

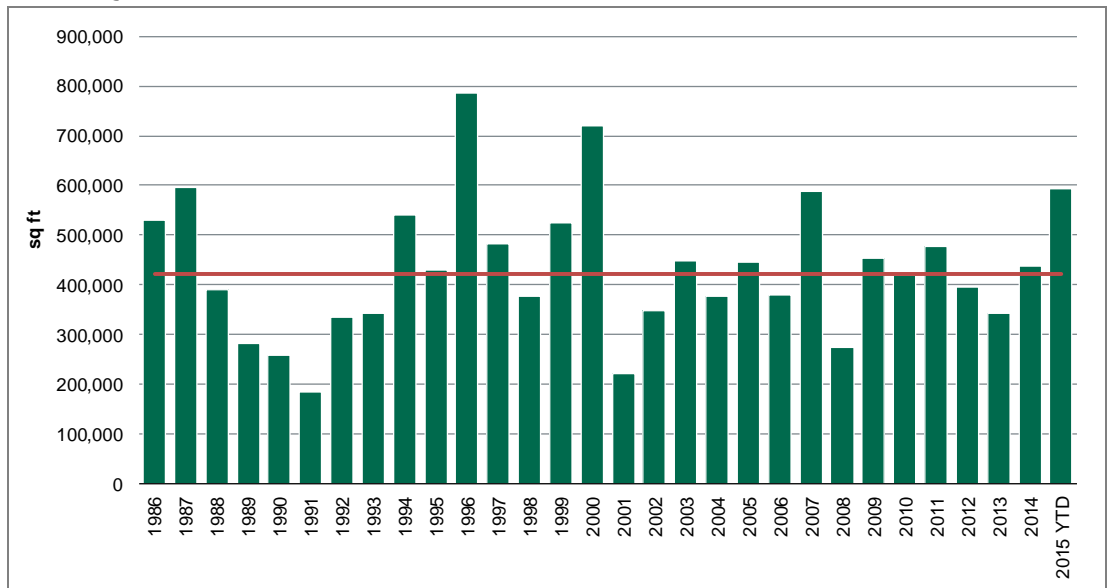
FITZROVIA OFFICE MARKET, DECEMBER 2015

Take-up

Demand for office space in Fitzrovia has strengthened recently. Take-up in 2014 totalled 438,900 sq ft, the first above-trend year for take-up since 2011, led by a 140,500 sq ft letting to Estee Lauder at 1 Fitzroy Place. Activity has continued to increase into 2015. By the end of Q3, a total of 593,500 sq ft had been acquired. As such, take-up in 2015 has already surpassed the level seen in 2007, making it the most active year for take-up in the Fitzrovia submarket since 2000. Included within this number is the 227,300 sq ft pre-letting by Facebook at One Rathbone Square, the largest leasing transaction in Fitzrovia on record. Facebook are an example of a creative industries firm, the sector which has dominated take-up in Fitzrovia since 2014, accounting for 43% of take-up in the last 21 months.

Fitzrovia Take-up

1986 – Q3 2015



Source: CBRE

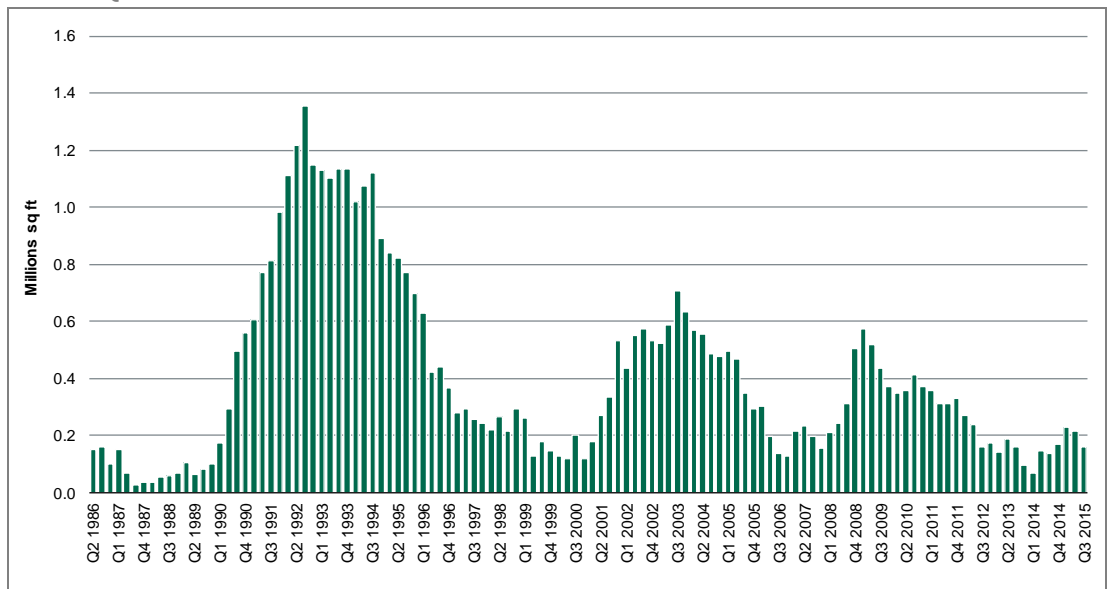
The increase in take-up has been fuelled by pre-letting activity. Since the beginning of 2014, pre-lets have accounted for 408,100 sq ft of take-up (40% of the total during that period). This represents a greater volume of pre-letting than was seen in the entirety of the preceding ten years.

At the end of Q3, there was 109,500 sq ft under offer in Fitzrovia, suggesting that take-up will remain strong for the rest of the year.

Availability / Development

The prevalence of pre-letting is a symptom of chronic levels of under-supply in Fitzrovia. Stock levels have been relatively fixed throughout history. Total office stock in Fitzrovia is 6.97m sq ft, having increased by just 8% since 1986. In times of high levels of demand, vacancy can fall to extremely low levels. At the end of Q3 2015, there was 157,200 sq ft of space available for immediate occupation across 21 units, reflected in a vacancy rate of 2.3% (LTA: 3.8%). Of the 21 units at the end of Q3 that were ready for occupation, only one was able to fulfil a requirement of over 25,000 sq ft: 2 Fitzroy Place (25,700 sq ft). A further five were over 10,000 sq ft and 13 of the remaining 15 available units were under 5,000 sq ft.

Fitzrovia Ready to Occupy Availability 1986 – Q3 2015



Source: CBRE

Low levels of development completions contribute to the increasing problem of under-supply in the Fitzrovia market. Over the last 10 years, an average of 123,000 sq ft has completed annually in Fitzrovia. So far in 2015, a total of 112,100 sq ft has completed, of which 70,500 sq ft has already been absorbed by the market.

Looking ahead, there is 32,500 sq ft due for completion in 2016 across two schemes. Both schemes are currently under construction as comprehensive refurbishments and once completed will provide a net addition to stock of just 1,700 sq ft. Development completions are set to increase sharply in 2017 to 349,800 sq ft. However, the largest proportion of the 2017 development pipeline is represented by One Rathbone Square, which, as mentioned above, has already been let in its entirety to Facebook (242,800 sq ft). Of the remaining 107,000 sq ft across two buildings due to complete in Fitzrovia, neither scheme is currently under construction, casting doubt upon their ability to deliver in a timely fashion. Notwithstanding this, the plans for the two schemes in aggregate propose

a net addition to stock of just 9,700 sq ft. There are no schemes currently under construction in the Fitzrovia development pipeline due for completion beyond 2017.

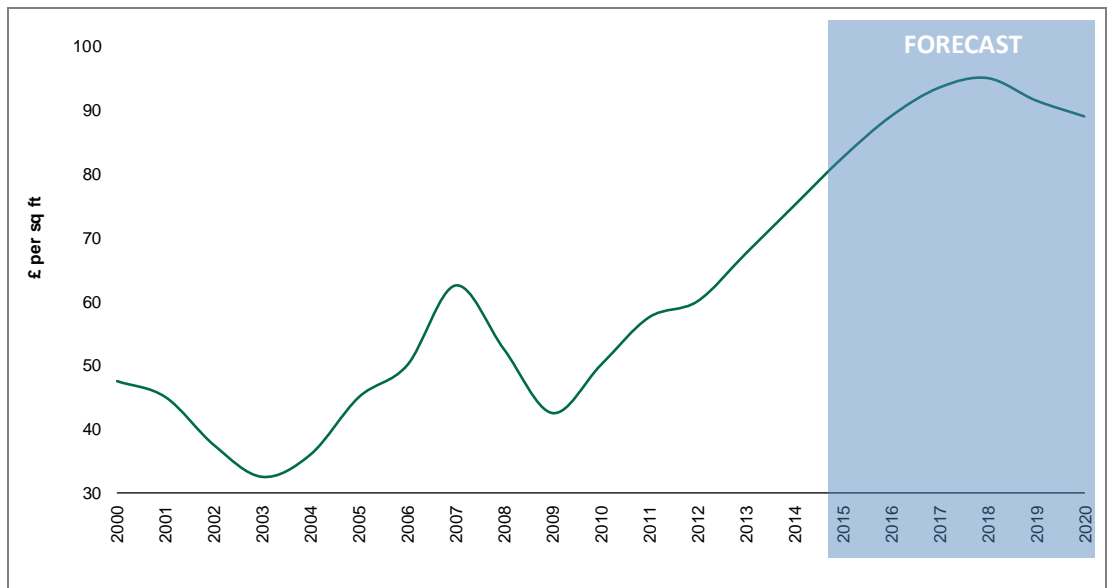
In addition to the low levels of development completions, Fitzrovia office stock has been depleted by conversion to residential use. Since 2013, planning permission has been granted to convert 288,600 sq ft of office space in Fitzrovia into residential use.

Outlook

Prime rents in Fitzrovia have seen large increases in recent times. Fitzrovia rents surpassed their pre-crash peak level of £67.50 per sq ft in Q1 2014 when they increased to £70.00 per sq ft. At the end of Q3 2015, prime rents in Fitzrovia stood at £80.00 per sq ft, having risen by 14% in one year. Looking ahead, with demand expected to remain strong and supply tight, prime rents are expected to continue to increase in the near future. Forecasts suggest that prime rents will increase by a further £2.50 per sq ft before the end of 2015. Growth of 8% is forecast in 2016, ending the year at £89.00 per sq ft. The pace of rental increase is expected to moderate in the following years, peaking in 2018 at £95.00 per sq ft.

Fitzrovia Prime Rents

2000 - 2020



Source: CBRE

CBRE estimate there is 3.34m sq ft of demand from tenants who would name Fitzrovia their destination of choice or who would consider locating in Fitzrovia if the stock was available. Continuing the trend of creative industries take-up, the largest proportion of active demand in Fitzrovia comes from that sector at 28%. The business services sector also represents a large proportion of active demand (22%), mirroring a trend seen across Central London.

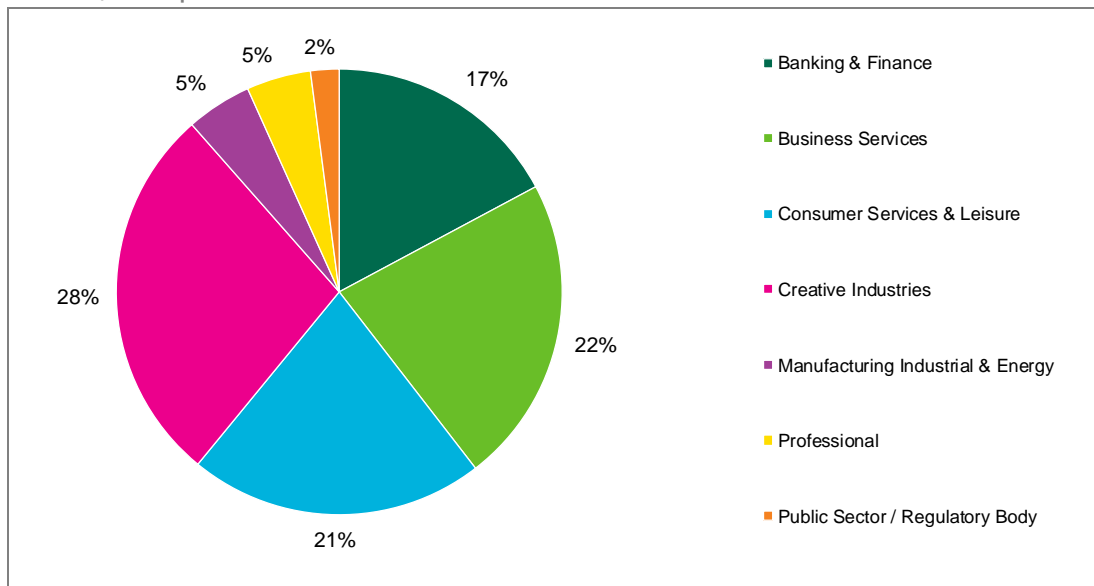
Conclusions

The imbalance in demand and supply in Fitzrovia has created a situation where rents are growing to record levels. With active demand at 3.34m sq ft, vacancy at 157,200 sq ft and the volume of available space under construction just 60,900 sq ft, it appears as though this demand and supply imbalance will intensify.

The deals to Estee Lauder and Facebook demonstrate that when high quality space is available in Fitzrovia, demand from high quality tenants is there to occupy the space. As it stands, there is no ready to occupy unit able to fulfil a requirement of over 25,700 sq ft, and the limited development pipeline is unlikely to change this.

Fitzrovia Active Demand

Total: 3,34m sq ft



Source: CBRE