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Market Analysis
London Office Database

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London Office Database

Introduction

Public Salvation

It is not often you hear these words but THANK HEAVEN FOR THE GOVERNMENT. Perhaps more accurately, thank heaven for government and public sector requirements. The public sector is keeping the market alive right now, with a swathe of requirements.

"300,000 sq ft of government requirements"

Anecdotal estimates range from 27,870 to 46,450 sq m (300,000 to over half a million sq ft) of requirements from governmental and public sector organisations for the Victoria, Midtown and even City and West End fringe markets.

Any day now, University College London Hospitals (UCLH) will complete its deal for London's largest letting for almost two years - a 13,935 sq m (150,000 sq ft) letting at Prudential's 250 Euston Road, NW1(revealed by Estates Gazette, 21 June 2003). During the past three months, UCLH had already taken a 2,787 sq m (30,000 sq ft) sublet at 60 Whitfield Street, W1, and Barts & London NHS Trust also brought some rare good news to the dire City market with a 5,995 sq m (60,000 sq ft) sublet from the Co-operative Bank at 9 Prescot Street, E1. The Department of Health is under offer on 2,787 sq m (30,000 sq ft) at BT's Weston House, High Holborn, WC1 and University College London is also rumoured to be in talks to take the 7,556 sq m (81,335 sq ft) 101-107 Tottenham Court Road, WC1. The Highways Authority is to take around 1,161 sq m (12,500 sq ft) at 123 Buckingham Palace Road, SW1 from PA Consulting at £484.38 psm (£45 psf).

It follows deals from the Legal Services Commission, numerous Secretary of State lettings, the Courts Services, and many more. The trend of public sector deals appears to have gathered pace, despite - or perhaps due to - Chancellor Gordon Brown's request for 20,000 civil servants to look into relocating from the capital to the regions. Sir Michael Lyons, director of the Institute of Local Government Studies at Birmingham University, will report to the Treasury on the benefits of relocating civil servants from London to the regions. The effects could be catastrophic, with some 371,600 sq m (4m sq ft) in the Victoria pipeline alone and little demand from other sectors for the space that would be left behind by the governmental bodies. Some commentators believe that many public sector bodies are activating requirements now, so that they can tie themselves up to new London deals before Sir Michael tells them to pack up and leave London.

"Relocation to the regions would be catastrophic"

'90s revisited?

"Vacancy rates edging 20% in City Fringe"

In the second of EG*i*'s London Office Database's (LOD) series of comprehensive reports into the state of the capital's office market, a number of findings show that without the above activity shoring up the market, we could be in a similar situation to the last recession. Vacancy rates continue to rise - edging ever closer to 20% in the City Fringe and now over 12% in the West End.

Although availability increases do appear to be stabilising, the "grey market" [tenant-controlled space that is available but not being actively marketed] suggests that the true level in central London is somewhat higher.

Take-up across the capital as a whole, although slightly up in the City Core, Midtown and West End from Q1 2003, has hit a low for this cycle at 148,940 sq m (1.6m sq ft) compared to 152,061 sq m (1.64m sq ft) at Q1. However, one leading commercial agent estimates that there is 92,900 sq m (1m sq ft) under offer in the West End, comprising mostly small-end deals of around 279 sq m to 1,300 sq m (3,000 sq ft to 14,000 sq ft.)

The depressed market seems set to continue with no recovery until 2005. Second hand rents in particular continue to fall (prime rents are now just around £538.20 psm (£50 psf) in the West End and £473.62 psm (£44 psf) in the City) against the backdrop of the fragile economic climate. But the optimists will be encouraged by the low-interest rates and "reasonable" rather than "over" exposure of bank lending to speculative development from the banks, in contrast to 1990-1994. The crisis of the early nineties should thus be avoided with rental decline today at around 15%, compared with 50% last time around.

Investment Irony

"Investment market holds up"

Given the lack of rental growth, it is bizarre that the dichotomy between occupier and investment appetite continues. We note that yields are not moving out at anything like the rate predicted at the start of the year and investor demand seems as high as ever for the right stock. Whether it is the volatile nature of equities or low returns of the bond "safe haven", foreign investors and syndicated vehicles show no indication of looking elsewhere to allocate their substantial funds.

Adam Coffer,
News Editor,
Estates Gazette Group

Q2 2003 Overview

Top Rents in City and West End £psm– 1989

Year	City	West End
1983	£387.51	£252.96
1984	£339.07	£247.58
1985	£430.57	£301.40
1986	£484.39	£387.51
1987	£672.77	£430.57
1988	£753.50	£731.97
1989	£753.50	£688.91

Source: Estates Gazette 28th October 1989 "Stable Outlook in Office Sector"

Average Rents for Newly Built Space £psm Q2 2003

Market	Q2 2003
City Core	**£472.54**
City Fringe	£314.55
Docklands	£500.53
Midtown	£493.35
West End	**£524.91**
Overall	£469.66

Source: EGi London Office Database Q2 2003

Asking Prices

"Prices doomed to crash?"

With hindsight, it is easy to say that the rental levels seen in 1989 (above) were doomed to crash, as they did in the early 1990s. It is just as easy to say that the highs experienced in London in 2000/2001, where top West End space was commanding £1,076.43 psm (£100 psf), were just as doomed. It may be depressing to see higher asking prices in 1989 than 2003, but it must be remembered that the early '90s was a unique situation – developers were borrowing heavily and constructing over ambitiously. This quarter's data suggests that the fall in asking prices of new stock is ceasing and the fall in the asking prices for second hand space may well follow suit within the next 12 months.

Improving?

This quarter's figures also suggest that total availability and total take up figures are stabilising. Coupled with asking prices, it can be concluded that we have reached the bottom of the cycle, but this does not mean that things are getting better – they have just ceased to get worse. There have been encouraging signs – space is being withdrawn from the market as tenant disposal programmes are reassessed, speculation around high profile buildings is growing, Mellon Bank has taken its 3,975 sq m (42,787 sq ft) option at Times Square, EC4 and schemes such as Blackfriars Investments' Palestra and Castlemore's 40 High Holborn are expected to start speculatively. However, there is still a "grey market" of space yet to come to the market.



Palestra

Expansion or Consolidation?

When a large deal is signed, it is understandable for this to be seen as a sign of recovery and it is easy to forget about the space the lessee will vacate when it moves to its new, high-profile building. This quarter has seen White & Case take a 9,012 sq m (97,000 sq ft) prelet at Lion Plaza, but it will vacate 3,389 sq m (36,479 sq ft); XL take 11,330 sq m (121,956 sq ft) at 70 Gracechurch Street, but it will vacate 6,744 sq m (72,592 sq ft); CB Hillier Parker confirming that it will vacate three West End offices and one City office ahead of its merger and move to Paternoster Square; Standard & Poor's confirming that it will dispose of 8,158 sq m (87,812 sq ft) ahead of its move to 20 Canada Square, the Ofcom companies will dispose of around 17,187 sq m (185,000 sq ft) ahead of the move to Riverside House – and the majority of these disposals are yet to be brought to the market, masking the issue. The problem of disposals offsetting take up can be seen in microcosm at The Cotton's Centre, SE1. Less than a week after a 2,880 sq m (31,000 sq ft) deal to Control Risks lightened the mood, existing tenant Chubb Insurance placed a 3,371 sq m (36,285 sq ft) floor on the market through Masons, immediately offsetting the take up. Not only is there a "grey market" of occupied space set to come to the market ahead of a tenant's move, there is a significant and ongoing issue of vacant space which is not being marketed. The vacancy rates in this report, which include these not-being-marketed units, have risen quite dramatically this quarter despite the relative levelling of availability and take up figures – the amount officially being marketed can be quite different from the amount effectively available.

Summary

The bottom of the market has probably been reached and, although second hand prices may well continue to fall in the next one or two quarters, it will be surprising if there are any major increases in total availability figures or large decreases in take up. Construction starts have risen (although this is mainly due to the 69,677 sq m (750,000 sq ft) 1-10 Bishops Square scheme which is already prelet to Allen & Overy) but remain cautious. Brave developers building for 2005/2006 could reap the rewards but it must be remembered that vacant periods of around two years are still being experienced on new stock. The "grey market" of tenant disposals not yet on the market could still influence matters, but, dependant on when the space is eventually marketed, any new additions could be absorbed when taken as a proportion of the total. The situation, then, is not getting better - but it is no longer getting worse.

"The market is not getting better, but no longer getting worse"

Bill Page,
Senior Research Analyst,
London Office Database

Analysis

Vacancy Rates %

"Double digit vacancy rates"

	Q3 2002	Q4 2002	Q1 2003	Q2 2003
City Core	8.15	9.67	11.54	13.13
City Fringe	10.29	11.55	12.04	17.05
Docklands	9.06	11.44	14.57	15.47
Midtown	8.50	9.51	10.78	11.55
West End	10.77	11.89	12.15	12.54

As for Q1 2003, all markets are experiencing double-digit vacancy rates, with the City Fringe the worst affected. The tables below do illustrate that total availability and take up are stabilising, but they give no account of vacant space with no marketing agents.

Total availability (sq m)

	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003
City Core	533,502	621,165	831,085	940,492	1,070,603	1,200,394	1,227,512	1,292,183	1,348,634
City Fringe	416,977	565,605	744,543	836,797	811,088	765,885	844,077	858,975	843,445
Docklands	310,147	510,022	533,110	541,449	556,925	565,719	1,039,587	1,003,827	997,130
Midtown	144,646	201,894	256,296	230,655	252,504	247,763	273,530	287,995	289,529
West End	328,308	489,431	599,450	682,643	788,401	808,808	833,372	921,412	853,794
Total	1,733,580	2,388,117	2,964,485	3,232,037	3,479,521	3,588,569	4,218,079	4,364,392	4,332,532

Total availability has stabilised, helped by some withdrawn proposals such as the 54,500 sq m Marsh Centre development; the 6,069 sq m Gateway proposal in Docklands and an increase in take up in the Midtown and West End markets of 18% and 17% respectively on last quarter.



70 Gracechurch Street
© David Barbour/BDP

Take Up (sq m)*

	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003
City Core	83,721	79,011	74,928	40,220	42,023	26,038	18,317	48,845	49,219
City Fringe	70,143	27,465	27,877	97,329	49,149	42,269	26,503	42,616	30,103
Docklands	144,674	67,292	72,423	6,135	34,252	3,481	2,469	3,550	2,389
Midtown	19,841	22,407	11,544	17,550	22,789	22,945	20,908	19,020	22,273
West End	74,873	57,208	86,122	50,749	59,704	85,255	48,680	38,030	44,955
Total	393,251	253,383	272,894	211,983	207,917	179,988	116,877	152,061	148,940

**only units >232 sq m*

Although not up as a total, take up has risen in all markets except the Docklands and City Fringe. There have been some notable deals, including the 11,330 sq m 70 Gracechurch sale-and-leaseback to XL; the 9,012 sq m prelet to White & Case at Lion Plaza; the 5,995 sq m deal to Barts & London NHS Trust at 9 Prescot Street and a total of 8,569 sq m let at 40 Grosvenor Place in four separate deals. Take up can be expected to rise again in Q3 2003.

Average Asking prices* (£psm)

New Build (existing)

"Asking prices stabilise for new stock"

	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003
City Core	£543.58	£554.35	£570.49	£575.87	£577.25	£494.13	£465.60	£464.65	£472.54
City Fringe	£230.76	£188.37	£331.89	£403.65	£345.62	£319.41	£312.91	£298.73	£314.55
Docklands	£376.74	n/a	n/a	n/a	£501.00	£500.53	£500.53	£500.53	£500.53
Midtown	n/a	n/a	n/a	n/a	£592.00	£470.93	£551.74	£489.76	£493.35
West End	£790.78	£851.51	£801.92	£726.57	£622.00	£635.91	£626.05	£539.63	£524.91
Overall	£525.88	£676.79	£607.27	£646.92	£526.90	£482.25	£463.35	£463.47	£469.66

**not including refurbished space.*

Second Hand Grade A

	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003
City Core	£461.43	£456.13	£441.67	£461.45	£443.40	£442.68	£420.98	£392.02	£373.09
Docklands	£331.53	£341.28	£362.39	£335.11	£314.40	£324.24	£338.08	£343.14	£299.25
City Fringe	£358.85	£357.62	£336.15	£331.14	£331.82	£333.49	£310.92	£294.27	£282.58
Midtown	£443.49	£452.92	£422.85	£429.83	£436.76	£435.28	£411.88	£372.24	£368.81
West End	£537.61	£526.29	£502.59	£491.03	£484.45	£505.36	£474.21	£451.42	£443.60
Overall	£445.09	£446.66	£440.35	£442.29	£427.93	£427.64	£411.61	£392.79	£377.72

**new leases only*
Asking prices for new stock have stabilised (with some signs of actual increases) over the quarter, although this should still be read in context with the highs of early 2001. Second hand space continues to fall in value with the West End average now £443.80 psm (£41.21 psf). This data, coupled with the supply and demand nature of the total availability and take up statistics, would suggest we have arrived at the bottom of the market – second hand prices may fall in the next one or two quarters but not by the rate seen in the last 12 months and it is unlikely that prices for new stock will continue their fall.

Investment sales (sq m)

"No investment activity in Docklands"

	Q2 2002		Q3 2002		Q4 2002		Q1 2003		Q2 2003	
	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals
City Core	118,094	20	158,365	17	99,698	16	122,304	17	102,516	14
Docklands	5,457	1	510	1	0	0	0	0	0	0
City Fringe	90,448	16	11,847	11	8,782	5	18,816	14	23,161	7
Midtown	77,758	15	34,608	18	10,879	12	29,965	5	46,126	8
West End	38,154	25	65,684	32	104,870	21	33,333	21	79,944	23
Total	329,911	77	271,014	79	224,229	54	204,417	57	251,747	52

The amount of actual transactions has fallen again – but the total amount of space and the quality of the investments sold has remained relatively constant over the last 12 months. Notable deals this quarter include:
Matrix's purchase of the Alban Gate long leasehold for £240 million.
Matrix's additional purchase of 199-204 High Holborn as part of a nationwide portfolio for a total of £118 million.
Golfrate's £135 million purchase of the freehold and long leasehold at Ashdown House, Victoria Street.
The Fordgate consortium's £93 million purchase of One America Square from Shimizu.
Once again, the Docklands market is unattractive for investors, although the potential sale of Canary Wharf Group could see a huge slice of London real estate changing hands over the next 12 months.

Construction Starts with prelets (sq m)

	Q2 2002		Q3 2002		Q4 2002		Q1 2003		Q2 2003	
	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet
City Core	53,516	0	26,192	9,105	17,261	3,159	2,922	0	14,777	0
Docklands	0	0	0	0	0	0	0	0	0	0
City Fringe	1,508	512	3,984	0	9,069	3,819	29,603	15,983	69,677	69,677
Midtown	11,615	2,635	0	0	0	0	1,717	0	15,462	2,635
West End	89,583	48,264	10,452	0	20,480	1,858	33,129	0	0	0
Total	161,628	51,411	40,628	9,105	46,810	8,836	67,371	15,983	99,916	72,312

Although construction starts are up on the last quarter, this is mainly due to one large scheme commencing – the 69,677 sq m 1-10 Bishops Square which is prelet to Allen & Overy. The previous quarter did show signs of speculative development recovering in anticipation of a 2005 upturn, but the only major speculative starts this quarter have been Condor House, St Paul's Churchyard; Whittington House, Alfred Place and the second phase of 125 Shaftesbury Avenue. Indeed, 72% of all the space starting this quarter has been prelet. That said, the improvements in availability and take up would suggest a bottoming out of the market is occurring, and, as such, an increase in speculative starts in the second half of 2003 can be expected.



Bishops Square

"50% increase in new stock in City Core since Q1 "

Completed space still on the market (sq m)*

	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003
City Core	8,483	25,683	34,436	47,897	39,277	58,721	56,873	56,626	85,343
City Fringe	29,213	16,188	33,175	40,787	42,348	53,694	63,775	56,660	74,092
Docklands	0	0	0	18,648	53,735	59,031	100,635	136,193	143,976
Midtown	10,128	15,710	16,793	18,380	25,781	28,982	41,853	53,761	53,941
West End	26,045	54,206	53,924	89,180	95,795	79,415	92,322	113,589	109,001
Total	73,869	111,787	138,328	214,892	256,936	279,843	355,458	416,829	466,354

**only space actively marketed*

The amount of completed space on the market has risen again – and will continue to rise as more space completes (as above). However, the majority of space under construction already has agents appointed this will not affect total availability figures to any great extent.

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

	2nd half 2003		1st half 2004		2nd half 2004		1st half 2005	
	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av
City Core	230,302	154,048	149,952	108,081	13,532	10,373	12,323	12,323
City Fringe	85,663	43,624	800	800	19,502	0	69,677	0
Docklands	187,982	0	0	0	92,902	32,517	0	0
Midtown	21,263	21,263	4,352	1,717	0	0	0	0
West End	62,581	30,773	60,376	58,518	180,990	12,138	10,450	10,450
Total	587,791	249,708	215,480	169,116	304,472	52,574	92,450	22,773

**includes schemes where agents are not yet appointed*
There is still a lot of space set to complete in the next two years with the City Core particularly affected. However, as mentioned above, there is real caution about speculative starts with only those prepared to take a risk commencing construction. The majority of the space above does have agents acting on it, so there will be few surprise additions to total availability figures, however long vacancy rates can still be expected on completed space – 70 Gracechurch Street, for instance, remained empty since October 2001 before XL took a sale and leaseback.



Paternoster Square

Availability (sq m)

City Core

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	85,343	117.29	50.71
Pre-marketing	390,124	26.60	7.82
Second Hand	564,401	34.56	8.16
Under Construction	308,766	1.66	-12.26
Total	1,348,634	25.97	4.37

Notable space on the market this quarter:
6,253 sq m of Société Générale's second hand space at Exchange House, Primrose Street through Insignia Richard Ellis.
5,410 sq m of second hand space at 2 Minster Court through Insignia Richard Ellis.
4,538 sq m of Bechtel's second hand space at Blackfriars Court, EC4 through Chapman Swabey and Andrews Denford & Boyd
3,600 sq m of Swiss Re's buildings at 71-77 Leadenhall Street and 32-40 Mitre Street ahead of its move to St Mary Axe.
On the market freehold through Knight Frank.

City Fringe

	Q2 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	74,092	74.96	30.77
Pre-marketing	309,772	-22.98	-16.05
Second Hand	411,002	52.09	8.83
Under Construction	48,579	-49.56	-12.72
Total	843,445	3.99	-1.81

Notable space on the market this quarter:
71,148 sq m being premarketed by CB Hillier Parker at Land Securities' Bankside, Southwark Street scheme.
17,330 sq m being premarketed by ATIS Real Weatheralls at Castlemore's 40 Holborn Viaduct.
9,768 sq m of Bank of America's freehold space at 1 Alie Street, on the market through Jones Lang LaSalle.
5,063 sq m of second hand space at NatWest's Juno Court, Prescot Street through DTZ Debenham Tie Leung.

"71,000 sq m premarketing at Bankside"

Docklands

	Q2 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	138,575	157.89	1.75
Pre-marketing	734,650	143.23	-2.45
Second Hand	91,387	54.99	11.38
Under Construction	32,517	-77.13	0.00
Total	997,130	79.04	-0.67

Notable space on the market this quarter:
9,642 sq m of the Radio Communications Agency's second hand space at Wyndham House, Marsh Wall ahead of the Ofcom move to Riverside House, on the market through Knight Frank.
1,948 sq m of second hand space at The Walbrook Building, Marsh Wall through CB Hillier Parker.
1,061 sq m of second hand space at Moorfoot House, Marsh Wall, on the market through Chesterton.

Midtown

	Q2 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	53,941	109.23	0.34
Pre-marketing	18,431	191.78	43.42
Second Hand	194,759	18.53	0.40
Under Construction	22,397	-60.07	-18.27
Total	289,529	14.66	0.53

Notable space on the market this quarter:
15,973 sq m being premarketed by DTZ Debenham Tie Leung at the proposed 1 Kingsway redevelopment.
3,128 sq m of second hand space available at Churchill House, Red Lion Square available freehold through Dunlop Heywood Lorenz, EA Shaw and Farebrother.
2,243 sq m of Towers Perrin's second hand space at Castlewood House, New Oxford Street on the market through Cushman & Wakefield Healey & Baker.



Riverside House

West End

	Q2 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	109,001	13.79	-4.04
Pre-marketing	144,960	-23.67	-30.74
Second Hand	508,090	10.53	-4.54
Under Construction	91,743	113.30	38.42
Total	853,794	8.29	-7.34

Notable space on the market this quarter:
7,432 sq m of long leasehold space at the Commonwealth Development Corporation's 1 Bessborough Gardens on the market through DTZ Debenham Tie Leung.
7,368 sq m of space under construction at 39-49 Wigmore Street, available through Knight Frank.
4,195 sq m of newly refurbished space at Land Securities' 7 Soho Square through Allsop & Co.
3,989 sq m of second hand space at Lansdowne House, Berkeley Square available through DTZ Debenham Tie Leung.

Compared to last quarter, where increases in available space reached 10.5% on the previous quarter in the West End, Q2 2003 has seen a relatively static three months, with actual decreases in Docklands, City Fringe and West End markets. Decreases have been helped by proposed schemes being withdrawn, but the "grey market" of space without an agent could be realised later in the year.

Average Asking Prices (£psm)

City Core

	Q2 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£472.54	-18.14	1.70
New - New Build (pre-construction)	£414.41	n/a	0.00
New - New Build (under construction)	£484.38	-12.18	0.00
New - Refurb (existing)	£411.34	-19.13	-2.88
Second-hand Grade A	£373.09	-15.86	-4.83
Second-hand Grade B	£285.54	-12.57	-7.59

City Fringe

	Q2 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£314.55	-8.99	5.29
New - New Build (under construction)	£355.43	-0.99	0.00
New - Refurb (existing)	£314.50	-5.50	-3.45
New - Refurb (under construction)	£414.41	n/a	0.00
Second-hand Grade A	£282.58	-14.84	-3.97
Second-hand Grade B	£221.26	-17.09	-7.55

Docklands

"Second hand prices continue to fall"

	Q2 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£500.53	-0.09	0.00
New - New Build (pre-construction)	£377.00	6.08	8.56
Second-hand Grade A	£299.25	-4.82	-12.79
Second-hand Grade B	£196.95	-23.20	3.37

Midtown

	Q2 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£493.35	-16.66	0.73
New - Refurb (existing)	£364.44	-19.43	-4.31
New - Refurb (pre-construction)	£258.34	n/a	-12.73
New - Refurb (under construction)	£538.20	-4.74	0.00
Second-hand Grade A	£368.81	-15.56	-0.92
Second-hand Grade B	£295.01	-15.32	-8.79

West End

	Q2 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£524.91	-15.61	-2.73
New - New Build (under construction)	£618.93	5.50	0.00
New - Refurb (existing)	£476.06	-12.73	-6.72
Second-hand Grade A	£443.60	-8.43	-1.73
Second-hand Grade B	£344.32	-14.02	-4.44

Although asking prices are still clearly down on this time last year, Q2 2003 has seen smaller falls with even slight rises on certain grades – New Build space in the City Core and City Fringe, for instance. As mentioned above, the rate of decrease of second hand prices is still fairly high, but can be expected to slow or even stop over the next six to twelve months as availability and take up stabilise.

Take Up* (sq m)

City Core

	Q2 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	19,693	1079.95	995.87
Second Hand	20,514	-49.16	-56.40
Under Construction	9,012	n/a	n/a
Total	49,219	17.12	0.77

Notable take up this quarter:
The 11,330 sq m sale and leaseback deal to XL at 70 Gracechurch Street, through Jones Lang LaSalle and Colliers CRE .
The 9,012 sq m White & Case prelet at Lion Plaza, through ATIS Real Weatheralls and BH2.
3,917 sq m of new space at Glasshouse, Glasshouse Yard to Trans4m through ATIS Real Weatheralls and Insignia Richard Ellis.

City Fringe

	Q2 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	10,481	-0.75	-52.99
Second Hand	19,622	-40.88	7.52
Total	30,103	-38.75	-29.36

Notable take up this quarter:
5,995 sq m of second hand space at 9 Prescot Street, let to Barts & London NHS Trust through DTZ Debenham Tie Leung.
2,880 sq m of second hand space at The Cottons Centre, Hay's Lane let to Control Risks through Morgan Pepper and Lambert Smith Hampton.
2,238 sq m let at the newly built Southwark Bridge Office Village through Montagu Evans and EA Shaw.

Docklands

	Q2 2003	% +/- 12 months	% +/- 3 months
Second Hand	2,389	13.71	-32.70
Total	2,389	-93.03	-32.70

Notable take up this quarter:
Six deals in the entire quarter. Including: 685 sq m at 183 Marsh Wall through Knight Frank and Nelson Bakewell.
357 sq m let to Interfleet Technology at 1 Exchange Square through ATIS Real Weatheralls and Chesterton.

Midtown

	Q2 2003	% +/- 12 months	% +/-3 months
New/Refurb (existing)	12,396	412.88	244.54
Premarketing	2,059	n/a	n/a
Second Hand	7,818	-36.86	-40.40
Total	22,273	-2.26	17.10

Notable take up this quarter:
3,936 of newly built space at 90 High Holborn to the Independent Police Complaints Commission through Jones Lang LaSalle and Knight Frank.
2,059 sq m prelet to Haysmacintyre at Farifax House through EA Shaw and Farebrother.
2,025 sq m of refurbished space at 125 Shaftesbury Avenue let to Accucard through Nelson Bakewell and Knight Frank.

West End

	Q2 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	8,747	-44.93	-19.59
Second Hand	36,209	21.34	35.73
Total	44,955	-24.70	18.21

Notable take up this quarter:
3,362 sq m of refurbished space taken at 54-66 Whitfield Street by the Doctors Laboratory and University College Hospital.
A total of 8,569 sq m let at 40 Grosvenor Place in four deals all through DTZ Debenham Tie Leung and Jones Lang LaSalle including: 4,480 sq m to London Electricity and 2,522 sq m to LEK Consulting.
1,356 sq m of refurbished space let to Google at The Courtyard, Sutton Row through Pilcher Hershman and Allsop & Co.

**only units over 232 sq m (2,500 sq ft) are included in take up*



Lion Plaza

"Only six Docklands deals in Q2"

As mentioned above, take up has fallen as a total but has risen in all markets with the exception of the struggling Docklands and City Fringe markets. There have been some notable deals on new space: 70 Gracechurch Street in the City Core and 54-66 Whitfield Street in the West End, for instance, which will alleviate developer's concerns to some extent, but the continued fall in the price of second hand space would suggest that tenants still need to be convinced of a bargain before signing.

Completed space still available as at Q2 2003 (sq m)

"Large City Fringe liabilities remain"

City Core

Completed half year	Q2 2003
1 2001	1,472
2 2001	9,480
1 2002	5,699
2 2002	11,293
1 2003	52,396

There is still a large amount of space remaining vacant with the 1st half of 2003 seeing Paternoster Square (with a total of 41,246 sq m available) and 95 Queen Victoria Street (8,761 sq m) completing.

City Fringe

Completed half year	Q2 2003
2 1998	1,892
1 2000	1,520
2 2000	0
1 2001	12,006
2 2001	11,125
1 2002	3,794
2 2002	16,166
1 2003	27,061

Again, the City Fringe is clearly susceptible to economic downturns and the associated longer vacancy rates. The last quarter has seen the completion of East One, Commercial Street comprising 2,483 sq m and on the market through Strettons and Ross Jaye Sayer and Broadgate West Phase II with 16,318 sq m still available through Knight Frank.



Paternoster Square

Docklands

Completed half year	Q2 2003
2 2001	48,832
1 2002	0
2 2002	29,914
1 2003	62,783

No available space completed in the last quarter, but the Docklands market could still be subject to the "put" options on many of its key tenancies.

Midtown

Completed half year	Q2 2003
2 2000	375
1 2001	864
2 2001	8,687
1 2002	1,751
2 2002	15,618
1 2003	23,586

Take up at 90 High Holborn and 125 Shaftesbury Avenue, which both completed in Q4 2002, helped decrease the large liability seen in the previous quarter, but the additions this quarter of the 7,564 sq m available at Victoria House, the 2,959 sq m at 5 Southampton Street and the 1,923 sq m at Eagle House has more than offset these improvements.

West End

Completed half year	Q2 2003
1 2000	2,172
2 2000	3,822
1 2001	5,146
2 2001	20,424
1 2002	11,592
2 2002	33,440
1 2003	28,660

Developers should be prepared for a potential 3 year vacancy rate on their new space in the West End with 1,856 sq m still available at Euston Tower after works completed in March 2000 and the 3,309 sq m 48 Warwick Street still available through Crossland Otter Hunt and Chesterton after completing in October 2000 – although speculation exists regarding a Donaldsons deal. The last quarter has seen the completion of the 1,462 sq m Standbrook House, Old Bond Street which is on the market through Hodnett Martin Smith Construction Starts (sq m).

As last quarter, it is evident that space can easily remain vacant for two years or more after completion. However, asking prices for new space appear to have stabilised (as above) indicating that the trough of demand may well have been reached. Indeed, the figures for Midtown in Q1 2003 showed the market had 34,000 sq m left available which completed in the second half of 2002 and this figure has now halved due to two deals. This will be no consolation, though, to the developers of the more stubborn buildings.

Construction Starts (sq m)

City Core

Q1 2001	57,825
Q2 2001	41,754
Q3 2001	160,820
Q4 2001	143,540
Q1 2002	17,101
Q2 2002	53,516
Q3 2002	26,192
Q4 2002	17,261
Q1 2003	2,922
Q2 2003	14,777

Notable space going u/c this quarter:
Condor House, St Paul's Churchyard on the market through CB Hillier Parker.
41 Eastcheap, not currently being marketed.

City Fringe

Q1 2001	4,829
Q2 2001	94,565
Q3 2001	17,121
Q4 2001	29,769
Q1 2002	9,718
Q2 2002	1,508
Q3 2002	3,984
Q4 2002	12,516
Q1 2003	29,603
Q2 2003	69,677

Notable space going u/c this quarter:
1-10 Bishops Square - the Allen & Overy prelet building. Due for completion June 2005.

"Prelets still required for construction starts"

Docklands

Q1 2001	41,550
Q2 2001	0
Q3 2001	0
Q4 2001	97,244
Q1 2002	0
Q2 2002	0
Q3 2002	0
Q4 2002	0
Q1 2003	0
Q2 2003	0

No space went under construction during Q2.

Midtown

Q1 2001	18,152
Q2 2001	32,575
Q3 2001	16,273
Q4 2001	36,131
Q1 2002	1,600
Q2 2002	11,615
Q3 2002	0
Q4 2002	0
Q1 2003	1,717
Q2 2003	15,462

Notable space going u/c this quarter:
The 7,532 sqm second phase of refurbishment at 125 Shaftesbury Avenue on the market through Nelson Bakewell and Knight Frank.
5,295 sq m at Whittington House, Alfred Place, on the market through Conway Relf.
2,635 sq m at 52 Bedford Row.



Bishops Square

West End

Q1 2001	22,998
Q2 2001	122,654
Q3 2001	23,931
Q4 2001	77,613
Q1 2002	10,711
Q2 2002	89,583
Q3 2002	10,452
Q4 2002	20,480
Q1 2003	33,129
Q2 2003	0

No space went under construction in the West End this quarter.

The market is still cautious - the total figures are distorted by the commencement of Allen & Overy's 58,621 sq m Bishops Square prelet. The stabilising availability and take up totals, as seen above, would suggest that braver developers could benefit from beginning 2005 and 2006 schemes (as Coal Pension Trustees has done at Condor House) but, again, the potential for two year vacancy periods will convince many to wait for full or partial prelets before starting works.

"Tough 2004 for City Core"

Under Construction and still available (sq m)

City Core

Est. Completion Date	To Complete	Still available
Q3 2003	135,905	102,014
Q4 2003	94,397	52,034
Q1 2004	42,322	33,217
Q2 2004	107,630	74,864
Q3 2004	11,078	7,919
Q4 2004	2,454	2,454
Q1 2005	12,323	12,323

There is still a significant amount to complete over the next 18 months, but the White & Case prelet and XL's 70 Gracechurch Street deal should provide some optimism (although Gracechurch Street stood empty since completion in October 2001).

City Fringe

Est. Completion Date	Complete	Still available
Q3 2003	69,477	27,950
Q4 2003	16,186	15,674
Q1 2004	0	0
Q2 2004	800	800
Q3 2004	0	0
Q4 2004	19,502	0
Q1 2005	0	0
Q2 2005	69,677	0

The end of 2003 will see 43,624 sq m of available space completing and the long vacancy rates seen in the City Fringe will not inspire confidence. However, the deal at the Southwark Bridge Office Village, after a surprisingly short vacancy period of five months after completion, shows that the right space can be relatively liquid – at the right price.



30 St. Mary Axe

Docklands

Est. Completion Date	Complete	Still available
Q3 2003	187,982	0
Q4 2003	0	0
Q1 2004	0	0
Q2 2004	0	0
Q3 2004	0	0
Q4 2004	92,902	32,517

The only current liability is still the Barclays disposal at BP1 and any speculative starts are highly unlikely. However, the shadow of the "put" options remains.

Midtown

Est. Completion Date	Complete	Still available
Q3 2003	13,731	13,731
Q4 2003	7,532	7,532
Q1 2004	4,352	1,717

There is relatively little to complete over the next 12 months, in comparison to other markets. Despite the 90 High Holborn and 125 Shaftesbury Avenue deals, two year vacancy rates after completion can still be expected.

West End

Est. Completion Date	Complete	Still available
Q3 2003	50,998	19,190
Q4 2003	11,583	11,583
Q1 2004	9,033	7,175
Q2 2004	51,343	51,343
Q3 2004	81,356	576
Q4 2004	99,634	11,562
Q1 2005	0	0
Q2 2005	10,450	10,450

Like the City Core, the West End will see a large amount of available space completing over 2003 and 2004, with the 25,287 sq m Belgrave House the largest single unit (completing Q2 2004). However, if Government commitment remains and there was a upturn in the media sector, some of this increase could be absorbed.

The City Core and West End markets continue to have significant liabilities over the next 24 months and an economic upturn can clearly not come soon enough. The apparent bottoming out of availability, take up and asking prices for new stock would suggest the situation will improve, but increases will not be instantaneous.

What LOD monitors

Markets

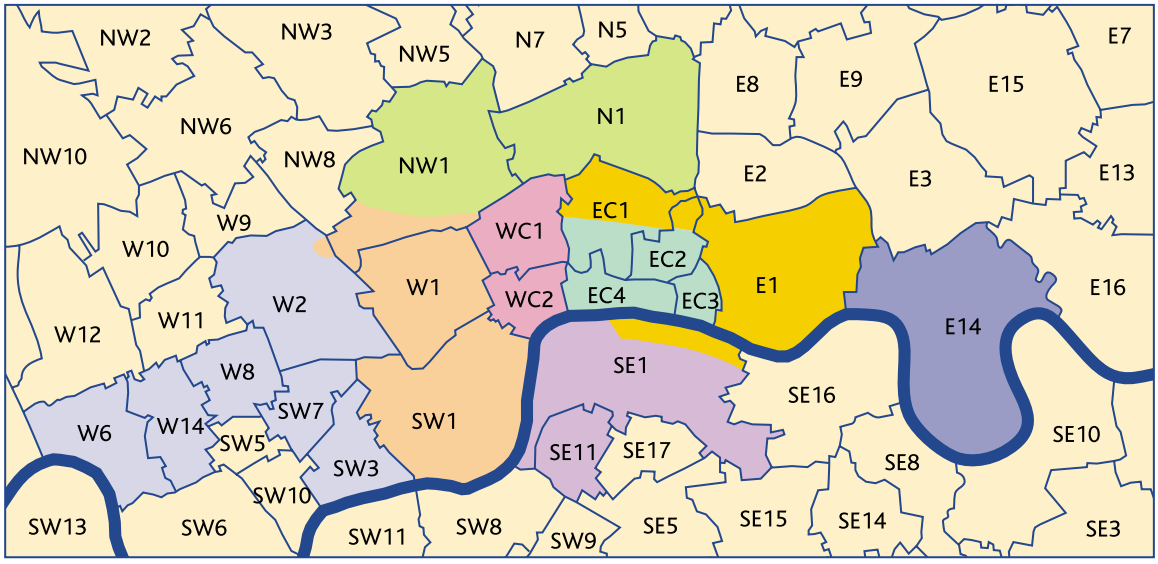
City Core: EC1A, EC2M, EC2N, EC2R, EC2Y, EC2V, EC2A (only Finsbury Pavement, Finsbury Square, Appold Street and Chiswell Street), EC3, EC4.
City Fringe: EC1M, EC1N, EC1R, EC1V, EC1Y, EC2A (excluding Finsbury Pavement, Finsbury Square, Appold Street and Chiswell Street), E1, SE1 postcode sectors 0, 1, 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



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

New markets on LOD

LOD has recently expanded its geographical coverage and now holds data on the South Central, West Central and North Central areas of London. The figures do not include any of these new areas. It was necessary to place some buildings in SE1 previously in the City Fringe market into the new South Central market and include the remaining part of E1 in City Fringe, where previously coverage was only partial. The effect on the statistics is minimal but should be remembered when comparing City Fringe figures between quarters.

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.



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