

midtown

Bloomsbury Covent Garden Holborn / Kingsway King's Cross

Advised by Farebrother, **Oxford Properties** acquired a 50% stake in the 352,533 sq ft Midtown trophy office asset, **MidCity Place, High Holborn, London, WC1**, from **Beacon Capital Partners LLC**



Farebrother

research Q2 2011



The iconic 308,175 sq ft, **Centrepoint, 103 New Oxford Street, WC1**, was sold to **Almacantar** by the LPA Receiver for c. £120 million.

Commentary



Julian Hind

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Rents rise as no new space is delivered and take-up is above average

The 2nd Quarter's performance is evident of a strengthening leasing Midtown office market. Total office take-up continued to be above average at 555,000 sq ft. Availability fell by a significant 22% to a total availability rate of 5.5%, the biggest drop in the vacancy rate in seven years, driven by above average take-up and limited new supply. With no new or refurbished space delivered in the 2nd Quarter and just 323,000 sq ft of speculative space scheduled to complete in the 2nd half, some of which is already under offer, we expect supply to tighten still further to 4.7% or only 1.6m sq ft by the end of the year. Headline rents will rise as a result.

WC2 take-up remained high at 353,000 sq ft and accounted for 64% of all Midtown take-up, largely due to the Google letting at Legal & General and Mitsubishi's Central Saint Giles. Despite this large transaction of new space, take-up fell by 21% and although we do not expect take-up in the 2nd half of the year to be as strong as the 1st, we have raised our projection of total take-up for 2011 by 100,000 sq ft to 2.05 million sq ft. UK & European's 1 Kingsway has just completed and is the only new Midtown development to become available this year. We expect great interest from acquiring occupiers and for it to set new rental levels for the area.

A fall in supply of 526,000 sq ft to 1.9 million sq ft was largely a result, but not limited to, the steep 58% drop in available new and refurbished space. Secondhand availability fell by 15% to 1.75 million sq ft, the majority of which was driven by Secondhand Grade A space take-up in the absence of available new and refurbished offices.

Investment transactions totalled £539 million in the 2nd Quarter, a continuation of the strong performance in the 1st Quarter. In the largest transaction, Oxford Properties, advised by Farebrother, acquired a 50% stake in the landmark building, MidCity Place. The 352,533 sq ft asset was acquired from Beacon Capital Partners LLC. Also in WC1, the 308,175 sq ft iconic Centrepoint building was acquired by Almacantar from the LPA Receiver for c. £120 million.

The 2nd Quarter was also significant in terms of the performance of the Midtown retail market. In an innovative development, supermarket chain Waitrose secured a 15 year lease on a large new retail unit at Weston House, 243-245 High Holborn, WC1. The 9,325 sq ft unit was created out of two existing retail units and ground floor covered car parking spaces in order to attract retailers seeking the bigger units that are currently in short supply in Midtown. Waitrose out-bid three other serious contenders to secure its new outlet at an annual rent amongst the highest paid for an A1 use in this part of Midtown. Farebrother advised the freeholder.

Take-up

Lack of supply curtails growth in take-up

In the 2nd Quarter take-up was 555,000 sq ft, a reduction of 21% on the 1st Quarter (Figure 1). Whilst this was the first significant reduction in take-up since the 1st Quarter 2010, it was still 5% above the seven-year quarterly average. Take-up in WC2 remained high at 353,000 sq ft accounting for 64% of all Midtown take-up. The shortage of other transactions indicates a temporary lack of choice in the market.

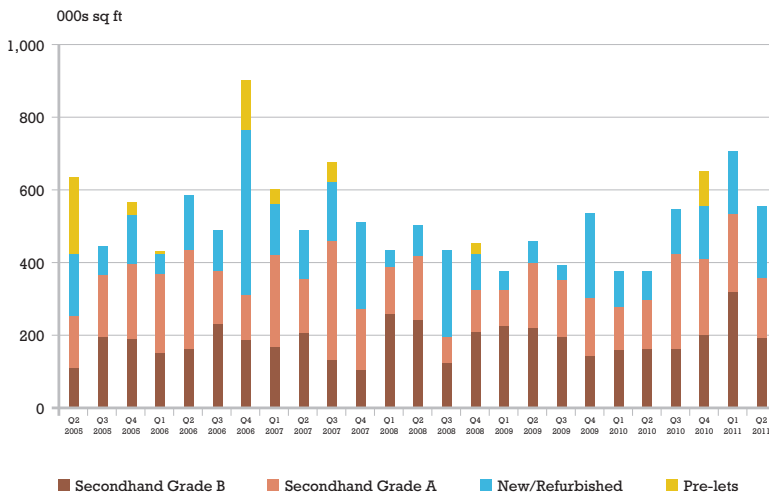
Total take-up of new and refurbished space rose to 200,000 sq ft, an increase of 20% on the 1st Quarter. In the largest letting, Google took the last 157,633 sq ft of available space at Legal & General and Mitsubishi's Central Saint Giles, St Giles High Street, WC2, on a ten-year lease with a five-year break option aligned with the lease expiries of their existing offices in Victoria. It is predicted that the company will therefore have a large pre-letting requirement of 400,000-700,000 sq ft for occupation in 2016.

In a further major letting of new space, Threadneedle Investments UK let its newly acquired 31,000 sq ft office development at 60 St Martin's Lane, WC2, to Media Planning Group, a subsidiary of global media group Havas. The development, built behind an original façade was completed by ING in 2010 and has been leased for 15 years at a rent of £53 per sq ft. At the time of writing, 50,000 sq ft of the 79,000 sq ft of available new offices in EC4 was under offer, reducing choice for acquiring occupiers.

Take-up of secondhand space reduced significantly in the 2nd Quarter, down 33% to 355,000 sq ft. Secondhand Grade A take-up was down 24% to 165,000 sq ft, while secondhand Grade B take-up was 40% lower at 190,000 sq ft. It is the steepest drop in secondhand take-up since the 2nd Quarter 2010, when it was at 296,000 sq ft and largely due to the current lack of better quality space.

Total take-up for the 1st half of 2011 was a robust 1.26m sq ft after record take-up in the 1st Quarter and the significant Google deal in the 2nd. We do not expect take-up in the 2nd half of 2011 to be as strong as in the 1st half but, nevertheless, we have revised our projection for 2011 take-up from 1.95 million sq ft to 2.05 million sq ft. This would be the highest annual total since 2007, the final year of the last boom in the Central London office market.

Figure 1: Quarterly Office Take-up in Midtown 2005-2011



Source: **Farebrother**

Selected office lettings in Midtown

Occupier	Address	Grade	Sq ft	Reported Rent £psf
Google UK Limited	Central Saint Giles, 1-13 St Giles High Street, WC2	New	157,633	Conf.
Media Planning Group	60 St Martin's Lane, WC2	New	31,271	53.00
Pricewaterhouse-Coopers	80 Strand, WC2	Secondhand Grade A	20,000	Conf.
Save the Children	St Vincent House, 30 Orange Street, WC2	Refurbished	14,624	28.00
Inferno Limited	31 Great Queen Street, WC2	Secondhand Grade A	10,386	40.00
ACM Shipping	Grand Buildings, 1-3 Strand, WC2	Secondhand Grade A	10,070	50.05 (Plus reverse prem.)
International Bar Association	10 St Bride Street, EC4	New	8,310	45.00
LivingSocial	Wellington House, 25 Wellington Street, WC2	Secondhand Grade B	8,264	32.50
Twofour Broadcast Limited	Kingsbourne House, 229-231 High Holborn, WC1	Secondhand Grade B	7,121	24.00
College of Emergency Medicine	7-9 Bream's Buildings, EC4	Secondhand Grade A	7,102	2.925m (Freehold)
Sue Ryder Care	16 Upper Woburn Place, WC1	Secondhand Grade A	6,895	31.00
Human Rights Watch	Audrey House, 16-20 Ely Place, EC1	Secondhand Grade A	6,760	27.50
Remark Limited	18 Leather Lane, EC1	Secondhand Grade B	6,133	Conf.
The Meaningful Marketing Group Limited	Drury House, 34-43 Russell Street, WC2	Secondhand Grade A	5,900	37.50
Target Consulting	76 Shoe Lane, EC4	Secondhand Grade B	5,619	Conf.
Idox Group	Chancery Exchange, 10 Furnival Street, EC4	Secondhand Grade A	5,500	36.50

Source: **Farebrother**

Availability

New and refurbished availability at a ten-year low

Following a twelve-month decline in Midtown's office supply, availability fell by a further 22% in the 2nd Quarter. The availability rate fell from 7% to 5.5%, half that of the City (10.8%) and a significant 1.6% points lower than the West End (7.1%). The amount of ready-to-occupy offices dropped 526,000 sq ft to 1.9 million sq ft, the biggest absolute reduction in Midtown office supply since the 4th Quarter 2004.

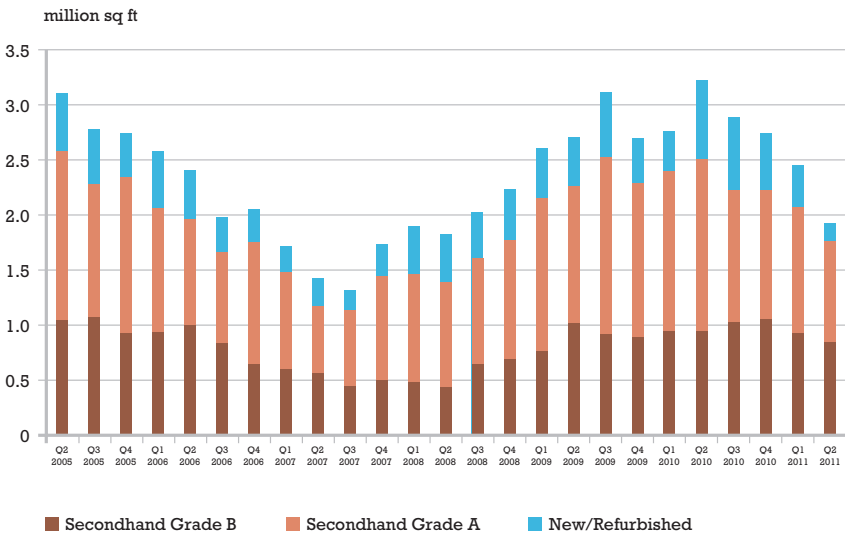
The supply of new and refurbished space fell to 157,000 sq ft in the 2nd Quarter, in just nine schemes, a steep fall of 58%. This is the lowest level of new and refurbished availability in the market since 2001. The reduction was largely as a result of a delay to four developments totalling 323,000 sq ft which were scheduled to reach practical completion in the 2nd Quarter and are now expected to complete by the end of the 3rd Quarter. In addition, 200,000 sq ft of new and refurbished space was let in the 2nd Quarter, principally at Central Saint Giles, WC2, and 60 St Martin's Lane, WC2, which between them accounted for 94% of new and refurbished take-up.

Falling supply, however, was not limited to new and refurbished stock. Secondhand availability dropped by 15% to 1.75 million sq ft, a reduction of 307,000 sq ft. The drop was greater on secondhand Grade A space where the reduction was 20% to 916,000 sq ft. Secondhand Grade B space fell by 12% to 842,000 sq ft.

Within Midtown the availability rate ranged from just 4.6% to 8.6% in the Midtown sections of EC4 and EC1 respectively. The rates for WC1 and WC2 were 5.7% and 5.2% respectively. The most significant reduction in the 2nd Quarter was in WC2 which fell from 8.3% to 5.2% due to a total take-up of 421,000 sq ft.

We have revised our projection of year-end supply as a result of this more rapid fall in availability. We expect availability in Midtown to be 1.6 million sq ft at the end of 2011, an availability rate of just 4.7%, the lowest rate since the last peak of the market in the 3rd Quarter 2007.

Figure 2: Quarterly Office Availability in Midtown 2005-2011



Source: **Farebrother**

Future supply

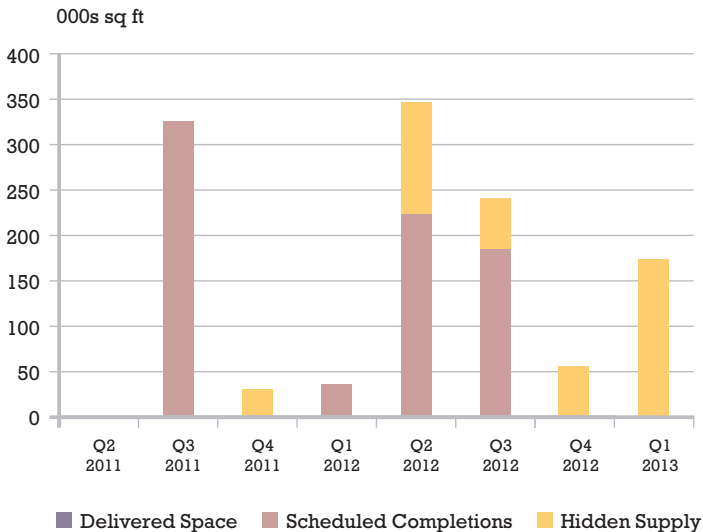
Four refurbishment starts kick-off a new round of speculative construction – but more is needed

Total office construction activity increased further during the 2nd Quarter, providing evidence of developers responding to current and future shortages of high quality stock in Midtown. Overall construction activity increased by 27% to 784,000 sq ft, 765,000 sq ft of which is being developed speculatively. The increase in speculative construction was 28%. No new or refurbished space was delivered to the market in the 2nd Quarter due to the delayed completion of four schemes totalling 323,000 sq ft.

There were four construction starts in the 2nd Quarter, all of them speculative. Three of the schemes are located in WC2. At Denning House, 90 Chancery Lane, WC2, the Charities Property Fund commenced a 35,000 sq ft refurbishment of the building which was until recently occupied by BNP Paribas. Completion is due in 1st Quarter 2012. At Alexandra House, 29-33 Kingsway, WC2, Aviva began the refurbishment of 57,000 sq ft former Government offices which is scheduled to finish in the 2nd Quarter 2012. The 2nd Quarter 2012 will also see completion of Legal & General's refurbishment of 6 Agar Street, WC2, formerly GE Capital's London headquarters. A twelve-month building programme, which includes an extension and a new entrance, will deliver the 50,000 sq ft building to one of the highest rental value locations in Midtown. Further East, at 28 Kirby Street, EC1, new owner Seven Capital and Mercer Real Estate began a mixed-use refurbishment, which will include 24,000 sq ft of offices on basement, ground and 1st-4th floors, with five residential apartments on 5th and 6th floors.

A further 437,000 sq ft in 12 buildings over the next 18 months has the potential to become available primarily as a result of relocations by 1st Quarter 2013. This space is described as 'hidden supply', being neither on the open market nor in the development pipeline. More schemes are, however, needed to increase the thin supply of new and refurbished stock and to meet demand.

Figure 3: Future Supply in Midtown 2011-2013



Source: **Farebrother**

Investment



Alastair Hilton

Demand from all sectors continues, particularly from active overseas Investors

Above average investment activity continued during the 2nd Quarter with over half a billion pounds (sterling) transacted. The table provides the details of 14 key transactions. With total transactions in the 1st half of the year at £1.4 billion and high quantum transactions such as 110 Fetter Lane, EC4, expected to complete in the 2nd half, total investment in 2011 looks set to rise above the level last seen in 2007 (£2.6 billion) and already exceeds the £1.25 billion transacted throughout 2010.

The largest transaction in the 2nd Quarter was Oxford Properties acquisition of a 50% stake in MidCity Place, High Holborn, WC1, from US Investor Beacon Capital. The property is recognised as one of Midtown's key trophy buildings. The acquisition of the stake in MidCity Place forms an essential part of Oxford Properties' strategy to create a high quality portfolio of office assets in Central London that offer good asset management prospects. The second notable transaction was at Centrepont, 103 New Oxford Street, WC1. The 34-storey office tower at Midtown's Western gateway was acquired by Almacantar from the LPA Receiver for c. £120 million. An interesting feature of the market is that 12 of the 14 transactions, including the 10 largest, were in WC postcodes.

The Farebrother IPD Midtown Investment Report 2010, launched in the 2nd Quarter 2011, recognized the growing number of Investors that continue to be attracted by Midtown's strong rental growth prospects underpinned by a diversity of well-financed occupiers. As a result Midtown recorded both the highest income return at 6.1% and highest rental growth at 7.1%. Investors will continue to be attracted by these fundamentals and the strong performance in the 1st half of 2011 is expected to continue as a result.

Prime yields, currently at c. 5.25%, are expected to come under pressure to shorten. This will be driven by the increase in headline rents, scarcity of suitable target buildings and sustained competition from a well-funded, diverse and growing group of Investors. Of the three principal Central London markets, Midtown has the potential to offer both a higher rate of capital growth than the West End and a higher rate of rental growth than the City and this will continue to attract Investors.

Selected transactions in Midtown

Address	Size sq ft net	Vendor	Purchaser	Reported Price £m
MidCity Place, 58-71 High Holborn, WC1	352,533	Beacon Capital Partners LLC	Oxford Properties	Conf. (50% stake)
Centrepoint, 103 New Oxford Street, WC1	308,175	LPA Receiver to Targetfollow	Almacantar	120.0
Covent Garden Portfolio, WC2	71,900	Derwent London	Capital & Counties	68.0 (5 buildings)
5 Chancery Lane, WC2	83,764	HSFB	Overseas Investor	60.5
5 Strand, WC2	72,104	Monaco Investors	BlackRock	53.5
7-8 St Martin's Place, WC2	47,810	EstCapital	WELPUT	41.0 (long leasehold)
60 St Martin's Lane, WC2	31,820	ING	Threadneedle	26.0
Isis House, 74 New Oxford Street, WC1	19,511	Private Investor	Private Investor	9.5
12 James Street, WC2	1,275	Private Investor	Capital & Counties	6.2
Buckingham House, 6-7 Buckingham Street, WC2	7,894	Private US Investor	Amazon Properties	4.0
28 Kirby Street, EC1	20,754	Tiger Lees Properties	Mercer Real Estate Partners	3.9
Target Building, 7-9 Bream's Buildings, EC4	7,102	Dulwich Estate Services	College of Emergency Medicine	2.925 (owner-occupier)
The Chancery, 9-13 Cursitor Street, EC4	8,093	Structadene	Colville Estate	1.8
15 Exeter Street, WC2	1,664	Structadene	NK	1.045

Source: **Farebrother**

Retail



Josephine Campos e Sousa

Strong demand from major retailers – large units will let

Midtown retail, along with the rest of Central London retail markets, has continued to outperform the wider UK market in the 2nd Quarter. The market has been buoyed by stable and even rising London employment levels as well as by the weakness of the pound, which continues to attract tourists and enhance their retail spend.

Demand for units continued to be strong from all sectors in the 2nd Quarter, particularly from fashion, food (convenience), services and sandwich / coffee shops. Notable deals in Midtown for the 2nd Quarter include American ladies' fashion retailer, Eileen Fisher which secured 2,774 sq ft on a 10-year lease at St Martin's Courtyard, Long Acre, WC2, at a Zone A rent of £175 and Jones the Bootmaker which secured 1,138 sq ft on a 13 year lease at 72-74 Fleet Street, EC4, at a Zone A rent of £140. TM Lewin took 1,752 sq ft at 20-23 High Holborn, EC1, at an annual rent of £135,000 pa and EAT took 1,833 sq ft on a 10 year lease at 2 Gray's Inn Road, WC1.

The most significant transaction of the 2nd Quarter 2011 was the letting of 9,235 sq ft at Weston House, 243-245 High Holborn, WC1, to food supermarket Waitrose on a 15 year lease. Two commercial units, formerly occupied by Blackwell's bookshop and Clinton Cards as well as a covered car park, were re-developed and extended to make a large unit over ground and basement. This was the successful result of a proactive approach to creating the space required in a market that lacks large, well-configured retail units. Several major brands submitted bids for the retail unit. Farebrother advised the Freeholder. Better-configured units need to be delivered to the market to attract a stronger tenant mix and so generate better returns – some Midtown landlords are beginning to work together to meet this challenge.



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