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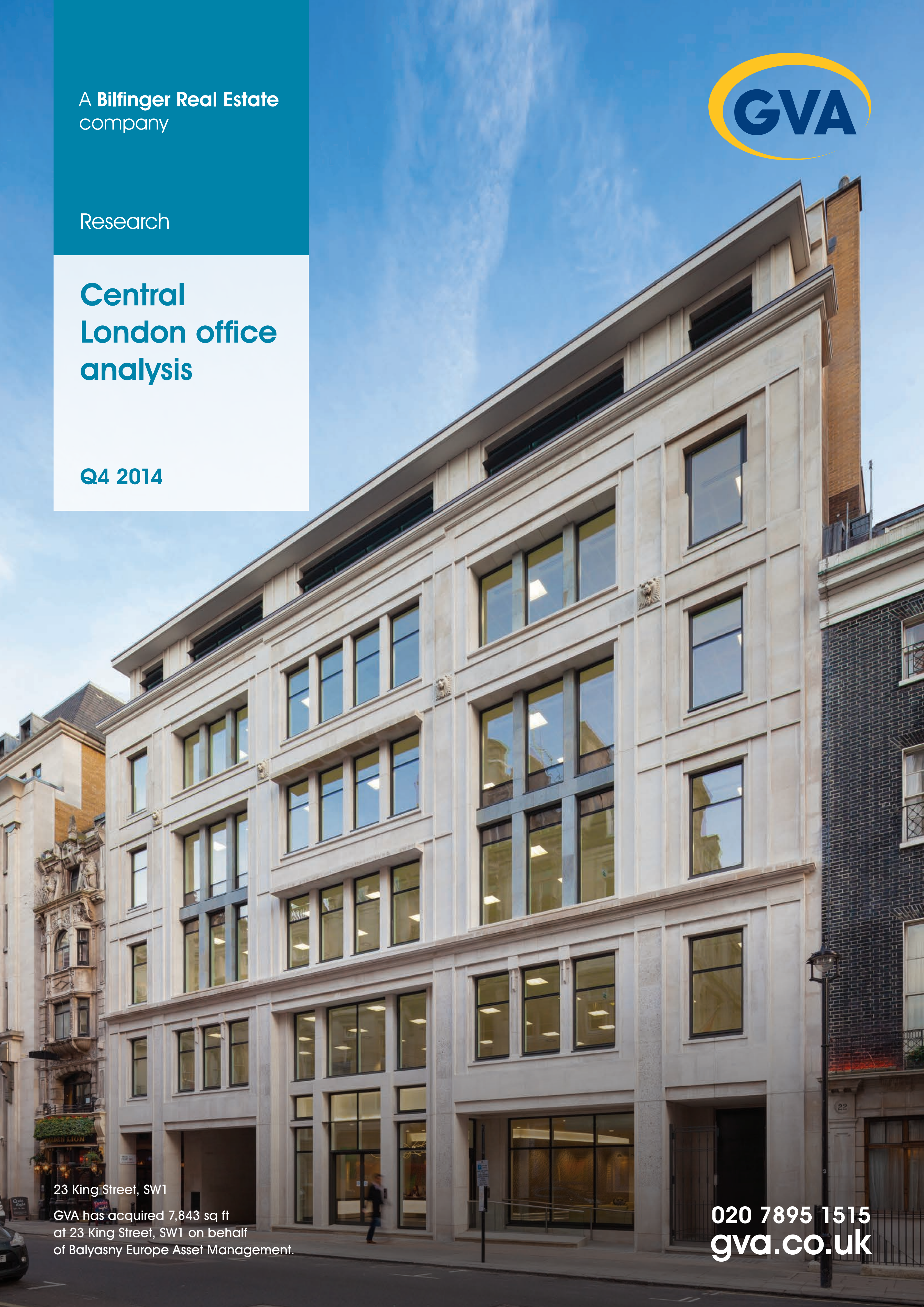
Research

Central London office analysis

Q4 2014



23 King Street, SW1

GVA has acquired 7,843 sq ft at 23 King Street, SW1 on behalf of Balyasny Europe Asset Management.

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Central London
Market comment

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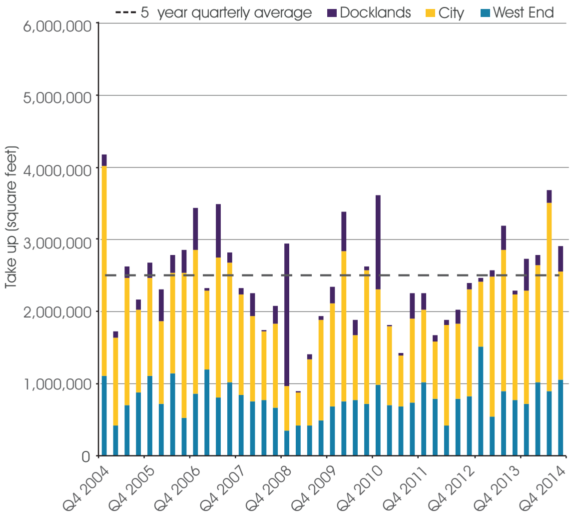
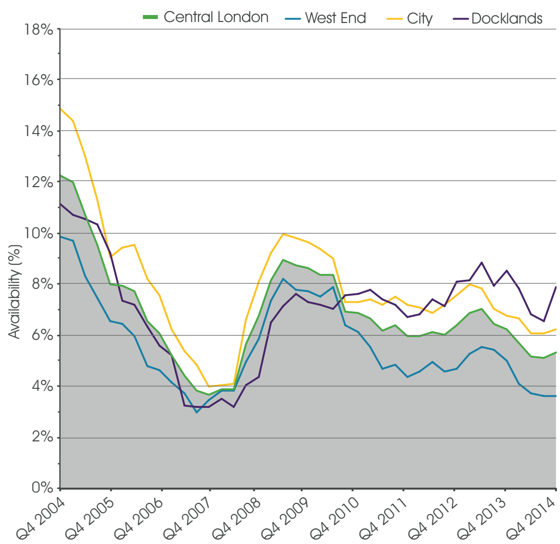
Central London take-up
Source: GVA/EGI



Central London office availability rates
Source: GVA, CoStar



Welcome to GVA's central London office analysis; a detailed account of our view of the market in Q4 2014.

Keeping active

The last two years have seen almost 23 million sq ft transacted across central London, a 44% increase on the previous two years and even busier than 2006 and 2007. Indeed, 2014 was the most active year since 2001.

Activity has been driven by pre-letting, accounting for almost a third of take-up during 2014. In fact, of the 11 deals over 100,000 sq ft that completed during the year, 9 of these were pre-lets, highlighting the need for large occupiers to plan relocation well in advance of moving.

Out of supply?

As well as pre-letting, an additional 20% of take-up was on recently completed stock, as those buildings that are available when they complete get quickly snapped up. This demand for brand new space has eroded the development pipeline, with 60% of the 7 million sq ft delivered to the market during 2014 let by the end of the year. 2015 is likely to be a quieter year for development completions, with only 5.1 million sq ft due to complete. With 40% of this space let before the year has even started, the demand for the 2.4 million sq ft of new available space is likely to far outweight the supply.

Prime rents

Prime headline rents in Mayfair and St James's increased to £117.50 per sq ft during the quarter. This growth means that the core West End markets are now back up to their 2007 net effective peak, the last West End submarkets to surpass their 2007 mark.

Up until Q4, the large rent free periods being offered (17 months in Q4 2014 compared to 7 months in Q3 2007) had offset the fact that prime headline rents in this cycle had long surpassed previous rental highs. Taking into account that rates during this period have more than doubled, the cost of occupying in the West End is now significantly more expensive than ever before.

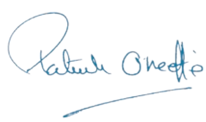
The story is slightly different in the City and Canary Wharf, where there is still some way to go before net effective rents reach the high of the last cycle, with net effective rents 15% and 34% down respectively on 2007. This highlights the fact that these submarkets are currently very good value historically as well as in relation to the West End.

Looking to 2015, we believe the central London market will be driven by a lack of supply rather than greatly increased demand, with take-up unlikely to reach the great heights of the last two years.

As supply tightens, power is likely to shift further towards landlords with headline rental growth expected, and potential for incentives to come in substantially.

Development maps

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 Q4 2014 totalled 2.9 million sq ft which, whilst 21% down on the previous quarter, was still 17% up on the five-year quarterly average of 2.4 million sq ft. This strong final quarter meant that central London take-up for 2014 totalled 12.1 million sq ft, 15% up on 2013 and the busiest year since 2001.

Once again the largest deal of the quarter was a pre-let on a building not yet under construction as Societe Generale took 280,000 sq ft in the 700,000 sq ft 1 Bank Street (E14), due to complete in Summer 2019. At King's Cross, Google took another 200,000 sq ft at BNP Paribas' 6 Pancras Square (NW1).

During the quarter, TMT was the most active sector, accounting for 25% of activity, with finance and banking making up 19% of take-up. Professional services totalled 17%, showing a healthy, balanced market.

Recently completed space accounted for the majority of take-up during the quarter, totalling 1 million sq ft across central London and making up 33% of activity. Second-hand Grade A space accounted for 26% of take-up (0.8 million sq ft). Pre-letting was substantially quieter this quarter, with pre-construction and under-construction letting accounting for 20% of activity combined, compared to 43% last quarter. Take-up of second-hand Grade B space totalled 20% of take-up.

Availability

During Q4 2014, availability across central London increased slightly to 10.3 million sq ft, due to several sizeable buildings completing during the quarter. This equates to a vacancy rate of 5.3%, slightly up from 5.1% at the end of Q3 2014. Nevertheless, availability remains 14% down on the same time last year.

Availability is 1.7 million sq ft lower than at the same time last year, when the vacancy rate was 6.2%.

Development

During the quarter, 12 buildings totalling 1.1 million sq ft completed. The largest to complete, one of three buildings over 100,000 sq ft, was Molloy's 318,000 sq ft Aldgate Tower (E1). During 2014, 7.0 million sq ft of development completed, a 56% increase on 2013. Only 2.8 million sq ft (41%) of this newly completed space remains.

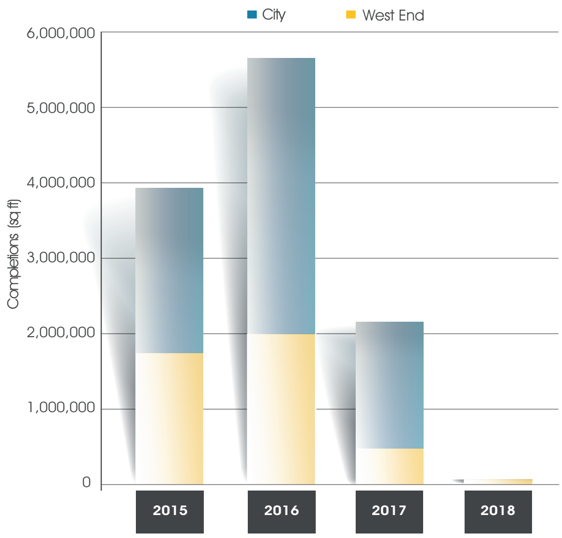
558,100 sq ft of development started during the quarter, the largest building being Helical Bar's Creechurch Place (EC3). This means that there is currently 11.8 million sq ft under construction across central London, with 3.9 million sq ft (33%) due for completion before the end of 2015 and 5.7 million sq ft (48%) due before the end of 2016. Of the space currently under construction, 41% has already been let, leaving just 7 million sq ft of available space currently under construction.

Rental growth

Central London prime rents grew by 1.6% during the quarter. The City and the West End grew by 1.7% and 1.5% respectively, while Docklands remained stable. Prime rents across all central London increased 7.7% during 2014, with the GVA central London index now over 10% above its previous Q4 2007 peak.

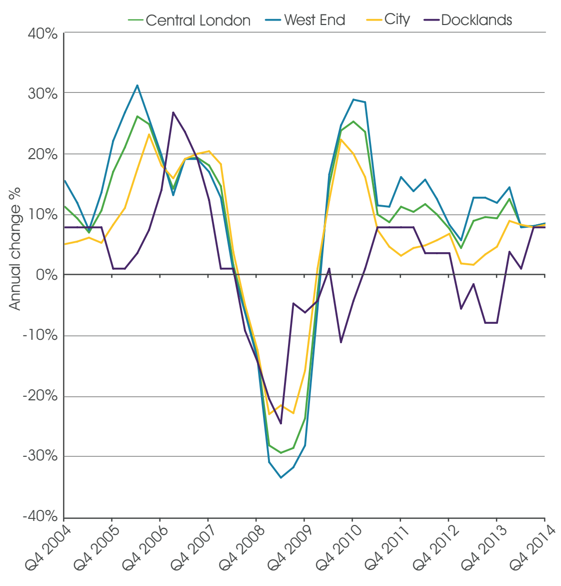
Central London office space under construction

Source: GVA



Central London prime rental growth

Source: GVA



Central London

Investment market

2014 ended with some colossal transactions taking place across central London, with overseas investors buying the Gherkin, New Scotland Yard and HSBC Tower.

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UK institutions and REITs were predictably quiet, being priced out of many buying opportunities. The likes of Legal & General, Derwent London and WELPUT managed to secure some of the more 'asset management' intensive opportunities.

Looking forward to the first quarter of 2015, it could be a relatively quiet start to the year. There is little of last year's product remaining and as yet few opportunities have been geared up as the market 'takes stock' after a very busy 2014.

Demand from the US, the Middle East and Far East will continue and good quality product will attract strong competition and we expect record prices/yields to be achieved during 2015. The principal problem is likely to be a lack of stock as the traditional traders start to reduce in numbers or decide to play the long game.

Transaction volumes

During Q4 2014, central London investment totalled £6.1 billion across 63 deals, the fourth highest quarter on record. This was 50% up in value on the £4.1 billion across 86 deals measured during the third quarter, although 15% down in value on the corresponding quarter last year.

The strong Q4, with transaction values 86% up on the five-year quarterly average, meant that annual investment totalled £16.8 billion, with only 2007 and 2013 seeing more money spent across central London in a year.

In the City £3 billion was transacted, with the largest deal being Safra Group's purchase of 30 St Mary Axe (EC3) for £726 million at a yield of 3.8% from Evans Randall and IVG. The West End saw £2 billion transacted, with the largest deal being Abu Dhabi Financial Group's £370 million purchase of New Scotland Yard (SW1), significantly above its asking price. In the core West End, GVA advised on PonteGadea's acquisition of the £262 million 6 St James's Square (SW1) from Rio Tinto, at a yield of circa 4%.

Whilst there was only one deal completed in Docklands during the quarter, it was the biggest deal of the year across central London, with QIA purchasing the 1.1 million sq ft HSBC Tower, 8-16 Canada Square (E14) from NPS Central London for just under £1.2 billion.

Overseas investors were once again the most active this quarter, accounting for 80% (£4.9 billion) of purchases but only 53% of sales across central London. Overseas investment accounted for 73% (£12.2 billion) of investment for the year. UK Institutional investors were the second most active purchaser in the market, accounting for 12% of purchases during the quarter, and 14% for the year.

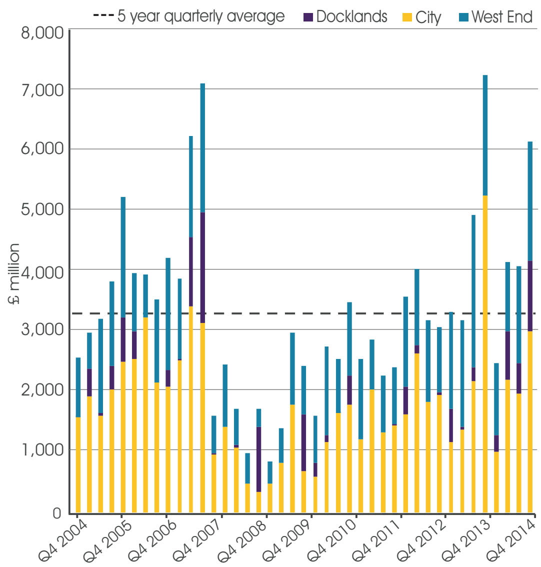
Yields

Prime yields came in 25 basis points in six out of the ten central London sub-areas during the final quarter of the year, with 2014 seeing yields harden throughout the year. Five of the submarkets saw a reduction of 75 basis points compared to the same period in 2013, with the City northern fringe reducing even further from 5.75% to 4.75%.

Prime yields in the core markets are now at record low levels, both seeing reductions of 25 basis points. In the City core, yields are now at 4.25%, with Mayfair and St James's coming in to 3.5%.

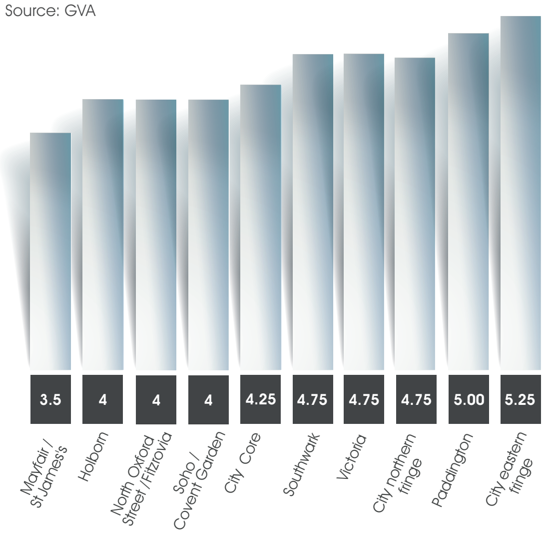
Central London office investment transactions

Source: GVA, PropertyData



Central London office yields

Source: GVA



6 St James's Square, SW1

GVA acquired 6 St James's Square, SW1 on behalf of PonteGadea UK for in excess of £260 million.

West End Occupier market

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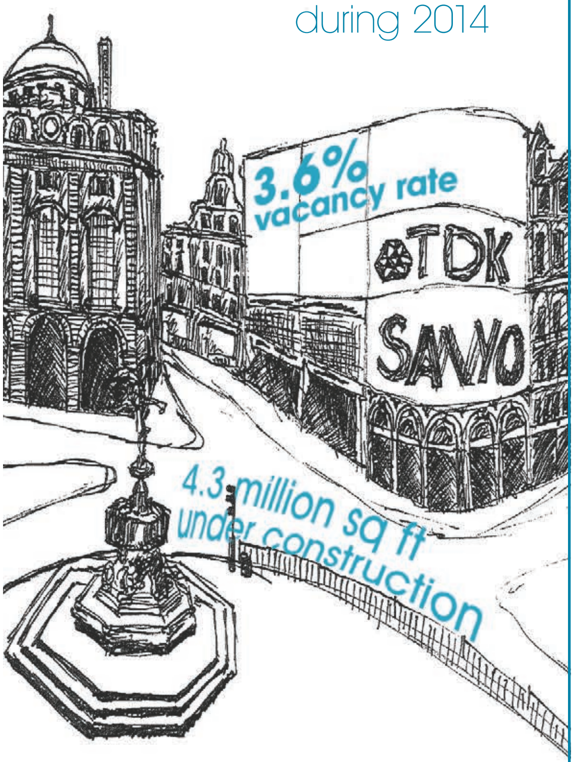
1 million sq ft let
26% up on 5-year quarterly average

7.7%
rental growth during 2014



£117.50 per sq ft
prime rents

Take-up

During Q4 2014, take-up across the West End was the busiest since Q1 2013 totalling 1 million sq ft, 18% up on Q3 2014 and 26% higher than the five-year quarterly average. This strong end to the year meant that take-up for 2014 totalled 3.6 million sq ft, almost identical to last year's total and 24% up on the five-year annual average. Since 2001, only 2007 and 2013 saw more activity.

The big deal of the quarter was Google's letting of 200,000 sq ft at BNP Paribas' 6 Pancras Square (NW1). In Victoria, Dong Energy paid £62.00 per sq ft on 82,000 sq ft at Terrace Hill's 5 Howick Place (SW1). In Covent Garden, NeueHouse took 64,000 sq ft at the Adelphi (WC2) at a rent of £70.00 per sq ft.

TMT was the most active sector in the West End, accounting for 36% of take-up during the quarter. Manufacturing made up 14%.

During Q4 2014 deals on recently completed space accounted for 473,000 sq ft and 45% of take-up across the West End, with deals on space under construction accounting for a further 106,000 sq ft or 10%. This means deals on all new buildings accounted for 55% of take-up altogether. Second-hand Grade B space was 26% of take-up for the quarter.

Availability

Availability remained stable during the quarter at 3 million sq ft, with the vacancy rate at 3.6%, down from 5.0% at the end of 2013. Whilst availability across the West End is as low as it has been since 2007 it is still 20% above the low point reached in 2007.

Development

353,600 sq ft completed across the West End during Q4 2014. The largest building to complete was London & Regional's 145,400 sq ft 10 Bloomsbury Way (WC1). 181,500 sq ft went under construction during the quarter, across two buildings, the largest being the 159,500 sq ft 3 Pancras Square (NW1), where Havas have already pre-let the entire building. There is currently 4.3 million sq ft of development activity in the West End, with 35% already let.

Rental growth

During the quarter, prime rents across the West End increased by 1.6%. This means that prime rents across the market are up 7.7% on the same period last year.

In Mayfair and St James's, prime rents increased to £117.50 per sq ft with a rent free period of 17 months. Despite rent free periods being significantly more generous than at the 2007 peak, the increase in headline rents means that net effective rents are now over their 2007 peak at £100.85 per sq ft. With rates payable having more than doubled between 2007 and 2014, the price of occupying office space in the core West End markets is now significantly more expensive. Super-prime rents are still below the 2007 peak, at £130 per sq ft, with growth expected during 2015.

The big mover during the quarter was Bloomsbury where prime rents increased 7.8% to £62.50 per sq ft. During 2014, we saw annual rental growth of over 20% in Camden and Chelsea, with King's Cross seeing rents increase by 17%.

Docklands Occupier market

Take-up

During Q4 there was 348,700 sq ft of lettings, the second busiest quarter of the year and 45% up on the five-year quarterly average, meaning that take-up during 2014 totalled 1.1 million sq ft, the busiest year since 2010.

Take-up for this quarter was twice as much as the previous quarter, and the second busiest since 2010.

The largest deal of the quarter and indeed central London was Societe Generale's 280,000 sq ft pre-let of 1 Bank Street (E14), who will consolidate from various City-based leases into one building when the lease commences in 2019. This was the second deal in excess of 200,000 sq ft in Canary Wharf in 2014 following EY's commitment to 25 Churchill Place earlier in the year. The second largest deal of the quarter was Booking.com who took 31,800 sq ft at 2 Harbour Exchange.

The busiest sector in the Docklands was finance and banking which made up 83% of activity during the quarter.

Availability

There is 1.5 million sq ft of available space across Docklands. The vacancy currently stands at 7.9%. The largest available stock can be found at 5 Churchill Place and 10 Upper Bank Street. The vacancy rate is down from the 8.5% measured at the same time last year.

Development

There is no office space under construction across Docklands, although Canary Wharf Group are now on site at 1 Bank Street (E14). The remaining on site development is all currently residential led.

Rental growth

Societe Generale paid £47.50 per sq ft for One Bank Street which is in line with recent Canary Wharf lettings on the estate. Sub-let occupier deals have typically been struck at a significant discount to this level with rents remaining stable for 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 increased from £27.50 per sq ft to £28.50 per sq ft with rent free periods stable at 27 months.

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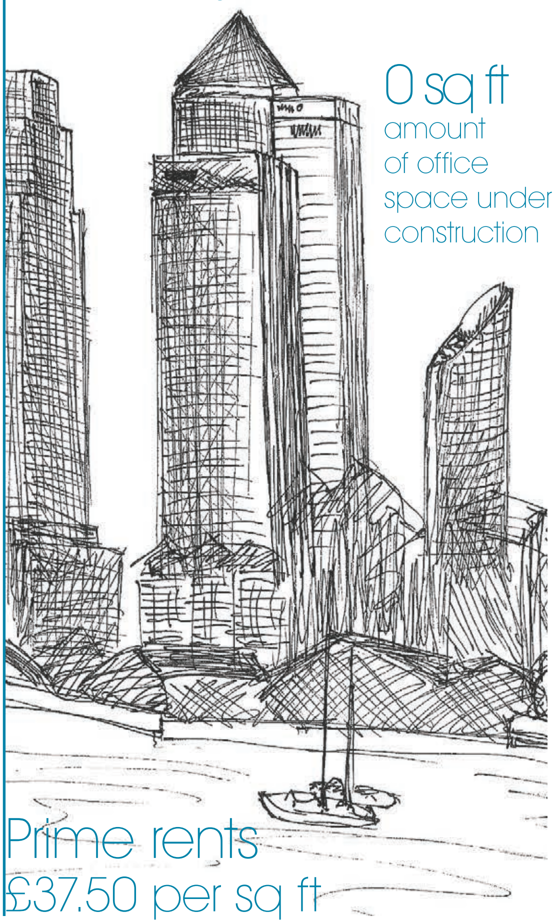
348,700 sq ft let
45% up on five-year quarterly average

Vacancy rate
7.9%

1.1 million sq ft
let in 2014, highest since 2010



0 sq ft
amount of office space under construction

Prime rents
£37.50 per sq ft

City Occupier market

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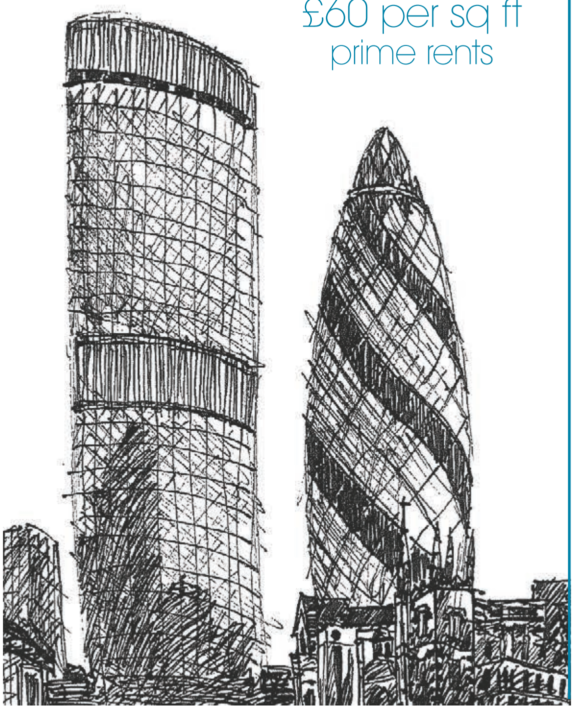
1.5 million sq ft take-up
6% above 5-year quarterly average

7.3 million sq ft
let in 2014,
busiest year since 2001

7.5 million sq ft
under construction

£60 per sq ft
prime rents



Take-up

Take-up in the City during Q4 was the lowest of a very active year at 1.5 million sq ft. However, with activity still 6% above the five-year quarterly average, this robust end to the year took take-up for 2014 to a total of 7.3 million sq ft, 16% up on 2013 and the busiest year since 2001.

Activity during 2014 was 44% up on the five-year annual average of 5.1 million sq ft, and 12% up on the highest annual take-up measured during the last cycle when 6.5 million sq ft was transacted during 2006.

During the quarter there were five deals of over 50,000 sq ft. At Mitsui's 70 Mark Lane (EC3), Zurich Insurance took a pre-let of 68,000 sq ft. At Cannon Place (EC2), Threadneedle acquired 65,000 sq ft at a rent of £63.50 per sq ft.

Professional services was the most active sector accounting for 26% of take-up, with TMT and finance and banking sector making up 22% and 13% of take-up respectively.

Across the City, 33% (505,000 sq ft) of activity during the quarter was for space recently completed, with pre-lets on space under construction making up another 13% of lettings. There was 527,000 sq ft of second-hand grade A lettings, making up 35% 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 the lowest recorded since Q2 2008. Availability is 14% down on the corresponding period in 2013.

Development

376,800 sq ft started during the quarter including Helical Bar's 271,600 sq ft Creechurch Place (EC3). At the end of the quarter, there was 7.5 million sq ft under construction, with 2.2 million sq ft of this due to complete in 2015.

During the quarter 756,800 sq ft completed, with the largest being Molloy's 317,700 sq ft Aldgate Tower (E1). Over the course of the year 4.5 million sq ft of new developments completed with 52% of that already let, leaving 2.2 million sq ft of available space.

Rental growth

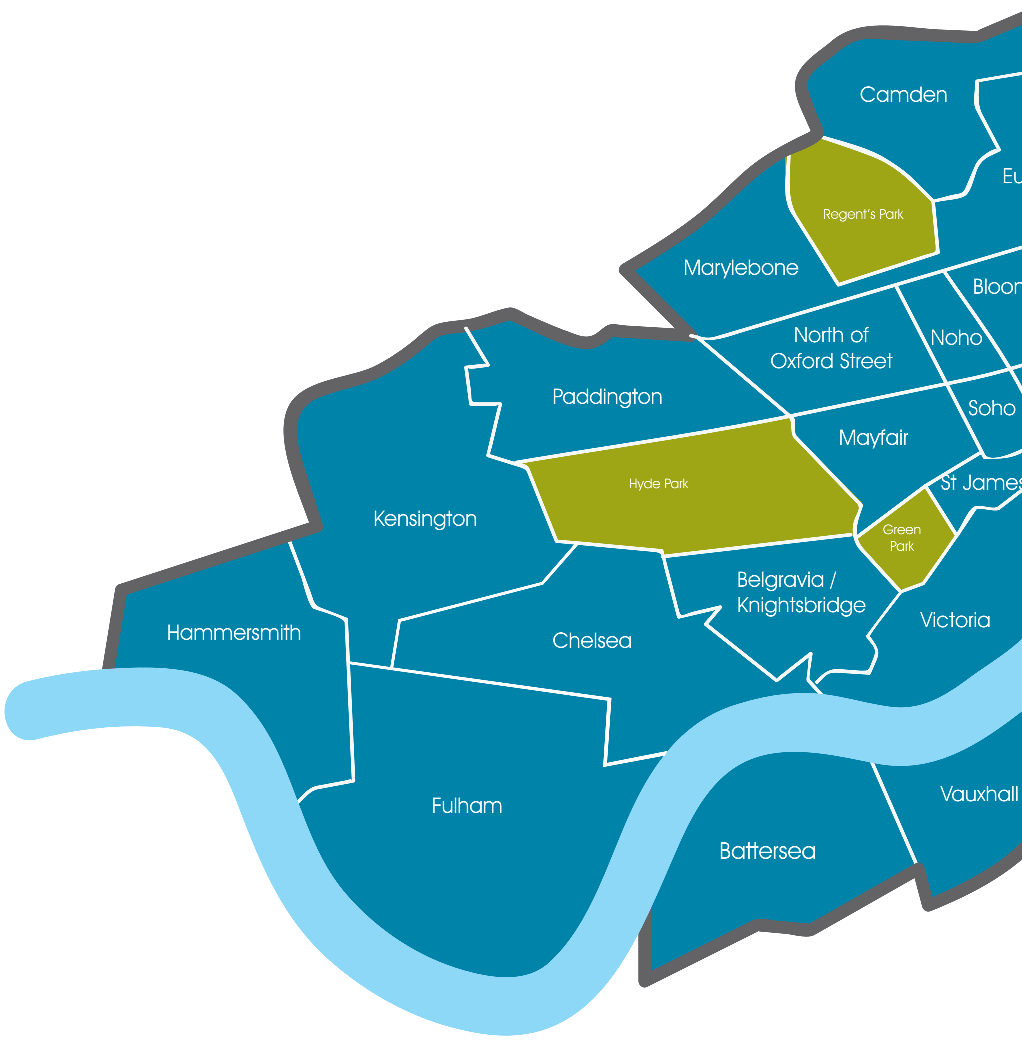
During the quarter prime rents in the City increased by 1.7%, with rental growth for 2014 at 7.6%

During Q4, five out of our ten sub-markets saw prime rental growth, with the City northern fringes and Shoreditch seeing the greatest growth at 6.4% and 10.5% respectively. Core City rents remained stable at £60 per sq ft, their highest since mid-2008, with rent free periods also remaining the same at 21 months. Net effective rents remain 15% down on the 2007 peak, at £49.50 per sq ft.

We anticipate that 2015 will see strong rental growth as availability continues to tighten.

80 Cheapside, EC2

GVA has successfully disposed of their City office of 11,400 sq ft at 80 Cheapside, EC2, prior to our relocation to 65 Gresham Street, EC2 in February.

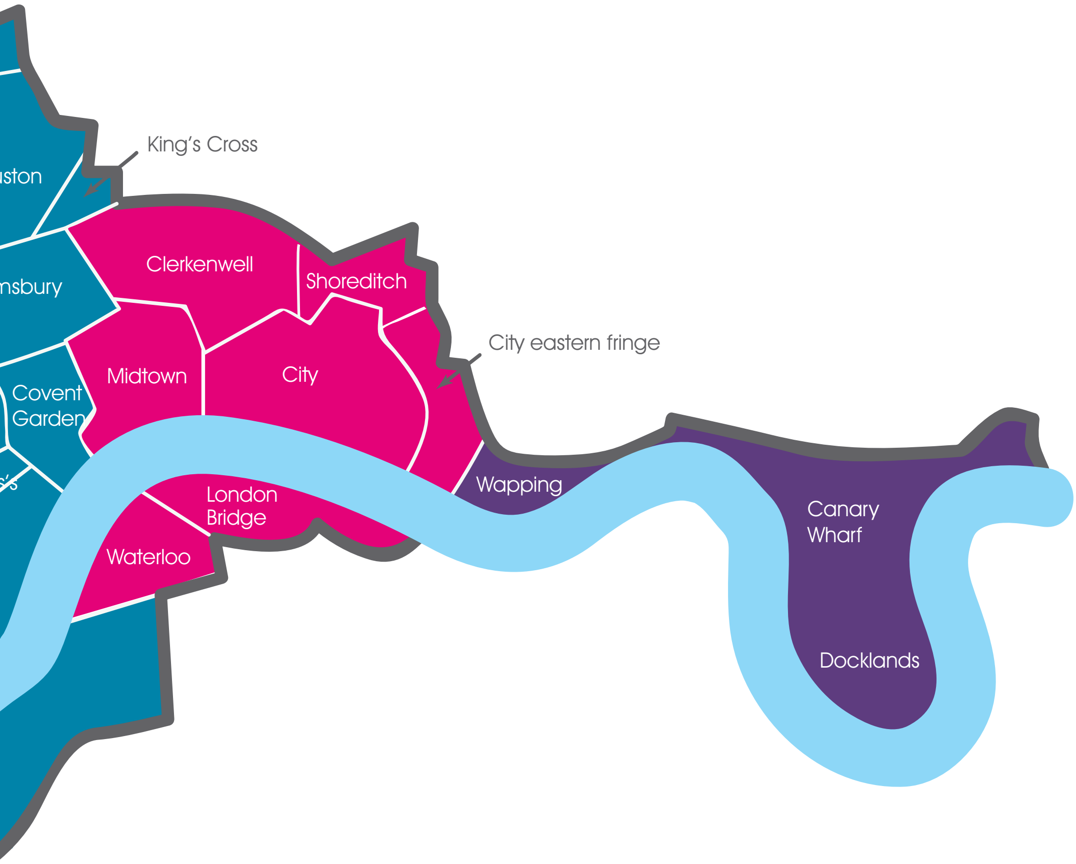


City

Area	Prime rent (£ per sq ft)	Rent free period (months)	Business rates	Total occupancy costs (inc. service charge and building insurance)
Central City Core	£60.00	21	£21.10	£91.35
Chancery Lane	£60.00	20	£24.65	£94.90
City Eastern fringe	£47.50	22	£16.90	£74.65
Clerkenwell	£55.00	18	£14.00	£79.25
Insurance Sector	£57.50	22	£21.85	£89.60
London Bridge	£52.50	21	£18.65	£81.40
Northern City	£58.50	23	£17.10	£85.85
Shoreditch	£52.50	18	£11.65	£74.40
Waterloo	£52.50	20	£18.65	£81.40
West City	£60.00	22	£18.80	£89.05

Docklands

Area	Prime rent (£ per sq ft)	Rent free period (months)	Business rates	Total occupancy costs (inc. service charge and building insurance)
Canary Wharf	£37.50	24	£15.85	£63.60
Other Docklands	£28.50	27	£11.40	£50.15



West End

Area	Prime rent (£ per sq ft)	Rent free period (months)	Business rates	Total occupancy costs (inc. service charge and building insurance)
Belgravia / Knightsbridge	£85.00	17	£44.50	£139.75
Bloomsbury	£62.50	18	£25.00	£97.75
Camden	£45.00	20	£17.00	£72.25
Chelsea	£85.00	17	£32.50	£127.75
Covent Garden	£80.00	18	£28.00	£118.25
Euston	£68.50	18	£28.00	£106.75
Fitzrovia	£80.00	18	£25.50	£115.75
Fulham	£40.00	18	£16.00	£66.25
Hammersmith	£48.50	18	£18.50	£77.25
Kensington	£55.00	18	£23.00	£88.25
King's Cross	£70.00	18	£23.00	£103.25
Mayfair	£117.50	17	£46.00	£173.75
Mayfair "super-prime"	£130.00	15	£51.00	£191.25
North of Oxford St	£92.50	17	£40.00	£142.75
Paddington	£60.00	18	£25.64	£95.89
Soho	£85.00	18	£32.50	£127.75
St James's	£117.50	17	£46.00	£173.75
Vauxhall	£45.00	22	£14.80	£70.05
Victoria	£80.00	17	£29.50	£119.75

Birmingham
Bristol
Cardiff
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Edinburgh
Glasgow
Leeds
Liverpool
London
Manchester
Newcastle

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