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Market Analysis
London Office Database

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Introduction

"Record rents and hot stories"

Hot Stories of the Past

I can still remember hassling many of you some four years ago, trying to discover which overzealous tenant was going to pay more than £70 psf for a deal at 1 Curzon Street, W1.

Having only been at Estates Gazette for a few weeks, I was informed by West End leasing agents that this was the "hot story" of the moment - a record rent, the level of which had not been witnessed since the boom and bust years. "It's a sign of the times," said one agent. "It is great news for the market - love to know who is paying it," challenged another. Of course that was just the start, as over the subsequent year and a half rents rocketed - falling just short of that golden £100 psf figure. We all know what happened next, as rents plummeted and £70 psf seemed like a distant memory of better times.

Hot Stories of the Present

Yet here we are today, with rents soaring again at a rate that even the most optimistic of letting agents could never have predicted. Had I written in this column nine months ago that prime rents would shortly hit £80 as a norm, rather than the exception, EG's letters department would probably have been faced with two weeks of overtime handling the plethora of complaints about publishing false hopes and inaccuracies.



Cleveland House, SW1: Memories of £100 psf

But in the 19th June issue of Estates Gazette, I had cause to run a story containing some six deals or potential deals in Mayfair, most of which were to be signed at over £80 psf. The list was headed by GE Capital's acquisition of some 50,000 sq ft at 30 Berkeley Square, where the passing rent of a hefty £70-plus was assigned at a building being offered second-hand from Royal & Sun Alliance, with well under a year rent-free. Even in Victoria, the first deal at Grosvenor's Belgrave House development was being agreed at a lofty £55 psf, justifying the quoting rent.

The Reality

It all seems rosy, doesn't it? But as an annoyingly watchable reality television show once instructed us: Let's look at the evidence.

EG*i* London Office Database's (LOD) research - the most comprehensive and independent available - confirms warnings issued in this column three months ago, and three months before that, that the market is allowing sentiment to get ahead of reality.

Bill Page's impressive overview (following) should provide you with enough statistical analysis to support doubts that the recovery has fully set in.

Back in 2000, when GLG took a sublease from UBS for that £70-plus deal mentioned above, it was obvious why rents were rising sharply. West End office supply had hit a 10-year low - depending on whose research you selected, the figure ranged between from 2m - 3m sq ft. Demand massively outstripped availability and not much was being built. Today, LOD's figures show West End availability at 8.8m sq ft. And despite the increase in take-up across central London (2.8m sq ft), vacancy rates are still a worrying 17%.

Middle Ground Still Struggling

"Headline deals are just that - headlines"

For all the press coverage and wine bar chatter, the £80 psf deals and the major headline lettings in the City and Victoria should be considered exceptions. They command column inches because they are just that: headlines, which indicate a trend rather than create it. The West End and City markets have never been driven by the 50,000 sq ft and 250,000 sq ft deals, respectively. Those are the deals that we talk about, we cling to for hope - but in reality, the markets have always been kept alive by the everyday smaller units. In the West End, such deals - of 1,000 - 5,000 sq ft, at the cheaper end of the market - have been ticking over. And we have seen that the top end deals have also been coming through, as occupiers try to secure prime headquarters before rents spiral again. But the market in between - the middle ground - is still struggling. Try telling the owner of a vacant 15,000-20,000 sq ft refurb off-pitch (say in Berners Street or Marylebone) that the market is back with a bang. Until we see such deals happening again, we cannot truly claim to have seen a full recovery.

Adam Coffer,
News Editor,
Estates Gazette Group

London Lettings League Table - Q2 2004

		Sq Ft	No. of Deals
1	CB Richard Ellis	1,093,342	53
2	Jones Lang LaSalle	763,404	26
3	Cushman & Wakefield Healey & Baker	523,787	9
4	BH2	252,141	4
5	ATIS REAL Weatheralls	246,876	9
6	Knight Frank	199,438	18
7	DTZ	174,884	11
8	E A Shaw	151,853	24
9	Morgan Pepper	139,740	10
10	GVA	98,805	10
11	FPDSavills	94,284	12
12	Hodnett Martin Smith	92,837	26
13	Strutt & Parker	87,495	12
14	Nelson Bakewell	83,937	12
15	Pilcher Hershman	65,884	12
16	Edward Charles & Partners	63,280	15
17	Chesterton	61,546	8
18	Ingleby Trice Kennard	59,901	8
19	Spring4	55,525	4
20	Farebrother	54,487	11
21	Kalmars	51,148	10
22	King Sturge	44,693	3
23	Conway Relf	42,278	5
24	Godfrey Vaughan	39,492	7
25	Kinney Green Stanford Webster	39,262	6
City Core			
1	CB Richard Ellis	357,487	23
2	BH2	252,141	4
3	Jones Lang LaSalle	219,883	10
4	ATIS REAL Weatheralls	209,239	5
5	Morgan Pepper	136,994	9
Midtown			
1	E A Shaw	105,725	15
2	CB Richard Ellis	66,234	6
3	Nelson Bakewell	45,661	4
4	Conway Relf	39,127	3
5	Farebrother	34,935	8
West Central			
1	Jones Lang LaSalle	467,649	4
2	Cushman & Wakefield Healey & Baker	462,676	3
3	CB Richard Ellis	65,392	1
4	GVA	64,715	2
5	Pilcher Hershman	24,000	4
West End			
1	CB Richard Ellis	104,317	15
2	Hodnett Martin Smith	66,140	21
3	FPDSavills	63,832	7
4	Jones Lang LaSalle	47,072	10
5	Strutt & Parker	45,723	6

Note: The lettings league table covers all of LOD's markets. See map at end of document for our markets.

Although narrowly pushed into second place in Q1 2004, CB Richard Ellis (CBRE) has shown that size does matter in the London office market. It was top by a long way in Q2 – by 43% - and was dominant in the majority of submarkets.

There were more big deals in Q2, with more still to come in 2004 (Norton Rose is yet to complete on 300,000 sq ft at More London 3, SE1, and Willis on 420,000 sq ft at 51 Lime Street, EC3, for instance). Unfortunately for the majority of agents, though, CBRE was involved in most of them.

But CBRE was not involved in the biggest deal of the quarter – the letting to the Metropolitan Police at Land Securities' Empress State Building, SW6. Jones Lang LaSalle and Cushman & Wakefield Healey & Baker benefited twice, when the police first signed for the entire 417,000 sq ft building and then disposed of 45,600 sq ft to Transport for London. The agents acted on both deals. They are set to benefit further this year as the police attempt to sublet an additional 168,000 sq ft in the building – so could end up disposing of 150% of the building's space in one year.

The second largest deal was the presale of Land Securities' 409,000 sq ft Bankside 1, SE1, to IPC through CB Richard Ellis. London's no.1 agent for the quarter benefited further with deals on the 65,000 sq ft 60 Sloane Avenue, SW3, to Lowe & Partners and, across London, on 58,300 sq ft in an owner-occupier deal to Mitsui at 24-32 King William Street, EC4.

EA Shaw had a good quarter, especially in its core Midtown market, with a 23,500 sq ft letting to the Bar Council at 289 High Holborn and a 14,000 sq ft prelet to Young Samuel Chambers at 48-51 Floral Street, WC2.

The West End's biggest deal was Royal & Sun Alliance's assignment of its 43,000 sq ft 30 Berkeley Square, W1, HQ to GE Capital. Agents were Spring4 and FPDSavills. That deal benefited the City Core – helping R&SA commit to the 34,000 sq ft ninth floor at British Land's 1 Plantation Place, EC3. Agents there were DTZ and, once again, CBRE.



Empress State Building, SW6: Biggest deal of quarter



Bankside 1, SE1: IPC presale through CBRE



30 Berkely Square, W1: West End's biggest deal © WML Woods Bagot

Q2 2004 Overview

Reality Catching up with Sentiment

"Good progress expected to continue"

Last quarter, sentiment was ahead of reality. Deals were being talked about but not actually happening. The RICS confidence survey stated that enquiry levels in the first quarter of 2004 had "risen at their fastest pace since the stock market high of 2000" – but few had translated into take-up. Asking prices were rising for new stock in some areas but declining in others, availability was fluctuating and vacancy rates continued their upward march. This quarter, however, reality appears to be catching up with sentiment. Vacancy rates are stabilising, availability has fallen again, take-up has risen and average prices for new stock are up over central London – and for the fourth quarter running in the West End. There is still a long way to go, and there are many liabilities in the market, but Q2 2004 was a good quarter for London. This progress can be expected to continue.

Resurgent City



10 Exchange Square, EC2: Herbert Smith deal

The City Core, long the poor relation of the West End, had the best quarter of all. 93,000 sq m was taken – the highest total since Q1 2001- and 25,600 sq m of that was on new stock. Total availability fell and vacancy rates only rose by 1.6%. The deals seen were significant in their size. SJ Berwin took a 16,300 sq m prelet at Blackstone's 10 Queen Street Place, EC4; Herbert Smith took 4,000 sq m at British Land's 10 Exchange Square, EC2; Osborne Clark took 3,250 sq m at Hammerson and Kajima's 1 London Wall, EC2, and Royal & Sun-Alliance took 3,100 sq m at British Land's 1 Plantation Place, EC3. Paternoster Square, EC4, remains popular with tenants, if not architectural purists, with five completed deals this quarter. New stock is in demand in the City Core, but some key schemes are still suffering. There is still no sign of an upstairs neighbour for Swiss Re at 30 St Mary Axe, EC3, and Lloyds TSB withdrew its interest – temporarily at least - from Land Securities' 30 Gresham Street, EC2.

Availability fell slightly on Q1, thanks to the impressive take-up and 25,000 sq m of withdrawals (including 4,200 sq m from JP Morgan at 100 Wood Street, EC2). The addition of 14,300 sq m from Accenture at 1 Plantation Place, EC3, was a blow, but it was not enough for total availability to rise. Premarketing also commenced at the 16,250 sq m Austral House, Basinghall Avenue scheme – tipped for a prelet to Legal & General – which looks more likely to be prelet than to start speculatively. British Land's 51 Lime Street, EC3, is still technically available; Willis Group still only have the 39,000 sq m scheme under offer. Reported requirements could bring the total down further over 2004 if they turn into deals – Kennedys is said to require 9,300 sq m; Smith & Williamson 7,400 sq m; Dresdner 12,000 sq m and an unnamed client, advised by DTZ, is thought to be after up to 32,500 sq m (*Estates Gazette* 8th May 2004). In addition, Aon is tipped for the biggest prelet of all – on Minerva's 92,900 sq m Minerva Tower, Houndsditch, EC3.



51 Lime Street, EC3: Still only under offer

Average asking prices on new stock did fall slightly on Q1, but they are still higher than at the end of 2002/start of 2003. Deals are happening again at high rents – Royal & Sun-Alliance reportedly took 1 Plantation Place at £527 psm (£49.00 psf) and, if demand continues, prices should stabilise throughout the year. The decline continues, however, in the price of second hand stock – grade A space now averages only £329.77 psm (£30.64 psf). Nevertheless, investment interest remains high – so much so that yields are declining to around 6% as a huge weight of institutional money chases limited stock.

Construction starts did increase this quarter in the City Core, but few were speculative. There is a lot of new stock left vacant in the market, but the demand seen in recent months should encourage starts. More short-term refurbishment projects, such as that seen by Hemingway at 59-61 Mark Lane, EC3, can be expected to take second hand stock out of the system and catch demand.

The City Fringe also had a good quarter for take-up, but that was down to one deal – Land Securities' presale of Bankside 1, SE1, to IPC. The market is set to benefit further when Norton Rose completes on 27,900 sq m at More London 3 (now under offer). Previously, the City Fringe was thought to have better prospects than most to consolidate, owing to the lack of forthcoming speculative completions. This quarter, however, Allen & Overy scuppered that with the addition to the market of 23,200 sq m of surplus space at 1-10 Bishops Square, E1, due for completion in mid-2005 – that single addition almost matches the largest unit under construction, Blackfriars' and RLAM's Palestra, SE1, due for completion in 2006. This increase of speculative stock on the market did not stop Derwent Valley Holdings commencing its 13,700 sq m Johnson Building, Hatton Garden, EC1 – also due for completion in 2006 – and Tishman Speyer resurrected its 56,000 sq m Aldgate Union, E1, scheme, but that is tipped for a prelet to Thomson. Land Sec also looks set to commence Bankside, SE1, any day, after its successful presale of the largest element to IPC.



More London 3, SE1: Norton Rose yet to complete

Asking prices for new stock have remained fairly static in the City Fringe, but continue to fall for second hand space. Whether prices adjust downwards when Allen & Overy's space arrives next year remains to be seen.

Songbirds in Docklands

Compared with Q1, Docklands didn't have the best of quarters. There were deals, but these were prearranged options: Barclays took 2,100 sq m more at BP1, Churchill Place and BP took another 2,900 sq m at 20 Canada Square. The amount on the market from Citigroup at 25 Canada Square declined, slightly improving the figures, and Euler & Hermes withdrew almost 4,000 sq m at One Canada Square.

The most important event of the quarter was, of course, Morgan Stanley's Songbird consortium effectively taking over Canary Wharf Group and, therefore, the estate. In actuality, the take-over is unlikely to have any

impact on the property in the market as the same management team is in place, but Brascan's continuing build-up of the remaining shares could make life interesting. Speculative starts remain highly unlikely without full prelets – and full prelets are unlikely while so much new stock remains empty. The improving financial and business service sector will help the Docklands market, leading to more withdrawals and take-up, but 30,400 sq m completes at Barclays' BP1 next quarter without a deal in sight – and that will impact badly on vacancy rates. Docklands did see its first construction start for years this quarter – but this was the £3 million refurbishment of 30 South Colonnade, paid for by Canary Wharf Group in the deal to get Reuters to move across London.



The Eye, Procter Street, WC1: Estates Gazette soaks up new space

Estates Gazette Leads the way in Midtown

Total availability fell in Midtown as demand continued and there were few new additions to the market. Although down on last quarter, the demand for new space remains high and Estates Gazette Group itself led the way with a 1,300 sq m deal at Bee Bee's The Eye, Procter Street, WC1. Despite the demand for quality space, the average price continues to fall and is now at only £399 psm (£37 psf). Second hand space, however, has risen slightly. The lack of new stock has meant that tenants have to look to second hand space to meet their requirements, and the price fall in new stock seems more in response to this than a lack of interest. Indeed, Estates Gazette's deal at The Eye was at £318 psm (£29.50 psf) – Capita signed for two floors one month previously at £307 psm (£28.50 psf). BPP, however, signed one month after Estates Gazette at the asking price of £350 psm (£32.50 psf) – demand remains.

Elsewhere, the Bar Council took the 2,200 sq m 289 High Holborn, WC1, and the ever-ambitious MLS took the 2,000 sq m 34-36 High Holborn, WC1, for yet another serviced office centre. The amount of new stock reduced further with Sheridan's deal at Whittington House, Alfred Place, WC1, and Young Samuel Chambers took a 1,300 sq m prelet at RLAM's 48-51 Floral Street, WC2.

The declining amount of new stock on the market and the constant demand for it has led to more minor refurbishments across London, and Midtown was no exception with a 14-week programme commencing at 151 Shaftesbury Avenue, WC2.

Mayfair – and the rest of the West End

Although the West End didn't have the best quarter for take-up, with 50,000 sq m of deals, asking prices have risen on new stock for the fourth quarter running, which is significant news for London. The price rises are all coming from Mayfair, where £861 psm (£80 psf) deals are happening again – Caxton signed for a floor at 40 Berkeley Square, W1, at that price – and deals are also being lined up at £754 psm (£70 psf) plus. Ferox, Associated British Foods and Bank of Iceland are all thought to be lining up deals at 40 Berkeley Square,10 Grosvenor Street and Curzon Square respectively at top-end rents, and GE Capital took on Royal & Sun-Alliance's lease at 30 Berkley Square at £754 psf (£70 psf) for the best space. All is not perfect, however. Hachette Filipacchi took the remaining space at 64 North Row, W1, paying £377 psm (£35 psf) with 15 months' rent-free for 616 sq m. The asking price was £404 psm (£37.50 psf). While this deal is not significant in itself, Hachette had signed for the majority of the building back in January 2003 at £463 (£43 psf). The asking price then was £592 psm (£55 psf). The market still has a lot to do.



Curzon Square, W1: Bank of Iceland line up space

Grosvenor launched its Belgrave House, SW1, scheme in Victoria this quarter at £592 psm (£55 psf) – a good deal less than top West End rents – and that reflects the dichotomies in the market. Victoria will always be cheaper than Mayfair, but the near-bullish sentiment seems confined to the latter location. As it stands, Lyons has yet to roar – there have been no new government disposals – but no take-up either. Reports of government requirements in the face of Lyons are interesting, but none of these are yet to become deals and prospects remain gloomy for Victoria schemes, despite talk of impending deals at Belgrave House (to Vitol).

Frogmore's purchase of Romney House, Marsham Street, SW1, for residential development this quarter – not for offices – shows that not everyone is confident of a resurgent office market in SW1.

Summary

Quarter 2 2004 was a good quarter for London. take-up was up, asking prices for new stock were up (in the West End at least) and availability was down. Big deals continue to be signed and there are more in the offing. What has become apparent, though, is the neglected second hand market. New stock is historically cheap, and with rent-free periods and other inducements it becomes only slightly more expensive than second hand space. Tenants are realising that they don't have long left to find the best deals and are ignoring second hand space to pursue new stock – and prices are falling as a result. There is nothing particularly wrong with this – why buy second hand when new is only slightly more expensive? – but how much more can second hand prices fall? Grade A space in the West End averaged £538 psm (£50 psf) two years ago. Now it averages just £404 psm (£37.50 psf).

"Neglected second hand market"

What could make a difference to asking prices, though, is the abolition of upward-only rent reviews and more flexible leases, as suggested in the March Budget. If this occurs - and the government seem keen - landlords will raise starting rents to cover their risks, raising averages - not through market forces, but through legislation.

Nevertheless, prospects are bright for central London and 2004 should be a good year. While second hand stock is set to continue to suffer, prices for new stock should stabilise and vacancy rates decrease. Big deals will continue and, by Christmas, reality and sentiment should begin to match.

Bill Page,
Senior Research Analyst,
London Office Database

Analysis

Vacancy Rates %

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
City Core	8.00	9.50	11.33	11.91	14.80	17.05	18.71	19.02
City Fringe	10.07	11.31	11.79	16.66	17.45	17.60	20.20	20.31
Docklands	9.00	11.36	14.48	15.38	13.73	16.74	17.17	15.59
Midtown	8.34	9.33	10.57	11.34	11.70	14.33	15.10	14.11
West End	10.56	11.65	11.90	12.29	12.83	13.51	14.45	15.20
Overall	9.31	10.63	11.75	13.01	14.14	15.68	17.05	17.13

For the first time in two years, overall vacancy rates have stabilised. This is significant news for the London market as recently rates were continuing to surge upwards in the face of improving market sentiment. The overall picture was principally helped by a fall in the Docklands thanks to **BP** taking its option on 2,900 sq m at **20 Canada Square, E14**.

The quarter was not without its large speculative completions – usually the bane of vacancy rates – with **JER** and **Grosvenor** completing their 25,300 sq m **Belgrave House, SW1,** scheme without a tenant in the West End and **Centurion Millennium** completing its 7,900 sq m **Amalgam, EC1,** scheme in the City Core. **British Land's** speculative completion of its 14,700 sq m **2 Plantation Place, EC3,** and **Accenture's** placing of 14,300 sq m of new stock on the market at **1 Plantation Place** had an unfortunate effect on rates.

Tenants vacating space this quarter included the **London Stock Exchange** moving from 25,000 sq m at **125 Old Broad Street, EC4,** for its new **10 Paternoster Square, EC4,** HQ and **Mellon Bank** vacating 5,000 sq m at **71 Queen Victoria Street, EC4,** for its move down the road to **Times Square, 160 Queen Victoria Street, EC4.**



1 Plantation Place, EC3: Accenture adds to vacancy rates

Total Availability (sq m)

	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
City Core	1,070,603	1,173,294	1,200,412	1,300,851	1,321,534	1,407,370	1,431,552	1,476,837	1,452,685
City Fringe	806,515	761,312	839,504	854,402	865,717	854,705	893,865	852,825	898,682
Docklands	556,925	565,719	1,039,587	1,003,827	997,130	1,026,869	1,012,677	985,400	961,599
Midtown	252,504	247,763	273,530	287,995	289,529	292,350	289,683	304,973	278,671
West End	788,401	808,808	822,433	910,473	904,614	888,744	855,794	853,942	820,660
Total	3,474,948	3,556,896	4,175,467	4,357,548	4,378,524	4,470,038	4,483,571	4,473,977	4,412,296

Total availability has fallen by more than 1.3% after last quarter's fall of 0.22%, thanks to improving take-up and 68,000 sq m being withdrawn. It will take time to get below 4 million sq m, but bear in mind that 1.8 million sq m of the above is premarketing – stock that doesn't even exist yet. All markets apart from the City Fringe experienced falls, and the Fringe's rise was principally due to the re-introduction to the market of **Tishman Speyer's Aldgate Union, E1,** scheme through **Jones Lang LaSalle** and **FPDSavills**. It was originally withdrawn in February 2003.

A surprise addition this quarter was the 23,200 sq m **Allen & Overy** is disposing of at **Hammerson's 1-10 Bishops Square, E1,** through **Cushman & Wakefield Healey & Baker**. Apparently, it was always Allen & Overy's intention to dispose of this surplus space (still under construction), but it is new to the availability schedules and it is a blow to the Fringe market. Other notable additions include the premarketing of **CLOUT's** 16,250 sq m **Austral House**, **Basinghall Avenue, EC3,** through **FPDSavills** and **ATIS REAL Weatherall**s (tipped for a **Legal & General** prelet); **Accenture's** disposal of 14,300 sq m at **British Land's 1 Plantation Place, EC3,** through **Jones Lang LaSalle**; **Derwent Valley Holding's** 13,700 sq m speculative start at **The Johnson Building, Hatton Garden, EC1,** through **CB Richard Ellis** and **Hexell Wylie** being instructed to dispose of **Heath Lambert's** 6,200 sq m **61-65 Crutched Friars, EC3.**



1-10 Bishops Square, E1: Allen & Overy's surprise addition to Fringe market

take-up (sq m)*

	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
City Core	42,023	26,038	18,317	58,546	59,359	35,784	82,278	50,924	98,710
City Fringe	49,149	42,269	26,503	49,094	38,854	38,543	65,711	31,858	71,964
Docklands	34,252	3,481	2,469	5,875	2,389	20,850	12,987	46,893	13,600
Midtown	22,789	22,945	20,908	25,372	27,489	20,698	48,142	30,174	28,253
West End	59,704	85,255	48,680	43,051	46,921	63,715	84,739	71,962	49,890
Total	207,917	179,988	116,877	181,937	175,012	179,590	293,857	231,811	262,417

**only units >232 sq m*

take-up continues to improve and the overall trend remains upward. There are still some significant deals to complete – **Norton Rose** on 27,900 sq m at **More London 3, SE1,** and **Willis** on 39,000 sq m at **51 Lime Street, EC3,** for instance – but medium deals (2,000 sq m upwards) are becoming more regular. The City Core had its best quarter for some time – the best since Q1 2001 – but that was not reflected in the poor performance of the West End which, inexplicably, had its poorest quarter for a year.

The largest deal of the quarter was to **IPC** at **Land Securities'** 38,000 sq m **Bankside 1** through **CB Richard Ellis,** which helped to more than double the Fringe market's total on last quarter, and the City Core had the best of the remainder, with **SJ Berwin** taking 16,300 sq m at **10 Queen Street Place, EC4,** through **ATIS REAL Weatherall**s and **BH2; HQ Executive** taking 5,900 sq m at **15 Minories, EC3,** through **BH2** and **Mitsui** taking 5,400 sq m at **24-32 King William Street, EC4,** through **CB Richard Ellis**. There were also deals on new space - **Herbert Smith** took 4,000 sq m at **10 Exchange Square, EC2,** through **DTZ** and **Jones Lang LaSalle** and **Osborne Clark** took 3,200 sq m at **1 London Wall, EC2,** through **DTZ** and **Morgan Pepper**. **Paternoster Square** also remained popular with a steady stream of deals.

The West End saw **Royal & Sun Alliance** assigning its 4,000 sq m **30 Berkeley Square, W1,** to **GE Capital** but that was the largest of the market's lettings. Docklands had a poor quarter despite the continuing growth in the financial sector, with the most significant deals coming from pre-arranged options – **Barclays** on 2,100 sq m at **1 Churchill Place, E14** and **BP** on 2,900 sq m at **20 Canada Square** – both through **CBRE** and **Knight Frank**.



1 London Wall, EC2: Osborne Clark deal

Average Asking Prices* (£psm)

New Build (existing)**

	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
City Core	£577.25	£494.13	£465.60	£464.65	£472.54	£474.11	£475.41	£474.57	£471.04
City Fringe	£345.62	£319.41	£312.91	£298.73	£314.55	£295.44	£314.05	£319.05	£320.84
Docklands	£501.00	£500.53	£500.53	£500.53	£500.53	£464.20	£442.67	£446.71	£445.81
Midtown	£592.00	£470.93	£551.74	£489.76	£493.35	£468.23	£456.39	£435.94	£398.54
West End	£622.00	£635.91	£626.05	£539.63	£524.91	£533.53	£534.88	£556.79	£593.68
Overall	£526.90	£482.25	£463.35	£463.47	£469.66	£455.87	£452.72	£457.19	£465.01

***not including refurbished space.*

Second Hand Grade A

	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
City Core	£443.40	£442.68	£420.98	£392.02	£373.09	£362.89	£345.04	£336.87	£329.77
City Fringe	£331.82	£333.49	£310.92	£294.27	£282.58	£275.84	£269.90	£247.45	£248.72
Docklands	£314.40	£324.24	£338.08	£343.14	£299.25	£299.35	£315.25	£265.29	£275.48
Midtown	£436.76	£435.28	£411.88	£372.24	£368.81	£349.29	£330.40	£346.32	£352.52
West End	£484.45	£505.36	£474.21	£451.42	£443.60	£426.36	£407.76	£413.05	£403.73
Overall	£427.93	£427.64	£411.61	£392.79	£377.72	£363.98	£348.91	£345.06	£336.59

**new leases only*



40 Berkeley Square, W1: Keeps West End average high

The average price for new stock has risen for the second quarter running in central London. It has risen for the fourth quarter running in the West End. Recovery in new stock is underway. Second hand stock, however, is a different matter. Slight rises in the City Fringe and Midtown were not enough to prevent another major fall overall, with the average in the West End now only £404 psm – (£37.50 psf). With new stock historically cheap, tenants are forgetting about second hand. The improvements in demand in the City Core were not enough to arrest the continuing decline of rents, but once completions dry up after Q3 that should change. The average price of new stock in Midtown continues to fall despite the rapidly reducing supply, but the City Fringe has seen slight rises across both grades.**Grosvenor** and **JER** launched its **Belgrave House, SW1,** scheme this quarter at £592 psm (£55 psf) – quite a low price for such a prime scheme – but the high asking prices sought in Mayfair at **Curzon Square, 10 Grosvenor Street** and **40 Berkeley Square**, for instance, have kept the West End average high. Nil rent is still being sought for a sublease from **Dresdner** at **Matrix, Aldgate High Street, EC3,** but elsewhere in the City Core **Knight Frank** is still seeking £619 psm (£57.50 psf) for second hand space at **4 Broadgate, EC2**. Huge dichotomies remain across London.

Big schemes dry up after Q3 2004 and if demand continues, so should rental recovery. The price for second hand stock, however, is in danger of continuing to fall further.

Investment Sales (sq m)

	Q2 2003		Q3 2003		Q4 2003		Q1 2004		Q2 2004	
	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals
City Core	125,860	16	90,342	17	225,662	14	96,412	20	238,117	20
City Fringe	25,336	9	66,977	10	34,221	15	45,099	12	23,210	12
Docklands	0	0	7,180	1	0	0	164,278	4	5,534	8
Midtown	39,028	8	19,996	8	14,972	4	63,434	14	61,969	15
West End	82,579	28	37,664	15	64,713	27	40,202	28	87,839	19
Total	272,803	61	222,159	51	339,568	60	409,425	78	416,670	74



200 Aldersgate Street, EC1: Sold to Resolution

Investment sales rose again and continue to be strong. Investors are still chasing stock and institutional allocations to property remain high. This institutional demand has seemingly already factored in interest rate rises and further small rises over 2004/2005 are not expected to stifle demand. This demand is such that yields are being forced down (*Estates Gazette* 1st June 2004) and prime buildings are set to be acquired at yields of around 6%.

Morgan Stanley's Songbird consortium acquired a 65% interest in **Canary Wharf Group** this quarter. While not an investment sale as such, it does mean a huge amount of prime real estate has changed hands. The effect on the market, though, will be minimal as the same management team has remained in place – although **Brascan's** continuing purchase of remaining shares in CWG could thwart the decision making process. Elsewhere, **Resolution** completed its purchase of **The Little Britain complex, EC1,** for £190 million when it purchased **Prudential's** half-share two months after agreeing to purchase **Nippon's** share. **Canary Wharf Group** was still paying £15 million pa for the **200 Aldersgate Street** element after luring **Clifford Chance** to E14. **Hammerson** purchased the **Stock Exchange Building, Old Broad Street, EC2,** for £68 million to enable a 36,773 sq m scheme and **1 America Square, EC3,** was sold twice – **The State of Qatar** purchase the headlease from **Forgate's Audras** subsidiary for £120 million and a private investor purchased **Mordern College's** long lease for £5.05 million. In the West End, **Frogmore** purchased **Romney House, Marsham Street, SW1,** from a private investor - four years after selling it itself - for a residential joint venture with **Galliard** and in Midtown, **Aviation House** on Kingsway was sold to **StratReal** by **London & Regional** for £95 million.

Construction Starts with Prelets (sq m)

	Q2 2003		Q3 2003		Q4 2003		Q1 2004		Q2 2004	
	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet
City Core	18,713	0	7,428	590	4,976	0	5,209	0	28,825	19,075
City Fringe	75,806	69,677	1,952	0	0	0	27,099	0	14,214	0
Docklands	0	0	0	0	0	0	0	0	26,291	26,291
Midtown	15,462	2,635	2,957	2,059	2,640	0	7,399	0	4,628	0
West End	12,503	8,640	55,280	13,935	82,014	62,881	0	0	20,654	17,294
Total	122,484	80,952	67,617	16,584	89,630	62,881	39,707	0	94,611	62,660



30 South Colonnade, E14: Refurbishment for Reuters

Construction starts more than doubled on last quarter, but 66% of space has prelets in place. Despite improving sentiment and talk of ambitious speculative starts, major schemes are still yet to commence. The largest start this quarter was actually in the Docklands – where nothing had commenced since the end of 2001, but this was the £3 million refurbishment of **30 South Colonnade, E14,** agreed in the deal to take **Reuters** to the building. Works should complete in Q1 2005. Elsewhere, **Blackstone** started its 18,400 sq m refurbishment of **10 Queen Street Place, EC4** – with the benefit of the 16,300 sq m deal to **SJ Berwin** but **Derwent Valley Holdings** bucked the trend and commenced its speculative 13,700 sq m refurbishment of **The Johnson Building, EC1**. A number of short refurbishment schemes commenced this quarter as landlords tried to catch improving demand for refurbished stock without committing to huge upgrade costs. In Midtown, a 14-week refurbishment programme started on the 4,600 sq m **151 Shaftesbury Avenue, WC2**; in the West End, **StratReal** started a 4-month programme at **The Time Life building, Bruton Street, W1,** and in the City Core a four month programme started at **Reuters'** former office at **St Bride's House, Salisbury Square, EC4** – where **Horwath Clark** also took 2,745 sq m this quarter.

London Office Database



25 Canada Square, E14: Largest unit of new space in London

Completed Space Actively Marketed (sq m)

	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
City Core	39,277	58,721	56,873	56,626	85,343	170,327	249,946	291,308	294,413
City Fringe	42,348	53,694	63,775	56,660	74,092	88,831	92,127	86,754	78,891
Docklands	53,735	59,031	100,635	136,193	143,976	131,396	128,831	122,751	120,938
Midtown	25,781	28,982	41,853	53,761	53,941	52,312	48,130	41,038	32,795
West End	95,795	79,415	92,322	113,589	109,001	114,047	128,959	116,514	143,146
Total	256,936	279,843	355,458	416,829	466,354	560,443	647,993	658,366	670,185

Unsurprisingly, completed space on the market continues to rise. This quarter it rose by 1.8% but this was mainly due to the addition of **Accenture's** space at **1 Plantation Place, EC3,** and **Grosvenor** completing **Belgrave House, SW1**.

City deals continue to chip away at the amount of new stock available. 7,200 sq m completed in five deals at **Paternoster Square, EC4; Herbert Smith** took 4,000 sq m at **10 Exchange Square, EC2,** and **Osborne Clark** and **Royal & Sun Alliance** took a total of 6,400 sq m at **1 London Wall, EC2,** and **1 Plantation Place, EC3,** respectively.

The largest speculative completion was **JER** and **Grosvenor's Belgrave House, SW1,** at 25,300 sq m, which was responsible for increasing the figure in the West End and **British Land's** 14,700 sq m **2 Plantation Place, EC3,** was the second largest in London. Those figures are dwarfed, however, by the 46,000 sq m which still remains available at **25 Canada Square** from **Citigroup** in Docklands – although **BP's** option on 2,900 sq m at **20 Canada Square** this quarter helped reduce the amount of new stock available.



Moor House, London Wall, EC2: City's largest forthcoming completion

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

	2nd half 2004		1st half 2005		2nd half 2005		1st half 2006		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	80,482	74,577	10,243	10,243	21,684	5,355	0	0	0	0
City Fringe	26,832	7,330	69,931	23,480	0	0	40,502	40,502	0	0
Docklands	92,902	30,425	26,291	0	0	0	0	0	0	0
Midtown	16,858	16,858	0	0	0	0	0	0	0	0
West End	163,454	32,505	101,712	59,163	1,486	1,486	4,413	0	60,062	0
Total	380,528	161,695	208,177	92,886	23,170	6,841	44,914	40,502	60,062	0

**includes schemes where agents are not yet appointed*

The commencement of short refurbishment schemes and minor delays in more major developments means that there is more set to complete in the next year than there was when last quarter's statistics were published. However, the fact that landlords are commencing small schemes to catch demand is encouraging and proof that sentiment is strong. There is still little speculative stock to complete in 2005 and, as long as take-up continues its upward trend, the market will not find it difficult to consolidate.

The largest forthcoming speculative completion is 51,100 sq m at **Land Securities' Cardinal Place, SW1,** which completes in mid-2005 with no deal in sight. **Barclays' BP1, Churchill Place, E14,** will complete next quarter (previously thought to be this quarter) and, with 30,400 sq m still available, is the second largest forthcoming completion in London. **Greycoat, Hammerson and Henderson's Moor House, London Wall, EC2,** is the City Core's largest liability, with all its 28,000 sq m set to complete in September 2004. It had been shortlisted by **HVB** – but that requirement has since been put "on hold".

A new addition to speculative completions in 2005 is at **Hammerson's 1-10 Bishops Square, E1. Allen & Overy** took a prelet on the entire 70,000 sq m scheme in March 2002, but revealed this quarter that it was disposing of 23,200 sq m through **Cushman & Wakefield Healey & Baker**. The scheme is due to complete in June 2005, and this is a blow to the Fringe market which looked better placed than most to consolidate.



Availability (sq m)

City Core

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	294,413	244.98	1.07
Premarketing	510,522	40.63	8.28
Second Hand	562,010	-0.42	-7.24
Under Construction	85,739	-72.23	-20.72
Total	1,452,685	9.92	-1.64

Deals on units upwards of 2,000 sq m became more and more regular in the City Core this quarter and gradually chipped away at availability figures and vacancy rates. The largest new addition was for premarketing – **FPDSavills** and **ATIS REAL Weatheralls** being appointed on **CLOUT's** 16,250 sq m **Austral House, Basinghall Avenue, EC3,** scheme – tipped for a prelet to **Legal & General. Weatheralls** and **FPDSavills** were also appointed to premarket **Churchill Securities'** 2,800 sq m **21-21a Lime Street, EC3,** scheme. Construction is due to start there later in 2004.

The improvements in new stock were tempered by the addition of **Accenture's** three floors at **Plantation Place 1, EC3,** comprising 14,300 sq m through **Jones Lang LaSalle**. Second hand additions of 6,200 sq m at **61-65 Crutched Friars, EC3,** through **Hexell Wylie** and 5,000 sq m at **71 Queen Victoria Street, EC4,** through **JLL** and **Managed Office Solutions** were not enough to raise the total figure.

It is worth bearing in mind that **Willis** is still to complete on 39,000 sq m at **51 Lime Street, EC3**. That scheme is still only under offer, through **DTZ** and **Cushman & Wakefield Healey & Baker**.

City Fringe

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	78,891	6.48	-9.06
Pre-marketing	373,775	12.57	4.50
Second Hand	378,397	-7.93	0.59
Under Construction	67,619	39.19	110.00
Total	898,682	3.81	5.38

Total availability rose on last quarter – but this was principally thanks to the resurrection of **Tishman Speyer's Aldgate Union, E1,** scheme through **Jones Lang LaSalle** and **FPDSavills,** after being withdrawn in 2003. That scheme, tipped for a prelet to **Thomson**, added 56,700 sq m to the figures (two smaller options are also available which are not included in our figures). Elsewhere, the addition of **Allen & Overy's** 23,200 sq m at **1-10 Bishops Square** through **Cushman & Wakefield Healey & Baker** was an unwelcome addition to the figure for stock under construction, but **Derwent Valley Holdings'** speculative start on 13,700 sq m **Johnson Building, Hatton Garden, EC1,** and its appointment of **CB Richard Ellis** as letting agent, was an encouraging statement of intent.

Elsewhere, **Express Newspapers** placed its space at **Ludgate House, Blackfriars Road, SE1,** on the market through **Colliers CRE** ahead of its move across the river to **10 Lower Thames Street, EC3**. The largest single availability remains the **Shard of Glass** – **Sellar's** proposed **London Bridge Tower, SE1,** which is being premarketed through **FPDSavills** and **CBRE**.



Austral House, Basinghall Avenue, EC2: Legal & General interest?

Docklands

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	120,938	-12.73	-1.48
Pre-marketing	725,359	-1.26	-1.26
Second Hand	84,876	-7.13	-11.11
Under Construction	30,425	-6.43	-6.43
Total	961,599	-3.56	-2.42

BP taking its option on 2,900 sq m at **20 Canada Square** helped reduce the figure for new stock and **Barclays** taking a 2,100 sq m option at **BP1** helped reduce the figure for stock under construction. **Citigroup** reassessed its disposal plans at **25 Canada Square** – **Cushman & Wakefield Healey & Baker** is now disposing of 46,000 sq m, not 48,200 sq m, and **Euler & Hermes** withdrew 4,000 sq m of second hand stock at **One Canada Square** which was on the market through **Allsop & Co**.

Elsewhere, the space being premarketed at **North Quay** was reduced by more than 9,000 sq m (**CB Richard Ellis** and **Knight Frank** are agents), and 3,800 sq m of deals and a further 1,400 sq m of withdrawals in addition to **One Canada Square** reduced the second hand figure.

So availability fell across all grades – but the majority of that was down to prearranged options and withdrawals rather than increased take-up.

Midtown

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	32,795	-39.20	-20.09
Pre-marketing	20,804	12.87	0.00
Second Hand	208,797	7.21	-11.07
Under Construction	16,274	-27.34	95.26
Total	278,671	-3.75	-8.62

Although take-up was slightly down on last quarter, the lack of significant additions to the Midtown market led to falls in total availability figures. The largest addition was 2,200 sq m at **Hutchison 3G's Amadeus, Floral Street, WC2,** where **GVA Saxon Law** has been instructed to dispose of the space on a sublease at £457 psm (£42.50 psf) - **Hutchison** was paying around £592 psm (£55 psf). Apart from that, there were only two new availabilities over 1,000 sq m – 1,800 sq m at **27a Floral Street** through **CB Richard Ellis** and 1,200 sq m at 28-30 **Theobalds Road** through **EA Shaw** and **Michael Elliot**.

The 95% change in space under construction was due to a 14-week refurbishment programme starting at the 4,600 sq m 151-165 **Shaftesbury Avenue, WC2,** available through **Cushman & Wakefield Healey & Baker** and a longer programme on 3,300 sq m at **Princes House, Kingsway, WC2,** available through **CBRE**.



One Canada Square, E14: Euler & Hermes withdrawal helps availability figures

West End

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	143,146	31.33	22.86
Pre-marketing	129,502	-33.85	-0.14
Second Hand	458,866	-9.69	-5.39
Under Construction	89,146	-2.83	-27.37
Total	820,660	-9.28	-3.90

Despite an unexpectedly poor quarter for take-up, availability has fallen in the West End. Disposals as a result of the Lyons report are some time away - if at all - and the appetite for residential conversion opportunities may well mean that they never hit the availability schedules anyway.

17,000 sq m was withdrawn and 62,000 sq m was placed under offer in Q2 so there is a lot of movement, if disappointing take-up.

New additions this quarter have included **Cushman & Wakefield Healey & Baker** being instructed on both elements at **Hammerson's 18-19 Hanover Square. 18 Hanover Square**, comprising 2,800 sq m, is under construction, but the adjoining 19, comprising 2,200 sq m, is still awaiting permission. Elsewhere, **Teacher Marks** was instructed on 3,200 sq m at **63-65 New North Road, W2,** but there were few significant new additions this quarter. The largest unit available is still the proposed **Grand Union Building, Paddington Basin,** which is being premarketed through **Knight Frank**.

Total availability has fallen as 260,000 sq m was taken and 69,000 sq m was withdrawn. Around 180,000 sq m was also placed under offer this quarter – the market is certainly active. The City Core suffered two blows, with the addition of Accenture's space at 1 Plantation Place, EC3 and 30 Gresham Street, EC2 becoming available again after Lloyds TSB put its interest on hold. However, the total amount on the market still dropped, take-up was exceptional and vacancy rates only rose slightly.

Lyons is yet to roar in the West End. There have been no government deals – but no disposals either, and reports of significant government requirements still active across London are interesting, if a little surprising.

The market still has a long way to go and prices for second hand stock in particular are suffering. However, last quarter it was clear that sentiment was ahead of reality – but this quarter, reality is catching up.



18 & 19 Hannover Square, W1: Cushman instructed on refurbishment

Average Asking Prices (£psm)*



Juxon House, EC4: One of City's highest asking prices

City Core

	Q2 2004	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£471.04	-0.32	-0.74
New - New Build (pre-construction)	£414.41	0.00	0.00
New - Refurb (existing)	£363.13	-11.72	-2.07
New - Refurb (pre-construction)	£322.92	n/a	n/a
New - Refurb (under construction)	£322.92	n/a	20.00
Second Hand Grade A	£329.77	-11.61	-2.11
Second Hand Grade B	£245.20	-14.13	-1.63

Asking prices continue to fall across all grades in the City Core, but predictions of 10% falls made at the end of 2003 seem wide of the mark. Supply is still high but demand is clearly improving and prices should adjust accordingly in 2004/2005 – although second hand stock continues to suffer.

There is a huge dichotomy in the City Core. The highest publicly quoted asking price is £619 psm (£57.50 psf) for half a floor at **4 Broadgate, EC2,** through **Knight Frank** and brand new space at **Juxon House, St Paul's Churchyard, EC4,** is being marketed through **Jones Lang LaSalle** and **Strutt & Parker** at £565 psm (£52.50 psf). At the other end of the scale, the refurbished **16 St Clare Street, EC3,** still lies empty quoting £81 psm (£7.50 psf), and **Dresdner** has only disposed of one of the two floors at **Matrix, Aldgate High Street, EC3,** that it was disposing of for free. Deals are happening in the £370 psm region (mid £30s psf) – but only on space companies want.

City Fringe

	Q2 2004	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£320.84	1.43	0.56
New - New Build (pre-construction)	£368.67	n/a	n/a
New - Refurb (existing)	£266.95	-17.86	3.33
New - Refurb (under construction)	£322.92	-15.58	-7.69
Second Hand Grade A	£248.72	-12.43	0.51
Second Hand Grade B	£193.74	-10.85	-1.78

Falls continue across most grades in the City Fringe, but asking prices for new stock have risen for the third quarter running. Second hand stock, here as in the rest of central London, continues to suffer. The addition of **Allen & Overy's** space at **1-10 Bishops Square, E1,** to the market - due for completion in mid-2005- creates an unforeseen increase in the amount of new stock on the market, but if improvements continue this shouldn't excert downward pressure on prices.

The highest asking price in the City Fringe is still £511 psm (£47.50 psf) through **Knight Frank** at **Broadgate West Phase 2, EC2,** but 200 metres away across Bishopsgate **Hexell Wylie** and **Kinney Green Stanford Webster** are after £54 psm (£5 psf) for a floor of second hand grade A space at **Bunge House, Artillery Lane, E1**.

"Grade A dichotomy in Docklands"

Docklands

	Q2 2004	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£445.81	-10.93	-0.20
Second Hand Grade A	£275.48	-7.94	3.84
Second Hand Grade B	£192.00	-2.51	1.28

Quoting rents for new stock on the **Canary Wharf Estate** seem to have settled at £452 psm (£42 psf). The effective change in ownership of the estate – to **Morgan Stanley's Songbird** consortium - may yet lead to a change in policy on asking prices, but it has kept the same management team so immediate changes are unlikely. The average of £446 psm (£41.40 psf) on new stock compares favourably to its rival City Core but **Canary Wharf Group** has shown in the past that extra inducements are needed to convince companies to make the switch to E14.

The highest and lowest asking prices in Docklands are actually on second hand grade A space - £484 psm (£45 psf) is being sought through **Montagu Evans** for a sublease at **One Canada Square,** and £105 psm (£9.75 psf) is being sought through **Knight Frank** and **Colliers CRE** for a floor at **5 Greenwich View Place**.

Midtown

	Q2 2004	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£398.54	-19.22	-8.58
New - Refurb (existing)	£328.75	-9.79	-3.28
New - Refurb (pre-construction)	£399.34	54.58	9.12
New - Refurb (under construction)	£430.56	-20.00	n/a
Second Hand Grade A	£352.52	-4.42	1.79
Second Hand Grade B	£257.13	-12.84	-2.90

Midtown was the only market to see a significant reduction in the asking price of new stock this quarter. This is surprising, as the market has little new stock available, little speculative stock set to complete, and demand, although down on last quarter, remains constant. The average price of new stock is now below £400 psm (£37 psf) and is cheap in comparison to the West End and City Core. In the right locations, though, asking prices remain high - £619 psm (£57.50 psf) is the top rent in the market and that is for **Cookson Group's** old space at **The Adelphi, WC2,** which is available through **Knight Frank**. The highest for new space is £511 psm (£47.50 psf) at **Derwent Valley Holdings' Davidson Building, WC2**.

West End

	Q2 2004	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£593.68	13.10	6.62
New - New Build (under construction)	£565.11	-8.70	n/a
New - Refurb (existing)	£432.00	-9.26	-2.60
Second Hand Grade A	£403.73	-8.99	-2.26
Second Hand Grade B	£321.65	-6.58	-1.08

Asking prices for new stock in the West End have risen for the fourth quarter running, which is great news for London. Mayfair – the world's most expensive office location – is leading the field, with agreed rentals starting to eclipse asking prices. **Consolidated Real Estate's Curzon Square, W1,** and **Grosvenor's 10 Grosvenor Street, W1,** are attracting significant interest at £753 psm (£70 psf) (from **Bank of Iceland, Apax** and **Associated Foods**) but there have been no deals yet. **Royal & Sun Alliance's 30 Berkeley Square, W1,** was assigned to **GE Capital** at £754 psm (£70 psf) for the best space and **Caxton** completed its deal at **40 Berkeley Square** at £861 psm (£80 psf) - £10 psf higher than originally thought. The £888 psm (£82.50 psf) being sought there hasn't prevented the 4th floor from going under offer to existing tenant **Blackstone** and **Ferox** is interested in the 2nd.

Tenants, though, are forgetting about second hand space and the asking prices continue to fall. Two years ago, average grade A space commanded £538 psm (£50 psf) – now it commands only £404 psm (£37.50 psf).



10 Grosvenor Street, W1: Interest at £70 psf

With the exception of Docklands and Midtown, prices for new stock are holding up quite well compared with 12 months ago. Second hand stock, however, is a different matter – central London has seen falls of around 10% on both grades of second hand stock over the past 12 months, and the West End is averaging only £404 psm (£37.50 psf) for second hand grade A space. The West End has seen prices rise on new stock for the fourth quarter running – thanks to Mayfair - and the overall average on new stock across the five markets is up for the second quarter running. Second hand stock is a long way behind. There is a lot of it on the market – 1.7 million sq m - but the historic cheapness of brand new space, especially when rent-free periods and incentives are included, makes new stock much more attractive for tenants. Why buy second hand when you can buy new for only slightly more?

Demand looks set to continue throughout 2004 and this will soak up a lot of the best space. Tenants will eventually have to turn back to second hand – but before they do, prices will continue to fall.

**new leases only*

take-up (sq m)*

City Core

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	30,433	51.44	295.27
Premarketing	16,329	n/a	n/a
Second Hand	49,202	62.64	15.24
Under Construction	2,746	-69.53	417.31
Total	98,710	66.29	93.84

The City Core had a brilliant quarter for take-up – the best since Q1 2001. The overall total would have been even higher had **Willis** completed its 39,000 sq m prelet of **British Land's 51 Lime Street, EC3**. The largest single deal was **SJ Berwin's** 16,300 sq m prelet of **10 Queen Street Place, EC4,** but there were 20 deals over 1,000 sq m.

New stock was especially popular this quarter with **Herbert Smith** taking 4,000 sq m at **British Land's 10 Exchange Square, EC2**; **Osborne Clark** taking 3,250 sq m at **Hammerson's & Kajima's 1 London Wall, EC2,** and **Royal & Sun Alliance** taking 3,100 sq m at **British Land's 1 Plantation Place, EC3**.

Despite the 80% increase on Q1 overall, second hand space only increased by 13%. There were notable deals – Xchanging took the 4,700 sq m **34 Leadenhall Street, EC3**, for instance, and **Clarksons** took 4,700 sq m at **St Magnus House, Lower Thames Street, EC3** (it took an assignment of the whole building, but this is the only space it will occupy) – but tenants are deciding to take the historically cheap new stock leaving the second hand stock behind.

City Fringe

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	10,669	5.20	68.71
Premarketing	37,975	n/a	n/a
Second Hand	23,320	-18.78	-8.67
Total	71,964	85.22	125.89

Like the City Core, the City Fringe had a great quarter. Unlike the City Core, it was down to one deal – **IPC Media's** 38,000 sq m presale of **Land Securities' 1 Bankside, SE1.**

The second biggest deal was the **NHS** taking the 2,500 sq m refurbished **East One, Commercial Street, E1** through **Ross Jaye Sayer** and **Strettons,** but apart from that, there were few significant deals.

Nevertheless, around 55,000 sq m was placed under offer this quarter – mainly due to **Norton Rose** agreeing terms on 27,900 sq m at **More London 3, SE1**, there are plenty more deals in the pipeline.

In a further sign of the neglected second hand market, the City Fringe experienced a 21% fall in the amount of second hand take-up compared with last quarter – and a 30% fall compared with Q2 2002.



10 Queen Street Place, EC4: SJ Berwin deal ©Hurley, Robertson & Associates & Hayes Davisdon

Docklands

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	2,861	n/a	-75.42
Second Hand	8,647	261.91	-3.53
Under Construction	2,092	n/a	n/a
Total	13,600	469.22	-71.00

Docklands had a poor quarter for take-up, especially compared to last quarter's impressive total of 47,000 sq m. The financial sector, however, continues to improve and 2004 should see some more deals.

This quarter only really saw two significant deals – both pre-arranged options. **Barclays** took an extra 2,100 sq m at its **BP1, Churchill Place** building, where construction will complete in July, and **BP** took its option on 2,900 sq m at **20 Canada Square**. **BP** has another option on the 3,800 sq m 5th floor, exercisable until September 2004, and, if it takes that, on the 4,400 sq m 6th, exercisable until November 2004.

Mirroring the rest of London, second hand stock also suffered, with take-up almost 19% down on last quarter.

Midtown

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	8,679	-24.40	-14.40
Second Hand	18,265	30.94	8.03
Under Construction	1,309	n/a	n/a
Total	28,253	2.78	-6.37

Midtown declined slightly on last quarter, but prospects still remain healthy despite the fall in asking prices.

The biggest deal of the quarter was to **Marks & Clerk** on 2,400 sq m at **90 Long Acre, WC2,** and the **Bar Council** took the entire 2,200 sq m **289 High Holborn, WC1**. **MLS's** expansion continued with the 2,000 sq m acquisition of **34-36 High Holborn, WC1**.

New stock was soaked up by **Sheridan's,** with a 1,800 sq m deal at **Whittington House, Alfred Place, WC1,** and **Estates Gazette Group** took a 1,300 sq m floor at **The Eye, Procter Street, WC1**.

The market also saw **Young Samuel Chambers** prelet 1,300 sq m at R**oyal London Asset Management's 48-51 Floral Street, WC2,** but Midtown bucked the London-wide trend and actually saw an increase in second hand stock being taken – maybe in response to the lack of choice of new stock in the market.



20 Canada Square, E14: BP option - with more to come?

West End

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	8,820	1.44	-54.76
Second Hand	41,070	7.44	-20.33
Total	49,890	6.33	-30.67

The West End has the most positive market sentiment of all, with constant talk of deals at £861 psm (£80 psf)+. However, it had a poor quarter and was eclipsed by the City Core, with the largest deal being **Royal & Sun Alliance's** assignment of **30 Berkeley Square, W1,** to **GE Capital** at £754 psm (£70 psf) for the best space. Reported £861 psm (£80 psf) deals to **Bank of Iceland, Ferox, Associated Food** et al at other prime buildings are still to complete – but **Caxton** did complete on 840 sq m at £861 psm (£80 psf) at **40 Berkeley Square**.

The second largest deal was for 3,200 sq m at **33 Grosvenor Place** to **CQS Management** and **The Conservative Party** came in third place with their 1,900 sq m deal at **25 Victoria Street, SW1** (a deal that is costing them money as they struggle to sell their **32 Smith Square, SW1 HQ**). **Davenport Lyons'** deal at **Standard Life's 30 Old Burlington Street, W1** was fourth.

Only units over 232 sq m

Q2 2004 was a great quarter for take-up in London – but it was mainly down to the strong performance of the City Core and Land Securities' presale to IPC in the City Fringe. The strong, if not quite bullish, sentiment being seen in Mayfair only led to one large deal – GE Capital's assignment of 30 Berkeley Square – but next quarter should see more deals done at £861 psm (£80 psf). Elsewhere, Willis Group is still to complete its 39,000 sq m prelet at 51 Lime Street, EC3, and Norton Rose is still only under offer on 27,900 sq m at More London 3, SE1.

Second hand stock is being neglected. The City Core had the best of the deals – but a 13% increase in second hand stock against an 82% increase overall, speaks volumes. This is reflected in asking prices, which have fallen around 10% compared to 12 months ago. Nevertheless, as Midtown shows, when there is little new stock available, attention has to go back to the second hand market.

2004 is also set to see the end of landlords' generosity. If deals are happening again at top rents in Mayfair, the sentiment will soon spread to other areas. Tenants will have to be quick to get the good deals on new stock – but that may well be good news for those trying to offload second hand space.



25 Victoria Street, SW1: Tories take space - but can't sell old HQ

Completed Space Still Available as at Q2 2004 (sq m)



Amalgam, EC1: Adds to completed space in Q2

City Core

Completed half year	Q2 2004
1 2001	1,479
2 2001	4,282
1 2002	2,165
2 2002	10,538
1 2003	40,714
2 2003	155,699
1 2004	79,536

22,500 sq m of speculative space completed in Q2, bringing the total for the year so far to just under 80,000 sq m. This is a lot of stock, but the huge jump in take-up seen this quarter, especially on new stock, is encouraging – despite the large amount still available from the last six months of 2003. **Swiss Re**, however, is still yet to dispose of space at **30 St Mary Axe, EC3**.

The market suffered two large blows this quarter – **Lloyds TSB** has put its talks on hold for **Land Securities'** 35,000 sq m **30 Gresham Street, EC2** – the largest single speculative unit in the market - and **Accenture** placed an extra 14,300 sq m on the market at **British Land's 1 Plantation Place, EC3**, adding to the 10,000 sq m already available in the building. The neighbouring **Plantation Place 2** completed in Q2 – with all of its 14,700 sq m still available-but the only other speculative completion was **Centurion Millennium's** 7,900 sq m **Amalgam, Aldersgate Street, EC1**.



Victoria House, WC1: Limited new stock in Midtown

Docklands

Completed half year	Q2 2004
2 2001	46,007
2 2002	5,011
1 2003	41,330
2 2003	28,590
1 2004	0

BP taking its option on 2,900 sq m at **20 Canada Square, E14,** helped reduce the amount of new stock on the market – and if it takes its additional 8,200 sq m of options over the rest of 2004, the market will appear in even better shape. There were no new put option surprises this quarter – **Clifford Chance's** and **Lehman Brothers'** options arrived last quarter, but there are still questions about what will happen with **Skadden Arps Slate Meagher & Flom's** surplus at **40 Bank Street** and **Bank of America's** rumoured extra space at **5 Canada Square**.

The largest amount of vacant new stock is still the 46,000 sq m available from **Citigroup** at **25 Canada Square** – but that seems to reduce every quarter as Citigroup continually reassesses its occupation strategy.

The improving financial and business services sector will clearly benefit the Docklands market, but there will be a 30,400 sq m addition next quarter when **Barclays' BP1, Churchill Place,** is completed.



Belgrave House, SW1: Launched at £55 psf

West End

Completed half year	Q2 2004
1 2000	1,242
2 2000	81
1 2001	2,933
2 2001	4,386
1 2002	1,685
2 2002	15,123
1 2003	30,239
2 2003	43,938
1 2004	41,117

Grosvenor's 25,300 sq m **Belgrave House, Buckingham Palace Road, SW1,** completed this quarter and was launched at £592 psm (£55 psf). Despite the talk of an almost bullish Mayfair, Victoria still suffers and expectations are down after the **Lyons Report**. **Belgrave House** is tipped for a deal to **Vitol** – but that is for only one floor and the building has been marketed since 2002. Other completions included 2,300 sq m at **Chelsfield's Etoile, Jermyn Street, SW1,** and 2,200 at **Cadogan's 15 Sloane Square, SW1**.

Despite having the second highest amount of new stock on the market, asking prices in the West End (for new stock at least) continue to rise - in testament to the importance of sentiment. But that sentiment seems to be exclusively in Mayfair and developers of other completed schemes – **Grosvenor** at **Belgrave House, SW1, HRO** at **Victoria Plaza, SW1,** and leaseholder **Orange** at the 21,000 sq m **The Point, W2,** for instance, need to be patient.

City Fringe

Completed half year	Q2 2004
1 2001	2,785
2 2001	2,365
1 2002	2,686
2 2002	11,359
1 2003	23,602
2 2003	31,683
1 2004	3,420

There were three speculative completions this quarter, but none of any true significance - the largest being 1,800 sq m at **83 Clerkenwell Road, EC1**.

The largest amount of available new stock is still 16,400 sq m at **Broadgate West Phase 2**, **EC2,** which completed in Q2 2003. Agent **Knight Frank** is still seeking £511 psm (£47.50 psf) – one of the highest prices in the market - without success.

Previously, the City Fringe had some of the best prospects – there was little space set for speculative completion and office stock was more likely to be converted to residential use than refurbished. However, there is a forthcoming blot on the landscape with the 23,200 sq m being released at **1-10 Bishops Square, EC1**, which almost matches the largest current speculative scheme – 26,900 sq m at **Palestra, SE1**.

Midtown

Completed half year	Q2 2004
2 2001	2,554
1 2002	77
2 2002	9,800
1 2003	14,648
2 2003	2,514
1 2004	2,050

Midtown has the lowest amount of new stock available of all – and the demand for that new stock has remained constant over recent quarters. The only speculative completion this quarter was at **Royal London's 48-51 Floral Street, WC2**, but that comprised only 125 sq m, thanks to **Young Samuel Chambers'** 1,300 sq m prelet. The largest unit is 7,400 sq m at **125 Shaftesbury Avenue, WC2,** and 3,800 sq m remains empty at **Victoria House, Bloomsbury Square, WC1**.

Deals on new stock to **Sheridans** on 1,800 sq m at **Whittington House, Alfred Place, WC1,** and **Estates Gazette Group** on 1,300 sq m at **The Eye, Procter Street, WC1,** helped reduce the amount of new stock, but more three to six month refurbishment projects can be expected to catch the steady demand for new stock – 4,600 sq m, for instance, went under construction at **151-165 Shaftesbury Avenue, WC2,** this quarter – albeit for only 14 weeks.

Demand is high for new stock, as it remains historically cheap. The City Core saw 21 deals on new existing stock this quarter and there were 44 deals across the other three markets. take-up is chipping away at the total – especially as landlords are no longer intent on single tenant deals – but there is still a great deal on the market. Swiss Re is still without a tenant for the vacant space at its landmark 30 St Mary Axe, EC3, but Paternoster Square, widely criticised as dull, has attracted a steady influx of tenants. Tenants can still be choosy – and buildings have to offer the right kind of space for occupational needs.

Lloyds TSB suspending its interest at Land Securities' 30 Gresham Street, EC2, and Accenture offloading 14,300 sq m at Plantation Place 1 were hard on the figures – but if take-up continues, that could change in Q3.
The launch of Belgrave House, SW1 at £592 psm (£55 psf) was significant – such a building would have commanded far more two years ago and Mayfair has once again started to command £861 psm (£80 psf). The situation is improving, but not uniformly across London.

Construction Starts (sq m)

City Core

Q1 2002	18,700
Q2 2002	55,573
Q3 2002	28,293
Q4 2002	18,981
Q1 2003	1,273
Q2 2003	16,202
Q3 2003	7,197
Q4 2003	4,976
Q1 2004	5,209
Q2 2004	28,825

Construction is starting to happen again in the City Core, after developers and their funders were put off throughout 2003. Only a small proportion, however, is speculative. The largest start was 18,400 sq m at **Blackstone's 10 Queen Street Place, EC4**, which benefited from a majority prelet of 16,300 sq m to **SJ Berwin**. Works are expected to complete in August 2005. Works also started on 4,200 sq m at **Triton's St Bride's House, Salisbury Square, EC4**. That building has the benefit of a 2,800 sq m prelet to **Horwath Clark Whitehall**.

Elsewhere, speculative construction began at the 3,300 sq m **6 Broad Street Place, EC2,** and a short three-four month programme began to update **Hemingway's 59-61 Mark Lane, EC3**.

Construction activity is back – but the impressive take-up figures for new stock this quarter raises the question of whether it is too little too late?

Docklands

Q1 2002	0
Q2 2002	0
Q3 2002	0
Q4 2002	0
Q1 2003	0
Q2 2003	0
Q3 2003	0
Q4 2003	0
Q1 2004	0
Q2 2004	26,291

Docklands saw its first start in almost three years. However, it wasn't a return to ambitious speculative development – it was the £3 million refurbishment of **30 South Colonnade** agreed in the deal to take **Reuters** to Docklands, and is already fully let.

The effective change in ownership to **Morgan Stanley's Songbird consortium** is unlikely to change policy on speculative starts (although **Brascan's** increasing interest could impact decision making however). The recovering financial sector is also unlikely to lead to any major prelets when so much vacant new space remains available – but **15 Churchill Place** is ready to start, a scheme that was once almost prelet to **Enron**.

West End

Q1 2002	11,919
Q2 2002	93,089
Q3 2002	10,938
Q4 2002	58,926
Q1 2003	48,506
Q2 2003	13,128
Q3 2003	55,619
Q4 2003	80,067
Q1 2004	0
Q2 2004	20,654

After a blank Q1, construction started again in Q2, but it is still far below historic levels. The sentiment seen in Mayfair has not spread to other submarkets and the only speculative start was the short refurbishment of **StratReal's Time & Life Building, Bruton Street, W1** – in Mayfair. Other starts were all prelet – **Marks & Spencer** commenced a short three-month programme at **19-35 Baker Street, W1** – it will move back in in September. The **Crown Estate** started works at its future 4,400 sq m **185-191 Regent Street, W1,** HQ and **Transport for London** started a 12-month programme at **172 Buckingham Palace Road, SW1** – it will move back in in Q2 2005.

City Fringe

Q1 2002	15,603
Q2 2002	2,596
Q3 2002	6,708
Q4 2002	11,072
Q1 2003	30,301
Q2 2003	75,913
Q3 2003	2,290
Q4 2003	802
Q1 2004	27,099
Q2 2004	14,214

The largest speculative start of the quarter (and for some time, excepting **Palestra, SE1**) was at **Derwent Valley Holdings' The Johnson Building, Hatton Garden, EC1**. That building will comprise 13,700 sq m on completion in Q1 2006. Work is yet to fully start at **Land Securities' Bankside, SE1,** scheme after **IPC's** prelet (enabling and groundworks are underway) but full construction should commence in July 2004 – and will be the largest start for some time.

The extra space released to the market by **Allen & Overy** at **Hammerson's 1-10 Bishops Square, E1,** has meant that all of a sudden there is more competition in the market – and that will put off office developers. There are, however, plenty of prime sites ready for conversion to other uses in the market.

Midtown

Q1 2002	1,600
Q2 2002	17,165
Q3 2002	0
Q4 2002	0
Q1 2003	1,717
Q2 2003	15,462
Q3 2003	2,957
Q4 2003	2,640
Q1 2004	4,088
Q2 2004	7,939

The lack of new stock in the market led to an increase in starts this quarter. **Watchwait** commenced works on its 3,300 sq m **Princes House, Kingsway, WC2,** scheme and a short 14-week programme began at **151 Shaftesbury Avenue, WC2**. The lack of available new stock and continued take-up of what is left suggests that more starts are likely throughout 2004, despite prices continuing to fall. **Bee Bee**, the main Midtown developer in recent years, has anticipated this and assembled a huge site next to **MidCity Place** surrounding and including **High Holborn House**, although its plans have not yet been revealed.

There were more construction starts this quarter, but still no large-scale speculative development. The emergence of more short refurbishment schemes is significant – landlords have seen the resurgent appetite for fresh stock and are cashing in, without having to go through planning or committing to full redevelopment. More of these can be expected throughout 2004/2005.

The amount of new stock available in the West End and City Core is putting many off, but the increased demand may tempt developers back into action over the next six months. The lack of stock in the City Fringe and Midtown has encouraged starts – Derwent Valley was the boldest developer of the quarter with its commencement of The Johnson Building, Hatton Garden, EC1 – but despite two starts this quarter, the Midtown still has more to do to match tenants' demand for new space.



The Johnson Building, EC1: Speculative start for Derwent Valley

"Lack of new stock leads to increased starts in Midtown"



185-192 Regent Street, W1: Crown Estate starts work on its new HQ

Under Construction and Still Available (sq m)

"Completions dry up after 2004"

City Core

Completion	To complete	Still available
Q3 2004	67,833	61,928
Q4 2004	12,649	12,649
Q1 2005	10,243	10,243
Q2 2005	0	0
Q3 2005	21,684	5,355

The largest forthcoming completion is **Moor House, London Wall, EC2 – Greycoat, Hammerson and Henderson's** 28,000 sq m Foster-designed scheme, which is scheduled for completion in September 2004. That was tipped for a prelet to **HVB** but the German bank has since withdrawn its requirement. Nevertheless, the strengthening market – and the fact that there is no VAT payable on the rent – mean that prospects are sound for the scheme. The second largest speculative completion is **Grosvenor** and **RBS's** 14,900 sq m **41 Lothbury, EC2,** which is also due for completion in September. After 2004, however, speculative completions dry up, and few are prepared to commence a large development speculatively. There is, of course, a lot of empty stock on the market, but more short-term refurbishments, as seen at **59-61 Mark Lane, EC3,** this quarter, can be expected.

City Fringe

Completion	To complete	Still available
Q3 2004	4,821	4,821
Q4 2004	22,011	2,509
Q1 2005	0	0
Q2 2005	69,931	23,480
Q3 2005	0	0
Q4 2005	0	0
Q1 2006	13,657	13,657
Q2 2006	26,845	26,845

There are few significant schemes set for completion in 2004, but a new addition to the schedules for 2005 is **Allen & Overy's** surplus at **1-10 Bishops Square, E1,** due for completion in Q2 2005. That is a blow to the market, which previously had nothing of substance to complete until 2006. Another new addition is **Derwent Valley Holdings' The Johnson Building, EC1,** which will complete in early 2006 followed by the contra-cyclical **Palestra, SE1,** in the quarter after. **Land Securities**, however, is set to commence its **Bankside, SE1,** scheme next quarter after the presale to **IPC** – the remaining part comprises up to 40,000 sq m and would be a major rival to **Palestra**.



BP1, Churchill Place, E14: Last speculative completion for Docklands

Docklands

Completion	To complete	Still available
Q3 2004	92,902	30,425
Q4 2004	0	0
Q1 2005	26,291	0

The completion of **Barclays' BP1, Churchill Place** next quarter will be the only new addition to the market and after that **E14** has a real chance to consolidate. **Barclays** did take an option on the space under construction this quarter, reducing the total, and could well take more after completion. The resurgent financial and business service sector should lead to more deals and more space being withdrawn – but speculative starts are still unlikely while 121,000 sq m of new vacant stock remains empty.

Midtown

Completion	To complete	Still available
Q3 2004	9,459	9,459
Q4 2004	7,399	7,399

The 14-week refurbishment of 1**51 Shaftesbury Avenue, WC2,** is the largest forthcoming speculative completion in Q3 2004 at 4,600 sq m, but it will be joined by **City & General's** 4,300 sq m refurbishment of **25 Southampton Buildings, WC2** – the former **Patent Office**. After that, the only speculative completions are in Q4 – 4,000 sq m at **Investream's 55 New Oxford Street, WC1,** and 3,300 sq m at **Watchwait's Princes House, Kingsway, WC2**.

There is a lack of existing and forthcoming new stock in the market and more short refurbishments can be expected to catch the demand, which has been constant. It is a surprise that asking prices have fallen.



Cardinal Place, SW1: West End's largest liability

West End

Completion	To complete	Still available
Q3 2004	82,193	15,161
Q4 2004	81,261	17,344
Q1 2005	50,583	8,034
Q2 2005	51,129	51,129
Q3 2005	1,486	1,486
Q4 2005	0	0
Q1 2006	4,413	0
Q1 2008	60,062	0

The largest completion in Q3 2004 is **Benchmark's** 4,300 sq m **Golden Square** redevelopment in Soho. **The Crown Estate's** 10,700 sq m **Abbott House, Regent Street, W1,** scheme arrives at the end of 2004 – but that is dwarfed by **Land Sec's** 51,100 sq m **Cardinal Place, SW1,** scheme, due for completion in mid-2005. The Lyons Report means a government prelet is highly unlikely and Land Sec's rivals at the already finished **Belgrave House** and **Victoria Plaza, SW1,** have extra time to court tenants.

After **Cardinal Place**, completions dry up and the bullish sentiment surrounding Mayfair suggests that, in that location at least, there is an opportunity for further speculative development.

Completions begin to dry up at the end of 2004, but the increasing amount of short refurbishment schemes means there will be a constant flow of upgraded stock. Few developers are confident enough to commit to major redevelopment in the centre of London and Palestra is still the contra-cyclical flag-bearer. Land Securities should start on its Bankside scheme next quarter, however, now that it has the benefit of the presale to IPC, and Derwent Valley's commencement of the Johnson Building, due for completion in 2006, was encouraging.

A lot of new stock remains vacant in London, but regular medium sized deals are reducing the total figure and prices are stabilising – and rising in the West End. There are clear signals for developers to start big schemes again, or miss the market peak altogether.



New Markets: Q2 2004 overview

"High vacancy rates in outer markets"

Introduction

The outer markets – North, South and West Central – have not had a healthy few quarters. There has been a lack of interest from tenants and not much activity from landlords and developers. Vacancy rates stand at around 20% and rents on new stock average only £308 psm (£28.50 psf). There are some big schemes around – P&O will complete its Regent Quarter, N1 scheme in the North Central market over the next 12 months, and the South Central market has two huge permissions waiting for a prelet – Belvedere Court and One Westminster Bridge Road. However, there was only one major change this quarter, and that was the single deal to the Metropolitan Police at Land Securities' Empress State Building, SW6.

North Central

The North Central market has had a quiet quarter. There was only 4,700 sq m of take-up and no construction starts. The average price for new stock has risen slightly, thanks to the completion of one element of P&O's Regent Quarter – Focus Point – which is available at £377 psm (£35 psf). The lack of take-up, though, could spell danger for that scheme. The remainder completes over the next year with only one prelet – on the 6,000 sq m Peninsular Court, prelet to P&O itself. The remaining 8,600 sq m arrives between Q3 2004 and Q1 2005. At the present rate of take-up, it will take time to become fully let and P&O has already instructed D E & J Levy to market the freehold at Focus Point as well as the leasehold.

Total availability, however, did decrease in the market this quarter – thanks to Blackstone's Purchase of 200 Pentonville Road, N1, from the Royal Bank of Scotland. That 16,700 sq m building was earmarked for an office scheme, but will be developed as student housing. This reduction in supply was good for the office market, but bad for RBS, who sold it for £27 million after paying £90 million for it a year before.



Belvedere Court, SE1: Stand alone extension to Shell Centre ©Arup Associates & Miller Hare

South Central

Like the North Central market, the South Central market has had a quiet few quarters. It is healthier than most, with vacancy rates at under 10%, but there is little activity and any development is far more likely to concentrate on the housing sector than office space. However, the market does have some of the largest proposed buildings - Shell and Lend Lease's Belvedere Court - a 29,000 sq m stand alone extension to the Shell Centre, York Road, SE1, and One Westminster Bridge Road – Frogmore's 26,000 sq m scheme, although a section of that has been withdrawn to become an apart-hotel. There is little speculative stock set to complete in the market and little lying vacant, but there is also a lack of demand. It will be a while before speculative office construction starts again.

West Central

"take-up rocketed in West Central"

The West Central market is the most active of these outer markets, and it had a great quarter. take-up rocketed from 4,000 sq m in Q1 to 63,000 sq m in Q2. This was principally down to the one deal – the Metropolitan Police signing for the whole of Land Securities' 38,700 sq m Empress State Building, SW6. This deal immediately led to a further 4,200 sq m of take-up, as the police sublet space to Transport for London and it released a further 15,600 sq m to the market – so we could see even more deals in 2004. Elsewhere, Lowe & Partners took the 6,000 sq m 60 Sloane Avenue, SW3, and Universal Music took 5,900 sq m at 364-366 Kensington High Street, W14. This quarter was an anomaly and is unlikely to be matched for some time – but interest is returning. There is a lot of new stock on the market in the West Central market, but not much speculative space set to complete. The increased demand suggests this market has better prospects than most – and this is reflected in its average asking price for new stock of £414 psm (£38.50 psf) – higher than central London's Midtown and City Fringe.

Bill Page,
Senior Research Analyst,
London Office Database

Note: This is the first time statistics for our new outer markets have been published. We will be running these figures on a six-monthly basis, not quarterly. Please see the map at the end of the document for our market boundaries.

Analysis

Vacancy Rates %

	Q1 2004	Q2 2004
North Central	19.24	20.84
South Central	8.95	9.01
West Central	16.97	18.57

"Cadogan Estate completions push up rates"

With the exception of the South Central market, vacancy rates are at record highs in North Central and West Central and show no signs of receding. In West Central, completions of elements of the **Cadogan Estate** pushed rates up – **86 Duke of York Square; 1 Duke of York Square** and **The Old Garage Block, Duke of York Square, SW3**. In the North Central market, completions at **Morleys'** 10,000 sq m **Euston Xchange**, **NW1,** and **P&O's** 2,200 sq m **Focus Point** element of its **Regent Quarter** development added to figures. The 15,600 sq m of vacant space available from the **Metropolitan Police** at **Land Securities' Empress State Building, SW6,** is the largest chunk of new stock in these areas at the moment.

Total Availability (sq m)

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
North Central	154,297	116,961	117,232	111,395	95,206
South Central	109,555	103,548	106,033	97,423	99,449
West Central	166,813	169,424	162,561	185,314	170,033
Total	430,665	389,933	385,826	394,133	364,688

Total availability actually fell in all markets except South Central. North Central fell thanks to the withdrawal of **200 Pentonville Road, N1,** from the office schedules (it will now be developed as a student housing scheme). In the West Central market, despite the 38,700 sq m deal, the largest new addition was also from **The Empress State Building, SW6** – the 15,600 sq m that the **Metropolitan Police** took but will sublet through **Jones Lang LaSalle** and **Cushman & Wakefield Healey & Baker**. The top four availabilities in the above markets are all, however, proposed schemes and include **Frogmore's One Westminster Bridge Road, SE1,** scheme, available through **DTZ**, which will comprise 26,000 sq m. The largest existing space, other than the **Empress State Building,** is the **Shepherd's Building**, also in West Central, where 9,400 sq m remains available through **Pilcher Hershman** and **Edward Charles & Partners,** despite four deals this quarter.



Empress State Building, SW6: Helps West Central eclipse all others

take-up (sq m)*

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
North Central	4,001	10,951	6,785	7,672	5,611	4,736
South Central	11,382	5,964	8,410	2,905	1,402	7,344
West Central	5,293	11,943	5,951	10,592	3,678	63,364
Total	20,676	28,858	21,145	21,169	10,691	75,444

The West Central market eclipsed all others this quarter, thanks to the deal to the **Metropolitan Police** at the **Empress State Building, SW6**. The police signed for the entire 38,700 sq m development and immediately sublet 4,200 sq m to **Transport for London**. It has now placed 15,600 sq m back on the market through **Jones Lang LaSalle** and **Cushman & Wakefield Healey & Baker**, so in effect 150% of **Land Securities'** building could end up being let in 2004. West Central also had the best of the remaining deals – **Lowe & Partners** took an assignment of **Leo Burnett's** 6,000 sq m **60 Sloane Avenue, SW3,** and **Universal Music** took the 5,900 sq m **364-366 Kensington High Street, W14**.

Average Asking Prices (£psm)*

New Build (existing)**

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
North Central	£138.86	£213.13	£247.57	£228.74	£251.16
South Central	£269.10	£269.10	n/a	n/a	£242.19
West Central	£392.89	£392.89	£392.89	£382.12	£414.41
Overall	£317.32	£298.16	£320.23	£294.47	£307.54

***not including refurbished space*

Second Hand Grade A

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
North Central	£239.88	£230.08	£209.90	£196.98	£184.06
South Central	£185.68	£184.33	£199.13	£199.13	£233.22
West Central	£309.15	£298.39	£277.77	£281.87	£255.35
Overall	£286.37	£269.21	£263.33	£261.53	£241.26

**new leases only*



100 Brompton Road, SW3: Highest asking price in outer markets

Asking prices for new stock are exhibiting signs of recovery in the three markets – but bear in mind that there are few comparables in the North and South Central markets from which to calculate averages. The good quarter for take-up in the West Central market is reflected in the resurgent average price, but this quarter can only be regarded as an anomaly for the time being. The highest asking price is, unsurprisingly, at the redevelopment of the former **Harrod's Depository** at **100 Brompton Road, SW3**. It is available through **DTZ, Hanrahan Deane** and **Knight Frank** at £592 psm (£55 psf). The lowest price of all is £79.50 psm (£7.40 psf) for a lower ground floor at **Chesterfield's 184-192 Drummond Street, NW1** in the North Central market, available through **Sparkes Porter**.

Investment Sales (sq m)



200 Pentonville Road, N1: Blackstone purchase for student housing

	Q2 2003		Q3 2003		Q4 2003		Q1 2004		Q2 2004	
	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals
North Central	1,038	1	6,735	6	16,737	1	4,017	1	24,951	3
South Central	22,866	6	1,524	1	7,093	3			14,311	2
West Central	8,361	1	9,212	2	16,380	7	7,990	4	21,423	2
Total	32,265	8	17,471	9	40,210	11	12,007	5	60,685	7

This was a healthy quarter for investment sales in the three markets. The North Central market performed the best with **Blackstone's** purchase of **200 Pentonville Road, N1,** from **The Royal Bank of Scotland** for only £27 million – **RBS** previously paid £90 million. In the West Central market, **Standard Life** sold **Bechtel House, Hammersmith Road, W6,** to **DB Real Estate** for £52.8 million after **Bechtel** agreed a new 10-year lease at the end of 2003. In the South Central market, **Delancey** and **Clerical Medical** sold **Becket House, Lambeth Palace Road, SE1,** to **Pinder Fry & Benjamin** for £73 million. That building comprises a key redevelopment opportunity following **Ernst & Young's** move to **More London, SE1**.

Construction Starts with Prelets (sq m)

"Few construction starts in outer markets"

	Q2 2003		Q3 2003		Q4 2003		Q1 2004		Q2 2004	
	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals
North Central	0	0	10,935	3,262	0	0	0	0	0	0
South Central	2,107	0	7,787	2,662	664	0	0	0	1,524	0
West Central	3,172	0	4,738	0	0	0	1,046	0	2,400	0
Total	5,279	0	23,460	5,924	664	0	1,046	0	3,924	0

Compared to central London, there has been very little construction activity in recent quarters. Developers are far more likely to concentrate on residential schemes in these outer areas where residential demand remains high (despite talks of a slowdown) and it would be brave to commence major speculative office development. Nevertheless, **Argent** submitted plans for 500,000 sq m of offices as part of its major regeneration plans for **King's Cross** this quarter. Construction, though, is some time away and the scheme is concentrating on the 1,800 homes it will provide in the area.

Completed Space Actively Marketed (sq m)

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
North Central	23,366	20,025	21,313	22,259	29,312
South Central	16,402	10,224	10,069	12,481	10,950
West Central	25,226	25,830	30,716	70,230	45,625
Total	64,995	56,078	62,098	104,969	85,887

There is still a great deal of new stock being marketed in the three markets. The deal to **The Metropolitan Police** at the **Empress State Building** took 38,700 sq m off the market – but then 15,600 sq m of surplus space went straight back on through the same agents – **Jones Lang LaSalle** and **Cushman & Wakefield Healey & Baker**. Also in the West Central market, **Shepherd's Building, Rockley Road** still has 9,400 sq m available through **Pilcher Hershman** and **Edward Charles & Partners** and, in the North Central, market 6,800 sq m remains available at **Euston Xchange, NW1,** through **Edward Charles** and **King Sturge**.

Under Construction by Completion Half Year and Occupation Status (sq m)*

"P&O completions set to hit the market"

	2nd Half 2004		1st Half 2005		2nd Half 2005	
	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av
North Central	7,928	1,903	7,910	7,910	0	0
South Central	16,468	9,161	1,500	1,500	1,524	1,524
West Central	1,046	1,046	4,738	4,738	2,400	2,400
Total	25,442	12,110	14,148	14,148	3,924	3,924

**includes schemes where agents are not yet appointed*

In the second half of 2004, **Spacia** completes its railway arches scheme at **107-122 Wootton Street, SE1** – **EA Shaw** is the agent. In the North Central market, **P&O** completes three elements of its **Regent Quarter** development with only one part – the 6,000 sq m **Peninsular House** - having the benefit of a prelet (to **P&O** itself). Five more elements of the scheme, totalling 7,600 sq m, complete in the first half of 2005. Agents are **D E & J Levy** and **Houston Lawrence**.

Availability (sq m)

North Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	29,312	25.45	31.69
Pre-marketing	20,417	-44.71	-46.13
Second Hand	35,978	-52.92	-8.56
Under Construction	9,499	-45.99	-20.14
Total	95,206	-38.30	-14.53

Availability fell in the North Central market –mainly thanks to **Blackstone's** purchase of **200 Pentonville Road, N1,** for a student-housing scheme, removing the 16,700 sq m building from the availability schedules. There were no notable new additions. The largest availability remains the 9,300 sq m premarketing of **Camden Lock, NW1,** which is available through **Shaw Corporation**.

South Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	10,950	-33.24	-12.27
Pre-marketing	60,330	-2.82	12.35
Second Hand	23,526	-15.32	-4.55
Under Construction	4,643	41.25	-29.61
Total	99,449	-9.22	2.08

Availability rose slightly on last quarter, thanks to a relatively good quarter for take-up and 2,400 sq m being withdrawn. Like the North Central market, there were no significant new additions and the largest units are proposed schemes. The largest of these is **Belvedere Court, SE1** - **Shell** and **Lend Lease's** proposed 29,000 sq m stand-alone extension to the **Shell Centre** on **York Road** available through **Knight Frank**. Just down the road, **DTZ** and **ATIS REAL Weatheralls** are premarketing **Frogmore's** 26,000 sq m **One Westminster Bridge Road** scheme.



One Westminster Bridge Road, SE1: Proposed scheme adds to availability figures

West Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	45,625	80.87	-35.03
Pre-marketing	50,048	-20.36	27.60
Second Hand	73,314	12.64	-3.36
Under Construction	1,046	-92.34	n/a
Total	170,033	1.93	-8.25

The deals to **Lowe & Partners** at **60 Sloane Avenue, SW3**, **Universal Music** at **364-366 Kensington High Street, W14,** and, of course, The **Metropolitan Police** at **The Empress State Building, SW6,** were not enough to lead to significant falls in availability. **The Empress State** deal was tempered by the reintroduction of 15,600 sq m straight away, and **FPDSavills** and **DTZ** also started marketing 2,500 sq m at **Centre West, Hammersmith Broadway, W6**.

Premarketing accounts for the majority of available space in these outer markets – and most of this is in South Central, with the One Westminster Bridge Road and Belvedere Court schemes. An exceptional quarter for take-up in West Central was not enough to reduce the total amount on the market significantly – thanks to the Metropolitan Police reintroducing 15,600 sq m to the market at The Empress State Building. The high vacancy rates for the North and West Central markets indicate that, although availability is reducing, the markets still have a long way to go.

Average Asking Prices (£psm)*

North Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£251.16	80.88	9.80
New - Refurb (existing)	£265.51	-1.73	5.93
New - Refurb (pre-construction)	£242.19	-13.46	0.00
Second Hand Grade A	£184.06	-23.27	-6.56
Second Hand Grade B	£205.93	-4.84	-5.64

Prices have risen for new stock in the North Central market thanks to the completion of **P&O's Focus Point** element of its **Regent Quarter** development. This is available through **D E & J Levy** at £377 psm (£35 psf) – the highest asking price in the market. Like the rest of central London, second hand stock is suffering the most and the market's lowest asking price is £79.50 psm (£7.40 psf) for a lower ground floor at **Chesterfield's 184-192 Drummond Street, NW1** through **Sparkes Porter**.

South Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£242.19	-10.00	n/a
New - Refurb (existing)	£226.04	-8.70	-4.55
New - Refurb (under construction)	£269.10	n/a	0.00
Second Hand Grade A	£233.22	25.60	17.12
Second Hand Grade B	£225.60	-4.71	10.10

Second hand stock has actually performed quite well in the South Central market – but there is very little new stock available compared with the rest of central London. However, there are few availabilities with asking prices with which to calculate averages accurately.

The highest price in the market is actually for second hand space - £323 psm (£30 psf) is being sought at **22-26 Albert Embankment, SE1,** through **Tuckerman**. £269 psm (£25 psf) is being sought for new space at **Salamanca Square** – also on **Albert Embankment** – through the same agents.



Focus Point; N1: North Central's highest asking price

West Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£414.41	5.48	8.45
New - Refurb (existing)	£298.70	-9.02	n/a
Second Hand Grade A	£255.35	-17.40	-9.41
Second Hand Grade B	£238.13	-11.51	0.88

Like elsewhere, prices for new stock in the West Central market are recovering as prices for second hand stock continue to suffer.

The highest asking price is at the redevelopment of the former **Harrod's Depository, 100 Brompton Road, SW3**. That space is available through **DTZ, Hanrahan Deane** and **Knight Frank** at £592 psm (£55 psf). The West Central market, though, has far more units available for £323 psm (£30)+ than other markets, and its overall average of £269 psm (£25 psf) compares favourably.

Like central London, the asking prices for new stock in these outer markets seem to be recovering while second hand stock continues to suffer. The exception is South Central, where there is little new stock available, so tenants have to look to the second hand market for the right kind of space. West Central has by far the highest asking prices for new stock – higher than some central London markets. Deals are happening again on this new stock, but prices still have room to fall further to remain competitive with other areas of London.

take-up (sq m)*



60 Sloane Avenue, SW3: Lowe & Partners deal adds to West Central total ©Stanton Williams & Chris Gascoigne

North Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	2,969	205.23	n/a
Second Hand	1,767	-54.02	-68.50
Total	4,736	-56.76	-15.59

4,700 sq m of take-up is a poor quarter by any standards and **P&O** may have a few problems when its **Regent Quarter** scheme completes over the next 12 months. There were no lettings of any significance and the decision of **RBS** to sell its **200 Pentonville Road, N1,** building rather than pursue an office refurbishment seems sound – despite the financial loss it incurred.

South Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	2,147	115.31	n/a
Second Hand	5,197	4.64	270.75
Total	7,344	23.14	423.88

Like the North Central market, there were no significant lettings in South Central. Nevertheless, the market had its best quarter since mid-2003. 12,500 sq m of speculative office space will complete in the market between now and the end of 2005, however – prospects for rapid take-up must be regarded as slim.

West Central

	Q2 2004	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	47,278	506.60	6663.61
Second Hand	16,086	287.71	439.99
Total	63,364	430.56	1622.81

The West Central market had a brilliant quarter for take-up, thanks to three main deals. There is talk of a resurgent Hammersmith, but one quarter of good deals is not enough to signify a trend. The **Metropolitan Police** led the way with its 38,700 sq m deal at the **Empress State Building**, **SW6** – followed by its subletting of 4,200 sq m to **Transport for London**. **Lowe & Partners** took an assignment of **Leo Burnett's** 6,000 sq m **60 Sloane Avenue, SW3,** and **Universal Music** also took the 5,900 sq m **364-366 Kensington High Street, W14**.

The North and South Central markets have seen little activity in recent quarters and the fact that the South Central market had its best quarter for some time on only 7,300 sq m of take-up is worrying. In North Central P&O will have to price its Regent Quarter development aggressively to attract tenants – or sell off on completion, which it is trying to do with Focus Point.

The West Central had an excellent quarter – eclipsing most central London markets – but this was thanks to one big deal. It is far too early to signify any trend.

Completed Space Still Available as at Q2 2004 (sq m)



Shepherd's Building, W14: Still accounts for much of the new stock in West Central

North Central

Completed	Q2 2004
2 1999	371
1 2000	0
2 2000	0
1 2001	1,895
2 2001	929
1 2002	1,364
2 2002	3,467
1 2003	3,503
2 2003	4,243
1 2004	9,046

9,000 sq m of speculative space completed in the first half of 2004, adding to the 15,700 sq m lying vacant from the last few years. Just under 3,000 sq m of new stock was taken this quarter – it will take a couple of years for the market to catch up – especially when works complete at **P&O's Regent Quarter, N1,** development over the next 12 months. The two completions this quarter – **Focus Point** (at Regent Quarter), and **Euston Xchange, NW1,** must be prepared to wait for a tenant.

South Central

Completed	Q2 2004
2 2000	822
1 2001	0
2 2001	0
1 2002	3,621
2 2002	0
1 2003	2,408
2 2003	3,199
1 2004	829

There is little empty new space in the South Central market – perhaps one of the reasons second hand stock is performing relatively well. The largest unit is at **Salamanca Square, SE1** – that comprises 2,300 sq m and is still available through **Tuckerman** after completing in mid-2002. 2,000 sq m of new stock was taken this quarter reducing the amount available to let, but Q3 2004 will see over 8,000 sq m complete.

West Central

Completed	Q2 2004
2 2000	3,779
1 2001	0
2 2001	13,742
1 2002	4,040
2 2002	584
1 2003	0
2 2003	20,317
1 2004	3,110

The **Metropolitan Police** deal at the **Empress State Building, SW6,** should have reduced the amount of new stock on the market by 38,700 sq m, but the disposal of 15,600 sq m tempered the improvements. Despite the vast improvements in take-up this quarter, new stock is still proving hard to let, with almost 14,000 sq m still available from the last six months of 2001 – and most of that is at **The Shepherd's Building, W14**. However, there is only around 8,000 sq m of speculative space set to complete before the end of 2005 so the market has a good chance to consolidate.

With the exception of South Central, there is a lot of new space lying empty in these outer markets. P&O's Regent Quarter development looks set for a long wait to be fully let after it completes over the next few quarters, and in West Central, despite the good take-up, new stock can still wait years for a deal. West Central, though, has the least amount of speculative stock to complete of the three markets and, if demand remains, is best placed to recover.

Construction Starts (sq m)

North Central

Q1 2002	1,672
Q2 2002	20,777
Q3 2002	0
Q4 2002	0
Q1 2003	314
Q2 2003	0
Q3 2003	10,935
Q4 2003	0
Q1 2004	0
Q2 2004	0

There has not been a great deal of construction activity, **Euston Xchange** excepting, since **P&O** began its **Regent Quarter** development in Q2 2002. The lack of deals on new stock suggests why. **Argent** will have a long wait before it can began its **Kings Cross** scheme – which will hopefully give enough time for new stock to be absorbed.

South Central

Q1 2002	2,140
Q2 2002	1,098
Q3 2002	4,645
Q4 2002	10,155
Q1 2003	1,331
Q2 2003	2,107
Q3 2003	7,787
Q4 2003	664
Q1 2004	0
Q2 2004	1,848

Compared with the North Central market, South Central has been regular with its construction starts. Starts have decreased over the last year, however, and the largest start this quarter was 1,500 sq m at **CIBA's 405 Kennington Road, SE11**, which also has 14 residential units. A pure office scheme is highly unlikely to commence in the near future.

"Starts remain unlikely in outer markets"

West Central

Q1 2002	0
Q2 2002	140
Q3 2002	0
Q4 2002	2,123
Q1 2003	0
Q2 2003	3,172
Q3 2003	4,738
Q4 2003	0
Q1 2004	1,046
Q2 2004	2,400

Not since the **Empress State Building, SW6,** and **100 Brompton Road, SW3,** started speculatively in Q4 2001 has there been any meaningful construction in the West Central market. This gives the market a real chance to consolidate – if deals continue to happen. The lack of forthcoming speculative completions, and the continued demand may well lead to more schemes starting over 2004/2005.

Unsurprisingly, construction starts have been few and far between in these outer markets. Demand for new stock has been depressed and, while demand for housing remains high in these areas, developers are well advised to stick to what will be popular. P&O's Regent Quarter was the only major start of recent quarters, but looks set to struggle to find deals on completion. The West Central market, though, has the least amount of forthcoming speculative completions and the highest demand, and is more likely than most to see a return to construction.

Under Construction and Still Available (sq m)

North Central

Completion	To complete	Still available
Q3 2004	6,025	0
Q4 2004	1,903	1,903
Q1 2005	7,596	7,596
Q2 2005	314	314

P&O's Regent Quarter is the most significant forthcoming completion. 1,050 sq m at **Bravington House** arrives in Q4 2004, followed by 7,600 sq m across six buildings in the first quarter of 2005. So far, only the 6,000 sq m **Peninsular Court**, due for completion in Q3 2004, has a prelet in place (to **P&O**). The lack of take-up on new stock, and the amount still lying empty, is cause for concern and **P&O** will have to offer some favourable terms to get tenants.

West Central

Completion	To complete	Still available
Q3 2004	1,046	1,046
Q4 2004	0	0
Q1 2005	0	0
Q2 2005	4,738	4,738
Q3 2005	2,400	2,400

There have been few speculative starts in recent quarters and there is little new stock set to arrive. 1,000 completes next quarter at **Imperial Wharf, SW6,** but after that you have to wait until June 2005 for the **Kensington Market, W8,** scheme to complete. There is a lot of new stock lying empty in the market – but as long as demand continues West Central's prospects are sound.

South Central

Completion	To complete	Still available
Q3 2004	10,835	8,173
Q4 2004	5,633	988
Q1 2005	1,500	1,500
Q2 2005	0	0
Q3 2005	0	0
Q4 2005	1,524	1,524

The completion at **Spacia's 107-122 Wootton Street, SE1,** scheme next quarter is the largest liability of Q3 at 4,200 sq m. There is however, little new stock available in the market and tenants could arguably benefit from more choice. 3,200 sq m is also due to complete next quarter at **Galliard's** mixed use scheme at **211 Long Lane, SE1** – but after that speculative completions are few and far between.

The South Central market has the majority of speculative stock to complete, but will struggle unless demand picks up. The North Central is also set to experience problems when Regent Quarter completes, but West Central has the best prospects of all.

Although asking prices have been steady for new stock, they may have to fall in North and South Central to get any take-up. take-up also needs to remain in West Central – there is little set to complete but a lot remains available. While it is much better placed than most, developers still need to be patient to see deals.



Regent Quarter, N1: Outer markets' largest liability

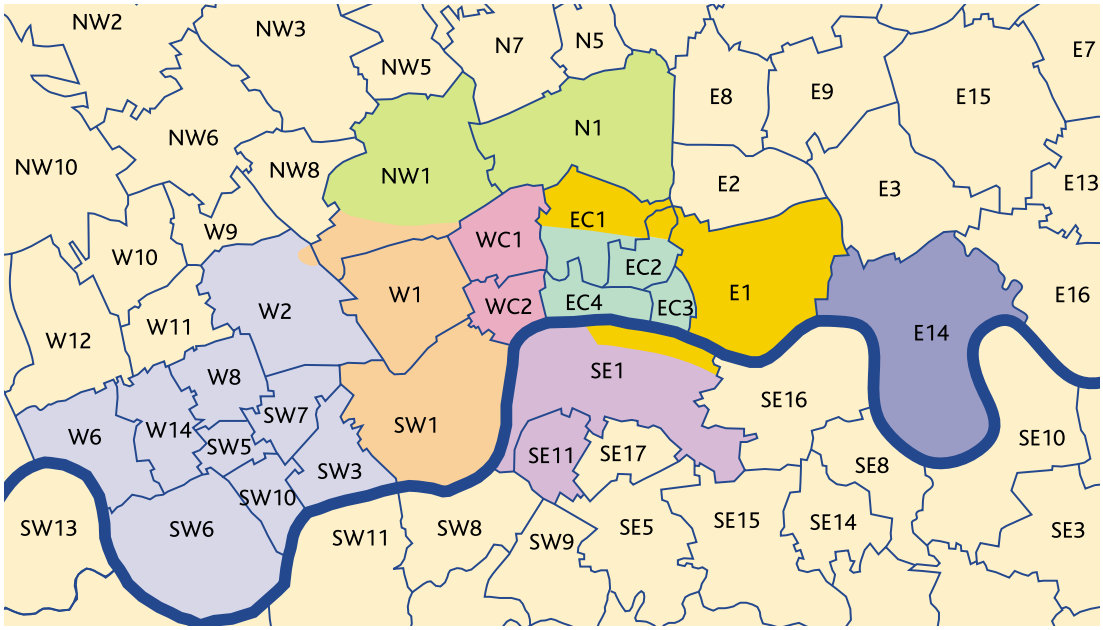
What LOD monitors

Core 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 & 9
Docklands: E14
Midtown: WC1 and WC2 (excluding Leicester Square)
West End: W1, SW1, NW1 sectors 3,5 & 6, Leicester Square (WC2) and W2 sectors 1 & 6

New markets:

South Central: Remainder of SE1 and SE11
North Central: Remainder of NW1 and N1
West Central: Remainder of W2, W6, W8, W14, SW3, SW5, SW6, SW7 & SW10



Key
- Docklands
- City Core
- City Fringe
- Midtown
- West End
- South Central
- North Central
- West Central

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, North Central, West Central and South 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

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.

Lettings League Table: Total of all completed disposals by quarter across all of LOD's markets. Under offer or exchanged space is not included. Does not include lease renewals, restructures or investment sales. Space in joint agency deals attributed to both agents. Space is given in sq ft for this section only.

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. 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 is 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.

Completed Space Actively Marketed: Simply a total of completed refurbishments and redevelopments being actively marketed by quarter. Includes space let but never occupied.

Under Construction by Completion Half Year and Occupation Status: A total of all office space expected to complete by half year with how much still available. This includes space not on the market.

Construction Starts: A total of space by quarter construction commenced.

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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