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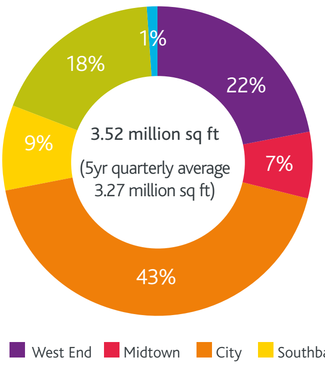
London, Winter 2016/17

OFFICE MARKET BULLETIN

End of the Brexit shock?
Anxiety and uncertainty will continue to remain common themes throughout 2017 as we work our way through the complex Brexit negotiations, but the economy's resilience in the face of an unclear future has helped to stoke activity in the capital's commercial office market.

While total take up in the Central London office market during 2016 was down by close to a fifth on 2015, Q4 2016 represented somewhat of a U-turn in conditions, with occupiers shrugging off the uncertainty and moving forward with plans that were previously stalled. This is reflected in the fact that total take up volumes in Q4 rose to nearly 3,520,000 sq ft, up 72% on Q3, and closer to the long-term trend. This is partly down to a backlog of deals that should have occurred in Q3 and one off large deals like the one seen in Canary Wharf where the government has agreed to lease more than 500,000 sq ft of office space in Barclays' building.

Take up (Q4 2016)



5.3%
Vacancy rate

14.2m
Sq ft availability

Source: Cluttons, EGi, CoStar

Despite this apparent normalisation, headline rental values have held steady in all the 18 submarkets we monitor for over a year now, however rent free periods are increasing, while net effective rents are falling marginally. This has in part been underpinned by a rise in completions, which has driven up availability. In fact, availability at the end of 2016 was 26% higher than a year earlier, suggesting that landlords will continue to face pressure while trying to improve returns.

Rocky road ahead
Aside from the threat of a loss of finance and banking sector jobs to the continent, which would ultimately impact take up volumes, bubbling supply and 'grey space' is a key factor we are continuing to monitor.

Furthermore, in the investment market, while currency play has attracted significant international capital, with Chinese investors being especially active, there is less appetite for risk at present, so assets with vacancy and short term income are less favoured.

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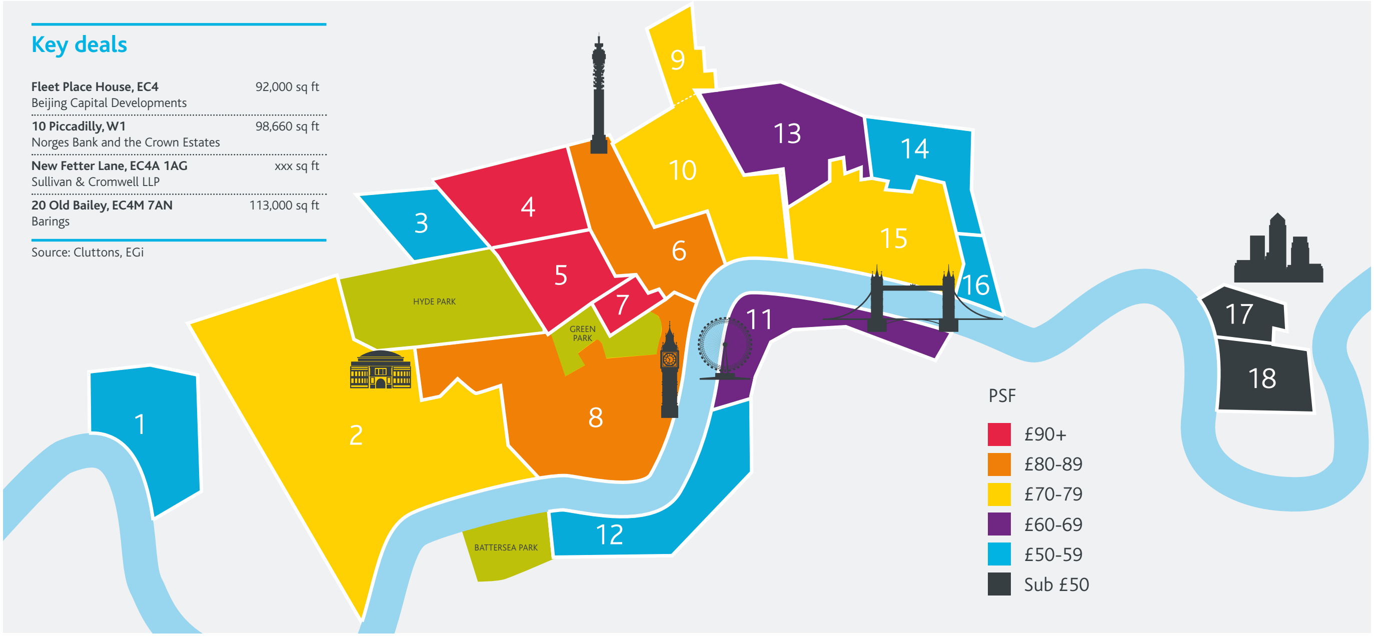
Central London office market heat map (Q4 2016)

Key deals

Fleet Place House, EC4 Beijing Capital Developments	92,000 sq ft
10 Piccadilly, W1 Norges Bank and the Crown Estates	98,660 sq ft
New Fetter Lane, EC4A 1AG Sullivan & Cromwell LLP	xxx sq ft
20 Old Bailey, EC4M 7AN Barings	113,000 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%	900	0.0%	7.7%
West End	2. Kensington & Chelsea	77.5	0%	0%	1,275	0.0%	-8.9%
	3. Paddington	55	0%	0%	960	0.0%	-8.6%
	4. Marylebone	90	0%	0%	1,775	0.0%	1.4%
	5. Mayfair	120	0%	0%	2,750	0.7%	-2.7%
	6. Noho, Soho & Covent Garden	85	0%	0%	1,650	1.0%	0.0%
	7. St James's	125	0%	0%	2,750	5.8%	-1.7%
	8. Victoria, Westminster, Knightsbrige & Belgravia	82.5	0%	0%	1,400	0.8%	0.0%
Midtown	9. King's Cross	77.5	0%	0%	1,200	0.0%	-5.9%
	10. Midtown	70	0%	0%	1,150	0.0%	-4.2%
Southbank	11. Southbank	65	0%	0%	850	0.0%	-2.9%
	12. Vauxhall & Nine Elms	57.5	0%	0%	750	0.0%	-6.3%
City	13. Clerkenwell & Farringdon	65	0%	0%	1,100	0.0%	-8.3%
	14. Old Street & Shoreditch	55	0%	0%	1,050	0.0%	-4.5%
	15. City Core	70	0%	0%	1,275	2.0%	-2.4%
	16. Eastern City Fringe	55	0%	0%	850	3.0%	-5.6%
Docklands	17. Canary Wharf	47.5	0%	0%	775	0.0%	-8.8%
	18. South Quay	35	0%	0%	500	0.0%	-9.1%

Source: Cluttons | *Rents quoted are headline, not net effective

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