The third quarter of 2015 has seen a continuation of the above average levels of leasing and investment activity that typified recent quarters. 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 for activity in the first nine months of the year. We expect the usual end of year flurry of activity to push up leasing and investment levels further above trend.

Leasing activity was very much boosted by pre-letting activity, fuelled by the substantial fall in the vacancy rate. In total 13 pre-lets were recorded, equivalent to 660,000 sq ft of take-up. This will continue to be the case next year as the development pipeline starts to deliver much needed new stock.

The investment market continues to be fuelled by overseas investors, accounting for 64% of purchases. On a global stage, London remains attractive for a variety of reasons. According to Oxford Economics, employment growth is expected to grow by 6% over the next five years (2015-19), with no real immediate answer to London’s supply squeeze, this will deliver robust returns driven by strong prime rental growth of 5.3% per annum on average over the next five years.

Conversely, the continued demand for Central London assets also presents a rationale to sell for some vendors seeking profit from record capital values. Indeed, a number of large lot sizes are being prepared for sale which will undoubtedly contribute to above trend investment volumes in Q4.

**Q3 Stats... At a Glance**

<table>
<thead>
<tr>
<th>Total supply</th>
<th>10.29m sq ft</th>
<th>(-11%) on Q2 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy rate</td>
<td>4.68%</td>
<td>(-5.28%) in Q2 2015</td>
</tr>
<tr>
<td>Take-up</td>
<td>3.69m sq ft</td>
<td>(-12%) on Q2 2015</td>
</tr>
<tr>
<td>Investment</td>
<td>£4.25bn</td>
<td>(+15%) on Q2 2015</td>
</tr>
</tbody>
</table>
Boosted by several large lettings by Media Tech firms, take-up in Q3 2015 reached 1m sq ft, the highest level of quarterly take-up so far this year and brings the YTD volume to 2.48m sq ft.

Facebook’s acquisitions at 1 Rathbone Place (277,000 sq ft, pre-let) and Regent’s Place (65,000 sq ft) and King Digital Entertainments (64,680 sq ft) acquisition at Apsersand, Wardour Street signals the West End’s enduring appeal to established Media Tech companies. Despite losing these types of occupiers to other submarkets in the past, the Media Tech sector accounts for 31% of West End take-up so far this year, followed by the Banking & Finance sector taking a 20% share.

In spite of robust levels of demand for West End offices, annual take-up levels remain marginally below their long term trend. Conversely, the City and Midtown markets are performing considerably above this trend. Lack of suitable product in the West End can be held responsible for this as the vacancy rate hovers around the historic low and occupiers struggle to fulfil property requirements. The vacancy rate stood at 3.79% at the end of Q3 2015, equivalent to supply totaling 2.58m sq ft, 40% below the long term average.

The delivery of schemes such as St James’s Market, Nova and Verde however, will come as a welcome option to occupiers in search of West End space. Indeed, these schemes have seen significant interest ahead of their completion dates. At Land Securities Zig 2ag scheme, close to 80% is let or under offer, ahead of its expected completion date this month. Furthermore, 88,000 sq ft is under offer at St James’s Market to Carlyle Group and Catalyst. In Victoria, Nova has seen 50,000 sq ft of lettings to Egon Zehnder and Advent International and 36,000 sq ft is under offer at Tishman Speyer’s Verde scheme to Pret a Manger, all of which are expected to complete in 2016.

The low vacancy rate is placing upwards pressure on rents with new highs being achieved in the submarkets of St James’s, NW1, Paddington and Soho so far this year. On average we expect prime rental growth of 8.1% in the West End this year. Our prime West End rent stands at £110/sq ft, up £125/sq ft in Q2 2015, reflective of prime average rental values currently being achieved in Mayfair & St James’s.

Investment turnover reached £1.2bn in Q3 2015, bringing the overall volume to £3.88bn so far this year. Encouragingly, this is 40% ahead of long term average levels (for the first nine months of the year). Four transactions in excess of £100m helped boost figures including £144m the sale of 39 Victoria Street, SW1 to Ho Bee Land.

Continued high demand for West End assets has upheld the prime West End yield at 3.25%. As long as investor demand remains at above average levels and the rental growth story remains positive, prime yields will remain around historic lows in the short to medium term.

Office rents & vacancy rates

<table>
<thead>
<tr>
<th>Location</th>
<th>Q3 rent</th>
<th>Q4 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WEST END</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mayfair</td>
<td>£78.50</td>
<td>£80.00</td>
</tr>
<tr>
<td>Soho</td>
<td>£67.00</td>
<td>£69.00</td>
</tr>
<tr>
<td>Paddington</td>
<td>£62.50</td>
<td>£63.00</td>
</tr>
<tr>
<td><strong>CITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Fringe</td>
<td>£66.00</td>
<td>£68.00</td>
</tr>
<tr>
<td>City</td>
<td>£54.00</td>
<td>£56.00</td>
</tr>
<tr>
<td><strong>NORTHEN FRINGE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>London Bridge</td>
<td>£40.00</td>
<td>£42.50</td>
</tr>
<tr>
<td>Canary Wharf</td>
<td>£31.00</td>
<td>£31.00</td>
</tr>
<tr>
<td><strong>DOCKLANDS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canary Wharf</td>
<td>£44.50</td>
<td>£46.00</td>
</tr>
<tr>
<td>Rest of Docklands</td>
<td>£40.00</td>
<td>£42.50</td>
</tr>
</tbody>
</table>

Following the usual summer slowdown, take-up in Q3 2015 was slightly subdued at 531,000 sq ft, nevertheless, levels to end of September have reached 4.88m sq ft, 20% ahead of the long term average.

The quarter saw the re-emergence of traditional City occupiers dominating take-up, most notably the Professional sector which now accounts for 29% of take-up in Q3. Deals from this sector in Q3 included solicitors Ashurst taking 275,000 sq ft at the London Fruit & Wool Exchange, E1, accountants Safferys Champness took 92,964 sq ft at 72 Queen Victoria Street, EC4 and engineering firm AKT II took 28,400 sq ft at the White Collar Factory, EC1.

The Media Tech sector continues to account for a large proportion of take-up in the City, taking a 16% share. We expect the sector to continue to drive demand levels going forward, however will increasingly have to compete for the same buildings as other sectors such as the Professional and Banking & Finance.

Pre-lets (off plan or during construction) continue to be a key feature of the City market with 14 completed so far this year. Interest remains rife for pre-let opportunities, Indeed Royal Bank of Canada and Jermyns are rumoured to be in negotiations to pre-let space at Brookfield’s 100 Bishopsgate.

Vacancy rates

<table>
<thead>
<tr>
<th>Location</th>
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<th>Q4 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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</tr>
<tr>
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<td>£66.50</td>
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<td>£42.50</td>
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In Victoria, Nova has seen 50,000 sq ft of lettings to Egon Zehnder and Advent International and 36,000 sq ft is under offer at Tishman Speyer’s Verde scheme to Pret a Manger, all of which are expected to complete in 2016.

The low vacancy rate is placing upwards pressure on rents with new highs being achieved in the submarkets of St James’s, NW1, Paddington and Soho so far this year. On average we expect prime rental growth of 8.1% in the West End this year. Our prime West End rent stands at £110/sq ft, up £125/sq ft in Q2 2015, reflective of prime average rental values currently being achieved in Mayfair & St James’s.

Investment turnover reached £1.2bn in Q3 2015, bringing the overall volume to £3.88bn so far this year. Encouragingly, this is 40% ahead of long term average levels (for the first nine months of the year). Four transactions in excess of £100m helped boost figures including £144m the sale of 39 Victoria Street, SW1 to Ho Bee Land.

Continued high demand for West End assets has upheld the prime West End yield at 3.25%. As long as investor demand remains at above average levels and the rental growth story remains positive, prime yields will remain around historic lows in the short to medium term.
MIDTOWN
Quarterly take-up increased by over 220% this quarter to 673,769 sq ft. This surge in take-up was largely due to the highly anticipated lettings at Aldwych Quarter in August. Bush House, Strand House and King House have been let in their entirety to King’s College, making up 254,557 sq ft of take-up.

Supply in Midtown has seen a fall in Q3 to 717,000 sq ft, down from 1,246 sq ft at the end of June. A pick-up in letting activity has begun to push down the vacancy rate. Indeed, the large lettings at the Aldwych Quarter, WeWork’s signing at 18 Grays Inn Road and Price & Meyers taking the entire building at 35 Alfred Place have seen the vacancy rate fall to 3.63%, well below the 6.50% long term average.

Therefore, with no new space available in Midtown for the remainder of 2015, supply will inevitably begin to contract thus placing further pressure on prime rents in Q4.

NORTHERN FRINGE (N1)
A lack of larger deals in Q3 has seen take-up in N1 of just 85,519 sq ft, with the two largest deals accounting for 74% of the quarter’s take-up. These two deals included a pre-let to WeWork who will be taking 46,951 sq ft at Space, Shoreditch and L’Oreal taking the entire 16,438 sq ft of The Lighthouse.

However, in October Universal Music signed to pre-let the later end of 2016.

Focus on ... Victoria
After a particularly slow beginning to 2015, Victoria has witnessed a significant bounce back in office take-up and has reached 400,000 sq ft by the end of September. Lack of available product rather than a lack of demand has been the primary reason for this subdued start.

A considerably muted development pipeline over recent years combined with strong take-up has helped fuel a severe undersupply. The vacancy rate stands at 1.67%, 300bps below the long term trend.

The only major scheme due for delivery this year is the Zig Zag building, close to 80% of which is let or under offer, ahead of its completion date in October. Victoria will see further relief when approximately 1m sq ft is delivered. Of those, Verde and Nova schemes have attracted occupiers Egon Zehnder, Advenit International and Prett & Manger who are under offer.

The supply and demand imbalance will see rents rise to £82.50/ sq ft by the end of the year and hit £84.00/ sq ft by end 2016. Victoria will be well positioned to attract occupiers struggling to find large floorplates in central London.

Docklands take-up and vacancy rate

DOCKLANDS
Q3 2015 take-up was 192,088 sq ft, 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 Sajour Beauty taking 35,447 sq ft on the 7th and part 8th floors of 5 Churchill Place. The terms remain confidential however the passing rent for the space was £35.00/sq ft.

Current supply in the Docklands has fallen since Q2, with 97,548 sq ft now available. This retraction in supply has caused vacancy rates to drop by 285 bps to 5.09%, the lowest rate witnessed since 2009.

We are currently tracking 168,460 sq ft of new space set to complete within the next two years. With the current constraints on supply, the lack of new space due for completion and over 300,000 sq ft of space under offer, supply will contract further, undoubtedly placing upwards pressure on prime rents.

Major letting and investment deals

<table>
<thead>
<tr>
<th>PROPERTY</th>
<th>CAPITAL VALUE (£m)</th>
<th>PURCHASER</th>
<th>YIELD</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Fruit &amp; Wool Exchange, E1</td>
<td>275.00</td>
<td>Ashurst</td>
<td>74.34</td>
</tr>
<tr>
<td>1 Rathbone Place, W1</td>
<td>227,324</td>
<td>Facebook</td>
<td>Conf</td>
</tr>
<tr>
<td>Bush House, WC2</td>
<td>112,875</td>
<td>King’s College</td>
<td></td>
</tr>
<tr>
<td>14 Grays Inn Road, WC1</td>
<td>69,867</td>
<td>WeWork</td>
<td>£58.20</td>
</tr>
<tr>
<td>The Sugar Building, EC2</td>
<td>40,126</td>
<td>London Executive Offices</td>
<td>£51.00 average</td>
</tr>
<tr>
<td>Time Square, Queen Victoria Street, EC4</td>
<td>287.5</td>
<td>Blackstone</td>
<td>4.40</td>
</tr>
<tr>
<td>Alphabeta, Finsbury Square, EC2</td>
<td>280.0</td>
<td>Sinar Mas Land</td>
<td>4.00</td>
</tr>
<tr>
<td>30 South Colonnade, E1</td>
<td>234.7</td>
<td>HNA Investment Holding</td>
<td>5.00%</td>
</tr>
<tr>
<td>39 Victoria Street, SW1</td>
<td>144.0</td>
<td>Ho Bee Land</td>
<td>4.32</td>
</tr>
<tr>
<td>Sugar Building, EC2</td>
<td>80.0</td>
<td>Al Gurg</td>
<td>4.34</td>
</tr>
</tbody>
</table>

Data

<table>
<thead>
<tr>
<th></th>
<th>WEST END</th>
<th>CITY</th>
<th>DOCKLANDS</th>
<th>MIDTOWN</th>
<th>SOUTHBANK</th>
<th>N1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-Up (m sq ft)</td>
<td>1.18</td>
<td>1.53</td>
<td>0.19</td>
<td>0.67</td>
<td>0.13</td>
<td>0.85</td>
</tr>
<tr>
<td>Change Q-on-Q</td>
<td>36.30%</td>
<td>-8.90%</td>
<td>-67.40%</td>
<td>215%</td>
<td>39.80%</td>
<td>332.1%</td>
</tr>
<tr>
<td>Change Y-on-Y</td>
<td>-7.55%</td>
<td>-43.50%</td>
<td>-9.52%</td>
<td>45.70%</td>
<td>-50.50%</td>
<td>301.1%</td>
</tr>
<tr>
<td>Availability (m sq ft)</td>
<td>2.59</td>
<td>4.69</td>
<td>0.97</td>
<td>0.72</td>
<td>0.13</td>
<td>0.54</td>
</tr>
<tr>
<td>Change Q-on-Q</td>
<td>-2.26%</td>
<td>-6.30%</td>
<td>-36.20%</td>
<td>-42%</td>
<td>-2.10%</td>
<td>-63.7%</td>
</tr>
<tr>
<td>Change Y-on-Y</td>
<td>-21.00%</td>
<td>-20.50%</td>
<td>-31.30%</td>
<td>-43.80%</td>
<td>-37.40%</td>
<td>-63.8%</td>
</tr>
<tr>
<td>Vacancy Rate (%)</td>
<td>3.79</td>
<td>5.32</td>
<td>5.09</td>
<td>3.63</td>
<td>4.70</td>
<td>1.39</td>
</tr>
<tr>
<td>Change Q-on-Q</td>
<td>-11%</td>
<td>-40%</td>
<td>-285</td>
<td>-285</td>
<td>-11</td>
<td>-236</td>
</tr>
<tr>
<td>Change Y-on-Y</td>
<td>-103%</td>
<td>-132%</td>
<td>-228</td>
<td>-266</td>
<td>-370</td>
<td>-233</td>
</tr>
</tbody>
</table>

www.realestate.bnpparibas.com
Covent Garden, Knightsbridge, Bond Street and the Kings Road all recorded declining vacancy rates in Q3 2015.

A new top rent of £1,010/sq ft ZA was set for Oxford Street following the arrival of watch retailer Longines. The Swiss brand took a 10 year lease on the property which is located opposite Selfridges.

JD Sports opened a new 34,500 flagship store at 201-203 Oxford Street, replacing Next. In addition, Adidas announced that they would also be opening a new flagship store.

Dubai retailer The Toy Store arrived on Oxford Street in September 2015. The retailer had previously set the highest rent on the street in 2014 at £925/sq ft ZA.

Competitive tension for the best units has resulted in rising Zone A rents in Knightsbridge, with rents at the Northern end of Brompton Road now standing at £800/sq ft ZA. Rents could be set to rise further, with a new letting at 47-51 Brompton Road rumoured to have been agreed at £840/sq ft ZA.

There was £462.5m invested into the West End retail market in Q3 2015. This marked a 36% decrease compared to the same period in 2014, though still above the 3 year average quarterly volume.

Overseas investors again dominated, representing 71% of the total West End retail investment volume in Q3.

2014's total investment of £1.46bn has now been matched in 2015 with Q4 still remaining. We anticipate significant activity in the final quarter - there is around £260m of Bond Street stock on the market including the Tod’s and Alexander McQueen flagships at Standbrook House. In addition, we are aware of a significant volume which is expected to complete in the next couple of months.

The largest deal within Q3 was Norges Bank IM’s purchase of West One Shopping Centre at 381-383 Oxford Street. The sovereign wealth fund paid £240m at a 3.5% initial yield. The deal also included office space accessed from Davies Street.

Another significant deal in the period was the purchase of 101 Wigmore Street for £97m by Wittington Investments, the Weston family’s investment vehicle. The property which is currently tenanted by Wagamama, was purchased from AXA Real Estate at an initial yield of 2.8%.

Meyer Bergman purchased 103 Mount Street for £81m from Kajima Property Holdings at an initial yield of 3.11%. The building is the flagship store for French womenswear retailer Céline.

Major investment deals

<table>
<thead>
<tr>
<th>ADDRESS</th>
<th>PRICE (£M)</th>
<th>YIELD (%)</th>
<th>SIZE</th>
<th>PURCHASER</th>
<th>VENDOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>West One Shopping Centre, W1</td>
<td>240</td>
<td>3.5</td>
<td>90,000</td>
<td>NBIM</td>
<td>Orchard Street IM</td>
</tr>
<tr>
<td>101 Wigmore Street, W1</td>
<td>97</td>
<td>2.8</td>
<td>55,000</td>
<td>Wittington Investments</td>
<td>AXA Real Estate</td>
</tr>
<tr>
<td>103 Mount Street, W1</td>
<td>81</td>
<td>3.11</td>
<td>31,000</td>
<td>Meyer Bergman</td>
<td>Kajima Property Holdings</td>
</tr>
<tr>
<td>30-33 Henrietta Street, WC2</td>
<td>15.2</td>
<td>2.25</td>
<td>11,464</td>
<td>Capco</td>
<td>UK Family Trust</td>
</tr>
</tbody>
</table>

- West One shopping Centre: 381-383 Oxford Street
- 101 Wigmore Street: W1
- 103 Mount Street: W1
- 30-33 Henrietta Street: WC2
- 1-3 Charlotte Street, W1

- Daniel Bayley: Head of City leasing
  - (44) 020 338 4444
- David Herzog: Head of West End leasing
  - (44) 020 338 4292
- Rob Hargreaves: Director - West End retail leasing
  - (44) 020 338 4490

- Richard Garside: Head of City investment
  - (44) 020 338 4229
- Steven Skinner: Head of West End investment
  - (44) 020 338 4229

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- Steven Skinner: Head of West End investment
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**USA**


**ALLIANCES**

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**CYPRUS**

**ESTONIA**

**FINLAND**

**Greece**

**HUNGARY**

**IRELAND**

**ITALY**

**LATVIA**

**LITHUANIA**

**LUXEMBOURG**

**NETHERLANDS**

**NORWAY**

**PORTUGAL**

**ROMANIA**

**RUSSIA**

**SARDINIA**

**SERBIA**

**SWEDEN**

**SWITZERLAND**

**TUNISIA**

**UKRAINE**

**USA**

**TURKEY**

**VIETNAM**


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