At a Glance

CENTRAL LONDON OFFICE MARKET

Q4 2014

**LEASING**
- 4.49m sq ft of take-up was recorded during Q4 2014, bringing the 2014 annual total to 16.03m sq ft, the highest since 2000.
- TMT occupiers have dominated the market, accounting for 24% of total take-up for the year and 31% in the final quarter. Serviced office operators have also helped drive demand with the sector responsible for 1.2m sq ft, or 7%, of total office take-up for 2014.
- Supply has fallen dramatically across all Central London markets, resulting in one of the lowest vacancy rates on record at 5.1% in particular the Midtown (4.8%), Southbank (3.6%) and West End (3.6%) markets are all experiencing an acute shortage of space with vacancy rates firmly below 5% and further drops expected during 2015. The Southbank had the largest drop in vacancy at 579bps from Q3 to Q4.
- Demand should remain buoyant throughout the year ahead and with a limited supply pipeline, 2015 will witness increases in rental growth across most submarkets. With fringe locations experiencing some of the best performance during 2014, we foresee strong growth in the traditional core City and West End markets during 2015.

**INVESTMENT**
- Mounting deflation fears and a weaker global outlook have raised demand for low-risk assets as investors seek refuge from volatile equity markets. This, combined with increased capital from Central Bank QE programs, has driven bond yields to historic lows; therefore maintaining an attractive spread on even the lowest yielding prime Central London offices.
- Large trophy asset purchases by overseas buyers boosted Q4 2014 office investment to £7.98bn, breaking the record set during Q4 2013 and pushing the overall 2014 volume to £19.98bn (£20.6bn 2013).
- 81% of Q4 Central London office investment involved overseas buyers, bringing the annual total to 73% of all transactions.
- 4th quarter volumes within the City office market were particularly high at £3.79bn. There were 11 deals of £100m+, 10 of these involved cross-border capital, 5 of which involved Chinese investors.
- The increased volume of money being deployed into the Central London office market has pushed the prime City office yield down 25bps to 4%, whilst the West End currently remains at 3.5%.

Central London investment volume

Central London key indicators

<table>
<thead>
<tr>
<th>Property</th>
<th>Price (£m)</th>
<th>Yield (%)</th>
<th>Size (sq ft)</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC, 8 Canada Sq, E14</td>
<td>1100</td>
<td>4.98</td>
<td>1,092,00</td>
<td>QIA</td>
</tr>
<tr>
<td>The Gherkin, EC3</td>
<td>726</td>
<td>3.75</td>
<td>514,710</td>
<td>Safra Group</td>
</tr>
<tr>
<td>BOAML, EC1</td>
<td>583</td>
<td>5.25</td>
<td>585,000</td>
<td>Norcic</td>
</tr>
<tr>
<td>New Scotland Yard, SW1</td>
<td>370</td>
<td>-</td>
<td>402,428</td>
<td>Abu Dhabi Financial</td>
</tr>
<tr>
<td>Tower Place, EC3</td>
<td>327</td>
<td>4.58</td>
<td>383,000</td>
<td>Ping An</td>
</tr>
<tr>
<td>6 St James’s Square, SW1</td>
<td>265</td>
<td>3.89</td>
<td>116,904</td>
<td>Korean Teachers</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

CONTACTS
Dan Bayley, London Office Agency, 020 7338 4444, daniel.bayley@bnpperibas.com
Alistair Kemp, Research, 020 7338 4348, alistair.kemp@bnpperibas.com
• Q4 2014 saw West End take-up break the 1m sq ft mark for the third consecutive quarter, an occurrence not witnessed since 2001.
• With fewer large deals than recent quarters the Q4 average deal size was 4,612 sq ft over 225 deals. Banking & Finance and TMT occupiers were the most active, with both making up 20% of the overall volume.
• The 2014 annual take-up of 3.8m sq ft is 27% ahead of 2013 but still slightly below the recent high of 3.96m sq ft recorded in 2010. It is worth noting however, that the recent high volume of transactions has taken place against a backdrop of plummeting supply. With a number of larger schemes due to complete over 2015 we expect an increasing amount of the pent up demand for space to be fulfilled, resulting in further high levels of take-up during the year ahead.
• The supply and demand imbalance within the market has lead to continued growth in prime rents. The current average prime rent stands at £117.50 per sq ft but, with rumours of potential deals at above £150 per sq ft, the market is primed for a significant increase.
• Capital value growth of 19.3% helped drive the total returns to 23.6%. The strong capital movements were based on rental value growth of 10.9% and a 38bps drop in equivalent yields (IPD).

Market statistics (W1, W2, W8, SW1, SW3, SW7, NW1)

<table>
<thead>
<tr>
<th>Demand &amp; Supply</th>
<th>Sq ft (000s)</th>
<th>Sq m (000s)</th>
<th>Change Q-on-Q</th>
<th>Change Y-on-Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up</td>
<td>1,038</td>
<td>96</td>
<td>-6%</td>
<td>71%</td>
</tr>
<tr>
<td>Availability</td>
<td>2,502</td>
<td>232</td>
<td>-24%</td>
<td>-36%</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>3.61</td>
<td>-1.16bp</td>
<td>-1.99bp</td>
<td></td>
</tr>
</tbody>
</table>

Prime Rents

- Mayfair/St James’s: £117.50 per sq ft, £1,265 per sq m, up 2.2% Q-on-Q, up 7.8% Y-on-Y
- Victoria: £77.50 per sq ft, £834 per sq m, unchanged Q-on-Q, up 6.9% Y-on-Y
- Soho: £80.00 per sq ft, £861 per sq m, up 3.2% Q-on-Q, up 3.2% Y-on-Y
- North of Oxford Street (East): £75.00 per sq ft, £807 per sq m, up 3.4% Q-on-Q, up 15.4% Y-on-Y
- North of Oxford Street (West): £92.50 per sq ft, £996 per sq m, unchanged Q-on-Q, up 2.8% Y-on-Y

Major office lettings

<table>
<thead>
<tr>
<th>Property</th>
<th>Size (sq ft)</th>
<th>Rent (£/sq ft)</th>
<th>Tenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Kingdom Street, W2</td>
<td>49,873</td>
<td>Conf. Microsoft</td>
<td></td>
</tr>
<tr>
<td>5 Merchant Square, W2</td>
<td>27,647</td>
<td>58.00 Avanta</td>
<td></td>
</tr>
<tr>
<td>5 Merchant Square, W2</td>
<td>22,891</td>
<td>56.50 NCR</td>
<td></td>
</tr>
<tr>
<td>33 Davies Street, W1</td>
<td>11,801</td>
<td>115.00 AGC Equity Partners</td>
<td></td>
</tr>
<tr>
<td>14 Curzon Street, W1</td>
<td>11,058</td>
<td>110.00 London Executive Offices</td>
<td></td>
</tr>
<tr>
<td>10 Portman Square, W1</td>
<td>10,250</td>
<td>89.00 Ardagh Glass</td>
<td></td>
</tr>
<tr>
<td>23 King Street</td>
<td>7,843</td>
<td>117.5 Balyasny Asset Management</td>
<td></td>
</tr>
<tr>
<td>33 Davies Street, W1</td>
<td>6,007</td>
<td>120.00 Troy Asset Management</td>
<td></td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

CONTACTS
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Steven Skinner, Investment Agency, 020 7338 4229, steven.skinner@bnpparibas.com
Colin Mumford, Lease Advisory, 020 7338 4279, colin.mumford@bnpparibas.com
Following an exceptionally strong 3rd quarter, leasing transactions in the 4th quarter were slightly more subdued at 1.77m sq ft. Still ahead of the 5 year average of 1.48m sq ft, the quarterly total helped propel the 2014 annual figure to 7.3m sq ft, the second highest volume since 2000 (2010, 7.73m sq ft).

Unlike previous quarters there were no deals recorded at 100,000 sq ft or above. The largest deals of the quarter were completed by Zurich Insurance at 70 Mark Lane and Threadneedle at Cannon Place.

A growing trend across London markets has been the emergence of serviced office providers as a major source of demand for office space. For the first time on record this sector made up the largest proportion of take-up during a single quarter in the City. Notable transactions include WeWork taking over 63,000 sq ft at 199 Bishopsgate and Office Space in Town taking close to 45,000 sq ft at 20 St Dunstan’s Hill. There were 14 deals involving serviced office operators over the quarter, with i2 Offices responsible for 5 alone.

Once again supply levels have fallen and the City vacancy rate now stands at 6.25%, the lowest level since Q1 2008.

Investment performance saw total returns reach 25.6% for the year, with capital growth contributing 19.6%, made up of a healthy 11.4% rental growth and a drop in equivalent yields of 50bps.

This multitude of positive factors will ensure 2015 has the potential for one of the best performing years on record.

### Market statistics (EC1, EC2, EC3, EC4, E1)

<table>
<thead>
<tr>
<th>Demand &amp; Supply</th>
<th>Sq ft (000s)</th>
<th>Sq m (000s)</th>
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<th>Change Y-on-Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up</td>
<td>1,768</td>
<td>164</td>
<td>-3% ↓</td>
<td>-3% ↑</td>
</tr>
<tr>
<td>Availability</td>
<td>5,640</td>
<td>524</td>
<td>-4% ↓</td>
<td>-18% ↑</td>
</tr>
<tr>
<td>Vacancy % of stock</td>
<td>6.25</td>
<td></td>
<td>-39bp ↓</td>
<td>-153bp ↓</td>
</tr>
<tr>
<td>Prime Rents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-towers</td>
<td>62.00</td>
<td>667</td>
<td>2% ↑</td>
<td>6% ↑</td>
</tr>
<tr>
<td>Towers</td>
<td>74.00</td>
<td>797</td>
<td>2% ↑</td>
<td>6% ↑</td>
</tr>
</tbody>
</table>

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</tr>
</thead>
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<tr>
<td>70 Mark Lane, EC3</td>
<td>68,253</td>
<td>67.00</td>
<td>Zurich Insurance</td>
</tr>
<tr>
<td>Cannon Place, EC4</td>
<td>65,000</td>
<td>61.50</td>
<td>Threadneedle</td>
</tr>
<tr>
<td>199 Bishopsgate, EC2</td>
<td>63,201</td>
<td>49.50</td>
<td>WeWork</td>
</tr>
<tr>
<td>AlphaBeta, Finsbury Square</td>
<td>35,221</td>
<td>52.66</td>
<td>Silicon Valley Bank</td>
</tr>
<tr>
<td>Cannon Place, EC4</td>
<td>28,124</td>
<td>60.00</td>
<td>i2 Office</td>
</tr>
<tr>
<td>6 Bevis Marks, EC3</td>
<td>20,583</td>
<td>58.80</td>
<td>i2 Office</td>
</tr>
<tr>
<td>Moorgate Exchange, EC2</td>
<td>16,259</td>
<td>62.50</td>
<td>Tradeweb</td>
</tr>
<tr>
<td>The Leadenhall Building, EC3</td>
<td>7,679</td>
<td>83.50</td>
<td>FM Global</td>
</tr>
<tr>
<td>20 Fenchurch Street</td>
<td>5,896</td>
<td>62.50</td>
<td>Greycastle</td>
</tr>
</tbody>
</table>

### City prime rents and vacancy rate

Source: BNP Paribas Real Estate

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The 4th quarter of 2014 saw take-up reach 344,557 sq ft, 25% down on the 3rd quarter but 17% above the 5 year quarterly average.

With only three deals above 25,000 sq ft it was the sheer volume of smaller lettings that helped ease the quarterly total above trend. The substantial lack of supply of larger new units was evident in both the drop in take-up and significant fall in vacancy rate, 145bps.

At 0.98 million sq ft Midtown supply sits precariously below the 5 year average of 1.4 million sq ft. At the end of 2014 there were only 8 buildings capable of fulfilling a requirement of 25,000 sq ft.

With a comparatively robust development pipeline, interest and the subsequent demand should remain healthy, with new space coming to the market likely to be let quickly, further boosting rental growth.

The Midtown total return for 2014 was 28.6%, the strongest performance of the London submarkets measured by IPD. Rental growth was 12.3% whilst equivalent yields moved in 66 bps.

Q4 2014 take-up was 373,845 sq ft. The 280,000 sq ft Societe Generale deal at 1 Bank Street made up 75% of the total and on it’s own was greater than the 5 year average take-up of 264,000 sq ft.

A steady flow of deals throughout the year pushed the annual take-up in Docklands to 1.26m sq ft, the highest annual total since 2010.

The result is a significant fall in the vacancy rate since it peaked in Q4 2013. With a 420bps drop, the contraction in available space has been one of the most marked across Central London office markets.

The drop in supply has helped nudge the Canary Wharf prime rent higher to £40.00 per sq ft, the first increase in 11 quarters. The Canary Wharf market currently has some of the most competitively priced large grade-A spaces available in London. With the wider supply squeeze being witnessed across London, this could lead to an increase in demand for space in locations such as Docklands and Stratford.