



Central London Office Market Research Q3 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.

Central London Office Market Research Q3 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

Market Overview

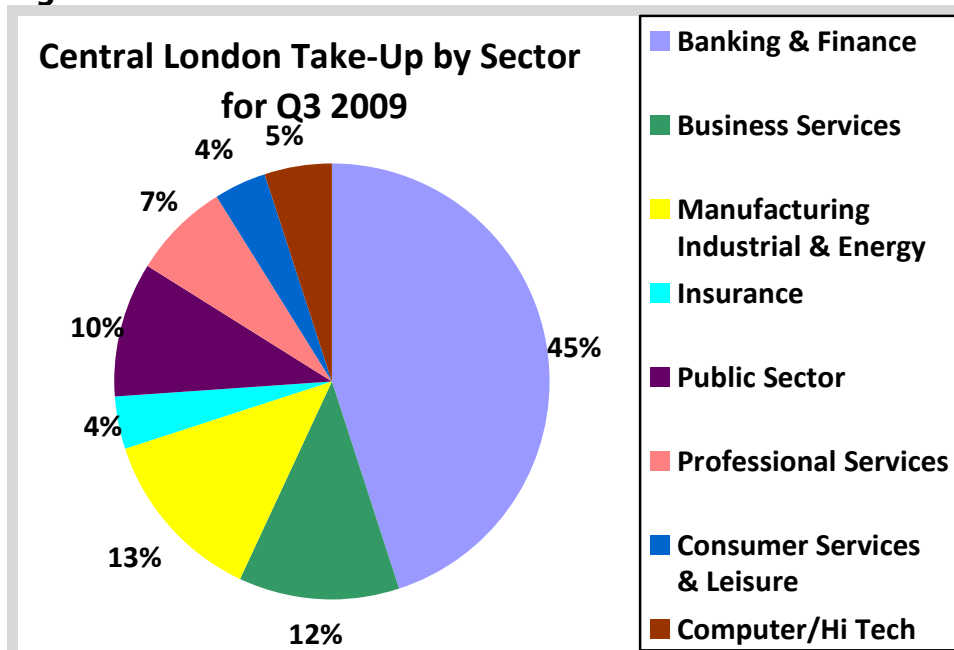
Central London office demand strengthened considerably in the third quarter of 2009, rising 65% over the previous quarter to 2.8 million sq ft. This improvement was boosted by a very strong performance in the City market, where leasing activity doubled. However, take-up is still below trend, compared with a long term average of 3.1 million sq ft. There was also an improvement in the amount of space under offer, which rose 5% to 2.4 million sq ft. This also remains below the long term average. As anticipated in our previous quarter report, the Central London office market looks to be in phase one of recovery, with further recovery anticipated in 2010.

Central London office availability fell 5% this quarter from 21.1 million sq ft, and is now less than 20 million sq ft. This was largely due to an improvement in demand and low level of development completions. Developments are expected to peak this year, but are expected to fall drastically to about 1.1 million sq ft by 2011. About 4 million sq ft of developments completed in the first half of 2009, based on a total of 6.5 million sq ft of schemes scheduled to complete during 2009. This marks the peak of the development cycle with development completions expected to fall quite sharply over the next two years.

Central London prime rents continued to fall during Q3 2009, albeit at a much slower decline rate.

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

Fig 1



Central London Office Market Research Q3 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

CITY

Demand

Take-Up Levels

Despite a poor start to 2009, City take-up in Q3 2009 rose 124% over Q2 2009 from 829,119 sq ft to 1,859,328 sq ft. Q3 2009 total is 163% above Q3 2008. Occupiers are making the most of the current financial conditions by taking advantage of generous incentives and low rents.

High take-up figures were partly due to the letting of 547,000 sq ft of office space at Watermark Place, 90 Upper Thames Street, EC4 by Oxford Properties Group and UBS Global Asset Management (UK) Ltd to Nomura Bank International plc on a 20 year lease at £22,153,500 pa, equating to £40.50 per sq ft (£435.94 per sq m), subject to a five-yearly rent review. Six years rent-free period was agreed.

With Pinsent Masons agreeing terms at 30 Crown Place, EC2 (about 190,000 sq ft) and Bank of China looking to purchase 1 Lothbury, EC2 (117,000 sq ft) for its own occupation, the current take-up momentum is sure to continue in Q4 2009.

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
Q3 2008	707,568	-24%
Q4 2008	464,601	-34%
Q1 2009	528,315	+14%
Q2 2009	829,119	+57%
Q3 2009	1,859,328	+124%

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 Q3 of 2009. Nomura's decision to take Watermarks Place pushed the banking and finance sector to 56% of take-up in Q3 2009, up from 39% in Q2 2009. This was followed by manufacturing, industrial and energy sector which

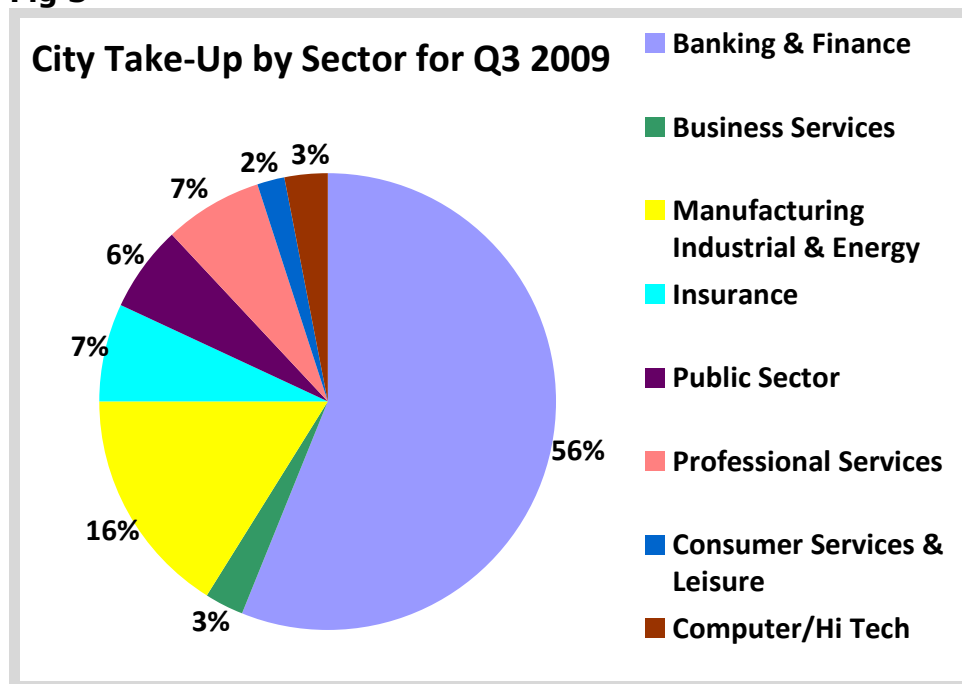
Central London Office Market Research Q3 2009

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

accounted for 16% of take-up, up from 6% in Q2 2009. All six other sectors including business services and public sectors were not very active in Q3 2009, they accounted for a combined total of 28% of take-up. The chart below illustrates these percentages.

Fig 3



Supply

Availability

Half way through 2009, the rise in availability began to slow down due to strengthened leasing activity and lower levels of development supply. Availability in the City fell 11% for the first time since Q3 2008 to 8.1 million sq ft in Q3 2009 from 9.1 million sq ft in Q2 2009. However, availability is still 7% higher compared with Q3 2008.

The availability rate for Q3 2009 was 13.3%. 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.

Central London Office Market Research Q3 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

Notable additions to the market during Q3 2009 included 25 Cophall Avenue, EC2 – 45,213 sq ft on 2nd and 3rd floors; 2 Minster Court, EC3 – 60,778 sq ft on LG, 1st, 2nd and 9th floors; and 1 New Change, EC4 – 204,561 sq ft on 2nd, 3rd, Part 4th and 6th floors, currently being developed by Land securities – completion is due in September 2010.

Vacancy

Reflecting the decrease in availability, the amount of space ready for occupation fell in Q3 2009 to 8.8%, down from 10.0% in Q2 2009. The vacancy rate in the City may continue to fall to the end of 2009 due to the surge in take-up activity.

Developments

Three developments totalling 600,000 sq ft completed this quarter, of which Watermark Place was the largest at 547,000 sq ft. There is currently 3.4 million sq ft under construction. About 2.8 million sq ft of newly developed office space have completed already in 2009. A further 0.4 million sq ft is scheduled to complete in the last three months of the year. This year will mark the peak of the development cycle with 3.2 million due to complete. 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, rent levels have continued to fall during the third quarter (even though at a slower pace). Top rents in the City fell to £42.50 per sq ft in Q3 2009 from £43 per sq ft in Q2 2009, compared with £46.50 in the first quarter of 2009.

Incentives continued to rise in the third quarter of 2009. The rent free period on a 10-year lease rose to 36 months rent-free in Q3 from 33 months rent-free at the end of Q2 2009.

City Outlook

The outlook in the City for the last quarter of 2009 looks promising, as the rise in take-up figures can be seen as a sign that the worst of the downturn is over. So for occupiers, 2009 can be seen as a good time to take advantage of the lower rents and good incentive packages available.

Central London Office Market Research Q3 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

WEST END

Demand

Take-Up Levels

In the West End, take-up levels were quite low in the beginning of 2009. However, Q2 and Q3 of 2009 have seen a sharp rise in activity with take-up reaching 846,000 sq ft in Q3 2009; up 57% from Q2 2009.

Although take-up activity was dominated by units less than 10,000 sq ft, there were still a few large deals like EDF Energy leasing 37,000 sq ft at Cardinal Place, Victoria Street, SW1, and Bain Capital leasing 41,000 sq ft at Devonshire House, Mayfair Place, W1.

The amount of space under offer rose sharply this quarter to 844,500 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
Q3 2008	670,000	-18%
Q4 2008	550,000	-34%
Q1 2009	329,000	-40%
Q2 2009	539,000	+64%
Q3 2009	846,000	+57%

Take Up By Sector

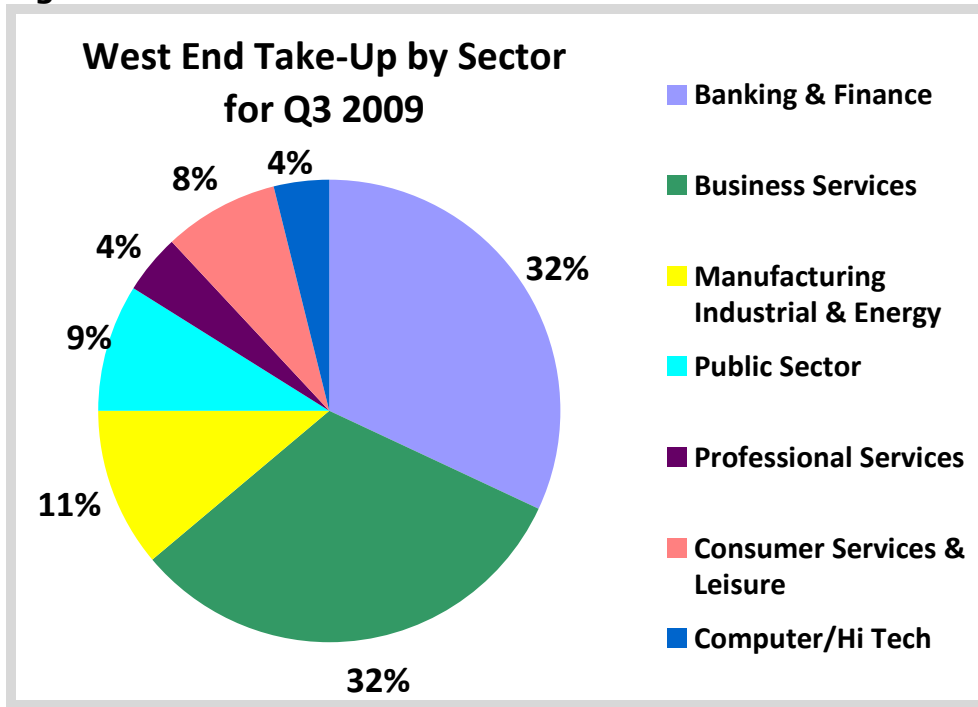
Despite the turbulence in the financial markets, the banking and finance and business services sectors have continued as the top performing sectors in Q3 of 2009. For Q3 2009, the banking and finance sector accounted for 32% of take-up, up from 24% in Q2 2009. The business services sector accounted for 32%, up from 26% in Q2 2009. The chart below illustrates these percentages.

Central London Office Market Research Q3 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

Fig 3



Supply

Availability

After eight consecutive quarterly increases in availability, Q3 2009 saw a slight drop in availability, falling to 7.6 million sq ft from 8 million in Q2 2009. This quarter's figures still remain 45% higher than the long term average.

Notable additions to the market during Q3 2009 included 1 Southampton Row, WC1- 97,300 sq ft arranged over Basement to 5th floors at £49.50 per sq ft.

Vacancy

Reflecting the drop in availability, the amount of space ready for occupation dropped in Q3 2009 to 7.1%, from 8.4% in Q2 2009.

Central London Office Market Research Q3 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

Developments

About 500,000 sq ft of construction completed in the first half of 2009, and by the end of Q3 2009, this figure rose to 660,000. An additional 700,000 sq ft will be delivered over the remainder of 2009. There is currently 2.3 million sq ft of speculative space under construction. 2009 will mark the peak of the West End development cycle with 1.5 million sq ft scheduled to complete in 2010.

Prime Rents

Prime headline rents have continued to fall in the West End (even though at a slower pace) during the third quarter. Top rents fell from £80 per sq ft in Q2 2009 to £75 per sq ft this quarter. This is still 32% lower than Q3 2008. 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 have remained unchanged for three consecutive quarters at 24 months rent free period on a 10-year lease and 30 months rent-free on a 15-year lease.



kinneygreen

Central London Office Market Research Q3 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

MIDTOWN

Demand

Take-Up Levels

In Q3 2009, Midtown take-up fell 14% over Q2 2009 from 208,000 sq ft to 178,000 sq ft. However, Q3 2009 total is still 44% below Q2 2008 at 320,000 sq ft.

In the largest letting of the quarter, architectural firm Zaha Hadid took 14,900 sq ft of office space at Midcity Place, 58-71 High Holborn, WC1, from Davis Langdon LLP arranged over part of the fifth floor for a term expiring in July 2010 at a rent equating to £50 per sq ft.

This transaction enabled the professional services sector dominate leasing activity for the 2nd consecutive quarter at 36%, followed by the business services sector with 22%.

Supply

Availability

Midtown availability dropped slightly from 2.0 million sq ft at the end of Q2 2009 to 1.9 million sq ft this quarter. This quarter is still 67% higher than Q3 2008.

Notable additions to the market include Nexus Place, Farringdon Street, EC4 where 157,000 sq ft of speculative space completed, with a quoting rent of £40 per sq ft.

Vacancy

The amount of space ready for occupation rose slightly in Q3 2009 to 6.3%, up from 6.2% in Q2 2009.

Developments

About 230,000 sq ft of office space completed in the first six months of 2009. About 220,000 sq ft completed in Q3 2009, all of which was speculative. There remains about 51,000 sq ft yet to complete in the last quarter of 2009, all of which is at 10 St Bride Street, EC4. 620,000 sq ft is scheduled to complete in 2010, most of which is accounted for by the Central St Giles development, WC2, due for delivery in 2010.



Central London Office Market Research Q3 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

Prime Rents

Rents for Grade A space fell to £42.50 per sq ft in Q3 2009 from £45 per sq ft in the second quarter of 2009. As in the City where there has been some ease in the rate of rental decline, this could mark the end of sharp decline in rental values as leasing activity is beginning to improve, and growth in availability is improving.

Market Outlook

With decrease in availability and low rates of supply from the development pipeline, stability is slowly creeping-in. Once stability returns fully to the market, demand will begin to strengthen. However this equilibrium may not happen until 2010/11.