

RESEARCH



# CENTRAL LONDON

QUARTERLY – OFFICES Q2 2014

ACTIVE DEMAND –  
HIGHEST LEVEL SINCE 2006

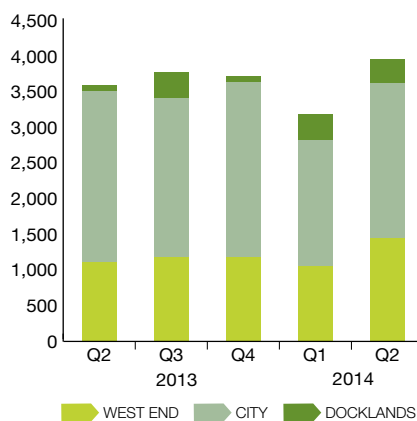
SUPPLY – LOWEST  
LEVEL FOR SIX YEARS

INVESTMENT TURNOVER  
ROSE BY 86%

# CENTRAL LONDON OVERVIEW

- Take-up increased by 24% to 4.0 m sq ft
- Active demand rose to 9.2 m sq ft, the highest since 2006
- Supply fell to 15.6 m sq ft, the lowest for six years
- Investment turnover rose by 86% to £4.1 bn

FIGURE 1  
**Central London take-up by quarter & sub-market**  
Q2 2013 - Q2 2014 (000's sq ft)



## Demand & take-up

Leasing activity in Central London rose to one of its highest levels this cycle in the second quarter of 2014. Almost 4.0 m sq ft of space was transacted across the market, one of the strongest quarters since mid-2007. Significantly, there were only two deals in excess of 100,000 sq ft, neither large enough to artificially inflate the figures. There was particularly strong growth in the volume of mid-market transactions – those between 20,000 sq ft and 100,000 sq ft. The second quarter saw 1.5 m sq ft of transactions in this size bracket compared

to a long-term quarterly average of around 800,000 sq ft. In addition, there was no noticeable dominance of any one market; the West End, City and Docklands all experienced take-up levels well in excess of long-term averages.

Perhaps surprisingly, given the number of requirements satisfied during the quarter, active demand levels rose. At the quarter-end, active demand totalled 9.2 m sq ft, 22% higher than the previous quarter and the highest quarterly level since 2006. These new entrants to the market, along with the quantum of space under offer at the quarter-end, suggest that take-up is likely to remain consistently high throughout the remainder of the year.

## Supply

Central London availability fell to its lowest level for six years. At the quarter date, there was 15.6 m sq ft available to lease, 15% below the long-term average level. Given the growing confidence in market conditions and the volume of take-up over the last 12 months, the fall in supply appears stubbornly slow. This can be explained by the considerable pre-letting activity over the past year and the release of the second-hand space it has created. There has been more than 2.5 m sq ft of pre-let transactions over the last 12 months, with more likely as demand strengthens.

There is currently 6.8 m sq ft of space under construction across Central London, almost half of which has already been pre-let. There is just 1.6 m sq ft with planning permission that is likely to be built speculatively between now and 2016; considering the long-term annual average take-up of new and refurbished space is 4.5 m sq ft, tenants are likely to find their options for new space limited as the cycle progresses.

## Investment

Investment turnover bounced back in the second quarter, with £4.1 bn of transactions recorded, an 86% increase on the previous quarter. Increased investment volumes are clearly positive for the investment market, although they continue to be dictated by levels of supply rather than investor demand.

Central London remains the target for global investors, reflected in purchases

by more than 25 nationalities over the last 12 months. The market for lot sizes in excess of £100 m remains the domain of overseas investors, with just one of the 12 sales involving a domestic purchaser. UK investors were particularly focused on lot sizes of less than £100 m, accounting for 66% of all purchases by volume in this size bracket.

Prime yields remained stable in both City and West End markets, with further downward pressure in some submarkets.

FIGURE 2  
**Central London availability by quarter & sub-market**  
Q2 2013 - Q2 2014 (000's sq ft)

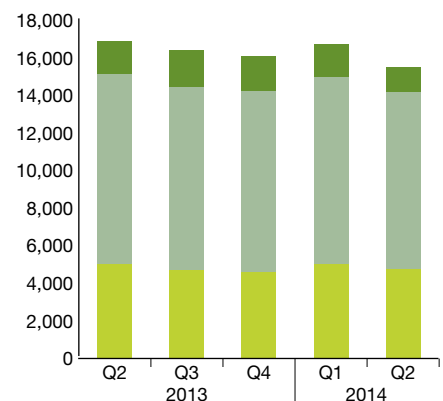
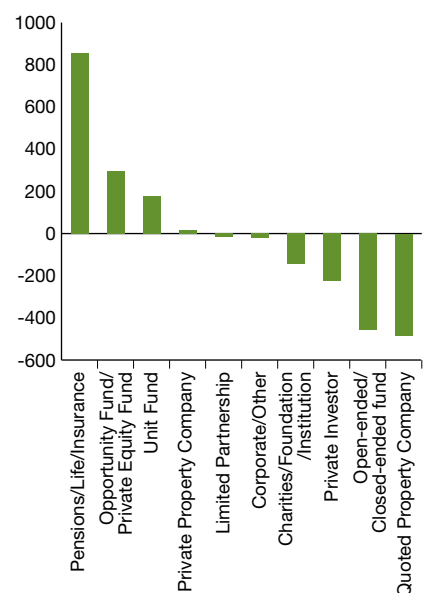


FIGURE 3  
**Central London net investment**  
Q2 2014 (£ m's)





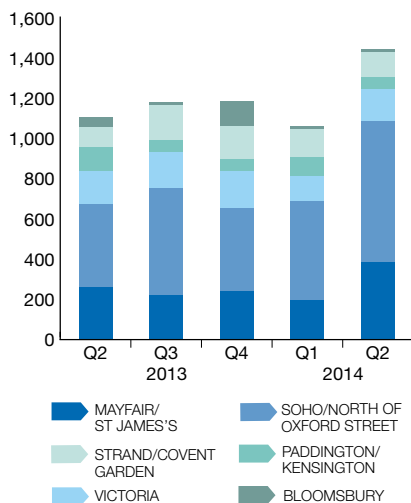
## WEST END

- Take-up increased by 36% to 1.5 m sq ft
- Availability fell from 5.0 m sq ft to 4.8 m sq ft
- Prime headline rents increased to £102.50 per sq ft
- Investment turnover in Q2 reached £1.1 bn

FIGURE 1

### West End take-up by quarter & sub-market

Q2 2013 - Q2 2014 (000's sq ft)



### Demand & take-up

Take-up in the West End during the second quarter of 2014 saw an increase of 36% from 1.1 m sq ft to 1.5 m sq ft quarter-on-quarter. Levels are now 25% above the 10-year long-term average of 1.2 m sq ft. The largest deal of the quarter was at 1 Fitzroy Place, W1, in which Estée Lauder took a pre-let of circa 143,000 sq ft. Take-up in the Core was double the level recorded in the previous quarter, with eight transactions over 10,000 sq ft.

By the end of Q2 there was 0.9 m sq ft under offer, including a number of large transactions, which should see a

continued level of above average take-up into the third quarter. These include Havas Media (160,000 sq ft) at 3 Pancras Square, Dong Energy (81,000 sq ft) at 5 Howick Place and The Halo Building (81,000 sq ft).

### Supply & development

Availability in the West End fell by over 3% from just under 4.9 m sq ft in Q1 to 4.8 m sq ft, which is well below the long-term average of 6.0 m sq ft. Supply fell in five of the six sub-markets, with just 1.3 m sq ft available in the Core.

The volume of space under construction speculatively fell from 2.0 m sq ft to 1.6 m sq ft. In King's Cross, 2 Pancras Square completed in June and is now fully let to six occupiers. Nearly a third of the space currently under construction in the West End is already pre-committed.

### Rental profile

The prime headline rent in the West End Core increased from £100.00 per sq ft to £102.50 per sq ft. Rent free periods have remained at 16 months on a 10-year term certain in the prime Core market.

There were a number of trophy deals during the quarter that exceeded the prime headline rent, including deals at 5 Hanover Square, 10 New Burlington Street and 33 Davies Street.

### Investment

Following a subdued first quarter, investment turnover saw nearly a 50% increase in the number of transactions. The total level of transactions totalled £1.1 bn, up from £765 m the previous quarter and on par with the long-term average. The prime West End yield remained at 3.75% for the third consecutive quarter. At the end of Q2, there was £1.8 bn of investment stock on the market, 37% of which is already under offer.

Pension and life funds were the most active in the market accounting for 28% of activity, followed by opportunity funds at 27%. Private investors also remained active in Q2, accounting for 19%. There was continued evidence that investors were still looking for residential conversion opportunities, reflected by the sale of 22 Hanover Square, purchased by Indiabulls Real Estate for £155 m.

FIGURE 2

### West End availability by quarter & sub-market

Q2 2013 - Q2 2014 (000's sq ft)

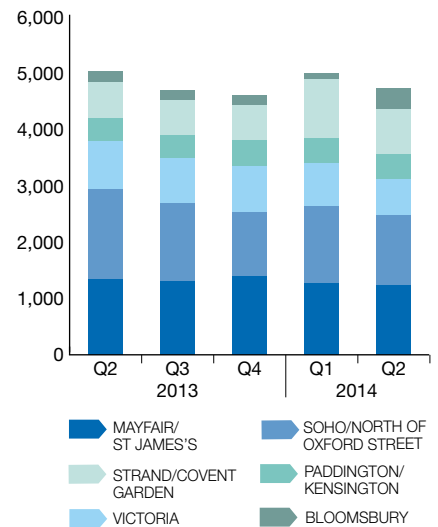
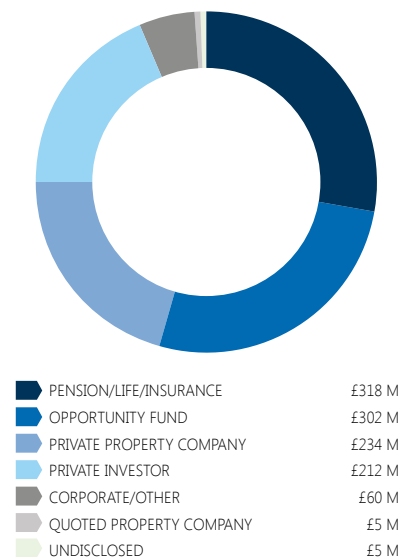


FIGURE 3

### West End investment by purchaser

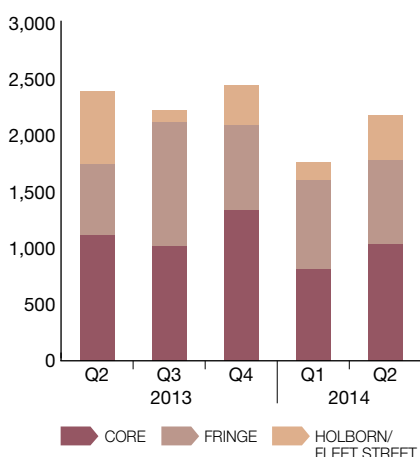
Q2 2014 (£m)



# CITY

- Take-up increased by 22% to 2.2 m sq ft
- Availability fell from 9.9 m sq ft to 9.5 m sq ft
- Prime headline rents remained at £60.00 per sq ft
- Investment turnover in Q2 reached £2.1 bn

FIGURE 1  
**City take-up by quarter & sub-market**  
Q2 2013 - Q2 2014 (000's sq ft)



## Demand and take-up

After a relative slow-down in leasing activity at the beginning of the year, City take-up rebounded in the second quarter. Take-up in the City occupier market totalled 2.2 m sq ft in Q2, up 22% from 1.8 m sq ft in the previous quarter. The largest deal of the quarter was at Two New Ludgate, in which Mizuho Corporate Bank leased circa 195,000 sq ft on a 20-year lease.

There were 25 transactions over 20,000 sq ft in Q2, accounting for nearly half of all take-up during the quarter. Four

of the last five quarters have recorded activity levels in excess of 2.0 m sq ft, a strength and consistency of demand not witnessed since the peak of the last cycle in 2006 and 2007.

## Supply and development

After rising in the first quarter of the year to reflect new schemes entering the six month window to completion, supply fell back again in the second quarter. Availability levels in the City fell by just over 4% to 9.5 m sq ft. The current vacancy rate now stands at 7.9%, well below the long-term average of 9.4% and the lowest since Q3 2011.

The volume of space under construction speculatively fell from 2.5 m sq ft to 2.1 m sq ft, and less than half of space under construction in the City is available to lease. There has been 2.4 m sq ft speculatively completed so far this year.

## Rental profile

The prime headline rent remained at £60.00 per sq ft for the third consecutive quarter, with 24 months rent free on a 10-year term. We expect rents to rise further before the year end.

## Investment

Investment turnover increased 80% on Q1 to £2.1 bn, above the long-term average of £1.7 bn.

Increased investment activity is due to a marked rise in stock during Q2. Private property companies and UK funds were the most active sellers of the quarter, accounting for over 60% by value. UK purchasers accounted for 56% of transactions based on the number of deals.

Prime yields have remained at 4.50% since the beginning of 2014, but lower yields are achievable for reversionary stock. Overseas investors dominated the quarter by value accounting for 70% of transactions with an average lot size of £99 m. All transactions above £100 m involved overseas purchasers.

FIGURE 2  
**City availability by quarter & sub-market**  
Q2 2013 - Q2 2014 (000's sq ft)

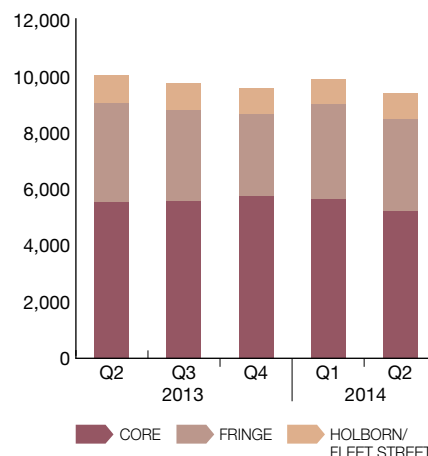
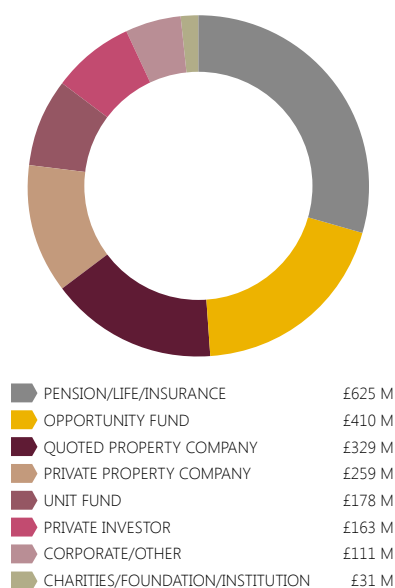


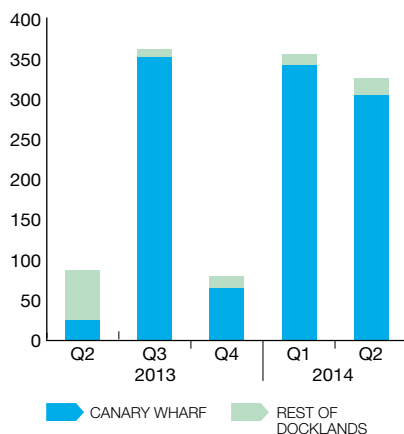
FIGURE 3  
**City investment by purchaser**  
Q2 2014 (£m)



## DOCKLANDS

- Take-up increased to circa 360,000 sq ft
- Availability fell from 1.7 m sq ft to less than 1.4 m sq ft
- Prime headline rents now under pressure
- Investment turnover in Q2 reached £830 million

FIGURE 1  
**Docklands take-up by quarter & sub-market**  
Q2 2013 - Q2 2014 (000's sq ft)



### Demand & take-up

Take-up in Docklands increased by 350% from 80,000 sq ft in Q1 to just under 360,000 sq ft in Q2 2014. This was the second highest level of take-up since Q4 2010. Occupier confidence continued to improve during the second quarter, with a significant increase in the volume of transactions in Canary Wharf. There were eight deals over 10,000 sq ft, compared to just one recorded during the same quarter last year.

The largest deal of the quarter was at 25 Canada Square, where GDF Suez Energy

UK Limited took nearly 62,000 sq ft on a 15-year lease. There was a further 17,000 sq ft let to two other occupiers in the building during the quarter, and since quarter-end, Truphone and Netnames have taken 77,000 sq ft between them. There was over 173,000 sq ft let at One Canada Square, where the Medical Defence Union, HS2 and the European Banking Authority all completed their deals in the building.

### Supply & development

Availability in Docklands fell from 1.7 m sq ft to 1.4 m sq ft during the second quarter, 17% below the long-term average of 1.7 m sq ft and the lowest level of supply since Q1 2009. There is just over 0.9 m sq ft available in Canary Wharf, the lowest since the end of 2008.

The largest building currently on the market is 5 Churchill Place, in which the entire building is available totalling circa 320,000 sq ft. 25 Churchill Place completed in June and there is no new speculative space under construction.

### Rental profile

Prime rents in Canary Wharf stand at £35.00 - £37.50 per sq ft, and upwards pressure is emerging. This compares with City rents of £60.00 per sq ft up from £55.00 per sq ft in mid-2013.

### Investment

Investment turnover totalled £830 m during the second quarter of 2014; up from £260 m in quarter one. There were two transactions which included the sale of 10 Upper Bank Street, in which a consortium consisting of China Life, Qatar Holdings and Canary Wharf Group purchased the freehold for £795 m.

Three of the largest buildings in Canary Wharf are now on the market, including 8 Canada Square, 50 Bank Street and 25 North Colonnade, which is already under offer.

FIGURE 2  
**Docklands availability by quarter & sub-market**  
Q2 2013 - Q2 2014 (000's sq ft)

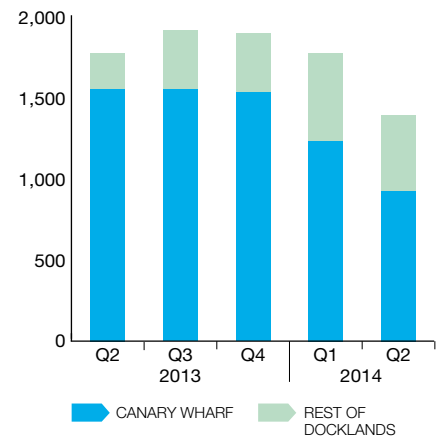
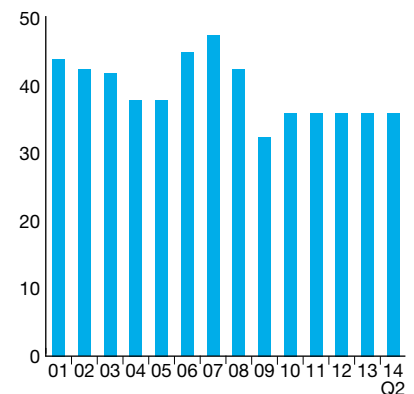


FIGURE 3  
**Canary Wharf prime rent**  
2001 - 2014 (Prime £/sq ft)



# KEY STATISTICS

## Central London office market

Availability (m sq ft)	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	3 months % change	12 months % change
West End	5.05	4.74	4.62	4.90	<b>4.75</b>	-3.1%	-6.0%
City	10.09	9.78	9.61	9.97	<b>9.45</b>	-5.2%	-6.3%
Docklands	1.78	1.93	1.90	1.73	<b>1.40</b>	-19.1%	-21.3%
Central London	16.92	16.45	16.13	16.60	<b>15.60</b>	-6.0%	-7.8%

Vacancy Rate (%)	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	3 months % change	12 months % change
West End	5.5	5.1	5.0	5.3	<b>5.2</b>	NA	NA
City	8.6	8.3	8.1	8.4	<b>7.9</b>	NA	NA
Docklands	8.3	9.0	8.9	8.1	<b>6.5</b>	NA	NA
Central London	7.3	7.1	7.0	7.2	<b>6.7</b>	NA	NA

Take-up (m sq ft)	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	3 months % change	12 months % change
West End	1.09	1.19	1.19	1.07	<b>1.45</b>	35.5%	32.6%
City	2.40	2.23	2.46	1.78	<b>2.18</b>	22.5%	-9.1%
Docklands	0.09	0.36	0.08	0.36	<b>0.33</b>	-8.3%	277.0%
Central London	3.58	3.79	3.73	3.21	<b>3.96</b>	23.4%	10.6%

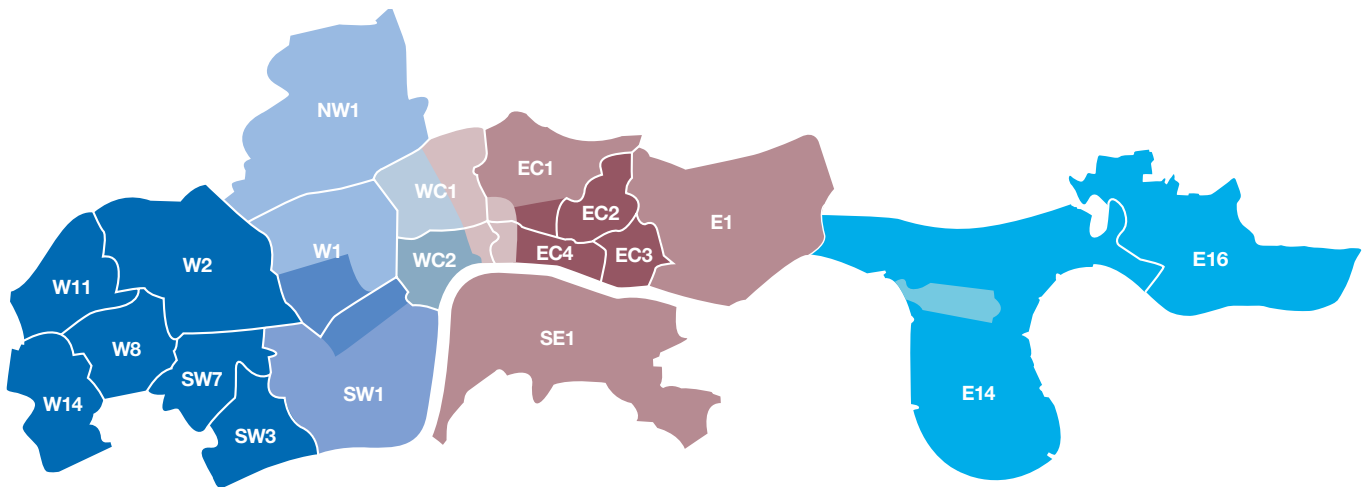
Active Requirements (m sq ft)	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	3 months % change	12 months % change
West End	1.43	1.45	1.53	1.39	<b>1.75</b>	25.9%	22.3%
City	4.05	3.80	4.78	3.96	<b>5.08</b>	28.3%	25.6%
Docklands	0.15	0.05	0.05	0.22	<b>0.99</b>	350.0%	560.0%
Unspecified Central London	2.03	1.30	2.37	1.98	<b>1.38</b>	-30.3%	-32.0%
TOTAL Central London	7.66	6.60	8.72	7.55	<b>9.20</b>	21.9%	20.1%

Under Construction (m sq ft)	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	3 months % change	12 months % change
West End	2.89	2.58	2.73	2.60	<b>2.31</b>	-11.2%	-20.1%
City	6.43	5.82	5.80	4.71	<b>4.52</b>	-4.0%	-29.7%
Docklands	0.53	0.53	0.53	0.53	<b>0.00</b>	-100.0%	-100.0%
Central London	9.84	8.93	9.06	7.84	<b>6.83</b>	-12.9%	-30.6%

Investment (£ m)	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	3 months % change	12 months % change
West End	1,142.6	2,551.5	2,189.3	762.2	<b>1,135.2</b>	48.9%	-0.6%
City	1,712.4	2,219.5	5,947.7	1,164.7	<b>2,107.3</b>	80.9%	23.1%
Docklands	1,000.0	287.0	0.0	262.0	<b>828.8</b>	216.3%	-17.1%
Central London	3,855.0	5,058.0	8,137.0	2,188.8	<b>4,071.3</b>	86.0%	5.6%

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).

## COMMERCIAL RESEARCH

### James Roberts, Partner

Head of Commercial Research

+44 20 7629 8171

[james.roberts@knightfrank.com](mailto:james.roberts@knightfrank.com)

### Stephen Clifton, Partner

Head of Central London

+44 20 7629 8171

[stephen.clifton@knightfrank.com](mailto:stephen.clifton@knightfrank.com)

### Patrick Scanlon, Partner

Central London Research

+44 20 7629 8171

[patrick.scanlon@knightfrank.com](mailto:patrick.scanlon@knightfrank.com)

### Hayley Blackwell, Senior Analyst

Central London Research

+44 20 7629 8171

[hayley.blackwell@knightfrank.com](mailto:hayley.blackwell@knightfrank.com)

### Simret Samra, Analyst

Central London Research

+44 20 7629 8171

[simret.samra@knightfrank.com](mailto:simret.samra@knightfrank.com)

### 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.

- All floorspace figures quoted in this report refer to sq ft net.
- 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.
- 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.

- 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.
- 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.
- 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

Knight Frank Residential 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.

## RECENT MARKET-LEADING RESEARCH PUBLICATIONS



[Southbank: 2014 and beyond](#)



[UK Shopping Centre Investment Q2 2014](#)



[European Market Indicators Summer 2014](#)



[UK Retail Report Spring 2014](#)

Knight Frank Research Reports are available at [KnightFrank.com/Research](http://KnightFrank.com/Research)

### © Knight Frank LLP 2014

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to 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 not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. 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.

