Overview

‘Resilient’ has been the word most often used to describe Central London over the last 10 months. This resilience has been underpinned by the capital’s solid property fundamentals which will continue to act as a draw for occupiers and investors throughout the upcoming Brexit negotiating period.

Low supply. Despite a rise in the vacancy rate in Q1 to 6.35%, it is still below the long term average and low in comparison to the historic trend. This cycle has seen lower levels of speculative office development due to rising construction costs and a lack of development finance.

Steady demand. 500,000 sq ft of new requirements were launched in Q1, an indication that sentiment amongst occupiers has improved. Three large lettings of >100,000 sq ft to Freshfields, Expedia and Arup have demonstrated that Central London continues to attract occupiers across all sectors.

Robust economy. With Central London and the UK economy working very much in tandem, a robust economic picture for the UK bodes well for the capital. UK GDP growth has been revised upwards expected to reach 1.8% in 2017 and Central London will be driving this with 2.2% growth expected.

Currency discount. With the City seeing yield compression of 25bps this quarter, pricing hasn’t performed as some investors expected post Brexit. Discounts however have come in the form of sterling’s devaluation. In the short term we expect to continue to see a 10-12% discount for buyers purchasing UK Real Estate in US dollars.

Infrastructure projects. Europe’s largest infrastructure scheme Crossrail nears completion next year. The scheme will increase transport capacity and reduce journey times across the capital. London’s future as a world class city relies on continued investment into infrastructure, this is why projects like the Northern Line extension, HS2 and Heathrow’s expansion will be essential in securing this.

Q1 Stats... At a Glance

<table>
<thead>
<tr>
<th>Total supply</th>
<th>13.69m sq ft</th>
<th>Vacancy rate</th>
<th>6.35%</th>
<th>UK GDP Growth</th>
<th>1.8% in 2017</th>
<th>Central London GDP Growth</th>
<th>2.2% in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▲ 11% on Q4 2016</td>
<td>▲ 62bps on Q4 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Take-up</td>
<td>2.48m sq ft</td>
<td>Investment</td>
<td>£4.06bn</td>
<td>City Yields</td>
<td>4.00%</td>
<td>West End Yields</td>
<td>3.50%</td>
</tr>
<tr>
<td></td>
<td>▼ 28% on Q4 2016</td>
<td></td>
<td></td>
<td>▼ 25 bps on Q4 2016</td>
<td>Remains stable</td>
<td></td>
<td></td>
</tr>
</tbody>
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West End Investment

Q1 2017: £1.77bn

45% ↑ change Q-on-Q

73% ↑ on LT ave

City Investment

Q1 2017: £1.75bn

27% ↓ change Q-on-Q

12% ↑ on LT ave

Office rents & vacancy rates

West End

Vacancy rate: 6.53%
Q4 16 rent: £92.50 psf
Q1 17 rent: £92.50

Midtown

Vacancy rate: 3.27%
Q4 16 rent: £88.00 psf
Q1 17 rent: £88.00

Northern Fringe

Vacancy rate: 4.83%
Q4 16 rent: £80.00 psf
Q1 17 rent: £80.00

City

Vacancy rate: 3.23%
Q4 16 rent: £75.00 psf
Q1 17 rent: £75.00

South Bank

Vacancy rate: 3.48%
Q4 16 rent: £63.00 psf
Q1 17 rent: £63.00

Docklands

Vacancy rate: 3.71%
Q4 16 rent: £42.50 psf
Q1 17 rent: £42.50

City take-up by business sector

Media Tech: 12%
Professional services: 24%
Property & Construction: 11%

West End Investment Volumes

- Take-up levels for Q1 2017, whilst improving on the previous two quarters, remain subdued. At 0.61 million sq ft, levels continue to fall below the market’s five year average.

- The Professional Services sector again posted a key share of demand, rising from 17% in Q4 2016 to 27% at Q1 2017. A significant proportion of this was accounted for by the substantial, 193,600 sq ft letting to Arup Group at 80 Charlotte Street.

- Despite unexceptional levels of demand, supply has fallen by 6% to stand at 3.09m sq ft, with take-up outweighing secondary releases and the limited levels of new development coming online.

- Q1 2017 has seen prime rents remain static, as is the case across all of the Central London submarkets. This follows rental decline over 2016, where a lack of transactional evidence and subdued market conditions prompted prime rental levels to fall 5.6% to £127.50 psf. At this level, prime rents are, however, still 6.25% above the market’s pre-recession peak.

- Following the positive end to 2016, investor activity remained encouraging over the first quarter of 2017, returning investment volumes of £1.77 bn, the highest quarterly total since end-2014.

- Overseas investors continued to dominate the investor profile and Asia Pacific investors were the most active. However, the largest transaction in terms of size comprised German investor Deka Immobilien’s acquisition of One Rathbone Place. The building, let to Facebook on a 15 year term in September 2016, was sold for £435m, reflecting a net initial yield of 4%.

- A further key transaction was the sale of the multi-let 7-8 St James’s Square to a private Asian investor. The scheme, which has previously achieved record rental levels for James’s Square, returned investment volumes of £1.75 bn, the highest annual completion levels recorded for the City market in recent years, in positive news only 50% of this new stock remains available.

- Rental levels in both the City and City Fringe markets have remained flat over Q1 2017, standing at £89.00 psf and £65.00 psf respectively.

- Similarly to the occupier market, investment volumes for Q1 2017 also fell back on the previous quarter, totalling £1.75bn. This fall back does, however, follow a particularly strong finish to 2016 and at this level volumes are 12% ahead of the quarterly long term average.

- Volumes were substantially boosted by one key transaction: the sale of the Leaderhall Building toHong Kong investor CC Land for £1.15bn, reflecting a net initial yield of 3.5%. The sale of this trophy building constitutes continued overseas investor interest and confidence in the capital.

- In the initial aftermath of the Brexit vote, falls in City office capital values led to a marginal outward movement in overseas investor interest and confidence in the capital.

- The Professional Services sector drove take-up over the quarter, boosted by firm Freshfields’ commitment to 255,000 sq ft at the currently under construction Bishopsgate. The scheme has now achieved 65% occupancy, with completion not due until 2019.

- City supply has risen once again over the quarter to stand at 6.23m sq ft, driven by secondary releases and speculative completions. Despite this rise, supply levels remain 15% below the long-run average.

- 2017 has already seen 780,000 sq ft of new space complete, with a further 3.5m sq ft projected to complete across the remainder of the year. Whilst this will constitute one of the highest annual completion levels recorded for the City market in recent years, in positive news only 50% of this new stock remains available.

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**CENTRAL LONDON OFFICE MARKET REPORT – Q1 2017**

**MIDTOWN (WC1 & WC2)**

- In a quarter where take-up figures across the capital have dwindled below the long term average in all submarkets, Midtown has been the anomaly. Midtown take-up was above the long term average of 0.27m sq ft for the second consecutive quarter after a lull period during 2016. Take-up reached 0.35m sq ft, with large deals to Mckinsey at The Post Building (96,999 sq ft) and COS at 1 New Oxford Street (60,096 sq ft) helping to boost figures.

- Its well-established location between The City and West End serves as a gateway to a variety of diverse occupiers, with Midtown being one of the most diverse sub markets in Central London. Similar to previous quarters the Professional Services dominated take-up during Q1 2017, accounting for 35% of total take-up. Although it must be noted that this majority was almost solely due to the deal to Mckinsey. The Media Tech and Retailer sector closely followed with 18% and 17% of total take-up respectively.

- Despite good levels of letting activity, vacancy rates have once again increased over the initial quarter, with supply currently standing at 1.77m sq ft equalling a vacancy rate of 8.80%. This 198bps increase on Q4 2016 is due to 42,580 sq ft of tenant space coming back to the market at Mid City Place during Q1 along with 104,238 sq ft of newly available tenant space coming back to the market. This along with encouraging demand and declining development stock.

- Place during Q1 along with 104,238 sq ft of newly available tenant space and Midtown has been the anomaly. Midtown take-up was above the long term average in all submarkets, with 8.90% standing at 1.77m sq ft equalling a vacancy rate once again increased over the initial quarter, with supply currently standing at 1.77m sq ft equalling a vacancy rate of 8.80%. This 198bps increase on Q4 2016 is due to 42,580 sq ft of tenant space coming back to the market at Mid City Place during Q1 along with 104,238 sq ft of newly available tenant space coming back to the market.

- The most prominent investment deal of the quarter was the Karlin Real Estates’s sale of 18 Gray’s Inn Road. The vendor was represented by BNP Paribas Real Estate and the sale to a private Middle Eastern purchaser.

- Similar to the slowdown in the final quarter of 2016, Q1 2017 investment volumes for Midtown were somewhat unimpressive, with only £150m being transacted 55% below the 10 year long term average.

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**Major leasing deals**

<table>
<thead>
<tr>
<th>PROPERTY</th>
<th>SQ FT</th>
<th>TENANT</th>
<th>RENT EPSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 Bishopsgate, EC3</td>
<td>255,299</td>
<td>Freshfields</td>
<td>High £60's</td>
</tr>
<tr>
<td>Angel Building</td>
<td>136,857</td>
<td>Experis</td>
<td>Conf.</td>
</tr>
<tr>
<td>80 Charlotte Street, W1</td>
<td>133,800</td>
<td>Anup Group</td>
<td>£75.00</td>
</tr>
<tr>
<td>The Post Building, W1</td>
<td>96,999</td>
<td>Mckinsey</td>
<td>Mid £70's</td>
</tr>
<tr>
<td>2 Waterhouse Square, EC1</td>
<td>88,800</td>
<td>ITV</td>
<td>Conf.</td>
</tr>
</tbody>
</table>

**Major investment deals**

<table>
<thead>
<tr>
<th>PROPERTY</th>
<th>CAPITAL VALUE EM</th>
<th>PURCHASER</th>
<th>YIELD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Leadenhall Building, EC3</td>
<td>1,150</td>
<td>CC Land Holdings</td>
<td>3.50%</td>
</tr>
<tr>
<td>One Rathbone Square, W1</td>
<td>435</td>
<td>Dekel WestInvest</td>
<td>4.00%</td>
</tr>
<tr>
<td>One Kingdom Street, W2</td>
<td>292</td>
<td>CC Land Holdings</td>
<td>4.86%</td>
</tr>
<tr>
<td>Ampersand, 178 Wardour St, W1</td>
<td>260</td>
<td>Emperor Group</td>
<td>2.91%</td>
</tr>
<tr>
<td>8 Fitzroy Street, W1</td>
<td>197</td>
<td>Anup</td>
<td>3.40%</td>
</tr>
</tbody>
</table>

**Data**

<table>
<thead>
<tr>
<th>CENTRAL LONDON</th>
<th>WEST END</th>
<th>CITY</th>
<th>DOCKLANDS</th>
<th>MIDTOWN</th>
<th>SOUTHBANK</th>
<th>NL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-Up (m sq ft)</td>
<td>2.48</td>
<td>0.61</td>
<td>1.34</td>
<td>0.04</td>
<td>0.35</td>
<td>0.11</td>
</tr>
<tr>
<td>Change Q-on-Q</td>
<td>-28.36%</td>
<td>11.82%</td>
<td>-15.74%</td>
<td>-92.85%</td>
<td>3.95%</td>
<td>-69.94%</td>
</tr>
<tr>
<td>Change Y-on-Y</td>
<td>-19.63%</td>
<td>-16.62%</td>
<td>-9.79%</td>
<td>-88.16%</td>
<td>124.40%</td>
<td>-36.47%</td>
</tr>
</tbody>
</table>

| Availability (m sq ft) | 13.69 | 3.03 | 6.23 | 1.64 | 1.77 | 0.59 | 0.09 |
| Change Q-on-Q | 11.00% | -6.21% | 8.62% | 84.12% | 18.48% | 11.26% | -24.90% |
| Change Y-on-Y | 32.56% | 14.54% | 41.47% | 69.55% | 28.95% | -5.74% | 153.12% |

| Vacancy Rate (%) | 6.35 | 4.51 | 7.22 | 8.58 | 8.90 | 3.15 | 2.17 |
| Change Q-on-Q | 63 | -90 | 57 | 392 | 139 | 32 | -72 |
| Change Y-on-Y | 163 | 57 | 221 | 356 | 206 | -32 | 131 |

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