London, Summer 2017

OFFICE MARKET BULLETIN

International investors regain confidence
International investors remain very active in the Central London office market, buoyed by sterling's weakness. In particular, Chinese and other Asian investors have been especially active in recent weeks. The sudden activity surge has likely been fuelled by the urgency to shift capital out of China as stricter controls on capital outflows for property investment are phased in by the Chinese government.

Furthermore, London retains its global position as an investment safe haven, with concerns surrounding Brexit seemingly less significant to many when compared to domestic political and economic turmoil in their home markets. Indeed, the appeal of Central London's office market is further strengthened by the fact that rents and capital values are up by 15% and 20%, respectively, over the last nine years, according to IPD/MSCI.

Between January and July, a total of £11 billion of investment activity in the Central London office market was recorded by Property Data, which includes both domestic and international investment activity. Of all investment into Central London, the proportion going into offices rose to 78.2% during H1 2017, compared with 64.8% in H1 2016.

Overseas investors formed nearly 81% of the Central London investor pool between January and June, compared to just under 70% over the same period last year. Interestingly, UK institutional activity in the capital's office market has slipped from 4.96% to 4.51% over the same period, highlighting the differing perceptions of risks to UK plc as well as the hunt for higher yielding asset classes, such as industrial warehouses, or supermarkets, beyond the confines of Central London.

Subdued occupier activity
In contrast to the investment market, as we head in to Q3, occupiers remain wary of the ongoing Brexit negotiations and the potential for an unfavourable business environment to emerge in post-Brexit Britain. In addition, concerns around the health of the UK and global economies have meant that expansion plans, not just in London, but globally, are being put on the back burner. While take up, at least on the surface, appears healthy and close to the five year average, two large deals by WeWork in Shaftesbury Avenue and South Bank Place, totalling 424,700 sqft has helped to keep the profile of take up volumes in Q2 relatively healthy.

While the TMT sector continues to act as a counterweight to the finance and banking sector, which continues to shed space, the occupier market remains subdued in general. As a result, after a relatively stable Q1 and Q2, rents are under increasing pressure in most submarkets, with many showing signs of slipping at the start of Q3, while rent free periods continue to lengthen.

H1 2017 Central London office investment activity

£11b

Availability

14.9m sq ft*

*(excludes u/c and premarketing units/schemes)

Source: Property Data, Egi

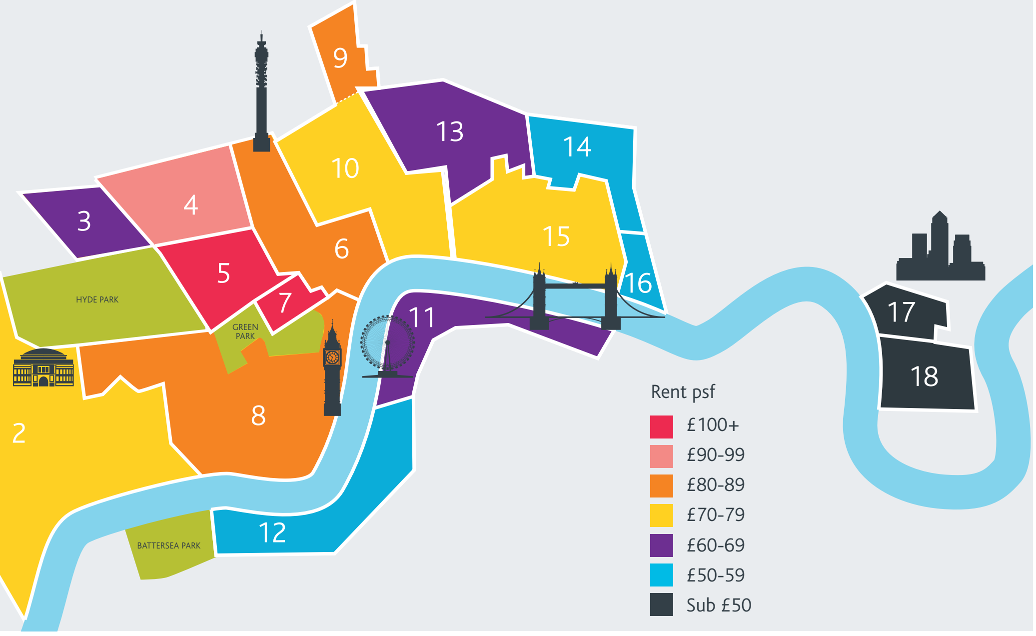
CLUTTONS

Central London office market heat map (Q2 2017)

Key deals

2 South Bank Place and 125 Shaftesbury Avenue WeWork	424,700 sq ft
21 Moorfields London EC2M 6TX Deutsche Bank	564,000 sq ft

Source: Cluttons, EGi



Market	Submarket	Prime headline rent* (£ psf)	Q/Q % change	12 month % change	Prime capital values (£ psf)	Q/Q % change	12 month % change
Hammersmith	1. Hammersmith	57.5	0.0%	0.0%	900	0.0%	-5.3%
West End	2. Kensington & Chelsea	77.5	0.0%	0.0%	1,275	0.0%	-5.6%
	3. Paddington	60.0	0.0%	9.1%	1,050	0.0%	1.1%
	4. Marylebone	90.0	0.0%	0.0%	1,775	0.0%	0.0%
	5. Mayfair	120.0	0.0%	0.0%	2,750	0.0%	3.5%
	6. Noho, Soho & Covent Garden	85.0	0.0%	0.0%	1,650	0.0%	2.9%
	7. St James's	120.0	0.0%	-4.0%	2,700	0.0%	2.4%
	8. Victoria, Westminster, Knightsbridge & Belgravia	82.5	0.0%	0.0%	1,400	0.0%	1.7%
Midtown	9. King's Cross	80.0	0.0%	3.2%	1,250	0.0%	4.2%
	10. Midtown	70.0	0.0%	0.0%	1,175	2.2%	2.2%
Southbank	11. Southbank	65.0	0.0%	0.0%	875	0.0%	2.9%
	12. Vauxhall & Nine Elms	55.0	0.0%	-4.3%	725	0.0%	-5.8%
City	13. Clerkenwell & Farringdon	65.0	0.0%	0.0%	1,075	0.0%	-2.3%
	14. Old Street & Shoreditch	55.0	0.0%	0.0%	975	-2.5%	-4.9%
	15. City Core	70.0	0.0%	0.0%	1,300	0.0%	0.5%
	16. Eastern City Fringe	55.0	0.0%	0.0%	850	0.0%	0.0%
Docklands	17. Canary Wharf	47.5	0.0%	0.0%	775	0.0%	-3.1%
	18. South Quay	35.0	0.0%	0.0%	500	0.0%	-4.8%

Source: Cluttons | *Rents quoted are headline, not net effective
Prime rents are defined as the top quartile of headline rents: excluding penthouses and floors with large terraces, as well as suites in large, iconic towers.

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