

# CITY FLOOR REVIEW

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A floor-by-floor analysis of the City office market  
Q3 2014



**GERALDEVE**

# THIRD QUARTER REVIEW

## THE QUARTER IN NUMBERS

**439 floors**

available, totalling 3.9m sq ft

**279 floors**

taken-up during Q3, totalling 1.7m sq ft

**174 floors**

under offer during Q3, totalling 1.2m sq ft

**6,176 sq ft**

average size of floor taken-up

**1,069**

recorded requirements

**3.5**

requirements per available floor

## Q ON Q



22% by floors



29% by floors



2.8% by floors



6,490 sq ft



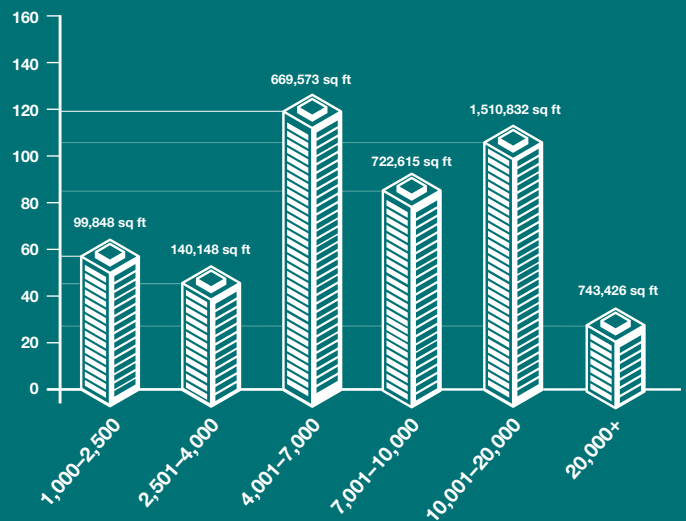
0.8%



up on 1.9 in Q2

## SUPPLY OF FLOORS IN THE CITY

Number of floors



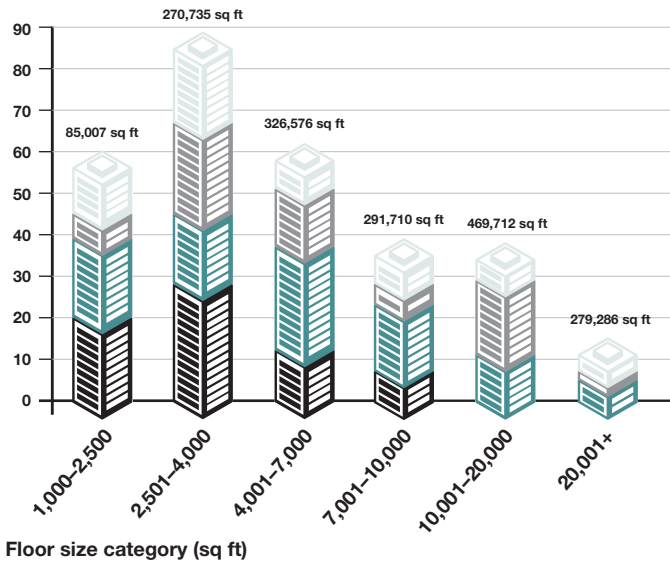
Floor size category (sq ft)

- strong levels of take-up are not matched by the return of space to the market and availability falls by 22%
- an already weak 2015 development pipeline is further compounded by continued under construction letting activity and development projects due for completion next year slipping into 2016
- we have not as yet seen the strong levels of rental growth widely anticipated for 2014
- looking forward, the supply/demand imbalance over the next six months is expected to result in prime rent rises as the supply of new space is significantly reduced

# DEMAND

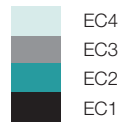
## TAKE-UP BY FLOOR SIZE CATEGORY

Number of floors



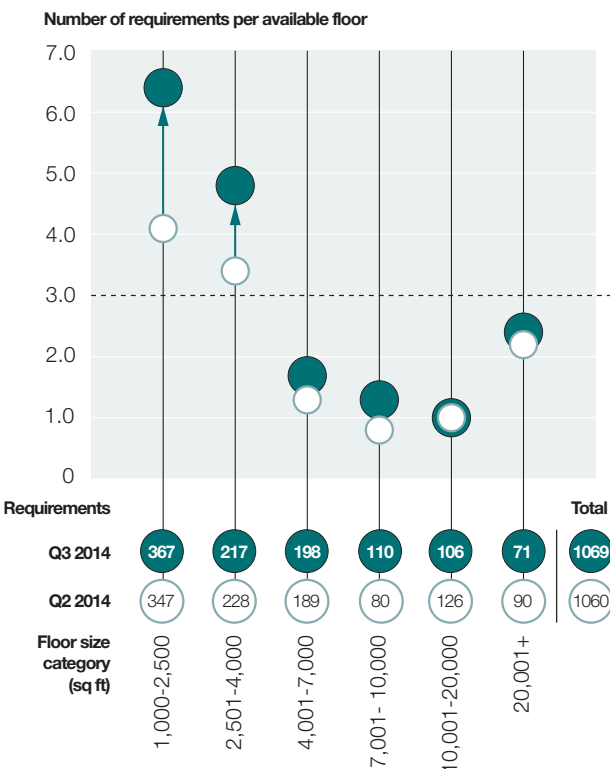
Demand for office space in the City was very strong in Q3. Both churn activity on smaller floorplates and expansionary pre-letting activity on larger floorplates increased during the quarter. Even excluding Amazon's pre-let of 431,000 sq ft over 16 floors at Principal Place (which falls just outside our postcode boundaries), take-up rose 29% by number of floors during Q3.

Occupier activity on large floors between 10,001-20,000 sq ft in size, particularly in EC3, increased during Q3. Lettings agreed in this category include the 8 floors at Sceptre Court, 40 Tower Hill to the London School of Business and Finance and three floors at One America Square to Chubb.



Source: Gerald Eve

## ACTIVE REQUIREMENTS PER AVAILABLE FLOOR BY FLOORSIZE CATEGORY



### HOT FLOORPLATES

Offices with floorplates under 4,000 sq ft in size are again the most in demand. Strong levels of take-up of the smallest floorplates during Q3 significantly reduced the supply of floors on the market and continued high levels of requirements are now being targeted at a reduced number of available floors.

### WARM FLOORPLATES

Levels of occupier interest in the largest floorplates over 20,000 sq ft in size have been incrementally rising for three quarters. The supply of such space has continued to be eroded by the implementation of occupiers expansion plans and the increase in letting activity early on in the construction process.

● Q3 2014

○ Q2 2014

Source: Gerald Eve

# Q3 2014 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 439 floors

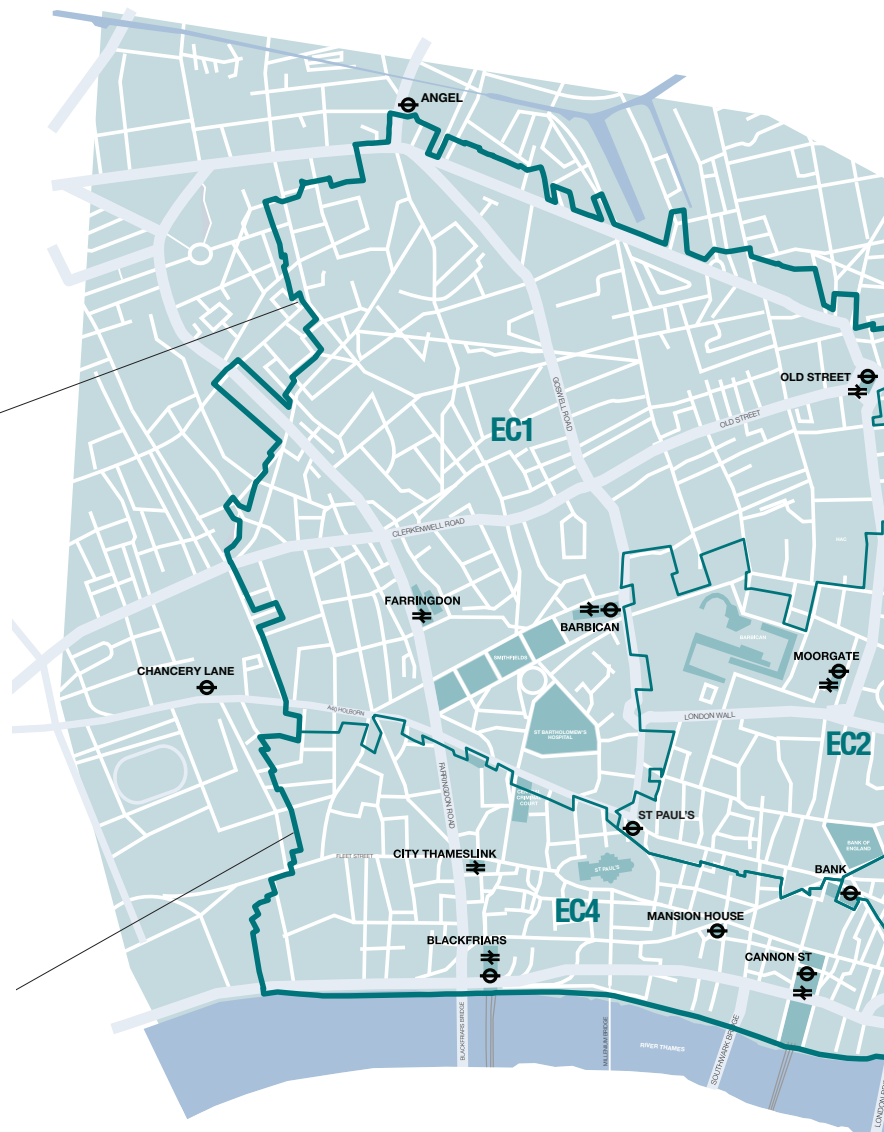
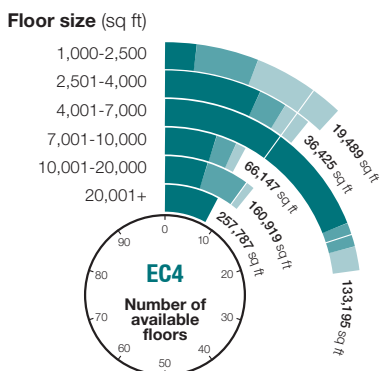
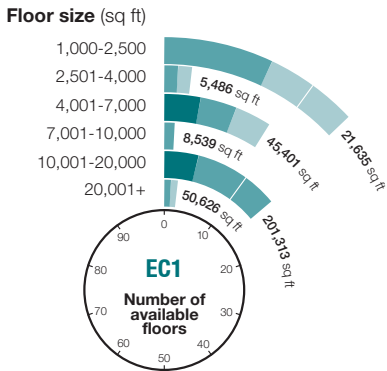
3.9m sq ft  
Down quarter on quarter

## UNDER OFFERS 174 floors

1.2m sq ft  
Down quarter on quarter

### EC1 ↘ 34%

The addition of floors at 1 St Martin's Le Grand, 120 Holborn and the Farmiloe Building on St John Street changed the supply dynamics during Q3, positively adding to the numbers of floors available between 10,001-20,000 sq ft in size.



### EC4 ↘ 15%

63% of all space on the market in EC4 is 'new'.

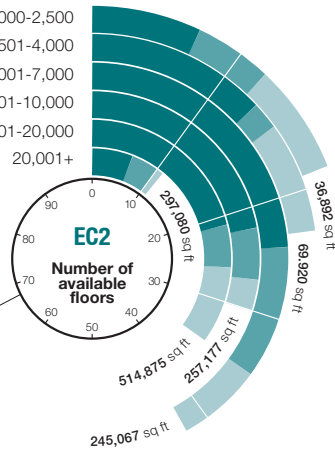
- New
- Refurbished
- Unrefurbished
- Postcode boundary
- City boundary

Source: Gerald Eve  
Arrows indicate quarterly movement.



**Floor size (sq ft)**

- 1,000-2,500
- 2,501-4,000
- 4,001-7,000
- 7,001-10,000
- 10,001-20,000
- 20,001+

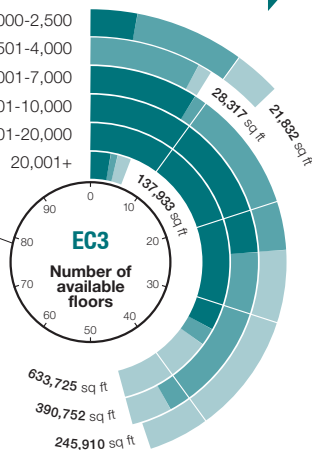


**EC2** ↘ **22%**

The increased level of take-up in EC2 has reduced the overall number of floors on the market. 58% of all space on the market in EC2 is 'new'.

**Floor size (sq ft)**

- 1,000-2,500
- 2,501-4,000
- 4,001-7,000
- 7,001-10,000
- 10,001-20,000
- 20,001+



**EC3** ↘ **21%**

Take-up of office space between 2,501-4,000 sq ft in size in EC3 was strong during Q3 and there is now no 'new' floors in this size category on the market. 44% of all space on the market in EC3 is 'new'.



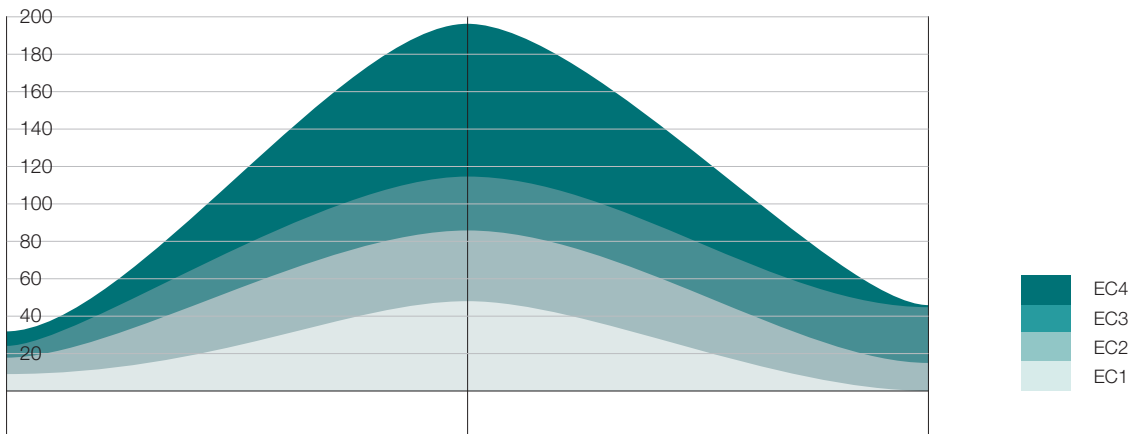
# FUTURE SUPPLY

The chart below indicates, by postcode, the number of floors which are expected to be added to total supply over the next three years.

## FLOORS IN DEVELOPMENT PIPELINE BY FLOOR SIZE CATEGORY

Number of floors to be added to future supply

Source: Gerald Eve



### 2015

There are very few floors due to be added to supply in 2015. The spate of under construction letting activity we have seen so far in 2014, together with development completion dates slipping into 2016 has meant that occupier choice will continue to be eroded.

### 2016

Several schemes with a total volume of over 2.2m sq ft are due to complete in 2016. By postcode, this is expected to have the largest impact in EC4 as schemes on King William Street and Cannon Street complete. By floor size category, it is floors between 10,001-20,000 sq ft which will witness the largest impact, as 79 new floors are expected in this size category.

### 2017

There are only 47 floors totalling 471,000 sq ft due to be delivered to the market in 2017.



#### ONE NEW LUDGATE, EC4

This Land Securities scheme is one of the few buildings due for completion in 2015. Following the early letting of the 3rd and 4th floors to Ropes & Gray, seven floors totalling 109,106 sq ft are currently expected to be added to supply.



#### WHITE COLLAR FACTORY, EC1

This Derwent London scheme will deliver almost 268,000 sq ft of offices over 31 floors, the majority of which are between 10,001-20,000 sq ft.



#### 2 LONDON WALL PLACE, EC2

This Oxford Properties owned scheme is due to be delivered to the market in 2017, offering 15 floors totalling 180,732 sq ft.

# DEFINITIONS

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## 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.

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## 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.

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## 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.

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## 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.

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## 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.

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## 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.

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## 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'.

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## 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.

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## 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.

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## 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.

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## 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 sub-division to accommodate two suites, but can likewise be occupied together, we use the total floor plate for that floor.

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# CONTACTS

Gerald Eve's London office team provides specialist advice across the spectrum including agency, investment, lease consultancy, rating, valuation, planning and development and project management. To find out more about us and what we could do for you please visit our website at [www.geraldeve.com](http://www.geraldeve.com) or contact the following people direct:

## CITY



**Simon Prichard**  
**Head of City Office**  
Tel. +44 (0)20 7653 6827  
Mobile +44(0)7796 930334  
[sprichard@geraldeve.com](mailto:sprichard@geraldeve.com)



**Fergus Jagger**  
**Office Agency**  
Tel. +44 (0)20 7653 6831  
Mobile +44 (0)7787 558756  
[fjagger@geraldeve.com](mailto:fjagger@geraldeve.com)



**Andrew Mears**  
**Investment**  
Tel. +44 (0)20 7333 6308  
Mobile +44 (0)7767 233801  
[amears@geraldeve.com](mailto:amears@geraldeve.com)

## WEST END



**Lloyd Davies**  
**Head of West End Agency**  
Tel. +44 (0)20 7333 6242  
Mobile +44 (0)7767 311 254  
[ldavies@geraldeve.com](mailto:ldavies@geraldeve.com)



**Paul Pride**  
**Office Agency**  
Tel. +44 (0)20 7333 6249  
Mobile +44 (0)7584 213455  
[ppride@geraldeve.com](mailto:ppride@geraldeve.com)



**Graham Foster**  
**Lease Consultancy**  
Tel. +44 (0)20 7653 6832  
Mobile +44 (0)7774 823663  
[gfooster@geraldeve.com](mailto:gfooster@geraldeve.com)

## PLANNING & DEVELOPMENT



**Hugh Bullock**  
**Head of Planning and Development**  
Tel. +44 (0)20 7333 6302  
Mobile +44 (0)7831 172974  
[hbullock@geraldeve.com](mailto:hbullock@geraldeve.com)



**Lisa Webb**  
**Planning**  
Tel. +44 (0)20 7333 6225  
Mobile +44 (0)7747 607309  
[lwebb@geraldeve.com](mailto:lwebb@geraldeve.com)



**Jeremy Randall**  
**Planning**  
Tel. +44 (0)20 7333 6328  
Mobile +44 (0)7768 617235  
[jrandall@geraldeve.com](mailto:jrandall@geraldeve.com)

## GERALD EVE'S UK OFFICE NETWORK

### London (City)

46 Bow Lane  
London EC4M 9DL  
Tel. +44 (0)20 7489 8900

### London (West End)

72 Welbeck Street  
London W1G 0AY  
Tel. +44 (0)20 7493 3338

### Birmingham

Bank House  
8 Cherry Street  
Birmingham B2 5AL  
Tel. +44 (0)121 616 4800

### Cardiff

32 Windsor Place  
Cardiff CF103BZ  
Tel. +44 (0)29 2038 8044

### Glasgow

140 West George Street  
Glasgow G2 2HG  
Tel. +44 (0)141 221 6397

### Leeds

1 York Place  
Leeds LS1 2DR  
Tel. +44 (0)113 244 0708

### Manchester

No1 Marsden Street  
Manchester M2 1HW  
Tel. +44 (0)161 830 7070

### Milton Keynes

Avebury House  
201-249 Avebury Boulevard  
Milton Keynes MK9 1AU  
Tel. +44 (0)1908 685950

### West Malling

35 Kings Hill Avenue  
West Malling  
Kent ME19 4DN  
Tel. +44 (0)1732 229423

For more information on any of the facts and figures in this publication, please contact:

### Steve Sharman

Tel. +44 (0)20 7333 6271  
[ssharman@geraldeve.com](mailto:ssharman@geraldeve.com)

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