AVISON YOUNG

CENTRAL LONDON OFFICE MARKET BRIEFING

Q4 2017

Leasing Overview

The final quarter of 2017 produced a steady economic performance in the UK. GDP output matched the growth seen in Q3 at 0.4%, and annual growth over the whole of 2017 was reported to reach 1.8% (source: ONS).

Although the economy is currently driven by relatively strong retail sales and manufacturing growth, annual GDP growth projections for 2018 are tempered given the effects of rising inflation against a depreciating sterling.

With CPI reaching 3%, The Bank of England raised interest rates in November from 0.25% to 0.5%, marking the first increase in over 10 years. Bank of England Governor Mark Carney warns that there are likely to be two more rate hikes over the next three years.

With increasing inflation, strains on consumer spending persisted in Q4 and remain a lingering issue hampering further economic growth in the short term. An encouraging sign, however, is the historically low unemployment rate which currently stands at 4.3%.

Considering the mixed signals of the UK's various economic indicators and the impending effect of Brexit negotiations, one would expect occupiers and investors to adopt a cautious approach in the Central London market. The reality, however, is quite the contrary. The Central London Offices market exceeded projections overall and performed resiliently in Q4 and in 2017 as a whole.

The market's success can be attributed to a few driving factors including the tightening of supply, the diversified tenant base allowing for persistent demand, and the continued success of and demand from the flexible offices sector.

Central London take up in 2017 totalled 13.08m square feet, 2% above the 10 year average, despite the grim predictions following the Brexit referendum. Transactional activity was buoyed by large block acquisitions in non-core markets as the TMT sector continues to increase its presence in the Silicon roundabout and King's Cross areas. London's diverse tenant base has allowed for businesses seemingly unaffected by Brexit to take on the lion's share of occupier take up in 2017.

Of note was the continued growth of the flexible offices sector. As of Q4 2017, serviced offices provider, WeWork, has become the largest commercial occupier in Central London behind only the UK government. Since 2012 WeWork has leased a cumulative 2.5 million square feet in Central London (source: CoStar Group, Inc.).

Although fairly static over the past few quarters, supply looks certain to tighten over the next 12 months as the pipeline of new deliveries begins to dry up. Only 3 million square feet of new supply is set to complete over the course of 2018. QonQ supply in Central London decreased by 0.150 million square feet.

Considering the underlying forces driving the market, it is expected that continued demand and the tightening of supply will ensure that the Central London market continues to perform well over 2018.

The top leasing deals of Q4:

Company	Building	Size (sq ft)
Google UK	R7 Handyside St	123,200
WeWork	The Bard	135,500
Lloyd's Banking	125 London Wall	125,400
Hyperion Insurance	Creechurch Place	116,000

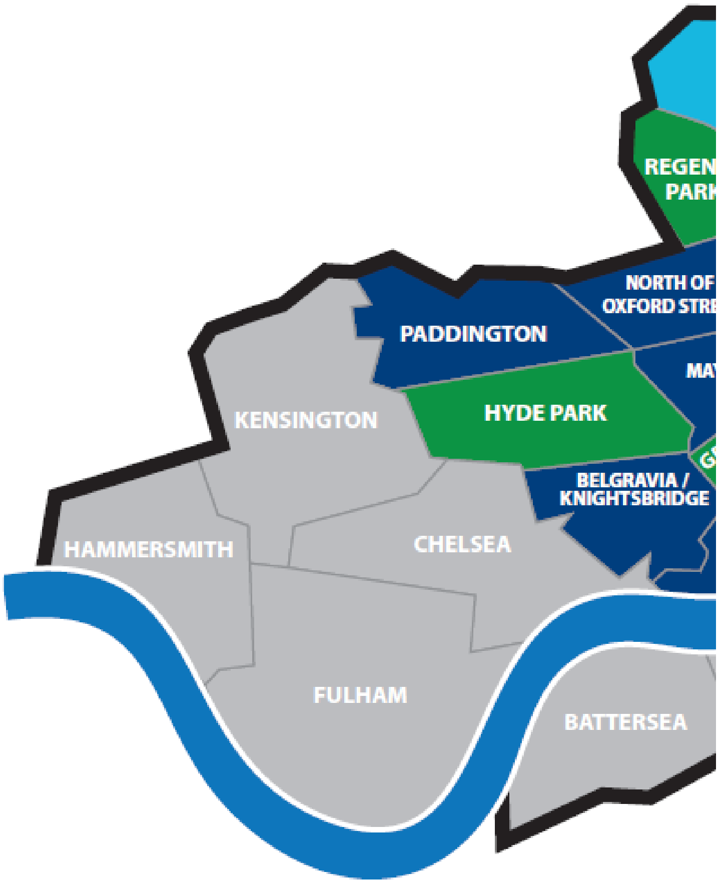
Central London leasing

Central London take-up decreased during Q4, falling to 3.5m sq ft for the quarter, an 8% decrease from the same quarter last year, bringing total take-up for 2017 to 13.08m sq ft.

Supply fell slightly to 14.10m sq ft in Q4, down from 14.30m sq ft in Q3. Year on year supply saw a decrease of 24% versus the same quarter last year. Total Central London office stock for 2017 stood at 227m sq ft.

Vacancy rates declined ten basis points to 6.2% in Q4. Since Q4 2016 vacancy rates have increased by 5%. Although rates have increased year on year, the rate at which they have done so decreased significantly over the course of 2017.

Rents have also decreased slightly over the quarter, with Central London average rents falling to £57.16 per sq ft for the quarter, versus £59.13 per sq. ft. in Q3.



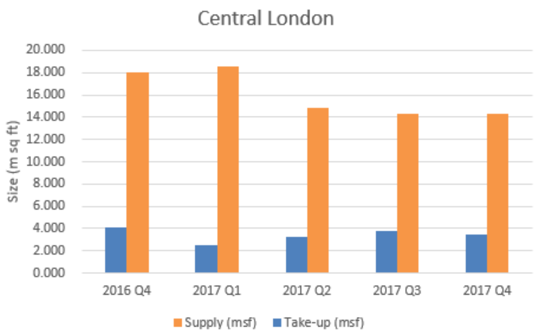
West End leasing

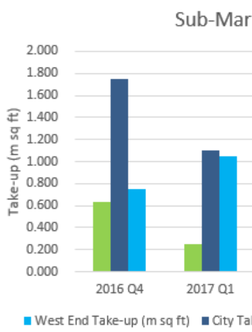
In the West End, Q4 take-up dropped off significantly after four consecutive quarters of rapid increases, decreasing 36% to 0.964 m sq ft. Total take-up for 2017 totalled 4.7 m sq ft.

Supply decreased slightly to 4.25m sq ft in Q4, down 108,000 sq ft from 4.41 m sq ft in the previous quarter; and a fall of 8% from Q4 2016.

Vacancy rates decreased to 5.3% for the quarter, down from 5.4% in Q3.

Rents drastically decreased in Q4, with average rents falling to £65.76 per sq ft from £74.57 in Q3.





Central London

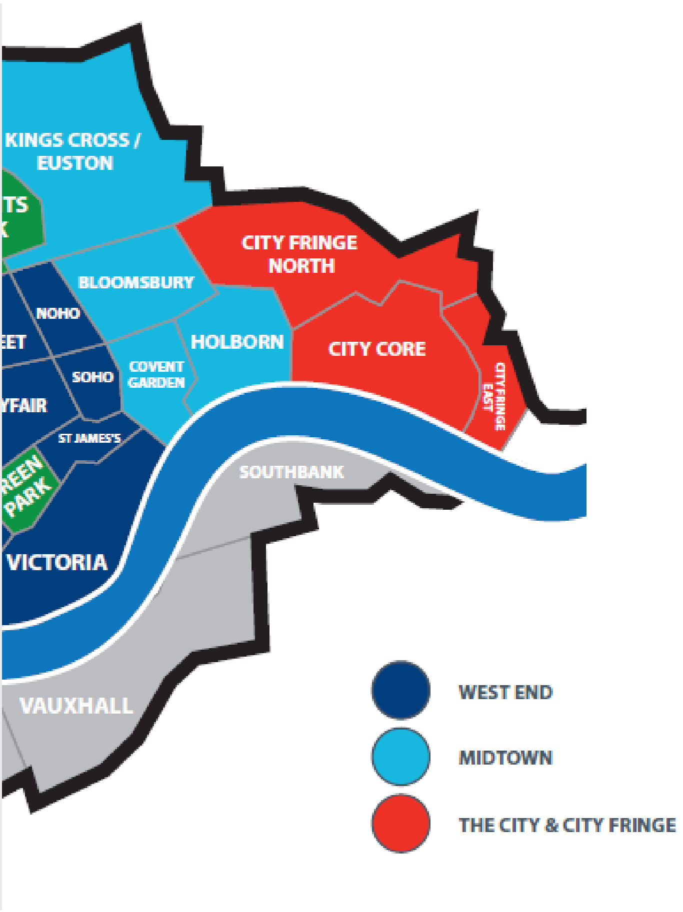
TAKE-UP	SUPPLY
3.5 M SQ FT	14.1 M SQ FT

VACANCY RATE	AVERAGE RENT
6.2 %	57.16 £ PER SQ FT

West End

TAKE-UP	SUPPLY
0.96 M SQ FT	4.25 M SQ FT

VACANCY RATE	AVERAGE RENT
5.3 %	65.76 £ PER SQ FT



Midtown leasing

Midtown quarterly take up rose by 5% in Q4 to stand at 382,000 sq ft; however, take up has fallen by 39% over the last 12 months.

Midtown Supply was largely static over the last 12 months, but increased slightly (1%) in Q4 to stand at 1.58 m sq ft.

Vacancy rates increased in Q4, with Midtown vacancy rates finishing the year at 5.8%, up from 5.5% in the previous quarter.

Rents marginally decreased over the course of Q4, with average rents decreasing to £56.07 per sq ft, down from £56.50 per sq ft in Q3.

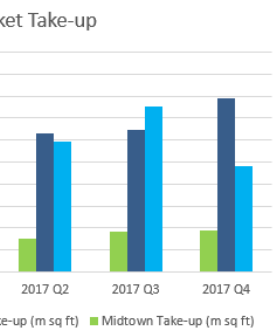
City leasing

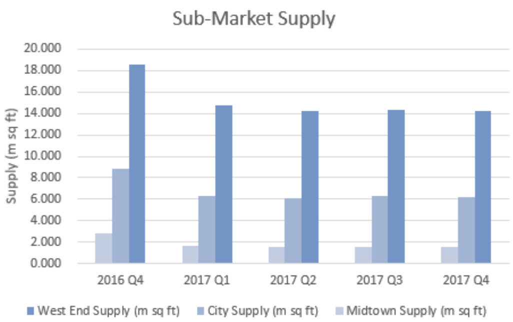
In the City, take-up increased significantly in Q4, rising 23% to 1.58m sq ft for the quarter, bringing the total for 2017 as a whole up to 5.24m sq ft.

As a result, Supply in the City fell by 2% to finish Q4 at 6.24m sq ft.

City vacancy decreased by 2 basis points over the course of Q4 falling to 5.6% down from 5.8% in Q3.

Rents rose to £55.27 per sq ft in the fourth quarter of the year, a 1% increase on Q3's figure of £54.64. Year on year average rents have increased 4% from £53.35 per sq ft.





Midtown

TAKE-UP
0.38 M SQ FT

SUPPLY
1.6 M SQ FT

VACANCY RATE
5.8 %

AVERAGE RENT
56.07 £ PER SQ FT

City

TAKE-UP
1.6 M SQ FT

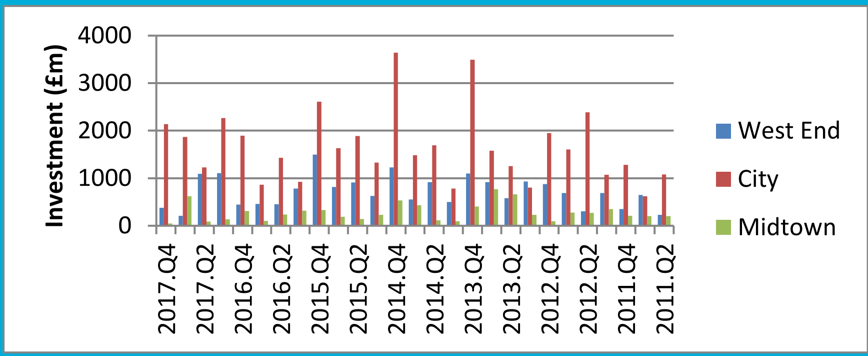
SUPPLY
6.24 M SQ FT

VACANCY RATE
5.6 %

AVERAGE RENT
55.27 £ PER SQ FT

Investment Overview

London remained the focus of global capital for commercial real estate in 2017, with a solid Q4 performance. A total of £2.57 billion of Central London (West End, Midtown and City) offices were transacted in Q4 17, taking the annual total to £11.19 billion. Although Q4 17 did not have the late surge of deals that some years have had, with the quarter being down 9% against the 5 year average, the annual total was up marginally on the 5 year average of £11.12 billion.



Trading volumes in the City were again particularly strong with £2.14 billion in the final quarter, which is up 23% on the five year average. This finished a strong year for the City where increasingly healthy levels of product were offered for sale resulting in £7.50 billion of offices being traded, up 12% against the 5 year average. Trading volumes were held back in the West End by the shortage of supply, with just £0.38 billion changing hands in Q4, taking the annual total to £2.79 billion, down 52% and 9% respectively against the 5 year averages. Lack of supply was similar in Midtown, resulting in very low Q4 trading, with just £0.05 billion transacted, giving an annual figure of £0.90 billion, down 83% and 26% against the 5 year averages.

Overseas investors again dominated the market in the final quarter, accounting for 82% of all Central London office transactions in Q4. The overseas charge was still led by Far Eastern investors who accounted for 43%, but there was a resurgence from US based investors who accounted for 37% in Q4, followed by German investors at 10%. During 2017, 86% of Central London offices transactions were undertaken by overseas buyers. Far Eastern investors accounted for £5.57 billion of office transactions during 2017, a staggering 50% share of all transactions in Central London.

This continued flow of overseas capital has been notable considering the significant political and economic uncertainty caused by the EU referendum result in 2016 and the shock result of the snap election called by the Prime Minister. Despite all this uncertainty London has retained its global reputation as a 'safe haven' destination.
Prime City and West End yields remained stable at 4% and 3.5% respectively, having gained ground in H1 after the loss post referendum. However there is evidence of a more two tiered market as investors become slightly more wary of secondary product.

Moving forward into 2018, we see little reason for the pattern seen in 2017 changing, despite the UK entering a period of heightened political and economic uncertainty. The UK real estate market is still looking appealing in the low interest rate and bond yield environment and the weak Sterling providing good value for overseas buyers. We expect the focus to remain on prime and 'trophy' assets, with Asia-Pacific capital flows to remain very active, but we are likely to see a widening base of overseas investors.

Central London Key Office Investment Transactions – Q4 17

Address	NIA Sq Ft	Purchase Price	NIY	Capital Value/sq ft	Purchaser
Devonshire Square Estate, EC2	628,117	£580m	-	£923	WeWork
15 Canada Square, E14	434,248	£399.99m	4.20%	£921	Kingboard (Hong Kong)
2 Swan Lane, EC4	455,231	£370m	4.39%	£812	Zeno Capital
200 Aldersgate Street, EC1	433,990	£311m	4.87%	£717	Samsung Asset Management
5 Churchill Place, E14	318,988	£268.8m	5.18%	£843	Cheung Kei Group
240 Blackfriars Road, SE1	226,268	£266.5m	3.94%	£1,179	Wolfe Asset Management
160 Aldersgate Street, EC1	206,990	£207.5m	4.80%	£1,002	Union Investment RE
30 Broadwick Street, W1	94,291	£190m	4.0%	£2,015	Savills IM
25 Gresham Street, EC2	119,738	£160m	3.78%	£1,336	Hengli Investments
10 Grosvenor Street, W1	64,745	£152m	3.70%	£2,348	Private Hong Kong Investor

Nick Rock
Leasing
nick.rock@avisonyoung.com
020 7046 6517
07500 931 455

Mark Holliday
Capital Markets
mark.holliday@avisonyoung.com
020 7046 6511
07808 139 569

Louise McElarney
Lease Advisory
louise.mcelarney@avisonyoung.com
020 7046 6515
07765 055 020