RESEARCH

Q1 2012

CENTRAL LONDON

Quarterly – Offices

Knight Frank

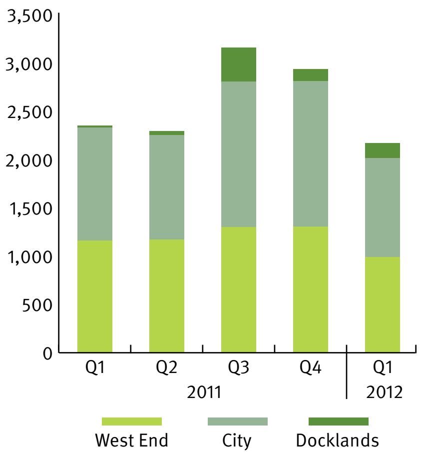
HIGHLIGHTS

- Central London take-up fell by 26% to 2.2 m sq ft in the first quarter as the uncertainty in the global economy in the second-half of last year filtered through to the occupational market. However, sentiment has improved noticeably during the quarter.
- Supply in Central London rose to 18.1 m sq ft, reflecting a vacancy rate of 7.9%. The figures were inflated by around 400,000 sq ft of sublet space from JP Morgan returning to the market prior to its move to Canary Wharf and the inclusion of more than 500,000 sq ft of speculative development space.
- Investment turnover totalled £2.9 bn in the final quarter, the highest for more than 12 months. Overseas investors were particularly active in the City, while in the West End domestic investors dominated the purchaser profile. Prime yields remained stable across the market.

CENTRAL LONDON OVERVIEW

- **Take-up fell to 2.2 m sq ft, 27% below the long-term average.**
- **Availability rose to 18.1 m sq ft, representing a 7.9% vacancy rate.**
- **Speculative construction rose slightly to 5.2 m sq ft.**
- **Investment turnover increased to £2.9 bn.**

Figure 1
Central London take-up by quarter & sub-market
Q1 2011 - Q1 2012 (000's sq ft)



Demand and take-up

The impact of the uncertainty in the global economy in the second half of last year was felt keenly in the first quarter of 2012. Take-up in Central London fell by 26% to 2.2 m sq ft, its lowest level since the height of the financial crisis when the collapse of Lehman Brothers caused take-up to tumble six months later. However, market sentiment improved noticeably during the quarter as businesses started to adopt a more confident outlook to trading conditions for the remainder of 2012.

Active requirements picked up in the first quarter rising by 8% to 11.0 m sq ft. Although still marginally below the long-term average, this suggests an encouraging rate of replacement of requirements. At the quarter-end, we had identified parties under offer on more than 1.8 m sq ft of space across Central London, suggesting there will be stronger performance in the second quarter.

Supply & development

Availability rose to 18.1 m sq ft, representing a vacancy rate of 7.9%. Although levels are 10% below the long-term average, the volume of space being marketed has risen by 14% in the last 6 months. This rise is attributable to a number of speculative schemes entering the figures as they approach completion and more space being released by JP Morgan in advance of its move to Canary Wharf. Despite the weak first quarter take-up, there is no evidence to suggest the rise in supply is due to distressed tenants releasing surplus space.

The volume of space under construction speculatively remained relatively stable in the first quarter at 5.2 m sq ft. This is due to fall considerably over the next 6 months as more than 1.2 m sq ft reaches practical completion. In addition, levels of available new and refurbished space are currently 26% below long-term average levels, which is likely to cause more tenants to look for options from the development pipeline.

Investment

Investment turnover rose to £3.0 bn in Q1 2012, a rise of almost 30% from the previous quarter's total and the highest for 18 months. The volume of space being transacted in Central London depends mostly on the volume of space made available for purchase, such is the current imbalance between demand and supply. Investors continue to focus on well-let assets. It is the weight of money chasing these assets that continues to keep prime yields at their current low levels.

The investment profile for City offices was once again dominated by overseas purchasers, which accounted for 64% of turnover, while domestic investors accounted for more than 71% of activity in the West End.

There is a significant volume of stock which is under offer or already transacted since the quarter-end, suggesting strong turnover in the second quarter. As interest rates and 10-year gilt yields remain at their current low levels, Central London offices will continue to represent good value over the short to medium-term.

Figure 2
Central London availability by quarter & sub-market
Q1 2011 - Q1 2012 (000's sq ft)

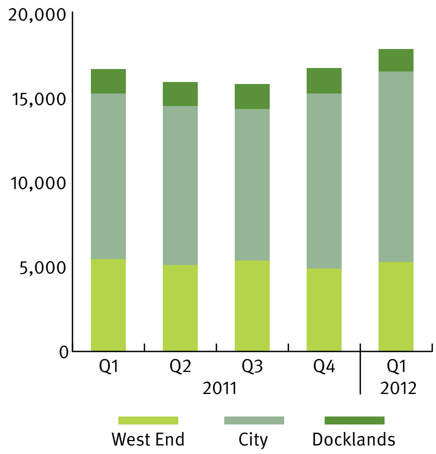
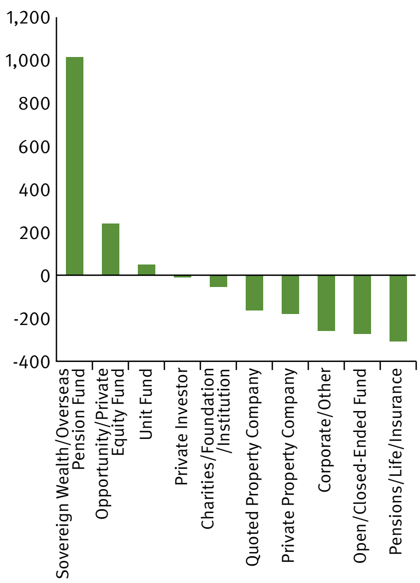


Figure 3
Central London net investment
Q1 2012 (£ m's)



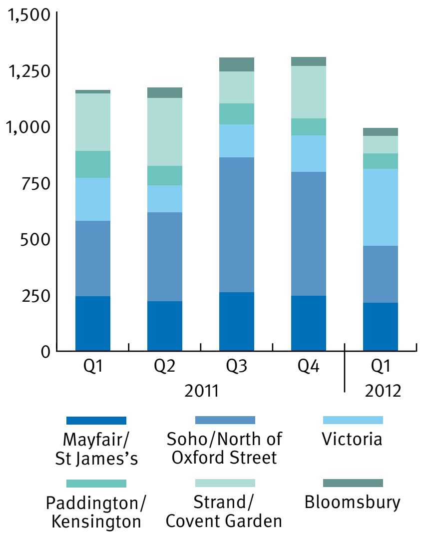
WEST END

- **Take-up fell to 1.0 m sq ft.**
- **Availability rose by 8% to 5.3 m sq ft.**
- **Prime headline rents remained at £92.50 per sq ft.**
- **Investment turnover totalled £0.97 bn.**

Figure 1

West End take-up by quarter & sub-market

Q1 2011 - Q1 2012 (000's sq ft)



Demand & take-up

Take-up in Q1 fell by 24% from 1.3 m sq ft to 1.0 m sq ft, the lowest level since Q3 2009 and 16% below the long- term average. Take-up levels fell in all but one sub-market, with Victoria performing relatively well. The largest deal of the quarter was at 1A Page Street, SW1 in which Burberry took a pre-let of Derwent London's entire 118,000 sq ft scheme due for completion early next year.

The volume of active searches rose by 18% in the West End as a number of requirements including Time Warner changed from potential to active. Also there are signs of growing financial sector interest in the West End core, mostly from specialist funds.

Supply & Development

Availability increased by 8% to 5.3 m sq ft in the first quarter. However, the vacancy rate of 5.8% is below the long-term average level of 7.9%. New & refurbished supply rose marginally as new schemes at 1 Howick Place, SW1 (140,000 sq ft) and 6 Agar Street, WC2 (56,000 sq ft) entered the figures.

The volume of space under construction speculatively has fallen by 15% in Q1 to 1.5 m sq ft, as a number of schemes completed, including AirW1 and 5 Hanover Square, W1. There is just 180,000 sq ft under construction in the core due for completion by the end of the year in just two schemes.

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 was at 5 Stratton Street, W1 where African Petroleum took c5,000 sq ft on a ten year lease at £95.00 per sq ft.

Investment

Turnover totalled £966m in the first quarter, a significant rise from the previous quarter and 16% above the long-term average. Sentiment in the West End remained positive while the market continued to be undersupplied, particularly in lot sizes under £50m. The West End market continues to see a loss of office stock to residential use, as reflected by two significant transactions such as the Portland Place and Park Crescent Portfolio and Riverwalk House.

The largest deal recorded was Tishman Speyer's acquisition of Eland House, Bressenden Place, SW1 for £171m reflecting a yield of 6.83%. Prime yields in the West End remained at 4.00% for the sixth consecutive quarter.

Figure 2

West End availability by quarter & sub-market

Q1 2011 - Q1 2012 (000's sq ft)

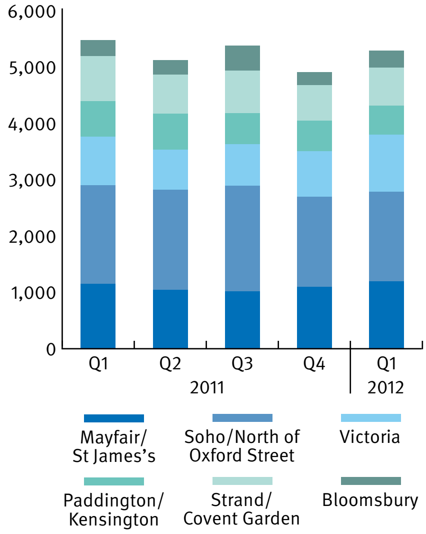
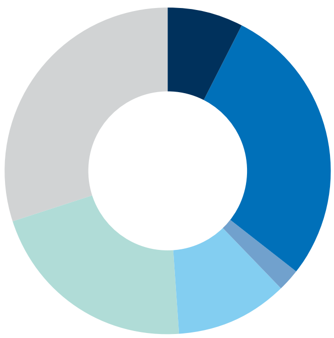


Figure 3

West End investment by purchaser

Q1 2012



Corporate/Other	72 m
Opportunity Fund	269m
Open-ended/ Closed-ended fund	21 m
Private Investor	106 m
Private Property Company	201 m
Quoted Property Company	283 m

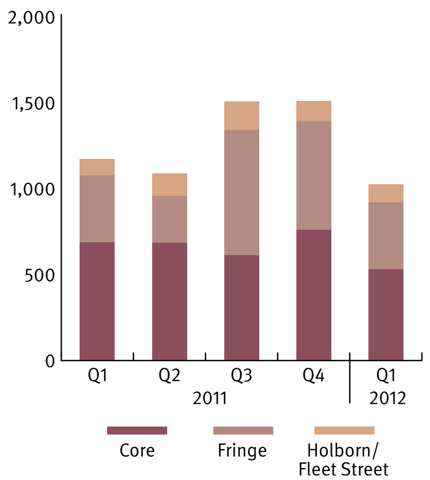
CITY

- **Take-up down by 32% to 1.0 m sq ft.**
- **Availability rises from 10.4 m sq ft to 11.3 m sq ft.**
- **Prime headline rents unchanged at £55.00 per sq ft.**
- **Investment volumes reflect a strong start to the year, totalling £1.6 bn.**

Figure 1

City take-up by quarter & sub-market

Q1 2011 - Q1 2012 (000's sq ft)



Demand and take-up

City take-up fell to 1.0 m sq ft in Q1 2012, the lowest figure since Q1 2009 when 0.7 m sq ft was acquired. The largest deal of the quarter was at Moorgate Hall, 155 Moorgate, where Mace Group took 67,000 sq ft. Also, Pushbutton (a subsidiary of Amazon) took 48,000 sq ft at 26-28 Glasshouse Yard in Clerkenwell. Technology firms taking space in Clerkenwell and Shoreditch have provided some upside for the market, but fewer financial sector deals have resulted in lower take-up overall.

Nevertheless, we view the take-up figures as reflecting where the market has been, not where it is going. There are several large insurance sector office requirements for space in and around the EC3 post code, with deals expected to go under offer in the coming months. Also, a number of law firms have launched searches. However, demand from the financial sector is expected to remain low in the near-term.

Supply & development

Supply increased from 10.4 m sq ft to 11.3 m sq ft, reflecting a vacancy rate of 9.6%. This is the second consecutive quarter of rising supply, and availability is up by 2.3 m sq ft on six months ago. In the past six months the supply figures have incorporated over 800,000 sq ft of sub-let space from JP Morgan as the bank relocates to Canary Wharf. Also, around 1.0 m sq ft of development space has joined the figures, most notably the Shard.

We believe that supply will plateau or even fall slightly next quarter, as just 92,000 sq ft of new development is set to enter the availability figures in Q2. Also, the bulk of the JP Morgan space is now in supply, and some of this has let since quarter end, with PRA signing at 20 Moorgate (152,000 sq ft).

Rents

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

The investment market enjoyed a relatively buoyant Q1 2012, with the transaction volume reaching £1.6 bn, up from £1.5 bn the previous quarter and £1.4 bn in Q1 2011. Moreover, with £2.1 bn under offer at quarter end, the market appears on course for a strong first half. Foreign buyers continue to dominate, accounting for 64% of deals by transaction volume, reflecting a focus by investors on perennial business locations during an uncertain time for the global economy.

Prime yields remained steady at 5.25%, which remains attractive to investors given the historically low levels of 'safe' sovereign bond yields – 10 year German bunds yields are 1.7% at the time of writing, and US treasuries are at 2.00%. With little reason to suppose interest rates will increase in the medium-term and with foreign buyers still targeting the City, we believe prime office yields are sustainable at current levels.

Figure 2

City availability by quarter & sub-market

Q1 2011 - Q1 2012 (000's sq ft)

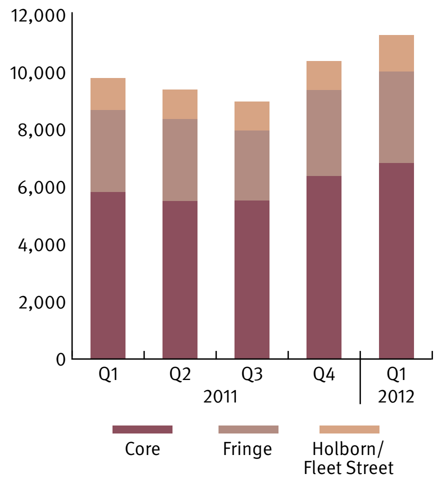
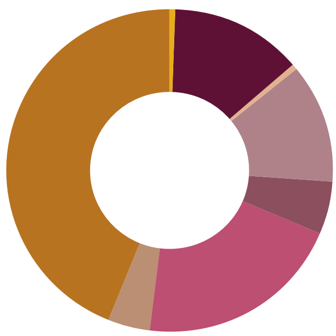


Figure 3

City investment by purchaser

Q1 2012

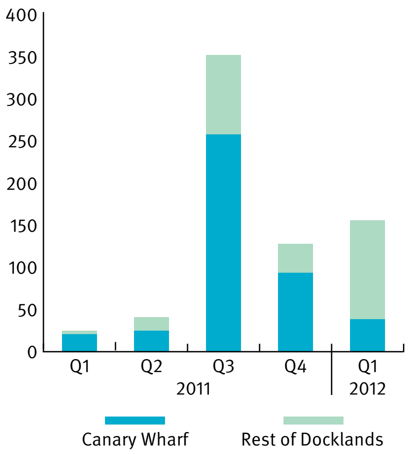


Charities/Foundation/ Institution	£9 m
Open-ended/ Closed-ended Fund	£207 m
Opportunity Fund	£7 m
Pension/Life/Insurance	£186 m
Private Investor	£85 m
Private Property Company	£322 m
Unit Fund	£65 m
Overseas Pension Fund	£685 m

DOCKLANDS

- **Take-up for Q1 was 156,000 sq ft, up slightly on Q4.**
- **Availability steady at 1.5 m sq ft.**
- **Prime headline rents remained steady at £36.00 per sq ft.**
- **Investment volume reaches £447 m.**

Figure 1
Docklands take-up by quarter & sub-market
Q1 2011 - Q1 2012 (000's sq ft)



Demand & take-up

At 156,000 sq ft, take-up in the Docklands was up on the 125,000 sq ft recorded in the previous quarter. The largest deal was the Financial Ombudsman Service (FOS) taking 65,000 sq ft at Independent House on Marsh Wall. FOS also took 15,000 sq ft at South Quay 3. At Canary Wharf, the organiser of the 2012 Olympics, LOCOG, signed on 26,000 sq ft at 10 Upper Bank Street, and insurer, Metlife, signed on 13,000 sq ft at One Canada Square.

The Economist Group is currently under offer at 20 Cabot Square on a deal to sub-let 54,000 sq ft from Barclays Capital. This would bring a new media tenant to Docklands, although press reports suggest Ogilvy & Mather may be considering a relocation from Canary Wharf to the City fringes. However, Deutsche Bank is reported in the press to be short-listing options at the Wharf.

Supply & Development

On-market availability remained broadly unchanged at 1.5 m sq ft, as has been the case since late 2010. However, impossible to quantify is the volume of off-market space being held by financial firms, after widely reported redundancies in the banking industry last year. This will cast a shadow over market sentiment in 2012, while later this year and early in 2013 the market should see the phased release of the c360,000 sq ft of space currently occupied by LOCOG.

While the potential impact of off-market space should not be under estimated, the historic experience is that much of the 'grey' space is eventually re-occupied by the original tenant. Many global investment banks in Q1 reported improved earnings, although those banks which have been hardest hit by the downturn may have permanently adjusted downwards in size.

Rental Profile

Prime headline rents in Canary Wharf remained at £36.00 per sq ft, although some tenants have reduced asking rents. Competition between landlords and tenants seeking to off-load 'grey' space could bring rents under pressure in the near-term.

Investment

Total investment in the Docklands reached £447 m, with the sale of the Credit Suisse headquarters accounting for the majority of the figure. One Cabot Square was acquired by the Qatar Investment Authority for £330 m in a sale-and-leaseback deal, reflecting a yield of 5.5%. The transaction highlights continued sovereign wealth interest in assets occupied by large global corporations. Also, Evans Randall paid £27 m for Sovereign House on Marsh Wall.

Figure 2
Docklands availability by quarter & sub-market
Q1 2011 - Q1 2012 (000's sq ft)

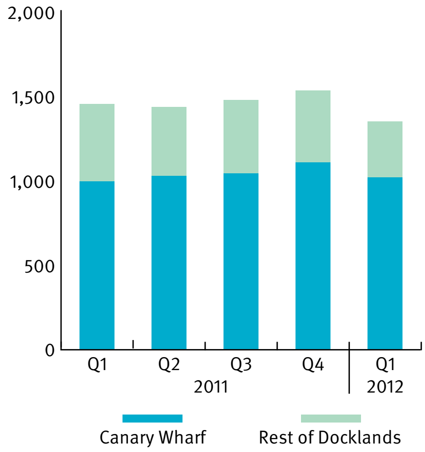
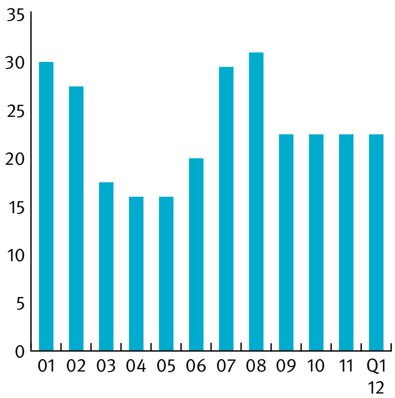


Figure 3
Rest of Docklands prime rent
2000-Q1 2012 (Prime £/sq ft)



Key statistics

Central London office market

Availability (m sq ft)	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	3 months % change	12 months % change
West End	5.49	5.13	5.39	4.92	**5.30**	7.7%	-3.5%
City	9.79	9.40	8.99	10.39	**11.29**	8.7%	15.3%
Docklands	1.46	1.44	1.48	1.54	**1.51**	-1.9%	3.6%
Central London	16.74	15.97	15.86	16.85	**18.10**	7.4%	8.1%

Vacancy Rate (%)	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	3 months % change	12 months % change
West End	6.0	5.6	5.9	5.4	**5.8**	n/a	n/a
City	8.4	8.0	7.7	8.9	**9.6**	n/a	n/a
Docklands	6.8	6.7	6.9	7.2	**7.1**	n/a	n/a
Central London	7.3	6.9	6.9	7.3	**7.9**	n/a	n/a

Take-up (m sq ft)	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	3 months % change	12 months % change
West End	1.16	1.14	1.31	1.31	**0.99**	-24.3%	-14.4%
City	1.17	1.09	1.51	1.51	**1.03**	-32.0%	-12.5%
Docklands	0.03	0.04	0.35	0.13	**0.16**	24.8%	522.1%
Central London	2.36	2.27	3.17	2.95	**2.18**	-26.2%	-7.8%

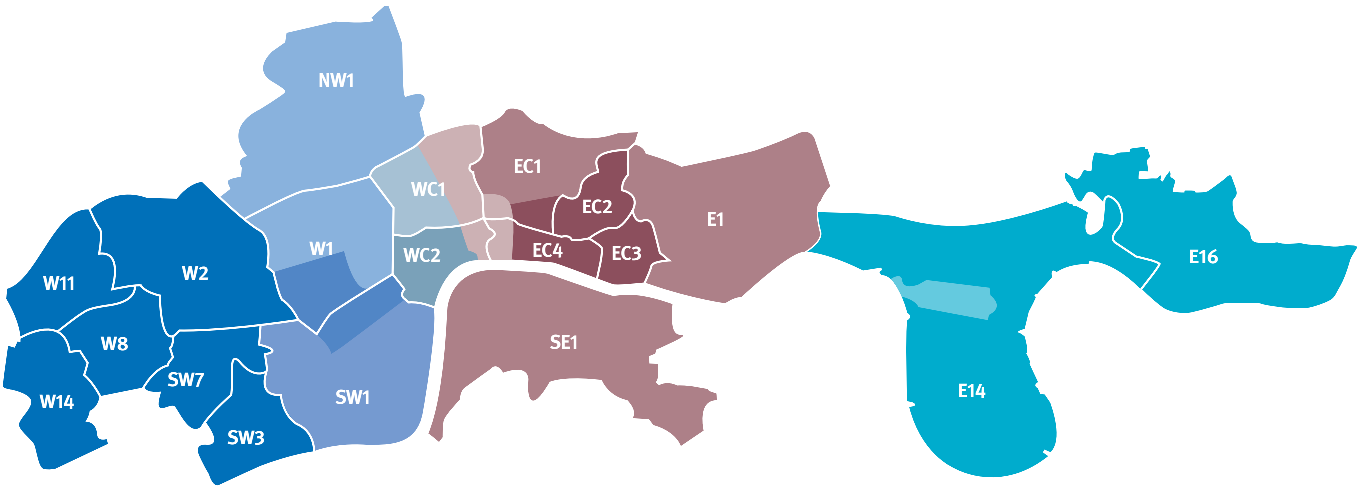
Active Requirements (m sq ft)	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	3 months % change	12 months % change
West End	1.72	1.90	1.25	1.72	**2.03**	17.8%	18.2%
City	4.95	4.79	4.62	4.07	**4.27**	5.1%	-13.6%
Docklands	0.06	0.50	0.22	0.22	**0.22**	0.0%	263.3%
Unspecified Central London	0.92	0.62	1.05	1.89	**1.83**	-2.8%	100.0%
TOTAL Central London	7.64	7.81	7.14	7.90	**8.36**	5.8%	9.4%

Under Construction (m sq ft)	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	3 months % change	12 months % change
West End	1.77	1.95	1.70	2.02	**1.87**	-7.5%	5.4%
City	3.28	3.45	3.80	4.25	**5.10**	20.2%	55.7%
Docklands	0.00	0.00	0.00	0.00	**0.53**	n/a	n/a
Central London	5.05	5.40	5.50	6.26	**7.50**	19.7%	48.5%

Investment (£ m)	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	3 months % change	12 months % change
West End	667.3	829.5	958.0	803.8	**966.1**	20.2%	44.8%
City	1394.4	1866.6	1047.9	1493.4	**1565.7**	4.8%	12.3%
Docklands	0.0	0.0	0.0	13.6	**447.0**	n/a	n/a
Central London	2061.7	2696.1	2005.9	2310.8	**2978.8**	28.9%	44.5%

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

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

Commercial Research

James Roberts, Partner
Head of Commercial Research
+44 (0) 20 7629 8171
james.roberts@knightfrank.com

Patrick Scanlon, Partner
Central London Research
+44 (0) 20 7629 8171
patrick.scanlon@knightfrank.com

John Snow, Partner
Head of Central London Offices
+44 (0) 20 7629 8171
john.snow@knightfrank.com

Hayley Reid, Senior Analyst
Central London Research
+44 (0) 20 7629 8171
hayley.reid@knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank Research Reports are also available at **KnightFrank.com**

© Knight Frank LLP 2012

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.

Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

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