

Research &
Forecast Report



**LONDON
OFFICES**
April 2016

A white-bordered box containing a silhouette of the London skyline, including the Tower Bridge and several church spires. Below the silhouette, the text "LONDON OFFICES" is written in a large, bold, white, sans-serif font, and "April 2016" is written in a smaller, white, sans-serif font below it.

Q1 2016 DEALS MAP



SIZE (SQ FT)

0 - 4,999

5,000 - 9,999

10,000 - 24,999

25,000 - 49,999

50,000 - 99,999

100,000 plus

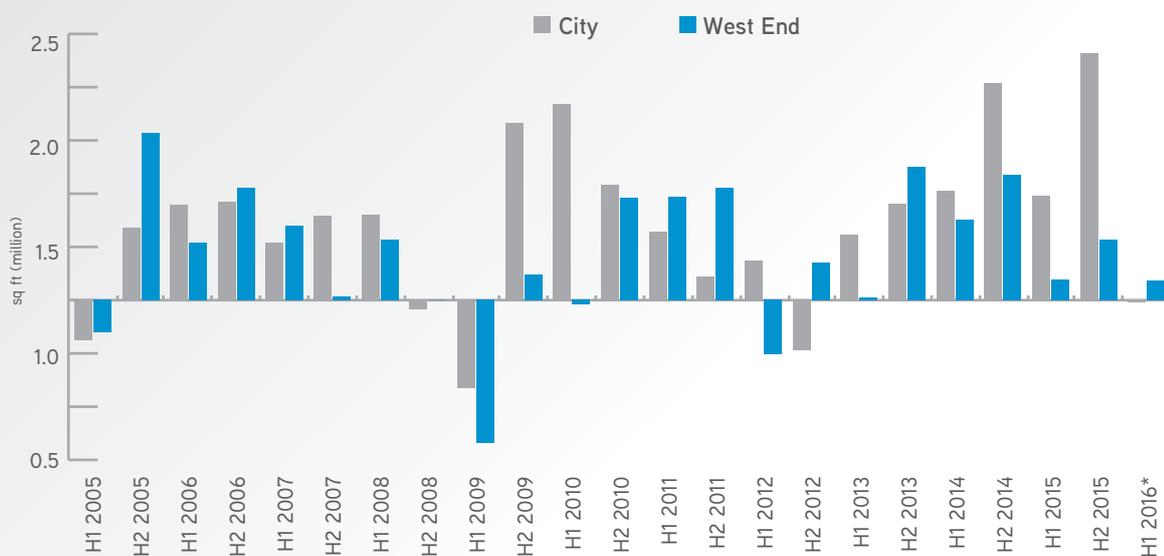
Market Highlights

- London office market investment has experienced a nervous start to 2016, influenced as it has been by volatile markets, less than stellar economic indicators and the prospect of heel dragging by investors and occupiers due to the Brexit referendum. In contrast, occupier markets have appeared relatively un-phased by external events with some high profile lettings and a healthy number of new large scale enquiries. Nevertheless, absorption of space in Q1 was markedly below trend (see Figure 1) as transactions and searches become protracted and supply shortages confound occupier expansion plans.
- Occupational markets remain reasonably robust with the overall transaction level remaining above trend. Pre-letting activity continued with lettings to New Look, Zoopla, Capita and XTC amongst others. In addition, Wells Fargo is under offer at 33 Central, believed to be paying a new headline City rent of £75 psf in order to secure the space.
- Q1 2016 figures show that while media and tech accounted for 38% of demand for office space across London, in the traditional media enclave of the West End, the figure fell to just 13% of demand, down from 45% in 2015.
- Headline rental growth has been modest in Q1 2016 with annual growth running at 6.4%. Good quality second-hand product has seen steady uplift in rents achieved particularly in sought after locations such as Fitzrovia and City Fringe as well as emerging submarkets such as Aldgate and Vauxhall/Nine Elms.
- The investment market has seen below trend volumes with total transactions in Q1 2016 coming in at close to £2.9 billion compared to £4 billion in Q1 2015. The increases in SDLT and the 'Brexit' uncertainty are doing little to help this.

YEAR-ON-YEAR INDICATORS

LONDON	
Grade A Absorption	▼
Availability	▼
Take-up	◀
Rents	▲
CITY	
Grade A Absorption	▼
Availability	▼
Take-up	▼
Rents	▲
WEST END	
Grade A Absorption	▼
Availability	▲
Take-up	▶
Rents	▲

Figure 1: London Absorption of Office Space 2005-2016



Source: Colliers International

*to date

City

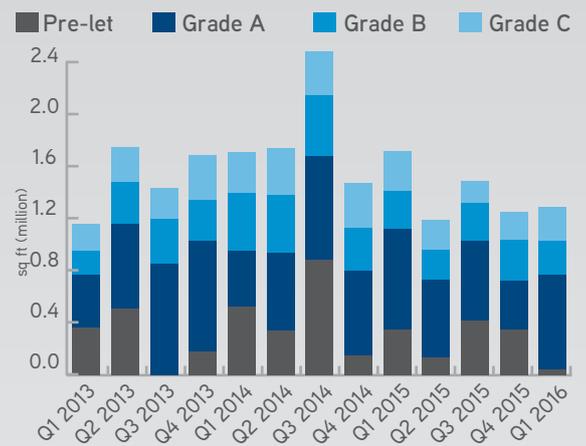
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- > Absorption of product in the City was minimal in Q1 2016 (see Figure 2) with just four deals over 50,000 sq ft and none at all in excess of 100,000 sq ft. Square mile take-up was substantially below the longer term average but fringe locations such as Shoreditch and Aldgate continue to attract strong interest with the latter seeing over 200,000 sq ft absorbed in the past 12 months alone.
- > City markets are now experiencing 'negative' development pipeline figures with more space under construction having pre-commitments (54%) than not (see Figure 3). This shortage of forecast supply is encouraging higher levels of pre-leasing activity and rising rental levels as tenants realise that the options for moving to new schemes are very limited. In addition, a number of major media requirements are set to begin searches in Q2 and we would expect appetite for pipeline product to remain healthy.
- > The City core and particularly Fringe markets, are now taking the lion's share of media and tech take-up (see Figure 4). While average rents paid by media and tech in the wider City are on a par with the West End, overall average City rents are lower, which translates into greater choice of appropriate and competitively priced product. Fintech continues to bolster demand with deals at iconic City schemes such as Tower 42, Broadgate Tower and 100 Cheapside as well as the top quality new product in the Tech City heartland such as Derwent's White Collar Factory, now more than 50% let.
- > The rating revaluation due in 2017 is set to emphasise the gulf in headline occupational costs between West End and City locations. There is likelihood that total occupational costs (TOC) per sq ft will see renewed divergence. Prime TOCs in Soho, Fitzrovia Covent Garden will reach £143, £136, £129 psf respectively in 2018. Equivalent TOCs in the City will be substantially lower at £114 psf by 2018 up from £104 psf in 2015. Shoreditch will be lower still at £102 psf with Aldgate at £93 psf.

Investment

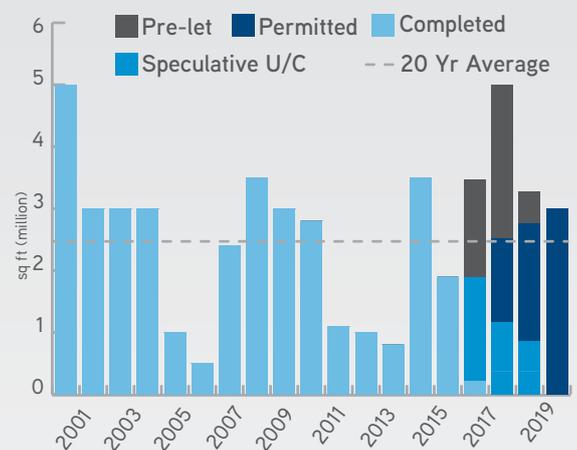
- > Q1 City investment volumes were modest in the face of continued investor caution and lack of major transactional activity. Volumes stood at just over £1 billion for Q1 which compares to £1.6 billion in Q1 2015 and was a stark 70% down on Q4 2015.
- > UK Funds are increasingly absent from the market and are already 'ring fencing' capital to cope with potential redemptions, in order to avoid pushing product to market at an inopportune time. We expect them to be cautious across London up to and possibly beyond referendum time.

Figure 2: City Take-up by Grade Q1 2015-Q1 2016



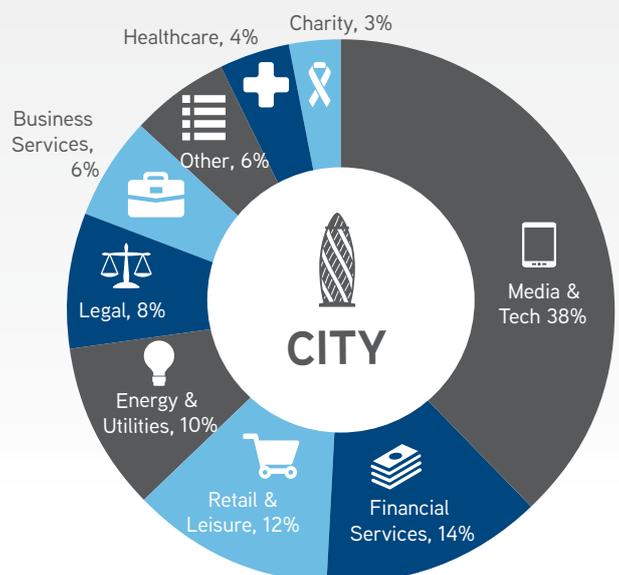
Source: Colliers International

Figure 3: City Developments 2001-2019



Source: Colliers International

Figure 4: City Take-up by Business Sector 2016 to Date



Source: Colliers International

West End

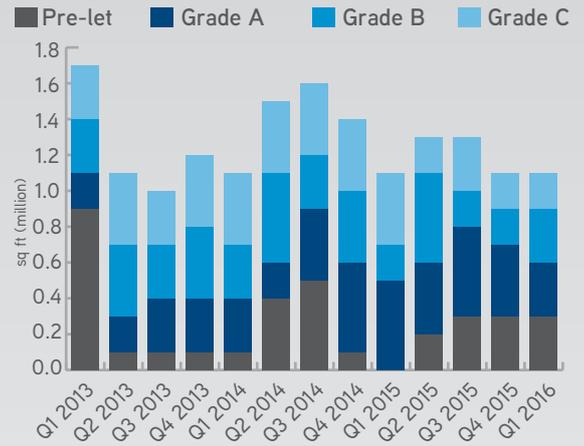
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- > While take-up in the West End rose quarter on quarter (see Figure 5), it still struggled to reach the 10 year quarterly average. Figures were boosted by healthy pre-letting activity with deals to New Look, XTX and Capita absorbing 235,000 sq ft of pipeline space. Demand for product was spread equally across all Grades of space with occupiers prepared to look at varying options in the face of continuing modest levels of new supply.
- > Despite delivery of 280,000 sq ft of completions in the West End market (see Figure 6), vacancy has remained broadly flat with absorption continuing to keep pace with new supply. Speculative deliveries across the West End in 2015 reached 900,000 sq ft and currently 1.2 million sq ft is set to complete in 2016. However, that figure is set to fall steadily with approximately 15% of the total under offer and due to sign in Q2.
- > Media and tech take-up has fallen away sharply in 2016 to date with just 13% of demand being derived from those sectors, compared to 45% in 2015. Traditional media locations such as Bloomsbury, Soho and Covent Garden are seeing reductions in media and tech occupation. In total, occupation by those sectors in traditional media locations has fallen by 390,000 sq ft since 2011. The correlation between falls in occupancy and rises in total occupation costs is being exacerbated by major media requirements actively considering emerging locations in order to find appropriately sized product.
- > Prime office space in the West End Core markets of Mayfair and St James's, is experiencing inhibited activity with headline rents plateauing in the wake of the current economic climate. Demand for £120 psf plus space is at a 12 month low. However, rental reductions at high profile schemes appear to have generated renewed interest. Core West End supply is set to be modest in 2016, reinforced by the Crown Estate's decision to take 31,000 sq ft at its own St James's Market scheme.

Investment

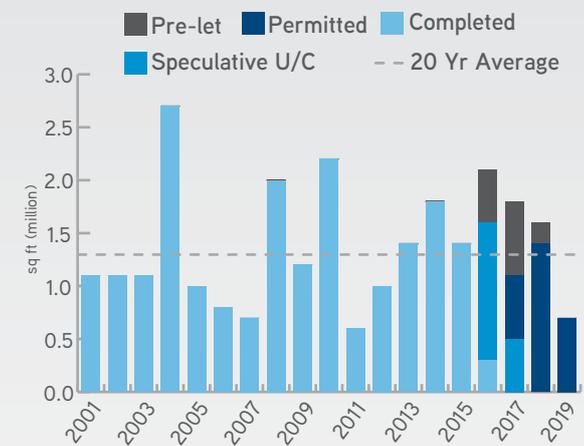
- > Currency fluctuations and the weakness of sterling have benefitted foreign investors and despite overall below average activity, core West End markets saw a number of high profile deals to overseas buyers with volumes in Mayfair significantly above trend. Mayfair saw £460 million worth of deals in Q1 or 32% of the West End market.
- > Private overseas money continues to drive the market for the time being, accounting over 60% of transactions by value in Q1. Middle Eastern and non-Chinese Far Eastern investors are beginning to consider 'profit taking' in order to repatriate capital. Limited availability of high quality stock has meant reduced deals momentum but as of yet there is no sign of price deflation.

Figure 5: West End Take-up by Grade Q1 2013-Q1 2016



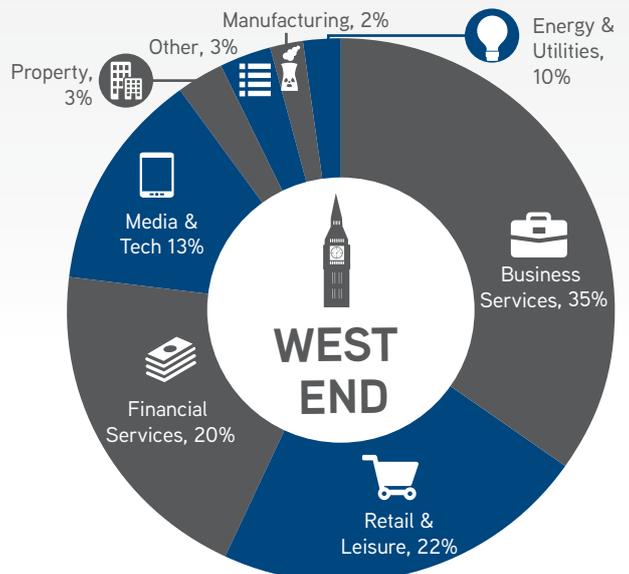
Source: Colliers International

Figure 6: West End Developments 2001-2019



Source: Colliers International

Figure 7: West End Take-up by Business Sector 2016 to Date



Source: Colliers International

Summary

- › Political and economic uncertainty is having a quantifiable impact upon the London property market
- › Vacancy still remains low, impacting occupier absorption
- › Media and tech activity is diminishing in core locations with fringe and emerging markets benefitting
- › Rental growth in core locations has slowed but fringe submarkets continue to see healthy uplift
- › Investment volumes are down with minimal activity from institutions but on-going overseas interest

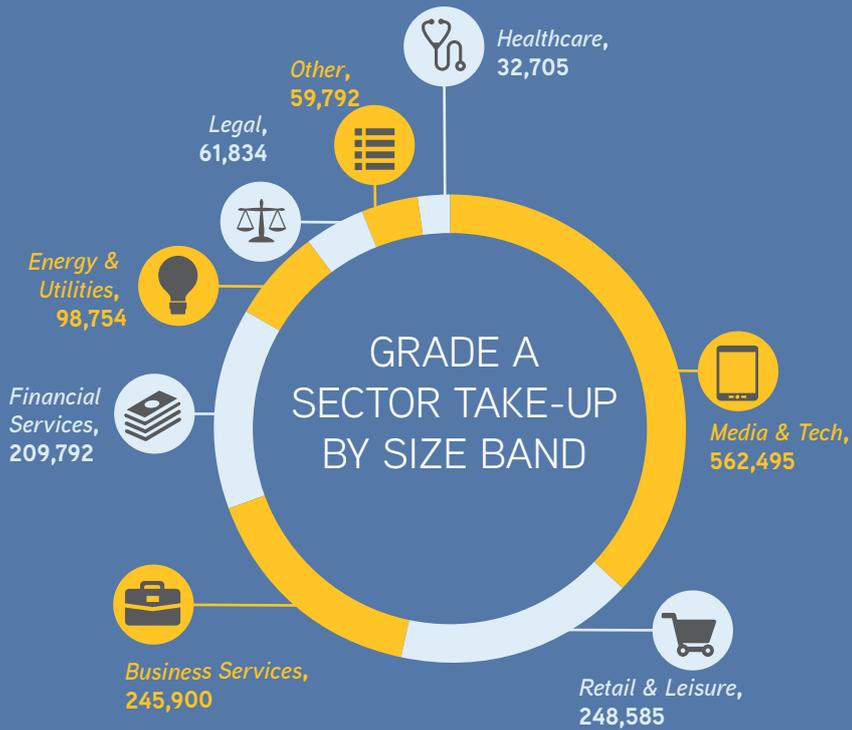
CENTRAL LONDON SUMMARY TABLE

	TAKE-UP (000S) SQ FT		AVAILABILITY (000S) SQ FT		ALL GRADES **NSA (000S) SQ FT	VACANCY RATE	PRIME RENTS £PSF	PRIME YIELDS %
	Q4 2015	Q1 2016	Q4 2015	Q1 2016	Q1 2016	Q1 2016	Q1 2016	Q1 2016
WEST END								
New / Refurb	523	509	697	602	Q1 2016	Q1 2016	Q1 2016	Q1 2016
Secondhand	506	589	1,492	1,712	-	-		
*TOTAL	1,029	1,098	2,189	2,314	-179	2.8%		
Bloomsbury	7	28	43	80	3	3.6%	£69.00	4.00
Covent Garden / Strand	73	140	327	442	-108	4.7%	£85.00	3.75
Euston / King's Cross	198	173	73	122	-50	1.4%	£75.00	4.25
Fitzrovia	89	156	222	198	24	2.4%	£86.00	4.00
Knightsbridge	54	23	58	122	-104	3.4%	£100.00	3.50
Marylebone	46	132	218	155	63	2.5%	£105.00	3.50
Mayfair	62	96	505	527	-22	4.4%	£125.00	3.25
Paddington	111	61	32	33	32	1.2%	£65.00	4.25
Soho	112	109	125	164	-39	3.0%	£92.50	3.75
St James's	134	99	298	289	9	6.0%	£125.00	3.25
Victoria	107	41	166	151	14	1.1%	£80.00	4.00
CITY (WHOLE)*								
New / Refurb	672	629	1,318	993	-	-		
Secondhand	584	657	1,864	2,154	-	-		
*TOTAL	1,256	1,286	3,182	3,147	25	3.2%		
City Core	601	656	1,896	1,831	3	2.8%	£70.00	3.75
Holborn	54	54	232	406	-147	5.3%	£70.00	4.00
Farringdon	172	118	127	92	59	2.0%	£70.00	4.00
Clerkenwell	94	28	124	156	48	5.8%	£65.00	4.00
Shoreditch	133	170	259	129	-13	2.0%	£62.50	4.25
Aldgate	27	205	247	134	124	3.5%	£55.00	4.75
DOCKLANDS								
New / Refurb	-	5	-	-				
Secondhand	10	20	367	208				
TOTAL	10	25	367	208	137	1.1%	£30.00	5.25
CANARY WHARF								
New / Refurb	-	-	26	7				
Secondhand	88	434	194	241				
TOTAL	88	434	220	248	-26	1.6%	£45.00	4.50
SOUTHBANK								
New / Refurb	60	125	239	194				
Secondhand	137	116	340	308				
TOTAL	197	241	579	502	52	2.5%	£67.50	4.50

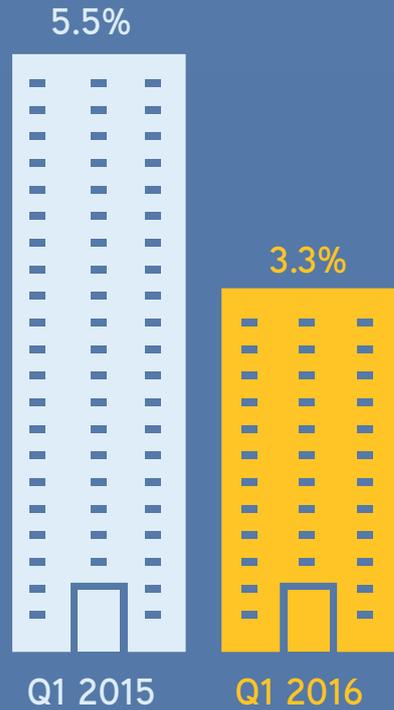
*Includes additional locations

**Net Stock Absorption

Source: Colliers International



GRADE A VACANCY



HEADLINE LINE RENTAL GROWTH YR ON YR TOP PERFORMERS



554 offices in
66 countries on
6 continents

\$2.5

billion in
annual revenue

2.0

billion square feet
under management

16,000

professionals
and staff

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