



Q3 2011
**CENTRAL
LONDON**
Quarterly – Offices
Knight Frank

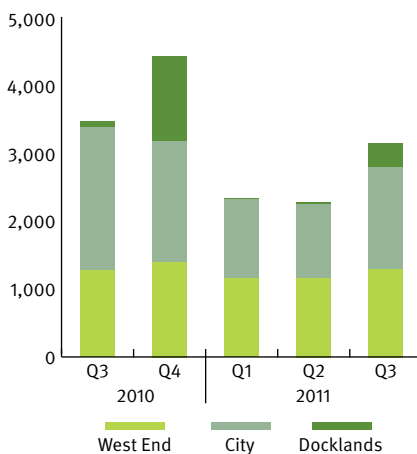
HIGHLIGHTS

- Take-up rose to 3.2 m sq ft as the volume of transactions increased across all size brackets. The uncertainty in the eurozone has affected occupier confidence, but new requirements continue to be activated, particularly from the technology sector.
- Central London supply now totals 15.9 m sq ft, almost 10.0 m sq ft below its peak just 2 years ago. There were no significant speculative development starts during the quarter, and the volatile economic environment is likely to keep construction activity low in the near-term.
- Investment turnover fell to £2.0 bn, as activity was constrained by a lack of available product at the beginning of the quarter. Sentiment remains positive and the weight of money chasing prime assets from domestic and overseas investors continues to keep yields at their current levels.

CENTRAL LONDON OVERVIEW

- **Take-up rose to 3.2 m sq ft, an increase of almost 40% from the previous quarter.**
- **Availability continued to fall and is now 15.9 m sq ft, representing a vacancy rate of 6.9%.**
- **Speculative construction resumed its downward trend and now totals 4.7 m sq ft.**
- **Investment turnover fell to £2.0 bn, although prime yields remained stable.**

Figure 1
Central London take-up by quarter & sub-market
Q3 2010 - Q3 2011 (000's sq ft)



Demand and take-up

After a disappointing first half of 2011, take-up rose in the third quarter to 3.2 m sq ft, 40% higher than the previous quarter and back above the long-term average level. The increase was fuelled by a significant rise in activity involving larger units – there were six deals greater than 50,000 sq ft in Q3 compared to just three in the previous two quarters. Activity for sub-50,000 sq ft units also increased, suggesting the market is gaining momentum.

However, the crisis over eurozone debt in September has led to economic forecasts being revised downwards and has dented tenant confidence. The Central London market traditionally lags major events in the global economy by six months, suggesting caution will dominate thinking into Q1 of next year. However, despite the uncertainty, a number of significant active requirements were launched towards the end of Q3 2011, which may help support activity.

Supply & development

Availability fell for the eighth consecutive quarter and is now 15.9 m sq ft, reflecting a vacancy rate of 6.9%. This fall was particularly encouraging considering more than 300,000 sq ft of take-up was in pre-lets and did not remove any up-and-ready supply from the market. There is now almost 10.0 m sq ft less office space available to rent in Central London than was the case 2 years ago.

There were no significant speculative development starts during the third quarter, and construction activity has fallen accordingly to finish the quarter at 4.7 m sq ft. The uncertainty in the global markets and the lack of finance will limit construction starts, at least until there is more clarity over the future of the faltering eurozone countries. It has been suggested that off-plan refurbishments could be brought to the market to soak up any unsatisfied demand for new space, however a relatively low volume of lease breaks and expiries in 2011 and 2012 will limit these opportunities.

Investment

Investment turnover fell in Q3 2011 to £2.0 bn, 25% below the previous quarter's level and 19% below the long-term average.

The number of transactions was broadly comparable – 27 in Q3 compared to 29 in Q2 – however the average transaction size was far smaller. Importantly, transaction volumes were constrained by a marked lack of stock in both markets although late in the quarter availability levels rose considerably as the City-based KanAm portfolio was brought to the market.

Central London offices are continuing to attract investors seeking a 'safe haven', particularly against the backdrop of historically low gilt yields. While overseas investors continue to account for a large share of turnover, there has been increased demand from domestic investors, with the overall weight of money chasing Central London assets ensuring prime yields remain at their current levels.

Figure 2
Central London availability by quarter & sub-market
Q3 2010 - Q3 2011 (000's sq ft)

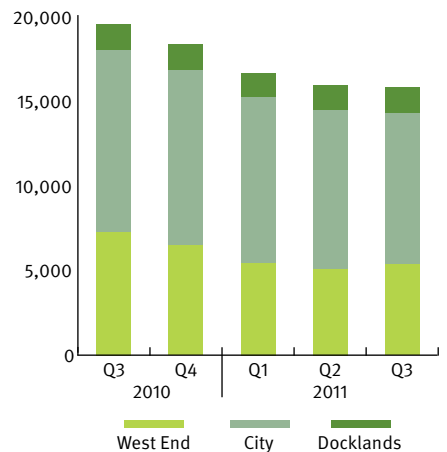
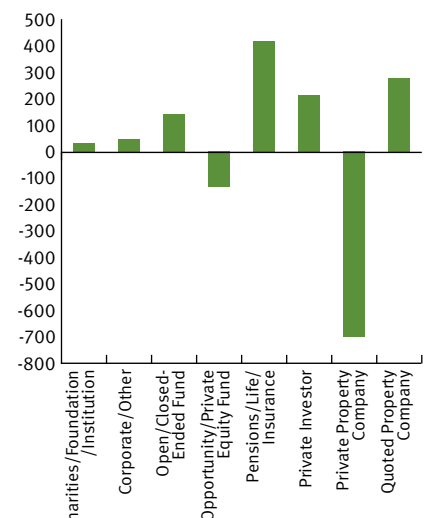


Figure 3
Central London net investment
Q3 2011 (£ m's)

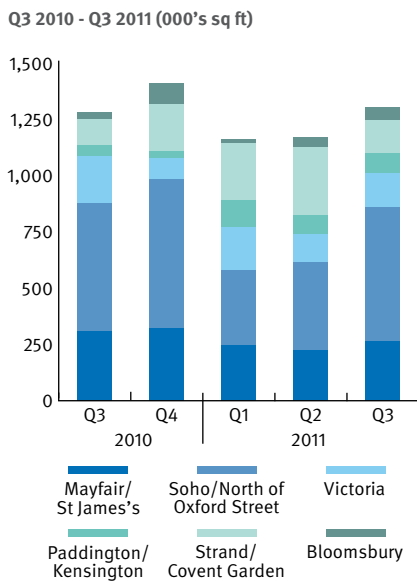




WEST END

- **Take-up increased by 14% to 1.3 m sq ft.**
- **Availability rose slightly to 5.4 m sq ft.**
- **Prime headline rents remained at £92.50 per sq ft.**
- **Investment turnover rose for the third consecutive quarter totalling £958 m.**

Figure 1
West End take-up by quarter & sub-market



Demand & take-up

Take-up in the third quarter recovered well, with transactions rising by 14% from 1.1 m sq ft in Q2 to 1.3 m sq ft. Levels are now on par with this time last year, and 12% above the 10-year long-term average. Take-up of new and refurbished space increased by 66% due to two large deals – London Borough of Camden taking 155,000 sq ft at King’s Cross Central and Debenhams signing on 150,000 sq ft at 10 Brock Street, Regent’s Place, NW1 for their relocation from Oxford Street.

Overall demand levels fell this quarter, with the removal of the two large requirements mentioned in the deals above, but a

number of new requirements were activated leaving active demand figures at 1.3 m sq ft. Requirements from the financial sector more than doubled in Q3, although with the ongoing eurozone crisis tenants may be reluctant to launch new searches in the near-term.

Supply & Development

Availability has increased marginally this quarter to 5.4 m sq ft up from 5.1 m sq ft in Q2, with the addition of St George’s Court and Parker Tower, Parker Street to the figures. This reflects a vacancy rate of 5.9%, which is still 25% below the long-term average.

The volume of space under construction speculatively has fallen by 21% in Q3 to 1.5 m sq ft. There were no speculative starts during the quarter which will place further downwards pressure on the vacancy rate for new and refurbished space which is currently at 1.2%. The shortage of quality stock is particularly acute in the Core with just 111,000 sq ft of new and refurbished space currently available.

Rental Profile

The prime headline rent remained at £92.50 per sq ft in Q3. Rent free periods are currently at 18 months on a 10-year lease. Rents have been achieved in the Core during the quarter at £106.80 per sq ft on small units in trophy buildings.

Investment

Turnover rose for the third consecutive quarter totalling £958 m, 15% above the previous quarter, and well above the long-term average of £831 m. Sentiment in the West End remains positive despite the historic low levels of stock. Continued demand for freehold assets in the Core from private and foreign investors has sustained prime yields at 4.00%.

The largest deal recorded in Q3 was Tishman Speyer’s acquisition of The Sanctuary Buildings, 14-16 Great Smith Street, SW1 for £172 m, with a NIY of 5.66%. At the end of Q3 there was already over £600 m under offer, a positive start for year-end figures.

Figure 2
West End availability by quarter & sub-market

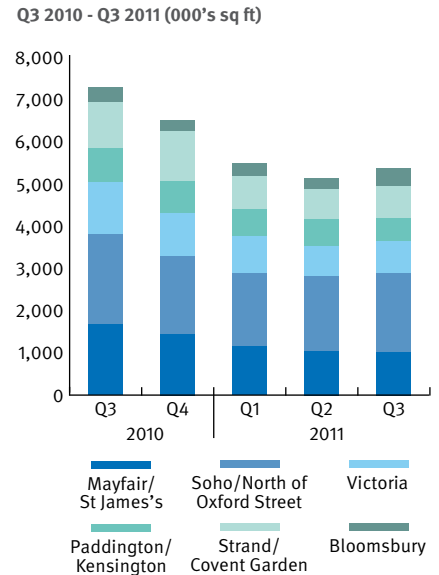
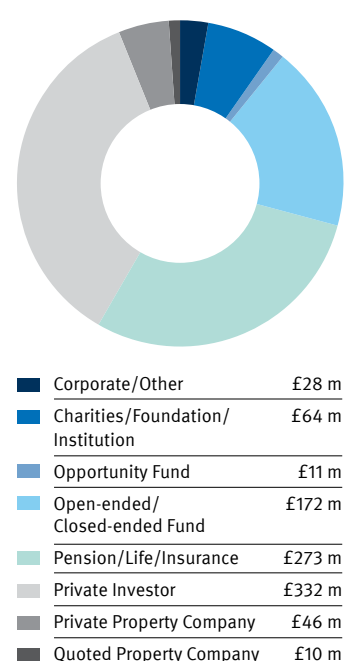


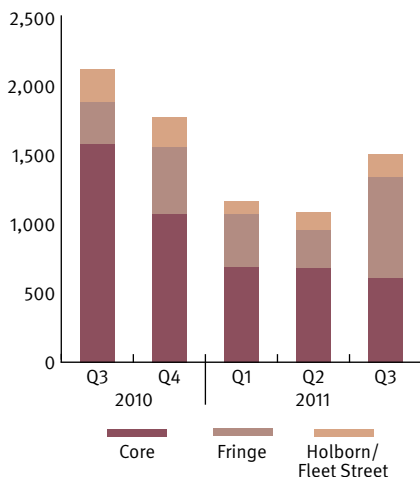
Figure 3
West End investment by purchaser



CITY

- **Take-up returns to average at 1.5 m sq ft.**
- **Availability falls to 9.0 m sq ft, reflecting a vacancy rate of 7.7%.**
- **Prime headline rents unchanged at £55.00 per sq ft.**
- **Investment availability rises to £3.8 bn, of which £1 bn is under offer.**

Figure 1
City take-up by quarter & sub-market
Q3 2010 - Q3 2011 (000's sq ft)



Demand and take-up

City demand returned to the long-term average level in Q3, with take-up of 1.5 m sq ft. However, year-to-date figures confirm 2011 has been a slow year for the City, with take-up in the first nine months of just 3.8 m sq ft; compared to 5.7 m sq ft for the same period in 2010. The eurozone crisis is casting a shadow over market sentiment, which may lead to more tenants opting to renew their leases to avoid launching an office search during a time of uncertainty.

Professional firms were active in Q3, with Trowers & Hamlins signing on 99,000 sq ft at 3 Bunhill Row, and PwC taking an additional 46,000 sq ft in London Bridge City. There has also been a rise in TMT sector demand

recently. Expedia acquired 81,000 sq ft at the Angel Building, and are under offer on the remaining floor in this building. Also, Google took 25,000 sq ft at 4 Bonhill Street.

Supply and development

Supply continues to fall, down from 9.4 m sq ft in Q2 to 9.0 m sq ft in Q3, and below the long-term average figure of 11.3 m sq ft. The vacancy rate stands at 7.7%; its lowest level in four years. While demand has been lacklustre this year, supply has consistently fallen, due to a weak development pipeline. However, banks have announced redundancies this summer, and we may see more sub-let space released in the next 12 months.

The volume of space under construction speculatively declined to 3.1 m sq ft – down from 3.3 m sq ft in Q2. There has been much discussion on the possibility of a development over-supply in 2014. However, given the weak economic backdrop and low availability of debt, we expect some of the developments scheduled for 2014 to roll back into 2015 or even 2016, flattening out the pipeline.

Rental profile

Despite the fall in supply the prime headline rent remained unchanged at £55.00 per sq ft, a reflection on the economic situation and the impact this has had on demand.

Investment market

Investment turnover in Q3 dropped to just over £1.0 bn, the weakest quarter in over two years. This is partly a lull after a busy Q2 – the strongest quarter for sales activity since 2007. There has been a sharp increase in investment availability from £2.6 bn in Q2 to £3.8 bn, of which around £1 bn is currently under offer. Reports of City availability in excess of £5 bn invariably include large Canary Wharf assets, which we report separately.

Prime yields remained steady at 5.25%. The announcement of further QE suggests the low interest rate environment is set to continue for some time, which should support prime yields.

Figure 2
City availability by quarter & sub-market
Q3 2010 - Q3 2011 (000's sq ft)

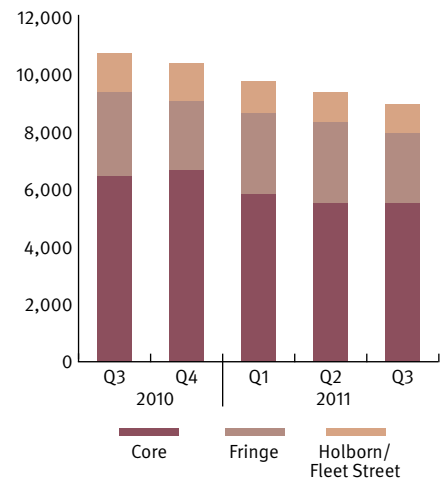
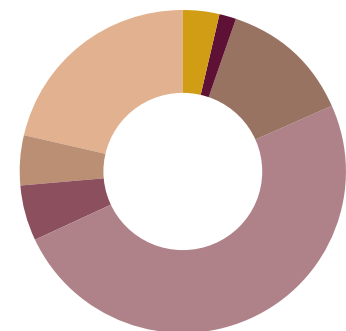


Figure 3
City investment by purchaser
Q3 2011



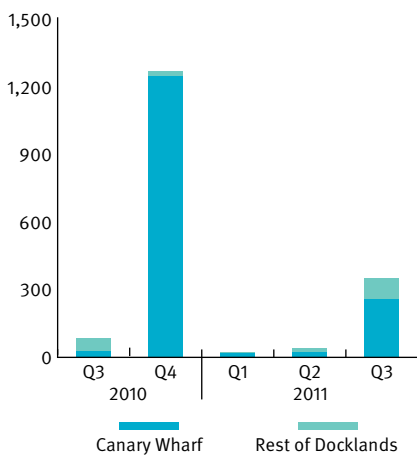
Corporate/Other	£39 m
Opportunity Fund	£17 m
Open-ended/Closed-ended Fund	£139 m
Pension/Life/Insurance	£521 m
Private Investor	£57 m
Private Property Company	£52 m
Quoted Property Company	£223 m



DOCKLANDS

- **Take-up in Q3 increased to 0.4 m sq ft due to the pre-let to EMA.**
- **Availability rose just 3.0% to 1.5 m sq ft.**
- **Prime headline rents for Canary Wharf remained at £36.00 per sq ft.**
- **No investment transactions so far this year.**

Figure 1
Docklands take-up by quarter & sub-market
Q3 2010 - Q3 2011 (000's sq ft)



Demand & take-up

Take-up levels in the third quarter saw a significant rise due to two deals over 50,000 sq ft. The European Medicines Agency (EMA) took c250,000 sq ft on an off-plan pre-let at 25 Churchill Place for a 25 year lease term. Also, British American Tobacco signed on just under 60,000 sq ft at 4 Harbour Exchange on a 10-year lease.

Since the quarter end, BBVA has signed on 29,000 sq ft at One Canada Square, at a rent

reported to be mid £40's per sq ft, a positive increase in rents achieved. Looking further afield, although not counted in our figures, 1 Stratford Place, E20, the new development by Westfield due for completion by the end of the year already has three tenants under offer totalling c53,000 sq ft.

Supply & Development

There was little change in the Q3 supply figures, with availability up by just 3.0% from to 1.5 m sq ft, reflecting a vacancy rate of 6.9%. Canary Wharf availability remains at around the long-term average levels with just over 1.0 m sq ft currently being marketed. However, major global banks, including Canary Wharf occupiers have announced job losses, increasing the possibility of tenant release space coming to the market in the next 12 months.

The EMA pre-let kick-starts the development of 25 Churchill Place, with a speculative element of 250,000 sq ft. There are no other speculative schemes in the pipeline in Docklands, which will limit new supply coming to the market for the next two years.

Rental Profile

Prime headline rents in Canary Wharf remained at £36.00 per sq ft for the sixth consecutive quarter, as the lack of transactions on completed space provides little rental evidence of any movement. The EMA deal was on a premium to on-market prime rents (£46.50 per sq ft was achieved) in order to make the deal economic for the developer. This could mark a new trend for those seeking high quality off-plan space in non-core locations.

Investment

There have been no investment deals so far this year in the Docklands.

Figure 2
Docklands availability by quarter & sub-market
Q3 2010 - Q3 2011 (000's sq ft)

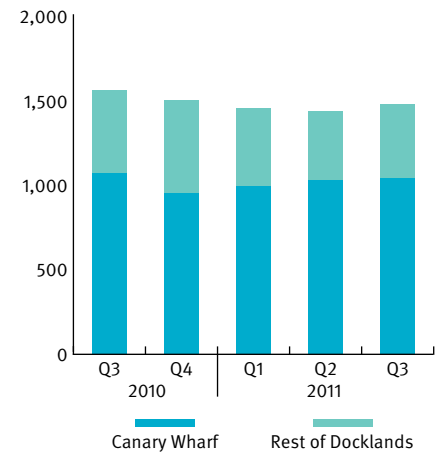
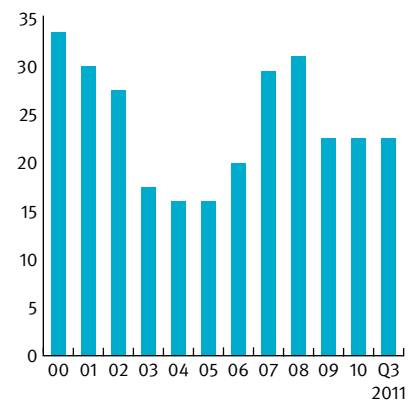


Figure 3
Rest of Docklands prime rent
2000-Q3 2011 (Prime £/sq ft)



Key statistics

Central London office market

Availability (m sq ft)	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	3 months % change	12 months % change
West End	7.29	6.51	5.49	5.13	5.39	5.0%	-26.1%
City	10.77	10.41	9.79	9.40	8.99	-4.4%	-16.5%
Docklands	1.57	1.51	1.46	1.44	1.48	2.9%	-5.3%
Central London	19.63	18.43	16.74	15.97	15.86	-0.7%	-19.2%

Vacancy Rate (%)	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	3 months % change	12 months % change
West End	8.0	7.1	6.0	5.6	5.9	n/a	n/a
City	9.2	8.9	8.4	8.0	7.7	n/a	n/a
Docklands	7.3	7.0	6.8	6.7	6.9	n/a	n/a
Central London	8.5	8.0	7.3	6.9	6.9	n/a	n/a

Take-up (m sq ft)	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	3 months % change	12 months % change
West End	1.28	1.41	1.16	1.14	1.31	14.2%	1.8%
City	2.13	1.78	1.17	1.09	1.51	38.7%	-29.2%
Docklands	0.08	1.27	0.03	0.04	0.35	765.0%	316.6%
Central London	3.50	4.46	2.36	2.27	3.17	39.4%	-9.5%

Active Requirements (m sq ft)	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	3 months % change	12 months % change
West End	1.91	1.73	1.72	1.90	1.25	-34.2%	-34.3%
City	3.05	3.42	4.95	4.79	4.62	-3.7%	51.5%
Docklands	0.00	0.06	0.06	0.50	0.22	-56.4%	n/a
Unspecified Central London	1.64	0.96	0.92	0.62	1.05	71.1%	-35.9%
TOTAL Central London	6.60	6.16	7.64	7.81	7.14	-8.6%	8.2%

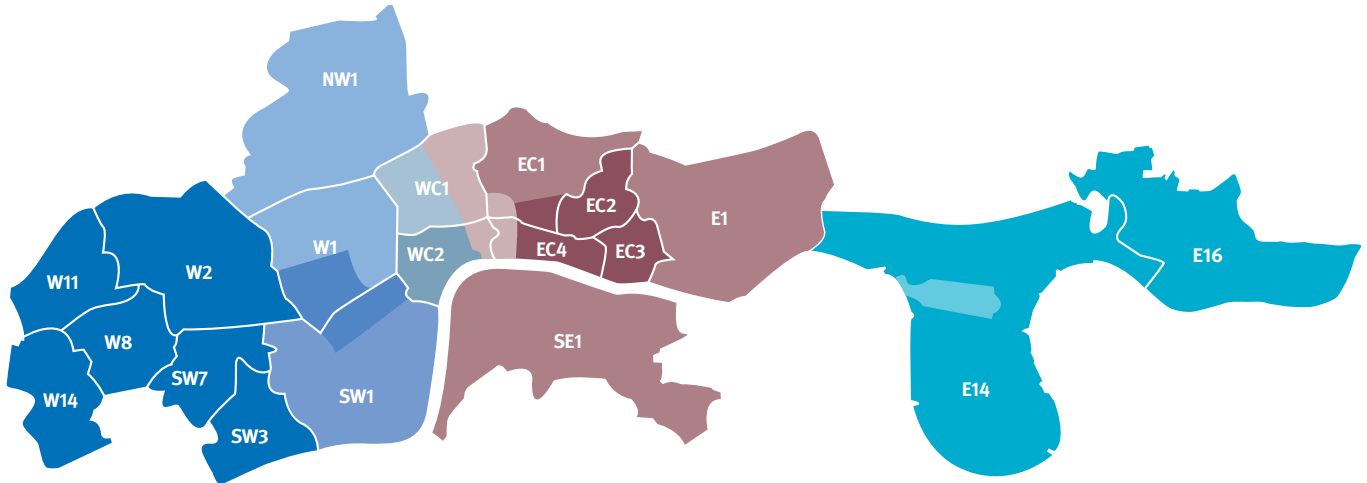
Under Construction (m sq ft)	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	3 months % change	12 months % change
West End	1.36	1.43	1.77	1.95	1.70	-12.9%	25.1%
City	1.88	2.67	3.28	3.45	3.80	10.1%	102.1%
Docklands	0.00	0.00	0.00	0.00	0.00	n/a	n/a
Central London	3.24	4.10	5.05	5.40	5.50	1.8%	69.8%

Investment (£ m)	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	3 months % change	12 months % change
West End	915.3	1088.0	667.3	829.5	958.0	15.5%	4.7%
City	1638.3	1703.9	1394.4	1866.6	1047.9	-43.9%	-36.0%
Docklands	5.8	495.0	0.0	0.0	0.0	n/a	n/a
Central London	2559.4	3286.9	2061.7	2696.1	2005.9	-25.6%	-21.6%

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**
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.

- 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