RESEARCH

Q4 2011

CENTRAL LONDON

Quarterly – Offices

Knight Frank

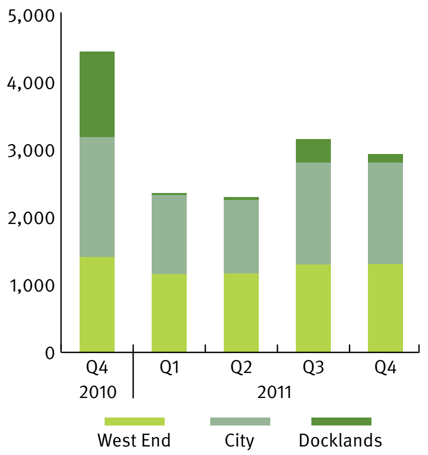
HIGHLIGHTS

- Central London take-up improved in the second half of 2011, with the last two quarters of the year both matching long-term average levels of 3.0 m sq ft. Take-up for the year totalled 10.7 m sq ft, which is down 27% from 2010 reflecting the slow global economy.
- Availability finished the year at 16.9 m sq ft, representing a vacancy rate of 7.3% compared to 8.1% in 2010. Supply rose marginally in the final quarter as the Shard and some of the sub-let space from J.P. Morgan entered the supply figures. However, we expect the downward trend to resume next quarter.
- Investment turnover totalled £2.3 bn in the final quarter, taking the total for the year to £9.1 bn. The market remained dominated by overseas purchasers, with the strong demand keeping prime yields stable for the sixth consecutive quarter.

CENTRAL LONDON OVERVIEW

- **Take-up stabilised at 3.0 m sq ft, consistent with the long-term average.**
- **Availability totalled 16.9 m sq ft, a 9% year-on-year fall.**
- **Speculative construction rose slightly to 5.1 m sq ft.**
- **Investment turnover rose in the final quarter to £2.3 bn.**

Figure 1
Central London take-up by quarter & sub-market
Q4 2010 - Q4 2011 (000's sq ft)



Demand and take-up

After a disappointing first six months of the year, take-up in Central London recovered to long-term average levels in the second half, with the final quarter recording 3.0 m sq ft of transactions. This was encouraging considering the uncertainty in the wider economy. Additionally, the level of take-up was impressive given the unusually low number of large-unit transactions. There were just 16 transactions in excess of 50,000 sq ft in 2011 compared to 32 the preceding year.

Having proved resilient to the weak economic climate, the technology, media & telecoms (TMT) sector was particularly active in 2011, accounting for more than 20% of all transactions. Telecoms groups Nokia and Telefonica (O2) acquired large offices in Paddington and Soho respectively.

Supply & development

There was 16.9 m sq ft available to lease in Central London at the end of 2011 – a 9% fall over the last 12 months. Supply rose marginally in the final quarter as 590,000 sq ft at the Shard, SE1, which is due to reach practical completion within the next 6 months, entered the figures. Additionally, J.P. Morgan released more than 465,000 sq ft of second-hand space to the market prior to its move to Canary Wharf. Importantly, the market had long been aware that these units would come to the market and we expect availability to resume its downward trend during 2012.

Speculative development activity rose marginally to 5.1 m sq ft as a number of schemes started on site in the City and West End, this served to counter-balance the space removed from the pipeline by pre-lettings at The Leadenhall Building and 33 Margaret Street. Levels remain below long-term average and will fall considerably with almost 1.2 m sq ft of space due to reach practical completion in the next six months.

Investment

Investment turnover totalled £9.1 bn in 2011, a 12% fall on the previous year, although this figure reflects the relatively limited supply across the market. Demand for Central London assets remains particularly strong, with overseas purchasers dominating the investor profile. During 2011, foreign investors accounted for 60% of turnover, although this rose considerably in the final quarter when 80% of purchases involved overseas money.

Prime yields remained stable in both the City and West End at 5.25% and 4.00% respectively. Looking forward, demand from overseas investors will remain strong, with London continuing to offer diversification and stability. Strong demand for prime product will ensure any outward shift of prime yields is unlikely during 2012.

Figure 2
Central London availability by quarter & sub-market
Q4 2010 - Q4 2011 (000's sq ft)

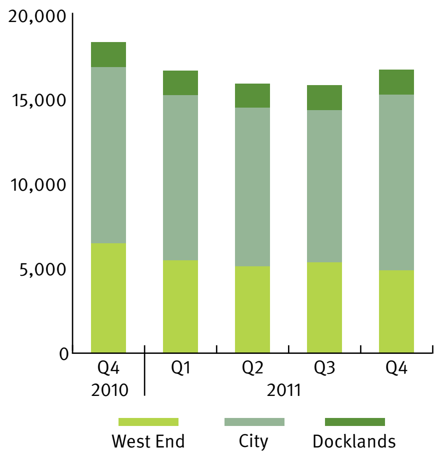
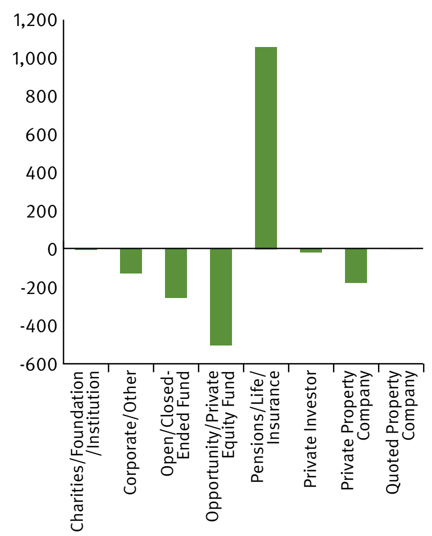


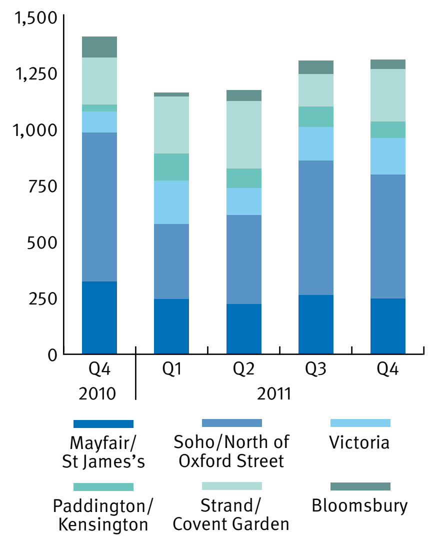
Figure 3
Central London net investment
Q4 2011 (£ m's)



WEST END

- **Take-up remained stable at 1.3 m sq ft in Q4.**
- **Availability fell by 9% from 5.4 m sq ft in Q3 to 4.9 m sq ft in Q4.**
- **Prime headline rents remained at £92.50 per sq ft.**
- **Investment turnover for the final quarter of 2011 totalled £0.8bn bringing the total to £3.3bn.**

Figure 1
West End take-up by quarter & sub-market
Q4 2010 - Q4 2011 (000's sq ft)



Demand & take-up

Take-up in the fourth quarter remained level with the previous quarter of 1.3 m sq ft bringing the total annual take-up for 2011 to 4.9 m sq ft, 5% above the long-term average. There were 12 deals over 20,000 sq ft, up from ten in Q3 – with the largest deal to Savills taking c64,000 sq ft on a pre-let at 33 Margaret Street, W1 which is due for completion in Q4 2012.

Overall demand rose by 38% in the final quarter of 2011 to 1.7 m sq ft, primarily due to Google and Time Warner's requirements moving from potential to active. The TMT sector looks to continue to flourish across the West End, supporting the take-up figures despite the economic slowdown.

Supply & development

Availability fell in the final quarter of 2011 to 4.9 m sq ft. This reflects a vacancy rate of 5.4%, the lowest since Q2 2008. Levels of supply in the West End remained under pressure particularly for new & refurbished space. There is just 800,000 sq ft on the market, representing a vacancy rate of 0.8% for this grade of space, the lowest ever recorded in our statistics.

The volume of space under construction speculatively rose by 19% in Q4 to 2.0 m sq ft. There were a number of schemes that commenced speculatively in Q4, including 10 Portman Square, W1 which will deliver c125,000 sq ft in mid-2013, and also 1A Page Street, SW1, a refurbishment due for completion for 2013 but already rumoured to be shortlisted by Burberry.

Rental profile

The prime headline rent remained at £92.50 per sq ft in Q4. Rent free periods are currently at 18 months on a 10-year lease. The highest rent achieved during the quarter was at 1 Grafton Street, W1 where Genel Energy took the 4th floor at £102.50 per sq ft on a 10-year lease.

Investment

Turnover totalled £0.8bn in Q4 2011 in the West End, bringing the annual total to £3.3bn for the year-end reflecting a 30% fall on levels recorded in 2010. Despite the annual fall, levels are only 6% below the long-term average. Prime West End yields remained at 4.00% for the fifth consecutive quarter.

The largest deal recorded was the sale of 1 Kingdom Street, W2 bought by AP Fonden for £230m reflection a net initial yield of 5.9%. Overseas investors continued to dominate the market, representing 64% of turnover in the final quarter of 2011.

Figure 2
West End availability by quarter & sub-market
Q4 2010 - Q4 2011 (000's sq ft)

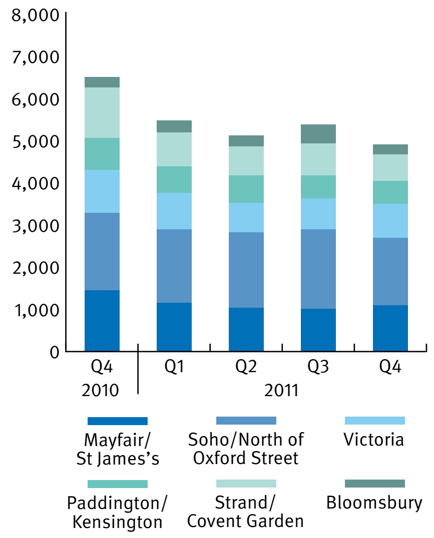
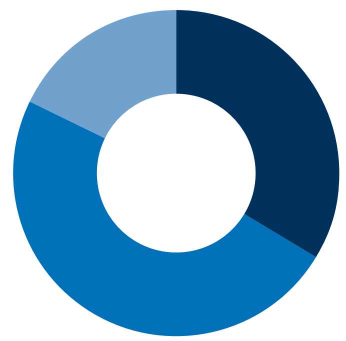


Figure 3
West End investment by purchaser
Q4 2011

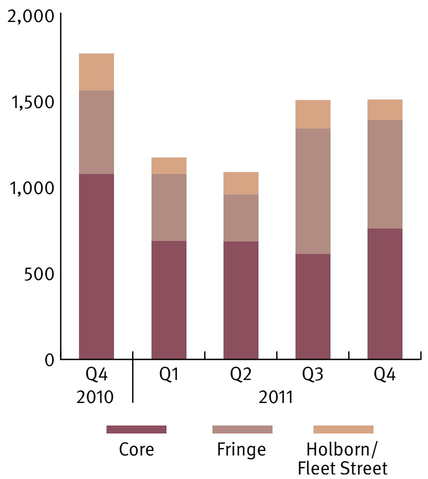


Opportunity Fund	£185 m
Pension/Life Insurance	£266 m
Private Investor	£97 m

CITY

- **Take-up just below average at 1.4 m sq ft.**
- **Availability rises to 10.4 m sq ft, as the Shard joins the figures.**
- **Prime headline rents unchanged at £55.00 per sq ft.**
- **Investment volume rebounds to £1.5 bn on foreign purchases.**

Figure 1
City take-up by quarter & sub-market
Q4 2010 - Q4 2011 (000's sq ft)



Demand and take-up

City take-up at 1.4 m sq ft was slightly down on the long-term average figure of 1.5 m sq ft. This concludes what has been a relatively slow year for City office demand, with annual take-up totalling 5.3 m sq ft, down 29% on take-up in 2010, reflecting the global economic slowdown. There have been fewer larger transactions – just five deals of over 50,000 sq ft in 2011, down from fifteen in 2010. However, take-up of sub-10,000 sq ft units actually increased to 2.5 m sq ft in 2011, up from 2.3 m sq ft in 2010, as the day-to-day market held firm.

Major deals in Q4 included insurance broker Aon signing at The Leadenhall Building (192,000 sq ft plus option space), and Deloitte taking 89,000 sq ft at Royal Mint Court.

We expect take-up for 2012 to be of a similar level to 2011, with a similar bias towards smaller units and non-banking tenants.

Supply & development

Supply increased from 9.1 m sq ft in Q3 to 10.4 m sq ft in Q4, partly due to the Shard (589,000 sq ft) joining the figures. Also, the start of J.P. Morgan's relocation from the City to Canary Wharf resulted in c465,000 sq ft coming to the market; of which 152,000 sq ft was under offer to the PRA at the year end. This new supply was expected, although recent bank redundancies create the risk of more sub-let space coming to the market in the near-term.

The volume of space under construction speculatively increased to 3.4 m sq ft, up from 3.1 m sq ft in Q3. The largest scheme to commence on site was 3-10 Finsbury Square (146,000 sq ft), with 8-10 Moorgate, 6 Bevis Marks and Moorgate Exchange also poised to start.

Rental profile

Prime headline rents remained unchanged at £55.00 per sq ft, and landlords are now offering more generous incentive packages, with the typical rent free period for a 10 year lease at 24 months.

Investment

Investment turnover rebounded in the final quarter to £1.5 bn, up from £1.0 bn in Q3. The figures were boosted by large transactions by overseas investors, such as Malaysia's PNB buying Milton & Shire Houses for £350 m, and Nathan Kirsh of Southern Africa purchasing the Tower 42 estate for £250 m. Also, St Martins, which represents the state of Kuwait, bought 60 Threadneedle Street for £176 m, underlining the strength and diversity of foreign investors targeting the City.

Prime yields remained steady at 5.25%, with City offices benefiting from the general view of UK assets as having safe haven status in the eyes of global investors. Uncertainty regarding continental Europe we believe will keep buyers focussed on London in 2012 and hold yields at current levels.

Figure 2
City availability by quarter & sub-market
Q4 2010 - Q4 2011 (000's sq ft)

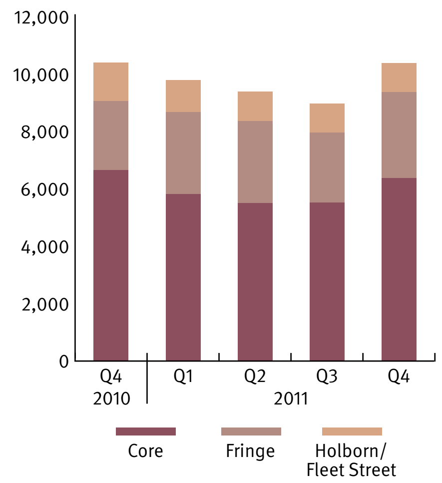
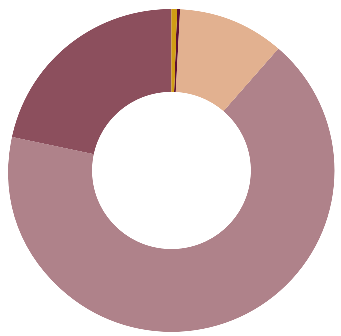


Figure 3
City investment by purchaser
Q4 2011

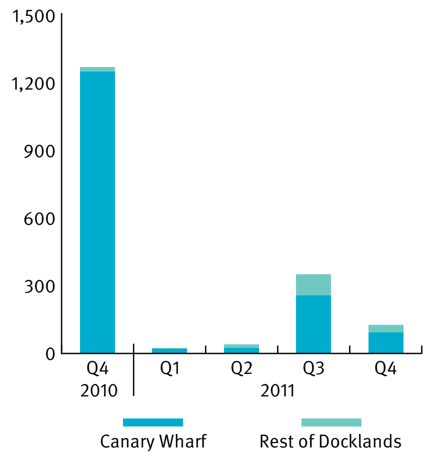


Charities/Foundation/Institution	£12 m
Corporate/Other	£3 m
Pension/Life/Insurance	£156 m
Private Investor	£1,001 m
Private Property Company	£321 m

DOCKLANDS

- **Take-up for 2011 was 543,000 sq ft, down sharply on 2010.**
- **Availability steady at 1.5 m sq ft – equal to end of 2010.**
- **Prime headline rents unchanged at £36.00 per sq ft.**
- **Canary Wharf Group consolidates ownership of Wood Wharf.**

Figure 1
Docklands take-up by quarter & sub-market
Q4 2010 - Q4 2011 (000's sq ft)



Demand & take-up

Take-up in the final quarter was 127,000 sq ft, resulting in an annual figure of 543,000 sq ft. This is half the long-term average figure, and a fraction of the 2.2 m sq ft acquired in 2010; although demand in the Docklands market has historically been volatile. Nevertheless, turbulent global capital markets have taken their toll on demand for office space in the Docklands, a market with a large financial sector exposure.

Olympics organiser, LOCOG, acquired 34,000 sq ft in 10 Upper Bank Street, in Q4, and BBVA signed on 29,000 sq ft at One Canada Square. Since quarter end, Bank of New York Mellon renewed their lease on 152,000 sq ft at One Canada Square. Outside Canary Wharf, Serviced Offices Group took 19,000 sq ft in 5 Harbour Exchange.

Supply & development

Availability remained unchanged, both quarter-on-quarter and year-on-year, at 1.5 m sq ft. However, as 2012 progresses we are expecting more space to return to the market. An announcment has yet to have been made on the 105,000 sq ft currently occupied by MF Global at 5 Churchill Place. Banks at Canary Wharf have made redundancies, and we expect sub-let space to be released at some point. Also, there is over 330,000 sq ft of space occupied by Olympics-related organisations which we expected to be vacated in phases from late 2012 onwards.

The development pipeline for Docklands consists solely of 25 Churchill Place, a 526,000 sq ft scheme, half of which is pre-let to EMA.

Rental profile

Prime headline rents in Canary Wharf remained at £36.00 per sq ft for the seventh consecutive quarter. Interestingly, the regear of Bank of New York Mellon's lease at One Canada Square was at a rent of £42.50 per sq ft.

Investment

The final quarter saw Standard Life sell Northern & Shell House to a private investor for £12.2 m, reflecting a NIY of 7.0%. In January, Canary Wharf Group consolidated the ownership of the 16.8 acre Wood Wharf site, buying out joint venture partners Ballymore and British Waterways for £90.0 m.

Figure 2
Docklands availability by quarter & sub-market
Q4 2010 - Q4 2011 (000's sq ft)

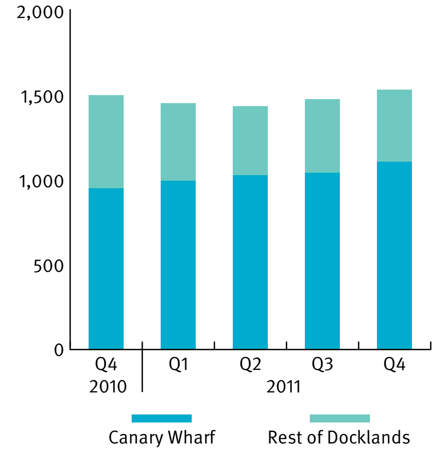
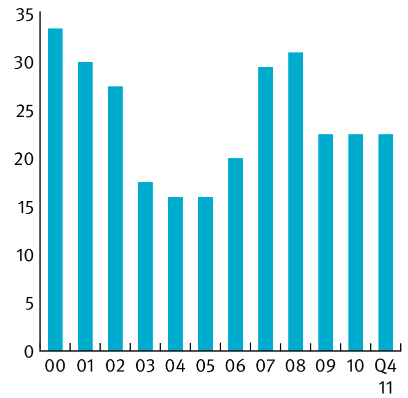


Figure 3
Rest of Docklands prime rent
2000-Q4 2011 (Prime £/sq ft)



Key statistics

Central London office market

Availability (m sq ft)	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	3 months % change	12 months % change
West End	6.51	5.49	5.13	5.39	**4.92**	-8.8%	-24.5%
City	10.41	9.79	9.40	8.99	**10.39**	15.6%	-0.1%
Docklands	1.51	1.46	1.44	1.48	**1.54**	3.9%	2.2%
Central London	18.43	16.74	15.97	15.86	16.85	6.2%	-8.6%

Vacancy Rate (%)	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	3 months % change	12 months % change
West End	7.1	6.0	5.6	5.9	**5.4**	-8.8%	-24.5%
City	8.9	8.4	8.0	7.7	**8.9**	15.6%	-0.1%
Docklands	7.0	6.8	6.7	6.9	**7.2**	3.9%	2.2%
Central London	8.0	7.3	6.9	6.9	**7.3**	6.2%	-8.6%

Take-up (m sq ft)	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	3 months % change	12 months % change
West End	1.41	1.16	1.14	1.31	**1.31**	0.7%	-6.8%
City	1.78	1.17	1.09	1.51	**1.51**	0.0%	-15.2%
Docklands	1.27	0.03	0.04	0.35	**0.13**	-64.5%	-90.2%
Central London	4.46	2.36	2.27	3.17	**2.95**	-6.9%	-33.9%

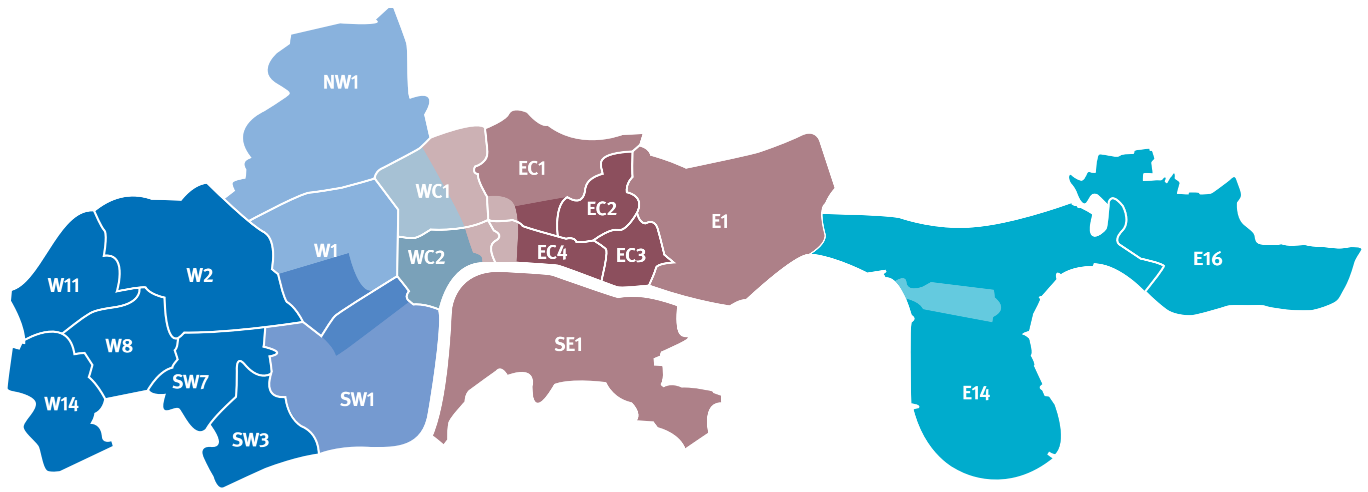
Active Requirements (m sq ft)	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	3 months % change	12 months % change
West End	1.73	1.72	1.90	1.25	**1.72**	37.7%	-0.1%
City	3.42	4.95	4.79	4.62	**4.07**	-12.0%	19.1%
Docklands	0.06	0.06	0.50	0.22	**0.22**	0.0%	263.3%
Unspecified Central London	0.96	0.92	0.62	1.05	**1.89**	79.4%	97.4%
TOTAL Central London	6.16	7.64	7.81	7.14	**7.90**	10.6%	28.2%

Under Construction (m sq ft)	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	3 months % change	12 months % change
West End	1.43	1.77	1.95	1.70	**1.36**	-19.8%	-4.6%
City	2.67	3.28	3.45	3.80	**4.27**	12.2%	59.9%
Docklands	0.00	0.00	0.00	0.00	**0.00**	n/a	n/a
Central London	4.10	5.05	5.40	5.50	**5.63**	2.3%	37.4%

Investment (£ m)	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	3 months % change	12 months % change
West End	1088.0	667.3	829.5	958.0	**803.8**	-16.1%	-26.1%
City	1703.9	1394.4	1866.6	1047.9	**1493.4**	42.5%	-12.4%
Docklands	495.0	0.0	0.0	0.0	**13.6**	n/a	-97.3%
Central London	3286.9	2061.7	2696.1	2005.9	**2310.8**	15.2%	-29.7%

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 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.

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