6.7 million sq ft

Year to date
Central London take-up

11% below
5 year Q1-Q3 average
SUMMARY & OUTLOOK

Summary

Economic data has been more positive than expected post Brexit, with the economy withstanding the shock much better than anticipated for the time being.

The leasing market received a shot in the arm in Q3 2016, with Apple committing to 500,000 sq ft in Battersea. As a result Central London leasing volumes were up 22% quarter on quarter.

Nevertheless, the underlying trend has been subdued, albeit this coincided with the summer lull. Deals in hand prior to the referendum are still working their way through, albeit very slowly in many cases.

The level of space under offer across Central London picked up in September, after falls in the two months post Brexit, and encouragingly a number of large transactions and prelets were negotiated. Space under offer was back on a par with June 2016 levels.

Supply continued its upward trend as a number of developments approach completion but overall vacancy remained low.

While expectations are that a number of developments will be postponed, there has been little actual evidence of this to date.

Headline rents have been maintained but there is evidence of more generous rent free periods and greater flexibility being granted to tenants. Prime rents remained stable across all Central London submarkets, with the exception of Mayfair & St James’s.

Investment volumes declined over the quarter and arguably a lack of stock is holding back the market. The market is thinner for larger lot sizes but activity remains solid for smaller lots.

Private capital remains active while institutions and funds remain more cautious, only acting where necessary.

The depreciation of the pound is making the London market attractive to overseas investors, especially those from Asia.

Outlook

Both economic and employment growth forecasts have been upgraded since the initial post June 23rd forecasts, albeit a lower growth environment is still anticipated in the medium term.

Expectations are that the fallout will start to impact on the economy in 2017, with consumer prices anticipated to rise and business investment slowing.

2016 full year leasing volumes are anticipated to be around 8.5 million sq ft compared to a long term average of 10.5 million sq ft.

2017 is widely expected to be another tough year for London office leasing. Rents in some areas will come under pressure, but low supply should prevent any significant correction.

Speculative space anticipated to complete in 2017 stands at just 3.2 million sq ft. This space alone is unlikely to lead to any significant uplift in the vacancy rate during the next 12 months. Nevertheless, there may be some upturn in tenant led space as occupiers re-evaluate their occupation in the event of an economic downturn.

The rating revaluation will come into effect in 2017. Businesses in London will, in general, be hit with an increase in their rates liability. Those in the emerging submarkets are expected to see the largest percentage rises. This is likely to reinforce the trend of migration in search of value from some sectors. It may also depress rental values in more expensive locations.
ECONOMIC OVERVIEW

Economy performing better than anticipated

Q2 2016 GDP was revised upwards from 0.6% to 0.7%, while early Q3 data continued to suggest that the economy withstood the shock of the result better than anticipated.

UK interest rates were cut from 0.5% to 0.25% in August 2016 - a record low and the first cut since 2009. While economic data has held up, the minutes of the September MPC meeting show that the majority of members still favour a further cut in interest rates by the end of the year - most likely to occur in November.

Short term forecasts for 2016 and 2017, while remaining subdued, have been revised upwards over the last month. Business investment had slowed in the run up to the vote and the continued uncertainty has seen capital spending postponed and is likely to impact on hiring intentions, while weaker Sterling will push up inflation and subdue consumer spending.

Longer term prospects are dependent upon negotiations and the balance between free trade and immigration. But expectations are that the UK will outperform many leading economies.

Employment level remain robust

Job creation was healthy and unemployment remains low. The most recent UK employment data has been reassuring. Job creation in the three months to July improved slightly to 174,000 and the ILO unemployment rate was unchanged at 4.9%.

Given the lags involved and the current, near-record level of employment, job creation will almost certainly slow. The August Bank of England agent’s survey shows that employment intentions in the business services sector had been scaled back, with flat employment now expected over the next six months and some recruitment plans put on hold, reflecting lower expected demand growth.

Nevertheless, employment growth forecasts for Inner London have been revised and Oxford Economics now anticipate expansion of around 95,000 jobs in Inner London between 2016-2021, which is marginally more positive for the capital than in the immediate aftermath of the vote. Not surprisingly, banking and financial services is the only sector forecast to see employment losses.
Take-Up

The vote to leave the EU coincided with the summer lull and as result inertia was the underlying trend in the leasing market. While the market experienced a strong July, with deals in negotiation pre Brexit having the momentum to take them over the line, there was a marked slowdown in leasing volumes in August and September.

C&W estimate that leasing volumes stood at 2.4 million sq ft in Q3, which brings the year to date total to 6.7 million sq ft. This was 28% down on the same point in 2015 and 11% below the 5 year Q1-Q3 average.

Wells Fargo purchasing 33 Central for their own occupation was a much needed vote of confidence from the banking sector, while Apple’s commitment to London following their agreement to lease space in Battersea suggests a more solid longer term position.

A flurry of activity in September resulted in around 2.4 million sq ft being under offer at the end of September which takes levels back to those recorded in June 2016.

Supply

Central London supply stood at 11.8 million sq ft at the end of September, which equated to a vacancy rate of around 4.6%. This was the third consecutive quarter of increasing supply, primarily as a number of new schemes are approaching completion bringing a welcome boost to supply levels. Nevertheless, supply still remained well below the 10 year average of 14.7 million sq ft.

There is currently 6.2 million sq ft of speculative space under construction, which is ahead of the previous quarter when 5.3 million sq ft was being built. Nevertheless, 4.2 million sq ft or 40% of space under construction has already been prelet.

While there is expectation that a number of schemes may be postponed in light of Brexit, there is little evidence of this to date. The biggest uncertainty regarding the future pipeline is likely to be in respect of schemes due for delivery in 2019 plus.
Investment volumes

The investment market paused during the quarter, as investors considered the impact of the referendum. Investment volumes reached £3.24 billion, which was 16% down on Q2 figures and 30% below the 5 year Q3 average.

The arguable challenge for the market is a lack of stock rather than a lack of investor demand. The smaller end of the market is highly liquid, while the market is generally thinner for bigger lot sizes. There were nine transactions for units in excess of £100 million this quarter, while the average lot size was £58 million.

Private money continued to be highly active, with the depreciation in the currency a major driver, while institutions have been much more cautious in the post Brexit environment. Pricing, on the whole, has remained resilient albeit there is some evidence of some softening in pricing for larger lot sizes.

Prime yields moved out 25bp in the City to 4.25%, albeit deals were starting to trade at this level pre-referendum and the vote to leave the EU only firmed up the trend, while the West End prime yield remained at 3.25%.

Brexit tracker

Just over three months on from the referendum and there remain a high proportion of deals yet to complete which underscores the slower time to progress transactions.

Just over 20% of deals have been pulled, which compares to around 5-10% under normal circumstances. A far higher proportion of deals under £20m have completed or are under offer reflecting demand from private investors.

Positively, the share of deals not proceeding has declined month on month as a number of deals that failed to proceed immediately after Brexit have now returned to the market with adjustments to pricing.

Despite a concentration of £100m+ lots in London there has equally been a high number of sales under £20m, thus the weighted average discount in London of 2.9% is only marginally higher than the rest of the UK at 2.7%.
KEY LEASING HIGHLIGHTS

Q3 2016 take-up stood at 2.36 msf

Number of transactions signed over 50,000 sq ft in Q3 2016

10.4 million sq ft under construction

YTD take-up
11%
below 5 year q1-q3 average

2 were in excess of 100,000 sq ft

40%
Prelet or under offer

Key occupier transactions Q3 2016

Battersea Power Station, SW8

471,000 sq ft
Emerging London
Prelet plus 30,000 sq ft ancillary space

33 King William Street, EC4

227,689 sq ft
City Core
Prelet

Verde, Bressenden Place, SW1

58,620 sq ft
Victoria
Prelet

Aldwych House, 81 Aldwych, WC2

56,000 sq ft
Midtown

Take-up by sector Q3 2016

37%
Media & tech

20%
Banking & financial

15%
Government & public

14%
Professional services
Prime rents in Central London increased by an average of 2.6% in the year to September 2016

West End rents rose by an average of 1.3% in the year to Sept 2016

Average annual growth of 4.2% was recorded in the City

East London rents increased over the last 12 months by an average of 9.0%

Strongest annual growth was recorded in

- Stratford (10.4%)
- Docklands (9.1%)
- Canary Wharf (7.6%)
- Clerkenwell & Shoreditch (6.6%)
- Aldgate & Whitechapel/ Hammersmith (4.8%)
KEY INVESTMENT HIGHLIGHTS

CENTRAL LONDON

2016 Q3 investment volumes were **£3.2 billion**
16% down on 2016 Q2 volumes

Prime yields starting to come under pressure

<table>
<thead>
<tr>
<th>Area</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>4.25%</td>
</tr>
<tr>
<td>West End</td>
<td>3.25%</td>
</tr>
</tbody>
</table>

Central London net investment Q3 2016

- **£400 M**
  - Purchaser: Ramsbury
  - Vendor: British Land

- **£300 M**
  - Purchaser: Wells Fargo
  - Vendor: HB Reavis

- **£230 M**
  - Purchaser: UOL Group
  - Vendor: Private

- **£198 M**
  - Purchaser: RBS
  - Vendor: TH Real Estate

Purchaser origin Q3 2016

- **UK** 33%
- **Asia Pacific** 31%
- **Europe** 12%
- **North America** 11%
- **Middle East** 7%
471,000 sq ft

Space prelet by Apple at Battersea Power Station

Largest transaction since 2013 when Google committed to King’s Cross
LEASING MARKET

WEST END

Take-Up

Leasing volumes in the West End reached 1.13 million sq ft during Q3, which at face value suggests that YTD take-up is 2.8% above the 5-year average level. In reality this figure includes two large pre-lets at Battersea Power Station and at White City Place, which have significantly boosted leasing volumes across the wider West End.

Those deals aside, take-up during Q3 was 583,101 sq ft, which brings the YTD total to just over 2 million sq ft. This is 19% below the 5-year average volume, which demonstrates the impact of the uncertainty surrounding the EU referendum on transactional activity.

There was, however, a 5.6% quarter-on-quarter increase in take-up, which suggests a minimal return of momentum to the market.

This momentum could be set to continue, with nearly 522,000 sq ft under offer at the end of September, which is 4.3% above the 5-year average volume.

Supply

At the end of September, supply stood at 4.52m sq ft, which is nearly 20% above the 5-year average supply level. This equates to a vacancy rate of 4.36%.

Supply has increased by 9% quarter-on-quarter, due to the inclusion of new schemes completing within the next six months, as well as tenant space coming to market.

Over half of space available at the end of Q3 was newly built or refurbished, which equates to a Grade A vacancy rate of 2.36%.

4.4%

West End vacancy rate
Future Supply

At the end of September, there was 2.66 million sq ft of speculative space under construction, with a further 1.03 million sq ft of space under construction that is either pre-let or under offer. This equates to 28% of space under construction being committed.

Schemes that are scheduled to deliver beyond 2019 are at highest risk of being postponed, especially in the wake of Brexit.

There is a further 3.3m sq ft of space that could potentially deliver from 2018 onwards, subject to planning approval.

The impact on the West End market of this additional space will largely depend on future demand levels and the consequent transactional activity.

Greater political certainty should help boost occupier sentiment, which would see further potential for pre-letting.

2.66m sq ft
Speculative space under construction

Key upcoming schemes

<table>
<thead>
<tr>
<th>Address</th>
<th>Completion Date</th>
<th>Total Size (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westworks, White City Place</td>
<td>Q2 2017</td>
<td>296,000</td>
</tr>
<tr>
<td>4 Kingdom Street</td>
<td>Q2 2017</td>
<td>145,000</td>
</tr>
<tr>
<td>The Post Building</td>
<td>Q1 2018</td>
<td>253,000</td>
</tr>
<tr>
<td>The Brunel Building</td>
<td>Q1 2019</td>
<td>240,000</td>
</tr>
<tr>
<td>80 Charlotte Street</td>
<td>Q2 2020</td>
<td>321,000</td>
</tr>
<tr>
<td>Marble Arch Place</td>
<td>Q1 2020</td>
<td>97,000</td>
</tr>
</tbody>
</table>
INVESTMENT MARKET

WEST END

Investment volumes remained relatively stable quarter on quarter, with around £1.9 billion of transactions traded in the West End. This brings the year to date volumes to £5.2 billion, which is just 15% below the 5 year Q1-Q3 average.

There were seven transactions in lot sizes of over £100 million with all bar one located in the submarket of Mayfair & St James’s, as investors focus on core assets.

The largest transaction was the sale of the Debenhams department store on Oxford Street, which was bought by Ramsbury for £400 million.

Smaller lot sizes are seeing greater liquidity being more appealing to the private investor—while a lack of stock is one of the factors holding back activity in the larger lot sizes.

The currency depreciation has seen an upturn in private money entering the market, while the funds remain cautious. Private investors accounted for more than a third of volumes in Q3 2016, which is in line with the year to date.

Funds continue to offload properties and were the main source of sales this quarter. In total funds disinvested to the tune of over £1 billion in Q3 2016.

Property companies were the other main source of capital to see negative investment flows, which continues the trend seen for several quarters but to a certain extent exacerbated by the EU referendum.

UK investors were the dominant source of capital into the West End, accounting for 49% of volumes. Meanwhile Asian investors were the most active overseas purchasers (19% of volumes) closely followed by Europeans (18%).

UK investors recorded negative investment flows in the order of £770 million, with US capital the only other region seeing negative investment flows.

There has been no correction in pricing to date and prime yields remained stable at 3.5%.

Having said that, there are signs that the larger lot sizes may be seeing softer pricing in the main due to the paucity of potential purchasers in this size bracket and as more deals complete there will be greater clarity on pricing.

3.25%

West End prime yield
228,000 sq ft

33 Central
Pre-purchased by Wells Fargo for own occupation
LEASING MARKET
CITY

Take-Up
Take-up in Q3 totalled 1.1 million sq ft, which was a 15% increase on the 930,000 sq ft recorded last quarter. This brought the year-to-date total to 3.5 million sq ft, which was 19% below the five year Q1-Q3 average of 4.4 million sq ft.

The largest transaction of the quarter saw Wells Fargo acquire the entire 228,000 sq ft at 33 Central, EC4 for their own occupation.

Other notable transactions completing in Q3 included: 56,000 sq ft acquired by WeWork at Aldwych House, WC2 and 55,000 sq ft let to Government Digital Service at The Whitechapel Building, E1.

Companies in the banking & finance sector acquired the largest share of space in Q3 with 28% of total take-up. The government & public (23%) and media & tech sectors (16%) also took large shares of space.

There was an additional 1.3 million sq ft under offer, an increase of 16% quarter-on-quarter but 15% lower than the five year quarterly average of 1.5 million sq ft.

Supply
City availability increased to stand at 6.1 million sq ft. This was 12% higher than the previous quarter and was largely due to pending developments due to complete within the next six months. Despite this, total availability remained significantly below the five year average of 7.8 million sq ft.

4.6%
City vacancy rate
The vacancy rate across the City equated to 4.6%, with the Grade A vacancy rate standing at 2.5% at the end of Q3.
Just four schemes were capable of accommodating a requirement in excess of 100,000 sq ft, compared to two buildings at the same point last year. The largest unit available is Angel Court, EC2 (296,000 sq ft), followed by Creechurch Place, EC3 (272,000 sq ft), both due to complete imminently.
Future Supply

There was 9.6 million sq ft of space under construction at the end of September, of which 41% or 4.0 million sq ft has already been pre-let or is under offer. The quantum of speculative space is anticipated to be eroded by further pre-lets taking place prior to completion.

5.6m sq ft

Speculative space under construction

The largest speculative schemes due for completion in 2017 are The Scalpel (293,000 sq ft) and The Minster Building, EC3 (275,000 sq ft), whilst the largest speculative scheme due to complete in 2018 is 100 Bishopsgate, EC2 (where 456,000 sq ft remains available).

Looking further ahead, C&W estimate that a total of 3.3 million sq ft of potential space could be delivered between 2017 and 2020, with a further 4.8 million sq ft that could possibly be delivered. As a result of the recent referendum result, it is anticipated that a number of these schemes may be delayed.

**Key transactions Q3 2016**

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Size (Sq Ft)</th>
<th>Rent (£ per sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wells Fargo</td>
<td>33 Central, King William Street, EC4</td>
<td>227,689</td>
<td>£300m</td>
</tr>
<tr>
<td>WeWork</td>
<td>Aldwych House, WC2</td>
<td>56,000</td>
<td>TBC</td>
</tr>
<tr>
<td>Government Digital Service</td>
<td>The White Chapel Building, E1</td>
<td>54,799</td>
<td>£52.00</td>
</tr>
<tr>
<td>Guys &amp; St Thomas Charitable Foundation</td>
<td>Becket House, SE1</td>
<td>48,430</td>
<td>£45.00</td>
</tr>
<tr>
<td>King’s College London</td>
<td>Bush House, Aldwych Quarter, WC2</td>
<td>44,934</td>
<td>£57.50</td>
</tr>
<tr>
<td>DNV</td>
<td>South Bank Central, SE1</td>
<td>33,366</td>
<td>£61.00</td>
</tr>
</tbody>
</table>
Here East

Largest transaction in East London

52,000 sq ft
innovation centre
LEASING MARKET
EAST LONDON

Take-Up

160,000 sq ft was let in the third quarter, which is a 22% increase on the 131,000 sq ft transacted in Q2 2016. Year to date take-up reached 640,000 sq ft, which is 13% down on the five year Q1-Q3 average of 738,000 sq ft.

The largest transaction of the quarter was a 52,000 sq ft acquisition at Here East, which will be used as a technology innovation centre. Other notable transactions included: 41,000 sq ft to Time Inc at 161 Marsh Wall, 21,000 sq ft acquired by British American Tobacco at 4 Harbour Exchange and 19,000 sq ft to HSBC at 25 Canada Square.

Due to the transaction at Here East, take-up was dominated by the office as a service sector, which accounted for 42% of activity during the quarter. The media & technology sector continued to feature across East London with a 25% share of Q3 take-up.

There was an additional 598,000 sq ft under offer, the majority of which is under offer to the GPU (536,000 sq ft) at 20 Cabot Square.

Supply

At the end of Q3 availability in East London decreased to 1.2 million sq ft, against the wider market trends of increasing supply. This was 3% lower than the previous quarter and 14% lower than the same period last year. Total availability remained significantly below the 5 year average of 1.6 million sq ft.

The choice for larger occupiers remains relatively wide, unlike the City market. There were five schemes which could offer units in excess of 100,000 sq ft: Broadcast Centre, Here East (165,000 sq ft), 7 Westferry Circus (159,000 sq ft), Press Centre, Here East (143,000 sq ft), 5 Churchill Place (130,000 sq ft) and 25 Canada Square (112,000 sq ft).

5.7%

East London vacancy rate
LEASING MARKET
EAST LONDON

Future Supply

There are just four schemes under construction in East London: 5 Bank Street (359,000 sq ft of speculative space due for completion 2019), Strand East, E15 (94,000 sq ft due for completion 2017) and Buildings 5 & 6 International Quarter, E15. The two office buildings underway in the International Quarter are both fully prelet and should have no impact on future supply levels.

452,000 sq ft
Speculative space under construction

The decision to leave the EU could impact more severely on East London supply with banks anticipated to reduce London headcount. Supply levels could rise in the short to medium term as a number of banks and financial occupiers potentially release “grey” space that is surplus to their requirements.

Nevertheless, with a lack of developments currently under construction, the supply of new stock to this market will still remain limited until after 2020, and any significant upturn in supply should be curtailed.

Key transactions Q3 2016

ENTIQ
51,894 sq ft
Press Centre
Here East

TimeInc
40,535 sq ft
161 Marsh Wall
£28.00 per sq ft

British American Tobacco
20,754 sq ft
4 Harbour Exchange
£34.00 per sq ft

HSBC
19,427 sq ft
25 Canada Square
£45.00 per sq ft
INVESTMENT MARKET
CITY AND EAST LONDON

4.25%
City prime yield

Following a relatively upbeat Q2 2016, investment activity paused in the City & East London. There was £1.3 billion traded in Q3, which brings the year to date total to £5.5 billion. This is some way down on the 5 year Q1-Q3 average and is on a par with 2011 volumes.

The sub £25 million lot size was most active this quarter, with a limited number of £100 million+ transactions. A lack of large lot size opportunities has curbed trading at the upper end of the market.

The largest transaction was the purchase for owner occupation of 33 Central by Wells Fargo. The new HB Reavis development is due for completion in 2017 and was under offer pre-referendum.

Asian money continued to flow into the City market, with over £640 million placed this quarter. The region was the largest source of capital accounting for 45% of funds, followed by N American investors (26% and dominated by Wells Fargo) and then UK investors (12%).

In Q3 Asian investors were net purchasers, while investors from the UK and Europe were the main divestors of property.

There was a wide spread of investor types this quarter, with both private investors and property companies the most active purchasers.

The funds continued to release assets as they reassess their strategies in light of the referendum and were a relatively inactive purchaser. In fact, they were the largest dis-investor in the City this quarter, while property companies were effectively neutral in the buying and selling patterns.

There were tentative signs that yields were coming under pressure even before June 23rd and subsequent market activity has supported some shift in yields.

There has been a 25bp movement in yields in the City and Midtown to 4.25% but as yet, other submarkets have yet to see any pricing correction to date.
Definitions

All market statistics relate to units/transactions over 5,000 sq ft

Supply is defined as space available for immediate occupation and space under construction that is due to complete within the next 6 months and is not let. It includes space under offer.

Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.

Under offer relates to units which a potential occupier has agreed in principle to acquire, subject to negotiation.

Prelets include both off plan- i.e. before construction has started on site- and prelets while under construction but prior to practical completion.

Speculative development relates to newly developed or comprehensively refurbished building undertaken without the benefit of a secured tenant.

Prime rents relate to a consistently achievable headline rental figure that relate to new prime, well located, high specification units of a standard size (10,000 sq ft) commensurate within the predefined market area, assuming there is always existing demand and available supply.
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