OVERVIEW & OUTLOOK
"I was expecting a quiet start to the year, however evidence already suggests healthy viewing levels and occupiers committing to leases. I expect to see continued strong demand in Farringdon, King’s Cross and Southbank. With Crossrail arriving, this should be the year where leasing activity in Stratford and Canary in particular, picks up."

"Investors remain confident in London’s long term future. The political landscape is undoubtedly affecting investment decisions but this is a localised political event. Recent transaction volumes for 2018 underpin the appeal of London and we have yet to see any reduced appetite."

"2018 saw the submarkets of Victoria, Paddington and King’s Cross perform particularly strongly, arguably the three best connected submarkets in the West End. Connectivity will continue to drive relocation decisions this year and landlords will need to work hard to attract and retain occupiers."

"Buoyed by strong leasing fundamentals, and status as a wealth preservation vehicle, appetite for West End assets remain strong. However, the continued lack of prime product will see more investors moving up the risk curve in 2019 to assets with higher vacancy and development opportunities."
Despite continued uncertainty surrounding the UK’s exit from the European Union, Central London's solid fundamentals have continued to act as a major draw for occupiers and investors. The capital's rich and diverse offering of luxury retail, theatre, fashion and art underpin its world leading cultural status. The Technology sector continues to grow and thrive with London retaining the top spot in Europe for technology investment funding in 2018, raising £1.8bn. Furthermore, Central London's status as Europe’s leading start-up hub was reaffirmed by 6.5% annual growth in the number of start-ups registering in London last year. The long anticipated arrival of Crossrail later this year will secure the capital’s long term status as a world class City, despite short term instability.
LEASING

Take-up in Central London reached 15.1m sq ft in 2018, the highest level of annual take-up since 2014. This is 19% up on 2017 and 22% ahead of the long term average.

2018 saw a return of activity from small to medium sized businesses, indeed the number of new start-ups registered in London grew by 6.5% over the year. This translated into a 13% increase in the number of <5,000 sq ft deals recorded across Central London last year.

The Banking & Finance sector recorded a notable slowdown in demand levels last year, accounting for just 12% share of total take-up, unsurprising given March 2019 edging ever closer, with no concrete plan for the UK’s departure in place.

The Media Tech sector continues to drive demand accounting for 19%. The Serviced Office sector accounted for a 13% share.

2018 saw the lines between conventional operators and Serviced Office operators becoming increasingly blurred. Traditional landlords have made significant strides in diversifying their offer to include more flexible leases whilst Serviced Office operators are offering occupiers larger floor plates.
Buoyed by strong leasing fundamentals, investor appetite remained strong in Q4 2018 reaching £3.8bn across all sectors. Although down on the previous quarter, annual volumes have reached £18.0bn, this is 10% up on the long term average and in-line with expectations.

Investors’ appetite for risk increased in the second half of the year with the focus shifting from secure income streams with strong covenants to riskier assets.

Asia Pacific investors, once again, dominated volumes, accounting for 38%. We expect the flow of capital from this part of the world to continue at pace, in spite of the economic uncertainty and political turbulence.

UK investors became increasingly active in the second half of 2018 focusing on value add opportunities particularly in submarkets where the rental growth story remains positive, for example Landsec acquiring 25 Lavington Street, SE1 for £87.1m.
SUBMARKET FOCUS
THE CITY
WEST END
MIDTOWN
SOUTH BANK
THE CITY

E1, EC1, EC2, EC3, EC4

KEY HEADLINES

- Robust leasing activity continued in Q4 with take-up reaching 2.1m sq ft, the highest level of quarterly take-up since Q3 2014. This brings 2018 take-up to 7.6m sq ft, 30% ahead of 2017 and 35% ahead of the LT average.
- Demand for offices in the core very much drove demand, accounting for 80% of space leased. This reflects constrained levels of supply in the fringe as opposed to a lack of demand. Indeed, rents in Farringdon grew by 14%, the strongest level of annual submarket growth in Central London last year.
- The vacancy rate fell to 5.1% across the City in Q4 from 6.2% in Q3.
- Strong demand for the best quality stock restricted development pipeline entering the supply figures. Indeed, of the 5.4m sq ft delivered in 2018, 62% is let. Going forward, 44% of the 5.5m sq ft to be delivered this year is pre-let.

£88.00/ SQ FT

Q4 2018 Farringdon Prime rent

5.1%

Q4 2018 City Vacancy rate

7.6M SQ FT

2018 City take-up
THE WEST END
W1, SW1, W2, SW3, SW7, W8, NW1

KEY HEADLINES

- The highest level of 2018 quarterly take-up was achieved in Q4 reaching 1.0m sq ft bringing annual levels to 3.5m sq ft, the highest annual take-up total since 2014 and 11% up on 2017.
- 10 Serviced Office deals over 20,000 sq ft have pushed up the sectors share to 16% in 2018, up from 10% in 2017.
- Strong levels of leasing activity have resulted in a fall of the vacancy rate to 4.3% in Q4, down from 4.9% the previous quarter.
- A lack of rental evidence for >£100/sq ft deals in the last quarter of 2018 have resulted in prime rents falling to £112.50/ sq ft, reflecting -2.2% annual growth.

£112.50/ SQ FT
Q4 2018 West End Prime rent

4.3%
Q4 2018 West End vacancy rate

3.5M SQ FT
2018 West End take-up

Take-up

West End Take-up
West End take-up reached 3.5m sq ft in 2018, the highest level of annual take-up since 2014

Vacancy rates

West End Vacancy
The vacancy rate fell to 4.3% in Q4, down from 4.9% the previous year.
Midtown take-up reached 1.3m sq ft last year, 9% up on the long term average but 31% below 2017.

Five out of the top 10 largest deals in Midtown last year were from the Serviced Office sector resulting in the sector accounting for 26% share of total take-up. The Media Tech follows accounting for a 23% share.

The Midtown vacancy rate stands at 3.9%, this is significantly down on Q3 (5.3%) and on the long term average of 6.2%.

Going forward, the development pipeline looks equally restrained with just 0.12m sq ft of available schemes entering supply this year.
SOUTHBANK

SE1

KEY HEADLINES

- Annual take-up reached 0.89m sq ft in 2018 marginally ahead of the long term average of 0.84m sq ft, but down 6% on 2017 (0.95m sq ft).
- The largest deal of the year was WeWork’s 99,800 sq ft acquisition at Friars Bridge Court, Blackfriars Road, SE1.
- The Media Tech, Property and Services sectors all took an equal share of demand accounting for 20%.
- Supply at year-end stood at 0.39m sq ft, equating to a vacancy rate of 2.0%, a record low level of vacancy.
- Despite high levels of development activity in Southbank, this will offer no reprieve to tight levels of supply. Of the 0.44m sq ft of deliveries due this year 75% are pre-let.

£65.00
Q4 2018 Southbank prime rent

2.0%
Q4 2018 Southbank Vacancy rate

0.89M SQ FT
2018 Southbank take-up

Southbank Take-up

Despite no deals over 100,000 sq ft, take-up levels reached 0.90m sq ft last year of the LT average of 0.85m sq ft.

Vacancy rates

Southbank Vacancy

The vacancy rate ended 2018 at 2.0%, a record low level of vacancy.
Q4 2018 DEALS

READ ON
## Key Leasing Deals

<table>
<thead>
<tr>
<th>Address (Floor)</th>
<th>Sq Ft</th>
<th>Approx Rent (Per Sq Ft)</th>
<th>Term (Break)</th>
<th>Tenant</th>
<th>Landlord</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Merchant Square, W2 (G, 1st - 7th)</td>
<td>160,000</td>
<td>Early £60s</td>
<td>Conf.</td>
<td>WeWork</td>
<td>Marks &amp; Spencer</td>
</tr>
<tr>
<td>Premier Place, 2.5 Devonshire Square, EC2 (Part G, 1st - 5th)</td>
<td>148,300</td>
<td>£64.50</td>
<td>15 years</td>
<td>Jane Street Europe</td>
<td>Greycoat/Morgan Stanley</td>
</tr>
<tr>
<td>135 Bishopsgate, EC2 (5th - 9th)</td>
<td>146,360</td>
<td>Late £60's, premium on floors with a terrace</td>
<td>15 years</td>
<td>McCann</td>
<td>British Land</td>
</tr>
<tr>
<td>Friars Bridge Court, 41-45 Blackfriars Road, SE1 (Building)</td>
<td>98,900</td>
<td>Mid to low £50's</td>
<td>15 years</td>
<td>WeWork</td>
<td>Kennedy Wilson Europe</td>
</tr>
<tr>
<td>Athene Place, 66-73 Shoe Lane, EC4 (G, 1st, 6th - 9th)</td>
<td>87,500</td>
<td>£69.00</td>
<td>15 years</td>
<td>Deloitte</td>
<td>Greycoat</td>
</tr>
<tr>
<td>20 Finsbury Circus, EC2 (1st - 6th)</td>
<td>73,600</td>
<td>£65.00 - £71.00</td>
<td>15 years</td>
<td>Regus</td>
<td>UD Europe</td>
</tr>
<tr>
<td>Twenty Two, 22 Bishopsgate, EC2 (Part 15th, 16th, 17th)</td>
<td>63,200</td>
<td>£67.50 - £70.00</td>
<td>15 years</td>
<td>AXA IM</td>
<td>AXA</td>
</tr>
<tr>
<td>Salisbury Square House, 8 Salisbury Square, EC4 (1st, 3rd, 4th)</td>
<td>53,600</td>
<td>£66.50</td>
<td>10 years</td>
<td>Gartner</td>
<td>Greycoat</td>
</tr>
<tr>
<td>21 St James's Square, SW1 (1st - 6th)</td>
<td>51,300</td>
<td>Conf.</td>
<td>Conf.</td>
<td>Cinven</td>
<td>Colombia Threadneedle</td>
</tr>
<tr>
<td>The Walbrook Building, 23-29 Walbrook, EC4 (3rd)</td>
<td>50,000</td>
<td>Conf.</td>
<td>Conf.</td>
<td>DAC Beachcroft</td>
<td>Cathay Life</td>
</tr>
<tr>
<td>ADDRESS</td>
<td>LOT SIZE</td>
<td>CAPITAL VALUE (PER SQ FT)</td>
<td>YIELD</td>
<td>PURCHASER</td>
<td>VENDOR</td>
</tr>
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</tr>
<tr>
<td>30 Gresham Street, EC2</td>
<td>£411.5m</td>
<td>£1,019</td>
<td>4.37%</td>
<td>Wing Tai and Manhatten Garments</td>
<td>Samsung Asset Management</td>
</tr>
<tr>
<td>Sanctuary Buildings, 16-20 Great Smith Street, SW1</td>
<td>£285m</td>
<td>£1,393</td>
<td>4.18%</td>
<td>Hana Financial Group</td>
<td>Blackstone</td>
</tr>
<tr>
<td>125 Shaftesbury Avenue, WC2</td>
<td>£267m</td>
<td>£1,501</td>
<td>4.56%</td>
<td>Savills IM/ Vesta IM (KB Securities / MG)</td>
<td>Almacantar</td>
</tr>
<tr>
<td>1 Poultry, EC2</td>
<td>£182.4m</td>
<td>£1,195</td>
<td>4.70%</td>
<td>IBK</td>
<td>Aermont and Perella Weinberg Partners</td>
</tr>
<tr>
<td>55 Gresham Street, EC2</td>
<td>£181m</td>
<td>£1,491</td>
<td>3.90%</td>
<td>Ella Valley Capital</td>
<td>Angelo, Gordon &amp; Co</td>
</tr>
<tr>
<td>33 Jermyn Street, SW1</td>
<td>£132.5m</td>
<td>£1,541</td>
<td>4.25%</td>
<td>Motcomb Estates</td>
<td>Aberdeen Standard</td>
</tr>
<tr>
<td>Cannon Green, 27 Bush Lane, EC4</td>
<td>£120m</td>
<td>£1,089</td>
<td>5.00%</td>
<td>Kiwoom Asset Management</td>
<td>Ocubis</td>
</tr>
<tr>
<td>1 Southwark Bridge Road, SE1</td>
<td>£114.4m</td>
<td>£759</td>
<td>-</td>
<td>M&amp;G Real Estate</td>
<td>Pearson</td>
</tr>
<tr>
<td>1 Bartholomew Lane, EC2</td>
<td>£107m</td>
<td>£1,340</td>
<td>3.92%</td>
<td>Private Investors</td>
<td>KIC</td>
</tr>
</tbody>
</table>
CENTRAL LONDON OFFICE MARKET UPDATE Q4 2018

For more information contact Kuldeep Gadhary on +44 (0)20 7338 4844