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Market Analysis

London Office Database

“Difficult West End, sluggish City”

Introduction

“The West End is difficult and the City is sluggish.” This is how one central London specialist summed up the market over lunch a couple of weeks ago.

But in the next breath, he was waxing lyrical about the refurbishment and redevelopment opportunities he plans to deliver in time to benefit from forthcoming rental growth. Over the following pages, Bill Page confirms that this is the realist's view. The level of deals does not yet support a rosier assessment.

The main finding of this quarter's London Office Database research – the most comprehensive and independent available – is that recovery, like most of us, slowed down over the summer months.

Expectations had been raised by the headline deals of the previous quarter. After all, we had seen GE Capital's acquisition of some 50,000 sq ft at 30 Berkeley Square – second hand from Royal & Sun Alliance – and Land Securities' presale of its 400,000 sq ft Bankside 1 to IPC.

But after such promise of sunshine, a good summer never really followed. Deals that were being heralded have yet to manifest.

The most dramatic example came earlier this month, when Royal Bank of Scotland dropped the purchase of Tishman Speyer's 650,000 sq foot Aldgate Union development at the eleventh hour. Insurer Legal & General also has yet to sign its City deal at Austral House, EC2.

Deals appear to be taking a particularly long time to complete. At the beginning of June, Arts Council England was lining up a 45,000 sq ft prelet at Great Portland Estate's Metropolis House on Tottenham Court Road. But four months on, the deal hasn't yet been signed.

Even away from the City and West End fringe, there is anxiety. In Mayfair, the market has been driven by demand for space from US hedge funds and other financial businesses – such as Blackstone taking another floor at 40 Berkeley Square at £80 psf. However, as one central London investor/developer tells me, “there is bound to be consolidation among the hedge funds. They will take each other out. Over time there won't be the demand.”

But for all this gloom, improvements in the central London office market did not entirely grind to a halt over the summer. There is no reason to suspect that improvements will not pick up again in the run-up to Christmas, paving the way for a busy 2005 and a strong upturn to be felt, at the earliest, in 2006.

“The ideal kit at the moment is something with another one to two years' income in the West End, or two to three years' income in the City, giving you a safety net to work up a scheme,” says another developer.

The West End lettings market did continue to see some modest recovery.

As tipped in EG in June, Grosvenor/JER Partner's Belgrave House – the largest new development in the West End – is close to a deal. Oil company Vitol placed the 28,800 sq ft sixth floor under offer at around the quoting rent of £55 per sq ft – helping to fill the gap between the cheap end of the market and those deals that fetch £80 psf in Mayfair, but the deal is still to complete.

The rare opportunities for speculative West End development are being fiercely contested. The best example – revealed by EG on 14 August – is University College London Hospital's shrewdly timed offering of the 2.5-acre Middlesex Hospital site. Not surprisingly, there were well over 20 expressions of interest. The site is expected to be transformed into a mixed-use scheme of at least 500,000 sq ft.

The last quarter was also witness to further confidence in City developments. The 31 July issue of EG trumpeted the news that Prudential was preparing to join the speculative revival by building a 200,000 sq ft City office. By the time you receive your copy of next quarter's LOD figures, the fund intends to have begun work on the major new scheme at 16-18 Finsbury Circus, EC2, and adjoining 26-31 Eldon Street – without a prelet.

In the same week, US developer Hines demonstrated its faith that occupier demand would return to the City, submitting new plans for a 390,000 sq ft replacement of the 1960s office building above Cannon Street station, EC4. It expects work to start in 2006, with delivery by 2010.

But the very fact that all these stories commanded column inches in EG over the past three months should also tell us something: they are newsworthy, rather than being run-of-the-mill.

The following pages indicate that my lunch date is right to be keeping his feet firmly on the ground – at least for now.

Julia Cahill,
News Editor,
Estates Gazette Group



Austral House, EC2:
Legal & General yet to sign

“Confidence in City developments”

London Lettings League Table - Q3 2004

	Sq Ft	No. of Deals
1 CB Richard Ellis	630,931	49
2 DTZ	462,119	49
3 Knight Frank	333,752	23
4 ATIS REAL Weatheralls	298,711	30
5 Cushman & Wakefield Healey & Baker	293,191	27
6 Jones Lang LaSalle	262,056	22
7 Hodnett Martin Smith	100,252	23
8 FPDSavills	96,052	19
9 Hargreaves Goswell Down	88,086	10
10 Strutt & Parker	87,687	18
11 Farebrother	84,565	20
12 Allsop & Co	79,877	4
13 Richard Susskind & Co	79,135	11
14 Robert Irving & Burns	75,934	13
15 Chesterton	69,783	10
16 Colliers CRE	69,614	4
17 Edward Charles & Partners	67,801	14
18 Kinney Green Stanford Webster	67,390	10
19 Spring4	66,628	7
20 Stirling Ackroyd	65,785	11
21 Michael Elliott	64,000	1
22 E A Shaw	61,565	17
23 Hanrahan Deane	59,377	7
24 Gerald Eve	55,886	9
25 King Sturge	55,695	6
City Core		
1 CB Richard Ellis	209,009	20
2 Jones Lang LaSalle	165,886	13
3 Knight Frank	99,309	3
4 DTZ	88,977	9
5 Hargreaves Goswell Down	88,086	10
City Fringe		
1 Richard Susskind & Co	73,863	9
2 ATIS REAL Weatheralls	65,812	15
3 Allsop & Co	53,452	2
4 DTZ	44,938	5
5 Stirling Ackroyd	41,941	8
Midtown		
1 ATIS REAL Weatheralls	133,980	2
2 Cushman & Wakefield Healey & Baker	58,348	6
3 Knight Frank	48,764	4
4 King Sturge	38,152	4
5 E A Shaw	27,281	10
West End		
1 DTZ	225,565	28
2 CB Richard Ellis	173,802	16
3 Cushman & Wakefield Healey & Baker	163,531	18
4 Hodnett Martin Smith	73,041	16
5 Robert Irving & Burns	70,430	11

There was no change at the top in Quarter 3, with CB Richard Ellis emerging victorious again. What has clearly changed, however, is the size of deals this quarter.

In Q2, CBRE broke the 1 million sq ft barrier; this quarter it achieved just over half that, despite achieving the largest disposal of the quarter – the London Borough of Tower Hamlets deal on 140,000 sq ft at Anchorage House, Clove Crescent, E14. Other agents have fared less well. Jones Lang LaSalle was in second place last quarter, with over 760,000 sq ft of completed disposals – this quarter it has dropped to sixth, with just over 260,000 sq ft. And BH2, fourth last quarter, has dropped from the top 25 altogether.

Among those that did better is DTZ, which came second – thanks to lettings to John Lewis on 40,000 sq ft at Invensys House, Carlisle Place, SW1, and to HBOS on 39,000 sq ft at 155 Bishopsgate, EC2. Knight Frank had a good quarter, with a 64,000 sq ft letting to UBS at 3 Finsbury Avenue, EC2, and 25,000 sq ft at 25 Bank Street, E14, to Morgan Stanley (jointly with CBRE). ATIS REAL Weatheralls moved up a place – thanks to the 130,000 sq ft deal to the Treasury Solicitor's Department at CAA House, Kingsway, WC2 (London's second largest deal).

In the City Core, the emergence of Hargreaves Goswell Down is of particular note (5th place in the City Core; 9th overall), as its success comes less than two years after the agency was formed. The niche City firm benefited from four deals at 7-10 Old Bailey, EC2, and the 50,500 sq ft disposal to Xchanging at 34 Leadenhall Street, EC3.

In the City Fringe, Richard Susskind was first, thanks to that market's largest deal – on 48,000 sq ft to Islington Primary Care Trust at Angel House, Goswell Road, EC1.

However, the lack of large deals this quarter is notable. There are more in the pipeline – Norton Rose on 327,000 sq ft at More London 3, SE1 (JLL and Knight Frank), and Willis Group on 420,000 sq ft at 51 Lime Street, EC3 (DTZ and Cushman & Wakefield Healey & Baker), for instance. The total figures should change in Q4, even if the agents' positions remain the same.



Anchorage House, E14: London Borough of Tower Hamlets deal



25 Bank Street, E14: Space let to Morgan Stanley



More London, SE1: More deals to come

Note: The lettings league table covers all of LOD's markets. See map at end of document for our markets.

Q3 2004 Overview

"Improvements continue"



125 Old Broad Street, EC2: Adds to premarketing figures

"No prelets this quarter"



London Bridge Tower, SE1: No PwC prelet © Hayes Davidson & John Maclean



10 Upper Bank Street, E14: Instant Office solution?

Recovering, not recovered

Improvements continued in the central London office market this quarter. Total availability fell, take-up rose, asking prices for new stock continued their upward progress, and, finally, vacancy rates began to decline. "Recovering" is a long way from "recovered", however, and vacancy rates and total availability remain worryingly high; asking prices for second hand stock continue to suffer; and big schemes are still sitting empty.

The headlines this quarter all came from the achieved rentals in the Mayfair submarket – not from big deals, but the small-end deals all added up and maintained the progress in take-up figures. If big deals can be achieved again, and there are some in the offing, early 2001 levels will be seen once again.

Return to City development?

The City Core saw total availability rise slightly, thanks to some large additions to the premarketing figures (125 Old Broad Street, EC2, 150 Cheapside, EC2, and 71 Lombard Street, EC3, for instance). Vacancy rates, though, fell, despite a fall in take-up, and asking prices for new stock actually rose.

Deals were once again achieved at top rents. HBOS took space at 155 Bishopsgate, EC2, at an asking price of £510 psm (£47.50 psf); Latham & Watkins took extra space at 99 Bishopsgate, EC2, at £585 psm (£54.50 psf); and deals continued to turn over at Paternoster Square, EC4 – Wadhawni Asset Management and Equitable Life both took space at Warwick Court, on a sublease from Goldman Sachs, at an asking price of £565 psm (£52.50 psf), for instance. British Land's Plantation Place, EC3, achieved another deal – on 4,450 sq m (48,000 sq ft) – to QBE and continues to attract interest. Up the road, however, Swiss Re is still without a deal on its surplus space at 30 St Mary Axe, EC3, despite instructing CBRE as joint agent and quoting a modest £510 psm (£47.50 psf) for such an iconic building. The improving financial sector is looking for extra space – but the right kind of space. With so much still available, they can continue to be choosy.

Developers, though, are becoming more confident. IVG Asticus looks set to start work on 71 Lombard Street, EC3, and has instructed DTZ to premarket the scheme. Prudential is expected to start work on 16-18 Finsbury Circus by 2005, and work should begin on Scottish Widows' Royex House, EC2, next quarter. Hammerson also stated this quarter that it believed rental growth would take hold within 12 months, and with it buying an extra one-third stake in its Moor House, London Wall, EC2, development, completing next quarter, it is investing in its predictions.

There were no prelets this quarter, and Willis Group is still to complete its deal at British Land's 51 Lime Street, EC3. Take-up did reduce, but that was down to a lack of the usual one or two big deals – a summer lull is nothing new. Prospects look better for the City Core, and the improving financial sector can only boost this.

Investment sales continued to increase in the market, as institutions saw their comparative advantage over debt-driven investors increase with rising interest rates. ING Real Estate for instance, purchased 85 Gracechurch Street, EC2, for £12 million more than Arab Investments paid for it 12 months previously. The potential change in the investment market caused by derivatives could be felt as early as next quarter, but will be difficult to quantify.

The City Fringe saw reduced take-up, but last quarter was an exception, owing to Land Securities' presale of Bankside 1, SE1, to IPC. Like other markets, smaller deals kept take-up ticking over and, as confidence improves, these deals will increase in size. Availability fell and the largest unit remains Sellar's "shard of glass" – London Bridge Tower, SE1. Hopes of a PricewaterhouseCoopers prelet were dashed this quarter, although Sellar claims it was never really on the cards. Notice has now been served on sitting tenant PwC, and Sellar says only a partial prelet will be required to kickstart construction. Across the river, though, the Swiss Re tower serves as a reminder that an attractive building isn't everything to a prospective occupier.

Land Securities was expected to commence work on the speculative element of its Bankside, SE1, scheme this quarter, but for the time being it seems happy to concentrate on the part already presold to IPC. Blackfriars' and RLAM's Palestra remains unchallenged in SE1 and seems capable of a single tenant deal (possibly to The Guardian). Should that occur, occupiers seeking prime new space in the market will have to look at the City Core borders, where Allen & Overy's surplus at 1-10 Bishops' Square, E1, is available, or at Derwent Valley Holdings' Johnson Building, E1. The proposed 15% rental uplift caused by transport improvement in the City Fringe, though, is interesting and could trigger late-1990s levels of development.

No more cranes in Docklands

Docklands had a good quarter. The principal event was the letting, outside the Canary Wharf estate, to the London Borough of Tower Hamlets at Anchorage House, East India Dock, E14. At 13,000 sq m (140,000 sq ft), this was the third largest deal in E14 for the last two years. Elsewhere, BP signed for more space at 20 Canada Square, exercising its options on the fifth floor (just the sixth now remains on the market, and BP has an option on that until November), and Morgan Stanley took 2,300 sq m (25,200 sq ft) at 25 Bank Street. Citigroup withdrew 13,400 sq m (144,200 sq ft) from the market at 25 Canada Square, and three floors of the remaining space have gone under offer to Munich Re and MWB. Songbird has also tried a different technique at the vacant space in 10 Upper Bank Street and 25 Bank Street, with Instant Offices now offering a serviced office solution, as well as the traditional leasehold disposal through CB Richard Ellis and Knight Frank.

The market saw its last speculative completion for a long while this quarter, with Barclays' 1 Churchill Place completing, leaving 30,400 sq m (327,200 sq ft) available. Although sentiment is improving on the estate and the financial sector is recovering, the amount of new empty space means tower cranes are unlikely to be seen again on the Docklands skyline for some time, despite the permission awarded for Canary Riverside.

Midtown shortages?

The Midtown market had a good quarter, with increasing take-up. Vacancy rates rose slightly, thanks to the speculative completion of 9,700 sq m (104,400 sq ft) at 2 Arundel Street, but the deal to the Treasury Solicitors' Department at CAA House Kingsway at 12,000 sq m (129,200 sq ft) was the largest seen for a while. Take-up of new stock continues (although reduced on Q2), and little is set to complete in forthcoming quarters. Demand is there, with active requirements from the London Development Agency, The Economist, Great Ormond Street Hospital and Yahoo, among others. Second hand space showed its appeal with three deals at Aldwych House, WC2 (to the Financial Reporting Council, London School of Economics and Fenwick Elliot), and a 1,950 sq m (21,000 sq ft) deal to Claranet at 21 Southampton Row, WC1. Asking prices, however, continued to decline – but this cannot be expected to continue.

The market saw the addition of Melbourne House, Aldwych, WC2, this quarter. The Inland Revenue will vacate this building for Treasury Chambers, SW1, as part of the Custom & Excise merger in 2005. This is of significance to the London market overall as it shows that government policy has and will lead to disposals. The fact that Treasury Solicitors took the space at CAA House is due to the need for proximity to London's courts, not in rebellion against Lyons.

West End rents

Take-up surged this quarter in the West End, but there were no big deals. The headlines came from the prices achieved in Mayfair, but they were typically on small units, and plenty of empty space remains in headline developments like Curzon Square. Other submarkets, Victoria in particular, still have problems. The Lyons report has started to be applied, with the ONS announcing 600 jobs will go from Bessborough Gardens, and the government has selected a panel of experts to advise it on its disposal of £30 billion-worth of property by 2010. Thoughts of government take-up can be abandoned, and Victoria Plaza and Belgrave House, SW1, could have long waits for tenants.

The first phase of Land Securities' Cardinal Place completes next quarter – offering 10,400 sq m (112,000 sq ft) – but the developer looks set to reduce its SW1 exposure, having submitted an application for the conversion of Bowater House to residential use.

The confidence seen in Mayfair is yet to spread to other markets, and Mayfair was the only area to see any speculative construction starts of note. GE Real Estate is confident in the West End, however, and completed its purchase of Haslemere and Benchmark this year, exposing itself to several West End schemes. The continued rise in the average asking price of new stock and decline in availability justify optimism, even if most of this is driven by Mayfair. Vacancy rates have started to fall and demand will spread out geographically. 2005 should be a good year.

Summary

The central London office market continues to improve. Previously, improvements seen in take-up and availability figures could not rein back vacancy rates, but these have started to decline. Speculative completions next quarter may well lead to slight rises, but take-up should continue to improve and will ameliorate the upward pressure on rates. The pressure from the mayor to convert unused office space to residential use was needed, and will hopefully reduce rates further.

Rents stabilised in the City Core this quarter, as the financial sector improved. While this may not be the start of an upward trend, it is encouraging – and the achieved rents at prime buildings testify to something of a resurgence. Mayfair has had the headlines this quarter, and rightly so with the rents achieved. This sentiment needs to spread outwards, and, with an improving economy, there is no reason this can't happen in 2005. Victoria, though, may still struggle, and the speculative completion of the first element of Cardinal Place, SW1, next quarter could cause problems.

The top of the market is still some time away, but developers are starting to anticipate it with plans to commence schemes over the next six months. If they delay any longer, though, they could risk missing out on what looks set to be a strong 2006.

Bill Page,
Senior Research Analyst,
London Office Database



Canary Riverside, E14:
 Ambition remains strong

“Increasing demand for Midtown stock”



Bowater House, SW1:
 Application for residential conversion



Curzon Square, SW1:
 Headline rent, but still much available

Analysis

Vacancy Rates %

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
City Core	8.00	9.50	11.33	11.91	14.80	17.05	18.71	19.02	18.50
City Fringe	10.07	11.31	11.79	16.66	17.45	17.60	20.20	20.31	19.74
Docklands	9.00	11.36	14.48	15.38	13.73	16.74	17.17	15.59	16.15
Midtown	8.34	9.33	10.57	11.34	11.70	14.33	15.10	14.11	14.95
West End	10.56	11.65	11.90	12.29	12.83	13.51	14.45	15.20	14.29
Overall	9.31	10.63	11.75	13.01	14.14	15.68	17.05	17.13	16.72

Overall, central London vacancy rates have fallen this quarter, for the first time in two years. Take-up on vacant new stock was down – 57,000 sq m compared with 61,500 sq m in Q2 – and there were fewer construction starts – 67,500 sq m compared to 97,900 sq m – but rates still fell. Smaller-end deals (230-465 sq m) soaked up the majority of this space, and much of the completed space this quarter was already prelet (2 **Marsham Street, SW1**, 3-8A **Whitehall Place, SW1**, and 101 **Queen Victoria Street, EC4**, for instance). Companies are still vacating space, but few companies vacated units larger than 2,000 sq m. This is good news for the London market; vacancy rates were recently surging forward as other indicators improved, but rates are now reflecting the recent progress made – although, of course, they are still worryingly high.

Speculative completions, the upward force on vacancy rates, have included 30,400 sq m at 1 **Churchill Place, E14** (the last speculative completion in Docklands); **Grosvenor's** and **RBOS's 41 Lothbury, EC2**, comprising 14,900 sq m; and 9,700 sq m at 2 **Arundel Street, WC2**. The improvement in other areas, however, has ameliorated these upward forces.



2 Arundel Street, WC2:
Upward pressure on rates

Total Availability (sq m)

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
City Core	1,173,294	1,200,412	1,300,851	1,321,534	1,407,370	1,431,552	1,476,837	1,452,685	1,494,264
City Fringe	761,312	839,504	854,402	865,717	854,705	893,865	852,825	898,682	861,928
Docklands	565,719	1,039,587	1,003,827	997,130	1,026,869	1,012,677	985,400	961,599	945,176
Midtown	247,763	273,530	287,995	289,529	292,350	289,683	304,973	278,671	273,609
West End	808,808	822,433	910,473	904,614	888,744	855,794	853,942	820,660	766,802
Total	3,556,896	4,175,467	4,357,548	4,378,524	4,470,038	4,483,571	4,473,977	4,412,296	4,341,779

Total availability has fallen for the third successive quarter. All markets except the City Core experienced falls, and the steady (if not improving) take-up and 94,600 sq m of withdrawals reduced total availability figures. Availability seems set to remain above the 4 million sq m mark for some time, but 1.9 million sq m of this is still in the planning stage, and the top two availabilities (**North Quay** and **Canary Riverside, E14**) comprise 342,000 sq m of this between them.

New additions this quarter have included the premarketing of **Hammerson's** scheme at the **Stock Exchange Building, Old Broad Street, EC2**, through **CB Richard Ellis** and **Strutt & Parker**, and **St Martin's Property Corporation** instructing **CBRE** to premarket its 18,600 sq m **150 Cheapside, EC2**, scheme (St Martins is in the process of appointing a joint agent). **DTZ** has been instructed to premarket **IVG Asticus's** 10,900 sq m **71 Lombard Street, EC3**, and **Jones Lang LaSalle** has been instructed to premarket a 7,600 sq m portion of **Land Securities's** 40-50 **Eastbourne Terrace, W2**. Existing space coming to the market includes 11,700 sq m at **180 Strand, WC2**, through **JLL**, after **Deloitte's** lease surrender; and, after **Jarvis's** poor financial results, its 9,200 sq m building at **Westgate, Smithfield Street, EC1**, became available – also through **JLL**.



71 Lombard Street, EC3:
DTZ instructed

Take-Up (sq m)*

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
City Core	26,038	18,317	58,546	59,359	35,784	82,278	50,924	94,022	76,077
City Fringe	42,269	26,503	49,094	38,854	38,543	65,711	31,858	71,964	42,732
Docklands	3,481	2,469	5,875	2,389	20,850	12,987	46,893	13,600	30,580
Midtown	22,945	20,908	25,372	27,489	20,698	48,142	30,174	28,253	37,218
West End	85,255	48,680	43,051	46,921	63,715	84,739	71,962	49,890	78,873
Total	179,988	116,877	181,937	175,012	179,590	293,857	231,811	257,729	265,481

*only units >232 sq m

The hoped-for surge in take-up failed to materialise. Nevertheless, a summer lull is hardly a new phenomenon in the London office market, and take-up has recorded a respectable total compared with the last two years. Q1 2001 saw over 400,000 sq m of take-up and, while a similar total may be three or four quarters away, the 300,000 sq m mark looks set to be breached soon.

Truly big deals were few, as the agents' league table will testify, but smaller-end deals were relatively plentiful and chipped away at vacancy rates. The headline-grabbing deals were relevant for the rentals achieved, not the floorspace taken.

The Docklands, Midtown and West End markets had the best performances of the quarter, but the IPC deal in the City Fringe in Q2 meant that market was unlikely to improve again in Q3.

The largest deal of the quarter was in Docklands – to the **London Borough of Tower Hamlets**, on 13,000 sq m at **Anchorage House, East India Dock, E14**, through **CB Richard Ellis**. The second largest came in Midtown, where the **Treasury Solicitor's Department** flew in the face of the Lyons report by taking 12,000 sq ft at **CAA House, Kingsway, WC2**, through **ATIS REAL Weatheralls** (although it needs to be close to London's courts for its work). The improvements in the financial sector continued, with **UBS** taking 5,900 sq m from **British Land** at 3 **Finsbury Avenue, EC2**, through **Knight Frank**, and **Xchanging** completed its 4,700 sq m deal at 34 **Leadenhall Street, EC3**, through **Cushman & Wakefield Healey & Baker** and **Hargreaves Goswell Down**.



CAA House, WC2:
Treasury Solicitors deal

Average Asking Prices* (£psm)

New Build (existing)**

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
City Core	£494.13	£465.60	£464.65	£472.54	£474.11	£475.41	£474.57	£471.04	£474.29
City Fringe	£319.41	£312.91	£298.73	£314.55	£295.44	£314.05	£319.05	£320.84	£319.88
Docklands	£500.53	£500.53	£500.53	£500.53	£464.20	£442.67	£446.71	£445.81	£446.71
Midtown	£470.93	£551.74	£489.76	£493.35	£468.23	£456.39	£435.94	£398.54	£386.43
West End	£635.91	£626.05	£539.63	£524.91	£533.53	£534.88	£556.79	£593.68	£606.70
Overall	£482.25	£463.35	£463.47	£469.66	£455.87	£452.72	£457.19	£465.01	£466.81

**not including refurbished space.

Second Hand Grade A

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
City Core	£442.68	£420.98	£392.02	£373.09	£362.89	£345.04	£336.87	£329.77	£330.72
City Fringe	£333.49	£310.92	£294.27	£282.58	£275.84	£269.90	£247.45	£248.72	£251.69
Docklands	£324.24	£338.08	£343.14	£299.25	£299.35	£315.25	£265.29	£275.48	£257.61
Midtown	£435.28	£411.88	£372.24	£368.81	£349.29	£330.40	£346.32	£352.52	£357.86
West End	£505.36	£474.21	£451.42	£443.60	£426.36	£407.76	£413.05	£403.73	£399.35
Overall	£427.64	£411.61	£392.79	£377.72	£363.98	£348.91	£345.06	£336.59	£334.67

*new leases only

The average price for new stock has now risen for the third quarter running across the whole of London, and for the fifth quarter running in the West End. This is undoubtedly positive news for London, but it is principally the Mayfair submarket in the West End keeping prices buoyant. There, the £750-£860-plus psm (£70-£80 psf) prices sought at **Curzon Square**, **40 Berkeley Square** and **10 Grosvenor Street, W1**, have been justified with deals this quarter (a Bank of Iceland-related company, **Blackstone** and **Associated British Foods**, respectively) but in Victoria, **JER** and **Grosvenor** are still sitting on an empty **Belgrave House, SW1**, at £590 psm (£55 psf), and **HRO** has seen little interest in its **Victoria Plaza, SW1**, refurbishment at £560 psm (£50 psf). In the City Core, despite a slight improvement in the price of new developments, the asking price at **25 Cophall Avenue, EC2**, was dropped from £485 psm (£45 psf) to £425 psm (£39.50 psf) with little effect (**Morley** also appointed **Knight Frank** as joint agent with **King Sturge**), and the iconic **Swiss Re Tower, EC3**, has had no deals at the asking price of £510 psm (£47.50 psf), while the far less architecturally inspiring **Paternoster Square** continues to sign up tenants at an asking price of £535-plus psm (£49.50 psf). **Latham & Watkins** even took second hand **99 Bishopsgate, EC2**, space at around £585 psm (£54.50 psf), albeit with 12 months rent-free. Second hand space, however, continues to suffer as attention focuses on the more prestigious new stock. The West End average has continued to fall – now breaching the £400 psm mark to stand at £399 psm (£37.10 psf), compared with almost £540 psm (£50 psf) in Q1 2001. Slight improvements have been seen in other areas, although it is too early to signify a trend.

Investment Sales (sq m)

	Q3 2003		Q4 2003		Q1 2004		Q2 2004		Q3 2004	
	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals
City Core	90,342	17	223,629	14	96,412	20	223,432	20	228,179	30
City Fringe	67,197	11	40,393	17	45,099	12	23,210	12	55,075	21
Docklands	7,180	1	0	0	164,278	4	5,534	8	0	0
Midtown	19,974	8	14,972	4	63,447	14	61,783	15	54,517	18
West End	38,720	16	64,713	27	40,202	28	77,433	21	113,094	27
Total	223,413	53	343,707	62	409,437	78	391,393	76	450,864	96

Investment sales continue to rise, in the face of increasing interest rates, and Q3 2004 saw twice the amount of stock change hands than Q3 2003. However, rising interest rates – the bane of the housing market at the moment – give institutional investors the advantage over their debt-driven competitors, and they are keen to benefit. Yields are falling – to as low as 5% – and the City Core is seeing most of the deals. One of the more significant deals, however, occurred with construction in mind, not immediate rental return, with **Mondial House, Upper Thames Street, EC3**, being sold by **BT** to **UBS** and City Offices Investments for £50 million, unlocking a huge riverside development site. Elsewhere, **Greater London House, NW1**, was sold by **Blackstone**, **JER** and **Resolution** to **Land Securities** for £113 million, and **3 Minster Court, EC3**, and **Senator House, Queen Victoria Street, EC3**, changed hands as part of the **Challenger** portfolio for £300 million. In Midtown, **CAA House, Kingsway, WC2**, was sold by **UBS** – prior to the **Treasury Solicitors** deal – for £100 million to a consortium of Irish investors, and **85 Gracechurch Street, EC2**, illustrated the appetite for good stock, selling to **ING Real Estate** for £32 million, a year after vendor **Arab Investments Ltd** purchased it for £20 million. In the West End, the biggest transaction was not an investment sale as such, but, like the **Songbird** takeover of **Canary Wharf Group** in Q2, a huge raft of properties changed hands when **GE Real Estate** completed its purchase of **Benchmark** and **Haslemere**. **GE** now has a real weight in the West End (with plenty of assets elsewhere), including properties like the **Golden Square** redevelopment, W1 (where work was completed this quarter), **Invensys House, Carlisle Place, SW1** (which was sublet to **John Lewis** this quarter), and, when the deal is completed in November, **Estate Gazette Group's** previous home at **151 Wardour Street, W1**.

Construction Starts with Prelets (sq m)

	Q3 2003		Q4 2003		Q1 2004		Q2 2004		Q3 2004	
	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet
City Core	7,197	590	4,976	0	5,209	0	25,853	19,075	3,672	855
City Fringe	2,755	0	802	0	29,468	0	14,214	0	38,309	37,975
Docklands	0	0	0	0	0	0	26,291	26,291	0	0
Midtown	12,666	2,059	2,640	0	4,088	0	7,939	1,655	2,911	0
West End	56,671	13,935	78,581	62,881	0	0	20,654	17,294	21,029	0
Total	79,288	16,584	86,999	62,881	38,765	0	94,950	64,315	65,921	38,830

Construction starts fell on last quarter, but the largest start of Q2 was the refurbishment works at **30 South Colonnade, E14**, already prelet to **Reuters**. It would have been expected, thanks to the improving sentiment in the market, that starts would have increased this quarter, but this failed to materialise, and the biggest scheme commencing in Q3 was 38,000 sq m at **Bankside 1, Southwark Street, SE1**, presold by **Land Securities** to **IPC** in Q2.

Elsewhere, the West End did see activity picking up, with speculative work commencing at **City Offices'** and **Morley's** 6,600 sq m **Chesham House, 150 Regent Street, W1**, and on 7,500 sq m at **Warnford Investments' 35-38 Portman Square, W1**, refurbishment. **GE Real Estate** now has responsibility for **Benchmark's** 2,600 sq m **Melrose House, Savile Row, W1**, and the final 2,000 sq m phase at **125 Shaftesbury Avenue, WC2**, both of which commenced this quarter. **Hammerson** commenced work on the 2,200 sq m **19 Hanover Square, W1**, refurbishment – a year after starting on the adjacent 18 – and, elsewhere, short-term works commenced on 3,000 sq m at **Hemingway's 59-61 Mark Lane, EC3**. It is notable, though, that most activity is concentrated in **Mayfair**, where optimism is running high.



40 Berkeley Square, W1: Deals achieved at £80 psf



85 Gracechurch Street, EC2: £12 million difference over 12 months



Chesham House, SW1: West End construction picks up ©Squire & Partners

Completed Space Actively Marketed (sq m)

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
City Core	58,721	56,873	56,626	85,343	170,327	249,946	291,308	294,413	319,148
City Fringe	53,694	63,775	56,660	74,092	88,831	92,127	86,754	78,891	71,099
Docklands	59,031	100,635	136,193	143,976	131,396	128,831	122,751	120,938	135,451
Midtown	28,982	41,853	53,761	53,941	52,312	48,130	41,038	32,795	45,588
West End	79,415	92,322	113,589	109,001	114,047	128,959	116,514	143,146	127,908
Total	279,843	355,458	416,829	466,354	560,443	647,993	658,366	670,185	699,194

The amount of completed space on the market continues to rise – this quarter by around 4%. However, this was not enough to increase vacancy rates, as small deals ameliorated the upward pressure, and the total on the market actually fell in the City Fringe and West End, thanks to take-up and withdrawals.

The largest speculative completion this quarter was in Docklands – when **Barclays' 1 Churchill Place, E14**, was completed with 30,400 sq m available through **CB Richard Ellis** and **Knight Frank**. This, however, was the last completion in that market – for the first time in years there is no office construction occurring, speculative or otherwise. Elsewhere, **Grosvenor's** and **RBOS's 41 Lothbury, EC2**, comprising 14,900 sq m, completed and is available through **CBRE** and **DTZ**, and, in the Midtown market, around 9,700 sq m of refurbishment works finished at **2 Arundel Street, WC2**, available through **Farebrother** and **Nelson Bakewell**. The largest available unit is 36,800 sq m at **40 Bank Street, E14** – last quarter, however, the largest unit was 46,000 sq m at **Citigroup's 25 Canada Square, E14**, but that figure has reduced to 32,600 sq m, thanks to **Citigroup** retaining occupation of the 25th to 29th floors. **CBRE** and **Knight Frank** are agents at **40 Bank Street**, and **Cushman & Wakefield Healey & Baker** is advising **Citigroup** at **25 Canada Square**.

Elsewhere, 35,000 sq m remains available at **Land Securities' 30 Gresham Street, EC2**, through **CBRE**, after **Lloyds TSB** pulled out of a deal and **Swiss Re** cannot find tenants willing to take any of the 25,700 sq m remaining available at **30 St Mary Axe, EC3** – despite appointing **CBRE** as joint agent with **DTZ**.

Under Construction by Completion half year and Occupation Status (sq m)*

	2 2004 (Q4)		1 2005		2 2005		1 2006		2 2006		1 2008	
	To Comp	Still Av	To Comp	Still Av	To Comp	Still Av	To Comp	Still Av	To Comp	Still Av	To Comp	Still Av
City Core	38,523	38,368	12,764	12,764	22,384	5,355	0	0	0	0	0	0
City Fringe	30,012	5,865	71,725	25,274	0	0	40,502	40,502	37,975	0	0	0
Docklands	0	0	26,291	0	0	0	0	0	0	0	0	0
Midtown	9,933	9,933	0	0	961	961	0	0	0	0	0	0
West End	99,476	34,765	50,583	8,034	53,479	53,479	13,647	9,234	0	0	60,062	0
Total	177,944	88,931	161,363	46,072	76,824	59,795	54,149	49,736	37,975	0	60,062	0

*Includes schemes where agents are not yet appointed

89,000 sq m of speculative stock is still to be completed in Q4 2004, and it will be joined by 106,000 sq m in the course of 2005. That is a lot of stock, but far more was completed over 2003. The market is recovering and, although vacancy rates remain high and a lot of new space is still on the market (almost 700,000 sq m), prospects are brighter than this time last year. Indeed, the change in conception is such that speculative constructions commencing 12 months ago were not only newsworthy, the raised eyebrows they caused necessitated justification from the developers (such as **Palestra, SE1**). Now, however, the market is almost willing developers to start.

The largest forthcoming completion is at **Land Securities' Cardinal Place, SW1** – where 41,700 sq m will be completed in August 2005, but 10,400 sq m is to be completed speculatively in Q4 2004 (brought forward from the first half of 2005). The West End improvements seen in Mayfair are yet to appear in Victoria and, with the first movements from the Lyons report already occurring, **Cardinal Place** could face a lengthy vacancy period. Elsewhere, **Hammerson** and **Henderson** complete their 28,000 sq m **Moor House, London Wall, EC2**, in Q4. **Hammerson** is confident enough to have agreed to buy **Greycoat's** third of the scheme for £52 million. No deals have been done, but **Sumitomo Mitsui** and **HypoVereinsbank** have both been reported to be interested. In the West End, the **Crown Estate** will complete its **1 Hanover Street, W1**, scheme (previously known as **Abbott House**) next quarter, with all its 11,000 sq m available through **Jones Lang LaSalle** – although **Apple** is thought to have placed the second floor under offer. The City Fringe's **Palestra, SE1**, is the third largest speculative scheme to complete, at 26,800 sq m, but the **Allen & Overy** surplus of 23,200 sq m at **1-10 Bishop's Square, E1**, is not far behind. **Land Securities** is yet to commence the remaining elements of its **Bankside** scheme, preferring to start the 38,000 sq m already presold to **IPC**.

30 St Mary Axe, EC3: Still no deal for Swiss Re

Moor House, EC2: Q4 completion for City Core



Availability (sq m)

City Core

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	319,148	83.57	8.40
Premarketing	571,777	39.64	12.00
Second hand	550,052	-9.59	-2.13
Under construction	53,287	-75.29	-37.85
Total	1,494,264	6.17	2.86

Total availability has risen, after a slight fall last quarter. The three largest additions to the market however, were proposed buildings. **Hammerson** instructed **CB Richard Ellis** and **Strutt & Parker** to premarket its 42,000 sq m **125 Old Broad Street, EC2**, scheme: **St Martins Property Corporation** instructed **CBRE** – and is set to appoint another – to premarket its 18,600 sq m **150 Cheapside, EC2**; and **IVG Asticus** has appointed **DTZ** to act on its 10,900 sq ft **71 Lombard Street, EC3**.

These three availabilities alone total 71,500 sq m, but 23,800 sq m of withdrawn space this quarter helped keep the overall rise on the quarter under 3%. The largest withdrawal came at **Land Securities' New Street Square, EC4**, scheme, where almost 9,300 sq m was withdrawn through **Kinney Green Stanford Webster** ahead of demolition.

Elsewhere, **Jarvis's** poor results led to its own 9,200 sq m building at **Westgate, East Smithfield, EC1**, becoming available through **Jones Lang LaSalle**, and **Invesco** placed 5,400 sq m on the market through **FPDSavills** at **27-30 Finsbury Square, EC2**.

City Fringe

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	71,099	-19.96	-9.88
Premarketing	369,231	12.23	-1.22
Second hand	353,384	-14.60	-6.61
Under construction	68,214	195.66	0.88
Total	861,928	0.85	-4.09

The City Fringe experienced a fall of 4% on Q2, thanks to 15,800 sq m being withdrawn, 42,700 sq m of take-up and few new availabilities of any significant size.

The largest new addition to the availability schedules was 2,800 sq m at **142 Holborn, EC1**, available through **Kinney Green Stanford Webster** and **Allsop & Co**, while **EA Shaw** commenced marketing an extra 2,400 sq m of refurbished space at **Europoint, Lavington Street, SE1**.

The largest unit on the market remains **Sellar's London Bridge Tower, SE1**, comprising 60,800 sq m, available through **CB Richard Ellis** and **FPDSavills**. Now **PricewaterhouseCoopers** has ruled itself out of a prelet, that space is set to remain available for some time.

More London, SE1, has seen some size changes. **Plot 7** is now the fourth largest scheme in the City Fringe, at 34,800 sq m, after the excess space from **Plots 3 and 4** (after going under offer to **Norton Rose** and **Lawrence Graham** respectively) was added to it. **Knight Frank** and **Jones Lang LaSalle** are agents.



30 Finsbury Square, EC2:
 Invesco add to City
 availability
 ©Hélène Binet

Docklands

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	135,451	3.09	12.00
Premarketing	725,359	-1.26	0.00
Second hand	84,365	-34.25	-0.60
Total	945,176	-7.96	-1.71

The Docklands market has experienced another fall in total availability, mainly thanks to **Citigroup** withdrawing 13,400 sq m for its own occupation at **25 Canada Square, E14**. **BP** has continued to take more space at **20 Canada Square**, and **Morgan Stanley** took space at **25 Bank Street**. The deal to **Tower Hamlets** at **Anchorage House** did not affect the availability figures, as that space was never officially marketed.

The completion at **Barclays' 1 Churchill Place, E14**, with 30,400 sq m of speculative space, led to the 12% rise in new space available, despite the **Citigroup** withdrawal and other deals.

The agreement to market **10 Upper Bank Street** and **25 Bank Street** through **Instant Offices** is interesting, and should lead to some short-term deals, but big deals on new stock are still lacking.

West End

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	127,908	12.15	-10.65
Premarketing	142,967	-7.43	10.40
Second hand	407,292	-18.79	-11.24
Under construction	88,635	-25.33	-0.57
Total	766,802	-13.72	-6.56

Availability fell again in the West End, as the market continued to improve. 77,000 sq m was taken, 25,800 sq m was withdrawn and there were few new additions of any great significance. The largest addition came in **Paddington**, at **Land Securities' 40-50 Eastbourne Terrace, W2**. The developer has instructed **Jones Lang LaSalle** to premarket a 7,600 sq m portion of the building, where works are expected to start next quarter. Elsewhere, **Portfolio Holdings** and **Apollo Real Estate** have appointed **Strutt & Parker** to premarket their 3,400 sq m **25-27 St George Street, W1** (formerly home to **Cushman & Wakefield Healey & Baker**). Construction will commence in October. **S&P** has also been appointed, with **Drivers Jonas**, on **Benchmark's** (now **GE Real Estate's**) **4-6 Savile Row, W1**, now under construction.

The largest units on the market remain the proposed schemes at **Paddington Basin, W2** (**Grand Union Building and Building 3**), but the larger element of **Land Securities' Cardinal Place, SW1**, scheme completes next year, comprising 35,300 sq m. **CB Richard Ellis** is advising.

Midtown

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	45,588	-12.85	39.01
Premarketing	21,730	-0.11	4.45
Second hand	196,942	0.18	-5.68
Under construction	9,349	-56.89	-42.55
Total	273,609	-6.41	-1.82

Total availability has fallen again in Midtown, despite some notable new additions. **Jones Lang LaSalle** has been instructed to market the space **Deloitte** surrendered at **180 Strand, WC2**, comprising 11,700 sq m, and 2,900 sq m was placed on the market at **Melbourne House, Aldwych, WC2**, through **Farebrother** and **King Sturge**. That space, to be refurbished, will be vacated by the **Inland Revenue** at the start of 2005 as part of government plans to merge the revenue with **Customs & Excise**, with a new headquarters at **Treasury Chamber, SW1** – more disposals can be expected. Elsewhere, **Farebrother** was also instructed, this time with **EA Shaw**, on 2,500 sq m at **100 Gray's Inn Road, WC1**, and the two agents are also disposing of **Bradford & Bingley's** 1,500 sq m office at **21-27 Lambs Conduit Street, WC1**.

Refurbished space available jumped this quarter, with the completion of works at **2 Arundel Street, WC2** (available through **Farebrother** and **Nelson Bakewell**); **25 Southampton Buildings, WC2** (available through **Montagu Evans** and **Jones Lang LaSalle**); and **151 Shaftesbury Avenue, WC2** (available through **Cushman & Wakefield Healey & Baker**).

Total availability has fallen again, although it remains worryingly above 4 million sq m. Much of this, however, comprises proposed schemes still at application or permission. Although the addition of proposed schemes to the market leads to depressing availability totals, these additions are a sign of ambition. The vacancy rates are starting to show that improvements are making a difference – despite still being well into double figures.

Across central London, 94,000 sq m was withdrawn this quarter as tenants reassessed disposal plans and developers brought forward construction plans. The financial sector is improving, gradually reducing the amount available in the City Core and Docklands. The government remains a worry but the only space to be released thus far is at **Melbourne House, WC2**, owing to the already agreed merger of **Customs and the Inland Revenue**. More disposals can be expected, but the market looks likely to be strong enough to absorb them.



25 Canada Square, E14:
 Citigroup withdrawal
 helps figures



4-6 Savile Row, W1:
 Agents appointed on
 Mayfair scheme
 ©Squire & Partners

Average Asking Prices (£psm)*

City Core

	Q3 2004	% +/- 12 months	% +/- 3 months
New – New Build (existing)	£474.29	0.04	0.69
New – New Build (pre-construction)	£414.41	0.00	0.00
New - Refurb (existing)	£369.86	-3.31	1.86
New - Refurb (pre-construction)	£322.92	n/a	0.00
Second hand grade A	£330.72	-8.80	0.29
Second hand grade B	£233.66	-15.50	-4.71

Asking prices have stabilised this quarter, apart from a continued fall in the price of grade B space. It is too early for this to be seen as a trend, but it is encouraging nonetheless. There have been encouraging signs – **Smith & Williamson** has placed **25 Moorgate, EC2**, under offer at the asking price of £540 psm (£50 psf); **Latham & Watkins** took space at **99 Bishopsgate, EC2**, at around £585 psm (£54.50 psf); and **Paternoster Square** continues to attract deals asking as much as £565 psm (£52.50 psf). However, **Swiss Re** is still without any interest at **30 St Mary Axe, EC3**, at £510 psm (£47.50 psf) and **Deutsche Bank** can find no tenants at **Cutlers Exchange, Houndsditch, EC3**, despite dropping the asking price to only £100 psm (£9.50psf). Agents there are **DTZ** and **Jones Lang LaSalle**.

There is still room for further falls – take-up was down this quarter and Q4 will see 38,500 sq m of speculative space complete, but the financial sector is improving and so, in 2005, should asking prices.

Docklands

	Q3 2004	% +/- 12 months	% +/- 3 months
New – New Build (existing)	£446.71	-3.77	0.20
Second hand grade A	£257.61	-13.94	-6.49
Second hand grade B	£197.64	-0.74	2.94

Large changes in the price of new stock are unlikely in such an analogous market, and the **Songbird**-controlled element of the **Canary Wharf** estate seems settled with an asking price of £450 psm (£42 psf). Variations do exist – the 19th floor is available at **One Canada Square** at £485 psm (£45 psf) on a sublease through **Montagu Evans**, while, in the same building, **Allsop & Co** is marketing the 36th floor, also on a sublease, at £400 psm (£37.50 psf). Other floors are available direct from the landlord at the market rate of £455 psm (£42 psf). Outside **Songbird's** control, **Citigroup** is trying to dispose of its surplus new space at **25 Canada Square** at £415 psm (£38.50 psf) – and three floors are under offer (to **Munich Re** and **MWB**).

At the other end of the scale, the 5th floor at **City Reach 1, Greenwich View Place, E14**, is still without a tenant, asking only £105 psm (£9.75 psf) – although the space is under offer. Agents are **Colliers CRE** and **Knight Frank**.

West End

	Q3 2004	% +/- 12 months	% +/- 3 months
New – New Build (existing)	£606.70	15.58	2.19
New - Refurb (existing)	£449.37	-27.40	4.02
Second hand grade A	£399.35	-16.11	-1.08
Second hand grade B	£319.18	-28.05	-0.77

All the headlines this quarter have been about rents achieved in the West End – exclusively in Mayfair. A company related to the **Bank of Iceland** signed for a floor at **Curzon Square, W1**, and **Blackstone** took extra space at **40 Berkeley Square** at £860 psm (£80 psf); **Associated British Foods** took 1,400 sq m at **10 Grosvenor Street, W1**, at £755 psm (£70 psf); and **Vedanta** took a floor at **16 Berkeley Street, W1**, at around £660 psm (£61.50 psf). Elsewhere, **UBS** took **20 King Street, SW1**, at an asking price of £805 psm (£75 psf). Deals are happening on the prime space, and average asking prices for this space continue to rise. However, the deals are not that significant in terms of their physical size and Second hand stock is still suffering.

The Victoria submarket seems to be the antithesis of Mayfair – new schemes there have been sitting completed without tenants for some time now (**Victoria Plaza** completed in Q4 2003, for instance) and the fact that Second hand grade A space now averages only £399 psm (£37.10 psf), compared with almost £540 psm (£50 psf) in Q2 2001, testifies that there is still a long way to go.

* new leases only

City Fringe

	Q3 2004	% +/- 12 months	% +/- 3 months
New – New Build (existing)	£319.88	8.27	-0.30
New – New Build (pre-construction)	£368.67	n/a	0.00
New - Refurb (existing)	£266.71	-3.46	-0.09
New - Refurb (under construction)	£322.92	34.83	0.00
Second hand grade A	£251.69	-8.75	1.20
Second hand grade B	£193.79	-8.76	0.03

The City Fringe saw little movement either way in asking prices, which is encouraging. The dichotomy is just as marked as in previous quarters, with new space at **Broadgate West, Appold Street, EC2**, commanding £510 psm (£47.50 psf) and achieving a deal – to **Sherman & Sterling** on 2,000 sq m (21,800 sq ft) through **Knight Frank**. Elsewhere, **Farebrother** is marketing 4,900 sq m on a sublease from **BT** at **211 Old Street, EC1**, at just £80 psm (£7.50 psf), with little recent success.

Take-up was down this quarter and there are three big schemes set to complete in the next 24 months – **Palestra, SE1**, the **Johnson Building, EC1**, and the extra space at **1-10 Bishops Square, E1**, but, unless demand drops off altogether, future falls seem unlikely.

Midtown

	Q3 2004	% +/- 12 months	% +/- 3 months
New – New Build (existing)	£386.43	-17.47	-3.04
New - Refurb (existing)	£336.05	-10.16	2.22
New - Refurb (pre-construction)	£349.83	n/a	-12.40
New - Refurb (under construction)	£399.34	54.58	-7.25
Second hand grade A	£357.86	2.45	1.52
Second hand grade B	£256.73	-8.42	-0.16

Surprisingly for the Midtown market, which has been consistently popular in recent quarters, prices have fallen again. There is relatively little new stock, despite the recent completions at **2 Arundel Street, WC2**, **151 Shaftesbury Avenue, W1**, and **25 Southampton Buildings, WC2**, and take-up increased 32% on Q2.

The highest asking price is £620 psm (£57.50 psf), for second hand units at **The Adelphi, John Adam Street, WC2**, available through **Knight Frank**. The highest price for new stock remains £510 psm (£47.50 psf) at **Derwent Valley Holdings' Davidson Building, WC2**, available through **Jones Lang LaSalle** and **Pilcher Hershman**.

There is a real lack of forthcoming completions – only around 10,900 sq m between now and the end of 2005 – so prices for new stock, now the second lowest in central London, should recover in forthcoming quarters.

The headline-grabbing deals and asking prices in Mayfair are good for overall averages, but mask the reality. Other markets in the West End are still suffering, secondhand prices are struggling, and landmark buildings like **30 St Mary Axe, EC3**, are still without deals, despite modest quoted rents. The dichotomy within and across markets illustrates the value of choosing the right location and developing the right space.

The stabilisation of rents in the City Core and Fringe is encouraging, if a little too early to claim a trend, but the continued decline of some Midtown prices is baffling as quality new stock becomes more scarce.

This is the third quarter running in which overall average asking prices for new stock have risen across central London, but slight price rises do not create a recovered market. Some of Mayfair's optimism needs to start spreading east.



Broadgate West, EC2:
Top rent for City Fringe



One Canada Square, E14:
Dichotomy within one building



10 Grosvenor Street, W1:
£70 psf achieved

Take-Up (sq m)*

City Core

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	13,602	1261.55	-55.30
Second hand	62,475	79.61	40.35
Total	76,077	112.60	-19.09

Take-up, although down on the exceptional Q2, is still improving. **Willis Group** is yet to complete its 39,000 sq m prelet of **British Land's 51 Lime Street, EC3**, and more than 62,000 sq m is under offer in the market. The improving confidence of the financial sector is clear, with **UBS** taking 5,900 sq m at **3 Finsbury Avenue, EC2**, through **Knight Frank**; **QBE** taking a 4,500 sq m sublease from **Accenture** at **1 Plantation Place, EC3**; and **HBOS** taking 3,600 sq m at **155 Bishopsgate, EC2**. The construction sector also added to the figures, with **AYH** taking 3,000 sq m at **10 Furnival Street, EC4**, and the legal sector added 2,100 sq m with a deal to **Bevan Ashford** at **Fleet Place House, Holborn Viaduct, EC4**.

Take-up of new stock was down on Q2, and there were no prelets this quarter. Second hand space, however, experienced something of a resurgence, which is surprising when there is so much relatively cheap new space about, with 73 deals over 232 sq m.

Docklands

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	6,137	950.81	114.50
Second hand	24,444	20.62	182.68
Total	30,580	46.67	124.85

The Docklands market had a brilliant quarter for take-up, thanks principally to the 13,000 sq m deal to the **London Borough of Tower Hamlets** at **Anchorage House, East India Dock, E14**. The market would have still recorded a higher total than Q2 without that deal, however, with deals to **Sapient** on 2,800 sq m at **1 Harbour Exchange, E14**, and **Morgan Stanley** on 2,300 sq m at **25 Bank Street** adding to the total.

BP continues to take space at **20 Canada Square**, exercising two separate options on the fifth floor – the first for 1,800 sq m in August, and the second for 2,000 sq m in September. It now has an option on the 4,400 sq m sixth floor, exercisable until 1 November.

Outside the **Canary Wharf** estate, **Comdirect** took 2,300 sq m at **Boatman's House, Selsdon Way**. The future looks good for Docklands – speculative construction has stopped, space is going under offer (**MWB** and **Munich Re** at **25 Canada Square**, for instance) and the financial sector is recovering. However, with almost 136,000 sq m of new stock being actively marketed across the estate, there is a long way to go.

West End

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	25,046	70.69	183.95
Second hand	53,827	9.76	31.06
Total	78,873	23.79	58.09

The West End saw a 58% improvement on Q2 – but that was a relatively poor quarter in terms of total take-up. The headlines this quarter were for the expensive Mayfair deals (**Curzon Square, 40 Berkeley Square, 10 Grosvenor Square** et al) – but the number of completed transactions (105 deals over 232 sq m completed) helped take-up to improve.

Completed deals this quarter included the letting of the 3,700 sq m **Invensys House, Carlisle Street, SW1**, to **John Lewis** (another **GE Real Estate** building); **Boodle Hatfield** completing its deal on the remaining 2,700 sq m at **Development Securities' Lumina, New Bond Street, W1**; and **Forsters LLP** taking **HSBC's 2,100 sq m Montagu House, Hill Street, W1**.

The **Lyons** report and **Gershon** recommendations now seem to be coming to fruition, after a hesitant few months. The headlines are about space becoming available (the **ONS** is shedding 600 staff at **Bessborough Gardens, SW1**, for instance), but the bigger effect will be the lack of take-up from the government. The Midtown deal to the **Treasury Chambers** was necessary owing to its work – and it will leave **28 Queen Street, SW1**, vacant. Demand is improving, but it can no longer be expected from the government.

City Fringe

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	8,795	-33.67	-17.56
Second hand	33,938	60.11	45.53
Total	42,732	10.87	-40.62

Like the City Core, the City Fringe had a poor quarter compared with Q2, but, again like the City Core, Q2 was an exception, benefiting from the single 38,000 sq m presale to **IPC** at **Bankside, SE1**. Q3 was not without its deals. **Islington Primary Care Trust** took 4,500 sq m at **Angel House, Goswell Road, EC1**, through **Richard Suskind** and **Allsop & Co**, and the 3,000 sq m **29-55 Gee Street, EC1**, was sold for owner-occupation through **Jarvis Keller** – but there were few deals of any significance.

Norton Rose and **Lawrence Graham** have placed 30,400 sq m and 13,100 sq m respectively under offer at **More London, SE1**, so there are still some big deals to come, and **The Guardian** is on the lookout for a 14,000 sq m new head office in the City Fringe.

Midtown

	Q3 2004	% +/- 12 months	% +/- 3 months
New/refurb (existing)	3,358	-19.29	-66.88
Second hand	32,205	94.74	76.32
Under construction	1,655	n/a	n/a
Total	37,218	79.82	31.73

Midtown proved its popularity this quarter with a 32% increase in take-up on Q2. This was led principally by the 12,000 sq m **Treasury Solicitor's** deal at **CAA House, Kingsway, WC2**. This dwarfed other deals – but with a total of 40 transactions over 232 sq m this quarter, improvements were not just down to the government.

Other deals included the 1,900 sq m let to **Claranet** at **21 Southampton Row, WC1**; and **Aldwych House, WC2**, saw three deals – the **Financial Reporting Council** took 1,800 sq m; **Fenwick Elliot** took 1,000 sq m; and the **London School of Economics** took 600 sq m.

Midtown also saw a 1,700 sq m prelet at **Arlington Property's 151 Shaftesbury Avenue, WC2** – which underwent a 14-week refurbishment to catch demand for new stock – to the **British Horseracing Board**. This is expected to free **Delancey** to commence its **40 Portman Square, W1**, scheme in the West End, after **BHB** surrenders its lease there.

Take-up did not surge forward in Q3 as hoped, but it did improve. There was a lack of large deals across London – **Anchorage House** and **CAA House** excepted – but the fact that take-up improved without these 10,000 sq m-plus deals is testament to improving demand. Small-end deals kept take-up going in Q3. If big deals can be added to these in subsequent quarters, total take-up should breach 300,000 sq m again – returning to pre-2001 levels.

The government is responding to **Lyons** and **Gershon**, not just by calling for strike action, and space is gradually becoming available. If departments are taking the order to downsize seriously, they are also set to take the order to sign no more deals seriously.

Fortunately for the market, the reduced government demand will be masked by improvements from other sectors over the next three to four years.



10 Furnival Street, EC4:
AYH deal



151 Shaftesbury
Avenue, WC2: British
Horseracing Board deal



Lumina, New Bond
Street, W1: Boodle
Hatfield deal

* only units > 232 sq m

Completed Space Still Available as at Q3 2004 (sq m)

City Core

Completed half year	Q3 2004
1 2001	1,608
2 2001	4,153
1 2002	1,666
2 2002	9,807
1 2003	35,891
2 2003	151,535
1 2004	82,053
2 2004	32,434

Almost 32,500 sq m of speculative space was completed in Q3, with another 38,500 sq m set to join it in Q4. There is now 319,000 sq m of new stock being actively marketed, and this figure can only increase. The above figures do show that, while stock is capable of sitting vacant for three years, the vast majority of new available stock was completed since the start of 2003.

Land Securities' 30 Gresham Street, EC2, remains the largest liability, at 35,000 sq m, after narrowly missing out on capturing **Lloyds TSB** (although a deal is not completely ruled out), and **Swiss Re's** narrow floorplates across 25,700 sq m at **30 St Mary Axe, EC3**, are yet to attract a tenant. Down the road, however, **British Land** has proved it is space, not prestige, that matters to tenants, with deals now completed on 28,000 sq m at **Plantation Place, EC3** (24,000 sq m remains available across the two buildings).

Docklands

Completed half year	Q3 2004
2 2001	32,631
1 2002	0
2 2002	5,011
1 2003	41,162
2 2003	26,223
1 2004	0
2 2004	30,425

The Docklands market saw its last speculative completion for some time this quarter, with the 30,400 sq m still available at **Barclays' 1 Churchill Place, E14**, completing. This does give the market a chance to consolidate – especially now that the financial sector is recovering – but **Songbird** should still be prepared, like its predecessor **Canary Wharf Group**, to offer generous terms to attract big deals. **Citigroup's** withdrawal of 13,400 sq m at **25 Canada Square, E14**, coupled with the letting to **Morgan Stanley** of 2,300 sq m at **25 Bank Street** and the two options taken by **BP**, totalling 3,800 sq m, at **20 Canada Square, E14**, reduced the amount available from earlier years. Space is under offer – to **MWB** and **Munich Re** – and the arrangement with **Instant Offices** should see an increased turnover of deals.

West End

Completed half year	Q3 2004
1 2001	1,744
2 2001	1,767
1 2002	1,684
2 2002	8,941
1 2003	27,264
2 2003	38,978
1 2004	36,522
2 2004	7,766

Only 7,800 sq m of speculative space completed this quarter – one of the lowest totals for some time. However, 35,000 sq m will complete in Q4, adding to the significant amount still available. Large units in Victoria are having real difficulty attracting tenants, with 25,300 sq m still available at **JER's** and **Grosvenor's Belgrave House, SW1** (although the sixth is under offer to **Vitol**), and 21,600 sq m available at **HRO's Victoria Plaza, SW1**, which was completed at the end of 2003. Elsewhere in the West End, the **Paddington** submarket is still struggling, with 21,000 sq m still available at **The Point, W2**, on a sublease from **Orange**. The headline-grabbing deals on new space were down to achieved rentals, not size, and it must be remembered that 6,300 sq m remains available at **Curzon Square, W1**, and 5,100 sq m remains available at **The Corner, Wigmore Street, W1**, after completing in Q3 2003. Nevertheless, prices continue to rise and the £860 psm (£80 psf) target has been achieved. Which industry sector, however, is going to take **Victoria Plaza** or **Belgrave House, SW1**, now that the government has deserted the requirements schedules?

City Fringe

Completed half year	Q3 2004
1 2001	1,886
2 2001	0
1 2002	2,686
2 2002	9,198
1 2003	21,575
2 2003	27,771
1 2004	4,988
2 2004	279

Nothing of significance completed this quarter, and, next to Midtown, the City Fringe has the least new stock available. Developers, however, still seem wary of taking the plunge, and **Land Securities** is yet to commence the speculative parts of **Bankside, SE1**, in competition with **Blackfriars Investments'** and **RLAM's Palestra** scheme.

The largest amount of new stock available is still at **Broadgate West, Phase 2, EC2**, with 14,400 sq m available after completion in Q2 2003 – 2,000 sq m less than last quarter, thanks to the **Sherman & Sterling** deal. Across the river, however, 12,700 sq m is still available at **More London Plots 2 & 6, SE1**, after completion in Q3 2003.

There are three big schemes on the horizon – the **Johnson Building, EC1**, **Palestra, SE1**, and **1-10 Bishop's Square, E1**, with 63,700 sq m of speculative space between them. The three big deals required to stop them becoming significant liabilities still seem a long way off.

Midtown

Completed half year	Q3 2004
2 2001	11,317
1 2002	77
2 2002	1,952
1 2003	12,814
2 2003	9,414
1 2004	1,644
2 2004	16,930

16,900 sq m of new stock was completed in Midtown this quarter. Of this, 9,700 sq m was at the refurbished **2 Arundel Street, WC2**, available through **Farebrother** and **Nelson Bakewell**. Work also completed at **City & General's 25 Southampton Buildings, WC2**, where all its 4,200 sq m is available through **Montagu Evans** and **Jones Lang LaSalle**; and at **Arlington Property's 151 Shaftesbury Avenue, WC2**, where 3,000 sq m remains available through **Cushman & Wakefield Healey & Baker**, following the **British Horseracing Board** prelet. The Midtown market has the least new space available of any market, and speculative completions after Q4 2004 will be scarce. It was, therefore, surprising to see some asking prices drop again. This trend cannot be expected to continue beyond this year.

The total amount of new stock on the market is, unsurprisingly, still rising. The impressive sentiment coming from Mayfair would make many think a shortage problem was on the cards, but that is far from the case. Deals are attracting attention because of the prices paid by cash-rich companies, not because of the size of unit taken. These deals, though, do add up, and, as the economy improves, so the size of deal should increase. Speculative completions dry up after 2005 and the Midtown market, in particular, looks set for a shortage. Prices continue to rise for new stock in the West End and seem to be stabilising in the City. The days of the cheap deal are numbered, and the improving economy and recovering financial sector mean demand for good stock is on the increase.



30 Gresham Street, EC2: City Core's largest liability



1 Churchill Place, E14: Last speculative completion for Docklands



Belgrave House, SW1: Still no completed deal

Construction Starts (sq m)

City Core

Q1 2002	18,700
Q2 2002	55,521
Q3 2002	28,293
Q4 2002	19,074
Q1 2003	5,361
Q2 2003	16,202
Q3 2003	7,197
Q4 2003	2,455
Q1 2004	5,209
Q2 2004	25,853
Q3 2004	3,672

This quarter saw only two starts, neither of any note, but that is not to say extreme caution has returned to the market. Demolition has commenced at **Scottish Widows' Royex House, EC2**, site, with construction on the 23,800 sq m scheme expected to commence in Q4. **IVG Asticus** seems committed to its 11,000 sq m **71 Lombard Street, EC3**, proposal, with construction set to commence in the first half of 2005, and **Prudential** is soon to commence its **Finsbury Square, EC2**, scheme. There is, however, an awful lot of new stock still lying empty, and the well-publicised fate of the surplus at **30 St Mary Axe, EC3**, means developers need to make sure they construct space that meets occupiers' requirements, as well as being pleasing to the eye.

Docklands

Q1 2002	0
Q2 2002	0
Q3 2002	0
Q4 2002	0
Q1 2003	0
Q2 2003	0
Q3 2003	0
Q4 2003	0
Q1 2004	0
Q2 2004	26,291
Q3 2004	0

Unsurprisingly, nothing new started in Docklands and, despite returning appetite from the financial sector, nothing is likely to start for some time. A major prelet will, of course, change that – but while so much still remains empty, that is unlikely. **15 Churchill Place**, formally an **Enron** target, is said to be ready to go at short notice, and the permission awarded to the massive **Canary Riverside** scheme and the bidding for **British Waterways' Wood Wharf** this quarter show that ambition remains.

Other schemes like **1 Millharbour** (52,300 sq m), **Arrowhead Quay** (44,300 sq m), and the **World Trade Centre** (41,000 sq m) await the go-ahead – but works seem a distant prospect.

West End

Q1 2002	11,919
Q2 2002	93,156
Q3 2002	10,938
Q4 2002	58,926
Q1 2003	49,417
Q2 2003	12,318
Q3 2003	56,671
Q4 2003	78,581
Q1 2004	4,645
Q2 2004	20,654
Q3 2004	21,029

Speculative starts picked up this quarter, as developers saw the demand for good stock in Mayfair. The only developer to expose itself to SW1 was **McKay Securities**, commencing the 1,900 sq m **1 Old Queen Street, SW1**, scheme, on the door step of the government committed to take no more space. **Morley** and **City Offices** commenced the 6,600 sq m **Chesham House, Regent Street, W1**; **Warnford Securities** commenced works on its 7,500 sq m **35-38 Portman Square, W1**, refurbishment and **Hammerson** started work on **19 Hanover Square, W1**. Activity is returning – but developing outside of Mayfair is more of a gamble than developing within.

City Fringe

Q1 2002	17,159
Q2 2002	10,395
Q3 2002	13,072
Q4 2002	11,165
Q1 2003	30,301
Q2 2003	75,913
Q3 2003	2,755
Q4 2003	802
Q1 2004	29,468
Q2 2004	14,214
Q3 2004	38,309

The City Fringe saw its biggest start for some time this quarter, with **Land Securities** commencing the 38,000 sq m **Bankside 1, SE1**, with the benefit of the presale to **IPC**. Although the Fringe market has the second smallest amount of new stock on the market, developers are still cagey about starting without a prelet. **Land Securities** was expected to commence works on the remaining 33,200 sq m at **Bankside** speculatively this quarter, but this has not happened, leaving **Blackfriars Investments** and **RLAM** unchallenged in SE1 with their 26,900 sq m **Palestra**, due for completion in the first half of 2006. The onus is on **LandSec** to challenge them.

Midtown

Q1 2002	3,704
Q2 2002	17,165
Q3 2002	2,798
Q4 2002	0
Q1 2003	1,717
Q2 2003	15,462
Q3 2003	12,666
Q4 2003	2,640
Q1 2004	4,088
Q2 2004	7,939
Q3 2004	2,911

The only start of note this quarter was the final phase of **JER's** and **Benchmark's** (now **GE Real Estate**) **125 Shaftesbury Avenue, WC2**, comprising almost 2,000 sq m. There is little new stock on the market and few schemes in the pipeline, compared with other markets. Work is due to start at **Melbourne House, Aldwych, WC2**, when the **Inland Revenue** vacates in early 2005, but that is the only definite future start of note. Demand for good stock has been constant in Midtown, and a shortage is likely. More short-term refurbishment schemes can be expected, rather than ambitious new developments.

Construction starts remain tentative, despite improving demand and the prospect of a strong 2006/2007 market.

The West End has seen more speculative starts – but, again, Mayfair remains an outlier of ambitious sentiment. Big schemes are set to go again in the City Core, but we have probably seen the last crane on the Canary Wharf estate for a long time. The market with the least amount of speculative stock on the horizon – the Midtown market – also has the fewest big schemes in the pipeline. Although some prices are still falling in that market, demand remains, and it will be down to short-term refurbishments outside the planning system to catch this demand, rather than the ambitious development seen earlier in the decade.



Bankside 1, SE1:
Construction starts on
IPC HQ

"Docklands starts
unlikely for some
time"



19 Hanover Square, W1:
Hammerson commences
construction

Under Construction and Still Available (sq m)

City Core

Estimated completion date	To complete	Still available
Q4 2004	38,523	38,523
Q1 2005	12,764	12,764
Q2 2005	0	0
Q3 2005	22,384	5,355

The largest forthcoming speculative completion is **Moor House, London Wall, EC2**, now due for completion in October (previously thought to be September). Despite no deals on the 28,000 sq m development (interest from **Sumitomo Mitsui** and **HypoVereinsbank** has been reported), **Hammerson** is committed enough to be purchasing **Greycoat's** one-third stake in the development. **Henderson** owns the other third.

After **Moor House**, the size of schemes drops sharply, with **Condor House, St Paul's Churchyard, EC4**, the second largest at 9,700 sq m. **Coal Pension Properties'** development will complete in spring next year.

As seen previously, a great deal of stock is lying empty in the City Core, but demand is returning and more speculative starts can be expected. A quick deal at **Moor House** after completion will give developers the boost needed.



The Johnson Building, EC1: One of City Fringe's "Big Three"

City Fringe

Estimated completion date	To complete	Still available
Q4 2004	30,012	5,865
Q1 2005	1,461	1,461
Q2 2005	70,265	23,814
Q3 2005	0	0
Q4 2005	0	0
Q1 2006	13,657	13,657
Q2 2006	26,845	26,845
Q4 2006	37,975	0

There are three big schemes on the City Fringe horizon – **Blackfriars Investments'** and **RLAM's Palestra, SE1**, at 28,800 sq m; **Derwent Valley Holdings' Johnson Building** at 13,700 sq m; and the surprise addition last quarter of **Allen & Overy's** 23,200 sq m surplus at **1-10 Bishop's Square, E1**.

After these three, there is little of note. Developers are still unwilling to commit, preferring to wait and see what happens to these schemes and the empty space already on the market. As mentioned previously, **The Guardian** could well soak up much of this space as it attempts to consolidate, but it may instead decide to take a prelet at **Land Securities' Bankside, SE1**, or even at **Sainsbury's** old headquarters, **10 Blackfriars Road, SE1**.

Docklands

Estimated completion date	To complete	Still available
Q4 2004	0	0
Q1 2005	26,291	0

The only completion on the horizon is the prelet **30 South Colonnade, E14** – the future home of **Reuters**. The last of the speculative completions was **1 Churchill Place**, completing this quarter, and speculative starts in the market remain unlikely. The financial sector continues to return to health, but is unlikely to be bullish enough to require the full or majority prelet required to resurrect construction any time soon.



55 New Oxford Street, WC1: One of few Midtown schemes

Midtown

Estimated completion date	To complete	Still available
Q4 2004	9,933	9,933
Q4 2005	961	961

There are three forthcoming completions of note: 4,000 sq m at **Investream's 55 New Oxford Street, WC1**; 3,300 sq m at **Watchwait's Princes House, Kingsway, WC2**; and the final 2,000 sq m phase at **125 Shaftesbury Avenue, WC2**.

Demand for good stock remains in Midtown, and completions dry up after 2004. More short-term refurbishments can be expected to catch demand, but the market has few liabilities and asking prices should start to recover soon.

West End

Estimated completion date	To complete	Still available
Q4 2004	99,476	34,765
Q1 2005	50,583	8,034
Q2 2005	0	0
Q3 2005	53,479	53,479
Q4 2005	0	0
Q1 2006	4,413	0
Q2 2006	9,234	9,234
Q1 2008	60,062	0

Land Securities' Cardinal Place, SW1, dwarfs other speculative completions in the West End. The completion dates were revised this quarter, with the smaller 10,400 sq m element now completing in Q4 2004. The state of the **Victoria** market probably means it will still be empty by the time the remaining elements (35,300 sq m and 6,400 sq m) arrive in Q3 2005.

Also arriving in Q4 will be the **Crown Estate's 1 Hanover Street, W1**, comprising 10,700 sq m. This already has one floor under offer, to **Apple**, and has the benefit of falling within the optimistic **Mayfair** submarket, where top-end deals were achieved this quarter. At the turn of the year, **Great Portland Estates' Metropolis House, W1**, completes in **Bloomsbury**. That is still fully available, although the **Arts Council** is tipped for a prelet, in the face of **Lyons**. After **Cardinal Place**, speculative completions dry up. **Chesham House, Regent Street, W1**, and **4-6 Savile Row, W1**, arrive in Q2 2006, but the market has a good chance to consolidate before then – outside **Victoria**, at least.



Cardinal Place, SW1: Could cause more problems for Victoria

The end of speculative developments is on the horizon, but as circumstances improve, the predicted speculative starts, ready for 2006/2007 delivery, are yet to materialise. **Moor House** is the City Core's biggest liability, and **Palestra** the City Fringe's. Both those schemes are capable of single-tenant deals, and that will seriously reduce the amount of prime space available across London. While so much stock still lies vacant, it is difficult to see beyond 2005, but the stabilising prices show that demand is there. That demand, though, is far from uniform across London, and clearer geographical divides are set to emerge over 2005, across markets and within them.

What LOD monitors

Markets

City Core: EC1A, EC2M, EC2N, EC2R, EC2Y, EC2V, EC2A (only Finsbury Pavement, Finsbury Square, Appold Street and Chiswell Street), EC3, EC4.

City Fringe: EC1M, EC1N, EC1R, EC1V, EC1Y, EC2A (excluding Finsbury Pavement, Finsbury Square, Appold Street and Chiswell Street), E1, SE1 postcode sectors 0, 1, 2 and 9.

Docklands: E14

Midtown: WC1 and WC2 (excluding Leicester Square)

West End: W1, SW1, NW1 sectors 3,5 & 6, Leicester Square (WC2) and Paddington (W2)

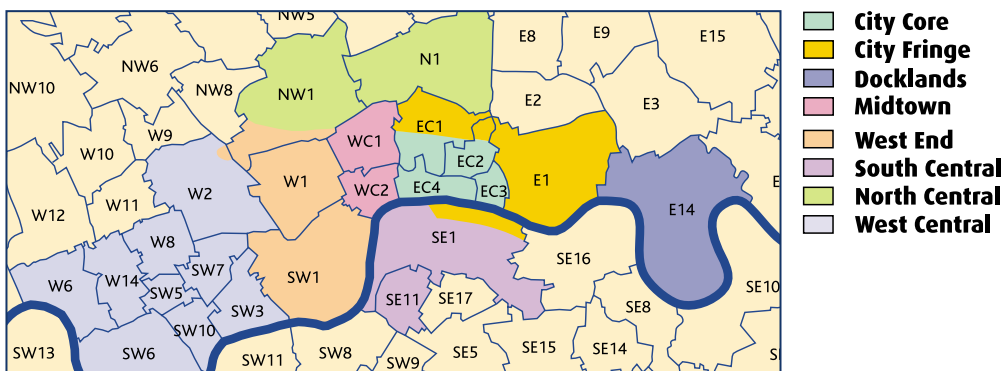
Data

Building Stock: Any office building over 232 sq m (2,500 sq ft) in West End, Midtown and City Fringe and over 465 sq m (5,000 sq ft) in City Core, Docklands, South Central, North Central and West Central.

Availability: Any unit above 46 sq m (500 sq ft) in buildings subject to the above stock thresholds

Take up: Any unit above 232 sq m (2,500 sq ft) subject to stock thresholds

Planning: Any project over 232 sq m (2,500 sq ft), subject to stock thresholds



Definitions

■ **Quarters:** For data collation reasons, our quarters run from the 1st of the month to the last day of the 3rd month i.e. 1st January to 31st March; 1st April to 30th June; 1st July to 30th September and 1st of October to 31st December. Some data in this report is given in half years for space reasons.

■ **Lettings League Table:** Total of all completed disposals by quarter across all of LOD's markets. Under offer or exchanged space is not included. Does not include lease renewals, restructures or investment sales. Space in joint agency deals attributed to both agents. Space is given in sq ft for this section only.

■ **Vacancy Rates:** Total building stock figures divided by vacant space whether being marketed or not. Neither figures include space under construction or yet to commence construction.

■ **Availability:** New/Refurb (existing) is a combined total of newly constructed and refurbished space; Premarketing is any space marketed which is yet to commence construction; Second Hand is any space which has previously been occupied; Under Construction is a combined total of refurbishment and redevelopment projects currently under construction. Space under offer is included. Investment properties are not included.

■ **Take-Up:** See criteria and definitions above.

■ **Average Asking Prices:** An average of asking prices by grade of space by market. Only space available on new leases with a quoting rent is collated. Space under offer has been included. Second Hand Grade A space is previously occupied units with air conditioning and one or more of raised floors, under floor trunking or perimeter trunking.

■ **Investment Sales:** Subject to stock thresholds, a total of space sold as freehold, long leasehold or virtual freehold, both for investment and for owner occupation.

■ **Construction Starts with Prelets:** A total of space commencing refurbishment or redevelopment by quarter with a total of that space prelet.

■ **Completed Space Actively Marketed:** Simply a total of completed refurbishments and redevelopments being actively marketed by quarter. Includes space let but never occupied.

■ **Under Construction by Completion Half Year and Occupation Status:** A total of all office space expected to complete by half year with how much still available. This includes space not on the market.

■ **Construction Starts:** A total of space by quarter construction commenced.

■ **Under Construction and Still Available:** A total of all office space currently under construction by completion date with how much is still available.

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