



## CENTRAL LONDON

- AVAILABILITY ↓
- TAKE-UP ↑
- RENTS ↑

## CITY

- AVAILABILITY ↓
- TAKE-UP ↓
- RENTS →

## WEST END

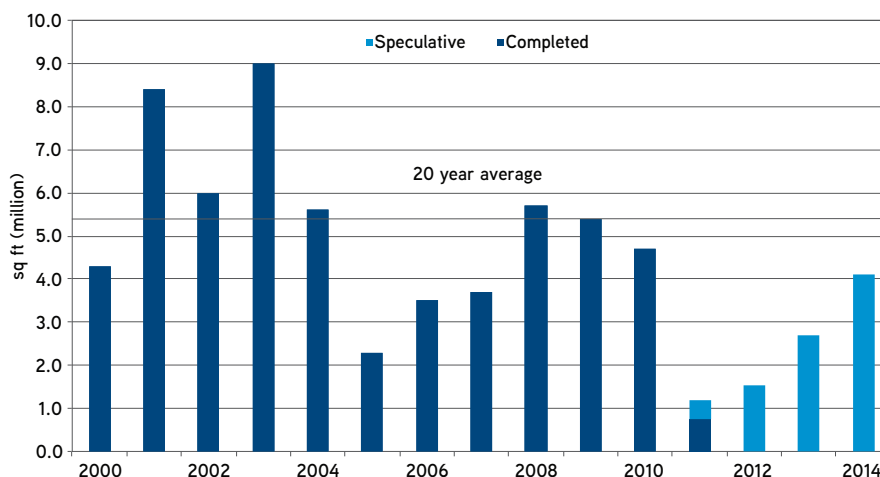
- AVAILABILITY ↓
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## Central London Highlights

- Take-up saw a significant fall across the whole of the Central London market in Q1 2011. The main instigators of the fall in transaction levels were the City and Docklands submarkets, where quarter on quarter take-up fell by 47%. In contrast, the West End and Southbank markets experienced their highest quarterly take-up for over three years.
- The squeeze on Grade A supply is becoming more pronounced across Central London. However, total Grade A transactions for built space fell by 25% quarter on quarter, underlining the reduction in ready-to-occupy top quality office product.
- Central London total availability fell by a further 4% in Q1 2011. New and refurbished space rose slightly off the back of major completions in the City at Heron Tower and 200 Aldersgate Street. In contrast, West End availability of new and refurbished accommodation has now fallen by 30% in the past nine months and the Southbank market has seen a fall of 36% over the same period.
- A shortage of new supply is beginning to impact upon take-up levels, despite the temporary rises seen in the West End market. This trend is likely to become more apparent as 2011 progresses. Total development completions for the remainder of 2011 across all of Central London are expected to total 792,000 sq ft. This figure compares to a total of 2.9 million sq ft in each of the final three quarters of 2010, down by nearly two thirds.
- The West End market has seen average headline rents climb by 5% in the first three months of 2011. The average Central London figure continued its upward curve to stand at £46.78 psf, equating to an annual rise of 7.1%, but this accommodates a wide range of top West End rents.

“Grade A availability in the West End fell by 20% quarter on quarter with a further 335,000 sq ft under offer.”

FIGURE 1: CENTRAL LONDON DEVELOPMENTS



Source: Colliers International

# City

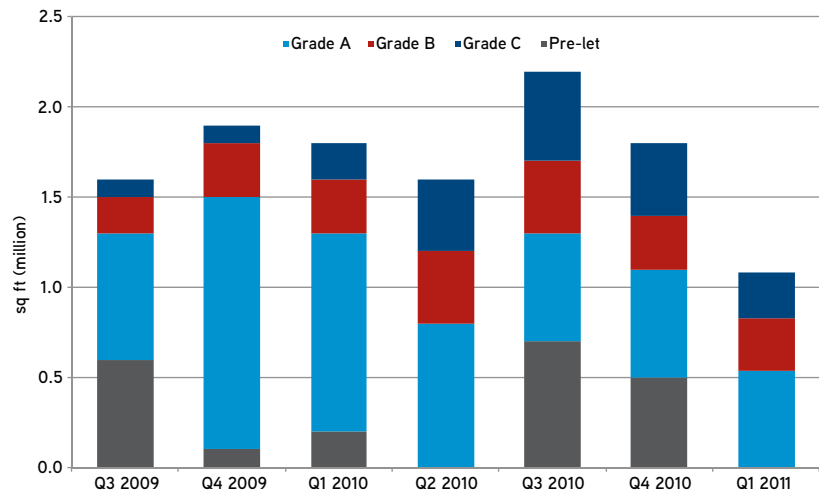
- Q1 2011 take-up in the City fell to 1.1 million sq ft, down from 1.8 million sq ft in Q4 2010 (see Figure 2). Although Q1 2011 take-up was sharply down in the City quarter on quarter, Q4 2010 figures were inflated by the Bloomberg deal at Walbrook Square (500,000 sq ft). There were no deals recorded over 50,000 sq ft. Nevertheless, take-up of Grade A+ space is set to increase as opportunities for good quality second-hand Grade A diminish. Q1 deals at Heron Tower to Landmark plc, at One New Change to Friends Provident and CME Group and at 1 Bartholomew Lane to BOCOM and Agricultural Bank of China exemplify this, as does the growing interest in larger vacant A+ units. Additionally, Aon may be negotiating with British Land on 140,000 sq ft at the Leadenhall Building (Cheesegrater) and Schroders is still searching for 250,000 sq ft. Accordingly, we anticipate quarterly City take-up improving but remaining close to the 10 year quarterly average of 1.3 million sq ft for the next three quarters. Further, Goldman Sachs is rumoured to be acquiring Plumtree Court, EC4, from Premier Property Group.

- As at end of Q1 2011, total space under offer in the City was 933,864 sq ft (see Figure 3). Just 31% of that is for new/refurbished space and, although the larger requirements are shortlisting development schemes, there are no major units over 50,000 sq ft under offer at present. 43% of space under offer is for units between 10,000-40,000 sq ft. Mid-tier occupiers are keeping the market going but, without any large deals, headline take-up will be significantly down year on year. While second-hand space accounts for nearly 70% of under offers, much of that is good quality (A-) space.

- City Grade A availability rose by 10% quarter on quarter (see Figure 4), mostly attributable to the completion of a total of 732,000 sq ft of speculative space at Heron Tower and 200 Aldersgate Street. There appears to be strong interest from a number of financial and banking occupiers for units circa 12,000-25,000 sq ft at Heron Tower.

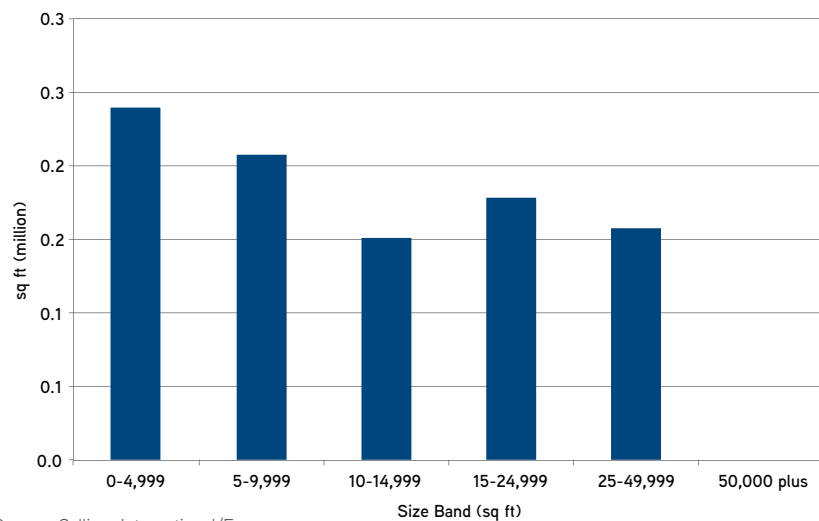
- Prime rents remain at £57.50 psf with headline rents being achieved both in low and high rise space. Prospective deals at Heron Tower are likely to put new upward pressure on the current headline level. Rents for good quality second-hand space appear to be rising with figures in the mid £50s being rumoured at Grade A- quality schemes in the heart of the Square Mile, but these still require the negotiation of long rent-free periods for long leases to good covenants.

FIGURE 2: CITY TAKE-UP BY GRADE



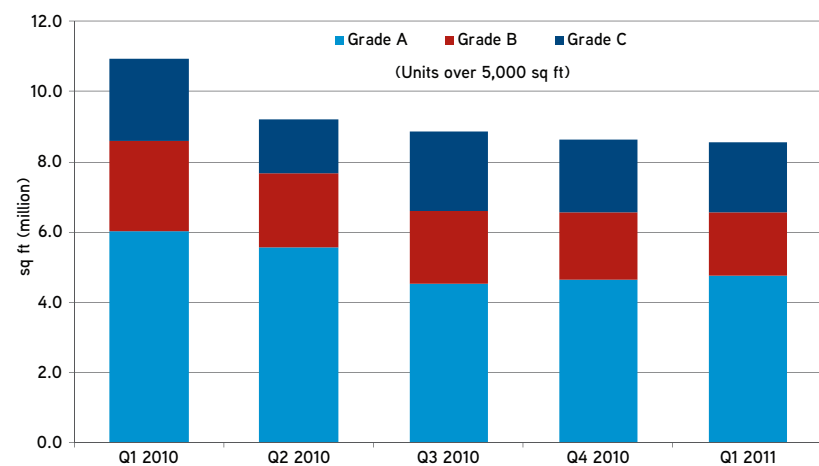
Source: Colliers International

FIGURE 3: CITY SPACE UNDER OFFER BY SIZE BAND



Source: Colliers International/Focus

FIGURE 4: CITY AVAILABILITY BY GRADE

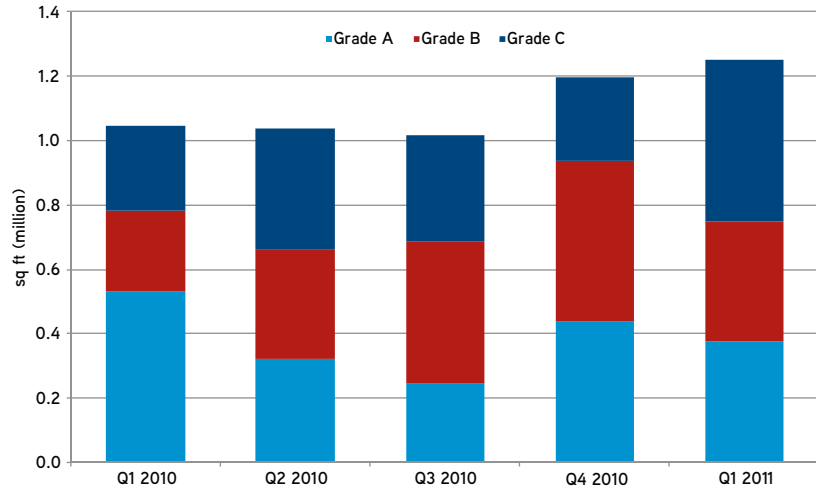


Source: Colliers International

# West End

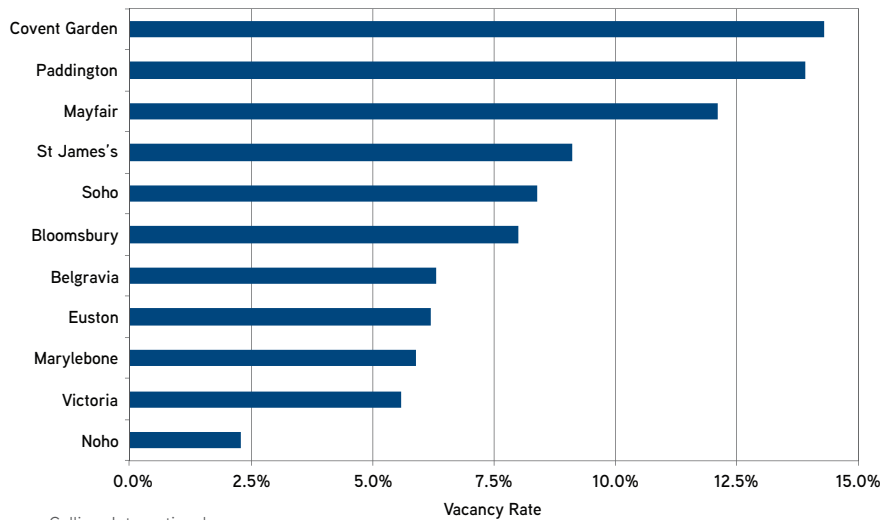
- Office demand in the West End market appears to be improving further as a number of occupiers have concluded deals after extensive searches. Take-up for Q1 2011 was the highest quarterly total for nearly four years (see Figure 5). There is strong activity in the 10,000-30,000 sq ft size range but a key contribution has been from the deals signed at Legal & General's Central St Giles (112,000 sq ft to NBC Universal). Burson-Marsteller (20,000 sq ft) and Specific Media (24,000 sq ft) have also taken space at the scheme. In addition, Google is thought to be under offer on the balance of space (160,000 sq ft). Further 100,000 sq ft plus media requirements still to be satisfied include Yahoo and National Magazines.
- Grade A vacancy rates are now declining across all West End submarkets (see Figure 6). Covent Garden has seen Grade A vacancy fall from 41% in Q4 2010 to 14% in April 2011. As rates continue to fall, there is evidence of reconfiguring of space amongst existing West End occupiers. With the impending shortage of Grade A product over the next 18 months, occupiers are looking at maximising existing space commitments. Mckinsey, which occupies 110,000 sq ft at 1 Jermyn Street, SW1, is to undertake a 're-stack' of its space. Equally, lease renewals are set to increase as occupiers seek to secure space ahead of supply squeezes in the period up to 2013 and some tenants are looking at new locations like Midtown and Southbank.
- While take-up has been encouraging in 2011 to date, there are concerns that transaction levels will see significant downward movement in the second half of the year as prime supply is soaked up. Only modest amounts of new supply are set to come to market in the remainder of 2011 and, as in the City, just under 1 million sq ft of space is currently under offer. Of that, over one third is of Grade A quality, including 160,000 sq ft to Google at Central St Giles and 25,000 sq ft to Rio Tinto in Paddington, at 2 Kingdom Street, W2.
- Prime rents are beginning to see upward movement across the board with headline rents in Mayfair reaching £90 psf for the first time since Q3 2008. A shortage of prime product is driving up prime rents in other non-core submarkets. The lettings at Central St Giles have contributed to Covent Garden rents rising by 20%. Mayfair, Marylebone and Noho rents are all up by greater than 5% quarter on quarter. In Mayfair, a number of sub 10,000 sq ft floorplates are under offer at in excess of £90 psf but there are also suggestions that top quality Grade A product is achieving rents of circa £105 psf.

FIGURE 5: WEST END TAKE-UP BY GRADE



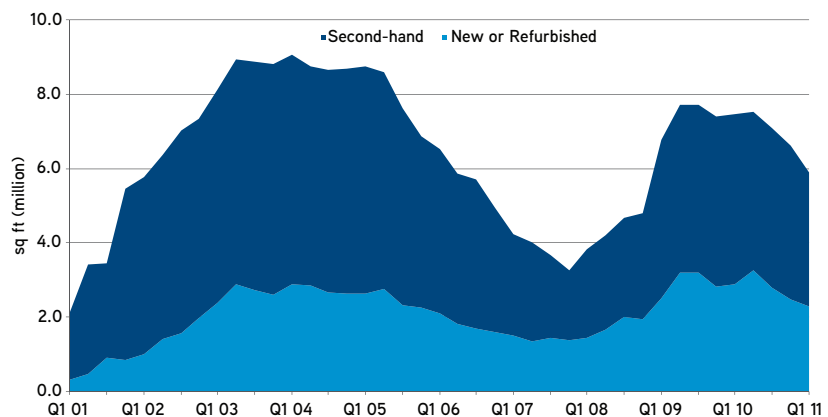
Source: Colliers International

FIGURE 6: WEST END GRADE A VACANCY RATES



Source: Colliers International

FIGURE 7: WEST END AVAILABILITY



Source: Colliers International/Focus

## Summary

- Take-up for 2011 looks set to be down on 2010, regardless of the strong start to the year in the West End, as quality product diminishes across all submarkets.
- Low vacancy in the West End disguises latent demand from occupiers who might relocate if opportunities existed.
- The City market is being dictated more by tenant inertia and global influences, but large lettings could easily change the whole tone of a single quarter's statistics.
- Despite a rise in the Grade A vacancy rate in the City, growing interest in A+ quality accommodation, particularly in the 10,000-30,000 sq ft bracket, will reduce vacancy further in the second half of 2011.
- Total Central London development completions for 2011 are set to be 70% below the 10 year annual average.
- Competition for space amid growing shortages in the West End has forced headline rents up across the majority of submarkets.
- The best quality second-hand accommodation remains in demand with competitive deals still to be had, even in some core areas. We expect rents for A- and B+ quality space to see significant uplift from the middle of 2011 onwards.

FIGURE 8: CENTRAL LONDON MARKET SUMMARY

	Take-up (000s sq ft)		Availability (000s sq ft)		Vacancy Rate	Prime Rents £psf	Prime Yields %
	Q4 2010	Q1 2011	Q4 2010	Q1 2011	Q1 2011	Q1 2011	Q1 2011
<b>WEST END</b>							
New / Refurb	418	505	2,462	2,303			
Second-hand	777	745	4,157	3,568			
<b>Total</b>	<b>1,195</b>		<b>6,619</b>	<b>6,102</b>	<b>7.6%</b>	<b>£90.00</b>	<b>4.00</b>
Belgravia / Knightsbridge	55	37	355	292	8.0%	£50.00	5.00
Covent Garden / Strand	299	338	1,028	924	9.6%	£55.00	5.50
Euston	109	68	462	482	6.4%	£42.50	6.25
Marylebone	58	107	543	454	7.5%	£57.50	5.50
Mayfair	232	172	1,027	876	7.5%	£90.00	4.00
Noho	85	102	696	731	9.2%	£47.50	5.50
Paddington	70	79	440	353	13.0%	£49.50	5.75
Soho	33	37	297	287	6.0%	£45.00	5.50
St James's	63	45	517	453	8.0%	£67.50	4.50
Victoria	135	132	867	669	5.2%	£52.50	5.75
<b>CITY</b>							
New / Refurb	1,154	580	4,683	4,846			
Second-hand	637	497	5,089	4,827			
<b>Total</b>	<b>1,791</b>	<b>1,077</b>	<b>9,772</b>	<b>9,673</b>	<b>10.4%</b>	<b>£57.50</b>	<b>5.25</b>
City Core	1,220	695	5,775	5,882	9.5%	£57.50	5.25
City Midtown	140	31	522	478	6.2%	£52.50	5.25
Eastern City	74	35	963	951	13.7%	£22.50	6.00
Northern City	357	315	2,512	2,362	12.4%	£27.50	6.00
<b>DOCKLANDS</b>							
New / Refurb	4	-	171	145			
Second-hand	23	14	455	498			
<b>Total</b>	<b>27</b>	<b>14</b>	<b>626</b>	<b>643</b>	<b>15.3%</b>	<b>£25.00</b>	<b>6.25</b>
<b>CANARY WHARF</b>							
New / Refurb	129	28	576	609			
Second-hand	165	-	371	243			
<b>Total</b>	<b>294</b>	<b>28</b>	<b>947</b>	<b>852</b>	<b>5.7%</b>	<b>£35.00</b>	<b>5.50</b>
<b>SOUTHBANK</b>							
New / Refurb	16	49	228	254			
Second-hand	118	155	715	693			
<b>Total</b>	<b>134</b>	<b>204</b>	<b>943</b>	<b>947</b>	<b>5.0%</b>	<b>£40.00</b>	<b>5.50</b>

Source: Colliers International/Focus

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