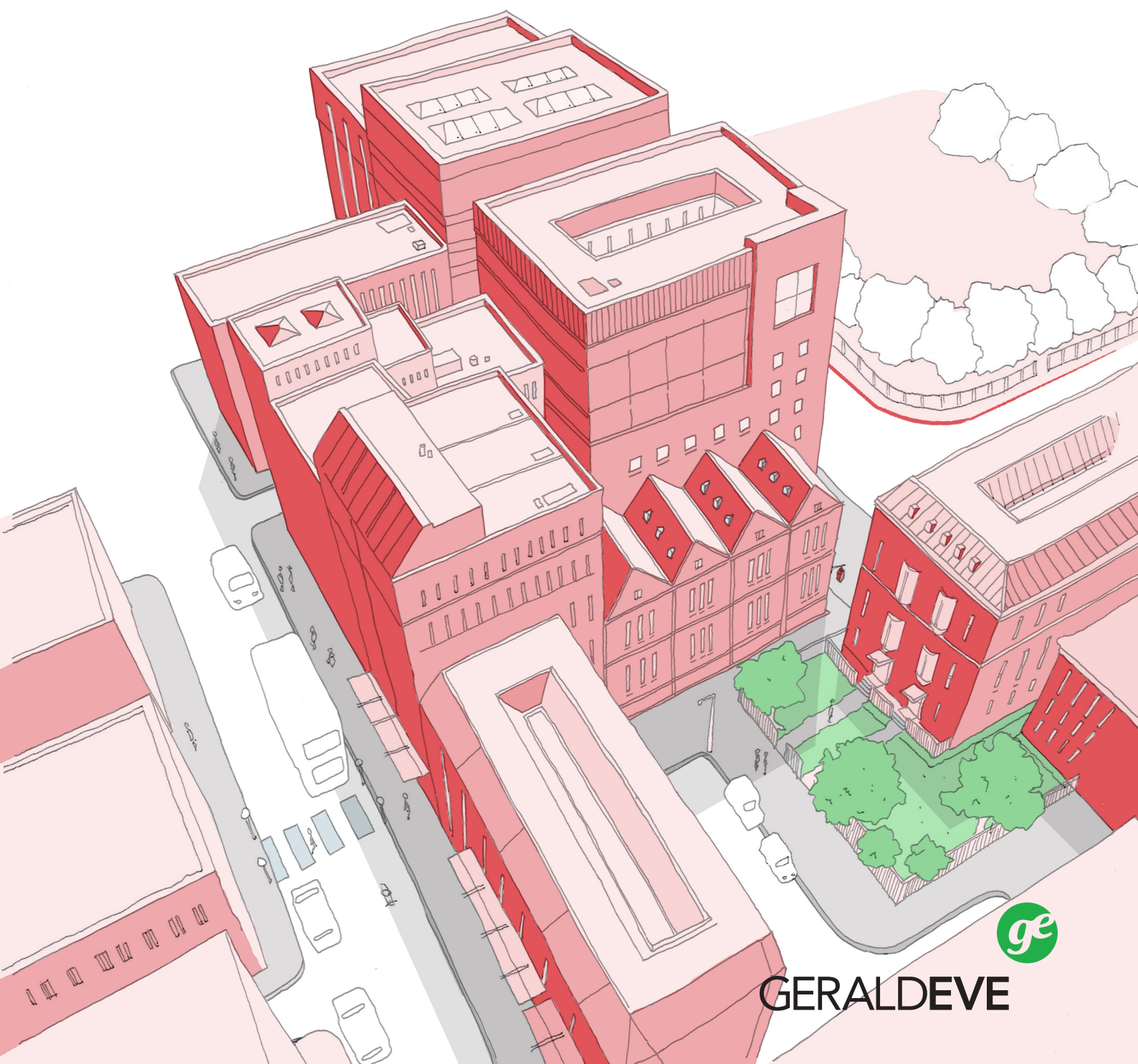


WEST END FLOOR REVIEW

A floor-by-floor analysis of the West End office market
Q1 2015

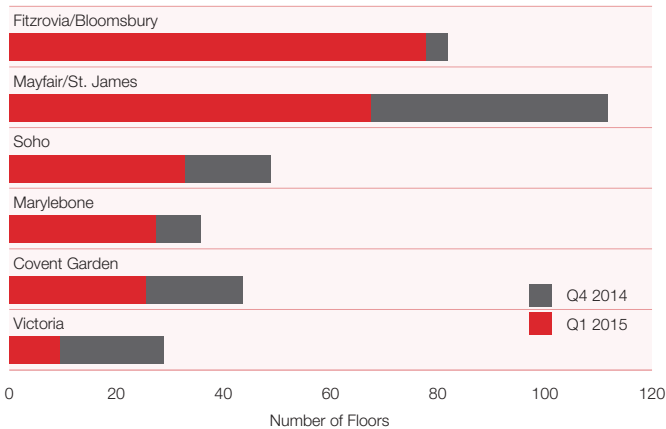


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FIRST QUARTER REVIEW

THE QUARTER IN NUMBERS	Q ON Q	Y ON Y	COMMENT
689 floors available, totalling 3.1m sq ft	 17% by floors (3% by sq ft)	 6% by floors	Whilst the number of floors on the market increased by 17%, it was the addition of several small unrefurbished floors which drove this increase. The actual volume of space on the market only increased by 3%.
243 floors taken-up during Q1, totalling 729,000 sq ft	 31% by floors	 17% by floors	Following a very strong Q4, occupational demand fell across all sub-markets during Q1, although the overall volume of space let was still above the medium term average.
197 floors under offer totalling 787,372 sq ft	 2% by floors (12% by sq ft)	 2% by floors	There are several large floors in Covent Garden and Marylebone and almost 50 smaller floors in Mayfair currently under offer which are driving this quarterly increase.
2,999 sq ft average size of floor taken-up	 3,291 sq ft	 2,698 sq ft	A large number of smaller deals agreed in Mayfair/St James's and Soho dragged down the average size of floor transacted during Q1. The average size of floor taken-up in Covent Garden rose to over 6,200 sq ft.
£117.50/sq ft Mayfair/St. James's average prime rent	 £115 per sq ft	 £105	Whilst take-up has fallen, there remains considerable upward pressure on headline rents and it continues to be a landlord favourable market. Record rents have been achieved (Helly Nahmad Gallery paid £185 per sq ft at 8 St James's Square) and the best quality space continues to attract a premium.
3.75% West End prime office yield		 4%	Values increased throughout 2014 as investors continued to be drawn to the West End. With further rental growth expected, we are likely to see consistent investor demand and more yield compression during 2015.

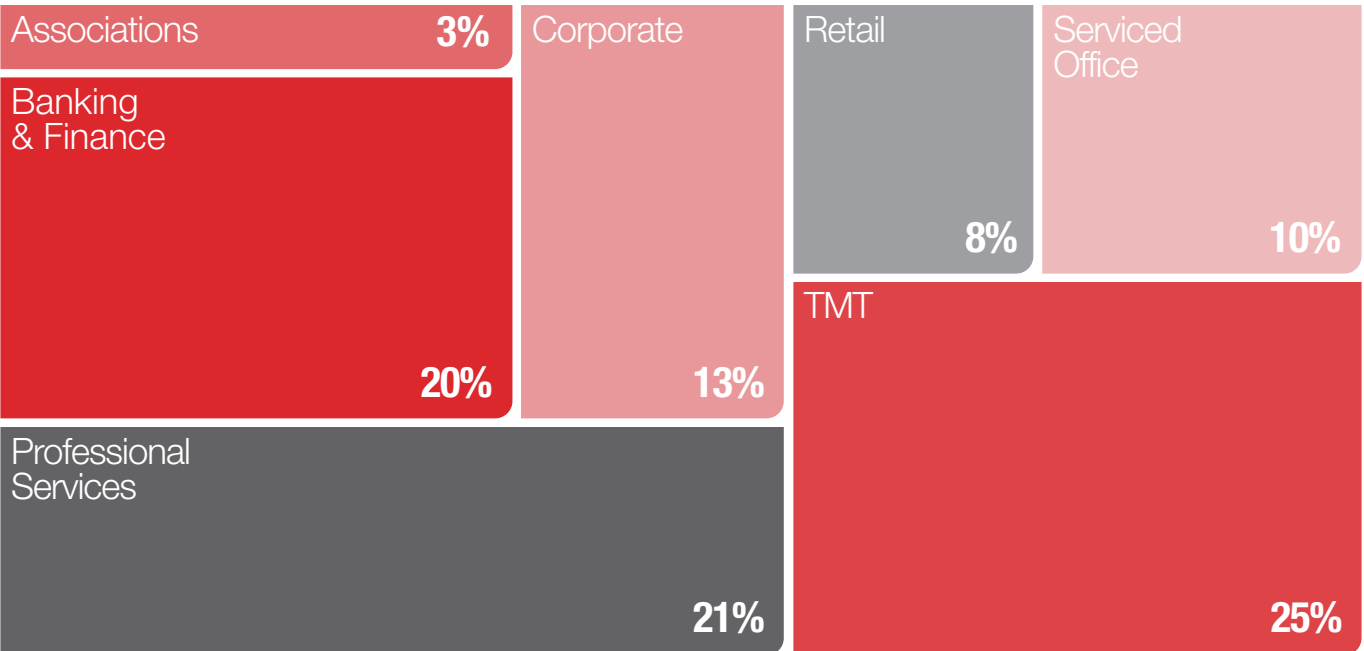
SUB-MARKET TAKE-UP



After the exceptionally strong Q4, where over 1.2 million sq ft of space was transacted, the first quarter of 2015 was more subdued and the number of floors taken-up fell across all sub-markets during Q1. Whilst down on the quarter, there were still 243 floors totalling almost 730,000 sq ft of space taken-up, which remains above the 5 year quarterly average of 728,890 sq ft.

Fitzrovia & Bloomsbury was the most active sub-market during Q1, accounting for over 30% of all activity in the West End. This was to some extent driven by the managed workspace market with deals at 1-2 Stephen Street (let to The Office Group Holdings), and Mappin House on Winsley Street (let to Regus Group and St Andrews Consultants) helping to drive this total.

TAKE-UP BY OCCUPIER SECTOR (EXCLUDING OTHER/UNKNOWN OCCUPIERS)



Across all West End sub-markets, it is now very firmly a landlords' market. Indeed, record rents have been set following Helly Nahmad Gallery paying £185 per sq ft for the 2,959 sq ft top floor and Société Générale paying £150 for the 7,888 sq ft fifth floor at Green Property's new scheme at 8 St James's Square.

The digital and creative industries and to a lesser extent serviced office providers were key sectors helping to drive letting activity in the West End, with the TMT sector accounting for around 25% of occupational activity during Q1. Given there are several floors under offer to technology-related occupiers and some large requirements for space from the sector too, and this trend is expected to continue.

Q1 2015 AVAILABILITY

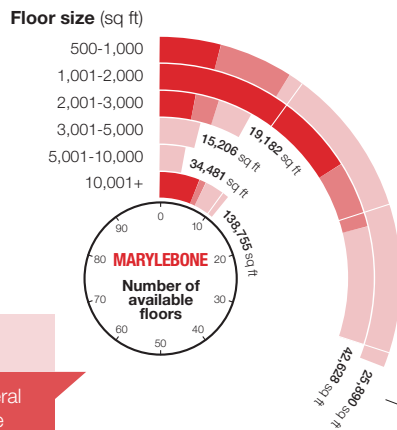
Here we detail our findings on the supply of floors by each submarket, indicating the number of available floors for each size category as well as their respective quality. This includes space under construction which is due to be delivered to the market within 6 months.

SUPPLY

689 floors / **3.1m sq ft**
 ↗ 17% on Q4 / ↗ 3% on Q4

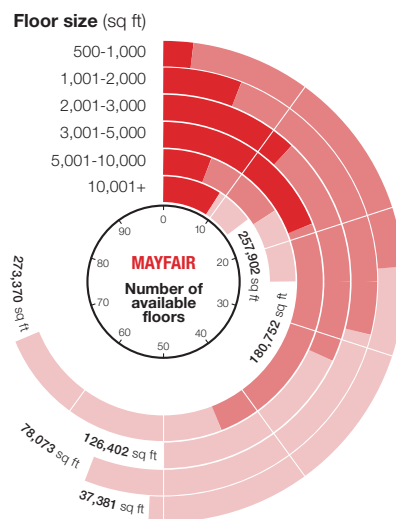
UNDER OFFERS

197 floors / **0.79m sq ft**
 ↗ 2% on Q4 / ↗ 12% on Q4



MARYLEBONE

Following the addition of several small floors at 83-84 Wimpole Street, 12 Manchester Square and 2 Fitzhardinge Street, there were 31 more floors on the market at the end of Q1 compared to Q4. The actual volume of space on the market fell by 2% however following the take-up of a handful of large floors during the quarter.

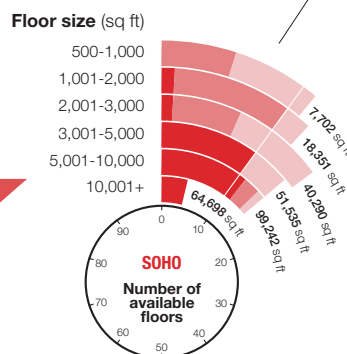


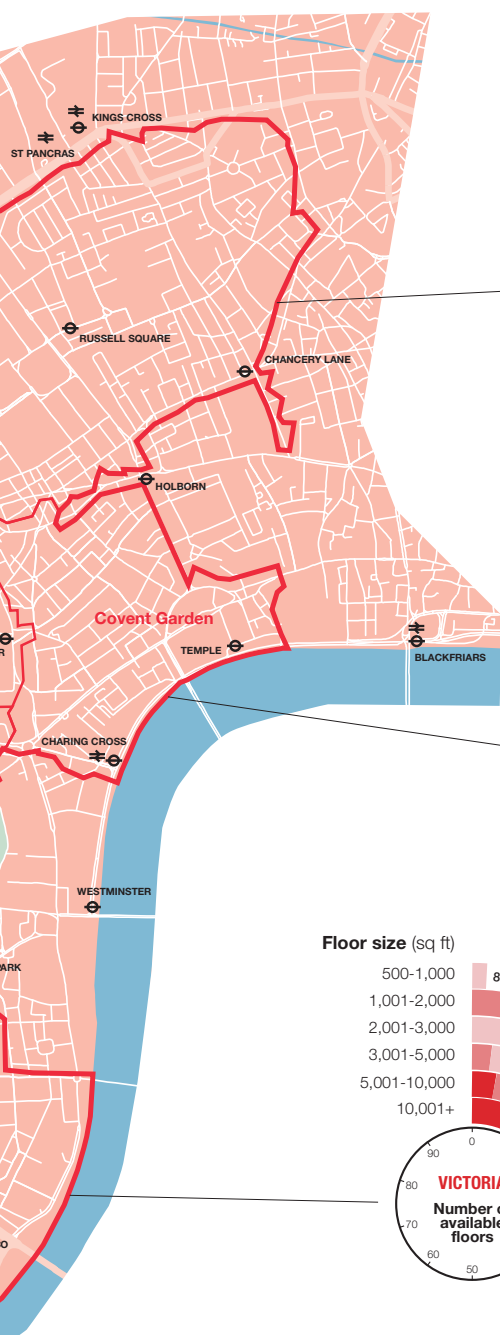
MAYFAIR & ST JAMES'S

It was the addition of several floors between 2,001-3,000 sq ft in size (notably floors on Tenterden Street, Brook Street and Dover Street) which drove up overall availability in this sub-market. By volume, 31% of all West End available space is now located in this sub-market and it remains the most cited sub-market in requirements.

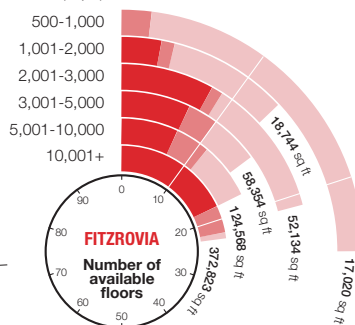
SOHO

Soho witnessed a sharp increase in available floors during Q1 as several unrefurbished mid-sized floors were added to existing supply, and, take-up levels showed a quarterly reduction. Yet with several mid-sized floors currently under offer in this sub-market, it is likely that take-up volumes will increase over coming quarters.





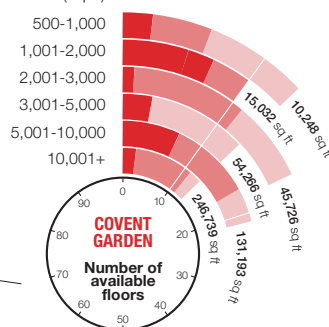
Floor size (sq ft)



FITZROVIA & BLOOMSBURY

Despite relatively strong volumes of take-up in Q1, availability still rose by 13% in this sub-market as several unrefurbished floors were brought back to the market. Several large 'new' floors were also added to the market as schemes at 10 Bloomsbury Way, 10 Midford Place and (sub-let) space at 1 Fitzroy Place were added to existing supply.

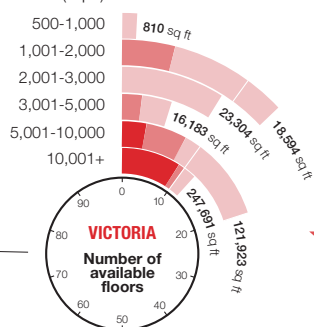
Floor size (sq ft)



COVENT GARDEN

This was the only sub-market to post a reduction in the number of available floors during Q1 and availability fell across all floor size categories. This fall is largely as a result of an increase in the amount of space under offer given King's College London's commitment to the Bush House Complex and there is now around 250,000 sq ft within 41 floors currently under offer.

Floor size (sq ft)



VICTORIA

Current stock available is 450,000 sq ft, with limited availability of new or refurbished floors sub-5,000 sq ft. A number of the new buildings under construction are expected to provide space in this floorplate size category. Nova North/South on Victoria Street, Eland House on Bressenden Place and the Zig Zag building are all schemes which are expected to help fill the supply gap.

- New
- Refurbished
- Unrefurbished
- West End boundary
- Sub-market boundary

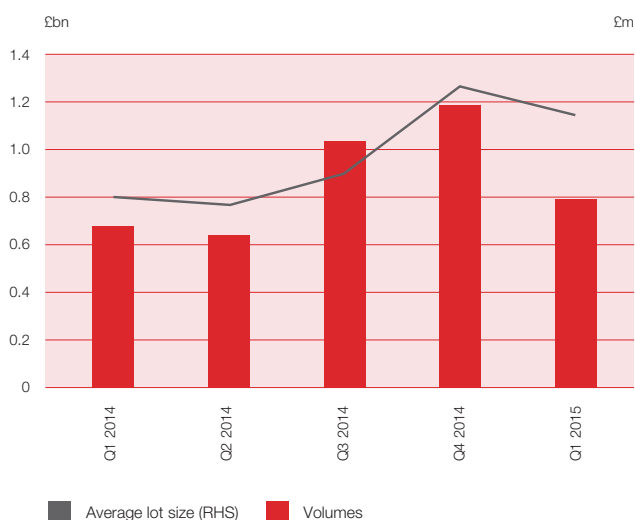
Source: Gerald Eve

Arrows indicate quarterly movement in the number of floors. Current letting policies may dictate some floors are not available in isolation.



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WEST END OFFICE INVESTMENT



Sources: Property Data, Gerald Eve

Following year-end, the overall volume of investment in West End offices fell by 33% in Q1 2015, but at £792 million, the total was still 18% more than the volume transacted during Q1 2014. This increase was driven by the completion of three deals over £100 million in Victoria, Mayfair and Bloomsbury. Whilst our prime yield series remained stable during Q1 at 3.75% (assuming £10 million lot size and medium term income), there is significant downward pressure on prime yields and we expect further inward movement throughout 2015.

We estimate there to be over £1 billion of office space under offer, which suggests that following year-end, investors have not taken too long deciding on asset allocation before committing to West End space. We expect that the market will continue to be categorised by a shortage of good quality investible stock and for there to be continued fierce competition on the stock that is brought to the market. As occupier market conditions remain conducive to further rental growth, we expect this to be the major driver of yield compression during 2015.

Overseas investors continue to be significant net investors into West End offices, with German investors investing £108 million into the sector in net terms during Q1 alone. US and Far Eastern investors were net disinvestors in West End office space in Q1, on average selling more than they bought, but these observations are very much driven by the larger deals of the quarter. The general trend is that of increasing net investment from both domestic and overseas investors as the rental growth prospects and economic weakness in certain native overseas countries continues to attract inward investment.

KEY Q1 WEST END OFFICE TRANSACTIONS

Address	Purchaser	Vendor	Price (£m)	Size (sq ft)	Yield (%)	Capital Value per sq ft (£)	Office tenant(s)
1-5 Howick Place	VGV	Doughty Hanson / Urban & Civic	210.0	142,998	4.26	1,469	Giorgio Armani, Dong Energy
Queensbury House, 3-9 Old Burlington Street	Norges Bank Investment Management	Sorgente Group Spa	190.6	67,780	4.22	2,556	Norges Bank, Summit Partners LLP and GB Holdings
100 New Oxford Street	Tishman Speyer Properties	CPPIB / Hermes REIM	131.4	92,544		1,420	Multi-let
One Neathouse Place	Threadneedle Property	IVG ImmobilienFonds	100.0	117,472	5.00	851	BHP Billiton
1 Chapel Place	Rockhopper Real Estate	WELPUT	58.5	34,229	3.66	1,709	CoStar, Johnson & Johnson, Westrock and Carter Jones
Northwest House, 119-127 Marylebone Road	DELLAL	Arcadia Group	40.0	46,499		860	BHS

Sources: Property Data, Gerald Eve

DEFINITIONS

Availability

Marketed floorspace over 500 sq ft in size and available to move into within 6 months that may or may not be vacant but which is actively marketed by an appointed agent. We monitor available floorspace in central London at an individual floor level. Each floor is assigned a floor size category and an individual grade for quality. The availability data covered in this report represents buildings within the boundaries outlined in the map in this report. We monitor availability by the number of floors being marketed as well as the total size. The floor area in sq ft adopted throughout is the net internal area. Floors which are under offer are not included in our availability statistics. Availability is accurate two weeks before the end of the calendar quarter.

Newly available space

Space on the open market including developments which are within 6 months of completion. This includes units of secondhand space which are undergoing refurbishment.

Requirement

Named entities with appointed agents and a declared requirement for office accommodation which the named entity wishes to satisfy in the foreseeable future. If the requirement has a preferred size range, the average size of the requirement is used. Given requirements often include a range of targeted sub-markets, we have included the requirement for each of the sub-markets when analysing individual sub-markets, but, when calculating overall West End requirements, duplicates are removed.

Prime headline rents

The rent being paid which may not take account of concessions such as rent free periods, in which case it is known as the effective rent. The references to both headline rents and incentives in this report are a reflection of the best office space in that submarket which is taken on an assumed 10 year term. We use the 'best achieved' method of recording prime rents. Where there is recent evidence of transactions, then our data is representative of it. In cases where there is no recent evidence, then the rent is recorded on the basis of the best hypothetical transaction which could be achieved as at the end of that quarter.

Incentives

This refers to the concessions offered by a landlord to a tenant as part of the negotiation process. Incentives usually adopt the form of rent free periods, but can also be in the form of capital contributions or the fit-out of the building.

Floor / Floorplate

As well as the total volume of space being marketed as available, we also monitor the number of floors which account for this total volume. We monitor whether it is a full floor or part floor which is being marketed, although for our statistics, we treat an individually-marketed 'part' floor as 'one' floor. If a floor is capable of sub-division to accommodate two suites, but can likewise be occupied together, we use the total floor plate for that floor.

Floor quality

New: Floor in a newly-developed or newly-refurbished building, including sub-let space in new buildings which have not been previously occupied.

Refurbished: A floor which has been comprehensively refurbished and is of good specification, floorplate efficiency and image, but is in a building which is not new or been comprehensively refurbished.

Unrefurbished: Poorer quality space, usually offered for occupation 'as is'.

Under offer

Space which a prospective occupier has agreed in principle to occupy but is most likely to be under no legal or contractual obligation to do so.

Take-up

Occupational transactions including offices let or sold to an occupier, developments pre-let or pre-sold to an occupier or an owner occupier purchase of a freehold or long leasehold. We analyse take-up at individual floor level

Quality of choice

This is a subjective measure holistically assessing the appropriateness of current availability to modern office requirements. Whilst our figures may represent a large number of floors available in particular size categories or postcode geographies, the floorplates efficiencies or amenities on offer within this supply may not meet all the expectations of modern office tenants and the quality of choice would be lower.



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