AVISON YOUNG

CENTRAL LONDON OFFICE MARKET BRIEFING

Q1 2017

Leasing Overview

The Central London occupier market got off to a steady start in the opening three months of 2017 with quarterly take-up of 2.32 m sq ft running a shade below levels reported in the final three months of 2016.

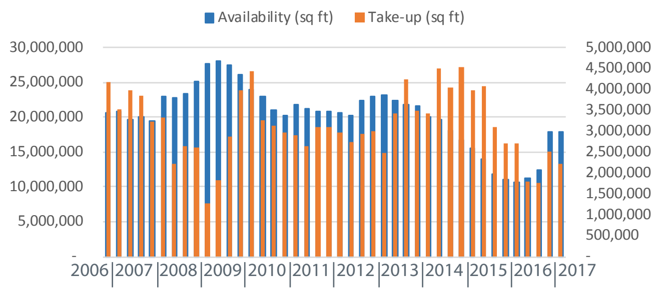
Trends in take-up varied across the five main sub markets with an increase in leasing activity being reported in Midtown and the West End, and a reduction in activity in the City, Southbank and Docklands.

There were 495 transactions reported across Central London in Q1, compared with 411 transactions in Q4. Given the similar take-up total, this indicates a reduction in average deal size to circa 4,700 sq ft.

The amount of available space remained largely unchanged at 17.88 m sq ft, with the vacancy rate static at 7.5%

Rents continued to rise across Central London with average rents reaching £54.17 per sq ft at the end of March, a 6% uplift compared to Q1 2016. Increases were confirmed across four of the five major Central London markets, the exception being the West End.

The Central London development pipeline, edged down for the third quarter in succession, dropping to 11.8 m sq ft. The biggest fall was in the city where 1 m sq ft of new space came on stream in the opening three months of the year.



TAKE-UP	VACANCY RATE	AVERAGE RENT	CONSTRUCTION	SUPPLY
2.32 M SQ FT	7.5 %	54.17 £ PER SQ FT	11.8 M SQ FT	17.9 M SQ FT

West End leasing

After a relatively quiet end to 2016, take-up in the West End picked up significantly in the first quarter of 2017, with 832,000 sq ft of new lettings, a rise of 88% and surpassing the activity levels recorded in each of the quarters last year.

Across the sub-markets the majority of activity was focussed on Mayfair, Noho and St James. The single largest deal was in Noho where The Arup Group took up 114,000 sq ft at 80 Charlotte Street.

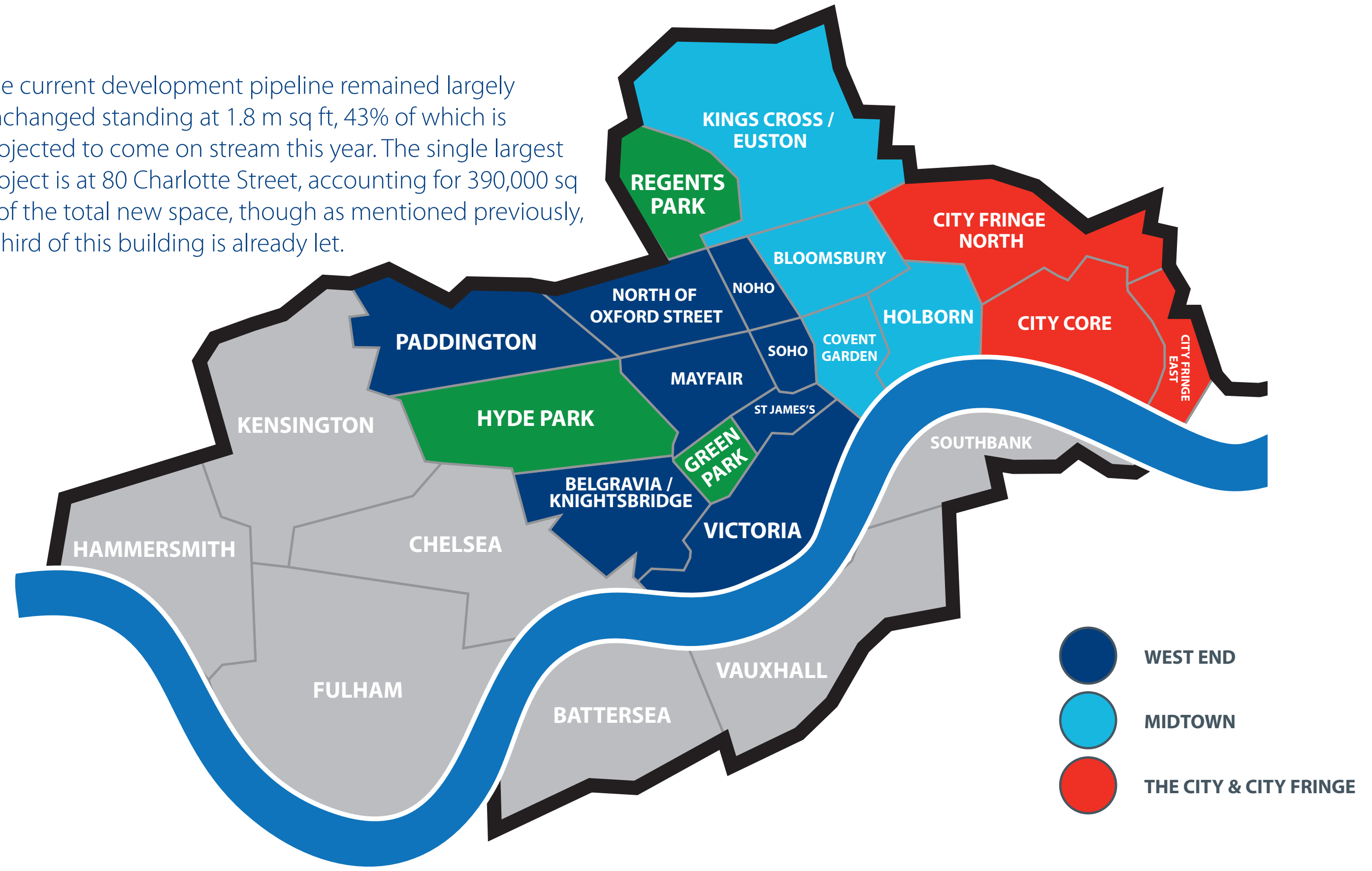
Despite the increased activity, vacancy rates in the West End rose to 6.8%, with 625,000 sq ft new supply coming onto the market.

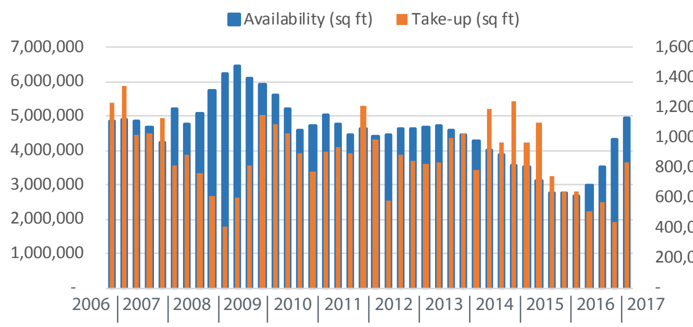
The total amount of supply, reached 4.9 m sq ft, which is the highest seen in the West End since Q1 2011.

Across the sub-markets the most notable increase in supply was in Paddington where supply levels almost doubled with vacancy rates rising from 8.7% to 14.6%.

With that increased supply, average rents eased off a fraction dropping to £63.45 per sq ft. The biggest change across the various sub-markets saw rents in Victoria drop back below the £60 per sq ft marker, which was reached in the second half of last year. On a smaller scale, in Knightsbridge rents fell below £50.00 per sq ft for the first time in three years.

The current development pipeline remained largely unchanged standing at 1.8 m sq ft, 43% of which is projected to come on stream this year. The single largest project is at 80 Charlotte Street, accounting for 390,000 sq ft of the total new space, though as mentioned previously, a third of this building is already let.





TAKE-UP
832
K SQ FT

SUPPLY
4.9
M SQ FT

VACANCY RATE
6.8
%

AVERAGE RENT
63.45
£ PER SQ FT

Midtown leasing

Take-up in Midtown continued to rise, exceeding 400,000 sq ft in the Q1 2017, but this remains below the more active periods in 2014 and 2015 when take-up averaged between 600,000 - 700,000 sq ft a quarter.

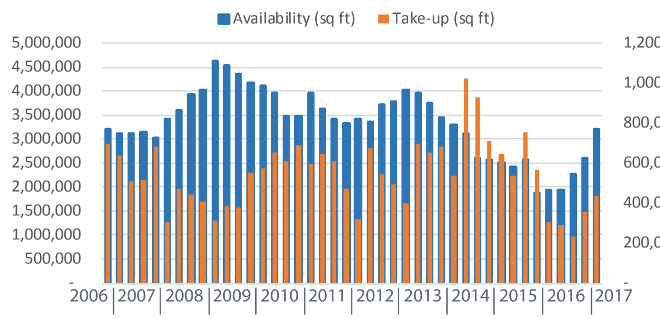
The amount of supply, meanwhile, continued to increase by more than 600,000 sq ft in the opening three months of the year to 3.2 m sq ft, which equates to the largest volume of available space reported in this region since the opening quarter of 2014.

The majority of this new supply came on stream in Holborn, where vacancy rates rose from 5.2% to 7.8% over the course of the opening three months of the year.

Vacancy rates throughout Midtown have been on an upward trajectory, rising now for the sixth quarter in succession and stepping up 1.3 percentage points in Q1 to 7.5%.

Take-up may be trending at below average levels and supply increasing quarter on quarter, but rents continue their upwards momentum climbing to £54.50 per sq ft. Increases were focussed around Clerkenwell and Holborn, elsewhere rental levels began to ease off.

The Midtown development pipeline has remained largely static for the last couple of quarters settling at 2.1 m sq ft at the end of Q1.



TAKE-UP
400
K SQ FT

SUPPLY
3.2
M SQ FT

VACANCY RATE
7.5
%

AVERAGE RENT
54.50
£ PER SQ FT

City leasing

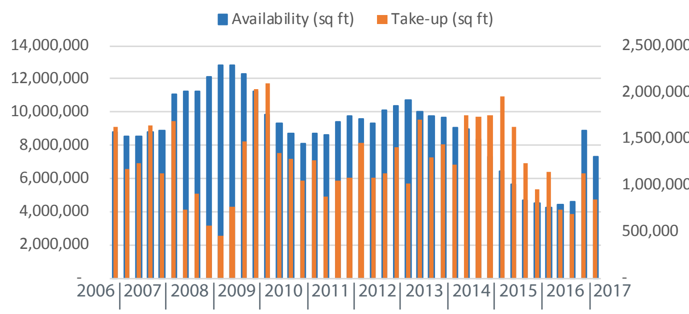
Take-up eased off in the City in Q1 after what was a strong finish to 2016. A total of 838,000 sq ft of new lettings were secured in the first quarter, which marks a weaker start to the year than in 2016. This level is also down on the 1.1 m sq ft leased in the closing three months of last year and below the five year average take-up rate of 1.3 m sq ft a quarter.

The amount of available space, in terms of total supply, fell back to 7.3 m sq ft. A fall in supply in the City core was in part offset by an increase in available space in the City Fringe.

This fall in supply represents almost 18% and is the largest fall in the City market in over 10 years.

Vacancy rates in the City edged back down to 8.6%. The proportion of vacant space in the Core City district remains above that of the fringe markets, although the differential between the two has closed in during Q1 – 9.4% versus 6.8%.

City rents continue their relentless rise, reaching £54.37 in Q1. The gulf between the City and the fringe markets began to close as fringe rents rose above the £50.0 per sq ft marker for the first time.



TAKE-UP
838
K SQ FT

SUPPLY
7.3
M SQ FT

VACANCY RATE
8.6
%

AVERAGE RENT
54.37
£ PER SQ FT

Investment Overview

CENTRAL LONDON INVESTMENT

3.49
Bn £

The resilience of the Central London Office investment market was tested in 2016 following the EU referendum, which led to a sharp drop in transaction volumes during 2016. However, the market has shown incredible resilience and 2017 got off to a flying start with the highest Q1 trading volumes on record and highest total since Q4 2015.

There was a total of £3.49 billion of Central London Office (West End, Midtown and City) deals transacted in Q1 2017. This is 22% up on the five year average and 72% up on the same period last year.

Trading volumes in the City were £2.245 billion in the first quarter, which is 26% up on the five year average and 143% on the same period as last year. However, it is worth noting that the sale of The Leadenhall Building (122 Leadenhall Street) to Hong Kong based CC Land for £1.15 billion, accounted for over half the volume of City deals in Q1, and is one of the largest investment transactions in UK history.

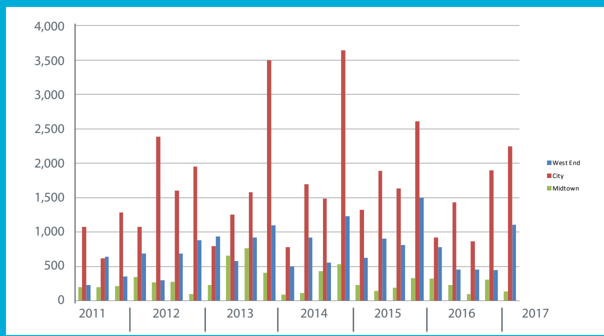
The West End market also performed strongly in Q1 2017, with trading volumes of £1.107 billion, which is 41% up on the five year average and 42% up on the same period last year.

However, the Midtown market did not have such a strong quarter, with just £138 m traded, which is 53% down on the 5 year average and 57% down on the same period as last year.

The considerable weakening of the pound since the EU referendum and the perceived 'safe haven' status of London has led to Overseas investors once again dominating the market. Overseas investors accounted for almost 85% of all Central London Office transactions, showing a continued vote of confidence in the London market. Of these overseas investors, 50% were accounted for by Far Eastern investors, followed by European investors accounting for 26%.

Prime City yields regained lost ground from 2016 and returned to pre-referendum levels of 4% due to strong investor demand, whilst prime West End yields remained stable at 3.75%.

For the rest of 2017, we believe that with the Pound remaining weak, overseas buyers will continue to account for the largest proportion of investment volumes into the UK market, and the imbalance between supply and demand will continue.



Key Deals

Address	NIA (sq ft)	Purchase Price	NIY	Capital Value (sq ft)	Purchaser
122 Leadenhall Street, EC3	609,980	£1,150m	3.50%	£1,885	CC Land
35-50 Rathbone Place, W1	272,443	£435m	4.25%	£1,597	Deka Immobilien
Principal Place, E1	621,000	£382m	4.00%	£1,230	50% share. Antirion SGR
1 Kingdom Street, W2	263,310	£292m	4.85%	£1,108	CC Land Holdings Ltd
180 Wardour Street, W1	89,330	£260m	2.93%	£2,911	Emperor International
7-8 St James's Square, SW1Y	65,534	£245.9m	3.69%	£3,752	Private Asian Investor
8 Fitsroy Street, W1	147,895	£197m	3.40%	£1,332	Arup
Doubletree by Hilton, John Islip Street, SW1	233,112	£187.5m	4.70%	£804	Westmont Hospitality Group
1 Wood Street, EC2	176,967	£180m	4.25%	£1,017	KanAm Group
65 Fleet Street, EC4	229,584	£160m	5.56%	£697	Hong Kong Private Investor

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