



Q2 2009  
**CENTRAL  
LONDON**  
Quarterly – Offices  
**Knight Frank**

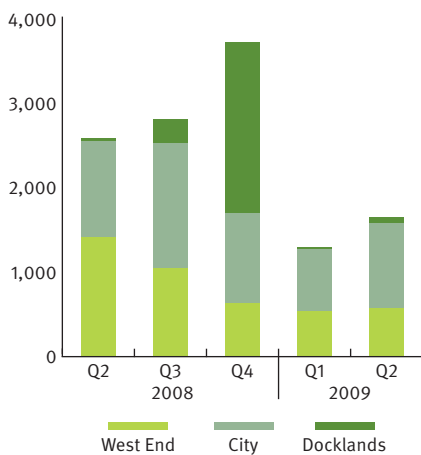
## HIGHLIGHTS

- Take-up rose across all markets to 1.7 m sq ft as occupier sentiment improved noticeably from the first quarter's levels, which we consider to represent the cycle's low point in terms of transaction volumes.
- Availability continued to increase and now stands at 24.3 m sq ft, a 9.0% rise on the previous quarter's level. This increase has been driven mainly by speculative development completions.
- Commencing construction speculatively is unviable for most developers given current market conditions. As a result, speculative construction activity continued to fall and is now 36% lower than last year.
- There was a significant rise in investment turnover as purchasers took advantage of the perceived value in the Central London market. The transaction volume totalled £1.4 bn, more than double the previous quarter's total.

# CENTRAL LONDON OVERVIEW

- Take-up rose by 30% to 1.7 m sq ft as activity increased across all markets.
- Availability increased further, driven mainly by speculative completions in the City and tenant release in Docklands. The vacancy rate is now 10.9%.
- Speculative construction activity continued to fall to 5.8 m sq ft, the lowest level for three years.
- Investment turnover more than doubled in Q2 2009 to £1.4 bn, and prime yields hardened in both the City and West End.

Figure 1  
**Central London take-up by quarter & market sub-area**  
Q2 2008 - Q2 2009 (000's sq ft)



Source: Knight Frank

## Demand and take-up

Take-up rose by almost 30% in the second quarter to 1.7 m sq ft as all markets saw a marginal increase in activity. Having experienced one of the worst starts to the year on record, indicators suggest that transaction levels in the Central London office market have now seen the low point of the cycle although any significant growth may be some way off due to continuing poor conditions in the global economy.

Although active demand levels have risen by more than 20% to 7.6 m sq ft, there remains a limited number of requirements focusing on the middle market, or units between 25 – 75,000 sq ft. In the City, most active requirements are for large, quality units as evidenced by Bank of Tokyo's recent acquisition of almost 200,000 sq ft at British Land's Ropemaker scheme; while in the West End the majority of demand is concentrated on sub-10,000 sq ft units.

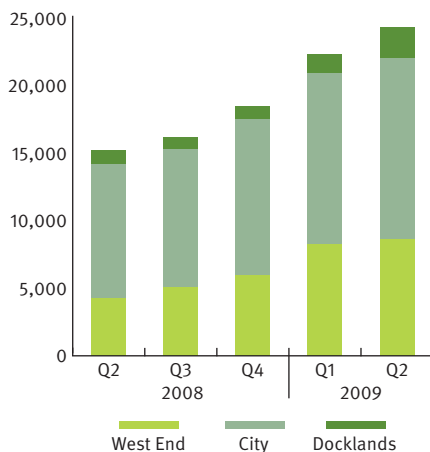
conditions will see year-end construction levels fall to some of the lowest for a decade.

## Investment market

Investment turnover rose considerably in the second quarter to £1.4 bn, more than double the level seen in the first quarter but still 25% lower than the long-term average. There has been a marked improvement in investor sentiment across the Central London market in Q2 2009, and activity levels are being tempered to a large extent by a lack of supply and limited availability of debt.

The majority of activity has been from new overseas buyers although there have been indications that traditional investors are beginning to return with the hope of taking advantage of the perceived value in the current market. Prime yields have tightened for the first time in three years in both the City and West End and now stand at 6.75% and 5.75% respectively.

Figure 2  
**Central London availability by quarter & market sub-area**  
Q2 2008 - Q2 2009 (000's sq ft)



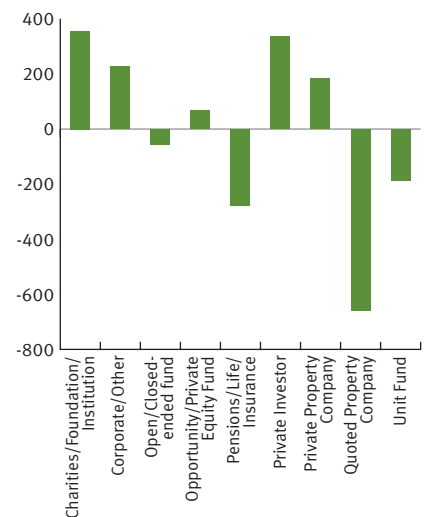
Source: Knight Frank

## Supply and development

Availability increased for the seventh consecutive quarter and now stands at 24.3 m sq ft, the highest level for four years. The main driver of the increase was the continued completion of speculative developments in the City Core and the release of tenant space to the Docklands market. The West End saw a marginal increase in availability, with the release of tenant space appearing to slow considerably in the second quarter.

On a more positive note, the volume of speculative space under construction fell for the fourth consecutive quarter to 6.2 m sq ft, a fall of more than 30% over the last 12 months. Almost 2.0 m sq ft has already reached practical completion in 2009, with 2.7 m sq ft more expected to complete in the latter half of the year. The lack of viability in building speculatively in current market

Figure 3  
**Central London net investment**  
Q2 2009 (£ m's)



Source: Knight Frank



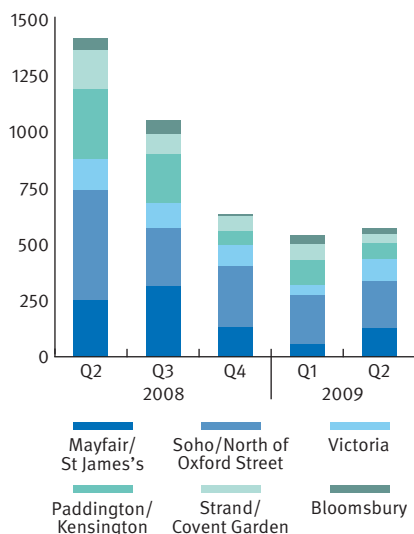
# WEST END

- **Take-up increased to c0.6 m sq ft, 6% higher than the previous quarter.**
- **Active demand nearly doubled to 1.5 m sq ft.**
- **Vacancy rate now stands at 9.6% with availability increasing 4% to 8.6 m sq ft.**
- **Prime headline rents fell to £70.00 per sq ft in Q2, down from £75.00 per sq ft in Q1.**

Figure 1

## West End take-up by quarter & market sub-area

Q2 2008 - Q2 2009 (000's sq ft)



Source: Knight Frank

## Demand & take up

Take-up in the West End totalled 570,000 sq ft, 6% above the previous quarters' level of 540,000 sq ft, but well below the 10-year long-term average of 1.3 m sq ft. Although levels of new & refurbished space fell by 87% this quarter, take-up of second-hand space increased 64%. There was only one deal over 20,000 sq ft, in which the Youth Justice Board took c35,000 sq ft at 1 Drummond Gate.

Active searches increased by 80% in the second quarter of the year to 1.6 m sq ft, as

a number of potential searches became active and others concentrating their search on the West End. Significant requirements include QVC, Astrazeneca and Bovis Lend Lease accounting for 23% of total active searches in the West End.

## Supply & development

Availability continued to rise for the eighth consecutive quarter, albeit at a slower rate than the last six months. Supply now stands at 8.6 m sq ft representing a vacancy rate of 9.6%, 28% above the long-term average of 6.7 m sq ft.

The volume of space under construction remained stable this quarter with only three new and refurbished buildings coming into supply this quarter, including Stratton House and The Peak, Wilton Road. Levels of supply under construction are however expected to fall in the latter part of the year.

## Rental profile

Prime headline rents fell to £70.00 per sq ft in Q2, down from £75.00 per sq ft in the first quarter, due to a continued lack of activity at the prime end of the market. In real terms, Core prime rents are at their lowest level since 1997. Rent free periods remained at 24 months on a ten-year lease but are continuing to come under pressure.

## Investment market

Turnover in the second quarter was £776 m, just above the long-term average and nearly three times the amount traded in Q1. There is currently £767 m of investment stock available, of which 40% is under offer.

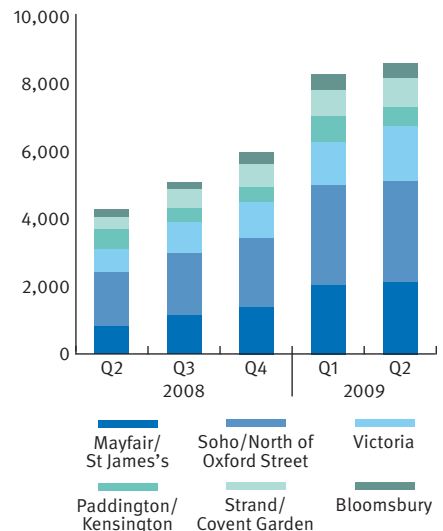
The largest deal of the quarter was Portman House, 2 Portman Square which exchanged for £155 m, reflecting a NIY of 7.10%.

The West End has seen a surge of activity predominantly from new overseas buyers as well as signs that traditional investors who have been out of the market are again showing an interest. With increasing demand and a lack of prime stock, competition has increased, thus causing an inward movement of prime Core West End yields from 6.00% to 5.75%.

Figure 2

## West End availability by quarter & market sub-area

Q2 2008 - Q2 2009 (000's sq ft)

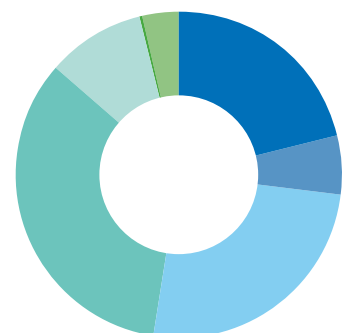


Source: Knight Frank

Figure 3

## West End investment by purchaser

Q2 2009 (£ m's)



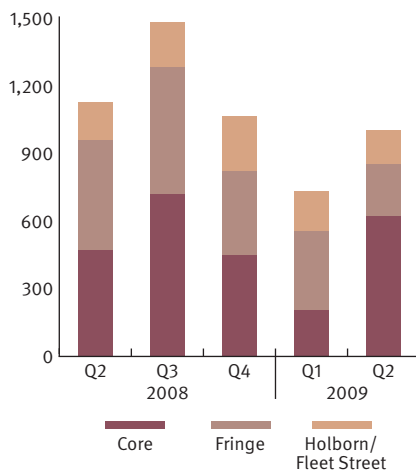
|                                  |        |
|----------------------------------|--------|
| Corporate/Other                  | £165 m |
| Charities/Foundation/Institution | £45 m  |
| Private Investor                 | £199 m |
| Private Property Company         | £263 m |
| Quoted Property Company          | £74 m  |
| Unit Fund                        | £4 m   |
| Undisclosed                      | £26 m  |

Source: Knight Frank

## CITY

- **Take-up higher than previous quarter, but well below long-term average.**
- **Availability continues to edge upwards to 13.4 m sq ft.**
- **Almost half of the development pipeline is now in the availability figures.**
- **Prime yields harden on shortage of stock.**

Figure 1  
**City take-up by quarter & market sub-area**  
Q2 2008 - Q2 2009 (000's sq ft)



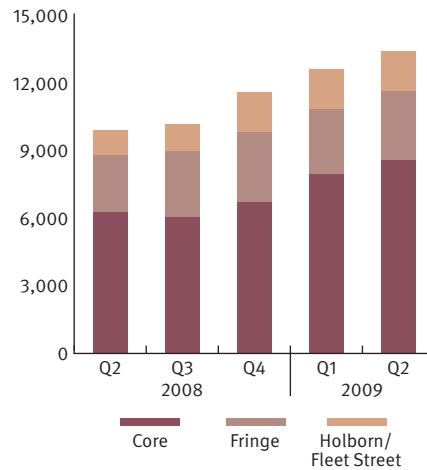
Source: Knight Frank

### Demand and take-up

City take-up increased in Q2 to 1 m sq ft, up from 733,000 sq ft in Q1. However, this is well below the long-term average figure of 1.6 m sq ft per quarter. The Bank of Tokyo Mitsubishi UFJ's 180,000 sq ft deal at Ropemaker boosted the figures. Also, demand from insurance and professional firms has helped to support take-up levels.

News that Nomura has placed Watermark Place under offer is welcome news for the City, and there are several large searches that

Figure 2  
**City availability by quarter & market sub-area**  
Q2 2008 - Q2 2009 (000's sq ft)



Source: Knight Frank

reactivated in Q2. The level of active searches increased from 3.6 m sq ft to 4.1 m sq ft, suggesting demand is currently 'bumping along the bottom'.

### Supply and development

Availability increased from 12.6 m sq ft in Q1 to 13.4 m sq ft, mostly due to speculative developments joining the figures. To date, the City has not seen as much sub-let space come to the market as many expected, but a release of space from the banks remains widely anticipated. RBS is known to be appointing agents, though press reports suggest some banks and brokers are recruiting again.

Of the 3.6 m sq ft of speculative development under construction, 1.7 m sq ft is already included in the availability figures while 0.8 m sq ft is in distant horizon schemes (completing in 2011 or 2012). As almost half of the pipeline is now included in the availability figures, it appears unlikely availability in this downturn will reach the early 1990s peak of 20.0 m sq ft.

### Rental profile

The City prime rent was £44.00 per sq ft at the end of Q2, down from £46.50 per sq ft in

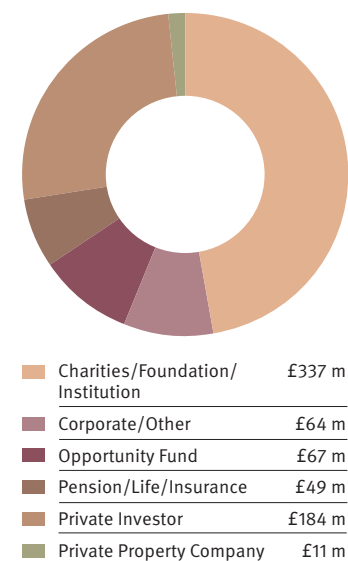
Q1. In real terms this represents an historic low - in today's prices rents fell to £49.75 per sq ft in the early 90s, and at £52.00 per sq ft in the last downturn. This suggests rents have now moved into the over-correction phase of the cycle.

### Investment market

The investment transaction volume recorded a significant quarter-on-quarter increase, from £363.7 m in Q1 to £712.0 m in Q2. However, one transaction, the purchase by Oman Investment Fund of a 75% share in Hammerson's 1 & 10 Bishops Square, accounted for half of all investment. The shortage of debt and prime stock held back activity, as buyer interest is growing due to the weak Pound and high yields - although Sterling has rallied recently.

Investors are mainly focussed on prime product, which has created a mismatch of supply and demand. This has resulted in the first hardening of prime yields since 2006, by 25 basis points to 6.5%. That prime yields have passed their peak may encourage more investors to look at secondary stock.

Figure 3  
**City investment by purchaser**  
Q2 2009 (£ m's)



Source: Knight Frank

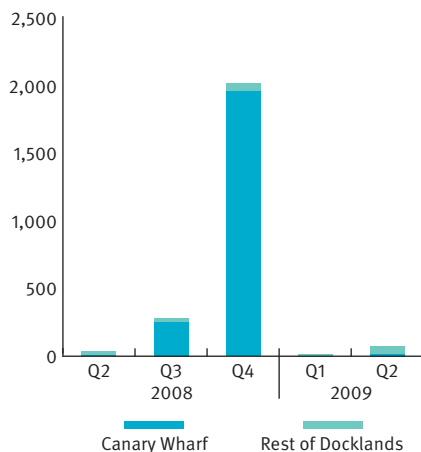


# DOCKLANDS

- **Take-up increases Q-on-Q, but activity remains very subdued.**
- **Olympics-related and public sector demand offers market some respite.**
- **Availability increases to 2.3 m sq ft as former bank space is released.**
- **Rents under pressure in the face of increased supply.**

Figure 1  
**Docklands take-up by quarter & market sub-area**

Q2 2008 - Q2 2009 (000's sq ft)



Source: Knight Frank

## Demand & take up

Docklands take-up was 79,000 sq ft in Q2, up from 19,000 sq ft in Q1 and 39,000 sq ft in Q2 2008. By historic standards activity is very subdued at present. Deals by public sector occupiers, such as the Olympics Security Service at 1 Churchill Place (20,000 sq ft) and the Financial Ombudsman Service at South Quay Plaza (31,000 sq ft) supported the Q2 figures. There is also another Olympics-related search for short-term accommodation currently in the market.

There are a number of large financial requirements at the moment for whom Canary Wharf is a serious option, though competition with City landlords to secure these tenants will be intense. Mastercard have signed and will soon exchange on 40,000 sq ft at 10 Upper Bank Street.

## Supply & development

Availability increased by 65% to 2.3 m sq ft compared to quarter one, largely due to space previously occupied by banks returning to the market. Bank of America is quietly marketing 380,000 sq ft at 5 Canada Square, while 347,000 sq ft formerly occupied by Morgan Stanley is on the market from Canary Wharf Group.

Docklands is now in the final stages of the present development cycle, with just three buildings left under construction. All three will complete this year, and two (5 Churchill Place and 30 North Colonnade) contain available space totalling 586,000 sq ft. These are already included in the availability figures.

## Rental profile

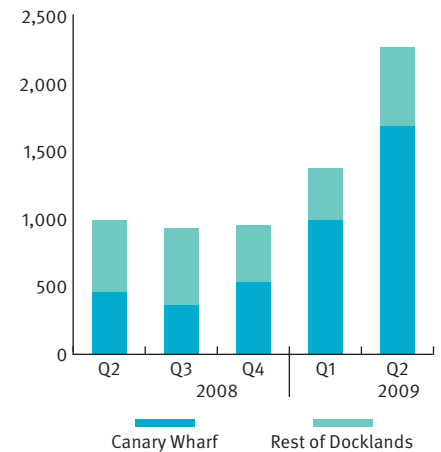
The Canary Wharf prime headline rent declined further to £35.00 per sq ft, down from £37.00 per sq ft. While the vacancy rate in Docklands is marginally lower than the City, speculation on the level of 'grey' space with tenants will weigh on prospects for rents in the near-term.

## Investment

Credit Suisse is currently marketing its office at 20 Columbus Courtyard for a sale and leaseback deal, and there is market speculation that the HSBC and Citi towers at Canary Wharf may come to the market. Also, the Northern & Shell tower remains on the market.

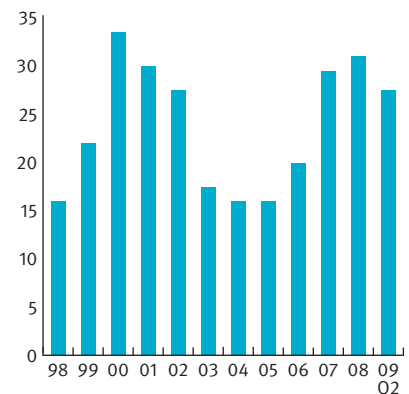
Figure 2  
**Docklands availability by quarter & market sub-area**

Q2 2008 - Q2 2009 (000's sq ft)



Source: Knight Frank

Figure 3  
**Rest of Docklands prime rent**  
1998-2009 (Prime £/sq ft)



Source: Knight Frank

## Key statistics

### Central London office market

| Availability<br>(m sq ft) | Q2 08 | Q3 08 | Q4 08 | Q1 09 | Q2 09        | 3 months<br>% change | 12 months<br>% change |
|---------------------------|-------|-------|-------|-------|--------------|----------------------|-----------------------|
| West End                  | 4.29  | 5.09  | 5.97  | 8.29  | <b>8.62</b>  | 4.0%                 | 101.1%                |
| City                      | 9.94  | 10.19 | 11.28 | 12.65 | <b>13.42</b> | 6.1%                 | 35.0%                 |
| Docklands                 | 1.00  | 0.94  | 0.96  | 1.38  | <b>2.28</b>  | 65.2%                | 128.2%                |
| Central London            | 15.22 | 16.22 | 18.21 | 22.32 | <b>24.32</b> | 9.0%                 | 59.8%                 |

| Vacancy Rate<br>(%) | Q2 08 | Q3 08 | Q4 08 | Q1 09 | Q2 09       | 3 months<br>% change | 12 months<br>% change |
|---------------------|-------|-------|-------|-------|-------------|----------------------|-----------------------|
| West End            | 4.8   | 5.7   | 6.7   | 9.2   | <b>9.6</b>  | n/a                  | n/a                   |
| City                | 8.8   | 9.0   | 9.9   | 11.0  | <b>11.6</b> | n/a                  | n/a                   |
| Docklands           | 5.0   | 4.7   | 4.8   | 6.8   | <b>11.1</b> | n/a                  | n/a                   |
| Central London      | 6.8   | 7.3   | 8.2   | 10.0  | <b>10.9</b> | n/a                  | n/a                   |

| Take-up<br>(m sq ft) | Q2 08 | Q3 08 | Q4 08 | Q1 09 | Q2 09       | 3 months<br>% change | 12 months<br>% change |
|----------------------|-------|-------|-------|-------|-------------|----------------------|-----------------------|
| West End             | 1.42  | 1.05  | 0.64  | 0.54  | <b>0.57</b> | 5.7%                 | -59.5%                |
| City                 | 1.13  | 1.48  | 1.07  | 0.73  | <b>1.01</b> | 37.5%                | -10.9%                |
| Docklands            | 0.04  | 0.28  | 2.02  | 0.02  | <b>0.08</b> | 319.9%               | 103.6%                |
| Central London       | 2.59  | 2.82  | 3.73  | 1.29  | <b>1.66</b> | 28.2%                | -35.8%                |

| Active Demand<br>(m sq ft) | Q2 08 | Q3 08 | Q4 08 | Q1 09 | Q2 09       | 3 months<br>% change | 12 months<br>% change |
|----------------------------|-------|-------|-------|-------|-------------|----------------------|-----------------------|
| West End                   | 1.75  | 0.82  | 0.99  | 0.82  | <b>1.49</b> | 82.4%                | -14.5%                |
| City                       | 4.28  | 3.37  | 3.49  | 3.56  | <b>4.12</b> | 15.5%                | -3.9%                 |
| Docklands                  | 0.07  | 0.12  | 0.08  | 0.07  | <b>0.35</b> | 399.3%               | 414.1%                |
| Unspecified Central London | 2.44  | 3.12  | 1.56  | 1.76  | <b>1.63</b> | -7.4%                | -33.1%                |
| TOTAL Central London       | 8.54  | 7.43  | 6.12  | 6.22  | <b>7.59</b> | 22.1%                | -11.1%                |

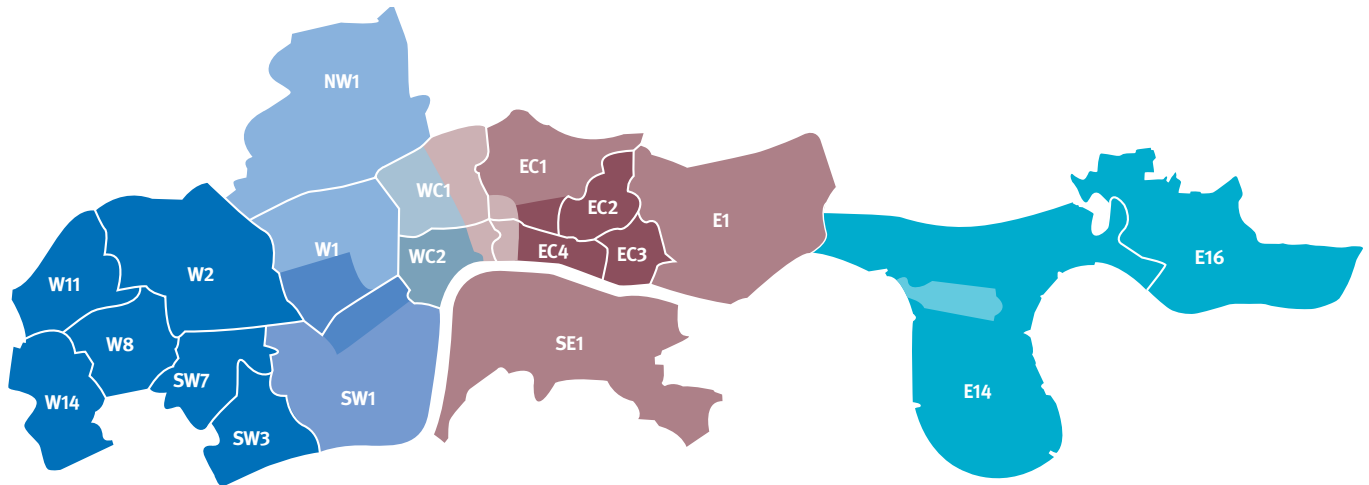
| Under Construction<br>(m sq ft) | Q2 08 | Q3 08 | Q4 08 | Q1 09 | Q2 09       | 3 months<br>% change | 12 months<br>% change |
|---------------------------------|-------|-------|-------|-------|-------------|----------------------|-----------------------|
| West End                        | 3.67  | 2.86  | 3.06  | 2.57  | <b>2.57</b> | 0.0%                 | -30.0%                |
| City                            | 7.72  | 7.55  | 5.98  | 6.17  | <b>5.26</b> | -14.8%               | -31.9%                |
| Docklands                       | 1.77  | 1.77  | 1.03  | 0.72  | <b>0.98</b> | 36.6%                | -44.5%                |
| Central London                  | 13.16 | 12.18 | 10.08 | 9.46  | <b>8.81</b> | -6.8%                | -33.0%                |

| Investment<br>(£ m) | Q2 08  | Q3 08  | Q4 08  | Q1 09 | Q2 09         | 3 months<br>% change | 12 months<br>% change |
|---------------------|--------|--------|--------|-------|---------------|----------------------|-----------------------|
| West End            | 592.4  | 470.6  | 760.1  | 262.5 | <b>776.5</b>  | 195.8%               | 31.1%                 |
| City                | 914.6  | 597.2  | 457.3  | 363.7 | <b>712.0</b>  | 95.8%                | -22.2%                |
| Docklands           | 40.8   | 0.0    | 838.0  | 0.0   | <b>0.0</b>    | n/a                  | -100.0%               |
| Central London      | 1547.8 | 1067.7 | 2055.4 | 626.2 | <b>1488.5</b> | 137.7%               | -3.8%                 |

Source: Knight Frank



## The Central London office market



### The West End



#### Mayfair/St James's

Mayfair and St James's refers to the area bounded by Oxford Street, Regent Street and Park Lane in W1 and by Green Park, St James's Park and The Mall in SW1.



#### Soho/North of Oxford Street

Soho/North of Oxford Street refers to NW1, and W1 (excluding Mayfair).



#### Victoria

Victoria refers to SW1 (excluding St James's).



#### Paddington/Kensington

Paddington/Kensington refers to SW3, SW7, W2, W8, W11, W14.



#### Bloomsbury

Bloomsbury refers to the area of WC1 bounded by Southampton Row, New Oxford Street, Tottenham Court Road and Euston Road.



#### Strand/Covent Garden

Strand/Covent Garden refers to the area of WC2 bounded by Kingsway, Aldwych, Victoria Embankment, Charing Cross Road and New Oxford Street.

### The City



#### Core

Core refers to EC2 (excluding EC2A), EC3, EC4 (excluding EC4A and EC4Y), and EC1A.



#### Fringe

Fringe refers to SE1, E1, EC1 (excluding EC1A and EC1N), and EC2A.



#### Holborn/Fleet Street

Holborn/Fleet Street refers to EC1N, EC4A, EC4Y, WC1 (excluding Bloomsbury), and WC2 (excluding Strand/Covent Garden).

### Docklands



#### Canary Wharf

Canary Wharf refers to the area comprising Canary Riverside, Westferry Circus, Columbus Courtyard, Cabot Square, Canada Square, Blackwall Place and Heron Quays (East).



#### Rest of Docklands

Rest of Docklands refers to E14 and E16 including The Royals Business Park (excluding Canary Wharf).

# RESEARCH



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## General Note

This report has been prepared by Knight Frank Research, the research and consultancy division of Knight Frank. Knight Frank Research gratefully acknowledges the assistance given by the West End, City and Docklands Offices in the compilation and presentation of this material. Certain data sourced from LOD.

## Technical Note

The following criteria have been adopted in the preparation of this report.

- i. All floorspace figures quoted in this report refer to sq ft net.
- ii. Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.
- iii. Availability refers to all space available for immediate occupation, plus space still under construction which will be completed within six months and which has not been let.
- iv. Availability and take-up are classified into three grades:  
New/refurbished: Space under construction which is due for completion within six months or space which is currently on the market and is either new or completely refurbished.

Second-hand A Grade: Previously occupied space with air-conditioning.

Second-hand B Grade: Previously occupied space without air-conditioning.

- v. Demand figures quoted in this report refer to named requirements for over 10,000 sq ft.
- vi. Under construction figures quoted in this report refer to developments of over 20,000 sq ft which are currently underway. They do not include properties undergoing demolition.
- vii. Investment figures quoted in this report refer to accommodation where the majority of income/potential income is from office usage and comprises transactions of £1 m and above.  
The data includes standing investments, site purchases and funding transactions.
- viii. This report is produced to standard quarters.  
Quarter 1: January 1 – March 31,  
Quarter 2: April 1 – June 30,  
Quarter 3: July 1 – September 30,  
Quarter 4: October 1 – December 31