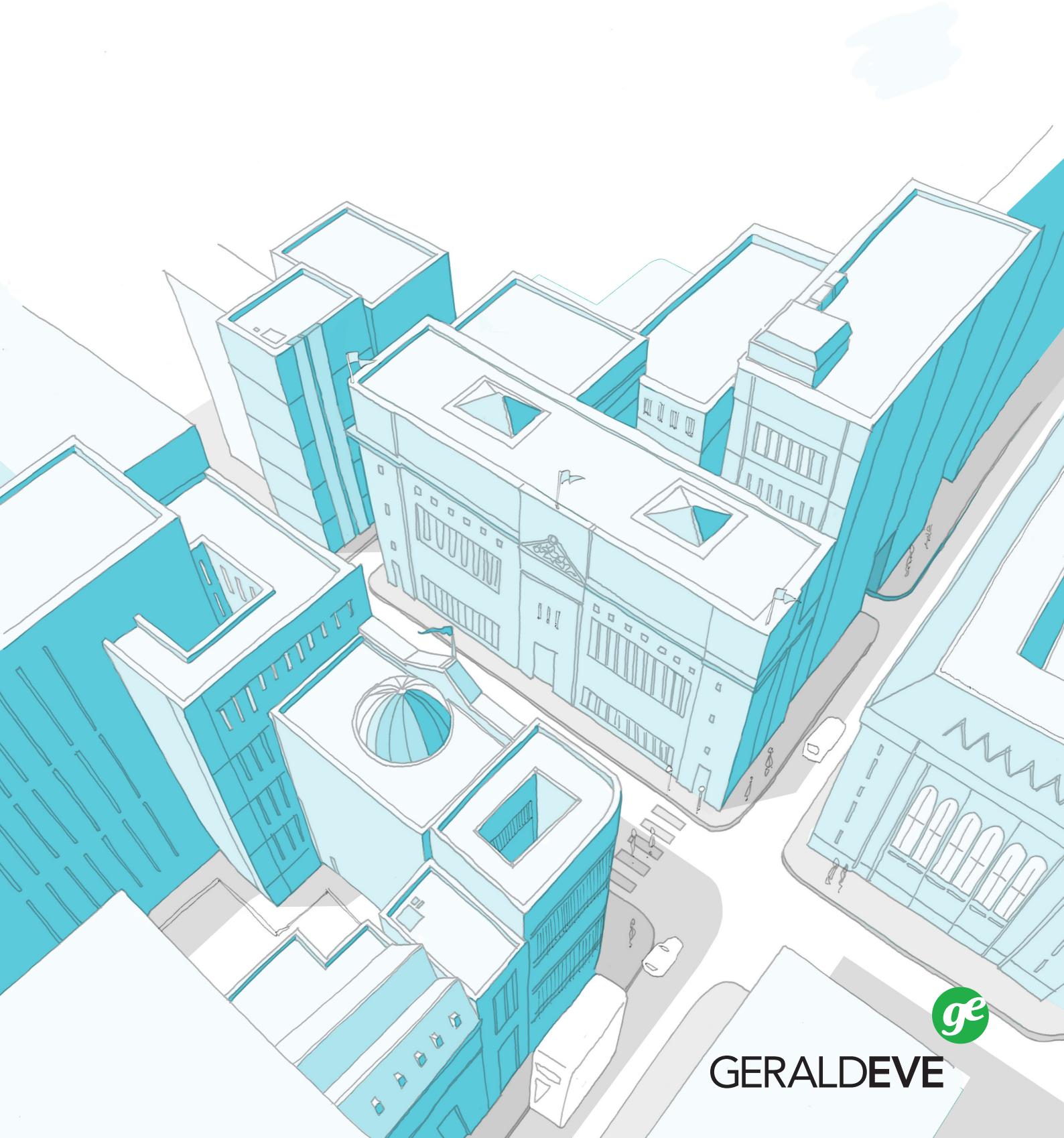


# CITY FLOOR REVIEW

A floor-by-floor analysis of the City office market  
Q1 2015



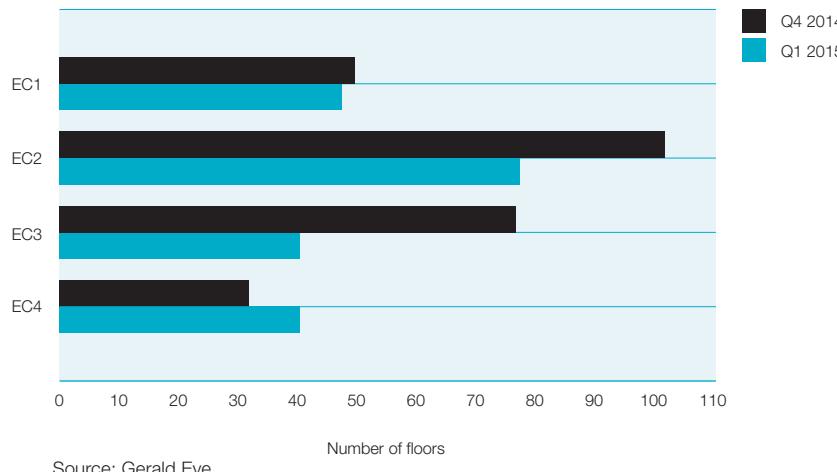
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# FIRST QUARTER REVIEW

THE QUARTER IN NUMBERS	Q ON Q	Y ON Y	Comment
<b>374 floors</b> available, totalling 2.9m sq ft	 15% by floors	 36% by floors	The number of floors on the market fell sharply in Q1, equating to a 0.9 million sq ft reduction in overall availability.
<b>204 floors</b> taken-up during Q1, totalling 1.58m sq ft	 21% by floors	 3% by floors	EC2 was the most popular postcode during Q1, accounting for 38% of all transactions.
<b>190 floors</b> under offer totalling 1.37m sq ft	 43% by floors	 32% by floors	There is a considerable amount of space under offer, driven by occupier interest in small to medium sized floors in EC2.
<b>7,721 sq ft</b> average size of floor taken-up	 6,291 sq ft	 5,998 sq ft	This is the largest average floor size we have recorded – driven by the take-up of large floorplates at buildings such as 1 New Street Square and 30 Gresham Street.
<b>£63.50 /sqft</b> City prime headline rents	 £62	 £60	Prime rents rose during Q1 and there are several deals under offer which we expect will show further rental growth in 2015.
<b>96 floors</b> City office net absorption during Q1	 57 floors	 228 floors	This is the fifth consecutive quarter of positive net absorption in the City, driven by constant levels of take-up and low levels of development completions.

# DEMAND

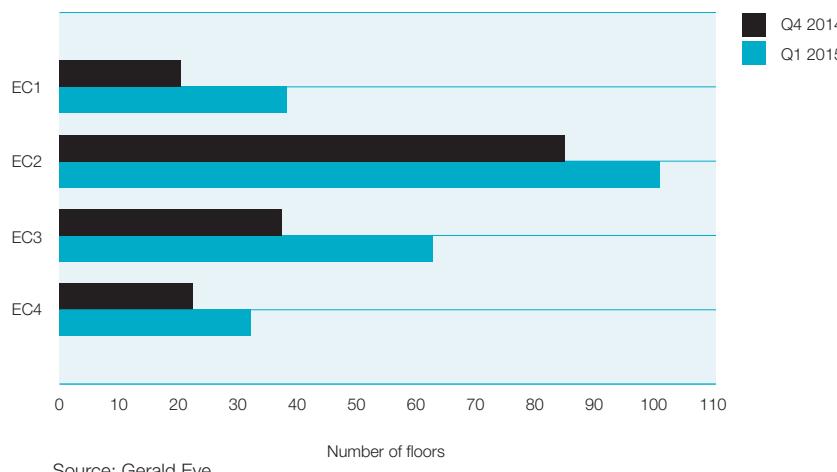
## Q1 TAKE-UP BY POSTCODE



Source: Gerald Eve

Despite a handful of headline-grabbing lettings including Deloitte pre-letting 275,000 sq ft over 15 floors at 1 New Street Square, the number of floors taken-up fell by 21% on the quarter. However, the actual volume of space was broadly comparable with Q4 2014, reflecting an increase in the average size of floor transacted.

## Q1 UNDER OFFERS BY POSTCODE



Source: Gerald Eve

The number of floors under offer posted a quarterly increase across all postcodes, with 190 floors totalling 1.37 million sq ft in solicitors' hands at the end of Q1. 47% of this space is categorised as 'new', which in turn has placed further pressure on the already-weak development pipeline. With over 80 floors under offer, EC2 was the most popular location with tenants in Q1, with several floors at 125 Wood Street, Tower 42 and Moor Place going under offer.

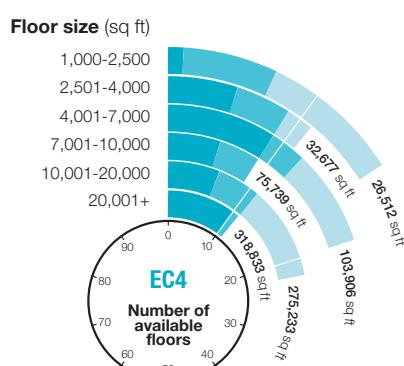
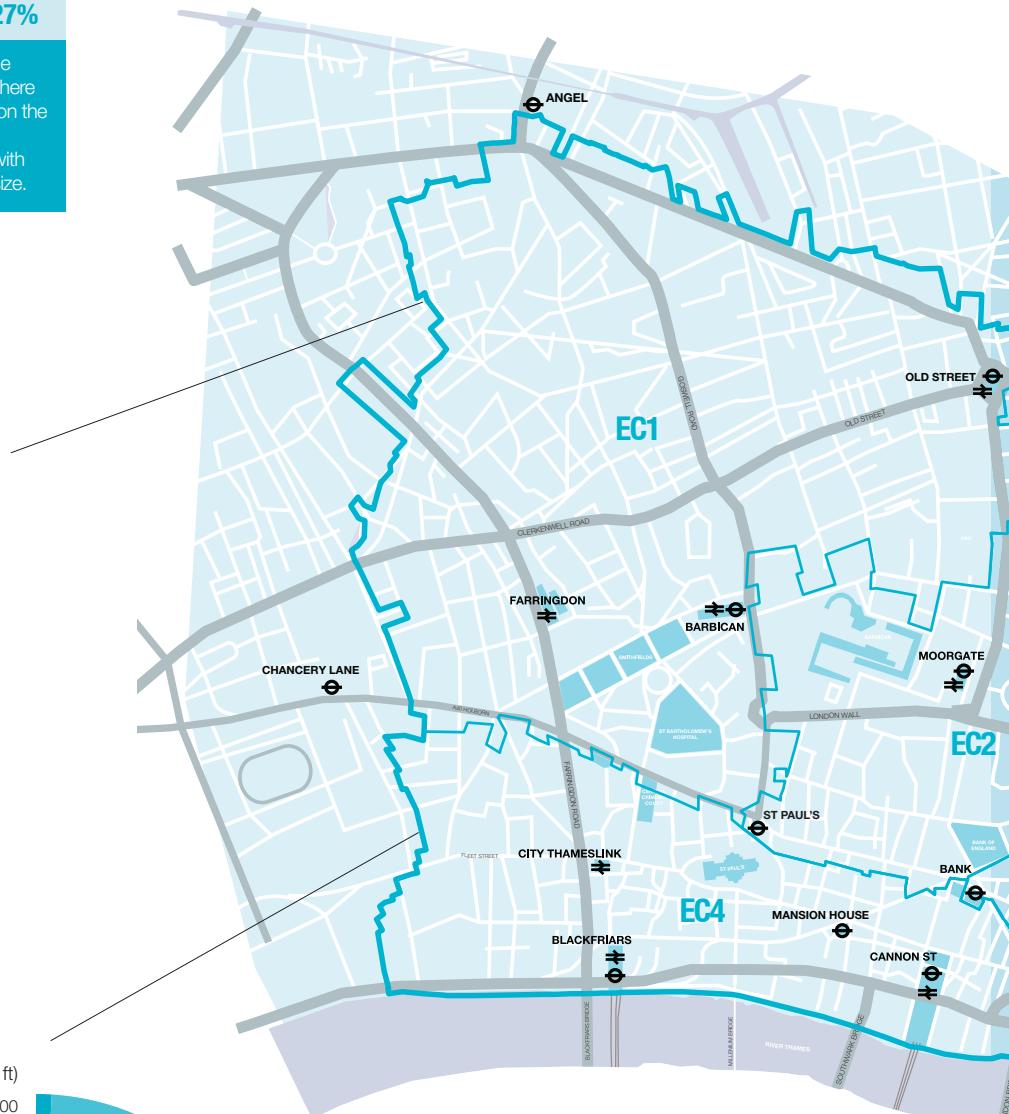
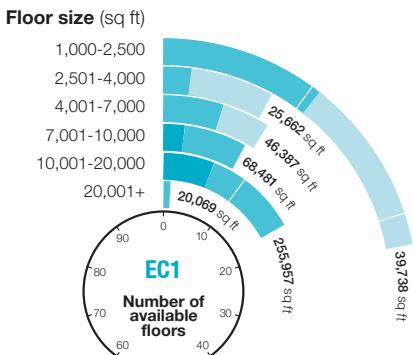


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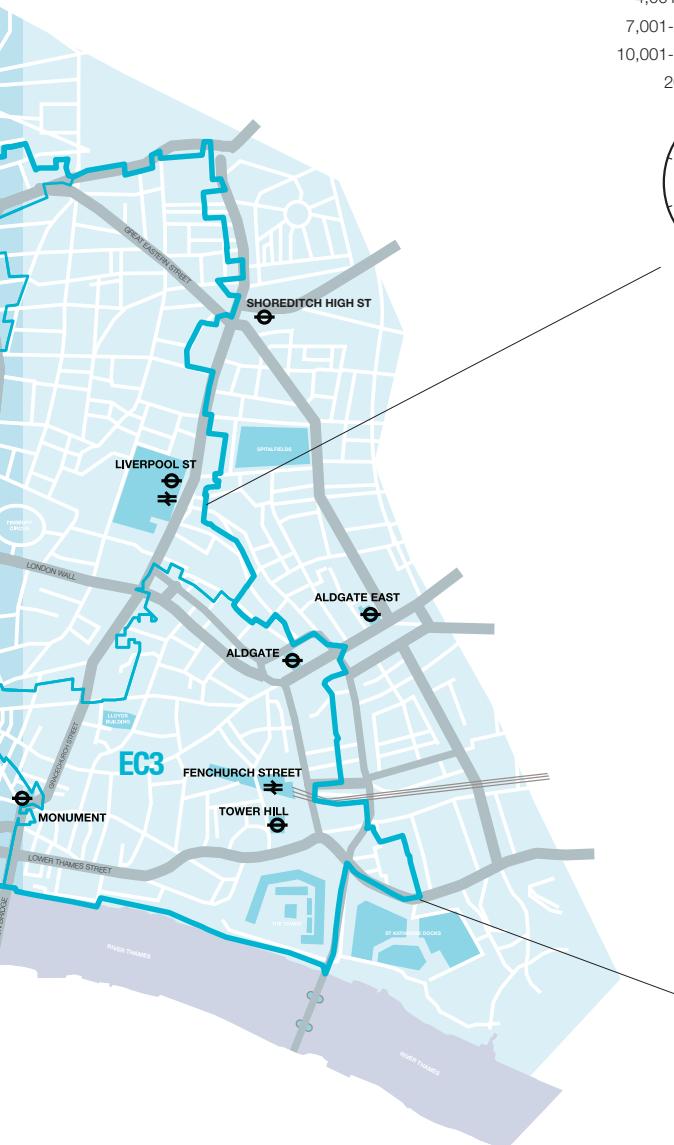
# Q1 2015 SUPPLY

Here we detail our findings on the supply of floors by each postcode, indicating the number of available floors for each floor size category as well as the respective quality of each available floor.

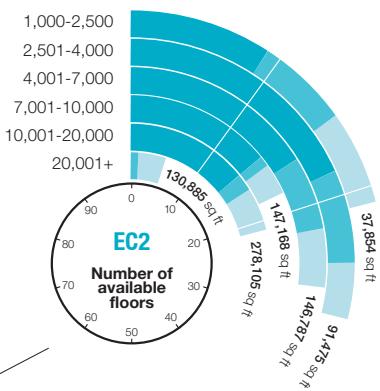
SUPPLY	UNDER OFFERS
374 floors ↓ 15% on Q4	2.9m sq ft ↓ 23% on Q4
190 floors ↑ 43% on Q4	1.37m sq ft ↑ 41% on Q4



Source: Gerald Eve  
Arrows indicate quarterly movement in the number of floors.



Floor size (sq ft)



### EC2

▼ 24%

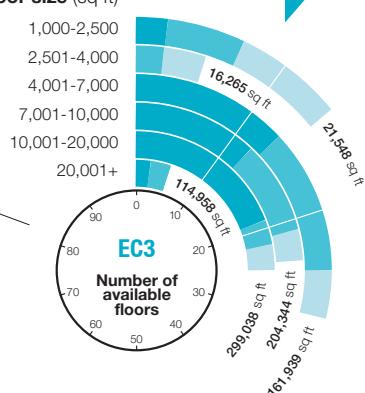
Strong levels of take-up have further eroded the amount of space being marketed. This is particularly noticeable for floors between 10,001-20,000 sq ft as the number available has halved during the quarter. With around 80 floors currently under offer, further falls in availability are expected throughout 2015.

### EC3

▼ 28%

Supply has fallen sharply for three consecutive quarters and the best space continues to attract significant interest, accounting for a significant proportion of the almost 400,000 sq ft currently under offer.

Floor size (sq ft)

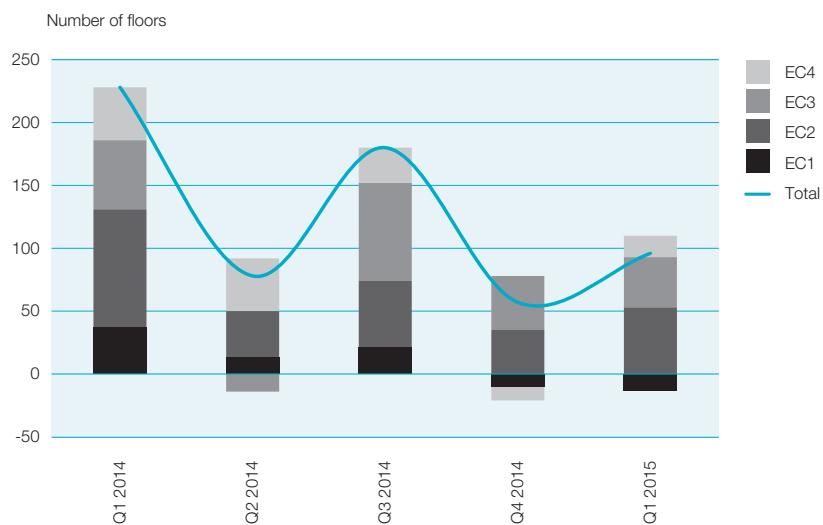


# NET ABSORPTION

## QUARTERLY CHANGE IN OCCUPIED SPACE

The restricted supply in the City office market intensified further in Q1 and availability fell across the majority of sub-markets. Large pre-lets agreed either at the construction phase or close to completion over the last six months has added extra pressure to the development pipeline and 2015 looks set to be a 'crunch' year for occupiers as the choice on offer will reduce further. Given this, we thought it would be useful to measure how, since the start of 2014, this has affected overall net occupancy of City office space and which areas have been most affected.

Through subtracting the change in the marketed available space (both by the number of floors and the overall volume of space) between two time periods from the amount of development completions added to the market within the same time period, we have been able to determine the number and volume of space absorbed on a net basis. The findings have highlighted not only the strength of the leasing market, but has also identified the locations driving it.



Source: Gerald Eve

The City office market posted 1.08 million sq ft of positive net absorption during Q1, housed within 96 floors. This is a substantial increase on the last quarter of 2014 and marks the fifth consecutive quarter of positive net absorption. It was the strong levels of absorption in EC2, with a net increase in occupancy of over 50 floors which drove this quarterly total.

Conversely, EC1 witnessed negative net absorption for the second consecutive quarter, as the number of floors on the market increased, particularly small to medium sized floors.

# DEFINITIONS

## Availability

Floorspace over 1,000 sq ft in size and available to move into within six months which may or may not be vacant but which is actively marketed by an appointed agent. We monitor availability in central London at an individual floor level as well as by the total volume of space. Each floor is assigned a floor size category and is graded for quality. The availability data covered in this report represents buildings within the postcodes EC1, EC2, EC3 and EC4, as depicted in the map. The floor area in sq ft adopted throughout is the net internal area. Availability is accurate two weeks prior to the end of the quarter. Floors which are under offer but are yet to complete are not included in our analysis.

## Newly available space

Space on the open market (including developments) which are within 6 months of completion. This includes units of secondhand space which are undergoing refurbishment.

## Requirement

A declared requirement for office accommodation with appointed agents, which needs to be satisfied in the foreseeable future. Our requirements data covers all of the postcodes EC1, EC2, EC3 and EC4, unless otherwise stated. If the requirement has a preferred size 'range', the average size of the requirement is used. Given requirements often include a range of targeted geographies, we have included the requirement for each of the sub-markets when analysing individual sub-markets, but, when calculating overall City requirements, duplicates are removed.

## Prime headline rents

The rent being paid which may not take account of concessions such as rent free periods or other incentives. We have adopted the 'best achieved' methodology and where there is no evidence; rents are recorded on the basis of the best hypothetical transaction which could be achieved at the end of that quarter. Our definition of a prime transaction covers a 10,000 sq ft office in a low rise, grade A building signed on a ten year lease.

## Incentives

This refers to the concessions offered by a landlord to a tenant as part of the negotiation process. Incentives usually adopt the form of rent free periods, but can also be in the form of capital contributions or the fit-out of the building.

## Future supply

This is essentially a review of development due to be delivered to the market and does not include space bought to the market in the future due to lease expiries or the natural churn of stock. We cover those floors over 1,000 sq ft in size which are being developed and are due to be delivered to the market.

## Floor quality

**New:** Floor in a newly-developed or newly-refurbished building, including sub-let space in new buildings which have not been previously occupied.

**Refurbished:** A floor which has been comprehensively refurbished and is of good specification, floorplate efficiency and image, but is in a building which is not new or been comprehensively refurbished.

**Unrefurbished:** Poorer quality space, usually offered for occupation 'as is'.

## Under offer

Space which a prospective occupier has agreed in principle to occupy, but is most likely to not as yet be under any legal or contractual obligation to do so.

## Take-up

Occupational transactions including offices let or sold to an occupier, developments pre-let or pre-sold to an occupier or an owner occupier purchase of a freehold or long leasehold.

## Quality of choice

This is a subjective measure holistically assessing the appropriateness of current availability to modern office requirements. Whilst our figures may represent a large number of floors available in particular size categories or postcode geographies, the floorplate efficiencies or amenities on offer within this supply may not meet all the expectations of modern office tenants and the quality of choice would be lower.

## Floor / Floorplate

As well as the total volume of space being marketed as available, we also monitor the number of floors which account for this total volume. We monitor whether it is a full floor or part floor which is being marketed, although for our statistics, we treat an individually-marketed 'part' floor as 'one' floor. If a floor is capable of subdivision to accommodate two suites, but can likewise be occupied together, we use the total floor plate for that floor.

## Net absorption

This measures the net overall balance of occupied space over a prescribed time period. We calculate net absorption by subtracting the change in available space (both by the number of floors and the overall volume of space) between two time periods from the amount of development completions added to the market within the same time period. For our calculation we assume that all available space is 'vacant' on the premise that space that is marketed as being available is underused and likely to be vacated. Known sub-let space and lease renewals are not factored into net absorption except where the lease renewal includes the leasing of additional space, and then that additional space is counted. Pre-letting of space in non-existing buildings is not counted in net absorption until the development is completed and the tenant takes occupation.



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