

## West End and City Summary

### City Q2 2006

- The encouraging rise in quarterly take-up seen in Q1 2006 was reinforced by the expectation of expansion among City occupiers and subsequently, quarterly transaction levels rose for the second successive quarter. The largest deal of the quarter was the pre-let of 165,000 sq ft to Eversheds at One Wood street. In addition, 170,000 sq ft is currently under offer to Thomson Financial at Milton Gate, EC2.
- Accordingly, the vacancy rate in the City core continued its downward trend. Reduction in vacancy has been driven in greater part by continuing withdrawal of space from the market. Over half a million sq ft was taken off the market in the City during Q2 2006. Grade A vacancy in the City core has fallen by 30% in the past 12 months to stand at 2.6m sq ft which equates to 4% of overall office stock in the City core. There are currently nine units available in excess of 100,000 sq ft.
- With just one major speculative completion in the year to date (Johnson Building, EC1 147,000 sq ft), the City market is experiencing an accelerating reduction of Grade A space. The situation is likely to be exacerbated in the short term, as a number of schemes in the pipeline look set to miss 2006 completion dates.
- Net stock absorption in the City market in 2006 is already ahead of the 10,000 sq ft recorded in 2005, yet we are seeing a continuing reduction in office stock levels.
- City prime rents have seen the strongest quarterly percentage growth for over 15 years. Overall prime rents in the City core rose to £52.50 psf for grade A 10,000 sq ft units to stand at 10% rental growth for the year to date. We anticipate further rental growth in the second six months of 2006.
- Demand for investment product remains undimmed with total transaction levels matching recent record quarterly levels. Accordingly City prime yields fell further to 4.5%.

To summarise, demand continues to improve and expansionary take-up, while not on a par with the West End, is returning to the core City market. Availability has fallen in real terms although with falling stock levels, the overall vacancy rate has fallen to 11.5%.

### West End Q2 2006

- West End quarterly take-up improved dramatically on the previous three months, outstripping transaction levels in the City for the second time in the past twelve months. A marked contrast exists in terms of major deals with the West End seeing more 50,000 sq ft plus transactions compared to the City.
- RTZ took a 100,000 sq ft pre-let at Telstar House (£47psf) and Microsoft acquired 92,782 sq ft at a blended rent of £56psf. Land Securities' Cardinal Place development also saw 48,000 sq ft let to Experian and Jahn Court at King's Cross, N1 saw 65,000 sq ft let to EC Harris.
- Availability continues its marked downward path, falling from 6.8m to 5.9m. Supply has fallen by 30% in past 12 months. Grade A vacancy in the West End is at its lowest level for four years. There are currently just five units available in excess of 100,000 sq ft.
- Prime rental growth has reached 9% in year to date. Top rents have risen to £87.50psf, although competition in core locations from financial services firms has reaffirmed £95psf plus levels for select prime units up to 3,000 sq ft.
- Speculative construction fell by 9% in Q2 but remains above the ten year quarterly average. In addition to 180,000 sq ft of pre-lets, around 160,000 sq ft of speculative space was released onto the market, which was roughly five times the amount of space completed in the entire City market.
- Continuing demand and lack of available product has pushed West End prime yields to a new record low of 4.0%. The West End Market continues to be dominated by UK institutions and property companies, with an almost complete absence of overseas money.

While the West End market continues to demonstrate strong demand from business services firms, questions remain as to whether the growth in rental levels can be sustained given the growing shortage of grade A product in prime areas.

Overall availability fell by 9% quarter on quarter with vacant grade A space down by 11%.

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