

A subdued year in store for occupational markets, but strong recovery anticipated in 2013

Despite an increase in preletting activity in Q4, annual leasing volumes were 41% down on 2010. Economic volatility will see volumes remain subdued through 2012.

Occupier demand increased 5% over 2011 to end the year at 11.8 million sq ft. However it remained below the 10 year average. New requirements in 2012 are primarily likely to emerge through structural events and the TMT subsector.

Annual investment volumes totalled £10.7 billion, 7% down from 2010. Overseas purchasers were most active, investing £6.4 billion; 60% of the total. Volumes in H1 likely to be restricted as most investors' attention is focussed on the outcome of EU deliberations.



Summary of statistics

Units of 5,400 sq ft and above Take-Up	West End			City			Docklands			Central London		
	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4
TOTALS	3,728	3,201	1,069	6,131	3,444	1,001	2,161	496	120	12,020	7,141	2,190
Grade A	2,393	2,315	898	4,443	1,774	536	2,063	488	120	8,899	4,577	1,555
Off-plan	340	216	216	1,200	0	0	0	250	0	1,540	467	216
Under construction	43	402	94	355	197	197	0	0	0	399	599	291
New completed	781	806	271	1,803	583	40	52	102	91	2,636	1,491	403
Second hand (incl. refurbished)	2,563	1,777	487	2,773	2,663	763	2,110	144	29	7,445	4,585	1,280
100,000+	465	600	185	2,027	197	197	1,718	250	0	4,210	1,047	382
50,000 - 99,999	785	267	180	751	411	146	187	59	0	1,723	737	326
10,000 - 49,999	1,633	1,516	495	2,367	1,774	425	249	143	105	4,249	3,433	1,025
Sub 10,000	844	817	209	986	1,062	233	8	44	15	1,838	1,923	457
Banking & Finance	25%	13%	13%	43%	21%	6%	74%	7%	30%	43%	16%	11%
Professional Services	14%	7%	11%	18%	24%	32%	2%	0%	0%	14%	15%	20%
Service Industries	35%	52%	37%	28%	40%	54%	4%	20%	41%	26%	44%	45%
Manufacturing Industries	13%	10%	7%	4%	5%	3%	9%	62%	0%	8%	11%	5%
Public Admin. & Institutions	8%	14%	27%	4%	5%	3%	10%	10%	29%	6%	9%	16%
Other	4%	5%	4%	3%	5%	2%	2%	0%	0%	3%	4%	3%
Net Absorption	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4
TOTALS	2,788	1,647	534	5,024	148	284	1,070	83	78	8,848	1,985	972
Prime Rents & Rent Free	2010	2011 Q3	2011 Q4	2010	2011 Q3	2011 Q4	2010	2011 Q3	2011 Q4			
Prime Rent	£88.50	£95.00	£95.00	£55.00	£55.00	£55.00	£37.50	£38.50	£38.50			
Rent Free (months)	16	16	16	24	22	22						
Net Effective ¹	£76.64	£82.33	£82.33	£44.00	£44.92	£44.92						
Demand	Total	Active	Potential	Total	Active	Potential	Total	Active	Potential	Total	Active	Potential
TOTALS	4,505	2,828	1,677	10,067	5,777	4,290	2,193	1,299	894	11,873	7,011	4,862
100,000+	1,868	1,108	760	5,064	2,361	2,703	1,700	1,013	687	5,398	2,595	2,803
50,000 - 99,999	1,045	615	430	2,225	1,480	745	380	215	165	2,690	1,805	885
10,000 - 49,999	1,331	872	459	2,363	1,546	817	103	71	32	3,179	2,058	1,121
Sub 10,000	261	233	28	415	390	25	10	0	10	606	553	53
Banking & Finance	9%	7%	12%	28%	20%	38%	24%	23%	25%	23%	18%	30%
Professional Services	10%	16%	1%	23%	27%	17%	10%	17%	0%	21%	26%	14%
Service Industries	70%	68%	72%	41%	44%	38%	46%	52%	38%	45%	46%	44%
Manufacturing Industries	11%	9%	16%	3%	3%	4%	1%	0%	4%	6%	4%	9%
Public Admin. & Institutions	0%	0%	0%	5%	6%	3%	18%	8%	34%	4%	5%	3%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Supply	Total	Grade A	Grade B	Total	Grade A	Grade B	Total	Grade A	Grade B	Total	Grade A	Grade B
Total Current Supply	3,645	2,026	1,449	7,664	4,820	2,536	1,455	1,274	181	12,764	8,120	4,166
VACANCY RATE (% of total stock)	4.0%	2.2%	1.6%	7.1%	4.4%	2.3%	7.6%	6.6%	0.9%	5.8%	3.7%	1.9%
100,000+	0	0	0	2,267	2,131	136	629	629	0	2,896	2,760	136
50,000 - 99,999	503	434	0	1,179	805	374	551	412	138	2,233	1,651	512
10,000 - 49,999	2,179	1,100	989	2,929	1,390	1,343	225	191	35	5,333	2,681	2,367
Sub 10,000	963	492	460	1,289	494	683	50	42	8	2,302	1,028	1,151
Speculative Development	Total	Over 100,000	50,000- 99,999	Total	Over 100,000	50,000- 99,999	Total	Over 100,000	50,000- 99,999	Total	Over 100,000	50,000- 99,999
TOTALS	1,809	1,208	434	3,567	2,860	562	272	272	0	5,648	4,340	996
2012	978	619	211	1,282	734	404	0	0	0	2,260	1,353	615
2013	831	589	223	1,216	1,057	158	272	272	0	2,319	1,918	381
2014	0	0	0	1,069	1,069	0	0	0	0	1,069	1,069	0
2015	0	0	0	0	0	0	0	0	0	0	0	0
Capital Transactions £millions	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4	2010	2011 Q1-Q4	2011 Q4
TOTALS	5,805	4,704	970	5,006	6,029	1,453	749	42	12	11,559	10,776	2,435
UK Purchasers	2,139	2,059	307	1,604	2,258	319	23	30	0	3,766	4,347	626
Overseas Purchasers	3,666	2,646	663	3,403	3,772	1,135	726	12	12	7,794	6,430	1,810
Property Companies	727	1,838	430	828	976	131	17	30	0	1,572	2,844	561
Institutions	1,627	1,206	31	1,703	2,951	668	231	0	0	3,561	4,156	699
Privates & Other Investors	3,451	1,661	509	2,475	2,103	655	501	12	12	6,427	3,776	1,176
Prime Yield	Sub £10m	£10-£50m	£80m+	Sub £40m	£40-£125m	£125m+						
	4.00%	4.25%	5.00%	5.25%	5.25%	5.25%						

*As at 31 December 2011

The Central London Market

Summary of Statistics (QoQ)	West End	City	Docklands
Take-up	↑	↑	↓
Supply	↓	↓	↓
Occupier Demand	↑	→	↑
Overall Vacancy Rate	↓	↓	↓
Grade A Vacancy Rate	→	→	↓
Prime Rent	→	→	→
Under Construction	↓	→	↑
Investment Volumes	↓	↑	↑

The Economy

The global economic background has deteriorated further in the last three months as Europe's sovereign debt crisis has pushed the Eurozone to the brink of recession. The solvency threat has spread from Greece to the other much larger economies, notably Italy and Spain. The most recent EU summit produced radical plans to increase longer term fiscal integration but failed to alleviate the short term strains on sovereign and interbank markets. Previously unthinkable speculation about the break-up of the single currency, with its dire economic consequences, refuses to go away and risks are skewed firmly on the downside, exacerbated by the downgrading of various nations' Sovereign debt by Standard and Poor's.

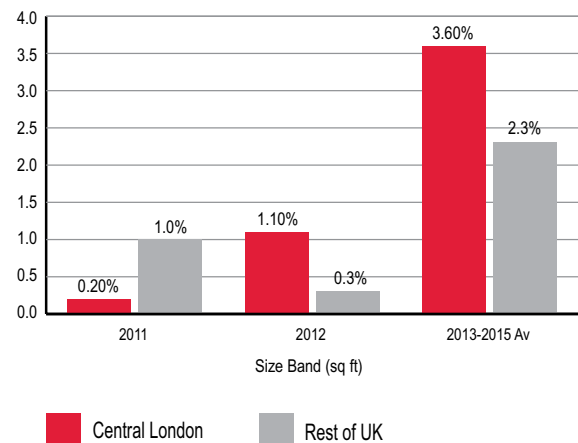
The UK has not been immune to the economic instability. Activity surprised on the upside in Q3 with GDP growth of 0.6% quarter-on-quarter. But output declined by 0.2% in the final quarter, and many expect a further dip at the start of 2012 to put the UK into technical recession albeit a mild one. In the year as a whole, the prospect is for continued sub-trend GDP growth at 0.4% but with the second half lifted by monetary stimulus and the impact of the London Olympics.

Inflation concerns are rapidly disappearing as demand weakens. Monthly RPI and CPI rates have remained in excess of official targets, but a sharp decline is in prospect during early 2012 and annual increases are expected to be close to 2% again by the end of the year. In the current environment, interest rates are expected to be on hold at least for the next 12 months, with the Bank of England also re-starting its asset purchase scheme to inject additional liquidity into the ailing economy.

The most recent evidence on the London economy indicates that activity declined for the first time in 31 months during November 2011. The Lloyds-TSB PMI survey mirrored the UK pattern for output but showed the capital was particularly weak for jobs. Other data revisions also suggest that 2011 was more subdued than once thought for the capital's economy, which is perhaps not surprising given the global headwinds. Nonetheless, the latest projections from Oxford Economic indicate that Central London GDP growth will re-assert a premium this year expanding by just over 1% year-on-year, well above the UK average and this differential will further accelerate from 2013.

GDP Growth: London vs UK

Source: Oxford Economics, December 2011, Jones Lang LaSalle



“London GDP growth expanding 1% year-on-year, well above UK average.”

The Central London Market

Occupier Take-up and Net Absorption

Annual volumes totalled 7.1 million sq ft, a 41% decrease on 2010, and 26% behind the 10 year annual average. Just over 2 million sq ft remained under offer at the end of Q4, with 1.3 million sq ft of this in the City, as occupiers remained cautious, delaying decisions into 2012. Quarterly volumes were 2.1 million sq ft, a 12% improvement on the weak third quarter and driven by the West End. This was, however the lowest Q4 figure since 2003.

Smaller deals dominated activity over 2011 with nearly 60% of all transactions between 5,000 – 10,000 sq ft compared with 50% in 2010. There were only six deals in excess of 100,000 sq ft compared with 16 in 2010. 13 pre-lets were recorded in 2011 and 11 of these were in the West End, with five taking place in the final quarter. The deal to Aon was the only pre-let recorded in the City in 2011; there were eight in 2010.

The TMT subsector continued to stand out with 15% of floorspace let over 2011 compared with 8% in 2010. Annual take-up from the Banking & Finance sector was very limited, with 1.1 million sq ft let accounting for 16% of the total compared with 43% in 2010. This was the lowest overall volume since 2003.

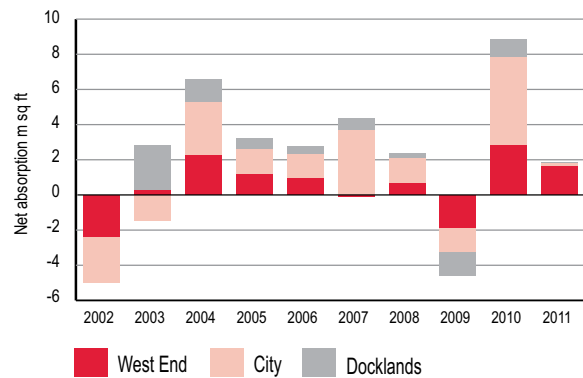
Looking ahead to the first half of 2012, our expectations are for take-up volumes to be subdued as occupiers continue to delay decisions amidst economic uncertainty. Oxford Economics forecasts 1.2% headcount growth in the Financial and Business Services sector in London for 2012 with growth accelerating in 2013 to 3.7%. This compares to -1.2% in 2011 and a long term average of 1.6% per annum. Subject to further economic events, we anticipate confidence will improve in the second half of the year as more positive hiring expectations should filter through to sentiment and then leasing volumes.

Occupier Demand

Quarterly demand decreased 9% to 11.8 million sq ft. While the satisfaction of Aon's, Nokia's, Savills's and Telefonica's requirements drove much of this reduction, with limited new requirements emerging, relatively weak take-up prevented further erosion as requirements stayed in the figures. Although 14% below the 10 year annual average, occupier demand was up 5% on 2010, with the City submarket recording a healthy 43% increase over 2011. In the final quarter, active demand decreased 14% to end the year at 7 million sq ft, while potential demand remained stable at 4.8 million sq ft.

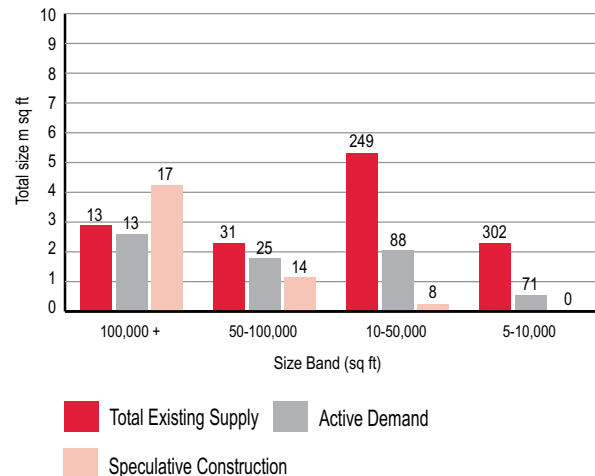
Central London: Net Absorption 2002-2011 Q4

Source: Jones Lang LaSalle



Central London: Demand and Supply Balance 2011 Q4

Source: Jones Lang LaSalle



“Annual volumes totalled 7.1 million sq ft, a 41% decrease on 2010.”



Demand from the Service Industry continued to dominate, accounting for 45% of total demand at the end of 2011, with the Advertising & Publishing and TMT subsectors comprising 13% and 11% of total demand respectively. Annually, active demand from the Service Industry increased 16%. Activity from the Banking & Finance sector decreased 12% in the final quarter, ending the year at 2.7 million sq ft, 23% of total demand compared to a long term average of 27%.

Net new demand remained positive in both the West End and City during the final quarter, however, the submarkets recorded a 67% and 43% decrease respectively as the rate of new requirements emerging relative to those satisfied slowed. We expect this trend to continue over the first half of 2012 as the economic outlook remains uncertain, with new requirements primarily likely to emerge through structural events or the TMT subsector. With 16.8 million sq ft of known lease events in 2013 & 2014, we anticipate requirements will become more active in the second half of 2012 provided the economy gains some forward momentum.

Existing Supply & the Development Pipeline

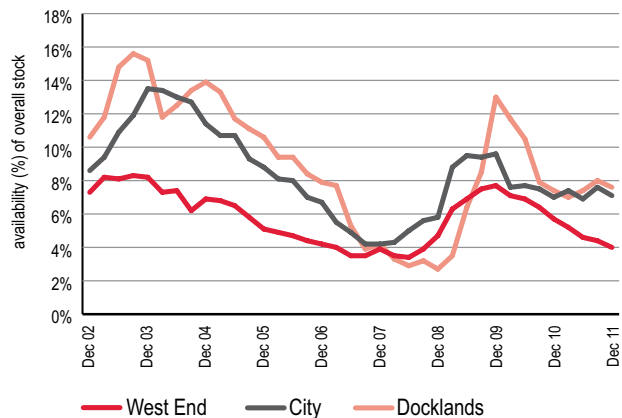
Supply decreased 7% over the final quarter to end the year at 12.7 million sq ft. This reflected a slower annual decrease of 10% compared with 28% in 2010. Grade A supply remained stable over the final quarter, ending the year at 8.1 million sq ft, an 8% increase on 2010 as take-up failed to absorb new supply - notably in the City submarket. Strong erosion was witnessed in the West End.

Overall vacancy rates fell from 6.3% to 5.8% over the final quarter while Grade A rates remained 3.7%. Low levels of take-up in the medium term will keep overall vacancy rates stable, while the paucity of good quality Grade A accommodation will put further pressure on Grade A vacancy rates although some fluctuations can be expected over 2012 as various schemes complete.

Eight schemes commenced over the fourth quarter, totalling 877,000 sq ft, including 25 Churchill Place, E14, 6 Bevis Marks, EC3 and 1A Page Street, SW1. As a result, the amount of space under construction speculatively increased 4% to end the year at 5.6 million sq ft. Of this, 2.2 million sq ft is due to come online in 2012, 33% of which is refurbished stock.

Central London: Vacancy Rates 2002-2011 Q4

Source: Jones Lang LaSalle



In the West End, the final quarter of the year saw demolition at five schemes totalling c.500,000 sq ft. All of these schemes are in the core villages of Mayfair and St James's, and are expected to start construction within the first half of 2012 and will supply the much needed new space from the end of 2013. Currently only 16% of West End construction is in the Core, with 40% in Victoria.

Rents and rental Expectations

For the second consecutive quarter, prime rents remained stable. Prime rents in the West End ended the year at £95.00 per sq ft reflecting an annual increase of 7.4%. Rent free periods assuming a 10 year term remained at 16 months meaning net effective rents also grew 7%. Rents are likely to remain relatively stable over much of 2012 due to weak occupier demand and uncertainty in the economy, with growth returning in 2013.

In the City, prime rents ended the year at £55.00 per sq ft, having remained stable for five consecutive quarters. Rent free periods remained at 22 months. We anticipate prime rents in the City core to remain stable over much of 2012 although some erosion in rents and incentives may be witnessed in some markets.

Prime rents in the Docklands / East London submarket remained at £38.50 per sq ft reflecting a 2.7% increase over 2011 with off-plan pre-letting deals at a much higher level.

The Central London Market

Core Grade A rents outperformed prime, notably in the West End increasing 15% over 2011 to £74.40 per sq ft and 5.2% in the City to £48.90 per sq ft. We anticipate this trend to continue through 2012, with Grade A rents increasing 4.3% in the West End and 5.8% in the City.

Investment Volumes and Yield Movements

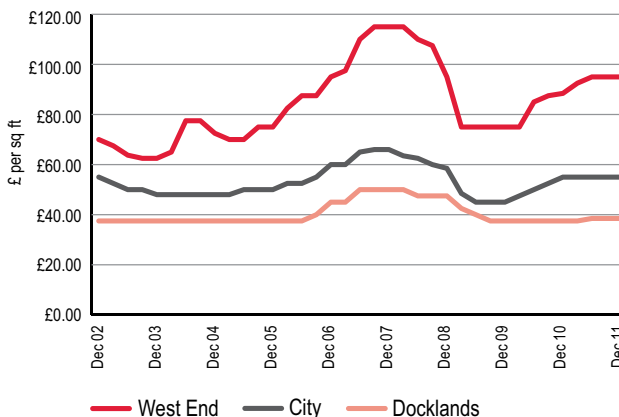
Investment volumes totalled £2.4 billion in the final quarter, up 2% on Q3. Five significant transactions took place with £1.1 billion traded in lot sizes over £100 million; 50% of the total. Volumes were driven by the City which traded £1.4 billion, with notable transactions including the acquisition of Tower 42 by the Kirsh Group for £282.5 million and PNB's purchase of Milton & Shire House, Silk Street, EC1 for £350 million.

The annual total of £10.7 billion was 7% behind 2010 and slightly behind the 10 year annual average of £11 billion. Foreign institutions and overseas privates were the most active purchasers over 2011 accounting for 23% and 26% respectively. In total, overseas purchasers invested £6.4 billion; 60% of the total. Notably 2011 recorded strong growth in activity from Asia, accounting for £1.7 billion of acquisitions in 2011 (16% of the total) compared with £668 million in 2010 (6%).

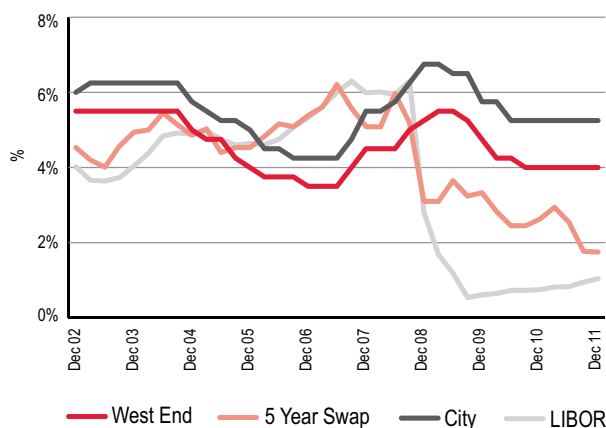
Prime yields remained stable across both West End and City submarkets. In the West End, prime yields for sub £10 million lot sizes remained at 4.00%. Yields for intermediate (£10m-£80m) and larger (£80m+) remained at 4.25% and 5.00% respectively. In the City, prime yields remained at 5.25% for all lot sizes

Going forward, with the continued scarcity of debt, leveraged property investors may struggle to compete with equity buyers and we can expect to see increased activity from sovereign wealth funds and high net worth Asian and European investors targeting both the City and West End markets, attracted by London's reputation as a safe haven. The ongoing crisis in Europe may cause uncertainty and a slow first quarter is anticipated as investors attention could be focussed on the outcome of EU deliberations. However, we anticipate this to be in the short term only as investors continue to hunt for return.

Central London: Prime Headline Rents: 2002 to 2011 Q4
Source: Jones Lang LaSalle



Central London: Prime Yields and the Cost of Money 2002-2011 Q4
Source: Jones Lang LaSalle/Datastream



“Overseas purchasers invested £6.4 billion; 60% of the total.”



Issue to watch: Destination Creation?

At the end 2011, 5.6 million sq ft remained under construction speculatively. With limited supply in the West End, particularly for large units, this is increasingly forcing major West End occupiers, particularly the TMT and media subsectors to search more widely across Central London. Is place creation outside traditional areas likely to become more perceivable, and what will be the ripple effect of these new locations?

Traditional Central London core markets such as Mayfair and St James's together with Soho in the West End, and City core locations such as Bank to Paternoster Square, Leadenhall Street, Fenchurch Street and Liverpool Street have historically led the way with development activity. However, recently we have started to see a shift; at the end of Q4 only 16% of West End speculative development was in the core, with 40% in Victoria. In the City, 30% of speculative development is on the Southbank with only 43% in city core locations.

Over the last 12 months, there has been a steady erosion of high quality accommodation in the West End. Current market activity is focussed on high quality new or refurbished buildings which continue to let despite current economic uncertainty. As a result of the migration of TMT subsector companies from the West End, areas around the north and east fringe City locations such as Farringdon, Old street and Spitalfields are seeing good levels of interest. Historically, we have seen the likes of Allen and Overy at 1-10 Bishops Square, E1 enable Spitalfields to become a true corporate destination.

Looking ahead, with the London Fruit & Wool development for example, we anticipate more development around the Eastern City Fringe as occupiers are attracted by the more trendy up and coming locations such as Shoreditch High Street, Silicon Roundabout and Farringdon. With rising total occupancy costs and limited supply in the West End we are likely to see more occupiers such as Saatchi & Saatchi, Omnicom, Publicis and Ogilvy and Mather, who remain cost driven, consider relocating into these locations.

Areas such as Argent's King's Cross, Lend Lease and Westfield's Stratford City development, London Bridge Quarter in the Southbank, Elizabeth House and the Shell Centre at Waterloo and Merchant Square and Kingdom Street in Paddington are all becoming more accessible with London's expanding transport network.

“There has been a steady erosion of high quality accommodation in the West End.”

These areas are all centred around main transport hubs offering tube and mainline services. The benefits of Crossrail and with the improvements at King's Cross, offering international train links, and the planned HS2 Euston rail line going forward will further attract a wide range of occupiers.

With occupiers migrating into these trendier fringe locations, the impact on rental values is becoming more appealing for landlords. This has already been seen with rents achieved at 1 Kingsway, WC2, Kingdom Street, W2, Central Saint Giles, WC2 and New Street Square, EC4. Whilst rents may be seen as high for these locations historically, when compared to total occupancy costs in traditional core locations, tenants are able to achieve cost savings in modern high quality buildings with larger floor plate sizes.

We believe there is value to be had in the ripple effect from these new found locations.



The West End Office Market

Occupier Take-Up and Net Absorption

- Volumes increased 60% on the weak third quarter, with just over 1 million sq ft let across 52 transactions
- The annual total of 3.2 million sq ft reflected a 14% decrease on 2010, however it was only slightly behind the 10 year annual average – a better outcome than expected
- Volumes in Q4 were driven by five deals in excess of 50,000 sq ft, notably to Telefonica, Nokia, Pimco Europe and prelets to The London Borough of Camden and Savills totalling 415,550 sq ft
- There were 11 prelets recorded in 2011 compared with only two in 2010, notably to Debenhams, Double Negative and Sony DADC
- Annually the T.M.T subsector accounted for 18% of total take-up compared with 9% in 2010

Occupier Demand

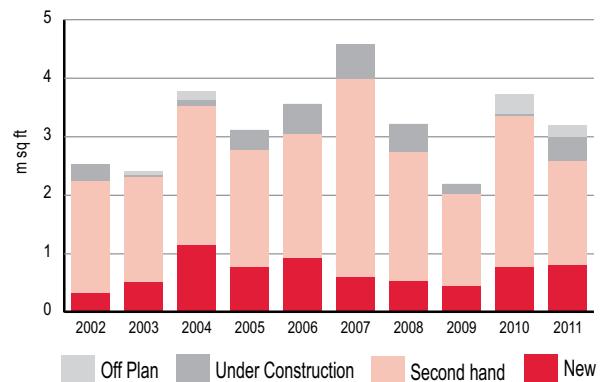
- Overall occupier demand increased 2% to end the quarter at 4.5 million sq ft. Increases were driven by 53 new requirements totalling 1.6 million sq ft, with the likes of FTI Consulting, Burberry, Macmillian Publishing all seeking in excess of 100,000 sq ft
- Active demand decreased 15% to end the quarter at 2.8 million sq ft, a result of robust take-up and Omnicom placing their 300,000 sq ft requirement on hold (previously active)
- Over 2011, total demand increased 14% while active demand increased 22%. However overall requirement volumes remain 20% below the 10 year annual average
- The Service Sector continued to dominate demand, accounting for 70% of the total, driven by the Advertising & Publishing subsector which accounted for 32% of total demand compared with 20% last quarter

Existing Supply and the Development Pipeline

- Total supply decreased 8% over the quarter to 3.6 million sq ft, reflecting an annual decrease of 29%

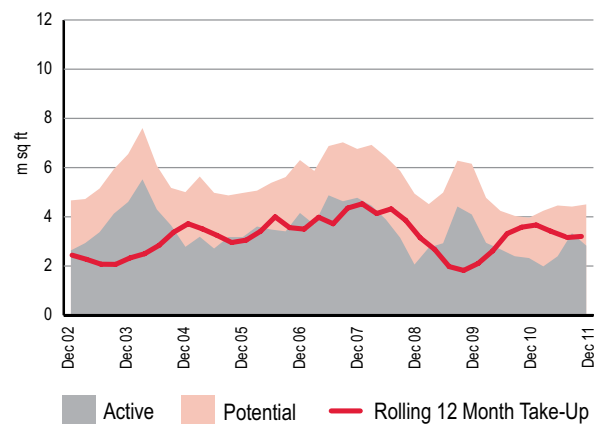
West End: Take-Up 2002-2011 Q4

Source: Jones Lang LaSalle



West End: Demand 2002-2011 Q4

Source: Jones Lang LaSalle



“Annually the T.M.T subsector accounted for 18% of total take-up compared with 9% in 2010.”



- Grade A supply remained stable at 2 million sq ft. The annual decrease was 20%
- Overall vacancy rates decreased to 4.0% while Grade A remained at 2.2%, their lowest levels since 2008
- The amount of space under construction speculatively decreased 3%, as recent speculative completions and the Savills prelet offset new commencements at Regent Quarter Block D, NW1, 1A Page Street, SW1 and Hammersmith Grove, W6
- Over the final quarter, five schemes totalling c.500,000 sq ft began demolition and are expected to commence construction in the first half of 2012. All are in the Core

Rents

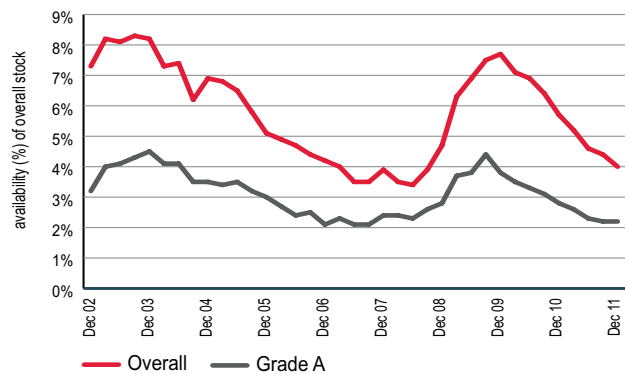
- Prime rents remained stable at £95.00 per sq ft and rent free periods, assuming a 10 year term remained at 16 months. This reflected an annual increase of 7.4% on the back of 18% in 2010
- Growth from the Core Grade A market exceeded the pace of prime, ending the quarter at £74.40 per sq ft reflecting an annual increase of 15%

Investment Volumes and Yields

- Just over £970 million was traded across 31 deals in the final quarter, a 31% decrease on the strong third quarter
- Annual investment volumes totalled £4.7 billion, 19% behind 2010, however 10% ahead of the 10 year annual average
- A lack of available stock and strong investor demand is likely to keep pressure on prime yields, which remained at 4.00% for lot sizes sub £10 million and at 4.25% for £10-£80 million
- Overseas capital invested £2.6 billion, 56% of the total compared with a long term average of 48%. £1.3 billion of this was from European buyers
- UK vendors sold just over £3.2 billion over 2011 (69% of the total), compared with £2.5 billion in 2010; activity was driven by UK property companies selling £1.1 billion.

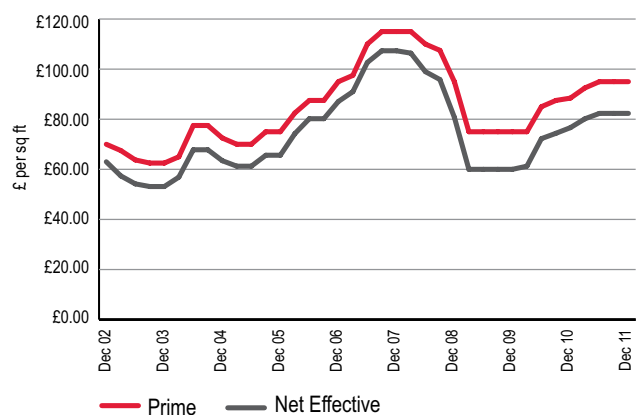
West End: Vacancy Rates 2002-2011 Q4

Source: Jones Lang LaSalle



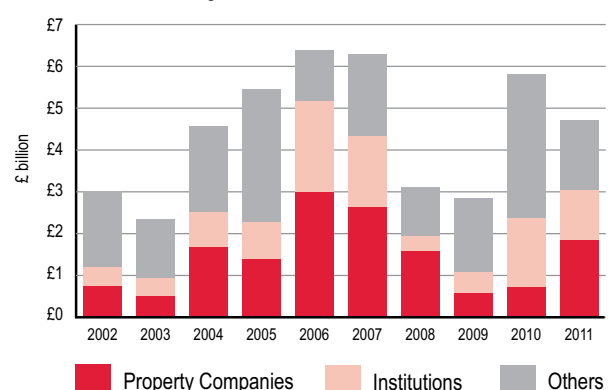
West End: Prime Headline Rents and Net Effective Rents 2002-2011 Q4

Source: Jones Lang LaSalle



West End: Investment Purchases 2002-2011 Q4

Source: Jones Lang LaSalle



The City Office Market

Occupier Take-up and Net Absorption

- 1 million sq ft was let in Q4 bringing the annual total to 3.4 million sq ft, 44% below 2010 and one third below the 10 year annual average. This was the lowest annual figure since 2003
- Volumes were driven by three deals in excess of 50,000 sq ft, notably Aon (196,000 sq ft at The Leadenhall Building) - this was the only pre-let transaction to take place in 2011 compared with eight in 2010
- More transactions occurred in the sub 25,000 sq ft market in - 93% compared with 84% in 2010
- In the final quarter, the Banking & Finance sector accounted for 5% of the total. Annual take-up from this sector was 708,000 sq ft, 21% of total take-up, compared with 43% in 2010. This was the lowest overall volume since 2008

Occupier Demand

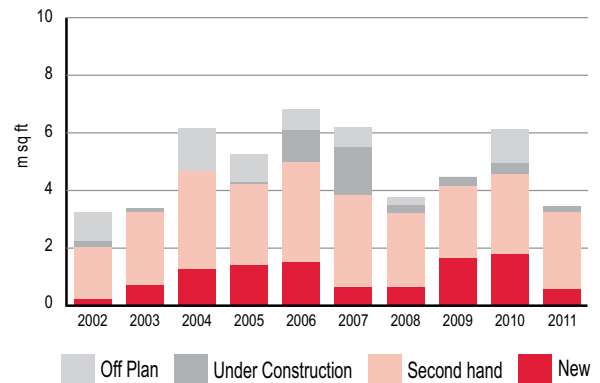
- Although 44 new requirements totalling 1.3 million sq ft came to the market in the final quarter, the three large requirements satisfying their searches kept overall volumes stable at 10 million sq ft
- Active demand decreased 2% in the final quarter to end the year at 5.7 million sq ft while potential demand remained stable at 4.2 million sq ft
- Over 2011, total demand increased 43% while active demand increased 48%. Occupier demand ended the year 14% above the 10 year average and is at its highest level since Q4 2007
- Demand from the Service Industry accounted for 41% of the total, the highest proportion on record in the City
- 1.3 million sq ft remained under offer at the end of Q4; major requirements we expect to deal in 2012 include the Prudential Regulatory Authority and JLT

Existing Supply and the Development Pipeline

- Overall supply decreased 7% over the quarter to 7.6 million sq ft, matching levels recorded at the end of 2010

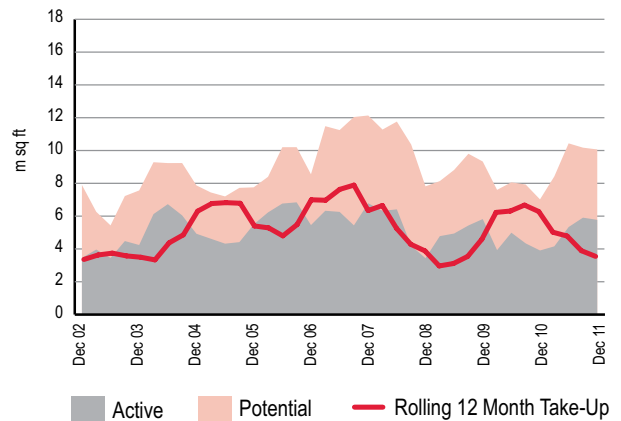
City: Take-Up 2002-2011 Q4

Source: Jones Lang LaSalle



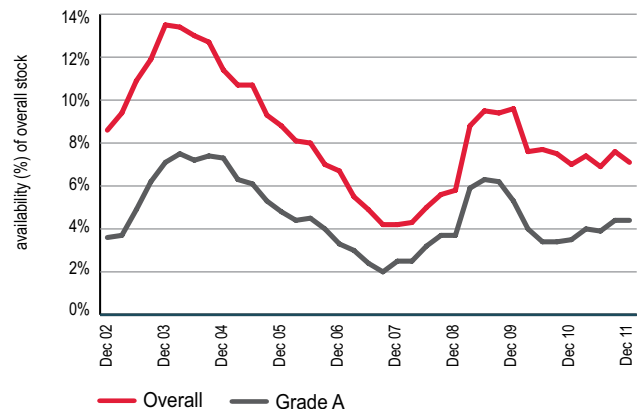
City: Demand 2002-2011 Q4

Source: Jones Lang LaSalle



City: Vacancy Rates 2002-2011 Q4

Source: Jones Lang LaSalle





- Grade A supply remained stable at 4.8 million sq ft during the last quarter. It declined 29% over the year
- Overall vacancy rates decreased from 7.6% to 7.1% in the final quarter while Grade A remained at 4.4%
- The amount of space under construction speculatively remained stable at 3.5 million sq ft as the Aon prelet offset the only new commencement at 6 Bevis Marks, EC3
- Over 2011, speculative construction increased 97% with 18 speculative new and refurbished developments commencing compared with only two in 2010

Rents

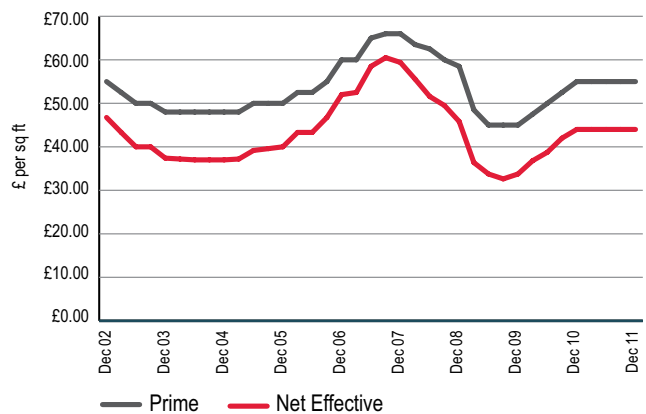
- Prime rents remained stable at £55.00 per sq ft, reflecting no rental growth over 2011 compared with 22% in 2010. Rent free periods assuming a 10 year term remained at 22 months
- There is evidence of high rents being achieved in the sub 5,000 sq ft bracket such as Korea Investment Corporation on the 10th floor at 1 Bartholomew Lane, EC3 at around £65.00 per sq ft and at the Heron Tower, EC2 where Engelhard Metals is rumoured to have paid £67.50 per sq ft on the part 21st floor totalling 5,670 sq ft

Investment Volumes and Yields

- Investment volumes totalled £1.4 billion in the final quarter, 47% ahead of Q3
- Annual investment volumes totalled £6 billion, 20% ahead of 2010 and 3% ahead of the 10 year annual average
- Volumes in 2011 were driven by overseas purchasers investing £3.7 billion, 60% of the total. Notably 2011 recorded strong interest from Asian investors who accounted for over £1.4 billion of acquisitions – 23% of the total compared with 4% in 2010
- Three deals in lot sizes over £100 million took place in the final quarter, accounting for 56% of the total
- Prime yields for all lot sizes remained at 5.25%

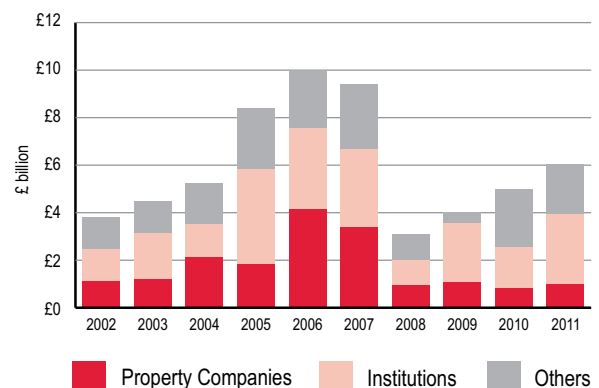
City: Prime Headline and Net Effective Rents 2002-2011 Q4

Source: Jones Lang LaSalle



City: Investment Purchases 2002-2011 Q4

Source: Jones Lang LaSalle



“Over 2011, total demand increased 43% while active demand increased 48%.”

The Docklands & East London Office Markets

Occupier Take-up and Net Absorption

- Take-up in the final quarter totalled 120,300 sq ft, driven by deals to BBVA, Mastercard, G4S, LOCOG and Coral Bookmakers
- The largest deal to complete in Q4 was at One Stratford Place, E20 where Coral took the 7th & 8th floors totalling 31,000 sq ft
- The annual total of 496,000 sq ft was 77% below 2010

Occupier Demand

- Occupier demand increased 11% over the quarter to 2.1 million sq ft. Increases were driven by active demand, which recorded a 9% increase over the quarter as three new requirements totalling c.200,000 sq ft were registered

Existing Supply and the Development Pipeline

- Overall supply decreased 5% over the final quarter to 1.4 million sq ft
- Overall vacancy rates decreased to 7.6% and Grade A decreased to 6.6%
- 272,000 sq ft was under construction speculatively at the end of Q4, as works commenced at 25 Churchill Place, E14 following the part pre-let to EMA in the third quarter

Rents

- Prime rents remained stable at £38.50 per sq ft

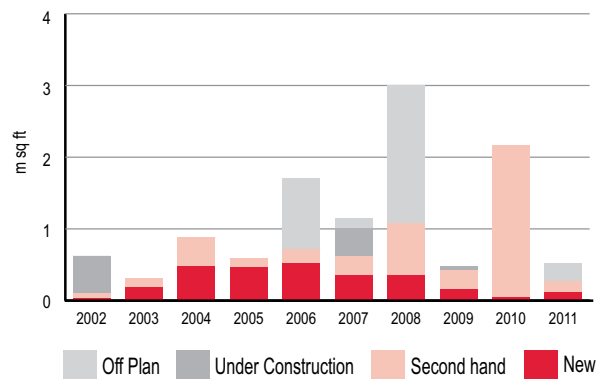
Investment Volumes

- In the final quarter, £12.2 million was traded in a single transaction. The Northern & Shell Tower, 4 Selsdon Way, E14 was purchased by a private Japanese investor, the building totalled 54,000 sq ft
- Annual investment volumes totalled £42.2 million compared with £748.5 million in 2010

“Overall vacancy rates decreased to 7.6% and Grade A to 6.6%.”

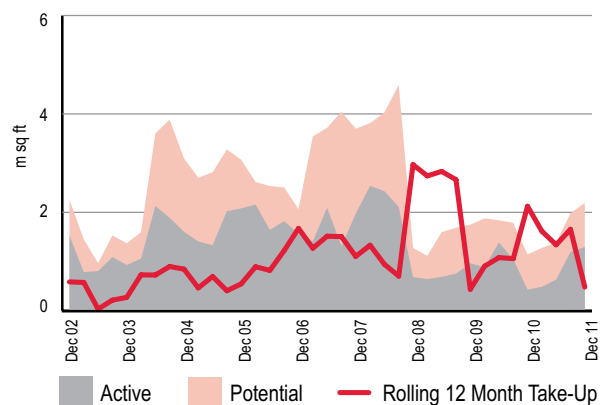
Docklands: Take-Up 2002-2011 Q4

Source: Jones Lang LaSalle



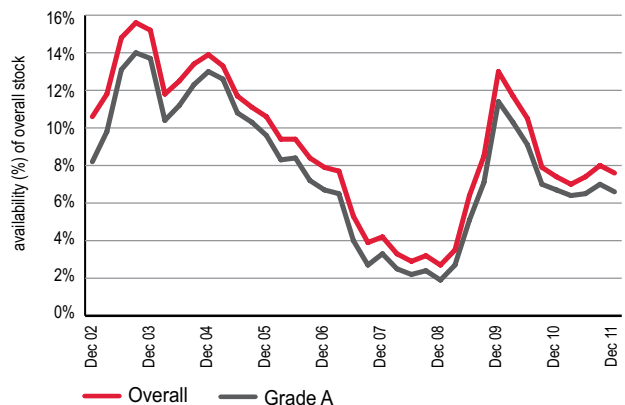
Docklands: Demand 2002-2011 Q4

Source: Jones Lang LaSalle



Docklands: Vacancy Rates 2002-2011 Q4

Source: Jones Lang LaSalle



Headline Transactions

West End



11 Baker Street, W1
 Area: 57,200 sq ft
 Tenant: Pimco Europe
 Reported Rent: £72.50 per sq ft
 (on best)
 Building Status: New



20 Rathbone Place, W1
 Area: 19,500 sq ft
 Tenant: Sony DADC
 Reported Rent: Confidential
 Building Status: Under
 Refurbishment



1 Berkeley Street, W1
 Area: 161,660 sq ft
 Purchaser: Private European
 Reported Price: £155 m
 Est Initial Yield: c.3.80%



1 Kingdom St, W2
 Area: 265,000 sq ft
 Purchaser: Cityhold Property
 AB Group
 Reported Price: £230m
 Est Initial Yield: 6.00%

City



The Leadenhall Building, EC3
 Area: 196,000 sq ft
 Tenant: Aon
 Average Rent: £57.00 per sq ft
 Building Status: Under Construction



6 More London, SE1
 Area: 58,880 sq ft.
 Tenant: Ernst & Young
 Reported Rent: £45.00 per sq ft
 Building Status: Second Hand



3 Bunhill Row, EC3
 Area: 101,515 sq ft
 Tenant: Private Middle Eastern
 Reported Price: £81.75m
 Est Initial Yield: 5.40%



Tower 42, EC2
 Area: 472,775 sq ft
 Purchaser: The Kirsh Group
 Reported Price: £282.50m
 Est Initial Yield: 6.90%

Docklands & Canary Wharf



1 Stratford Place, E20
 Area: 30,800 sq ft
 Tenant: Coral Bookmaker
 Reported Rent: Confidential
 Building Status: New



1 Canada Square, E14
 Area: 29,160 sq ft
 Tenant: BBVA
 Reported Rent: Confidential
 Building Status: Second Hand



40 Bank Street, E14
 Area: 19,115 sq ft
 Tenant: G4S
 Reported Rent: Confidential
 Building Status: Second Hand



**Northern & Shell Tower,
 4 Selsdon Way, E14**
 Area: 54,000 sq ft
 Purchaser: Private
 Reported Price: £12.2m
 Est Initial Yield: 7.04%

Town Planning

LEGISLATIVE CHANGES – HIGHLIGHTS

Greater London Authority

The Mayor has published the Draft Housing SPG for consultation, to supplement the housing policies in the 2011 London Plan. Once adopted, the new Housing SPG will replace the 2005 SPG and the 2010 Interim Housing SPG. The consultation period closes on 24th February.

The Draft SPG Affordable Housing Note has been published for consultation. The document deals with how the Government's new affordable rent housing product can be used to implement the policies in the London Plan. The consultation period closes on 3rd February.

The London World Heritage Sites - Guidance on Settings SPG is out for consultation until 20th January. The guidance seeks to protect the value of the sites whilst also allowing the city to grow and change around them.

Boroughs

The City of Westminster is consulting on the Draft City Management Plan (CMP), which sets out detailed policies that will support and add to the adopted Core Strategy. The consultation period closes on 23rd March.

Southwark Council adopted its Residential Design Standards SPD on 18th October 2011.

Southwark Council closed the consultation on the Affordable Housing SPD on 30th September 2011. Due to changes in the national policy definition of affordable rent, the Council is looking to consult on an updated draft of the SPD later in 2012.

To discuss how these changes may affect your development, contact Guy Bransby on 020 7399 5409 or Jeff Field on 020 7852 4742.

Definition of Terms

Floorspace Threshold – Data refers to office floorspace in units of 5,380 sq ft and above.

Grading – A subjective assessment taking into account specification, floorplate efficiency and image.

Take-Up – Floorspace acquired for occupation by leasing, pre-leasing or purchasing a freehold or long leasehold interest.

Supply – Floorspace which is on the market and available for occupation. Floorspace which is under offer prior to a contractual commitment is included. Speculative development prior to practical completion is excluded.

Speculative Development – Floorspace under construction or comprehensive modernisation which will be available for speculative letting (or sale). The forecast of development completions relates only to developments currently under construction.

Net Absorption – a measure of the change in occupied stock between periods.

Demand – Some applicants search across two or three market areas. In such cases their demand appears in the total for each area. However, when calculating total Central London demand, duplicates are eliminated.

Active Demand – Organisations with a declared requirement for office accommodation which are actively in the market to acquire floorspace in the short term.

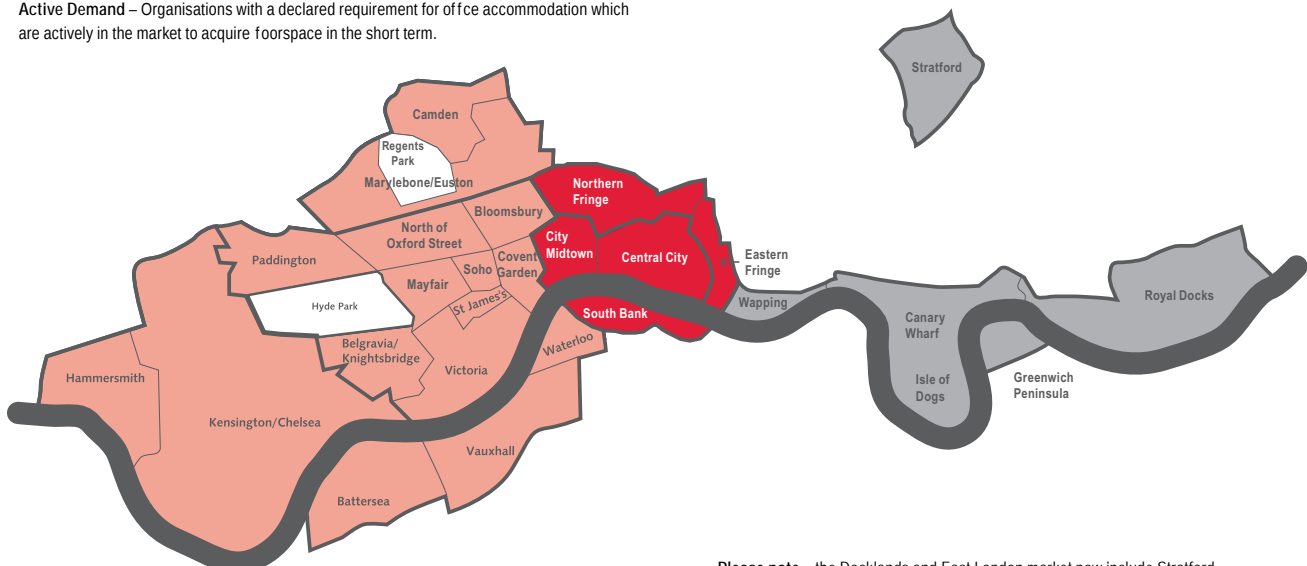
Potential Demand – Organisations with a potential requirement for office accommodation, but without a finalised brief in terms of timing.

Prime Rent – An opinion of the highest rent (excluding incentives) achievable upon a letting agreed at the quarter-end of a notional 10,000 sq ft unit of the best quality of office space in a prime location.

Net effective rents are calculated against our prime headline rent values and assume a 10-year term, a notional three month fit-out period and amortisation over 10 years. In practice net effective rents are subject to far more variability related to the specific characteristics of the individual premises.

Prime Yield – An opinion of the yield which would be appropriate for a freehold Grade A office investment in a prime location let at a current market rent to a tenant with a strong financial covenant.

Investment Turnover – Capital transactions comprising freehold and long leasehold acquisitions for investment, owner occupation or development. Corporate transactions are excluded.



Please note – the Docklands and East London market now include Stratford.



Real value in a changing world

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