

# Office Occupier Trends

## Overview Q2 2010

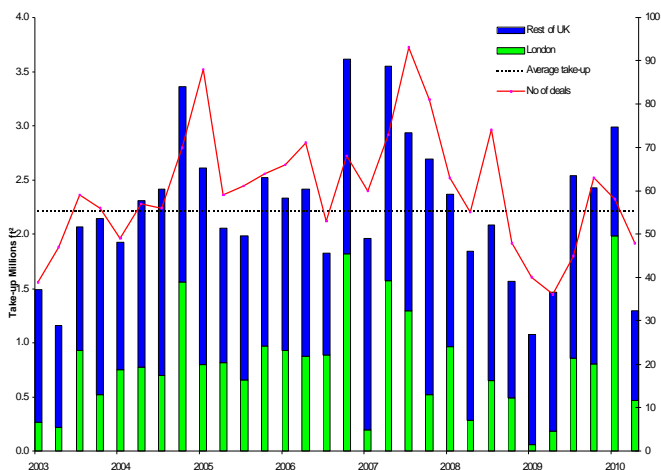
### Pause for breath?

- **Lowest quarterly take-up since Q1 2009 and third lowest since survey began**
- **London take-up plummets following record level in Q1**
- **Thames Valley reaches highest level since Q4 2008**

A total of 1.3 million ft<sup>2</sup> of office floorspace was acquired in Q2 2010, down 57% on Q1 2010 and 12% lower than the same period a year ago (chart 1). This was the lowest quarterly take-up recorded since Q1 2009 and the third lowest on record. A total of 48 significant\* deals were recorded, a fall of 17% from Q1, but an increase of 33% on the corresponding quarter last year. The average deal size fell by 47% from Q1 to Q2, which perhaps indicates a lack of willingness around the election for companies to commit to large chunks of office space.

But the underlying trend was still strong. In the year to June, take-up was 49% higher than the previous 12 months. The number of deals also increased by around 8%. The average deal size was around 43,000 ft<sup>2</sup>, up from 31,000 ft<sup>2</sup> in the preceding year.

**Chart 1: Summary of UK market activity: volume of take-up and number of transactions**

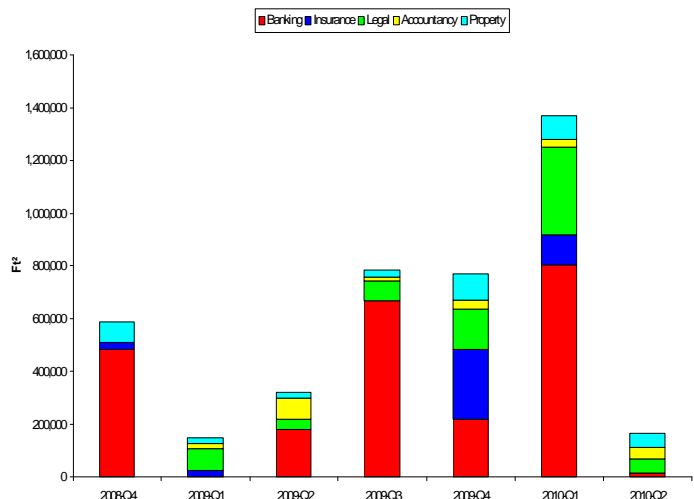


### Activity by sector

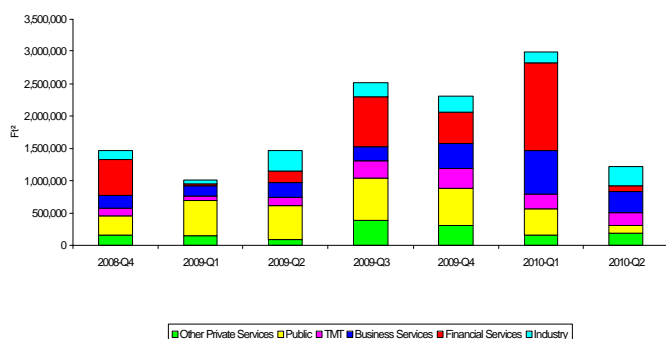
Around 319,500 ft<sup>2</sup> was taken up in the Business Services sector in Q2. This was a decline of 53% on Q1, and well below the quarterly average of 550,000 ft<sup>2</sup>. However overall take-up in this sector for the year to June was up by more than half on the previous 12 months. Take-up by accountancy firms increased slightly in Q2 2010, but decreased amongst legal and property companies q-on-q by 83% and 41% respectively (chart 2). The most significant transactions in the Business Services sector in Q2 were GE Capital Real Estate (123,209 ft<sup>2</sup>) in Thames Valley, MacLay, Murray & Spens (39,999 ft<sup>2</sup>) in Glasgow and Mitie Plc (27,250 ft<sup>2</sup>) in Bristol.

Take-up in Q2 fell steeply in the Financial Services sector, to 89,500 ft<sup>2</sup>, one fifth of the quarterly average. However, year-on-year analysis reveals the overall total for the 12 months to June 2010 finished 143% higher than the preceding 12 months. In Q2 there were no insurance company deals and only one modest banking transaction to Brown Shipley & Co, in Manchester (14,500 ft<sup>2</sup>).

**Chart 2: Take-up by FBS sector 2008Q4 – 2010Q2**



\* King Sturge's quarterly bulletin on UK occupier trends tracks the companies and sectors that have been most active in acquiring office space during Q2 2010. The analysis covers deals over 4,645m<sup>2</sup> (50,000 ft<sup>2</sup>) in Central London and over 929m<sup>2</sup> (10,000ft<sup>2</sup>) in the key regional centres.

**Chart 3: Take-up by business sector 2008Q4 – 2010Q2**


Public sector take-up was subdued in Q2, at just 131,000 ft<sup>2</sup> - a decrease of 67% from the previous quarter and the second lowest level since the survey began in Q4 2002 (see chart 3). The largest public sector deal of the quarter was the letting of 98,000 ft<sup>2</sup> to The Royal College of General Practitioners at Euston Xchange in London. Overall, comparing the year to June with the previous 12 months there was a 7% increase. It is expected that demand in this sector will remain depressed, in line with the new coalition plans to slash public spending.

TMT sector take-up in Q2 was around 10% lower than in Q1. The largest deal was: News International's 55,000 ft<sup>2</sup> in the City of London. Take-up from industrial companies in Q2 was around 79% higher than the previous quarter and 42% higher than the quarterly average for the survey. The most significant deal of Q2 was Shell who took 187,000 ft<sup>2</sup> at 40 Bank Street, Canary Wharf.

### Activity by office centre

Occupier demand in London in Q2 (measured in units over 50,000 ft<sup>2</sup>) declined by 77% from the previous record level in Q1, and was close to 50% below the average. At around 464,000 ft<sup>2</sup> it was the lowest quarterly take-up since Q1 2009. There were five deals (down from fifteen in Q1). The largest deal was the Shell transaction in Docklands.

But London and Thames Valley markets combined accounted for 55% of all take-up in Q2, higher than the survey average. This was largely due to recovery in the Thames Valley market, where demand improved for the third consecutive quarter, up by 25% from Q1, although still 27% lower than the historic quarterly average.

The most significant Thames Valley deal was GE Capital Real Estate's occupation of The Ark in Hammersmith (123,000 ft<sup>2</sup>).

In Q2, all regional centres performed below the quarterly survey average. The top three performing cities were: Manchester, Glasgow and Bristol.

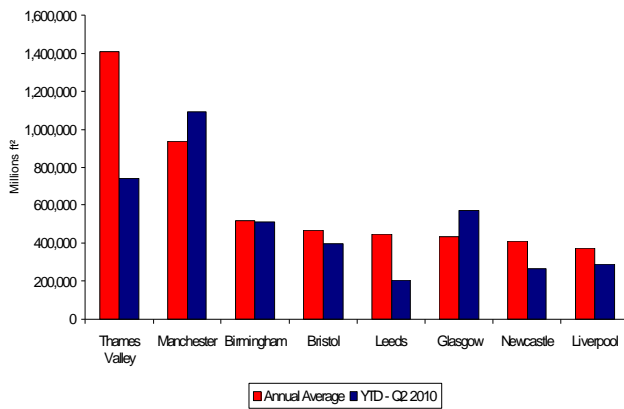
In Manchester the largest deal was the letting to Trafford Housing (19,000ft<sup>2</sup>), in Glasgow the largest deal was MacLay Murray & Spens (40,000 ft<sup>2</sup>), whilst in Bristol Mitie Plc took 2 new offices at Harlequin Office Park totalling around 38,000 ft<sup>2</sup>.

**Table 1: Office space take-up – regional profile – share of total UK market**

Office Centre	Average 2003 - 2009q4 %	YTD 2010%
London	32%	44%
Manchester	10%	12%
Thames Valley	15%	8%
Glasgow	5%	6%
Birmingham	5%	6%
Nottingham	3%	5%
Bristol	5%	4%
Newcastle	4%	3%
Liverpool	4%	3%
Cardiff	2%	3%
Edinburgh	3%	2%
Leeds	5%	2%
Swindon	2%	1%
Southampton	3%	1%
Plymouth	1%	0%
Exeter	1%	0%
Bath	1%	0%

Looking at take-up trends in the 12 months to June 2010, London has performed at 31% above the annual survey average, which is an improved position from the preceding 12 months. Comparatively, the rest of the UK in the year to June 2010 performed at 12% below the annual average. Demand for office space in London has been a key driver of the market over the past year.

In the past year, Manchester, Glasgow, Nottingham and Cardiff have all performed above the survey annual average (chart 4). In some cases this has been attributable to one or two large deals, (e.g. Nottingham City Council taking 213,000 ft<sup>2</sup> in Q3 2009). In terms of market share, London, Glasgow and Cardiff have improved their overall UK market share from the same period one year ago.

**Chart 4: Total floorspace by location**


### Grade and Tenure

Since the end of Q4 2009 there has been a trend toward higher take-up of Grade B space, a sign that more companies could be trading down in a thin market. Q2 was the first quarter since the survey began when the amount of Grade B space (58%) overtook the level of Grade A space taken. This proportion of Grade A take-up is well below the survey average (79%).

In addition, the majority of deals recorded (90%) were for leasehold interest with only 5 owner-occupier transactions. This exactly matches the survey average.

**Table 2: Office take-up by centre Q2 2010**

Office Centre	Take-up ft²	Deals
London	464,350	5
Thames Valley	250,819	7
Manchester	109,629	7
Glasgow	102,118	4
Bristol	59,850	3
Birmingham	59,636	5
Nottingham	50,864	3
Leeds	39,210	3
Liverpool	38,573	2
Cardiff	33,730	3
Southampton	28,864	2
Edinburgh	27,697	2
Bath	15,000	1
Newcastle	14,818	1
<b>Total</b>	<b>1,295,158</b>	<b>48</b>

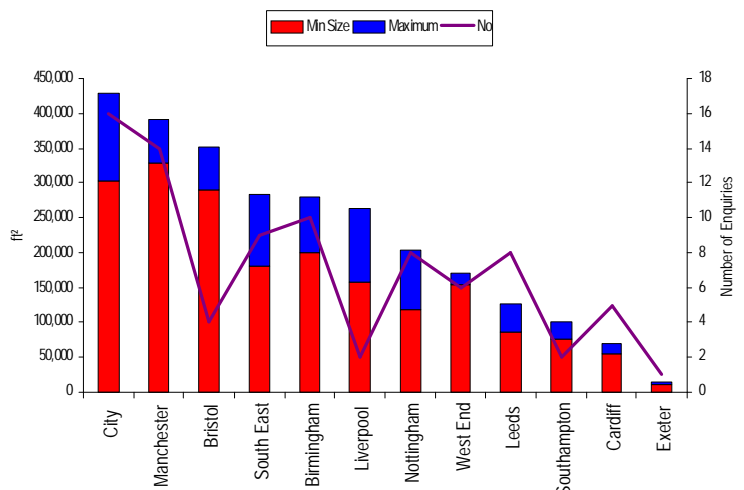
**Table 3: Top deals by floorspace Q2 2010**

Occupier	Property	Location	Size (ft²)
Shell	40 Bank Street	Docklands	186,903
GE Capital Real Estate	The Ark, Hammersmith	Thames Valley	123,309
Royal College of General Practitioners	Euston Xchange	West End	98,000
Confidential	110 Fetter Lane	Midtown	67,167
Age UK	Tavis House, 1-6 Tavistock Square	West End	57,402

### Office enquiries

Following a promising start to the year, the level of office space demand in the UK has weakened. During the second quarter of 2010, a 12% (q-on-q) decrease in the number of significant\* enquiries was recorded across the King Sturge UK network. Correspondingly, there was a decrease of 14% (q-on-q) in the amount of floor-space required by occupiers.

In the last 12 months there have been six centres which have registered an increase in the number of enquiries from the previous year. These were Nottingham, the City and West End of London, Newcastle, the South East and Edinburgh. The most notable of these was Nottingham, where a 174% rise in the number of enquiries was recorded. The City of London and Newcastle also registered large increases, with both up by 45% (y-on-y).

**Chart 5: New occupier enquiries (all offices 2004 – 2010)**


**EXPLANATORY NOTES:**
**Central London:** occupier transactions over 4,645m<sup>2</sup> (50,000ft<sup>2</sup>)

**Regional centres:** occupier transactions over 929m<sup>2</sup> (10,000ft<sup>2</sup>)

**Grade: A:** new or high quality refurbishment; **B:** good quality second-hand or refurbishment; **C:** poorer quality second-hand.

**\*Significant Enquiries:** City, West End & South East: new enquiries over 1,858m<sup>2</sup> (20,000 ft<sup>2</sup>). Regional centres: new enquiries over 929m<sup>2</sup> (10,000 ft<sup>2</sup>)

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