



kinneygreen

Central London Office Market Research Q1 2010

CITY / MIDTOWN / WEST END
Chartered Surveyors + Property Consultants

City: EC2 T: 020 7643 1500 | Midtown: WC1 T: 020 7269 8800 | West End: W1 T: 020 7495 1222

Preface

Take-Up

Take-up represents the total floor space which has been let or pre-let, sold or pre-sold to tenants or owner occupiers during the survey period. It is assumed that a property is "taken-up" only when contracts are signed or a binding agreement exists. All deals (including pre-lets) are recorded in the period in which they are signed. Lease renewals are not included

Supply

Total supply represents floor space which is on the market and available (or under offer) for occupation, as well as space available for subletting or assignment. Speculative constructions are not included.

Availability

By the term "availability" is meant space ready for occupation as well as all development and refurbishment projects scheduled to complete within 12 months.

Vacancy

By the term "vacancy" is meant space ready for occupation, or to receive on occupiers fit out.

Market Overview

As Britain has begun slowly emerging from a grave period of economic decline, which has not been seen since the 1930s, the UK property market has also begun to show signs of recovery. The recovery in the Central London office market has been quite evident from the second half of 2009. Central London take-up continued to rise in the first quarter of 2010 to 4.4 million sq ft, a 19% rise from the final quarter of 2009 at 3.7 million sq ft and also a massive 300% rise from Q1 of 2009.

The strong leasing activity this first quarter has once again reduced the availability of space quite dramatically. There is currently 17 million sq ft of office availability across Central London, down from 18.5 million sq ft in Q4 2009. Another factor that

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contributed to the decrease in availability is the low level of development completions. By the end of 2009, the development pipeline peaked as a total of 6.5 million sq ft of schemes completed. However, 4.1 million sq ft is expected to complete over the course of 2010, before falling drastically to about 1.1 million sq ft by 2011.

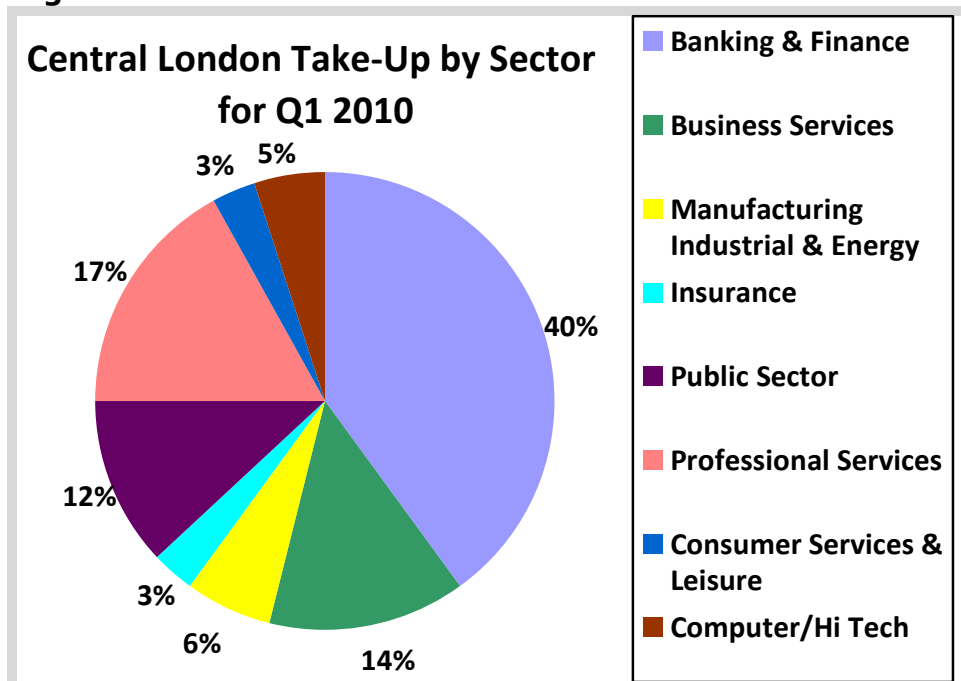
There is currently 4.5 million sq ft under construction in Central London, the lowest total since 2004.

By the end of this quarter, City and West End property markets recorded a rise in prime rents. Both markets have also shown a slight dip in rent-free period in the first quarter of 2010.

Despite the credit crunch, the banking and finance sector has remained the largest source of demand across the Central London office market, accounting for 40% of take-up in Q1 2010. The next best performing sector was professional services, accounting for 17% of take-up.

Below is a chart showing the sector structure for Central London take-up.

Fig 1



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CITY

Demand

Take-Up Levels

The first quarter of 2010 carried on with the upward trend in take-up, reaching 2 million sq ft, an 11% rise from Q4 2009 and nearly 280% higher than Q1 2009.

High take-up figures were partly due to a number of large lettings in the first quarter of 2010; Blackrock Investment Management took 270,600 sq ft at Drapers Garden, EC2 from Canary Wharf Group and Exemplar Developments on a 25 year lease at a rent equating to £49.50 per sq ft. Also Macquarie (Australian bank) took 212,400 sq ft at Ropemaker Place, EC2 from British Land. The current take-up momentum is likely to continue in the 2nd quarter of 2010.

The table in Figure 2 below illustrates quarterly take-up figures over the preceding year and highlights the percentage difference over the previous quarter.

Fig 2

Quarter/Year	Quarterly Take-up (sq ft)	% Change Over Previous Quarter
Q1 2009	528,315	+14%
Q2 2009	829,119	+57%
Q3 2009	1,676,500	+102%
Q4 2009	1,790,791	+7%
Q1 2010	2,000,000	+11%

Take Up By Sector

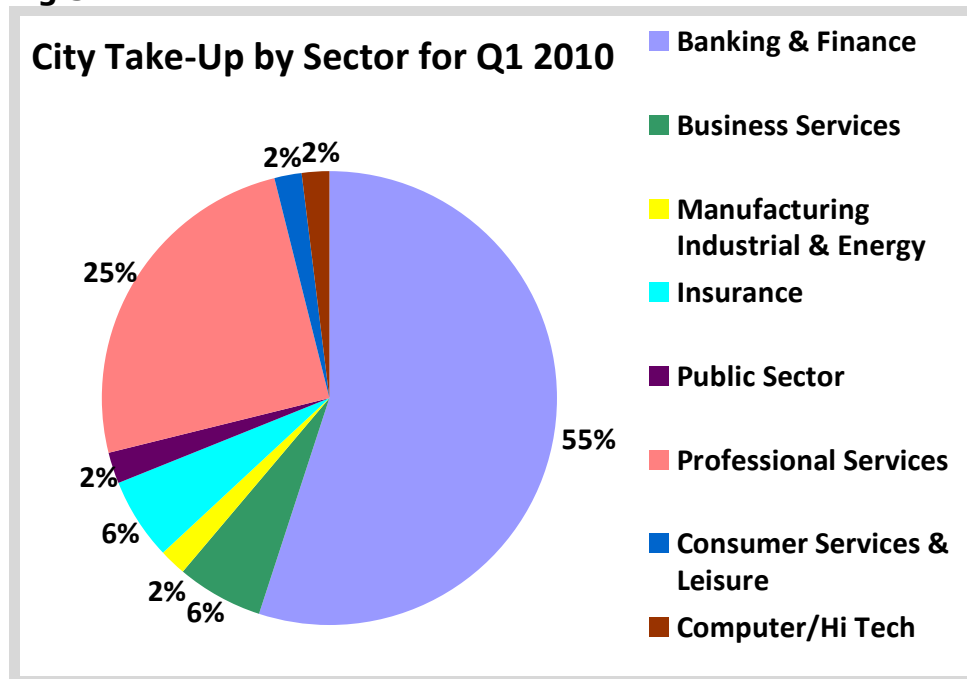
The banking and finance sector dominated as the top performing sector in the first quarter of 2010, taking the lead with 55% of take-up. The professional service sector was next, accounting for 25%, up from 11% in Q4 2009. The chart below illustrates these percentages.

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Fig 3



Supply

Availability

The large deals done combined with a very slow development pipeline resulted in a 5% drop in availability this quarter in the City to 7.57 million sq ft. Q1 2009, which totalled about 9 million sq ft, is a huge 16% over Q1 2010.

The table in Figure 4 below illustrates quarterly availability figures over the preceding year and highlights the percentage difference over the previous quarter.

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Fig 4

Quarter/Year	Quarterly Availability (sq ft)	% Change Over Previous Quarter
Q1 2009	9,014,789	+14%
Q2 2009	8,812,947	-2%
Q3 2009	8,656,179	-2%
Q4 2009	8,004,742	-8%
Q1 2010	7,570,427	-5%

The availability rate for Q1 2010 was 11.6%. The availability rate is produced by dividing the amount of available net internal floor space into 75% of the total gross external stock of available and occupied floor space (derived from the City Corporation as 80 million sq ft gross external). 75% of the gross internal figure is taken to achieve a realistic net lettable total.

Notable additions to the market during Q1 2010 include The Walbrook, EC4, where 380,000 sq ft became available in February 2010; Juxon House, 100 St Pauls Churchyard, EC4 – where 38,403 sq ft arranged on lower ground, 3rd and 4th floors became available; and Vintner's Place, 68 Upper Thames Street, EC4 – where 15,955 sq ft on part 3rd floor is currently available.

Vacancy

Reflecting the decrease in availability, the amount of space ready for occupation fell slightly in Q1 2010 to 8.3%, down from 8.5% in Q4 2009. The vacancy rate in the City may continue to fall due to the surge in take-up activity.

Developments

About 520,000 sq ft of newly developed space completed this quarter, 24% of the expected year-end total for 2010 at 2.5 million sq ft. There is currently 4.2 million sq ft under construction. In the development cycle, 2.5 million sq ft is scheduled to complete in 2010 and then the completions are expected to fall to 0.8 million sq ft by 2011.



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Prime Rents

Prime rents in the City rose again this quarter for the second time since 2007 to £47 per sq ft from £43 per sq ft in Q4 2009. This increase was due to limited availability of new spaces, combined with very strong occupier demand.

Reflecting the rental increase, incentives dropped slightly from 33 months rent-free in the fourth quarter of 2009 to 27 months rent-free at the end of Q1 2009 on a 10 year lease.

City Outlook

Looking ahead, the first quarter figures for 2010 are quite encouraging, and the second quarter looks promising, albeit at a slow pace. The rise in take-up figures can be seen as a sign that the worst of the downturn is over. So for occupiers, the second quarter of 2010 can be seen as a good time to quickly take advantage of lower rents and good incentive packages, as landlord incentives have begun to reduce quite quickly and demand is expected to pick up at a better pace by Q3 and Q4 of 2010.

WEST END

Demand

Take-Up Levels

In the West End, take-up was at its highest level since 2007, reaching 1.3 million sq ft this quarter from 1.2 million sq ft in Q4 2009. Take-up levels were quite low in the beginning of 2009, but Q2, Q3 and Q4 of 2009 saw a sharp rise in activity, thereby more than doubling the record low levels seen in the first quarter of 2009.

There were a number of large transactions over 20,000 sq ft this quarter. Some significant deals in Q1 2010 were the letting of 117,000 sq ft at 10 Triton Street, NW1 to Aegis Group; the letting of 29,350 sq ft at 33 Grosvenor Street, SW1 to Mirabaud Securities LLP on an assignment of a lease expiring June 2016 at £47.50 per sq ft; and the letting of 44,800 sq ft at 101 New Cavendish Street, W1 to University of Westminster on a 10-year lease at £32.50 per sq ft.

The amount of space under offer fell slightly this quarter to 981,000 sq ft from 1 million sq ft in the previous quarter. This is 25% above the long-term average.

The table in Figure 5 below illustrates quarterly take-up figures over the preceding year, and highlights the percentage difference over the previous quarter.

Fig 5

Quarter/Year	Quarterly Take-up (sq ft)	% Change Over Previous Quarter
Q1 2009	329,000	-40%
Q2 2009	539,000	+64%
Q3 2009	846,000	+57%
Q4 2009	1,200,000	+42%
Q1 2010	1,300,000	+8%

Central London Office Market Research Q1 2010

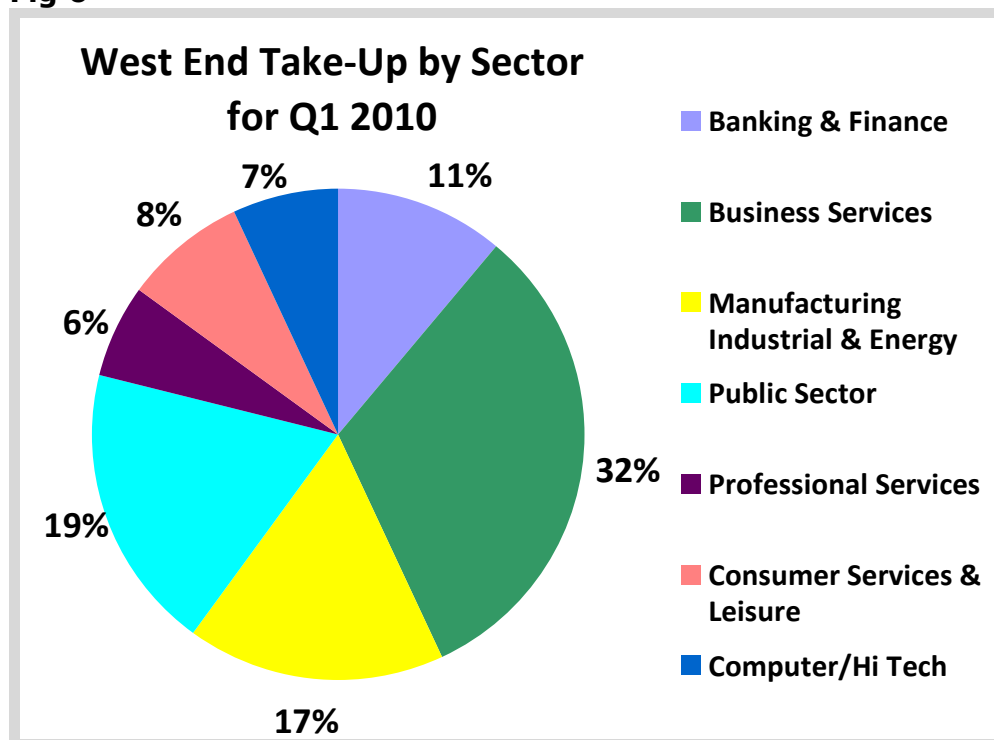
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Take Up By Sector

The business services sector was the top performing sector throughout Q1 2010. However the banking and finance sector which has traditionally been a top performer was weak this quarter at 11% of take-up compared to 28% last quarter. The other five sectors jointly accounted for an encouraging 57% of take-up, compared to 44% of last quarter.

Fig 6



Supply

Availability

At the end of Q1 2010, total availability fell for the third consecutive quarter, after eight consecutive quarterly increases pre Q3 2009. West End availability now stands at 6.1 million sq ft, falling 10% from 6.8 million sq ft in Q4 2009. This quarter's figures still remain 15% lower than what it was at the same time last year.

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Notable additions to the market during Q1 2010 include Ashdown House, 123 Victoria Street, SW1 where 190,500 sq ft arranged over 1st to 11th floors became available; and 2-4 Cockspur Street, SW1– 95,700 sq ft arranged over 6 floors at £49.50 per sq ft also became available.

Vacancy

Reflecting the drop in availability, the amount of space ready for occupation fell marginally this quarter to 6.4%, from 6.8% in Q4 2009.

Developments

The largest development completion in Q1 was the 198,500 sq ft scheme at Two Kingdom Street, W2. A few more schemes are expected to complete by the end of the year. The largest is Central St Giles with 385,000 sq ft scheduled for delivery in the second quarter of 2010.

There is currently 1 million sq ft of speculative space under construction, compared to 1.9 million sq ft in Q4 2009. This is the lowest level of development in 11 years. Development completions are expected to reach 1.5 million sq ft by the end of 2010.

Prime Rents

Prime headline rents in Q1 2010 have risen for the first time to £80 per sq ft following four consecutive quarters at £75 per sq ft in the West End.

With falling supply, a restricted development pipeline, and improvement in leasing activity, rents are forecast to increase further in 2010.

Reflecting the improved market conditions, incentives reduced slightly to 21 months rent-free on a 10-year lease, after being unchanged for four consecutive quarters at 24 months rent free period on a 10-year lease.



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MIDTOWN

Demand

Take-Up Levels

In the first quarter of 2010, Midtown take-up dropped dramatically to 218,000 sq ft from 380,000 sq ft in Q4 2009.

In the largest letting of the quarter, Robert Walters Associates took 43,000 sq ft of office space from Longmartin Properties Ltd on a 10-year lease at £50 per sq ft. The next largest letting was at Meridian House, 34/35 Farringdon Street, EC4 where Lovells took 42,900 sq ft of the entire office building from Royal London Asset Management Ltd on a 10 year lease. Also, at 1 Southampton Row, WC1, law firm Carpmaels & Ransford took 34,000 sq ft of office space from Englander Group on a 15-year lease at £46 per sq ft.

The professional sector had the highest proportion of take-up with 54% this quarter. This was followed by business services and public sector, each accounting for at 16% of take-up.

Supply

Availability

Midtown availability at the end of Q1 2010 has again stayed practically the same at 1.9 million sq ft.

Notable additions to the market include Nexus Place, Farringdon Street, EC4 where 86,000 sq ft became available. Also, ITV's 200 Grays Inn Road, WC1 where there is currently 50,000 sq ft available (although they will consider releasing a further 125,000 sq ft).

Vacancy

The amount of space ready for occupation has continued to rise slowly and reached 7.0% at the end of Q1 2010 from 6.8% in Q4 2009.

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Developments

About 380,000 sq ft of newly developed office space completed in 2009. About 620,000 sq ft is scheduled to complete in 2010. We should see more Grade A space come to the market with Stanhope and Legal & General's Central St Giles development, WC2, of 400,000 sq ft due for delivery in the second quarter of 2010.

Prime Rents

Rents for Grade A space have remained the same for the 2nd consecutive quarter at £43 per sq ft this quarter. Typical rent-free on a 10 year lease has fallen slightly to 24 months this quarter from 27 months in Q4 2009. This could mark the end of rental decline in values as leasing activity is beginning to improve, and growth rate in availability is improving.

Market Outlook

With the UK property market slowly beginning its recovery after two years of economic decline, property figures have shown good signs of improvement with demand strengthening and supply weakening.

Although incentives have diminished slightly in recent months, there are still many attractive deals to entice occupiers to take up new space, thereby boosting demand further. We are not yet 'out of the woods' and there could well be a brief return of negative economic growth. Reaching equilibrium may now not happen until 2011.