AVISON YOUNG

CENTRAL LONDON OFFICE MARKET BRIEFING

Q4 2016


30 Broadwick Street W1


The Post Building WC1


20 Old Bailey EC4

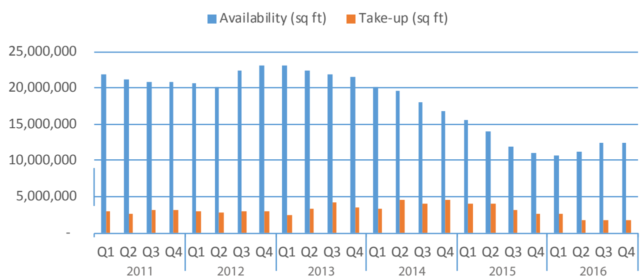
Leasing Overview

After a somewhat unpredictable and patchy year, take-up in the Central London office market picked up significantly in the final three months of 2016. A total of 2.51m sq ft of new lettings was reported during the quarter, up 70% from Q3. This took take-up in 2016 as a whole to 8.78 m sq ft, though this is well down on the 2015 total of 13.85 m sq ft and the 5 year average of 12.88 m sq ft.

Availability increased by over 15% in Q4 to stand at 14.36 m sq ft compared with 11.06 m sq ft at the end of 2015. However, this is still well below the 5 year average of 17.4 m sq ft.

The vacancy rate moved up to 6.1% - increasing by 130 basis points over the year. Despite the increasing availability, average rents continued to rise to £53.60 per sq ft. This was an increase of over 8% from Q4 2015 and this upward trend meant that over the course of 2016 rents rose to a ten year high in each of the five major Central London sub-markets.

The development pipeline has increased since 2015 with a total of 12.8 m sq ft now expected to come on stream, a net increase of 21% since the start of the year. The total amount under construction peaked during the second quarter reaching 14.2 m sq ft.



TAKE-UP	VACANCY RATE	AVERAGE RENT	CONSTRUCTION	AVAILABILITY
2.51 M SQ FT	6.1 %	53.60 £ PER SQ FT	14.2 M SQ FT	14.36 M SQ FT

West End leasing

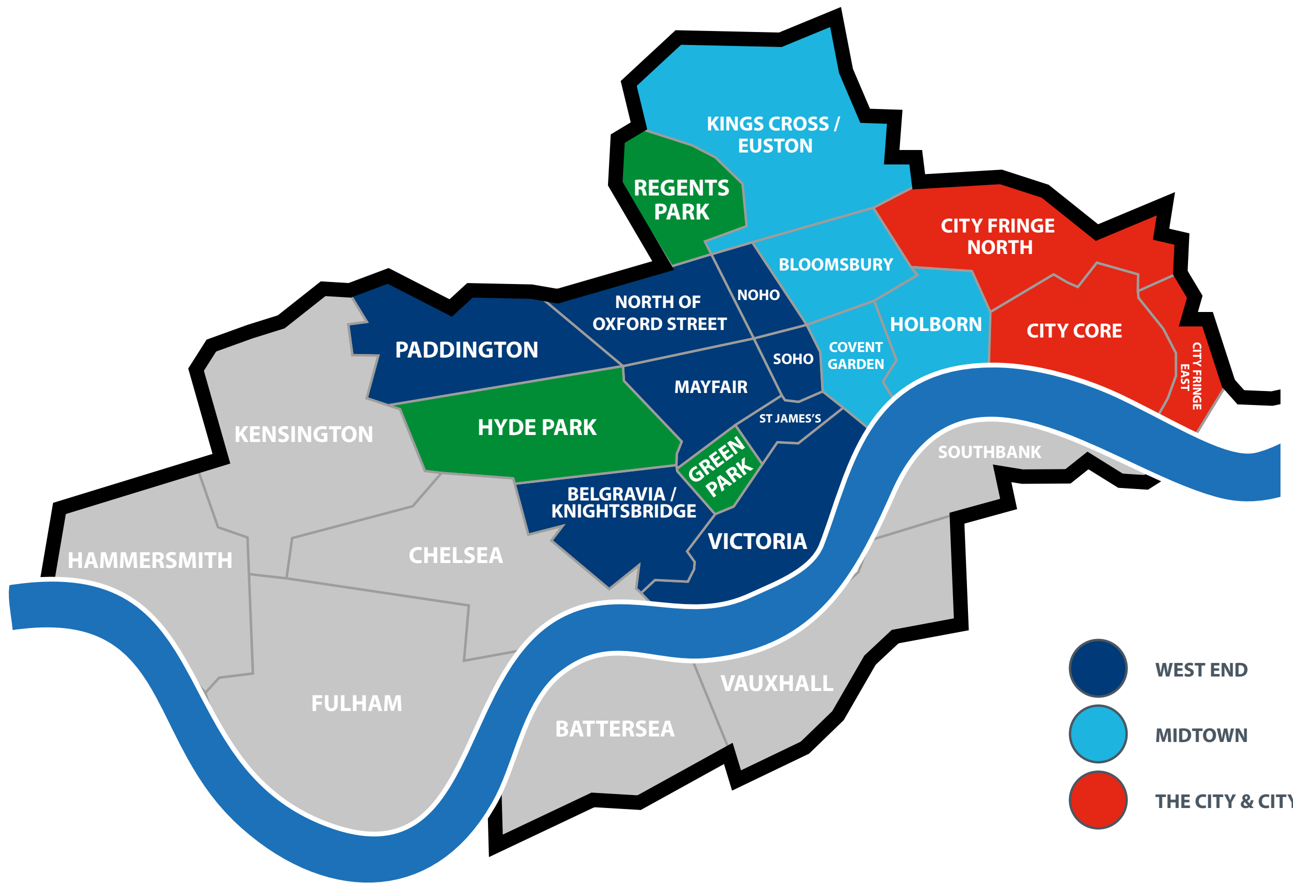
The West End was the only one of the key markets to experience reduced volumes of leasing activity in the closing quarter of the year. Q4 take-up was down more than 21% on Q3, with just over 442,000 sq ft of new lettings reported, which is also 30% down on the level reached in Q4 2015.

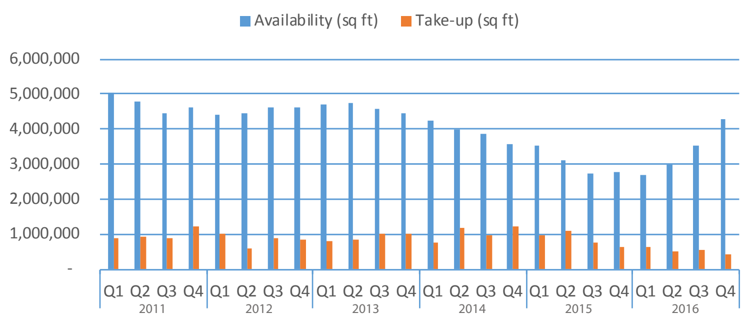
Over 2016 as a whole, take-up stood at 2.16 m sq ft, a fall of over 37% from the total take up recorded in 2015.

West End supply increased in Q4 to 4.3 m sq ft – a rise of over 22% and over 50% since the start of the year. Vacancy rates increased by 110 basis points in the last quarter and now stands at 6%, 200 basis points above the position at the end of 2015.

Average West End rents eased off a fraction in the closing three months of the year, to stand at £63.63 per sq ft – though it should be noted that rents in the key sub-markets of Mayfair and St James's continued to rise. Q4 marked a changing of the guard within the West End, seeing St James's overtake Mayfair to command the highest level of average rents at £81.96 per sq ft.

Development pipeline reduced by 135,000 sq ft to stand at 1.7 m sq ft. Of this fall, 87,000 sq ft was accounted for by the one project which completed in the last quarter - GPE's 30 Broadwick Street scheme in Soho. By the end of Q4 just under half the building has already been let. There were only three transactions in excess of 20,000 sq ft in Q4.





TAKE-UP
442
K SQ FT

SUPPLY
4.3
M SQ FT

VACANCY RATE
6.0
%

AVERAGE RENT
63.60
£ PER SQ FT

Midtown leasing

Midtown leasing activities were at fairly subdued levels throughout the course of 2016, but Q4 take-up rose by 51% to stand at 354,000 sq ft. However, the annual total of 1.18 m sq ft was less than half the amount reported in 2015. Q4 supply rose to 2.59 m sq ft – this is broadly on a par with average levels for the last five years.

The vacancy rate reached 5.9% – having been on an upwards trajectory throughout 2016. Covent Garden finished the year with the highest vacancy rate of 7.1%, which compares with 4.9% at the start of the year.

The biggest transformation has been within Kings Cross where the amount of new stock entering the market has increased the vacancy rate from 1.1% to 5.1%.

Average rents stepped up to £53.76 per sq ft – with the highest reported increases in Covent Garden, where, despite the higher vacancy rates, average rents are now breaching the £65 per sq ft threshold.

The level of the overall pipeline has remained largely static, with very little change in the overall development pipeline, which stands at 2.06m sq ft, compared with 2.07 m sq ft at the start of the year. The most significant deal was the 97,500 sq ft letting at The Post Building, New Oxford Street.

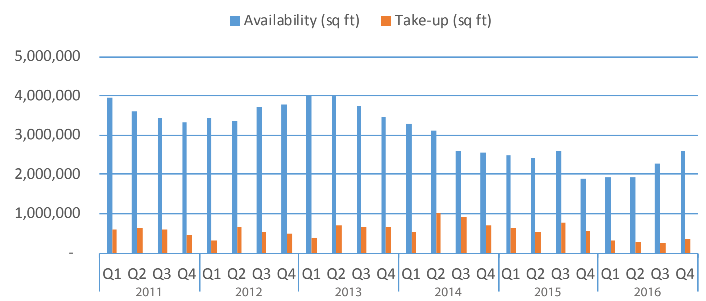
City leasing

Take-up in the City rallied in the final three months of the year, with leasing activity rising over 61% from Q3 to stand at 1.12 m sq ft - 17% ahead of the same quarter in 2015. However, across 2016 as a whole, take-up stood at 3.23 m sq ft which is well below both the 2015 total (5.75 m sq ft) and the 5 year average (5.19 m sq ft). City supply increased to 8.86 m sq ft – almost double the amount available at the end of 2015 and above the 5 year average.

City vacancy rates rose by over 300 basis points in the last quarter to 10%, reaching double digit levels for the first time since Q3 2014. The proportion of vacant space in the City core has increased more than in the fringe markets, having reached a tipping point last quarter, with a differential of almost 400 basis points opening up by year end (10.1% core versus 6.2% fringe).

Average rents across the City nonetheless continued to rise to reach £52.93 per sq ft. Average rents in the City Core reached £55.00 per sq ft but the separation between rents in the City Core and Fringe districts continued to widen, to a gap of £6.83 per sq ft, which compares with a £5.99 variant at the end of 2015.

Increasing levels of supply were reported, with almost 2 m sq ft added to the City's development pipeline in the last year taking the total pipeline to 7.55 m sq ft. The most significant deal was the 105,000 sq ft letting to Barings at Blackstone's 20 Old Bailey.

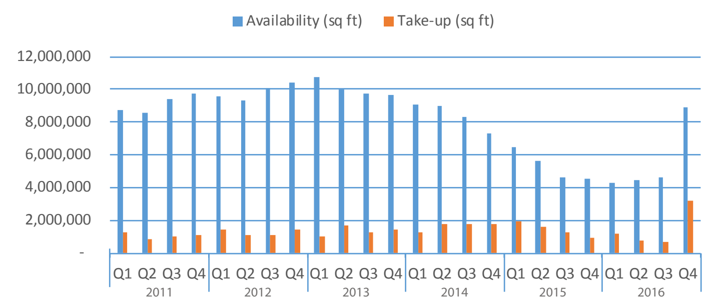


TAKE-UP
354
K SQ FT

SUPPLY
2.6
M SQ FT

VACANCY RATE
5.9
%

AVERAGE RENT
53.80
£ PER SQ FT



TAKE-UP
3.2
M SQ FT

SUPPLY
8.9
M SQ FT

VACANCY RATE
10.0
%

AVERAGE RENT
52.90
£ PER SQ FT

Investment Overview

2016 was a year of mixed messages. As Britain begins preparing to leave the EU, uncertainty prevails and as a result, commercial property investment volumes have dipped early. Although figures for 2016 showed sharp drops in transaction volumes, Q4 produced a surprisingly resilient performance compared with Q3 figures for the UK as a whole, which were, unsurprisingly, lower than the level recorded in the same period of the previous year with a decline of 36%.

However, despite strong performances in the shopping centre, industrial and leisure sectors, Q4 produced a 15% fall on the five-year average, though this was an improvement compared with the 28% fall seen in the previous quarter. The Central London office market (West End, Midtown and City) showed a substantially improved performance in Q4 2016 compared with Q3. Trading volumes in the City office market were more than double of the amount recorded in Q3, with a total of £1.86bn transacted in Q4. This was second to the Midtown market where transacted volumes tripled to stand at £308m in Q4. Although these trading volumes are still substantially lower than the levels recorded in the same quarter of the previous year, this is an indication that investor uncertainty is starting to ease.

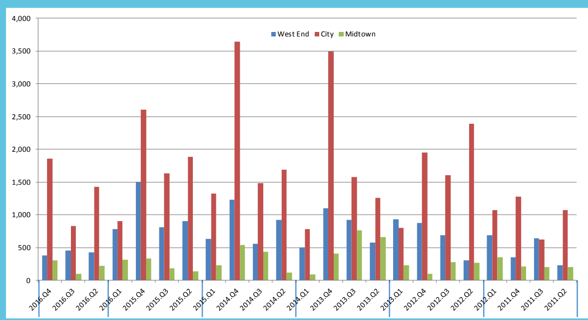
Surprisingly, the traditionally strong West End market performed the worst of the Central London office sub sectors in Q4, as trading volumes dipped by 16% from Q3 - 50% lower than the five-year average. The total volume for West End office transactions in Q4 was £383m, compared with the £1.5bn recorded in the same period of 2015. However, we believe that these figures do not indicate a negative shift in sentiment in the West End office market and are more as a result of the low availability of stock.

Overseas investors accounted for 49% of transactions in the Central London office market in Q4 which is a decrease from the 71% in the previous quarter, but still indicates that there remain strong incentives for overseas buyers to take advantage of the weaker Pound. The Q4 average investment yield recorded in West End office transactions indicated a possible outward movement in prime yields, with 4.03% being recorded in Q4 compared with 3.75% recorded in Q3. However, as mentioned previously, this is unlikely to indicate a market shift, but is more likely the result of the reduced volumes from the lack of prime product. In contrast, prime investment yields in the City market remained stable at 4.50% in Q4.

The stability of prime yields in the City is a reflection of buoyant trading volumes, which again demonstrate the continuing attraction of London particularly to foreign buyers. For the first half of 2017 at least, we believe that with the Pound remaining weak, overseas buyers will continue to account for the largest proportion of investment volumes into the UK market, and those investors who gambled by investing in the UK during a very uncertain period immediately post-referendum, could reap handsome rewards.

CENTRAL LONDON INVESTMENT

2.55
Bn £



Key Deals

Address	NIA (sq ft)	Purchase Price	NIY	Capital Value (sq ft)	Purchaser
CityPoint, Ropemaker St, EC2	705,971	£560m	-	£793	Brookfield
Holborn Links Estate, WC1	330,000	£300m	-	£909	Citwax Investments Ltd
73-89 Oxford St, W1	132,999	£267.5m	3.20%	£2,079	Norges Bank Investment Management
1 Fore St, EC2	236,784	£271m	4.86%	£1,145	Kingboard (Hong Kong)
120, Holborn, WC1	349,988	£229.6m	-	£656	UOL Group Ltd (Singapore)
Fitzroy Place, W1	239,992	£217.1m	-	£905	Ashby Capital LLP
30 Crown Place, EC2	192,060	£204m	4,44%	£1,062	Beijing CDH
Paternoster Square, EC4	373,852	£200m	-	£535	Madison International Realty
20-28 Moorgate, EC2	154,849	£154m	4.29%	£995	Asian Growth Properties
The Peak, 5 Wilton Road, SW1	99,997	£145m	4.27%	£1,450	Wolfe Asset Management
10 Piccadilly, W1	98,662	£129m	-	£1,307	The Crown Estate / Norges

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