

Victoria Office Survey

Economy

The UK as a whole began to emerge from the Recession during 2010 with Central London leading the way. GDP growth was at 0.7% in the third quarter of 2010 which was 2.7% higher than the same period in 2009. The FTSE ended the year above 6,000 which was an additional boost in a difficult year.

The VAT rise in January will not help the faltering recovery, although sentiment generally in the property market appears to be improving. The election in May stalled decision making as many organisations put projects on hold pending the Spending Review which took place in October. With the banks continuing to shore up their own accounts rather than sell at a loss, and with limited funding for commercial investments there was little churn during the course of 2010.

After the Spending Review there was a distinct increase in activity as some of the pent up demand kicked in both in the leasehold and investment markets.

Interest Rates

Interest rates remained very low during the year making it easier for investors to at least retain the properties they are holding. However, stricter investment criteria made it difficult to expand their operations, or to enter the market where gearing was required. Interest rates are generally expected to rise gently towards the end of 2011 to combat inflation. However, a "double dip" recession now appears increasingly unlikely as confidence grows. The commercial property market across the UK enjoyed a 6.6% capital growth according to the IPD index. In London investment transaction numbers were down compared to 2009, and it was just certain large deals that boosted the overall figures.

Yields

Prime yields held steadily throughout the year and stability returned to the market gradually. Secondary yields did not strengthen to the same extent with concerns remaining about the quality of tenant's covenants. In some cases, values with vacant possession are outstripping the investment value as owner occupiers return to the market.



Exchange Rates

The financial crisis in Europe continued to cause major issues. Many of the Irish commercial property investors and banks unravelled their positions in the UK market, whilst problems in Portugal and Spain also dragged down the Euro Zone. Fluctuations in the Euro exchange rate during the year consequently created opportunities for investors into the UK. High net worth individuals from European nations as well as the Middle East and Asia began to take advantage of London property and the relatively low capital values. This also led to activity in the fourth quarter of the 2010 being particularly strong with a number of significant deals either being transacted or agreed as confidence returned following the Spending Review.

The Spending Review

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Concern about Government demand throughout the UK, and especially in London increased in the run-up to the Spending Review. The tenant profile in Victoria has broadened in the last few years. However, the perception amongst many property investors remains that much of the leasehold demand comes from Government or Government related businesses. In fact the Government has not been signing new leases for some years, and much of their surplus stock has been redeveloped as residential or Grade A commercial schemes. This has benefited the area by attracting a more varied tenant base and removing much of the redundant stock in secondary locations permanently.

The Spending Review does specifically abolish a large number of Quangos which traditionally have a more flexible leasing policy and tend to take smaller secondary units. This will have more of an effect on this size sector as these units are released back to the market. However, most Quangos are housed within larger Government buildings and the effect is likely to take place slowly.

Victoria Investments

The investment market in Victoria was again down in terms of both number and total amount of transactions. There were 14 transactions during 2010 compared to 19 during 2009 at a total of £227 million, rather than £450 million in 2009. A couple of larger transactions were placed under offer but had not exchanged by the year end. These were The Victoria Place shopping centre owned by William Ewart and is under offer to Network Rail and half of Google's headquarters at Belgrave House on Buckingham Palace Road.

The two largest investments were Broadway Buildings opposite St James's Park tube station, which is owned by Henderson and let to Regus and was sold by Pramerica to Europris.

Terence Hill sold their investment at 129 Wilton Road to Cordea Savills after the final lease had been signed on the new development.

21 Tothill Street was sold by Prupim to WELPUT for just over £28 million. Let to Watson Wyatt until 2015, it is likely to be redeveloped or comprehensively refurbished.

The long leasehold of Warwick House on Buckingham Palace Road was sold to Threadneedle by Aviva.

3-4 Abbey Orchard Street, a Government-let, investment was sold off market to Sancarin, a Spanish investor for £24 million, a 5.22% yield.

The parent company of Saga purchased 85 Buckingham Gate as an investment. They are also an occupier of one of the floors and will remain in the building.

The profile of investment buyers has begun to change, with more UK property companies and asset management funds coming back to the market. Overseas buyers are still strong but confidence and liquidity appears to be returning.

Investment transactions during 2010

Building	Street No.	Street	Size	Sale Price (£)	Yield (%)	Purchaser	Vendor
	1	Buckingham Gate	164,000	£19,900,000	3.99%	Private Investors, Wittington Investments Ltd	The Crown Estate
	129	Wilton Road	67,692	£53,500,000	5.78%	Cordea Savills	Terrace Hill
	21	Tothill Street	64,777	£28,426,603	6.60%	Welput	Prupim
Broadway Buildings	50-64	Broadway	49,536	£53,700,000	6.35%	EuroPRISA	Pramerica UK Real Estate Investors Ltd
Westminster Palace Gardens		Artillery Row	45,103	£10,100,000	6.77%	Development Securities/Alchemi	Banesco Charities
	3-4	Abbey Orchard Street	35,000	£24,000,000	5.22%	Sancarın	Jonsville Properties Ltd
Warwick House	25-27	Buckingham Palace Road	21,041	£8,250,000		Threadneedle	Aviva
New Palace Place	2	Monck Street	19,092	£6,350,000	7.58%	UKP	Galliard
	58-60	Petty France	13,925	£8,200,000	6.50%	Private Investors	Monarch Commercial
	84-85	Buckingham Gate	10,882	£7,200,000	-	Saga	Private Investors
Radstock House	3-5	Eccleston Street	8,953	£1,800,000	7.72%	Grosvenor Holdings Plc	Scripture Gift Mission
	22	Buckingham Gate	7,146	£4,350,000	-	Thorstone Land	Legal & General
Embankment Filling Station	131-132	Grosvenor Road	3,252	£1,405,000	6.00%	Private Investors	London & Newcastle (Holdings) Plc
	8-36	Rochester Row	2,411	£800,000	-	Arab Investment Ltd, Coffee Republic Plc	Barratt Homes Ltd

Owner Occupiers

The number of properties purchased by owner occupiers increased during the year as companies took advantage of the window of opportunity to secure assets at historically low capital values.

The former Candy and Candy headquarters at Cromwell House was sold to the Saudi Defence Ministry for £35 million (£1,200 per sq ft).

The long leasehold of 24 Grosvenor Gardens was sold to an Iranian Oil Company at £3,750,000.

UEI purchased 2 Queen Anne's Gate off market for their own occupation of part; the remainder will be sublet and held as an investment.

Owner Occupier Transactions

Building	Street No.	Street	Size	Deal Type	Sale Price (£)	Purchaser	Vendor
Cromwell House		Dean Stanley Street	28,212	Freehold Investment Sold	£35,000,000	Saudi Defence Ministry	CPC Group Ltd
	2	Queen Anne's Gate	9,200	Owner Occupier	Undisclosed	UEI	Oversea Investor
	24	Grosvenor Gardens	7,629	Long Leasehold Sold	£3,750,000	PPC Ltd	Leasepine
Murray House	3-5	Vandon Street	5,994	Freehold Sold	£1,750,000	Bikram Hot Yoga	Cube Capital Uk Ltd
	2-4	Old Pye Street	3,202	Freehold Sold	£1,500,000	Not Known	Reliance Security Ltd
	244	Vauxhall Bridge Road	2,314	Freehold Sold	£760,000	David Uri Memorial Trust	Receivers
	90	Wilton Road	834	Freehold Sold	£650,000		

Vacant Transactions

Building	Street No.	Street	Size	Sale Price (£)	Purchaser	Vendor
Abel House		John Islip Street	128,000	£75,000,000	Berkeley Group	Government
Cleland House		John Islip Street	117,000		Berkeley Group	Government
	36	Queen Anne's Gate	20,000	£47,000,000	Saudi	Access Industries
Douglas House Douglas Street	16-18	Douglas Street	12,497	£7,900,000		Domelease Ltd

Developments

Many developments remained on hold, although Land Securities made the decision to commence the construction of Selborne House and the refurbishment of Ashdown House both on Victoria Street. Terrace Hill also commenced the construction of No.1-7 Howick Place. Land Securities' VT12 scheme is also likely to commence during the year as vacant possession is secured of the remaining properties. The 120,000 sq ft office scheme at 1a Page Street which has been vacant for some years since DEFRA surrendered will also be finally refurbished by Stenham having taken back control from GE Capital.

Current Development Sites

Development	Street No.	Street	Sq ft	Type	Status
VTI2			910,000	Mixed Use	On Hold
Portland House		Stag Place	300,000	Residential	Design
Selborne House	62	Buckingham Gate	275,000	Office and Retail	On Site
Ashdown House	123	Victoria Street	170,000	Office	On site
Cleland House		John Islip Street	135,000	Residential	Design
	1-7	Howick Place	135,000	Mixed Use	On Site
	40	Broadway	118,000	Mixed Use	On Hold
Abel House		John Islip Street	116,000	Residential	Design
	1a	Page Street	115,000	Office	On Site
Riverwalk House		Millbank	74,000	Residential	Design
Wellington House	65	Buckingham Gate	62,000	Residential	On Site
	232	Vauxhall bridge Road	25,000	Affordable	Design
	36	Queen Anne's Gate	20,000	Residential	On Site
	43	Palace Street	13,500	Office	On Site
	16-20	Strutton Ground	11,000	Residential	On Hold
	24	Buckingham gate	9,000	Residential	Planning
	21	Buckingham Palace Road	3,800	Residential	On site

Loss of Accommodation to Residential

Cleland House & Abell House were sold by the Home Office to Berkeley Group comprising some 250,000 sq ft, were constructed in the 80's on John Islip Street near Millbank, will therefore be lost from the commercial stock permanently. Other smaller schemes were commenced at 36 Queen Anne's Gate, the former National Trust headquarters, which was sold to a Saudi investor for residential. 24 Buckingham Gate is likely to secure planning for residential as well as the 74,000 sq ft Riverwalk House. Finally, Land Securities announced that Portland House, comprising in excess of 300,000 sq ft is also likely to be converted to residential use when the leases expires in 2015.

6-9 Buckingham Gate has planning for conversion to an impressive 30,000 sq ft residential refurbishment scheme.

Construction has started on Wellington House by Land Securities to provide the offset residential for their Selborne House scheme. Most of the flats have now been sold off plan to buyers in Asia.

Office – Total Stock Source - VOA

The following chart represents the total stock of offices in the Victoria area;

Post Code	Sq ft
Pimlico (ie SW1V)	1,133,085
Belgravia North (not Knightsbridge) (ie SW1X)	1,435,964
Belgravia South (ie SW1W)	2,040,445
Victoria Street North (ie SW1E)	2,704,050
Victoria Street South (ie SW1H)	3,255,672
Westminster (ie SW1P)	4,119,457
Total Office Stock	14,688,673

Major Transactions

Building	Tenant	Size
The Peak	Global Infrastructure Partners	10,090
Portland House	IPES	11,000
129 Wilton Road	IQPC Ltd	24,135
Francis House	Links	22,430
123 Buckingham Palace Road	Google	41,465

Office Availability

Availability stood at 788,000 sq ft at the year end, representing a vacancy rate of 5.4% of total stock, and is significantly below the 1,200,000 sq ft recorded in 2009. This is explained to some degree by increased take-up, but also the removal of two significant buildings in 1a Page Street and Ashdown House on Victoria Street. Also Exxon moved back into 21 Dartmouth Street.

The lack of any new-build stock or indeed the expectation of significant amounts of Grade A second-hand stock, leads us to believe that availability levels will remain low throughout 2011 until 1a Page Street and Ashdown House are reintroduced to the market in 2012. However, it is hard to predict with any certainty the amount of space that may come back as a result of Government exiting current liabilities, although there are rumours that they will be vacating a significant amount of space at Great Minster House on Horseferry Road. Doubtless there will be others as they seek to meet the targets set under the Spending Review, albeit most of this is not expected to impact upon the market until 2012.

Major Available Properties

Building	Size
The Peak	68,000
Southside, 105 Victoria Street	35,000
8-10 Great George Street	35,000
Asticus	19,300

Office Occupier Market – Take Up

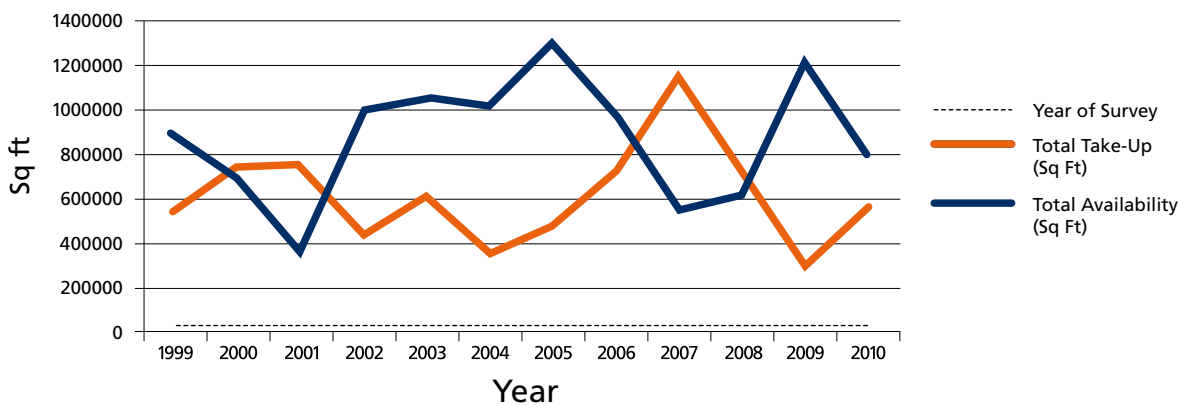
Despite an untypically quiet middle sector of the year, the total number of transactions during 2010 stands at 110 over a total of 554,161 sq ft, largely thanks to a very strong final quarter. This compares with a ten-year low of 288,500 sq ft during 2009 in only 84 transactions. The average deal size was 5,040 sq ft during 2010, which is up from 2009 although still well below the 5,500 sq ft average during 2008.

This increase in activity may be partly due to the Spending Review, but is also a direct result of many Landlords willingness to adopt a more proactive and flexible approach to leasing policy, affording tenants the occupational flexibility they require in an uncertain economic climate.

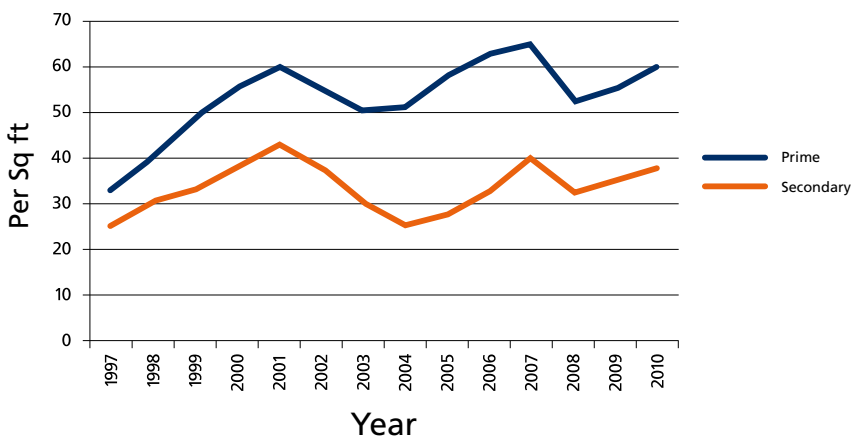
By way of example, the 11,000 sq ft floors at Portland House were split to enable subletting in part which resulted in most of this space being let during the course of the year. Land Securities also adopted this approach on a smaller scale at 35 Old Queen Street assisting in the letting of all vacant space.

123 Buckingham Palace Road was let to Google as overspill space from Belgrave House. Drummond Gate was let to government tenants including the Youth Justice Board (subsequently abolished in the Spending Review). The final deals were undertaken at 129 Wilton Road and the first deal was done at The Peak, at a reported level of £65 per sq ft.

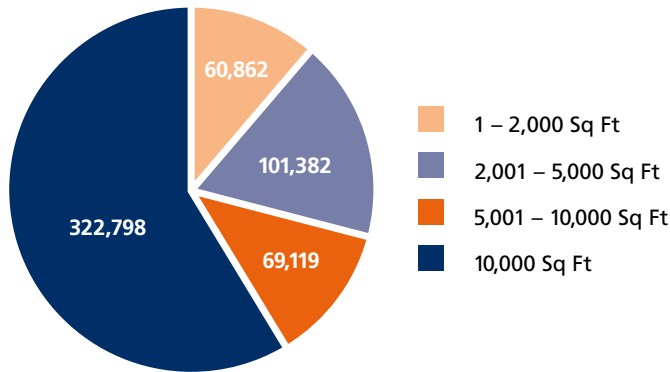
Availability v Take up



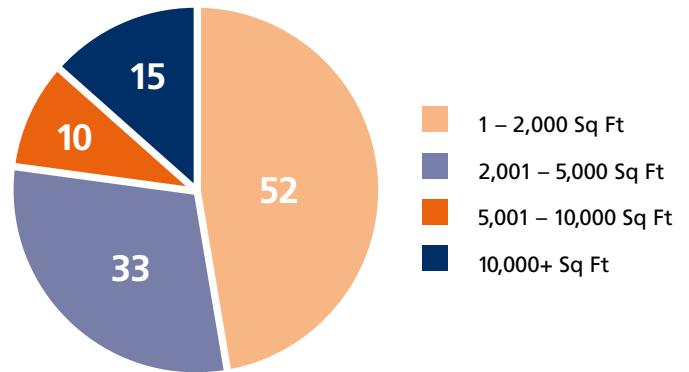
Prime v Secondary Rental Levels



Total Take-Up – Proportions of Lettings by Size



Total Take-Up – Breakdown by Units



Comment

With a 'double dip' seeming unlikely now, sentiment should continue to improve. However, interest rates are expected to increase and banks will start putting more pressure on property companies during the course of the coming year. Rents will slowly improve as incentives are eroded, though tenants will remain under pressure and any relocation or expansion is going to be cautious. Most will prefer to renegotiate deals within their current buildings.

The Government will continue to exit the Victoria area, but this will allow further high quality development both as commercial and residential. The improvement to the local environment, amenity and infrastructure will attract further high quality tenants from an ever broadening spectrum of sectors.

About Tuckerman

Tuckerman is the specialist commercial agent and Chartered Surveyor in the Victoria area. We have been operating since 1948 and offer agency, professional and management services.

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