Central London Office Market Research Q4 2009

kinneygreen

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

Central London take-up rose further in the final quarter of 2009 by 32% over Q3 2009 to 3.7 million sq ft from 2.8 million sq ft. The strong finish to the year has pushed annual take-up to 9 million sq ft. However, take-up is still 23% below trend, compared with the previous year. There was also a huge improvement in the amount of space under offer, which rose 37% to 3.3 million sq ft.

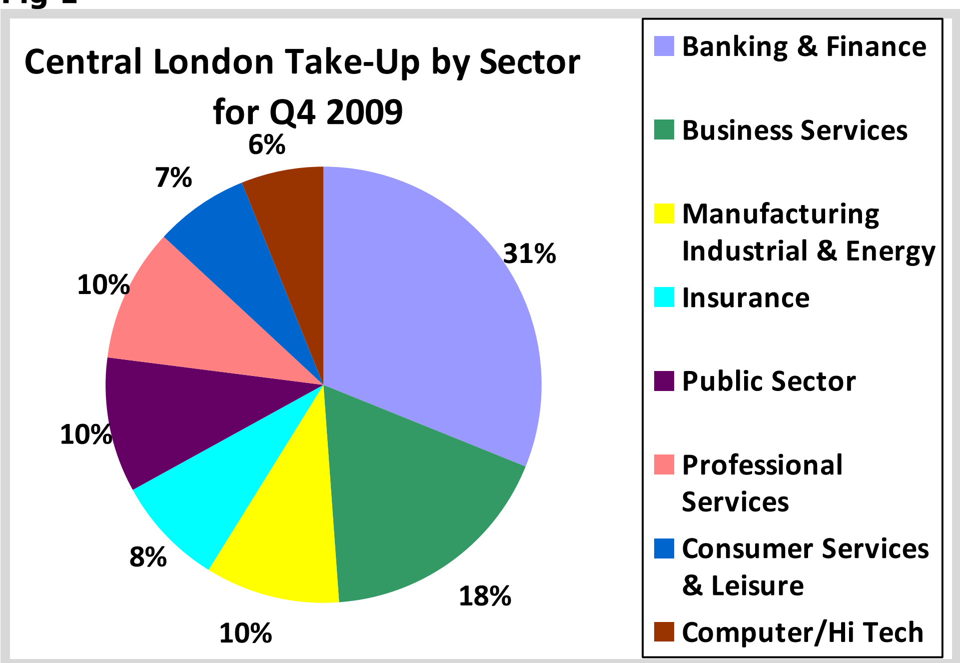
The strong leasing activity in this final quarter in turn reduced the availability of space quite dramatically. There is currently 18.5 million sq ft of office availability across Central London. Another factor that contributed to the decrease in availability is the low level of development completions. By the end of 2009, a total of 6.5 million sq ft of schemes completed. Looking ahead, 4.1 million sq ft is expected to complete over the course of 2010, but developments are expected to fall drastically to about 1.1 million sq ft by 2011.

By the end of this quarter, City and Midtown recorded the first rise in prime rent in the last two years.

Over the course of 2009, the banking and finance sector has remained the largest source of demand across the Central London office market.

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, a strong end to the year saw about 1.8 million sq ft leased in the City, bringing the annual total to 4.8 million sq ft. Q4 2009 total take-up is 67% above Q4 2008, and 22% above the 10 year average of 3.96 million sq ft. Occupiers are making the most of the current financial conditions by taking advantage of generous incentives and low rents.

Large take-up figures were partly due to a number of large lettings in the final quarter of 2009; Clyde & Co took 144,000 sq ft at 1 St Botolph Street, EC3 from Minerva Plc on a 20-year lease at a rent equating to £48.50 per sq ft. Also Catlin Underwriting took 122,500 sq ft at 20 Gracechurch Street, EC3 from Aviva Plc on a 15-year lease, and Allianz Insurance took 120,600 sq ft at 60 Gracechurch Street, EC3. The current take-up momentum is likely to continue in 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.

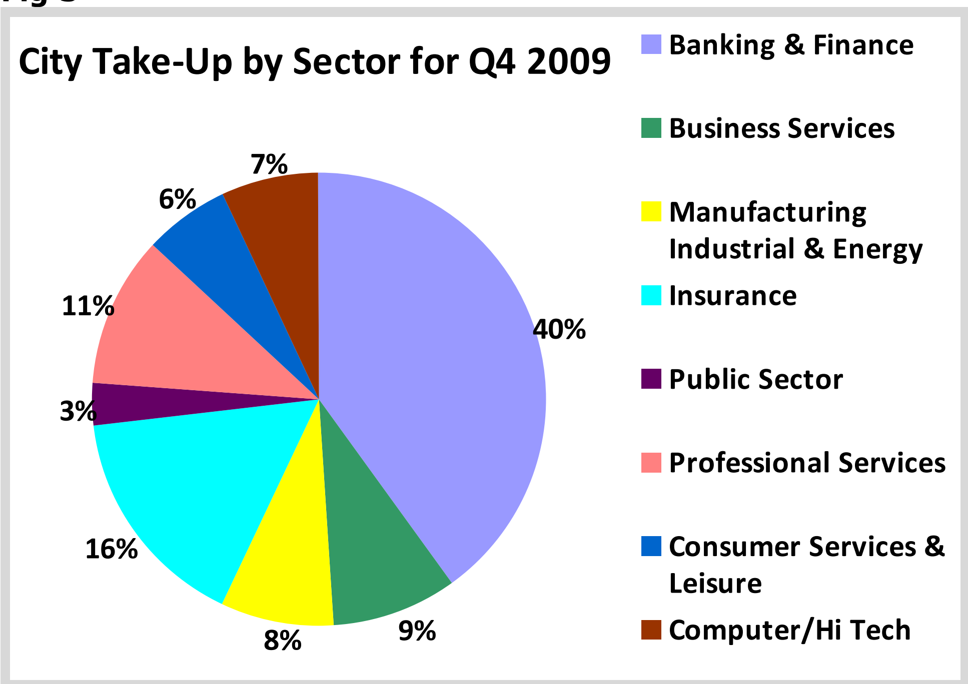
Fig 2

Quarter/Year	Quarterly Take-up (sq ft)	% Change Over Previous Quarter
Q4 2008	464,601	-34%
Q1 2009	528,315	+14%
Q2 2009	829,119	+57%
Q3 2009	1,676,500	+102%
Q4 2009	1,790,791	7%

Take Up By Sector

Despite the turbulence in the financial markets, the banking and finance sector dominated as the top performing sector for the whole of 2009 and took the lead in the final quarter with 40% of take-up. The insurance sector was next, accounting for 16%, up from 7% in Q3 2009. Like the previous quarter, all six other sectors including business services and public sectors were not very active in Q4 2009, they accounted for a combined total of 44% of take-up. The chart below illustrates these percentages.

Fig 3



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Supply

Availability

City availability at the end of Q4 2009 fell 8% over Q3 2009 to 8 million sq ft. Q4 total is still 1% over Q4 2008 which totalled about 7.9 million sq ft.

The table in Figure 3 below illustrates quarterly availability figures over the preceding year and highlights the percentage difference over the previous quarter.

Figure 3

Quarter/Year	Quarterly Availability (sq ft)	% Change Over Previous Quarter
Q4 2008	7,935,537	+9%
Q1 2009	9,014,789	+14%
Q2 2009	8,812,947	-2%
Q3 2009	8,656,179	-2%
Q4 2009	8,004,742	-8%

The availability rate for Q4 2009 was 12.5%. 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 Q4 2009 include Centurion House, 24 Monument Street, EC3 – 38,050 sq ft on Ground, 1st, 2nd and 5th to 8th floors; and The Walbrook, EC4, where 380,300 sq ft is being developed by Land Securities – completion is due in the first half of 2010.

Vacancy

Reflecting the decrease in availability, the amount of space ready for occupation fell slightly in Q4 2009 to 8.5%, down from 8.8% in Q3 2009. The vacancy rate in the City may continue to fall due to the surge in take-up activity.

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Developments

About 700,000 sq ft newly developed space completed this quarter, bringing the year-end total for 2009 to 3.5 million sq ft. There is currently 4 million sq ft under construction. This year will mark the peak of the development cycle with 2.9 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

Prime rents in the City rose this quarter for the first time since 2007 to £43 per sq ft. This increase was due to a limited availability of new spaces, combined with very strong occupier demand.
Reflecting the rental increase, incentives have dropped slightly from 36 months rent-free in the third quarter of 2009 to 33 months rent-free at the end of 2009.

City Outlook

Looking ahead, the first half of 2010 looks very promising, with 1.7 million sq ft of space currently under offer. The rise in take-up figures can be seen as a sign that the worst of the downturn is over. So for occupiers, the first half of 2010 can be seen as a good time to quickly take advantage of lower rents and good incentive packages, as landlord incentives may begin to reduce quite quickly, provided strong demand persists and supply levels contract.

WEST END

Demand

Take-Up Levels

In the West End, take-up was at its highest level since 2007, surging 42% to 1.2 million sq ft from 649,000 sq ft in Q3 2009. Take-up levels where quite low in the beginning of 2009. However, Q2, Q3 and Q4 of 2009 have seen a sharp rise in activity, thereby more than doubling the record low levels seen in the first quarter of 2009; up 26% from Q2 2009. Q3 2009 total is still 3% below Q3 2008.

Whereas there were no transaction over 25,000 sq ft in Q3, Q4 saw about seven deals done that exceeded the size. The two most significant deals in Q4 2009 were the letting of 49,300 sq ft at Two Kingdom Street, W2 to AstraZeneca on a 15-year lease at £45 per sq ft; and the letting of 45,000 sq ft at 101 New Cavendish Street, W1to University of Westminster on a 10-year lease at £32.50 per sq ft.

The amount of space under offer rose sharply this quarter to almost 1 million sq ft. This is 25% above the long-term average.

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

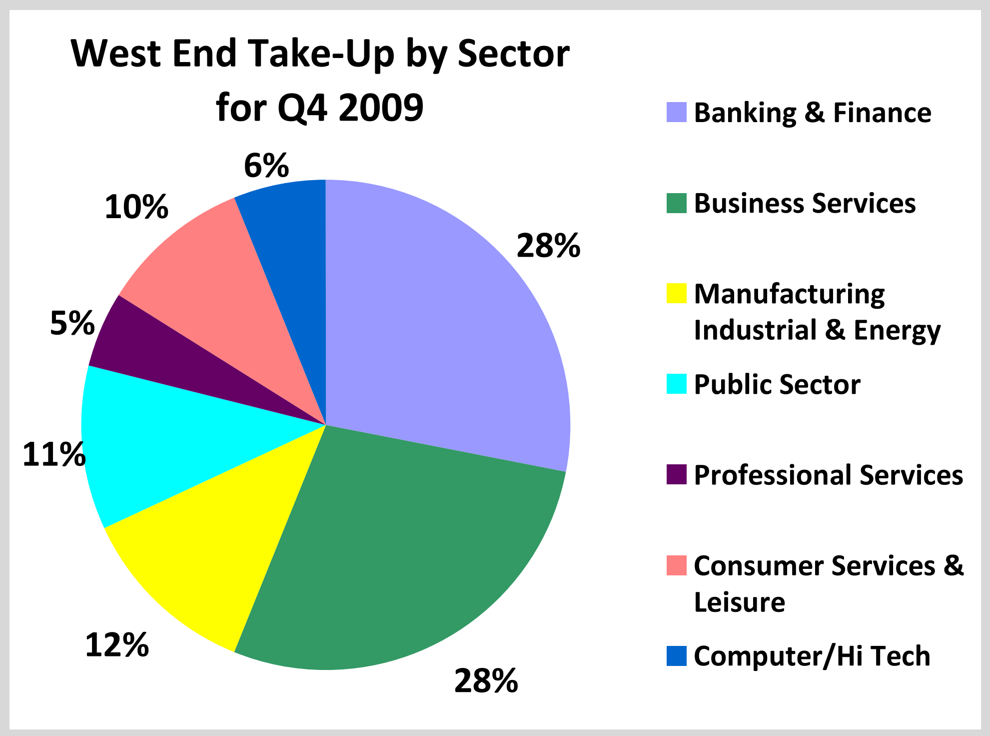
Fig 2

Quarter/Year	Quarterly Take-up (sq ft)	% Change Over Previous Quarter
Q4 2008	550,000	-34%
Q1 2009	329,000	-40%
Q2 2009	539,000	+64%
Q3 2009	846,000	+57%
Q4 2009	1,200,000	+42%

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 throughout Q3 and Q4 of 2009. In Q4, both sectors accounted for 58% of take-up, compared to 64% of take-up in Q3 2009. All the five other sectors jointly accounted for 44% of take-up.

Fig 3



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Supply

Availability

At the end of Q4 2009, total availability fell for the second consecutive quarter, after eight consecutive quarterly increases pre Q3 2009. West End availability now stands at 6.8 million sq ft, falling 10% from 7.6 million sq ft in Q3 2009. This quarter's figures still remain 45% higher than the long term average. This drop was partly due to the strong rise in take-up and the somewhat muted development pipeline

Notable additions to the market during Q4 2009 include 2-4 Cockspur Street, SW1– 95,700 sq ft arranged over 6 floors at £49.50 per sq ft.

Vacancy

Reflecting the drop in availability, the amount of space ready for occupation dropped in Q4 2009 to 6.8%, from 7.1% in Q3 2009.

Developments

The largest development completion in Q4 was the 85,000 sq ft scheme at 9-18 Maple Place, W1. Three core West End developments also completed in Q4. They included Scottish Widow's 50,000 sq ft at 14 St George Street, W1, along with their 44,000 sq ft scheme at 50 New Bond Street.

About 500,000 sq ft of construction completed in the first half of 2009, and by the end of 2009, this figure rose to 1.5 million. Of this figure, 700,000 sq ft completed in the last quarter of 2009 alone. There is currently 1.9 million sq ft of speculative space under construction, compared to 2.3 million sq ft on Q3 2009. 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 in Q4 2009 have stayed the same in the West End compared to the third quarter. Top rents stabilised at £75 per sq ft this quarter.
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 four consecutive quarters 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 the last quarter of 2009, Midtown take-up rose to its highest quarterly total since 2007, rising 113% to 380,000 sq ft from 178,000 sq ft in Q3 2009. However, Q4 2009 total is 15% above Q4 2008 at 331,000 sq ft.

In the largest letting of the quarter, the University of Arts took 71,000 sq ft of office space at 272 High Holborn, WC1, arranged over basement to ninth floors. The next largest letting was at 40 Holborn Viaduct, EC1 where Capgemini UK Plc took 49,000 sq ft of office space arranged over fifth, sixth and eighth floors. Also in the same building, GDF Suez Energy UK Ltd took 36,000 sq ft of office space arranged over third and fourth floors.

The business services sector had the highest proportion of take-up with 30% this quarter. This was followed by Manufacturing, Industrial & Energy at 25%.

Supply

Availability

Midtown availability at the end of Q4 2009 stayed practically the same at 1.9 million sq ft. Compared to the long term average, this quarter is still 20% higher than Q4 2008.

Notable additions to the market include 2 Waterhouse Square, EC1 where 162,000 sq ft of second-hand space became available.

Vacancy

The amount of space ready for occupation rose slightly in Q4 2009 to 6.8%, up from 6.3% in Q3 2009.

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Developments

About 230,000 sq ft of newly developed office space completed in the first six months of 2009, with a further 150,000 completing in the second half of 2009, bringing the yearly total to 380,000 sq ft.
2010 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 2010. About 620,000 sq ft is scheduled to complete in 2010.

Prime Rents

Rents for Grade A space increased slightly to £43 per sq ft in Q4 2009 from £42.50 per sq ft in the third quarter of 2009. As in the City where there has also been rental increase, 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 no increase 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.