Central London Office Market Research Q2 2009

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.

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Market Overview

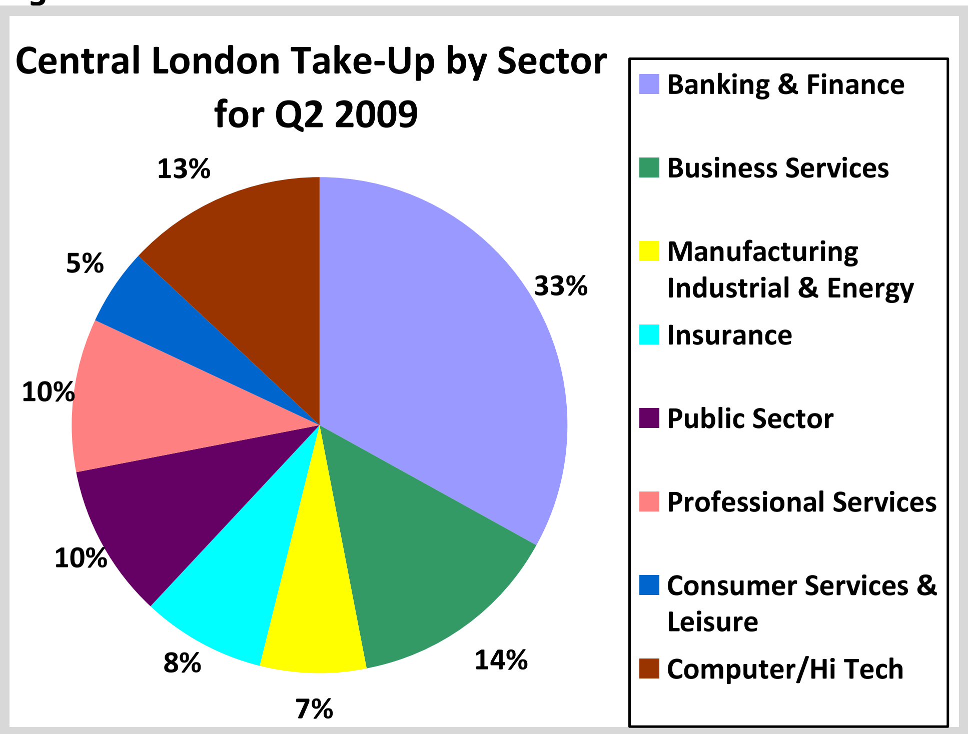
While Central London office demand remains subdued, it began to show signs of recovery in Q2 2009. Take-up levels strengthened during the second quarter, reaching 1.7 million sq ft. The rebound was more apparent in the City, where take-up more than doubled from the first quarter. As anticipated in our first quarter report, stability is slowly creeping in from the second half of 2009 with recovery in anticipated 2010.

Central London availability rose this quarter to 21.1 million sq ft; a 1.3 million sq ft rise from Q1 2009. About 4 million sq ft of developments completed in the first half of 2009, with a total of 6.5 million sq ft of schemes scheduled to complete during 2009, marking the peak of the development cycle. Development completions are expected to fall quite sharply over the next two years with only 1.5 million sq ft scheduled for completion in 2011.

Central London prime rents continued to fall during Q2 2009, although the decline rate eased compared to Q1 2009.

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

Fig 1



CITY

Demand

Take-Up Levels

Despite a poor start to 2009, City take-up in Q2 2009 rose 57% over Q1 2009 from 528,315 sq ft to 829,119 sq ft. However, Q2 2009 total is still 13% below Q2 2008.

In the largest letting of the quarter, Bank of Tokyo-Mitsubishi UFJ took 180,600 sq ft at 25 Ropemaker Street, EC2 on a 20.5-year lease on an initial rent of £46.50 per sq ft. In the second largest letting, Talbot Underwriting took 42,200 sq ft on a 15-year lease at 60 Threadneedle Street, EC2.

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

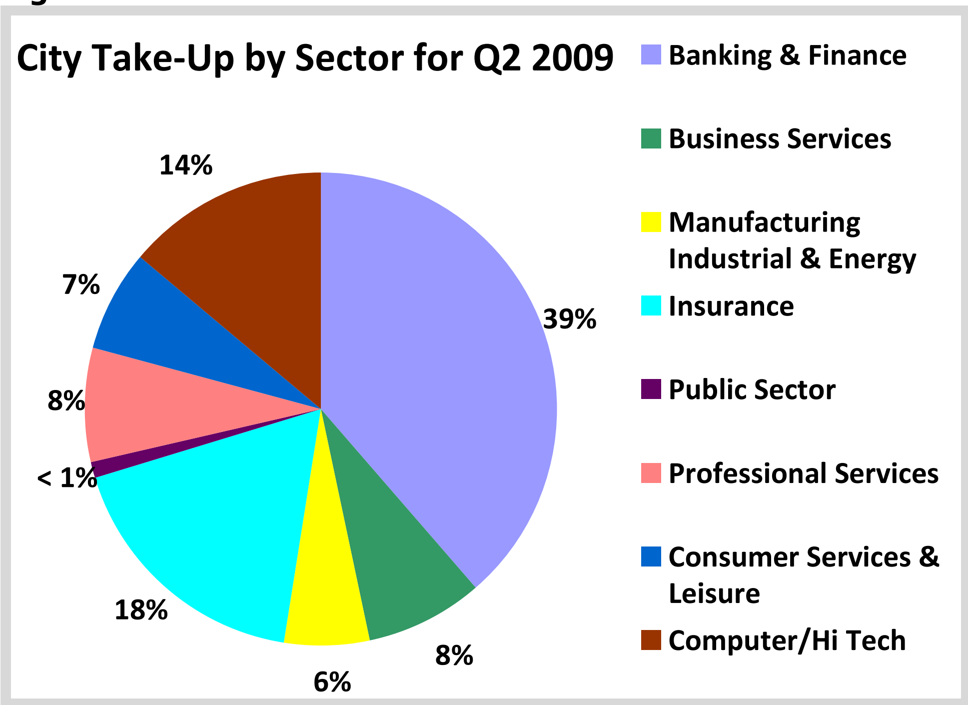
Fig 2

Quarter/Year	Quarterly Take-up (sq ft)	% Change Over Previous Quarter
Q2 2008	929,102	17%
Q3 2008	707,568	-24%
Q4 2008	464,601	-34%
Q1 2009	528,315	+14%
Q2 2009	829,119	+57%

Take Up By Sector

Despite the turbulence in the financial markets, the banking and finance sector has continued as the top performing sector from 2008 to Q2 of 2009. For Q2 2009, the banking and finance sector accounted for 39% of take-up, up from 33% in Q1 2009. The letting by Talbot Underwriting pushed the insurance sector’s share of take-up to 18% from 12% in Q1 2009. The business services and professional services sectors saw their share of take-up fall to 8%. The Computer/Hi-Tech sector also saw its take-up rise from 4% in Q1 2009 to 14% in Q2 2009. The chart below illustrates these percentages.

Fig 3



Supply

Availability

The rise in availability began to slow down in Q2 2009 due to strengthened leasing activity and lower levels of development supply. Availability in the City rose for the 4th consecutive quarter to 9.1 million sq ft for Q2 2009 from 9 million sq ft in Q1 2009. However, availability is still 32% higher compared with Q2 2008.

The availability rate for Q2 2009 was 14.5%. 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 letable total.

Notable additions to the market during Q2 2009 included Exchequer Court, 25-33 St Mary Axe Square, EC3 – 16,124 sq ft on the 6th floor; City Point, 1 Ropemaker Street, EC2 – 15,000 sq ft on the 11th floor; and Broadgate Tower, Bishopsgate, EC2 – 50,246 sq ft on 16th – 19th floors.

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Vacancy

Reflecting the rise in availability, the amount of space ready for occupation rose in Q2 2009 to 10.0%, up from 9.7% in Q1 2009. The vacancy rate in the City may continue to rise throughout 2009 as space currently under construction becomes ready for occupation and more second-hand space returns to the market.

Developments

About 2.8 million sq ft of newly developed office space was completed in the first half of 2009. A further 1.1 million sq ft is scheduled to complete in the second half of 2009. A total of 4 million sq ft is under construction in the City, of which 2.9 million sq ft is available. 2.1 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.

Prime Rents

In the City, rents continued to fall during the second quarter, but the rate of decline eased. Top rents in the City fell to £43 per sq ft in Q2 2009 from £46.50 in the first quarter of 2009.
Incentives continued to rise in the second quarter of 2009. The rent free period on a 10-year lease rose to 33 months rent-free in Q2 from 27-30 months rent-free at the end of Q1 2009.

City Outlook

The outlook for the second half of 2009 in the City looks more promising. The on-going deteriorating economic outlook in the financial and other commercial markets is causing companies to scale back or put on ice plans to move to new space. This is creating caution both about the anticipated strength of demand and the future levels of rents.

WEST END

Demand

Take-Up Levels

Despite a poor start to 2009, take-up in the West End for Q2 2009 rose 64% over Q1 2009 from 329,000 sq ft to 539,000 sq ft. However, Q2 2009 total is still 34% below Q2 2008.

In the largest letting of the quarter, The Youth Justice Board took 34,500 sq ft at 1 Drummond Gate in Victoria, arranged over the 3rd and 4th floors.

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

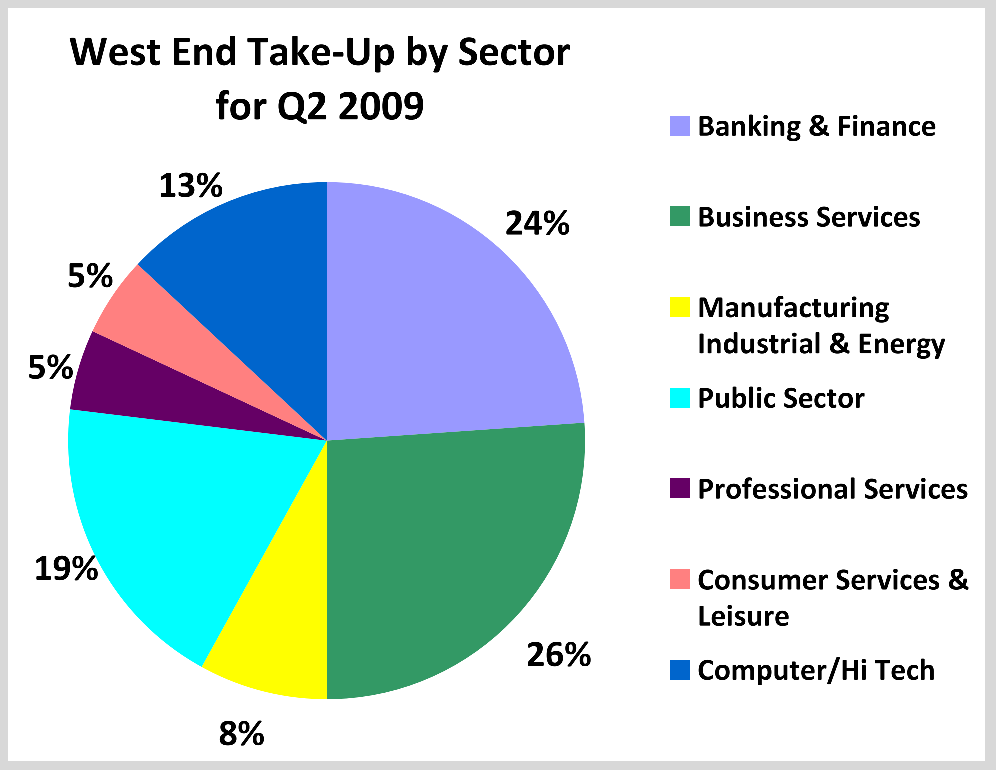
Fig 2

Quarter/Year	Quarterly Take-up (sq ft)	% Change Over Previous Quarter
Q2 2008	817,000	-16%
Q3 2008	670,000	-18%
Q4 2008	550,000	-34%
Q1 2009	329,000	-40%
Q2 2009	539,000	+64%

Take Up By Sector

Despite the turbulence in the financial markets, the banking and finance and business services sectors has continued as the top performing sectors in Q2 of 2009. For Q2 2009, the banking and finance sector accounted for 24% of take-up, up from 21% in Q1 2009. The business services sector accounted for 26%, up from 20% in Q1 2009. The consumer services and leisure sector saw a huge drop from 28% in Q1 2009 to 5% in Q2 2009. The chart below illustrates these percentages.

Fig 3



Supply

Availability

Availability has continued to rise for the eighth consecutive quarter, albeit at a slower rate of increase than six months ago. West End availability rose to 8 million sq ft for Q2 2009 from 7.4 million sq ft in Q1 2009. In the last 12 months, availability has doubled from 4million sq ft in Q2 2008.

Notable additions to the market during Q2 2009 included Francis House, 11 Francis Street, SW1 – 41,000 sq ft arranged over Ground to 4th floors at £42.50 per sq ft and 105 Wigmore Street, W1 – 13,000 sq ft arranged over 2nd and 4th floors at £62.50 per sq ft.

Vacancy

Reflecting the rise in availability, the amount of space ready for occupation rose in Q2 2009 to 8.4%, up from 7.4% in Q1 2009.

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Developments

About 500,000 sq ft of construction completed in the first half of 2009, with about 250,000 sq ft completing in Q2 2009. An additional 700,000 sq ft will be delivered over the remainder of 2009. A total of 1.6 million sq ft is under construction in the West End, of which half is speculative. 1.5 million sq ft is scheduled to complete in 2010.

Prime Rents

Prime headline rents continued to fall in the West End during the second quarter. Top rents fell to £80 per sq ft in Q2 2009 from £87.50 per sq ft in the first quarter of 2009. As in the City, this could mark the end of sharp decline in rental values as leasing activity is beginning to improve and growth rate in availability is easing.
Incentives were unchanged, compared to Q1 2009 at 24 months rent free period on a 10-year lease and 30 months rent-free on a 15-year lease.

MIDTOWN

Demand

Take-Up Levels

In Q2 2009, Midtown take-up rose 37% over Q1 2009 from 143,000 sq ft to 208,000 sq ft. However, Q2 2009 total is still 34% below Q2 2008.

In the largest letting of the quarter, Russell Jones & Walker took 34,500 sq ft of second-hand space at 50-52 Chancery Lane, WC2, arranged over the entire building.

This transaction enabled the professional services sector dominate leasing activity at 36%, followed by the banking and finance sector with 25%.

Supply

Availability

Midtown availability continued to rise and reached 2.0 million sq ft at the end of Q2 2009, compared to 1.8 million sq ft in Q1 2009. This is a 67% rise from Q2 2008 at 1.2 million sq ft.

Notable additions to the market during Q2 2009 included Nexus Place, Farringdon Street, EC4 – 157,000 sq ft where speculative space completed this quarter with a quoting rent of £40 per sq ft.

Vacancy

Reflecting the rise in availability, the amount of space ready for occupation rose in Q2 2009 to 6.2%, up from 5.5% in Q1 2009.

Developments

A total of 700,000 sq ft is under construction in Midtown, of which 90% is speculative. The only construction that completed this quarter was One Southampton Row, comprising 100,000 sq ft.
620,000 sq ft is scheduled to complete in 2010, most of which is accounted for by the Central St Giles development, due for delivery in 2010.

Prime Rents

Prime headline rents in Midtown fell during the second quarter. Top rents fell to £45 per sq ft in Q2 2009 from £50 per sq ft in the first quarter of

2009. As in the City, this could mark the end of sharp decline in rental values as leasing activity is beginning to improve, and growth in availability is improving.
Incentives increased to about 39 months rent free period on a 15-year lease.

Market Outlook

The outlook still appears bleak in the short term, but as anticipated in our Q1 2009 report, stability is slowly creeping-in. Once stability returns fully to the market, demand will begin to strengthen, although this may not happen until 2010/11, as too many schemes are too advanced to be stopped; the equilibrium of supply and demand may not be achieved until then.