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Market Analysis
London Office Database

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Introduction

Green shoots or simply seeds?

The central London commercial property fraternity is having to find out the hard way that property cycles are a marathon not a race.

The collective voices of agents from Hanover Square to Canary Wharf can almost be heard proclaiming, "We have hit the bottom of the market." But how many of their clients - and more importantly how many of them - genuinely believe it? And if it is the case that things can get no worse in the coming months, it is abundantly clear that it will take some time to get significantly better. Put simply, hitting the bottom is one thing, but getting off the bottom is distinctly different.

"Recovery on the distant horizon"

But on the following pages - the most comprehensive analysis of statistics available in the market - there are signs of green shoots, if not quite an overgrowing jungle, of recovery.

Ironically, by far the most encouraging sign of the third quarter has been things not happening. More accurately, decisions being overturned by way of occupier space - identified for disposal via assignment or sublet - being withdrawn from the market. The fact that the likes of Pearson and Vodafone (both on Strand, WC2) and Virgin (in Leicester Square) have decided not to dispose of space they have liabilities on, has contributed positively to the market sentiment.

It is too early to pop those champagne corks but the statistics on the following pages show that 45,572 sq m (490,500 sq ft) of space was withdrawn across central London and availability in the West End - also boosted by limited supply - fell for the second successive quarter.

Of course, the hurt factor has a lot to do with that. Many occupiers feel they have ridden the painful market for so long trying to dispose of surplus space unsuccessfully, that agreeing a deal at a significant discount to the rent they pay is hardly worth it anymore. Corporate sentiment on the whole appears to be improving, albeit cautiously, corporates believe again that they will grow or at least cease their downsizing.

Indeed, at a recent lunch, the chief executive of a major UK property company told me that he had had "numerous conversations with financial companies that told him they were considering recruiting staff again."

Even the Docklands - for almost two years the barren land of London take-up- is poised for 39,250 sq m (422,500 sq ft) of deals next quarter, on top of the 17,988 sq m (193,623 sq ft) witnessed in the past three months. The earlier restraints of war in Iraq and stock market weakness are fading but are yet to be reflected in prelet activity. The end of the storm is not yet in sight but the following pages offer at least some hope of a true recovery in occupier demand by 2005/2006.



70 Gracechurch Street, EC3
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Lyons roaring

A note of warning though: You read here last quarter that public sector demand was proving the salvation of the market. With an estimated 27,870 sq m (300,000 sq ft) to half a million sq ft of requirements from governmental or related organisations, the Victoria market in particular seemed destined for security. But we also warned that a Treasury review, led by Sir Michael Lyons, into the potential for relocating 20,000 civil servants (representing around 1/4m sq m (3m sq ft)) from London to the regions, could be catastrophic. That review is gathering pace and both the interim report of Lyons' committee and statements at September's Labour Party conference in Bournemouth echoed the determination of the government to see that policy exercised. You have been warned.

Bank on investment changes

There has not been much cause to write excessively about the central London investment market in recent quarters. The trend of demand (from debt-driven investors - fuelled by low cost of borrowing, German funds - filled with cash from high street punters, high-net worth UK and overseas investors and private Irish money) showed no signs of abating. Since the last quarterly analysis, however, the market has awoken. The lack of stock to satisfy the insatiable appetite has not improved, nor has that appetite lessened - indeed there appears to be new entrants to the investment world every week. But in late September, *Estates Gazette* revealed the worrying undertones that have been simmering in the investment market for weeks. Citing first-hand admissions for the first time, *Estates Gazette* reported that the banks were becoming more cautious to lending large proportions of the value of deals. Swap rates moved out by 75 basis points in August and the days of the 99% loan-to-value deals for straight finance, long-term investment stream assets are numbered. Today the banks will lend less, require more equity from borrowers and demand to see how value will be added from those bringing deals to them. No coincidence perhaps then that one of the beacons of debt-driven investment, Topland, admitted that it had been forced to change its strategy and put significant equity into a deal for a building with less than 10 years on the lease (*Estates Gazette*, *4th October 2003*). But the fact that investment activity fell this quarter - from 51 to 49 deals - is more indicative of the continuing lack of appropriate product available. Despite the banks clear shift in strategy, prices have failed to become more realistic and yields have still not moved out. With money harder to come by from now on, expect to see those yields soften and traditional straight-finance debt-driven players trying to sell at more realistic levels.

"Banks becoming cautious"

Adam Coffer,
News Editor,
Estates Gazette Group

Q3 2003 Overview

Mixed Message

"Rise in take up but prices continue to fall"

The last three months give a mixed message about the fortunes of the London office market. On the one hand, take up has improved again with a total figure of 159,859 sq m (1.7 m sq ft) (and a further 48,228 sq m (519,139 sq ft) guaranteed to complete in the 4th quarter) and availability figures rose by a modest 2%. On the other hand, asking prices continue their fall across all grades and long vacant periods on new stock remain. The fact that the asking price at the newly refurbished 16 St Clare Street, EC3 was so dramatically slashed to £80.73 psm (£7.50 psf) from the mid £30's psf (so much to the displeasure of the joint developer that it is threatening legal action) is testament to both the nerves present in the market – but also the willingness of developers and freeholders to be flexible in the context of market conditions and adjust where necessary. An optimistic developer will look at the improving take up and lack of schemes completing in 2005 as a sign that now is the time to commence a scheme. A more pessimistic (realistic?) one will look at schemes such as 48 Warwick Street, W1, which still remains vacant after completing in 2000 – and the 240,000 sq m (2.6 million sq ft) of available space set to complete in 2004 across London – and hold out for that prelet.

Mixed Fortunes



More London, SE1

Quarter 3 has seen some notable changes, but no clear trend has emerged. The City Core and Fringe has seen mixed fortunes. The completion of three buildings at More London, SE1 (Building 1, already let to Ernst & Young; Building 2, with 10,963 sq m (118,000 sq ft) available; and Building 6 with 8,361 sq m (90,000 sq ft) left vacant) has added to the amount of new stock on the market. The corresponding vacancy rates and The Royal Bank of Scotland Group's decision to dispose of surplus space has affected the City Fringe further. However, these statistics show that the Fringe has a brighter future than most with a fall in total availability for the second quarter running, an increase in take up and a relatively free 2004 in terms of new schemes completing. Sensible measures such as developing residential instead of office–led schemes (potentially to be seen at 9 Prescot Street, E1 and Construction House, Paul Street, EC2 – also seen by Grosvenor in the West End at Chantrey House, Eccleston Street, SW1 and an application at its own 100 Park Lane, W1) will help the supply side in the future. The Fringe was also helped by Save the Children Fund taking 8,277 sq m (89,000 sq ft) at Bee Bee's Exchange Place, 1 St John's Lane, EC1 (although it placed 2,365 sq m (25,457 sq ft) straight back on the market). Derwent Valley Holdings had a particularly good three months with Mother Ltd taking a 4,088 sq m (44,000 sq ft) prelet at the Tea Building, E1 and Sage taking 2,332 sq m (25,100 sq ft) at Globix House, Oliver's Yard, EC1, which had been vacant since completion in March 2001. The City Core, however, continues to struggle next to its neighbour. The dramatic reduction in expectations at 16 St Clare Street, EC3 is testament to its troubles. Availability has risen, take up has fallen, vacant periods on new stock remain long and there is much more set to complete in 2004. It has also suffered in direct response to a change in fortunes (but not a trend) in the Docklands market. Clifford Chance's move to 10 Upper Bank Street has led to the 44,243 sq m (476,243 sq ft) 200 Aldersgate Street, EC1 being placed on the market and the deal to Reuters, due to complete in December 2003, will lead to significant disposals – mainly in the City Core and Fringe. Deutsche Bank, for a long time the subject of a property review, has also been reported as considering a move of back office staff from central London.

Improving Docklands?

"Nil rent sought in Docklands"

The slow Docklands market has seen a good quarter on paper but prospects remain poor. Take up experienced a significant jump with the 16,165 sq m (174,000 sq ft) deal to Tubelines at 15 Westferry Circus, but this was one of only five deals signed – fewer than last quarter. The deals set to complete next quarter – to BP and Reuters totalling 39,250 sq m (422,497 sq ft) - will improve matters further, and the lack of speculative starts and available space to complete would suggest the market should be healthy. However, Docklands is still struggling, as seen by Planet 24 attempting to assign its floor at The Wallbrook Building, Marsh Wall for nil rent and Skadden Arps Slate Meagher & Flom confirming that it will not occupy all the space it signed for at 40 Bank Street – although the surplus has yet come to the market. This potential uncertainty over the disposal of new space let but not occupied, as well as the poor state of the second hand market, suggest that the few notable deals are just that – notable deals – and not a sign of any upward trend.

Midtown Prospects?

"Quiet 2004 for Midtown completions"

The Midtown market has also struggled this quarter; availability has risen, take up has fallen and rents continue to decline. However, the 7,650 sq m (82,347 sq ft) deal to London Qualifications at 190 High Holborn will complete in October and a relatively quiet 2004 for completions compared to other markets should give the market hope – but given the average asking price for new stock of £468.23 psm (£43.50 psf) compared to £461 psm (£42.80 psf) in the City Core, there is still room for prices to fall further in the market.

Victoria's Vulnerability

"Renewed interest in Paddington"

The West End has seen by far largest improvement in take up, but at a cost. McKinsey, for instance, disposed of space at Kinnaird House, SW1, subletting the 5th floor to Hudson Highland. However, Hudson signed at £376.74 psm (£35 psf) – nearly half the price McKinsey paid in early 2001 (£672.75 psm (£62.50 psf)). Interest has returned to Paddington; Kensington Mortgages signed its sublease at 1 Sheldon Square, W2 from Visa at a reported £452 psm (£42 psf) – Visa signed in October 2001 at £511.29 psm (£47.50 psf) and Cerner and Blue Square sublet a total of 1,276 sq m (13,735 sq ft) at 3 Sheldon Square from Kingfisher also at £452 psm (£42 psf) – Kingfisher signed at

£522 psm (£48.50 psf) in February 2002. These rent discounts, however, should not overshadow the deals. Developer Derwent Valley Holdings has committed itself to the area with a proposal for 34,000 sq m (366,000 sq ft) of offices in a mixed-use scheme and Network Rail's 71,535 sq m (770,000 sq ft) Paddington Towers development won permission. This quarter, the West End has also seen encouraging signs of a media revival – a key sector in the Soho submarket – with Hill & Knowlton taking 2,642 sq m (28,440 sq ft) at 20 Soho Square, W1. The wider optimism is evident at Consolidated Real Estate's Curzon Square development on Park Lane, W1 - officially launched this quarter with the highest asking price in London of £753.50 psm (£70 psf) – 30% higher than the current average West End asking price for new stock. However, this optimism can be cancelled in a moment if the government follows through its threat to sign no more new leases and move 20,000 civil servants to the regions as reiterated by Gordon Brown at the 2003 Labour Party conference. Indeed, maybe some of the last government deals were signed this quarter – to MI6, Transport for London and the Department of Transport. The Victoria submarket will suffer the most if no more demand comes from the government and Land Securities, who commenced the larger part of its Cardinal Place scheme this quarter, must be monitoring all Treasury statements closely.



Kinnaird House, SW1

"SW1 in government's hands"

Summary

The last three months, then, give a mixed message. It is safe to say that we have passed the trough and reached the other side – but we are still far from levels seen in 2001. Take up should improve further next quarter, barring any catastrophe, but it is hard to see any halt in the fall of asking prices just yet. Speculative starts have fallen and are unlikely to pick up while so much vacant new stock remains empty. The amount of new stock completing in 2004, in the West End and City Core in particular, will force prices down further. The West End is looking healthier than it has for a year in terms of take up, but its future is uncertain and to some extent lies in the hands of the government. 2005/2006 still seems like a safe bet for the return of a strong market but two years is a long time in property. A developer starting now will have the better prospects of delivering at the right time (existing space lying vacant excepted) than one waiting for the upturn to be established and then delivering when it is over. Whether developers will take the risk remains to be seen.

Bill Page,
Senior Research Analyst,
London Office Database

Analysis

Vacancy Rates %

	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
City Core	8.15	9.67	11.54	12.13	15.06
City Fringe	10.29	11.55	12.04	17.05	17.86
Docklands	9.06	11.44	14.57	15.47	13.79
Midtown	8.50	9.51	10.78	11.55	11.92
West End	10.77	11.89	12.15	12.54	13.09
Overall	9.48	10.43	11.97	13.26	14.40

Double-digit vacancy rates continue in all markets with the City Fringe again showing the highest levels. The figure for the Docklands market has reduced due to an increase in total building stock after the completions at 25 Bank Street and 10 Upper Bank Street, which were prelet to Clifford Chance and Lehman Brothers. Without these changes to building stock, the Docklands market would have seen a further increase after Skadden Arps Slate Meagher & Flom confirmed that it would not occupy all the space it originally signed for at 40 Bank Street. It must be emphasised that these figures include vacant space with no agents appointed and, as such, paint a different picture to total availability (below).



40 Bank Street, E14

Total availability (sq m)

	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
City Core	621,165	831,085	940,492	1,070,603	1,200,394	1,227,512	1,292,183	1,348,634	1,434,470
City Fringe	565,605	744,543	836,797	811,088	765,885	844,077	858,975	843,445	832,433
Docklands	510,022	533,110	541,449	556,925	565,719	1,039,587	1,003,827	997,130	1,026,869
Midtown	201,894	256,296	230,655	252,504	247,763	273,530	287,995	289,529	292,350
West End	489,431	599,450	682,643	788,401	808,808	833,372	921,412	853,794	837,924
Total	2,388,117	2,964,485	3,232,037	3,479,521	3,588,569	4,218,079	4,364,392	4,332,532	4,424,046

"Total availability up 2%"

Total availability has only increased 2% on last quarter, and has actually reduced in the West End and City Fringe markets as space is taken and tenants revise their disposal plans. Next quarter's figures should improve further as a number of deals agreed this quarter complete (see below). However, as the vacancy rates prove, the amount of unoccupied space which is not being marketed remains significant.

London Office Database



Tea Building, Shoreditch High Street, E1

Take Up (sq m)*

	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
City Core	79,011	74,928	40,220	42,023	26,038	18,317	48,845	49,219	29,976
City Fringe	27,465	27,877	97,329	49,149	42,269	26,503	42,616	30,103	35,291
Docklands	67,292	72,423	6,135	34,252	3,481	2,469	3,550	2,389	17,988
Midtown	22,407	11,544	17,550	22,789	22,945	20,908	19,020	22,273	17,181
West End	57,208	86,122	50,749	59,704	85,255	48,680	38,030	44,955	59,423
Total	253,383	272,894	211,983	207,917	179,988	116,877	152,061	148,940	159,859

only units >232 sq m

Take up has not risen by as much as would be expected given the lack of significant growth in total availability, but it must be remembered that the above figures only include units over 232 sq m and evidence suggests that there has been increased activity in smaller units, as well as tenants withdrawing space from the market. There are also some large deals due to complete next quarter – Charterhouse Bank should sign for 1,327 sq m at Warwick Court, Paternoster Square, EC4; London Qualifications will sign for the 7,651 sq m 190 High Holborn WC1; BP should sign for 11,891 sq m at 20 Canada Square, E14 and Reuters for 27,359 sq m at 30 South Colonnade, E14. This quarter has not been without significant deals – Tubelines sublet 16,165 sq m from Morgan Stanley at 15 Westferry Circus E14; Save Children Fund took 8,277 sq m at 1 St John's Lane, EC1, Mother Ltd prelet 4,088 sq m at The Tea Building, E1 and MI6 signed for a secret 5,574 sq m in the West End.

Average Asking prices* (£psm)

New Build (existing)**

	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
City Core	£554.35	£570.49	£575.87	£577.25	£494.13	£465.60	£464.65	£472.54	£461.06
City Fringe	£188.37	£331.89	£403.65	£345.62	£319.41	£312.91	£298.73	£314.55	£295.44
Docklands	n/a	n/a	n/a	£501.00	£500.53	£500.53	£500.53	£500.53	£464.20
Midtown	n/a	n/a	n/a	£592.00	£470.93	£551.74	£489.76	£493.35	£468.23
West End	£851.51	£801.92	£726.57	£622.00	£635.91	£626.05	£539.63	£524.91	£533.53
Overall	£676.79	£607.27	£646.92	£526.90	£482.25	£463.35	£463.47	£469.66	£452.66

"Landlords adapting to weak demand"

***not including refurbished space.*

Second Hand Grade A

	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
City Core	£456.13	£441.67	£461.45	£443.40	£442.68	£420.98	£392.02	£373.09	£362.89
Docklands	£341.28	£362.39	£335.11	£314.40	£324.24	£338.08	£343.14	£299.25	£275.84
City Fringe	£357.62	£336.15	£331.14	£331.82	£333.49	£310.92	£294.27	£282.58	£299.35
Midtown	£452.92	£422.85	£429.83	£436.76	£435.28	£411.88	£372.24	£368.81	£349.29
West End	£526.29	£502.59	£491.03	£484.45	£505.36	£474.21	£451.42	£443.60	£426.36
Overall	£446.66	£440.35	£442.29	£427.93	£427.64	£411.61	£392.79	£377.72	£363.98

**new leases only*

Asking prices have continued to fall despite some encouraging signs, proving the market is still adapting to weak demand. The fact landlords accept the need to adapt (also illustrated by generous tenant inducements) should boost take up over the forthcoming year and the rate of fall in asking prices should not increase, but that is not to say declines will cease. This quarter has seen some notable offers: Planet 24 is attempting to assign its lease at The Wallbrook Building, Marsh Wall, E14 for nil rent (not included here); Spring 4 is marketing units at several Hemingway buildings in the City at £107.10 psm (£9.95 psf); the asking price at 16 St Clare Street, EC3 was slashed from the mid £30's psf to only £7.50 psf (£80.73 psm) and Matthews & Goodman is marketing two City units at zero rent for an initial term (Audrey House, EC1 and 10 Philpot Lane, EC3).

Investment sales (sq m)



20 & 25 Bank Street, E14

	Q3 2002		Q4 2002		Q1 2003		Q2 2003		Q3 2003	
	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals
City Core	168,696	18	99,343	16	122,304	17	102,516	14	85,939	15
City Fringe	12,449	11	5,335	4	14,767	13	23,161	7	66,977	10
Docklands	510	1	0	0	0	0	0	0	6,968	1
Midtown	34,608	18	10,790	12	29,965	5	37,766	7	20,782	8
West End	65,684	32	107,852	23	33,725	22	79,947	23	37,613	15
Total	281,946	80	223,320	55	200,760	57	243,390	51	218,279	49

Although summer is traditionally a quiet period for investment activity, transactions have fallen again despite ongoing proof of the benefits of property over equities. However, the quality of many of the investments remains high. This quarter has seen Norbia acquiring Grand Buildings, Stand, WC2 from Land Securities for £140 million; 70 Gracechurch Street, EC3 was sold for £150 million to Active Asset Management only a month after Marks & Spencer's sold it for £115 million to XL Group and Villatree Investments paid £37.4 million for the long lease of Kinnaird House, Pall Mall SW1 (where Hudson Highland signed for a sublease at 44% less than McKinsey's original rent). The Docklands has seen its first notable transaction for a year with Workspace purchasing Poplar Business Park for £16 million and Canary Wharf Group could yet change hands before the end of 2003.

Construction Starts with prelets (sq m)

	Q3 2002		Q4 2002		Q1 2003		Q2 2003		Q3 2003	
	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet
City Core	26,192	9,105	17,261	3,159	2,922	0	18,713	0	2,454	0
City Fringe	7,345	0	9,069	3,819	29,603	20,071	72,740	69,677	0	0
Docklands	0	0	0	0	0	0	0	0	0	0
Midtown	0	0	0	0	1,717	0	15,462	2,635	2,957	2,059
West End	10,452	0	20,480	1,858	34,405	0	810	0	41,345	0
Total	43,989	9,105	46,810	8,836	68,647	20,071	107,724	72,312	46,756	2,059

"Developers remain cautious"

Construction activity remains cautious despite predictions that the market will have recovered by 2005/2006, when schemes commenced now would be delivered. Nevertheless, the caution illustrates that developers are willing to react to adverse market conditions, just as freeholders are reacting by reducing rents. Even Blackfriars Investments' Palestra scheme, which was due to commence in or around Q2 2003, is now not due to start until Q4 2003 at the earliest despite the contra-cyclical fanfare. Figures later in this document illustrate the reasons why - many of the markets (City Core and West End in particular) will see a lot of available space completing over the next two years. With vacant periods of two years now typical on new stock, developers' caution is understandable despite the improvements in take up. This quarter has seen refurbishment works begin at Hemingway's Fairfax House, Fulwood Place, WC1 with the benefit of a majority prelet in place to Haysmacintyre and, contrary to some reports, Land Securities commence works on Building 1, Cardinal Place, SW1 ready for delivery in June 2005.



Times Square, EC4

Completed space still on the market (sq m)*

	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
City Core	25,683	34,436	47,897	39,277	58,721	56,873	56,626	85,343	170,327
City Fringe	16,188	33,175	40,787	42,348	53,694	63,775	56,660	74,092	88,831
Docklands	0	0	18,648	53,735	59,031	100,635	136,193	143,976	131,396
Midtown	15,710	16,793	18,380	25,781	28,982	41,853	53,761	53,941	52,312
West End	54,206	53,924	89,180	95,795	79,415	92,322	113,589	109,001	114,047
Total	111,787	138,328	214,892	256,936	279,843	355,458	416,829	466,354	560,443

**only space actively marketed*

The amount of completed space on the market has risen once more, with no reversal likely for some time (see below). New space remains stubborn to let – as perfectly illustrated by the asking price being so dramatically slashed at 16 St Clare Street, EC3. New space added to the market this quarter includes 17 Dominion Street, EC2, comprising 3,530 sq m, through ATIS Real Weatheralls; 3,206 sq m at 16 Berkeley Street through Doherty Baines, DE & J Levy and Edward Charles & Partners and 2,365 sq m at 1 St John's Lane, EC1 being disposed by Save the Children Fund through FPDSavills and ATIS Real Weatheralls.



Cardinal Place, SW1

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

	2nd half 2003		1st half 2004		2nd half 2004		1st half 2005	
	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av
City Core	235,128	158,874	152,406	110,535	12,270	9,111	12,323	12,323
City Fringe	96,219	49,728	1,633	1,633	27,000	7,498	69,677	0
Docklands	187,982	0	0	0	92,902	32,517	0	0
Midtown	23,440	20,399	8,998	6,363	0	0	0	0
West End	84,779	30,860	62,264	60,406	180,990	12,138	51,795	51,795
Total	627,548	259,861	225,301	178,937	313,162	61,264	133,794	64,118

**includes schemes where agents are not yet appointed*

There is a great deal of available space set to complete – but the majority has agents instructed on it so the effect will be mostly on vacancy rates rather than total availability figures. 2004 will give the market a chance to adjust – especially in the relatively quiet 2nd half. However, the vacancy periods for new stock have been exceptionally long in recent years – for instance the West End still has 6,000 sq m of stock from the year 2000 remaining available (including space at Euston Tower, NW1 and 48 Warwick Street, W1) and there is still 1,520 sq m remaining available at 41-53 Goswell Road, EC1 in City Fringe which completed in May 2000.

Availability (sq m)



200 Aldersgate Street, EC1

City Core

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	173,857	196.07	103.71
Pre-marketing	436,576	13.54	11.91
Second Hand	608,416	37.89	7.80
Under Construction	215,622	-31.75	-30.17
Total	1,434,470	19.50	6.36

The City Core market has seen the largest rise in total availability of all markets with an increase of 6.36% on last quarter – compared to 4.37% between quarters 1 and 2 and a rise of almost 20% on the corresponding quarter last year. As well as a decrease in take up (see later), this was helped by Jones Lang LaSalle and FPDSavills being instructed on the 46,451 sq m redevelopment proposal at Helical Bar and DB Real Estate's Ropemaker Place, EC2; CB Richard Ellis was instructed to market Clifford Chance's old space at 200 Aldersgate Street, comprising 44,243 sq m, following its move to 10 Upper Bank Street in Docklands and 5,410 sq m was released at 2 Minster Court, EC3 again through CB Richard Ellis.

City Fringe

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	88,831	65.44	19.89
Pre-marketing	306,709	-21.68	-0.99
Second Hand	413,820	69.45	0.69
Under Construction	23,072	-69.79	-52.51
Total	832,433	8.69	-1.31

The City Fringe saw a slight decrease in total availability for the second quarter running and a relatively modest increase in total availability on the corresponding quarter last year. Although figures for new space have risen, it would have been much worse but for deals at Exchange Place, 1 St John's Lane, EC1 and Globix House, Olivers Yard, EC1. Additions to the market this quarter include DTZ Debenham Tie Leung being instructed on a number of the Royal Bank of Scotland Group's buildings including Aliffe House, Mansell Street, E1 which comprises 5,700 sq m; 4,808 sq m was placed on the market at 19 Thomas More Street through Chapman Swabey and Montagu Evans. Despite the take up, Save the Children Fund is disposing of 2,365 sq m at Exchange Place, 1 St John's Lane, EC1 through ATIS Real Weatheralls and FPDSavills after taking the lease for the whole 8,277 sq m building.

Docklands

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	131,396	122.59	-5.18
Pre-marketing	734,650	109.90	0.00
Second Hand	128,306	89.36	40.40
Under Construction	32,517	-63.43	0.00
Total	1,026,869	81.52	2.98

The Docklands market continues to suffer, but next quarter should see a significant improvement if deals at 30 South Colonnade to Reuters and at 20 Canada Square to BP go through (a total of 39,250 sq m). Q3 2003 has seen CB Richard Ellis marketing Credit Suisse First Boston's old space at 1 Westferry Circus comprising 6,804 sq m and DTZ Debenham Tie Leung marketing the 1,161 sq m 1st floor at the Wallbrook Building, Marsh Wall on assignment from Harkess Ord at £160 psm (£14.86 psf) despite tough competition from sbh.docklands and Hodnett Martin Smith who are marketing the 2nd floor on assignment from Planet 24 at nil rent. The Docklands market could still suffer further if tenants pursue their put options – none have yet been officially utilised, but Skadden Arps has confirmed that it will only occupy around half of the original space it signed for at 40 Bank Street – no disposal plan has yet been confirmed.

Midtown

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	52,312	80.50	-3.02
Pre-marketing	21,753	644.20	18.02
Second Hand	196,598	22.79	0.94
Under Construction	21,687	-61.10	-3.17
Total	292,350	18.00	0.97

Midtown has seen only a slight increase in total availability on last quarter – but the level is still significantly up on Q3 2002. Take up was also down on last quarter – but the deal to London Qualifications at 190 High Holborn will complete in Q4. Additions to the market this quarter include GVA Grimley confirming that it had been instructed to market Cable & Wireless's old building at Red Lion House, 26 Red Lion Square WC1. The 9,438 sq m building was vacated by the telecommunications company in August 2003. More of BT's space was placed on the market through DTZ Debenham Tie Leung and Farebrother with the 5,357 sq m St Giles House, Drury Lane WC2 adding to the near half million sq ft of space already being disposed of across London. Hodnett Martin Smith and Jones Lang LaSalle were instructed to premarket Investream's proposed development of Albion House, New Oxford Street, WC1. Construction is expected to begin at the start of 2004.

"West End availability falls for second quarter running"

West End

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	114,047	43.61	4.63
Pre-marketing	103,615	-48.50	-28.52
Second Hand	501,560	10.36	-1.29
Under Construction	118,702	61.04	29.39
Total	837,924	3.60	-1.86

Total availability has fallen for the second successive quarter and at a modest 3.6% higher than Q3 last year, the West End in general seems to have turned the corner. However, the Victoria market remains vulnerable with its future in the hands of the Chancellor, it is possible that some of the last government deals were signed this quarter. Elsewhere this quarter, National Cash Register's space at 202-206 Marylebone Road, NW1 was placed on the market through CB Richard Ellis comprising 9,476 sq m; Knight Frank won the battle to market Marconi's old Time & Life Building, Bruton Street W1 comprising 4,033 sq m and Doherty Baines, DE & J Levy and Edward Charles & Partners were all instructed to market Fladgate Fielder's newly completed 16 Berkeley Street, W1, comprising 3,206 sq m.

This quarter has seen some encouraging signs in availability as the total figure has only risen 2% as take up improved and tenants reassessed their disposal programmes. Around 45,572 sq m (490,500 sq ft) of space was withdrawn across central London with notable space like Vodafone and Pearson's space at Shell Mex House, WC2, comprising around 6,000 sq m (64,600 sq ft), and Virgin's at Communications House, Leicester Square, WC2, comprising 1,334 sq m (14,360 sq ft), being taken back by the tenants. The West End had an especially good three months – availability fell for the second successive quarter as take up rose 20% and almost 18,000 sq m (193,756 sq ft) was withdrawn. The City Fringe also saw progress. The City Core has suffered, but did host the largest single addition to the central London market with Ropemaker Place, which has yet to gain the City Planners' permission. Next quarter will also see some significant deals complete which were agreed this quarter so, without any major surprises, the rate of increase in total availability should continue to slow.

Average Asking Prices (£psm)*

City Core

	Q3 2003	% +/- 12 months	% +/- 3 months
New Build (existing)	£461.06	-6.69	-2.43
New Build (pre-construction)	£414.41	n/a	0.00
New - Refurb (existing)	£382.51	-24.20	-7.01
Second-hand Grade A	£362.89	-18.03	-2.74
Second-hand Grade B	£276.54	-21.06	-3.15

City Core rents have fallen across all grades over both the last quarter and the last year. Notable reductions such as the slashing of the asking price at the newly refurbished 16 St Clare Street from the mid £30's psf to only £7.50 psf (£80.73 psm) will not have helped landlords' confidence – as illustrated by Hemingway's willingness to dispose of several units at £107.10 psm (£9.95 psf).

City Fringe

	Q3 2003	% +/- 12 months	% +/- 3 months
New Build (existing)	£295.44	-7.51	-6.07
New Build (under construction)	£431.00	6.68	21.26
New Refurb (existing)	£276.28	-20.06	-12.15
New Refurb (under construction)	£239.50	-9.18	-42.21
Second-hand Grade A	£275.84	-17.29	-2.39
Second-hand Grade B	£212.40	-17.02	-4.01

Rents have fallen across all grades with the exception of developments still under construction (but this was only due to Bridgegate, Borough High Street, SE1 completing (at an asking price of £279.86 psm (£26 psf)). However, the rate of fall is less than last quarter – but reductions can be expected to continue in the future, particularly as three years is now a realistic vacancy period for new stock.

"Developers react to market conditions"



16 St. Clare Street, EC3
©CMC Architects

Docklands

	Q3 2003	% +/- 12 months	% +/- 3 months
New Build (existing)	£464.20	-7.26	-7.26
New Build (pre-construction)	£377.00	17.38	0.00
Second-hand Grade A	£299.35	-7.68	0.03
Second-hand Grade B	£199.11	-12.71	1.10

There was not much change in the Docklands market on last quarter – but as these figures are for new leases only, the notable addition of a floor at the Wallbrook Building, Marsh Wall for nil rent is not included. However at an average of £299.35 psm (£27.80 psf) and £199 psm (£18.49 psf) for second hand grade A and B space respectively, falls can continue - especially when compared to City Fringe.

Midtown

	Q3 2003	% +/- 12 months	% +/- 3 months
New Build (existing)	£468.23	-0.57	-5.09
New Refurb (existing)	£374.05	-10.46	2.64
New Refurb (under construction)	£258.34	-51.19	-52.00
Second-hand Grade A	£349.29	-19.76	-5.29
Second-hand Grade B	£280.32	-16.35	-4.98

The Midtown has seen rents continue to fall across all grades, apart from a nominal rise for newly refurbished space and average quoting rents for new developments do seem to have more room to fall when compared to other markets.

West End

	Q3 2003	% +/- 12 months	% +/- 3 months
New Build (existing)	£533.53	-16.10	1.64
New Refurb (existing)	£471.80	-10.15	-0.90
New Refurb (pre construction)	£592.00	n/a	n/a
Second-hand Grade A	£426.36	-15.63	-3.89
Second-hand Grade B	£338.35	-12.90	-1.73

Improvements in take up and availability have not had a positive effect on asking prices as landlords' expectations continue to adjust. A nominal rise in quoting rents for new developments on the quarter cannot give any optimism when compared to prices this time last year (or more depressingly, this time two years ago – a decrease of almost 40% on the average then of £851.51 psm (£79 psf)).

new leases only

Asking prices continue to fall after an apparent slowing last quarter. Later figures show that they still have room to fall further as the long vacant periods seen on new stock show no signs of ending and take up, despite improvement this quarter, remains low. Drastic rent cuts as seen at 16 St Clare Street, EC3 may attract the headlines but they do illustrate an encouraging wider trend of landlords' (or in the case of St Clare Street, one of the landlords) flexibility – but the results are still to be realised. The nil rent being offered by Planet 24 for its space on Marsh Wall, E14 illustrates tenants also see the need to be flexible to encourage disposals – but some average rents (for Midtown in particular) still seem high in the current market. Reductions are set to continue for the next two to three quarters at the very least, but the rates of reductions may well slow in response to either improving take up, landlords deciding enough is enough or, as is the London Borough of Hounslow's rationale at 16 St Clare Street, that it may now be more prudent to wait for the upturn.

"... and tenants follow suit"

London Office Database

Take Up (sq m)*



Exchange Place,
1 St. John's Lane, EC1

City Core

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	729	-53.83	-96.30
Second Hand	29,247	19.58	42.57
Total	29,976	15.12	-39.10

Take up is significantly down on last quarter as the market continues to suffer and large rent reductions, as seen above, have yet to have an effect. The total is, however, up on the poor Q3 2002 where only 26,038 sq m was taken, but Q3 2001 saw 79,000 sq m being taken – the market has a long way to go. This quarter has seen Arbuthnot Latham purchasing the 3,763 sq m Finance House, Ropemaker Street EC2 from CIS for £23 million through King Sturge. It will take occupation by the end of 2003, moving from Royex House, Aldermanbury Square, EC2. Parent company Secure Trust and subsidiary Arbuthnot Pensions Trustees will also take occupation, moving from Millennium Bridge House, High Timber Street EC4 and 10 Rosebery Avenue, EC1 respectively. Ashurst Morris Crisp took an extra 2,624 sq m at Broadgate West, Appold Street, EC2 through BH2 - it already occupied two floors in the building and Gerald Eve and DTZ Debenham Tie Leung let the 2,103 sq m Creechurch House, Creechurch Lane EC3 to Newman Martin & Buchan. The insurance broker will move from Holland House, Bury Street EC3 in October 2003.

City Fringe

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	12,927	354.69	23.33
Second Hand	18,275	-28.37	-6.86
Under Construction	4,088	n/a	n/a
Total	35,291	-16.51	17.23

Take up has had a marked improvement on the quarter, which was needed after the 29% fall between Q1 and Q2. Save the Children Fund took Bee Bee's 8,277 sq m development at 1 St John's Lane, EC1 through FPDSavills and ATIS Real Weatheralls. However to counteract this, the charity will be disposing of the top two floors through the same agents comprising 2,365 sq m. In a good three months for Derwent Valley Holdings, Mother Ltd took a 4,088 sq m prelet at The Tea Building, Shoreditch High Street, E1 through Pilcher Hershman and Stirling Ackroyd and the 2,332 sq m 3rd floor at its 2001 development at Globix House, Oliver's Yard EC1 to Sage through BH2 and CB Richard Ellis.

"Significant deals in pipeline for next quarter"

Docklands

	Q3 2003	% +/- 12 months	% +/- 3 months
Second Hand	17,988	416.75	652.95
Total	17,988	416.75	652.95

A dramatic improvement in the fortunes of the Docklands market was due to one of the only five deals signed - Tubelines signed for a sublease from Morgan Stanley at the 16,165 sq m 15 Westferry Circus through DTZ Debenham Tie Leung. Apart from this, the market continues to struggle but it must be remembered BP is still to sign for 3 floors at 20 Canada Square (11,891 sq m) and Reuters will not sign at 30 South Colonnade until December 2003 (26,227 sq m). It is far too early to see these improvements as a trend and it is worth bearing in mind that the Docklands market in particular shows that the space signed for does not always equal the space occupied e.g. Skadden Arps and Canary Wharf Group does not always make public the lucrative incentives it offers to tenants to secure a deal. Other deals this quarter include two units being let at 1 Harbour Exchange Square totalling 527 sq m to Interfleet Technology and LN Metals through ATIS Real Weatheralls and Chesterton.

Midtown

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	2,748	-43.68	-77.83
Second Hand	14,433	-20.11	84.61
Total	17,181	-25.12	-22.86

The Midtown market experienced a poor quarter after an encouraging Q2 (where take up was up 17% on Q1). However, London Qualifications will not sign for 190 High Holborn, WC1 (comprising 7,650 sq m) until October so improvement is likely in Q4. Other deals this quarter include Estates Gazette Group's parent company Reed Elsevier taking 2,323 sq m at Norbia's Grand Buildings, Strand WC2 through Edward Charles & Partners. It will move from 25 Victoria Street, SW1 in December 2003. Biomni Ltd took 1,587 sq m at Aldwych House, Aldwych WC2 through EA Shaw.



20 Soho Square, W1

West End

	Q3 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	13,913	-47.83	59.06
Second Hand	45,510	-31.84	10.30
Total	59,423	-36.84	19.78

The West End had a good 3rd quarter with take up rising for the second successive quarter and a corresponding fall in total availability. Possibly some of the last government deals were signed this quarter if the Chancellor has his way, with Transport for London taking 3,292 sq m at Parnell House, Wilton Road, SW1 through Allan Messing, the Department for Transport taking 2,850 sq m at Southside, Victoria Street, SW1 through Hodnett Martin Smith and King Sturge and MI6 took a secret 5,574 sq m at an undisclosed building (assumed to be second hand for the purposes of these statistics). Hill & Knowlton took 2,642 sq m at Asticus's 20 Soho Square, W1 through FPDSavills and CB Richard Ellis giving encouraging signs of a resurgence in the media sector. It will move from Churchill House, Red Lion Square, WC1. There was also encouraging news for the Paddington submarket, with Kensington Mortgages taking 2,223 sq m at 1 Sheldon Square, W2 on a sublease from Visa through Jones Lang LaSalle and Cerner and Blue Square signed for a total of 1,276 sq m at 3 Sheldon Square on a sublease from Kingfisher.

The lack of significant growth in total availability would suggest an improvement in take up but, although take up is undoubtedly up on Q2 2003, there has been no large jump. However, many smaller units (not monitored here – but a total of around 20,000 sq m (215,000 sq ft)) have been taken or withdrawn and there are significant deals set to complete next quarter which, if included here, would have increased total take up to above 200,000 sq m (2.2 m sq ft) for the first time since Q2 2002. The figures show that the City Core is still struggling more than other markets forcing further rent reductions and it must be remembered that the huge jump in Docklands take up is attributable to one deal only. Prospects, then, are good for Q4 2003, but this is not to say that the market as a whole is improving – vacancy rates remain high and continue to rise, vacant periods on new stock remain long and there is a lot of new available stock yet to complete.

*only units over 232 sq m are included in take up

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

City Core

Completed half year	Q3 2003
1 2001	1,472
2 2001	8,650
1 2002	2,518
2 2002	13,192
1 2003	52,528
2 2003	92,888

There is still a large amount of new space lying vacant across the City Core and the second half of 2003 has seen a significant amount being added with Times Square, Queen Victoria Street, EC4 completing with 12,663 sq m still available through DTZ Debenham Tie Leung and Jones Lang LaSalle; 8-12 Gresham Street completing with the entire 21,368 sq m available through Jones Lang LaSalle and Knight Frank and Hammerson and Kajima's 1 London Wall, EC2 completing with all the 18,888 sq m still available through DTZ Debenham Tie Leung and Morgan Pepper. The fact that 10,122 sq m still remains vacant from 2001 will not inspire confidence in developers whose schemes are completing now, nor will the fact that around 120,000 sq m of available space is expected to complete during 2004.

City Fringe

Completed half year	Q3 2003
2 1998	1,892
1 2000	1,520
1 2001	9,674
2 2001	4,377
1 2002	3,590
2 2002	15,540
1 2003	27,061
2 2003	24,740

There is less lying vacant in the City Fringe than the City Core, but the length of time stock remains vacant is much longer. For instance, 1,520 sq m remains available at 41-53 Goswell Road, EC1 after completing in May 2000. Take up at 1 St John's Lane, EC1 by Save the Children Fund and Globix House, Oliver's Yard, EC1 by Sage helped the market this quarter and, despite notable completions in Q3, (10,963 sq m at More London 2 and 8,361 sq m still available at More London 6, for instance, on the market through Jones Lang LaSalle and Knight Frank) and with another 20,823 sq m due to complete in Q4, only 9,164 sq m is due to complete over the whole of 2004 giving the market an opportunity to consolidate – perhaps in time for Blackfriars Invesments' Palestra?



1 London Wall, EC2

Docklands

Completed half year	Q3 2003
2 2001	48,832
1 2002	0
2 2002	29,914
1 2003	52,341
2 2003	0

The Docklands market is fortunate in that one principal developer has constructed the majority of the office space in recent years and, as such, could apply the brakes to development programmes for the whole market. However, the above figures show it still over exposed the market with 48,832 sq m still available at 25 Canada Square after completing in December 2001 (albeit on a sublease from Citigroup) and more recently space completing at 20 Canada Square and 40 Bank Street – although BP is due to sign at Canada Square next quarter. The only official liability to complete at present is Barclays' surplus space at BP1 due to complete in Q4 2004, but the fact Skadden Arps has no intention of occupying all the space it originally signed for at 40 Bank Street means that new space taken but never occupied can always appear in the above figures in forthcoming quarters.

Midtown

Completed half year	Q3 2003
2 2000	375
1 2001	864
2 2001	7,498
1 2002	797
2 2002	14,642
1 2003	23,596
2 2003	1,479

There is still much remaining on the market – mainly from the first half of 2003 (including 7,560 sq m at The Eye, High Holborn through CB Richard Ellis and Farebrother and 7,564 sq m at Victoria House, Bloomsbury Square WC1). Only 1,479 sq m of available space has completed so far in the second half of 2003 – at 13-15 Bedford Square, on the market through James Boardman and Kinney Green - but Q4 should see 16,435 sq m of available space completing including 7,532 at 125 Shaftesbury Avenue. However, like the City Fringe, 2004 should be a quieter year with only 6,000 sq m completing over the year.

"6,000 sq m of West End stock still available from year 2000"

West End

Completed half year	Q3 2003
1 2000	2,172
2 2000	3,822
1 2001	5,146
2 2001	16,183
1 2002	8,505
2 2002	27,443
1 2003	30,121
2 2003	17,592

Like the rest of London, there is still a lot of new space remaining vacant in the West End. However, it is surprising to see a significant amount of year 2000 space still available – including 3,309 sq m at 48 Warwick Street, W1 which Crossland Otter Hunt and CB Richard Ellis are still trying to dispose of for The Crown Estate. The last quarter has seen 7,368 sq m of available space complete at CIT's 39-49 Wigmore Street, on the market through Knight Frank and Smith Melzack Pepper Angliss and 7,017 sq m complete at Consolidated Real Estates' Curzon Square, Park Lane, W1 which is on the market through DTZ Debenham Tie Leung and Knight Frank who are seeking the highest rent in London at £753.50 psm (£70 psf). Next quarter will see 5,031 sq m complete at 10 Grosvenor Street and 2004 will see a significant 72,544 sq m complete – the improvements in take up need to continue.

Vacant periods on new stock remain long and dampen any optimism caused by the improvements in availability and take up figures. These rates cause the continuing decrease in asking prices for new stock seen previously. There is no real prospect of clearing the 2000/2001 stock within the next six months and with significant completions forthcoming across all markets bar Docklands rents will continue to fall. The fact that such prime schemes such as 48 Warwick Street, W1 remain vacant for so long is disturbing and further vindicates the decision to slash rents. Some improvements will be seen next quarter when deals at Warwick Court, Paternoster Square, EC4, 190 High Holborn and 20 Canada Square, E14 complete, but these will be offset by significant additions to new stock.



Curzon Square, Park Lane, W1

Construction Starts (sq m)

"Blackfriars holds back on Palestra start"

City Core

Q1 2001	57,825
Q2 2001	41,754
Q3 2001	160,500
Q4 2001	143,169
Q1 2002	18,072
Q2 2002	53,516
Q3 2002	26,192
Q4 2002	17,261
Q1 2003	2,922
Q2 2003	18,713
Q3 2003	2,454

The only building going under construction this quarter was Store Property's 41 Eastcheap, EC3. It is being premarketed through Jones Lang LaSalle and completion is expected in June 2004. Developers are taking an understandably cautious approach to speculative construction – as justified by the long vacancy rates experienced on new stock and the amount still due to complete.

City Fringe

Q1 2001	4,829
Q2 2001	87,067
Q3 2001	24,619
Q4 2001	31,832
Q1 2002	9,923
Q2 2002	1,508
Q3 2002	7,345
Q4 2002	9,069
Q1 2003	29,603
Q2 2003	72,740
Q3 2003	0

No space went under construction during Q3 in the City Fringe as developers continue to adjust ambitions to the market conditions. However, there is relatively little available space due for completion in 2004 and none in 2005 giving any developer starting now little competition in terms of schemes completing at the same time – but plenty in terms of existing vacant new space.

"Land Securities optimistic for Cardinal Place"

Docklands

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

Unsurprisingly, no space went under construction during Q3 and it is highly unlikely any will in the foreseeable future without a substantial prelet – something which is also unlikely.

Midtown

Q1 2001	18,152
Q2 2001	32,575
Q3 2001	16,273
Q4 2001	36,131
Q1 2002	1,600
Q2 2002	11,615
Q3 2002	0
Q4 2002	0
Q1 2003	1,717
Q2 2003	15,462
Q3 2003	2,957

Hemingway Properties' Fairfax House, Fulwood Place, WC1 was the only scheme to commence construction this quarter. The refurbishment is already part prelet to Haysmacintyre Ltd and only 769 sq m remains available through Farebrother. Although take up was low this quarter, there is relatively little due for completion in 2004 giving Midtown a real chance to consolidate.

West End

Q1 2001	22,998
Q2 2001	122,654
Q3 2001	22,549
Q4 2001	77,565
Q1 2002	10,711
Q2 2002	91,273
Q3 2002	10,452
Q4 2002	20,480
Q1 2003	34,405
Q2 2003	810
Q3 2003	41,345

Land Securities was the only developer prepared to gamble on a 2005 recovery this quarter as, despite press speculation to the contrary, Building 1 at Cardinal Place (formerly known as Stag Place), SW1 commenced construction. The fact that the government, who must have been seen as the most likely tenant for the scheme, looks like it will sign no more leases did not deter the developer who will be hoping letting agent CB Richard Ellis can achieve a quick letting. The development is still expected to complete in two phases; with Building 1 (41,345 sq m) completing in June 2005 and Building 2 (10,290 sq m), which began in March, in October 2004.

Construction starts have been understandably cautious following low take up and the long vacant periods still being experienced. Prelets are still a prerequisite for the majority of starts despite Blackfriars Investments insisting it will develop Palestra, SE1 speculatively in time for 2005/2006 – although it is still yet to start. Land Securities was the bravest landlord this quarter, commencing Building 1 at Cardinal Place, SW1 in the absence of any guaranteed government interest. If 2005/2006 does see a strong market, which is likely, developers could interpret a lack of completing schemes finishing then as a green light to commence their own projects. However, schemes completing in 2004, and those already completed and lying vacant, will provide plenty of competition – and with more desperate landlords prepared to offer more generous terms.



Cardinal Place, SW1

Under Construction and still available (sq m)

City Core

Est. Completion Date	To Complete	Still available
Q4 2003	120,670	66,416
Q1 2004	42,322	33,217
Q2 2004	110,084	77,318
Q3 2004	12,270	9,111
Q4 2004	0	0
Q1 2005	12,323	12,323

Almost 200,000 sq m of available space is currently under construction in the City Core, with completion in the next 18 months. The market is still struggling, as the previous tables testify, and with around 170,000 sq m of completed space lying vacant, forthcoming completions will face severe competition. Although rent reductions as seen on St Clare Street are exceptional, if landlords want to achieve a quick letting prices must fall further - maybe even at prestigious buildings such as 30 St. Mary Axe, EC3, which completes in October 2003.

City Fringe

Est. Completion Date	Complete	Still available
Q4 2003	25,423	20,823
Q1 2004	833	833
Q2 2004	800	800
Q3 2004	7,498	7,498
Q4 2004	19,502	0
Q1 2005	0	0
Q2 2005	69,677	0

Unlike the City Core, the City Fringe has a real chance to consolidate over 2004/2005 with few speculative schemes completing – only Manhattan Loft & Osborne Group's 1 Gun Street, E1 provides the most significant addition. This has been the rationale behind the commencement of Palestra (although the start date has been pushed back twice) but it must be remembered that there is still a lot of vacant space providing Blackfriars with significant competition in the form of more desperate landlords.



30 St. Mary Axe, EC3

Docklands

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

The Docklands would seem to have the healthiest prospects of all markets if it was not for take up remaining low. The surplus space at Barclay's BP1 is the only forthcoming liability, but there is still a lot of completed space on the market and there may be more additions if existing tenants offload surplus space – either by sublease or by put option.

Midtown

Est. Completion Date	Complete	Still available
Q4 2003	18,494	16,435
Q1 2004	4,352	1,717
Q2 2004	4,646	4,646

Like City Fringe, the Midtown market has a good chance to consolidate in 2004 with only one scheme commencing last quarter (with a majority prelet in place) at Fairfax House, Fulwood Place. Take up has been poor and a lot of completed space remains on the market – but Midtown would seem to have a better future than others.

"Take up improvements need to continue to offset new available stock"

West End

Est. Completion Date	Complete	Still available
Q4 2003	33,557	13,269
Q1 2004	9,033	7,175
Q2 2004	53,231	53,231
Q3 2004	81,356	576
Q4 2004	99,634	11,562
Q1 2005	0	0
Q2 2005	51,795	51,795

Almost 140,000 sq m of available space is due to complete over the next two years and with 111,000 sq m of completed space still vacant in the West End, the market has a lot to do. The commencement of Cardinal Place was a surprise, especially with news of the government's plans, and like the City Core, there is still room for asking prices to fall further. The improvements seen in the take up and total availability figures will give rise to optimism, but any new additions to building stock could cancel the improvements seen.

These figures show that there is still a huge amount of available space set to complete - but the amount is not uniform across London. The City Core and West End will see plenty of completions in 2004 but the City Fringe, Docklands and Midtown have far better hopes of consolidation. The long vacant periods seen will not encourage the owners of these forthcoming completions who will be hoping improvements in take up continue, but the flexibility seen in reducing asking prices, commencing construction and offering inducements is encouraging.

What LOD monitors

Markets

City Core: EC1A, EC2M, EC2N, EC2R, EC2Y, EC2V, EC2A (only Finsbury Pavement, Finsbury Square, Appold Street and Chiswell Street), EC3, EC4.
City Fringe: EC1M, EC1N, EC1R, EC1V, EC1Y, EC2A (excluding Finsbury Pavement, Finsbury Square, Appold Street and Chiswell Street), E1, SE1 postcode sectors 0, 1, 2 and 9.
Docklands: E14
Midtown: WC1 and WC2 (excluding Leicester Square)
West End: W1, SW1, NW1 sectors 3,5 & 6, Leicester Square (WC2) and Paddington (W2)

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

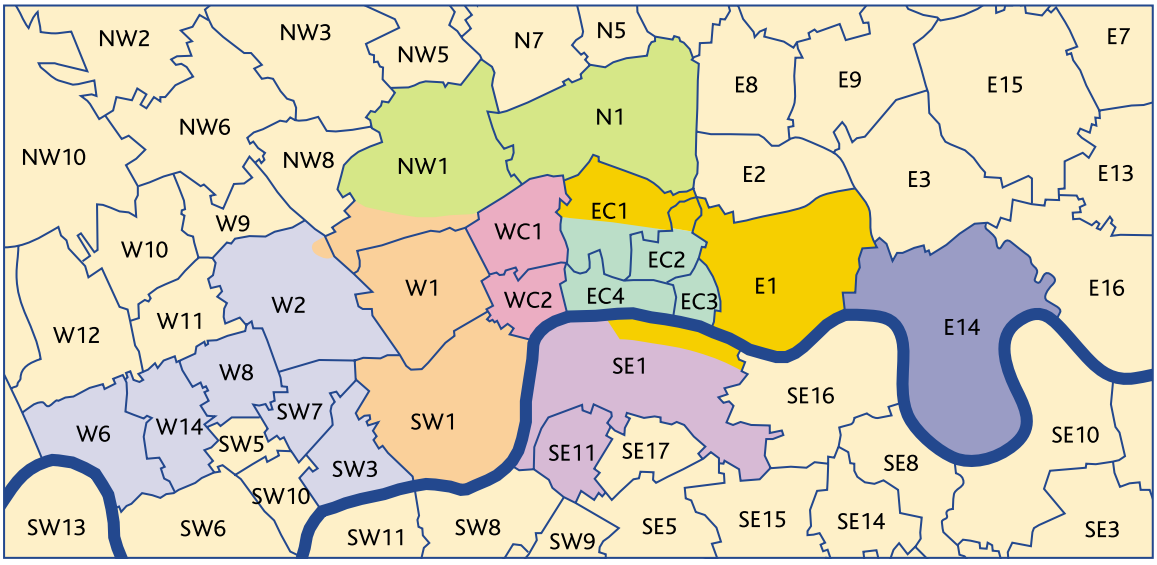
South Central: Remainder of SE1 and SE11
North Central: Remainder of NW1 and N1
West Central: W2 (excluding Paddington), W14, W6, SW3, SW7 and W8

Data

Building Stock: Any office building over 232 sq m (2,500 sq ft) in West End, Midtown and City Fringe and over 465 sq m (5,000 sq ft) in City Core, Docklands, South Central, North Central and West Central.
Availability: Any unit above 46 sq m (500 sq ft) in buildings subject to the above stock thresholds
Take up: Any unit above 232 sq m (2,500 sq ft) subject to stock thresholds
Planning: Any project over 232 sq m (2,500 sq ft), subject to stock thresholds

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

Definitions

- **Quarters:** For data collation reasons, our quarters run from the 1st of the month to the last day of the 3rd month i.e. 1st January to 31st March; 1st April to 30th June; 1st July to 30th September and 1st of October to 31st December. Some data in this report is given in half years for space reasons.

- **Vacancy Rates:** Total building stock figures divided by vacant space whether being marketed or not. Neither figures include space under construction or yet to commence construction.

- **Availability:** New/Refurb (existing) is a combined total of newly constructed and refurbished space; Premarketing is any space marketed which is yet to commence construction; Second Hand is any space which has previously been occupied; Under Construction is a combined total of refurbishment and redevelopment projects currently under construction. Space under offer is included. Purely investment properties are not included.

- **Take up:** See criteria and definitions above.

- **Average Asking Prices:** An average of asking prices by grade of space by market. Only space available on new leases with a quoting rent is collated. Space under offer has been included. Please note that Second Hand Grade A space are previously occupied units with air conditioning and one or more of raised floors, under floor trunking or perimeter trunking.

- **Investment sales:** Subject to stock thresholds, a total of space sold as freehold, long leasehold or virtual freehold, both for investment and for owner occupation.

- **Construction Starts with prelets:** A total of space commencing refurbishment or redevelopment by quarter with a total of that space prelet. This includes space not on the market.

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

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

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

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



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