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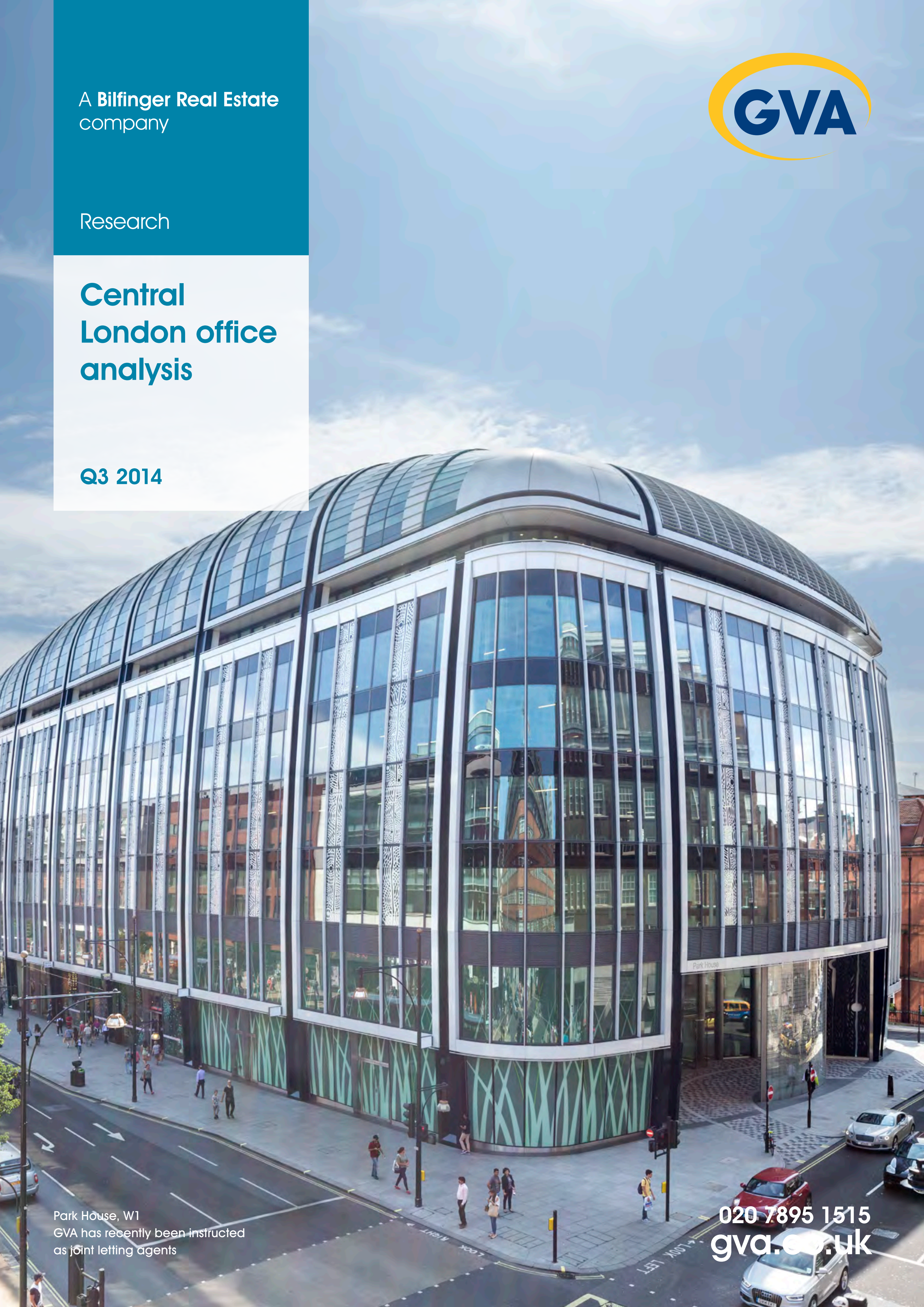
Research

Central London office analysis

Q3 2014



Park House, W1
GVA has recently been instructed as joint letting agents

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Central London
Market comment

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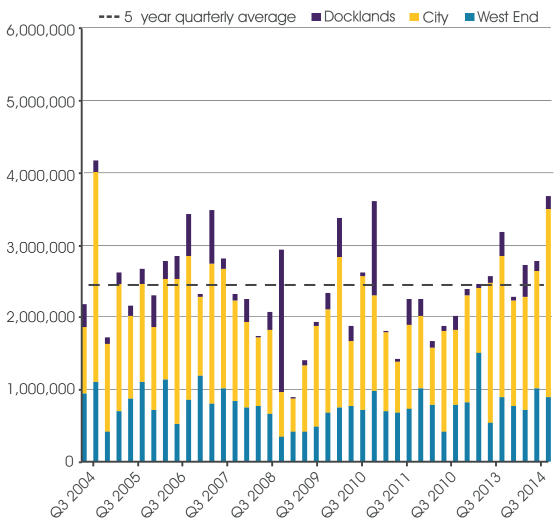
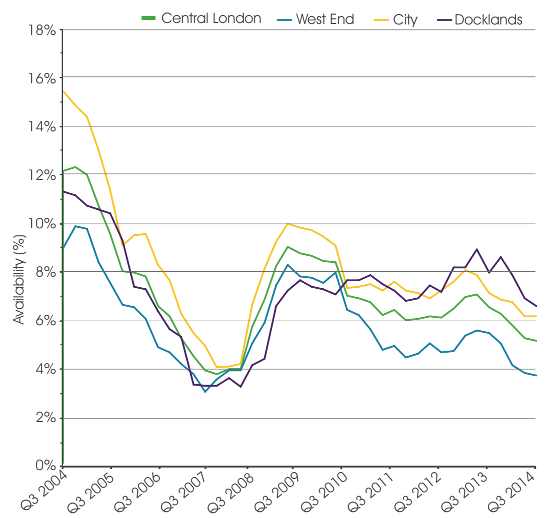
Central London take-up
Source: EGI/GVA



Central London office availability rates
Source: GVA, Focus



Welcome to GVA's Central London office analysis; a detailed account of our view of the market in Q3 2014.

2014… The year of the pre-let?

With 9.2 million sq ft already transacted this year, and over 3 million sq ft under offer, 2014 is likely to be a record year across central London, with take-up potentially reaching its highest since 2001. Activity has been driven by forward planning with pre-letting accounting for a third of take-up so far in 2014. The result of this trend is that the construction pipeline is slowly being eroded. Whilst there is currently 12.3 million sq ft under construction, over 40% of this space has already been let, leaving just 7.1 million sq ft of available space in the pipeline across central London.

This story is especially interesting in the West End, where there has historically been very little pre-letting, but now shows no sign of abating with Jupiter Asset Management taking 50,000 sq ft at the ZigZag building, at a rent rumoured to be in excess of £80 per sq ft.

Reducing voids

As new developments are increasingly let during, or even prior to construction, those buildings that do complete fully available are increasingly popular with tenants as the race for space heats up. Of the 4.5 million sq ft that completed across central London during 2013, only 0.8 million sq ft, or 18%, is still available.

As availability decreases and tenants have less choice, those buildings which did not initially prove popular are increasingly seeing a wave of interest. Buildings such as 15 Sackville Street, which had previously experienced letting voids, have now become fully let or under offer.

At Marble Arch House, which is already 50% let, rents up to £85 per sq ft have been achieved at a relatively 'off-pitch' location as tenants seem willing to forego prime location over quality of space.

At 23 King Street, where record rents were achieved on its top two floors during Q3 2013, letting activity had slowed until recently when London Executive Offices Group and Berry Asset Management took four floors between them, with only one floor remaining. In Midtown, Africa House, which completed during Q3 2013, is now fully let to Mischon de Reya, after the law firm chose the building following a long search to consolidate its London staff. With Rockspring and Charterfield's Monument Place in the City seeing activity during the quarter, there are only seven buildings that completed last year across central London which are below 50% let.

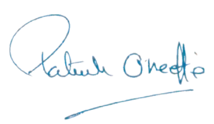
New rental highs?

During the quarter, rents increased in the majority of our City submarkets, with prime rents in the core now at £60 per sq ft, and tower floors achieving in excess of £70 per sq ft. In the West End, the majority of growth was in the fringe markets. However, over the coming months we expect to see substantial movement on super-prime space in Mayfair and St James's, with 30 Berkeley Square and/or 8 St James's Square likely to set a new rental high point for the West End. Whilst these rents are not indicative of the whole market, it would not be a surprise to see the 2007 rental high of £140 per sq ft surpassed in either of these buildings.

Development maps

After a short summer break, we are currently presenting our development maps to clients. If you would like us to come and see you to discuss how the development outlook is changing, please don't hesitate to drop us a line.

Patrick O'Keeffe



Central London
Occupier market

Take-up

Central London take-up for Q3 2014 totalled 3.7 million sq ft, 32% up on the previous quarter, and 49% up on the five-year quarterly average of 2.5 million sq ft. This was the highest quarter measured in ten years. Take-up for the first three quarters of the year is just 13% below the entire annual take-up for 2013, which itself was the busiest year since 2010.

During Q3, the City fringe saw the most activity, accounting for 40% of take-up (1.5 million sq ft), 89% up on the five-year quarterly average. The City core also saw well above average take-up, up 76% on the average. Activity in the West End fringe was up 9%.

The two largest deals of Q3 were pre-lets on buildings not yet under construction. The largest deal was Amazon's letting of 430,000 sq ft at Brookfield's Principal Place (EC2), meaning that the development is already two thirds let. Construction started not long after the Amazon deal completed and is due to complete in 2017. At Generali's 10 Fenchurch Avenue (EC3), M&G took 323,000 sq ft on a 20 year lease, also due to complete in 2017.

During the quarter, professional services was the most active sector, accounting for 30% of activity, with finance and banking making up 21% of take-up. Retail related services totalled 16%.

Second-hand grade A space accounted for the majority of take-up during the quarter, totalling 1.3 million sq ft across central London and making up 35% of activity. Pre-construction letting made up the majority of pre-letting with 850,000 sq ft transacted, 23% of activity. Take-up on space under construction was quieter this quarter than usual, making up only 8% of activity, with deals on completed space accounting for 20%.

During the quarter, eleven deals completed over 50,000 sq ft, three of which were over 100,000 sq ft; two in the City and one in the West End.

Availability

During Q3 2014, availability across central London decreased by 150,000 sq ft to 9.9 million sq ft, equating to a vacancy rate of 5.1%, down from 5.2% at the end of Q2 2014. This relatively small fall in availability follows the 9.2% decrease in available space we saw during the second quarter.

There is 2.5 million sq ft less available space than at the same time last year, when the vacancy rate was 6.5%. Available space is still 38% up on that measured during Q4 2007.

Development

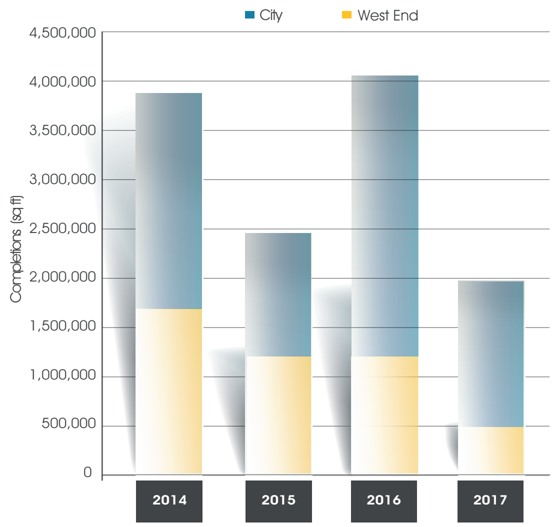
During the quarter, 1.7 million sq ft of development completed. The largest building to complete, one of six buildings over 100,000 sq ft, was British Land's 588,000 sq ft The Leadenhall Building (EC3), which was 60% let before completion.

760,000 sq ft of development started during the quarter, the largest building being Brookfield's Principal Place (EC2). This means that there is currently 12.3 million sq ft under construction across central London, with 3.9 million sq ft (31%) due for completion before the end of 2014 and with only a further 2.5 million sq ft (21%) due before the end of 2015. Of the space currently under construction, 42% has already been let, leaving just 7.1 million sq ft of available space currently under construction.

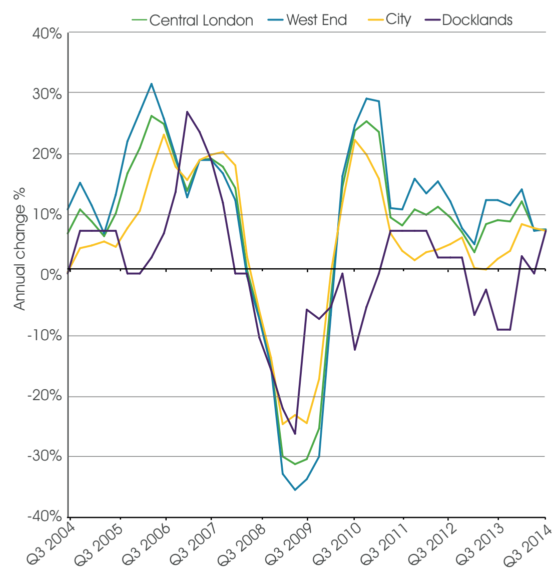
Rental growth

Central London prime rents grew by 2% during the quarter. The City and the West End grew by 2.9% and 1.6% respectively, while Docklands remained stable. Prime rents across all central London are up 7.2% as of the same time last year, with the GVA Central London index now 8% above its previous Q4 2007 peak.

Central London office space under construction
Source: GVA



Central London prime rental growth
Source: GVA



Central London
Investment market

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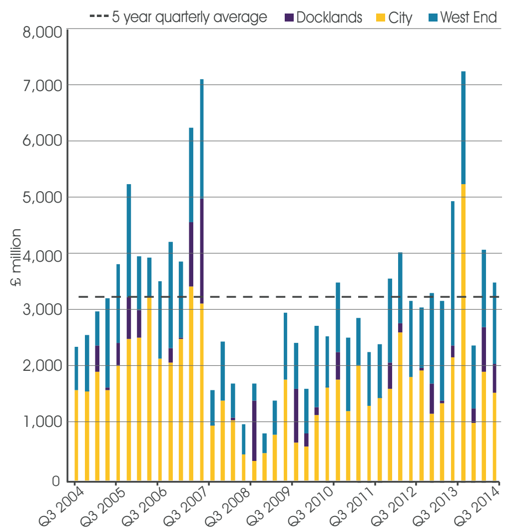
Unusually, there is currently a reasonable amount of available investment/development stock on the market, with a number of large assets available, including 111 Buckingham Palace Road, Milton Gate and the Old War Office, which is being marketed by GVA.

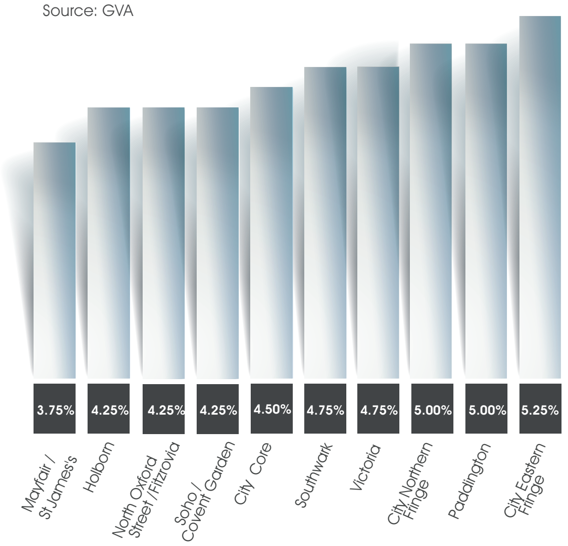
There are a number of smaller assets also being marketed with a continuing supply of residential conversions in the West End and multi-let asset management opportunities in the City.

The most notable deal of the previous quarter was The Crown Estate and Norges Bank's purchase of the 64% share in The Pollen Estate, with Norges also rumoured to have agreed heads of terms on Queensberry House, Old Burlington Street. UK buyers, including the institutions and REITs are all actively looking in the West End and City but they face stiff competition from overseas investors, particularly from the US and the Far East.

Central London office investment transactions
Source: GVA, PropertyData



Central London office yields
Source: GVA



Transaction volumes

During Q3 2014, central London investment totalled £3.5 billion across 62 deals, 14% down in value on the £4.1 billion across 57 deals measured during the second quarter, and 29% down on the corresponding period last year. Nevertheless, total investment for Q3 2014 was still up 8% on the five-year quarterly average. With the Qatari Investment Authority under offer at 8 Canada Square (E14), and strong interest in 30 St Mary Axe (EC3) we expect a very busy final quarter, with transaction volumes for the year likely to make 2014 the second busiest year since 2007.

In the City £1.6 billion was transacted, with the largest deals in the core being Blackstone's purchase of 125 Old Broad Street (EC2) for £320 million at a yield of 5% and Cathay Life's acquisition of Woolgate Exchange from TPG Real Estate, also for £320 million, at a yield of 5.1%. In Midtown, Temasek and Oxford Properties bought MidCity Place (WC1) for £175 million from Beacon Capital Partners, and Citi Private Bank transacted on 280 High Holborn (WC1) for £86 million at a yield of 4.3%.

The West End saw £1.4 billion transacted, with the largest deal being Norges Bank and The Crown Estates' £381 million purchase of 64% of the Pollen Estate, which is made up of 43 prime freehold assets over 720,000 sq ft over 4 acres. In Paddington, GVA advised on Tishman Speyer's acquisition of the £210 million purchase of The Point (W2) from Hermes, at a yield of 5.45%.

There were three deals in Docklands, all over £100 million, with the largest being Korean Teachers Credit's purchase of Exchange Tower (E14) for £191 million at a yield of 7%.

In keeping with recent trends, overseas investors were the most active this quarter, accounting for 65% (£2.3 billion) of purchases but only 40% of sales across central London. Far Eastern investors made up 26% of the market and US investors an additional 24%. UK institutional investors were the second most active in the market, accounting for 18% of purchases and 33% of sales.

During the quarter, there were 12 purchases of over £100 million, with four of those in excess of £200 million.

Yields

Prime yields came in at least 25 basis points in six out of ten central London submarkets, with Holborn coming in 50 basis points to 4.25% off the back of deals at MidCity Place (WC1) and 280 High Holborn (WC1).

Prime yields in Mayfair and St James's remain at 3.75%, with the City core also stable at 4.5%, the lowest since Q2 2007 and only 25 basis points above the peak of the last cycle.

The Point, W2

GVA recently advised Tishman Speyer on their purchase

West End Occupier market

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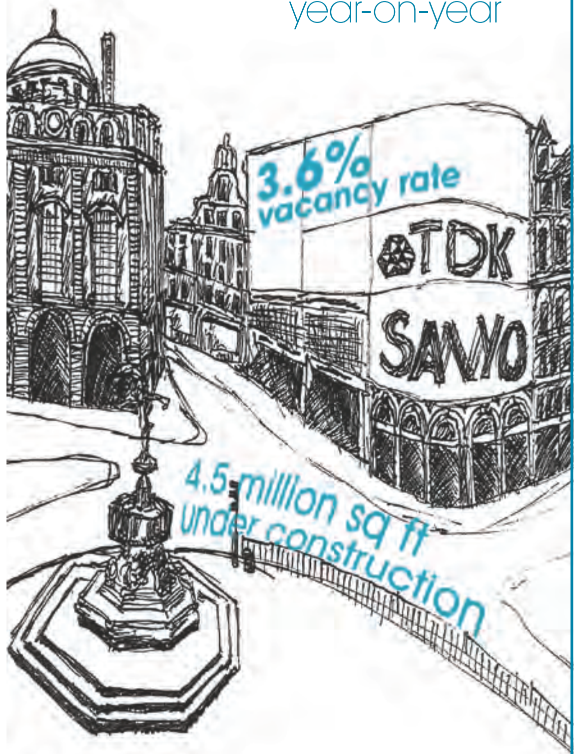
883,000 sq ft let
9.3% up on 5-year quarterly average

7.3%
rental growth year-on-year



£ 115 per sq ft
prime rents

Take-up

During Q3 2014, take-up across the West End totalled 883,000 sq ft, 29% down on what had been a very busy Q2 but still 9% higher than the five year quarterly average. Take-up with three quarters of the year gone is 10% down on the corresponding period last year.

The big deal of the quarter was Mischon de Reya's letting of the entire 120,000 sq ft at Freshwater's Africa House (WC2), which completed in Q3 2013. In Victoria, Parliamentary Estates paid £69.50 per sq ft on the entire 90,600 sq ft at British Land's recently refurbished 39 Victoria Street (SW1). The largest pre-let in the West End was Doctors Laboratory's acquisition of the 90,000 sq ft Halo Building (WC1), due to complete later this year.

Professional services was the most active sector in the West End, accounting for 34% of take-up during the quarter. Public services and TMT made up 21% and 18% of take-up respectively.

During Q3 2014 deals on recently completed space accounted for 334,000 sq ft and 38% of take-up across the West End, with deals on space under construction accounting for a further 163,000 sq ft or 18%. This means deals on all new buildings accounted for 56% of take-up altogether. Second-hand grade A space was 23% of take-up for the quarter.

Availability

Availability decreased slightly during Q3 from 3.1 million sq ft to 3 million sq ft. The vacancy rate is now at 3.6%, down from 5.4% during the corresponding period in 2013.

Whilst availability across the West End is as low as it has been since 2007 it is still 20% above 2007 levels.

Development

746,800 sq ft completed across the West End during Q3 2014. The largest building to complete was the 348,400 sq ft 6 Pancras Square at King's Cross Central (NW1), where 5 (155,000 sq ft) and 7 (19,700 sq ft) Pancras Square also completed. This brought King's Cross completions to a total of 523,100 sq ft for the quarter. Only 24,000 sq ft went under construction in the West End, with the only start being on the retrofit at Midlands Good Shed, also in King's Cross Central (NW1). There is currently 4.5 million sq ft under construction, with 28% of this space already let.

Rental growth

During the quarter, prime rents across the West End increased slightly by 1.6%. This means that prime rents across the market are up 7.3% on the same period last year.

In Mayfair and St James's, prime rents remained stable at £115 per sq ft with a rent free period of 17 months for the third successive quarter. Prime rents remain above the 2007 peak, with rent free periods still more generous, failing to come in significantly during the quarter. Super-prime rents remain at £130 per sq ft.

With prime locations having driven rental growth over the last couple of years, the last two quarters have seen fringe areas start to catch up, with the big movers this quarter being Chelsea and Vauxhall which saw growth of 10.3% and 12.5% respectively.

City Occupier market

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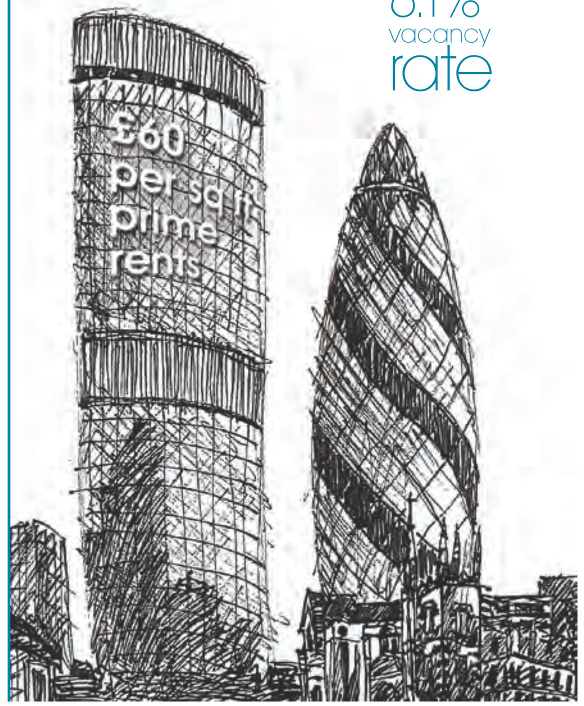
2.6 million sq ft
take-up
Busiest quarter since 2004

841,000 sq ft
of pre-construction take-up

7.8 million sq ft
under construction

6.1%
vacancy
rate



Take-up

Take-up in the City was the highest in ten years, totalling 2.6 million sq ft, 62% up on the previous quarter and 85% up on the five-year quarterly average. Take-up for the first three quarters of the year totals 5.8 million sq ft, 20% up on the corresponding period in 2013. Whilst take-up for 2013 was the highest measured since 2006, it seems likely that 2014 will surpass both years.

During the quarter there were six deals of over 50,000 sq ft, two of which were over 100,000 sq ft, both being key lettings which enable development to start on two key sites within the City. Amazon's 430,000 sq ft letting has kick-started development at Brookfield's Principal Place (EC2), with the building due to complete in 2017. Amazon also took 96,000 sq ft of temporary spill-over space at 1 Leadenhall Court (EC3), with occupation from mid-2015. M&G took 323,000 sq ft on a 20 year lease at Generali's 10 Fenchurch Avenue (EC3). At 125 London Wall (EC2), Lloyds and Reed Elsevier took 73,000 sq ft and 40,000 sq ft respectively, meaning that there are only two floors still available at the former JP Morgan building.

Professional services was the most active sector accounting for 28% of take-up, with finance and banking sector and retail related services accounting for 23% and 22% of take-up respectively.

Across the City, 32% (841,000 sq ft) of activity during the quarter was for space not yet under construction, with deals done on space under construction making up another 5% of lettings and deals on newly completed space, an additional 15%. There was 946,000 sq ft of second-hand grade A lettings, making up 36% of take-up.

Availability

Availability in the City remained stable at 5.6 million sq ft, with the vacancy rate still at 6.1%, which is still the lowest available space recorded since Q2 2008. Availability is 14% down on the corresponding period in 2013.

Development

943,300 sq ft completed during the quarter including British Land's The Leadenhall Building (EC3) and the 187,000 sq ft 71 Queen Victoria Street (EC4).

As well as the start at Principal Place (EC2), construction also commenced at Helical Bar's 62,000 sq ft Maple House (EC1) and the 57,100 sq ft Salters Hall (EC2). At the end of the quarter, there was 7.8 million sq ft under construction, with only 1.3 million sq ft of this due to complete in 2015.

Rental growth

During the quarter prime rents in the City increased by 2.9%, although prime rents are up 7.1% over the last 12 months.

During Q3, eight out of our ten sub-markets saw prime rental growth, with the City eastern fringes and Shoreditch seeing the greatest growth at 6%. Core City rents increased to £60 per sq ft, their highest since mid-2008, with rent free periods coming in slightly to 21 months. Prime rents on tower floors continue to achieve in excess of £70 per sq ft and pre-lets are typically achieving between £60 and £65 per sq ft. It is anticipated that Q4 will herald further rental growth and an accelerated contraction of rent free periods as the market continues to tighten.

Docklands Occupier market

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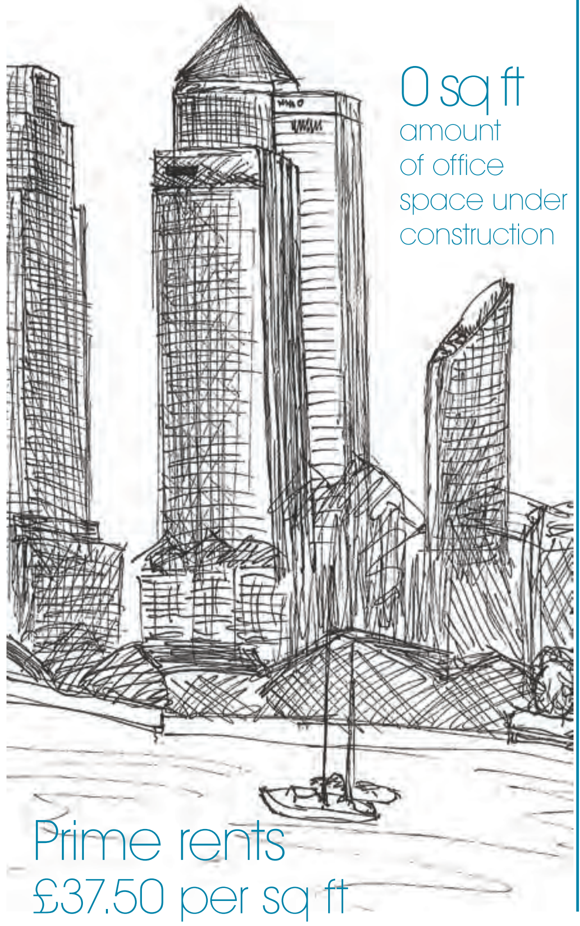
758,800 sq ft
Q1-3 2014
Highest since 2010

18.6%
increase in take-up on previous quarter

Vacancy rate
6.5%

0 sq ft
amount of office space under construction



Prime rents
£37.50 per sq ft

Take-up

Q3 saw 172,000 sq ft of lettings, meaning that take-up so far this year is 758,800 sq ft, already the busiest year since 2010. The majority of this year's activity was seen in Q1 2014 when 440,000 sq ft was let, which was Docklands' most active quarter since Q4 2010.

Take-up for this quarter was 18.6% up on the previous quarter, but still 26.4% down on the five-year quarterly average.

The largest deal of the quarter was Truphone's acquisition of 59,900 sq ft across two floors at 25 Canada Square (E14). GFK and NETNAMES took 39,700 sq ft and 16,400 sq ft respectively within the same building.

The busiest sector in the Docklands was professional services which made up 52% of activity during the quarter.

Availability

There is 1.3 million sq ft of available space across Docklands. The vacancy rate fell to 6.5% from 6.9% during the quarter.

Development

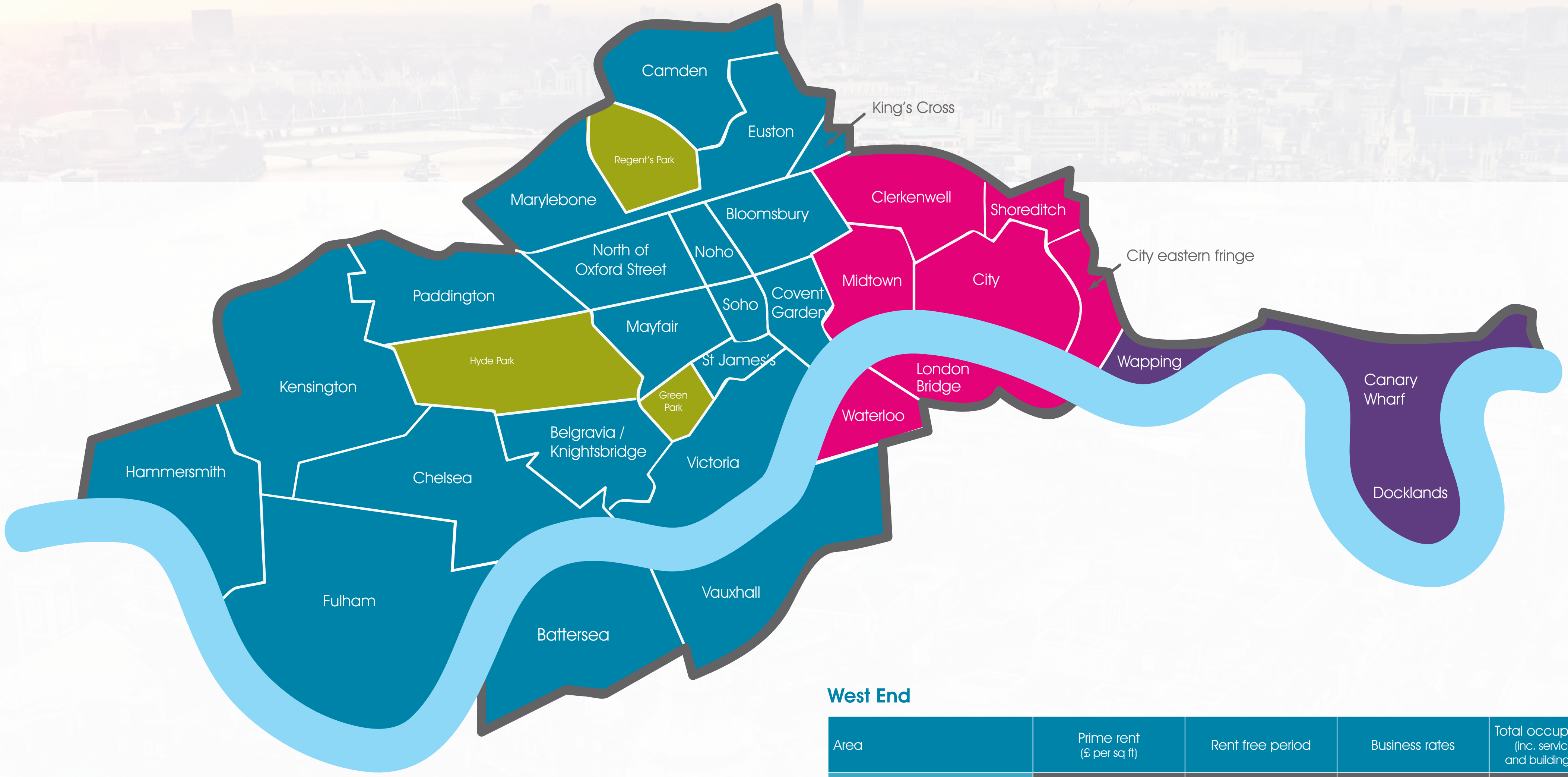
There is no office space under construction across Docklands.

Rental growth

Prime rents were stable during the quarter at £37.50 per sq ft, with rent free periods at 24 months. There continues to be a wide disparity in asking rents between landlord space and space available on a sub-let from occupiers. Outside the Wharf, rents have remained stable at £27.50 per sq ft with rent free periods also stable at 27 months.

10 Upper Bank Street, E14

GVA is instructed to dispose of 250,000 sq ft on behalf of Clifford Chance.



City

Area	Prime rent (£ per sq ft)	Rent free period	Business rates	Total occupancy costs (inc. service charge and building insurance)
City Core	£60.00	21 months	£21.10	£91.35
Chancery Lane/Midtown	£60.00	20 months	£24.65	£94.90
City Eastern Fringe	£45.00	22 months	£16.90	£72.15
Northern City	£55.00	23 months	£17.10	£82.35
Insurance sector	£57.50	22 months	£21.85	£89.60
London Bridge/More London	£50.00	21 months	£18.65	£78.90
Waterloo/Bankside	£52.50	20 months	£18.65	£81.40
West City	£58.50	22 months	£18.80	£87.55
Shoreditch	£47.50	18 months	£11.65	£69.40
Clerkenwell	£52.50	18 months	£14.00	£76.75

Docklands

Area	Prime rent (£ per sq ft)	Rent free period	Business rates	Total occupancy costs (inc. service charge and building insurance)
Canary Wharf	£37.50	24 months	£15.85	£63.60
Other Docklands	£27.50	27 months	£11.40	£49.15

West End

Area	Prime rent (£ per sq ft)	Rent free period	Business rates	Total occupancy costs (inc. service charge and building insurance)
Belgravia/Knightsbridge	£82.50	18 months	£44.50	£137.25
Bloomsbury (WC1)	£58.00	18 months	£25.00	£93.25
Camden	£42.50	20 months	£17.00	£69.75
Chelsea	£80.00	18 months	£32.50	£122.75
Covent Garden	£80.00	18 months	£28.00	£118.25
Euston	£68.50	18 months	£28.00	£106.75
Fitzrovia	£80.00	18 months	£25.50	£115.75
Fulham	£40.00	18 months	£16.00	£66.25
Hammersmith	£48.50	18 months	£18.50	£77.25
Kensington	£55.00	18 months	£23.00	£88.25
King's Cross	£68.50	18 months	£23.00	£101.75
Mayfair	£115.00	17 months	£46.00	£171.25
Mayfair "Super-Prime"	£130.00	19 months	£51.00	£191.25
North of Oxford St/Marylebone	£92.50	18 months	£40.00	£142.75
Paddington	£60.00	18 months	£25.64	£95.89
Soho	£85.00	18 months	£32.50	£127.75
St James's	£115.00	17 months	£46.00	£171.25
Vauxhall/Battersea	£45.00	22 months	£14.80	£70.05
Victoria	£77.50	18 months	£29.50	£117.25

London West End
London City
Belfast
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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