



CENTRAL LONDON

- AVAILABILITY ↓
- TAKE-UP ↓
- RENTS ↑

CITY

- AVAILABILITY ↓
- TAKE-UP ↓
- RENTS ↑

WEST END

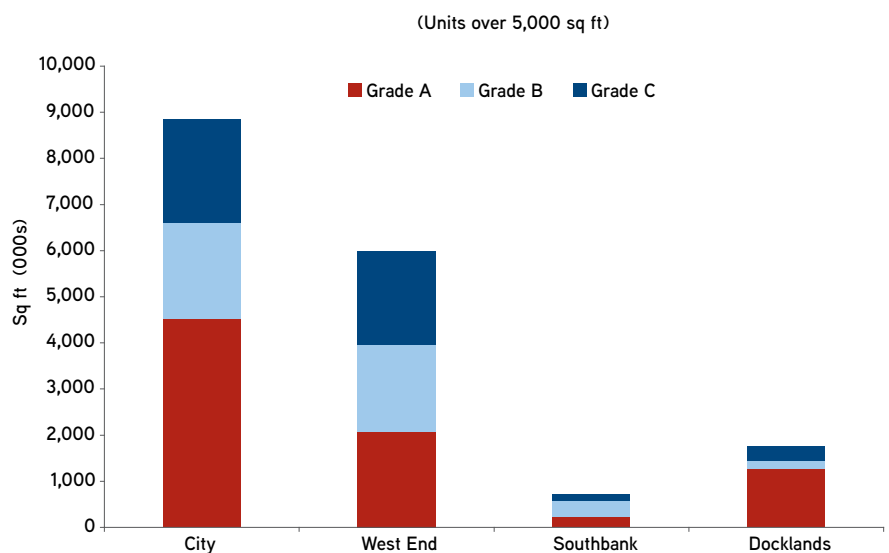
- AVAILABILITY ↑
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- RENTS ↑

Central London Highlights

- Q2 2010 saw demand for office space moderate slightly but the three month total (3.2 million sq ft) was still 4% above the ten year quarterly average. We anticipate 2010 Central London take-up being marginally above the 20 year annual average of 11.1 million sq ft.
- Net stock absorption of office space for H1 2010 increased on the previous six months with occupation of office space up by 2.2 million sq ft. The 12 month absorption figure stands at 4.0 million sq ft which constitutes 1.9% of total Central London office stock. Accordingly, the overall office vacancy rate for Central London continued its downward trajectory falling for the third successive quarter to reach 9.7%.
- Availability of Grade A space is coming under increasing downward pressure, particularly in the City of London market. As predicted in the Colliers' Q1 publication, pre-letting activity is set to increase. 25,000 sq ft is under offer to McDermott Will and Emery at Heron Tower with other deals likely to be announced shortly. Bloomberg remains in negotiations with Legal and General concerning a pre-let of 500,000 sq ft at the Walbrook Square scheme.
- There has been no significant increase in development activity during the first six months of 2010 although, major developers such as British Land and Land Securities are looking closely at options for potential schemes in the City. The take back of 200,000 sq ft at the Shard by the LBQ Consortium, which was pre-let to TFL, underlines the growing confidence in market conditions amongst developers.
- The average Central London prime rent climbed to its highest level for 18 months and now stands at £44.50 psf caused by rises in headline rents in the City and West End markets.

“Grade A vacancy continues to diminish, forcing up headline rents across the core submarkets. Expansionary take-up and overall occupation of office space continues to accelerate.”

FIGURE 1: CENTRAL LONDON AVAILABILITY BY GRADE OF SPACE AND SUBMARKET Q2 2010

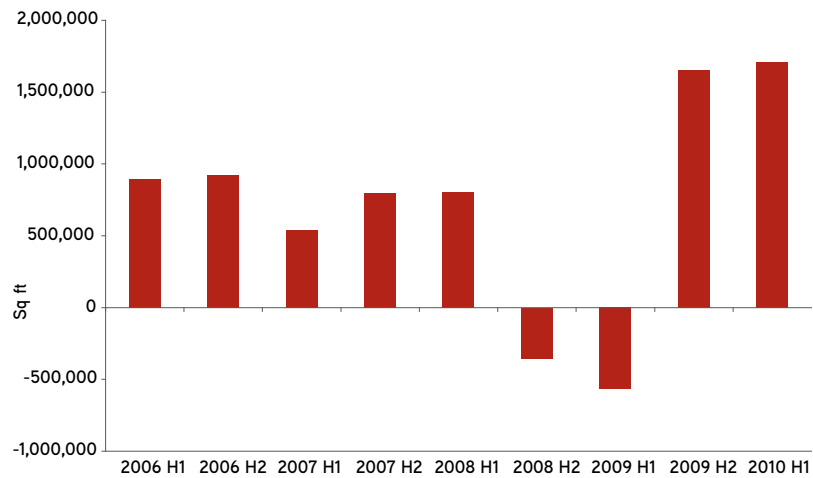


Source: Colliers International

City

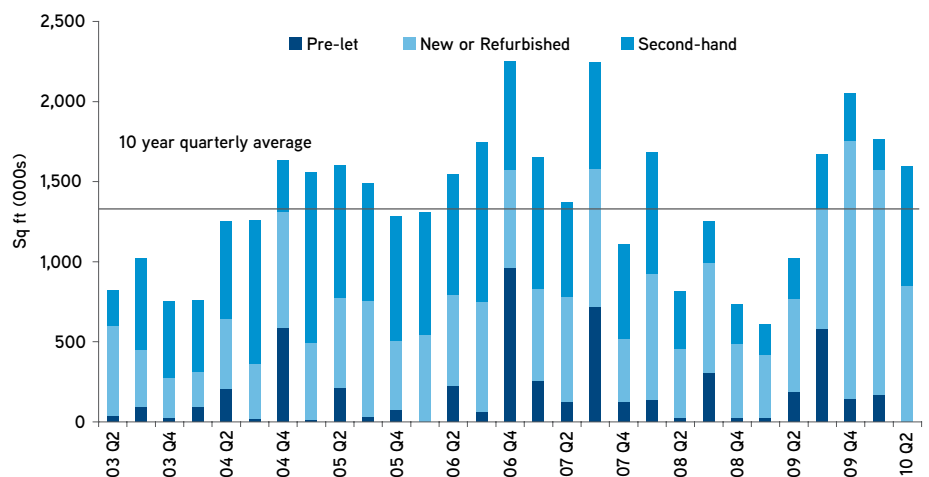
- Absorption of office space within the City market in H1 2010 has continued its upward curve (see **Figure 2**). H2 2009 saw occupation of office space rise by 1.6 million sq ft and that figure has been surpassed in the first six months of 2010 with 1.9 million sq ft of positive net stock absorption. Strong transactional activity, coupled with modest new supply, has helped to increase absorption of existing stock, markedly reduce Grade A vacancy rates and produce an uplift in headline rents.
- Despite overall City take-up falling by 12%, the three month total (1.5 million sq ft) is still well above the ten year quarterly average (see **Figure 3**). While a flurry of deals completed in Q1 2010 with four individual deals in excess of 100,000 sq ft to Blackrock, Macquarie, Royal Bank of Canada and Stephenson Harwood, Q2 saw no deals in excess of 100,000 sq ft. Although overall quarterly take-up declined, City Core transaction levels surpassed 1 million sq ft for the fourth successive quarter.
- Demand remains healthy for Grade A space in core locations. To the east of the Core, take-up received a boost with News International taking a further 54,000 sq ft at Thomas More Square. Activity is set to remain buoyant for the rest of the 2010, although the average deal size will fall as the number of larger requirements (150,000 sq ft plus) shrinks. Nevertheless, CMS Cameron McKenna (250,000 sq ft) is in 'advanced negotiations' to finalise a move and Bloomberg continues to discuss a possible 400,000 sq ft pre-let with Legal & General at Walbrook Square. In addition, recent reports suggest McDermott Will & Emery is under offer for 25,000 sq ft at Heron Tower.
- Overall, availability of Grade A space has fallen to a fraction over 4.3 million sq ft, which translates to a fall of 17% since the start of the year. Available space in the City is currently 10 million sq ft (see **Figure 4**) which is down by over 13% since Q4 2009. Within the Core itself, availability is down by 13% in the past six months. The overall vacancy rate is down to 10.5% from a high of 13.1% in Q3 2009.
- Prime rents have climbed steadily throughout the first six months of 2010 and are currently at £52.50 psf, which is a rise of 10.5% in the first six months of 2010 alone. For Grade A space, occupiers can expect to receive 15-18 months of rent-free per ten year term certain. This is down from 18-24 months in January 2010.

FIGURE 2: CITY NET STOCK ABSORPTION



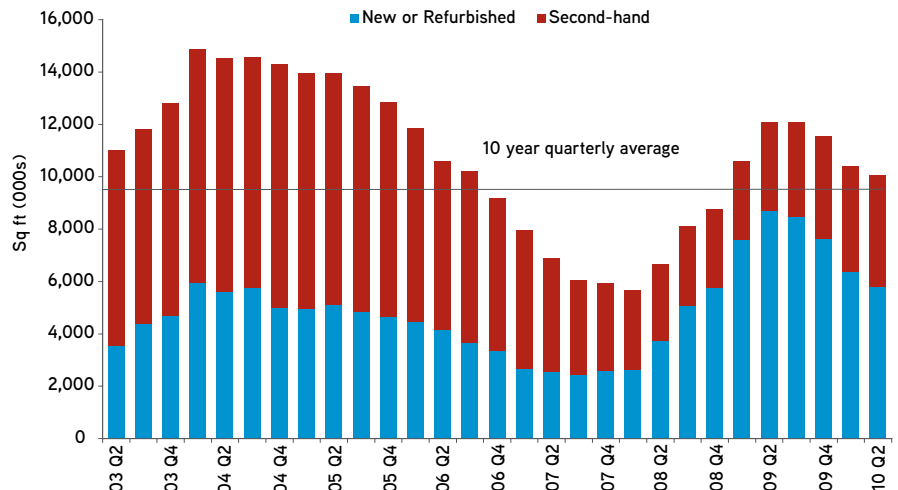
Source: Colliers International

FIGURE 3: CITY TAKE-UP



Source: Colliers International, Focus

FIGURE 4: CITY AVAILABILITY



Source: Colliers International, Focus

West End

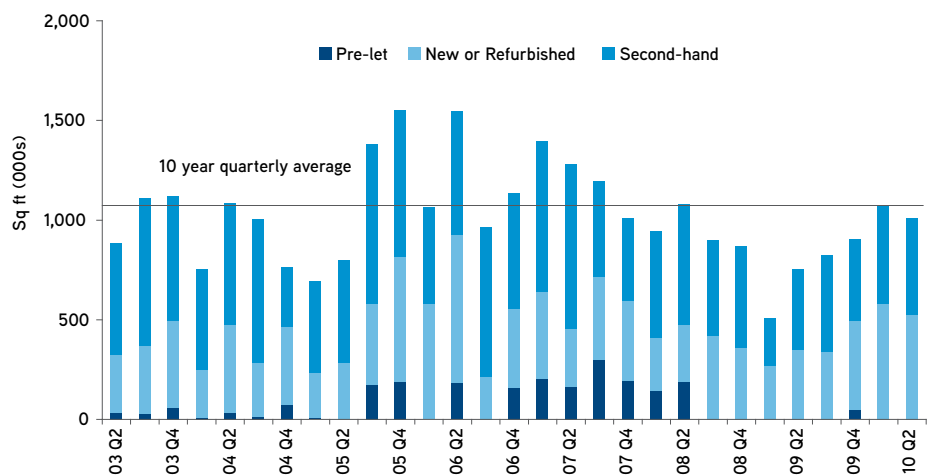
- Absorption of office space within the West End market reached its highest level for two years as occupation of office space increased by 256,000 sq ft (see Figure 5). This is in sharp contrast to the H1 2009 figure, which recorded negative absorption of 1.3 million sq ft. The positive half year figure underlines the improvement in demand that has been recorded in transactional activity during 2010 to date. Take-up surpassed 1 million sq ft for the second successive quarter (see Figure 6), the first time this has occurred in two and half years.
- The two key transactions of the quarter accounted for close to 150,000 sq ft of take-up. Diageo's former HQ, Henrietta House, W1, which totals 98,000 sq ft, will be occupied from May 2011 by CBRE who currently occupy a unit in close proximity to the existing scheme. Further space within Henrietta House may become available depending upon the prospective occupier's requirements. Of greater significance was the letting of 51,000 sq ft to Kleinwort Benson at Scottish Widows' recently completed 14 St George Street. A headline rent in excess of £80 psf has been achieved. Close to 30% of take-up was for Grade A space with over half of all Grade A transactional activity centred on the Mayfair and St James's submarkets.
- Although overall availability in the West End rose marginally in Q2 2010 (see Figure 7), the vacancy rate fell to 9.4% on account of a significant number of new completions during the year to date. Core availability (Mayfair and St James's) fell by 8% during Q2 with just one new scheme, Royal London's 44 Dover Street (35,000 sq ft), coming to market. Mayfair Grade A availability represents 30% of current available space within the submarket. Across the West End as a whole, Grade A space accounts for 29% of total availability; however, just 6% of that total (516,000 sq ft) is being marketed within the core submarkets of Mayfair and St James's.
- Prime rents have seen upward movement for the first time in nine months with headline rents rising to £80 psf off the back of the Kleinwort Benson deal. We anticipate West End headline rents being close to £85 psf by Q3 2010, representing annual growth of just under 10%. Incentives for Grade A units have come in slightly over the past quarter and now stand at 15-18 months per ten year term certain.

FIGURE 5: WEST END NET STOCK ABSORPTION



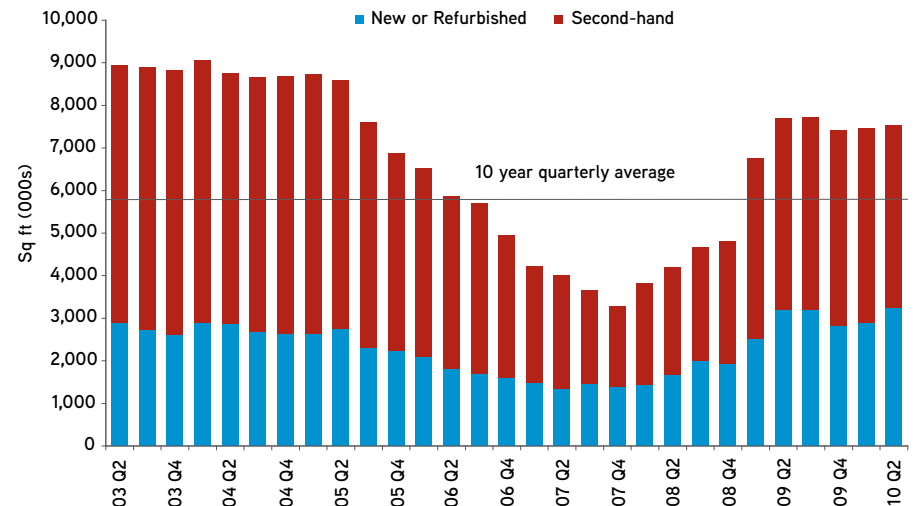
Source: Colliers International

FIGURE 6: WEST END TAKE-UP



Source: Colliers International, Focus

FIGURE 7: WEST END AVAILABILITY



Source: Colliers International, Focus

Summary

- Expansionary take-up remains the order of the day as absorption of Grade A space continues at a rapid rate.
- Headline rents are seeing uplift in City and West End markets with further significant growth expected in the remainder of 2010.
- Increased uptake of second-hand space is symptomatic of dwindling Grade A supply in core locations.
- The development pipeline remains sluggish with a very limited number of schemes set to complete during the next 18 months.
- A significant return of pre-letting activity over the next 12 months is now a certainty.

FIGURE 8: CENTRAL LONDON MARKET SUMMARY

	Take-up (000s sq ft)		Availability (000s sq ft)		Vacancy Rate	Prime Rents £psf	Prime Yields %
	Q1 2010	Q2 2010	Q1 2010	Q2 2010	Q2 2010	Q2 2010	Q2 2010
WEST END							
New / Refurb	583	524	2,892	3,249			
Second-hand	488	484	4,564	4,277			
Total	1,071	1,008	7,456	7,526	9.4%	£80.00	4.00
Belgravia / Knightsbridge	68	37	481	395	11.0%	£50.00	5.00
Covent Garden / Strand	127	100	665	1,027	10.8%	£45.00	5.50
Euston	401	27	874	679	9.2%	£42.50	6.25
Marylebone	41	185	625	638	10.5%	£55.00	5.50
Mayfair	103	245	1,304	1,137	9.6%	£80.00	4.00
Noho	160	135	709	686	9.2%	£42.50	6.00
Paddington	24	65	451	518	20.9%	£45.00	6.25
Soho	24	76	392	357	7.5%	£45.00	5.50
St James's	63	43	578	534	11.1%	£65.00	4.50
Victoria	30	65	1,081	958	7.2%	£52.50	5.50
CITY							
New / Refurb	1,536	851	6,394	5,798			
Second-hand	193	745	4,022	4,252			
Total	1,729	1,596	10,416	10,050	10.6%	£52.50	5.50
City Core	1,463	1,095	6,313	5,978	9.8%	£52.50	5.50
City Midtown	108	127	682	682	8.5%	£51.00	5.50
Eastern City	10	141	1,170	1,088	12.2%	£22.50	6.25
Northern City	148	233	2,251	2,302	15.7%	£27.50	6.25
DOCKLANDS							
New / Refurb	49	29	205	197			
Second-hand	35	7	390	490			
Total	84	36	595	687	9.9%	£25.00	6.50
CANARY WHARF							
New / Refurb	187	191	876	878			
Second-hand	352	27	387	336			
Total	539	218	1,263	1,214	8.2%	£35.00	5.75
SOUTHBANK							
New / Refurb	38	23	397	292			
Second-hand	57	64	718	669			
Total	95	87	1,115	961	5.0%	£40.00	5.75

Source: Colliers International, Focus

480 offices in 61 countries on 6 continents

United States: 95
Canada: 17
Latin America: 17
Asia Pacific: 52
EMEA: 85

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