CENTRAL LONDON OFFICE MARKET BRIEFING



Q3 2016

Leasing Overview

Take up in the Central London office market slowed for the second successive quarter, with a total of 1.8 m sq ft of reported new lettings. This was a fall of just under 6% from Q2 and is half the level of leasing activity that was reported in the equivalent quarter in 2015.

The amount of space let so far this year equates to 6.3 m sq ft, which compares with 11.2 m sq ft at this point in 2015.

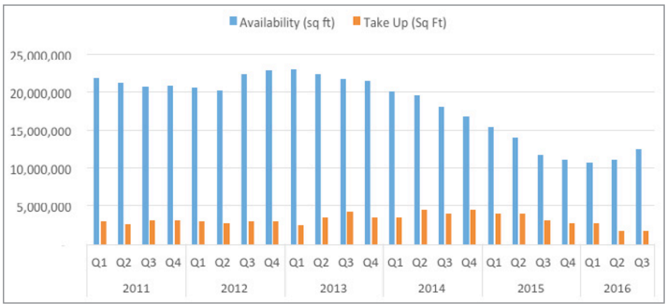
Against this backdrop of reduced activity within the occupier markets, supply continued to edge up to stand at 12.5 m sq ft at the end of Q3. This amounts to a 15% rise in the level of supply from the start of the year.

The vacancy rate, although still well down on the long run average, has also subsequently risen to 5.3%.

Nonetheless, average rents maintained their upwards trend and have now reached £53.00 per sq ft.

The volume of development completions continues to rise. The overall pipeline increased by a further 1.8 m sq ft this quarter, now totalling 13.3 m sq ft, a net 25% increase since the start of the year.

The hottest deal was Avison Young moving to our new West End office at 22 Ganton Street, Soho, W1.



Note that our Central London statistics refer to the core districts only: the recent pre-letting of 500,000 sq ft at Battersea Power Station is therefore not included in our figures.

SUPPLY	VACANCY RATE	AVERAGE RENT	CONSTRUCTION	TAKE-UP
12.5 M SQ FT	5.3 %	53.00 £ SQ FT	13.3 M SQ FT	1.8 M SQ FT

West End leasing

Despite reduced leasing activity across Central London as a whole in Q3, the West End bucked this trend with an increase in take-up of over 11% compared with Q2. That said, total take-up of 566,000 sq ft remains well below the rolling quarterly average of 891,000 sq ft per quarter and is 25% down on the equivalent quarter in 2015. Activity levels picked up most notably in Victoria with 175,000 sq ft of space let this quarter, including the West End's two largest deals - 58,600 sq ft at Verde SW1 to PA Consulting and 46,000 sq ft at Nova to the new Government Cyber Security Centre (NCSC).

Supply rose by 18% over the quarter to stand at 3.5 m sq ft, which equates to the largest volume of available space that has been reported in this market for two years.

As a consequence, the vacancy rate rose to 4.9%, a 70-basis point increase on last quarter but still well below the 5 year average of 5.7%.

West End average rents continued their seemingly relentless rise, achieving a new high of £64.46 per sq ft.

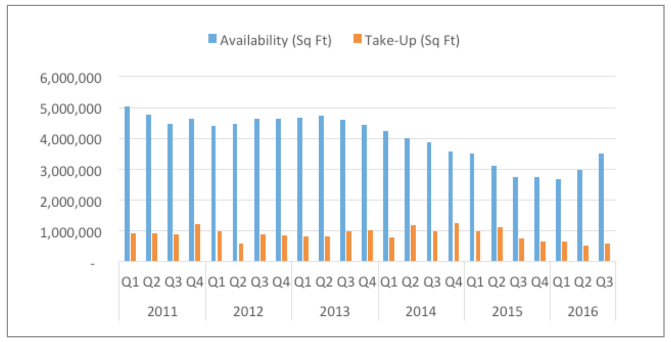
There were 946,000 sq ft of development completions in Q3, but with the increase in take-up, total development pipeline fell to 1.87m sq ft.

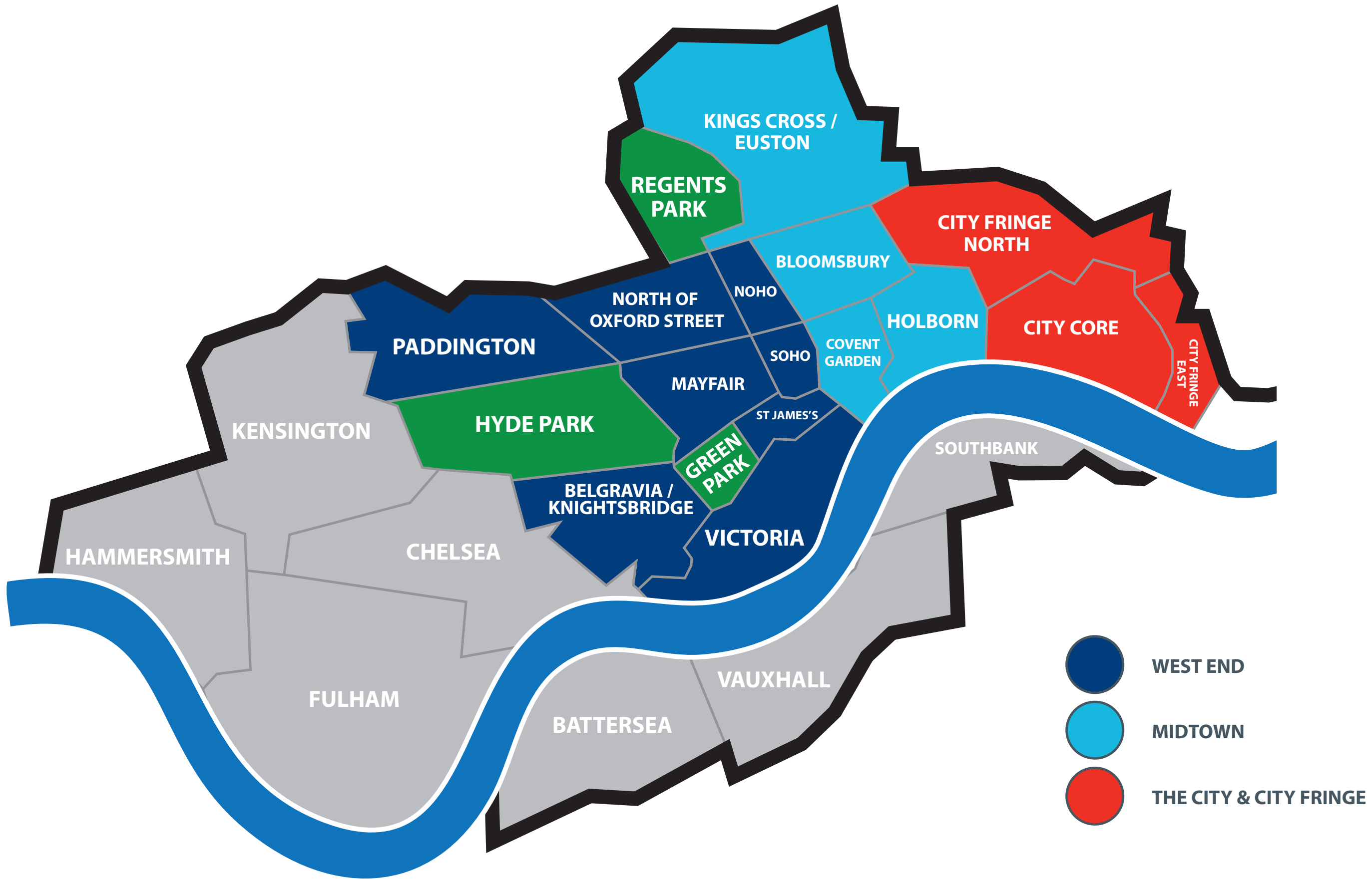
TAKE-UP
566 K SQ FT

SUPPLY
3.5 M SQ FT

VACANCY RATE
4.9 %

AVERAGE RENT
64.46 £ PER SQ FT





Midtown leasing

Leasing activity in the Midtown area continued to decline, with a fall in take-up of almost 20%, to 234,000 sq ft of new lettings reported in the latest quarter. Across the submarkets Holborn was the most active with a 78,000 sq ft of lettings, where the single largest deal saw WeWork taking 58,000 sq ft at Aldwych House at a rent of £69.50 per sq ft.

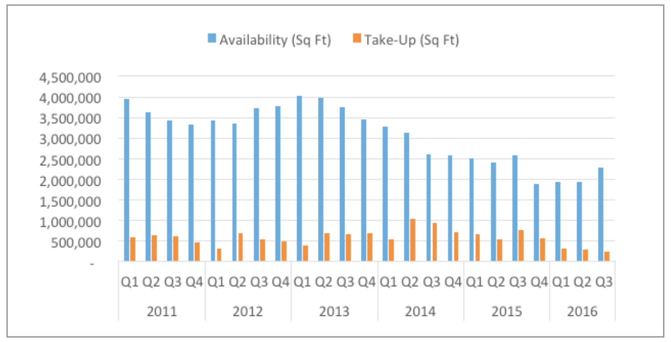
Total take-up over the year to date now stands at 832,000 sq ft, well below the 1.9m sq ft of lettings recorded during the corresponding period in 2015.

With this decline in take-up, the supply of available space rose by 18% to 2.3 m sq ft, though this is still below the rolling five-year average level of 3.0 m sq ft.

This equates to a vacancy rate of 5.2%, which compares with a five-year average figure for the region of 7.0%.

Average rents across the region stepped up to just short of £53.00 per sq ft. The variance between submarkets ranges from £47.48 per sq ft in Holborn to £62.87 in Covent Garden this quarter.

The overall development pipeline stands at 2.1m sq ft, having been scaled back a fraction during the quarter.



TAKE-UP
234 K SQ FT

SUPPLY
2.3 M SQ FT

VACANCY RATE
5.2 %

AVERAGE RENT
53.00 £ PER SQ FT

City leasing

Take-up in the City in Q3 dipped to 694,000 sq ft, a fall of 6% from Q2 but 60% down on the opening three months of the year. This is the lowest level of take-up since 2009. The largest deal was letting of 154,282 sq ft to Societe General at 41 Tower Hill.

Total City supply rose to 4.6 m sq ft, with an increase in availability in the City core being partly offset by a reduction of supply in fringe locations. Supply remains slightly below supply levels 12 months ago.

As a result, the City vacancy rate rose to 5.7% - City core vacancy rate rose to 5.8%, compared with 5.5% in the fringes but the combined rate is still well below the 5 year average of 10.5%.

Average rents across the City continued to climb to £51.90 per sq ft, but there is a marked difference in rental levels between the city core and fringe markets amounting to over £6.30 per sq ft.

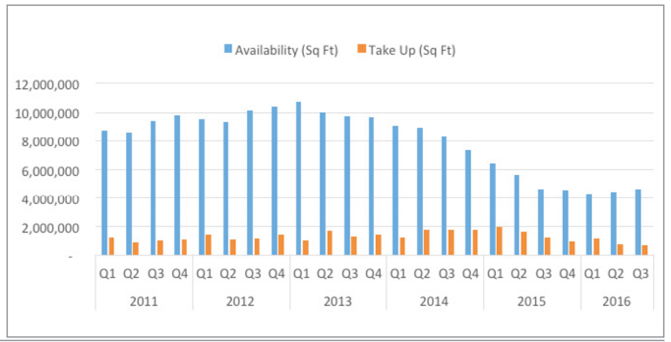
An additional 6 new projects came on line this quarter bolstering the development pipeline to a total of 7.97m sq ft, 75% of which is in the City core.

TAKE-UP
694 K SQ FT

SUPPLY
4.6 M SQ FT

VACANCY RATE
5.7 %

AVERAGE RENT
51.90 £ PER SQ FT



Investment Overview

Investment transaction volumes across the UK as a whole fell to their lowest level since Q2 2013, with £9.51 billion traded in Q3 2016. This is a drop of 33% on the same period last year and a 28% fall on the five year average.

The Central London office market (West End, Midtown and City) recorded even larger falls in trading volumes in Q3 2016, down to £1.39 billion, which is a drop of 47% on the same period last year, and down 49% against the 5 year average.

The West End performed best within Central London when compared with the five year average, with £0.46 billion of offices traded – a drop of 40%. In The City of London £0.83 billion of offices were traded, a drop of 50%, while in Midtown transactions totalled just £0.10 billion, which is 66% down on the five year average. The Central London market has been dominated by overseas investors in Q3 2016, accounting for over 71% of office transactions. This trend has been particularly prevalent in the West End where the figure was 94% and Midtown where it was 88%. Investment yields have ticked upwards across central London in Q3 2016, with prime yields standing at 4.5% in the City and 3.75% in the West End.

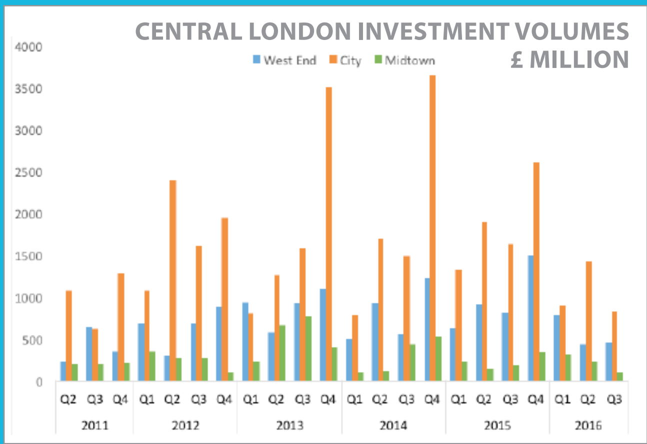
The poor levels of trading volume and outward shift in yields in Q3 2016 was largely down to the considerable uncertainty caused by the result of the UK voting to leave the EU. Many of the UK open ended funds experienced a run of outflows after the referendum, resulting in 10 large property funds suspending redemptions. Some of the correction in pricing in Central London can be attributed to retail funds looking for quick sales to satisfy redemptions, such as Aberdeen Asset Management selling 10 Hammersmith Grove to Brockton Capital.

We feel that there is likely to be a similar pattern in the Central London office investment market over the next six months, with overseas buyers taking advantage of the weak Pound and dominating a market suffering from a lack of supply. Investors are not so willing to sell assets as UK real estate still looks relatively attractive in an ultra-low interest rate and bond yield environment. We still believe that income-focused assets in prime locations will continue to attract the most interest with investors seeking a flight to safety.

INVESTMENT VOLUMES

1.39

Bn £



Key Deals

Address	NIA Sq Ft	Purchase Price	NIY	Capital Value/sq ft	Purchaser
33 King William St, EC4	226,989	£300m	-	£1,145	Wells Fargo (Owner Occupier)
440 Strand, WC2	180,478	£198m	4.03%	£1,097	Royal Bank of Scotland
48-50 New Bond Street, W1	48,158	£198m	2.89%	£4,111	Richemont Holdings UK Ltd
23-24 King Street, SW1Y	45,004	£120m	3.97%	£2,666	Wheelock & Co Ltd
12-14 Ryder Street, SW1	70,880	£115m	4.35%	£1,622	Vanke
10 Great Marlborough St, W1	96,368	£104m	4.5%	£1,079	Alduwaliya
5 King William Street, EC4	82,025	£88m	3.72%	£1,073	Private Middle Eastern Investor
41 Tower Hill, EC3	154,513	£84.5m	6.65%	£547	China Minsheng Jiaye
134-147 Cheapside, EC2	69,593	£83.5m	5.21%	£1,200	Nan Fung Group
33 Gracechurch Street, EC3	107,058	£75.1m	4.96%	£701	Westminster Real Estate
1 Southampton Street, WC2	32,496	£53.5m	4%	£1,646	Salamanca Group

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