

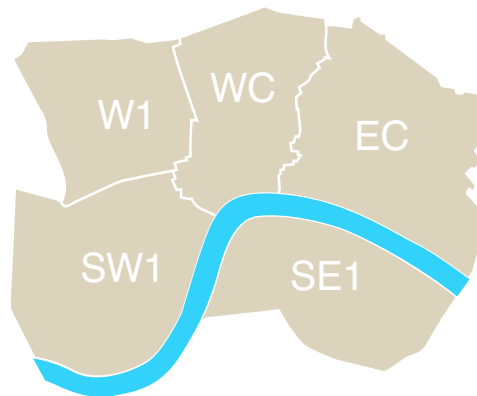


OFFICE SPACE
MARKET TRADING
AND ACTIVITY

CENTRAL LONDON Q1 - Q2 2009



CENTRAL LONDON



INTRODUCTION

As the financial capital of Europe, London is the city leader for foreign investment throughout the continentⁱ. Furthermore, the city was voted No.1 European city for business for the 19th year running in 2008, ranking top for qualified staff, external and internal transport links, telecommunications, and availability of office spaceⁱⁱ.

The following market industry report for Central London draws on officebroker.com’s statistics reflecting the first two quarters of 2009, in conjunction with reports from external sources.

In brief, the report details:

- Office space demand: in relation to new enquirers and the size of office requested
- Office space take up: in relation to new occupiers’ choice of office space size, alongside price and length of term signed for.

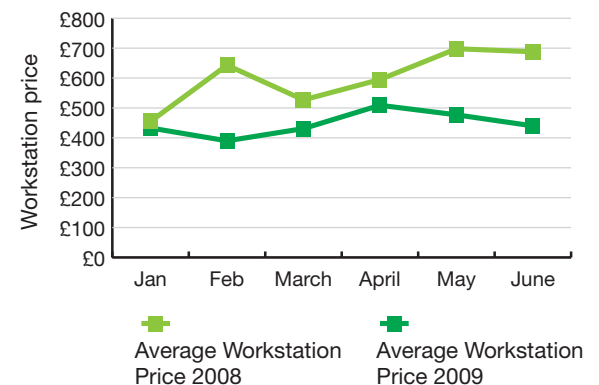
Q1 AND Q2 OVERVIEW

Overall, officebroker.com findings suggest that the underlying attitude of businesses towards office space in Central London during the first half of 2009 is to

proceed with caution – and those that are taking up space in the capital appear to be doing so based on exactly how much space is required.

Amid economic uncertainty, the Central London office space market has experienced setbacks shown by a year-on-year decline in enquiries and new occupier take-up figures, as well as a significant drop in the average price of workstation (see CL: Figure one, below). The gap between size of demand (number of workstations requested per enquiry) and size of actual take-up (number of workstations signed for) has also reduced this year, which suggests greater caution at enquiry stage. It also indicates that businesses in the current climate are taking space based on immediate requirements rather than future forecasts.

CL: Figure 1. Average Workstation Price: 2008 v 2009



However, the outlook for the remainder of the year is slightly more favourable. Although a concern for landlords and office providers, the drop in workstation prices is potentially helping to improve the rate of new occupier take-up, shown by a smaller rate of decline in take-up figures when compared to enquiries.

Businesses seeking serviced office space in the capital now have a wider supply of buildings and therefore greater chance of more favourable negotiations and incentives. Furthermore, initial license lengths continue to hold at an average of 6 - 12 months, suggesting that such factors are helping to bring stability back to the market.

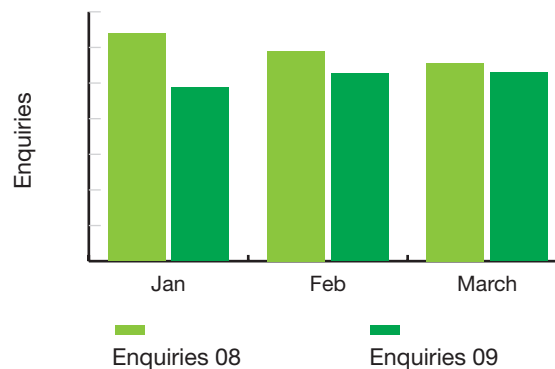
The following Q1 and Q2 analysis covers the supply and demand of serviced office space in the Central London region, based on officebroker.com statistics.

Q1 2009: ANALYSIS

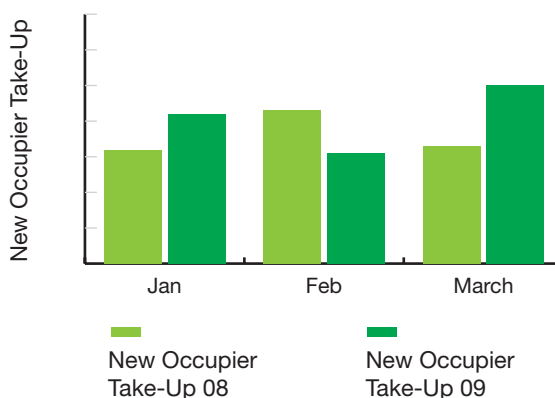
OFFICE SPACE DEMAND

Q1 2009 produced a 14% drop in enquiries compared to Q1 2008, with the sharpest drop (24%) shown in January, with a slight month on month recovery in February and March (see CL: Figure 2, above right).

CL: Figure 2. Enquiry Volume: 2008 v 2009



CL: Figure 3. New Occupier Take-Up: 2008 v 2009



When looking at the average size of office enquired about, Q1 2009 saw an average of 6.5 workstations per enquiry compared to 2008's 9.0 – a drop of 27%.

OFFICE SPACE TAKE UP

The 14% drop in enquiries seen in Q1 2009 is compensated by a 14% increase in new occupiers in the same period, which shows that a higher percentage of enquirers are taking up office space in Q1 2009 compared with the same period in 2008 (see CL: Figure 3, below left).

This higher enquiry-to-sale ratio shows that the type of enquiries received appear to be more urgent, with more businesses actively considering their position before placing an initial enquiry. The increase in new occupier figures is largely contributed to by a peak in March, resulting in an increase of 52% compared with the previous month.

COULD FTSE REPORTS BE PUSHING BUSINESSES TO TAKE MORE IMMEDIATE ACTION?

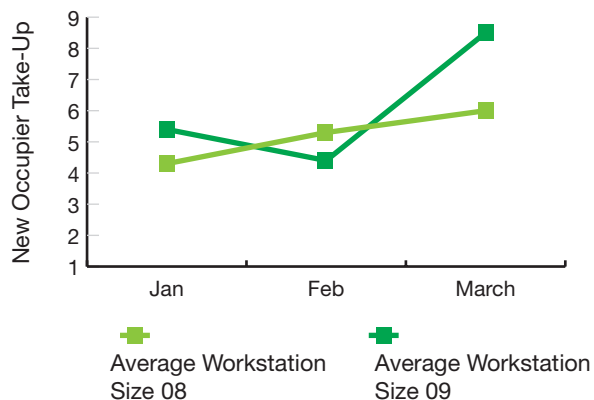
Possible reasons behind the sudden increase could be due to businesses taking up space for fear of a dramatic market improvement, which could push office rental values back up. In March 2009, the FTSE UK Commercial Property Index Seriesⁱⁱⁱ reported the “smallest monthly decline since June 2008”, resulting in a deceleration in the overall fall of property value, and stating that “the bottom of the property cycle may well be within sight.” In addition, the Index report

claimed that buyers were in the market for the right assets. Is it possible that such reports could have boosted many businesses into action – perhaps believing that, with the bottom of the cycle in reach, office providers would gain confidence and start increasing rates? If so this could have contributed to a spike in new occupiers figures.

NEW OCCUPIER OFFICE SIZE & WORKSTATION PRICE

The trend of average office size per new occupier in 2009 was fairly inconsistent (see CL: Figure 4, below). One reason behind this inconsistency could be that businesses are using the current economic situation to try new methods when securing office space – such

CL: Figure 4. Average Workstation Size of New Occupiers 2008 v 2009



as negotiating extra workstations after the initial point of purchase and in some cases within the first phase of occupancy.

The average office size for new occupiers in 2008 produced a different trend than that of the same period in 2009. 2008 produced a month-by-month increase Jan - March. This suggests that business confidence was more stable compared to the same period in 2009.

When considering the size of office acquired by new occupiers, (see CL: Figure 5, right) despite the initial number of workstations enquired about dropping by 27% in 2009 compared with 2008, the gap between the number of workstations enquired about and those acquired was much smaller – suggesting that 2009 produced a higher ratio of more urgent enquiries by businesses.

The increase in new occupiers in Q1 2009 shows that despite the global economic crisis, businesses are still finding it possible to take office space. This is expected to be partly due to a dramatic reduction in the average monthly cost of an office. In Q1 2008 the average cost in Central London was £542 per workstation, but in Q1 2009 this dropped by 23% to £418 per workstation. As a result small businesses appear to be increasingly taking the opportunity to secure office space in the

capital at reduced rates.

The average length of licence is up for the first quarter of 2009 compared with the same period in 2008. The figures have increased by 11% which – combined with the larger volume of new occupiers in Q1 2009 may be related to the drop in prices, as businesses are securing longer terms in order to benefit from the reduced rates while they're available.

CL: Figure 5.

Q1 2008

Avg workstations per enquiry



Avg workstations per new occupier



Q1 2009

Avg workstations per enquiry



Avg workstations per new occupier

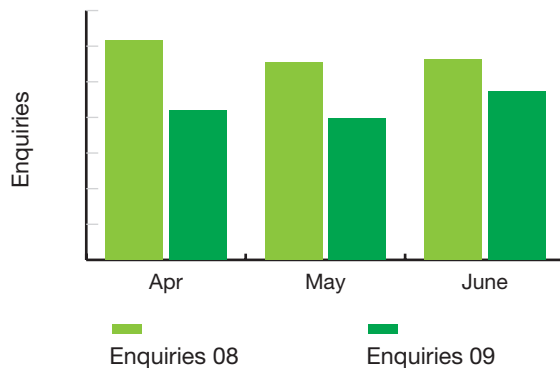


Q2 2009: ANALYSIS

OFFICE SPACE DEMAND

Q2 2009 produced a 26% drop in enquiries compared to Q2 2008, with the sharpest drop (32%) shown in April, with a dip in May and signs of an increase in June (see CL: Figure 6, below).

CL: Figure 6. Enquiry Volume: 2008 v 2009



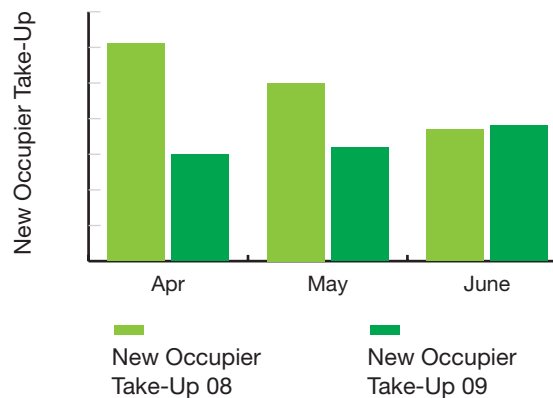
When looking at the average size of office enquired about, Q2 2009 saw an average of 6.1 desks per enquiry compared to 2008's 7.4 – a drop of 18%. This is less than the Q1 comparison figures show (drop of 27%), but Q2 2008 is down by 1.6 workstations compared to Q1 2008, with a drop of 0.4 in Q2 2009 compared to Q1 2009, suggesting a steadier market in 2009.

OFFICE SPACE TAKE UP

The 26% drop in enquiries seen in Q2 2009 also impacts the new occupier take up rate, which has decreased by 32% compared to the same period in 2008, which waters down the impact of the 14% increase seen in Q1 2009 for the first half of 2009 as a whole.

External figures by NB Real Estate show that London has seen a 98% uptake of office space in Q2 2009 compared with Q1 2009^{iv}. While this is a positive sign that the capital is leading the UK's road to recovery, these figures are not clearly represented by officebroker.com's statistics.

CL: Figure 7. New Occupier Take-Up: 2008 v 2009



NEW OCCUPIER OFFICE SIZE & WORKSTATION PRICE

The average size of office in Q2 2009 is less than that of the same period in 2008 by 23%, dropping from an average of 7.0 to 5.4. This seems to imply an overall lack of business confidence, which is potentially having a strong influence over companies considering office space in Q2 2009.

In relation to the volume of new occupiers, (See CL: Figure 7, below left) Q2 2009 produced a steady increase throughout the period, whereas 2008, although at a high volume overall, showed a steady decrease over the quarter, so much so that in June 09 figures were 3% above those of June 2008 which overall shows positive signs of recovery in the 2009 market.

When considering the average number of workstations per enquiry against workstations per new occupier, (See CL: Figure 8, overleaf) this has been reasonably consistent in 2009 compared with 2008, showing a small difference in the size enquired for and the size let.

In Q2 2009, an average of 6 workstations per enquiry were recorded, with 5.5 workstations per new occupier. The gap in 2008 was 7.5 and 7 respectively, so the same gap is recorded here.

CL: Figure 8.**Q2 2008**

Avg workstations per enquiry



Avg workstations per new occupier

**Q2 2009**

Avg workstations per enquiry



Avg workstations per new occupier



The average licence length for 2009 Q2 is 13% up on the same period in 2008. In the same quarter, the average monthly cost per person dropped by 28% compared with Q2 last year. Therefore a possible conclusion behind this is that businesses have become aware of lower rental values, and are taking the opportunity to sign slighter longer contracts in order to secure the lower rate for a more sustained period of time.

CONCLUSIVE SUMMARY

When taking all of the information for this time period into account, the following main factors may be drawn:

Q1 & Q2 OVERALL

- Enquiries in the first half of 2009 are down by 19% compared to 2008.
- The size of office enquired about is down 23% from 8.2 workstations in 2008 to 6.3 workstations in 2009.
- New occupier take up was down by 13%, with the number of workstations per rental agreement down just 6% (from 6.1 to 5.7).

Q1

- A 14% drop in enquiries in this period is compensated by a 14% increase in new occupiers when compared with Q1 2008.
- Average size of enquiry dropped by 27% from 9.0 to 6.5 workstations, with the average number of workstations per rental up 17% from 5.2 to 6.1.

Q2

- New enquirer levels dropped by 26% compared to 2008, with new occupier rates also seeing a drop by 32% compared to 2008.
- The average size of enquiry dropped from 7.4 to 6.1 workstations (18%) and the average size of office rental dropped by 23% from 7.0 to 5.4.

- i Key Facts: London, UK Invest (<http://www.ukinvest.gov.uk/London/en-GB-list.html>)
- ii Business Facts: Think London (http://www.thinklondon.com/business_facts/)
- iii FTSE: UK Commercial Property Index Series (http://www.ftse.com/Indices/FTSE_UK_Commercial_Property_Index_Series/Downloads/FTSE_UK_Commercial_Property_Monthly_Report_Mar09.pdf)
- iv NB Real Estate-News: "Lettings of Central London office space jumps 98% as market begins to thaw" (<http://www.nbrealestate.co.uk/company/news/Pages/LettingsofcentralLondonofficespacejumps98asmarketbeginstothaw.aspx>)

RESEARCH

For more information in relation to officebroker.com's Central London research, or for further details on any other UK region, please contact us via the following channels:

Jo Disney

UK Content Manager

joanna.disney@officebroker.com

0844 412 8740

0870 112 3667 (Option 2)

Sir Robert Peel Mill, Mill Lane, Fazeley,

Staffordshire, B78 3QD

officebroker.com research is also available online at www.officebroker.com.

EDITOR'S NOTES

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