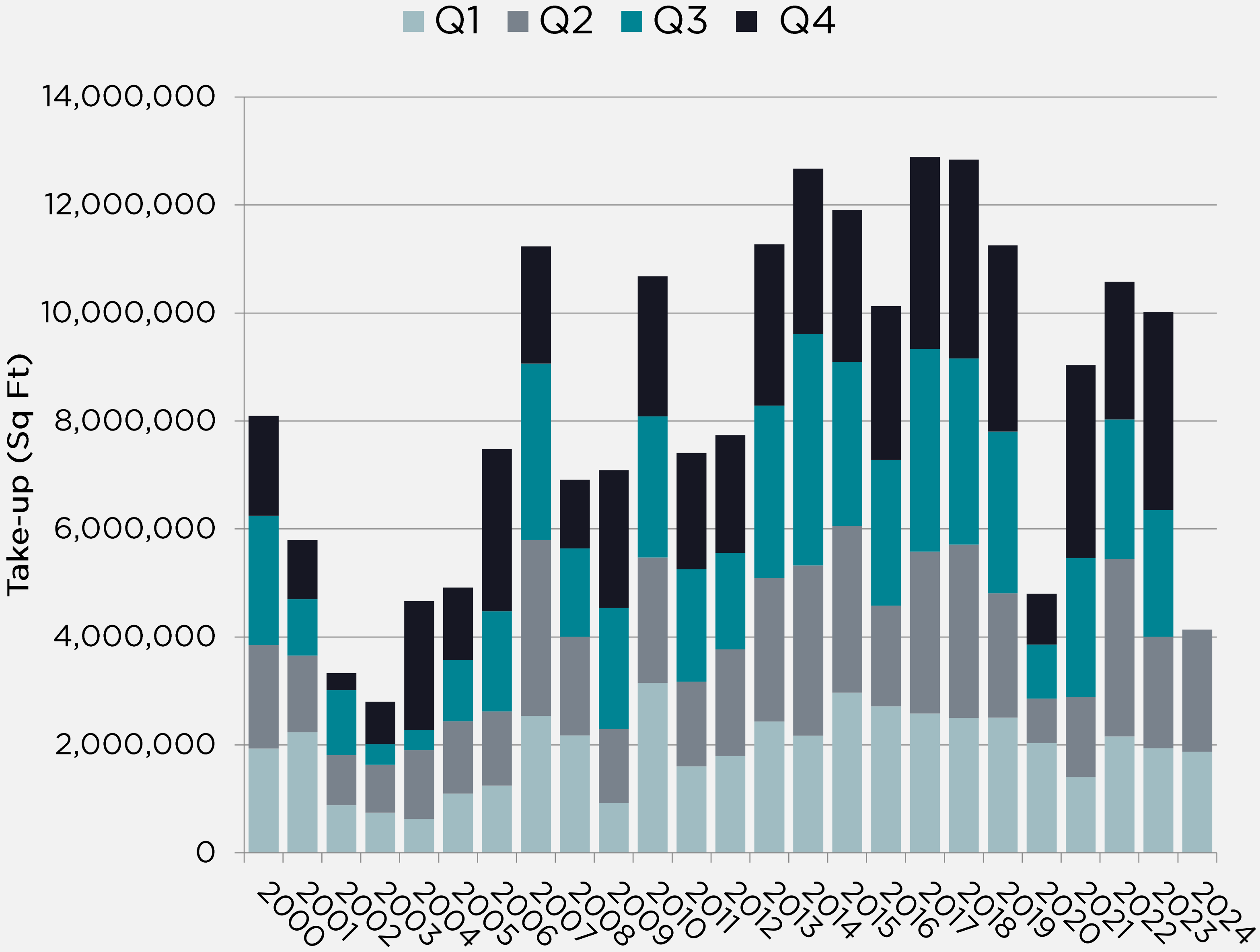
# Central London Office Market

Q2 2024

# LEASING SUMMARY

- Central London leasing witnessed a slight uptick in activity during Q2, with take-up at end of the quarter having reached 2.3m sq ft, up 21% on the previous quarter. Despite this, Q2 take-up was down 7% on the long-term average.
- This brought Central London take-up for H1 to 4.1m sq ft, across 356 transactions. This is down 12% on the long-term average, slightly below our medium-term expectations for take-up considering hybrid working. The overall lower volume has predominately been because of subdued leasing activity in the West End market, with West End take-up down 37% on the long-term average, compared to the City market which was up 1% on the City long-term average.
- The largest transaction to complete during Q2 was Citadel's pre-let of 248,533sq ft at British Land's 2 Finsbury Avenue, EC2 scheme. Other notable transactions include Amazon's acquisition of the Bard building & the Hewett building Curtain Road, EC2 collectively equating to 106,792 sq ft.
- At 50 transactions, the number of 10,000 -15,000 sq ft transactions was second highest levels we have seen in H1 since the pandemic and was predominantly driven by mid-tier Professional and Financial Services sector occupiers acquiring space in the City market.
- There continues to be a clear preference from occupiers for office space with better sustainability credentials, with over half of take-up (55%) consisting of lettings in BREEAM-rated Excellent or Outstanding buildings. A further 16% of take-up was in BREEAM rated Very Good buildings.
- Around 21% of occupiers taking space in H1 consisted of occupiers moving out of serviced office space, were new entrants to Central London market or were previously located in offices in and around the Greater London area.



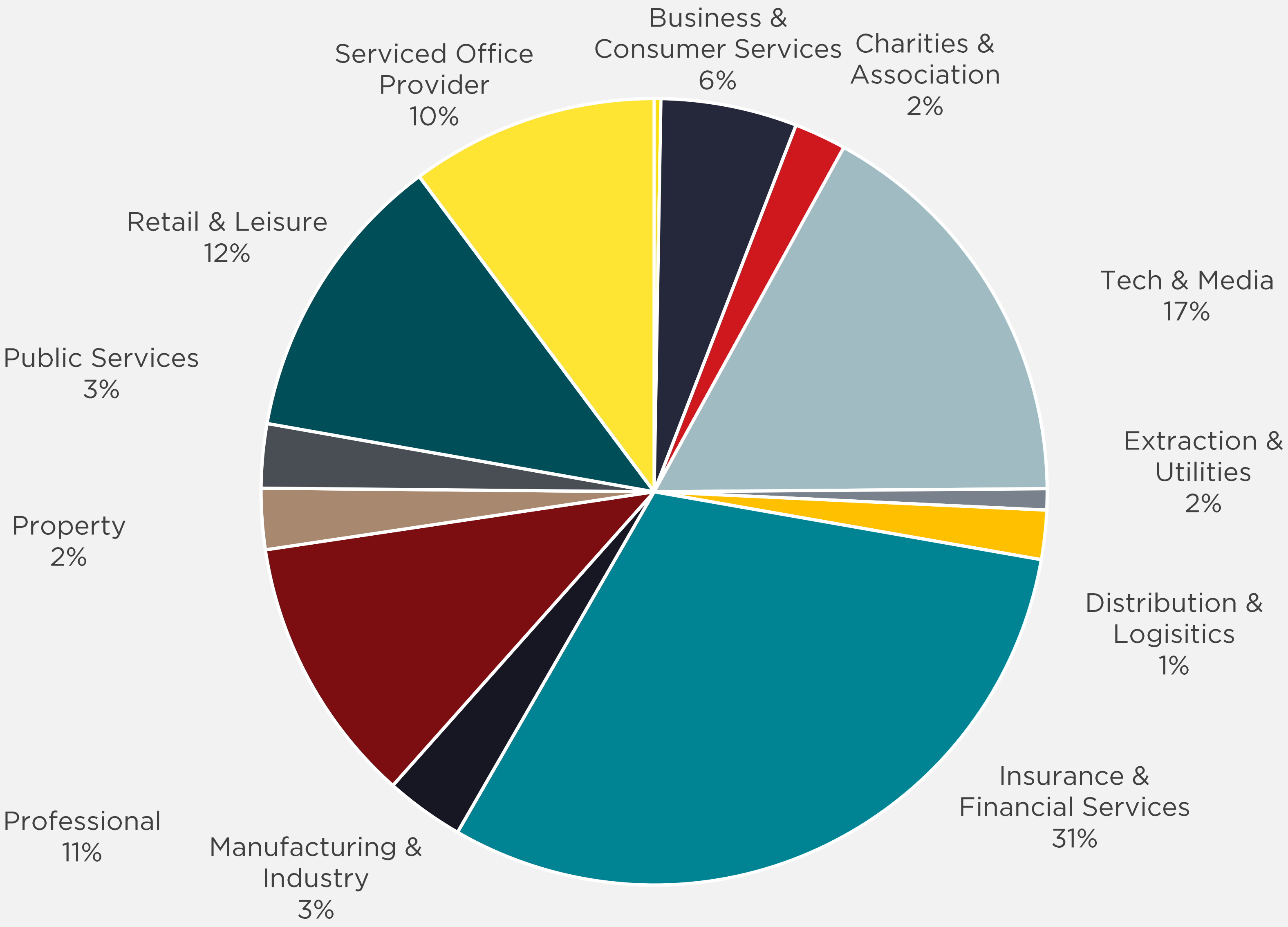

**4.1m sq ft**
Central London take-up

**356**
transactions

**55%**
BREEAM Outstanding/Excellent

# TAKE-UP BY SECTOR

- The Insurance & Financial sector was the main driver of leasing activity in H1, accounting for 31% of take-up, which equates to just over 1.2m sq ft. The City Core accounted for almost two thirds of space acquired over this period.
- Amazon's acquisitions over Q2, helped boost the Tech & media sector's share of take-up to 17%. We have seen a rebound in activity to this sector with H1 seeing double the number of transactions completing to Tech & Media sector occupiers than we saw over the same period in 2022 and the overall sq ft completing to the sector was up 1% on the 5-year average for this period.
- The Retail & Leisure sector followed with a 12% share of take-up across 22 transactions. The largest transaction to the sector to complete so far this year has been to Super Group, who took the 3rd to 5th floors 65,000 sq ft at W.RE's St Pancras Campus, NW1 in March earlier this year.
- Whilst we have seen a cooling off to the overall sq ft being acquired by Professional Services occupiers, with much of the larger demand having been satisfied over the last two years, we have continued to see higher levels of activity from mid-sized Professional Services firms. This is reflected by the fact that the number of transactions that has completed to the sector during H1 is up 10% on the long-term average for H1.
- There has also been a continuation of demand from Serviced Office Providers, with the first half witnessing similar levels of demand from the sector seen in H1 2023. Two notable Serviced Office Provider transactions to complete in Q2 were Techspace's acquisition of 80,000 sq ft at Technique, 132-140 Goswell Road, EC1 and Industrious' acquisition of the entire Building, (74,502 sq ft), at 131 Finsbury Pavement, EC2.



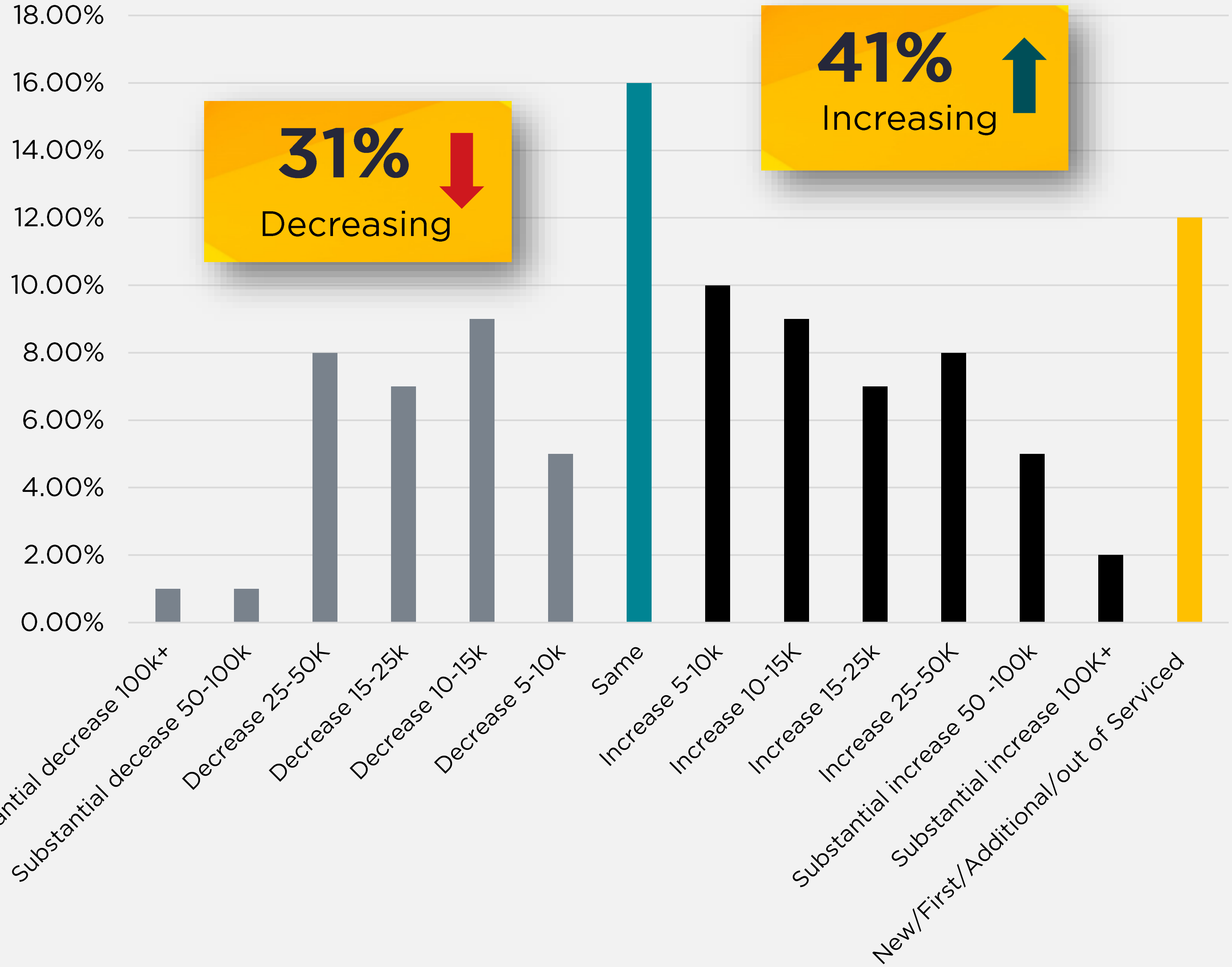

**14,052** sq ft
Insurance & Financial avg transaction size

**14,858** sq ft
Professional avg transaction size

**12,576** sq ft
Tech avg transactions size

# UNDERLYING DEMAND

- Central London Active demand at the end of Q2 stood at 12m sq ft, up 29% on the long-term average as the market is set to see a continuation of the high levels of demand we have seen from the Insurance & Financial Services Sector, particularly with 61% of these occupiers having been at their primary current Central London for 10 years or more. Whilst the overall level of demand from the sector has come down from the record 5.2m sq ft we saw at the end of 2023, at 4.9m sq ft it remains substantially above the long-term average of 2.2m sq ft.
- Around 4.9m sq ft of overall active demand consists of occupiers who have been at their existing premises for at least 15 years, which historically increased the likelihood of these occupiers relocating to newer offices. However, the combination of both limited supply of the best space and increased fit-out costs could potentially result in more occupiers considering stay vs go options or signing up to short-term renewals.
- The Professional Services sector accounts for the second highest active demand with 26% share. 50% of Professional Services occupiers (the equivalent of 2.4m sq ft of active demand) have been at their existing primary office for at least 15 or more years.
- There is yet to be any strong indication that there are more occupiers are seeking to take less space. Overall, there are more occupiers seeking to increase their space (41%), than seeking to decrease the amount of space they occupy (31%). A further 16% of occupiers are currently seeking to acquire a similar amount of space (5,000 sq ft less or more compared to their current occupation). In addition to this 12% of active requirements consists of new entrants to the market or companies moving out of Serviced Office space .
- Space under offer at the end of Q2 stood at 3.6m sq ft, up 17% on the long-term average.



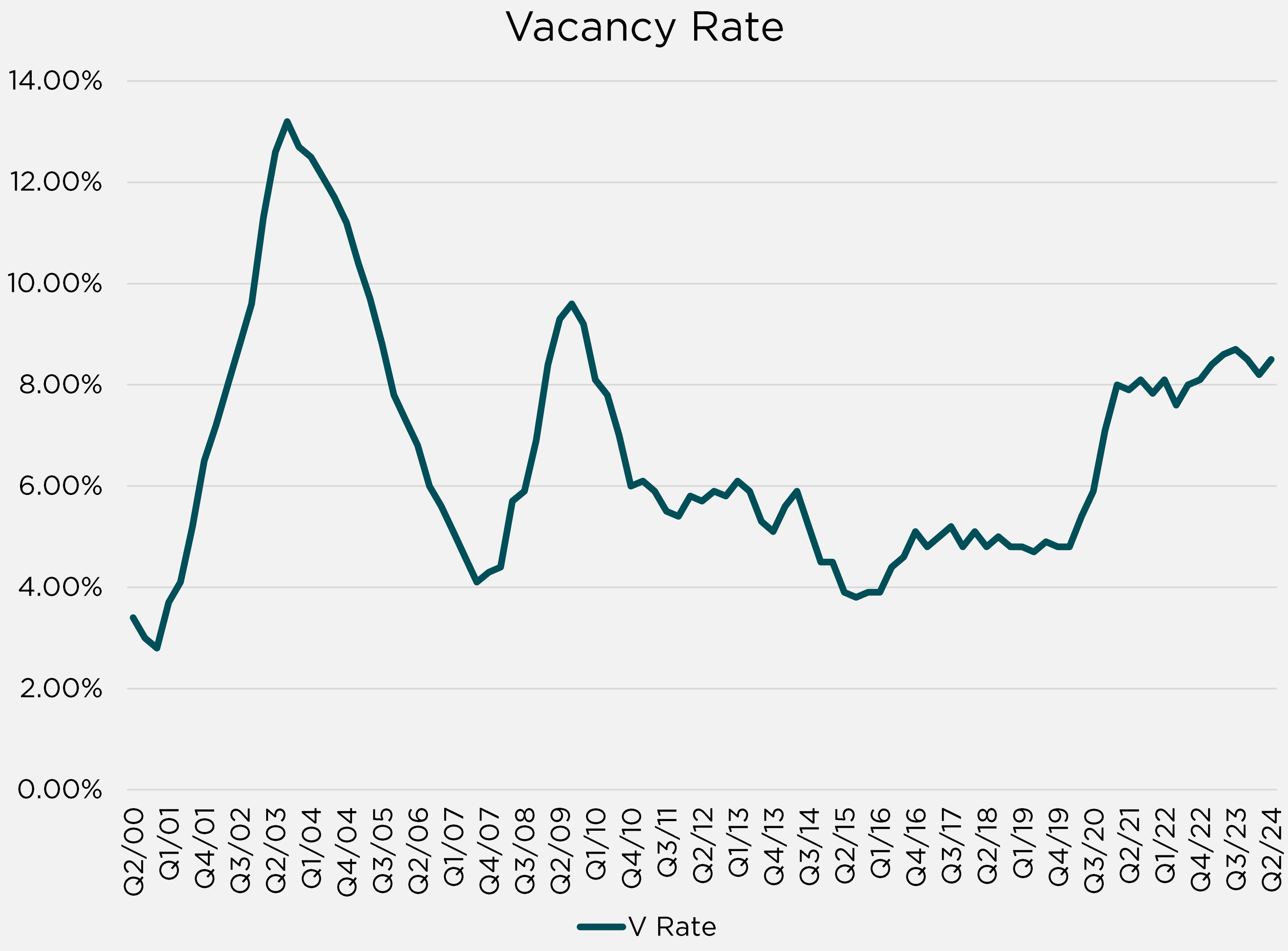

**30%**
Insurance & Financial sector demand

**26%**
Professional Services

**4.9m**
In occupation for 15+ years

# SUPPLY AND VACANCY

- Supply across Central London stood at 22.2m sq ft at the end of Q2, which equates to a vacancy rate of 8.5%. This is a 30 bps increase to the vacancy rate on the previous quarter, with the West End market seeing a 60 bps rise in vacancy over the quarter because of the record level of development completions expected this year. The City market by contrast has remained at 9.0% since the end of Q1.
- Tenant-controlled space continued to shrink during H1 and at the end of Q2 stood at 3.79m sq ft, down 5% on the start of the year. 60% of currently available tenant-controlled space is on a term of 5 year or less. The most notable new tenant space on the market is Meta's space c240,0000 sq ft at 1 Rathbone Square , W1 (80,000 sq ft of which was under offer at the end of the quarter and has since completed).
- 36% of space available (48.1m sq ft) is BREEAM Excellent or Outstanding compared to over 54% of take-up over the past five years.
- It is worth noting that these levels of vacancy are still lower than compared to previous peaks in the London office market. For example, in the GFC the Central London vacancy rate peaked at 9.6%. In the Dotcom crisis of the early 2000's the vacancy rate went even higher peaking at 13.2%.
- We are currently expecting the City vacancy rate to remain at the same levels over the remainder of the year and to see a 20 BPS rise to the West End vacancy rate over this period.



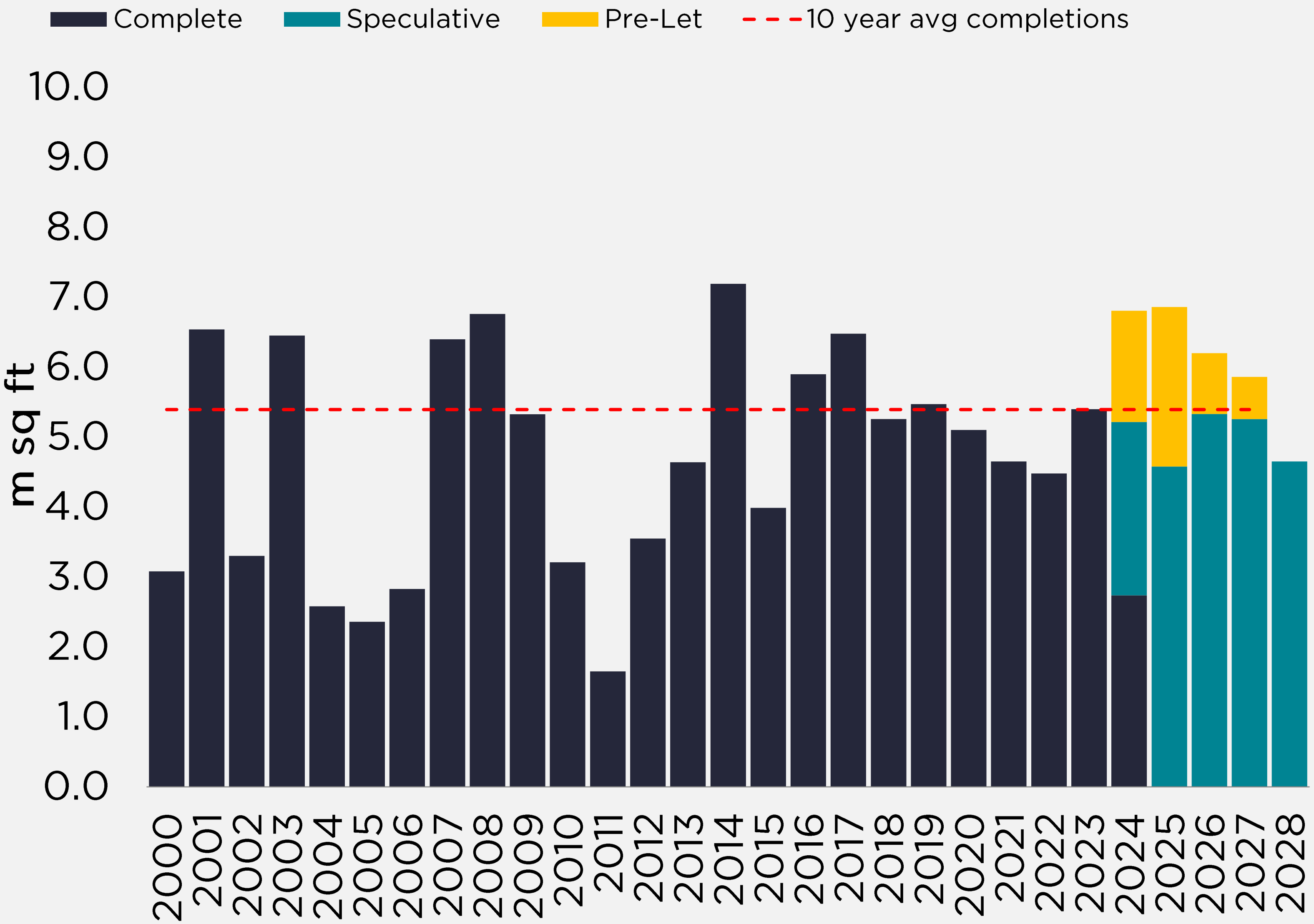

**8.5%**
Central London vacancy rate

**7.9%**
West End Vacancy rate

**9.0%**
City vacancy rate

# DEVELOPMENT PIPELINE

- Development completions reached 2.74m sq ft, with a further 1.5m sq ft competing during Q2. Notable schemes that completed during Q2 include M&G's 1 Southwark Bridge Road, SE1 (190,000 sq ft) and Quadrant Estates/ AimCo's 166,000 sq ft development at Osmo, SW8. Overall development completions in H1 were down 73% on the volume initially antipated at the start of the year with many schemes being moved out into H2.
- Currently we are anticipating development completions this year will reach 6.8m sq ft. This is up 26% on the 10-year annual average and would be the highest level of development completions in over a decade. However, over the last year we have seen the timing on 51% of schemes pushed out by at least 1-3 quarters so in reality completions are unlikely to reach this level. 41% of space scheduled for delivery this year has already been pre-let and around 5% is currently under offer.
- Overall development completions from now until the end of 2028 are expected to reach 30.4m sq ft, 21% of which has already been pre-let.
- However, 46% of the space scheduled for delivery is yet to start, and with cost pressures and pressure on project timescales we anticipate this will result in further delays/more viability challenges for schemes that are not yet underway. 14% of the current pipeline has been granted planning permission but is yet to commence. A further 26% of the pipeline is currently at pre-application or application stage
- New developments account for 45% of the overall sq ft that will be delivered between H1 2024 and 2028, (40% by number of schemes), this is down from 60% in H1 2023, reflecting increased viability challenges for new developments and we expect to see more refurbishments as a result.




**46%**

Yet to start construction

**21%**

Already pre-let

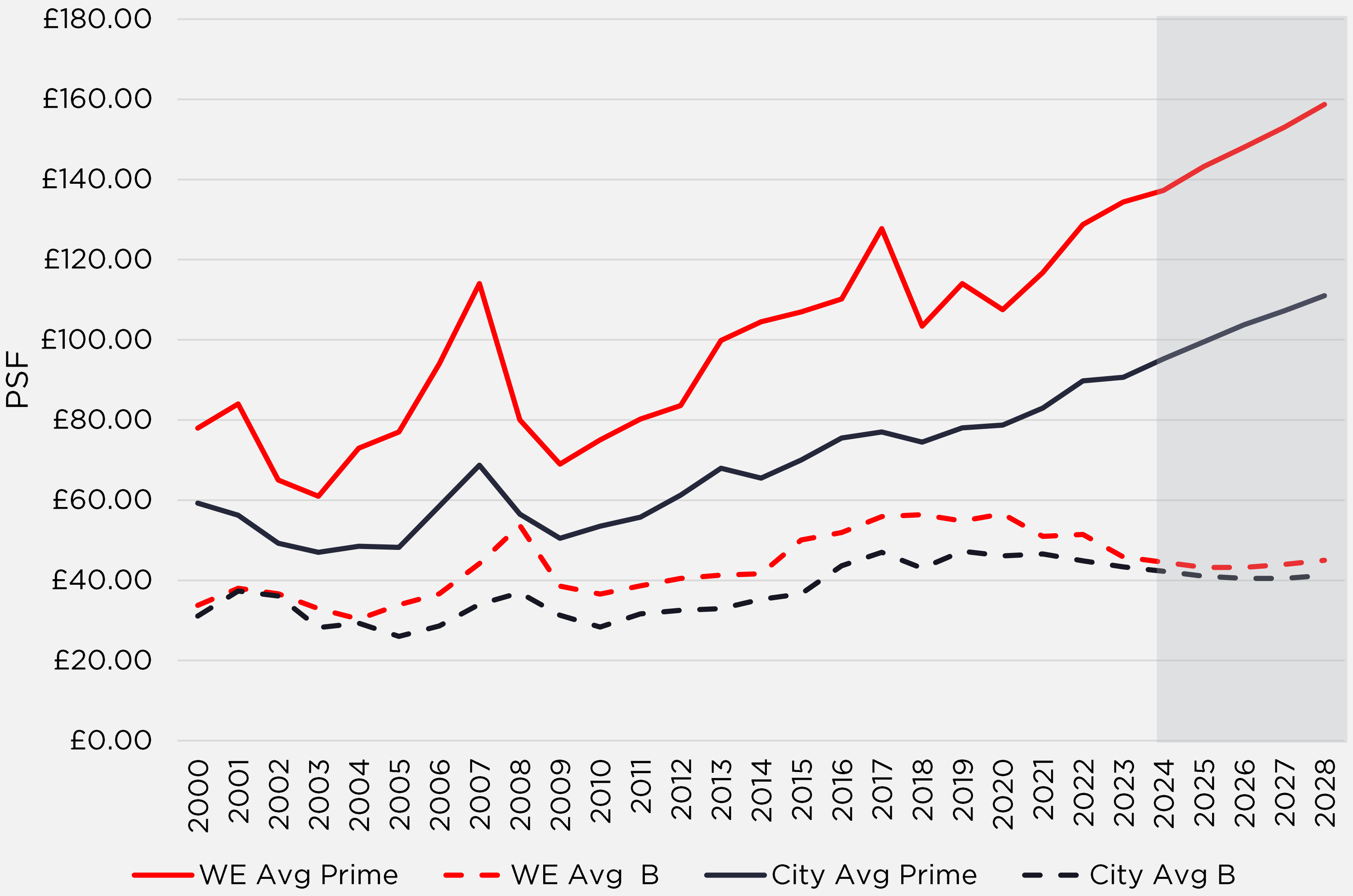
**30.4m sq ft**

Development pipeline 2024-2028

# RENTS & RENTAL OUTLOOK

- The average City prime rent at the end of H1 stood at £98.07 per sq ft, which was up 12% on H1 2023 with continued strong demand for Grade A tower space driving the top 10% of rents being achieved.
- The highest rent achieved in H1 was £108.00 per sq ft, with international arbitration firm Three Crowns taking the 8th floor at Helical's JJ Mack Building in March. This highlights the rental premium paid for best-in-class space with the best sustainability ratings. We are anticipating City average prime rental growth of 5.1% for 2024.
- The average City Grade A rent stood at £69.50 per sq ft, this was in line with the average Grade A rent at the end of Q1 but is up 3.3% on H1 2023.
- The average West End Prime rent at the end of H1 stood at £129.50 per sq ft, which was down 2.6% on H1 2023 as a result of a limited activity so far this year seen in the Mayfair/St James 's sub-markets. We are forecasting average prime rental growth for the West End of 2.1% for 2024.
- The highest rent achieved in Q1 took place at 30 Berkeley Square, W1 where a confidential Insurance firm acquired the 3rd floor (8,000 sq ft) for £200.00 per sq ft. The same building currently holds the West End record rent of £277.00 per sq ft for the part 6th floor which was set in 2020.
- H1 average West End Grade A rent, at £90.96 per sq ft, was up 3.5% on H1 2023.
- The rise in demand for, and shortage of, "prime and green" office space means that we are currently forecasting continued positive year-on-year rental growth. Based on the assumption that the imbalance between the demand for and supply of "prime and green" space we are forecasting avg prime rental growth of 4.1% per annum for the City and 3.4% for the West End.

## Average Prime Rent & Avg Grade B Rental Forecast



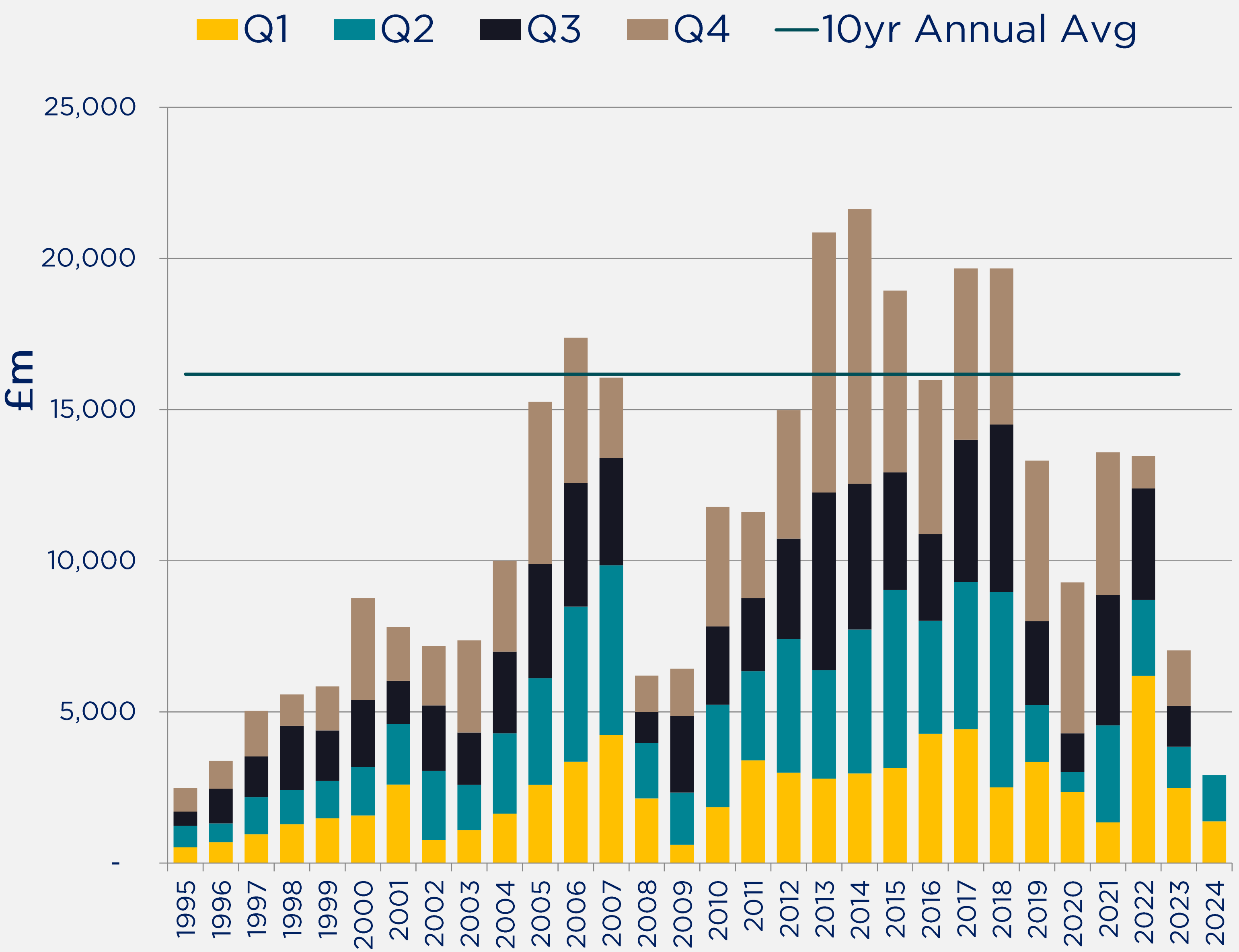

**£129.50 psf**
West End H1 avg prime rent

**£98.07 psf**
City H1 avg prime rent

**3.75%**
2024-2027 Savills avg prime rental growth forecast

# CENTRAL LONDON INVESTMENT

- Central London investment turnover at the end of Q2 reached £1.54bn, with 50 assets exchanging during the quarter, up 12% on the previous quarter
- This brought H1 investment turnover to 2.9bn which is down on the 10-year long-term average by 57% as the scarcity of large-scale trades resulted in lower levels of turnover reflected by the lower average lot sizes we have seen so far this year. The average lot size for assets exchanging in the West End has been £31m, and for the City £23.3m.
- At £909m, investment turnover for the City is the lowest on record for H1 since 1996, although June investment activity did provide some green shoots to the stock starved City market with the year's first £100m+ transaction completing at Herbal House, 8-10 Back Hill, EC1, with the Yellow Tree Group acquiring the freehold interest of the 114,041 sq ft property.
- At £2.0bn, West End Investment turnover was up 15% on H1 2023, although remains 40% below the long-term average as a result of the scarcity of larger sized transactions. Despite this there continues to be strong demand for West End assets as the number of assets trading during H1 was up 30% on the 5-year average.
- The most notable transaction to complete in the West End so far this year was Blackstone's purchase of 130–134 New Bond Street, W1, for £227m, (3.55% and £8,208 psf).
- UK Purchasers, focused on smaller assets, dominated investment activity during H1 with 33 of the 45 assets acquired by UK purchasers having been sub £25m . These purchases accounted for 44% of H1 turnover.
- Savills City prime yield remains at 5.25% and the West End prime yield at 4.00%.




**£2.91bn**
H1 investment turnover

**44%**
UK investors accounted for the largest share of turnover

**£1.8bn**
Under offer across 51 assets up on £1.3bn at Q1 end