

RESEARCH



# CENTRAL LONDON

QUARTERLY – OFFICES **Q4 2013**

HIGHEST ANNUAL  
TAKE-UP SINCE 2010

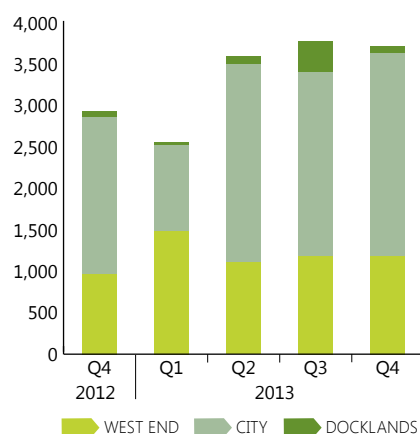
TMT SECTOR WAS THE  
MOST ACTIVE SECTOR

ANNUAL INVESTMENT  
TURNOVER NEARLY £20 BN

# CENTRAL LONDON OVERVIEW

- Take-up rose by 6% to 3.8 m sq ft, the highest quarterly total for 3 years
- Supply remained stable at 16.1 m sq ft, reflecting a vacancy rate of 7.0%
- Speculative space under construction fell to its lowest level for more than two years
- Annual investment turnover reached £20 bn, its highest recorded level

FIGURE 1  
**Central London take-up by quarter & sub-market**  
Q4 2012 - Q4 2013 (000's sq ft)



## Demand and take-up

Leasing activity in Central London rebounded in 2013 after a particularly weak performance the previous year. The final quarter saw 3.7 m sq ft of take-up, 20% higher than the long-term average. This took total take-up for the year to 13.6 m sq ft, the highest since 2010. The technology, media and telecoms (TMT) sector was consistently the most active throughout the year, accounting for 30% of take-up and four of the five largest transactions.

There was a noticeable strengthening in market sentiment in 2013, evidenced by a fall in net effective rents in the majority of submarkets. Landlords' confidence will have been boosted by Schroders' pre-let of more than 300,000 sq ft at London Wall Place, EC2, the first acquisition of a 100,000 sq ft+ unit by a financial sector tenant since 2010. With other significant financial requirements likely to transact in the early part of 2014, confidence is likely to continue to improve.

## Supply & development

The year-end saw supply total 16.1 m sq ft, which reflected a vacancy rate of 7.0%. While this is similar to the levels seen at the end of 2012, it is significantly lower than the 17.9 m sq ft on the market at the end of March 2013. That almost 2.0 m sq ft of supply can be eroded in just nine months demonstrates the fluidity and strength of the current market conditions.

Looking ahead, a scenario of decreasing supply is likely as the development pipeline struggles to keep pace with demand. There is currently 6.7 m sq ft under construction across Central London due for completion in 2014, almost half of which is already pre-let. However, there is just 1.2 m sq ft of space under construction which is due for completion in 2015, with a further 1.7 m sq ft of possible completions yet to commence on site. Considering take-up of new and refurbished space in 2013 was 5.5 m sq ft, we are likely to see an increase in pre-letting activity during 2014, both off-plan and pre-completion.

## Investment

Investor interest in Central London continued unabated in the final quarter of 2013, with a record £8.1 bn of purchases taking turnover for the year to £20.0 bn. This is the highest recorded annual total and well above the £17.0 bn transacted in 2007, the next strongest year. There was an unprecedented number of large lot sizes purchased during the year; in total 21 assets with lot sizes in excess of £200 m were traded, compared to just 12 the previous year.

The strength of the occupational market and forecast rental growth has ensured both overseas and domestic investors have focused their attention on Central

London assets. Approximately three-quarters of turnover in 2013 involved overseas purchasers, although domestic investors rallied in the second half of the year. Prime yields hardened in the West End and now stand at 3.75%, while prime City yields remained stable at 4.75% albeit with continued downward pressure.

FIGURE 2  
**Central London availability by quarter & sub-market**  
Q4 2012 - Q4 2013 (000's sq ft)

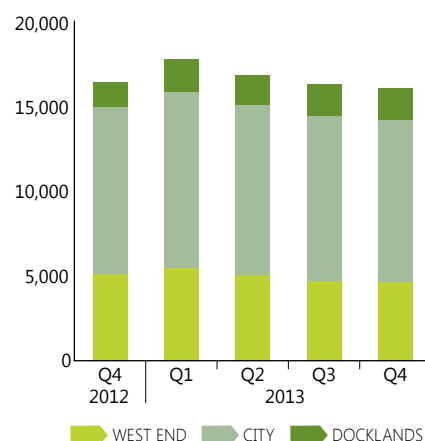
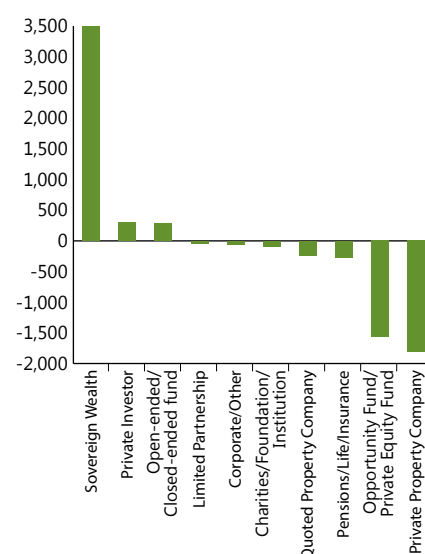


FIGURE 3  
**Central London net investment**  
Q4 2013 (£ m's)

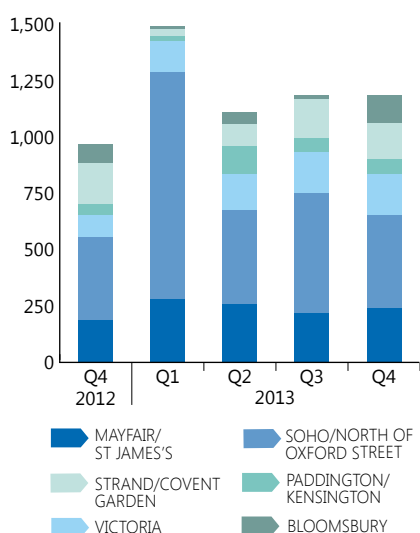


# WEST END

- Take-up remained stable at 1.2 m sq ft
- Availability fell by 3% to 4.6 m sq ft
- Prime headline rents remained at £97.50 per sq ft in the Core
- Investment turnover in the final quarter totalled £2.2 bn

FIGURE 1  
**West End take-up by quarter & sub-market**

Q4 2012 - Q4 2013 (000's sq ft)



## Demand & take-up

Take-up in the West End during the final quarter of 2013 totalled 1.2 m sq ft, taking the year-end figure to just under 5.0 m sq ft, 46% higher than 2012. Furthermore, the total annual take-up for 2013 was the strongest since 2010 and there was a 21% increase in the number of deals over 10,000 sq ft.

Take-up of new and refurbished stock more than doubled in 2013, from 0.8 m sq ft to 1.8 m sq ft over the year, although much of this was attributed to Google's acquisition of 800,000 sq ft at King's Cross Central.

During 2013, there were a number of sub-markets that saw a strong uptick in take-up, including the Core and West End North.

## Supply & development

Availability in the West End fell for the third consecutive quarter, from 4.7 m sq ft to 4.6 m sq ft, nearly 10% below the level recorded in the same quarter of 2012. The vacancy rate at year-end was 5.0%, the lowest level since Q2 2008.

The volume of space under construction speculatively rose marginally by circa 5% to 2.7 m sq ft, relatively unchanged on the figure recorded in Q4 2012. However, there were a notable number of schemes which started construction, especially in Victoria, with Land Securities' Zig Zag Building, 130 Victoria Street and 11 Bressenden Place starting on site. There was 1.2 m sq ft completed in the West End during the course of 2013, consistent with completions the year earlier.

## Rental profile

The prime headline rent in the West End Core remained, albeit under pressure, at £97.50 per sq ft. Rent free periods have come in from 20 months to 18 months on a 10-year term certain.

## Investment

Investment turnover in the final quarter of 2013 totalled £2.2 bn, taking the year-end total in the West End to £6.8 bn, the highest annual figure we have ever recorded. Prime yields hardened from 4.00% to 3.75% during Q4 2013. Overseas purchasers remained dominant in the West End, accounting for 63% of all buyers by nationality.

There were five deals over £100m in Q4 2013, accounting for over half of the turnover in the quarter. This included the sale of Devonshire House, Berkeley Square to Ponte Gadea Group, who purchased the freehold asset for £415m, reflecting a net initial yield of 3.90%.

FIGURE 2  
**West End availability by quarter & sub-market**

Q4 2012 - Q4 2013 (000's sq ft)

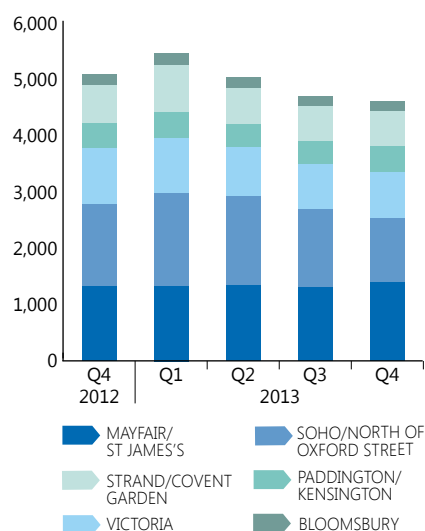
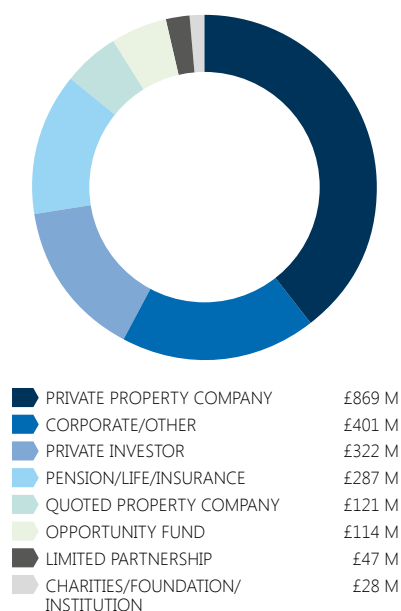


FIGURE 3  
**West End investment by purchaser**

Q4 2013 (£m)

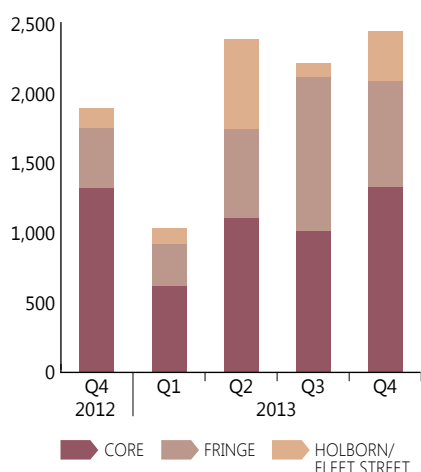




## CITY

- Take-up totalled 2.5 m sq ft, the highest since 2007
- Availability fell to 9.6 m sq ft, its lowest level for more than two years
- Speculative construction activity is now 5.0 m sq ft, a 20% fall in last six months
- Investment turnover reached £6.0 bn, the highest on record

FIGURE 1  
**City take-up by quarter & sub-market**  
Q4 2012 - Q4 2013 (000's sq ft)



## Demand and take-up

The final quarter of 2013 saw another strong quarter for the City occupier market. Take-up reached 2.5 m sq ft, the highest since 2007 and almost 50% higher than the long-term average. This takes the total for 2013 past 8.1 m sq ft, with activity driven by an expanding TMT sector, which accounted for almost 30% of total activity. The second half of the year saw the early signs of a rebound in financial sector activity as M&G continued its search for up to 300,000 sq ft, and Schroders committed to a 310,000 sq ft pre-let at London Wall Place, EC2. This was the first financial sector transaction greater than 100,000 sq ft for more than three years. However, it should be noted that there were only three transactions in excess of 100,000

sq ft, with sub-50,000 sq ft transactions comprising almost 70% of the total.

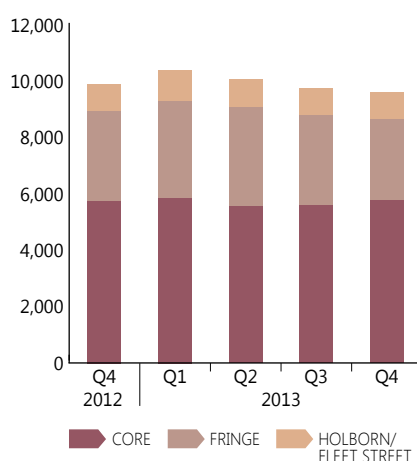
More than 2.1 m sq ft was pre-let either off-plan or during construction during 2013, far in excess of the 400,000 sq ft pre-let the previous year. The pre-letting activity was not confined to any particular market, with the Core, SE1 and Midtown all attracting significant occupier interest.

## Supply and development

Availability in the City totalled 9.6 m sq ft at the year-end, reflecting a vacancy rate of 8.1%. While this is only marginally lower than the corresponding figure 12 months ago, it is particularly encouraging considering almost 1.3 m sq ft of new and refurbished space was completed speculatively over the course of the year.

There is now 5.8 m sq ft under construction in the City, more than half of which is already pre-let. This is the first time since 2005 that there has been more committed space under construction than speculative, a scenario which is likely to continue over at least the next 12 months. Looking forward, there is just 570,000 sq ft currently under construction that is due to complete in 2015, with just 850,000 sq ft that could be brought through if commenced in the next three months. Average annual take-up of new and refurbished space in this market is 2.7 m sq ft, indicating a likely imbalance between demand and supply. By 2015, we anticipate City vacancy rates to have fallen below 6.5%.

FIGURE 2  
**City availability by quarter & sub-market**  
Q4 2012 - Q4 2013 (000's sq ft)



## Rental profile

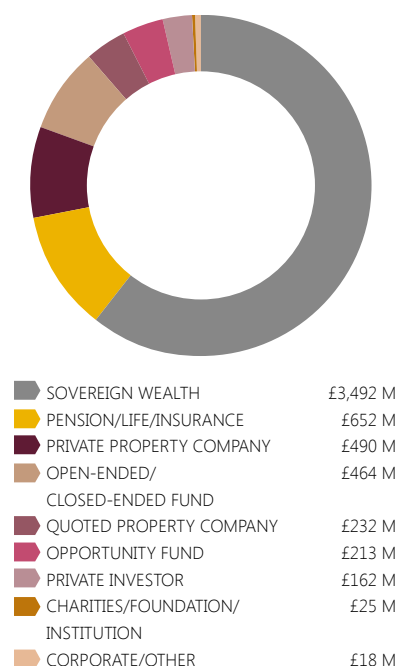
Prime headline rents rose for the second consecutive quarter and now stand at £60.00 per sq ft, a 9% increase in just six months. Prime rents will see strong positive growth over the next 24 months, as tenants find themselves competing for the shrinking stock of available quality units.

## Investment

The final quarter of the year saw Central London's two largest recorded commercial transactions push turnover to a record £6.0 bn. The sale of the More London Riverside estate and a 50% stake in the Broadgate Estate, both to sovereign wealth funds, accounted for 57% of total investment turnover. In total, £11.0 bn was purchased in the City in 2013, the highest annual turnover on record.

Overseas purchasers continued to dominate, accounting for 84% of turnover in the fourth quarter and 73% of turnover over the course of the year. The prime yield remained stable at 4.75%, while the City continued to attract interest from foreign and domestic investors, the former focusing on assets in the core market, and the latter focusing on opportunities in non-core locations.

FIGURE 3  
**City investment by purchaser**  
Q4 2013 (£m)



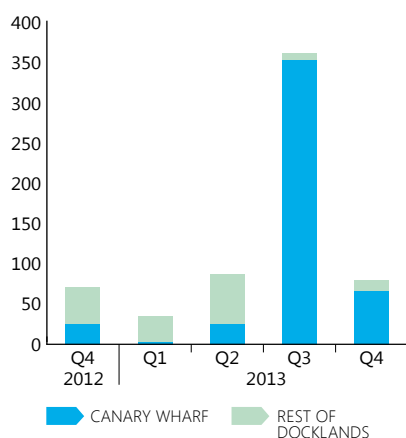
# DOCKLANDS

- Take-up fell back to 79,000 sq ft
- More than 350,000 sq ft under offer in 13 deals
- Availability remained stable at 1.9 m sq ft

FIGURE 1

## Docklands take-up by quarter & sub-market

Q4 2012 - Q4 2013 (000's sq ft)



## Demand & take-up

Take-up in the Docklands market fell back to 79,000 sq ft in the final quarter, after an exceptional third quarter. This reflects the relative lack of small to medium-sized deals over the last 12 months. Take-up for the year totalled 564,000 sq ft, a 20% increase on 2012 but still considerably lower than the long-term average figure of 980,000 sq ft.

Although activity remained relatively subdued, there are positive signs to take into 2014. At the end of the year more than 350,000 sq ft was under offer, including EY's acquisition of circa 200,000 sq ft to join EMA at 25 Churchill Place. Anticipated growth in the financial sector as the economy strengthens in 2014, along with a tightening of City supply could see increased interest in Docklands options.

## Supply & Development

Docklands availability remained stable in the final quarter at 1.9 m sq ft, reflecting a vacancy rate of 8.9%. We expect supply

to begin to fall during the early part of 2014 as the current transactions under offer complete. The supply of second-hand space in Canary Wharf has fallen by 35% since its peak in Q1 2013 and the EY deal will significantly reduce the availability of new space.

## Rental Profile

Prime rents remained unchanged at £36.00 per sq ft.

## Investment

There were no investment transactions in the Docklands in the final quarter, although over the course of 2013 around £1.8 bn of assets were purchased. The market was characterised by large lot-size transactions, with only one purchase below £50 m during 2013.

FIGURE 2

## Docklands availability by quarter & sub-market

Q4 2012 - Q4 2013 (000's sq ft)

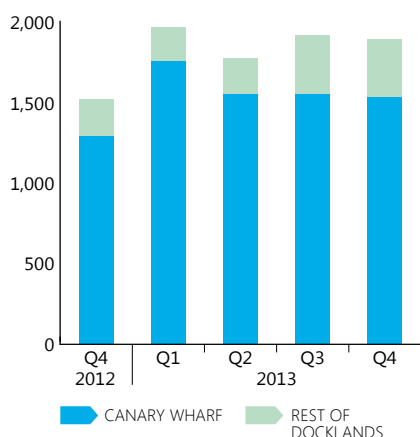
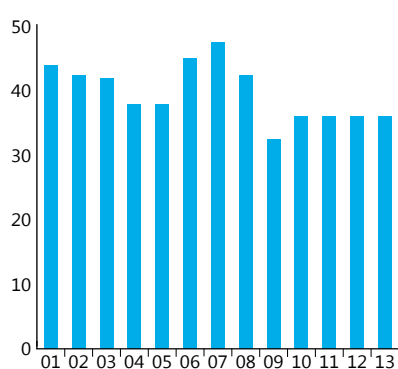


FIGURE 3

## Canary Wharf prime rent

2001-2013 (Prime £/sq ft)



*"Although activity remained relatively subdued, there are positive signs to take into 2014."*



## KEY STATISTICS

Central London office market

Availability (m sq ft)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	3 months % change	12 months % change
West End	5.10	5.48	5.05	4.74	<b>4.62</b>	-2.5%	-9.4%
City	9.89	10.42	10.09	9.78	<b>9.61</b>	-1.7%	-2.9%
Docklands	1.53	1.98	1.78	1.93	<b>1.90</b>	-1.6%	24.3%
Central London	16.52	17.88	16.92	16.45	<b>16.13</b>	-1.9%	-2.4%

Vacancy Rate (%)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	3 months % change	12 months % change
West End	5.6	6.0	5.5	5.1	<b>5.0</b>	n/a	n/a
City	8.4	8.9	8.6	8.3	<b>8.1</b>	n/a	n/a
Docklands	7.1	9.2	8.3	9.0	<b>8.9</b>	n/a	n/a
Central London	7.2	7.8	7.3	7.1	<b>7.0</b>	n/a	n/a

Take-up (m sq ft)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	3 months % change	12 months % change
West End	0.98	1.49	1.09	1.19	<b>1.19</b>	0.0%	21.2%
City	1.90	1.04	2.40	2.23	<b>2.46</b>	10.3%	29.8%
Docklands	0.07	0.03	0.09	0.36	<b>0.08</b>	-77.8%	13.5%
Central London	2.95	2.57	3.58	3.79	<b>3.73</b>	-1.6%	26.5%

Active Requirements (m sq ft)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	3 months % change	12 months % change
West End	2.04	1.93	1.43	1.45	<b>1.53</b>	5.5%	-24.9%
City	3.32	3.43	4.05	3.80	<b>4.78</b>	25.8%	43.9%
Docklands	0.08	0.05	0.15	0.05	<b>0.05</b>	0.0%	-35.1%
Unspecified Central London	1.80	2.35	2.03	1.30	<b>2.37</b>	82.3%	31.9%
TOTAL Central London	7.23	7.75	7.66	6.60	<b>8.72</b>	32.1%	20.6%

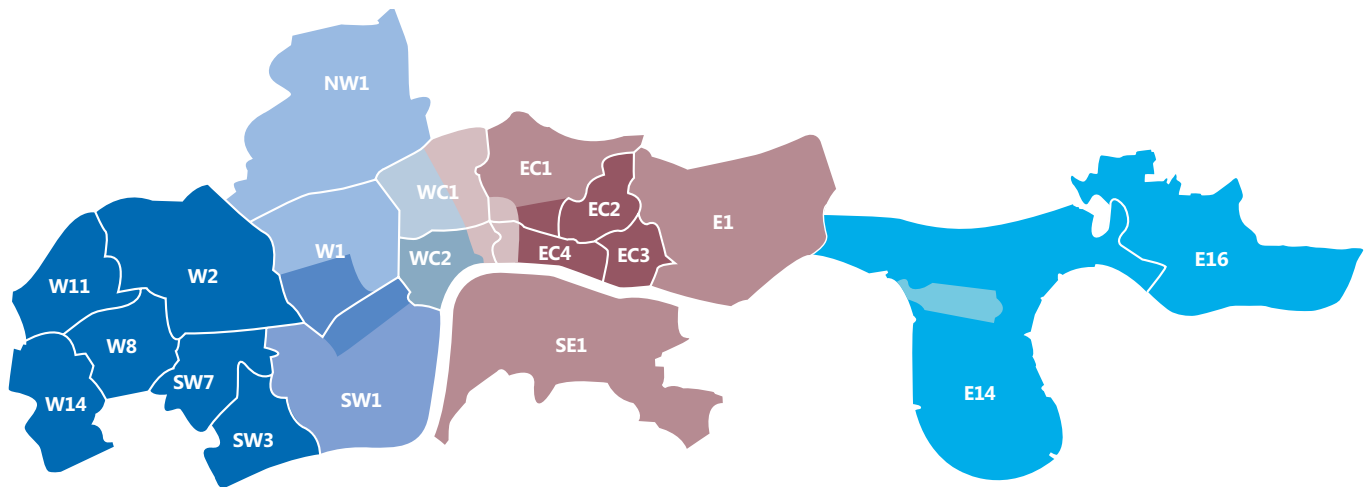
Under Construction (m sq ft)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	3 months % change	12 months % change
West End	2.75	2.67	2.89	2.58	<b>2.73</b>	5.8%	-0.6%
City	5.71	6.00	6.43	5.82	<b>5.80</b>	-0.3%	1.6%
Docklands	0.53	0.53	0.53	0.53	<b>0.53</b>	0.0%	0.8%
Central London	8.98	9.20	9.84	8.93	<b>9.06</b>	1.5%	0.9%

Investment (£ m)	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	3 months % change	12 months % change
West End	1,509.6	957.2	1,142.6	2,551.5	<b>2,189.3</b>	-14.2%	45.0%
City	2,226.0	1,101.1	1,712.4	2,219.5	<b>5,947.7</b>	168.0%	167.2%
Docklands	54.7	511.6	1,000.0	287.0	<b>0.0</b>	n/a	n/a
Central London	3,790.2	2,569.9	3,855.0	5,058.0	<b>8,137.0</b>	60.9%	114.7%

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).

## 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

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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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