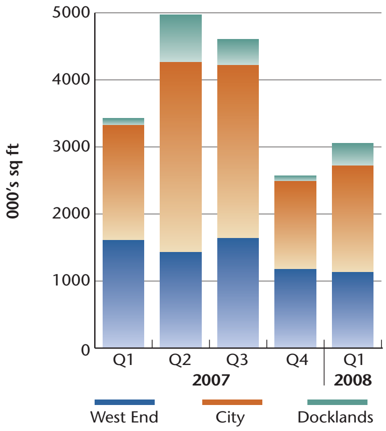
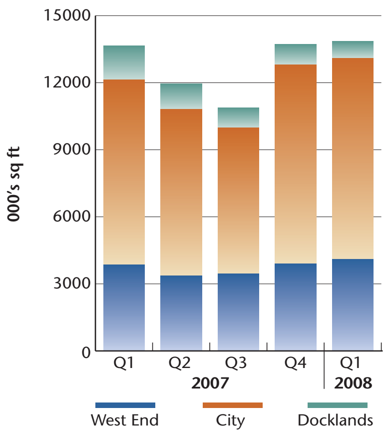
Figure 1
Central London take-up by quarter & market sub-area
Quarter 1 2007 - Quarter 1 2008



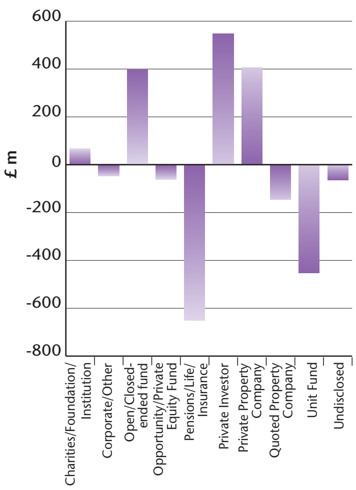
Source: Knight Frank

Figure 2
Central London availability by quarter & market sub-area
Quarter 1 2007 - Quarter 1 2008



Source: Knight Frank

Figure 3
Central London net investment
Quarter 1 2008



Source: Knight Frank

Central London overview

- Indicators confirm Central London market is in a slowdown, but less severe than some commentators have suggested.
- Take-up at 3.1 m sq ft rose 18% quarter-on-quarter but down 10% year-on-year.
- Availability remained stable at 13.8 m sq ft, reflecting a vacancy rate of 6.2%.
- Investment turnover increased to £2.1 bn, 55% higher than the previous quarter, but considerably lower than a year ago.

Demand and take-up

Take-up in Central London recovered slightly in Q1 2008 after the 44% drop in activity witnessed at the end of 2007. The volume of transactions rose by 18% to 3.1 m sq ft, although this is still 11% below average. Take-up of new and refurbished space remained limited across all markets at 723,000 sq ft – less than half of the 10-year average. There was a significant increase in deals involving second-hand space, particularly in the City where the volume of transactions increased by 25%.

Active demand rose by 7% to 9.0 m sq ft after falling back slightly at the end of 2007. Despite the current financial market problems, more than 2.0 m sq ft of active requirements came to the market in Q1 2008 including more than 0.5 m sq ft of financial sector demand. However, the volume of expansion-driven requirements fell, while requirements driven by lease events or consolidation increased.

Supply and development

Supply remained stable across all markets after the significant increase in availability recorded in Q4 when a significant number of up-coming development completions were incorporated into the figures. Availability totalled 13.8 m sq ft, reflecting a vacancy rate of 6.2%. While the increased level of supply indicates a slowing of the market, availability remained 31% below the long-term average, with availability of new and refurbished space less than half the level seen in 2004 at the bottom of the cycle.

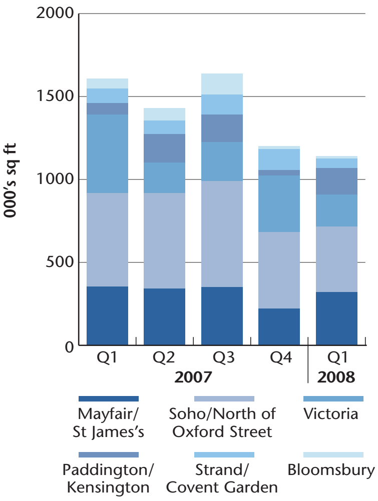
Speculative construction activity also remained stable at 9.6 m sq ft, although the completion of 1.1 m sq ft of space indicates that schemes are still commencing in the City and West End on a speculative basis.

Investment market

Investment turnover rose by 55% from the previous quarter's level to £2.1 bn, largely thanks to a doubling of transaction volume in the West End. The year-on-year comparison is less flattering with a 46% drop compared to Q1 2007, when turnover was £3.9 bn. With debt markets still frozen, equity buyers dominated activity, with foreign (particularly German) funds notable in the market. Demand was strongest for prime stock, which is consistent with the national picture.

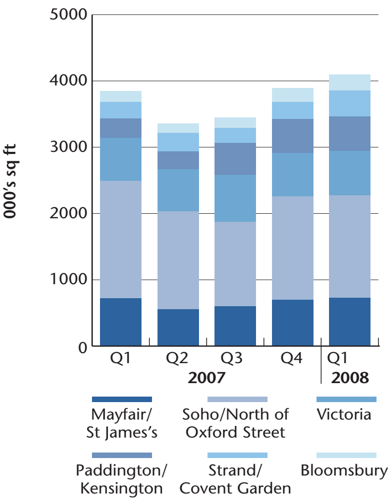
Prime yields softened by a further 25 basis points across Central London, reflecting the lack of debt and concerns over market prospects. Nevertheless, the investment market has seen some encouraging signs, such as the IPD index recording a slowing of the rate of decline for office capital values. Also, the Bank of England's decision to accept mortgage-backed securities as collateral for lending in April should bring stability to the debt market going forward.

Figure 1
West End take-up by quarter & market sub-area
Quarter 1 2007 - Quarter 1 2008



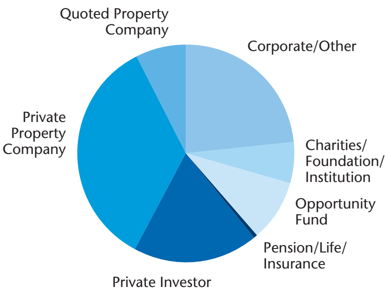
Source: Knight Frank

Figure 2
West End availability by quarter & market sub-area
Quarter 1 2007 - Quarter 1 2008



Source: Knight Frank

Figure 3
West End investment by purchaser
Quarter 1 2008



Source: Knight Frank

West End

- Take-up reached 1.1 m sq ft, 6% lower than the previous quarter.
- Active demand totalled 2.4 m sq ft, 16% below the last quarters level.
- Vacancy rate now stand at 4.5% with availability increasing to 4.1 m sq ft.
- Prime headline rents remain at £110.00 per sq ft.
- Investment turnover totalled £1.2 bn, more than double the previous quarter.

Demand and take-up

Take-up in the first quarter of 2008 totalled 1.1 m sq ft, a fall of 6.0% on last quarter. However, take-up of second-hand space was up 19%, as fewer new and refurbished options pushed activity towards second-hand supply. In the core, take-up increased by 40% to stand at 310,000 sq ft. Key deals included Almack House, 26-28 King Street, SW1 where Warburg Pincus took more than 40,000 sq ft and 1 Curzon Street, W1 where GLG took a sub-let of over 30,000 sq ft on a 10 year lease. Both deals recorded rents at £110.00 per sq ft.

Active demand in quarter 1 fell nearly 16% to 2.4 m sq ft, but remained 43% higher than at the same point last year. A number of requirements turned from active to potential as conditions in the financial markets became more uncertain.

Supply and development

Availability rose slightly during the first quarter to 4.1 m sq ft, representing a vacancy rate of 4.5% which is 35% below the long-term average. New and refurbished supply remains at around 1.2 m sq ft, but in the core new and refurbished supply has fallen by 20% to 160,000 sq ft which is the second lowest quarterly figure ever recorded.

Construction activity has fallen across the West End with speculative development now at 2.6 m sq ft down from 2.9 m sq ft. The first quarter saw 516,000 sq ft complete, while construction started on Development Securities' 2 Kingdom Street (240,000 sq ft) which is due for completion in Q1 2011.

Rental profile

Rents remained stable at £110.00 per sq ft despite the current financial market volatility and limited supply, although there is some evidence that tenants are seeking increased rent free periods.

The highest rent achieved this quarter was at 12 St James's Square, where Marble Bar Asset Management took 12,000 sq ft at £125.00 per sq ft on a 15 year term.

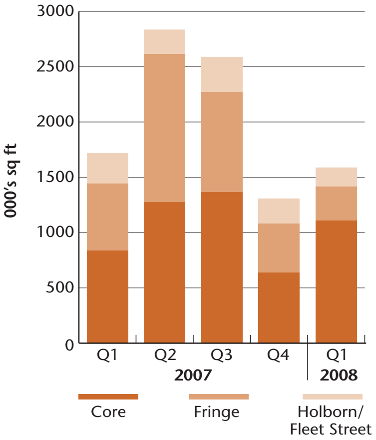
Investment market

The first quarter saw £1.2 bn of investment turnover, double the previous quarter's level and an increase of 9% on the same quarter last year. Private Property Companies and Private Investors continued to be the most active sectors accounting for 55% of total turnover. Retail funds were the most active vendors during the quarter. German funds appear to have entered the market, and are expected to be active purchasers this year.

Significant deals in the first quarter of 2008 include the recent funding of 2 Kingdom Street by Quinlan Private for £100 m and 14 Tothill Street which was purchased by Real I.S. for £58 m reflecting a 5.72% yield.

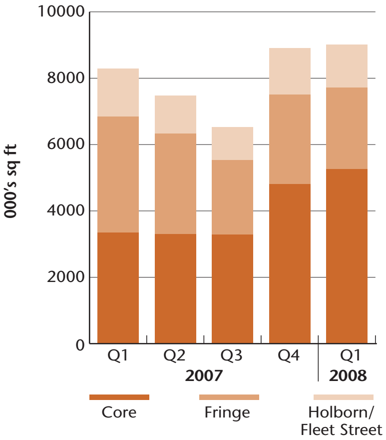
Prime yields in the West End have moved out 25 basis points to stand at 5.25%, a level which we believe will represent the end of the outward movement in prime West End yields.

Figure 1
City take-up by quarter & market sub-area
Quarter 1 2007 - Quarter 1 2008



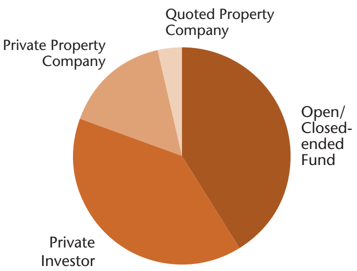
Source: Knight Frank

Figure 2
City availability by quarter & market sub-area
Quarter 1 2007 - Quarter 1 2008



Source: Knight Frank

Figure 3
City investment by purchaser
Quarter 1 2008



Source: Knight Frank

City

- Take-up increased in Q1 2008 to 1.6 m sq ft from 1.3 m sq ft the previous quarter.
- Availability edged up to 9.0 m sq ft, and the pipeline for this year is strong.
- Headline rents fell by 5.0% to £60.00 per sq ft, as the financial crisis hit sentiment.
- Investment transactions increased to £970 m, but yields softened further to 5.50%.

Demand and take-up

The first three months of 2008 saw take-up increase on a quarter-on-quarter comparison to 1.6 m sq ft, up from 1.3 m sq ft in Q4 07. This is only slightly down on Q1 of last year when 1.7 m sq ft let, and the long-term quarterly average figure which is also 1.7 m sq ft. Encouraging as this is, we do have to view this positive news in the context of the on-going problems in the global financial markets.

A similar first quarter recovery was also seen in the level of active searches compared to the last quarter, rising from 3.8 m sq ft in Q4 07 to 4.2 m sq ft. Again this needs to be balanced against the difficult trading environment, particularly for financial firms. Q1 saw a number of encouraging developments in the occupier market, such as Macquarie Bank taking expansion space in the CityPoint tower, and ING activating a search for 200,000 sq ft; but the general tone of the market remains nervous.

Supply and development

Following the big rise in availability recorded in Q4 07 to 8.9 m sq ft, there was a relatively modest increase in Q1 08 to 9.0 m sq ft. Nevertheless, the strong development pipeline and cooling economic climate mean that further increases in availability are certain this year. Banking job losses may lead to the release of sub-let space by financial tenants later in the year, although currently there are no known examples in the City market.

There is just over 8.0 m sq ft of space under construction, of which 6.5 m sq ft is speculative. Of this, 2.5 m sq ft is already incorporated into our availability figures, as we include schemes that are six months away from completion. 200 Aldersgate (437,000 sq ft), which is in the later stages of refurbishment, is the largest available scheme in our statistics.

Rental profile

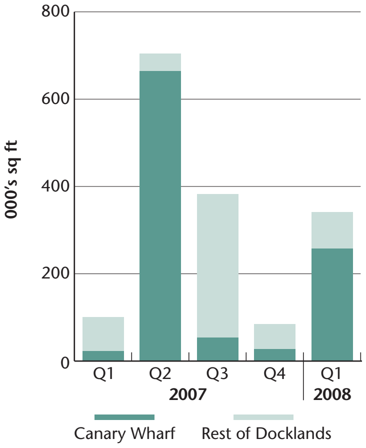
Despite the modest recovery in take-up and active searches, prime rents fell 5% to £60.00 per sq ft, and net effective rents dropped to £51.70 per sq ft. The fall in rent is largely due to a decline in sentiment, resulting from growing concerns on the impact on availability and demand of the continuing financial markets crisis.

Investment market

The first quarter investment turnover at £970 m was up on the £814 m recorded in Q4 07, but is just a third of the level of activity seen in the equivalent quarter of last year. Prime City yields softened by a further 25 basis points during the quarter to 5.50%, reflecting the dramatic fall in bank lending and general concern over market prospects, particularly on rental growth.

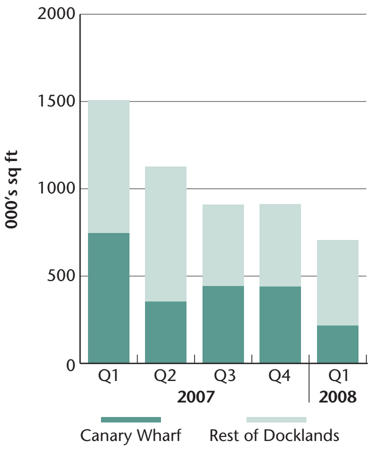
With the credit markets still frozen, equity buyers continue to dominate activity, predominantly foreign investment funds. German fund, Hansa Invest paid £136 m for 1 London Wall, reflecting a yield of 5.40%, while a private investor bought 160 Tooley Street for £135m (a yield of 5.30%). Activity in the market is largely focussed on prime stock.

Figure 1
Docklands take-up by quarter & market sub-area
Quarter 1 2007 - Quarter 1 2008



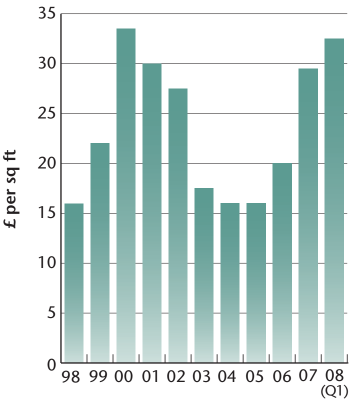
Source: Knight Frank

Figure 2
Docklands availability by quarter & market sub-area
Quarter 1 2007 - Quarter 1 2008



Source: Knight Frank

Figure 3
Rest of Docklands prime rents
1998 – 2008 (Q1)



Source: Knight Frank

Docklands

- Take-up rebounded to 340,000 sq ft in Q1 due to increased activity at Canary Wharf.
- The vacancy rate at 3.6%, is lower than the West End.
- Rents increased outside of Canary Wharf to £32.50 per sq ft.
- Financial markets volatility increases uncertainty on future market direction.

Demand and take-up

Like the City, take-up in Docklands achieved a quarter-on-quarter recovery, thanks to a number of sizeable deals on second-hand space at Canary Wharf. Q1 take-up was 340,000 sq ft, compared to 84,000 sq ft in Q4 07, and 81,000 sq ft for Q1 of last year. This comes with the caveat that Docklands take-up does typically record volatile swings on a quarterly basis.

The largest deal was Moody's Investor Services taking 170,000 sq ft on a letting of the former Telegraph space (and one floor of Trinity Mirror's space) in One Canada Square. Fitch Ratings is also set to relocate to Canary Wharf, demonstrating that the district is continuing to successfully attract occupiers from those industries that support the financial community already in the area; indeed, all the major three ratings agencies are now in Canary.

Other major deals include De Vere Conferencing taking 33,000 sq ft at One Westferry Circus, and CLB Littlejohn Frazer signing on 30,000 sq ft in the same building. Also, Abbey Business Centres took level 37 of One Canada Square of c28,000 sq ft. The largest deal outside of Canary Wharf was Barclays signing on 15,000 sq ft in Exchange Tower.

Supply and development

The amount of space under construction was unchanged at 1.4 m sq ft, of which 1.3 m sq ft has been pre-let. Inevitably, there is now uncertainty over the future of the 260,000 sq ft pre-let to Bear Stearns in 5 Churchill Place, although this building is not set to be delivered until 2010.

Nevertheless, the collapse of Bear Stearns highlights the difficult trading environment for global banks, which will certainly reduce total demand and likely result in more sub-let space returning to the market. On the positive side, availability will be increasing from a very low base, just 705,000 sq ft, which is 200,000 sq ft lower than three months ago. The vacancy rate, at 3.6% is lower than the West End, so Docklands faces the market slowdown with strong defensive qualities.

Rental profile

Prime headline rents in Canary Wharf on whole floors remained steady at £47.50 per sq ft, but will likely come under further pressure given the difficult trading environment. Outside Canary Wharf the prime rent rose to £32.50 per sq ft, as demonstrated by the Cognizant Technologies deal at 5 Harbour Exchange.

Investment market

There were no Docklands investment deals in the first quarter, largely due to the general drop in investment activity across London; although periods of zero activity are not uncommon in this relatively small and illiquid market.

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Key statistics

Central London office market

Availability (m sq ft)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	3 months % change	12 months % change
West End	3.85	3.35	3.44	3.89	**4.07**	4.5%	5.7%
City	8.28	7.47	6.53	8.92	**9.01**	1.1%	8.9%
Docklands	1.52	1.13	0.91	0.91	**0.71**	-22.8%	-53.6%
Central London	13.65	11.96	10.89	13.72	**13.79**	0.5%	1.0%

Vacancy Rate (%)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	3 months % change	12 months % change
West End	4.3	3.8	3.9	4.4	**4.5**	4.1%	n/a
City	7.5	6.6	5.8	7.9	**7.9**	0.2%	n/a
Docklands	7.7	5.8	4.6	4.6	**3.6**	-22.8%	n/a
Central London	6.2	5.4	4.9	6.2	**6.2**	-0.1%	n/a

Take-up (m sq ft)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	3 months % change	12 months % change
West End	1.61	1.43	1.64	1.20	**1.13**	-5.9%	-29.6%
City	1.72	2.84	2.59	1.31	**1.59**	21.2%	-7.5%
Docklands	0.08	0.71	0.38	0.08	**0.34**	302.9%	318.1%
Central London	3.40	4.97	4.60	2.60	**3.06**	17.8%	-10.1%

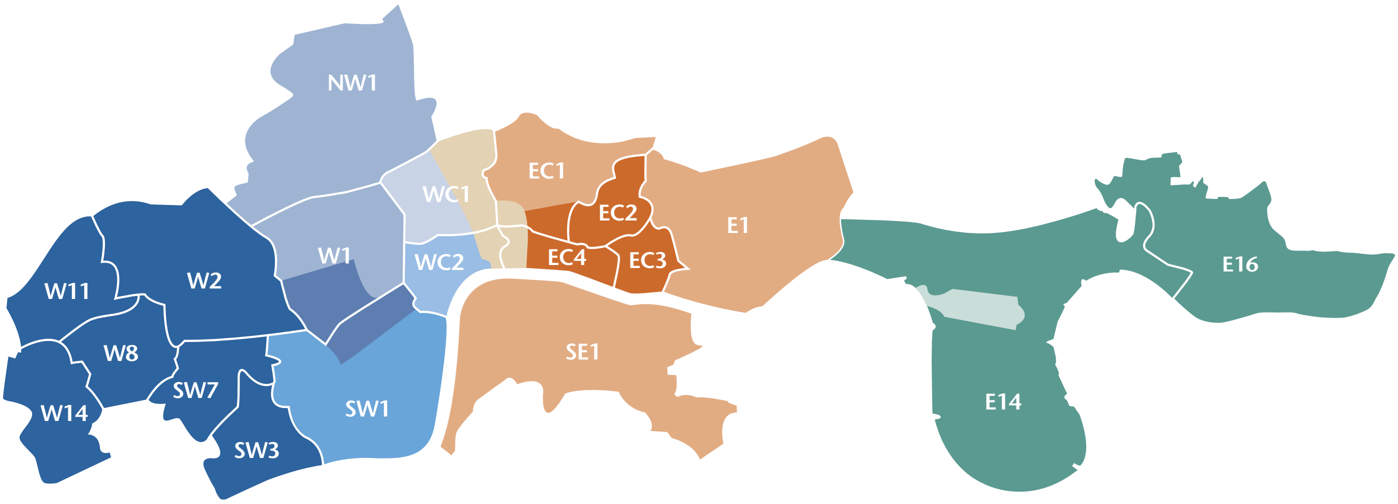
Active Demand (m sq ft)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	3 months % change	12 months % change
West End	1.70	2.30	2.64	2.88	**2.43**	-15.6%	42.5%
City	4.45	4.45	4.59	3.85	**4.17**	8.2%	-6.2%
Docklands	0.19	0.51	0.30	0.25	**0.25**	-2.0%	32.4%
Unspecified Central London	1.63	1.22	1.21	1.41	**2.15**	52.4%	31.7%
TOTAL Central London	7.97	8.49	8.74	8.39	**8.99**	7.2%	12.9%

Under Construction (m sq ft)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	3 months % change	12 months % change
West End	2.12	2.59	3.28	3.99	**3.87**	-3.0%	82.3%
City	6.70	7.14	8.56	8.09	**8.04**	-0.6%	20.0%
Docklands	1.44	1.52	1.48	1.76	**1.76**	0.0%	22.4%
Central London	10.26	11.25	13.32	13.84	**13.68**	-1.2%	33.3%

Investment (£ m)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	3 months % change	12 months % change
West End	1055.7	1257.8	1824.1	555.2	**1148.6**	106.9%	8.8%
City	2859.9	3255.8	2818.2	814.5	**970.1**	19.1%	-66.1%
Docklands	0.0	1154.0	1592.8	0.0	**0.0**	n/a	n/a
Central London	3915.6	5667.6	6235.1	1369.8	**2118.6**	54.7%	-45.9%

Source: Knight Frank

The Central London office market



The West End

Mayfair/St James's
Mayfair and St James's refers to the area bounded by Oxford Street, Regent Street and Park Lane in W1 and by Green Park, St James's Park and The Mall in SW1.

Soho/North of Oxford Street
Soho/North of Oxford Street refers to NW1, and W1 (excluding Mayfair).

Victoria
Victoria refers to SW1 (excluding St James's).

Paddington/Kensington
Paddington/Kensington refers to SW3, SW7, W2, W8, W11, W14.

Bloomsbury
Bloomsbury refers to the area of WC1 bounded by Southampton Row, New Oxford Street, Tottenham Court Road and Euston Road.

Strand/Covent Garden
Strand/Covent Garden refers to the area of WC2 bounded by Kingsway, Aldwych, Victoria Embankment, Charing Cross Road and New Oxford Street.

The City

Core
Core refers to EC2 (excluding EC2A), EC3, EC4 (excluding EC4A and EC4Y), and EC1A.

Fringe
Fringe refers to SE1, E1, EC1 (excluding EC1A and EC1N), and EC2A.

Holborn/Fleet Street
Holborn/Fleet Street refers to EC1N, EC4A, EC4Y, WC1 (excluding Bloomsbury), and WC2 (excluding Strand/Covent Garden).

Docklands

Canary Wharf
Canary Wharf refers to the area comprising Canary Riverside, Westferry Circus, Columbus Courtyard, Cabot Square, Canada Square, Blackwall Place and Heron Quays (East).

Rest of Docklands
Rest of Docklands refers to E14 and E16 including The Royals Business Park (excluding Canary Wharf).

Research

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General Note

This report has been prepared by Knight Frank Research, the research and consultancy division of Knight Frank. Knight Frank Research gratefully acknowledges the assistance given by the West End, City and Docklands Offices in the compilation and presentation of this material. Certain data sourced from LOD.

Technical Note

The following criteria have been adopted in the preparation of this report.

i. All floorspace figures quoted in this report refer to sq ft net.

ii. Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.

iii. Availability refers to all space available for immediate occupation, plus space still under construction which will be completed within six months and which has not been let.

iv. Availability and take-up are classified into three grades:

New/refurbished: Space under construction which is due for completion within six months or space which is currently on the market and is either new or completely refurbished.

Second-hand A Grade: Previously occupied space with air-conditioning.

Second-hand B Grade: Previously occupied space without air-conditioning.

v. Demand figures quoted in this report refer to named requirements for over 10,000 sq ft.

vi. Under construction figures quoted in this report refer to developments of over 20,000 sq ft which are currently underway. They do not include properties undergoing demolition.

vii. Investment figures quoted in this report refer to accommodation where the majority of income/potential income is from office usage and comprises transactions of £1 m and above.

The data includes standing investments, site purchases and funding transactions.

viii. This report is produced to standard quarters.

Quarter 1: January 1 – March 31,
Quarter 2: April 1 – June 30,
Quarter 3: July 1 – September 30,
Quarter 4: October 1 – December 31

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