



Q2 2010 CENTRAL LONDON

Quarterly – Offices

Knight Frank

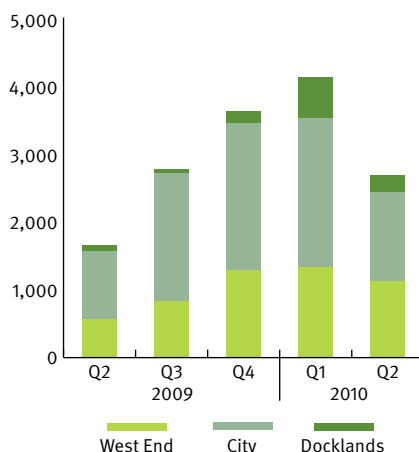
HIGHLIGHTS

- After two quarters of exceptionally strong take-up, levels fell back to 2.7 m sq ft in Q2 2010 as the market ‘paused for breath’. Demand for quality stock and large units remains strong and we anticipate another ‘wave’ of take-up towards the end of the year.
- Availability fell further in the second quarter confirming that the market recovery is still underway. Although the supply of second-hand space remains stubbornly high, the availability of new and refurbished space is falling significantly. With the development pipeline still limited, the market balance is moving back in favour of the landlord.
- Central London offices remained attractive to investors as evidenced by the healthy levels of turnover. Overseas investors dominated the purchaser profile and the ongoing weakness of Sterling continues to make London relatively good value.

CENTRAL LONDON OVERVIEW

- **Take-up totalled 2.7 m sq ft, an increase of 63% from the same point last year.**
- **Availability was 20.1 m sq ft having fallen 18% over the last 12 months.**
- **Development activity remained limited due to lack of funding.**
- **Prime yields tightened further as overseas investors continued to dominate.**

Figure 1
Central London take-up by quarter & sub-market
Q2 2009 - Q2 2010 (000's sq ft)



Source: Knight Frank

Demand and take-up

Take-up across Central London fell to 2.7 m sq ft in Q2 2010 reflecting a 'pause for breath' after two quarters of take-up well above the long-term average. The City market recorded a marked fall in the volume of space transacted, although this is mainly attributable to a lack of large-unit deals seen in the first quarter. In the West End, leasing activity remained relatively strong, albeit lower than the previous two quarters.

It is unlikely that the lower Q2 take-up figures signal any serious underlying problems in the market's recovery, as a number of large unit deals are expected later in the year, particularly in the City. There is evidence that the volume of space transacted in smaller units (sub-50,000 sq ft) in the second quarter matched the previous quarter's healthy level, which indicates the continued strengthening of market fundamentals.

Supply and development

Availability fell for the third consecutive quarter and now totals 20.1 m sq ft, an 18% fall from the cycle's peak of 24.6 m sq ft in Q3 2009. While the fall in the supply of new and refurbished space has continued due to the decline in speculative development activity, the availability of second-hand space remained relatively stable as tenants who have taken new space released their existing space to the market.

The volume of space under construction speculatively fell further and now totals 3.2 m sq ft – equivalent to just 6 months average take-up of new and refurbished space. Developers with sufficient funds have moved to take advantage of the potential shortfall of supply, and we expect a number of significant schemes to commence on site over the coming 6 months. However, bank lending for development remains difficult to obtain which, coupled with strengthening demand, should keep new supply levels in check.

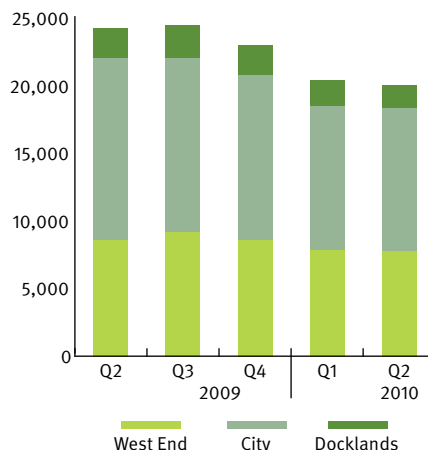
Investment market

Central London investment turnover rose considerably in the second quarter to £2.9 bn. This increase of 70% over the previous quarter's level was partly attributable to an unusually high number of £100 m+ sales that completed across the market. Growing confidence in the occupational market has prompted an increase in demand from domestic institutional investors, although overseas purchasers remain dominant, accounting for more than 70% of transactions. The on-going weakness of Sterling has sustained demand from overseas funds and wealthy private Middle

Eastern investors. There has been a recent pick-up in Sterling's value, but it remains low by historic standards.

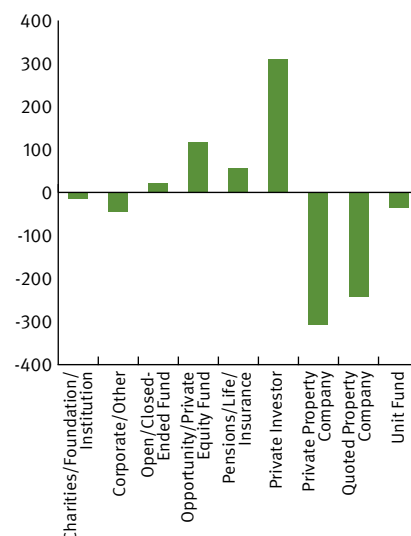
Prime yields continued to tighten in both the City and West End, with pricing now almost at the same level as the peak of the market in 2007. Prime yields will remain under pressure while demand remains strong and interest rates remain at their current level.

Figure 2
Central London availability by quarter & sub-market
Q2 2009 - Q2 2010 (000's sq ft)



Source: Knight Frank

Figure 3
Central London net investment
Q2 2010 (£ m's)



Source: Knight Frank

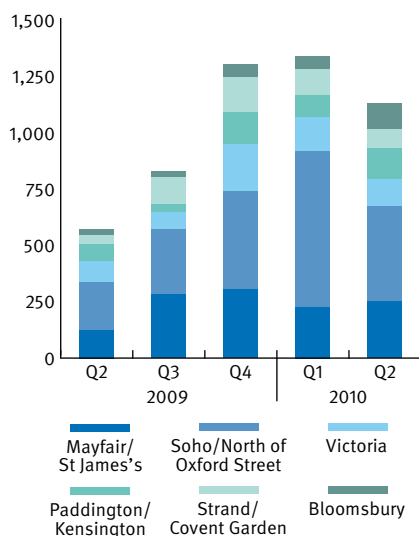


WEST END

- **Take-up in Q2 2010 was 1.1 m sq ft, down 16% on the previous quarter.**
- **Active demand totalled 2.1 m sq ft, 42% above the same quarter last year.**
- **Vacancy rate now stands at 8.6% with availability falling to 7.8 m sq ft.**
- **Prime headline rents rose for the second time this year to £82.50 per sq ft.**

Figure 1
West End take-up by quarter & sub-market

Q2 2009 - Q2 2010 (000's sq ft)



Source: Knight Frank

Demand & take-up

Take-up in Q2 2010 totalled 1.1 m sq ft, falling 16% since the previous quarter, although levels are still almost double those seen in the same quarter last year. The market has now seen three consecutive quarters of take-up levels in excess of 1.0 m sq ft, suggesting demand has returned to average levels. Take-up of second-hand grade A space was 12% above the long-term average, with over 400,000 sq ft transacted in Q2. The largest deal of the quarter was at Henrietta House, Henrietta Place in which CB Richard Ellis took 100,000 sq ft ready for occupation in May 2011.

Active demand also rose 12% in the second quarter to 2.1 m sq ft with the activation of a number of large requirements, including searches for Ricoh and ConocoPhillips.

Supply & development

Availability fell for the third consecutive quarter and now stands at 7.8 m sq ft, taking the vacancy rate in the West End to 8.6%, the lowest level since Q4 2008. With restricted levels of new & refurbished space entering the figures for the foreseeable future, due to lack of development starts in 2008 and 2009, availability will remain under pressure and is expected to decline further.

The volume of space under construction speculatively fell further to just under 800,000 sq ft, nearly half the long-term average, the lowest level for 14 years. This time last year there was 1.9 m sq ft under construction, 57% higher than current levels. There are a number of new schemes where construction is expected to start this year, including 62 Buckingham Gate (265,000 sq ft) and Marcol House (100,000 sq ft) which should complete in 2012 or 2013.

Rental profile

The prime headline rent rose for the second time this year to £82.50 per sq ft. We forecast rents to increase further this year against the backdrop of falling supply, particularly for new build space in the Core. Rent free periods remain at 21 months on a ten-year term certain.

Investment market

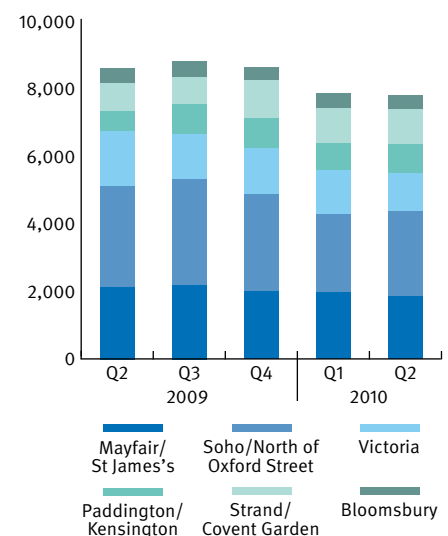
Q2 has seen the highest level of transactions since Q3 2007 at £1.7 bn. However, three transactions accounted for 60% of this volume, with £580 m being accounted for by the Knightsbridge Estate.

Market activity increased considerably in the second quarter, with strong levels of interest from wealthy foreign private individuals looking to buy office buildings for wealth preservation purposes. Demand has been sustained through increasing confidence in the occupational market with investors looking to take advantage of the strong

rental growth forecast, and the relative weakness of Sterling against other global currencies. Prime core West End yields are at 4.25%, following a 75 basis point shift over the last two quarters.

Figure 2
West End availability by quarter & sub-market

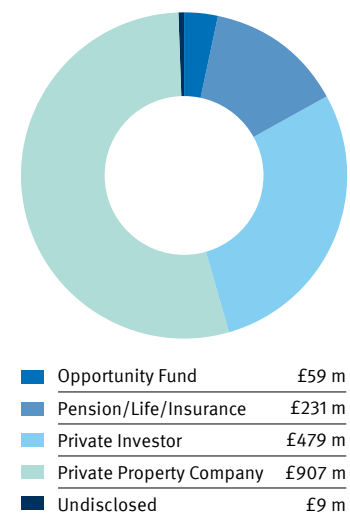
Q2 2009 - Q2 2010 (000's sq ft)



Source: Knight Frank

Figure 3
West End investment by purchaser

Q2 2010 (£ m's)

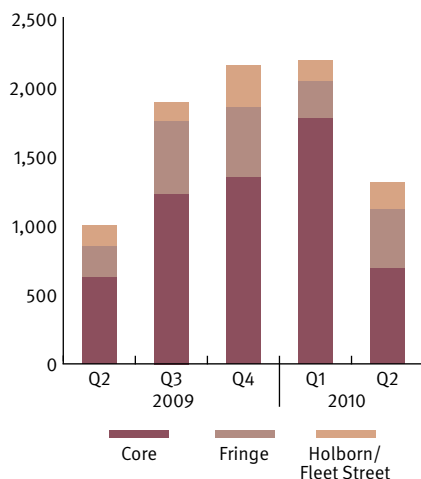


Source: Knight Frank

CITY

- **Pause for breath for take-up, but large deals expected later in the year.**
- **Availability down marginally to 10.5 m sq ft, following a sharp fall in Q1.**
- **City prime normal rent up 13.5% year-to-date at £50.00 per sq ft.**
- **Prime investment yields down by another 25 basis points to 5.25%.**

Figure 1
City take-up by quarter & sub-market
Q2 2009 - Q2 2010 (000's sq ft)



Source: Knight Frank

Demand and take-up

As was expected, take-up in Q2 was down on a quarter-on-quarter comparison to 1.3 m sq ft, following three consecutive quarters of above average take-up (1.6 m sq ft per quarter). Given that demand had been so strong in the preceding quarters, we cautioned in our previous report that a 'pause-for-breath' was likely in Q2. While we only expect a marginal improvement in Q3, large pre-let deals currently being negotiated will probably buoy the Q4 figures. UBS, for instance, are under offer on a potential 700,000 sq ft pre-let deal at 4-6 Broadgate. It is worth noting that the day-to-day City market of deals of 20,000 sq ft or less actually recorded increased take-up in Q2,

up 11% to 880,000 sq ft. This shows City demand in the typical deals market has proved resilient during the difficult trading environment of Q2.

Supply and development

Availability saw just a marginal quarter-on-quarter decline to 10.5 m sq ft, following the sharp fall of 1.6 m sq ft recorded in Q1. A 7% decline in new and refurbished space was mostly counterbalanced by second hand supply coming to the market, much of which related to relocations by tenants. For instance, 55,000 sq ft was placed on the market at Moor House, ahead of Macquarie Bank's relocation to Ropemaker.

The volume of speculative space under construction continues to dwindle, and currently stands at 2.4 m sq ft. Given that long-term average take-up for new and refurbished space is 3.0 m sq ft per annum, the development pipeline appears inadequate compared to typical levels of demand. Some developers are now in discussions on establishing joint ventures to build schemes.

Rental profile

City Core prime normal rents have increased by 13.5% so far this year to £50.00 per sq ft, up from £44.00 per sq ft at the end of 2009. The dwindling development pipeline is giving landlords greater confidence in rent negotiations. We expect prime rents to reach £52.50 per sq ft by the end of the year.

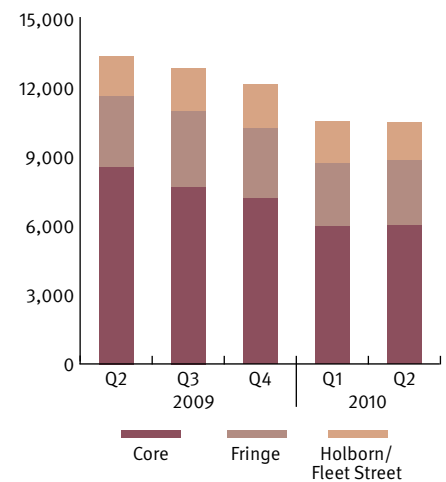
Investment market

The City investment transaction volume in Q2, at just over £1.0 bn, was the highest seen since 2007. A number of large deals lifted the figures – the top five deals accounted for over half the volume figure. Foreign buyers dominated the market, although the number of UK buyers has grown considerably compared to a year ago. In particular, UK investment funds continue their resurgence, most notably with Scottish Widows buying 75 King William Street for £67.0 m.

Prime yields hardened by a further 25 basis points to 5.25%, driven by growing

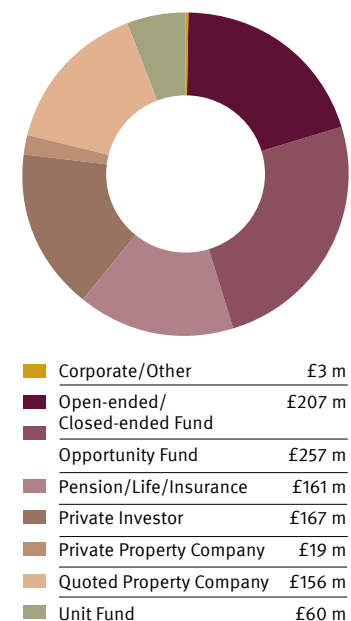
confidence in the outlook for rents. While more stock has come to the market in recent months, we believe the weight of money looking to buy city offices will result in a further contraction for prime yields before year end.

Figure 2
City availability by quarter & sub-market
Q2 2009 - Q2 2010 (000's sq ft)



Source: Knight Frank

Figure 3
City investment by purchaser
Q2 2010 (£ m's)



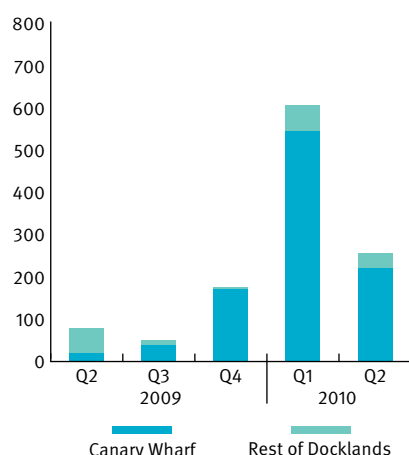
Source: Knight Frank



DOCKLANDS

- **Take-up was buoyed by a major letting to Shell.**
- **Availability declined for third consecutive quarter.**
- **Prime rents at Canary Wharf edged up further.**
- **Exchange Tower sold for nearly £135 m.**

Figure 1
Docklands take-up by quarter & sub-market
Q2 2009 - Q2 2010 (000's sq ft)



Source: Knight Frank

Demand & take up

The Docklands market saw take-up of 256,000 sq ft in the second quarter, up from just 79,000 sq ft for the equivalent period in 2009. The Shell letting at 40 Bank Street accounted to the lion's share of activity. The oil giant took 187,000 sq ft on ten floors (excluding option space). Shell are moving staff from the Shell Centre at Waterloo, which will now be refurbished. Also, the European Medicines Evaluation Agency, an existing Canary Wharf tenant, took 34,000 sq ft at 11 Westferry Circus.

Outside of Canary Wharf activity remains relatively subdued. The largest deal of the quarter was data centre company, Control Circle, taking 13,000 sq ft at Hertsmere House. Looking forward, UK broking firm MF Global is due to sign soon on 105,000 sq ft at 5 Churchill Place.

Supply & development

Supply in Docklands fell for a third quarter in a row, and currently stands at 1.7 m sq ft, having peaked at 2.4 m sq ft in Q3 2009. This equates to a vacancy rate of 8.0%, the lowest of the Central London office markets. At Canary Wharf the vacancy rate is lower still – just 7.3% (6.7% when MF Global signs). It has been reported in the media that Bank of America Merrill Lynch are reviewing options for their office at 5 Canada Square. Originally staff at Canary Wharf were moved to the City following the merger, but the space has since been reoccupied.

There remains no further indication on the future of the Lehman space in 25 Bank Street, where the rent is insured for four years' passing rent and Nomura will soon vacate the building. Following the implementation of a new workplace strategy, Citi will be releasing another 90,000 sq ft in the 25 Canada Square tower in Spring 2011.

Rental profile

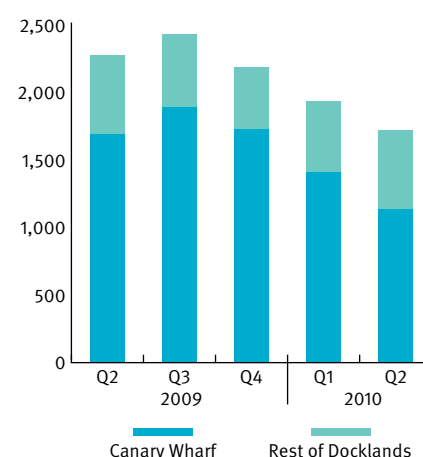
Prime rents in Canary Wharf on whole floors increased to £36.00 per sq ft, up from £35.00 per sq ft three months ago. This is a slower rate of rent inflation than that being recorded in the City and West End suggesting the recovery in Docklands is at an earlier stage.

Investment

June saw Hammerson sell its Exchange Tower to US fund, MGPA, for £134.6 m sq ft reflecting a net initial yield of 9.5%. Around 41% of the rent roll is guaranteed by the Government and Barclays Bank. Also, the

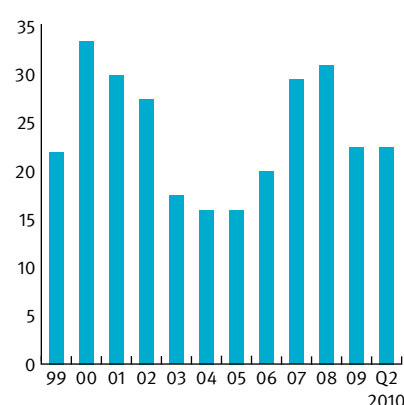
freehold of the 50,000 sq ft Limehouse Court has just been placed under offer. The asking price is £5.5 m, reflecting a NIY of 10.3%.

Figure 2
Docklands availability by quarter & sub-market
Q2 2009 - Q2 2010 (000's sq ft)



Source: Knight Frank

Figure 3
Rest of Docklands prime rent
1999-2010 (Prime £/sq ft)



Source: Knight Frank

Key statistics

Central London office market

Availability (m sq ft)	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	3 months % change	12 months % change
West End	8.62	9.22	8.64	7.88	7.81	-1.0%	-9.4%
City	13.42	12.90	12.18	10.59	10.54	-0.5%	-21.5%
Docklands	2.28	2.44	2.19	1.94	1.72	-11.5%	-24.5%
Central London	24.32	24.55	23.01	20.42	20.07	-1.7%	-17.5%

Vacancy Rate (%)	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	3 months % change	12 months % change
West End	9.5	10.2	9.5	8.7	8.6	n/a	n/a
City	11.4	11.0	10.4	9.0	9.0	n/a	n/a
Docklands	10.6	11.4	10.2	9.1	8.0	n/a	n/a
Central London	10.8	10.9	10.2	9.0	8.9	n/a	n/a

Take-up (m sq ft)	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	3 months % change	12 months % change
West End	0.57	0.83	1.30	1.34	1.13	-15.6%	97.2%
City	1.01	1.90	2.17	2.20	1.32	-40.3%	30.5%
Docklands	0.08	0.05	0.18	0.61	0.26	-57.8%	225.4%
Central London	1.66	2.78	3.65	4.15	2.70	-34.9%	62.8%

Active Demand (m sq ft)	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	3 months % change	12 months % change
West End	1.49	2.07	1.79	1.88	2.11	12.2%	41.4%
City	4.12	3.64	4.67	3.73	4.34	16.2%	5.3%
Docklands	0.35	0.33	0.50	0.48	1.00	110.5%	188.2%
Unspecified Central London	1.63	2.30	1.24	0.88	0.89	1.0%	-45.7%
TOTAL Central London	7.59	8.34	8.20	6.86	9.92	44.6%	30.7%

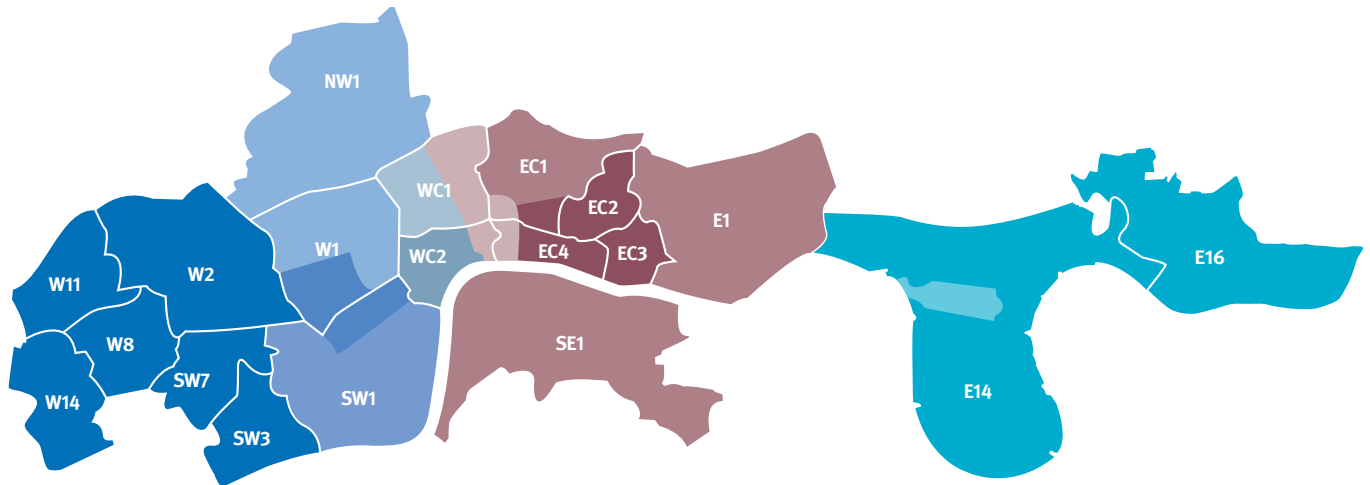
Under Construction (m sq ft)	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	3 months % change	12 months % change
West End	2.57	2.17	1.70	1.44	1.25	-12.8%	-51.2%
City	5.26	4.48	4.73	3.83	3.30	-13.8%	-37.3%
Docklands	0.98	0.00	0.00	0.00	0.00	n/a	-100.0%
Central London	8.81	6.66	6.43	5.26	4.55	-13.5%	-48.3%

Investment (£ m)	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	3 months % change	12 months % change
West End	776.5	877.6	794.2	944.9	1685.0	78.3%	117.0%
City	712.0	596.5	572.0	689.8	1029.6	49.3%	44.6%
Docklands	0.0	0.0	1135.5	20.0	134.6	573.0%	n/a
Central London	1488.5	1474.1	2501.7	1654.7	2849.2	72.2%	91.4%

Source: Knight Frank



The Central London office market



The West End

Mayfair/St James's

Mayfair and St James's refers to 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.

Soho/North of Oxford Street

Soho/North of Oxford Street refers to NW1, and W1 (excluding Mayfair).

Victoria

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

Paddington/Kensington

Paddington/Kensington refers to SW3, SW7, W2, W8, W11, W14.

Bloomsbury

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

Strand/Covent Garden

Strand/Covent Garden refers to the area of WC2 bounded by Kingsway, Aldwych, Victoria Embankment, Charing Cross Road and New Oxford Street.

The City

Core

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

Fringe

Fringe refers to SE1, E1, EC1 (excluding EC1A and EC1N), and EC2A.

Holborn/Fleet Street

Holborn/Fleet Street refers to EC1N, EC4A, EC4Y, WC1 (excluding Bloomsbury), and WC2 (excluding Strand/Covent Garden).

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 Royals Business Park (excluding Canary Wharf).



Americas

USA
Bermuda
Brazil
Canada
Caribbean
Chile

Australasia

Australia
New Zealand

Europe

UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
The Netherlands
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

Cambodia
China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
Thailand
Vietnam

The Gulf

Bahrain
Abu Dhabi, UAE

Commercial Research

James Roberts, Partner

Head of Central London Research
+44 (0) 20 7629 8171
james.roberts@knightfrank.com

John Snow, Partner

Head of Central London Offices
+44 (0) 20 7629 8171
john.snow@knightfrank.com

Patrick Scanlon, Associate

Central London Research
+44 (0) 20 7629 8171
patrick.scanlon@knightfrank.com

Hayley Reid, Senior Analyst

Central London Offices
+44 (0) 20 7629 8171
hayley.reid@knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank Research Reports are also available at KnightFrank.com

© Knight Frank LLP 2010

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.

Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

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.

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