



Q2 2012 CENTRAL LONDON

Quarterly – Offices
Knight Frank

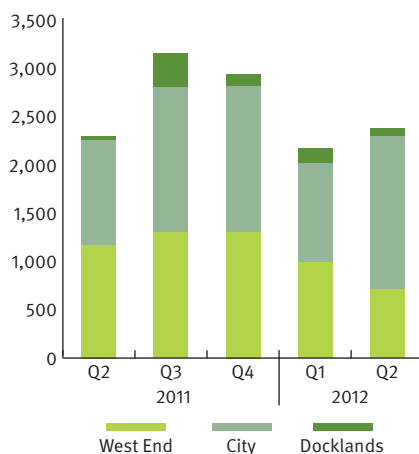
HIGHLIGHTS

- Take-up across Central London rose by 10% to 2.4 m sq ft, although levels remained below the long-term average. The technology, media and telecoms (TMT) sector was particularly active, accounting for one-third of all transactions.
- Availability fell to 17.0 m sq ft, reflecting a vacancy rate of 7.4%. Levels are now 16% below the long-term average. Second-hand supply continued to fall, and the availability of newly built or refurbished accommodation is now 30% lower than the long-term average.
- Investment turnover rose to £3.9 bn, the highest level since 2007. Overseas purchasers accounted for almost 90% of turnover with the majority of activity focused on lot sizes greater than £100 m.

CENTRAL LONDON OVERVIEW

- **Take-up rose to 2.4 m sq ft, 20% below the long-term average.**
- **Availability fell to 17.0 m sq ft, reflecting a 7.4% vacancy rate.**
- **Speculative construction rose to 5.8 m sq ft, 10% higher than on the previous quarter.**
- **Investment turnover rose by 32% to £3.9 bn.**

Figure 1
Central London take-up by quarter & sub-market
Q2 2011 - Q2 2012 (000's sq ft)



Demand and take-up

The Central London office market saw an improvement on the previous quarter's performance, with take-up rising by 10% to 2.4 m sq ft. Although this growth is welcome, it is still some way below the long-term quarterly average of 3.0 m sq ft. However, there were significant differences in performance between the City and West End. While the City recorded take-up volumes consistent with the long-term average, West End take-up fell to a level 40% below the average benchmark.

In the City, there are a number of large-unit transactions under offer from insurance and financial sector tenants which will boost take-

up in the third quarter. The technology, media and telecoms (TMT) sector was particularly active and accounted for more than 30% of total City take-up. Interestingly, many of the tenants which committed to the City had launched Central London-wide searches and tended to be focused more on product than location. The expansion of the TMT sector looks set to continue, which is likely to benefit the City, West End and Docklands markets going forward.

Supply & development

Central London availability resumed its downward trend in the second quarter, having risen in the first three months of the year as development schemes entered the figures. At the quarter-end, availability had fallen to 17.0 m sq ft, a 6% fall from the previous quarter and 16% below the long-term average. The supply of new and refurbished space is now back below 5.0 m sq ft, which is almost 30% below the long-term average of 6.8 m sq ft. This looks particularly encouraging considering there was 12.5 m sq ft of new and refurbished space on the market at the low point of the last cycle in 2004.

There is currently 5.8 m sq ft under construction on a speculative basis, 10% higher than the long-term average. The majority of the increase was seen in the City, where construction began at Moorgate Exchange, 72 Fore Street. The scheme is 220,000 sq ft and due for completion in late 2013. Speculative construction is now at its highest level for more than three years, although well below the 9.6 m sq ft seen back in 2008. We expect levels to resume their downward trend considering 1.4 m sq ft is due to complete in the next six months, and there is strong occupier interest in development stock.

Investment

Investment turnover rose across Central London in the second quarter to £3.9 bn, the highest volume since mid-2007 and 32% higher than the previous quarter. Activity was focused on large lot sizes with 11 transactions in excess of £100 m recorded during the quarter.

The purchaser profile was dominated by overseas investors, who accounted for 86%

of transactions. Investors from continental Europe were the source of activity in the West End, while North American and Far Eastern money was concentrated on the City. Investors still view prime London office stock as a safe haven, and the low yields on government bonds will ensure current office yields remain attractive.

Figure 2
Central London availability by quarter & sub-market
Q2 2011 - Q2 2012 (000's sq ft)

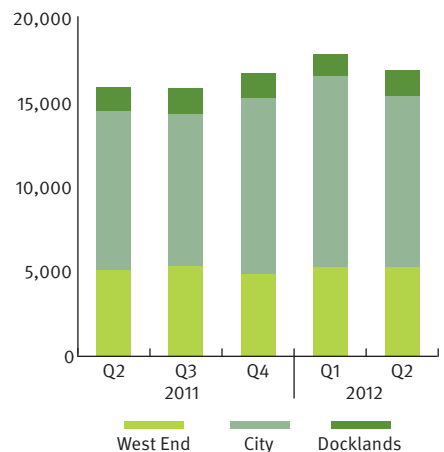
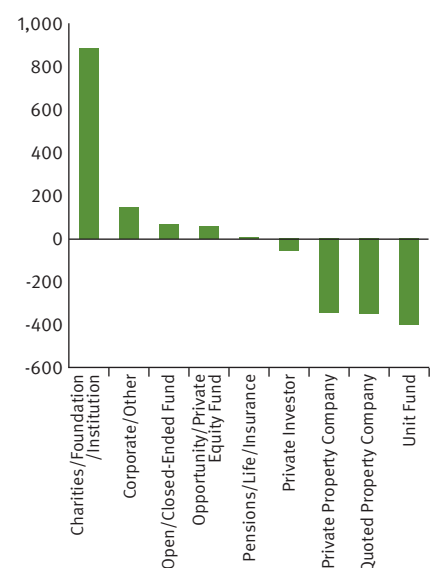


Figure 3
Central London net investment
Q2 2012 (£ m's)



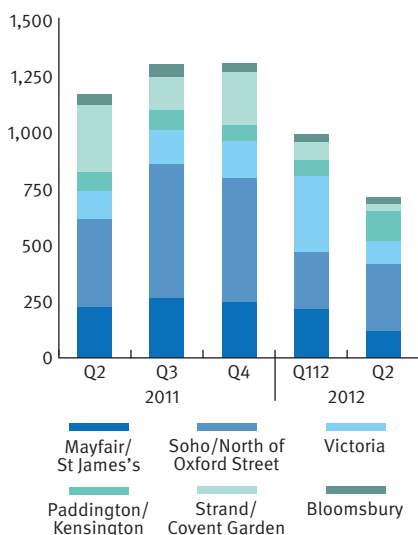


WEST END

- **Take-up fell by 28% to 0.7 m sq ft.**
- **Availability remained at 5.3 m sq ft, reflecting a vacancy rate of 5.8%.**
- **Headline rents for prime Core space rose marginally to £95.00 per sq ft.**
- **Investment turnover totalled £1.4 bn.**

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

Q2 2011 - Q2 2012 (000's sq ft)



Demand & take-up

Take-up in the West End saw a significant fall in the second quarter, down by 28% to 0.7 m sq ft, levels not seen since mid-2009. The figures are 40% below the long-term average and reflect the economic uncertainty seen last year. There was a notable lack of larger deals in the quarter, although Debenhams pre-let a further floor (c30,000 sq ft) at 10 Brock Street taking their total occupation to just under 180,000 sq ft.

The volume of active searches has increased by 10% to 2.2 m sq ft, the highest level since early 2008. Active requirements from the finance and banking sector have increased fourfold in the last 12 months.

Supply & Development

Availability remained at 5.3 m sq ft reflecting a vacancy rate of 5.8%. Levels are now 23% below the long-term average of 6.9 sq ft. The volume of new & refurbished space increased this quarter by 16% as Park House, 116 Park Street, W1 entered the figures (c163,000 sq ft).

The volume of space under construction speculatively remained unchanged at 1.5 m sq ft. Two schemes went under construction in the second quarter, 17-23 Bentinck Street, W1 (35,000 sq ft) and Green Properties' scheme at 8 St James's Square, SW1 (64,000 sq ft) which is due for completion in Q4 2013.

Rental Profile

The prime headline rent rose to £95.00 per sq ft, the first increase in 12 months. Rent free periods are currently at 18 months on a 10-year lease. The limited supply of new stock in Mayfair, coupled with the relatively buoyant specialist financial sector could place further upward pressure on Core prime rents as the year progresses. But for non-Core, second-hand stock, rents remained unchanged and are unlikely to see any improvement until the wider economy sees some further recovery.

Investment

Turnover increased by 43% totalling £1.4 bn in the second quarter, 60% above the long-term average. The quarter saw a number of £100+ deals, the most high profile of which were the sale of Queensberry House, Old Burlington Street, W1 for £176 m and 5 Stratton Street, W1 for £166 m.

Continental European investors from countries including Germany, Spain, Italy and Poland have been the dominant purchasers of prime West End property in 2012. However, the West End market remains under-supplied, which will certainly suppress overall transaction volumes. Strong demand for freehold assets in the core and continued low levels of availability has sustained the prime yield at 4.00%.

Figure 2
West End availability by quarter & sub-market
Q2 2011 - Q2 2012 (000's sq ft)

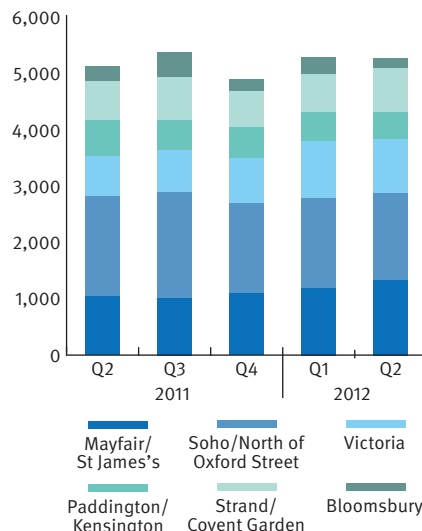
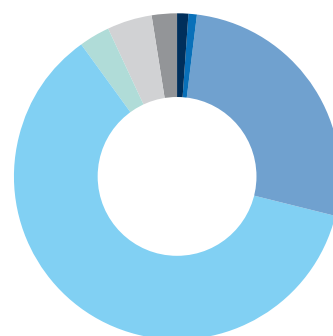


Figure 3
West End investment by purchaser
Q2 2012

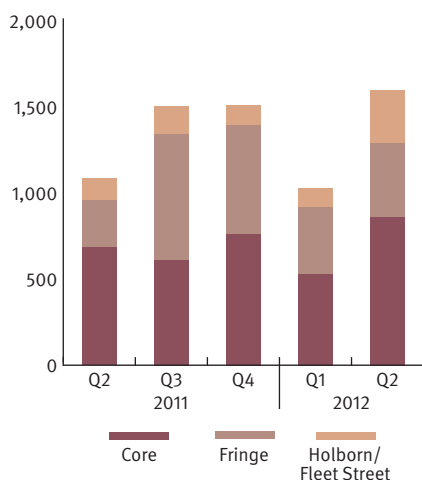


Corporate/Other	18 m
Opportunity Fund	9m
Open-ended/Closed-ended fund	355 m
Private Investor	801 m
Private Property Company	41 m
Quoted Property Company	59 m
Unit Fund	31 m

CITY

- **Take-up increased to 1.6 m sq ft.**
- **Availability fell from 11.3 m sq ft to 10.1 m sq ft.**
- **Prime headline rents unchanged at £55.00 per sq ft.**
- **Highest investment turnover since 2007.**

Figure 1
City take-up by quarter & sub-market
Q2 2011 - Q2 2012 (000's sq ft)



Demand and take-up

City take-up increased from 1.0 m sq ft in Q1 to 1.6 m sq ft in Q2. While in percentage terms this appears a strong increase, in practice take-up has just returned to the long-term average level. Activity was weighted towards the fringes, with high levels of demand from the Technology, Media and Telecoms (TMT) sector. Year-to-date, office take-up by TMT firms has more than doubled.

Major deals of the quarter include Practical Law Company acquiring 101,000 sq ft at Friars Court, SE1, and Skype (88,000 sq ft) and Weber Shandwick (66,000 sq ft) signing at 2 Waterhouse Square, EC1. Insurance firms have also been active in the market, with Markel signing at 20 Fenchurch Street

(51,000 sq ft), EC3, and JLT under offer on 290,000 sq ft at The St Botolph Building, EC3.

Supply & development

Following the increases in supply in Q4 2011 and Q1 2012, availability dropped from 11.3 m sq ft to 10.1 m sq ft. Supply levels are presently comparable with those seen in mid-2006, which is interesting considering the lower volume of demand at present. The vacancy rate for the City is now 8.6%, which is below the long-term average figure of 10.2%, and pockets of undersupply are emerging, with the Holborn vacancy rate now at 4.9%. This is lower than the West End at 5.8%.

There is currently 4.0 m sq ft of speculative space under construction, which is set to complete over the next two and a half years; take-up for new build space in the last two and a half years has totalled 5.5 m sq ft. The volume of space under construction will probably fall markedly in the Q3 figures.

Rents

Prime headline rents remained unchanged at £55.00 per sq ft. This has been the case for over a year now, with no dominant upwards or downwards pressure emerging.

Investment

Investment turnover rose to £2.5 bn in Q2, which is the highest quarterly figure since Q3 2007. This takes the first half figure to £4.1 bn, compared to £3.2 bn for the equivalent period of 2011. Major deals included Hammerson's sale of its City offices portfolio to US group, Brookfield, for £518 m; and Brazilian private investor Moise Safra's purchase of Plantation Place for £495 m. There is significant US dollar (or dollar pegged) investor interest in the City market at present, possibly reflecting Sterling's fall against the greenback.

Prime yields remained steady at 5.25%, and during Q2 the premium over Gilt yields and other 'safe' government debt (such as US and German bond) has increased, making City offices attractively price. Concerns over the outlook for the global economy are keeping property investors focused on London.

Figure 2
City availability by quarter & sub-market
Q2 2011 - Q2 2012 (000's sq ft)

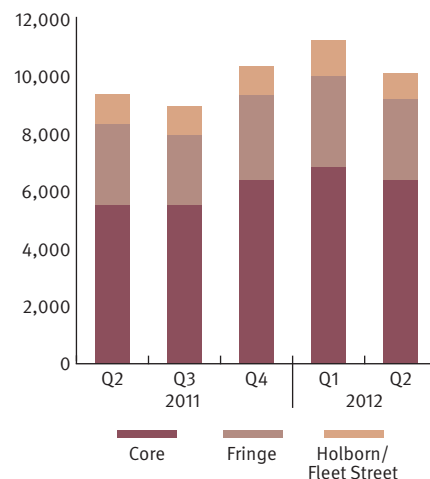
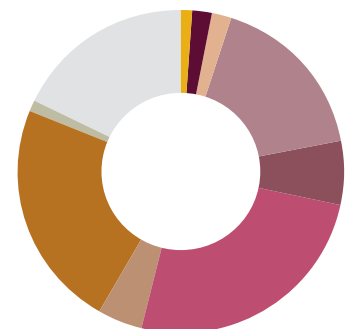


Figure 3
City investment by purchaser
Q2 2012



Charities/Foundation/Institution	£29 m
Corporate/Other	£51 m
Open-ended/Closed-ended Fund	£51 m
Opportunity Fund	£430 m
Pension/Life/Insurance	£165 m
Private Investor	£645 m
Private Property Company	£116 m
Quoted Property Company	£578 m
Unit Fund	£26 m
Overseas Pension Fund	£449 m



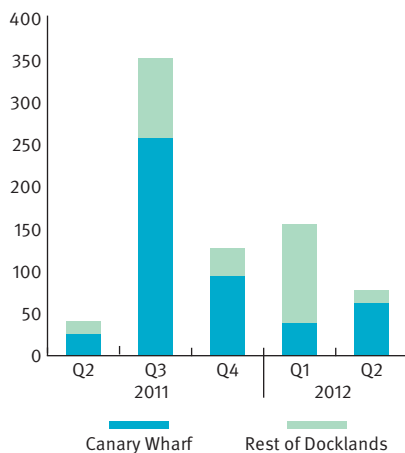
DOCKLANDS

- **Take-up for Q2 halved to 78,000 sq ft**
- **Availability up slightly to 1.6 m sq ft**
- **Prime headline rents remained steady at £36.00 per sq ft**
- **South Quay Plaza under offer**

Figure 1

Docklands take-up by quarter & sub-market

Q2 2011 - Q2 2012 (000's sq ft)



Demand & take-up

Docklands take-up at 78,000 sq ft for Q2 was half the level recorded in the previous quarter, but up on the 40,000 sq ft figure for Q2 2011. Two deals accounted for the bulk of activity with the Economist Group taking 45,000 sq ft on a sub-let from Barclays Capital at 20 Cabot Square, and Metlife acquiring 13,000 sq ft at One Canada Square. The Economist deal continues the development of Canary Wharf as a media location, with Reuters, McGraw Hill, and Trinity Mirror as existing tenants on the estate.

With only relatively small units under offer, the third quarter could see a remarkably low level of take-up in the Docklands. However, take-up in this market is notoriously volatile, and periods of low activity are typical.

Supply & Development

Availability edged up slightly to 1.6 m sq ft, compared to 1.5 m sq ft at the end of Q1. Canary Wharf accounts for 80% of current supply. We are expecting a significant increase in supply in the next twelve months, as Olympic-related space comes back to the market. Given recent redundancies, there is also the possibility of sub-let space from banks being released.

The development pipeline consists of one building, namely 25 Churchill Place. This is a 520,000 sq ft scheme, around 220,000 sq ft of which is pre-let to EMA, an existing Canary Wharf occupier.

Rental Profile

Prime rents remained unchanged at £36.00 per sq ft.

Investment

Investment activity dropped off in Q2, reflecting the volatile nature of turnover in this relatively small market. However, South Quay Plaza has been placed under offer, which is a short income asset outside Canary Wharf. The guide price for this asset is £95 m, which reflects a yield of just over 10%. CIT is the vendor.

Figure 3

Rest of Docklands prime rent 2000-Q2 2012 (Prime £/sq ft)

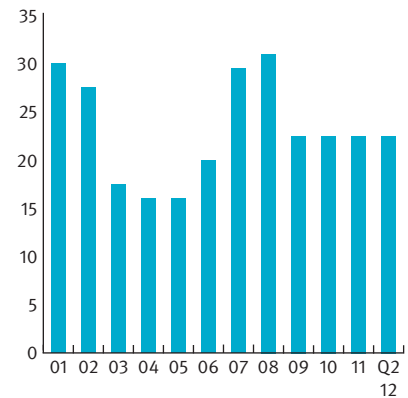
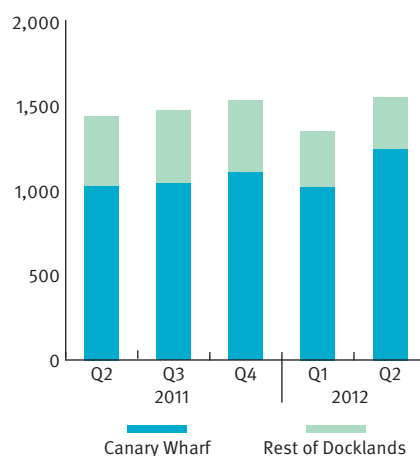


Figure 2

Docklands availability by quarter & sub-market

Q2 2011 - Q2 2012 (000's sq ft)



Key statistics

Central London office market

Availability (m sq ft)	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	3 months % change	12 months % change
West End	5.13	5.39	4.92	5.30	5.28	-0.3%	2.9%
City	9.40	8.99	10.39	11.29	10.14	-10.2%	7.8%
Docklands	1.44	1.48	1.54	1.51	1.56	3.2%	8.1%
Central London	15.97	15.86	16.85	18.10	16.98	-6.2%	6.3%

Vacancy Rate (%)	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	3 months % change	12 months % change
West End	5.6	5.9	5.4	5.8	5.8	n/a	n/a
City	8.0	7.7	8.9	9.6	8.6	n/a	n/a
Docklands	6.7	6.9	7.2	7.1	7.1	n/a	n/a
Central London	6.9	6.9	7.3	7.9	7.4	n/a	n/a

Take-up (m sq ft)	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	3 months % change	12 months % change
West End	1.14	1.31	1.31	0.99	0.71	-28.3%	-37.6%
City	1.09	1.51	1.51	1.03	1.60	55.6%	46.8%
Docklands	0.04	0.35	0.13	0.16	0.08	-49.9%	92.1%
Central London	2.27	3.17	2.95	2.18	2.39	9.7%	5.1%

Active Requirements (m sq ft)	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	3 months % change	12 months % change
West End	1.90	1.25	1.72	2.03	2.23	9.6%	17.1%
City	4.79	4.62	4.07	4.27	4.54	6.3%	-5.2%
Docklands	0.50	0.22	0.22	0.22	0.24	11.5%	-51.4%
Unspecified Central London	0.62	1.05	1.89	1.83	2.10	14.6%	241.8%
TOTAL Central London	7.81	7.14	7.90	8.36	9.11	9.1%	16.7%

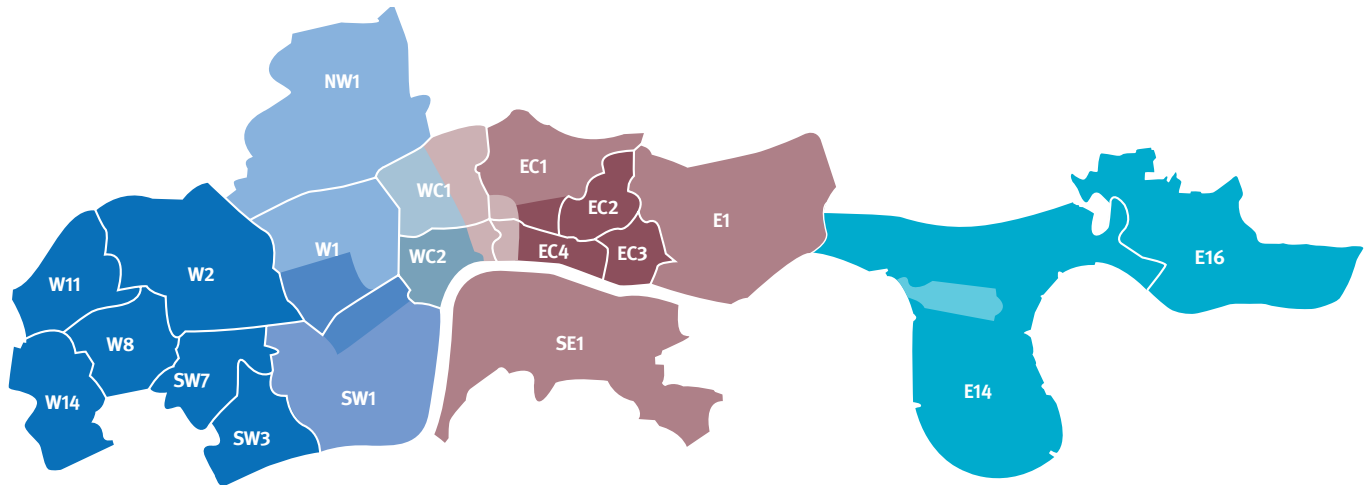
Under Construction (m sq ft)	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	3 months % change	12 months % change
West End	1.95	1.70	2.02	1.87	1.80	-3.4%	-7.6%
City	3.45	3.80	4.25	5.09	5.81	14.0%	68.1%
Docklands	0.00	0.00	0.00	0.53	0.53	0.0%	n/a
Central London	5.40	5.50	6.26	7.49	8.28	10.7%	53.3%

Investment (£ m)	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	3 months % change	12 months % change
West End	829.5	958.0	803.8	966.1	1380.7	42.9%	66.4%
City	1866.6	1047.9	1493.4	1565.7	2542.6	62.4%	36.2%
Docklands	0.0	0.0	13.6	447	0	n/a	n/a
Central London	2696.1	2005.9	2310.8	2978.8	3923.3	31.7%	45.5%

Source: Knight Frank Research



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 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).



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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