RESEARCH

Q4 2009

CENTRAL LONDON

Quarterly – Offices

Knight Frank

HIGHLIGHTS

- Take-up levels improved considerably over the course of 2009 as occupier confidence strengthened. Take-up for 2009 came to 9.4 m sq ft, almost 70% of which occurred in the second half of the year.
- In excess of 1.5 m sq ft of availability was removed from the market during the final quarter of 2009 as a result of both increased take-up and the reoccupation of previously marketed tenant space.
- Speculative construction activity continued to fall and now totals 4.2 m sq ft, 40% lower than at the same point 12 months ago. There have been a very limited number of development starts during 2009.
- Central London investment turnover increased to £2.5 bn as a result of a number of significant transactions in Docklands. However, purchasing activity remains relatively low across the City and West End markets due to a continued lack of availability, which has led to a hardening of prime yields over the course of the year.

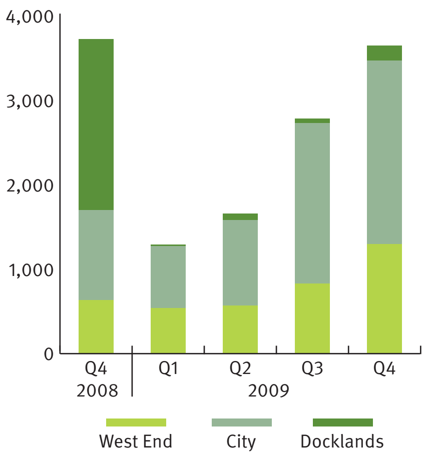
CENTRAL LONDON OVERVIEW

- **Take-up rose by a further 31% to 3.7 m sq ft, as 2009 finished strongly.**
- **Availability fell for the first time in two years to 23.0 m sq ft.**
- **Speculative construction fell for the seventh consecutive quarter to 4.2 m sq ft.**
- **Investment turnover grew to £2.5 bn, although activity remains limited by supply.**

Figure 1

Central London take-up by quarter & market sub-area

Q4 2008 - Q4 2009 (000's sq ft)



Source: Knight Frank

Demand and take-up

The Central London occupational market saw a steady recovery in take-up levels over the course of 2009, reflecting the rally in the financial markets and the movement out of recession for the global economy. Having hit a low point of just 1.3 m sq ft in the first quarter, take-up rose quarter-on-quarter through the year, reaching 3.7 m sq ft in the final quarter – 10% higher than the long-term quarterly average.

Prime rental levels are expected to show strong positive growth in 2010 as occupier demand continues to grow, and with current headline rents offering good value, many occupiers are looking to capitalise on the current situation. The office market is still in the early stages of a recovery, although the capital's internationally facing economy place London in a strong position to benefit from the improving situation in the global economy.

Supply and development

Availability levels fell across all main Central London markets as the increased take-up began to erode the supply of up-and-ready newly developed stock. Also, there is anecdotal evidence that some tenants began to re-occupy previously marketed space. Availability appears to have peaked in all Central London markets, having fallen by around 5% over the last six months and now totals 23.0 m sq ft, representing a vacancy rate of 10.2%.

The downward trend in supply is set to continue for the foreseeable future as the continuing difficulty in obtaining funding limits speculative development activity. There is now 4.0 m sq ft under construction speculatively, compared to almost 10.0 m sq ft just 24 months ago. The majority of space under construction is due for delivery in the next 12 months, suggesting that 2011 may see tenants competing for the limited available schemes.

Investment market

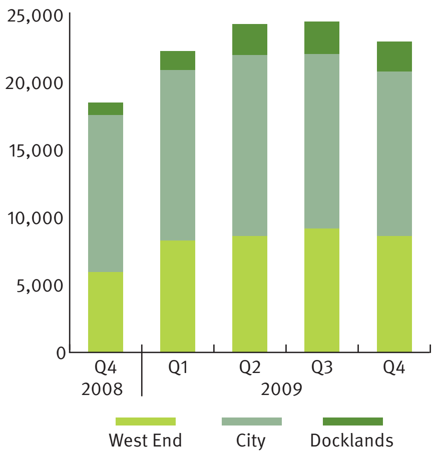
The scarcity of available product continued to restrict investment turnover in the Central London market during Q4 2009. Although overall levels were buoyed by three large transactions in Canary Wharf totalling more than £1.1 bn, turnover fell in both the City and West End. Q4 2009 investment turnover totalled £2.5 bn taking the total for 2009 to £6.1 bn, only 10% lower than 2008 but significantly below the £17.2 bn seen in 2007.

Investment demand for Central London offices has continued to improve, reflecting the weakness of Sterling and growing confidence in the outlook for the occupational market. UK institutions and property companies returned to the market with buying requirements in the final quarter, although the market is still dominated by overseas investors, which have accounted for almost 80% of turnover this year.
The renewed investor demand has resulted in a significant hardening of yields in the City and West End which is expected to continue during 2010.

Figure 2

Central London availability by quarter & market sub-area

Q4 2008 - Q4 2009 (000's sq ft)

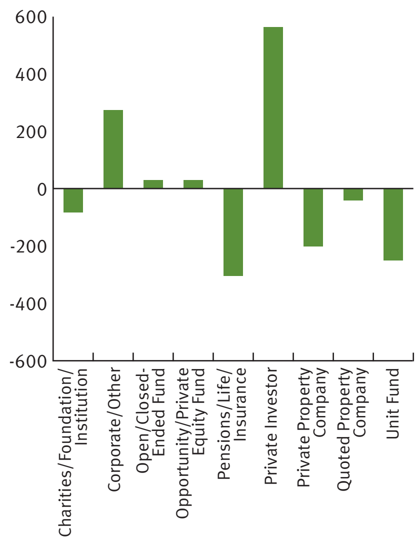


Source: Knight Frank

Figure 3

Central London net investment

Q4 2009 (£ m's)



Source: Knight Frank

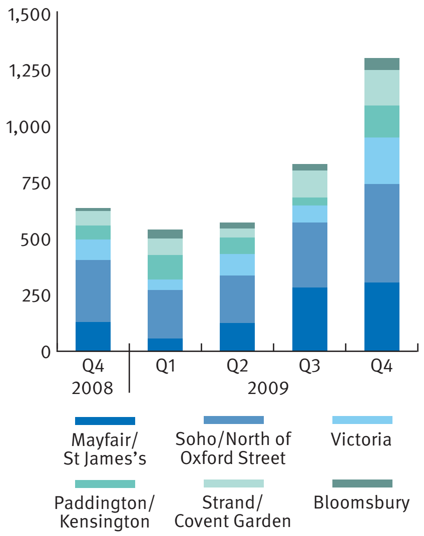
WEST END

- **Take-up rises 57% to 1.3 m sq ft, the third quarterly increase in a row.**
- **Availability falls for first time in over two years to 8.6 m sq ft.**
- **Prime headline rents stable at £65.00 per sq ft – but poised to rise.**
- **Investment turnover in the final quarter for 2009 totalled £794, bringing the total to £2.7 bn.**

Figure 1

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

Q4 2008 - Q4 2009 (000's sq ft)



Source: Knight Frank

Demand & take up

Take-up in the final quarter totalled 1.3 m sq ft, 57% higher than the previous quarter of 0.8 m sq ft and a level not seen since Q2 2008. Total take-up for the year reached 3.3 m sq ft, 35% lower than the long-term average. Whereas there were no transactions over 25,000 sq ft in Q3 2009, there were seven deals in the final quarter at or in excess of this size. AstraZeneca taking c50,000 sq ft at 2 Kingdom Street, was the largest deal of the quarter.

Active demand nearly doubled from the same quarter last year to 1.8 m sq ft. Demand remains strong and we expect take-up levels to rise over the course of the year as occupiers are forced to activate their requirements early due to limited supply in 2011 & 2012.

Supply & development

Availability has fallen for the first time in nine consecutive quarters and now stands at 8.6 m sq ft. Although there has been a fall of 6% since Q3 09, levels are still 26% higher than the ten-year long-term average. This represents a vacancy rate of 9.5%, a level we expect to continue to fall with a lack of new developments coming onto the market.

The volume of space under construction speculatively has continued to fall for the fourth consecutive quarter and now stands at 1.2 m sq ft, a fall of 50% on the same quarter last year. Only two schemes went under construction in the final quarter totalling just over 100,000 sq ft.

Rental profile

Prime rents remained stable at £65.00 per sq ft for the first quarter since Q2 2008. With a restricted pipeline and strong demand we anticipate prime rentals levels to rise in the next 12 months. Rent free periods remained unchanged throughout 2009 at 24 months on a ten-year term certain.

Investment market

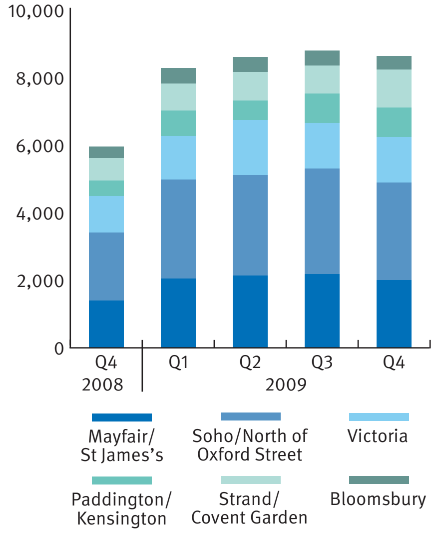
Investment turnover totalled £794 m in the final quarter, down 10% on the previous quarter bringing the annual total to £2.7 bn, just 11% below the ten-year long-term average. Market sentiment continues to strengthen, with the majority of sales being concluded by best bids scenarios. The largest transaction of the quarter was ING's Covent Garden mixed use portfolio which exchanged at c.£119.5m, reflecting a net initial yield of 6.75%.

Whilst for most of 2009 overseas purchasers dominated the market, in the final quarter UK purchasers accounted for 57% of deals, levels not seen since early 2008. Prime core West End yields have moved in by 50 basis points and stood at 5.00% at year end. Prime yields continue to remain under downward pressure in 2010.

Figure 2

West End availability by quarter & market sub-area

Q4 2008 - Q4 2009 (000's sq ft)



Source: Knight Frank

Figure 3

West End investment by purchaser

Q4 2009 (£ m's)

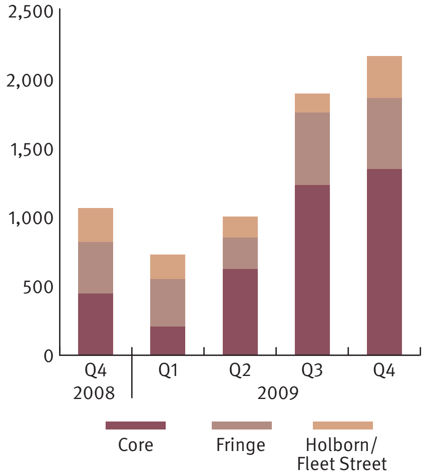
Corporate/Other	£165 m
Open/Closed-Ended Fund	£40 m
Pension/Life/Insurance	£160 m
Private Investor	£233 m
Quoted Property Company	£50 m
Unit Fund	£106 m
Undisclosed	£39 m

Source: Knight Frank

CITY

- **Take-up increased for a third consecutive quarter.**
- **Availability fell by over 700,000 sq ft to 12.2 m sq ft.**
- **First increase in the City prime rent since 2007.**
- **Prime yields hardened further as interest from UK buyers returns.**

Figure 1
City take-up by quarter & market sub-area
Q4 2008 - Q4 2009 (000's sq ft)



Source: Knight Frank

Demand and take-up

City take-up increased to 2.2 m sq ft in Q4, compared to 1.9 m sq ft in Q3 and 1.1 m sq ft in Q4 2008. This is the third consecutive quarter in which take-up has risen. The upswing in City take-up matches the rally that was recorded in the global financial markets. Insurers, professional firms and Asia-Pacific banks were again major acquirers of space – this was the case throughout 2009.

The momentum has continued into 2010, with Blackrock placing the whole of Drapers Gardens (280,000 sq ft) under offer; gazumping Macquarie Group who had previously agreed terms there. Evidence suggests banks are recruiting again – Goldman Sachs reported an increase in global headcount in Q4 – and we believe this year financial firms will become more active in the market.

Supply and development

Availability fell to 12.2 m sq ft, down from 12.9 m sq ft three months earlier. The volume of second-hand space being released to the market has been far lower than had been expected, and take-up is now exceeding the level of new supply coming on to the market. Anecdotal evidence suggests that some financial firms who suffered less in the credit crunch plan to re-occupy their grey-space.

There is currently 2.9 m sq ft of speculative space under construction, which is unchanged on three months ago. Presently, bank finance for speculative development is close to non-existent. With supply now falling, the speculative pipeline appears inadequate and some occupiers with relatively distant lease expiries are bringing requirements forward.

Rental profile

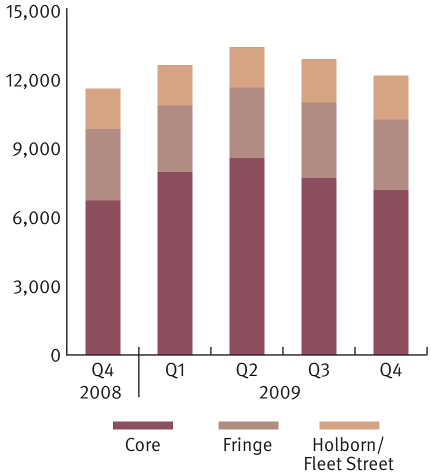
City prime rents increased in Q4 2009 to £44.00 per sq ft from £42.50 per sq ft in Q3. This is the first increase in City rents since 2007, and reflects increased landlord confidence arising from the tightening of supply, particularly for best quality space in large units.

Investment market

The investment transaction volume edged down from £596 m in Q3 to £572 m in Q4. Rather than a weakening of buyer interest, the decline in volume reflects the shortage of available investment stock. Encouragingly, the UK institutions have re-entered the market. Henderson bought the Houndsditch Estate for £32.5 m, and Hermes paid £12.7 m for Broken Wharf House.

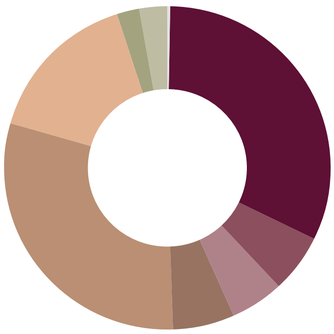
Prime yields hardened by another 25 basis points in Q4 to 6.00%, having risen close to 7.00% earlier in the year. There has been some discussion on the possibility of a mini-bubble, although yields are still ahead of the long-term average figure of 5.75% at a time when rental growth is widely forecast.

Figure 2
City availability by quarter & market sub-area
Q4 2008 - Q4 2009 (000's sq ft)



Source: Knight Frank

Figure 3
City investment by purchaser
Q4 2009 (£ m's)



Charities/Foundation/ Institution	£2 m
Corporate/Other	£183 m
Open/Closed-Ended Fund	£33 m
Opportunity Fund	£30 m
Pension/Life/Insurance	£35 m
Private Investor	£173 m
Private Property Company	£88 m
Unit Fund	£13 m
Undisclosed	£15 m

Source: Knight Frank

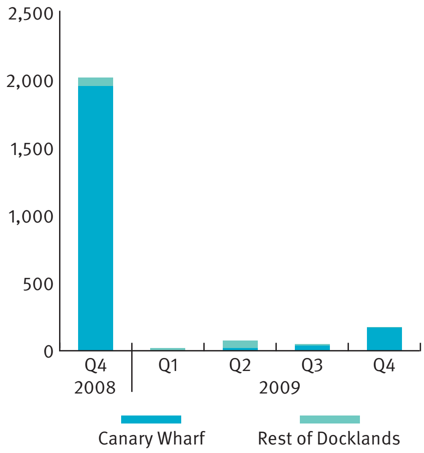
DOCKLANDS

- **Take-up totalled 177,000 sq ft, the highest quarterly total of 2009.**
- **Availability fell for the first time in over 12 months to 2.2 m sq ft.**
- **Investment turnover totalled £1.14 bn.**

Figure 1

Docklands take-up by quarter & market sub-area

Q4 2008 - Q4 2009 (000's sq ft)



Source: Knight Frank

Demand & take up

Activity in Docklands in Q4 2009 remained relatively subdued, although the quarterly total was comfortably the highest of the year at 176,528 sq ft. This brings the total for the year to 323,940 sq ft, considerably lower than the long-term average. However, the final quarter did see an encouraging increase in activity in Canary Wharf, with the London Organising Committee for the Olympic Games (LOCOG) and Lehman Brothers' administrators acquiring a total of 167,000 sq ft at 25 Canada Square.

Indicators suggest that the first quarter of 2010 will see further leasing activity at Canary Wharf with EMEA under offer on 34,000 sq ft at 11 Westferry Circus and BarCap signing on around 350,000 sq ft at 20 Cabot Square since the quarter-end. Looking ahead, increasing financial sector demand and a thinning development pipeline in the City should prove positive for Canary Wharf's letting prospects.

Supply & development

Availability fell in the final quarter to 2.2 m sq ft, which represents the first downward movement in supply for more than 12 months. The Docklands vacancy rate is now 10.2%, consistent with the level of vacancy seen across the wider Central London market.

Although improving conditions in the financial markets are likely to cause the withdrawal of some tenant-release space from the market, there is still a significant quantum of space to be released to the market from Lehman Brothers' administrators at 25 Bank Street which may slow down the erosion of availability. Importantly however, the rent for this space is insured reducing the urgency for disposal.

Rental profile

Prime rents in Canary Wharf are estimated to be around £32.50 per sq ft, while outside the Canary Wharf estate there is little evidence to prove any rental level.

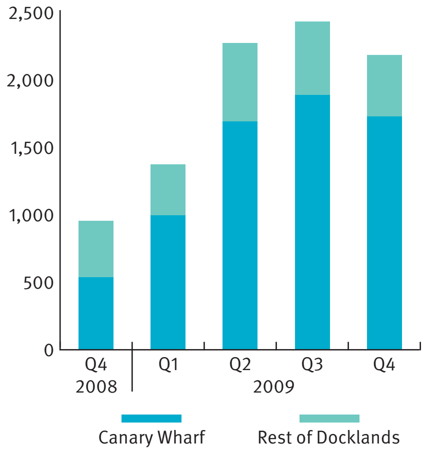
Investment

Investment turnover in Docklands totalled £1.14 bn in Q4 2009 with three deals involving buildings on the Canary Wharf estate. The National Pension Service of Korea has purchased the HSBC Tower, 8 Canada Square for £772.5 m reflecting a net initial yield of 5.90%, while Canary Wharf Group has sold 5 Churchill Place to a private Middle Eastern investor for £208.0 m reflecting a net initial yield of 5.85%. Also, Credit Suisse agreed a sale and leaseback with Lebanese-based M1 Real Estate of 20 Columbus Courtyard for £155.0 m reflecting a net initial yield of 5.90%.

Figure 2

Docklands availability by quarter & market sub-area

Q4 2008 - Q4 2009 (000's sq ft)

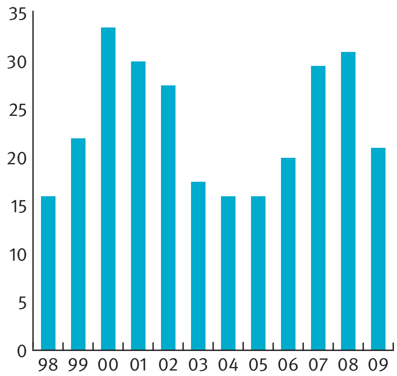


Source: Knight Frank

Figure 3

Rest of Docklands prime rent

1998-2009 (Prime £/sq ft)



Source: Knight Frank

Key statistics

Central London office market

Availability (m sq ft)	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	3 months % change	12 months % change
West End	5.97	8.29	8.62	9.22	**8.64**	-6.2%	44.8%
City	11.28	12.65	13.42	12.90	**12.18**	-5.6%	7.9%
Docklands	0.96	1.38	2.28	2.44	**2.19**	-10.2%	128.4%
Central London	18.21	22.32	24.32	24.55	**23.01**	-6.3%	26.3%

Vacancy Rate (%)	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	3 months % change	12 months % change
West End	6.7	9.2	9.5	10.2	**9.5**	n/a	n/a
City	9.9	10.8	11.4	11.0	**10.4**	n/a	n/a
Docklands	4.8	6.4	10.6	11.4	**10.2**	n/a	n/a
Central London	8.2	9.9	10.8	10.9	**10.2**	n/a	n/a

Take-up (m sq ft)	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	3 months % change	12 months % change
West End	0.64	0.54	0.57	0.83	**1.30**	56.6%	104.7%
City	1.07	0.73	1.01	1.90	**2.17**	14.1%	102.9%
Docklands	2.02	0.02	0.08	0.05	**0.18**	254.0%	-91.3%
Central London	3.73	1.29	1.66	2.78	**3.65**	31.1%	-2.1%

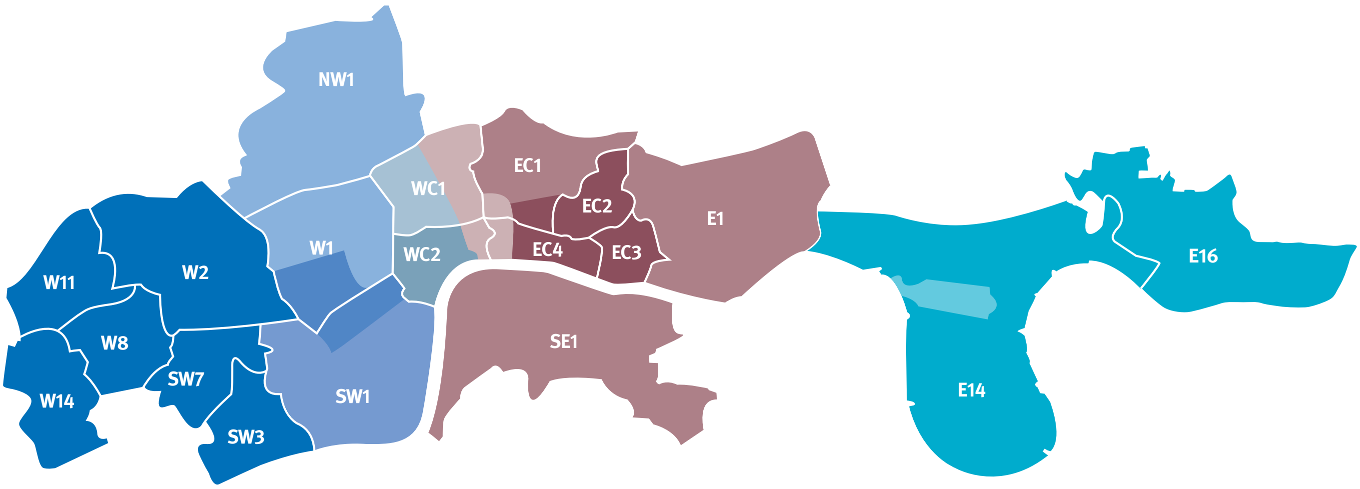
Active Demand (m sq ft)	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	3 months % change	12 months % change
West End	0.99	0.82	1.49	2.07	**1.79**	-13.6%	80.7%
City	3.49	3.56	4.12	3.64	**4.67**	28.4%	33.9%
Docklands	0.08	0.07	0.35	0.33	**0.50**	52.3%	538.7%
Unspecified Central London	1.56	1.76	1.63	2.30	**1.24**	-46.1%	-20.6%
TOTAL Central London	6.12	6.22	7.59	8.34	**8.20**	-1.7%	33.9%

Under Construction (m sq ft)	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	3 months % change	12 months % change
West End	3.06	2.57	2.57	2.17	**1.70**	-21.8%	-44.5%
City	5.98	6.17	5.26	4.48	**4.73**	5.6%	-20.9%
Docklands	1.03	0.72	0.98	0.00	**0.00**	n/a	-100.0%
Central London	10.08	9.46	8.81	6.66	**6.43**	-3.3%	-36.2%

Investment (£ m)	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	3 months % change	12 months % change
West End	760.1	262.5	776.5	877.6	**794.2**	-9.5%	4.5%
City	457.3	363.7	712.0	596.5	**572.0**	-4.1%	25.1%
Docklands	838.0	0.0	0.0	0.0	**1135.5**	n/a	35.5%
Central London	2055.4	626.2	1488.5	1474.1	**2501.7**	69.7%	21.7%

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).

RESEARCH

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

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**

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

Newmark Knight Frank Global