RESEARCH

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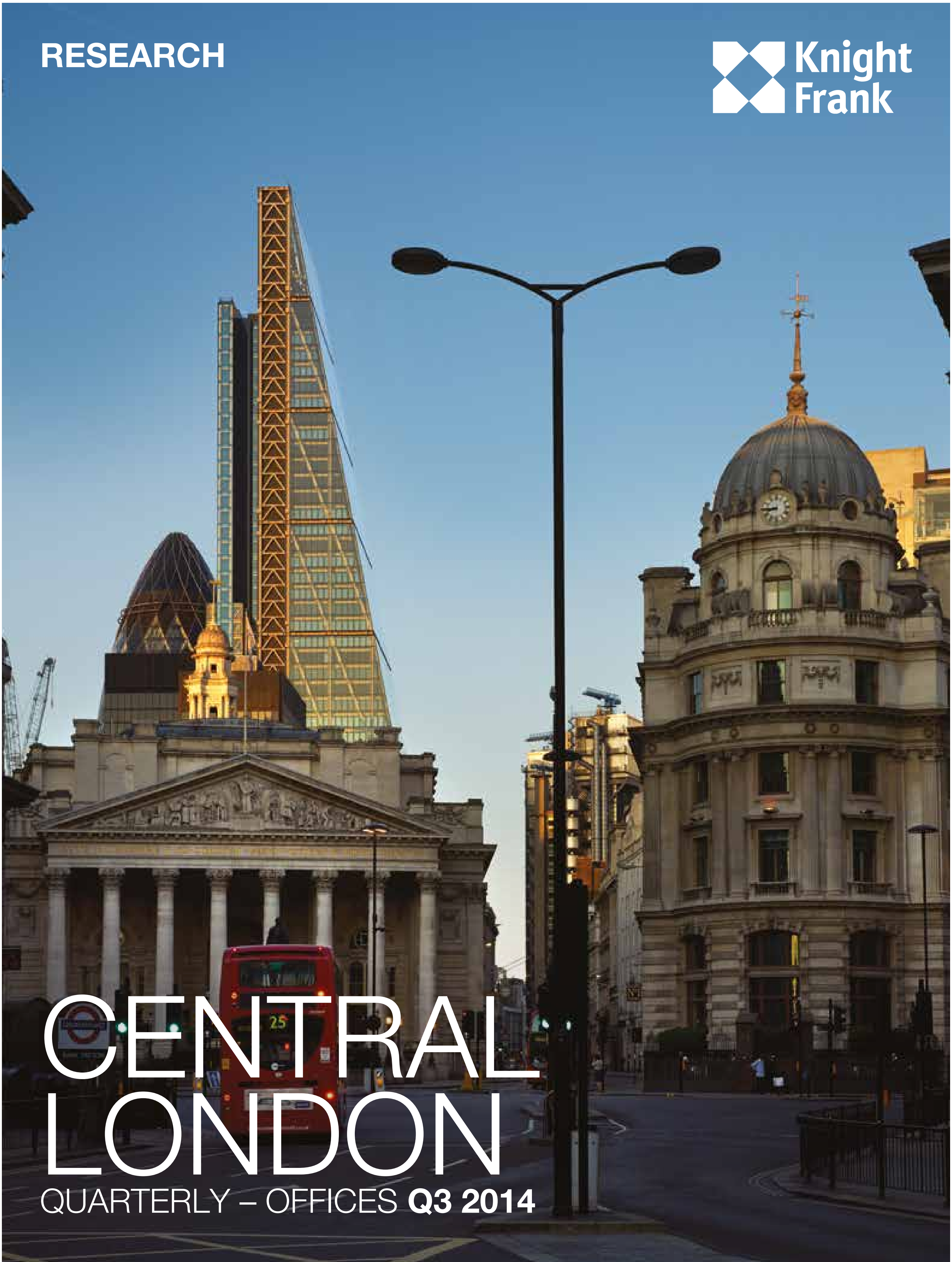


CENTRAL LONDON

QUARTERLY – OFFICES **Q3 2014**

TAKE-UP – 45% ABOVE LONG-TERM AVERAGE

SUPPLY – LOWEST LEVEL SINCE 2008

OVERSEAS BUYERS DOMINATE INVESTMENT SALES

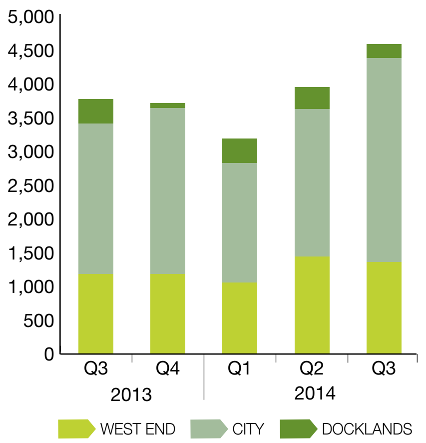
CENTRAL LONDON OVERVIEW

- Take-up rose to 4.6 m sq ft, 45% above average
- Supply fell to 14.4 m sq ft, the lowest since 2008
- Speculative space under construction lowest since 2010
- Investment turnover rose by 8% to £4.4 bn

FIGURE 1

Central London take-up by quarter & sub-market

Q3 2013 - Q3 2014 (000's sq ft)



Demand & take-up

The third quarter saw particularly strong occupier activity across Central London. Take-up totalled 4.6 m sq ft, the highest since 2007 and 45% above the long-term average. The West End had a solid quarter, with take-up 15% higher than average, albeit down 6% on a quarter-on-quarter basis. However, it was in the City, where leasing activity was 73% higher than average, that the bulk of take-up was concentrated.

The two largest transactions of the quarter, together totalling 760,000 sq ft, involved the technology and financial sectors, which reflected the demand profile across the whole market. However, there was strong demand across all size brackets with the middle market continuing to show strong performance; one-third of transactions involved units between 20,000 and 100,000 sq ft.

Inevitably given the strong leasing activity, active demand levels fell. At the quarter-end, active demand totalled 5.8 m sq ft, a fall of 37% over the three months. However, we expect to see an increasing volume of expansion-driven demand as a number of sectors including finance, law and technology see further strong growth.

Supply

Availability in Central London fell for the sixth consecutive quarter and now totals 14.4 m sq ft, reflecting a vacancy rate of 6.2%. There is now more than 10.0 m sq ft less space available to lease than at the low-point of the cycle back in 2009, with the majority of the fall attributable to the erosion of the supply of second-hand space. Supply is particularly tight in the West End, where the vacancy rate is just 4.5%.

There is 6.7 m sq ft of space currently under construction, 46% of which has already been pre-let. As demand strengthens, we expect to see tenants acquire more space from the pipeline, exacerbating the relative lack of new and refurbished options across the market. Average annual take-up of new and refurbished space is 4.5 m sq ft, however there is just 3.6 m sq ft under construction speculatively and due for completion between now and the end of 2016. Should occupier activity continue at average levels, the pipeline is unlikely to keep pace with demand.

Investment

Investment turnover in the third quarter rose by 8% to £4.4 bn, well above the long-term average of £3.1 bn. The profile of investor demand was similar to the previous quarter, with overseas investors accounting for 74% of turnover. In particular, foreign money dominated the market for large lot sizes, while domestic investors focused on assets priced at less than £100 m. With an improving economy and further rental growth expected, overseas buyers continue to target London. This is likely to continue into and beyond the final quarter.

The volume of transactions continues to be influenced by the availability of investment stock, with demand significantly out-stripping supply. Prime yields remained stable in both the City and West End with downward pressure remaining in evidence.

FIGURE 2

Central London availability by quarter & sub-market

Q3 2013 - Q3 2014 (000's sq ft)

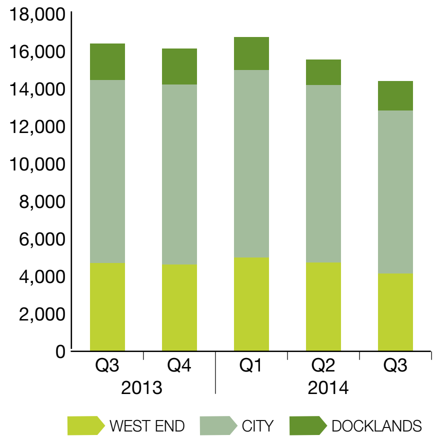
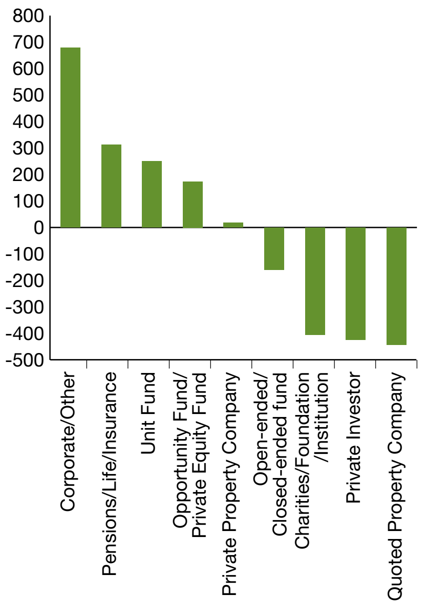


FIGURE 3

Central London net investment

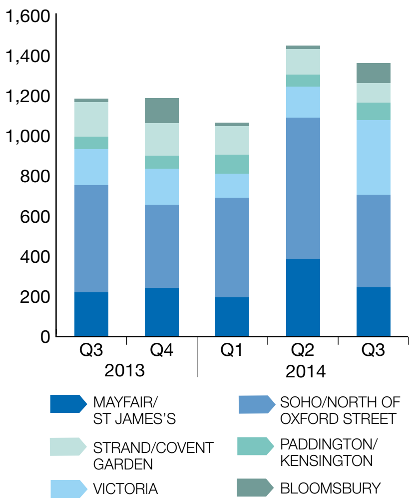
Q3 2014 (£ m's)



WEST END

- Take-up fell by 6% to 1.4 m sq ft
- Availability fell from 4.8 m sq ft to 4.2 m sq ft
- Prime headline rents increased to £105.00 per sq ft
- Investment turnover in Q3 totalled £1.9 bn

FIGURE 1
West End take-up by quarter & sub-market
Q3 2013 - Q3 2014 (000's sq ft)



Demand & take-up

Take-up in the West End fell by 6% from 1.5 m sq ft in Q2 to 1.4 m sq ft in the third quarter. Despite the fall, levels are still 15% higher than the same quarter of 2013 and the long-term average of 1.2 m sq ft. By the end of Q3, there was circa 0.7 m sq ft under offer in the West End. Coupled with the current level of active requirements, take-up by the end of the year is expected to be above the long-term average of 4.7 m sq ft.

The largest deal of the quarter was at 3 Pancras Square, in which Havas Media completed their deal, taking a pre-let of circa 160,000 sq ft. Take-up was particularly strong in Bloomsbury and Victoria, with a number of significant deals over 50,000 sq ft. These included The Halo Building, 1 Mabledon Place totalling 81,000 sq ft, which was let prior to completion to The Doctors Laboratory. In Victoria, the entire building totalling circa 95,000 sq ft at 39 Victoria Street was let and Dong Energy took 81,000 sq ft at 5 Howick Place.

Supply & development

Availability in the West End fell by 12% during the third quarter, from 4.8 m sq ft in Q2 down to 4.2 m sq ft in Q3. Levels are now 29% below the long-term average of 5.8 m sq ft. The current vacancy rate is now 4.5%, the lowest level since Q1 2008. In the Core, the vacancy rate fell from 6.4% to 5.2% quarter-on-quarter, a level not seen in over six years. There are just two buildings in the Core (Park House and 8 St James's Square) that can provide over 50,000 sq ft of new & refurbished office stock within the next six months.

The volume of space under construction speculatively has increased from 1.6 m sq ft in Q2 to 1.9 m sq ft by the end of Q3, as schemes such as St James's Market and LSQ London commenced on site. So far this year, there has been over 630,000 sq ft of new & refurbished schemes completed in the West End.

Rental profile

The prime headline rent in the West End Core increased from £102.50 per sq ft to £105.00 per sq ft. Rent free periods remained at 16 months on a 10-year term certain in the prime Core market.

The serviced office sector has been a growing source of demand during the last 18 months; London Executive Offices agreed rents of £100.00-£107.50 per sq ft on its deal at 23 King Street, in which it acquired 23,000 sq ft on a 15-year lease.

Investment

Investment turnover in the West End increased for the third consecutive quarter, transaction levels increased by 67% from £1.1 bn in Q2 to £1.9 bn in Q3. Overseas purchasers dominated transactions, representing 69% of the market share by value. The corporate sector was the most active during Q3, accounting for 32% of total sales by value, followed the pension/life/insurance funds with 21%. The availability of investment stock currently on the market fell by 21% from £1.8 bn to £1.4 bn.

There has been £3.8 bn transacted so far this year, with a long-term average figure of £4.2 bn, year-end levels are expected to be above average. Prime West End yields remained at 3.75% for the fourth consecutive quarter.

FIGURE 2
West End availability by quarter & sub-market
Q3 2013 - Q3 2014 (000's sq ft)

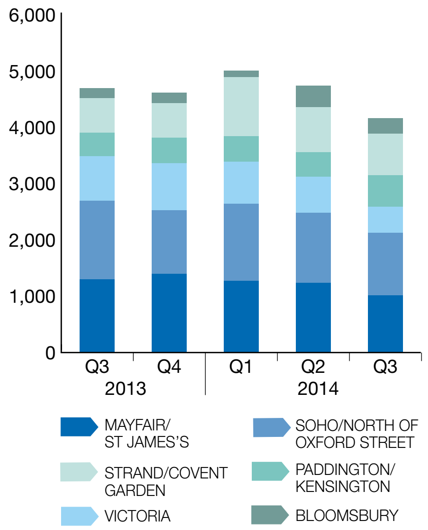
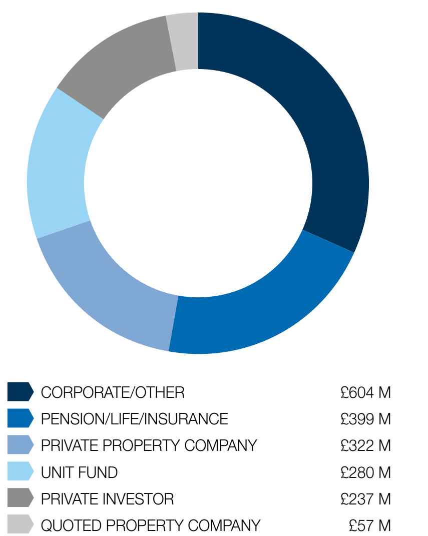


FIGURE 3
West End investment by purchaser
Q3 2014 (£m)



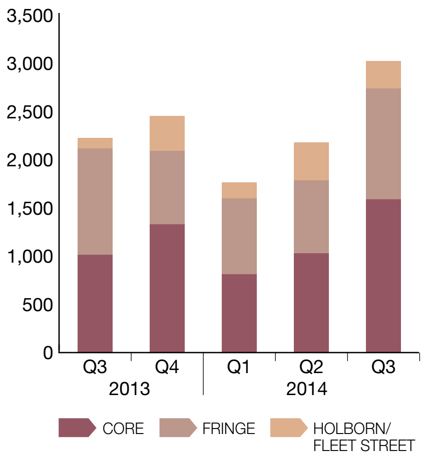
CITY

- Take-up totalled in excess of 3.0 m sq ft
- Availability fell 8% to 8.7 m sq ft
- Prime headline rents remained at £60.00 per sq ft
- Investment turnover in Q3 totalled £2.1 bn

FIGURE 1

City take-up by quarter & sub-market

Q3 2013 - Q3 2014 (000's sq ft)



Demand & take-up

Leasing activity in the third quarter reached levels not witnessed for more than a decade as demand strengthened across the market. Take-up totalled in excess of 3.0 m sq ft, the highest quarterly total since Q3 2000 and 73% higher than the long-term average.

Amazon's pre-let of 430,000 sq ft at Principal Place and M&G's pre-let of 330,000 sq ft at 10 Fenchurch Avenue dominated the headlines during the quarter, and reflect the overall composition of take-up; the tech sector and financial accounted for 30% and 28% of take-up respectively. However, the volume of activity across all size bands is one of the most notable indicators of the current market strength.

We expect further strong leasing activity in the final quarter of the year. There is almost 2.0 m sq ft of space under offer in the City; assuming take-up of at least 2.0 m sq ft in the fourth quarter, the full-year total could reach 9.0 m sq ft, the highest since 2000 and the second-highest on record.

Supply & development

City availability fell by 8% to 8.7 m sq ft as the increased occupier activity continued to place pressure on supply. Supply is now 18% below long-term average levels, while the vacancy rate is 7.3%, the lowest since 2007. The sustained levels of occupier demand will continue to erode availability into the final quarter.

The development pipeline is looking increasingly inadequate to satisfy forecasted demand. There is currently 1.7 m sq ft of speculative space under construction and due for completion between now and the end of 2016; with average annual levels of new and refurbished take-up at more than 2.8 m sq ft, tenants are likely to need to consider off-plan pre-lets to satisfy any major requirements.

Rental profile

Although demand for City space remains strong, prime headline rents have remained stable at £60.00 per sq ft for the fourth consecutive quarter, with rent free periods remaining at 24 months on a ten-year term certain.

We expect to see rental growth accelerate in 2015 as the economy continues to improve and tenants' options become fewer.

Investment

Investment turnover totalled £2.1 bn in the third quarter, equalling the volume of assets traded in the preceding quarter and above the long-term average of £1.8 bn. An on-going theme in this market is the effect of limited supply on turnover levels. At the end of the third quarter, availability had risen significantly; we estimate that £4.3 bn of assets were available to purchase compared to an average of around £2.7 bn. Much if this increase is in large lot size assets, with almost three quarters of availability involving assets over £100 m.

Overseas purchasers accounted for 71% of sales by value, with the majority of interest focused on larger lot sizes. However, domestic investors remained very active, accounting for more than half of all transactions by number of deals. The prime yield remained at 4.50% in the third quarter, although we expect further downward pressure towards the end of the year.

FIGURE 2

City availability by quarter & sub-market

Q3 2013 - Q3 2014 (000's sq ft)

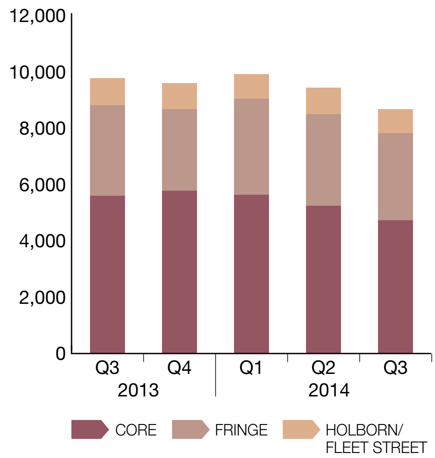
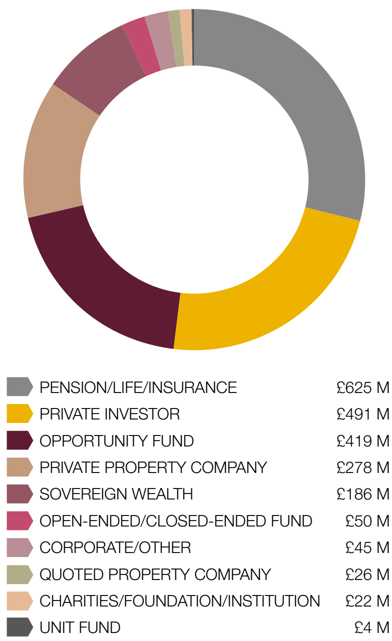


FIGURE 3

City investment by purchaser

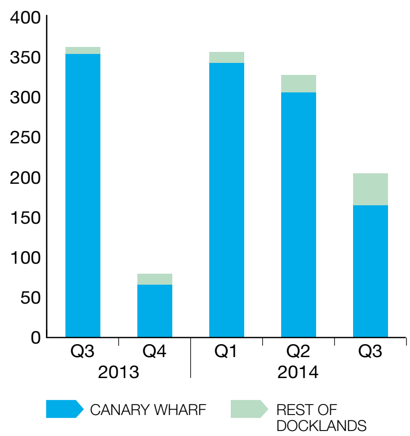
Q3 2014 (£m)



DOCKLANDS

- Take-up fell by 38% to 205,000 sq ft
- Availability increased marginally to 1.6 m sq ft
- Prime headline rents remained at £36.00 per sq ft
- Investment turnover in Q3 totalled £354.0 m

FIGURE 1
Docklands take-up by quarter & sub-market
Q3 2013 - Q3 2014 (000's sq ft)



Demand & take-up

Although take-up was down by 38% from 328,000 sq ft in Q2 to 205,000 sq ft in Q3, levels for the year so far are already 58% higher than the total take-up figure recorded for 2013. The largest deal of the quarter was at 25 Canada Square, in which Truphone Limited took just under 61,000 sq ft on a 10-year lease. There was a further 62,000 sq ft let in the building to occupiers including GFK Limited and NetNames.

During 2014, we have seen encouraging signs that the technology sector, more specifically the financial technology (fintech) sector, is looking at Canary Wharf as an ideal location to set up their offices due to the close proximity to potential clients and financial backing.

Supply & development

Availability in Docklands increased marginally from 1.4 m sq ft to 1.6 m sq ft, however levels are 18% below the level recorded during the same quarter last year. Supply in Canary Wharf is currently at 1.0 m sq ft, which is 9% below the long-term average.

The largest building currently on the market is 5 Churchill Place; the entire building totalling 320,000 sq ft is available. There are currently no schemes under construction in Docklands.

Rental profile

There has been little evidence to suggest the prime rent has moved on from £36.00 per sq ft, however upwards pressure on rents in Canary Wharf is emerging.

Investment

Investment turnover totalled £354 m during the third quarter, 57% below the level recorded for the previous quarter. There were two buildings that sold during the quarter, these include Exchange Tower, 1 & 2 Harbour Exchange which was purchased by Korean Teachers Fund for £191 m reflecting a NIY of 6.19% and a capital value of £395.00 per sq ft and 25 North Colonnade which was sold to The Blackstone Group International Limited for £162.7 m, reflecting a net initial yield of 8.00% and a capital value of £449.00 per sq ft.

HSBC Tower, 8 Canada Square, is the only building on the market in Docklands, which is already under offer to an overseas buyer. So far in 2014, foreign investors have dominated the market in Docklands, accounting for 98% of all sales by volume.

FIGURE 2
Docklands availability by quarter & sub-market
Q3 2013 - Q3 2014 (000's sq ft)

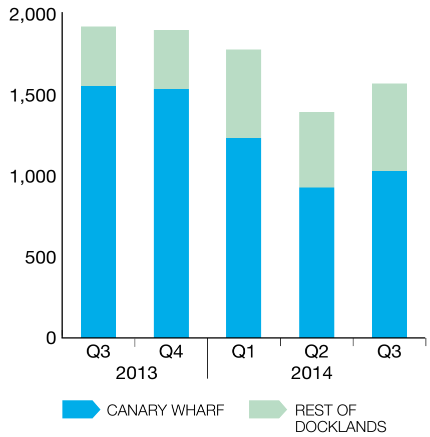
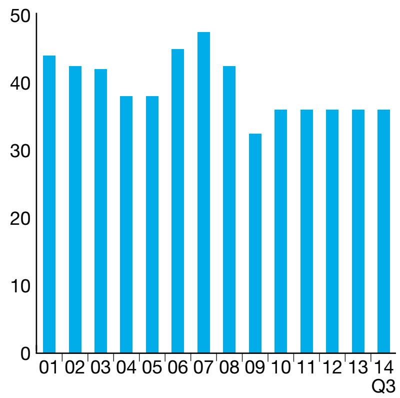


FIGURE 3
Canary Wharf prime rent
2001- 2014 (Prime £/sq ft)



KEY STATISTICS

Central London office market

Availability (m sq ft)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	3 months % change	12 months % change
West End	4.74	4.62	4.90	4.75	**4.17**	-12.2%	-12.0%
City	9.78	9.61	9.97	9.45	**8.68**	-8.1%	-11.2%
Docklands	1.93	1.90	1.73	1.40	**1.58**	12.9%	-18.1%
Central London	16.45	16.13	16.60	15.60	**14.43**	-7.5%	-12.3%

Vacancy Rate (%)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	3 months % change	12 months % change
West End	5.1	5.0	5.3	5.2	**4.5**	NA	NA
City	8.3	8.1	8.4	7.9	**7.3**	NA	NA
Docklands	9.0	8.9	8.1	6.5	**7.4**	NA	NA
Central London	7.1	7.0	7.2	6.7	**6.2**	NA	NA

Take-up (m sq ft)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	3 months % change	12 months % change
West End	1.19	1.19	1.07	1.45	**1.37**	-5.5%	15.1%
City	2.23	2.46	1.78	2.18	**3.02**	38.5%	35.4%
Docklands	0.36	0.08	0.36	0.33	**0.20**	-39.4%	-44.4%
Central London	3.79	3.73	3.21	3.96	**4.59**	15.9%	21.1%

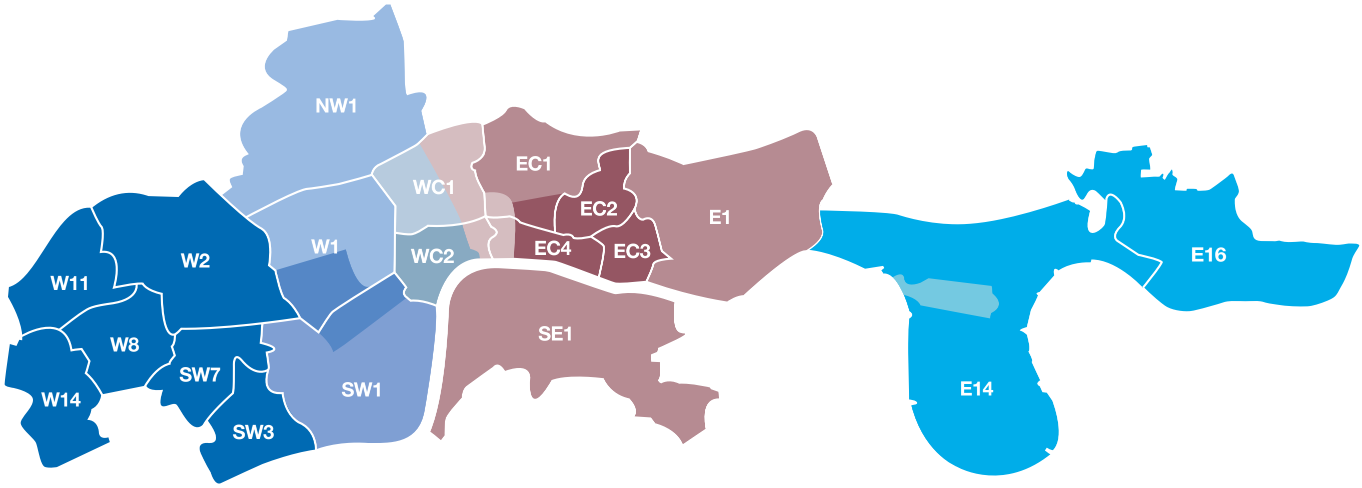
Active Demand (m sq ft)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	3 months % change	12 months % change
West End	1.45	1.53	1.39	1.75	**1.09**	-37.7%	-24.8%
City	3.80	4.78	3.96	5.08	**2.95**	-41.9%	-22.4%
Docklands	0.05	0.05	0.22	0.99	**0.97**	-2.0%	1840.0%
Unspecified Central London	1.30	2.37	1.98	1.38	**0.78**	-43.5%	-40.0%
TOTAL Central London	6.60	8.72	7.55	9.20	**5.79**	-37.1%	-12.3%

Under Construction (m sq ft)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	3 months % change	12 months % change
West End	2.58	2.73	2.60	2.31	**2.67**	15.6%	3.5%
City	5.82	5.80	4.71	4.52	**4.03**	-10.8%	-30.8%
Docklands	0.53	0.53	0.53	0.00	**0.00**	n/a	-100.0%
Central London	8.93	9.06	7.84	6.83	**6.70**	-1.9%	-25.0%

Investment (£ m)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	3 months % change	12 months % change
West End	2,551.5	2,189.3	762.2	1,135.2	**1,899.0**	67.3%	-25.6%
City	2,219.5	5,947.7	1,164.7	2,107.3	**2,146.5**	1.9%	-3.3%
Docklands	287.0	0.0	262.0	828.8	**353.7**	-57.3%	23.2%
Central London	5,058.0	8,137.0	2,188.8	4,071.3	**4,399.2**	8.1%	-13.0%

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).

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COMMERCIAL 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.

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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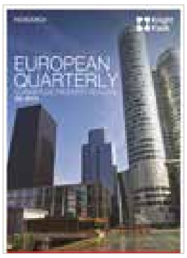

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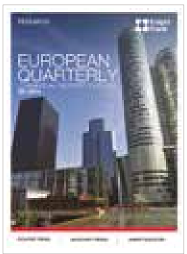
Milan Office Market Outlook Q4 2014



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