October 2014

RENTAL MOVEMENTS AND TRENDS

OCCUPIER UPDATE

The following data is intended to assist occupiers in Central London in planning and budgeting for future lease events.

HEADLINES

- 30% rental growth since 2010 with a further 20% anticipated by 2017 across Central London offices
- Demand currently 17% above long term average
- Central London vacancy rate at 7%, but significantly tighter in popular fringe locations

Rental overview

On top of significant rental growth over the last four years, office rents across Central London are set to increase further over the next few years.

This results from a combination of strong occupational demand, running significantly above the ten year average and vacancy rates that are at their lowest level since the 2008 market peak.

Rental hotspots correlate with especially low vacancy levels in areas of the West End, City fringe and Midtown, as highlighted in the bar chart, top right.

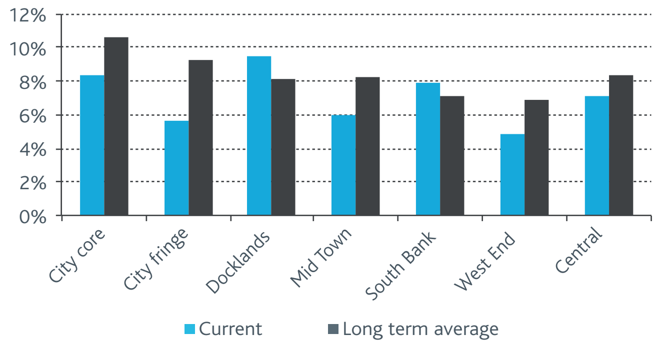
Rental movement

The profile of prime rental values, taken from the last market peak at the beginning of 2008 combined with forecasts for the next four years, is one of significant growth.

On the back of sustained demand from the TMT sector, focused on City fringe locations, the greatest increases have occurred in Clerkenwell and Shoreditch. Here rents have typically increased by 40% plus over the past five years compared with the Central London average of 30%.

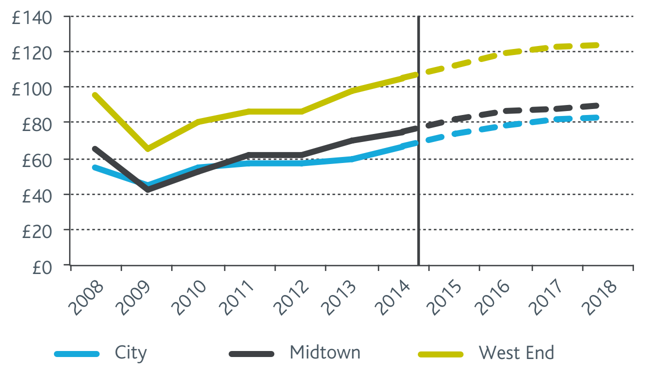
Over the next three years prime Central London office rents are forecast to increase by a further 20% on average, but ranging from a low of 15% in the West End to in excess of 25% in the most popular fringes.

Vacancy rates



Source: Cluttons

Rental forecasts



Source: Cluttons

CLUTTONS

TRENDS

West to East

There are unprecedented numbers of businesses moving from the West End to Midtown or the City given the materially lower rent and rates, without which rental hikes across the West End would inevitably have been even greater.

The combined burden of rent and rates is highlighted in the bar chart on the right.

Offices to residential

Within the City of Westminster the conversion of offices to residential, (including many modern buildings) continues at an unprecedented rate, given the materially higher values commanded by residential and favourable planning regime.

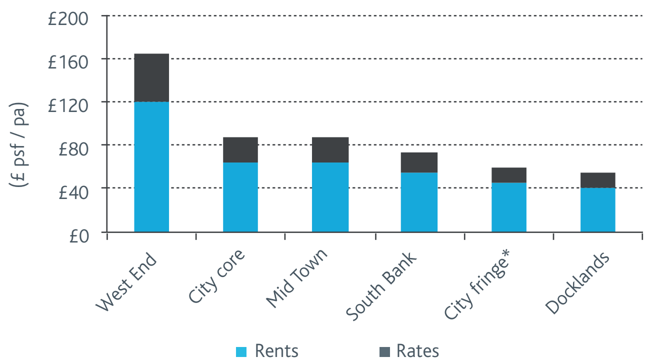
Other London boroughs have exemption from Permitted Development Rights (conversion of offices to residential use) within the 'Central Activities Zone' which covers most of Central London.

City core

The recent flat rental profile in the City core is about to change with rents involving good quality units below 5,000 sq ft and high rise floors in tower blocks taking off.

Rents for mid-grade, larger units of space are more stable, but now look under priced.

Occupancy costs



* The City fringe is in practice a series of submarkets ranging from higher values in Clerkenwell and Shoreditch to lower values on the eastern and southern fringes. The figures above are an average.

Source: Cluttons

Finding value

There are now few locations in Central London benefiting from low values.

In the east, the area around Aldgate is the only location where top quality space is available at around the £40 per sq ft mark while in the west, Vauxhall is the fringe location most likely to deliver fair value.

For further information, please contact:

Sue Foxley
Research
sue.foxley@cluttons.com
020 7647 7023

Ralph Pearson
Commercial Agency
ralph.pearson@cluttons.com
020 7647 7037

Bob Maxted Jones
Lease Advisory
bob.maxtedjones@cluttons.com
020 7647 7129

Peter Chapman
Rating
peter.chapman@cluttons.com
020 7647 7042

Cluttons LLP
2 Portman Street
Portman House
London W1H 6DU
cluttons.com