

CENTRAL LONDON OFFICE MARKET UPDATE

Q3 2018



RESEARCH



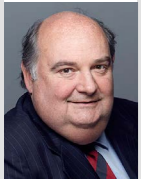
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STATS AT A GLANCE

£5.6BN

Q3 2018 **investment volumes** are in-line with Q2 volumes

£2.8BN

Currently **under offer** in Central London

3.5%

Prime yields in the **West End** remained stable in Q3 2018

4.0%

City prime yields saw no movement in Q3 2018

5.7%

Central London Q3 2018 **vacancy rate** is 11bps up on Q2 2018

24%

Tenant space share of total supply continues to diminish

10.9M

2018 to end September **take-up** is 17% ahead of the same period in 2017

23%

The **Media Tech** sector has dominated take-up so far this year

With the UK edging closer to its withdrawal date (March 2019) from the European Union, we are still no clearer on understanding what the UK's future relationship with the EU will look like after we leave. For Central London's occupiers and landlords fundamental questions remain. In particular; will the UK still have access to European financial markets and will the capital continue to attract the best and brightest talent after we leave?

Despite this uncertainty occupier demand remains buoyant and investment levels continue to outperform average levels.

Leasing

Q3 2018 take-up reached 3.8m sq ft, up 14% up on the previous quarter. Encouragingly, Q3 2018 marks the strongest quarter since Q2 2015 and boosts 2018 take-up to 10.9m sq ft, 17% ahead of the same period last year and 20% ahead of the long term average.

Pre-letting activity has been a major driver of demand this year with 29 deals over 25,000 sq ft recorded; up on 24 deals seen over the same period last year and up on 20 seen on average. To secure pre-lets, landlords mindful of the political situation, continue to offer attractive lease terms. Indeed, average lease lengths across Central London have fallen to 7.8 years in Q3, down from 8.0 in Q2. Rent free periods granted on 10 year leases in the City still stand at 24 months.

Following the trend seen last year, large corporates continue to drive demand levels with 13 deals over 100,000 sq ft recorded, up on the average of 7 seen per annum. Small to medium sized enterprises (under 5,000 sq ft) remain cautious, with the number of conventional leases signed down 28% down on average, up however on 2017 levels where activity was 50% below the long term trend.

Facebook's 600,000 sq ft acquisition of three buildings at King's Cross has boosted the Media Tech sector's share of 2018 take-up to 23%. Serviced Office take-up accounts for 12% of the total, marginally down on the 14% share the sector took in 2017.

The vacancy rate has moved up marginally in Q3 to 5.7%, from 5.6% in Q2. This remains below the long term average of 7.0%.

Prime rents remain at £115/sq ft in the West End and £67.50/sq ft in the City. Over the rest of the year, we expect rents to be flat with pre-lets eating in to future supply pipeline.

Investment

Investor appetite for Central London is strong with £5.6bn deployed across all sectors in Q3. This brings total volumes to end September to £14.1bn, 25% up on average levels.

Secure income streams with strong covenants remain at the top of overseas investors shopping lists, in particular Asia Pacific investors. For example, South Korea's National Pension Service agreed a £1.16bn purchase of Goldman Sachs new headquarters 70 Farringdon Street, EC4 in which they have taken a 25-year lease at a NIY of 4.10%

Asia Pacific investors have been joined by European investors in snapping up Central London assets in Q3. Notably PonteGadea who purchased The Adelphi Building, WC2 for £550m at a NIY of 4.50% and Deka purchasing Verde, SW1 for £460m at a NIY of 4.67%.

Overseas investors continue to be undeterred by the UK's exit from the European Union. Strong leasing fundamentals, the capital's long term 'safe haven' status and currency discount act as major draws for investors from around the globe.

Strong demand and competition for the best stock is keeping prime yields stable at 4.0% in the City and 3.5% in the West End.

CENTRAL LONDON OFFICE RENTS & VACANCY RATES BY SUBMARKET

WEST END

Vacancy rate: 4.92%
10 yr avg vacancy rate: 5.89%

Location	Q3 2018 rent	Annual % growth
Mayfair & St James's	£115.00	-8.0%
Victoria	£80.00	0.0%
Soho	£85.00	0.0%
Noho East	£82.50	3.1%
Noho West	£85.00	-5.0%
Paddington	£67.50	3.8%

MIDTOWN

Vacancy rate: 5.33%
10 yr avg vacancy rate: 6.21%

Location	Q3 2018 rent	Annual % growth
Covent Garden	£77.50	-1.3%
Holborn	£65.00	0.0%

NORTHERN FRINGE

Vacancy rate: 3.98%
10 yr avg vacancy rate: 7.78%

Location	Q3 2018 rent	Annual % growth
King's Cross	£75.00	-1.3%

NORTHERN CITY Fringe

Vacancy rate: 6.15%
10 yr avg vacancy rate: 8.81%

Location	Q3 2018 rent	Annual % growth
City	£67.50	0.0%
City Fringe	£67.50	3.8%
City Tower	£77.50	0.0%

STRATFORD

Vacancy rate: 8.53%

Location	Q3 2018 rent	Annual % growth
Stratford	£45.00	5.9%

West End

Paddington
Soho
Mayfair
Knightsbridge
Chelsea
Victoria
Westminster

Midtown

King's Cross St Pancras
Holborn
Covent Garden

City Fringe

The Silicon Roundabout
City
Bank

South Bank

London Bridge
The Shard
Nine Elms

SOUTHBANK

Vacancy rate: 2.63%
10 yr avg vacancy rate: 5.34%

Location	Q3 2018 rent	Annual % growth
Southbank	£65.00	3.2%

DOCKLANDS

Vacancy rate: 9.28%
10 yr avg vacancy rate: 7.51%

Location	Q3 2018 rent	Annual % growth
Canary Wharf	£42.50	0.0%
Rest of Docklands	£30.00	0.0%

Battersea Power Station

THE WEST END (W1, SW1, W2, SW3, SW7, W8, NW1)

West End take-up reached 0.54m sq ft in Q3 2018, a 36% decline on Q2 2018. However, strong H1 levels have pushed annual take-up to 2.34m sq ft which is in-line with average levels and up 11% on 2017.

The largest deal of Q3 was Houlihan Lokey taking 44,000 sq ft on the 3rd and 4th floors at 1 Curzon Street, W1. Mayfair's appeal as the heartland of niche financial firms and hedge funds in the West End remains, indeed Pollen Street Capital also acquired space in Q3, taking 18,900 sq ft at 11 Hanover Square, W1.

As a result, the Banking & Finance sectors overall share of 2018 demand accounts for 17%. The Media Tech sector,

boosted by Vodafone's 37,000 sq ft acquisition at 1 Kingdom Street, W2, also takes a 17% share. Serviced Offices have increased their share of take-up from last year accounting for 12% boosted by deals to Fora at 30 Broadwick Street, W1 and WeWork at 123 Buckingham Palace Road, SW1.

West End overall supply rose to 3.3m sq ft in Q3 up 17% on Q2, its highest level since Q2 2017. This equates to a vacancy rate of 4.9%. This rise in supply can be attributed to the addition of space, due for completion in Q1 2019, entering the supply figures. This includes 100,000 sq ft of refurbished space at 64 Victoria Street, SW1.



The Banking & Finance and Media Tech sectors have driven demand in 2018

17%

Banking & Finance and Media Tech sector 2018 take-up share



The vacancy rate remains below the long term average of 5.9%

4.9%

Q3 2018 West End vacancy rate

THE CITY (E1, EC1, EC2, EC3, EC4)

The City continues to see robust levels of take-up reaching 1.75m sq ft in Q3 2018, on par with Q2. 2018 take-up to end of September totals 5.29m sq ft, 18% ahead of 2017 and 29% up on the long term average for take-up in the first three quarters.

Pre-lets boosted take-up levels including TP ICAP's acquisition of 123,000 sq ft at 135 Bishopsgate, EC2, and Investec 121,600 sq ft pre-let at 55 Gresham Street, EC2.

Despite continued uncertainty surrounding the UK's access to financial markets post Brexit, the Banking & Finance sector continues to show commitment to the City, indeed the sector accounts for a 15% share of 2018

demand. LinkedIn's 90,000 sq ft pre-let at The Ray, Farringdon Road, EC1 contributed to Media Tech demand also taking a 15% share.

2018 will mark the peak of the development cycle in the City at 5.2m sq ft which is well ahead of 2.3m sq ft delivered per annum on average. With 60% of schemes pre-let, vacancy rates have been largely controlled with current levels at 6.2%. Going forward, occupier preference towards newly developed and refurbished space will continue to diminish new stock, indeed of the 4.0m sq ft of completions due next year, 50% is already pre-let.

2019 will see the delivery of 22 and 100 Bishopsgate, both of which have seen buoyant levels of pre-letting demand.



Strong levels of demand have resulted in the vacancy rate falling

6.2%

Q3 2018 City vacancy rate



City core rents remain steady

£67.50 /SQ FT

Q3 2018 City fringe prime rent

MIDTOWN (WC1 & WC2)

Midtown take up totalled 0.30m sq ft in Q3 2018, in-line with quarterly average levels but down on the previous quarter (-22%). Annual take-up to date totals 1.0m sq ft, 6% ahead of average levels.

The largest deal of the quarter was to Playtech at Mid-City Place, 71 High Holborn, WC1 where the Media Tech company took 55,000 sq ft, which resulted in the sector taking a 25% share of 2018 take-up.

The Serviced Office sector as accounted for the largest proportion of take-up during 2018 taking a 34% share. Six out of the top ten largest deals in Midtown have been to Serviced Office operators including WeWork at The Cursitor Building, Chancery Lane, WC2 (49,200 sq ft) and The Office Group at Summit

House, Red Lion Square, WC1 (42,000 sq ft). The trend of Serviced Office providers also purchasing properties in Midtown has begun to emerge. Indeed, LabTech, a coworking provider has acquired several high profile properties in the submarket over the last couple of years.

The vacancy rate rose to 5.3% in Q3, up from 4.7% in Q2 but remains below average levels of 6.2%.

This year 0.53m sq ft of development space is expected to complete in Midtown, 24% of which has already been pre-let. The Post Building, New Oxford Street is the largest 2018 scheme and totals 261,000 sq ft and will complete in Q4. McKinsey have already pre-let 123,450 sq ft at the Oxford Properties and Brockton Capital scheme.



Q3 2018 take-up is in-line with quarterly average levels

0.30M SQ FT

Q3 2018 Midtown take-up



The vacancy rate has risen but still remains below the long term average.

5.3%

Q3 2018 Midtown vacancy rate

SOUTHBANK (SE1)

Q3 2018 take-up reached 0.19m sq ft bringing annual levels to 0.60m sq ft, down 8% on average.

Datamonitor's acquisition of 62,500 sq ft at The Blue Fin Building, Southwark Street, SE1 was the largest deal of the quarter and boosted Media Tech sector demand to a 29% share of total take-up.

The Southbank's appeal to Media Tech occupiers has been underpinned by its improving retail and leisure offering in recent years. Circus West at Battersea Power Station, has added further appeal to the South of the River and the redevelopment at London Bridge Station includes improvements to the retail provision.

The vacancy rate in the Southbank stood at 2.6% in Q3, up marginally on Q2. Despite this, the Southbank remains the most supply restrained submarket in Central London.

Prime rents stand at £65.00/sq ft, reflecting an annual increase of 3.2%, one of the strongest levels of annual growth across Central London.



The vacancy rate rose marginally from Q2, but still remains below the long term average.

2.6%

Q3 2018 vacancy rate



Southbank prime rents held steady

£65.00 /SQ FT


Q3 2018 Southbank prime rent

Q3 2018 DEALS TABLES

Key leasing deals

Address (Floor)	Sq Ft	Approx rent (per sq ft)	Term (Break)	Tenant	Landlord
King's Cross (Plt T2, T3 & P2)	600,000	Late £60's	14-16 years	Facebook	Argent
5 Churchill Place, E14 (G, 1st, 4th-6th, 12th)	130,319	£35.00	15 Years	BGC Partners	JP Morgan
135 Bishopsgate, EC2 (2nd - 4th, 11th)	123,000	£55.00	-	TP ICAP	British Land
55 Gresham Street, EC2 (Building)	121,600	£66.00	15 Years	Investec	Angelo Gordon/Beltane
The Cabot, Cabot Square, E14 (7th-9th)	112,985	£42.50	16 Years	CMA	Hines Real Estate
The Ray, Farringdon Road, EC1 (Building)	89,373	£75.00	-	LinkedIn	Viridis
22 Bishopsgate, EC2 (8th - 10th)	74,959	£65.00	15 years	Hiscox	AXA
 Farmiloe Building, 34 St John Street, EC1 (Building)	65,000	£100.00 (on best)	Conf.	Live Nation	Aberdeen Life
 Mid City Place, 71 High Holborn, WC1 (Grd, Part 1st & Part 3rd)	55,000	£60.00	8 Years	Playtech	Willis Towers Watson
1 Curzon Street, W1 (3rd & 4th)	43,815	£75.00	10 Years	Houlihan Lokey	Rathbones

Key investment deals

Address	Lot Size	Capital Value (per sq ft)	Yield	Purchaser	Vendor
70 Farringdon Street, EC4	£1.16m	£1,400	4.17%	NPS of Korea	Goldman Sachs
The Adelphi, John Adam Street, WC2	£550m	£1,578	4.50%	PonteGadea Inmobiliaria	Blackstone
Verde, Bressenden Place, SW1	£457m	£1,441	4.67%	DEKA Immobilien	Tishman Speyer/PSP Investments
60 Holborn Viaduct, EC1	£321.3m	£1,359	3.97%	Norges Bank Inv Man	VG V
 The Charterhouse Estate, EC1	£265m	£1,540	3.95%	M&G	Anglo American
Aldgate House, Aldgate High Street, EC3	£183m	£865	4.96%	CDL	Hermes REIM/CPPIB
Vintners Place, Upper Thames Street, EC4	£175m	£657	5.78%	Goldman Sachs/Greycoat	Crescent Heights
160 Great Portland Street, W1	£127.0m	£1,328	4.08%	Alduwaliya	Great Portland Estates
20-24 Carlton House Terrace, SW1	£105m	£1,170	6.50%	Clivedale	LaSalle Investment Man
Weston House, High Holborn, WC1	£94m	£1,056	5.23%	Sidra Capital	Frogmore

6 BUSINESS LINES in Europe

A 360° vision

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