RESEARCH

Knight Frank

Q4 2012

CENTRAL LONDON

Quarterly – Offices

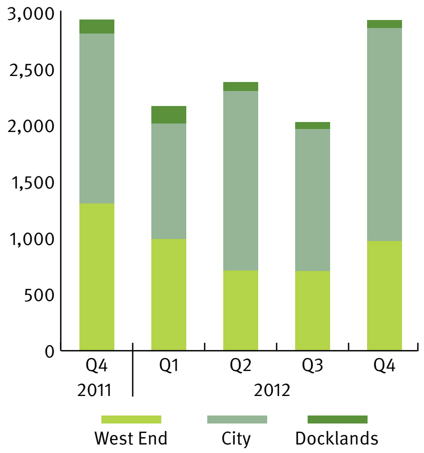
HIGHLIGHTS

- Take-up rose to 3.0 m sq ft in the final quarter, driven by strong activity from the technology, media and telecoms (TMT) and insurance sectors. This is the highest quarterly total since Q3 2011. The City saw particularly strong leasing activity, recording its highest take-up for more than two years.
- Availability increased slightly to 16.5 m sq ft as a number of speculative development schemes entered the supply figures. However the figure was less than the 16.9 m sq ft on the market a year ago.
- There was £3.8 bn of investment turnover in the final quarter, taking the total for the year to £13.8 bn. This is the highest annual total since 2007. Overseas investors were particularly acquisitive, accounting for 70% of all space transacted during the year.

CENTRAL LONDON OVERVIEW

- **Take-up rose to 3.0 m sq ft, the highest quarterly total since Q3 2011.**
- **Availability rose slightly to 16.5 m sq ft as new development schemes entered the figures.**
- **Investment turnover rose to £3.8 bn, 40% above the long-term average.**
- **Prime West End yields remained stable at 4.00% while City yields tightened to 5.00%.**

Figure 1
Central London take-up by quarter & sub-market
Q4 2011 - Q4 2012 (000's sq ft)



Demand and take-up

The Central London occupational market received a welcome boost in the final quarter of 2012 as take-up rose to almost 3.0 m sq ft, the highest since Q3 2011 and above the long-term average. The City performed particularly well, recording the highest level of activity for more than two years. In the West End take-up also rose, recording the strongest quarter in more than 12 months. However, activity in this market remains well below trend levels.

There has been limited activity from the financial sector in 2012, however the insurance and technology, media & telecoms (TMT) sectors have been particularly active. TMT was the most active sector accounting for almost 30% of all take-up across Central London in 2012. The insurance sector was the most active sector in Q4 2012. We expect continued demand from both of these occupier sectors into 2013.

Supply & development

Availability rose marginally in the final quarter to 16.5 m sq ft, although this remains well below the long-term average of 20.0 m sq ft. This rise reflects the entry of The Place, London Bridge Quarter, SE1, 10 & 30 Brock Street, Regent's Place, NW1 and 62 Buckingham Gate, SW1 in to the year-end figures. These new developments are due to reach practical completion within the next 6 months and total around 850,000 sq ft. Significantly, the availability of second-hand space is now just 10.5 m sq ft, a fall of 1.0 m sq ft since the previous quarter and 20% below the long-term average of 13.3 m sq ft.

The volume of space under construction rose marginally to 6.0 m sq ft, mainly as a result of a number of new West End schemes starting on site. Although well below the 9.6 m sq ft under construction in 2009, this is the highest level of speculative construction activity for almost four years and reflects growing confidence amongst developers that economic growth and strengthening demand could be around the corner.

Investment

Investor focus on Central London offices continued into the final quarter with £3.8 bn transacted across the market, 40% above the long-term average level. This takes total investment into Central London for 2012 to £13.8 bn, the highest annual total since 2007 and around 28% higher than the long-term average. There was particularly strong interest in City assets, as purchases in this market accounted for almost two-thirds of all transactions. Over the course of the year, there were 43 transactions involving assets in excess of £100 m compared to 25 in 2011.

Foreign investors continued to dominate the purchaser profile. Around 70% of money into Central London property in 2012 was from overseas, the majority from Far East and Middle Eastern sovereign wealth funds and private individuals; the former focusing on the City with the latter targeting West End assets. The ongoing uncertainty in the financial markets has sustained the attractiveness of well-located Central London assets. The weight of money concentrated on the capital has placed considerable pressure on pricing, particularly in the City where yields have tightened for the first time since the beginning of 2010. Prime yields in the City are now 5.00%, the lowest for six years. In the West End, prime yields remained stable at 4.00%.

Figure 2
Central London availability by quarter & sub-market
Q4 2011 - Q4 2012 (000's sq ft)

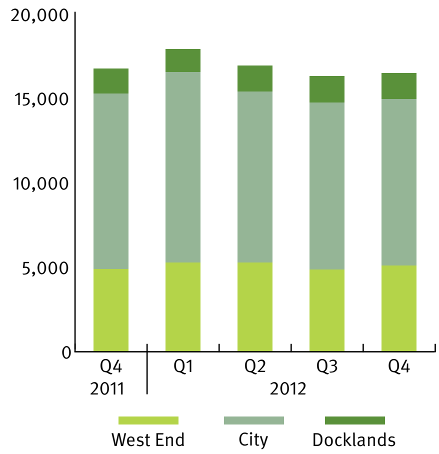
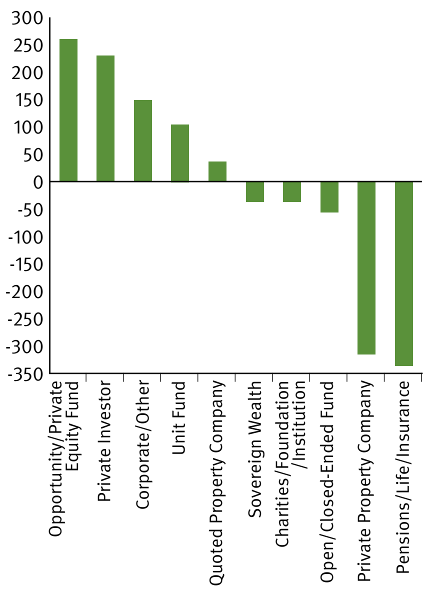


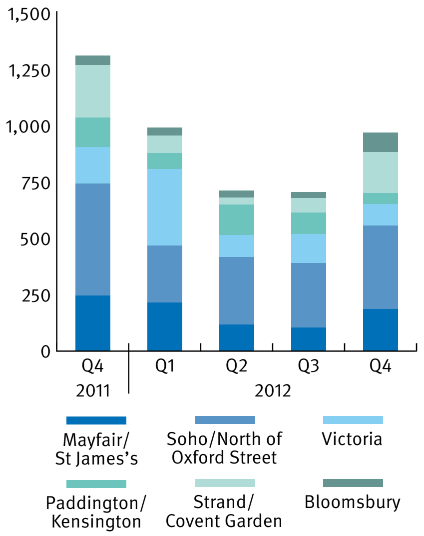
Figure 3
Central London net investment
Q4 2012 (£ m's)



WEST END

- **Take-up increased substantially to 1.0 m sq ft.**
- **Availability rose by 5% to 5.1 m sq ft.**
- **Prime headline rents remained at £95.00 per sq ft.**
- **Investment turnover for 2012 totalled £4.9 bn.**

Figure 1
West End take-up by quarter & sub-market
Q4 2011 - Q4 2012 (000's sq ft)



Demand & take-up

Take-up in the fourth quarter saw an increase of 38% to 1.0 m sq ft, up from 0.7 m sq ft in Q3, although this was 26% below the same quarter recorded in 2011. Annual take-up for 2012 totalled 3.4 m sq ft, 27% below the 10-year long term average. There were eight deals over 20,000 sq ft in Q4, which was equal to the previous quarter. The largest deal was at 1A Wimpole Street, W1 in which Coca-Cola has relocated its headquarters from Hammersmith, taking circa 61,000 sq ft on a 15-year lease.

Active requirements have fallen by 15% from 2.4 m sq ft to 2.0 m sq ft. Since the end of the year, Google has completed the purchase of a 2.4 acre site at King's Cross Central where a new 1.0 m sq ft headquarters will be developed. The US company plans to move staff from its offices in Victoria and Midtown to King's Cross in 2016.

Supply & development

Availability at the end of the year rose for the first time since Q1 2012, as levels increased by 5% to 5.1 m sq ft but relatively unchanged from the same period in 2011. This reflects a current vacancy rate of 5.4%, which is 25% below the long-term average year-end vacancy rate. New and refurbished supply increased in Q4 as 62 Buckingham Gate entered the figures. The development totalling circa 255,000 sq ft will be completed by Land Securities by mid-2013.

The volume of space under construction speculatively rose from 1.6 to 1.8 m sq ft as a number of schemes started construction in the final quarter of the year. Three such schemes include 1 and 2 Fitzroy Place and W5 Regent Street, which will all complete in late 2014. There is 1.7 m sq ft due to complete in 2013, with nearly 25% (0.4m sq ft) already pre-let.

Rental profile

The prime headline rent remained unchanged at £95.00 per sq ft in the Core. Rent free periods are currently at 18 months on a 10-year lease. Some out of Core sub-markets did record rental growth in Q4, namely Soho and North of Mayfair.

Investment

Turnover totalled £1.5 bn in Q4 2012 in the West End, bringing the annual total to £4.9 bn for the year-end. This marked a 48% rise on levels recorded in 2011, and 32% above the 10-year long term average. There has been exceptional demand for freehold assets in the core, coupled with low levels of availability. Prime West End yields remained at 4.00% for the ninth consecutive quarter.

The largest deal of the quarter was the sale of The Adelphi, 1-11 John Adam Street, WC2 bought by Blackstone for £260.0 m which was the largest deal of 2012. Overseas investors dominated the market with 72% of the market share; private investors were the most active purchaser type accounting for 27% of deals with a high percentage buying residential conversion opportunities.

Figure 2
West End availability by quarter & sub-market
Q4 2011 - Q4 2012 (000's sq ft)

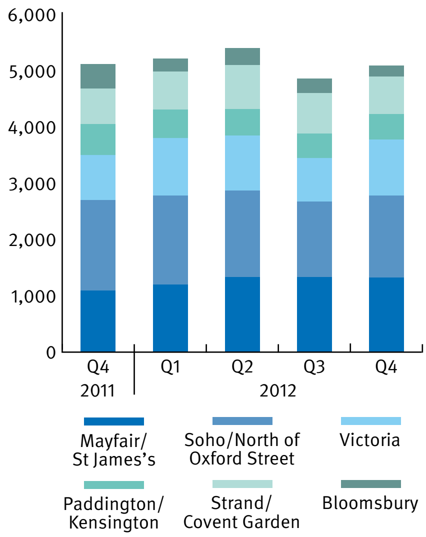
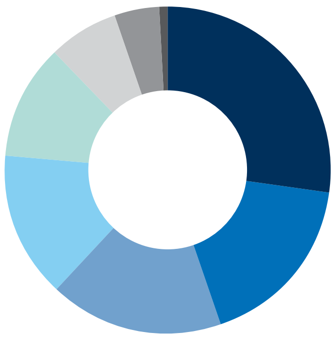


Figure 3
West End investment by purchaser
Q4 2012

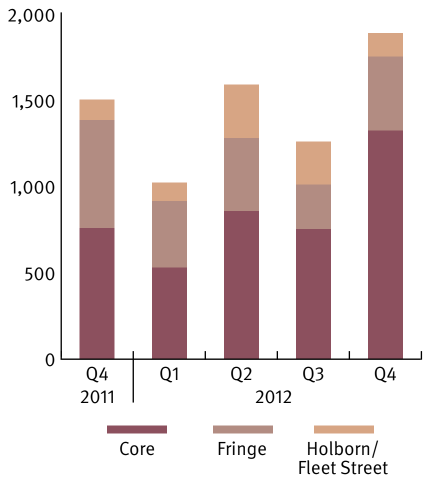


Private Investor	411 m
Private Property Company	266 m
Opportunity Fund	260 m
Corporate/Other	217 m
Pension/Life/Insurance	171 m
Unit Fund	105 m
Quoted Property Company	67 m
Charities/Foundation/ Institution	11 m

CITY

- **Take up rose by 50% quarter-on-quarter to 1.9 m sq ft.**
- **Vacancy rate currently 8.4%, versus a long term average of 10.2%.**
- **TMT was largest source of City office demand in 2012.**
- **Investment turnover was £2.2bn, up from £1.5bn in Q4 2011.**

Figure 1
City take-up by quarter & sub-market
Q4 2011 - Q4 2012 (000's sq ft)



Demand and take-up

City take-up was 1.9 m sq ft in Q4, which is the strongest quarterly figure since Q3 2010 and above the long-term average figure of 1.6 m sq ft. The quarter saw strong insurance demand, with Jardine Lloyd Thompson's acquisition of 294,000 sq ft at The St Botolph Building and Royal & Sun Alliance at 20 Fenchurch Street (76,000 sq ft). This is set to continue in 2013, with Amlin under offer on 111,000 sq ft at The Leadenhall Building.

Full year take-up was 5.8 m sq ft, up 10% on 2011, thanks to strong demand from the technology, media and telecoms (TMT) sector, the largest source of demand in 2012. TMT firms acquired 1.2 m sq ft last year, a 25% increase on 2011. Genesis Oil is under offer at 1 St Paul's Churchyard (56,000 sq ft), while two major advertising agencies are believed to have examined City options. These are encouraging signs that the square mile is appealing to a broader range of occupiers.

Supply & development

Availability in the City remained unchanged at 9.9 m sq ft on a quarter-on-quarter basis, but down 4.8% on a year ago (10.4 m sq ft in Q4 2011). This takes the vacancy rate to 8.4%, which is well below the long-term average of 10.2%. Of the sub-markets, the Holborn/Fleet Street area has the most constrained level of supply, with the vacancy rate of 5.0% – its lowest level since 2001.

The volume of space under construction reached 3.7 m sq ft, a marginal increase on three months ago. The City Core is set to see 660,000 sq ft of speculative development complete in 2013. This is half the level of take-up for new and refurbished space recorded in the core in 2012 (1.4 m sq ft), pointing to a near-term imbalance between the pipeline and demand.

Rental profile

Prime headline rents remained unchanged at £55.00 per sq ft, although incentives edged up from to 24 to 27 months. With the vacancy rate low and evidence emerging that the Euro crisis is abating, we believe the market will start to move in the favour of landlords this year, bringing a return of rental growth towards the end of the year.

Investment

City investment volume increased to £2.2bn in Q4, up from £2.0 bn the previous quarter and £1.5bn in Q4 2011. The full year volume figure was £8.4 bn, the highest annual total since 2007. Prime yields declined by 25 basis points to 5.00%, due to a growing shortage of genuinely prime assets on the market. The largest deal of the quarter was the purchase of 160 Tooley Street by the current tenant, Southwark Borough Council, for £170m.

Around 71% of investment in 2012 came from foreign buyers, continuing the trend of overseas dominance of the market in recent years. The majority of these investors were from Europe and the Middle East, and recent falls in the value of Sterling will encourage further foreign investment.

Figure 2
City availability by quarter & sub-market
Q4 2011 - Q4 2012 (000's sq ft)

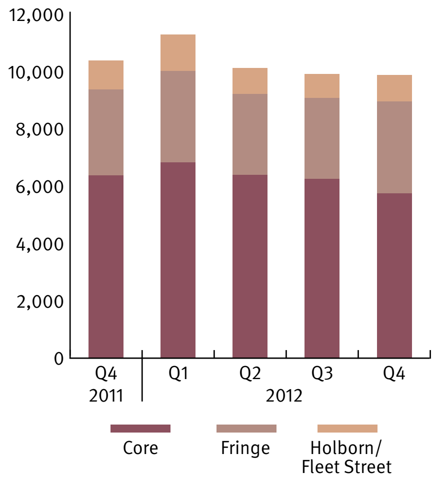
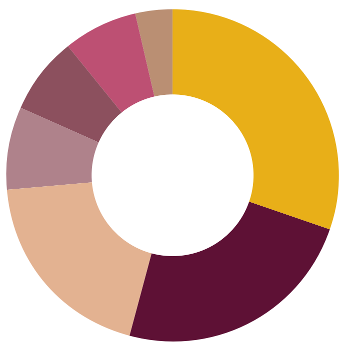


Figure 3
City investment by purchaser
Q4 2012

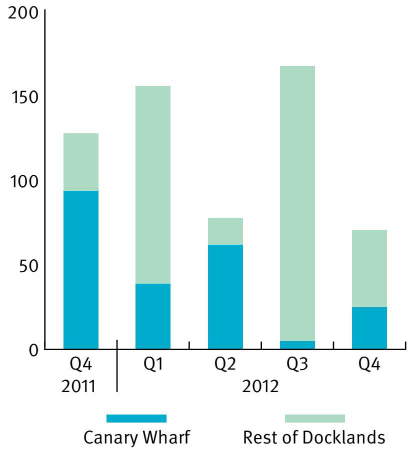


Pension/Life/Insurance	674 m
Open-ended/ Closed-ended Fund	534 m
Private Investor	436 m
Private Property Company	177 m
Charities/Foundation/ Institution	170 m
Quoted Property Company	156 m
Corporate/Other	79 m

DOCKLANDS

- **Take-up for Q4 fell to 70,000 sq ft.**
- **Availability currently 1.6 m sq ft.**
- **Prime headline rents remained steady at £36.00 per sq ft.**
- **£664 m of investment stock under offer at Canary Wharf.**

Figure 1
Docklands take-up by quarter & sub-market
Q4 2011 - Q4 2012 (000's sq ft)



Demand & take-up

Docklands take-up fell from 169,000 sq ft in Q3 to 70,000 sq ft in Q4 2012. This was the weakest quarterly performance of 2012. Full year take-up was 473,000 sq ft, which was less than the 543,000 sq ft recorded in 2011. Docklands activity has suffered as a result of downsizing in the banking industry, which historically has been a major source of tenant demand.

Going forward we now expect demand to stabilise, and are forecasting the annual take-up figure for 2013 to be around 500,000 sq ft. Anecdotally, there has been an increase in occupier viewings at Canary Wharf in January, although it is too early to say whether this marks a change in the market.

Supply & development

Availability increased slightly in the final quarter to 1.6 m sq ft in Q4, up from 1.5 m sq ft in Q3. It is widely assumed that the banks are holding vacant space off-market, but there is no evidence of any plans for this 'grey' space to be formally marketed at present. The vacancy rate is currently 7.6%, which is higher than the wider central London figure of 7.2%.

Next quarter the 320,000 sq ft of speculative space in the under construction 25 Churchill Place will join the supply figures as the building comes within six months of completion.

Rental profile

Prime rents remained unchanged at £36.00 per sq ft, but pressure on rents and incentives remain on the downside.

Investment

The investment market is seeing an increase in activity at Canary Wharf, where approximately £664 m worth of stock is now under offer. Middle Eastern sovereign wealth fund, St Martins, is under offer on the freehold of 5 Canada Square. This a 537,000 sq ft building that is let to for 15 years to Credit Suisse. The price is believed to be £380 m, reflecting a net initial yield of circa 5.00%.

Also under offer at Canary Wharf are three other buildings – 1, 7 and 15 Westferry Circus. The deal at 15 Westferry Circus is believed to be for £129.5 m for the long leasehold, reflecting a net initial yield of 6.00%. The building is let to Morgan Stanley for 14 years.

Figure 2
Docklands availability by quarter & sub-market
Q4 2011 - Q4 2012 (000's sq ft)

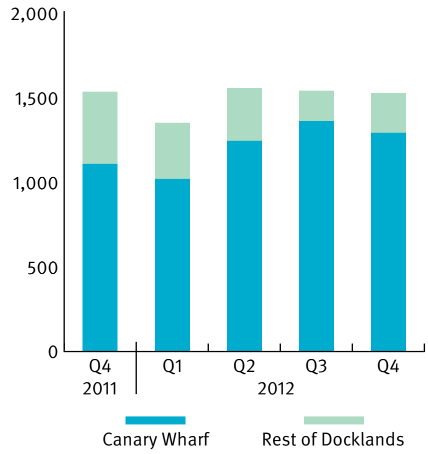
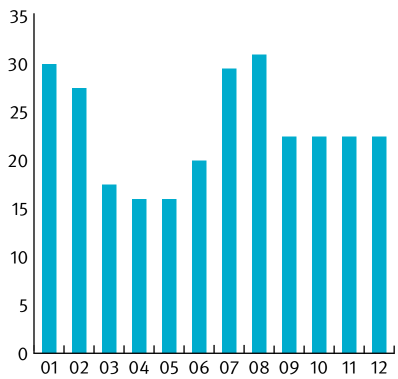


Figure 3
Rest of Docklands prime rent
2000-2012 (Prime £/sq ft)



Key statistics

Central London office market

Availability (m sq ft)	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	3 months % change	12 months % change
West End	4.92	5.30	5.28	4.87	**5.10**	4.7%	3.7%
City	10.39	11.29	10.14	9.92	**9.89**	-0.3%	-4.8%
Docklands	1.54	1.51	1.56	1.54	**1.53**	-1.0%	-0.8%
Central London	16.85	18.10	16.98	16.33	**16.52**	1.1%	-2.0%

Vacancy Rate (%)	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	3 months % change	12 months % change
West End	5.4	5.8	5.8	5.3	**5.6**	n/a	n/a
City	8.9	9.6	8.6	8.5	**8.4**	n/a	n/a
Docklands	7.2	7.1	7.1	7.2	**7.1**	n/a	n/a
Central London	7.3	7.9	7.4	7.1	**7.2**	n/a	n/a

Take-up (m sq ft)	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	3 months % change	12 months % change
West End	1.31	0.99	0.71	0.71	**0.97**	37.6%	-25.9%
City	1.51	1.03	1.60	1.26	**1.90**	50.0%	25.7%
Docklands	0.13	0.16	0.08	0.17	**0.07**	-58.0%	-43.7%
Central London	2.95	2.18	2.39	2.14	**2.94**	37.4%	-0.3%

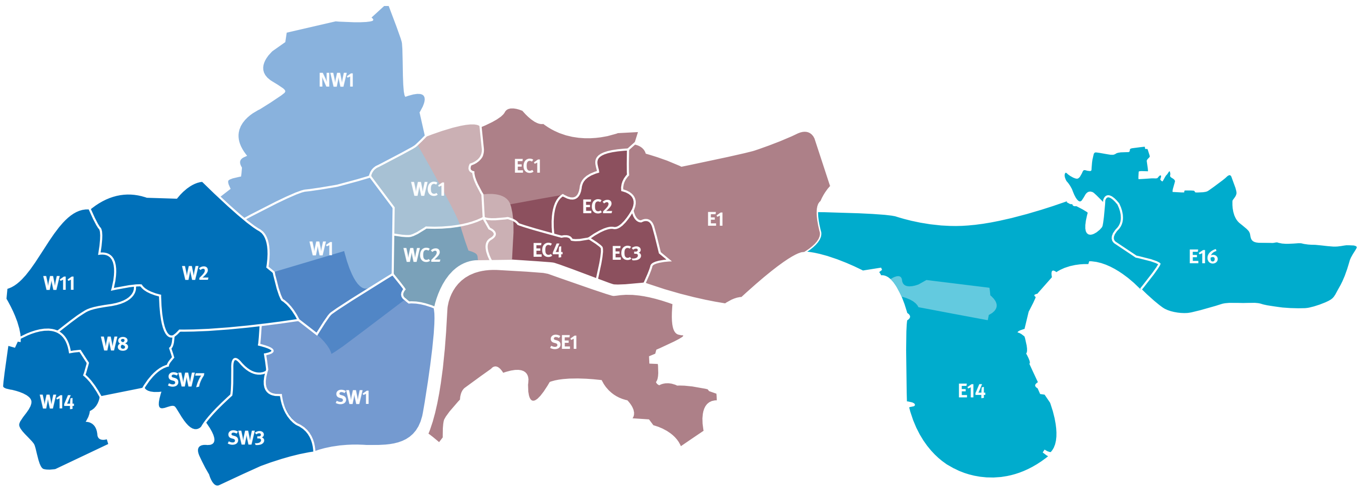
Active Requirements (m sq ft)	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	3 months % change	12 months % change
West End	1.72	2.03	2.23	2.40	**2.04**	-15.1%	18.1%
City	4.07	4.27	4.54	4.00	**3.32**	-16.9%	-18.3%
Docklands	0.22	0.22	0.24	0.15	**0.08**	-48.7%	-64.7%
Unspecified Central London	1.89	1.83	2.10	2.20	**1.80**	-18.5%	-4.8%
TOTAL Central London	7.90	8.36	9.11	8.75	**7.23**	-17.3%	-8.4%

Under Construction (m sq ft)	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	3 months % change	12 months % change
West End	2.02	1.87	1.95	2.03	**2.75**	35.2%	36.1%
City	4.25	5.09	5.81	5.40	**5.71**	5.8%	34.4%
Docklands	0.00	0.53	0.53	0.53	**0.53**	n/a	n/a
Central London	6.26	7.49	8.28	7.95	**8.98**	12.9%	43.4%

Investment (£ m)	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	3 months % change	12 months % change
West End	803.8	966.1	1380.7	1065.2	**1509.6**	41.7%	87.8%
City	1493.4	1565.7	2542.6	2043.0	**2226.0**	9.0%	49.1%
Docklands	13.6	447	0	0	**54.7**	n/a	302.0%
Central London	2310.8	2978.8	3923.3	3108.2	**3790.2**	21.9%	64.0%

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).

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