



CENTRAL LONDON OFFICE MARKET UPDATE

Q3 2017

Investment

Q3 2017 volumes reached £3.18bn, boosted by the sale of 20 Fenchurch Street (The Walkie Talkie) to LKK Health Products Group for £1.28bn. This brings annual volumes to £11.59bn, 22% ahead of the same period in 2016 and 23% ahead of the long term average.

The dominance of larger deals driving the investment market is reflected in average lot sizes rising from £55m in 2016 to £104m this year.

MSCI has reported 12 consecutive months of capital growth for Central London offices, reporting 0.2% growth in September. Robust values may act as incentive for some vendors to seek an attractive profit.

Prime yields still look attractive in comparison to other asset classes and to other global cities at 3.50% and 4.00% for West End and City offices, respectively.

Leasing

Take-up reached 3.48m sq ft in Q3 2017, the highest level of quarterly take-up this year. This brings annual 2017 levels to 8.89m sq ft, 12% ahead of the same period last year and on par with long term average.

Large companies continue to commit to Central London with the likes of Deutsche Bank, Cancer Research and Spotify acquiring space over 100,000 sq ft in Q3. Indeed, the number of deals recorded over 100,000 sq ft so far this year is around 50% up on average levels. Conversely, deals below 5,000 sq ft have experienced a 50% fall.

With the short to medium term economic environment looking uncertain, many small to medium sized enterprises (SME's) have turned to the Serviced Office sector, the greater flexibility on offer aligns well with SME's shorter term business horizons.

WeWork acquired just over 800,000 sq ft in the first nine months of 2017, taking Serviced Office sector share to 15% of total take-up. The Media Tech sector takes a 17% share.

Despite steadily rising levels of tenant space, up from 23% to 24% (QoQ) and just under 1.00m sq ft of development completions entering the supply figures in Q3, the vacancy rate continues to defy expectations and falls 8bps in Q3 to 6.31%.

STATS AT A GLANCE



£3.18bn

Q3 2017 investment volume



£104m

2017 average transaction lot size, up from £55m in 2016



15%

Serviced Office sector share so far in 2017



8.89m sqft

Annual take-up to end Q3 2017, 12% ahead of 2016



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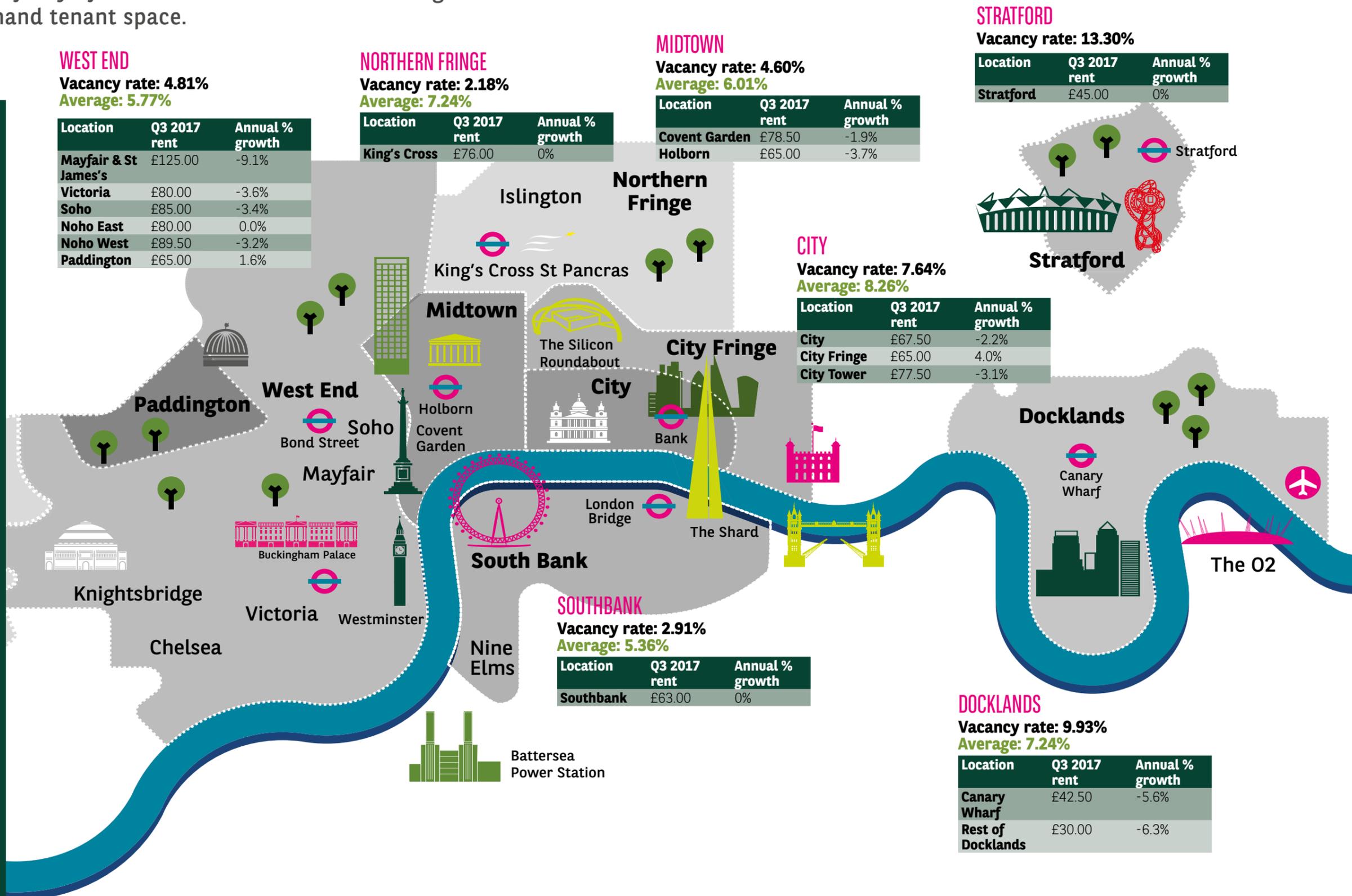
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CENTRAL LONDON OFFICE RENTS & VACANCY RATES BY SUBMARKET

Vacancy rates in the majority of submarkets remain below average despite rising second-hand tenant space.

- **The vacancy rate remains below average** in the majority of submarkets with the exception of Docklands.
- **Docklands supply rises due to tenant returns.** Tenants rationalising their office needs has led to a rise in second-hand space, with the Docklands feeling the effects in particular.
- **Midtown experienced the largest drop in vacancy in Q3**, falling by 212 bps. This was due to buoyant levels of demand from large occupiers.
- **Second-hand tenant rises across Central London**, reaching 3.26m sq ft in Q3 or 24% of total supply, up on 23% in Q2.
- **Development pipeline looks relatively modest.** Approximately 18m sq ft is currently under construction in Central London, half of which is pre-let.
- **In-line with our forecasts, prime rents have seen declines.** Despite robust take-up levels, Brexit uncertainty has placed downward pressure on prime rents, following on from falls in net effective rents over the last 12 months.



THE WEST END

West End leasing activity for Q3 has improved on the subdued performance recorded over the previous two quarters, totalling 0.82m sq ft. This brings take-up for the West End across 2017 to date to 1.94m sq ft, in line with the same period in 2016, although down 22% on the 10 year average.

Reduced levels of good quality supply are partly attributable to these lower levels of take-up. Indeed, what little large-scale supply is coming through the pipeline has seen solid occupier interest. The currently under construction 80 Charlotte Street is a prime example, accounting for the West End's only 100,000 sq ft+ lettings so far in 2017, with Boston Consulting Group agreeing terms for 123,500 sq ft in Q3 following on from Arup Group's 133,600 sq ft letting in Q1.

In terms of new development, the West End is scheduled to see just over 1.1m sq ft new stock delivered over 2017. Of this, circa 50% currently remains available. Post-2017, current projections for development indicate a further fall back in completions, paving the way for a continued tightening of supply going forward if demand continues to hold up.

At Q3, vacancy in the West End stood at 4.81%, falling from 5.09% at Q2.

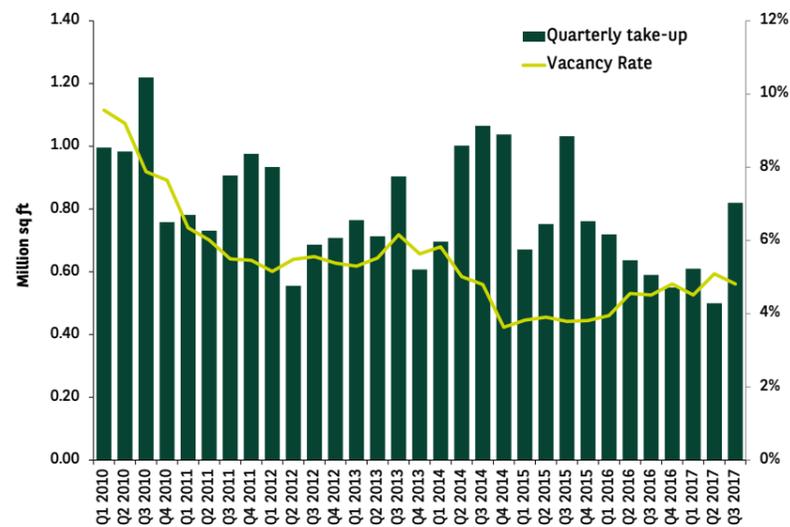
Across the West End submarkets it is the fringe locations where vacancy has recorded the greatest declines, with Victoria for example seeing a Q2-Q3 fall of over 50bps and vacancy for North of Oxford Street falling by over 100bps.

Over the next year, rents are expected to show some decline, as is the case across Central London. However, as the outlook for Brexit becomes clearer we expect this decline to stabilise and rental growth to return by 2020.

Low levels of stock continue to hinder investment volumes with just £262m recorded in Q3. This brings annual volumes so far this year to £3.44bn, 28% ahead of the same period last year.

The MSCI initial West End yield moved in marginally to 3.45% in September, underpinning our view that prime West End yields remain at 3.50%.

West End Take-Up Vs Vacancy Rate



The Professional Sector dominates 2017 take-up levels

18%

Professional Sector 2017 take-up share

West End prime rents saw softening in Q3

£125.00

/ per sq ft Q3 prime rent

THE CITY

Boosted by pre-lets to Deutsche Bank at 21 Moorfields, EC2 (469,000 sq ft) and WeWork at The Stage, EC2 (240,000 sq ft) City take-up levels reached 1.64m sq ft in Q3 2017, the highest level of quarterly take-up in nearly two years. This provided a significant boost to annual take-up reaching 4.32m sq ft which is 22% ahead of the same period last year and 6% ahead of the 10 average.

The Banking & Finance sector accounts for an 18% share of total annual take-up, evidence that the sector remains very committed to maintaining its presence in the capital. Indeed, Central London retained its number 1 Global Financial Centre Status for the second year running in the latest Z Yen index, despite Brexit worries.

Due to WeWork's four office acquisitions in the City, the Serviced Office sector accounts for a 15% share of total take-up. Other Serviced Office providers to acquire significant space in the City so far this year include Instant Offices, London Executive Offices and The Space Aldgate.

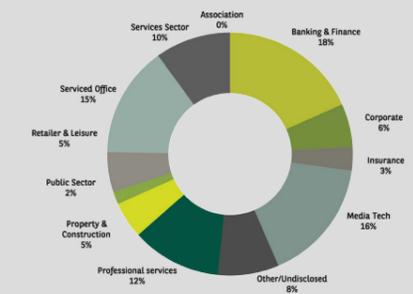
Supply in the submarket has risen by 6% over the quarter to 6.60m sq ft, a vacancy rate of 7.64%. This is largely due to schemes 148 Old Street, EC1 (162,800 sq ft, 100,000 sq ft of which is under offer), 20 Farringdon Street, EC1 (85,000 sq ft) and Fen Court, EC3 (67,500 sq ft) which are due for completion in Q1 2018, entering the supply figures. Despite this, supply sits 10% below the long term average.

Whilst second-hand tenant space across Central London has remained broadly flat over the quarter, positively in the City, levels have fallen to 1.21m sq ft in Q3 from 1.32m sq ft in Q2.

Following the gradual falls in average rents over the last 12 months, we estimate City prime rents have also softened in Q3 to £67.50/ sq ft from £69.00/ sq ft the previous quarter.

Investment volumes reached £1.88bn in Q3, boosted by the sale of 20 Fenchurch Street, EC2 (The Walkie Talkie) to LKK Health Products Group for a record breaking £1.28bn. For Asia Pacific investors, City assets remain high on the shopping list. The region accounts for a 70% share of the £5.60bn invested in City offices so far this year.

City Take-Up By Business Sector



London beat rivals New York, Hong Kong and Singapore to the world's most attractive Financial Centre.

Z/Yen Global Financial Centres Index, September 2017

City Prime Rent Vs Vacancy Rate



City offices remain high on Asia Pacific investors shopping lists

70%

Share of Asia Pacific investment into City offices so far this year

MIDTOWN

The strong leasing activity witnessed in Q2 continued into the third quarter with take-up recorded at 0.64m sq ft, the highest level since Q3 2015 and up on the long term quarterly average by 137%. This brings the take-up year to date to 1.54m sq ft, 180% up on the same period last year.

Typically, the Midtown market is driven by small to medium-sized deals. Over a 10 year period, in the first three quarters of the year deals of <5,000 sq ft average 85, in 2017 49 have completed. Deals of >50,000 sq ft have increased dramatically with seven recorded so far this year, up on the average of two.

Large deals in Q3 included WeWork taking the entire 140,000 sq ft at 125 Shaftesbury Lane, WC2, this was the largest letting in the submarket since 2011. Spotify also acquiring 104,133 sq ft at The Adelphi, WC2 which is now fully let.

The Media Tech sector accounts for 40% take-up in 2017, bolstered by deals to Spotify and Framestore. The Serviced Office sector takes a 9% share of take-up thanks to WeWork.

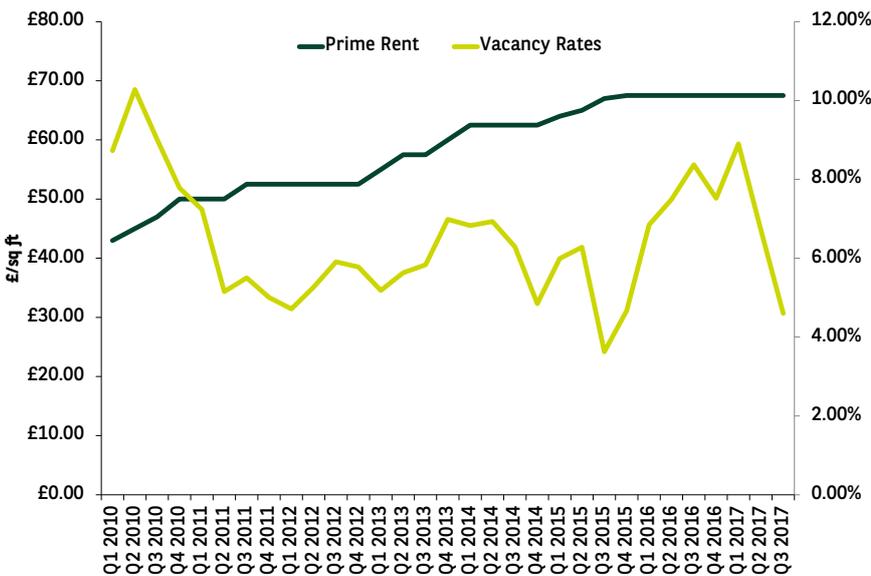
The last two years in Midtown have been defined by a number of significant developments completing in the submarket, indeed 2015 saw completion levels of 0.71m sq ft and 0.51m sq ft completing in 2016. However, going forward only 0.45m sq

ft of new space has been proposed of which 59% is under construction set to be delivered in Q4 2018.

Buoyant levels of demand from large occupiers in particular, coupled with a subdued development pipeline for the remainder of 2017 and 2018, has meant supply in Midtown has fallen to 0.91m sq ft in Q3 2017 equating a vacancy rate of 4.60%.

Over the next 18 months we expect to see rents soften slightly in Midtown, mirrored across Central London, as supply slowly increases. This is due to more second-hand space coming to the market paired with tentative occupiers placing their plans to move or expand on hold due to Brexit uncertainty.

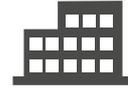
Midtown Rents Vs Vacancy Rate



Buoyant demand and subdued development pipeline has resulted in the vacancy rate falling dramatically

-212bps

Q2 to Q3 2017 fall in vacancy rate



Q3 saw the largest letting since 2011 complete in Midtown

140,000sq ft

WeWork, the Serviced office provider acquired 125 Shaftesbury Avenue, WC2 in Q3