Overview

‘Resilient’ has been the word most often used to describe Central London over the last 10 months. This resilience has been underpinned by the capital’s solid property fundamentals which will continue to act as a draw for occupiers and investors throughout the upcoming Brexit negotiating period.

**Low supply.** Despite a rise in the vacancy rate in Q1 to 6.35%, it is still below the long term average and low in comparison to the historic trend. This cycle has seen lower levels of speculative office development due to rising construction costs and a lack of development finance.

**Steady demand.** 500,000 sq ft of new requirements were launched in Q1, an indication that sentiment amongst occupiers has improved. Three large lettings of >100,000 sq ft to Freshfields, Expedia and Arup have demonstrated that Central London continues to attract occupiers across all sectors.

**Robust economy.** With Central London and the UK economy working very much in tandem, a robust economic picture for the UK bodes well for the capital. UK GDP growth has been revised upwards expected to reach 1.8% in 2017 and Central London will be driving this with 2.2% growth expected.

**Currency discount.** With the City seeing yield compression of 25bps this quarter, pricing hasn’t performed as some investors expected post Brexit. Discounts however have come in the form of sterling’s devaluation. In the short term we expect to continue to see a 10-12% discount for buyers purchasing UK Real Estate in US dollars.

**Infrastructure projects.** Europe’s largest infrastructure scheme Crossrail nears completion next year. The scheme will increase transport capacity and reduce journey times across the capital. London’s future as a world class city relies on continued investment into infrastructure, this is why projects like the Northern Line extension, HS2 and Heathrow’s expansion will be essential in securing this.

Q1 Stats... At a Glance

<table>
<thead>
<tr>
<th>Total supply</th>
<th>13.69m sq ft</th>
<th>▲ 11% on Q4 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up</td>
<td>2.48m sq ft</td>
<td>▼ 28% on Q4 2016</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>6.35%</td>
<td>▲ 62bps on Q4 2016</td>
</tr>
<tr>
<td>Investment</td>
<td>£4.06bn</td>
<td>▼ 20% on LT ave</td>
</tr>
<tr>
<td>City Yields</td>
<td>4.00%</td>
<td>▼ 25 bps on Q4 2016</td>
</tr>
<tr>
<td>Central London GDP Growth</td>
<td>2.2% in 2017</td>
<td></td>
</tr>
<tr>
<td>West End Yields</td>
<td>3.50%</td>
<td>▶ Remains stable</td>
</tr>
</tbody>
</table>

**Overview**

‘Resilient’ has been the word most often used to describe Central London over the last 10 months. This resilience has been underpinned by the capital’s solid property fundamentals which will continue to act as a draw for occupiers and investors throughout the upcoming Brexit negotiating period.

**Low supply.** Despite a rise in the vacancy rate in Q1 to 6.35%, it is still below the long term average and low in comparison to the historic trend. This cycle has seen lower levels of speculative office development due to rising construction costs and a lack of development finance.

**Steady demand.** 500,000 sq ft of new requirements were launched in Q1, an indication that sentiment amongst occupiers has improved. Three large lettings of >100,000 sq ft to Freshfields, Expedia and Arup have demonstrated that Central London continues to attract occupiers across all sectors.

**Robust economy.** With Central London and the UK economy working very much in tandem, a robust economic picture for the UK bodes well for the capital. UK GDP growth has been revised upwards expected to reach 1.8% in 2017 and Central London will be driving this with 2.2% growth expected.

**Currency discount.** With the City seeing yield compression of 25bps this quarter, pricing hasn’t performed as some investors expected post Brexit. Discounts however have come in the form of sterling’s devaluation. In the short term we expect to continue to see a 10-12% discount for buyers purchasing UK Real Estate in US dollars.

**Infrastructure projects.** Europe’s largest infrastructure scheme Crossrail nears completion next year. The scheme will increase transport capacity and reduce journey times across the capital. London’s future as a world class city relies on continued investment into infrastructure, this is why projects like the Northern Line extension, HS2 and Heathrow's expansion will be essential in securing this.
West End Investment Volumes

- Take-up levels for Q1 2017, whilst improving on the previous two quarters, remain subdued. At 0.61 million sq ft, levels continue to fall below the market’s five year average.

- The Professional Services sector again posted a key share of demand, rising from 3% in Q4 2016 to 27% at Q1 2017. A significant proportion of this was accounted for by the substantial, 193,600 sq ft letting to Arup Group at 80 Charlotte Street.

- Despite unsatisfactory levels of demand, supply has fallen by 6% to stand at 3.08m sq ft, with take-up outweighing secondary releases and the limited levels of new development coming online.

- Q1 2017 has seen prime rents remain static, as is the case across all of the Central London submarkets. This follows rental decline over 2016, where a lack of transactional evidence and subdued market conditions prompted prime rental levels to fall 5.6% to £127.50 psf. At this level, prime rents are, however, still 6.25% above the market’s pre-recession peak.

- Following the positive end to 2016, investor activity remained encouraging over the first quarter of 2017, returning investment volumes of £1.77 bn, the highest quarterly total since end-2014.

- Overseas investors continued to dominate the investor profile and Asia Pacific investors were the most active. However, the largest transaction in terms of size comprised the sale of the multi-let 7-8 St James’s Square to a private Asian investor. The scheme, which has previously achieved record rental levels for the Central London market, was sold for £245.9 million, a capital value of £3,425 psf and yield of 3.69%. The Square remains fully let.

- In the initial aftermath of the Brexit vote, falls in City office yields level recorded pre-referendum.

- Following the positive end to 2016, take up slowed slightly over Q1 2017, standing at 1.34m sq ft down from 1.59m sq ft during the last quarter of the year. At this level take up is, however, in line with the market’s long run average.

- The Professional Services sector drove take up over the quarter, boosted by law firm Freshfields’ commitment to 255,000 sq ft at the currently under construction 10 Bishopsgate. The scheme has now achieved 65% occupancy, with completion not due until 2019.

- City supply has risen once again over the quarter to stand at 6.23m sq ft, driven by secondary releases and speculative completions. Despite this rise, supply levels remain 15% below the long-run average.

- 2017 has already seen 780,000 sq ft of new space complete, with a further 3.5m sq ft projected to complete across the remainder of the year. Whilst this will constitute one of the highest annual completion levels recorded for the City market in recent years, in positive news only around 50% of this new stock remains available.

- Rental levels in both the City and City Fringe markets have remained flat over Q1 2017, standing at £69.00 psf and £65.00 psf respectively.

- Similarly to the occupier market, investment volumes for Q1 2017 also fell back on the previous quarter, totalling £1.75bn. This fall back does, however, follow a particularly strong finish to 2016 and at this level volumes are 12% ahead of the quarterly long term average.

- Volumes were substantially boosted by one key transaction: the sale of the Leadenhall Building to Hong Kong investor Cheung Kong (Holdings) for £1.75bn. This fall back does, however, follow a particularly strong finish to 2016 and at this level volumes are 12% ahead of the quarterly long term average.

- The sale of this trophy building constitutes continued evidence and subdued market conditions prompted prime rental levels to fall 5.6% to £127.50 psf. At this level, prime rents are, however, still 6.25% above the market’s pre-recession peak.

- Similarly to the occupier market, investment volumes for Q1 2017 also fell back on the previous quarter, totalling £1.75bn. This fall back does, however, follow a particularly strong finish to 2016 and at this level volumes are 12% ahead of the quarterly long term average.

- The Professional Services sector drove take up over the quarter, boosted by law firm Freshfields’ commitment to 255,000 sq ft at the currently under construction 10 Bishopsgate. The scheme has now achieved 65% occupancy, with completion not due until 2019.

- City supply has risen once again over the quarter to stand at 6.23m sq ft, driven by secondary releases and speculative completions. Despite this rise, supply levels remain 15% below the long-run average.

- 2017 has already seen 780,000 sq ft of new space complete, with a further 3.5m sq ft projected to complete across the remainder of the year. Whilst this will constitute one of the highest annual completion levels recorded for the City market in recent years, in positive news only around 50% of this new stock remains available.

- Rental levels in both the City and City Fringe markets have remained flat over Q1 2017, standing at £69.00 psf and £65.00 psf respectively.

- Similarly to the occupier market, investment volumes for Q1 2017 also fell back on the previous quarter, totalling £1.75bn. This fall back does, however, follow a particularly strong finish to 2016 and at this level volumes are 12% ahead of the quarterly long term average.

- Volumes were substantially boosted by one key transaction: the sale of the Leadenhall Building to Hong Kong investor Cheung Kong (Holdings) for £1.75bn. This fall back does, however, follow a particularly strong finish to 2016 and at this level volumes are 12% ahead of the quarterly long term average.

- The sale of this trophy building constitutes continued evidence and subdued market conditions prompted prime rental levels to fall 5.6% to £127.50 psf. At this level, prime rents are, however, still 6.25% above the market’s pre-recession peak.

- Similarly to the occupier market, investment volumes for Q1 2017 also fell back on the previous quarter, totalling £1.75bn. This fall back does, however, follow a particularly strong finish to 2016 and at this level volumes are 12% ahead of the quarterly long term average.

- Volumes were substantially boosted by one key transaction: the sale of the Leadenhall Building to Hong Kong investor Cheung Kong (Holdings) for £1.75bn. This fall back does, however, follow a particularly strong finish to 2016 and at this level volumes are 12% ahead of the quarterly long term average.

- The sale of this trophy building constitutes continued evidence and subdued market conditions prompted prime rental levels to fall 5.6% to £127.50 psf. At this level, prime rents are, however, still 6.25% above the market’s pre-recession peak.
In a quarter where take-up figures across the capital have dwindled below the long-term average in all submarkets, Midtown has been the anomaly. Take-up and vacancy rates have both exceeded the 10 year long term average in all submarkets, with Midtown again leading the way. Midtown take-up was 30% above the long term average of 0.37m sq ft for the second consecutive quarter after a lull period during 2016. Take-up reached 0.58m sq ft, with large deals to Mckinsey at The Post Building (96,999 sq ft) and COS at 1 New Oxford Street (60,096 sq ft) helping to boost figures.

Its well-established location between The City and West End serves as a gateway to a variety of diverse occupiers, with Midtown being one of the most diverse sub markets in Central London. Similar to previous quarters the Professional Services dominated take-up during Q1 2017, accounting for 35% of total take-up. Although it must be noted that this majority was almost solely due to the deal to Mckinsey. The Media Tech and Retailer sector closely followed with 16% and 17% of total take-up respectively.

Despite good levels of letting activity, vacancy rates have once again increased over the initial quarter, with supply currently standing at 1.77m sq ft equating a vacancy rate of 8.90%. This 180bps increase on Q4 2016 is due to 42,580 sq ft of tenant space coming back to the market at Mid City Place during Q1 along with 104,238 sq ft of newly available tenant space coming back to the market at Mid City Place during Q1 with Midtown being one of the most diverse sub markets in Central London.

However, encouragingly 20% off supply is under offer and activity over the next 2 years will place pressure on supply. This along encouraging demand and declining development stock.

The most prominent investment deal of the quarter was the Karlin Real Estates’s sale of 18 Gray’s Inn Road. The vendor was represented by BNP Paribas Real Estate and the deal was sold to a private Middle Eastern purchaser.

Although it must be noted that this majority was almost solely due to the deal to Mckinsey. The Media Tech and Retailer sector closely followed with 16% and 17% of total take-up respectively.

Professional Services dominated take-up during Q1 2017, in Central London. Similar to previous quarters the Professional Services dominated take-up during Q1 2017, accounting for 35% of total take-up. Although it must be noted that this majority was almost solely due to the deal to Mckinsey. The Media Tech and Retailer sector closely followed with 16% and 17% of total take-up respectively.

Contacts
LEASING
Daniel Bayley
Head of City leasing
daniel.bayley@bnpparibas.com
+44 (0) 207 338 4444
David Herzog
Head of West End leasing
david.herzog@bnpparibas.com
+44 (0) 207 338 4292

INVESTMENT
James Gann
Head of City investment
james.gann@bnpparibas.com
+44 (0) 207 338 4272
Adam Renn
Head of West End investment
adam.renn@bnpparibas.com
+44 (0) 207 338 4347

RESEARCH
Kuldeep Gadghay
Associate Director
kuldeep.gadghay@bnpparibas.com
+44 (0) 207 338 4644
Taffy Harries
Data Analyst
taffy.harries@bnpparibas.com
+44 (0) 207 338 4000
Katie Taylor
Senior Analyst
katie.taylor@bnpparibas.com
+44 (0) 207 338 4346
BUSINESS LINES in Europe
A 360° vision

Main locations

EUROPE
FRANCE
Headquarters
167, Quai de la Bataille de Stalingrad
92867 Issy-les-Moulineaux
Tel.: +33 1 55 65 20 04

BELGIUM
Boulevard Louis Schmittdlaan 2 B3
1040 Brussels
Tel.: +32 2 290 59 59

CZECH REPUBLIC
Pobřežni 620/3
186 00 Prague 8
Tel.: +420 2 290 59 59

GERMANY
Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 98 99 0

HUNGARY
Alkotas u. 53.
H-1123 Budapest,
Tel.: +36 1 487 5501

IRELAND
20 Merrion Road,
Ballsbridge, Dublin 4
Tel.: +353 1 66 11 233

ITALY
Via Carlo Bo, 11
20143 Milan
Tel.: +39 02 58 33 141

NETHERLANDS
Antonio Vivaldiistraat 54
1083 HP Amsterdam
Tel.: +31 20 305 97 20

POLAND
Al. Jana Pawła II 25
Atrium Tower
00-854 Warsaw
Tel.: +48 22 855 44 00

ROMANIA
Balul Antonache Street n°40-44
Bucharest 011865
Tel.: +40 21 312 7000

SPAIN
C/ Genova 17
28004 Madrid
Tel.: +34 91 454 96 00

UNITED KINGDOM
5 Aldermanbury Square
London EC2V 7BP
Tel.: +44 20 7938 4000

MIDDLE EAST / ASIA
ABU DHABI
Hazza’s Bin Zayed Street
Area 19/02 plat nº186
P.O. Box 2742 Abu Dhabi
Tel.: +971 44 248 277

DUBAI
Emaar Square
Building n°1, 7th Floor
P.O. Box 7233, Dubai
Tel.: +971 44 248 277

HONG KONG
25/F Three Exchange Square,
8 Connaught Place, Central,
Hong Kong
Tel.: +852 2909 2806

CONTACTS

Alliances
ALGERIA *
AUSTRIA
CYPRUS
ESTONIA
FINLAND
GREECE
HUNGARY **
IVORY COAST *
LATVIA
LITHUANIA
MOROCCO
NORTHERN IRELAND
NORWAY
RUSSIA

* Coverage via our alliance in Morocco
** Covering Transaction, Valuation & Consulting

Contacts
Alliances
Florence Hesse
Tel.: +33 (0)1 47 59 17 38
florence.hesse@bnpparibas.com

Research
Christophe Pineau
Tel.: +33 (0)1 47 59 17 38
christophe.pineau@bnpparibas.com

@BNPPRE
www.realestate.bnpparibas.com

PROPERTY DEVELOPMENT | TRANSACTION | CONSULTING | VALUATION | PROPERTY MANAGEMENT | INVESTMENT MANAGEMENT

Real Estate for a changing world