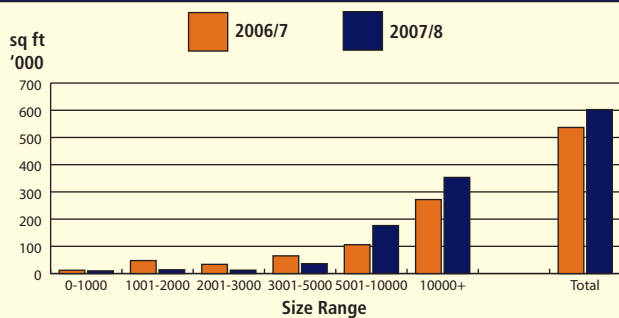
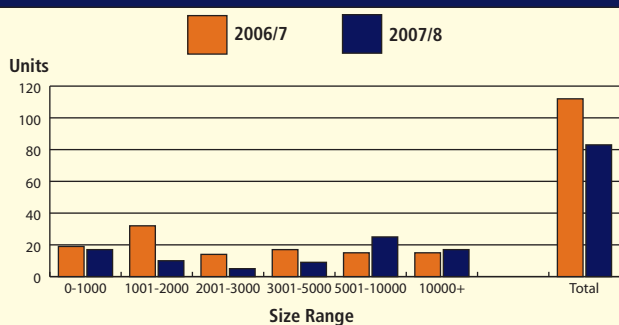


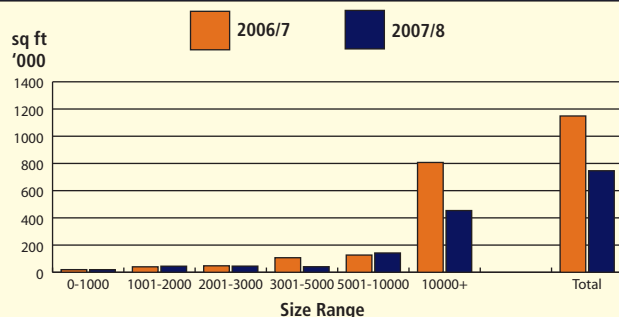
AVAILABILITY – Sq Ft



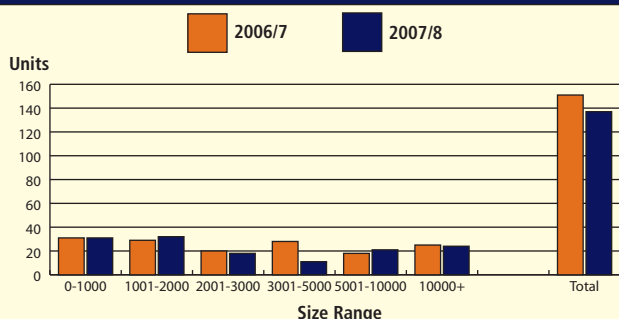
AVAILABILITY – No. Units



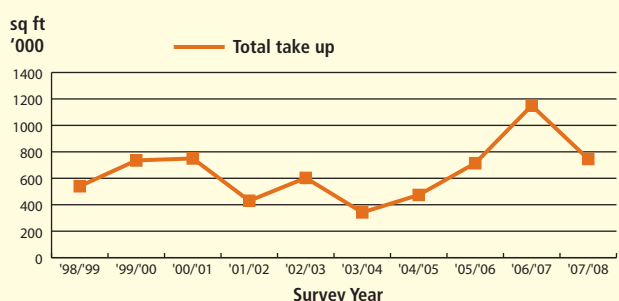
TAKE-UP – Sq Ft



TAKE-UP – No. Units



TAKE-UP-HISTORIC



LEASEHOLD MARKETS

AVAILABILITY: Supply is up from 533,000 sq ft to 603,000 sq ft, of which almost 80% is air-conditioned. Surprisingly, availability sub-5,000 sq ft has fallen by more than half, whilst availability above 5,000 sq ft has increased by more than one third from last year, reflecting the loss of some buildings to residential that have traditionally provided smaller stock. The general specification of most space remains high, although, 106,500 sq ft of the supply figure is accounted for by one non-air-conditioned building at 1a Page Street, which is unusual for a modern building of this size.

The total number of units has fallen for the second consecutive year from 112 to 74. However, the average unit size has increased from 4,800 sq ft to approximately 7,300 sq ft. Availability within the 5,000 – 10,000 sq ft range now accounts for almost a third of all units within Victoria.

TAKE-UP: Total take-up fell from 1,150,000 sq ft in 2007, to 746,500 sq ft (plus 82,000 sq ft of office sales with vacant possession). However, it should be noted that last years figure has only been exceeded once in the last ten years when it hit 750,000 sq ft in 2001. Accordingly, the difference between take-up this year and last is more a sign of the exceptional nature of 2007. Despite this change in the amount of space let, the number of units has only dropped slightly from 151 to 137, with the average letting falling from more than 7,600 sq ft to almost 5,400 sq ft. (There were only 7 deals of more than 20,000 sq ft against 14 last year, resulting in average deal sizes over 10,000 sq ft falling from just over 32,000 sq ft to almost 19,000 sq ft this year, largely due to the success of the larger floors in Cardinal Place during 2006/7.)

Although 92% of all office space let in Victoria was air-conditioned, this was true of only 60% of units below 3,000 sq ft.

WITHDRAWN: A substantial 143,000 sq ft was withdrawn from the market this year. This was partially explained by some firms mothballing intended relocations and the disposal of existing space, whilst they assess what is happening in the economy. However, the withdrawal of 62,000 sq ft at 1 Tothill Street, is the most noteworthy, and will now be redeveloped to provide 128,000 sq ft of Grade A offices accessed from Victoria Street.

PRE-LETS: Unsurprisingly, with relatively few developments and major refurbishments either under construction or completing last year, there were few pre-lets. The letting of 12,000 sq ft over lower ground to second floors of the extensively refurbished 1 Vincent Square to IPT was the most notable pre-let of the year, three months prior to completion of works. Gracemark were also in detailed discussions with the House of Lords prior to practical completion of their 60,000 sq ft redevelopment at 14 Tothill Street.

NOTABLE TRANSACTIONS: The 14 Tothill Street letting was the largest single deal at a rent of approximately £58.50 psf overall and a tenant break option at year, subject to a heavy penalty. Google's letting of approx. 10,300 sq ft at Belgrave House was a record for Victoria at £82.50 psf. However, as a major occupier of the building already, it may be argued that this was not truly representative of the market. CDC Capital Partners took the last space at Cardinal Place from Land Securities although some tenant space is now coming back to the market. IVG Asticus' 21 Palmer Street is also now fully let. Candy & Candy purchased the 27,000 sq ft Cromwell House on Dean Stanley Street for £23,000,000 for their own occupation and are now undertaking a complete refurbishment.

PROPERTIES UNDER OFFER: 2008/9 starts from a low base with just 80,000 sq ft under offer, down significantly from 137,500 sq ft last year (and 307,000 sq ft the previous year). The largest of these are 11,000 sq ft at Portland House and 10,899 sq ft at 30 Millbank. w

MARKET SUMMARY: Although the total square footage of space sold or let to occupiers is down on 2006/7, this has been an encouraging year for Victoria. Rents for the better quality air-conditioned space have increased. Although more flexible letting policies are being adopted, there is no evidence that rental levels as at March 2008 have fallen. Demand remains strong across Victoria, not only for the higher quality accommodation, but also toward the lower end, where there is some evidence firms are trying to minimise costs. There is a notable lack of quality stock below 5,000 sq ft, and a reasonable supply of units above 10,000 sq ft, although much of it is second-hand.

VICTORIA OFFICES SURVEY 2008

- **WE PREDICT:** We predicted last year that rental growth at the top end would level off and, with the exception of the Google deal, this has generally been the case, with rents commanded typically being in the late £60's for new space. This year we predict that the undersupply in the sub-5,000 sq ft market will continue to support current rental levels as tenants struggle to secure the best premises. However, above 5,000 sq ft the undersupply is less pronounced and rental levels could be more susceptible to changes in the economy. The lack of high quality new stock should ensure a good quality market for the only new schemes at 129 Wilton Road and The Peak at 2 Wilton Road.

DEVELOPMENTS

- **COMPLETED:** 129 Wilton Road is the only new build scheme to complete during the year though a number of quality refurbishments have also been undertaken and have let well.

64 Vincent Square sold to an owner-occupier shortly after completion and the lower ground to second floors of 1 Vincent Square were pre-let. More expensive refurbished stock such as Portland House and 25 Victoria Street have yet to let in their entirety, even though the stock is in relatively short supply.

Generally, the quality of the refurbishments in Victoria has been improving, with strong rents justifying a more comprehensive approach.

- **ON-SITE:** There are a number of schemes on-site and due for completion within the next year. However, significantly, most of these are relatively small. By far the largest is 78,000 sq ft at 4 Wilton Road. The mixed use scheme at 9 Howick Place is almost completed with only 10,000 sq ft left, the remainder having been let to Phillips De Pury. The new owners of 4 Victoria Street have commenced the soft strip on their 128,000 sq ft scheme and will be actively seeking tenants during 2008. Derwent London is close to completing the works at the pre-let Horseferry House and also on site at Gordon House on Francis Street, another warehouse style scheme. 43 Palace Street is also pending refurbishment to provide 12,000 sq ft of modern space behind a period façade of this converted church.

- **DESIGN:** The largest scheme at the design stage is the massive Victoria Transport Interchange (VTI), which was refused planning due to the height and massing. Now back in consultation, Land Securities are considering their alternatives and may even redevelop the area piecemeal once planning for the various buildings is achieved. Terrace Hill are also working up a scheme for their Howick Place building which will provide in excess of 100,000 sq ft. The Selborne House redevelopment is also at the design stage and will provide another large office scheme for Land Securities. The architect Cesar Pelli has been chosen for the redevelopment.

- **CHANGE OF USE:** Queen Anne's Chambers now has planning permission for hotel use and is unlikely to be refurbished as offices. There were surprisingly few large applications for change of use to residential as the commercial values remained fairly comparable to residential figures. The effects of social housing quotas also made some conversions uneconomic. The Credit Crunch has also slowed demand for vacant stock significantly, as funding has become more difficult to secure.

Victoria Coach Station will be subject to a planning brief, which is currently being produced and will provide a large mixed-use scheme.

Other major schemes which will also generally improve the wider area will be the pending applications for the traffic calming to Parliament Square and the Candy & Candy redevelopment of Chelsea Barracks.

- **SUMMARY:** The vast improvement in provision of amenities provided by Cardinal Place has kick-started the redefinition of Victoria and this will continue. Fortunately, with the backing of Land Securities and their commitment to the area, the major schemes are likely to be built, subject to ongoing planning issues, even given the difficult economic conditions. Victoria continues to be seen as an excellent alternative to the prime West End and whilst the rents being achieved remain at a significant discount, the gap is likely to narrow further as amenities improve. Transport links have always been good but as London's busiest interchange the area around the station becomes very congested and this is an aspect which needs to be addressed.

Address	Sq ft	Owner	Status
33 Grosvenor Place	57,000	Beacon Capital	Completed
25 Victoria Street	47,000	LaSalle Investors	Completed
1 Vincent Square	23,000	CNC	Completed
64 Vincent Square	14,000	Artesian	Completed
Portland House, Stag Place	11,000	Land Securities	Completed
Gillingham House	40,000	SWIP	Completed
129 Terrace Hill	80,000	CIS/Heron	Completed
VTI	2,900,000	Land Securities	Design
2 Victoria Street	120,000	Kala	Design
1 Howick Place	100,000	Terrace Hill	Design
52 Grosvenor Gardens	90,000	Grosvenor	Design
Victoria Railtrack site	1.2 acres	Hammerson	Design
Selborne House, Victoria Street	120,000	Land Securities	Design
6-9 Buckingham Gate	10,000	Brockton Capital Fund	Design
Horseferry House	120,000	Derwent London	On site
The Peak, 4 Wilton Road	78,000	CIS/Heron	On site
36 Queen Anne's Gate	30,000	Private	On site
2 Dean Stanley Street	26,000	Candy and Candy	On site
46-48 Grosvenor Gardens	16,500	Medici	On site
Gordon House, Greencoat Place	15,000	Derwent London	On site
43 Palace Street	11,000	Invista	On site
9 Howick Place	40,000	Fabbriche Ceramiche	On site
12-18 Grosvenor Gardens	5,500	Tannen	On site
10 Rochester Row	17,000	Barratt	On site
7 Grosvenor Gardens	7,500	Private	On hold
Queen Anne's Chambers	120,000	Splendid	On hold

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