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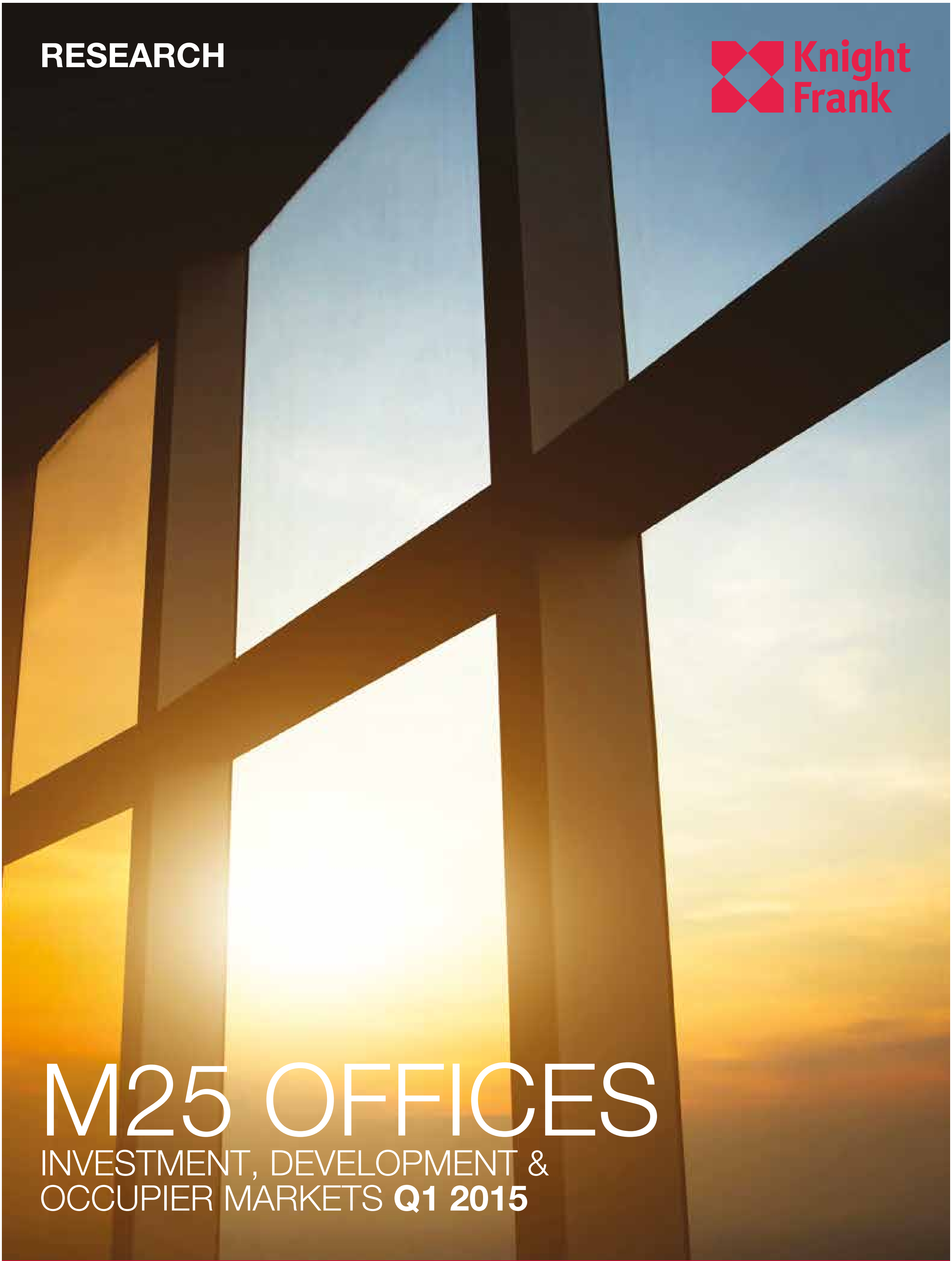


M25 OFFICES

INVESTMENT, DEVELOPMENT & OCCUPIER MARKETS **Q1 2015**

RENTS RISING

M25 VACANCY RATE AT RECORD LOW OF 5.9%

PRIME YIELDS DOWN TO 5.00%

"Vacancy levels are heading towards crunch point across a growing number of key centres. In some cases, rents are now at an all-time high – motivation for occupiers to identify and secure the best space now."

EMMA GOODFORD
Head of National Offices

EXECUTIVE SUMMARY

First quarter sees rents rise, driven by a lack of supply, while strong investor demand continues to drive yields down.

2015 is presenting an interesting combination of trends across the M25 and Thames Valley office market. Following subdued occupier demand in 2014, take-up in the first quarter of 2015 moved ahead of the 10 year average. During this time rents have continued to rise supported by a lack of supply.

We are forecasting further rental growth across the market in 2015.

The lack of new stock in the investment market is holding back volumes, where we are witnessing hardening yields across the spectrum, due to a combination of weight of money and a lack of product.

FORECAST AT A GLANCE

Forecast 2015 take-up (million sq ft)

2.60	0.70	1.75
M25	M3	M4

Take-up

M25 2015 take-up to be 23% up on 2014

Demand in line with 10-year average

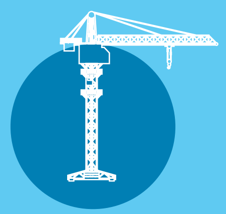
Demand driven by growth and expansion

Continued focus on New and Grade A

M4 take-up recovers to 1.75m sq ft in 2015

4% ahead of 10-year average

Supply



Further reduction in availability

Vacancy rates continue falling

Headline rents to rise further

OCCUPIER MARKET

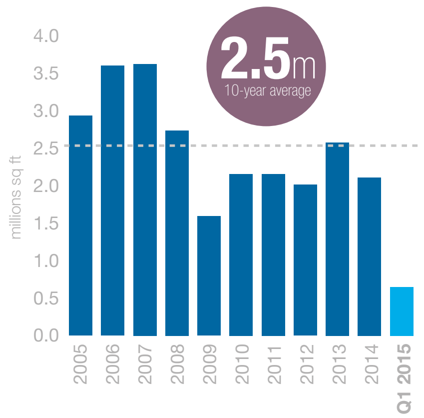
M25 office take-up in Q1 ahead of the 10-year average. Vacancy rate down to 14 year record low.

Demand and take-up

M25 office take-up increased to 650,636 sq ft in Q1 2015, 23% up on the previous quarter and 2% above the 10 year quarterly average. Compared with the same time last year Q1 take-up was 14% down, reflecting the lack of larger deals.

New and Grade A accounted for 86% of take-up in Q1. This is a trend that has now been consistent for the last few years.

FIGURE 1
M25 take-up



Source: Knight Frank Research

M3 take-up of 383,513 sq ft was more than three times the Q4 level, 47% up on the same period last year and 68% above the 10-year quarterly average.

M4 take-up halved in Q1 down to 266,693 sq ft, again reflecting the lack of larger deals.

Active named demand increased by 9% during Q1 to stand at 7.0m sq ft, which is the highest since Q2 2006.

Supply and development

M25 availability fell by 7% to 7.8m sq ft in Q1 2015. New and good quality Grade A space accounts for 70% of total availability.

Vacancy rates across the main markets have fallen to their lowest on record since Q4 2001. The M25 vacancy rate currently stands at 5.9%, while M3 and M4 vacancy rates are 6.6% and 7.3%, respectively.

There are currently 30 schemes under construction totalling just over 2.5m sq ft. Over 10% of this is Building 7, Chiswick Park which is due to complete in June 2015.

7.0m
active demand (sq ft)

86%
of M25 office space taken in Q1 was Grade A and New

68%
above the 10-year quarterly average for M3 take-up

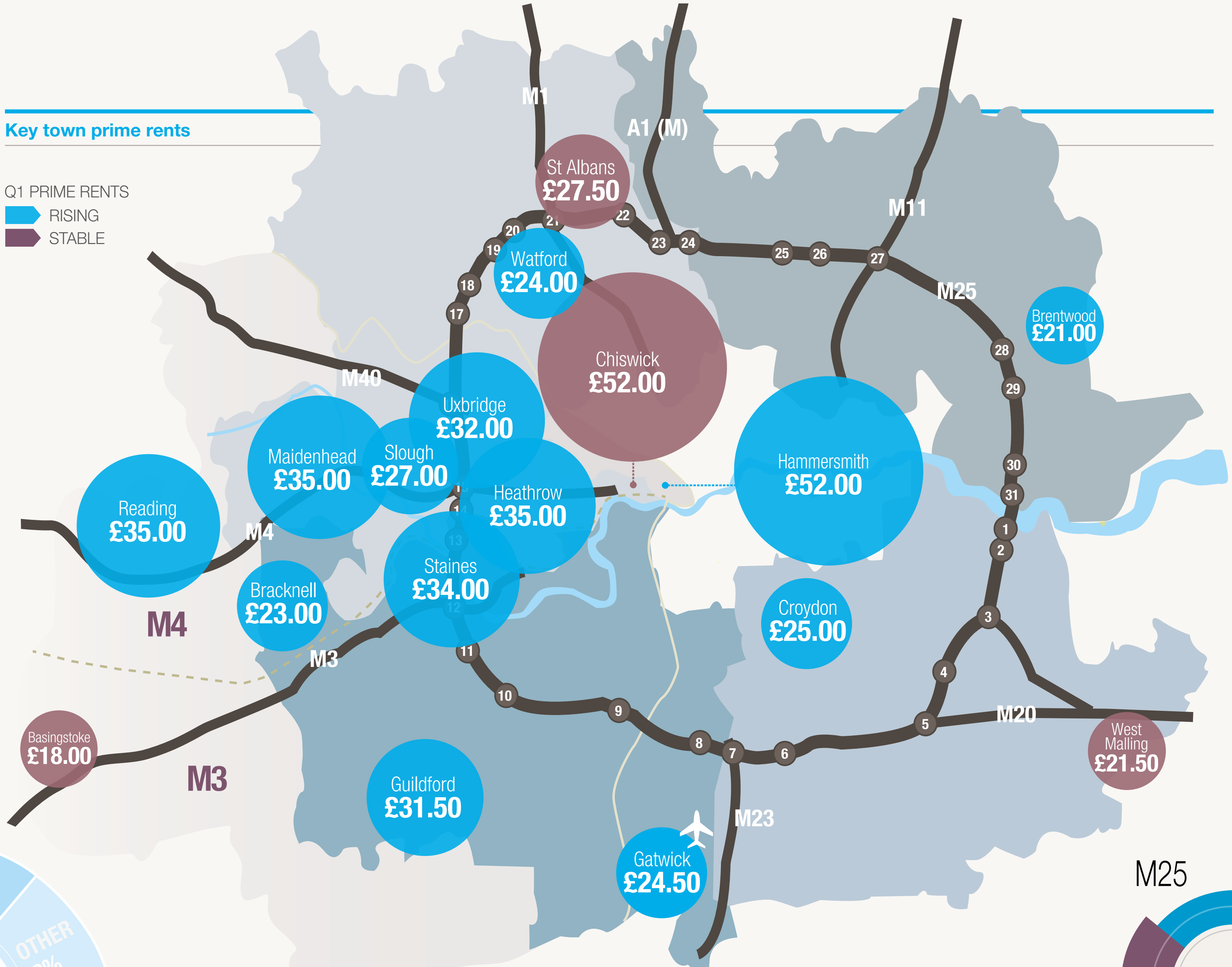
2.5m
under construction (sq ft)

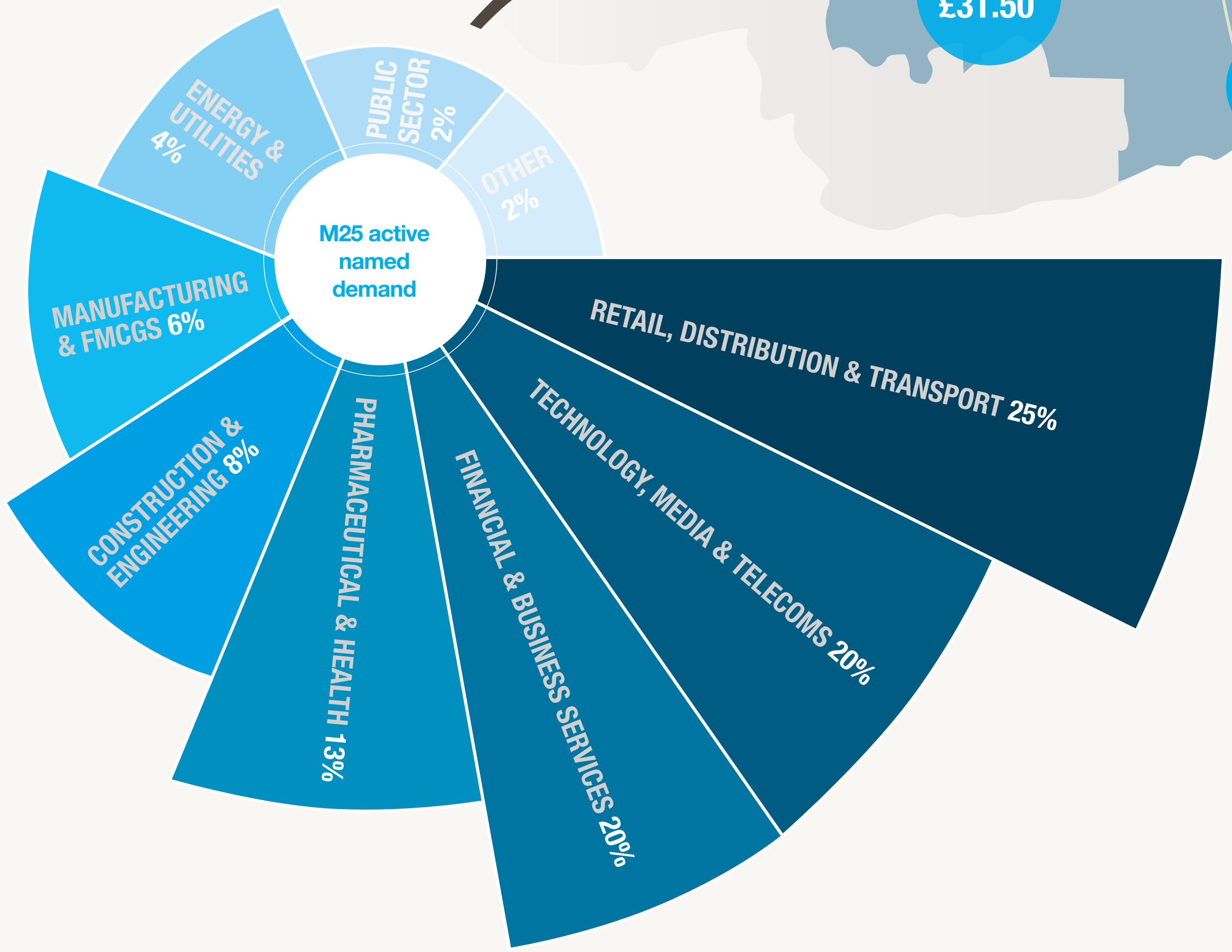
Forum One, Solent Business Park – 75,000 sq ft let to HSBC

MARKET STATISTICS

Active named demand for the market currently stands at 7.0m sq ft, which is 30% up on this time last year. The market remains balanced with occupier enquiries coming from a diverse range of sectors. We are seeing a reduction in named demand that is likely to regear. The significance of this is that more of the named demand is likely to relocate.

Key town prime rents





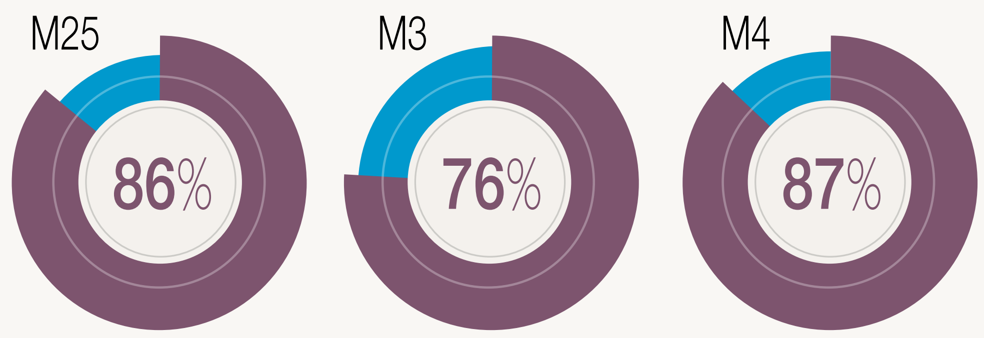
Demand & Supply

TAKE-UP	M25	M3	M4
sq ft	650,636	383,513	266,693
Change Q1 15 vs Q4 14	23% ▲	315% ▲	-49% ▼
Change Q1 15 vs Q1 14	-14% ▼	47% ▲	-36% ▼
Q1 Pre-let (sq ft)	105,000	105,000	0
Q1 % New & Grade A (inc pre-lets)	86%	76%	87%
Forecast 2015 take-up (m sq ft)	**2.60**	**0.70**	**1.75**

AVAILABILITY			
sq ft	7,774,164	2,691,365	5,138,486
Change Q1 15 vs Q4 14	- 7% ▼	-5% ▼	-6% ▼
Change Q1 15 vs Q1 14	-13% ▼	-15% ▼	-14% ▼
Q1 % New	16%	17%	17%
Q1 % second-hand Grade A	55%	58%	66%
Q1 % second-hand Grade B	30%	26%	17%
Q1 vacancy rate (▲/▼ movement from Q4 14)	-5.9% ▼	-6.6% ▼	-7.3% ▼

CONSTRUCTION			
sq ft (net)	1.608,983	217,294	2,428,285
Change 12 months	55% ▲	-35% ▼	82% ▲
Pre-let (sq ft)	0	0	115,000

Q1 % New & Grade A take-up (Including pre-lets)



Q1 2015 vacancy rate (▲/▼ movement from Q4 14)

M25	M3	M4
-6.4% ▼	-6.9% ▼	-7.7% ▼
-5.9%	-6.6%	-7.3%

Source for all charts: Knight Frank Research

552m
Transaction volume (£)

22m
Mean lot size (£)

5.00%
Prime NIY

INVESTMENT MARKET

Strong investor demand and a lack of deliverable product are driving yields down, with investors increasingly factoring in likely rental growth during hold periods.

Investor sentiment in the South East remains strong, with increasing levels of equity looking to be deployed.

Q1 turnover reached £552.38m, 17% ahead of the 10 year quarterly average, but down by 35% on Q4 2014, held back by a lack of new stock being launched to the market.

25 deals were transacted in Q1, bringing the average lot size down to £22.1m, compared with £27.6m in the previous quarter but 34% above the 10-year average.

Prime yields now stand at 5.00% NIY, albeit investors will pay sharper than this in markets where rental growth is anticipated, to include Greater London and the stronger M25 towns.

Limited new stock is being launched to the market, which, when combined with the wall of money looking to invest, is expected to drive yields further down during the remainder of the year.

We are seeing pricing for good secondary stock continuing to harden, with US Opportunity Funds increasingly keen on the sector. Again, a lack of stock is holding back volumes for this type of deal.

Grenfell Island, Maidenhead

Change 3 months

34% Transaction volume

19% Mean lot size

25bps Prime NIY

"We are seeing pricing for good secondary stock continuing to harden, with US Opportunity Funds increasingly keen on the sector."

FIGURE 2
Investment volumes

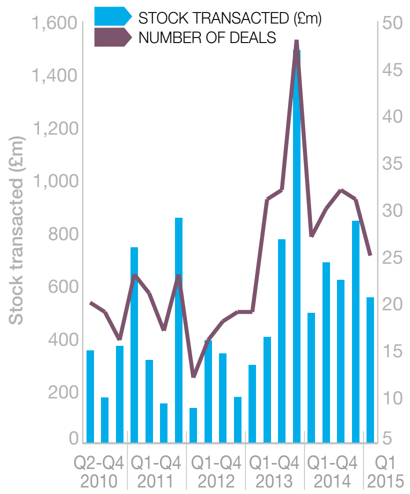


FIGURE 3
Mean initial yield & finance

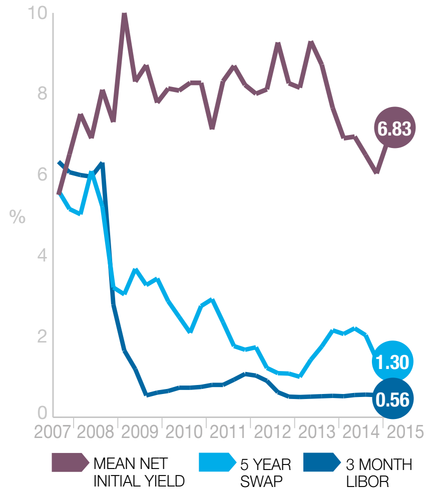
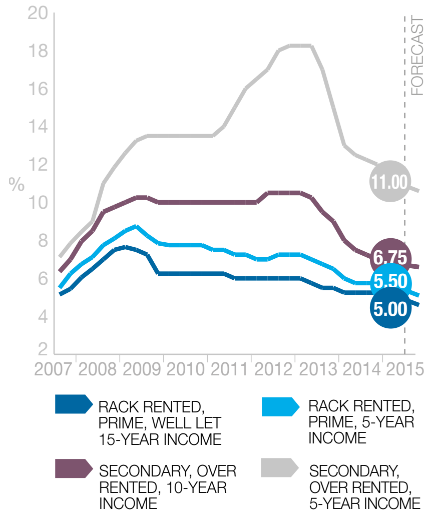


FIGURE 4
Yield forecasts



Key investment transactions Q1 2015

BUILDING	SIZE (SQ FT)	PRICE	NET INITIAL YIELD	VENDOR / PURCHASER
St Georges House, Wimbledon	80,752	£58.64m	4.57%	Threadneedle Investment/ Orchard Street Investment Management
Landmark House & Thames Tower, Hammersmith	135,448	£57.00m	N/A	GEMS/Eastern and Oriental Property
2 Roundwood Avenue, Stockley Park, Heathrow	97,720	£45.88m	5.95%	Europa Capital/ TIAA Henderson Real Estate
Spectrum Point, Farnborough	85,192	£20.00m	7.60%	M&G Real Estate / Northwood Investors
Globe House, Bracknell	53,080	£11.70m	8.50%	Knight Frank Investors/Palm Capital

Source for all charts: Knight Frank Research

COMMERCIAL BRIEFING
For the latest news, views and analysis of the commercial property market, visit knightfrankblog.com/commercial-briefing/

TECHNICAL NOTE

- Knight Frank define the M4 market as extending from Hammersmith, west to Newbury, incorporating Uxbridge and High Wycombe to the north and Staines and Bracknell to the south. Reading is also included. Existing built office stock in the M4 market totals 69.4m sq ft.
- The M3 market incorporates the main South West London boroughs and encompasses Leatherhead, Guildford and Basingstoke extending north to the M4 boundary described above. Farnborough and Camberley are also included. Existing built office stock in the M3 market totals 42.0m sq ft.
- The figures in this report relate to the availability of built, up-and-ready office/B1 accommodation within the M25 market. Vacant premises and leased space which is being actively marketed are included.
- The market definition used, shown in the map on page 3, is based on Local Authority District boundaries.
- All floorspace figures are given on a net internal area basis (as defined by the RICS).
- A minimum 10,000 sq ft (net) cut-off has been employed throughout. Major and minor refurbishment have been treated as new and second-hand respectively. Data is presented on a centre and quadrant basis. Classification by centre relates to the locational details contained within the marketing material for available properties. Classification in this manner is clearly somewhat arbitrary. Vacancy rate data is based on a total M25 stock measure of 130m sq ft (net), an M4 market stock of 69.4m sq ft (net) and an M3 market stock of 42m sq ft (net).
- Second-hand floorspace has been sub-divided into A and B grade accommodation, reflecting high and low quality respectively. Whilst subjective, this categorisation is based on an assessment of each property's age, specification, location and overall attractiveness.
- Pre-let = The letting of proposed schemes not yet under construction and those let during the construction process.
- All data presented is correct as at March 31st 2015.

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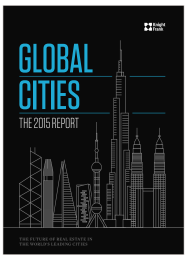

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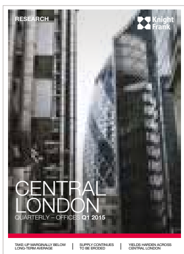
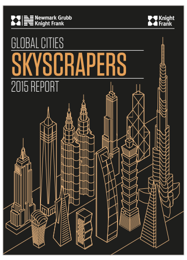


Central London Quarterly Q1 2015



Global Cities Skyscrapers 2015

Shopping Centre Investment Q1 2015

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