading volume in Q2 2016 was largely down to the considerable uncertainty in the build up to the EU referendum which was held in June. The outcome of the referendum, with the UK voting to leave the EU, has caused further uncertainty in the market. Many UK funds have had to downgrade their portfolio unit prices and moved to weekly valuations, allowing them to react more quickly to market movements. The open ended funds experienced a run of outflows after the referendum, resulting in 10 large property funds suspending redemptions.

We feel there is likely to be a relatively small correction in pricing in the second half 2016 as the retail funds look to satisfy redemptions with forced sales, but we don't believe this will be a drastic or long term trend. In the ultra-low interest rate and bond yield environment, UK real estate still looks attractive and we believe it will continue to attract considerable investment. The recent weakening of the pound will make the UK even more attractive for overseas buyers, particularly those with US dollar and Japanese Yen denominated funds. We predict that income-focused assets in prime locations will perform the best with investors seeking a flight to safety.



Key Deals

Address	NIA Sq Ft	Purchase Price	NIY	Capital Value/sq ft	Purchaser
88 Wood St, EC2	247,664	£270.0m	4.60%	£1,090	The Shaw Foundation
6 Bevis Marks, EC3	174,550	£220.0m	4.43%	£1,260	Citi Private Bank
71 Queen Victoria St, EC4	205,371	£220.0m	4.37%	£1,071	Pacific Eagle Asset Management
80 Cheapside, EC2 (exchanged)	81,559	£218.0m	5.14%	£2673	Crosby
18-20 Grosvenor St, W1	40,000	£96.0m	3.77%	£2,400	Shaftesbury Asset Management Group
20 King Street, SW1	29,468	£50.2m	3.59%	£1,704	Royal London Asset Management
12 Golden Square, W1	27,090	£46.0m	4.64%	£1,698	UBS Triton Property Fund
50 Cannon Street, EC4	22,567	£29.3m	4.50%	£1,299	The Medical and Dental Defence Union of Scotland
27 Berkeley Square, W1	6,280	£22.9m	N/A	£3,640	ALMAR plc
63 Brook Street, W1	25,575	£60.0m	3.43%	£2,346	Private Asian Investor
7-10 Chandos Street, W1	48,537	£68.0m	2.72%	£1,401	Howard de Walden Estate
61-67 Oxford Street, W1	51,004	£182.8m	2.49%	£3,584	Chinese Estate Holdings Ltd

For more Information please contact

Nick Rock
Principal
Central London Agency
nick.rock@avisonyoung.com
D: +44 (0)20 7046 6517

Mark Holliday
Principal
Capital Markets
mark.holliday@avisonyoung.com
D: +44 (0)20 7046 6511

Tom Bridgman
Principal
Investment
tom.bridgman@avisonyoung.com
D: +44 (0)20 7046 6519

AVISON YOUNG
Intelligent Real Estate Solutions

London T: +44 (0)20 7101 0200
Thames Valley T: +44 (0)1494 540 000
Midlands T: +44 (0)24 7663 6888
www.avisonyoung.co.uk

CANADA'S BEST MANAGED COMPANIES