

ISSUE 1
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Market Analysis

London Office Database



Introduction

£100 psf - the magic number

"Tenants' market"



Riverside House

In October 2000, Estates Gazette revealed the news that central London office agents never dared dreamed possible. Readers gleefully learned that Morgan Grenfell, a private equity arm of Deutsche Bank, had placed under offer a floor of Cleveland House in St James's Square, SW1, at £1076.40 psm (£100 psf). The magic number - £100 - soon vanished and the deal fell apart due to commercial goals not been achieved by MG. But few involved in the Central London leasing market would have been surprised if that building - or similar prime space - had secured a £100 psf letting in the succeeding few months. How things have changed barely 18 months later. In the first few months of this year, an office suite in the same building was signed up at just £672.75 psm (£62.50 psf). Moreover, the landlord of the building was forced to offer the tenant, Merlin Biosciences, some 10 months rent free to lure it into the space. The balance of power has shifted. This is a tenants market, in which long rent free periods, large capital contributions and attractive break options are now expected rather than requested by tenants who know that landlords are ready to bite their arms off.

On the following pages, for the first time, EG's London Office Database (LOD) will be providing agents, developers and investors in the capital a comprehensive overview of the trends, movements and warning signs affecting the market. Based on the most authoritative statistics, along with objective analysis, LOD will be producing a quarterly series of reports on the volatile office market in the capital.

And what a period to start with! Over the first three months of 2003, availability continued to spiral with take-up remaining worryingly low. Most worryingly, vacancy rates in all of the central London sub-markets have now hit double figures with few signs of that trend abating, given the amount of development stock due to hit the market without a prelet in sight. It would appear that the central London leasing market is teetering perilously close to the levels witnessed during the 1990s recession.

West End

The West End, which is far less dependent than the City on the beleaguered financial services sector, is putting up a better fight than its neighbours. Nonetheless the report shows that the West End saw a 22% fall in take-up to 38,030 sq m (409,365 sq ft), on the previous quarter.

Across central London as a whole - encompassing West End, City Core, Midtown, Docklands and City Fringe - total take-up in the first quarter of this year was a mere 152,061 sq m (1.63m sq ft), the lowest recorded since the early nineties.

City

"Two deals boost city takeup"

The City Core and City Fringe markets saw huge leaps in take-up. But let's not get too excited. The 48,773 sq m (525,000 sq ft) taken up in the City Core (up from under 18,580 sq m (200,000 sq ft) in Q4 2002) and 42,616 sq m (459,000 sq ft) in the City Fringe (26,503 sq m (285,000 sq ft) Q4 '02) were attributable mostly to two deals: a 15,172 sq m (160,000 sq ft) letting to Ofcom at Riverside House, SE1, and ICAP's lease of 9,069 sq m (100,000 sq ft) at 1-2 Broadgate, EC2.

The Accidental Landlord

But the swathe of accidental landlords (occupiers who signed up for large offices in the boom of 2000/2001 with the intention of growing into it, but who never realised their growth) mean vacancy rates in the City Core and City Fringe are creeping ever closer to 15%. If anyone really knew just how much space these occupiers would love to shed but don't have the heart to announce or market, it would be easy to predict a Square Mile vacancy rate around 20%. And demand, even anecdotal, is thin on the ground. There does not appear to be much hope of a recovery until the financial services industry turns around.

Taking Punt

"Develop now in anticipation of 2005 upturn"

The picture is bleak and the signs looking forward, based on the following pages, point towards a bumpy ride ahead. But interest rates remain low and canny investors will be aware that the cyclical nature of property makes developing now, with a view to delivering space in 2005, a potentially lucrative move. One developer taking such a punt is Mallory Clifford's Blackfriars Investments, which - along with HBoS's and RLAM's essential financial support - has vowed to speculatively develop the 26,845 sq m (280,000 sq ft) Palestra scheme, SE1. Many an expert has grinned with doubt at the bullish nature of Clifford's intentions but he will be delivering the only stock of its kind, appropriate to financial services occupiers, by the time most expect that market to pick up. He may still have the last laugh

Adam Coffey,
News Editor,
Estates Gazette Group

Q1 2003 Overview

Summary

Quarter 1 2003 has seen total availability continue to rise with take up, although up on Q4 2002, remaining low. Vacancy rates have reached double figures in all markets and more recently completed stock is being added to the market and is proving quite illiquid, with vacant periods of 2 years common. As a result asking prices have continued their downward trend with quoting rents for new stock in the West End now averaging £539.63 psm (£50.13 psf) compared to £851.51 psm (£79.11 psf) in Q3 2001.

Tenants' Market

Given the slight increase in take up, with some notable deals seen this quarter, and the amount of new space to the market slowing, there could be a suggestion that the worst may be over. However, it must be emphasised that deals are being made with generous tenant inducements going unreported and the difference these inducements make is significant. For instance, the letting to publisher Hachette Filipacchi at 64 North Row, W1 included a 14 month rent free period (worth £1.75 million on the reported rent of £462.85 psm (£43 psf)), an undisclosed cash incentive and a reduction of £126.29 psm (£12 psf) from the original asking price (equating to £6 million over the 15 year term). It is clear that we are in a tenants' market.

Occupational Reviews

The occupational property reviews of several of London's largest occupiers have added pressure to the market. The City Core and Fringe markets were badly affected by BT's decision to consolidate to The BT Centre, Newgate Street, releasing over 46,450 sq m (500,000 sq ft) to the market. In addition, Ernst & Young is releasing surplus space totalling 31,956 sq m (343,983 sq ft), mainly in the same markets, ahead of its move to More London. The West End was victim to Orange deciding against occupying any space at Paddington Basin, increasing the original 6,225 sq m (67,000 sq ft) on the market to 20,657 sq m (222,352 sq ft) and The Ofcom letting at Riverside House will ironically result in around 17,187 sq m (185,000 sq ft) being released across London.

2005 Recovery?

The naturally pessimistic outlook for the London market should lead to a significantly more cautious construction programme, however the announcement by Blackfriars Investments that it would speculatively commence a 26,000 sq m (279,864 sq ft) construction at Palestra, SE1 in July 2003 in anticipation of a 2005 upturn, could be followed by others. The tables below do allude to a cautious approach in Docklands, but the Canary Wharf estate could see large amounts of newly completed and under construction space come to the market should tenants pursue their widely publicised "put" options. Generally, the London Office market is still struggling but, with a cautious construction programme, generous tenant inducements and realistic asking prices, recovery by 2005 is not impossible.

Bill Page,
Senior Research Analyst,
London Office Database

"Availability
rises across all
markets"

"Generous
inducements
on offer"



"Cautious
construction
programme"



Palestra

Analysis

Vacancy Rates %

“Further rises in vacancy rates”

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

NB - buildings either under construction or pre-construction are not included. Vacant space which is not being marketed is included when over 232 sq m and marketed space is only that over 46 sq m

Total availability (sq m)

Market	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003
City Core	505,704	533,502	621,165	831,085	940,492	1,070,603	1,200,394	1,227,512	1,292,183
City Fringe	320,440	416,977	565,605	744,543	836,797	811,088	765,885	844,077	858,975
Docklands	191,847	310,147	510,022	533,110	541,449	556,925	565,719	1,039,587	1,003,827
Midtown	102,602	144,646	201,894	256,296	230,655	252,504	247,763	273,530	287,995
West End	357,432	328,308	489,431	599,450	682,643	788,401	808,808	833,372	921,412
Total	1,478,025	1,733,580	2,388,117	2,964,485	3,232,037	3,479,521	3,588,569	4,218,079	4,364,392

Total availability continues to rise, however, the rate of increase was less than the increase between Q3 02 and Q4 02.

Take Up (sq m)*

“Slight rise in take up - but at the landlord’s expense”

Market	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003
City Core	107,991	83,721	79,011	74,928	40,220	42,023	26,038	18,317	48,845
City Fringe	117,656	70,143	27,465	27,877	97,329	49,149	42,269	26,503	42,616
Docklands	51,346	144,674	67,292	72,423	6,135	34,252	3,481	2,469	3,550
Midtown	29,356	19,841	22,407	11,544	17,550	22,789	22,945	20,908	19,020
West End	101,149	74,873	57,208	86,122	50,749	59,704	85,255	48,680	38,030
Total	407,498	393,251	253,383	272,894	211,983	207,917	179,988	116,877	152,061

** only units >232 sq m*

This quarter saw a slight increase in take-up compared to the previous. However, this must be taken in context. The fall in asking prices (see below) and undisclosed tenant inducements have strongly influenced this. There were some notable deals, including a 2,305 sq m pre-let to Sport England at Victoria House, Southampton Row; Orcom taking all 15,172 sq m of Riverside House, SE1 from FT.com and Richard Desmond purchasing 10 Lower Thames Street (17,591 sq m) for £30m to be occupied by Express Newspapers.

Average Asking prices (£psm)*

New Build (existing)

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

Not including refurbished space.

Second Hand Grade A

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

Average asking prices for new stock continued to fall but remained relatively static across London compared to the previous two quarters, but dramatically different to asking prices at 1st Qtr 2002. Prices for second-hand stock continued to fall also albeit at a slower rate.

*New Leases only

"Rents continue to fall"

Investment sales (sq m)

	Q1 2002		Q2 2002		Q3 2002		Q4 2003		Q1 2003	
	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals	Total sold	Deals
City Core	109,322	22	118,464	19	158,365	17	99,713	16	122,304	17
City Fringe	34,232	11	89,948	16	21,256	12	5,532	4	16,669	13
Docklands	600	2	5,457	1	510	1	0	0	0	0
Midtown	7,823	8	77,849	15	34,650	17	10,122	9	21,425	4
West End	60,026	31	38,033	25	81,574	33	104,887	21	33,996	22
Total	212,002	74	329,751	76	296,355	80	220,254	50	194,393	56

Notable transactions in Q1 2003:

Deutsche Bank's disposal of its 55% stake in Winchester House, Old Broad Street and 1 Appold Street totalling 52,769 sq m to KanAm grundinvest Fonds and British Land respectively, for a total of £230 million.

Hammerson sold Globe House, Temple Place and 16 Old Bailey, totalling 26,646 sq m to CGI for a total of £192 million.

In the West End, Metropolis House, Percy Street in the West End comprising 5,853 sq m was sold by Great Portland Estates to Eagle Star for £16 million.

"City boosted by two big deals worth over £400 million"

Construction Starts with prelets (sq m)

	Q1 2001		Q2 2002		Q3 2002		Q4 2002		Q1 2003	
	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet	Started	Prelet
City Core	17,101	0	52,256	0	17,321	0	17,261	3,159	2,057	0
City Fringe	10,330	304	1,508	512	9,511	0	12,829	3,519	15,983	15,983
Docklands	0	0	0		0	0	0	0	0	0
Midtown	1,600	0	18,281	2,635	0	0	0	0	1,717	0
West End	12,586	560	89,583	48,264	10,452	0	9,712	1,858	21,840	0
Total	41,618	864	161,628	51,411	37,284	0	39,802	8,536	41,597	15,983

The total amount commencing construction increased slightly suggesting developers eye a recovery for 2005. However, the importance of achieving a prelet is clear with K2, St Katharine's Dock starting once the Mercer prelet was finalised and Land Securities presumably reasonably confident of a government letting at Cardinal Place.



Cardinal Place

Completed space still on the market (sq m)*

	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003
City Core	7,495	8,483	25,683	34,436	47,897	39,277	58,721	56,873	56,626
City Fringe	9,995	29,213	16,188	33,175	40,787	42,348	53,694	63,775	56,660
Docklands	303	0	0	0	18,648	53,735	59,031	100,635	136,193
Midtown	5,110	10,128	15,710	16,793	18,380	25,781	28,982	41,853	53,761
West End	24,092	26,045	54,206	53,924	89,180	95,795	79,415	92,322	113,589
Total	46,995	73,869	111,787	138,328	214,892	256,936	279,843	355,458	416,829

**only space actively marketed*

The amount of completed stock being marketed continues to rise as a total, and as the tables above show, this little chance of falling given the amount of space to complete this year and 2004.

“Continued rise
in available
new stock”

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

	1st half 2003		2nd half 2003		1st half 2004		2nd half 2004	
	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av	To Complete	Still Av
City Core	126,403	100,325	176,090	113,223	127,275	85,404	37,761	34,602
City Fringe	34,409	31,439	69,852	28,222	0	0	19,502	2,070
Docklands	0	0	187,982	0	0	0	92,902	32,517
Midtown	35,816	23,417	5,295	5,295	1,717	1,717	0	0
West End	14,620	14,620	49,225	17,417	38,319	36,461	180,990	12,138
Total	211,248	169,801	488,444	164,157	167,311	123,582	331,155	81,327

** includes schemes where agents are not yet appointed*

There is still a large amount of stock to be completed over 2003 and 2004 with only Docklands giving itself a real chance for consolidation over the next 18 months, with agents making it clear that no construction will begin without a majority prelet.



Availability (sq m)

City Core

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	56,626	18.22	-0.43
Pre-marketing	361,821	15.27	-7.47
Second Hand	521,807	63.51	17.80
Under Construction	351,929	35.58	4.54
Total	1,292,183	37.39	5.27

Notable space on the market this quarter:
13,031 sq m under construction at 10 Exchange Square, on the market through DTZ and JLL.
9,492 sq m of Ernst & Young's second hand space at Rolls House on the market through DTZ.
5,961 sq m under construction at Paternoster House, Paternoster Square through FPD Savills and DTZ.

City Fringe

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	56,660	38.92	-11.16
Pre-marketing	369,002	-22.77	-16.75
Second Hand	377,652	52.75	33.29
Under Construction	55,660	-21.59	3.64
Total	858,975	2.65	1.76

Notable space on the market this quarter:
18,686 sq m at 120-125 Holborn and 10,628 sq m at 207 Old Street, both part of the BT disposal programme offered through DTZ.
16,176 sq m at 1 London Bridge, SE1 - IBM and Pricewaterhousecooper's space on the market through King Sturge and ATIS Real Weatheralls.
13,351 sq m at Becket House, 1 Lambeth Palace Road, part of Ernst & Young's disposal programme, also offered through DTZ.



Paternoster Square

Docklands

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	136,193	630.33	35.33
Pre-marketing	753,071	98.31	-5.11
Second Hand	82,047	41.40	7.86
Under Construction	32,517	-61.76	-53.08
Total	1,003,827	85.40	-3.44

Notable space on the market this quarter:
2,628 sq m (28,288 sq ft) of second hand space at Quebec Wharf, Thomas Road on the market through Dobbin & Sullivan.
1,510 sq m (16,254 sq ft) of second hand space at Quay House, Admirals Way on the market through DTZ Debenham Tie Leung - part of BT Group's overall disposal programme which has had a large impact on all markets this quarter.
No under construction, premarketing or newly built space was placed on the market this quarter.

Midtown

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	53,761	192.50	28.45
Pre-marketing	12,851	1.45	444.08
Second Hand	193,979	46.63	1.22
Under Construction	27,404	-59.29	-27.25
Total	287,995	24.86	5.29

Notable space on the market this quarter:
1,851 sq m of newly refurbished space at 12-13 Henrietta Street on the market through EA Shaw and Nelson Bakewell.
4,966 sq m of second hand space at 90 Long Acre on the market through Nelson Bakewell and Insignia Richard Ellis.
7,533 sq m of space to be refurbished at 125 Shaftesbury Avenue, on the market through Knight Frank and Nelson Bakewell.

"BT disposable programme impacts all markets"

West End

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	113,589	27.37	23.04
Pre-marketing	209,303	100.99	-3.73
Second Hand	532,242	25.54	13.65
Under Construction	66,278	1.37	19.81
Total	921,412	34.98	10.56

Notable space on the market this quarter:
7,139 sq m under construction at 40 Berkeley Square on the market through Strutt & Parker, Insignia Richard Ellis and Knight Frank.
22,496 sq m of second hand space at 33 Chester Street, being disposed by Amerada Hess and Merrill Lynch, through Insignia Richard Ellis and Knight Frank.
13,499 sq m of second hand space at 250 Euston Road, NW1 on the market through Jones Lang LaSalle.

With the exception of Docklands, overall availability has risen across London, with the West End experiencing a 10% increase on last quarter. However, compared to the difference between Q3 2002 and Q4 2002, the rate of increase is slowing.

Average Asking Prices (£psm)

City Core

	Q1 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£464.65	-19.31	-0.20
New - New Build (pre-construction)	£414.41	n/a	n/a
New - New Build (under construction)	£484.38	3.85	n/a
New - Refurb (existing)	£423.52	-11.68	-9.61
Second-hand Grade A	£392.02	-15.05	-6.88
Second-hand Grade B	£308.99	-13.10	-6.49

City Fringe

	Q1 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£298.73	-25.99	-4.53
New - New Build (under construction)	£355.43	n/a	-17.53
New - Refurb (existing)	£325.75	-9.41	-8.69
New - Refurb (under construction)	£414.41	5.60	n/a
Second-hand Grade A	£294.27	-11.13	-5.35
Second-hand Grade B	£239.33	-12.06	-3.57

Docklands

	Q1 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£500.53	n/a	0.00
New - New Build (pre-construction)	£347.27	n/a	0.00
Second-hand Grade A	£343.14	2.39	1.50
Second-hand Grade B	£190.54	-34.84	-3.75

"Prices for all stock continue to fall"

Midtown

	Q1 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£489.76	n/a	-11.23
New - Refurb (existing)	£380.85	-18.55	-2.78
New - Refurb (pre-construction)	£296.01	n/a	n/a
New - Refurb (under construction)	£538.20	16.54	1.70
Second-hand Grade A	£372.24	-13.40	-9.62
Second-hand Grade B	£323.45	-9.30	-1.99

West End

	Q1 2003	% +/- 12 months	% +/- 3 months
New - New Build (existing)	£539.63	-25.73	-13.80
New - New Build (under construction)	£618.93	5.99	29.89
New - Refurb (existing)	£510.36	-9.06	-4.26
Second-hand Grade A	£451.42	-8.07	-4.80
Second-hand Grade B	£360.33	-8.34	-3.85

As would be expected with the increase in available space, asking prices are continuing to fall with prices for new stock the worst affected. The large amount of space due for completion this year and the apparent illiquidity of new stock means that quoting rents will continue to decline, although the rate of decline must soon slow.

Take Up* (sq m)

City Core

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	1,797	-30.05	-19.49
Second Hand	47,048	24.96	192.50
Total	48,845	21.45	166.67

Notable take up this quarter:

2,711 sq m of second hand space at 52-54 Leadenhall Street, partly to Cooper Gay and Co, through Knight Frank and Masons.
17,591 sq m purchased by Richard Desmond at 10 Lower Thames Street for Express Newspapers through Insignia Richard Ellis and Strutt & Parker
9,069 sq m at 1-2 Broadgate let to ICAP through Insignia Richard Ellis and CB Hillier Parker.

City Fringe

	Q2 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	22,296	1695.17	313.58
Second Hand	18,250	-46.67	-13.56
Under Construction	2,070	n/a	n/a
Total	42,616	-56.21	60.80

Notable take up this quarter:

15,172 sq m of new space at Riverside House, Southwark Bridge Road let to Ofcom through Richard Berzine and Cushman & Wakefield Healey & Baker.
3,168 sq m of second hand space at 100 Leman Street let to Assicurazioni Generali through Insignia Richard Ellis.
An extra 2,070 sq m of space under construction taken by Mercer at K2, St Katharine's Dock through Ingleby Trice Kennard in addition to its initial prelet of the majority.

Docklands

	Q1 2003	% +/- 12 months	% +/- 3 months
Second Hand	3,550	-42.14	43.77
Total	3,550	-42.14	43.77

Notable take up this quarter:

Like the previous quarter, only 5 deals. Including:
1,000 sq m at 5 Greenwich View Place let to Hyundai Merchant Marine Europe through Chesterton.
864 sq m at 54 Marsh Wall to Vectone Ltd through Nelson Bakewell.

Midtown

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	3,598	278.33	-51.19
Second Hand	13,117	-20.98	-3.10
Under Construction	2,305	n/a	n/a
Total	19,020	64.76	-9.03

Notable take up this quarter:

2,305 sq m of space currently under construction at Victoria House, Southampton Row let to Sport England through ATIS Real Weatheralls and Nelson Bakewell.
2,105 sq m of second hand space at 33 Chancery Lane purchased for occupation through EA Shaw.
1,951 sq m of newly built space at MidCity Place let to The National Institute for Clinical Excellence through Jones Lang LaSalle and Farebrother.

West End

	Q1 2003	% +/- 12 months	% +/- 3 months
New/Refurb (existing)	10,878	326.27	12.74
Second Hand	26,676	-44.65	-31.65
Under Construction	476	n/a	n/a
Total	38,030	-25.06	-21.88

Notable take up this quarter:

3,235 sq ft of newly refurbished space at 64 North Row let to Hachette Filipacchi through FPD Savills and Hanrahan Deane.
1,754 sq m of newly built space at Portman House, 2 Portman Street let to Cluttons through CB Hillier Parker and DTZ Debenham Tie Leung.
476 sq m prelet to Blackstone at 40 Berkeley Square through Strutt & Parker, Knight Frank and Insignia Richard Ellis.

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

Take up has risen slightly on last quarter, with only the Midtown and West End markets seeing a reduction in activity. Some significant deals occurred; Riverside House in Southwark (let after remaining vacant since completion in September 2000) and 10 Lower Thames Street were the largest. However, deals must be taken in context with the fall in asking prices and unpublicised inducements; the situation is improving, but at a cost.

"FT offload
Riverside House to
Ofcom"



Victoria House

"Victoria House
signs Sport
England"

Completed space still available as at Q1 2003 (sq m)

City Core

Completed half year	Q1 2003
1 2001	2,669
2 2001	28,181
1 2002	7,683
2 2002	11,898
1 2003	2,369

There is still a great deal of completed stock remaining vacant, the majority from the 2nd half of 2001 which includes 11,282 sq m at Marks and Spencer's 70 Gracechurch Street. The 2,369 sq m from 2003 is 1 Carey Lane, on the market through Drivers Jonas and Knight Frank.

City Fringe

Completed half year	Q1 2003
2 1998	1,892
1 2000	1,520
2 2000	1,646
1 2001	13,483
2 2001	4,204
1 2002	7,808
2 2002	20,244
1 2003	5,863

Completed stock in fringe areas is clearly susceptible to long vacant periods. The largest proportion, as would be expected, comes from the 2nd half of 2002, but a large amount remains unlet from the first half of 2001 – including 11,003 sq m at Globix House. Newly completed space from 2003 is 5,200 sq m at Milford House, Kirby Street on the market through Hodnett Martin Smith and 663 sq m at Spitalgate House, Tenter Ground on the market through Edward Symmons & Partners.

Docklands

Completed half year	Q1 2003
2 2001	48,170
1 2002	0
2 2002	28,201
1 2003	59,822

The 59,822 sq m so far this year comprises 40 Bank Street and 20 Canada Square, both of which were already on the market. Overall, the above only comprises 5 units, but the situation in the Docklands is by no means secure.

Midtown

Completed half year	Q1 2003
2 2000	375
1 2001	864
2 2001	10,106
1 2002	2,666
2 2002	33,942
1 2003	11,120

The large amount of new stock completing in the 2nd half of 2002 and so far in 2003 will present problems for Midtown – 2,703 sq m still remains vacant at the prestigious MidCity Place after completing in December 2001, for instance. New stock this year includes Bee Bee Developments' nearby 7,550 sq The Eye scheme which is on the market through Insignia Richard Ellis and Farebrother.

West End

Completed half year	Q1 2003
2 1999	621
1 2000	2,172
2 2000	4,209
1 2001	5,243
2 2001	21,529
1 2002	15,246
2 2002	34,779
1 2003	27,699

After Docklands, the West End has the largest amount of completed stock on the market, and the table shows that 2 years is not an overly pessimistic amount of time to wait for a deal. For instance, 3,309 sq m still remains vacant at 48 Warwick Street after completing in October 2000. Stock completing this year includes 20,657 sq m at The Point, Paddington Basin which is being sublet by Orange.

These tables illustrate that prime new space can easily remain vacant for periods of up to two years after completion. When coupled with the amount expected to complete over the next two years (see following sections) downward pressure will continue to be applied to asking prices.



70 Gracechurch Street
© David Barbour/BDP

"Docklands
availability hitting
60,000 sq m"

Construction Starts (sq m)

City Core

Q1 2001	57,825
Q2 2001	41,735
Q3 2001	161,414
Q4 2001	148,572
Q1 2002	17,101
Q2 2002	52,256
Q3 2002	17,321
Q4 2002	17,261
Q1 2003	2,057
<i>Notable space going u/c this quarter: Only 7-15 Fleet Street, EC4 a refurbishment scheme which is not currently being marketed.</i>	

City Fringe

Q1 2001	6,008
Q2 2001	96,075
Q3 2001	14,692
Q4 2001	27,679
Q1 2002	10,330
Q2 2002	1,508
Q3 2002	9,511
Q4 2002	12,829
Q1 2003	15,983
<i>Notable space going u/c this quarter: Only K2, St Katharine's Dock, which is now all prelet to Mercer Human Resources.</i>	

"Crown Estate begin work on Regent Street"

Docklands

Q1 2001	41,550
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
<i>No space went under construction during Q1.</i>	

Midtown

Q1 2001	18,152
Q2 2001	32,575
Q3 2001	13,207
Q4 2001	28,654
Q1 2002	1,600
Q2 2002	18,281
Q3 2002	0
Q4 2002	0
Q1 2003	1,717
<i>Notable space going u/c this quarter: 15 Kean Street, an office and residential development with 584 sq m of B1 space not currently on the market. 10-11 Bedford Row - a 1,133 sq m refurbishment on the market through Morgan Lambert.</i>	

"Work starts on Land Securities' Cardinal Place"

West End

Q1 2001	22,998
Q2 2001	122,654
Q3 2001	24,023
Q4 2001	78,951
Q1 2002	12,586
Q2 2002	89,583
Q3 2002	10,452
Q4 2002	9,712
Q1 2003	21,840
<i>Notable space going u/c this quarter: A 1,100 sq m refurbishment at 18 Queen Anne Street. 10,290 sq m at Land Securities' Cardinal Place scheme - 1st phase. 10,450 sq m at Abbott House, Regent Street - part of The Crown Estate's mixed use development on Regent Street.</i>	

The amount of space going under construction is decreasing, but not by as much as would be expected, considering the market conditions illustrated in the sections above. The Docklands and Midtown markets seem the most cautious, but the construction programmes in the City Core and West End remain relatively ambitious.



Cardinal Place



30 St. Mary Axe

"2 year vacancies
not uncommon
for new stock"

Under Construction and still available (sq m)

City Core

Est. Completion Date	Complete	Still available
Q2 2003	126,403	100,325
Q3 2003	62,805	42,301
Q4 2003	113,285	70,922
Q1 2004	42,618	33,513
Q2 2004	84,657	51,891
Q3 2004	37,761	34,602
Q4 2004	0	0

There is a significant amount of new space to be added to the market over the next two years, and if vacancy periods as illustrated above remain, an oversupply of new stock and a continued downward trend in prices can be expected.

City Fringe

Est. Completion Date	Complete	Still available
Q2 2003	34,409	31,439
Q3 2003	67,994	26,364
Q4 2003	1,858	1,858
Q1 2004	0	0
Q2 2004	0	0
Q3 2004	0	0
Q4 2004	19,502	2,070

As the above tables show, the Fringe market's susceptibility to long vacant periods after completion has led to a more cautious construction programme, but the amount completing in 2003 will counteract any positive effects of a quiet 2003

Docklands

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

As mentioned, construction activity in the Docklands is more cautious than in other markets. Agents have made it clear that speculative construction will not happen and the largest existing liability is at Barclay's BP1. However, the widely reported "put options" have led to significant hidden liabilities on the Canary Wharf Estate which could be realised over the coming quarters

Midtown

Est. Completion Date	Complete	Still available
Q2 2003	35,816	23,417
Q3 2003	5,295	5,295
Q4 2003	0	0
Q1 2004	1,717	1,717

Like the Fringe market, Midtown has relatively little due for completion over the next two years, but like the Fringe, it is common to see prime space remain vacant for long periods.

West End

Est. Completion Date	Complete	Still available
Q2 2003	14,620	14,620
Q3 2003	41,137	9,329
Q4 2003	8,088	8,088
Q1 2004	8,715	6,857
Q2 2004	29,604	29,604
Q3 2004	81,356	576
Q4 2004	99,634	11,562

Like the City Core, there is a significant amount of stock to complete in the next two years and the continued fall in the average asking price for newly built space (which has fallen from £851.51 psm (£79.11 psf) in Q3 2001 to £539.63 psm (£50.13 psf) today is expected to continue, albeit at a slower rate.

These figures show that, more than other areas, the City Core and West End markets will experience a continued rise in new available stock over the next two years. The effect will not be uniform – the City and West End markets' relative attractiveness to different occupier sectors means that, for instance, the Government can carry much of the West End's burden, while the City is more susceptible to the cyclical financial sectors. However, an upward trend in economic conditions will clearly benefit all markets.

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 (partial), 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)

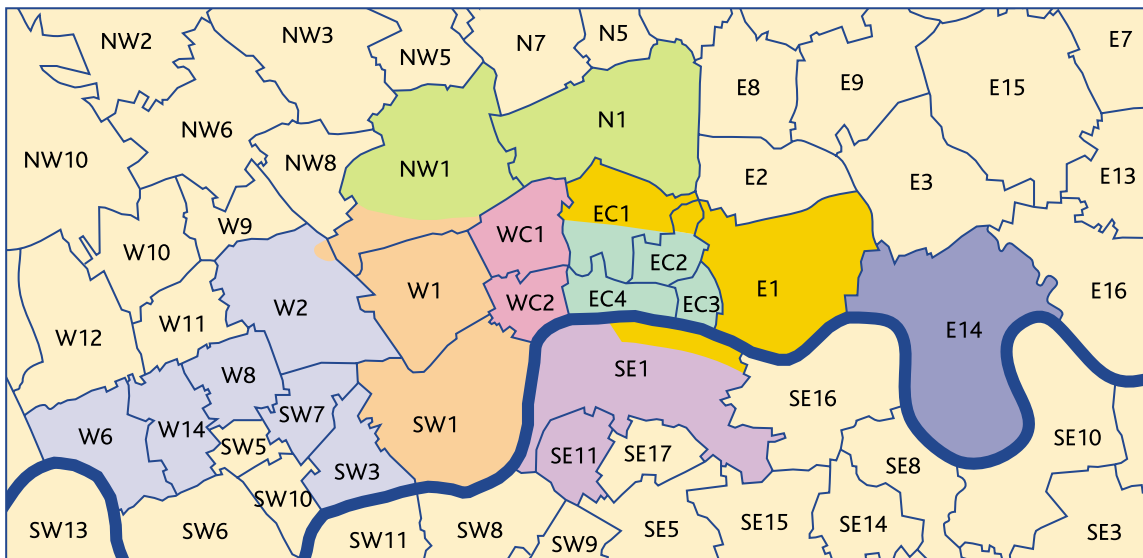
Data

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, and Docklands

Availability: Any unit above 46 sq m (500 sq ft) in buildings subject to the above stock thresholds

Take up: Any unit above 232 sq m (2,500 sq ft) subject to stock thresholds

Planning: Any project over 232 sq m (2,500 sq ft), subject to stock thresholds



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