RESEARCH

CENTRAL LONDON

QUARTERLY – OFFICES **Q4 2014**

TAKE-UP – 25% ABOVE LONG-TERM AVERAGE

CENTRAL LONDON VACANCY – 5.6%

HIGHEST QUARTERLY INVESTMENT TURNOVER ON RECORD

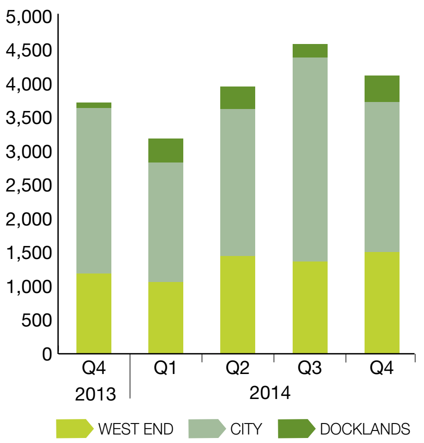
CENTRAL LONDON OVERVIEW

- Take-up 15.9 m sq ft in 2014, 25% above average
- Supply fell by 20% year-on-year to 12.9 m sq ft
- Highest quarterly investment turnover on record of £8.7 bn
- Downward pressure on prime yields

FIGURE 1

Central London take-up by quarter & sub-market

Q4 2013 - Q4 2014 (000's sq ft)



Demand

During the course of 2014, leasing activity in Central London returned to levels last seen at the height of the dot-com boom in 2000. Take-up for 2014 totalled 15.9 m sq ft, a 16% year-on-year increase and 25% higher than the long-term average. All of the London markets saw increased occupier demand over the last 12 months; the City saw particularly high levels of take-up, recording the second-highest level on record.

There was more than 10.0 m sq ft of second-hand space let during 2014, which is the highest annual total on record. This reflects the relatively limited availability of new and refurbished space currently on the market.

The financial sector saw significant growth in 2014 acquiring 2.8 m sq ft, almost as much space as it had acquired over the preceding two years, and accounting for 22% of all transactions. The TMT sector continued to help drive London take-up, with 29% of the total. Of particular note was the volume of space acquired by serviced office and business space companies; around 1.0 m sq ft of space was leased by these companies during 2014.

Supply

Availability in Central London was 12.9 m sq ft at the year-end, 20% lower than at the same point the previous year. While availability has been falling annually since the cycle high-point in 2009, there was a marked acceleration in the pace of contraction in 2014. The Central London vacancy rate is now 5.6%, well below the long-term quarterly average of 8.9%. Over the next 12 months we expect the vacancy rate to tighten further as new development struggles to keep pace with demand.

Almost 5.0 m sq ft of new and refurbished space reached practical completion in 2014, yet supply fell by 20%. There is just 3.8 m sq ft of space due to be completed in 2015, more than half of which is already pre-let. The next 12 months will see competition amongst tenants for the available new space intensify, and space due for completion in 2016 is likely to be removed from the pipeline as pre-letting activity increases. We expect this lack of supply and continued strong demand to place significant upward pressure on prime rents across all markets.

Investment

Downward pressure on government bond yields, historically low base rates and a forecast of strong rental growth ensured Central London remained one of the key targets for real estate investors. The final three months of the year saw £8.7 bn of purchases in Central London, double the previous quarter's level and the highest quarterly total ever recorded. Despite this, the annual total fell marginally short of the previous year with £19.4 bn transacted, although it is still the second-highest annual total seen in the capital.

The prime yield hardened in the City and is now 4.25%, while in the West End the prime yield remained at 3.75%. Although low by historic standards, these yields represent good value relative to other asset classes. In addition, the currency advantage enjoyed by overseas investors drew interest from across the globe. Only 25% of turnover in 2014 involved domestic investors; almost £15.0 bn of investment flowed into the Central London market from overseas. We expect demand for Central London assets to remain strong during the next 12 months, although lack of supply will continue to influence turnover.

FIGURE 2

Central London availability by quarter & sub-market

Q4 2013 - Q4 2014 (000's sq ft)

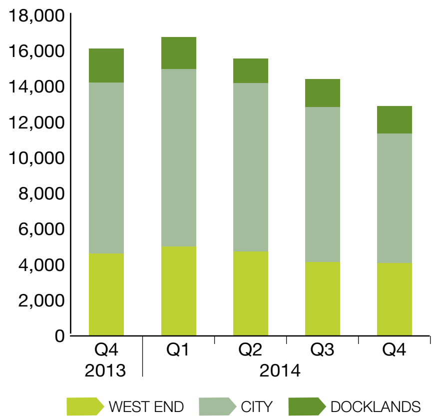
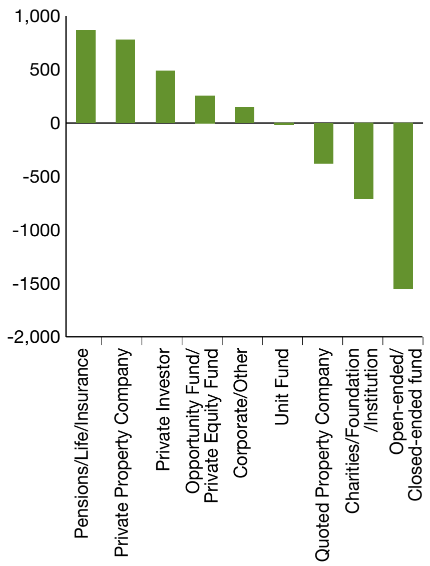


FIGURE 3

Central London net investment

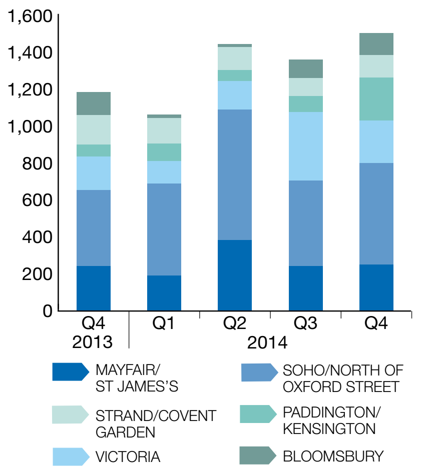
Q4 2014 (£ m's)



WEST END

- Take-up increased by 10% to 1.5 m sq ft
- Availability fell marginally to 4.1 m sq ft
- Prime headline rents increased to £107.50 per sq ft
- Investment turnover in 2014 totalled £6.6 bn

FIGURE 1
West End take-up by quarter & sub-market
Q4 2013 - Q4 2014 (000's sq ft)



Demand

Take-up in the West End increased by 10% in the final quarter of 2014 from just under 1.4 m sq ft in Q3 to 1.5 m sq ft. This brought the total take-up for 2014 to 5.4 m sq ft, the highest level since 2007 and 14% above the long-term average. Furthermore, there was an increase of 83% in the number of deals over 50,000 sq ft year-on-year. Active searches rose by 18% during Q4, with a year-end figure of 1.5 m sq ft, just below the long-term average of 1.7 m sq ft.

There was an increase in take-up in five of the six sub-markets during 2014, with significant growth in Paddington and Victoria. The largest deal of the year was Google's acquisition of the entire building totalling circa 350,000 sq ft at 6 Pancras Square, albeit in two transactions. There were two other transactions over 100,000 sq ft during the year including; Havas Media taking 160,000 sq ft at 3 Pancras Square and Estée Lauder completing its deal at 1 Fitzroy Place totalling 143,000 sq ft.

Supply

Availability in the West End fell by just over 2% quarter-on-quarter during the final quarter of 2014, as supply fell from 4.2 m sq ft to 4.1 m sq ft. However, levels are nearly 12% lower than the same quarter in 2013. The current vacancy rate is now 4.4%, the lowest level in seven years. The vacancy rate fell in four of the six sub-markets with a notable drop in Victoria, where levels are just 1.6%. Supply of new and refurbished space totalled 1.3 m sq ft, the lowest level since Q3 2013. Furthermore, there were just eight units offering over 50,000 sq ft of new and refurbished stock available across the whole West End market.

The volume of space under construction speculatively increased from 1.9 m sq ft in Q3 to 2.6 m sq ft in Q4, as schemes such as Verde, SW1 and Rathbone Square, W1 commenced on site. There is 1.7 m sq ft under construction which is due to be delivered in 2015, although 31% has already been pre-let. During 2014, 1.0 m sq ft of new and refurbished space was delivered to the market.

Rental profile

The prime headline rent rose for the fourth consecutive quarter in the West End Core, increasing from £105.00 per sq ft to £107.50 sq ft during the final quarter of 2014. Rent free periods remained at 16 months on a 10-year term certain in the prime Core market.

There have been a number of transactions in the Core which achieved in excess of the prime rent, including 33 Davies Street, W1 and 23 King Street, SW1. A further 7.0% growth in headline rents is forecast over the next 12 months.

Investment

Investment turnover in the West End increased by a significant 46% during the final quarter of 2014, totalling £2.8bn, the highest quarterly figure ever recorded. Turnover for 2014 totalled £6.6bn, well above the long-term average of £4.6bn. Overseas purchasers have dominated transactions during 2014, accounting for 67% of the market share by value. The largest transaction of the final quarter was the sale of New Scotland Yard, SW1, purchased by the Abu Dhabi Financial Group for £370m.

The corporate sector was the most active during the year, accounting for 21% of total sales, followed by private investors and private property companies both with 19% of the market share. By the end of Q4, the level of investment stock had fallen by 14% to £1.2bn, of which 78% was already under offer. Prime West End yields remained at 3.75% for the fifth consecutive quarter.

FIGURE 2
West End availability by quarter & sub-market
Q4 2013 - Q4 2014 (000's sq ft)

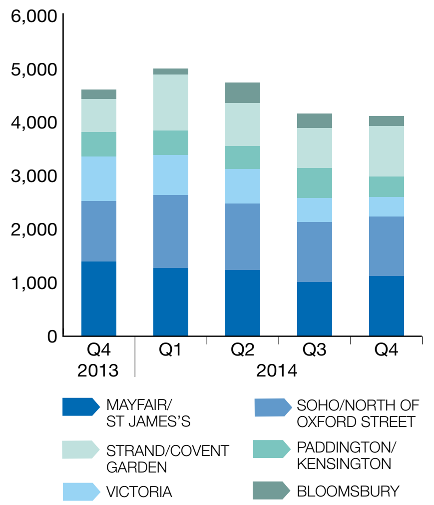
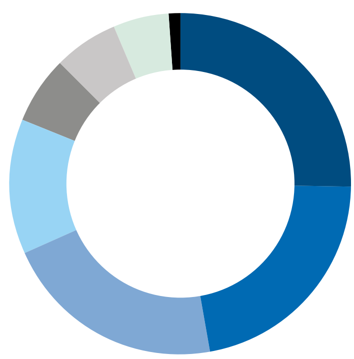


FIGURE 3
West End investment by purchaser
Q4 2014 (£m)



CORPORATE/OTHER	£677 M
OPPORTUNITY FUND	£576 M
PRIVATE PROPERTY COMPANY	£560 M
PRIVATE INVESTOR	£344 M
QUOTED PROPERTY COMPANY	£164 M
UNIT FUND	£163 M

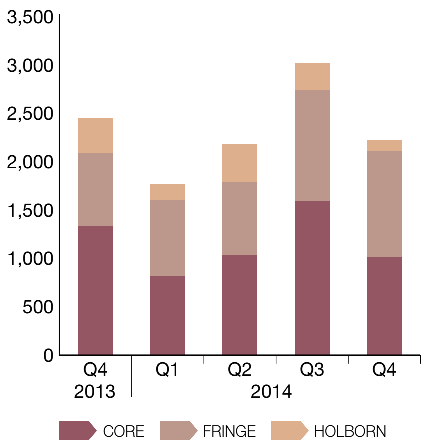
CITY

- Take-up totalled 2.2 m sq ft
- Availability fell by 16% to 7.3 m sq ft
- Prime headline rents rose to £62.50 per sq ft
- Investment turnover in Q4 reached £4.6bn

FIGURE 1

City take-up by quarter & sub-market

Q4 2013 - Q4 2014 (000's sq ft)



Demand

The final quarter of 2014 saw take-up dip from 3.0 m sq ft to 2.2 m sq ft on a quarter-on-quarter basis. This takes the total for 2014 to 9.2 m sq ft, up 12% from the previous year, with activity mostly driven by the financial and expanding TMT sectors. There was a significant increase in 'middle-market' activity during the year, with 71 transactions involving 20,000-50,000 sq ft units compared to 56 transactions in 2013.

The final quarter saw Omnicom sign a lease on 2 & 3 Bankside, Southwark Street, SE1, totalling 370,000 sq ft. Other key deals included Zurich completing its deal of 67,000 sq ft at 70 Mark Lane, and finally, WeWork, the New York-based serviced office group for the creative sectors, taking 63,000 sq ft at 199 Bishopsgate, EC2.

Supply

City availability fell by 16% over the quarter to 7.3 m sq ft as increased occupier activity continued to put pressure on supply. Availability has fallen by 24% over the last 12 months and is now 40% below its 2009 level.

There is currently 2.3 m sq ft of speculative space under construction and due for completion by the end of 2016. There was 3.3 m sq ft speculatively completed in 2014. The current vacancy rate now stands at 6.1%, well below the long-term average of 9.4% and the lowest since 2007.

Rental profile

Demand for City space remains strong, with prime headline rents increasing by 4% over the quarter to £62.50 per sq ft. Prime rents are forecast to see strong growth over the next 24 months as the economy continues to improve and occupiers find themselves in a market place with eroding supply.

Investment

Investment turnover totalled £4.6bn in the fourth quarter, up 54% on the previous quarter. This takes the total for 2014 to £10.0bn. Overseas investors continued to dominate accounting for 85% of turnover in the fourth quarter and 74% of turnover over the course of the year. The prime yield dropped from 4.50% – where it had remained stable since the beginning of 2014 – to 4.25% during the quarter, the lowest level since Q2 2007.

FIGURE 2

City availability by quarter & sub-market

Q4 2013 - Q4 2014 (000's sq ft)

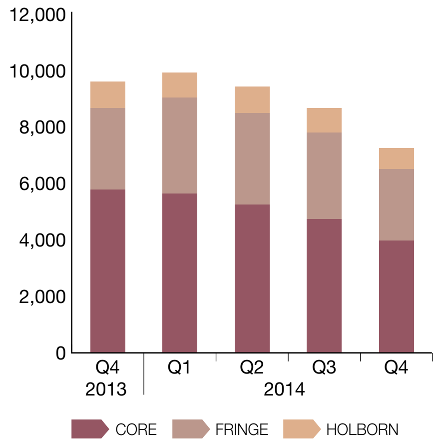
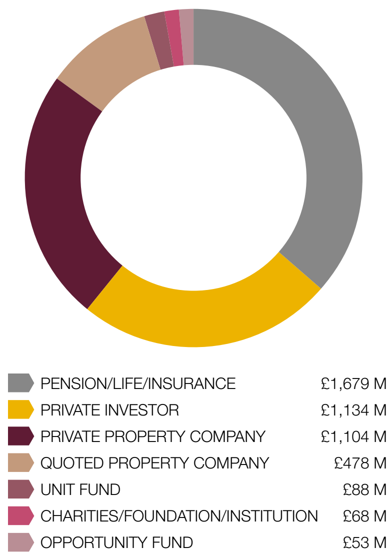


FIGURE 3

City investment by purchaser

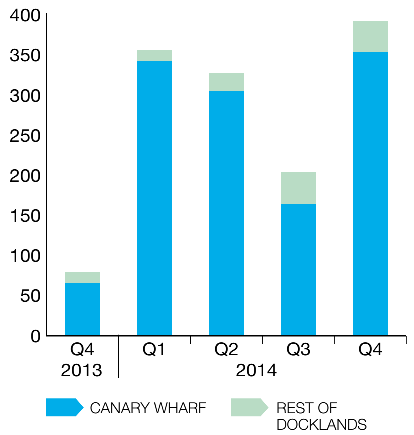
Q4 2014 (£m)



DOCKLANDS

- Take-up increased by 95% to 393,000 sq ft
- Availability fell by 2% to 1.5 m sq ft
- Prime headline rents remain at £36.00 per sq ft
- Investment turnover in Q4 totalled £1.3bn

FIGURE 1
Docklands take-up by quarter & sub-market
Q4 2013 - Q4 2014 (000's sq ft)



Take-up in Docklands nearly doubled from just over 200,000 sq ft in Q3 to 393,000 sq ft in Q4, the highest level of quarterly take-up in four years and well above the long-term average of 250,000 sq ft. The largest deal of the quarter, which accounted for 71% of the total take-up, was the pre-let of 280,000 sq ft at 1 Bank Street to the financial services group Société Générale. There were just three other deals over 10,000 sq ft during Q4, including Booking.com taking circa 30,000 sq ft at Exchange Tower, 2 Exchange Square in which they took a 10-year lease at an agreed rent of circa £31.00 per sq ft.

During 2014 demand in this sub-market, particularly in Canary Wharf, has seen a significant up-tick. Take-up during 2014 totalled 1.2 m sq ft, well in excess of 2013 which recorded just 450,000 sq ft and the highest level seen since 2010.

Supply

Following the increased take-up activity, the level of supply has fallen by 21% in the last 12 months from 1.9 m sq ft in Q4 2013 to 1.5 m sq ft at the end of 2014. In Canary Wharf, availability totalled 990,000 sq ft, 10% below the long-term average.

The largest building currently on the market remains 5 Churchill Place totalling circa 310,000 sq ft. However circa 65,000 sq ft is already under offer.

Rental profile

Prime rents in Canary Wharf remained at £36.00 per sq ft with the likelihood that they will increase in the short-term.

Investment

The investment market in Docklands saw is highest ever turnover during 2014 with a number of high profile transactions. Total investment turnover for 2014 reached £2.8bn, well above the long-term average of £1.2bn. 2014 was dominated by the overseas purchasers, accounting for 99% of all sales by volume.

During the final quarter of 2014, 8 Canada Square was purchased by the Qatar Investment Authority for £1.18bn, reflecting a NIY of 4.47% and a capital value of £1,080 per sq ft. The sale of 50 Bank Street also completed during Q4, purchased by Nan Fung Development Limited for £153.5 m, reflecting a NIY of 5.46% and a capital value of £671 per sq ft.

FIGURE 2
Docklands availability by quarter & sub-market
Q4 2013 - Q4 2014 (000's sq ft)

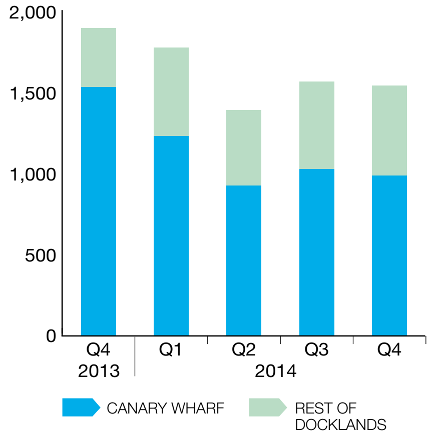
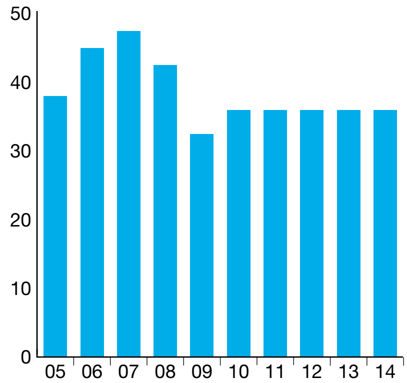


FIGURE 3
Canary Wharf prime rent
2001- 2014 (Prime £/sq ft)



KEY STATISTICS

Central London office market

Availability (m sq ft)	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	3 months % change	12 months % change
West End	4.62	4.90	4.75	4.17	**4.08**	-2.2%	-11.7%
City	9.61	9.97	9.45	8.68	**7.27**	-16.2%	-24.3%
Docklands	1.90	1.73	1.40	1.58	**1.55**	-1.9%	-18.4%
Central London	16.13	16.60	15.60	14.43	**12.90**	-10.6%	-20.0%

Vacancy Rate (%)	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	3 months % change	12 months % change
West End	5.0	5.3	5.2	4.5	**4.4**	n/a	n/a
City	8.1	8.4	7.9	7.3	**6.1**	n/a	n/a
Docklands	8.9	8.1	6.5	7.4	**7.2**	n/a	n/a
Central London	7.0	7.2	6.7	6.2	**5.6**	n/a	n/a

Take-up (m sq ft)	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	3 months % change	12 months % change
West End	1.19	1.07	1.45	1.37	**1.51**	10.2%	26.9%
City	2.46	1.78	2.18	3.02	**2.22**	-26.5%	-9.8%
Docklands	0.08	0.36	0.33	0.20	**0.39**	95.0%	387.5%
Central London	3.73	3.21	3.96	4.59	**4.12**	-10.2%	10.5%

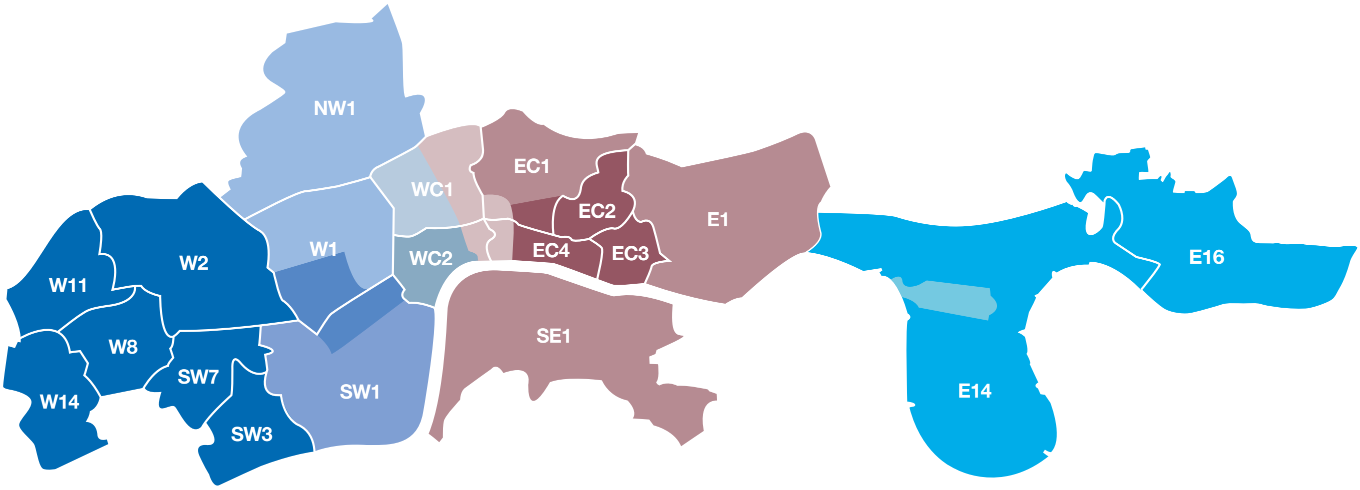
Active Searches (m sq ft)	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	3 months % change	12 months % change
West End	1.53	1.39	1.75	1.09	**1.51**	38.5%	-1.3%
City	4.78	3.96	5.08	2.95	**4.30**	45.8%	-10.0%
Docklands	0.05	0.22	0.99	0.97	**0.94**	-3.1%	1780.0%
Unspecified Central London	2.37	1.98	1.38	0.78	**0.51**	-34.6%	-78.5%
TOTAL Central London	8.72	7.55	9.20	5.79	**7.25**	25.2%	-16.9%

Under Construction (m sq ft)	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	3 months % change	12 months % change
West End	2.73	2.60	2.31	2.67	**3.09**	15.7%	13.2%
City	5.80	4.71	4.52	4.03	**4.74**	17.6%	-18.3%
Docklands	0.53	0.53	0.00	0.00	**0.00**	n/a	n/a
Central London	9.06	7.84	6.83	6.70	**7.83**	16.9%	-13.6%

Investment (£ m)	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	3 months % change	12 months % change
West End	2189.3	762.2	1135.2	1899.0	**2771.8**	46.0%	26.6%
City	5947.7	1164.7	2107.3	2146.5	**4603.6**	114.5%	-22.6%
Docklands	0.0	262.0	828.8	353.7	**1333.3**	277.0%	n/a
Central London	8137.0	2188.8	4071.3	4399.2	**8708.7**	98.0%	7.0%

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).

COMMERCIAL RESEARCH

Stephen Clifton, Partner
Head of Central London
+44 20 7629 8171
stephen.clifton@knightfrank.com

James Roberts, Partner
Chief Economist
+44 20 7629 8171
james.roberts@knightfrank.com

Patrick Scanlon, Partner
Central London Research
+44 20 7629 8171
patrick.scanlon@knightfrank.com

Hayley Blackwell, Associate
Central London Research
+44 20 7629 8171
hayley.blackwell@knightfrank.com

Simret Samra, Senior Analyst
Central London Research
+44 20 7629 8171
simret.samra@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. 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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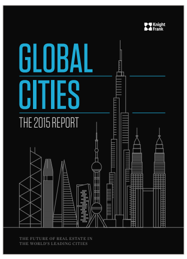

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