RESEARCH

CENTRAL LONDON

QUARTERLY – OFFICES **Q3 2018**

SUPPLY DECREASES ACROSS THE MARKET

INVESTMENT TURNOVER HIGHEST SINCE Q4 2015

CENTRAL LONDON PRIME YIELDS REMAIN STABLE

EDITORIAL

Central London office take-up remains resilient as occupiers shrug off Brexit uncertainty and new districts such as King's Cross, White City and Stratford satisfy demand.

An important characteristic of the Central London office market in 2018 has been the gap between sentiment and the evidence emerging in the research statistics. The volatile political news, particularly in regard to Brexit, has created an air of caution. However, the statistics show an occupier market that is generally operating at a level that is slightly better than historic norms.

Some of the largest deals of the year-to-date took place in the third quarter, resulting in Central London take-up reaching 3.74 m sq ft, which was 12% up on the previous quarter and 17% ahead of the long-term average. Take-up was buoyed by nine transactions over 100,000 sq ft, which is significant considering the average number of deals of this size per quarter, is three. It is worth noting that the Facebook transaction accounted for three of the nine deals over 100,000 sq ft but were effectively agreed as a single transaction.

TMT was the most dominant sector in Q3, leasing 42% of named take-up. The sector has not held the top spot since Q3 2017, after being toppled by flexible offices, finance and the public sector in Q4 2017, Q1 2018, and Q2 2018 respectively.

The slowing in pace of flexible office take-up continued in Q3 with the sector taking just 357,000 sq ft. Total space taken by the sector so far this year now totals 1.16 m sq ft, down 6% y-o-y. We estimate total annual take-up from the sector to reach circa 1.50 m sq ft by the end of 2018.

Central London supply decreased by 9% over the quarter, which equates to a vacancy rate of 6.3%. While availability in both the City and West End markets reduced marginally, the Docklands fell by 38% over the quarter and is now 15% below long-term average levels. This is due to three deals over 100,000 sq ft taking place in the Docklands.

A total of 3.44 m sq ft across 23 schemes has completed so far in 2018, down 32% y-o-y. There is currently 9.68 m sq ft under construction across Central London; however, 45% of this has already secured a pre-let. There is 1.96 m sq ft still due to complete this year, 32% of which is currently available. Speculative completion levels in 2018 are expected to be 28% lower than 2017, and 21% below the annual average of 2.32 m sq ft.

Prime headline rents across the majority of submarkets remained stable over the quarter, with the exception of the West End Core which increased by 5% over the quarter to £105.00 per sq ft, and Shoreditch/Clerkenwell which increased by 7.1% over the quarter to £75.00 per sq ft. It is worth noting that the prime rent in Shoreditch/Clerkenwell is now the highest of the City submarkets, ahead of the City Core.

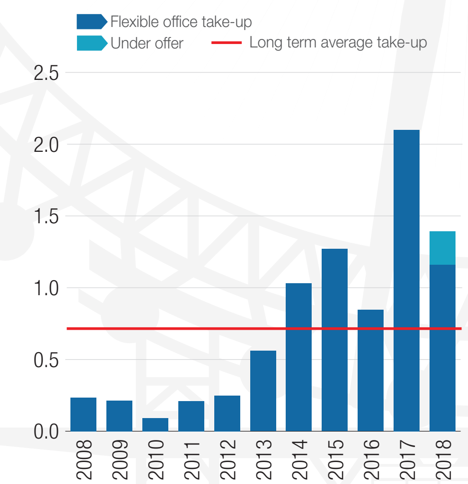
There is still a huge amount of money targeting London despite the politics. Investment turnover reached £5.06 bn in the third quarter; making it the highest quarter for investment since Q4 2015 and 40% ahead of the long-term quarterly average. London's investment market remained the focus of global capital during the first nine months of the year – with overseas investors accounting for 85% of turnover by price.

European buyers were the most dominant investor group in Q3, accounting for nearly 40% of the market share by price, and 22% year-to-date. Since the start of the year we have witnessed a slowing of outbound investment from Greater China into London. Last year, investment from Greater China accounted for 43% of turnover by price (£7.12 bn), however, year-to-date this share has reduced to 24%, and in Q3 it was just 4%.

"There is still a huge amount of money targeting London despite the politics."

VICTORIA SHREEVES
Central London Research

FIGURE 1
Central London flexible office take-up (million sq ft)



Please refer to the important notice at the end of this report

CENTRAL LONDON VIEW

WILLIAM BEARDMORE-GRAY
HEAD OF CENTRAL LONDON OFFICES
"The gap between sentiment and evidence has never been more telling. Central London leasing levels during the first nine months of the year are 10% ahead of the same period last year. Brexit has created an air of caution, however, the statistics show an occupier market that year-to-date, is operating 20% ahead of long-term average levels."

DAN GAUNT
HEAD OF CITY AGENCY
"The City market is still proving to be resilient despite uncertainty in the political arena. The lack of stock coming through is without a doubt supporting this stability. We are seeing design-led stock performing well and expect the outlook to the end of the year to remain the same."

NICK BRAYBROOK
HEAD OF CITY CAPITAL MARKETS
"Despite the political turmoil, investment turnover in the City and Docklands has averaged close to £1 billion per month, putting it close to record levels. In our view, this turnover is likely to slow as the wider uncertainty builds, but at the moment it is dwindling stock availability that is starting to restrict activity, rather than a lack of demand."

ANTHONY BARNARD
HEAD OF WEST END CAPITAL MARKETS
"The highest capital turnover since Q4 2015 highlights the strength in depth of the West End market. The diverse Geographical investor base has delivered 100% liquidity, and continued strong pricing across the market. There remains a "wall" of capital chasing a volume constrained market, maintaining values and liquidity."

IAN MCCARTER
HEAD OF WEST END AGENCY
"Strong leasing activity has eroded West End availability since the beginning of the year, and we expect to finish the year with nearly 20% less supply than we started with. The development pipeline for the next two years is restricted, placing supply under further pressure, however, we believe this will fuel demand for pre-lets."

RICHARD PROCTOR
HEAD OF CENTRAL LONDON TENANT REPRESENTATION
"Brexit? For the larger occupier, the real headlines are: take-up of 100,000 sq ft units at three times the long-term average; 45% of the development pipeline is already let, increasing to 68% for Q4 development completions; active requirements over 50,000 sq ft up by 25% in the West End and construction levels at their lowest level for over three years in the City. Against this backdrop, it is paramount that larger occupiers plan well ahead of lease events and consider pre-lets in order to maximise choice and negotiating leverage. If not, a little like Brexit, the outcome will be compromise on product and deal terms."

"The number of active requirements over 50,000 sq ft focussed on the West End increased 25% quarter-on-quarter, putting further pressure on the supply of larger lot sizes."

FIGURE 2
West End availability
(million sq ft)

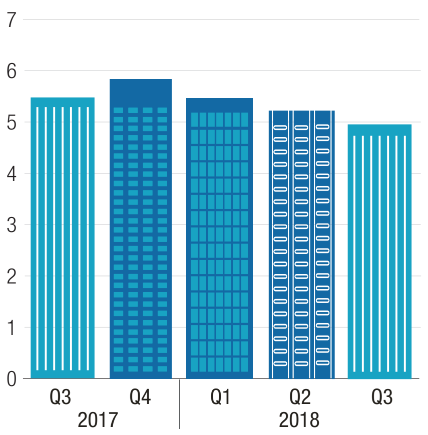
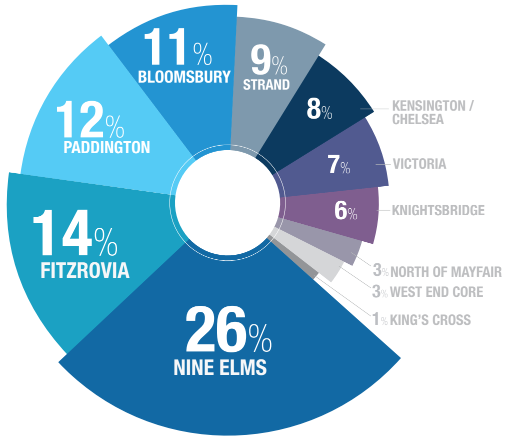
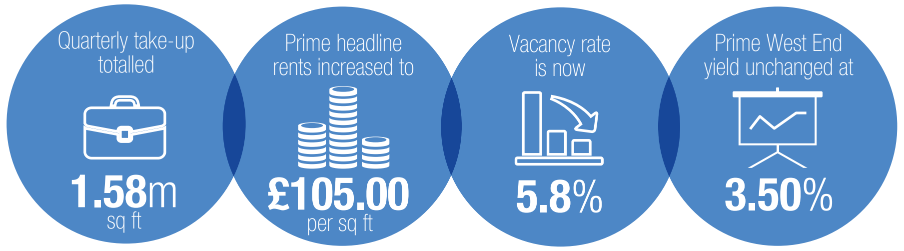


FIGURE 3
West End under construction by submarket
Q3 2018



WEST END



Take-up

Take-up in the West End increased by 18% in the third quarter of the year from 1.34 m sq ft in Q2 to 1.58 m sq ft in Q3. The level of take-up recorded was the second highest since Q3 2007, and 37% above the long-term average. Take-up of new and refurbished stock more than doubled quarter-on-quarter to 1.00 m sq ft. The majority of this was attributable to Facebook's pre-let of nearly 600,000 sq ft at King's Cross.

Unsurprisingly, the TMT sector was the most active during the quarter, reflecting a 71% market share, followed by corporates with 10%. The flexible office sector continues to steady, accounting for just 8% of office take-up in the West End market.

Active requirements

Total active requirements fell by 12% to 2.31 m sq ft over the quarter as a number of large requirements transacted. However, levels of active demand are still 20% above the long-term average of 1.93 m sq ft.

The corporate sector is now the most active in our demand profile, accounting for 31%, followed by the TMT sector with 23%. The number of active requirements over 50,000 sq ft focussed on the West End increased 25% quarter-on-quarter, putting further pressure on the supply of larger lot sizes.

Supply and development

Supply in the West End fell by 5%, from 5.22 m sq ft in Q2 to 4.95 m sq ft in the third quarter, 13% below the long-term average of 5.66 m sq ft. This reflects a current vacancy rate of 5.8%, the lowest level since Q1 2016. There are just two buildings that can offer an occupier over 100,000 sq ft of new and refurbished space; West Works, White City Place, W12, and the remaining floors at The Post Building, 21/31 New Oxford Street, WC1.

There is already 1.50 m sq ft under offer in the West End, with a significant level of stock under offer outside of the traditional core markets including White City Place, King's Cross and Paddington.

There is currently 2.32 m sq ft under construction across the West End, nearly half of this has already secured a pre-let. There is 336,000 sq ft due to complete this year, which has yet to secure a tenant.

Prime Rents and incentives

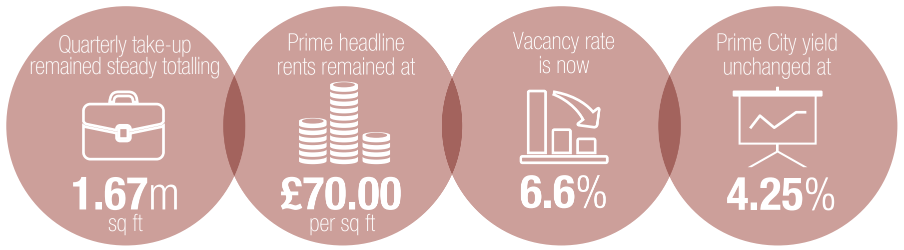
The prime headline rent in the West End Core increased for the first time since Q4 2014. Prime rents had been stable at £100.00 per sq ft, but increased to £105.00 per sq ft in the third quarter, with rent-free periods between 21-24 months on a typical 10-year lease.

Investment

Investment turnover during the third quarter totalled £2.21 bn across 24 deals, significantly higher than the £1.17 bn transacted in the previous quarter, and the highest level of turnover since Q4 2015. There were seven transactions over £100 m, up from four the previous quarter, five of which were acquired by overseas investors. The largest transaction of the quarter was the sale of The Adelphi, 1-11 John Adam Street, WC2, to Pontegadea UK Ltd for £550 m.

European buyers were the most active during the quarter, accounting for 60% of turnover by value. Core prime yields for liquid freehold assets remain at 3.50% although this continues to rise sharply for larger lot size and non-prime assets.

CITY



Take-up

Take-up fell for the third consecutive quarter, falling 10% from 1.85 m sq ft in Q2 to 1.67 m sq ft in Q3. However, levels are still on par with the long-term average and 6% above the same quarter last year. Take-up of new and refurbished stock totalled 800,000 sq ft, 8% above the long-term average of 740,000 sq ft. There were eight deals over 50,000 sq ft, two of which were over 100,000 sq ft; the largest deal of the quarter was Investec Asset Management's acquisition of circa 122,000 sq ft at 55 Gresham Street, EC2

All sectors were active across the City market during the third quarter. The TMT sector was the most active accounting for 30%, followed by the financial sector with 21%. Similarly to the West End, demand from the flexible office sector continued to slow, accounting for 17%, with only one deal in the top 10 largest deals.

Active requirements

Total active demand in the City remained stable at 4.65 m sq ft in Q3, 14% above the long-term average. The financial sector accounted for 35% of active demand, followed by the professional sector with 28%. The market for 20,000 sq ft and above proves relatively resilient, with pressure on mid-sized occupiers to look earlier due to a lack of stock coming through. There were over 20 active requirements over 50,000 sq across the City market.

Supply and development

Supply levels in the City during the third quarter fell marginally from 8.30 m sq ft in Q2 to 7.99 m sq ft in Q3, 14% below the long-term average of 9.26 m sq ft. The vacancy rate in the City fell for the third consecutive quarter, which now stands at 6.6%.

The supply of new and refurbished stock continued to fall, totalling 2.41 m sq ft, the lowest level since Q1 2016. There are just five new and refurbished buildings that could offer an occupier over 100,000 sq ft, albeit a proportion of this is already under offer. Furthermore, there is a total of 1.90 m sq ft under offer in the City.

Looking at future pipeline, 1.84 m sq ft completed in the third quarter and the level of space under construction fell from 7.77 m sq ft to 5.83 m sq ft. This is the lowest level of stock under construction since Q1 2015, 48% of which has already secured a pre-let.

Prime rents and incentives

The prime Core rent remained stable at £70.00 per sq ft, unchanged since Q4 2015. Rent free periods have remained at 24 months on a typical 10-year term certain. Rents in the Shoreditch/Clerkenwell market rose to £75.00 per sq ft, following the recent transactions completed at The Ray, 119 Farringdon Road, EC1, and 1 Bartholomew Close, EC1.

Investment

City investment totalled £2.81 bn in Q3, 42% ahead of the long-term average. There were 29 transactions in Q3, including seven which were over £100 m.

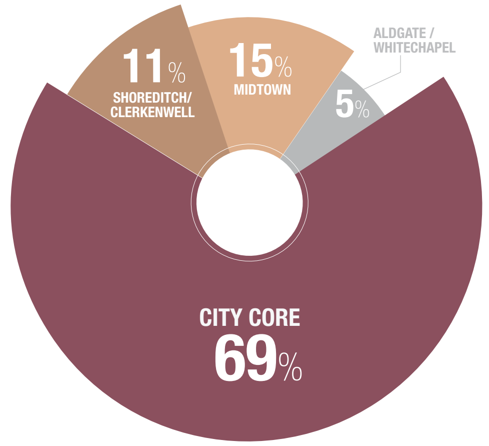
The largest transaction of the quarter was the acquisition of Fleet Building, 70 Farringdon Street, EC4, by the National Pension Service of Korea for £1,165 m, reflecting a NIY of 4.15% and a capital value of £1,410 per sq ft. Overseas investors dominated total turnover by 90%, with an increase in European investor activity. Domestic purchasers remained active in the smaller lot size range, accounting for 41% of all deals by number.

The supply of investment opportunities fell by 41% quarter-on-quarter to £3.25 bn, albeit, 48% of this is already under offer. The prime yield in the City Core remained at 4.25%.

"Investment turnover reached £2.81bn, 42% ahead of the long-term average and the highest Q3 turnover since Q3 2007."

FIGURE 4
City take-up
(million sq ft)

FIGURE 5
City under construction by submarket
Q3 2018



KEY TAKEAWAYS

The ramifications of last year's sweeping changes in Chinese policy on outbound real estate capital continue to linger.

Capital outflow controls have had a detrimental impact on key markets, like the U.S. and Australia, where volume dropped as much as 64% y-o-y last year. In contrast, the UK saw four times more Chinese investment than in the previous year. Hong Kong has also emerged as one of the top gateways for Chinese capital.

In the next 12 months, Chinese capital outflow restrictions are likely to persist, bringing a slow down to the current cycle of investment. However, the markets will continue to see investment from mature Chinese investors, such as sovereign wealth funds and developers with offshore fundraising capability.

The retreat of Mainland Chinese buyers has made way for significant purchases by Hong Kong investors. But they face competition from other Asian investors, such as Korean and Singaporean funds.

From the Chinese investment perspective, London and Hong Kong remain the key destinations to watch. The former's strength is in its long-term return prospects, while the latter's is in medium-term value appreciation.

CHINESE OUTBOUND REAL ESTATE INVESTMENT

How are capital controls impacting London?

The UK vote to leave the European Union and the subsequent devaluation of the pound led to a major rebound of investment from Greater China, as investors seized the opportunity to acquire prime commercial property in the UK, and in particular, prime assets in Central London.

In 2017, Greater China accounted for 43% of total Central London turnover by price with total acquisitions reaching £7.12 bn, significantly boosted by two transactions over £1 bn; LKK Health Products Group's purchase of 20 Fenchurch Street, EC3, and CC Land's purchase of The Leadenhall Building, 122 Leadenhall Street, EC3.

So far this year, London has witnessed investment from Greater China retreat somewhat, but it is still over the long-term annual average of £1.78 bn. Despite tapering deal flows, there is still interest from Greater China, as can be seen from the year-to-date results which are the second highest on record.

On balance, London offers the same strong property market fundamentals that other gateway cities offer, such as market stability and transparency, as well as the language advantage. For investors from Greater China, exchange rate arbitrage over the pre-Brexit period still exists even though the RMB has weakened somewhat recently.

But for investors who seek long-term yield growth, London does offer a comparative advantage. Property owners in Hong Kong, where capital values have reached new highs and yields historic lows, in some cases below 2%, are now being attracted to invest in London where yields are substantially higher.

Consequences of Chinese capital outflow controls

We have already seen signs of tighter and wider controls emerging. For example, in a directive issued at the beginning of the year, the National Development and Reform Commission (NDRC) expanded the coverage of a stringent approval process from firms on the Chinese Mainland to the Mainland firms operating out of Hong Kong, reaffirming its stance against firms investing outside of their core business and classifying real estate as a "sensitive" sector.

Although the market should not over read the latest policy movements, a seasoned market watcher will recognise the top-down approach the Chinese corporate system operates under. The prevailing view is to contain and correct the over expansion in the past. So unless this view changes because of a major event like a geopolitical shift, the investment in real estate by heavyweights, such as insurance giants and conglomerates, will remain subdued.

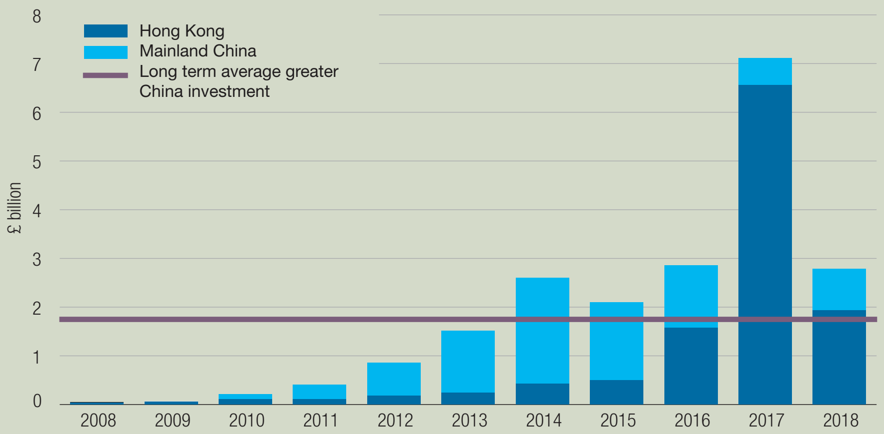
Outbound controls may also lead investors to look more for domestic opportunities. Nevertheless, the market this year has seen some owner occupier purchases and purchases with funds raised overseas. Some developers with offshore experience and mandates are still actively looking for opportunities.

In the long run, Chinese investors will develop more sophisticated global strategies so that they can easily refocus to capture growth opportunities globally. However, the top-down, policy-driven behaviour we have observed will take time to evolve.

"Other Asian investors, such as Singaporeans and Koreans, are also stepping up their activity. This has resulted in healthier competition and has helped reduce the risk of policy induced market disruption."

DAVID JI
Head of Research & Consultancy, Greater China

FIGURE 6
Greater Chinese Investment in London



Source: Knight Frank

CONCLUSION

As a result of China's capital outflow restrictions, the current cycle, which has seen a buying spree by Mainland Chinese investors over the past five years, is drawing to a close. As demand from China reduces the market has returned to a sense of normality from the perspective of many long-term players including sovereign wealth funds with long-term national mandates, investors, and developers with offshore fund-raising capability, whose core business is real estate.

While capital controls persist, Chinese investors will remain cautious. This could have an impact on short-term transaction volumes but in the long-term, they cannot ignore the many opportunities presented in the gateway real estate markets.

As the Sino-US trade dispute rages on, its ramifications will spread beyond trade to the general investment environment in gateway cities. So in the short-term, New York's loss is London's and Hong Kong's gain. Meanwhile, investors from outside Mainland China, in particular from Hong Kong, are picking up deal flows, as we witnessed from their recent acquisitions in London.

Other Asian investors, specifically from Singapore and Korea, are also stepping up their activity. This has resulted in healthier competition and a more balanced market, reducing the of policy induced market disruption. This actually bodes well for mature Chinese investors who seek long-term return for their investments.

"Take-up in the third quarter was more than double the long-term average. Furthermore, take-up so far this year has already exceeded the total recorded in 2017."

FIGURE 7
Docklands availability
(million sq ft)

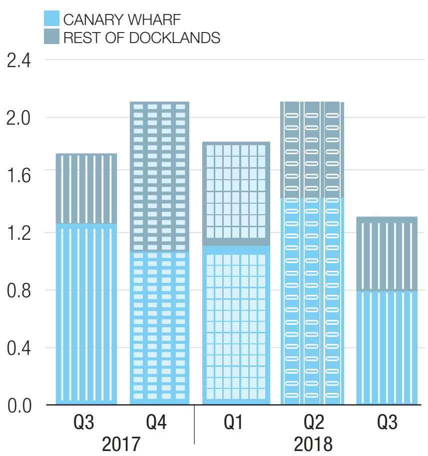
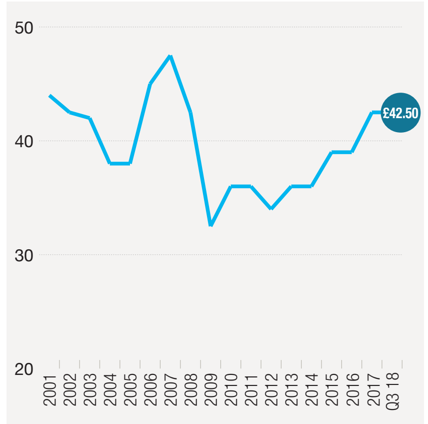
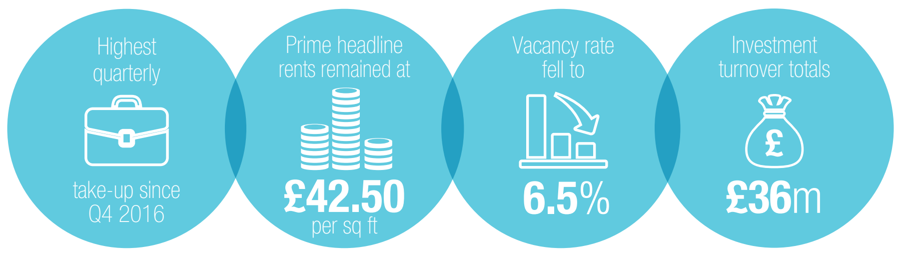


FIGURE 8
Canary Wharf prime headline rents
£ per sq ft



DOCKLANDS



Take-up

Take-up in the third quarter totalled 487,245 sq ft, significantly above the 142,433 sq ft recorded in Q2 and more than double the long-term average. Furthermore, take-up so far this year has already exceeded the total recorded in 2017. There were eight deals over the quarter, with three over 100,000 sq ft. These included; the V&A acquiring 148,000 sq ft at Here East, E20, BGC Partners acquiring over 130,000 sq ft at 5 Churchill Place, E14 and the Competition & Markets Authority taking nearly 113,000 sq ft at the newly refurbished The Cabot, E14.

The public sector was the most active in the market during Q3 accounting for 54% of transactions, followed by the financial sector with 27%. There is already 235,000 sq ft under offer in the Docklands market, a sign that take-up in Q4 will likely be above average levels.

Active requirements

The level of active requirements fell from 335,000 sq ft to 260,000 sq ft quarter-on-quarter, the lowest level since Q1 2014. Despite falling levels of active requirements, it should be noted that there are a large number of searches across Central London who would consider the Docklands as part of their wider search.

Supply and development

Supply in Docklands fell in the third quarter to 1.31 m sq ft and availability is now 15% below the long-term average of 1.54 m sq ft. The current vacancy rate is now 6.5%, the lowest level since Q1 2017. Supply has fallen 37% year-on-year and the vacancy rate in Canary Wharf now stands at 5.3%. However, 5 Bank Street is due to enter the supply figures in Q4 2018.

The commercial pipeline remains particularly tight with 1.53 m sq ft under construction and due for completion by the end of 2021, 25% of which is already pre-let. There is circa 966,000 sq ft due to complete in the next 12 months. There are a number of other development sites in Stratford capable of being delivered in 2020 and 2021, but are likely to remain on hold until a pre-let is secured.

Rental Profile

The prime headline rent remained stable at £42.50 per sq ft for the fourth consecutive quarter.

Investment

There was one investment sale during the third quarter. The sale of 4&5 Harbour Exchange, purchased by a South Korean investor for £36.2 m, which reflects a NIY of 7.31% and a capital value of £381 per sq ft.

There are currently three assets on the market in E14; 1 Cabot Square, 11 Westferry Circus and Sovereign House, 227 Marsh Wall, two of which are already under offer. The lack of stock in this market will continue to influence the investment turnover figures for the short to medium term, rather than the lack of demand.

BACK TO THE FUTURE

Between 1992 and 1997, the Major government saw the economy prosper while the political mood soured. Is the same happening again?

A recent report in the Financial Times suggested that in the event of a hard Brexit, the European Commission would still allow EU banks to continue to use London clearing houses for euro transactions, at least temporarily. This is a big retreat from previous talk of London losing its euro clearing business entirely. Meanwhile, a survey by Reuters found that so far, just 630 jobs from London-based financial and insurance firms have relocated to the EU due to Brexit. That equates to 0.16% of London's financial workforce.

To be fair, Brexit has not yet happened, but it is just five months away. Yet, employment in London's financial sector is higher now than in June 2016 – 406,000 jobs, up from 393,000 at the time of the referendum, according to ONS. London as a whole has seen 62,000 jobs created in 2018 alone. Rather than fading as we draw closer to Brexit, UK GDP has accelerated over the spring and summer months, reaching a punchy 0.7% in the three months to August.

However, the facts above are a far cry from the very downbeat political narrative on Brexit we hear on a daily basis. The dilemma for the property industry is: does one focus on the economic statistics or the politics?

Overall, we have a situation that is close to a re-run of the politically volatile period of 1992 to 1997, under former-Prime Minister John Major, when the government tore itself to shreds over Europe; and the economy moved into an upswing. In 1992, a failed attempt to keep the pound in the EU's Exchange Rate Mechanism badly hit the government's credibility, just as a bruising row in Parliament erupted over Europe's Maastricht treaty. A sense of political drift set in, which the Major government could not shake off post-1992, even though GDP was gaining momentum again.

Even after the Maastricht treaty passed through Parliament, the quarrels with rebel backbenchers continued, adding to the sense of political disorder. This ironically coincided with a tech boom reaching Britain in the mid-1990s from the US, plus a new growth phase for London's financial cluster. The economy prospered, while the government sank.

In 2018, a shadow has passed over the political debate, which no amount of good economic news can dissipate. Yet, firms still need to make payroll, meet debt repayments, and defend market share, so they have to trade on despite the angry politics. Consequently, the economy continues to turn, helped by the latest wave of the tech revolution, and a cheaper pound. All very similar to John Major's era.

We believe that the Eurosceptics are not strong enough in Parliament to force through a hard Brexit. Consequently, a fudged EU withdrawal agreement will in our opinion pass through the House of Commons in the winter, clearing the way for a transition period, then a free trade deal on the Canada +++ model; as already hinted at by Michel Barnier, the EU chief negotiator.

Without a hard Brexit we see growth continuing. The OBR is forecasting the unemployment rate to fall to just 3.7% next year. Yet, it is unlikely the angry exchanges between Brexiteers and Remainers will end soon. If the economy continues to grow, the property industry may want to look for ways to drown out the political noise, and concentrate on the economic statistics.

"Yet, employment in London's financial sector is higher now than in June 2016 – 406,000 jobs, up from 393,000 at the time of the referendum, according to ONS."

JAMES ROBERTS
Partner, Chief Economist

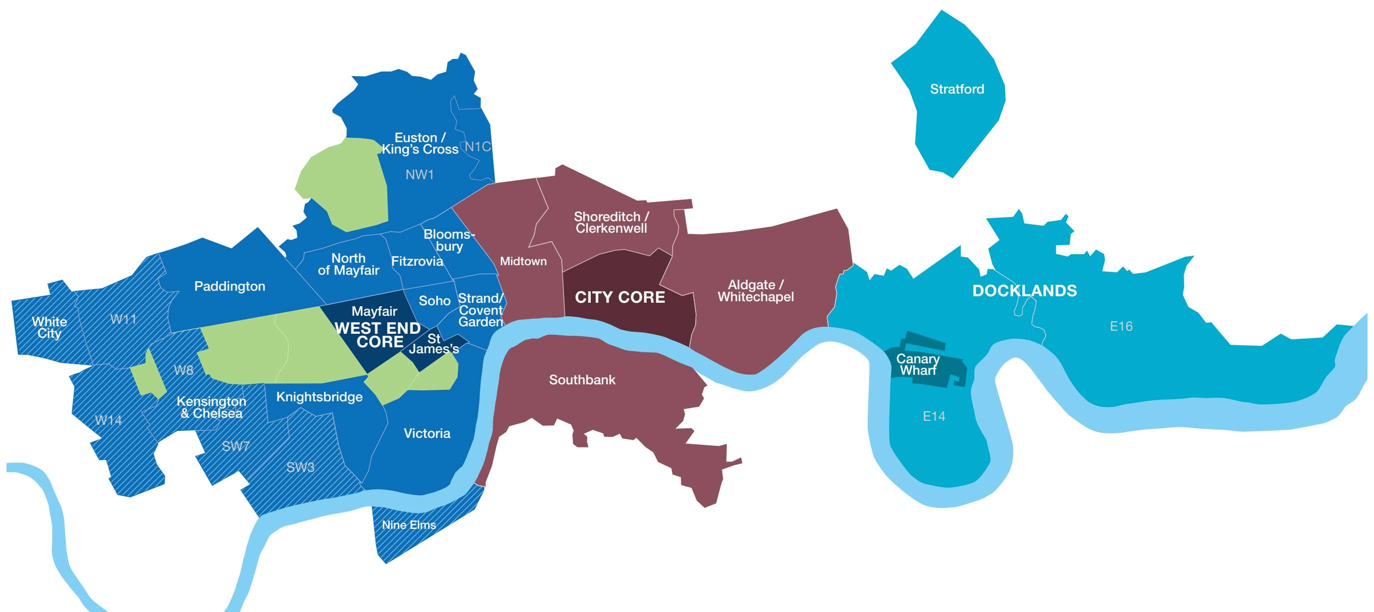
KEY STATISTICS

Central London office market

		Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	% CHANGE 3 mths	% CHANGE 12 mths	10-year quarterly average
AVAILABILITY (sq ft)	West End	5.48 m	5.83 m	5.46 m	5.22 m	**4.95 m**	-5%	-10%	5.66 m
	City	7.95 m	8.46 m	8.27 m	8.30 m	**7.99 m**	-4%	1%	9.26 m
	Docklands	1.75 m	2.10 m	1.83 m	2.12 m	**1.31 m**	-38%	-25%	1.54 m
	Central London	15.18 m	16.39 m	15.56 m	15.64 m	**14.25 m**	-9%	-6%	16.46 m
VACANCY RATE	West End	6.4%	6.8%	6.3%	6.1%	**5.8%**	n/a	n/a	6.4%
	City	6.6%	7.1%	6.9%	6.9%	**6.6%**	n/a	n/a	7.9%
	Docklands	10.2%	10.6%	8.1%	10.4%	**6.5%**	n/a	n/a	7.3%
	Central London	6.9%	7.3%	6.8%	6.9%	**6.3%**	n/a	n/a	7.3%
TAKE-UP (sq ft)	West End	1.65 m	1.34 m	1.21 m	1.34 m	**1.58 m**	18%	-4%	1.15 m
	City	1.58 m	2.33 m	2.12 m	1.85 m	**1.67 m**	-10%	6%	1.75 m
	Docklands	0.25 m	0.38 m	0.39 m	0.14 m	**0.49 m**	250%	96%	0.24 m
	Central London	3.48 m	4.05 m	3.72 m	3.33 m	**3.74 m**	12%	7%	3.20 m
ACTIVE REQUIREMENTS (sq ft)	West End	2.31 m	2.80 m	3.36 m	2.63 m	**2.31 m**	-12%	0%	1.93 m
	City	4.01 m	4.46 m	4.27 m	4.58 m	**4.65 m**	2%	16%	4.07 m
	Docklands	0.73 m	0.50 m	0.28 m	0.70 m	**0.26 m**	-63%	-64%	0.42 m
	Unspecified	1.40 m	2.88 m	3.44 m	3.10 m	**3.65 m**	18%	161%	1.66 m
	Central London	8.45 m	10.64 m	11.35 m	11.01 m	**10.87 m**	-1%	29%	8.08 m
UNDER CONSTRUCTION (sq ft)	West End	2.12 m	2.35 m	2.14 m	2.10 m	**2.32 m**	10%	9%	2.38 m
	City	8.69 m	8.52 m	7.95 m	7.77 m	**5.83 m**	-25%	-33%	5.99 m
	Docklands	0.90 m	0.96 m	1.29 m	1.71 m	**1.53 m**	-11%	70%	0.51 m
	Central London	11.71 m	11.83 m	11.38 m	11.58 m	**9.68 m**	-16%	-17%	8.88 m
INVESTMENT	West End	£0.67 bn	£1.15 bn	£0.76 bn	£1.17 bn	**£2.21 bn**	89%	230%	£1.26 bn
	City	£2.78 bn	£2.95 bn	£1.49 bn	£3.42 bn	**£2.81 bn**	-18%	1%	£1.90 bn
	Docklands	£0.41 bn	£0.71 bn	£0 bn	£0.11 bn	**£0.04 bn**	-64%	n/a	£0.38 bn
	Central London	£3.86 bn	£4.81 bn	£2.25 bn	£4.70 bn	**£5.06 bn**	8%	31%	£3.62 bn

Source: Knight Frank Research

THE CENTRAL LONDON OFFICE MARKET



WEST END

West End Core – West End Core refers to Mayfair and St James's, 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.

North of Mayfair – North of Mayfair refers to the area north of Oxford Street, west of Portland Place.

Fitzrovia – Fitzrovia also known as Noho, refers to the area north of Oxford Street, east of Portland Place.

Soho – Soho refers to W1B, W1F and W1D.

Euston/King's Cross – Euston/King's Cross refers to NW1 and N1C.

Victoria – Victoria refers to SW1 (excluding St James's) and SW1X.

Bloomsbury – Bloomsbury refers to the area of WC1 bounded by Euston Road, Southampton Row, New Oxford Street and Tottenham Court Road.

Strand/Covent Garden – Strand/Covent Garden refers to WC2, west of Kingsway.

Paddington – Paddington refers to W2.

Kensington/Chelsea – Kensington/Chelsea refers to SW3, SW7, W8, W11, W14.

Knightsbridge – Knightsbridge refers to SW7 and SW1X, which includes Belgravia.

White City – White City refers to W12.

Nine Elms/Battersea – Nine Elms refers to SW8.

CITY

City Core – City Core refers to EC2 (excluding EC2A), EC3, EC4 (excluding EC4A and EC4Y), and EC1A.

Midtown – Midtown refers to EC1N, EC4A, EC4Y, WC1 (excluding Bloomsbury), and WC2 (excluding Strand/Covent Garden).

Shoreditch/Clerkenwell – Shoreditch/Clerkenwell refers to EC1 (excluding EC1A and EC1N), and EC2A.

Aldgate/Whitechapel – Aldgate/Whitechapel refers to E1.

Southbank – Southbank refers to SE1.

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 Royal Business Park (excluding Canary Wharf), and Stratford E20.

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

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