RESEARCH





HIGHLIGHTS

- Take-up increased by 19% to 3.6 m sq ft, reflecting a particular improvement in transaction levels for sub-10,000 sq ft units, although activity increased across all size brackets.
- Supply fell slightly to 16.9 m sq ft, 5% below the previous quarter. Speculative
 construction activity rose to 6.4%, the highest since 2008, although supply of
 new and refurbished space remains around 11% below the long-term average.
- Investment turnover rose by 50% quarter-on-quarter to £3.9 bn, with the
 profile dominated by overseas investors. Prime yields remained stable, while
 the improving occupier market increased investors' appetite for risk.



CENTRAL London Overview

- Take-up rose to 3.6 m sq ft, the highest for more than 2 years.
- Supply reduced slightly to 16.9 m sq ft, representing a vacancy rate of 7.3%.
- Speculative construction activity rose by 9% to 6.4 m sq ft, the highest since 2008.
- Investment turnover increased to £3.9 bn, as overseas money remained focused on well-located assets.

Figure 1
Central London take-up by quarter & sub-market
Q2 2012 - Q2 2013 (000's sq ft)

4,000 3.500 3,000 2,500 2.000 1,500 1,000 500 02 03 Q4 Q1 Q2 2013 2012 West End City Docklands

Demand and take-up

The second quarter saw a significant rebound in tenant activity with 3.6 m sq ft of take-up, 19% above the long-term average and a 40% improvement on the previous quarter's level. Demand increased across all size brackets, with particularly strong activity involving sub-10,000 sq ft units where transactions volumes increased by 80%. The largest transaction of the quarter was Amazon's acquisition of 212,000 sq ft for its new European HQ

at Sixty London, EC1; there was continued strong activity from the Technology, Media & Telecoms (TMT) sector which accounted for four of the ten largest deals.

There has been continued improvement in occupier sentiment during the quarter, and we expect the third quarter to continue in a similar vein. There is currently in excess of 2.0 m sq ft under offer across Central London, and since the quarter end News International has acquired 430,000 sq ft at The Place, London Bridge Quarter – the largest transaction in SE1 for six years.

Supply & development

Despite the notable increase in take-up, supply remained relatively stable at 16.9 m sq ft – just 5% below the previous quarter's level. This is principally due to a significant volume of take-up of pipeline space which had not yet entered the availability figures. In excess of 650,000 sq ft was removed from the pipeline via pre-letting across Central London, a trend we expect to continue over the coming years as tenant demand strengthens.

The volume of space under construction speculatively rose by 9% to 6.4 m sq ft, the highest level since 2008. Around 740,000 sq ft of speculative development reached practical completion during the second quarter. However this was outweighed by the commencement of construction of 1.2 m sq ft of new schemes.

Investment

There was continued strong demand for Central London assets in Q2 2013, with quarter-on-quarter investment turnover increasing by 50% to £3.9 bn. There was increased activity in all markets, although AGC Equity Partners' purchase of 25 Canada Square for £1.0 bn through a 'stapled debt' transaction accounted for the majority of the increase. Overseas investors' interest in Central London assets continued unabated, with foreign purchasers involved in 86% of all transactions during the quarter.

There is an increasing appetite for risk in the market, with attention expanding to stock

offering asset management opportunities, although location remains of considerable importance. As the occupational market strengthens, overseas purchasers are expected to target assets further up the risk curve. There is still very healthy demand for prime stock, with no sign of yields in either the West End or City softening from their current level of 4.00% and 5.00% respectively. Anecdotally, secondary yields are now reducing in line with growing confidence in the occupier market.

Figure 2
Central London availability
by quarter & sub-market
Q2 2012 - Q2 2013 (000's sq ft)

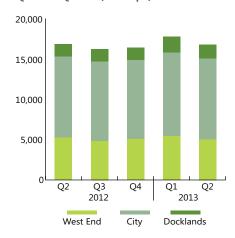
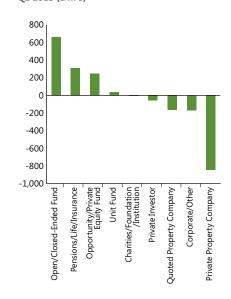


Figure 3

Central London net investment
Q2 2013 (£ m's)



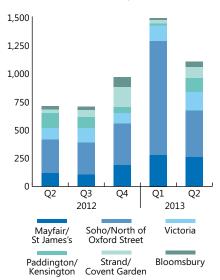


WEST END

- Take-up fell from 1.5 m sq ft to 1.1 m sq ft.
- Availability fell by 8% from 5.5 m sq ft to 5.1 m sq ft.
- Prime headline rents remained at £95.00 per sq ft.
- Investment turnover in the second quarter totalled £1.1 bn.

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

Q2 2012 - Q2 2013 (000's sq ft)



Demand & take-up

Take-up in the second quarter of the year fell by nearly 28% from 1.5 m sq ft to 1.1 m sq ft, but more encouragingly levels are up 52% on the same quarter last year. The Q1 figures were skewed by the Google deal (800k), which hindered comparison. Take-up levels were just shy of the long-term average level of 1.2 m sq ft. Furthermore, transactions involving sub-10,000 sq ft units increased, rising from just 307,000 sq ft in the first quarter to 708,000 sq ft in Q2. The level of space under offer in the West End is also rising, providing further evidence of a strengthening market.

Active requirements fell from 1.9 m sq ft to 1.4 m sq ft. This was due to a number of tenants choosing to re-gear on their current location, as well as a number of requirements being satisfied.

Supply & development

Availability in the West End fell by 8% for the first time in six months from 5.5 m sq ft to 5.1 m sq ft. This reflects a vacancy rate of 5.5%, which is 23% below the long-term average level. The level of second-hand supply fell by 14% in the second quarter. In the Core, levels remained stable at 1.3 m sq ft, but supply of new and refurbished stock was at a nine year high, as 6 St James's Square entered the supply figures.

The volume of space under construction speculatively increased by nearly 17% from 1.8 m sq ft to 2.1 m sq ft, with the inclusion of the Zig Zag Building, SW1 (190,000 sq ft) and the refurbishment of The Adelphi, WC2 (160,000 sq ft).

Rental profile

The prime headline rent remained at £95.00 per sq ft for the fifth consecutive quarter. The highest rent achieved during the quarter was at Devonshire House, Mayfair Place in which £120.00 per sq ft was achieved by Noble Energy who took circa 9,000 sq ft on a 10-year lease with no break. Rent free periods in the Core remained at circa 20 months on a 10-year lease term.

Investment

Investment turnover totalled £1.1 bn, both 19% above the long-term average and the previous quarter. There is currently just under £1.1 bn under offer, a 51% increase compared to the level of stock under offer at the end of Q1 2013. Overseas buyers accounted for 73% of all acquisitions by value, with private/life/insurance firms also the most active in the market during the second quarter. Demand remained strong for prime assets, although there is evidence that overseas investors are more willing to consider assets further up the risk curve.

The largest transaction of the quarter was at 90 Long Acre, WC2, in which the opportunity fund Northwood Investors purchased the freehold for £163 million, reflecting a net initial yield of 5.06%. Prime yields in the West End remained at 4.00%, unchanged in nearly three years.

Figure 2
West End availability by quarter & sub-market

Q2 2012 - Q2 2013 (000's sq ft)

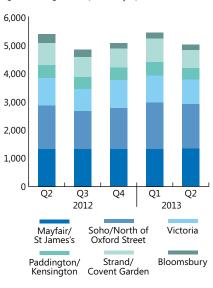
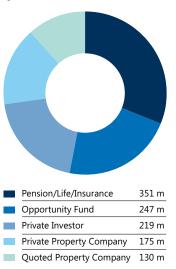


Figure 3
West End investment by purchaser
Q2 2013 (£m)





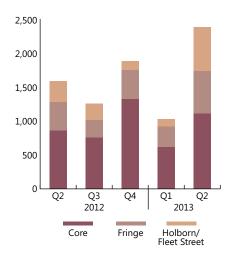
CITY

- Availability decreased from 10.4 m sq ft to 10.1 m sq ft, reflecting a vacancy rate of 8.6%.
- Take-up rose to 2.4 m sq ft for Q2 2013.
- 4.0 m sq ft of speculative space under construction.
- Top normal headline rents remained at £55.00 per sq ft.

Figure 1

City take-up by quarter & sub-market

Q2 2012 - Q2 2013 (000's sq ft)



Demand and take-up

Take-up was 2.4 m sq ft for Q2 2013, the highest quarterly figure since Q3 2007. This was up 50% on Q2 2012 and up 140% on the first quarter. The district has benefited from its growing profile as a technology and media hub, as well as renewed activity by financial and insurance firms. Since the quarter-end, News International has acquired 430,000 sq ft at The Place, London Bridge Quarter, SE1, which will boost the figures for Q3 2013.

The largest source of demand was from the Technology Media and Telecoms sector (TMT). Major TMT deals included Amazon at Sixty London, Holborn Viaduct taking 212,000 sq ft, and Publicis Groupe taking a total of 155,600 sq ft at 40 Chancery Lane and Turnmill, 63 Clerkenwell Road.

Supply and development

Supply levels decreased from 10.4 m sq ft to 10.1 m sq ft in the second quarter. The vacancy rate in the City is now 8.6%, down from 8.9% in the previous quarter and below the long-term average of 10.0%.

The City has 4.0 m sq ft of speculative space under construction, up marginally from 3.8 m sq ft in Q1 2013. Pre-letting activity remained strong during the third quarter; 90% of space let pre-construction or during construction across Central London was in the City.

Rental profile

City Core rents remained unchanged for the eleventh consecutive quarter at £55.00 per sq ft, although there are pockets of rental growth, such as Midtown and Shoreditch, which suggests pressure building beneath the surface.

Investment

At £1.7bn, investment turnover was 55% up on Q1 2013, but 32% down on the corresponding quarter in 2012. Turnover figures were highly influenced by Ping An (a Chinese insurer) buying the Lloyd's of London building for £260m, and Canadian pension fund, Oxford Properties, acquiring 10 Paternoster Square (the HQ of the London Stock Exchange) for £235m. Overseas buyers continued to dominate the City office market in the second guarter of 2013, accounting for 84% of transactions by value. Prime yields remained steady, at 5.00%, although the tone for smaller assets is sub-5.00%. Asset management opportunities are drawing more interest.

Figure 2
City availability by quarter & sub-market

Q2 2012 - Q2 2013 (000's sq ft)

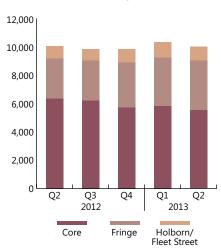
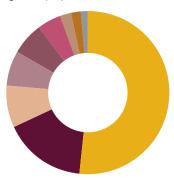


Figure 3

City investment by purchaser

Q2 2013 (£m)



Pension/Life/Insurance	889 m
Private Investor	279 m
Quoted Property Company	143 m
Private Property Company	119 m
Open-ended/ Closed-ended Fund	109 m
Opportunity Fund	83 m
Unit Fund	36 m
Charities/Foundation/ Institution	34 m
Corporate/Other	22 m



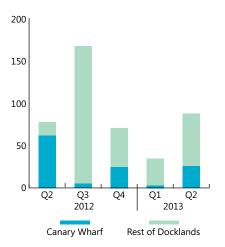
DOCKLANDS

- Take-up for Q2 was 89,000 sq ft.
- Availability currently 1.8 m sq ft, reflecting a vacancy rate of 8.3%.
- Prime headline rents remained steady at £36.00 per sq ft.
- 15 Westferry Circus sold for £128 m.

Figure 1

Docklands take-up by quarter & sub-market

Q2 2012 - Q2 2013 (000's sq ft)



Demand & take-up

Docklands take-up was 89,000 sq ft in Q2 2013, which is similar to the 78,000 sq ft acquired in the equivalent quarter of 2012. Demand has been relatively subdued, with take-up totalling 360,000 sq ft in the last twelve months, compared to a ten year average figure of 970,000 sq ft per annum. The market outside of Canary Wharf has accounted for 84% of activity in Docklands in the past year.

The largest Docklands deal in the second quarter was the Financial Ombudsman

Service acquiring 30,000 sq ft in Exchange Tower, E14. This brings the total space acquired in Exchange Tower in the last year by the ombudsman to 191,000 sq ft. The largest deal at Canary Wharf was Central City Training Venues taking 19,000 sq ft at 40 Bank Street, E14. Since quarter end, Shell has placed 38,000 sq ft under offer at 40 Bank Street, a building where the oil giant is an existing occupier.

Supply & Development

Availability at the end of Q2 was 1.8 m sq ft, up from 1.6 m sq ft a year ago and just above the ten year average figure of 1.7 m sq ft. This takes the vacancy rate to 8.3%, although it is widely assumed that there is additional 'grey' space being held by tenants.

There is 526,000 sq ft of development space under construction, which is accounted for by one building, 25 Churchill Place, E14. Approximately 300,000 sq ft of this space remains available, and consequently, we expect the vacancy rate in Docklands to rise again in the coming months.

Rental Profile

Prime rents remained unchanged at £36.00 per sq ft, although with availability rising there remain significant downside pressures.

Investment

Docklands investment volume was £1.0 bn in Q2, taking the total for the first half of the year to just over £1.5 bn. The second quarter saw AGC Equity Partners purchase 25 Canada Square, E14, through a 'stapled debt' transaction. Since quarter end, Canary Wharf Group purchased 15 Westferry Circus, E14, for £128 m from administrators. US insurance firm MetLife is providing debt finance for the deal.

Figure 2

Docklands availability by quarter & sub-market

Q2 2012 - Q2 2013 (000's sq ft)

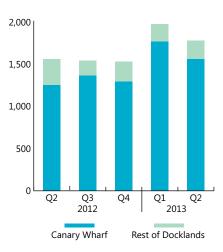
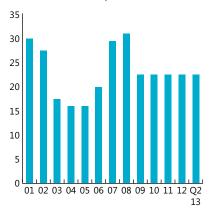


Figure 3

Rest of Docklands prime rent
2000-2013 (Prime £/sq ft)





Key statistics

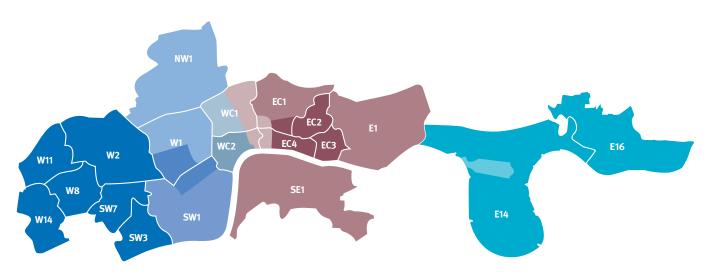
Central London office market

Availability (m sq ft)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	3 months 12 months % change	
West End	5.28	4.87	5.10	5.48	5.05	-7.8%	-4.3%
City	10.14	9.92	9.89	10.42	10.09	-3.2%	-0.5%
Docklands	1.56	1.54	1.53	1.98	1.78	-10.1%	14.2%
Central London	16.98	16.33	16.52	17.88	16.92	-5.4%	-0.3%
Vacancy Rate (%)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	3 months 12 months % change	
West End	5.8	5.3	5.6	6.0	5.5	n/a	-4.3%
City	8.6	8.5	8.4	8.9	8.6	n/a	-0.5%
Docklands	7.1	7.2	7.1	9.2	8.3	n/a	17.8%
Central London	7.4	7.1	7.2	7.8	7.3	n/a	-0.3%
Take-up (m sq ft)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	3 months 12 months % change	
West End	0.71	0.71	0.98	1.49	1.11	-25.6%	55.9%
City	1.60	1.26	1.90	1.04	2.40	131.2%	50.3%
Docklands	0.08	0.17	0.07	0.03	0.09	156.3%	12.0%
Central London	2.39	2.14	2.95	2.57	3.60	40.2%	50.7%
Active Requirements Q2 12 (m sq ft)		Q3 12	Q4 12	Q1 13	Q2 13		12 months
West End	2.23	2.40	2.04	1.93	1.43	-25.8%	-35.7%
City	4.54	4.00	3.32	3.43	4.05	18.0%	-10.9%
Docklands	0.24	0.15	0.08	0.05	0.15	233.3%	-38.3%
Unspecified Central London 2.10		2.20	1.80	2.35	2.03	-13.6%	-3.4%
TOTAL Central London	9.11	8.75	7.23	7.75	7.66	-1.2%	-16.0%
Under Construction (m sq ft)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	3 months 12 months % change	
West End	1.95	2.03	2.75	2.67	2.89	8.1%	48.1%
City	5.81	5.40	5.71	6.00	6.43	7.1%	10.7%
Docklands	0.53	0.53	0.53	0.53	0.53	0.0%	0.0%
Central London	8.28	7.95	8.98	9.20	9.84	7.0%	18.8%
Investment (£ m)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	3 months 12 months % change	
West End	1,380.7	1,065.2	1,509.6	957.2	1,142.6	19.4%	-17.2%
City	2,542.6	2,043.0	2,226.0	1,101.1	1,712.4	55.5%	-32.7%
Docklands	0	0	54.7	511.6		95.5%	n/a
Central London	3,923.3	3,108.2	3,790.2	2,569.9		50.0%	-1.7%
Source: Knight Frank Research							

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

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).

RESEARCH



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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. $\label{eq:continuous}$
- ii. Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.
- 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.
- 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

