



# Central London Office Market Research

## Q2 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**

The start of 2010 saw the Central London Office market strengthens, as Britain begun slowly emerging from a grave period of economic decline. However, the recovery levels seen in Q1 2010 have not continued this quarter as expected, with Central London availability at its lowest since Q3 2008. Central London take-up dropped drastically from 4.4 million sq ft in the first quarter of 2010 to 2.7 million sq ft this quarter. This was partly due to the size of deals this quarter. There was only one deal above 100,000 sq ft this quarter, compared to nine in Q1 2010. In the largest deal of the quarter, Shell took 186,922 sq ft at 40 Bank Street, E14. However, with 700,000 currently under offer to UBS at 4-6 Broadgate , EC2, next quarter (i.e. Q3 2010) looks quite promising for take-up.

Office availability also dropped about 7% to 15.8 million sq ft at the end of Q2 2010 across Central London down from 17 million sq ft in Q1 2010. The largest unit

available is Central St Giles at 385,200 sq ft. 4.1 million sq ft is expected to complete over the course of 2010, before falling drastically to about 1.2 million sq ft by 2011.

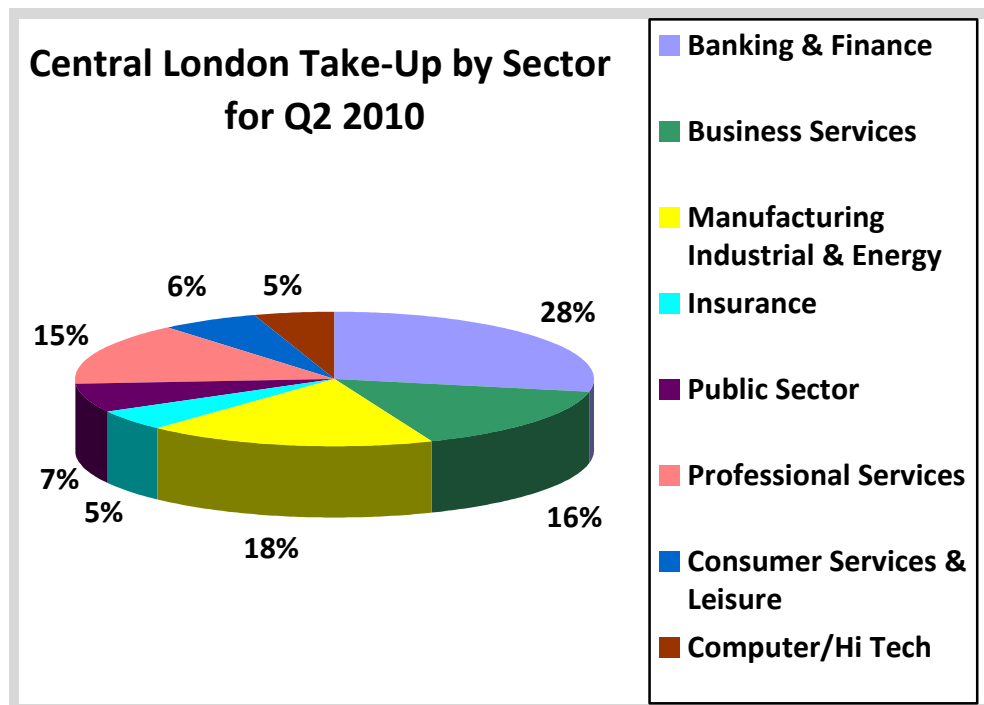
There is currently 5.1 million sq ft under construction in Central London, up from 4.5 million sq ft last quarter. This rise is due to the current construction of The Pinnacle, Bishopsgate EC2; a development to provide a landmark 63-storey office tower to include 946,500 sq ft (87,930 sq m) of offices plus retail space.

By the end of this quarter, City and Midtown property markets recorded a rise in prime rents. The West End and City office markets showed a slight dip in rent-free period in the second 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 28% of take-up in Q2 2010. However, sector take-up was more evenly spread out between the sectors this quarter than in the previous quarter. The next best performing sector was Manufacturing, Industrial & Energy services, accounting for 18% of take-up.

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

**Fig 1**





# Central London Office Market Research

## Q2 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

### CITY

#### **Demand**

##### Take-Up Levels

This quarter saw an end to the consecutive upward trend in take up. Take up for Q2 2010 decreased by 41% to 1,181,297 sq ft. However this somewhat reduced total is still 42% above what it was in Q2 2009.

The low take-up figures were partly due to the notably smaller sized deals in the second quarter of 2010. There was only one deal over 50,000 sq ft this quarter, compared to two deals over 200,000 sq ft last quarter. In the largest deal of the quarter, RBC Dexia took 69,000 sq ft of office space arranged over fourth and fifth floors at Riverbank House, 2 Swan Lane, EC2 from Man Group PLC. The terms remain confidential although it is believed to be a 15-year lease at around £45 per sq ft. The second largest deal was the letting of 105-108 Broad Street, EC2, where Deutsche Bank took 40,000 sq ft of office space on an eight-year lease at £39.50 per sq ft. The take-up momentum seen in Q1 2010 is likely to be seen in the 3<sup>rd</sup> quarter of 2010 as space currently under offer rises over levels seen in the first quarter of the year; such as Bloomberg at Walbrook Square, EC4 (500,000 sq ft) and UBS at 4-6 Broadgate, EC2 (700,000 sq ft).

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

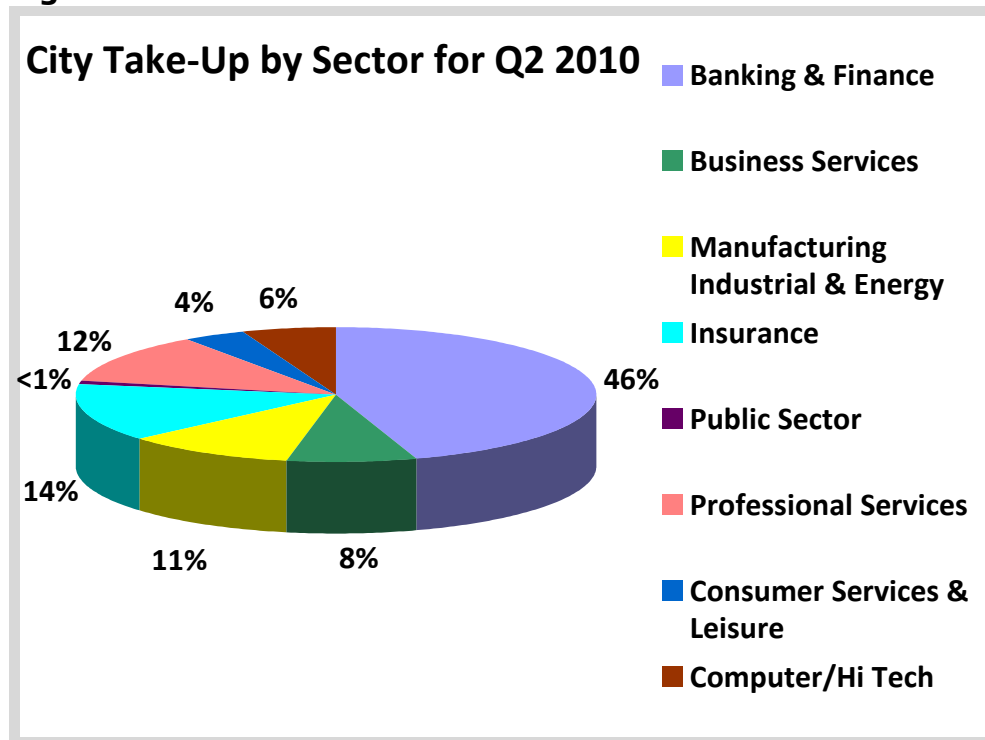
**Fig 2**

Quarter/Year	Quarterly Take-up (sq ft)	% Change Over Previous Quarter
Q2 2009	829,119	+57%
Q3 2009	1,676,500	+102%
Q4 2009	1,790,791	+7%
Q1 2010	2,000,000	+11%
Q2 2010	1,181,297	-41%

##### Take Up By Sector

The banking and finance sector has carried on as the top performing sector again in the second quarter of 2010, accounting for nearly half of take up at 46%. The Insurance sector was next, with a surprising 14% of take up, up from 2% in Q1 2010. The chart below illustrates these percentages.

**Fig 3**



## Supply

### Availability

Supply of offices in the City has continued to fall, (albeit at a steady pace), dropping by 5% to 7.2 million sq ft. Q2 2010 total is still 18% below Q2 2009. City availability is currently at its lowest level since Q1 2008.

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

**Figure 4**

Quarter/Year	Quarterly Availability (sq ft)	% Change Over Previous Quarter
Q2 2009	8,812,947	-2%
Q3 2009	8,656,179	-2%
Q4 2009	8,004,742	-8%
Q1 2010	7,570,427	-5%
Q2 2010	7,182,217	-5%

The availability rate for Q2 2010 was 11%. 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 availability in the market include The Walbrook, EC4, where 380,000 sq ft became available in February 2010; 200 Aldersgate , EC1 where 354,400 sq ft became available, and 3-10 Finsbury Square where 170,000 sq ft became available in June.

### Vacancy

Reflecting the decrease in availability, the amount of space ready for occupation fell slightly in Q2 2010 to 8.1%, down from 8.3% in Q1 2010. The vacancy rate in the City may continue to fall due to the expected surge in take-up activity.

### Developments

About 350,000 sq ft of newly developed space completed this quarter, compared to 520,000 sq ft last quarter. This brings a half year total to 870,000 sq ft of completed construction, 35% of the expected year-end total for 2010 at 2.5 million sq ft. There is currently 2.6 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 0.9 million sq ft by 2011.



# Central London Office Market Research

## Q2 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

---

### **Prime Rents**

Prime rents in the City rose again this quarter for the third time since 2007 to £50 per sq ft from £47 per sq ft in Q1 2010. This increase was partly due to limited availability of new space, giving landlords stronger confidence in rent negotiations.

Reflecting the rental increase, incentives dropped slightly from 27 months rent-free in the first quarter of 2010 to 24 months rent-free at the end of Q2 2010 on a 10 year lease.

### **City Outlook**

With the amount of space currently under offer, Q3 2010 looks quite encouraging, and indeed the second half of the year looks promising, albeit at a slow pace. So for occupiers, there are signs that the strength of the tenant market is gradually winding down as landlord incentives have started 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

Take up in the West End dropped marginally this quarter by 15% to 1.1 million sq ft from 1.3 million sq ft in Q1 2010. Take-up levels this quarter are a huge improvement on 2009, as this quarter figures are 39% higher than Q2 2009.

Similar to Q1 2010, there were a number of large transactions over 20,000 sq ft this quarter, two of which were over 50,000 sq ft. The largest deal of the quarter was the letting of 98,000 sq ft at Henrietta House, Henrietta Place, W1 to CB Richard Ellis by Lazari Investments on a 15-year lease. Other significant deals this quarter include the letting of Scottish Widows 51,000 sq ft at 14 St Georges Street, W1 to Kleinworth Benson Private Bank on a 15-year lease at £80 per sq ft; and the letting of 45,100 sq ft at Collingwood House, 101 New Cavendish Street, W1 to Cossette on a 10-year lease at £32.50 per sq ft.

The amount of space under offer rose slightly this quarter to 993,600 sq ft from 981,000 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.

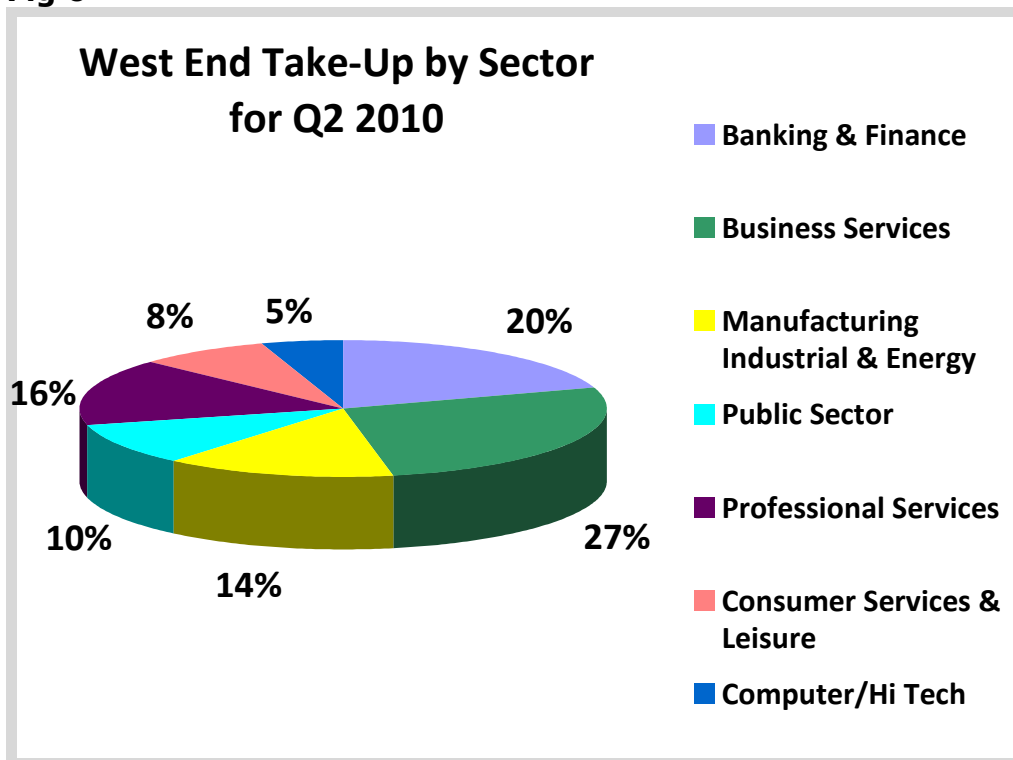
**Fig 5**

Quarter/Year	Quarterly Take-up (sq ft)	% Change Over Previous Quarter
Q2 2009	539,000	+64%
Q3 2009	846,000	+57%
Q4 2009	1,200,000	+42%
Q1 2010	1,300,000	+8%
Q2 2010	1,100,000	-15%

#### Take Up By Sector

The business services sector was the top performing sector again in Q2 2010, with the banking and finance sector performing better at 20% this quarter from 11% last quarter. The professional services performed much better this quarter at 16%, compared to 6% last quarter. This was largely aided by CB Richard Ellis’s acquisition of 89,000 sq ft at Henrietta House.

**Fig 6**



## **Supply**

### Availability

At the end of Q2 2010, total availability fell for the fourth consecutive quarter, after eight consecutive quarterly increases pre Q3 2009. West End availability now stands at 5.8 million sq ft, falling 5% from 6.1 million sq ft in Q1 2010. This quarter’s figures are 27% below what it was at the same time last year at 8 million sq ft.

Notable additions to the market during Q2 2010 include 84 Eccleston Square, SW1 where 39,000 sq ft arranged over 3<sup>rd</sup> to 6<sup>th</sup> floors became available to sublet from Transport for London; and 44 Dover Street, W1-



# Central London Office Market Research Q2 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

---

35,300 sq ft arranged over 1<sup>st</sup> to 5<sup>th</sup> floors at a quoting rent of £90 per sq ft also became available.

## Vacancy

Reflecting the drop in availability, the amount of space ready for occupation fell marginally this quarter to 6.2%, from 6.4% in Q1 2010.

## **Developments**

The largest development completion in Q2 was the 385,000 sq ft scheme at Central St Giles. However with only 284,700 sq ft currently under construction, availability of new space is likely to fall quite quickly in Q3 2010.

There is currently 1 million sq ft of speculative space under construction, compared to 1.4 million sq ft in Q1 2010. The largest scheme still to complete this year is Carmine, 4 Merchant Square, W2, where 262,000 sq ft is under construction. 2011 is expected to see the lowest level of development in 11 years with about 210,000 sq ft expected to complete. However, it is anticipated that 2012 and 2013 will see a rise in development completions.

## **Prime Rents**

Prime headline rents in Q2 2010 have remained stable at £80 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 to about £85 per sq ft.

Reflecting the improving market conditions, incentives have continued to reduce (even though slightly) to 18 months rent-free on a 10-year lease, compared to 21 months rent free period on a 10-year lease in Q1 2010.



# Central London Office Market Research Q2 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

---

## **MIDTOWN**

### **Demand**

#### Take-Up Levels

In the second quarter of 2010, Midtown take-up rose by 26% to 275,000 sq ft from 218,000 sq ft in Q1 2010.

In the largest letting of the quarter, the charity Age UK took 57,400 sq ft, the entire stock at Tavis House, Tavistock Square, WC1, from Telereal Trillium on a 10-year lease at £17.20 per sq ft. The next largest letting was at Nexus Place, 25 Farringdon Street, EC4 where Baker Tilly & Co took 54,200 sq ft of office space on a 20-year lease. Also, Sodexo took the remaining space at 1 Southampton Row, WC1, 41,800 sq ft of office space from Englander Group on a 15-year lease at around £46 per sq ft.

The professional sector has continued as the top performing sector with 40% of take up this quarter. This was followed by business services at 17% of take-up.

### **Supply**

#### Availability

Midtown availability at the end of Q2 2010 dropped by 5% to 1.8 million sq ft this quarter, compared to 1.9 million sq ft in Q1 2010.

Notable additions to the market include ITV's 200 Grays Inn Road, WC1 where there is currently 76,000 sq ft available.

#### Vacancy

The amount of space ready for occupation dropped slightly at 6.5% at the end of Q2 2010 from 7.0% in Q1 2010. Vacancy rates are likely to keep dropping as there are no new large development completions expected in Q3 2010.



# Central London Office Market Research Q2 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

---

## **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. There are no schemes due for delivery in the second half of this year. There is currently only one scheme under construction for delivery in 2011 at 1 Kingsway, WC2, totalling about 104,000 sq ft.

## **Prime Rents**

Rents for Grade A space have risen slightly to £48 per sq ft, after staying the same for two consecutive quarters at £43 per sq ft. Typical rent-free on a 10 year lease has stayed the same at 24 months. 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 election of a new government which is already making plans to cut public spending and raise taxes, the London office market suffered a slowdown in the pace of market recovery. The public sector has also begun to downsize on occupied property. This downsizing has been seen at Land Registry which recently put its 40,000 sq ft London headquarters at 32 Lincoln's Inn Field, WC2 up for sale. Staff will be relocated to its Croydon offices next year.

With availability expected to fall further, due to lack of developments, rents are forecast to rise strongly, thereby tilting the property market in favour of landlords.