EXECUTIVE SUMMARY

• The St James's Office Market provides great opportunity for delivering better quality stock in the medium to long term. There has been a much needed and significant step change by Westminster in making the area more accessible and user friendly for occupiers, road users and pedestrians alike. This will serve to enhance and compliment any future development in the area and be a catalyst for rental growth.

• Demand has doubled for offices in the St James's market over the last year with 50% of available space let during the first half of this year comprising approximately 117,500 sq ft.

• The majority of occupiers require units of circa 5,000 sq ft. Demand is dominated by the banking and finance sectors.

• Supply is restricted with the vacancy rate currently at 6.7%, down from 7.5% a year ago. Vacancy rates will continue downwards with very few schemes scheduled to complete next year.

• Prime St James's/Mayfair rents have risen from £75.00 per sq ft at the end of 2009 to £85.00 per sq ft. We predict these rents to rise to £90.00 per sq ft by the end of this year as more evidence for truly prime lettings come through in the busy final quarter. Due to the lack of prime grade A stock in St James's there is currently a dearth of rental evidence. However, such rents have been achieved just to the north of Piccadilly in Mayfair.

• The development pipeline is severely restricted. Only one small mixed use scheme in Jermyn Street is currently under construction to be completed this year. It comprises approximately 12,000 sq ft of office space.

• There has been a significant decline in investment activity within the St James's market due to shortage of stock. Purchasers are in the main overseas investors accounting for 52% of transactions by value.

• Prime yields have moved in from 5.75% to 4.00%. Capital values have increased by 5.8% during the period from July 2009 to June 2010.
DEMAND

- In the twelve months to the end of Q2 2010, take-up in St James’s reached 253,523 sq ft, more than double the level a year earlier. Around 117,280 sq ft has been let over the first half of this year, showing a significant increase on the same period last year.

- Take-up averaged out at 50,300 sq ft per quarter since the beginning of 2002, with recent quarters showing above average letting activity.

- The largest deal saw recruitment agency Russell Reynolds Associates Limited sign a 15 year lease of 26,500 sq ft at Almack House, 28 King Street in Q1 2010. Other significant deals include Lamda Partners (UK) LLP taking 9,735 sq ft at 12 Charles II Street, French Chamber of Commerce acquiring 9,731 sq ft at 28-29 Haymarket and Norman Broadbent leasing 9,500 sq ft at 12 St James’s Square.

- If we analyse take-up by size band, the market was dominated by deals of under 5,000 sq ft.

- Almost a third of total space let was to the banking and finance occupiers, which has long been regarded as the dominant occupier sector in the St James’s market. Although it has remained the most important sector, its market share has decreased gradually from 75% in 2008 and 44% the previous year.
SUPPLY

- At the end of August 2010 there was approximately 555,000 sq ft office space available in the St James's market. This level of availability represents a vacancy rate of 6.7%, down from 7.5% a year ago.

- A large proportion of available space is in units of less than 10,000 sq ft.

- The largest building ready to occupy in the market is at 2-4 Cockspur Street where around 95,670 sq ft is currently available. Around 45,000 sq ft is also available at recently refurbished Almack House, 28 King Street.

- The reduction in availability since the beginning of this year is set to continue in the coming months as very few schemes are scheduled to complete next year.

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**St James’s availability**

![Graph showing St James's availability from 2002 to 2010](Image)

**St James’s vacancy rates**

![Graph showing St James’s vacancy rates from 2002 to 2010](Image)

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**St James’s – key availability at end Q2 2010**

<table>
<thead>
<tr>
<th>Map Ref</th>
<th>Property</th>
<th>Available space (sq ft)</th>
<th>Quoting rent (per sq ft)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Almack House, 28 King Street</td>
<td>44,073</td>
<td>61.67 – 75.00</td>
<td>Ground, 1st and 4th floors</td>
</tr>
<tr>
<td>2</td>
<td>12 Charles II Street</td>
<td>25,794</td>
<td>65.00</td>
<td>Ground, 1st, 3rd and 5th floors</td>
</tr>
<tr>
<td>3</td>
<td>2-4 Cockspur Street</td>
<td>95,670</td>
<td>45.00</td>
<td>Lower ground to 7th floors</td>
</tr>
<tr>
<td>4</td>
<td>Carlton House, 11a-11c Regent Street</td>
<td>36,644</td>
<td>52.50</td>
<td>Ground to 3rd floors</td>
</tr>
<tr>
<td>5</td>
<td>Cunard House, 15 Regent Street</td>
<td>32,223</td>
<td>49.50</td>
<td>Ground to 5th floors</td>
</tr>
</tbody>
</table>

*See map page 5*
RENTS

- Prime rents have started to pick up, reaching £85.00 per sq ft at the end Q3 2010 in prime West End. Although it is still 30% below the peak level achieved in summer 2007, we have seen improvements in rental values and some positive signs towards the recovery. In St James’s there has been no newly developed grade A stock coming to the market in the last year and accordingly the majority of rental evidence is well below these levels.

- We anticipate this upward trend will continue for the remainder of this year, with prime rental values forecast to rise to £90.00 per sq ft by December 2010 due to a lack of good quality supply.

- The highest rent paid in the past 12 months was the letting at the Economist Tower, St James’s Street where Pelham Capital Services Ltd took 3,500 sq ft on the 9th floor at £85.00 per sq ft this summer.

- Incentives are likely to decrease in the coming months as the level of supply is getting evermore restrictive.
**DEVELOPMENT**

**Westminster**
- Westminster are complimenting current and future development in St James’s by a programme of road improvements providing greater access to occupiers, pedestrians and road users alike. They anticipate that this will reduce delays for cars, buses and taxis and for deliveries which will reduce costs to businesses.
- Pedestrians will benefit from greater pavement space, better and greater numbers of pedestrian crossings and the removal of the guard railings at Piccadilly Circus along Piccadilly.
- Street lighting will be improved and will be placed on existing and new central islands along Pall Mall and Piccadilly, creating boulevards.
- Two way traffic flow will be created along Piccadilly, Pall Mall, St James’s Street and Piccadilly Circus.
- The Piccadilly Two-way Scheme is currently under construction. The main construction works are now moving to Piccadilly Circus and then on to the Piccadilly/St James’s Street junction by the beginning of 2011 and then finally Haymarket /Cockspur Street junction.
- The works are due to be completed by the end of November 2011. The Haymarket section does not form part of the current construction programme and will not be initiated until after the 2012 Olympic Games.

**Future Stock**
- The development pipeline is particularly restricted in St James’s area. A total of 101,500 sq ft was completed during the last 12 months.
- Only one small mixed use scheme is currently under construction at 100 Jermyn Street. The new building will provide 12,000 sq ft of office space and is expected to complete early next year.
- There are two significant imminent developments. The first is the St James’s Gateway scheme. The Crown Estate granted a planning permission last year for a 100,000 sq ft mixed use redevelopment at 210 Piccadilly. A 57,000 sq ft office element is expected to be on site later this year, with completion due in 2013. The second is Rio Tinto’s redevelopment of 5/6 St James’s Square. In conjunction with Exemplar Properties, they are due to deliver a mixed-use scheme with an office element of circa 115,000 sq ft. This is due to be delivered by early 2014.
- Also in the pipeline are the refurbishment/redevelopments at Windsor House, 55-56 St James’s Street (34,700 sq ft) and French Railways House, 178-180 Piccadilly (69,000 sq ft). Although the latter is predicted to be some way off taking into account recent leasing activity.
### St James’s – development pipeline at end Q2 2010

![Map of St James's](https://via.placeholder.com/150)

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### St James’s notable future stock at end Q2 2010

<table>
<thead>
<tr>
<th>Map Ref</th>
<th>Status</th>
<th>Scheme</th>
<th>Developer</th>
<th>Size (sq ft)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Comp</td>
<td>Almack House, 28 King Street</td>
<td>Grosvenor</td>
<td>60,000</td>
<td>Refurbishment completed in Q1 2010.</td>
</tr>
<tr>
<td>2</td>
<td>Comp</td>
<td>5-7 King Street</td>
<td>Christie</td>
<td>5,000</td>
<td>Small mixed use refurbishment.</td>
</tr>
<tr>
<td>3</td>
<td>U/C</td>
<td>98-100 Jermyn Street</td>
<td>Gracemark Investments &amp; Oppenheim PFM</td>
<td>12,000</td>
<td>Mixed use new development. Completion due in early 2011</td>
</tr>
<tr>
<td>4</td>
<td>PPG</td>
<td>5-6 St James’s Square</td>
<td>Exemplar</td>
<td>115,000</td>
<td>Mixed use development. Completion provisionally scheduled for early 2014.</td>
</tr>
<tr>
<td>5</td>
<td>PPG</td>
<td>Eagle Place, 210-214 Piccadilly</td>
<td>Crown Estate</td>
<td>57,000</td>
<td>Start on site later this year with completion in August 2013. Also know as St James’s Gateway.</td>
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<tr>
<td>6</td>
<td>PPG</td>
<td>Windsor House, 55-56 St James’s Street</td>
<td>Windsor Life Insurance Co Ltd</td>
<td>34,700</td>
<td>Refurbishment/Redevelopment scheduled for end of 2013.</td>
</tr>
<tr>
<td>7</td>
<td>PPG</td>
<td>French Railways House, 178-180 Piccadilly and 50 Jermyn Street</td>
<td>Henderson Global Investors</td>
<td>69,000</td>
<td>Planning consent in place but existing buildings now relet until 2011/2</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate
INVESTMENT MARKET

• The St James’s market saw a further decline in investment activity over the last year. Overall transaction volume totalled just £130m in the year to Q2 2010, down nearly 50% on the same period last year. The shortage of supply in this area has lead to transactions being restricted in a small selection of properties.

• Purchase activity is dominated by overseas investors, accounting for around 52% of transactions by value. The most significant investment transaction was the purchase of 50 St James’s Street by a private Swiss investor for £43m at a yield of 4.5% last summer.

• The largest transaction by value so far this year saw Standard Life purchase the freehold at 23 King Street from German fund Deka for £44.4m, representing a net initial yield of 5.5%. The building was let until 2012 and is a good quality Grade A specified office building.

• The Crown Estate have partnered up with a Canadian Pension Fund to fund the St James’s Gateway scheme on the corner of Piccadilly, Regent Street and Jermyn Street.

• Office yields in West End have strengthened significantly over the last 12 months, with prime yields moving in from about 5.75% in September 2009 to 4.00%.

• According to IPD data, capital values in the West End have increased by 25.7% in the year to June 2010. This shows a significant improvement compared with the same period last year when capital values fell by 31.5%.

<table>
<thead>
<tr>
<th>Address</th>
<th>Date</th>
<th>Sale price (£m)</th>
<th>Net initial yield (%)</th>
<th>Size (sq ft)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>23 King Street</td>
<td>Jul 10</td>
<td>44.4</td>
<td>5.5</td>
<td>36,000</td>
<td>Purchased by Standard Life, sold by Deka</td>
</tr>
<tr>
<td>50 St James’s Street</td>
<td>Jul 09</td>
<td>43</td>
<td>4.5</td>
<td>28,000</td>
<td>Purchased by a private Swiss investor</td>
</tr>
<tr>
<td>203 – 206 Piccadilly</td>
<td>May 2010</td>
<td>35.5</td>
<td>5</td>
<td>66,582</td>
<td>Purchased by ING, sold by The Crown Estate</td>
</tr>
<tr>
<td>Rex House, 4-12 Regent Street</td>
<td>Aug 09</td>
<td>34</td>
<td>12</td>
<td>90,955</td>
<td>Purchased by Crown Estate, sold by Helical Bar Plc</td>
</tr>
<tr>
<td>Etoile Building, 117 Jermyn Street</td>
<td>Aug 10</td>
<td>31.5</td>
<td>5.25</td>
<td>65,000</td>
<td>Long leasehold building purchased by DTZ Investment Management</td>
</tr>
<tr>
<td>4-5 Park Place</td>
<td>Dec 09</td>
<td>14.25</td>
<td>4.81</td>
<td>12,798</td>
<td>Purchased by Purfleet Land</td>
</tr>
<tr>
<td>Dewar House, 11-12 Haymarket</td>
<td>Sep 09</td>
<td>9</td>
<td>6.75</td>
<td>12,798</td>
<td>Purchased by Woodbay Investments, sold by Premier Property Group</td>
</tr>
<tr>
<td>101-102 Jermyn Street</td>
<td>Jul 09</td>
<td>7.5</td>
<td>6.53</td>
<td>10,376</td>
<td>Purchased by Mountcharim Ltd, sold by CCLA Investment</td>
</tr>
</tbody>
</table>

Source: Property Data
New layout of Piccadilly Circus

New layout of Waterloo Place