

RESEARCH



# CENTRAL LONDON

QUARTERLY – OFFICES Q1 2014

TAKE-UP ABOVE  
LONG-TERM AVERAGE

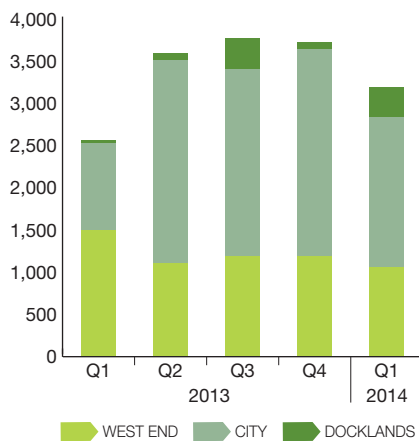
SPEC CONSTRUCTION  
FALLS BY 700,000 SQ FT

PRIME YIELDS REMAIN UNDER  
DOWNWARD PRESSURE

# CENTRAL LONDON OVERVIEW

- Take-up above the long-term average, but down q-on-q
- Vacancy rate at 7.2%, with sub-5% levels in some districts
- Speculative construction is below annual new build take-up levels
- Yields harden in the City, steady in West End

FIGURE 1  
**Central London take-up by quarter & sub-market**  
 Q1 2013 - Q1 2014 (000's sq ft)



## Demand and take-up

Given the strong level of take-up seen in the period Q2 to Q4 2013, it was a near certainty that Q1 2014 would see a lower level of office demand as the market paused for breath. In this context, the 3.2 m sq ft of take-up recorded in Q1 appears robust, given this is marginally higher than the long-term average, albeit down on Q4's figure of 3.7 m sq ft. However, take-up in Q1

2013 was 2.6 m sq ft, and this annual comparison highlights the significant change we have seen in demand levels.

Consistent with previous quarters, TMT (technology, media and telecoms) was the largest source of take-up, and the biggest deal of the quarter was Google taking 160,000 sq ft of additional space at King's Cross Central. Worth noting is the increase in deals by financial firms lately – 626,000 sq ft in Q1 2014, versus 165,000 sq ft for the equivalent period of last year.

## Supply & development

Supply in central London rose to 16.7 m sq ft in Q1, up from 16.1 m sq ft in Q4. This was driven by an increase in second hand grade A availability – possibly space vacated by tenants who signed leasing deals in previous quarters returning to the market. In the City, a number of new developments also joined the figures, such as Alpha Beta and the Aldgate Tower. On an annual comparison, supply is down markedly, as 17.9 m sq ft was on the market a year ago.

Nevertheless, the vacancy rate at 7.2% is well below the long-term average figure of 8.3%. There are also some pockets of severe under supply, such as Victoria (with a vacancy rate of 3.3%), Bloomsbury (3.3%), and Holborn (just under 5.0%). Moreover, the current speculative development pipeline totals 4.5 m sq ft, but take-up for new build space was 5.5 m sq ft in the last year, suggesting we are moving into a period of mismatch between demand and supply.

## Investment

After the record £8.1 bn of purchases seen in Q4, a fall in investment volume for Q1 was widely expected. Transactions in Q1 totalled £2.2 bn, which is down on both quarterly and annual comparisons as a shortage of stock constrained activity. Yields remained steady in the West End, and hardened 25 basis points in the City; while 75% of stock on the market in the City is under offer at the time of writing. This shows the lower Q1 volume figure does not mark a change in sentiment in the market.

Interestingly, we have seen more purchases by UK buyers, rising to nearly half of all acquisitions by volume. Also, we are seeing a continued shift in demand towards asset management opportunities and buildings beyond the traditional cores. This demonstrates that investors are increasingly more willing to take on risk, and are finding it difficult to source genuinely prime assets.

FIGURE 2  
**Central London availability by quarter & sub-market**  
 Q1 2013 - Q1 2014 (000's sq ft)

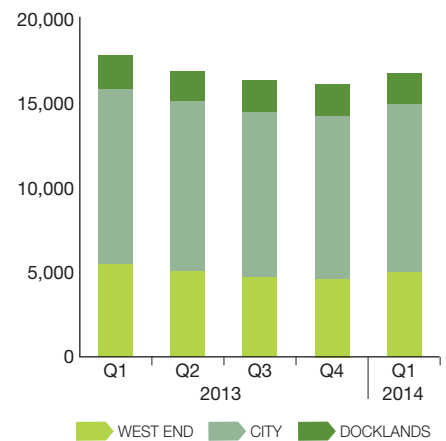
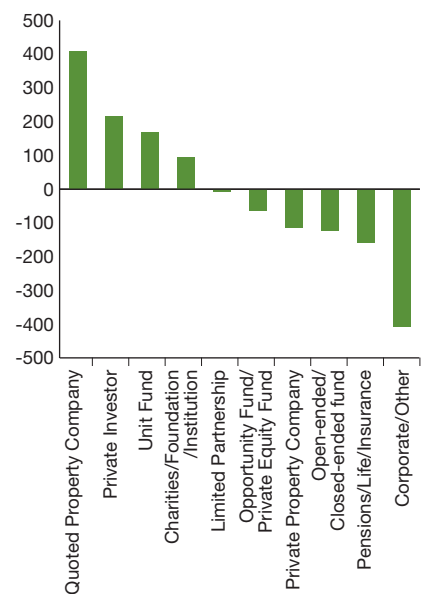


FIGURE 3  
**Central London net investment**  
 Q1 2014 (£ m's)



# WEST END

- Take-up fell by 10% to 1.1 m sq ft
- Availability rose by 8% to 5.0 m sq ft
- Prime headline rents increased to £100.00 per sq ft
- Investment turnover in the first quarter fell by 65%

to 1.9 m sq ft. Active requirement in the West End currently stands at 1.4 m sq ft with significant requirements from Havas Media, Estée Lauder and Mishcon de Reya, all who are either under offer or have shortlisted their preferred option.

## Supply & development

Availability in the West End rose by 8%, but was nearly 9% below the level recorded at the same quarter of 2013. Supply levels are now almost 20% below the long-term average. The current vacancy rate in the West End now stands at 5.5%. In the Core, supply fell by 10% as the number of transactions increased by 22%.

The volume of space under construction speculatively fell from 2.1 m sq ft to 2.0 m sq ft. There is currently just over 1.0 m sq ft under construction that is due to complete this year, nearly 25% of this has already been pre-let. The only scheme to start on site was 64-66 Wigmore Street, totalling 55,000 sq ft.

## Rental profile

The prime headline rent in the West End Core increased from £97.50 per sq ft to £100.00 per sq ft. Rent free periods have contracted for the second consecutive quarter, from 18 month to 16 months on a 10-year term certain in the prime Core market.

## Investment

After an exceptionally strong Q4, investment turnover in the first quarter fell considerably to £765 million, as the limited availability of stock constrained the market. This was the lowest level recorded since Q1 2011 and 28% below the long-term average. Prime yields remained at 3.75% after hardening the previous quarter from 4.00%.

Private investors dominated the market share, accounting for 60% of all transactions by value. UK buyers accounted for nearly 53% over all purchases in Q1 compared to just 28% in the same quarter last year. There continues to be a lack of quality stock, with just over £1.2 bn of investment stock currently on the market, of which £380 m (31%) is under offer.

FIGURE 2  
West End availability by quarter & sub-market  
Q1 2013 - Q1 2014 (000's sq ft)

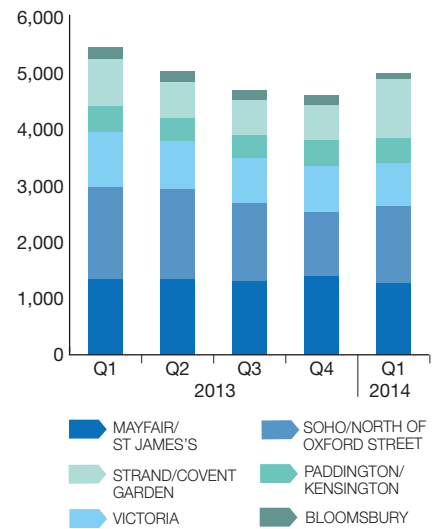


FIGURE 3  
West End investment by purchaser  
Q1 2014 (£m)

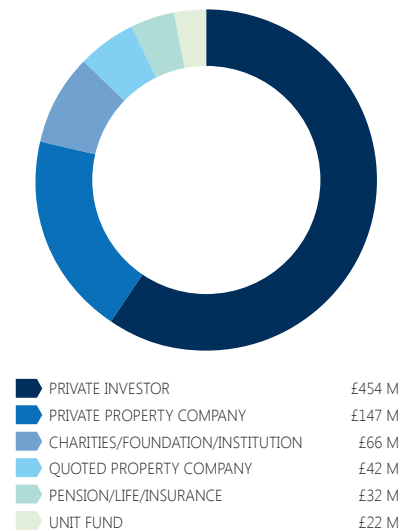
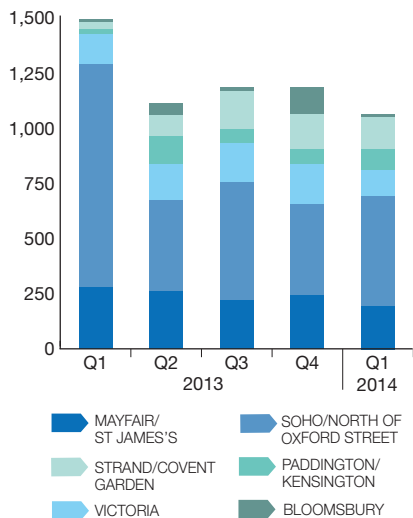


FIGURE 1  
West End take-up by quarter & sub-market  
Q1 2013 - Q1 2014 (000's sq ft)



## Demand & take-up

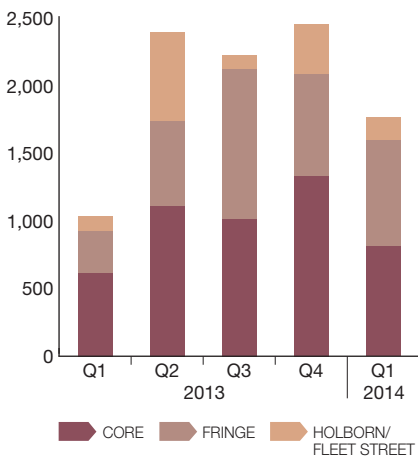
Take-up in the West End during the first quarter of 2014 fell by 10% from 1.2 m sq ft to circa 1.1 m sq ft. It was the lowest level of take-up recorded since Q4 2012 and marginally below the long-term average of 1.2 m sq ft. However there were pockets of growth in some sub-markets, including West End North, in which Google took the second largest deal of the quarter. They took a pre-let of circa 160,000 sq ft at 6 Pancras Square.

Despite the subdued quarter, the total level of searches increased by over 9%

# CITY

- Take-up totalled 1.8 m sq ft, above the long-term average of 1.7 m sq ft
- Availability increased 3% to 9.9 m sq ft by the end of Q1
- Speculative construction activity fell 14% to 2.5 m sq ft
- Investment turnover reached £1.2bn, with UK buyers accounting for 54% of activity

FIGURE 1  
**City take-up by quarter & sub-market**  
Q1 2013 - Q1 2014 (000's sq ft)



## Demand and take-up

Take-up in the City occupier market totalled 1.8 m sq ft, nearly 70% higher than the same quarter of 2013. There was a rebound in financial sector activity with Dutch bank ING taking circa 128,000 sq ft on an 18 year lease at 8-10 Moorgate, appropriately rebranded The Banking Hall, EC2. There was a fall in active searches as a number of

requirements were satisfied during the quarter, including SEI Investments and DWF LLP.

There were only four transactions in excess of 50,000 sq ft in Q1, including GSMA, an association of mobile operators, taking the last big floorplate (50,493 sq ft) at The Walbrook Building, EC4.

## Supply and development

Supply levels in the City increased marginally by 3% from 9.6 m sq ft to 9.9 m sq ft during the first quarter. Aldgate Tower, E1 (315,000 sq ft) and Alpha Beta, EC2 (240,000 sq ft) both entered the figures.

The current vacancy rate now stands at 8.4%, still well below the long-term average of 9.7%. The volume of space under construction in the City fell 19% to 4.7 m sq ft during the quarter, although it is worth noting that 2.2 m sq ft is already committed. A number of schemes including 20 Fenchurch Street reached completion this quarter.

## Rental profile

The prime headline rent remained at £60.00 per sq ft with 24 months rent free on a 10-year term. We expect the prime rent to achieve £65.00 per sq ft by the end of the year.

## Investment

Investment turnover reached £1.2 bn in the first quarter and was significantly down on the record £6.0 bn transacted in Q4 2013. Whilst turnover may seem comparatively low, the market has been constrained by a shortage of product.

There were only four transactions in excess of £100 m including US investor Hines acquiring Sixty London, EC1 for £252 m, and Singapore-based property developer Ho Bee Group purchasing 1 St Martins Le Grand, EC1 for £171 m.

There was a significant increase in activity by UK investors who accounted

for 54% of transactions by value. The prime yield hardened further by 25 basis points to 4.50% in Q1, the lowest level since Q2 2007.

FIGURE 2  
**City availability by quarter & sub-market**  
Q1 2013 - Q1 2014 (000's sq ft)

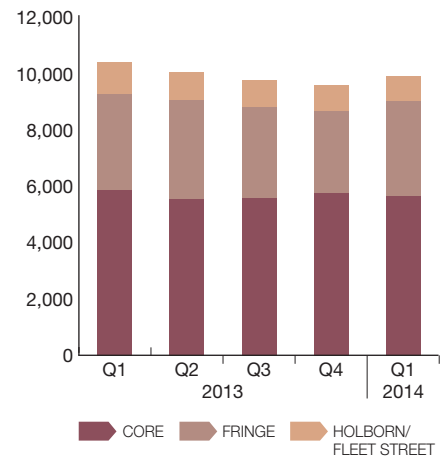
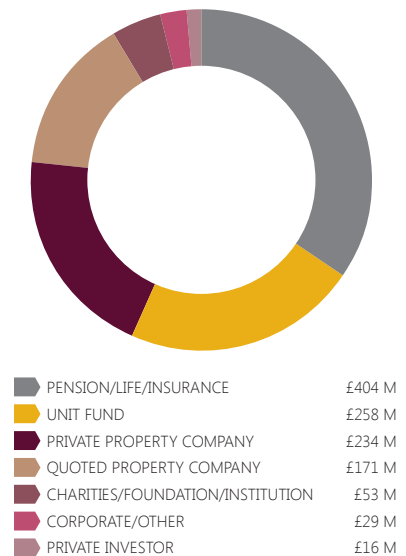


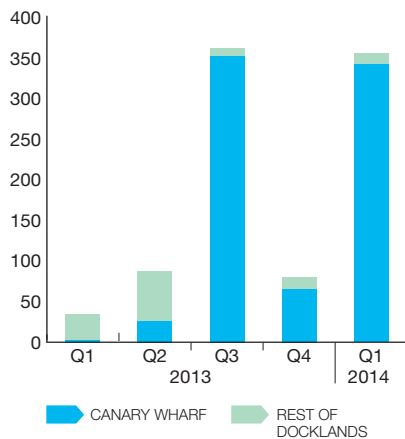
FIGURE 3  
**City investment by purchaser**  
Q4 2013 (£m)



## DOCKLANDS

- EY deal buoys take-up in Q1 2014
- Availability fell from 1.9 m sq ft to 1.7 m sq ft
- Prime headline rent remained unchanged
- Investment turnover totalled £263 m

FIGURE 1  
**Docklands take-up by quarter & sub-market**  
Q1 2013 - Q1 2014 (000's sq ft)



### Demand & take-up

Take-up in the Docklands market increased from just 80,000 sq ft at the end of last year to nearly 360,000 sq ft during the first quarter of 2014. This level represents a 44% increase on the long-term average of circa 250,000 sq ft. Since KPMG took 206,000 sq ft back in Q3 2013, other firms have followed suit. During the first quarter, notable deals included EY completing their deal at 25 Churchill Place, taking 205,000 sq ft.

There is currently circa 500,000 sq ft under offer in Canary Wharf; should this all complete in the first half of the

year, take-up would be at its highest level since 2010. There is over 160,000 sq ft under offer to TfL at 10 Upper Bank Street and a further 195,000 sq ft under offer at 25 Canada Square.

### Supply & development

Docklands (including Canary Wharf) availability fell by 9% to 1.7 m sq ft reflecting a vacancy rate of 8.1%. With the dramatic increase in recent demand, supply will come under pressure. In Canary Wharf, the vacancy rate has fallen from 10.1% at the end of 2013 to 8.1% in Q1 2014. Should all of the space under offer complete during the second quarter, the vacancy rate would fall to circa 5%, the lowest rate in Canary Wharf since Q4 2008. Furthermore, if the space under offer does transact, there will be just one building in Canary Wharf that could offer more than 100,000 sq ft.

Looking at future pipeline, with 25 Churchill Place's completion imminent and the remaining space under option, there are no other schemes currently under construction in Canary Wharf. It is unlikely that any future schemes will start construction without a substantial pre-let in place.

### Rental profile

Prime rents remained unchanged at £36.00 per sq ft.

### Investment

During the first quarter of the year, investment turnover totalled £262 m. Hines signed on the acquisition of the freehold of 25 Cabot Square by way of a sale and leaseback from Morgan Stanley, with an average income over 10 years. The price was £225 million, reflecting a net initial yield of 6.69% and a capital value of £494 psf.

The only investment currently available in Canary Wharf is 50 Bank Street, which is let to Northern Trust for nearly 8 years. Knight Frank is marketing this asset at a price of £150 million, subject to contract, reflecting a net initial yield of 5.45%.

FIGURE 2  
**Docklands availability by quarter & sub-market**  
Q1 2013 - Q1 2014 (000's sq ft)

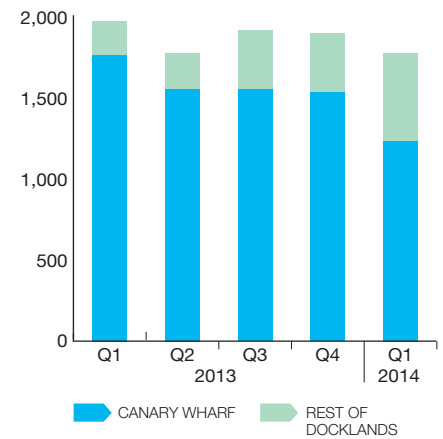
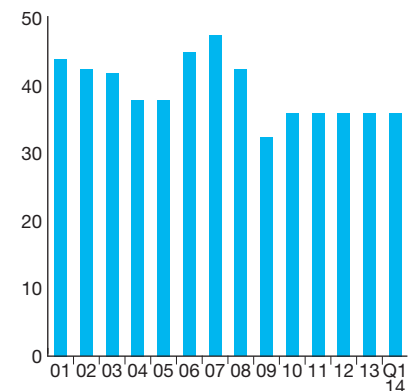


FIGURE 3  
**Canary Wharf prime rent**  
2001 - 2014 (Prime £/sq ft)



# KEY STATISTICS

## Central London office market

Availability (m sq ft)	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	3 months % change	12 months % change
West End	5.48	5.05	4.74	4.62	<b>5.01</b>	8.4%	-8.5%
City	10.42	10.09	9.78	9.61	<b>9.97</b>	3.7%	-4.3%
Docklands	1.98	1.78	1.93	1.90	<b>1.73</b>	-8.9%	-12.6%
Central London	17.88	16.92	16.45	16.13	<b>16.72</b>	3.7%	-6.5%

Vacancy Rate (%)	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	3 months % change	12 months % change
West End	6.0	5.5	5.1	5.0	<b>5.5</b>	n/a	n/a
City	8.9	8.6	8.3	8.1	<b>8.4</b>	n/a	n/a
Docklands	9.2	8.3	9.0	8.9	<b>8.1</b>	n/a	n/a
Central London	7.8	7.3	7.1	7.0	<b>7.2</b>	n/a	n/a

Take-up (m sq ft)	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	3 months % change	12 months % change
West End	1.49	1.09	1.19	1.19	<b>1.07</b>	-10.1%	-28.4%
City	1.04	2.40	2.23	2.46	<b>1.78</b>	-27.6%	71.6%
Docklands	0.03	0.09	0.36	0.08	<b>0.36</b>	350.0%	954.1%
Central London	2.57	3.58	3.79	3.73	<b>3.21</b>	-13.9%	25.1%

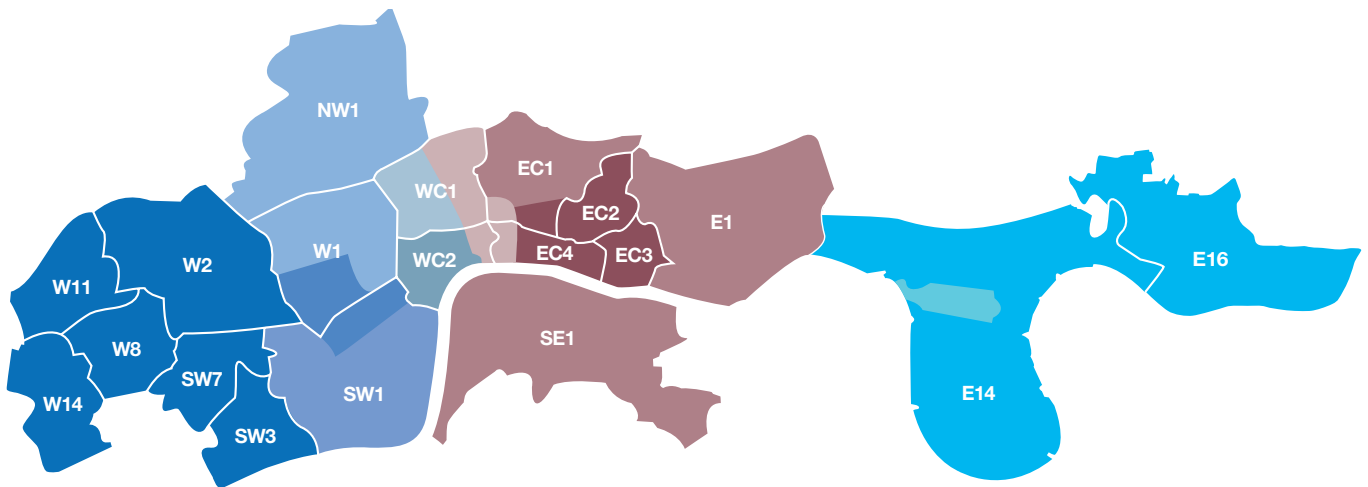
Active Requirements (m sq ft)	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	3 months % change	12 months % change
West End	1.93	1.43	1.45	1.53	<b>1.39</b>	-9.2%	-28.0%
City	3.43	4.05	3.80	4.78	<b>3.96</b>	-17.2%	15.5%
Docklands	0.05	0.15	0.05	0.05	<b>0.22</b>	340.0%	388.9%
Unspecified Central London	2.35	2.03	1.30	2.37	<b>1.98</b>	-16.5%	-15.7%
TOTAL Central London	7.75	7.66	6.60	8.72	<b>7.55</b>	-13.4%	-2.6%

Under Construction (m sq ft)	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	3 months % change	12 months % change
West End	2.67	2.89	2.58	2.73	<b>2.60</b>	-4.8%	-2.7%
City	6.00	6.43	5.82	5.80	<b>4.71</b>	-18.8%	-21.6%
Docklands	0.53	0.53	0.53	0.53	<b>0.53</b>	0.0%	0.8%
Central London	9.20	9.84	8.93	9.06	<b>7.84</b>	-13.5%	-14.8%

Investment (£ m)	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	3 months % change	12 months % change
West End	957.2	1142.6	2551.5	2189.3	<b>762.2</b>	-65.2%	-20.4%
City	1101.1	1712.4	2219.5	5947.7	<b>1164.7</b>	-80.4%	5.8%
Docklands	511.6	1000.0	287.0	0.0	<b>262.0</b>	n/a	-48.8%
Central London	2569.9	3855.0	5058.0	8137.0	<b>2188.8</b>	-73.1%	-14.8%

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).

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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.

- All floorspace figures quoted in this report refer to sq ft net.
- Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.
- 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.
- 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.

- Demand figures quoted in this report refer to named requirements for over 10,000 sq ft.
- 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.
- 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.
- 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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