CENTRAL LONDON OFFICE VACANCY RATES FALL TO 15 YEAR LOW
- Less than one year’s supply available

The vacancy rate of office properties in Central London fell to 15 year low during the third quarter of the year according to research from BNP Paribas Real Estate. At just 4.68% of total stock, the level of supply was just 10.29m sq ft, equivalent to less than one years’ supply at current levels of take-up.

“With robust levels of demand and no further developments coming on stream this year rents are set to increase and occupiers are increasingly looking to future development pipeline to fulfil their property requirements. Increasingly they are turning their attention to non-traditional and emerging locations away from the core areas to satisfy their requirements in terms of space and value,” said Daniel Bayley, Head of Central London at BNP Paribas Real Estate.

During the third quarter of 2015 London’s office market saw a continuation of the above average levels of leasing and investment activity that was witnessed in the first half of the year. Take-up to end September reached 10.78m sq ft, 18% above the long term trend, whilst the investment volume of £11.91bn is 28% ahead of the average. BNP Paribas Real Estate expects that the usual end of year activity will take leasing and investment levels further above trend.

“Activity in was very much boosted by pre-letting activity,” says Bayley, adding: “In total 13 pre-lets were recorded totalling 660,000 sq ft. We expect that take-up levels of this magnitude will continue in 2016 as the development pipeline starts to deliver much needed new stock.”

Across London the investment market continued to be dominated by overseas buyers, who accounted for 64% of purchases in Q3.

Simon Williams, Head of Investment at BNP Paribas Real Estate, says: “On a global stage, London remains attractive for a number of reasons. With employment expected to grow by 6% between 2015 and 2019, and with no real immediate answer to London’s supply squeeze, we expect that strong prime rental growth will deliver robust annual average returns of 5.3% per over the next five years.

“Conversely, the continued demand for Central London assets also presents a rationale for some vendors, seeking profit from record capital values, to sell. A number of substantial assets are being prepared for sale later this year, which will undoubtedly contribute to above trend investment volumes in Q4.”
West End

The West End’s office market was boosted by several large transactions involving Media Tech firms and take-up in Q3 2015 reached 1m sq ft, making Q3 the busiest so far in 2015; taking the year-to-date volume to 2.48m sq ft.

Facebook’s 227,000 sq ft acquisitions at 1 Rathbone Place and Regent’s Place 65,000 sq ft, along with King Digital Entertainments 64,660 sq ft acquisition of Ampersand in Soho’s Wardour Street signalled the West End’s enduring appeal to established Media Tech companies, a trend confirmed by the fact that the sector has accounted for 31% of West End take-up so far this year. The Banking & Finance sector accounted for 20% of transactions. Despite robust levels of demand for West End offices, annual take-up levels remain marginally below their long term trend, due to the lack of suitable product in the West End. Vacancy rates continued to hover around historic lows with many occupiers struggling to fulfil their property requirements. The vacancy rate stood at 3.79% at the end of Q3 2015, equivalent to 2.58m sq ft and 40% below the long term average.

The low vacancy rate continued to place upward pressure on rents with new highs being achieved in the submarkets of St James’s, NW1, Paddington and Soho during the first nine months of 2015.

Boosted by four transactions in excess of £100 million, the turnover of investment transactions in the West End reached £1.2bn in Q3, taking the total volume to £3.88bn so far this year, 40% ahead of long term average levels. Prime West End yields remain at 3.25%. BNP Paribas Real Estate expects that, on the basis that investor demand remains at above average levels and the rental growth remains positive, prime yields will continue around historic lows in the short to medium term.

City

Take-up in the Square Mile was, at 1.53m sq ft, slightly subdued during Q3 2015. However levels to end of September reached 4.88m sq ft, 20% ahead of the long term average.

Q3 saw the re-emergence of traditional City occupiers dominating take-up, most notably the professional sector which has accounted for 23% of take-up so far in 2015. The media tech sector continued to account for a large proportion of take-up in the City, taking a 19% share.

With 14 pre-let transactions so far this year, off plan deals and those agreed during construction continue to be a key feature of the City market and interest remains strong for such opportunities.
The City vacancy rate hit 5.32% at the end of September, 132bps below the same period in 2014 and 370bps below the long term trend. BNP Paribas Real Estate expects supply pressures to continue into next year with buoyant demand and average levels of development activity, totalling 2.4m sq ft, keep vacancy low. An upward movement can be expected to occur in late 2016 when completed schemes currently under construction start to enter the supply figures.

While the supply of new buildings in 2017 will be 91% above the long term trend, 36% of this space has been pre-let and speculative space hitting the market will be closer to 2.85m sq ft, which should prevent any significant hike in vacancy.

Investment volumes in the City during Q3 reached £2.55bn, taking 2015 to date to £6.05bn, the highest level of investment activity in the first nine months of the year since 2007.

Of the 17 £100m plus investment purchases recorded so far this year, 14 were to overseas buyers, 71% of the total capital deployed in the City.

Despite a potential slowdown in capital value growth next year, BNP Paribas Real Estate expects that investors will continue to be drawn to the City’s strong rental growth prospects.

**Midtown**

The Midtown market saw a quarterly take-up of 673,769 sq ft, representing an increase of 220% on Q2. The surge in take-up was largely due the highly anticipated lettings at Aldwych Quarter in August where Bush House, Strand House and King House were let in their entirety to King’s College.

Office supply in Midtown fell to 717,000 sq ft in Q3, down from 1.24m sq ft at the end of June. Letting activity has pushed down the vacancy rate, reducing the vacancy rate to 3.63%, well below the 6.50% long term average.

With no new space coming to the market due during the remainder of 2015, supply will inevitably contract - placing further pressure on prime rents in Q4.

**Northern Fringe (N1)**

A lack of larger deals during Q3 saw just 85,519 sq ft of take-up in N1, with two largest deals accounting for 74% of the quarter’s take-up. Due to a chronic lack of supply in the area, vacancy rates in N1 stand at 1.39%, significantly below the five year quarterly average of 8.33%.
Docklands

Take-up in Docklands reached 192,068 sq ft in Q3, 67% lower than the previous quarter and less than the 10 year quarterly average of 250,000 sq ft. The largest deal of the quarter saw Balfour Beatty taking 35,447 sq ft at 5 Churchill Place.

At 973,548 sq ft supply of offices in Docklands fell compared to Q2, causing vacancy rates to drop by 285 bps to 5.09%, the lowest rate witnessed since 2009.

BNP Paribas Real Estate is tracking just 168,460 sq ft of new space set to complete within the next two years. With over 307,000 sq ft of space currently under offer, the lack of new space will undoubtedly placing upwards pressure on prime rents.

Southbank

During Q3 the Southbank market saw take-up of 130,000 sq ft an increase of 39.8% on Q2 2015 and a figure matching the total supply of space remaining available to the market. Total availability was down 37.40% compared to Q3 2015.

<table>
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<th>WEST END</th>
<th>CITY</th>
<th>DOCKLANDS</th>
<th>MIDTOWN</th>
<th>SOUTH BANK</th>
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### About BNP Paribas Real Estate

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 37 countries with approximately 180 offices and 3,800 employees (16 wholly owned and 21 by its Alliance network that represents today more than 3,200 people). BNP Paribas Real Estate is a subsidiary of BNP Paribas. For more information: [www.realestate.bnpparibas.com](http://www.realestate.bnpparibas.com)

### Real Estate for a changing world

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