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CRANE SURVEY

CENTRAL LONDON
FIRST QUARTER 2009

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The development pipeline is reducing dramatically – the amount of speculative space under construction in London is down 35% on a year ago with this survey recording just six new starts over the last six months. However, transaction activity remains very muted with few occupiers willing to commit to new office space.

The London office market has broken a number of records over the last few years: the highest rent per sq ft, the largest single building investment transaction, the largest occupational deals. But it is now creating new records of a less positive kind: the lowest ever quarterly take-up volume and the sharpest capital value falls since records began. London offices are taking the full force of the financial crisis and the deep economic recession that has engulfed the world.

Unsurprisingly this is reflected in the latest Crane Survey results. Only six new schemes have started over the last six months; the lowest number ever recorded by this research. This means only 23 new developments have started over the past year compared with 61 in the previous 12 months. Speculative space under construction totals 7.2 million sq ft, down 35% on 12 months ago.

This survey shows that the development pipeline is slowly clearing. But this is not a quick process and there won't be much relief this year as 4.1 million sq ft of speculative space is scheduled to complete and add to the 5.8 million sq ft of available Grade A space already on the market.

CITY OF LONDON

Life is as tough as it gets in the City office market at the moment. Take-up in quarter one totalled just 300,000 sq ft with only one deal over 20,000 sq ft. Q2 is shaping up better with 350,000 sq ft of deals signed at the time of writing but it is looking like a pretty wretched year for a market that has been struggling to reach average levels of take-up even during the "booming" conditions over the last five years. Compounding the misery for developers is the 4.3 million sq ft of speculative space that is currently under construction, which will add to the 3.2 million sq ft of new space already complete and available to let. At the ten-year average annual take-up rate of new space (two million sq ft per annum) this is nearly 3.5 years supply. At the 2008 level of new space take-up (1.2 million sq ft) it is a lot more.

Therefore it is no surprise that this latest research shows that new development activity has dried up. The survey has recorded two new starts in the last six months; a total of just 86,000 sq ft, and 49,000 sq ft

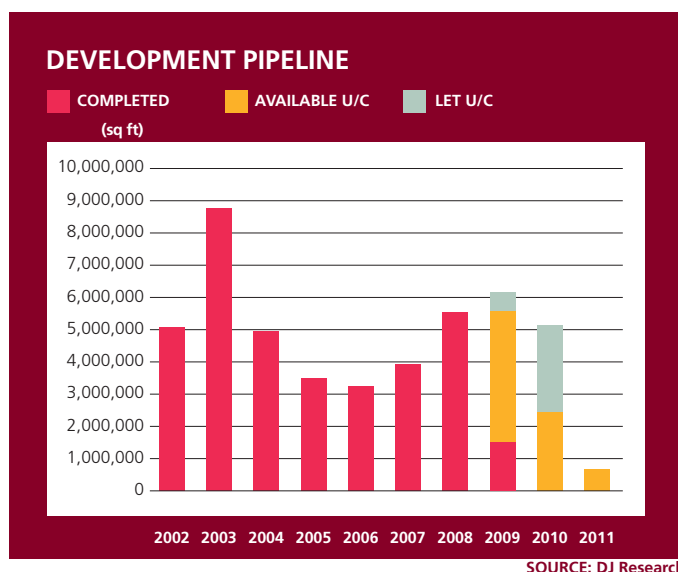
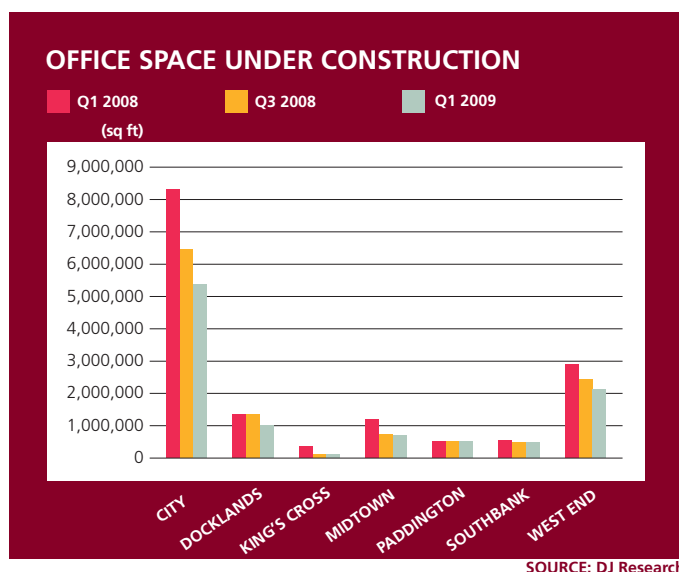
of this is the office element of a large-scale student housing-led project rather than a stand-alone speculative office scheme. This means there is a large void appearing from mid 2011 onwards with nothing scheduled for delivery. With few developers looking to start this year, this lack of completions will be getting more and more obvious as time moves on.

However a few developers are determined to move their schemes along and get prepared for the inevitable shortage of new quality space in a few years time. The most visible of these are The Pinnacle where the contracts are now in place for the piling while the demolition continues, and the redevelopment over Cannon Street Station by Hines where the team are working towards a 2012 completion. History shows that developers that get in at the start of the new cycle have the greatest chance of profiting from the volatile City development market – but are these developers prescient or premature?

WEST END

The shelter afforded to the West End market from the financial crisis has now been blown away as the fully-fledged recession has made itself felt. Rents in 'hedge-fund alley' aka core Mayfair were already falling as demand disappeared but this effect has now spread out to the wider West End market and rents in the first quarter of 2009 have actually fallen faster than in the City. Q1 saw just two leasing deals over 20,000 sq ft with the largest (60,000 sq ft to New Look at Wells & More) the only transaction on space under construction in the last six months.

But West End supply levels appear more able to deal with the slowdown in demand than the City market. New projects have been at a relatively low level for some time now with only 15 new starts recorded in the previous two surveys combined and just three new starts this survey. There is 1.6 million sq ft of speculative space being built, down 18% on six months ago, and just four buildings over 100,000 sq ft. As identified in the last report, taking these four schemes (totalling 913,000 sq ft) out of the equation shows how tight the market is for 'traditional' West End space. Interestingly, our recent experience shows us that it is the units outside of the core Mayfair area that are currently attracting the greater share of tenant demand.



	Total U/C (sq ft)		Let U/C (sq ft)		Available U/C (sq ft)	
City	5,355,000	↓	1,031,000	↑	4,324,000	↓
Docklands	1,000,000	↓	800,000	↓	200,000	→
King's Cross	82,000	→	0	→	82,000	→
Midtown	669,000	↓	205,000	→	464,000	↓
Paddington	558,000	→	160,000	→	398,000	→
Southbank	543,000	→	450,000	→	93,000	→
West End	2,140,000	↓	551,000	↑	1,589,000	↓
Totals	10,347,000	↓	3,197,000	↓	7,150,000	↓

Occupiers are not yet taking the opportunity of significantly lower rents in Mayfair to move back in to this area – we believe the threat of a large increase in rent at review in a stronger market and the forthcoming huge increases in business rates will keep the majority out.

The smaller supply pipeline recorded by this survey suggests the West End will prove to be a more robust market relative to other parts of London. This will not stop rents from continuing to fall as the pipeline delivers more space to an already oversupplied market with weak demand, but should mean a shorter downcycle and a stronger recovery than other sub-markets of London once economic conditions improve.

OTHER MARKETS

Outside the core markets new development activity remains very low with just one new start over the last six months. Speculative construction across all the markets totals 1.3 million sq ft with the majority of this space in Midtown and Paddington. Midtown has 464,000 sq ft of available space scheduled for delivery between now and summer 2010 in nine schemes including the one new start - 32,000 sq ft on St John Street. Paddington has a similar amount (398,000 sq ft) but in just three developments. After a flurry of large lettings last summer the area has since seen limited tenant activity.

The core Southbank area has seen development come to a grinding halt. There are just two speculative schemes under construction totalling 93,000 sq ft; both are due to complete before

the next survey in six months time. However, groundworks are now underway for London Bridge Tower (The Shard). This 1,000 foot tower will be the tallest in the country when complete and will comprise 580,000 sq ft of offices of which 180,000 sq ft is pre-let to Transport for London. Full construction is yet to start but works are underway and completion is scheduled for mid 2012.

CONCLUSION

The London office market is currently in the middle of the cyclical downturn that we have been flagging for some time. The development pipeline chart in this report (see left) shows the reality of the situation: 2009 and 2010 will see further high levels of construction completions at a time when the economy is in poor shape. The only conclusion is that we will see further rental falls and increasing void periods before the supply/demand balance readjusts. Unfortunately for developers there is no quick fix to reduce their exposure to construction activity; although clearly those offering the most aggressive deals are the ones securing the tenants.

Is this the time to get back into play and start development? Profiting from the London market is all about getting the timing and the pricing right and it is a very fine line. Given the supply levels and the outlook for the economy it is too early for most to start building now but the savvy should get ready to take advantage of some good opportunities over the next 6-12 months. For example, banks will start looking to take control of failing developers and non-viable sites. Once triggered, the lenders will want a developer alongside to complete the project or will sell the site on at a discounted level.

So what will the London office market look like in the future? Should you be building towers or town houses, trading floors or technical studios? The shape of the financial industry and the economy coming out of the recession is still to be determined but the office market won't be quite the same. For example fringe office schemes will be converted to residential, student housing or hotels; and with lower levels of tenant demand expected over the next few years the old mantra of location, location, location will be the order of the day.

Anthony Duggan
Drivers Jonas Research

KEY OFFICE DEVELOPERS (by amount of space under construction)

1	Canary Wharf
2	British Land
3	Land Securities
4	Minerva
5	Heron International
6	More London
7	Derwent London
8	Evans Randall
9	European Land
10	Aviva

KEY OFFICE DEVELOPERS (by amount of space under construction and available to let)

1	Minerva
2	British Land
3	Heron International
4	Land Securities
5	Canary Wharf
6	Aviva
7	Legal & General
8	Mitsubishi
9	Allied London
10	RREEF

KEY SPECULATIVE SCHEMES

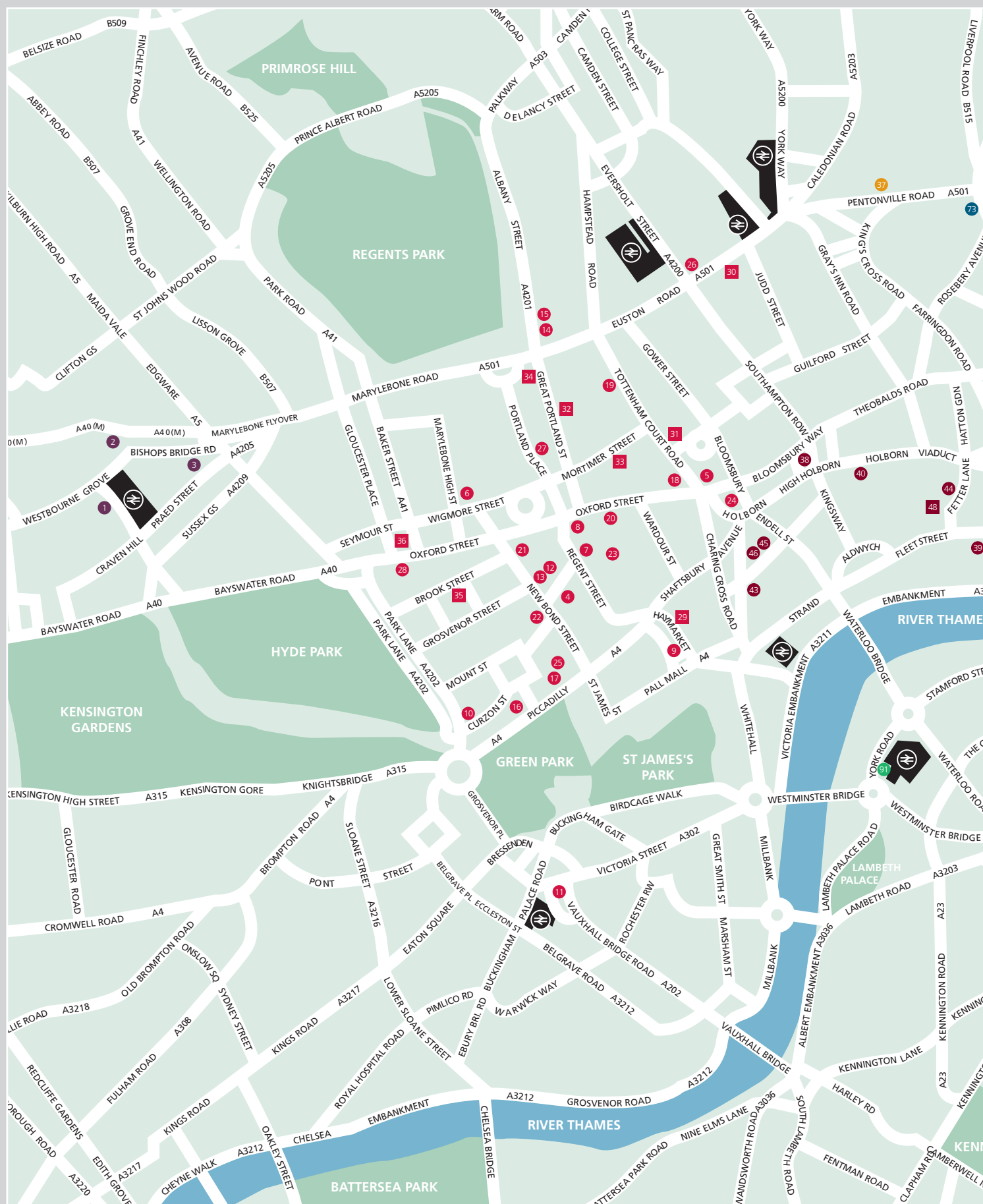
1	Watermark Place, 90 Upper Thames Street, EC4
2	St Botolphs, 138 Houndsditch, EC3
3	Heron Tower, 106-126 Bishopsgate, EC2
4	Ropemaker Place, Ropemaker Street, EC2
5	The Walbrook, EC4
6	Central Saint Giles, WC2
7	Aldersgate, 200 Aldersgate, EC1
8	Drapers Gardens, 12 Throgmorton Avenue, EC2
9	Regents Place Building 2, Western Quarter, Osnaburgh Street, NW1
10	Two Kingdom Street, W2

KEY COMPLETED SCHEMES

1	20 Churchill Place, E14
2	60 Threadneedle Street, EC2
3	30 Crown Place, EC2
4	107 Cheapside, EC2
5	Dashwood, 69 Old Broad Street, EC2
6	Wells & More, 45 Mortimer Street, W1
7	111 New Cavendish Street, W1
8	Rex Building, 64 Queen Street, EC4
9	Camomile Court, 23 Camomile Street, EC3
10	10 Old Bailey, EC4

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No	Name / Address	Postcode	Developer	Tenant	Completion	sq ft	Space available to let
Paddington - Under Construction							
1	30 Eastbourne Terrace	W2	Land Securities		Q2 2009	48,000	48,000
2	Two Kingdom Street	W2	Development Securities / Aviva / Quinlan Private		Q1 2010	250,000	250,000
3	Carmine, Merchant Square, Paddington Basin (Building 1)	W2	European Land	Marks & Spencer	Q3 2010	260,000	100,000
						TOTAL	558,000
Paddington - Completed							
						TOTAL	0
West End - Under Construction							
4	23 Savile Row	W1	D2 Private		Q2 2009	90,000	90,000
5	265 Tottenham Court Road	W1	London & Regional		Q2 2009	23,000	23,000
6	3-4 Bentinck Street	W1	Howard de Walden Estates		Q2 2009	13,000	13,000
7	Iona, 224-244 Regent Street	W1	Delancey / Shearer Property	Och Ziff	Q2 2009	81,000	54,000
8	10 Hills Place	W1	Clarendon Group		Q2 2009	14,000	14,000
9	12 Charles II Street	SW1	Standard Life	MWM Consulting	Q2 2009	47,000	39,000
10	49 Park Lane	W1	49 Park Lane Ltd / Pembroke Real Estate		Q2 2009	25,000	25,000
11	The Peak, Wilton Road	SW1	Heron International / Axa REIM		Q2 2009	78,000	78,000
12	14 St George Street	W1	Scottish Widows		Q3 2009	50,000	50,000
13	50 New Bond Street	W1	Scottish Widows		Q3 2009	33,000	33,000
14	Regents Place Building 1, Western Quarter, Osnaburgh Street	NW1	British Land		Q3 2009	117,000	117,000
15	Regents Place Building 2, Western Quarter, Osnaburgh Street	NW1	British Land		Q3 2009	251,000	251,000
16	Stratton House, 1 Stratton Street	W1	WELPUT		Q4 2009	70,000	70,000
17	44 Dover Street	W1	Royal London Asset Management		Q4 2009	35,000	35,000
18	Charlotte Building, 16-19 Gresse Street	W1	Derwent London		Q4 2009	48,000	48,000
19	18/24 Howland Street (Phase III)	W1	Derwent London	Arup	Q4 2009	86,000	0
20	175 Oxford Street	W1	NFU Mutual / Salmon Developments		Q4 2009	12,000	12,000
21	55 New Bond Street	W1	Fenwick		Q1 2010	21,000	21,000
22	150 New Bond Street	W1	Prudential		Q1 2010	15,000	15,000
23	Marshall Street Leisure Centre	W1	Resolution Property		Q1 2010	30,000	30,000
24	Central Saint Giles	WC2	Legal & General / Mitsubishi		Q1 2010	375,000	375,000
25	1 Grafton Street	W1	Hines		Q2 2010	26,000	26,000
26	144 Euston Road	NW1	UNISON	UNISON	Q3 2010	80,000	0
27	Broadcasting House (Phase II)	W1	Land Securities	BBC	Q3 2010	350,000	0
28	Park House, Park Street	W1	Land Securities		Q3 2011	170,000	170,000
						TOTAL	2,140,000
West End - Completed							
29	Clareville House 47 Whitcomb Street	WC2	Helical Bar		Q4 2008	34,000	34,000
30	83-117 Euston Road	NW1	Romulus Securities		Q4 2008	14,000	14,000
31	227-233 Tottenham Court Road	W1	Corporation of London	Gardiner & Theobald	Q4 2008	45,000	0
32	101 New Cavendish Square	W1	Core		Q1 2009	90,000	90,000
33	Wells & More, 45 Mortimer Street	W1	Great Portland Estates	New Look	Q1 2009	94,000	34,000
34	GPS House, 215-227 Great Portland Street	W1	Amsprop Portland		Q1 2009	30,000	30,000
35	63 Brook Street	W1	GE Real Estate		Q1 2009	24,000	24,000
36	3-7 Portman Mews South	W1	Portman Estate		Q1 2009	13,000	13,000
						TOTAL	344,000
King's Cross - Under Construction							
37	210 Pentonville Road	N1	Castlemore Ltd		Q3 2009	82,000	82,000
						TOTAL	82,000
King's Cross - Completed							
						TOTAL	0
Midtown - Under Construction							
38	One Southampton Row	WC1	Englander Group	Metro Bank	Q2 2009	100,000	80,000
39	1 Tudor Street	EC4	Stockland Halladale		Q2 2009	70,000	70,000
40	272 High Holborn	WC1	Private Investor		Q3 2009	72,000	72,000
41	156-165 St John Street	EC1	Carrot Limited		Q3 2009	32,000	32,000
42	10 St Bride Street	EC4	Development Securities / Sireo Investment Management		Q4 2009	56,000	56,000
43	62 St Martin's Lane	WC2	ING Real Estate		Q4 2009	32,000	32,000
44	110 Fetter Lane	EC4	Delancey / Invista Real Estate	Her Majesty's Courts Service	Q1 2010	253,000	68,000
45	132-135 Long Acre	WC2	Longmartin Properties / Shaftesbury		Q2 2010	42,000	42,000
46	128-131 Long Acre	WC2	Longmartin Properties / Shaftesbury		Q2 2010	12,000	12,000
						TOTAL	669,000
Midtown- Completed							
47	16-18 New Bridge Street	EC4	Moorevale / GE Capital		Q1 2009	19,000	19,000
48	22 Chancery Lane	WC2	Standard Life	Dixon Wilson	Q1 2009	39,000	15,000
						TOTAL	58,000



No	Name / Address	Postcode	Developer	Tenant	Completion	sq ft	Space available to let
City - Under Construction							
49	Ropemaker Place, Ropemaker Street	EC2	British Land	Bank of Tokyo-Mitsubishi	Q2 2009	575,000	395,000
50	Aldersgate, 200 Aldersgate	EC1	RREEF / Allied London		Q2 2009	370,000	370,000
51	20 Gracechurch Street	EC3	Aviva / Atlas	First Rand Group, Egerton Capital, Adelphi Capital	Q2 2009	270,000	220,000
52	Nexus Place, 22-25 Farringdon Street	EC4	Tishman Speyer		Q2 2009	157,000	157,000
53	10 Fenchurch Street	EC3	Bellhouse Joseph / Standard Life		Q2 2009	72,000	72,000
54	1 Whittington Avenue	EC3	City of London		Q2 2009	43,000	43,000
55	10 Lime Street	EC3	Premier Property Group / Greenhall Asset Management		Q2 2009	43,000	43,000
56	Forum House, 15-18 Lime Street	EC3	F&C REIT		Q2 2009	34,000	34,000
57	50 St Mary Axe	EC3	Frogmore		Q2 2009	33,000	33,000
58	40 Fashion Street	E1	Meritcape		Q2 2009	26,000	26,000
59	Watermark Place, 90 Upper Thames Street	EC4	Core / UBS / Oxford Properties		Q3 2009	474,000	474,000
60	One Lothbury	EC2	Westfield Investments / Welbeck Land		Q3 2009	117,000	117,000
61	13-17 Worship Street	EC2	City of London		Q3 2009	37,000	37,000
62	155 Fenchurch Street	EC3	Walbrook Land		Q3 2009	36,000	36,000
63	30 King Street	EC2	Cornerstone / F&C REIT		Q3 2009	34,000	34,000
64	2 Copthall Avenue	EC2	Walbrook Land / GE Real Estate		Q3 2009	30,000	30,000
65	Drapers Gardens, 12 Throgmorton Avenue	EC2	Canary Wharf / Exemplar		Q4 2009	290,000	290,000
66	100 Middlesex Street	E1	The Blackstone Group		Q4 2009	49,000	49,000
67	The Walbrook	EC4	Minerva		Q1 2010	385,000	385,000
68	95 Gresham Street	EC2	Standard Life		Q1 2010	93,000	93,000
69	1 Bartholomew Lane	EC2	Cornerstone / F&C REIT		Q1 2010	79,000	79,000
70	40 Gracechurch Street	EC3	Arab Investments		Q2 2010	110,000	110,000
71	Riverbank House, 2 Swan Lane	EC4	Evans Randall	Man Group	Q2 2010	292,000	0
72	St Botolphs, 138 Houndsditch	EC3	Minerva	Lockton International	Q3 2010	523,000	442,000
73	Angel Building, 411 St John Street	EC1	Derwent London	Cancer Research	Q3 2010	263,000	110,000
74	One New Change	EC2	Land Securities	KL Gates	Q4 2010	340,000	205,000
75	New Court, 1-10 St Swithins Lane	EC4	NM Rothschild	NM Rothschild	Q4 2010	140,000	0
76	Heron Tower, 106-126 Bishopsgate	EC2	Heron International		Q1 2011	440,000	440,000
					TOTAL	5,355,000	4,324,000
City - Completed							
77	Dashwood, 69 Old Broad Street	EC2	Land Securities	RGL Forensic Accountants	Q4 2008	154,000	145,000
78	Rex Building, 64 Queen Street	EC4	UBS / Exemplar		Q4 2008	75,000	75,000
79	1 King's Arm Yard	EC2	Cornerstone / F&C REIT	Albion Ventures	Q4 2008	57,000	53,000
80	41 Moorgate	EC2	RREEF	International Centre for Financial Regulation	Q4 2008	25,000	21,000
81	17 Moorgate	EC2	Stockland Halladale		Q4 2008	13,000	13,000
82	60 Threadneedle Street	EC2	Hammerson		Q1 2009	210,000	210,000
83	30 Crown Place	EC2	Core / Greycoat		Q1 2009	189,000	189,000
84	107 Cheapside	EC2	Menolly Investments		Q1 2009	160,000	160,000
85	Camomile Court, 23 Camomile Street	EC3	MBK Real Estate		Q1 2009	75,000	75,000
86	10 Old Bailey	EC4	Standard Life / MWB		Q1 2009	73,000	73,000
87	60 Gresham Street	EC2	Arab Investments		Q1 2009	51,000	51,000
88	25-29 Worship Street	EC2	Freshwater Group		Q1 2009	22,000	22,000
89	38 Threadneedle Street	EC2	Scarborough Development Group	EGL	Q1 2009	22,000	19,000
90	Regina House, 5 Queen Street	EC4	Government of Ghana	Ghana National Bank	Q1 2009	31,000	17,000
					TOTAL	1,157,000	1,123,000
Southbank - Under Construction							
91	75 York Road	SE1	Scottish Widows Investment Partnership		Q2 2009	56,000	56,000
92	46-48 Bermondsey Street	SE1	Great Portland Estates		Q2 2009	37,000	37,000
93	7 More London	SE1	More London	PricewaterhouseCoopers	Q1 2010	450,000	0
					TOTAL	543,000	93,000
Southbank - Completed							
					TOTAL	0	0
Docklands - Under Construction							
94	5 Churchill Place	E14	Canary Wharf	JP Morgan / Bear Stearns	Q3 2009	300,000	50,000
95	30 North Colonnade	E14	Canary Wharf	Fimalac	Q1 2010	300,000	150,000
96	15 Canada Square	E14	Canary Wharf	KPMG	Q1 2010	400,000	0
					TOTAL	1,000,000	200,000
Docklands- Completed							
97	20 Churchill Place	E14	Canary Wharf	State Street Bank	Q1 2009	360,000	0
					TOTAL	360,000	0

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