



London, Spring 2017

OFFICE MARKET BULLETIN

Resurgence in international investor confidence

Activity amongst overseas private investors, sovereign wealth funds and institutions remains healthy as we enter Q2. This is largely linked to the continued favourable benefits to these groups of investors from the weakness of sterling.

In general, there has been a growing positive attitude towards the long-term prospects for London, which is reflected in the fact that total investment volumes into Central London offices during Q1 2017 were 90% up on Q1 2016, totalling £3.85 billion (Property Data). The overall proportion of overseas investment into Central London offices over the same period has surged to 82%, from 59% in Q1 2016.

We have also noted that the office market's low yielding environment has not been a deterrent to international investment. Seasoned investors are comfortable with low yields, particularly if they are relocating capital to London due to its perceived safe haven status. Those looking to place 'refugee capital' away from geopolitical turmoil in their own home markets do not appear to be fazed by the ongoing yield compression in the Central London office sector.

While the appetite to purchase appears to be growing, opportunities will only be considered where strong covenants, long leases and RPI links are in place.

Occupier activity dips

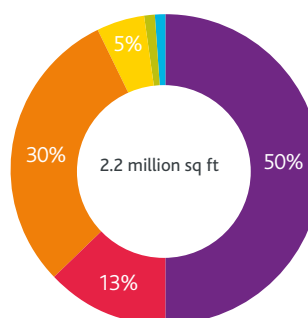
Away from the investment market, occupier activity remains subdued. Overall take up in London's office market during Q1 2017 was 2,210,000 sq ft, 37% down on Q4 2016. Throughout the course of 2017, headline rental values and capital values have remained

largely stable with no real change registered; however, this masks the fact that net effective rents continue to dip due to a rising number of lease incentives being offered by landlords.

While overall activity levels are markedly down on this time last year, there is a deeper market for offices in the £60 psf to £70 psf range, especially in the West End.

The general nervousness stemming from the impending Brexit negotiations is also driving a rising number of requests for break clauses in 10-year leases for office space in the 5,000 sq ft to 10,000 sq ft bracket. Landlords are keen to minimise void periods, especially as supply levels continue to tick up in pockets of Central London.

Take up (Q1 2017)



6.3%

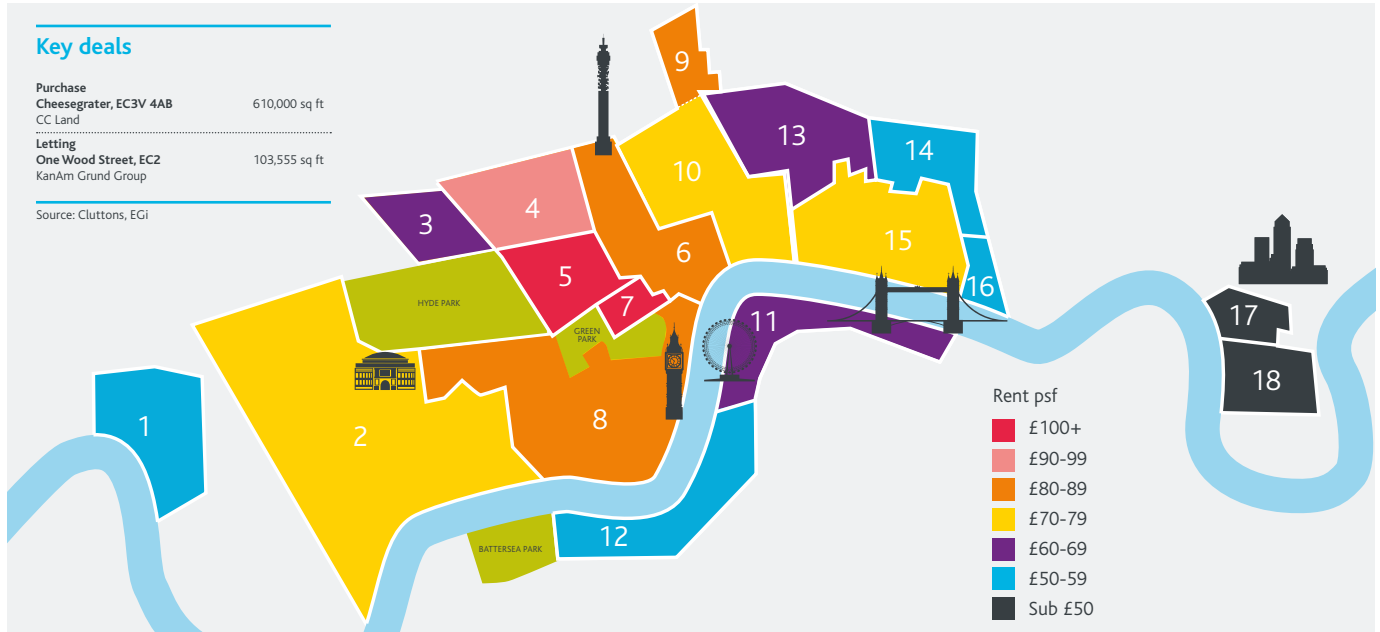
Vacancy rate

17.5m

Sq ft availability

West End Midtown City Southbank Docklands Hammersmith

Central London office market heat map (Q1 2017)



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%	-7.7%
West End	2. Kensington & Chelsea	77.5	0.0%	0.0%	1,275	0.0%	-8.9%
	3. Paddington	60.0	9.1%	9.1%	1,050	9.4%	0.0%
	4. Marylebone	90.0	0.0%	0.0%	1,775	0.0%	-4.1%
	5. Mayfair	120.0	0.0%	0.0%	2,750	0.0%	5.8%
	6. Noho, Soho & Covent Garden	85.0	0.0%	0.0%	1,650	0.0%	0.0%
	7. St James's	120.0	-4.0%	-4.0%	2,700	-1.8%	14.9%
	8. Victoria, Westminster, Knightsbridge & Belgravia	82.5	0.0%	0.0%	1,400	0.0%	0.0%
	Midtown	9. King's Cross	80.0	3.2%	3.2%	1,250	4.2%
	10. Midtown	70.0	0.0%	0.0%	1,150	0.0%	-4.2%
Southbank	11. Southbank	65.0	0.0%	0.0%	875	2.9%	0.0%
	12. Vauxhall & Nine Elms	55.0	-4.3%	-4.3%	725	-3.3%	-9.4%
City	13. Clerkenwell & Farringdon	65.0	0.0%	0.0%	1,075	-2.3%	-10.4%
	14. Old Street & Shoreditch	55.0	0.0%	0.0%	1,000	-4.8%	-9.1%
	15. City Core	70.0	0.0%	0.0%	1,300	2.0%	0.0%
	16. Eastern City Fringe	55.0	0.0%	0.0%	850	0.0%	-5.6%
Docklands	17. Canary Wharf	47.5	0.0%	0.0%	775	0.0%	-8.8%
	18. South Quay	35.0	0.0%	0.0%	500	0.0%	-9.1%

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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