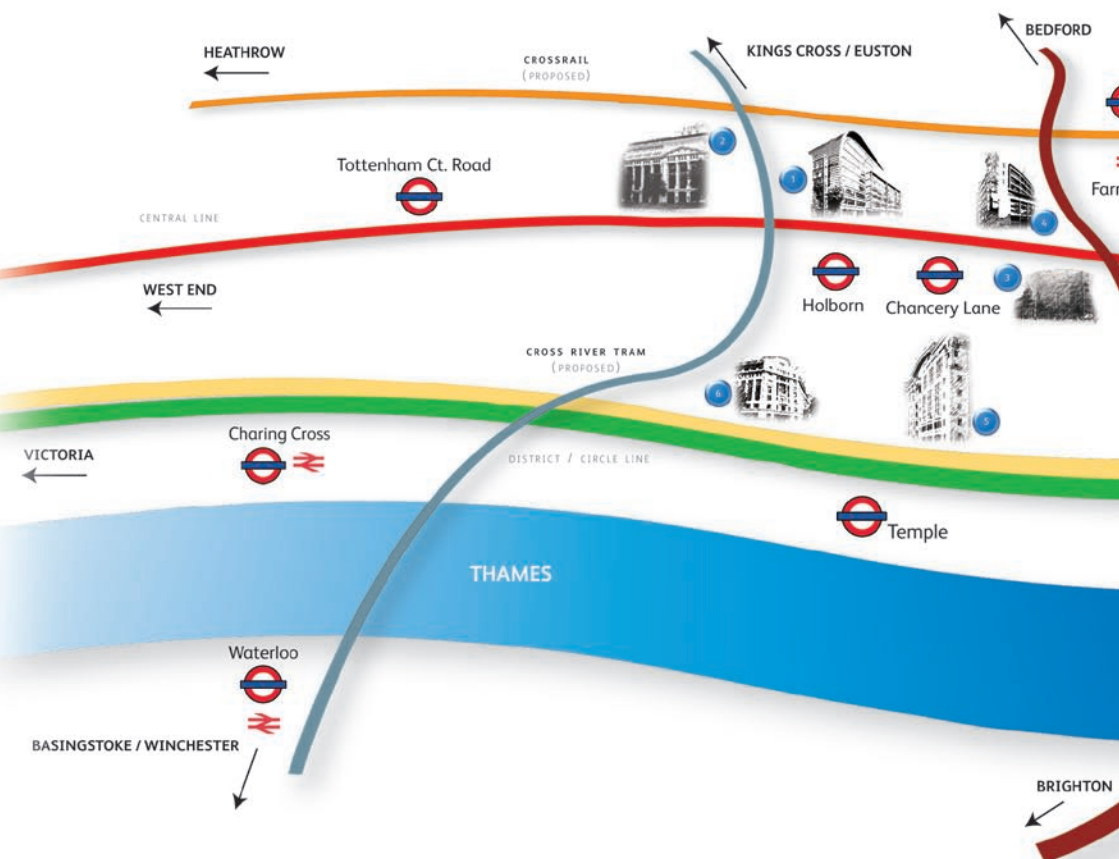


# midtown

research Q2 2007





LOCATION	KEY
MidCity Place	1
Victoria House	2
Holborn Place	3
Atlantic House	4
Globe House	5
Centrium	6

# the deals - the connections

Midtown's availability rate has fallen below 5% for the first time in six years. The rate of 4.9% is lower than the City, West End or Docklands. Midtown now requires an injection of quality space in order to maintain a balanced market and it is encouraging to see that speculative construction increased by 26% to over 1.4 million sq ft in the 2nd Quarter 2007, its highest level since 1990.

The limited availability of high quality, trophy space remains a market driver. In June, Land Securities announced a quoting rent in excess of £70 per sq ft for the top floors of 6 New Street Square, EC4, easily on a par with the highest rents achieved in the City. Space on the 15th-17th floors was under negotiation at the end of the 2nd Quarter, another strong signal of the maturity of the Midtown market, irrespective of whether the asking rent is achieved.

Best rents in Midtown are being achieved by high quality product in core Midtown locations at a time when overall central London supply is very low. Midtown contains a varied stock of offices across ten distinct sub-markets, offering a range of accommodation to suit all occupiers. The best buildings are on a par with the City in terms of rents, but Midtown still offers a saving of around 35% on equivalent space in the West End.



Julian Hind



---

Introduction	3
Selected Office Lettings	4
Take-Up	5
Availability	6
Future Supply	7
Selected Investments	8
Investment	9
Retail	11
Contact Details	12

# selected office lettings in midtown

Occupier	Address	Type	Sq ft	Reported Rent £psf
Unilever plc	100 Victoria Embankment, EC4	Refurbished	29,127	Conf.
Association of Train Operating Companies	40-48 Bernard Street, WC1	Second-hand Grade A	23,311	33.60- 35.00
Maxwell Winward LLP	100 Ludgate Hill, EC4	Second-hand Grade A	21,326	48.50
Tishman Speyer	Centrium, 2-18 Kingsway, WC2	Refurbished	19,356	Conf.
Little Brown Book Group Ltd	100 Victoria Embankment, EC4	Refurbished	18,500	47.50
Heller Ehrman	Condor House, 5-14 St Paul's Churchyard, EC4	New	17,523	57.50
Association of Accounting Technicians	140 Aldersgate Street, EC1	New	14,763	34.00
Protiviti	Grand Buildings, 1-3 Strand, WC2	Second-hand Grade A	14,208	Conf.
Charcol Ltd	Chancery House, 53-66 Chancery Lane, WC2	Second-hand Grade A	14,142	37.50
Double Take Portraits Ltd	Caslon House, 15-19 Baker's Row, EC1	Second-hand Grade B	11,901	23.13
Stirling Energy plc	5 Chancery Lane, EC4	Second-hand Grade A	11,838	43.50
Esprit International Ltd	21 Farringdon Road, EC1	New	11,828	39.50
Shine Ltd	1 Hardwick Street, EC1	Second-hand Grade A	10,182	31.33
Herman Miller	Centrium, 2-18 Kingsway, WC2	Refurbished	9,459	47.50
Mezzanine Asset Management	Grand Buildings, 1-3 Strand, WC2	Second-hand Grade A	8,563	49.50
Ibex Interiors Ltd	Chancery Exchange, 10 Furnival Street, EC4	Refurbished	7,915	45.00
The Clapham House Group plc	1 Lindsey Street, EC1	Second-hand Grade B	7,070	19.20
Alfred McAlpine Plc	16 Upper Woburn Place, WC1	Second-hand Grade A	6,895	34.00
Metlife Investments Ltd	15 Bedford Street, WC2	New	6,470	62.50
Analysys Mason Ltd	Bush House, Aldwych, WC2	Second-hand Grade A	6,413	40.00
Faber Maunsell Ltd	Sweeps Building, 28-38 Leather Lane, EC1	Refurbished	5,746	35.28
International Broadcasting Convention	76 Shoe Lane, EC4	Second-hand Grade A	5,619	37.50
Cobbetts LLP	70 Gray's Inn Road, WC1	Refurbished	5,429	43.50
Purvin & Gertz	55 New Oxford Street, WC1	Refurbished	5,250	51.28

Source: Farebrother

In the 2nd Quarter 2007 office take-up was 658,000 sq ft, representing a 9% reduction on the 1st Quarter (Figure 1). We forecast that take-up for the year would be 2.5 million sq ft, in part due to the lack of choice available to occupiers on the ground. Year to date take-up is 1.38 million sq ft, marginally ahead of our projection. Rents continued to firm, with £62.50 psf being achieved for new space on small floors in 15 Bedford Street, WC2 and £47.50-55.00 psf achieved across the market in Ludgate Hill, High Holborn, Kingsway and New Oxford Street.

The non-completion of significant deals was one reason for low take-up in the 2nd Quarter. Unilever's decision to withdraw the 3rd floor of 100 Victoria Embankment, EC4, from the letting market and retain it for its own occupation, was the biggest transaction at 29,127 sq ft.

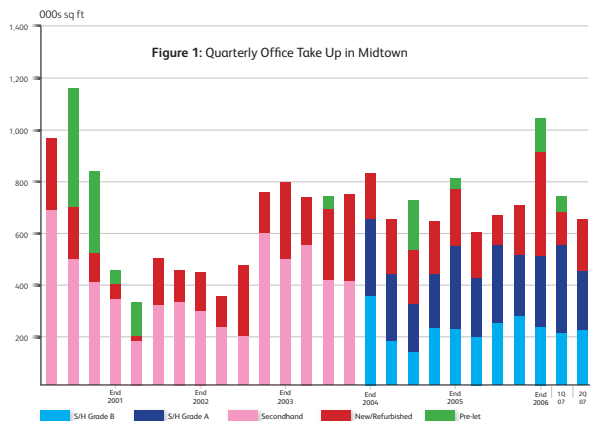
Lettings of new and refurbished space continued to be suppressed by the lack of stock available for immediate occupation. Although take-up of new and refurbished space rose 21% in the 2nd Quarter 2007 to 168,000 sq ft, it is below the long term average of 220,000 sq ft. Key transactions saw deals on the last available spaces at major buildings such as Condor House, St Paul's Churchyard, EC4 and 140 Aldersgate Street, EC1.

Lettings during construction remained a feature of the market. Furniture designer Herman Miller took almost 10,000 sq ft on the ground floor of Centrium for showrooms and offices, with owner Tishman Speyer electing to occupy the 6th floor. This trend will continue in the 3rd and 4th Quarters.

Take-up of second-hand space was reduced by 10% in the 2nd Quarter to 490,000 sq ft, although this exceeded the long-term average which stands at 413,000 sq ft. Grade B take-up was 14% up at 247,000 sq ft, but the take-up of Grade A space was 26% lower at 243,000 sq ft.

The availability of second-hand Grade A space at 959,000 sq ft appears ample, but broken down by post code, choice is restricted.

WC1 has only 63,000 sq ft of second-hand Grade A space available. The most generously supplied post code, EC1, has 350,000 sq ft on the market.



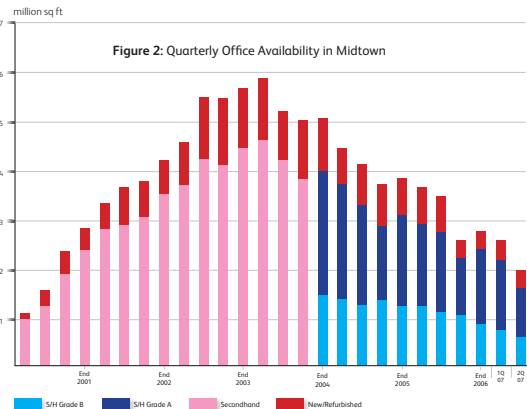
Total supply was down 452,000 sq ft to 2 million sq ft at the end of the 2nd Quarter 2007, taking the availability rate from 6% to 4.9%, driving rental growth. Reduction in supply accelerated in the 2nd Quarter falling by 18%, almost twice the 1st Quarter rate (Figure 2).

Since the 2nd Quarter 2005, 2.1 million sq ft has been absorbed on the supply side. Our more detailed sub-area data indicates that the rate of reduction in availability was higher in core Midtown with availability down 60% over the same period, compared to a 30% reduction in fringe Midtown. By post code, the steepest reduction was in WC1, focussed on the High Holborn corridor where the availability rate at the end of the 2nd Quarter was just 3.7%.

The amount of new and refurbished supply in Midtown is negligible - just 253,000 sq ft, or 0.6% of total Midtown stock - 10% down on the 1st Quarter. The term 'new' has become almost a misnomer. Only 6,286 sq ft of completed, genuinely new space was available, being the lower ground, ground and 5th floors at 15 Bedford Street, WC2. This is a new building constructed behind a retained Victorian façade where the asking rent is £59.50 psf. Two of the floors were under offer at the end of the 2nd Quarter.

Refurbished stock was the only grade of space to show an increase in supply in the Quarter, rising from 217,000 to 247,000 sq ft. The limited supply of refurbished stock is concentrated in EC4, accounting for over half of the total supply at 147,000 sq ft and in just five buildings. 85 Fleet Street, EC4, with 88,500 sq ft available, was the largest completed refurbishment in Midtown. 35,000 sq ft on 5th to 8th floors was under offer at the end of the Quarter.

Second-hand availability fell for both Grades A and B in each of Midtown's four post codes, declining overall from 2.17 million sq ft to 1.75 million sq ft. It is six years since second-hand supply was at this level. The rate of absorption of Grade A space significantly exceeded that of Grade B space in the 2nd Quarter, falling by 26%, compared with 10% for lower quality space.

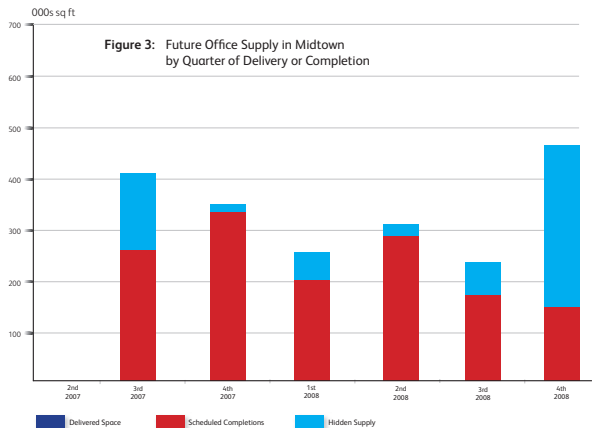


Speculative office construction has been on a rising trend since the 3rd Quarter 2004, when it hit a cyclical low of 405,000 sq ft. In the 2nd Quarter, speculative construction rose to over 1.4 million sq ft across 18 schemes, up 300,000 sq ft on the previous quarter, with completion spread over eighteen months to end 2008 (Figure 3). Pre-committed space under construction declined significantly from 670,000 to 499,000 sq ft.

All speculative schemes that had been expected to complete in the 2nd Quarter are now expected to reach practical completion in the 3rd Quarter, hence there was no speculative space delivered to the market this time around. We do expect to see 275,000 sq ft of speculative space completed in the 3rd Quarter, although potential lettings could reduce the amount of space available. Looking ahead over the next 18 months, a level of completions averaging 240,000 sq ft per quarter is broadly in line with the average level of take-up of new space, suggesting that the market for new space will remain broadly in equilibrium as long as trends in demand continue.

In the meantime, starts were made on three major developments. Tishman Speyer commenced two schemes at Centrium and Fleetway House. Over 70,000 sq ft has been let at Centrium, 2-18 Kingsway, WC2, leaving c.105,000 sq ft available. The major reconstruction and extension of Fleetway House, 22-25 Farringdon Street, EC4, will increase the net lettable space available from 103,000 sq ft to 154,000 sq ft and is due for completion in the 4th Quarter 2008. In Covent Garden, The Freshwater Group has commenced a £2.9 million refurbishment of 164 Shaftesbury Avenue, WC2, the former home of the NFU, where 27,161 sq ft is due for completion by the end of 2007.

There were only minor changes to our hidden supply schedule in the 2nd Quarter, with the overall volume of space reduced from 2.8 million sq ft to 2.7 million sq ft. The amount of space expected to be marketed in the 18 months to end 2008 was also marginally reduced to 605,000 sq ft.



# selected investments in midtown

Address	Size sq ft net	Vendor	Purchaser	Reported Price £m
2 King Edward Street, EC1	560,000	Merrill Lynch	GIC (Government of Singapore)	480.0
Brunswick Centre, Marchmont Street, WC1	289,240	Allied London	Hermes	115.0
7-10 Old Bailey, EC4 <small>permission for 75,000</small>	60,000	Marylebone Warwick Balfour Group plc	Standard Life Investments Ltd	60.0
McCann-Erickson House, 7-11 Herbrand Street, WC1	65,700	Draco	Scottish Widows Investment Partnership	43.0
Woodbridge House, 30 Aylesbury Street, EC1	75,004	Henderson Global Investors	Morley Fund Management	42.25
Tudor Court, 6-8 Bouverie Street, EC4	48,503	Overseas Investor	Morley Fund Management	39.1
New Bridge Street House, 30-34 New Bridge St, EC4	25,000	Scottish Widows	Private Trust	31.25
Chichester House, 278-282 High Holborn, WC1	60,000	GE Real Estate/ Orchard Investment Management	Hines	26.0
16 Upper Woburn Pl, WC1	40,363	Investream	Warner Estate Ltd	21.75
Bouverie House, 154-160 Fleet Street, EC4	77,130	Allied Commercial	Business Environment	21.0 <small>(Long Leasehold)</small>
20 Red Lion Street, WC1	28,905	Glanmore	Morley Fund Management	15.725 <small>(Long Leasehold)</small>
30-32 Southampton St, WC2	14,254	Credit Suisse	Capital & Counties	13.5
Dragon Court, 27-29 Macklin Street, WC2	19,874	London & Oriental	Royal London Asset Management	13.2
51 Lincoln's Inn Fields, WC2	16,006	BCL Burton Copeland	Legal & General PUT	9.25
6 Bell Yard, WC2	6,100	Overseas Investor	Reed Elsevier	3.85
21 Ely Place, EC1	4,273	Private Investor	Private Investor	2.5
5 Lincoln's Inn Fields, WC2	4,603	Private Investor	Private Investor	1.7
107 Charterhouse St, EC1	3,930	British Philatelic Ctre	Private Investor	1.55

Source: Farebrother

Commentators vie to call the top of the investment market, but there remains little sign that the peak of the investment cycle is dampening investors' enthusiasm for Midtown property. Since the New Year, nearly £2 billion was transacted, including one transaction of £115 million at the retail-led Brunswick Centre in the 2nd Quarter.



Niall Gallagher

Although UK funds appear to be under less pressure to buy, they were nonetheless active buyers in the Quarter, with eight of the eighteen transactions listed (facing) going to such investors. Yield compression was less apparent in the 2nd Quarter. An air of caution followed the 25 basis point increase in the Base Rate in May 2007, but yields were unlikely to have tightened further. This was reinforced by a further quarter point rise on 5th July, and the expectation of further increases in the second half of 2007 will temper buyers' appetites, notably on exit yields for IRR driven purchases.

Active players in the investment market are keeping a close eye on the rental cycle in the occupational market, aiming to capture capital appreciation before a possible reversal of rental growth arising from an, as yet, unseen economic downturn and/or excess of supply. A transaction such as Standard Life's purchase of a ready-to-start new development at 7-10 Old Bailey, EC4, for example, is expected to expose the buyer to an optimal rental market.

2007 could be a record breaking year for Midtown in terms of value. At the end of the 2nd Quarter, MidCity Place, High Holborn, WC1, was put on the market, while Nomura's HQ at 1 St Martin's Le Grand, EC1, was also on the market on a sale-and-leaseback basis at £234 million. With further major developments for sale such as The Crown Estate's Metropole House, 10 Whitehall Place, WC2, Bath House, Holborn Viaduct, EC1, The Guardian, Farringdon Road, EC1, and PRUPIM's Princeton House, High Holborn, WC1, there is potential for the Midtown office investment market to reach over £3 billion in 2007.



*Vacant possession of Princeton House is available from February 2008.*

EAT.

THE REAL FOOD COMPANY

Starbucks  
Coffee™

30  
Chancery Lane  
Legal Secretaries

ALDRIDGE  
31  
JEWELLERS

...  
Handbook Shop

# retail

In the 2nd Quarter 2007 the level of requirements for retail units in Midtown remained high, with a number of branded retailers targeting locations in prime High Holborn, WC1. Rents continued to mature (Figure 4). A shortage of well configured units over 1,000 sq ft has, however, tempered take-up. Developments such as Central St Giles, WC2, 1 Southampton Row, WC1, 75 High Holborn, WC1, and 70 Chancery Lane, WC2/311-318 High Holborn, WC1, will provide larger and better configured units.



Jonathan Quelch

In a key deal, The Honourable Society of Lincoln's Inn let a 1,060 sq ft ground floor unit at 77-79 Chancery Lane, WC2, to EAT during the 2nd Quarter. Formerly occupied by Jeroboams, a new 10 year lease was granted outside the Act at a rent of £85,000 pa. EAT interestingly started trading in Midtown in 1996 from Villiers Street, WC2, and now has over 75 units across the UK. The decision to locate its latest outlet on Chancery Lane will benefit from ongoing improvements to the retail offer in the street.

In April 1994, the City of London took jurisdiction of the entire eastern side of Chancery Lane, and in 2005, the Chancery Lane Association was founded, to represent the larger landowners and has been preparing plans to improve the streetscape, supporting the retail offer. In 2006, with the assistance of the City of London, a Chancery Lane Strategic Development Plan was commissioned, adopted and now forms the basis for the allocation of Section 106 monies for environmental improvements, drawn from nearby developments such as The Rolls Building.

Three forthcoming high quality mixed-use schemes at 70, 40-45 and Lonsdale Chambers, Chancery Lane, WC2, along with improvements to traffic flow and hard landscaping, will accelerate growth in the retail market.

Figure 4. Indicative Best Zone A Rents in Selected Prime Locations during 2nd Quarter 2007.

LOCATION	ZONE A RENT £
Long Acre, WC2	400
Strand, WC2	180
High Holborn, WC1	175
Fleet Street, EC4	165
Ludgate Hill, EC4	130
Kingsway, WC2	110

# for the bigger picture

1 Pemberton Row  
Fetter Lane  
London  
EC4A 3ET

[www.farebrother.net](http://www.farebrother.net)



*This publication has been carefully prepared and it is intended for general guidance only. No responsibility is accepted by Farebrother for any errors or omissions. The information contained herein should not be relied upon to replace professional advice on specific matters and is not, in whole or in part, to be published, reproduced or referred to without prior approval. Information may be subject to revisions in subsequent editions.*

*This research document is produced by Farebrother with the assistance of Chippendale Consulting & Research (CCR).*

©2007 Farebrother. All rights reserved.

Design: [www.cogentmarketing.co.uk](http://www.cogentmarketing.co.uk)

## MANAGING PARTNER

Alistair Subba Row

## LEASING SALES AND DEVELOPMENT

Julian Hind  
Alistair Subba Row  
Iain Malcolm  
James Askham

## PROPERTY MANAGEMENT

Andrew Glover  
Jon Batt  
David Harris

## INVESTMENT

Niall Gallagher  
Myles Bridges

## LANDLORD & TENANT

Malcolm Brackley  
Huw Colwyn Foulkes

## BUSINESS RATES & VALUATION

Jeff Norris

## RETAIL

Jonathan Quelch

*email: first name initial followed by surname@farebrother.net*