Central London Q4

CENTRAL LONDON OFFICES | JANUARY I 2010

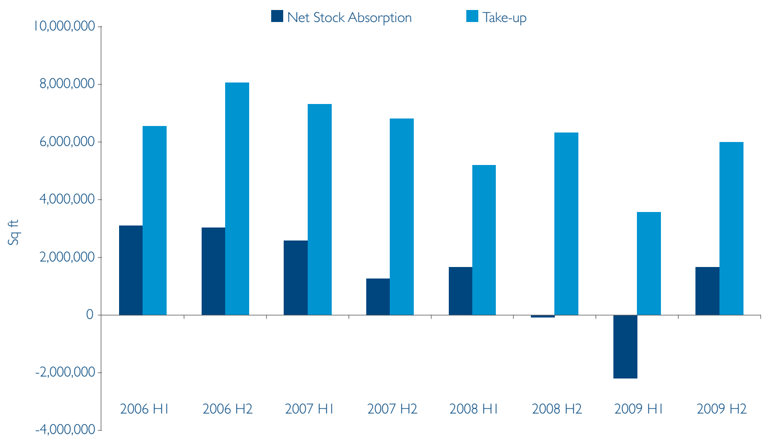
"Occupation levels are on the rise once more with the return of expansionary take-up. The City market is likely to see significant upward movement in headline rents over the first half of 2010 with 10% growth anticipated."

Central London	
Availability	▼
Take-up	▲
Rents	▲
Net Stock Absorption	▲
City	
Availability	▼
Take-up	▲
Rents	▲
Net Stock Absorption	▲
West End	
Availability	▼
Take-up	▲
Rents	►
Net Stock Absorption	▲

Central London Highlights

- Q4 2009 saw the overall office vacancy rate for Central London fall for the first time in two years. Current vacancy is down at 10.4% suggesting Q3 2009 saw it peak at 11%. Total available office space fell by 4%, which marks the first fall in availability since September 2007.
- Overall, physical occupation of office space rose by a remarkable 1.7 million sq ft in H2 2009, driven in the main by major occupations and expansions within the City of London market. A number of occupiers have provided encouraging evidence of a return to expansionary take-up with Nomura (+106,000 sq ft), Allianz (+66,000 sq ft) and Bank of China (+65,000 sq ft) all increasing their occupation levels.
- Demand across Central London for new and refurbished accommodation space caused a 10% fall in the availability of that type of space. However, vacancy of second-hand unrefurbished accommodation increased for the seventh consecutive quarter.
- Although annual take-up is down by 17% year on year, increased activity in the second half of 2009 has substantially improved the transactional picture across Central London. 6 million sq ft was transacted in H2 2009 compared to just 3.5 million sq ft in the first half of 2009. Take-up of existing new and refurbished space in Q4 2009 reached the highest level for over a decade as tenants took advantage of low rents.
- In terms of office developments, a total of 3.3 million sq ft of speculative space came to the market during 2009. 2010 will see 3 million sq ft of speculative space complete but beyond that the pipeline is uncertain.
- Average Central London prime rents increased marginally to £43.00 psf thanks to a modest rise in headline rents in the City market.

FIGURE 1: CENTRAL LONDON NET STOCK ABSORPTION VS TAKE-UP



Source: Colliers CRE

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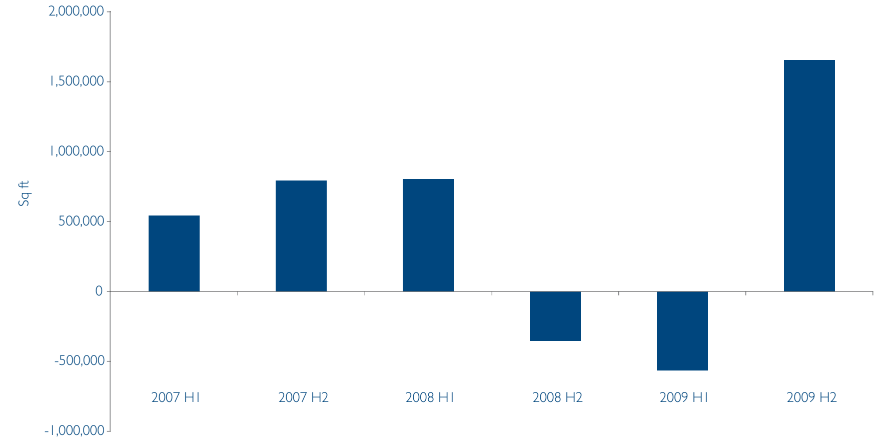
City

- **Demand** in the second half of 2009 has outstripped all expectations. Absorption of Grade A space continues to be positive, with Grade A occupation up by a staggering 1.5 million sq ft in the second half of 2009. This compares to a fall in occupation of 564,000 sq ft in H1 2009 across all trades. In the Square Mile alone, an additional 1.2 million sq ft of completed Grade A space was occupied. Demand will continue into 2010 with Q1 likely to see deals completing to Blackrock at Drapers Gardens (270,000 sq ft) and RBC at Riverbank House (170,000 sq ft).
- Total **take-up** in the City rose for the third successive quarter, up by a considerable 23%, to stand at its highest quarterly level for over two years and put it over 50% above the ten year quarterly average. Transaction levels reached over 2 million sq ft helped by a string of major deals (five in excess of 100,000 sq ft) to the likes of Pinsent Masons, Clyde & Co, Allianz, Bank of China and Catlin underwriting.
- **Available** space in the City is currently 11.5 million sq ft, which is a fall of over 4% quarter on quarter. This is the largest quarterly reduction in availability for close to two years. The above situation is further evidenced by Blackrock's 'gazumping' of Macquarie at Drapers Gardens. The asset manager will take the entire 270,000 sq ft at a rumoured headline of close to £50.00 psf. This is likely to further increase upward pressure on headline figures. There has been a marked reduction in 100,000 sq ft plus options within the Square Mile. Just six months ago the City market had 16 Grade A units over 100,000 sq ft on the market, now just seven are available.
- Current **prime rents** stand at £45.00 psf, which is 14% down on this time last year. There is evidence to suggest that figure may rise to £48.50 psf as early as the end of Q1 2010 with prime rents pushing close to £50.00 psf by the half year. Incentives continue to come in with current estimates for Grade A space on ten year term certain at circa 30 months **rent-free**. We would anticipate a further reduction in line with rising headline rents in the first half of 2010.

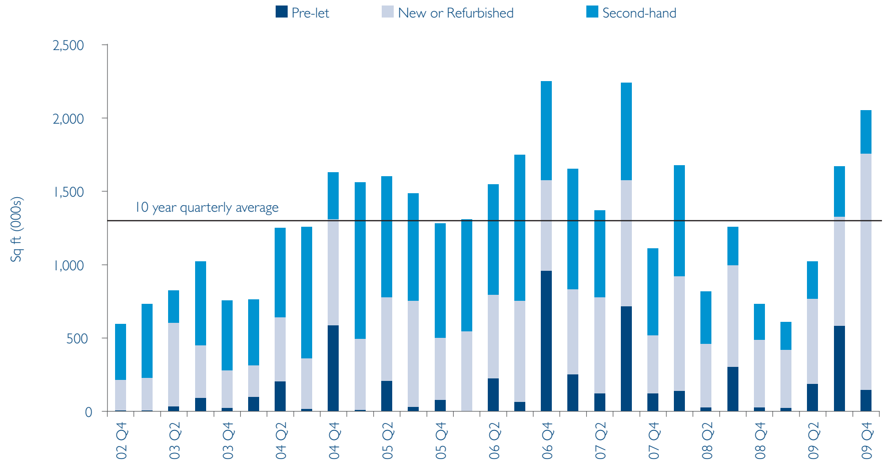
"Huge increase in absorption with rental uplift set to continue"

FIGURE 2: CITY NET STOCK ABSORPTION



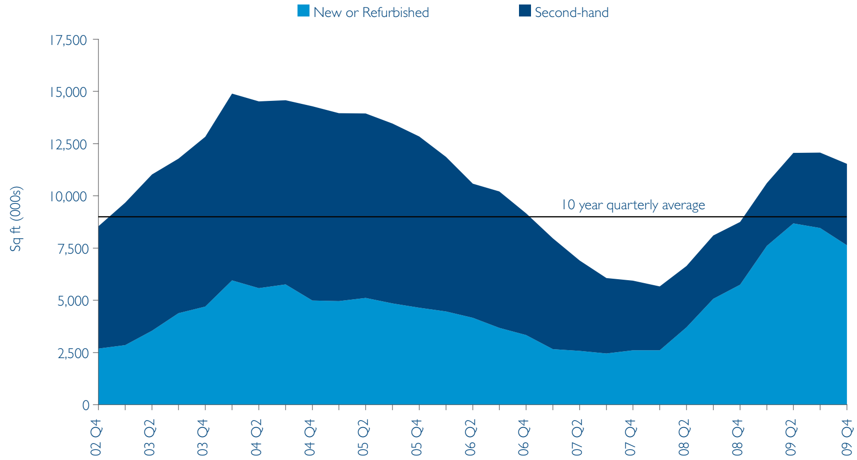
Source: Colliers CRE

FIGURE 3: CITY TAKE-UP



Source: Colliers CRE, Focus

FIGURE 4: CITY AVAILABILITY



Source: Colliers CRE, Focus

West End

- West End **absorption** of office space turned positive following a fall in occupation of 1.3 million sq ft in H1 2009. Over 100,000 sq ft more of West End office space was occupied at the end of Q4 as opposed to the close of Q2. Much of that increase was in Belgravia and Noho where the former saw a four fold increase in take-up quarter on quarter and in Noho transactions were up by 21% over the same period. Annual West End take-up was still 22% down on 2008 with overall office occupation seeing a net fall of over 1 million sq ft in the calendar year.

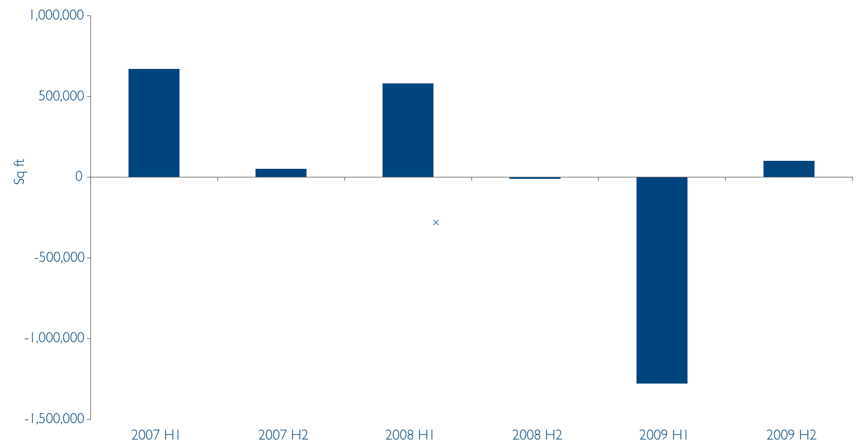
- Quarterly **availability** fell for the first time in over two years in Q4 2009. West End available space was down by 4% to stand at 7.4 million sq ft. As in the City, take-up of new and refurbished space was at its highest level for a number of years. Significantly, the West End saw its first pre-letting deal for 18 months with Astra Zeneca signing for 49,000 sq ft at Development Securities' Two Kingdom Street scheme.

- In 2009, just under 1 million sq ft of speculative space completed in the West End. While this is down on the previous 12 months (1.3 million sq ft), 700,000 sq ft of speculative space is set to complete in first three months of 2010 with 370,000 sq ft currently fully available at Nos 1 and 2 Regent's Place. In total, 2.3 million sq ft is set to complete in the West End up to the end of 2010 but just 6% of that will come on stream in the core Mayfair and St James's markets. Just over 34% of that figure has currently been pre-let.

- Headline **rents** finished the year unchanged at £77.50 psf, down by 9% year on year. **Rent free** periods have come in marginally over the past six months and currently stand at between 18-24 months for 10 year term certain.

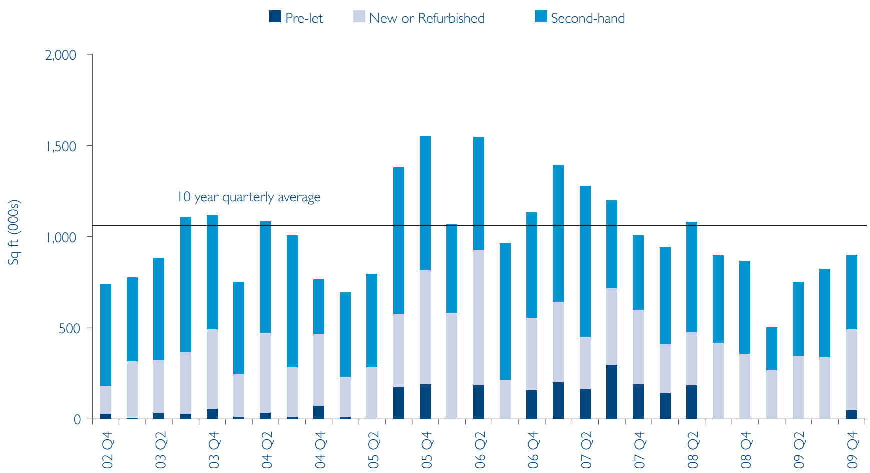
"Vacancies down and occupation levels on the rise once more"

FIGURE 5: WEST END NET STOCK ABSORPTION



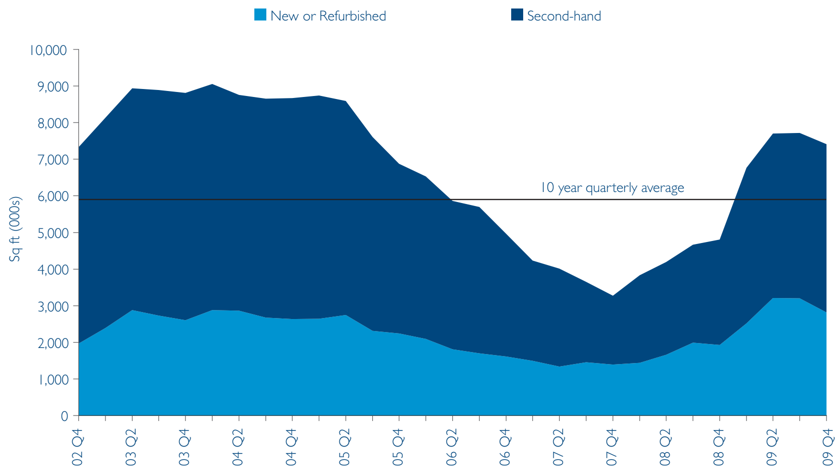
Source: Colliers CRE

FIGURE 6: WEST END TAKE-UP



Source: Colliers CRE, Focus

FIGURE 7: WEST END AVAILABILITY



Source: Colliers CRE, Focus

Conclusion

- The more encouraging news emanating from the wider UK economy has translated into healthier numbers across the Central London market.
- Absorption of office space has been almost unprecedented in the City market with overall occupation rising by 1.7million sq ft in the second half of 2009.
- Vacancy rates are showing signs of falling in the core submarkets and transaction levels are seeing continued improvement as occupiers recognise that the bottom of the market has been reached.
- Tenant marketed space has continued to fall in the City, down by 250,000 sq ft in the past six months. Likewise the West End saw a fall in tenant marketed space of 5% since June 2009.
- We anticipate further rental uplift in the Core City and West End markets in the first half of 2010. The City in particular should see up to 10% growth headline rents in Q1-Q2 2010 as competition for Grade A product intensifies.

FIGURE 8: CENTRAL LONDON MARKET SUMMARY

	Take-up (000s sq ft)	Availability (000s sq ft)	Vacancy Rate	Net Stock Absorption (sq ft)		Prime Rents (PSF)	Prime Yields (%)
	2009 (whole)	Q4 2009	Q4 2009	H2 2009	2009 (whole)	Q4 2009	Q4 2009
WEST END							
New / Refurb	1,448	2,817					
Second-hand	1,531	4,595					
Total	**2,979**	**7,412**	**9.5%**	**100,578**	**-1,178,359**	**£77.50**	**4.75**
Belgravia / Knightsbridge	170	386	10.6%	97,842	-137,962	£50	5.50
Covent Garden / Strand	343	711	7.7%	21,520	-164,064	£45	6.25
Marylebone / Euston	104	652	9.3%	-3,647	-204,940	£42.50	6.50
Mayfair	565	1,301	11.1%	90,514	-204,940	£77.50	4.75
North Oxford Street West	270	635	9.8%	-45,000	-30,000	£55	6.00
North Oxford Street East	533	825	11.5%	-173,000	-233,000	£42.50	6.50
Paddington	124	275	12.6%	-74,063	-116,043	£45	6.75
Soho	178	421	8.7%	-41,143	-64,675	£45	6.00
St James's	199	569	11.7%	-11,056	-122,086	£65	5.00
Victoria	244	1,054	8%	-17,872	-68,389	£52.50	5.50
CITY							
New / Refurb	4,280	7,635					
Second-hand	1,079	3,904					
Total	**5,359**	**11,539**	**12.3%**	**1,653,374**	**1,088,787**	**£45**	**6.00**
City Core	3,351	7,098	9.7%	1,326,724	1,104,314	£45	6.00
City Midtown	390	684	8.5%	44,589	-48,513	£44	6.00
Northern City	1,101	2,589	13.7%	271,199	43,825	£20	6.75
Eastern City	517	1,168	16.9%	10,862	-10,839	£25	6.75
DOCKLANDS							
New / Refurb	275	264					
Second-hand	150	316					
Total	**425**	**580**	**13.6%**	**-83,298**	**-86,143**	**£25**	**6.75**
CANARY WHARF							
New / Refurb	655	1,414					
Second-hand							
Total	**655**	**1,414**	**9.5%**	**55,887**	**11,464**	**£35**	**6.25**
SOUTHBANK							
New / Refurb	275	401					
Second-hand	151	595					
Total	**426**	**996**	**5.3%**	**10,796**	**-49,726**	**£38.50**	**6.25**

Source: Colliers CRE, Focus

294 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA 94
Canada 22
ANZ 39
Latin America 17
EMEA 97
Asia Pacific 25

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