

## Executive Summary

- **2004 annual take-up across Central London reached its highest level since 2001. 10.7m sq ft of office space was transacted with demand for ready to occupy new and refurbished accommodation reaching a five year high. Quarterly take-up in the City market reached its highest level for three years.**
- **After rising in Q3, availability fell once more across Central London as a whole but the West End market saw supply rise marginally for the second successive quarter. Grade A supply fell by 8%, now at its lowest level for 12 months. In contrast second-hand accommodation stands at a five year high. Over the past two years availability of second-hand space has risen by one third to currently stand at 18.3m sq ft.**
- **Speculative construction levels have fallen by 25% quarter on quarter and current expectations are that completions across the West End and City markets for 2005 will be around a third down on the previous 12 months.**
- **The final quarter of 2004 saw as much pre-letting activity as in the first nine months of 2004. Three major deals to Willis, Norton Rose and Lawrence Graham accounted for close to 1m sq ft of take-up between October and December.**
- **A total of £6.7bn was invested in Central London offices during 2004 with the Q4 total reaching £1.7bn. Institutional investors accounted for 40% of all money invested across Central London in the final three months of the year.**

## Central London Overview

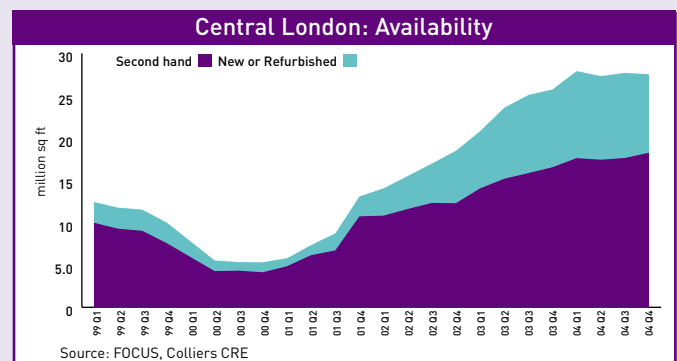
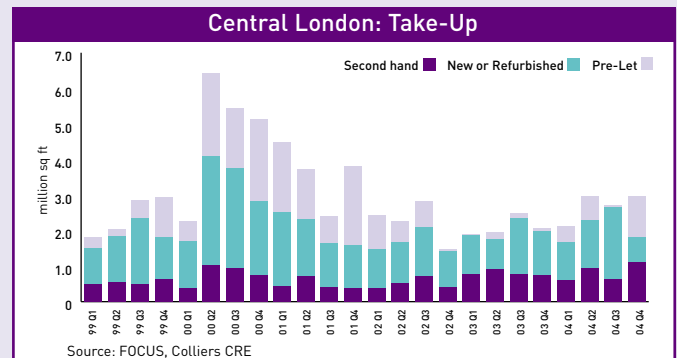
Central London **take-up** in Q4 rose by 10% quarter on quarter, reaching 3.0m sq ft. Of greater significance though is the annual total for 2004. Take-up for the last 12 months reached 10.7m sq ft, a rise of 22% on 2003. This total was the highest since 2001. Demand for new and refurbished space accelerated significantly in the last three months of 2004, with 2.2m sq ft of potential and existing grade A space being taken. The City market respectively saw quarterly take-up reach a four year high primarily due to the major lettings to Willis Group, Dresdner Kleinwort Wasserstein and Legal & General. In contrast West End markets saw take-up fall by 25%.

Having risen in the previous quarter, Central London **availability** fell by around 150,000 sq ft, to stand at 27.5m sq ft. Current supply still remains 7% above the equivalent figure in Q4 2003. West End, Southbank and Docklands markets all saw supply rise marginally in the last quarter, mainly due to the lack of demand for second-hand space. The latter was also true in the core City markets although this was offset by increasing demand for grade A accommodation. The West End market now has 1m sq ft of space available in just 5 units.

Speculative **construction** levels fell markedly once again to stand at just 2.4m sq ft. This constitutes a drop of around 25% on the Q3 figure. Much of this can be attributed to the twin deals at 3 & 4 More London Riverside to Norton Rose and Lawrence Graham, respectively. Looking ahead, speculative completions in the West End and City markets for 2005 are expected to be around 30% down on the previous 12 months. If demand for grade A space continues at current rates, we can expect to see prime **rents** coming under considerable upward pressure from late 2005 onwards.

The impact of the Lyons report may be finally beginning to be felt in the Central London occupational markets. Public sector occupiers were conspicuous by their absence with no significant deals to government tenants recorded in the final three months of 2004. In 2004 up to October, the public sector had taken a total of 783,000 sq ft across Central London. We would not expect to see any significant net increase of public sector office occupation in 2005.

Although **investment** transaction levels in Q4 failed to reach those seen in Q3, the annual total came in at £6.7bn. This figure was over 15% up on the total for 2003 and the highest since 2001. It was a similar story in the City market although the West End remained on a par with annual figures for 2003. Once again the influence of the UK Institutions is being felt across Central London. Altogether the institutional investors accounted for well over a third of total money invested in Q4.



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# west end



The improving market conditions demonstrated by 1m sq ft plus **take-up** in both Q2 and Q3, has not been reinforced by demand over the past three months. Despite the high profile letting of 66,000 sq ft to Yahoo at 125 Shaftesbury Avenue and the first tenant at Belgrave House, take-up has fallen by around 25% quarter on quarter. Indeed, the only submarket to see significant improvement in take-up levels has been Belgravia / Knightsbridge. Tenants there committed to nearly 150,000 sq ft of space.

While there was considerably more activity in the 20,000 sq ft plus size bands this quarter, the most popular **requirement** size remains the 2,000 - 5,000 sq ft. Many prospective tenants,

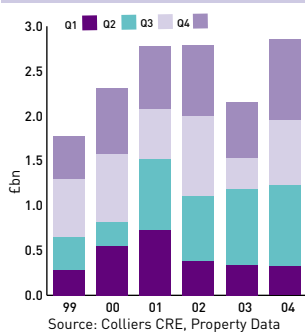
although selective, are often prepared to bid above market levels to secure appropriate accommodation. A prime example is rising Australian property star, Multiplex, who paid £80 psf in order to secure 21,000 sq ft at prime West End building, 40 Berkeley Square, W1. A shortage of grade A product below 10,000 sq ft is likely to have an increasing impact upon rental levels over the next 12 months. **Top rents** in the West End now stand at £77.50psf.

In the light of subdued demand in the past 3 months, **availability** rose slightly this quarter. The West End market overall saw supply rise for the second successive quarter, although the current level still represents a 5% fall on figures recorded in the first quarter of 2004. However, there is encouragement for landlords, as incentives are being reined in and lease lengths are pushing out once more. The current vacancy rate remains unchanged at 10.7%.

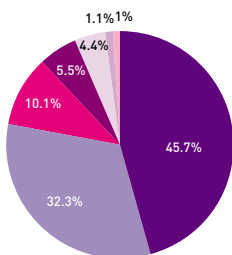
Net under **construction** fell dramatically in Q4 due to completion of the three major government schemes. The amount of speculative space under construction fell for the ninth quarter in succession, although the fall was the smallest quarterly reduction over that period. Major speculative completions included the Crown Estate's 100,000 sq ft plus scheme at 1 Hanover Street, where 25,000 sq ft was pre-let prior to completion, to Apple Computers at £65 psf.

Despite robust **Investment** activity in the West End during the final quarter of 2004, annual transaction levels remained on a par with figures for 2001 and 2002. Major deals in Paddington helped to boost figures for Q4. The sale of the Point to the Schroder and Hermes JV, WELPUT, achieved a headline yield of 5.5% though on account of a fixed increase in the lease in that particular case, the additional deal at 1-2 Waterside, W2, better reflects the Paddington prime yield.

## West End: Investment Transactions



## West End: Q4 2004 by Investor Type

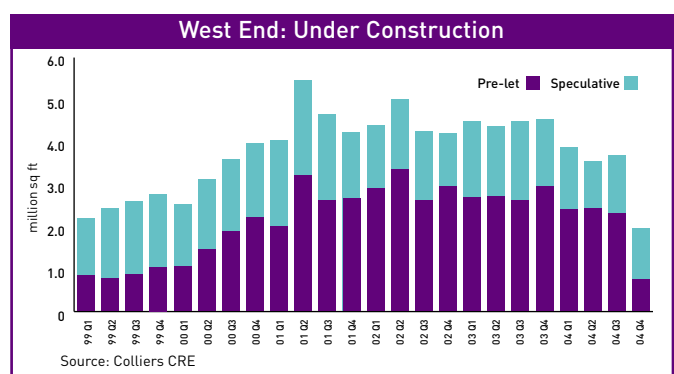
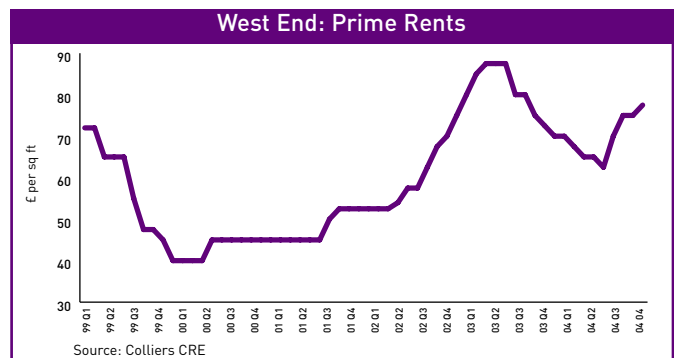
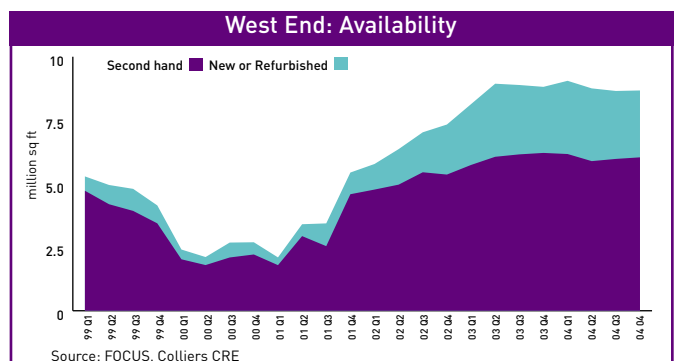
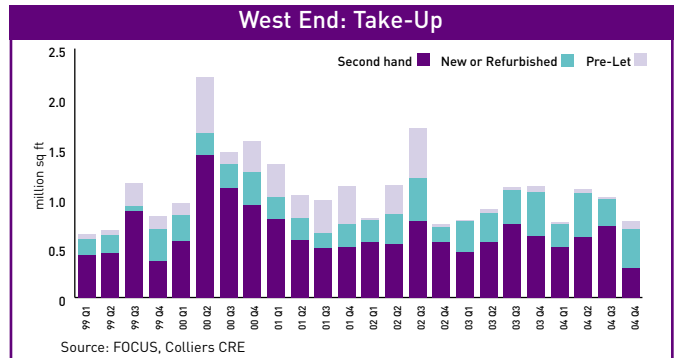


- UK Institution
- Overseas - German
- UK Property Company
- Private Investor
- Overseas - Other
- Overseas - Middle Eastern
- Financial

Source: Colliers CRE, Property Data

## Key Leasing Transactions

- 125 Shaftesbury Avenue, WC2 - 66,000 sq ft let to Yahoo by MEPC at £35 psf
- Meridian House, Hans Crescent, SW1 - 36,459 sq ft let to Barclays Bank Plc by Ropemaker Properties on a new 15 year lease at £52.50 psf
- Belgrave House, SW1 - 28,815 sq ft let to Vitol Oil & Gas by Grosvenor Ltd on 20 year lease with 16 year break at £55 psf
- 1 Hanover Street, W1 - 25,780 sq ft let to Apple Computers by the Crown Estate on 15 year lease with 12 months rent-free at £65 psf
- 40 Berkeley Square, W1 - 21,310 sq ft let to Multiplex by Helical Bar on a 10 year lease without break at £80 psf



## Key Investment Transactions

- Paddington Basin, 1-2 Waterside, W2 - £140m, 5.9% to an Irish Consortium
- Paddington Basin, The Point, W2 - £125m, 5.5% to WELPUT
- Windsor House, Victoria Street, SW1 - £109m, 5.8% to Bank of Ireland
- Kingsway Estate, WC2 - £52.5m to UK & European Investments
- 27-31Knightsbridge, SW1 - £52.25m, 6.5% to Henderson CLOF
- 1 & 1a Wimpole Street, W1 - £42.75m, 6.23% to Royal London Asset Management



Quarterly **take-up** in the City market reached its highest level since mid 2001 and continued to reinforce the demand for top quality space in the prime EC postal code areas. Quarterly take-up stood at 1.6m sq ft, boosted in no small part by 600,000 sq ft of pre-let space to the Willis Group and Legal and General at Lime Street and Austral house respectively. Indeed take-up of new and potential grade A space stood at 1.3m sq ft, the highest quarterly level for over three and a half years.

While there has been a marked improvement in demand for Grade A office space in the City of London, there remains a significant 'overhang' of top quality ready to occupy space in the market place. Of equal concern is the total number of

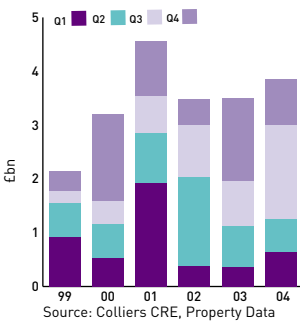
individual transactions being monitored. Total recorded transactions in the City market fell by over 50% quarter on quarter. Average deal size as a result rose from 5,000 sq ft in Q3 to over 12,000 sq ft in Q4. It should be noted that the two largest deals recorded in the City during Q4, accounted for nearly 60% of take-up in that period. At the current level, there exists two years **availability** of ready to occupy grade A accommodation, on the market.

Growth in prime **rents** can be anticipated towards the end of 2005 but we do not expect to see any substantial improvement in levels until the start of 2006 at the earliest. Second-hand accommodation and the fringe markets are unlikely to fair so well and there will be strong competition from landlords looking to get rid of old stock. Rental levels will remain (or even see further decline in some cases) and incentives will continue to be generous over the next 18 months. Incentives on new build pre-lets have definitely come in. A recent high profile deal was agreed with 24 months rent-free (30 months to shell and core), 18 months less than similar deals agreed just 12 months ago.

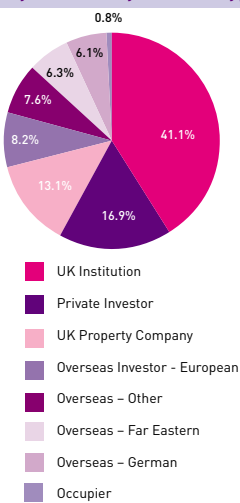
Speculative **construction** continued its downward trend, ending the year at less than half the equivalent figure for December 2003. Currently there is just 240,000 sq ft of speculative office space scheduled to complete in the Central City submarket during 2005. That compares to a total of 1.2m sq ft for 2004.

The **investment** market in the City saw 2004 annual transaction levels ending the year just below £4bn, the highest since 2001. The return of institutional investors was confirmed with £361m being spent by that sector in the last three months alone. This figure compares to just £179m spent by institutions in the first nine months of 2004. In Q4 institutions accounted for over 40% of all transactions in the City market. Prime yields remained unchanged at 5.75%.

### City: Investment Transactions

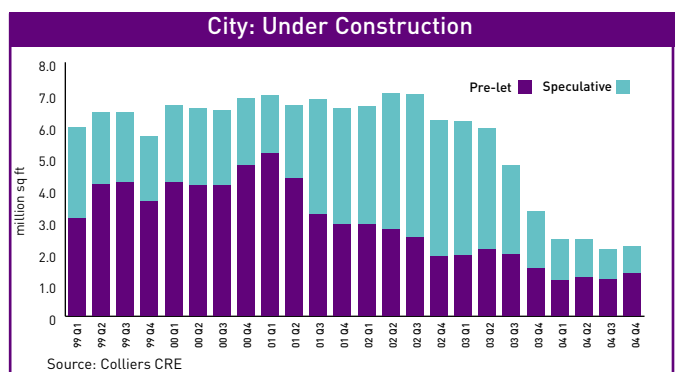
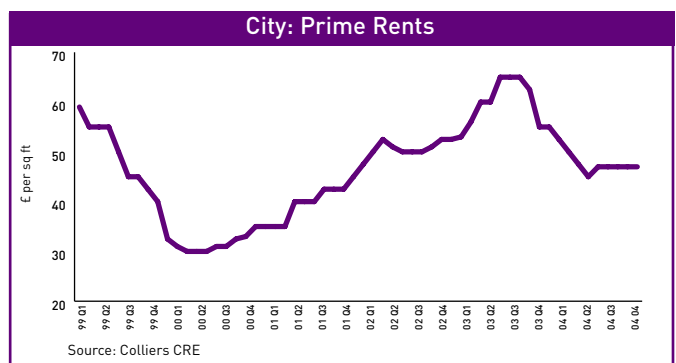
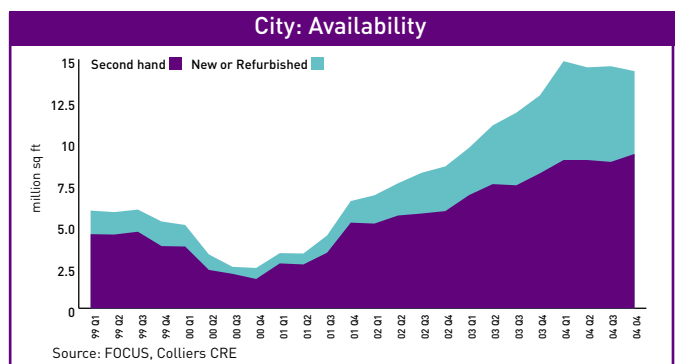
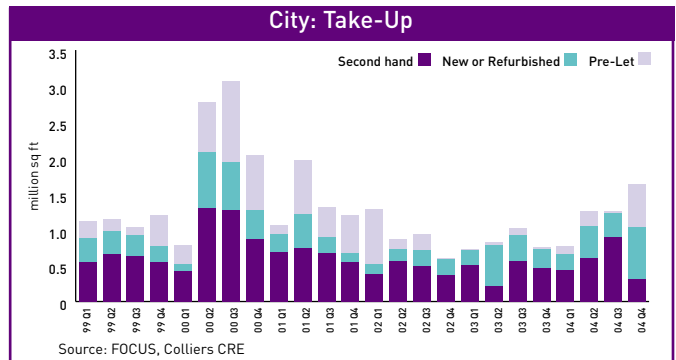


### City: Q4 2004 by Investor Type



### Key Leasing Transactions

- 51 Lime Street, EC3 - 465,000 sq ft pre-let to Willis Group by British Land at circa £46 psf - occupation in 2007
- 30 Gresham Street, EC2 - 399,000 sq ft let to Dresdner Kleinwort Wasserstein by Land Securities at circa £46 psf on a 24 year lease
- Austral House, EC2 - 123,000 sq ft let to Legal & General by Pillar Group (Long Leaseholder) - details confidential
- 25/31 Moorgate, EC2 - 70,000 sq ft let to Smith Williamson by GMETRO at £42.50 psf on an 18 year lease with 36 months rent-free



### Key Investment Transactions

- 60 Queen Victoria Street, EC4 - £90m, 6.25% to DB Real Estate
- Lloyds Chambers, 1 Portsoken Street, EC3 - £87m, 7.6% to Consensus (V Tchenguiz) Qatar Bank
- 11 Pilgrim Street, EC4 - £62.5m, 6.1% to UBS
- 131 Finsbury Pavement, EC2 - £53.5m, 6.25% to CS Euroreal
- 20 Old Bailey, EC4 - £55m, 7.0% to Mitsui Fudosan
- Centennium House, 100 Lower Thames Street, EC3 - £27.6m, 5.1% to West Coast Capital

# docklands & southbank



## Docklands

Docklands quarterly **take-up** reached its lowest level for 18 months with just a handful of deals recorded since October. However, more encouragingly, annual take-up for 2004 still amounted to a higher total than the previous two years combined. That said over two thirds of the 979,000 sq ft of deals transacted in 2004 can be attributed to just four individual deals to Reuters, BP, London borough of Tower Hamlets and Barclays Capital.

As a result of disappointing fourth quarter take-up, the trend of rising **availability** continued for the third quarter in succession. With no speculative pipeline space currently under construction, the likelihood is that second-hand space will continue to make up the majority of current supply. Recent news

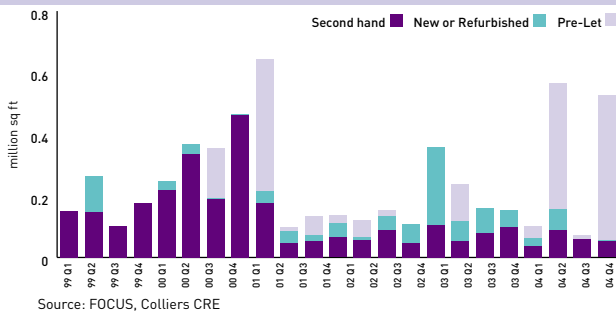
that Songbird, the Morgan Stanley led consortium who own Canary Wharf, are weighing up potential asset disposals, should come as little surprise. Sale or refinancing of older stock looks the most likely option. It is understood that the flagship property, 1 Canada Square, will not be offered.

With no grade A space transacted in the last three months, there remains minimal upward pressure on prime **rents**. Should this situation continue over the next two quarters, it is likely that others may follow the lead of Reuters and Ballymore, who are considering applications for change of use to residential, on a number of potential sites.

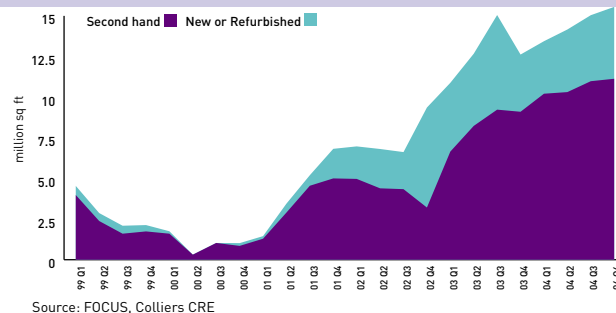
### Key Transactions

Leasing: Isis Building, 193 Marsh Wall, E14 – 14,889 sq ft let to People First

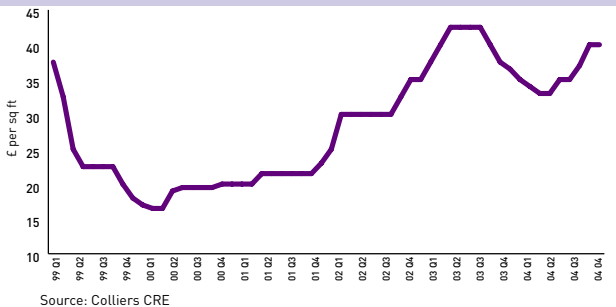
### Southbank: Take-Up



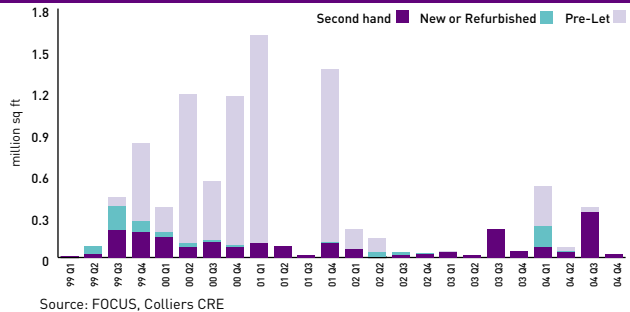
### Southbank: Availability



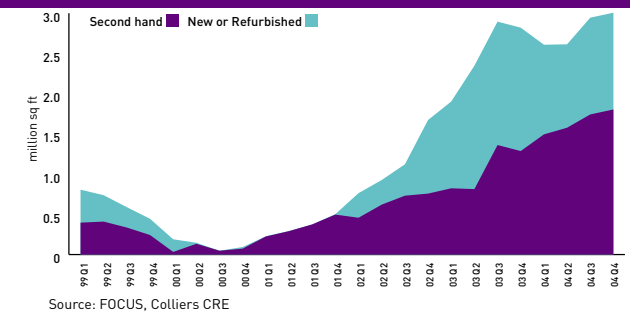
### Southbank: Prime Rents



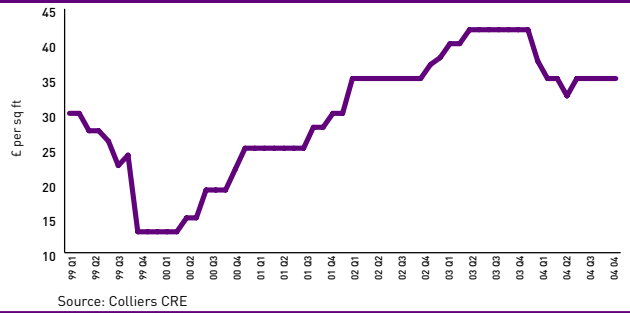
### Docklands: Take-Up



### Docklands: Availability



### Docklands: Prime Rents



## Southbank

As predicted in last quarter's publication, the Southbank submarket saw **take-up** surpass half a million sq ft for the second time in 12 months. The overall number of deals remained consistent with the previous quarter primarily concentrated in the below 5,000 sq ft size band. The signing of the two plots at More London Riverside to Law firms Lawrence Graham and Norton Rose respectively, accounted for 90% of space taken in the last three months. Both plots 3 & 4 were taken at top **rents** for the area of £40 psf.

With the majority of take-up from pre-let accommodation, **availability** has continued to edge upwards standing at nearly 1.6m sq ft. Demand for second-hand

accommodation fell for the third quarter in succession and currently represents 70% of ready to occupy office space in SE1. This figure remains the highest of the four Central London submarkets but mirrors the trend in the Central London market as a whole where two thirds of current available space is second-hand

While around 130,000 sq ft remains to let in two further units at More London, future larger **requirements** in SE1 are likely to be focussed on the 288,000 sq ft Palestra Scheme, due to complete in June 2006. This scheme narrowly missed out on securing Guardian Newspapers as its anchor tenant when the latter opted instead for the King's Place development in N1.

### Key Transactions

Leasing: 3 More London Riverside, SE1- 343,000 sq ft taken by Norton Rose at £40 psf  
Leasing: 4 More London Riverside, SE1- 125,000 sq ft taken by Lawrence Graham at £40 psf



## Regent Street Re-Inventing Itself

In this issue we look at the revitalization of Regent Street and the exciting prospects for tenants and landlords alike

Regent Street is under going something of a renaissance. Its custodians, The Crown Estate, are the architects of this change. It is very rare for an owner to have control of such a substantial estate which comprises 200,000 m<sup>2</sup> of space with approximately 2 km of shop frontages between Oxford Circus and Piccadilly Circus. This presents both challenges and opportunities and The Crown Estate appears to have risen to meet both.

The challenges are not insignificant. The West End of London retail market has been under pressure for some time. There was a noticeable fall in tourism as a result of the war in Iraq not helped by the subsequent threat of terrorism. The congestion charge is also likely to have had some impact and a woefully inadequate public transport system constantly threatens to undermine London's centre stage business position.

Another major challenge for the Crown Estate is the physical nature of its estate. At a glance, its architecture is both impressive and majestic however much of the estate is poorly arranged in retailing terms with restricted frontages, and with many units too small to meet the demands of most retailers. The Crown Estate is therefore trying to improve its estate and is part way through the redevelopment (behind existing facades) of a number of its buildings. It has waited patiently for historically long leases to run their course and is determined to create a unique international destination.

First past the post was 229/247 Regent Street which completed in late 2004. Here, Apple has opened a flagship 23,700 sq ft store for its eponymous branded goods. The fit out is minimalist and very customer orientated and has received wide acclaim. To either side of this, Lacoste and Ted Baker have also opened new stores. The Apple brand appears to sit comfortably with the more established anchors within the street which include Dickins & Jones, Liberty and Hamleys.

Although the letting to Apple broke with The Crown Estate's tradition of

targeting high end fashion retailing, there is still an impressive range of fashion brands within the street. These include, Karen Millen, Hugo Boss, Jaeger, Aquascutum, Austin Reed, Hackett, Burberry and Churches Shoes. More mainstream brands represented include Esprit, Mango, Zara, Moss Bros, Benetton, French Connection and H&M. The most recent additions include flagship Principles, Massimo Dutti, Petit Bateau, Hobbs and Molton Brown.

Part of the metamorphosis has been the creation of a new identity and brand for Regent Street. The intention is to maintain the integrity of the street through consistent signage and street-scaping. Clearly, sensitivity is required given the architectural heritage but the re-branding appears to be working.

At the southern end of Regent Street there have been several significant transactions. Virgin has remodelled the former Tower Records store at Piccadilly Circus. Significant capital expenditure programme has led to the creation of a world class multi level entertainment store with direct access from Piccadilly Circus underground station and Regent Street. The design brief was to create the best record shop in the world.

Burberry has also recently signed a new lease on its flagship Regent Street store and like Virgin, is planning a substantial refurbishment. Both of these deals show a strong commitment to the street. The most recent deal closed by the Crown Estate was the letting of 18,180 sq ft at 121 Regent Street to Habitat.

It will be interesting to see what takes place over the next 5 years as a further 500,000 sq ft of retail and leisure space is earmarked for redevelopment. We anticipate more bespoke transactions and some interesting brands appearing in one of London's oldest and most majestic streets.

Tim Newman, Director - In-Town Retail

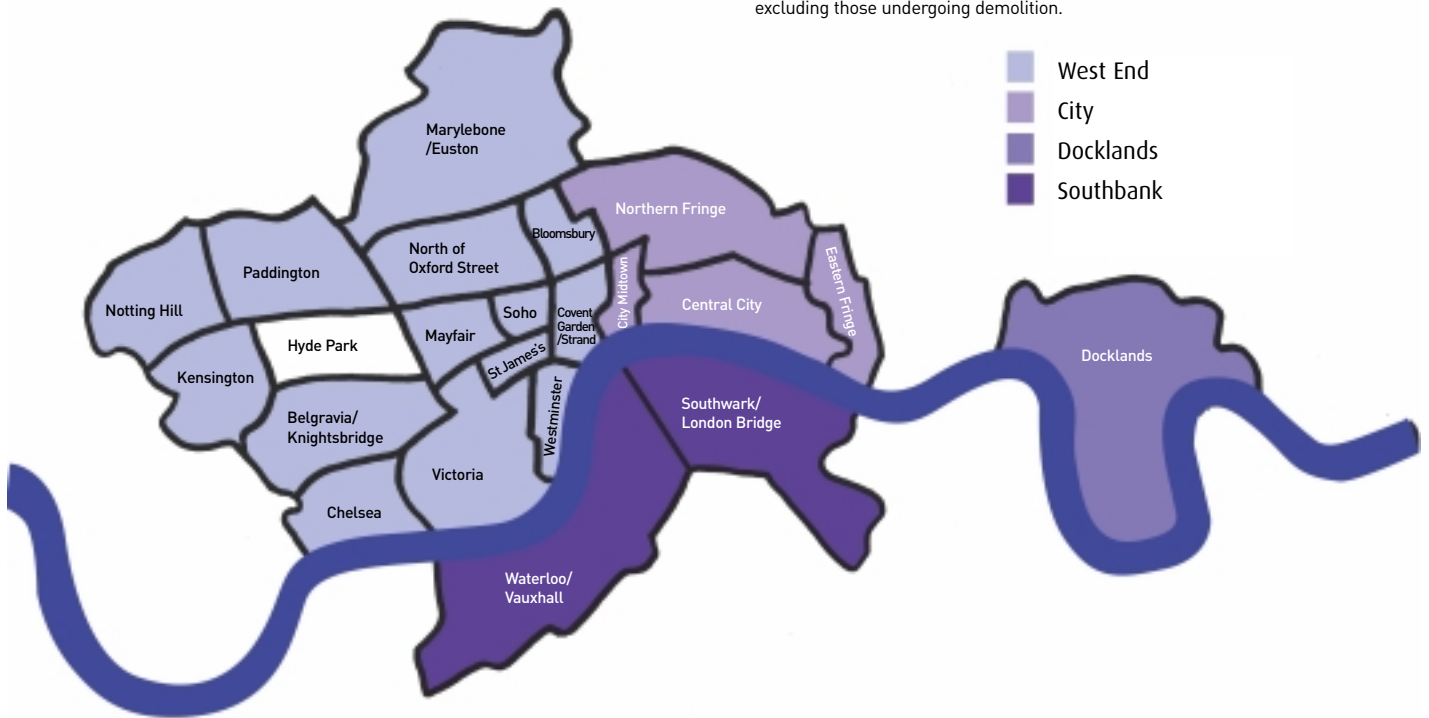
## Key Statistics

		Take-up (000's sq ft)		Availability (000's sq ft)		Prime Rents (Epsf)		Prime Yields (%)	
		Q3 2004	Q4 2004	Q3 2004	Q4 2004	Q3 2004	Q4 2004	Q3 2004	Q4 2004
<b>WEST END</b>	New / Refurb	283	466	2,675	2,633				
	Secondhand	723	298	5,977	6,039				
	<b>Total</b>	<b>1,006</b>	<b>764</b>	<b>8,652</b>	<b>8,672</b>	<b>£75.00</b>	<b>£77.50</b>	<b>5.25</b>	<b>5.25</b>
Marylebone / Euston		81	126	896	844	£42.50	£42.50	6.25	6.25
North of Oxford Street		199	88	1,539	1,469	£47.00	£47.00	6.00	6.00
Covent Garden / Strand		209	124	1,179	1,154	£43.00	£45.00	6.00	6.00
Soho		40	6	456	539	£43.00	£45.00	6.00	6.00
Mayfair		207	136	1,610	1,687	£75.00	£77.50	5.25	5.25
St James's		103	79	578	497	£75.00	£75.00	5.50	5.50
Victoria / Westminster		87	32	595	634	£47.50	£50.00	6.00	6.00
Belgravia / Knightsbridge		14	149	969	1,020	£42.50	£45.00	5.75	5.75
Paddington		12	5	435	431	£40.00	£40.00	6.00	6.00
<b>CITY</b>	New / Refurb	362	1,312	5,766	4,987				
	Secondhand	896	318	8,819	9,300				
	<b>Total</b>	<b>1,258</b>	<b>1,630</b>	<b>14,585</b>	<b>14,287</b>	<b>£47.00</b>	<b>£47.00</b>	<b>5.75</b>	<b>5.75</b>
City Midtown		60	61	1,146	1,145	£35.00	£37.50	6.00	6.00
Central City		714	1,351	9,226	9,047	£47.00	£47.00	5.75	5.75
Northern Fringe		427	174	2,679	2,698	£26.00	£26.00	6.50	6.50
Eastern Fringe		57	44	1,534	1,397	£23.00	£23.00	6.50	6.50
<b>DOCKLANDS</b>	New / Refurb	29	-	1,203	1,203				
	Secondhand	334	27	1,742	1,809				
	<b>Total</b>	<b>363</b>	<b>27</b>	<b>2,945</b>	<b>3,012</b>	<b>£35.00</b>	<b>£35.00</b>	<b>6.25</b>	<b>6.00</b>
<b>SOUTHBANK</b>	New / Refurb	13	470	406	442				
	Secondhand	59	55	1,098	1,113				
	<b>Total</b>	<b>72</b>	<b>525</b>	<b>1,504</b>	<b>1,555</b>	<b>£40.00</b>	<b>£40.00</b>	<b>6.25</b>	<b>6.25</b>

# glossary



- This report is produced in standard quarters (i.e. January 1st to March 31st, April 1st to June 30th, July 1st to September 30th and October 1st to December 31st) and all quarterly data contained within refers only to transactions or similar that have taken place within those dates unless otherwise specified.
- All figures contained in this report relate only to the office market unless otherwise stated.
- All floorspace figures quoted refer to sq ft net.
- Investment statistics exclude portfolio transactions.
- All yields quoted are net initial yields. Take-up refers to floorspace which has been let, pre-let or acquired for occupation during the quarter.
- Availability refers to all floorspace which is on the market and available for immediate occupation. Speculative development is excluded prior to its completion.
- Prime rents are our view on the highest achievable rent (excluding incentives) at the quarter end, assuming a new air-conditioned 10,000 sq ft unit on one floor in a prime location.
- Prime yields are our view on an appropriate yield at the quarter end for Grade A office space in a prime location, assuming it is fully let at the prime market rent to a tenant with a strong covenant.
- Under construction figures refer to any developments currently underway but excluding those undergoing demolition.



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