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Market Analysis
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Introduction

The first Estates Gazette of 2004 revealed two very clear signs of the time in the West End. The first: the biggest letting in Mayfair of 2003 was done in the last week of that year (Electronic Data Systems taking an assignment from GlaxoSmithKline at Lansdowne House, Berkeley Square, W1). The second: the biggest letting in Mayfair all year was for less than 4,645 sq m (50,000 sq ft) and to a tenant already in the building.

"Tough West End, tougher City"

It was a tough 2003 in the West End and even tougher for City agents. Acquisitive occupiers were few and far between, rents plummeted, incentives increased and supply started to look worrying. However, optimism remained evident throughout the year. It was unfounded optimism at the start of 2003, but towards the end of the year there were more signs of hope. It was mentioned here in Q3 that occupiers were slowly making decisions again and that space allocated for disposal was being withdrawn.

Keep it Real

But let's not get carried away, we are a long way from full recovery. The figures on the following pages reflect a City market suffering its worst period of activity since the last recession.

The West End has not faired much better over the past 12 months, but signs of increasing demand are perhaps cause for hope. Indeed, ever the extreme optimists, most West End agents say they feel pretty good about life.

Talk of the Town

West End agents are talking of their market having already "begun" to recover rather than simply "showing signs that recovery is imminent."

But the chief executive of one of the West End's biggest landlords told me last week that while "the backdrop is good", he believes "the figures don't paint the full picture. How much are landlords having to give away in order to get tenants?"

"Large incentives continue to be offered"

The rhetorical question was a reference to the large incentives that continue to be offered by landlords to fill their buildings. Take the UK's biggest quoted property company. Land Securities managed to pull a thorn from its side during the past quarter, letting 7,897 sq m (85,000 sq ft) to Pearson subsidiary London Qualifications at 190 High Holborn, WC1. The large Midtown building was a void Land Securities could do without, so bagging the biggest requirement in the area was a coup.

The Great Giveaway

But Land Securities was forced to give away the equivalent of more than three years rent - over £7 million - to do it. The £301.39 psm (£28 psf) rent is low and Pearson's rent uplift is capped at well under 5% p.a.

"Tenants mean value"

Even in the first week of 2004, Great Portland Estates gave occupier Marriott nine months rent free and a £3.75 million capital contribution to fill 7,897 sq m (85,000 sq ft) at Barnard's Inn, Fetter Lane, EC4 (not included in these figures). Supreme dealmakers as ever, Great Portland had actually bagged a total of £12 million from the previous tenant and sublessee so the large incentive to Marriott didn't hurt too much. But Marriott and Pearson held the cards in those deals. Great Portland Estates and Land Securities wanted to fill buildings - not simply for rental income, but to retain value. A covenant like Pearson's for 20 years at 190 High Holborn, WC1 makes the building a far more saleable proposition, and it is no surprise that the company is now trying to sell (*Estates Gazette* 10 January 2004).

Danger for the small Developer

"Tenants' market to stay"

2004 will continue to be the tenants' market, with landlords and developers having to bend over backwards to secure them. That is fine if you are a big player like Great Portland Estates or Land Securities. But those smaller developers, for whom every decimal point counts, might struggle to compete. They cannot give away so much and tenants can go elsewhere to get the better deal. That makes the future of the smaller owner with voids appear perilous. This may make for some unpleasant headlines in the coming months.

Adam Coffer,
News Editor,
Estates Gazette Group

Share by Market - Lettings 2003



Riverside House, SE1

City Core

		Sq Ft	Mk Shr
1	CB Richard Ellis	588,067	16%
2	Jones Lang LaSalle	372,226	10%
3	Strutt & Parker	311,834	9%
4	BH2	307,201	9%
5	DTZ Debenham Tie Leung	227,931	6%
6	FPDSavills	219,826	6%
7	ATIS Real Weatheralls	214,268	6%
8	Colliers CRE	144,721	4%
9	Cushman & Wakefield Healey & Baker	128,302	4%
10	Chapman Swabey	107,109	3%

CBRE was a strong player in the City market with its biggest deal being the Express Newspapers 189,000 sq ft transaction at 10 Lower Thames Street, EC3 with Strutt & Parker as joint agent. CBRE's total was further boosted by the 97,000 sq ft deal to ICAP Ltd at 1-2 Broadgate, EC2.

Jones Lang LaSalle's largest City deal was the 123,500 sq ft sale and leaseback at 70 Gracechurch Street, EC3 to XL Group Ltd but it also completed some notable deals at Warwick Court, Paternoster Square, EC4 (20,000 sq ft & 23,000 sq ft) and Procession House, Ludgate Hill, EC4 (30,000 sq ft & 36,000 sq ft). Niche agent BH2 acted jointly with ATIS Real Weathralls on the 97,000 sq ft & 20,000 sq ft lettings to White & Case at Lion Plaza, Old Broad Street, EC2 as well as completing a steady stream of medium-profile deals - including 45,000 sq ft at 10 Old Jewry, EC2 and 28,000 sq ft to Ashurst Group at Broadgate West, Appold Street, EC2.

City Fringe

		Sq Ft	Mk Shr
1	Cushman & Wakefield Healey & Baker	240,113	8%
2	Knight Frank	211,300	7%
3	ATIS Real Weatheralls	202,300	7%
4	Richard Berzine	189,350	6%
5	CB Richard Ellis	174,631	6%
6	Richard Susskind & Co	164,876	6%
7	DTZ Debenham Tie Leung	138,539	5%
8	BH2	122,396	4%
9	E A Shaw	120,980	4%
10	FPDSavills	104,583	4%

The hiccup in this market was the appearance of the only Richard Berzine deal where it acted as joint letting agent with C&WH&B on FT.com's Riverside House, Southwark Bridge, SE1. Richard Susskind held its ground against the mainstream agents with 6% market share having completed a healthy 35 deals in the year.

West End

		Sq Ft	Mk Shr
1	CB Richard Ellis	418,661	12%
2	DTZ Debenham Tie Leung	333,863	9%
3	Cushman & Wakefield Healey & Baker	253,918	7%
4	Jones Lang LaSalle	247,392	7%
5	FPDSavills	165,194	5%
6	Hodnett Martin Smith	152,506	4%
7	Edward Charles & Partners	125,200	4%
8	Strutt & Parker	113,658	3%
9	Nelson Bakewell	103,064	3%
10	GVA	100,910	3%

CBRE was also a strong player in the West End – its most notable deal being the 54,000 sq ft letting to the Audit Commision at 21-24 Millbank, SW1 where it acted jointly with C&WH&B. DTZ secured a number of big deals including 48,000 sq ft at 40 Grosvenor Place, SW1 to EDF Energy Plc , 45,000 sq ft at 1 Bessborough Gardens, SW1 and a 41,000 sq ft deal at Lansdowne House, Berkeley Square, W1 to EDS. In addition to the Millbank deal C&WH&B secured a 62,000 sq ft letting at 149 Tottenham Court Road, WC1 to University College Hospital placing them third in the ranking.

Midtown

		Sq Ft	Mk Shr
1	ATIS Real Weatheralls	225,693	12%
2	E A Shaw	212,514	11%
3	Farebrother	120,098	6%
4	DTZ Debenham Tie Leung	106,358	6%
5	Edward Charles & Partners	104,489	5%
6	Knight Frank	104,431	5%
7	King Sturge	102,774	5%
8	Jones Lang LaSalle	92,767	5%
9	Nelson Bakewell	90,639	5%
10	CB Richard Ellis	64,085	3%

Midtown shows the niche agents having the most market share with EA Shaw, Farebrother and Edward Charles & Partners all performing strongly. ATIS Real Weatheralls securing the 89,000 sq ft letting to Metronet at Templar House, 81-87 High Holborn, WC1 just knocked EA Shaw off the No.1 position. EA Shaw's 11% market share was boosted by the completion of just over 30 deals in the year. Farebrother let 22,000 sq ft at 15 Fulwood Place, WC1 to Haysmacintyre Ltd followed in December by the 28,000 sq ft deal at 242-246 High Holborn, WC1 to NHS. Edward Charles & Partners had two big deals placing them at no.5 – 29,000 sq ft at Lion Court 13-15 Procter Street, WC1 sold to National Housing Federation and the 25,000 sq ft letting at Grand 1-3 Strand, WC2 to Reed Elsevier Plc.



Lion Court, Procter Street, WC1

South Central

		Sq Ft	Mk Shr
1	E A Shaw	128,230	36%
2	Tuckerman	74,445	21%
3	Edward Symmons & Partners	57,158	16%
4	Kalmars	22,906	6%
5	Cardales	15,554	4%
6	BH2	11,270	3%
7	Strutt & Parker	8,870	2%
8	Pilcher Hershman	6,588	2%
9	James Andrew International	6,588	2%
10	Hodnett Martin Smith	6,287	2%

Like the Midtown market, this area is strongly dominated by the niche agents. EA Shaw held a healthy 36% of market share placing them in strong pole position. The 65,000 sq ft letting at 154-182 Kennington Lane, SE11 to Metropolitan Police boosted both joint agents EA Shaw and Tuckerman's positions.

Agents' Market Share - Central London Lettings 2003

2001	2003	Company	Sq Ft '000's	Market Share 2003	Market Share 2001
2&5	1	CB Richard Ellis	1,339,350	10%	22%
4	2	DTZ Debenham Tie Leung	1,014,628	7%	8%
3	3	Jones Lang LaSalle	768,171	6%	10%
9	4	ATIS Real Weatheralls	700,914	5%	3%
6	5	Cushman & Wakefield Healey & Baker	663,398	5%	4%
1	6	Knight Frank	639,444	5%	19%
7	7	FPDSavills	517,817	4%	4%
8	8	BH2	511,037	4%	3%
19	9	E A Shaw	496,620	4%	1%
-	10	Strutt & Parker	477,251	3%	1%
-	11	King Sturge	305,235	2%	-
12	12	Nelson Bakewell	276,648	2%	2%
13	13	Edward Charles & Partners	274,027	2%	1%
11	14	Farebrother	241,164	2%	2%
-	15	Colliers CRE Ltd	235,388	2%	-
-	16	Pilcher Hershman	218,392	2%	-
20	17	Chapman Swabey	209,739	2%	1%
-	18	GVA	209,733	2%	-
15	19	Richard Susskind & Co	207,548	2%	1%
-	20	Hodnett Martin Smith	201,563	1%	-
17	21	Allsop & Co	191,107	1%	1%
-	22	Richard Berzine	189,350	1%	-
-	23	Edward Symmons & Partners	159,598	1%	-
-	24	Gerald Eve	119,264	1%	-
-	25	D E & J Levy	115,707	1%	-
-	26	Crossland Otter Hunt	114,344	1%	-
-	27	Dron & Wright	113,812	1%	-
-	28	Hanrahan Deane	110,679	1%	-
-	29	Kinney Green	110,219	1%	-
-	30	Newton Perkins	108,756	1%	-
16	31	Lambert Smith Hampton	106,267	1%	1%
-	32	Robert Irving & Burns	105,970	1%	-
-	33	Morgan Pepper	103,238	1%	-
-	34	Tuckerman	99,888	1%	-
-	35	Stirling Ackroyd	94,317	1%	-
-	36	Montagu Evans	90,822	1%	-
10	37	Chesterton International	85,276	1%	2%
-	38	Houston Lawrence	66,038	0.4%	-
-	39	Drivers Jonas	62,153	0.4%	-
-	40	Godfrey Vaughan	59,850	0.4%	-

A Challenging Year

2003 was a challenging year for agents. Availability continued to rise, occupier demand was slow, second hand space was competing with a glut of brand new accommodation as occupiers offloaded space surplus to requirements and asking prices continued to fall – it was a tenants' market. That said, by the 4th Quarter 2003 take-up had risen to its highest point for two years as agents tried to end the year on a positive note and deals were tied up before the revision to the stamp duty legislation on leases came into effect.

The year presented an unusual market, with a distinct lack of big deals (only 4 deals over 100,000 sq ft totalling 690,000 sq ft in 2003 compared to a handful of deals totalling 2.4 m sq ft in Canary Wharf alone in 2001). The "big deal" anomaly has in the past skewed the picture. However 2003 proved much less eventful in terms of major transactions thus giving a more even-handed view of the market.

The Usual Suspects

The 2003 Market Share League Table is an independent survey of all office deals completed across the Central London market in 2003. There are no surprises in the top 10 – apart from ATIS Real Weatheralls and EA Shaw entering – the others merely swap position. However, there were a few new entries in the top 20 from our last survey in 2001 and a number of players who have risen up the ranking.

2003 saw the creation of CB Richard Ellis (CBRE). It is no surprise that CBRE is No.1 with an overall market share of 10%. However, this is less than half of the market share the two components had in 2001 prior to joining forces. This was directly attributable to the then Insignia Richard Ellis's joint lettings with Knight Frank at Canary Wharf. CBRE completed just over 1.3 million sq ft of deals in 2003. Close behind at No.2, from No.4 in 2001, was DTZ Debenham Tie Leung who completed deals totalling just over 1 million sq ft. DTZ's overall market share has not differed much – dipping slightly from 8% in 2001 to 7% – and it has shown that it is a stable player in the top 5.

Gaining Pace

There is no denying ATIS Real Weatheralls had a good year – completing some high profile deals totalling just over 700,000 sq ft – ranking them at No 4 (previously 9). ATIS's overall market share jumped from 3% to 5% with some key deals including the White & Case lettings at Lion Plaza, EC4 (90,000 sq ft and 20,000 sq ft) and two lettings at Victoria House, WC1 - 25,000 sq ft to Sport England and 27,000 sq ft to Corporate Executive Board.

Likewise, EA Shaw had a good year rising to No.9, from No.19 in 2001, increasing its overall market share from 1% to 4%. It completed a swathe of deals in the South Central and Midtown markets including the 65,000 sq ft letting to the Metropolitan Police at 154-182 Kennington Lane, SE11 (joint with Tuckerman).

New entries to the top 20 this year included King Sturge at No.11, which continues to stamp its presence on the Central London office market. It completed some big deals in 2003 including its 80,000 sq ft joint letting at 190 High Holborn, WC2 (with DTZ) to London Qualifications Limited and the 40,000 sq ft letting to Arbuthnot Latham & Co at 19-24 Ropemaker Street, EC2.

Strutt & Parker made its debut into the top 20 completing just under 500,000 sq ft of deals including the 180,000 sq ft owner occupier deal to Richard Desmond's Express Newspapers at 10 Lower Thames Street, EC3. CBRE were joint agents in this deal.

Richard Who?

The unexpected entry at No.22 is Richard Berzine – not immediately recognizable in the London market – but the agent responsible for the FT.com's long awaited 180,000 sq ft deal to Ofcom at Riverside House, SE1 where they acted jointly with Cushman & Wakefield Healey & Baker (C&WH&B).

Theresa Keogh, ***Product Manager, London Office Database***

Q4 2003 Overview & 2003 Review

Tough Year

"Bleak start... hopeful end"

At the start of 2003, prospects looked bleak for the Central London office market. Asking prices had been falling since the start of 2002, vacancy rates hit double figures in all markets, total availability looked on course to hit 5 million sq m by 2004, take up was at record lows and huge amounts of completed space lay vacant across London with more and more being added. Now, at the end of 2003, asking prices are still falling, vacancy rates and total availability are still rising and there is still a great deal of vacant space lying empty. Have things improved? Yes they have.

Q4 2003 was the best quarter for take up since Q2 2001. Availability, although up as a total, was down in all markets apart from the City Core and City Fringe (and it was only up in the Fringe due to the prelets being sought at Sellar's London Bridge Tower, SE1). Asking prices, although continuing to fall, experienced corrections in the City Core, City Fringe and West End markets for new developments. There is little speculative space to be released to the market after 2004 and the City Fringe and Midtown markets may even be facing an impending under supply of new stock within two years.

Nevertheless, problems remain. After being delayed until March 2004, the spectre of the Lyons Report still looms over the West End (the Victoria submarket in particular). Vacancy rates (which here include vacant space not being marketed) are at record highs, there were no prelets this quarter and our figures show that almost 1 million sq m of tenant controlled space across London is scheduled for vacation. The Docklands market faces the first put option being marketed – Lehman Brothers confirmed that it will leave 32,516 sq m vacant at 25 Bank Street, E14 for at least two years - adding to the surplus space of Skadden Arps Slate Meagher & Flom at 40 Bank Street, E14 and Bank of America's surplus (sublet from Credit Suisse First Boston) at 5 Canada Square, E14. In addition, new stock across London remains stubborn to let despite improving take up, with two years after completion a realistic time to wait for a deal.



25 Bank Street, E14

Tale of two Cities

The City Core and City Fringe have had different quarters and face different prospects. The City Core experienced a 15% rise in its vacancy rates thanks to the notable completions at the 35,501 sq m (382,100 sq ft) 30 Gresham Street, EC2; 30 St Mary Axe, EC3 with 25,684 sq m (276,463 sq ft) remaining vacant from Swiss Re and Lion Plaza with 7,326 sq m (78,857 sq ft) remaining vacant despite two separate deals to White & Case. Around 147,000 sq m (1,582,308 sq ft) of speculative space is set to complete over the next 12-15 months pushing asking prices down further. The addition of BP's space at the 16,763 sq m (180,437 sq ft) 1 Finsbury Circus, EC2 added to the total availability figure, as did the 9,272 sq m (99,800 sq ft) Land Securities is trying to let short term around New Fetter Lane, EC4, delaying its development scheme there. However, Latham & Watkins, HypoVereinsbank and Norton Rose have well publicised requirements, take up has improved with Sidley Austin Brown & Wood taking 7,432 sq m (80,000 sq ft) at Woolgate Exchange, Coleman Street, EC2 and Unilever taking 6,875 sq m (74,000 sq ft) from JP Morgan at 60 Victoria Embankment, EC4. Interest has picked up at Paternoster Square, EC4 with deals to AMEC, Cinven and CDC, despite its criticisms as "a bland, leaden concoction" (*The Independent* 11/10/2003) and despite Goldman Sachs' confirmation that it will never occupy its 17,331 sq m (186,549 sq ft) Warwick Court. Unsurprisingly, few schemes started in the City Core but British Land has declared its intention to start one of either the 50,067 sq m (538,921 sq ft) 51 Lime Street, EC3 or the 69,677 sq m (750,000 sq ft) 201 Bishopsgate, EC2 schemes speculatively in the near future.

"Palestra set to take advantage"

This declaration takes the lead from Blackfriars Investments, whose 26,845 sq m (396,600 sq ft) Palestra, SE1 scheme in the City Fringe is finally set to start speculatively in February 2004 after four delays. The City Fringe, though, has a very different future from the Core – only 7,553 sq m (81,300 sq ft) of speculative space is set to complete in 2004 and, even with the large amount of new space remaining vacant, it is hard to see any problems with Palestra's 2006 delivery, especially if the Carlton/Granada and IPC requirements come to fruition. Take up has also improved in the City Fringe, with notable deals at Merrill Lynch's 20 Farringdon Road, EC1 to Morgan Stanley and Pannell Kerr Forster totalling 13,471 sq m (145,000 sq ft). The market also benefited from Derwent Valley Holdings' good Q3 continuing with more deals at Globix House, EC1; AMEC taking 4,515 sq m (48,600 sq ft) from BT at 207 Old Street, EC1 (as well as City Core space at Paternoster Square, EC4) and more deals at More London, SE1 with CDC completing on 2,676 sq m (28,800 sq ft) at 2 More London Riverside. Despite the encouraging signs, developers, with the exception of Blackfriars, remain wary. Castlemore has delayed plans for 40 Holborn Viaduct, EC1, preferring to secure a short term tenant before commencing construction in or around 2005 and Chelsfield has delayed construction of its Lumina, SE1 scheme until 2009 by letting the Emerson Street part of the site. This follows Tishman Speyer apparently abandoning its redevelopment of the Marsh Centre, E1 in favour of seeking tenants for the existing space. Whether this is the decision of the developers or their funders is unknown, but the prospects for the City Fringe look good and, at the moment, only Palestra looks set to take advantage.



Victoria House, WC1

Uncertain Docklands

The deals to BP and Reuters did not complete as hoped. They would have given a great boost to the Docklands market, comprising 39,250 sq m (422,487 sq m) in total and what would have been the biggest deal of the year in the 27,319 sq m (294,000 sq ft) deal to Reuters at 30 South Colonnade, E14. As it stands, the market is still suffering with 128,831 sq m (1,386,737 sq ft) of new stock still lying vacant, 32,517 sq m (350,000 sq ft) set to complete in Q4 2004 (BP-1) and the uncertainty on how much tenant controlled space is set to be released ahead of, or after, occupation. The fact that Canary Wharf Group is to be sold also raises questions – the Docklands market was different from the others as one company, in essence, controlled it. It is doubtful the new owners will take any new policy on speculative construction starts, but Canary Wharf Group's famous inducements may take on a different form. The sale of 5 and 25 Canada Square, E14, which by the end of 2003 had achieved shareholder approval but had not yet completed, also raises the question of how different landlords will behave it what is, in the case of the Canary Wharf estate, a uniform market.

Thriving Midtown

The Midtown market experienced a brilliant Q4 2003 in terms of take up, with 48,142 sq m (518,200 sq ft) of deals – the best for three years - 20,786 sq m (223,740 sq ft) of which was on new space. This may prove to be just that – an exceptional quarter – but it has raised confidence for the market. The lack of schemes to complete (only 10,013 sq m (107,783 sq ft) of speculative space is due for completion) and the relative absence of significant schemes in the pipeline actually raises the prospect of under supply in the next two years. The sublease to Metronet from EDF Energy at Templar House, High Holborn WC1 comprising 8,361 sq m (90,000 sq ft) was the largest deal this quarter, but the take up on new space by London Qualifications at the 7,651 sq m (82,355 sq ft) 190 High Holborn, WC1 and the purchase of the 2,710 sq m (29,170 sq ft) Lion Court, Procter Street, WC1 by the National Housing Federation were more significant. Interest has also remained strong in Victoria House, Bloomsbury Square, WC1, where The Corporate Executive board took 2,508 sq m (27,000 sq ft) and some successful strata selling was seen at The Connection, High Holborn, WC2 where a financial consultancy paid around £3.5 million for the top two floors. The asking price for new stock seems high when compared to other markets, but when this demand and future supply is taken into the equation the figure of £456.39 psm (£42.40 psf) is maybe not that unreasonable. However, the discount to historic prices was illustrated at Grand Buildings, Strand, WC2 – Globeop's 2,343 sq m sublease from El Paso at £468.23 psm (£43.50 psf) represented a loss to El Paso, who was paying £618.95 psm (£57.50 psf), of over £1 million on the remainder of the term.

West End Prospects

According to many, the dramatic price reductions seen in the West End, where new stock used to command an average of £851.51 psm (£79.11 psf) (Q3 2001) and now commands just £534.88 psm (£49.69 psf), have reached the end. However, this prognosis is often just based on an unwillingness to believe that they can continue to fall, rather than the facts of the market. Like the City Core, the West End has a large amount of unlet space lying vacant - around 126,704 sq m (1,363,842 sq ft) and a significant amount of speculative space to complete over the next year and a half – 149,158 sq m (1,605,536 sq ft). So, despite a minor correction seen this quarter, and a reduction in available space for the third quarter running, there is certainly room for further falls – but that is not to say falls will be as dramatic as previously seen. Consolidated Real Estate's asking price of £753.48 psm (£70 psf) at Curzon Square, Park Lane, W1 remains ambitious, despite the quality and the prestigious address. Take up is improving, but tenants are getting good deals. Klesch signed for 625 sq m (6,727 sq ft) at 105 Wigmore Street, W1 at £484.38 psm (£45.00 psf) – sublessor Ericsson signed in August 2001 at £721 sq m (£67 psf). Q4 2003 saw little in terms of notable deals, but the total was the highest for a year and there was around 21,000 sq m (226,044 sq ft) of small deals and around 18,000 sq m (193,752 sq ft) was withdrawn. Companies such as serviced office operator MLS are taking advantage of cheap space and are expending rapidly (taking 5,348 sq m (57,566 sq ft) in the West End and 2,142 sq m (23,056 sq ft) in the Midtown this quarter – including securing a turnover lease with Cap Gemini Ernst & Young at 130 Shaftesbury Avenue, W1) and the total amount on the market has fallen for the third successive quarter. 2,209 sq m (23,778 sq ft) of deals completed at Almack House, SW1, a deal finally completed (to Donaldsons) at 48 Warwick Street, W1 and the retail sector was reported to have 18,580 sq m (200,000 sq ft) of West End office requirements (*Estates Gazette* 11/10/2003). However, the Lyons Report still looms (findings will not now be published until March 2004) and the recent completion of HRO's 21,739 sq m (234,000 sq ft) Victoria Plaza, SW1, soon to be joined by the 25,287 sq m (272,191 sq ft) Belgrave House, SW1, raises worries over the future of these schemes. However, like all markets, 2006 will currently see nothing completing speculatively, but with the Government potentially taking no more units, it seems it is left to the retail, financial and media sectors to soak up the space.



Palestra, SE1

Summary

2003, then, ended well. Take up should continue to rise in 2004 and total availability can be expected to fall. Asking prices will probably not react until the end of the year, but as completions dry up in 2005 they should start to rise again. The City Core and West End will continue to face over supply problems but the City Fringe and Midtown seem set to actually experience under supply. The Docklands' future will take whatever form Canary Wharf Group's new owners see fit, but it is hard to see any major departure from existing policy. Stamp Duty Land Tax (lease duty) is set to cost the industry (occupiers and investors) money but should have a negligible effect on take up as demand strengthens. The process of "offshoring" (back office functions being sourced abroad for considerable cost savings) is likely to be seen more and more, but its effect on the London office market, in terms of proportional additions to second hand stock, will be slight.

2006 seems set to be a good time to deliver speculative schemes, but so far it seems only Blackfriars Investments and British Land are taking the initiative. Land Securities was perhaps too early with Cardinal Place, SW1 – the 2005 delivery, part of which was pushed back from the end of 2004, may still arrive in the face of other prestigious schemes which have been vacant for some time. Despite caution over construction, the completion of the Swiss Re Tower, 30 St Mary Axe, EC3 was a welcome addition to the City skyline, if not to the availability figures for new stock. The future of the skyline looks set to continue to be bright with the addition of Sellar's London Bridge Tower, SE1, which won permission this quarter. However, City Core and West End landlords must still be prepared to offer tenants a good deal in 2004, not just a good building.

Bill Page, *Senior Research Analyst, London Office Database*

Analysis

Vacancy Rates %

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
City Core	8.00	9.50	11.33	11.91	14.80	17.05
City Fringe	10.07	11.31	11.79	16.66	17.45	17.60
Docklands	9.00	11.36	14.48	15.38	13.73	16.74
Midtown	8.34	9.33	10.57	11.34	11.70	14.33
West End	10.56	11.65	11.90	12.29	12.83	13.51
Overall	9.31	10.63	11.75	13.01	14.14	15.68

Despite encouraging signs of increasing take up and occupier demand, vacancy rates (which include vacant space not being marketed) remain in double figures for all markets. The City Core has seen a 15% increase thanks to some major schemes completing with vacant space (including 35,501 sq m at 30 Gresham Street, EC2; 25,684 sq m at 30 St Mary Axe, EC3 and 7,326 sq m at Lion Plaza, EC2). There was also a significant increase in the Docklands market – exacerbated by last quarters anomaly caused by two prelet schemes completing – but partly caused by confirmation that Lehman Brothers will leave 32,516 sq m vacant at 25 Bank Street for at least two years and will likely exercise a put option (not yet on the market) and Bank of America also confirming that it has extra space at 5 Canada Square. The percentage of space leased (as published in Canary Wharf Group's annual figures) can be very different from the percentage of space physically empty – with the potential to come onto the market at any time.

Vacancy rates for 2003 have been historically high and seem unlikely to fall in 2004 despite encouraging signs from other market indicators. The "grey market" of occupied space where tenants have plans to move, but where no agents have been appointed is also a concern – up to 979,398 sq m has the potential to be released across London – but much of this is set to be matched by commensurate take up.

Total availability (sq m)

	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
City Core	831,085	940,492	1,070,603	1,200,394	1,227,512	1,327,951	1,348,634	1,434,470	1,458,652
City Fringe	744,543	832,224	806,515	761,312	839,504	854,402	838,872	827,860	867,020
Docklands	533,110	541,449	556,925	565,719	1,039,587	1,003,827	997,130	1,026,869	1,012,677
Midtown	256,296	230,655	252,504	247,763	273,530	287,995	289,529	292,350	289,683
West End	599,450	682,643	788,401	808,808	833,372	921,412	853,794	837,924	804,974
Total	2,964,485	3,227,464	3,474,948	3,583,996	4,213,506	4,395,587	4,327,959	4,419,473	4,433,005

Total availability has risen by only 0.3% and has fallen in all markets except the City Core and Fringe (and rises there were partly due to additions of schemes a long way from delivery). Coupled with increasing take up, optimism is justified for recovery to continue in 2004, but it must be remembered that there is still 1.5 million sq m more on the market now than there was in the corresponding quarter in 2001 - and there is the potential for a lot more to be added as seen by the vacancy rates and tenant controlled space statistics. Nevertheless, amongst all the pessimism of 2002 and early 2003 it would have been easy to predict a level of 5 million sq m being reached across London by the end of 2004, but this now seems impossible and falls can be expected across all markets. Q4 2003 has seen permission granted and prelets sought at "The Shard of Glass" – Sellar's 60,754 sq m London Bridge Tower, SE1; 16,763 sq m come to the market at BP's 1 Finsbury Circus, EC2 and agents appointed on The Crown Estate's 10,684 sq m Abbott House, Regent Street, W1 development. The largest additions of 2003 were the London Bridge Tower; the 46,451 sq m Ropemaker Place scheme, EC2 and Clifford Chance's former HQ at 200 Aldersgate Street, EC1, comprising 44,243 sq m.



30 St. Mary Axe, EC3

"Prelets sought for Shard of Glass"

London Office Database

Potential Occupied Space to become Available (sq m)*

"One million sq m of grey space"

	Q4 2003
City Core	397,121
City Fringe	176,824
Docklands	27,071
Midtown	120,213
West End	258,169
Total	979,398

space occupied but not on the market where tenants have confirmed they plan to move

There is almost 1 million sq m of occupied space across London with the potential to come to the market at any time. As alluded to above, it is expected much of this will be matched with commensurate take up (anecdotal evidence suggests firms are once again expanding rather than consolidating) and much is already committed to being refurbished, redeveloped or converted to residential. However, the figure illustrates just how significant the "grey market" can be across London.

Take Up (sq m)*



190 High Holborn, WC1

	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
City Core	74,928	40,220	42,023	26,038	18,317	58,546	59,359	35,784	82,278
City Fringe	27,877	97,329	49,149	42,269	26,503	49,094	38,854	38,543	65,711
Docklands	72,423	6,135	34,252	3,481	2,469	5,875	2,389	20,850	12,987
Midtown	11,544	17,550	22,789	22,945	20,908	25,372	27,489	20,698	48,142
West End	86,122	50,749	59,704	85,255	48,680	43,051	46,921	63,715	84,739
Total	272,894	211,983	207,917	179,988	116,877	181,937	175,012	179,590	293,857

only units >232 sq m

Take up has risen to its highest level for two years as demand recovers and occupiers respond to cheap rents and attractive inducements. Coupled with the small increase in total availability, the market is looking a great deal healthier at the end of 2003 than it did at the start – but bear in mind that Q1 2001 saw a total take up figure of 407,498 sq m across London. The only market to experience a fall on last quarter was Docklands – but Q3 2003 was exceptional due to the single 16,165 sq m Tubelines deal at 15 Westferry Circus . The two deals to BP and Reuters which were due for completion this quarter, totalling 39,250 sq m, are still pending (if they had completed the total London figure would be an impressive 333,107 sq m). Significant deals this quarter have included 13,471 sq m of sublettings at Merrill Lynch's Farringdon Place, EC1 to Morgan Stanley and Pannell Kerr Forster; 8,361 sq m at Templar House, High Holborn, WC1 to Metronet; the 7,651 sq m deal to London Qualifications at 190 High Holborn, WC1; 7,432 sq m at Woolgate Exchange, 25 Coleman Street, EC2 to Sidley Austin Brown & Wood and, in the West End, 5,760 sq m at Maple House, Tottenham Court Road, W1 to University College Hospital.

2003 was undoubtedly a bad year for take up but did see Richard Desmond purchase the 17,591 sq m 10 Lower Thames Street, EC3 for Express Newspapers' occupation; Pearson finally offload the 15,172 sq m Riverside House, SE1 to Ofcom and XL Group take an 11,469 sq m sale and leaseback from Marks & Spencer at 70 Gracechurch Street, EC3 (which it later sold and let back itself). The deal to Reuters at 30 South Colonnade, E14 would have been the year's largest at 27,319 sq m.

Average Asking prices* (£psm)

New Build (existing)**

"Prices fall again, but only by 1%"

	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
City Core	£570.49	£575.87	£577.25	£494.13	£465.60	£464.65	£472.54	£474.11	£475.41
City Fringe	£331.89	£403.65	£345.62	£319.41	£312.91	£298.73	£314.55	£295.44	£314.05
Docklands	n/a	n/a	£501.00	£500.53	£500.53	£500.53	£500.53	£464.20	£442.67
Midtown	n/a	n/a	£592.00	£470.93	£551.74	£489.76	£493.35	£468.23	£456.39
West End	£801.92	£726.57	£622.00	£635.91	£626.05	£539.63	£524.91	£533.53	£534.88
Overall	£607.27	£646.92	£526.90	£482.25	£463.35	£463.47	£469.66	£455.87	£452.72

**not including refurbished space.*



16 St Clare Street, EC3
© CMC Architects

Second Hand Grade A

	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
City Core	£441.67	£461.45	£443.40	£442.68	£420.98	£392.02	£373.09	£362.89	£345.19
City Fringe	£336.15	£331.14	£331.82	£333.49	£310.92	£294.27	£282.58	£275.84	£269.90
Docklands	£362.39	£335.11	£314.40	£324.24	£338.08	£343.14	£299.25	£299.35	£315.25
Midtown	£422.85	£429.83	£436.76	£435.28	£411.88	£372.24	£368.81	£349.29	£330.40
West End	£502.59	£491.03	£484.45	£505.36	£474.21	£451.42	£443.60	£426.36	£407.76
Overall	£440.35	£442.29	£427.93	£427.64	£411.61	£392.79	£377.72	£363.98	£348.98

new leases only

Overall, asking prices have continued to fall. The average price for newly developed space across London, however, has fallen by less than 1% on Q3 and has actually risen (albeit only slightly) in the City Core, City Fringe and West End markets. We have, though, seen slight rises before and these tiny corrections cannot hide the fact that the overall trend is still downward. The very modest £322.92 psm (£30 psf) sought at Shieldpoint's 12 Arthur Street, EC4 development (due for completion in March 2004) proves that freeholders and developers are still willing to adapt (some would say too late) and predictions of a further 15% fall in the City in 2004 (*The Times* December 27th 2003) are not unreasonable. Take up and availability figures are almost certain to improve in 2004 but the natural price response to the supply and demand equation is not immediate – and the pessimism generated by high vacancy rates and long vacancy periods– especially for new stock – will continue to depress prices. This market depression is seen in the asking prices for second hand grade A space which fell again in all but the Docklands market with the West End falling even further below the psychological £430.57 psm (£40 psf) barrier.

2003 has shown, however, that responses can differ tremendously – nil rent was sought by Planet 24 at The Wallbrook Building, E14; £80.73 psm (£7.50 psf) was sought at the newly refurbished 16 St Clare Street, EC3 but Consolidated Real Estate is still chasing £753.48 psm (£70 psf) at Curzon Square, Park Lane, W1.

Investment sales (sq m)

	Q4 2002		Q1 2003		Q2 2003		Q3 2003		Q4 2003	
	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals
City Core	99,387	16	121,755	17	115,522	15	86,593	16	141,842	12
City Fringe	5,335	4	15,274	14	25,336	9	66,977	10	33,762	14
Docklands	0	0	0	0	0	0	7,180	1	0	0
Midtown	10,841	12	29,965	5	37,766	7	20,782	8	15,405	5
West End	110,002	23	38,575	24	81,577	26	37,613	15	56,499	25
Total	225,565	55	205,569	60	260,202	57	219,145	50	247,508	56

"Cost of money set to change"

2003 was a healthy period for investment transactions as, despite decreasing rents, quality buildings with good covenants were seen as an attractive asset class – especially for the foreign (German) investor. However, this is all dependant on the cost of money and the willingness of banks to lend it - both of which are set to change to the detriment of the investment market. The renewed interest in equities and tightening of stamp duty loopholes are also causes for concern but the emergence in the UK and Europe of REITS and the interest from the private investor in property unit trusts seem set to keep the market relatively buoyant in 2004 (although most would favour a simple reduction in Stamp Duty *Estates Gazette* 13/12/2003). Q4 2003 saw some notable deals including the £385 million Green Property portfolio sale to Burford and Lehman Brothers which included 1 Carey Lane, EC2 and 10 Spring Gardens, SW1; the Aviva Tower, EC3 sale by The Abu Dhabi Investment Authority and Aviva to Buckingham Securities for £260 million and the £112 million disposal of 74-85 St James's Street, SW1 to DB Real Estate by Delta Land. The sale of 5 and 25 Canada Square, E14 to RBoS has been approved by Canary Wharf Group shareholders, but has not yet completed - it would have been the largest transaction for some time at over £1 billion.

Construction Starts with prelets (sq m)

	Q4 2002		Q1 2003		Q2 2003		Q3 2003		Q4 2003	
	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet
City Core	17,261	3,159	865	0	18,713	0	7,428	590	4,976	0
City Fringe	10,294	9,069	29,603	20,071	75,806	69,677	0	0	0	0
Docklands	0	0	0	0	0	0	0	0	0	0
Midtown	0	0	1,717	0	15,462	2,635	2,957	2,059	2,640	0
West End	61,023	50,742	49,193	0	12,847	8,640	58,228	0	79,208	61,969
Total	88,578	62,970	81,378	20,071	122,827	80,952	68,613	2,649	86,824	61,969



Broadcasting House, W1

Despite 86,824 sq m going under construction in Q4, only 24,855 sq m of this (29%) was speculative – and that was concentrated in the West End. The largest scheme was the major BBC/Land Securities project at Egton and Broadcasting Houses, W1 totalling 60,062 sq m (all to be occupied by BBC). Cautious construction programmes remain with developers (and their funders) balancing high vacancy rates, long vacancy periods and declining rents on one hand with increasing occupier demand and relatively sparse construction completions in 2005/2006 on the other. That has been the overall picture for 2003 – with few exceptions, developers are not prepared to commit to new vacant stock being delivered in 2005/2006 despite a lack of rival schemes and evidence suggesting they should. 2004, however, could see an improvement. Palestra, SE1 is finally due to start in February (the start date has actually been pushed back four times despite all the contra-cyclical philosophy reported in the press) and British Land has announced its intentions to start either 51 Lime Street, EC3 or 201 Bishopsgate, EC2 speculatively.

Completed space still on the market (sq m)*

	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
City Core	34,436	47,897	39,277	58,721	56,873	56,626	85,343	170,327	249,946
City Fringe	33,175	40,787	42,348	53,694	63,775	56,660	74,092	88,831	92,127
Docklands	0	18,648	53,735	59,031	100,635	136,193	143,976	131,396	128,831
Midtown	16,793	18,380	25,781	28,982	41,853	53,761	53,941	52,312	48,130
West End	53,924	89,180	95,795	79,415	92,322	113,589	109,001	114,047	128,959
Total	138,328	214,892	256,936	279,843	355,458	416,829	466,354	560,443	647,993

**only space actively marketed*



Times Square, EC4

The overall figure continues to rise with no decline likely in 2004. However, the figure has actually fallen in the Docklands and Midtown markets (due to a deal at 50 Bank Street, E14 to Goldenberg and 20,786 sq m of deals on new space in Midtown) and the total rise is chiefly due to the space completing in the City Core - 30 Gresham Street, EC2 on the market through CB Richard Ellis; 30 St Mary Axe, EC3 where the surplus is on he market through DTZ Debenham Tie Leung and Lion Plaza, EC2 with the remaining space on the market through ATIS Real Weatheralls and BH2. With 274,205 sq m of speculative space set to complete in 2004, a fall in the total figure is unlikely but, with take up improvements continuing, a fall in the rate of increase is.

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

	1st half 2004		2nd half 2004		1st half 2005		2nd half 2005		1st half 2008	
	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av
City Core	164,598	120,670	17,006	13,847	12,323	12,323	0	0	0	0
City Fringe	12,431	7,274	19,781	279	69,677	0	0	0	0	0
Docklands	0	0	92,902	32,517	0	0	0	0	0	0
Midtown	12,648	10,013	0	0	0	0	0	0	0	0
West End	95,500	67,580	143,640	22,025	89,725	51,635	7,918	7,918	60,062	0
Total	285,177	205,537	273,329	68,688	171,724	63,958	7,918	7,918	60,062	0

**includes schemes where agents are not yet appointed*

"Is such cautious construction justified?"

2004 will see less vacant space completing than 2003 but vacancy periods on new stock remain long with 81,595 sq m of stock from 2001 still remaining vacant. However, there have been some improvements – 48 Warwick Street, W1, which completed in October 2000, has now almost all been let (to Donaldsons) and as rents on new stock remain low in most markets improvements can be expected to continue. Major speculative completions set for 2004 include 15,179 sq m at 10 Exchange Square, EC2, on the market through DTZ Debenham Tie Leung and Jones Lang LaSalle; 28,064 at Moor House, London Wall, EC2 on the market through Jones Lang LaSalle and the 25,287 sq m Belgrave House, SW1 on the market through Knight Frank and DTZ Debenham Tie Leung. 2005 has little due for completion and there is currently nothing, which has already started with speculative space, set for 2006. Is such a cautious construction programme justified?

London Office Database

Availability (sq m)



1 Finsbury Square, EC2

City Core

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	249,946	339.48	43.77
Pre-marketing	456,383	16.71	4.54
Second Hand	609,129	37.51	0.12
Under Construction	143,194	-57.46	-33.59
Total	1,458,652	18.83	1.69

Total availability has risen only slightly on the previous quarter but the figure for new space has jumped significantly as schemes such as 30 Gresham Street, EC2; 30 St Mary Axe, EC3 and Lion Plaza, EC2 complete with vacant space remaining. Despite, the modest increase, the City Core and City Fringe are the only markets to see an increase – and the City Fringe's increase was mainly due to one scheme being added – London Bridge Tower, SE1. Additions to the City Core market this quarter included 16,763 sq m at BP's 1 Finsbury Circus, EC2 through Cushman & Wakefield Healey & Baker; 9,272 sq m across three Land Securities buildings ahead of redevelopment through Kinney Green (Newspaper House; 21 New Fetter Lane and Lintas House, EC4) and 5,880 sq m of space set to be refurbished at 15 Minories, EC3 through BH2. The Docklands market's gain to take up next quarter could be at the expense of the City Core – when the deal completes to Reuters at 30 South Colonnade, E14, 17,910 sq m of existing Reuters stock will be released to the EC4 market though CB Richard Ellis.

City Fringe

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	92,127	39.65	0.26
Pre-marketing	362,207	-17.43	19.88
Second Hand	406,895	43.61	-1.67
Under Construction	5,791	-83.51	-61.62
Total	867,020	3.28	4.73

The City Fringe's modest increase of almost 5% was mainly due to one significant addition – the 60,754 sq m London Bridge Tower, SE1 which received permission this quarter. This dwarfs other additions to London as a whole. Other additions of note include UBS's 6,100 sq m building at 4 Christopher Street, EC2 available through DTZ Debenham Tie Leung and the existing 3,157 sq m of space at 40 Holborn Viaduct, EC1 becoming available through ATIS Real Weatheralls and Gale Priggen, delaying construction on the 17,330 sq m redevelopment (also on the market through ATIS Real Weatheralls). The decrease in space Under Construction was caused by completions at The Tea Building, E1; The Collection, Fashion Street, E1 and 29-55 Gee Street and a total of 13,259 sq m of new space being taken reduced the effect on the new/refurb (existing) figure.

Docklands

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	128,831	28.02	-1.95
Pre-marketing	734,650	-7.43	0.00
Second Hand	116,679	53.39	-9.06
Under Construction	32,517	-53.08	0.00
Total	1,012,677	-2.59	-1.38

Despite deals to Reuters at 30 South Colonnade and BP at 20 Canada Square not completing as hoped (39,250 sq m), the Docklands market still experienced a reduction in total availability, helped by 12,987 sq m of other deals; 4,476 sq m being withdrawn and few new units being added. Indeed, the largest addition was of only 472 sq m at 40 Marsh Wall through Dobbin & Sullivan. However, the confirmation that Lehman Brothers will have 32,516 sq m vacant in its building for at least two years (yet to be officially released to the market) and the Bank of America and Skadden Arps also have unoccupied space (up to 15,728 sq m combined) means that any significant take up next quarter could be offset by additions to the market of this unused space.

"West End availability falls for third quarter running"

Midtown

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	48,130	15.00	-7.99
Pre-marketing	23,703	903.52	8.96
Second Hand	210,963	10.08	7.31
Under Construction	5,016	-86.68	-76.87
Total	287,812	5.91	-0.91

A healthy quarter for take up (48,142 sq m) saw a reduction in the amount of space on the market in London's Midtown, but the figure is still up on the corresponding quarter in 2002. The large decrease in available space under construction was due to completions at phase 2 of 125 Shaftesbury Avenue, WC2; Whittington House, WC1; and Fairfax House, WC1. Major deals at 190 High Holborn, WC1 to London Qualifications (7,651 sq m); Lion Court, Proctor Street, WC1 to The National Housing Federation (2,710 sq m) and Victoria House, WC1 to The Corporate Executive Board (2,508 sq m), amongst others, reduced the amount of new stock on the market and the total figure was reduced further by 13,432 sq m being withdrawn. There were, however, some large new units being added – Farebrother and Nelson Bakewell began marketing 9,709 sq m at 2 Arundel Street, WC2 and Towers Perrin is disposing of its 3,995 sq m 2nd floor at MidCity Place through Jones Lang LaSalle and Farebrother.

West End



30 Berkeley Square, W1

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	128,959	39.68	13.08
Pre-marketing	85,871	-60.50	-17.13
Second Hand	472,243	0.84	-5.85
Under Construction	117,901	113.13	-0.68
Total	804,974	-3.41	-3.93

79,813 sq m of take up and 18,101 sq m of available space being withdrawn led to a reduction in available space in the West End – the 3rd quarter running the total has fallen. The result of this has not yet been seen in asking prices or speculative construction starts, but confidence is returning to the market. There is still the spectre of Civil Servant relocation and its effect on the Victoria submarket in particular– but an optimist would point to the amount of new staff appointed under Labour and the importance of the financial and media sectors in the West End. The quarter has not been without significant additions – CB Richard Ellis and Jones Lang LaSalle were appointed on the Crown Estate's 10,684 sq m Abbott House, Regent Street, W1 scheme; FPDSavills and Spring4 were appointed on Royal & Sun Alliance's 4,088 sq m 30 Berkeley Square, W1 disposal – regarded as some of the finest office space in London - and Cushman & Wakefield Healey & Baker began disposing of up to 2,459 sq m at Ford's Richard Rogers-designed Ingeni Building, Broadwick Street, W1.

At the start of 2003, the worst was feared for the market, with total availability set to approach the 5 million sq m mark. However, at the end of the year the situation has improved, although significantly up on the corresponding period in 2001. Things are incomparable with the early 1990s in terms of speculative construction and, as Cushman & Wakefield Healey & Baker point out (*Estates Gazette* 13th December 2003), the IRA bomb in the City Core reduced stock to such an extent take up was forced upon many occupiers. The reduction in total availability seen in all but the City Core and City Fringe this quarter is very encouraging and, when the fact that around 80,055 sq m was withdrawn across London in Q4 (Q3 saw around 45,500 sq m being withdrawn) is considered, it is evident that tenants are reassessing their disposal plans. Nevertheless, our research shows that almost 1 million sq m of tenant controlled space not currently on the market is earmarked for vacation and with vacancy rates at record levels (15.68% across London as a whole) we cannot yet claim to have recovered – but we can claim with certainty that the worst is over.

Average Asking Prices (£psm)*

City Core

	Q4 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£475.41	2.11	0.27
New - New Build (pre-construction)	£414.41	n/a	0.00
New - New Build (under construction)	£322.92	n/a	n/a
New - Refurb (existing)	£370.76	-20.87	-3.07
New - Refurb (pre-construction)	£269.10	n/a	n/a
Second-hand Grade A	£345.04	-18.04	-4.92
Second-hand Grade B	£248.96	-24.65	-9.97

Rents have fallen for most sectors but, surprisingly, asking prices on new stock have remained static. Last quarter's dramatic reductions as seen at 16 St Clare Street (to £80.73 psm (£7.50 psf)) have not (yet) been repeated, but the news that the redevelopment at 12 Arthur Street, EC4 will be available from a modest £322.93 (£30 psf) illustrates developers are still willing to adjust expectations to market conditions. With the large amount of vacant new stock completing this quarter and with 134,607 sq m of speculative space set to complete in 2004, prices can be expected to fall further – despite improving demand (it is worth noting that no asking price has ever been quoted for 30 St Mary Axe, EC3).

City Fringe

	Q4 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£314.05	0.37	6.30
New - Refurb (existing)	£262.56	-26.40	-4.96
New - Refurb (under construction)	£306.77	n/a	28.09
Second-hand Grade A	£269.90	-13.19	-2.15
Second-hand Grade B	£203.36	-18.06	-4.25

Prices for new stock have risen on last quarter but continue to fall for second hand space (the amount of which has risen by almost 44% in the last 12 months – see above). There is very little speculative space to complete in 2004 – only 7,553 sq m – but 63,130 sq m of available space completed in 2003 adding to the 28,648 sq m still available from previous years. Nevertheless, asking prices have remained static and should remain so as the supply of new stock dwindles.

"Speculative completions force prices down further"



Curzon Square, W1

Docklands

	Q4 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£442.67	-11.56	-4.64
Second-hand Grade A	£315.25	-6.75	5.31
Second-hand Grade B	£206.64	4.38	3.78

Proving once again that Docklands is unlike other markets, prices for second hand space have actually risen on last quarter as prices for new stock fell. Compared to other markets, there are few units available with quoting rents with which to calculate averages, making conclusions difficult, but prices can still fall (or inducements become more generous) as the supply of new stock increases at the end of 2004 when Barclay's BP1 completes. Take up should improve with the BP and Reuters deals, but the disposals of space held by Lehman Brothers, Skadden Arps and Bank of America could hit the market at any time. If the Docklands wishes to compete with the City Core for financial sector covenants on new space, there is still scope for further reductions.

Midtown

	Q4 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£456.39	-17.28	-2.53
New - Refurb (existing)	£349.11	-10.88	-6.67
New - Refurb (pre-construction)	£365.98	n/a	n/a
New - Refurb (under construction)	£209.90	-60.34	-18.75
Second-hand Grade A	£330.40	-19.78	-5.41
Second-hand Grade B	£266.52	-19.24	-4.93

Despite a good quarter for take up, especially for new stock, prices have fallen in the Midtown market across all grades and still seem high when compared to other markets. However, there is little vacant stock set for completion in 2004 – 10,662 sq m – which could help matters but the 47,800 sq m of completed space remaining available represents a downward force on prices. Globeop's deal at Grand Buildings, Strand, WC2 illustrated the wider problem; it took a sublease from El Paso on 2,343 sq m at £468.23 psm (£43.50 psf) – El Paso paid around £618.95 psm (£57.50 psf) representing a loss of over £1 million on the remainder of the term. Despite this, analysis of future supply and demand would suggest that the Midtown market has better prospects than most.

West End

	Q4 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£534.88	-14.56	0.25
New - Refurb (existing)	£461.32	-13.46	-2.22
New - Refurb (pre-construction)	£592.00	n/a	0.00
New - Refurb (under construction)	£258.34	-31.43	n/a
Second-hand Grade A	£407.76	-14.01	-4.36
Second-hand Grade B	£336.35	-10.25	-0.59

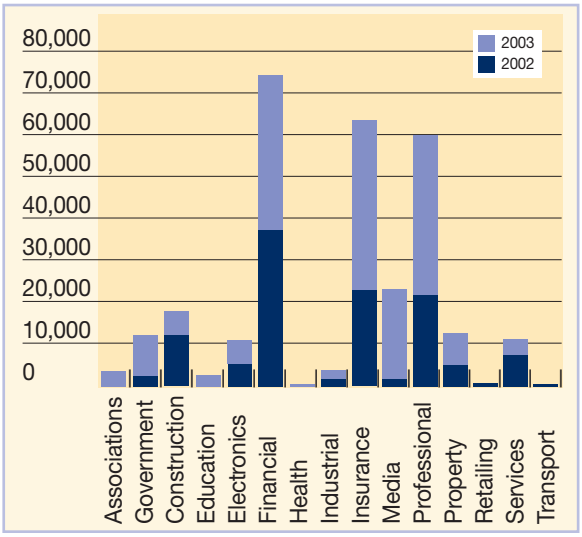
Like the City Core, the West End has seen rents fall across all grades apart from new stock. When compared to the high of Q3 2001, when new stock commanded an average of £851.51 psm (£79.11 psf), it would be easy to say that they cannot fall further - and the increased take up would support this. However, 2004 will see 89,605 sq m of new space completing and 126,704 sq m remains available from previous years. Notable recent completions like HRO's Victoria Plaza, SW1 are seeking around £559.73 psm (£52 psf) – so although prices may not fall much further, Consolidated Real Estates' £753.48 psm (£70 psf) for Curzon Square, W1, irrespective of quality and location, still seems high. The turnover lease agreed between MLS and sublessor Cap Gemini Ernst & Young on 4,373 sq m at 130 Shaftesbury Avenue, W1 shows the problem – the serviced office operator effectively pays nothing to start with – the space was on the market for £296 psm (£27.50 psf). Cap Gemini was paying around £385.56 psm (£35.82 psf) so even at the asking price the deficit was significant - it equates to around £2.5 million for the period of the lease.

"Good deals for sub-lessees"

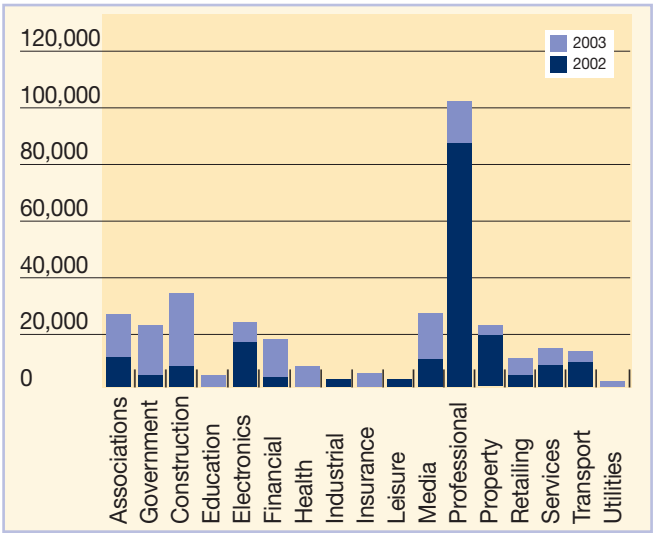
2003 was an incredible year for asking prices across London. Reductions began in earnest in mid 2002 and have continued, the occasional correction aside, ever since. The City Core, City Fringe and West End markets experienced slight corrections in the price for new stock this quarter, but despite this, and despite improving demand, reductions can continue, especially in the City Core where a large amount completed in Q4 2003 and is set to complete in 2004. This is not necessarily uniform; figures later in this document show that, if demand continues, the Midtown and City Fringe markets are actually set for an under supply problem in new space. It is difficult to make predictions for the future of the Docklands; there is still a large amount of new vacant space and Canary Wharf Group are more well known for their inducements than their rent reductions - but the Group is set to be sold and it remains to be seen whether this will effect the policy in the market. The general belief seems to be that the West End cannot fall further. However, this belief seems to be based on the amount rents have fallen recently and not the supply and demand issue; demand is improving but there is a lot of existing and pending supply – declines can continue. Across London, the reaction of asking prices to supply and demand is not immediate. Further falls are likely but asking prices can be expected to adjust to the improving circumstances and start moving upwards again by 2005.

Take Up by Business Sector (sq m) 2002/2003

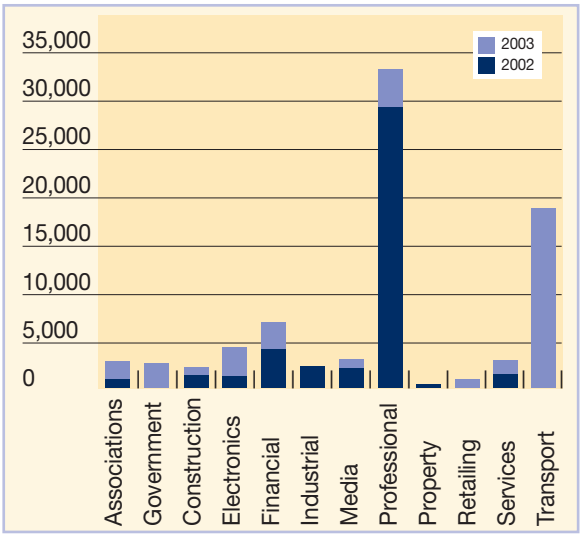
City Core



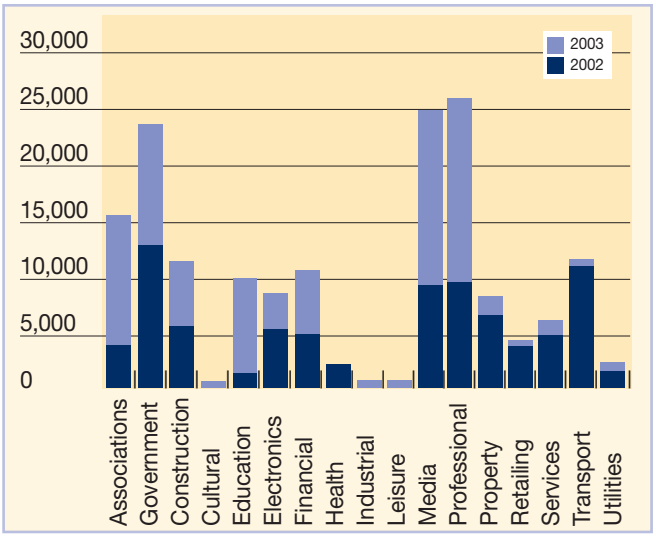
City Fringe



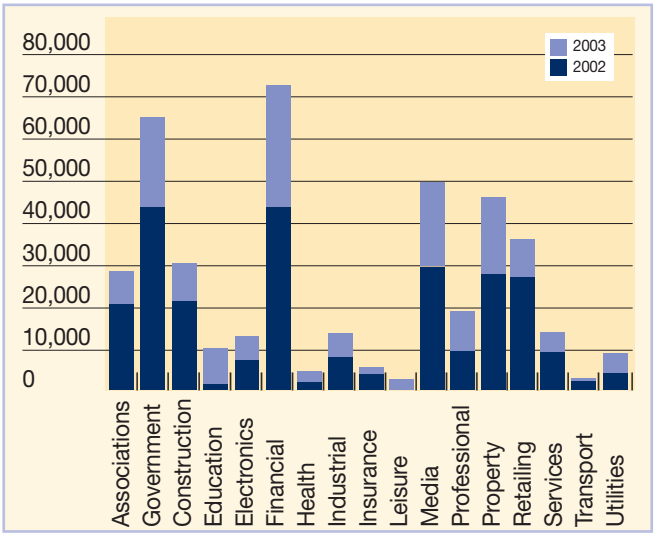
Docklands



Midtown



West End



Take Up (sq m)*

City Core

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	14,165	534.64	1317.94
Second Hand	68,113	323.45	95.81
Total	82,278	349.19	129.93

Take up more than doubled on Q3 2003 as confidence returns to the market. In fact, the amount taken was the highest since Q2 2001 and compared to the low of Q4 2002, where only 18,317 sq m of deals completed, the market seems to be recovering well. Whether this recovery will continue in 2004 remains to be seen, but there is a great deal of prime new stock lying empty or soon to complete which is in competition for the best tenants and, if owners continue to offer attractive inducements, there is no reason take up cannot continue to rise. This quarter has seen Sidley Austin Brown & Wood take a 7,432 sq m sublease from WestLB at Woolgate Exchange, 25 Coleman Street, EC2 through FPDSavills. It will be taking occupation in April 2004 moving from 1 Threadneedle Street, EC2 and 7-8 Princes Street, EC2. Unilever agreed a deal with JP Morgan on two floors comprising at 6,875 sq m at 60 Victoria Embankment – it will remain there while its HQ is refurbished - and interest has been increasing at Paternoster Square, EC4: Jones Lang LaSalle let 2,386 sq m to Cinven and 1,386 sq m to Charterhouse Development Capital at Goldman Sachs's Warwick Court; Lexicon Partners took the 1,433 sq m Transept House through DTZ Debenham Tie Leung and FPDSavills and AMEC took the 6th floor of 1 Paternoster Row.

City Fringe

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	13,749	155.04	3.70
Second Hand	51,962	146.13	145.15
Total	65,711	147.94	70.49

Take up has more than doubled since last quarter and hit its highest level since Q2 2001. The 13,471 sq m of deals to Pannell Kerr Forster and Morgan Stanley at Merrill Lynch's 20 Farringdon Road, EC1 were the largest – but without them the overall figure would still be the highest for some time. There was also around 10,000 sq m of deals on small units (under 232 sq m). Apart from the Merrill Lynch deals, the market also benefited from AMEC's apparent expansion – as well as taking City Core space at Paternoster Square, the construction firm took 4,515 sq m from BT at 207 Old Street, EC1 through DTZ Debenham Tie Leung and Boon Godbold. More London saw another deal with CDC completing on 2,676 sq m at 2 More London Riverside, SE1 and Derwent Valley's good Q3 continued into this quarter with deals at Globix House, Oliver's Yard, EC1 to Anshen Dyer (1,766 sq m); Skidmore Owings & Merrill (1,254 sq m); The International Tanker Owners Pollution Federation (736 sq m) and CPA Management Systems (606 sq m). Agents were BH2 and CB Richard Ellis.



Woolgate Exchange, EC2

Docklands

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	1,672	n/a	186.30
Second Hand	11,315	358.27	-44.17
Total	12,987	425.99	-37.71

There was a large percentage decrease on last quarter – but this was mainly due to a high figure in Q3 thanks to the single 16,165 sq m Tubelines deal at 15 Westferry Circus. The deals to Reuters and BP totalling 39,250 sq m still have not completed – but should do so in early 2004 leading to large increases in take-up figures. Indeed, the 27,319 sq m of pending take up to Reuters at 30 South Colonnade would have been London's largest deal of the year. The Docklands market still suffers from uncertainty – how much space will be released by Lehman Brothers/Skadden Arps/Bank of America? Are any other tenants set to release large proportions of space to the market? But the cautious level of construction starts seen in the last 2 years should help. This quarter was not without its deals – Goldenberg completed on 1,672 sq m at 50 Bank Street; Tower Hamlets took 2,845 sq m at Unit C, Great Eastern Enterprise and Kilpatrick Stockton took the 2,617 sq m 39th floor of One Canada Square through BH2. Bear in mind, however, that only 10 deals completed.

Midtown

	Q4 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	20,786	181.96	399.58
Second Hand	27,356	102.10	65.42
Total	48,142	130.26	132.59

"Brilliant quarter for Midtown"

This was a very good quarter for the Midtown market with large rises on the previous quarter and the corresponding quarter last year. Indeed, this was the best quarter for take up for more than three years. This may yet prove to be an anomaly, but it cannot fail to give hope of an occupier resurgence – across all markets. The largest deal was Metronet's sublease from EDF Energy at Templar House, High Holborn WC1 through ATIS Real Weatheralls (added to the Tubelines deal in Docklands, the PPP deal for London's Underground has been good news for the property market) but deals to London Qualifications at 190 High Holborn for 7,651 sq m and the purchase of the 2,710 sq m Lion Court, Procter Street, WC1 by the National Housing Federation have also been extremely significant. Coupled with the continuing interest in Victoria House, Bloomsbury Square, WC1, where The Corporate Executive board took 2,508 sq m, and Grand Buildings, Trafalgar Square, WC2, where Globeop took 2,343 (albeit at a large discount to sublessor El Paso's rent) it is evident that demand is strong for the best space.

West End

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	14,909	54.51	1.61
Second Hand	69,830	78.91	42.39
Total	84,739	74.07	33.00

Take up continues to improve in the West End and Q4 saw the highest level for more than a year despite a lack of prestigious deals. The worry over the Lyons report still remains and will not encourage owners of the recently completed Victoria Plaza, SW1 or the soon to be complete Belgrave House, SW1. However, demand is improving and aggressive expansion programmes such as that by serviced office operator MLS (who took 4,373 sq m at 130 Shaftesbury Avenue; 975 sq m at 7-9 Portland Place, W1 and, in Midtown, 2,142 sq m at 25 Floral Street this quarter) will encourage the market. Other deals this quarter included University College Hospital taking 5,670 sq m at Maple House, Tottenham Court Road, W1 and the Audit Commission taking 5,017 sq m at Millbank Tower, SW1. There was also around 21,000 sq m in small deals (under 232 sq m) in the market, an important niche in the West End.

only units over 232 sq m are included in take up

2002 and the first three quarters of 2003 were tough for London, but the year ended on a high in terms of take up – even without the 39,250 sq m of Docklands deals to BP and Reuters completing. The take up by business sector graphs illustrate that the City Core's key occupiers – Financial, Insurance and Professional - remain vital and appear resurgent but the professional sector appears to have abandoned the City Fringe (maybe it is waiting for the right kind of space). The Docklands' loss of Financial take up was matched by the new addition from the Transport sector with the Tubelines deal and Media and Professional occupiers appear to be spreading from their respective West End and City Core heartlands to meet in London's Midtown. The West End shows few clear trends but reaffirms the importance of the Government, Media and the less traditional Financial occupier. The improving take up and decreasing availability has not yet had much of an effect on asking prices and will probably not do so until 2005. However, future supply figures indicate that the City Fringe and Midtown could actually see an under supply of new office space if trends continue. Meanwhile, the City Core and Docklands will have to continue to offer deals to attract the best tenants and compete with one another. The West End is likely to continue to see the effects of too much supply, but around 21,000 sq m of small deals (below 232 sq m) completed in Q4 2003 – a key element of the West End market – proving that demand is strong.



Globix House, Oliver's Yard, EC1

Completed space still available as at Q3 2003 (sq m)



30 Gresham Street, EC2

City Core

Completed half year	Q4 2003
1 2001	1,472
2 2001	2,893
1 2002	2,740
2 2002	12,137
1 2003	47,421
2 2003	178,642

The second half of 2003 saw a great deal of speculative space complete in the City Core and, despite signs of returning confidence, the submarket still has a long way to go. Existing and soon-to-complete schemes must be prepared to compete with one another (12 Arthur Street, EC4 is already quoting asking prices "from" £322.92 psm (£30 psf)) as seen by the significant amount still lying vacant from 2001 (although the situation has improved since last quarter). The fact that there were no prelets in Q4 in Central London – not just in the City Core – will further dampen developers' confidence, but take up is improving. The fall in asking prices seems set to continue (despite the minor correction in Q4), but 2004 is set to be better than 2003. Recent completions include the infamous 30 St Mary Axe, EC3 which has finished with Swiss Re still seeking to dispose of 25,684 sq m through DTZ Debenham Tie Leung and 30 Gresham Street, EC2 completed with the entire 35,501 sq m still available through CB Richard Ellis.

"BP still to complete at 20 Canada Square"

Docklands

Completed half year	Q4 2003
2 2001	48,249
1 2002	
2 2002	28,242
1 2003	52,341
2 2003	0

The Docklands market has the second highest amount of new stock lying vacant after the City Core. A sensible rationalisation of its speculative construction programme was needed (planning pipeline figures show that the market has the capacity to almost double in size) and the fact that a significant amount of stock may still hit the market (Lehman Brothers, Skadden Arps, Bank Of America) is a concern. Nevertheless, the only completion with vacant space on he horizon is at Barclay's BP-1 and BP is set to take up to 11,891 sq m at 20 Canada Square. The attractive inducements (if publicised) Canary Wharf Group is known for need to continue (in whatever form the Group takes in 2004) if it wants to compete with the City Core for the best tenants.

West End

Completed half year	Q4 2003
1 2000	2,172
2 2000	1,558
1 2001	3,312
2 2001	12,704
1 2002	6,011
2 2002	19,758
1 2003	30,966
2 2003	50,222

Like the City Core and Docklands markets, the West End still has a great deal of new vacant space. Rents have fallen dramatically as a result – from a high of £851.51 psm (£79.11 psf) to £534.88 psm (£49.69 psf) today – but a good quarter for take up as a whole (despite few truly notable deals) and returning confidence in London puts the market in a better light. The deal to Donaldsons on 2,651 sq m at 48 Warwick Street, W1 through CB Richard Ellis and Crossland Otter Hunt was very welcome after the building had remained vacant since completion in 2000, but the Lyons report still looms. The completion this quarter of HRO's 21,739 sq m Victoria Plaza, SW1 (available through Cushman & Wakefield Healey & Baker and FPDSavills) and 5,631 sq m at 10 Grosvenor Street (available through Jones Lang LaSalle and Knight Frank), for instance, as well as the 149,148 sq m of speculative completions over the next two years show that these take up improvements do need to continue – even at the expense of further rental falls.



Victoria Plaza, SW1

City Fringe

Completed half year	Q4 2003
1 2000	1,520
2 2000	0
1 2001	5,312
2 2001	3,542
1 2002	3,507
2 2002	14,767
1 2003	25,609
2 2003	37,521

The City Fringe is looking a lot healthier than the City Core and the good Q4 for take up, and relatively small 7,553 sq m of speculative space set to complete in 2004, would suggest prospects for the submarket are good. The rationale behind Palestra is sound (despite the delays) and there is unlikely to be much competition at its completion (set for the end of 2006). However, although the situation is better than last quarter, the Fringe still shows the potential for long vacant periods on new stock – despite the recent take up, there is still a lot remaining available at Globix House, EC1, for instance, after completion in 2001. The recent completions at 29-55 Gee Street, EC1 and The Tea Building, E1, for instance, must be prepared to wait for a tenant.

Midtown

Completed half year	Q4 2003
1 2001	864
2 2001	3,246
1 2002	188
2 2002	13,059
1 2003	20,876
2 2003	9,566

The take up figures show that the Midtown market had a very good quarter – especially for new stock where 20,786 sq m was taken. As mentioned, this may yet prove to be a one-off, but the market is looking a lot healthier than it did three months ago. There is still a lot remaining vacant; 7,570 sq m remains vacant at The Eye, High Holborn, WC1 through CB Richard Ellis and Farebrother; 7,532 sq m remains from phase 1 of 125 Shaftesbury Avenue, WC2 through Knight Frank and Nelson Bakewell and 5,356 sq m remains at Victoria House, Bloomsbury Square, WC1 through ATIS Real Weatheralls and Nelson Bakewell. However, there is only 10,013 sq m due for completion in 2004 and nothing in 2005/2006 so if demand remains strong, prospects are good – to the extent we could see a shortage of stock.

New stock is still likely to remain vacant for around two years in London. The situation has improved since last quarter – we have little year 2000 stock waiting for a tenant, but given that the average scheme must have two years to search for a prelet before construction even finishes, it is evident that the market still has a long way to go. The fact that 48 Warwick Street, W1 is now almost fully let is very welcome – the building had come to symbolise the West End's woes to some extent after a vacancy period of 3 years, but the prestigious completions seen in the City Core this quarter, and those set for the City Core and West End in 2004, must be prepared to offer good deals. A developer needs to decide whether a good covenant on a long lease now (with future rent review facilities) is better than an average one in the future at a marginally higher rent. Lionheart, developer of Lion Plaza, EC2, who reportedly offered White & Case a rent-free period of up to 4 years, made this decision.

2003, then, has been a bad year for new vacant stock. The West End and City Core cannot expect a rapid improvement in 2004 as more completes, but the Midtown market has seen great improvements, which will hopefully continue. There is also a lack of future supply in the City Fringe, encouraging schemes like Palestra, but the Docklands' problems are set to remain unless more and more generous inducements are made.

Construction Starts (sq m)

City Core

Q1 2001	57,825
Q2 2001	33,369
Q3 2001	160,390
Q4 2001	143,303
Q1 2002	18,700
Q2 2002	55,573
Q3 2002	28,340
Q4 2002	17,261
Q1 2003	865
Q2 2003	18,713
Q3 2003	7,428
Q4 2003	4,976

The amount of new vacant stock has put off many developers, like Land Securities at its New Fetter Lane Scheme, despite encouraging signs of returning demand and lack of completions in 2005/2006. British Land has stated that it will start one of its City Core schemes speculatively – either the 50,067 sq m 51 Lime Street, EC3 or the 69,677 sq m 201 Bishopsgate, EC2. If it does, 2006 would seem a sound time for delivery, giving time to clear the backlog from 2003 and 2004. Three office schemes went under construction this quarter, the largest being the refurbishment of 2,521 sq m at 24 Cornhill, EC3.

Docklands

Q1 2001	44,987
Q2 2001	0
Q3 2001	0
Q4 2001	92,902
Q1 2002	0
Q2 2002	0
Q3 2002	0
Q4 2002	0
Q1 2003	0
Q2 2003	0
Q3 2003	0
Q4 2003	0

Unsurprisingly, there were no starts in Docklands for the 8th quarter running. The market needs to clear its significant backlog of new un-let space (and safeguard against let space coming back to the market) and await a resurgence before committing – preferably with a majority or complete prelet in place. The sale of Canary Wharf Group next year will change the face of the market – but it is doubtful that the policy on construction will change for some years.

West End

Q1 2001	22,998
Q2 2001	122,654
Q3 2001	17,890
Q4 2001	70,161
Q1 2002	10,711
Q2 2002	90,995
Q3 2002	10,938
Q4 2002	61,023
Q1 2003	49,193
Q2 2003	12,847
Q3 2003	58,228
Q4 2003	79,208

The BBC/Land Securities scheme, with its future certain, was the largest start this quarter (comprising 76% of the total). Works also began at Great Portland Estates' 7,918 sq m Metropolis House, Percy Street, W1 speculatively with completion expected toward the end of 2005 (available through Hodnett Martin Smith and CB Richard Ellis). The large amount remaining vacant has discouraged many, but the improvements in the market are set to continue and 2006 would seem like a good to delivery a prestigious speculative scheme.

City Fringe

Q1 2001	4,829
Q2 2001	86,806
Q3 2001	17,121
Q4 2001	32,204
Q1 2002	14,680
Q2 2002	1,508
Q3 2002	14,685
Q4 2002	10,294
Q1 2003	29,603
Q2 2003	75,806
Q3 2003	0
Q4 2003	0

Quarter 4 was another barren quarter for the City Fringe market. Improving take up and a lack of completing schemes over the next two years should encourage development, but so far it has only been Blackfriars Investments and Royal London Asset Management throwing down the gauntlet with Palestra, SE1 (due to start February 2004). The fact that Castlemore has delayed construction at its 17,330 sq m 40 Holborn Viaduct, EC1 scheme (the existing building is now being marketed on a lease expiring December 2004) and Chelsfield has postponed its 8,626 sq m Lumina, SE1 scheme until 2009 (again, existing space is being marketed) is maybe too cautious.

Midtown

Q1 2001	18,152
Q2 2001	32,784
Q3 2001	16,273
Q4 2001	36,131
Q1 2002	1,600
Q2 2002	17,041
Q3 2002	0
Q4 2002	0
Q1 2003	1,717
Q2 2003	15,462
Q3 2003	2,957
Q4 2003	2,640

The relatively minor works at 233 High Holborn, WC1 comprised the only activity in Q4. It was a good quarter for take up and the lack of schemes under construction or in the pipeline would suggest that the Midtown has the healthiest prospects of all.

The depressing vacancy rates, average asking prices and total availability figures have put developers (and their funders) off in 2003. The fact that stock can remain empty for two years has made prelets vital. However, once 2004 is over, there is not much speculative stock to hit the market (that is currently under construction) and those brave enough to start now will find themselves without much competition on completion. The delay's to Castlemore's 40 Holborn Viaduct, EC1, Land Securities' Fetter Lane scheme and Chelsfield's Lumina, SE1 – as seen previously by Tishman Speyer's effective abandonment of the redevelopment of the Marsh Centre, E1 - is testament to the fear of risk seen in the market. 2004's commencement of Palestra and British Land's commencement of one of its major City Core schemes will hopefully encourage others to follow suit.



51 Lime Street, EC3

"Speculative starts remain slow"

Under Construction and still available (sq m)

"Few liabilities in City Fringe and Midtown"

City Core

Est. Completion Date	To Complete	Still available
Q1 2004	54,199	43,037
Q2 2004	110,399	77,633
Q3 2004	12,270	9,111
Q4 2004	4,736	4,736
Q1 2005	12,323	12,323

Around 147,000 sq m of speculative space is due for completion in the City Core; the most significant being the 28,064 sq m still available at Moor House, London Wall, EC2 which is due for completion in April 2004. However, after the start of 2005, there is little to hit the market and if improvements in take up continue the market should be in a much better state by 2006. British Land's commencement of one of 51 Lime Street, EC3 or 201 Bishopsgate, EC2 in the near future should mean that delivery will be at the right time.

City Fringe

Est. Completion Date	Complete	Still available
Q1 2004	7,336	2,691
Q2 2004	5,095	4,583
Q3 2004	279	279
Q4 2004	19,502	0
Q1 2005	0	0
Q2 2005	69,677	0

There is only around 7,533 sq m completing speculatively in the City Fringe next year. The prestigious schemes (the 69,677 sq m 1-10 Bishop's Square, E1 and the 15,983 sq m K2, E1) are already prelet so, failing a disaster befalling Mercer or Allen & Overy, little new should be added. The amount remaining vacant after completion is still a cause of concern, as is the amount of second hand space available, but the quality of schemes is very different and Palestra should not worry about competition – and nor should have Chelsfield at Lumina, SE1 or Castlemore at 40 Holborn Viaduct, EC1.



BP-1, E14

Docklands

Est. Completion Date	Complete	Still available
Q4 2003	0	0
Q1 2004	0	0
Q2 2004	0	0
Q3 2004	0	0
Q4 2004	92,902	32,517

The Docklands market its unlikely to recover in time for the delivery of Barclay's surplus space at BP-1 in December 2004. The large amount of space still lying vacant and the amount of space which could be released by tenants does not lead to confidence and the brakes were applied to speculative development maybe one scheme too late. The fact that Canary Wharf Group, as we know it, may be no more does result in some uncertainty, but as mentioned previously, it is doubtful any new policy will be applied to speculative construction.

Midtown

Est. Completion Date	Complete	Still available
Q1 2004	8,002	5,367
Q2 2004	4,646	4,646
Q3 2004	0	0
Q4 2004	0	0

Like the City Fringe, the Midtown market has a brighter future than others. The increased take up and lack of schemes in the pipeline are set to lead to an under supply problem in the next two years. There are currently only six notable schemes under construction and one of these, the 2,635 sq m 52 Bedford Row, WC1, is already prelet (to Wedlake Bell). Although 47,800 sq m of completed space remains available, the Midtown market's relatively high average quoting rent on new stock of £465.39 psm (£42.40 psf) seems justified.



Cardinal Place, SW1

West End

Est. Completion Date	Complete	Still available
Q1 2004	58,648	30,728
Q2 2004	36,852	36,852
Q3 2004	60,711	3,013
Q4 2004	82,929	19,012
Q1 2005	38,090	0
Q2 2005	51,635	51,635
Q3 2005	0	0
Q4 2005	7,918	7,918
Q1 2008	60,062	0

The West End, with almost 150,000 sq m of available space set to complete could face a similar problem to the City Core as this figure is added to existing new vacant stock (currently at around 127,000 sq m). Asking prices may yet fall further, and the forthcoming completions of 51,635 sq m at Cardinal Place, SW1 (now to be delivered as one in June 2005) and the 25,287 sq m Belgrave House, SW1 in May 2004 being added to recent completions like HRO's Victoria Plaza, SW1 seem unlikely to see a quick deal. Take up, however, is set to continue to rise but will rely more and more on the financial and media sectors.

2003 has seen a lot of speculative space complete across London. This is set to continue in 2004, but only for the West End and City Core. The City Fringe and Midtown markets look set to actually reach an under supply problem on new space (if take up continues to improve) but the same cannot be said of Docklands. The addition of 32,517 sq m at BP-1 is not likely to be snapped up – the amount of new stock still without a tenant is testament to that. The decision by Land Securities to alter the phasing of its Cardinal Place scheme in the West End so that both phases are delivered in 2005 shows the concern in the West End market – and in Victoria. 2004 is set to be much better than 2003, but the City Core, West End and Docklands developers still need to be prepared to offer what is needed to secure a deal.

Planning Pipeline (sq m)

City Core

Total existing stock	6,130,707
Total at application and permission	1,365,075
Potential sites	687,053
Overall Potential new stock	2,052,128

The problems the City Core is facing with the large amount of new, un-let stock and the large amount of forthcoming completions means that it is hard to see much of this potential pipeline being realised over the next two to three years. Nevertheless, British Land potentially starting the 50,067 sq m 51 Lime Street, EC3 or the 69,677 sq m 201 Bishopsgate, EC2, coupled with the recent permissions for DB Real Estate and Helical Bar's 46,451 sq m Ropemaker Place, EC2 and Blackfriars Investments and Frogmore's 19,722 sq m Mermaid House, EC4, suggest that ambition remains, but few will risk exposure before 2006.

City Fringe

Total existing stock	3,037,615
Total at application and permission	988,564
Potential sites	544,321
Overall Potential new stock	1,532,885

Like the City Core, few of the current projects in the planning pipeline are likely to come to fruition in the near future, despite evidence that they maybe should, with the exception of Palestra. Nevertheless, there are some huge schemes in the offing, the most significant (if not the largest) being Sellar's 60,754 sq m London Bridge Tower, SE1 which was awarded permission in Q4. Schemes like Goodmans Fields, E1, The Royal Bank of Scotland's 78,500 sq m proposal, and Lehman Brothers' 75,767 sq m Northgate, EC2 seem very distant and Castlemore's decision to delay 40 Holborn Viaduct, EC1, Chelsfield's decision to delay Lumina, SE1, coupled with Tishman Speyer's decision to abandon the Marsh Centre redevelopment seem set to be copied by others – providing there is existing lettable space on site. However, Sellar's permission for London Bridge Tower proves that, like the City Core, ambition remains.



Ropemaker Place, EC2

Docklands

Total existing stock	1,744,627
Total at application and permission	1,000,913
Potential sites	454,444
Overall Potential new stock	1,455,357

The Docklands market's woes are well publicised and the fact that it has the potential to almost double (conversion of existing space excepted) does not mean any works will start. It is very difficult to see any commencement without a prelet and it is very difficult to see a prelet happening until the backlog of new and soon-to-complete stock is cleared. No significant office schemes won permission in Q4 and it cannot be worth developers' time and money to pursue permissions in the near future. More revision of office proposals to residential can be expected.

Midtown

Total existing stock	2,152,466
Total at application and permission	118,528
Potential sites	67,056
Overall Potential new stock	185,584

The Midtown market experienced one of its best quarters and has some of the best prospects, so it is surprising to see so little in the pipeline. The largest proposal is the 16,722 sq m redevelopment of Citibank House, Citibank's old 336-337 Strand, WC2 building (still at application) and nothing was awarded permission in Q4. As illustrated earlier, a shortage of office space could well be seen by 2005.

West End

Total existing stock	6,289,243
Total at application and permission	508,272
Potential sites	309,206
Overall Potential new stock	817,478

Surprisingly, the West End has less in the pipeline than most, but the schemes set for completion over the next year mean that there is little point in pursuing further plans. The largest pending sites are still in Paddington and, thanks to Marks & Spencer moving to Paddington, the 45,800 sq m redevelopment of its former HQ at 37-67 Baker Street, W1 (still at application). No significant schemes were awarded permission in Q4, reflecting the market's worries.

Despite the concerns of the market, 2003 has seen notable schemes awarded permission. The most notable was Sellar's London Bridge Tower, SE1 but an additional 71,535 sq m was awarded permission at Paddington Station, W2 and DB Real Estate and Helical Bar were awarded permission for their 46,451 sq m Ropemaker Place scheme, EC2. The amount of new stock still available and the amount set to complete in the City Core and West End in particular would suggest that we will not see these schemes come to fruition for some time, but Blackfriars Investments and British Land's declarations of intent may encourage others. The welcome addition to the skyline of 30 St Mary Axe, EC3 is an encouraging sign that developers will be allowed to try something a little different (a luxury not seen at Paternoster Square, EC4) and the permission awarded to Sellar for the "Shard of Glass" London Bridge Tower, SE1 confirms this.



Mermaid House, Puddle Dock, EC4

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)

Our additional markets, not yet included in these statistics, are:

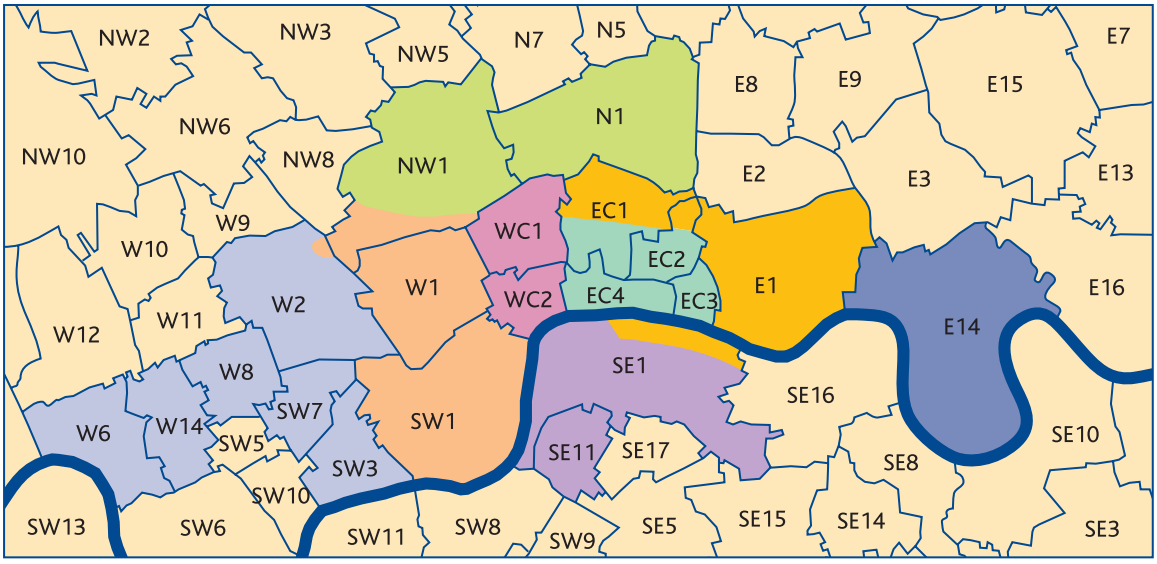
South Central: Remainder of SE1 and SE11
North Central: Remainder of NW1 and N1
West Central: W2 (excluding Paddington), W14, W6, SW3, SW7 and W8

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

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Docklands
City Core
City Fringe
Midtown
West End (including Leicester Square and Paddington Central)
South Central
North Central
West Central

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.

■ **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. Purely 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. Please note that Second Hand Grade A space are 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. This includes space not on the market.

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

■ **Completed and Available space:** A total of new space (refurbishments and redevelopments) on the market (includes space let but never occupied) over time.

■ **Construction starts:** A total of space by construction start date.

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

■ **Market share:** The total space let by each agent adds up to more than total take up. This is because space in joint agency deals has been attributed to all agents involved. The survey includes all completed deals over 2,500 sq ft within the LOD boundaries (see map) including prelets and excluding any space that is under offer. Investment freeholds / long leaseholds not for occupation by the purchaser are not included.


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