Total take-up for the fourth quarter in the West End was down to 0.71m sq ft, a 25% fall on Q3 2010 and 36% lower than the equivalent quarter in 2009.

Despite a slow final quarter, it has been a good year for the West End, with take-up reaching 3.2m sq ft, up 10% on the previous year.

Letting activity during the final quarter was dominated by transactions in the core area. The largest deal was to management consultant firm Bain & Co who took a 2-year short term lease of 64,000 sq ft at 82-84 Piccadilly. The second largest deal saw Exane acquiring 43,000 sq ft at 1 Hanover Square.

Total availability during Q4 decreased for the fourth consecutive quarter, falling to 4.71m sq ft from 4.83m sq ft in Q3 2010. The vacancy rate has decreased marginally to 5.8%.

The lack of good quality space in the core area has pushed rents higher for the very best buildings. Rents of more than £100.00 per sq ft are set to be achieved on a few small suites in Mayfair. Rhone Capital Management has placed 8,000 sq ft under offer at 40 Bruton Street where it will pay around £105 per sq ft on the top floor.

Prime rental values in the West End have risen again, increasing from £85 per sq ft in Q3 2010 to £90 per sq ft. The current rental value is now 20% higher than the low in 2009 when headline rents dipped to £75 per sq ft. We believe that this upward trend will continue in 2011, with prime rents forecast to hit £97.50 per sq ft by December 2011.

Although the level of development completions remain relatively low in the West End, we are expecting to see more activity coming through. Examples include Land Securities who have now started refurbishment work on its 227,000 sq ft 123 Victoria Street. Another is the former Middlesex Hospital site where around 250,000 sq ft of offices will be speculatively developed by Kaupthing, Aviva Investors and Exemplar Properties.

The most significant development transaction in the fringe market for the year was at Argent’s King’s Cross Central scheme where BNP Paribas Real Estate bought a site to develop a 325,000 sq ft office building. Work is schedule to begin in autumn 2012, with completion in 2015.

Looking ahead, the only sizeable schemes scheduled to complete in the core area over the coming 12 months are Crown Estate’s 200,000 sq ft Quadrant scheme near Regent Street and Ahli United Bank’s 65,000 sq ft development at 7-15 Baker Street.

<table>
<thead>
<tr>
<th></th>
<th>W1, SW1, W2, W8, SW3 &amp; SW7</th>
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<tbody>
<tr>
<td>Supply &amp; take-up</td>
<td>Sq ft (000’s)</td>
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<tr>
<td>Available</td>
<td>3,794</td>
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<tr>
<td>Under offer</td>
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<td>Total available</td>
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<tr>
<td>Take-up</td>
<td>707</td>
</tr>
<tr>
<td>Vacancy</td>
<td>% of stock</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>5.8%</td>
</tr>
<tr>
<td>Prime rents</td>
<td>£ per sq ft</td>
</tr>
<tr>
<td>Mayfair/St James’s</td>
<td>90.00</td>
</tr>
<tr>
<td>Victoria</td>
<td>63.00</td>
</tr>
<tr>
<td>Soho</td>
<td>52.50</td>
</tr>
<tr>
<td>North of Oxford Street (East)</td>
<td>53.00</td>
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<tr>
<td>North of Oxford Street (West)</td>
<td>65.00</td>
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</tbody>
</table>
• Q4 take-up totalled 400,000 sq ft in Midtown, up 28% on the previous quarter. Annual take-up was increased by 23% from 1.02m sq ft to 1.25m sq ft.

• The highlight of the quarter was the strong letting activity at Central St Giles where a lot of interest has come from the media sector. The largest deal this quarter saw Mindshare take two floors at this mixed use scheme. Other major deals in this building included Specific Media taking 25,000 sq ft top floor on a 10 year lease and Burson Marsteller securing 21,000 sq ft on the part sixth floor.

• At the end of Q4, the amount of available space was down to 1.8m sq ft. This supply level represents a vacancy rate of 7.8%, still remaining above the 5 year average of 6.3%.

• For the overall Midtown market, there is a shortage of large quality space except Central St Giles. Given the lack of speculative development, the vacancy rate is expected to fall further.

• Prime rents in Holborn have risen for the second time in a year to £50.00 per sq ft while in Covent Garden headline rents have also increased, reaching £55.00 per sq ft at the end of Q4. We expect to see further rental growth in both areas over the next few years.

• The development cycle has slowed down since the completion of Central St Giles, with just around 150,000 sq ft currently under construction.

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<tr>
<th>WC1 &amp; WC2</th>
<th>Supply &amp; take-up</th>
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</table>
| Available | Sq ft (000's)   | 1,305  
| Under offer |   | 495  
| Total available | Sq m (000's) | 1,800  
| Take-up |                   | 400  
| Vacancy rate | % of stock | 7.8%  
| Prime rents | £ per sq ft | 50.00  
|            | £ per sq m | 538  
| Holborn |                     | 55.00  
| Covent Garden |                   | 592  

Midtown availability and vacancy rate

Midtown take-up and rents
Q4 2010 was another good quarter for the City office market. The 1.87m sq ft let was 30% higher than the 5 year average level of 1.4m sq ft.

The City has seen a strong performance during the course of 2010, with take-up for the year soaring to 7.7m sq ft. This is the highest figure since 2000 when it reached 8.7m sq ft.

Bloomberg’s longstanding requirement has been satisfied. It has purchased Legal & General’s long leasehold interest in the Walbrook Square site, EC4. Bloomberg plans to occupy 500,000 sq ft itself and develop further offices – planning consent is for 900,000 sq ft.

Other than the Bloomberg deal, the Q4 occupational market was characterised by a high volume of small and medium size deals. These included the 42,300 sq ft letting to Chartis Insurance at 150 Cheapside, EC2 and the 31,700 sq ft letting to Seven Publishing Group at 3-7 Herbal Hill, EC1.

Elsewhere in the City, the newly completed One New Change has attracted a couple of high profile tenants since its completion. Approximately 100,000 sq ft is currently under offer.

The quarter saw a marginal decrease in the City supply level, with total availability falling from 8.2m sq ft in Q3 2010 to 8.0m sq ft. Vacancy rates have continued their downward trend, standing at 8.9% by the end of 2010. This level is much lower than the peak in Q4 2009 when it reached 13.6%.

A lot of development agreements have been signed in 2010 due to a growing confidence in the City market. This year will see the start of some significant schemes in the City, notably at 20 Fenchurch Street (Walkie-Talkie) and 122 Leadenhall Street (Cheesegrater).

British Land and Blackstone have submitted the planning application to build a 700,000 sq ft building to house UBS’s headquarters at 5 Broadgate. Construction is scheduled in 2011 with practical completion due in 2014.

City rental values have recovered quite rapidly over the last 12 months, with prime rents rising from £43.50 per sq ft at the end of 2009 to £53.50 per sq ft. Looking forward, we predict prime rents will rise by a further 8% to £57.50 per sq ft at the end of 2011 and reach the 2007 peak of £65.00 per sq ft by the end of 2013.
DOCKLANDS

- The Docklands office market ended with a strong final quarter in 2010 with 1.29m sq ft of office space being let. The letting market for the quarter was boosted by deals from the financial sector.
- For the year as a whole, 2010 saw take-up rise significantly to reach 2.26m sq ft, up from just 0.42m sq ft on the previous year. This was the highest annual take-up since 2001 and one of the highest levels recorded over the last 15 years.
- After months of speculation, JPMorgan Chase has confirmed its continued commitment to London and will relocate the headquarters of its European investment banking operations to Lehman Brothers’ former premises at 25 Bank Street. The bank will pay £495m to take over the 1m sq ft office building and will move into the tower by 2012.
- Other notable lettings of the quarter included MF Global taking a sublease of 103,000 sq ft at 5 Churchill Place and HSBC signing for 82,000 sq ft at 1 Canada Square.
- Docklands availability has decreased by 6% during the final quarter to circa 1.87m sq ft while the vacancy rate has fallen from 10.1% in Q3 2010 to 9.2%.
- There is currently no office development underway in Docklands. However, much will depend on whether JPMorgan keeps investing in the Riverside South project and continue to develop the site for future occupation.
- Canary Wharf prime rents have stabilised at £36.50 per sq ft for 3 consecutive quarters, with rents for the rest of Docklands remaining at £25.00 per sq ft in Q4.

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<th>E14 &amp; E16</th>
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<tbody>
<tr>
<td>Supply &amp; take-up</td>
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<tr>
<td>Available</td>
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<td>Under offer</td>
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<td>Total available</td>
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<td>Take-up</td>
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<tr>
<td>Vacancy rate</td>
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<tr>
<td>Prime rents</td>
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<tr>
<td>Canary Wharf</td>
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<td>Rest of Docklands</td>
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Docklands availability and vacancy rate

Docklands take-up and rents
2010: REVIEW OF THE YEAR

The central London office market has performed spectacularly over the past 12 months. A number of huge lettings, diminishing supply levels, strong rental growth and growing confidence in the development market all show that 2010 was a year of recovery.

The year past has been exceptional in terms of take-up. Across central London, overall transaction levels rose 47% year-on-year to 14.4m sq ft compared with 9.84m sq ft in 2009, making it the best performing year of this decade. The City market in particular has contributed over half of this amount, with a total of 7.6m sq ft let during the year.

The significant letting activity in 2010 was dominated by demand from financial services. In Docklands, we saw JPMorgan take 1m sq ft at 25 Bank Street in the final quarter, boosting take-up for the year to 2.2m sq ft. The West End market experienced a steady year, with take-up reaching 3.2m sq ft. The largest transactions have been focused on the fringe market, such as British Land’s Regent’s Place and Argent’s King’s Cross Central.

A notable feature of the 2010 market has been the return of big pre-letting or site purchases. The strong leasing activity over the last year coupled with a lack of recent development activity, means that major occupiers have to consider taking pre-lets of new buildings off-plan. During the second half of 2010, we saw UBS sign a pre-let to build 700,000 sq ft at 5 Broadgate and Bloomberg purchase a site at Walbrook Square with planning consent for 900,000 sq ft.

Over the recent quarter, we have started to see some positive signs emerging to the development market. In the City, there is now a growing confidence among developers who have successfully secured joint venture partners to bring forward new schemes. Aside from the Walkie-Talkie (20 Fenchurch Street) and the Cheesegrater (The Leadenhall Building), a number of high profile schemes are in the process of being built or securing development funding, which include Heron Tower (due to complete in February), the Pinnacle, the Shard and Walbrook Square (site purchase by Bloomberg).

Central London office rents have bounced back quickly during the course of 2010, with prime rents in the City and West End increasing on a quarter by quarter basis. Going forward, the supply shortage will drive further rental growth in central London over the coming years.

The strongest demand is likely to be driven by lease events and growth of small to medium-sized businesses.

Looking forward to 2011, confidence remains high in the City leasing market. However, rather than being dominated by big chunky transactions, the market will be characterised by a higher volume of deals but with lower take-up than 2010. We estimate City prime rents will rise by a further 8% to £57.50 at the end of 2011. However, the exceptional space available in high up tower buildings will breach £60.00 per sq ft on a consistent basis.

In the West End we expect to see hedge funds increase activity in Mayfair and St James’s, whereas the majority of large West End deals last year were in the fringe locations. This will also translate into rental growth, but at a slower pace than the dramatic rise we saw in 2010.

Central London office take-up and vacancy rate

Source: BNP Paribas Real Estate
**REPORT DEFINITIONS**

**Submarkets**
The map above shows the boundaries of the submarkets used for all BNP Paribas Real Estate research on the London office market. The submarkets are defined using the following clusters of postal districts:

- **West End**: W1, SW1, W2, SW3, SW7 and W8
- **Midtown**: WC1 and WC2
- **City**: EC1, EC2, EC3, EC4 and E1
- **Docklands**: E14 and E16
- **Northern Fringe**: NW1 and N1
- **Southbank**: SE1 and SE11

**Take-up** represents the total floorspace known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period. It does not include space that is under offer.

A property is deemed to be “taken-up” only when contracts are signed or a binding agreement exists. All deals (including pre-lets) are recorded in the period in which they are signed. Lease renewals are not included. Sale and leasebacks are not included as there is no change in occupation. Quoted take-up volumes are not definitive and are consequently subject to change.

**Total supply** represents floorspace which is on the market and available for occupation. We distinguish between space that is under offer and other available space. Speculative developments that are under construction are not included. Space available for subletting or assignment is included.

**Under offer** is where an offer for a property has been made and accepted in principle, but the transaction is still subject to contract.

**Vacancy rate** represents the total supply divided by the total stock at the survey date.

**Prime rent** is an opinion of the highest headline rent achievable at the quarter end of a hypothetical 5,000 sq ft unit of the best quality office space in the best location in each submarket.

**Prime yield** is an opinion of the net initial yield which would be appropriate for a freehold prime office investment let to a tenant with a strong covenant.

**Investment volume** represents the total capital value of freehold and long leasehold purchases during the survey period. Quoted investment volumes are not definitive and are consequently subject to change. Only office transactions are included in this report.
INVESTMENT

- Investment activity across central London increased for the third consecutive quarter in Q4. Total transactions during the final quarter were £3.5 billion, up 35% from £2.6 billion in Q3 2010. The strong second half of 2010 brings the year end total to £9.4 billion, a 30% increase on 2009.

- Overseas investors again dominated purchasing activity, accounting for 65% of transactions by value. Around 35% of purchases were bought by European investors, followed by 30% from US investors and 23% from Far Eastern investors.

- Transaction volumes in the City totalled £1.42 billion in Q4. There were five transactions of over £100 million during the quarter, all purchased by overseas investors. The largest deal was the sale of Bishops Square by Hammerson and Oman Investment Fund. The building was sold for £557 million at a yield of 5.8% to funds managed by JP Morgan Asset Management. The second largest deal was at Watermark Place, EC4 where Oxford Properties Europe acquired their joint venture partner UBS’s 50% share for around £200m.

- In the West End a total of £1.58 billion was transacted during Q4 which was the best performing quarter of the year. The most significant transaction saw the Crown Estate sell 25% of its £1.8 billion Regent Street partnership to Norwegian Government Pension Fund for £448 million, reflecting a yield of 4.5%.

- Also worthy of mention is a development purchase in the City. AXA Real Estate Investment Management has bought the Bath House development project at 60 Holborn Viaduct, EC1 for £45 million. AXA has entered into a partnership with Favermead to speculatively develop the 230,000 sq ft office building which will be one of the few developments expected to complete by 2013.

- Elsewhere in central London, the 45-storey Citigroup Tower in Canary Wharf is on the market for £1 billion. The tower is being sold to pay back the debt owed by owners Maud and Quinlan who purchased the property in 2007. It has been estimated that offers would need to exceed £1 billion to counteract the losses endured by a consortium of German and Irish lenders.

- There has been a rise in the number of properties over £50 million during the quarter. Some buildings have received multiple bids which indicate that investors, especially overseas investors are still seeking prime London assets.

- Prime yields in the City and West End have remained unchanged since September 2010. City yields are currently trading at 5.25% while West End yields are at 4% compared to 3.5% on 10 year government bonds.