Central London Office Market

Q3 2024

Central London Office Market snapshot

Q3 sees a pick-up in leasing activity while investment market awaits return of large-scale assets

Take-up

6.8m sq ft

Q3 take-up at 2.6m sq ft was up 12% on the previous quarter

Demand

11.2m sq ft

Active demand was up 19% on the long-term average

Supply

8.2%

Vacancy Rate is down 30 bps on the previous quarter

Under offers

3.3m sq ft

Space under offer is up 23% on the L/T average

City Prime Rent

£98.42 psf

Average achieved prime rent is up 14% on Q1-Q3 2023

WE Prime Rent

£152.50 psf

Average achieved prime rent is down 5% on Q1-Q3 2023

Dev Pipeline

27.4m sq ft

21% of Q4 2024-2028's completions have already been pre-let. 38% are yet to start

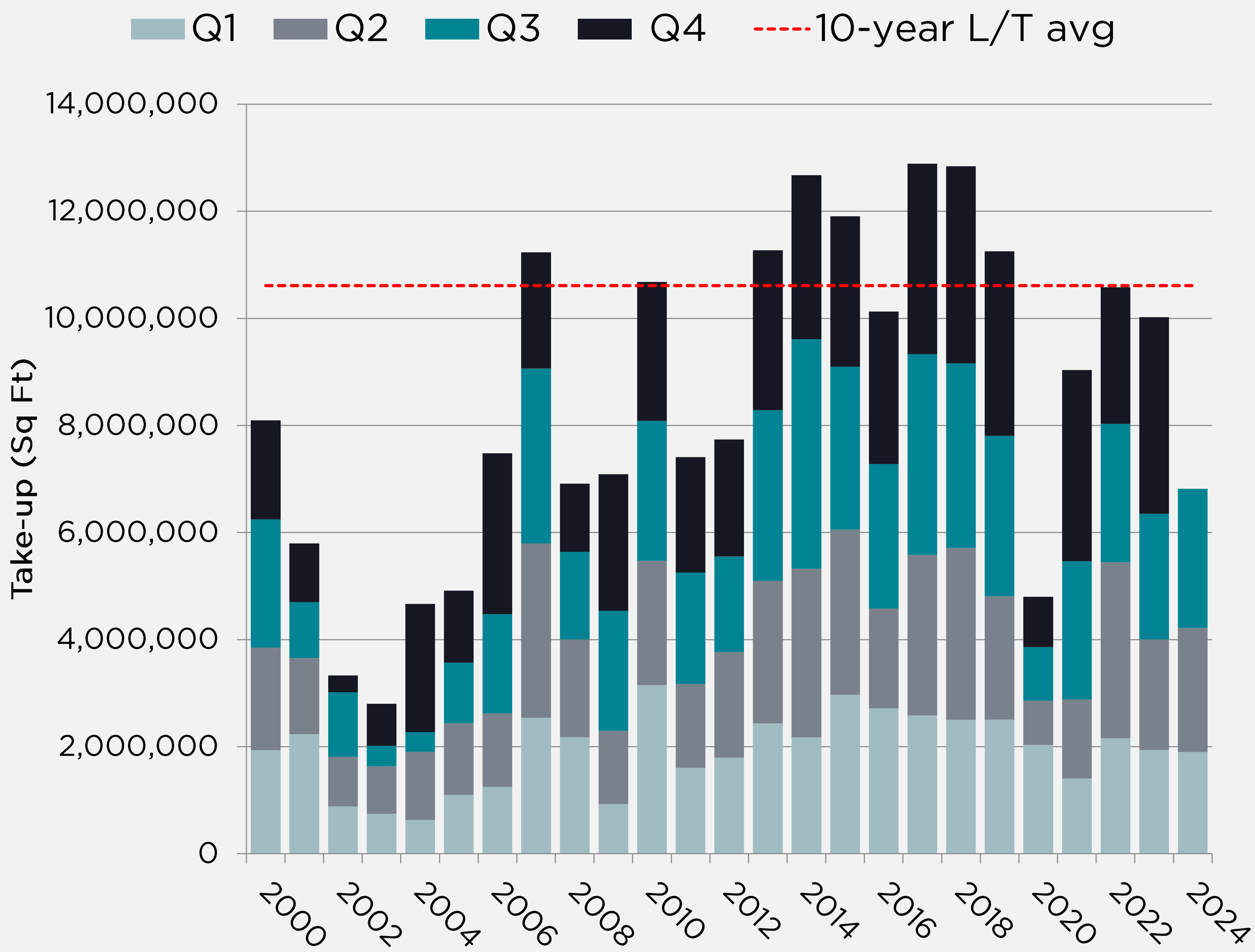
Investment

£4.48Bn

YTD turnover remains 57% down on the Q1-Q3 L/T avg

LEASING SUMMARY

- Central London leasing witnessed an uptick in activity during Q3, with take-up at the end of the quarter having reached 2.6m sq ft, up 12% on the previous quarter, with the West End market witnessing its first transaction over 200,000 sq ft in almost two years.
- This brought Central London take-up for Q1-Q3 to 6.8m sq ft, across 550 transactions. This is down 10% on the long-term average, in line with our medium-term expectations for take-up considering hybrid working. The preference for newer quality offices is reflected by the fact that 75% of space acquired so far this year has been of office space that has been recently redeveloped or comprehensively refurbished.
- Leasing during the quarter was boosted by a return of larger-sized transactions in the West End with the number of transactions sized over 25,000 sq ft the highest number to complete during a quarterly period in the West End since Q2 2022. Despite the boost given to leasing activity by the increased volume of larger-sized transactions, the West End market remains 22% down on the long-term average. By comparison, take-up across the City market stood at 4.4m sq ft, which was down only 3% on the long-term average.
- Pre-letting activity accounted for 27% of space acquired during the quarter and the largest transaction to complete was BDO's Pre-let of the 1st – 6th floors at Ramsbury & Capital Real Estate's the M Building, W1 (221,403 sq ft). This was followed by Legal & General's pre-letting 191,000 sq ft on the part G, 4th-8th at Woolgate Exchange, EC2 (191,000 sq ft) and Evercore's pre-let of the 8th-10th, 14th - 15th floors at Welput's 105 Victoria Street, SW1.
- 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.



6.8m sq ft
Central London take-up

550
transactions

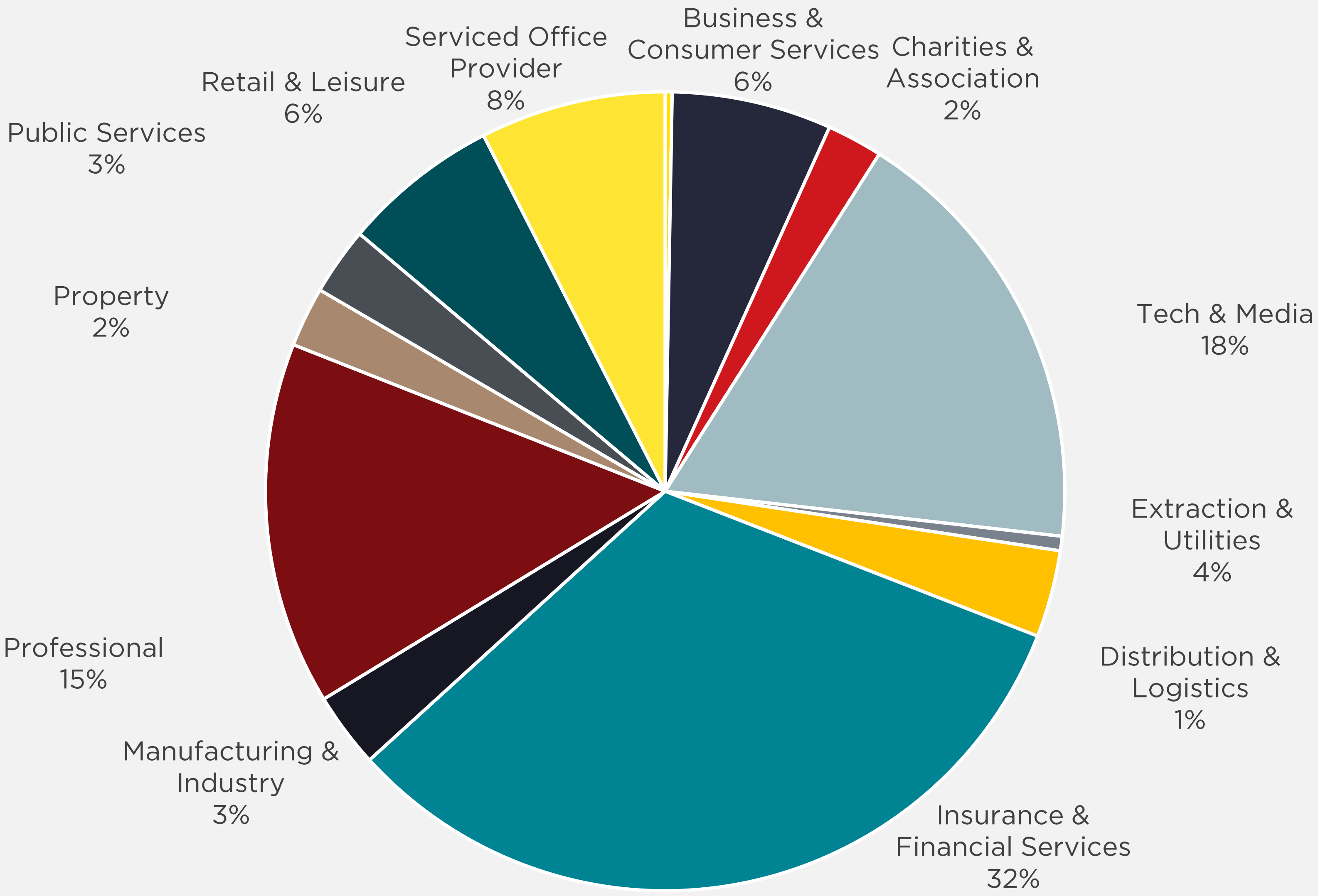
55%
BREEAM Outstanding/Excellent

TAKE-UP BY SECTOR

- The Insurance & Financial sector continues to be the main driver of leasing activity and has so far accounted for just shy of a third (32%) of space that has been acquired so far this year. 53% of space acquired by Financial sector occupiers has been in the City Core and at present the overall quantum of space acquired by this sector is up 49% on the long-term average for this period, illustrating the strong levels of demand Central London continues to receive from Financial sector occupiers.
- We continued to see a pick-up in demand from the Tech & Media sector over the quarter, with Monday.com's acquisition of an assignment from Meta of the 4th to 6th floors at 1 Rathbone Square, W1 (80,626 sq ft), adding to the sector boost from Amazon's letting in Q2, to bring the Tech & Media sector share of take-up to 18%. Despite this activity from this sector was particularly focused in the City Northern Fringe sub-market area and is up 55% on the previous year. In fact, it is the highest level of activity seen for this sector since 2021. However, this activity is concentrated in the City market as Tech and Media sector demand continues to remain at low levels in the West End.
- The Professional Services sector followed with 15%, driven by mid-sized law firms acquiring space. The legal sector single-handedly accounted for 50% of Professional Service sector take-up. At present the number of transactions that have completed to Professional sector occupiers is almost at a 10-year high for Q1-Q3, whilst the overall sq ft is the second highest we have seen in the past 5 years, (with the exception of the record level we saw in 2022).
- The continued growth of demand for flexible space has resulted in an increase in Serviced Office Provider requirements. So far this year a further 18 locations (around 495,000 sq ft) have been acquired by operators.

*L/T avg – 10-year long-term average

Savills Q3 2024



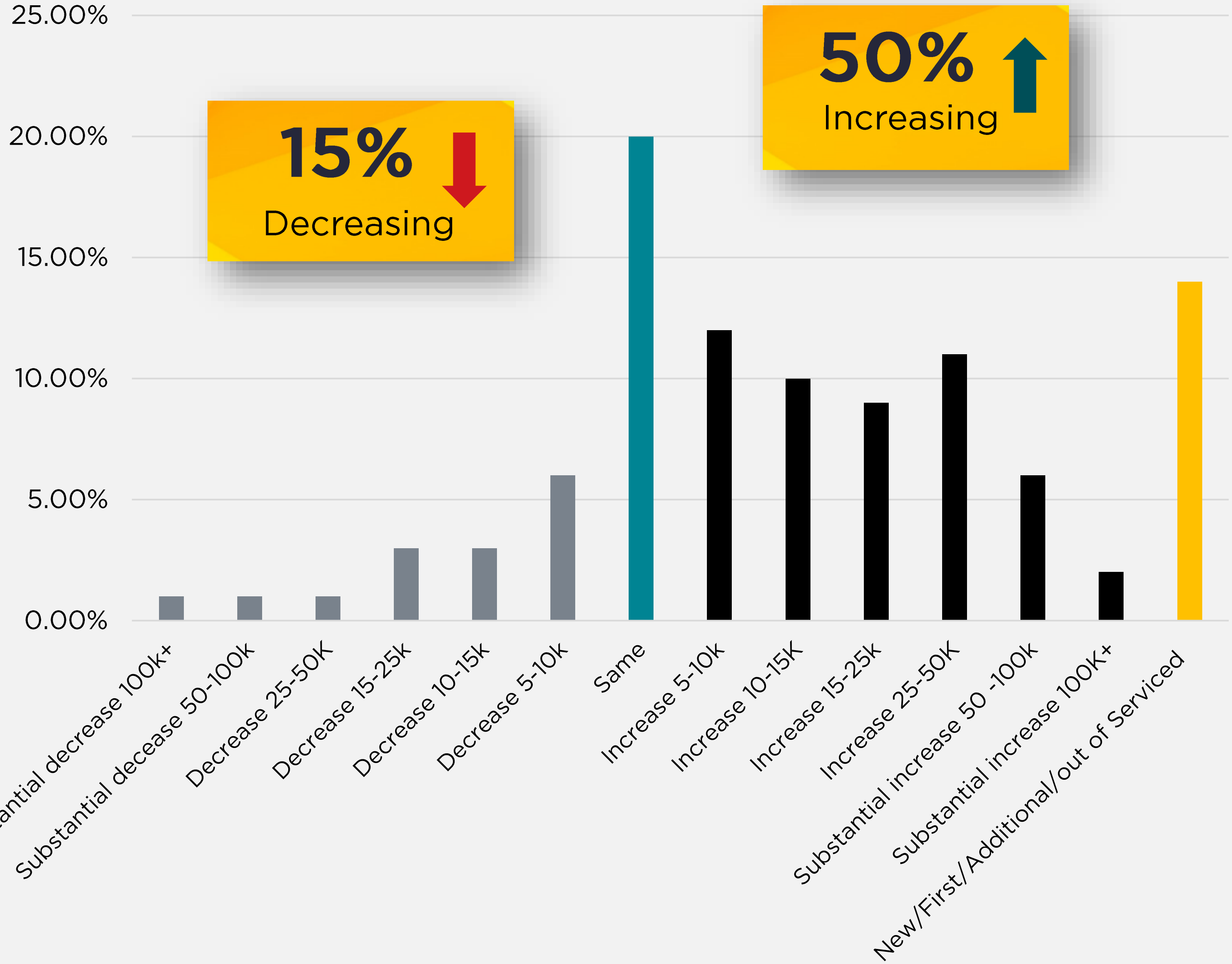
49%+
Insurance & Financial take-up vs L/T avg*

14%+
Professional Services take-up vs L/T avg*

-28%
Tech & Media take-up vs L/T avg*

UNDERLYING DEMAND

- Central London Active demand at the end of Q3 stood at 11.2m sq ft, up 19% 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. At present the Financial Services sector accounts for 27% of active requirements, followed very closely behind by the Professional Services sector with 26%.
- Almost 50% of Financial sector occupiers with an active requirement have been at their primary current Central London Office for 10 years or more, increasing the likelihood of this resulting in a new lease for new space given the sectors general preference for higher quality office space. Whilst the overall quantum of demand at 3m sq ft, is down from a record level in 2023, it remains 36% above the long-term average for the Insurance & Financial Services sector.
- Around 4.1m 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.
- There is yet to be any strong indication that more occupiers are seeking to take less space. Overall, there are more occupiers seeking to increase their space (50%), than seeking to decrease the amount of space they occupy (15%). A further 20% 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 14% of active requirements consists of new entrants to the market, companies moving out of Serviced Office space or are acquiring additional space.
- Space under offer at the end of Q3 stood at 3.3m sq ft, up 23% on the long-term average.



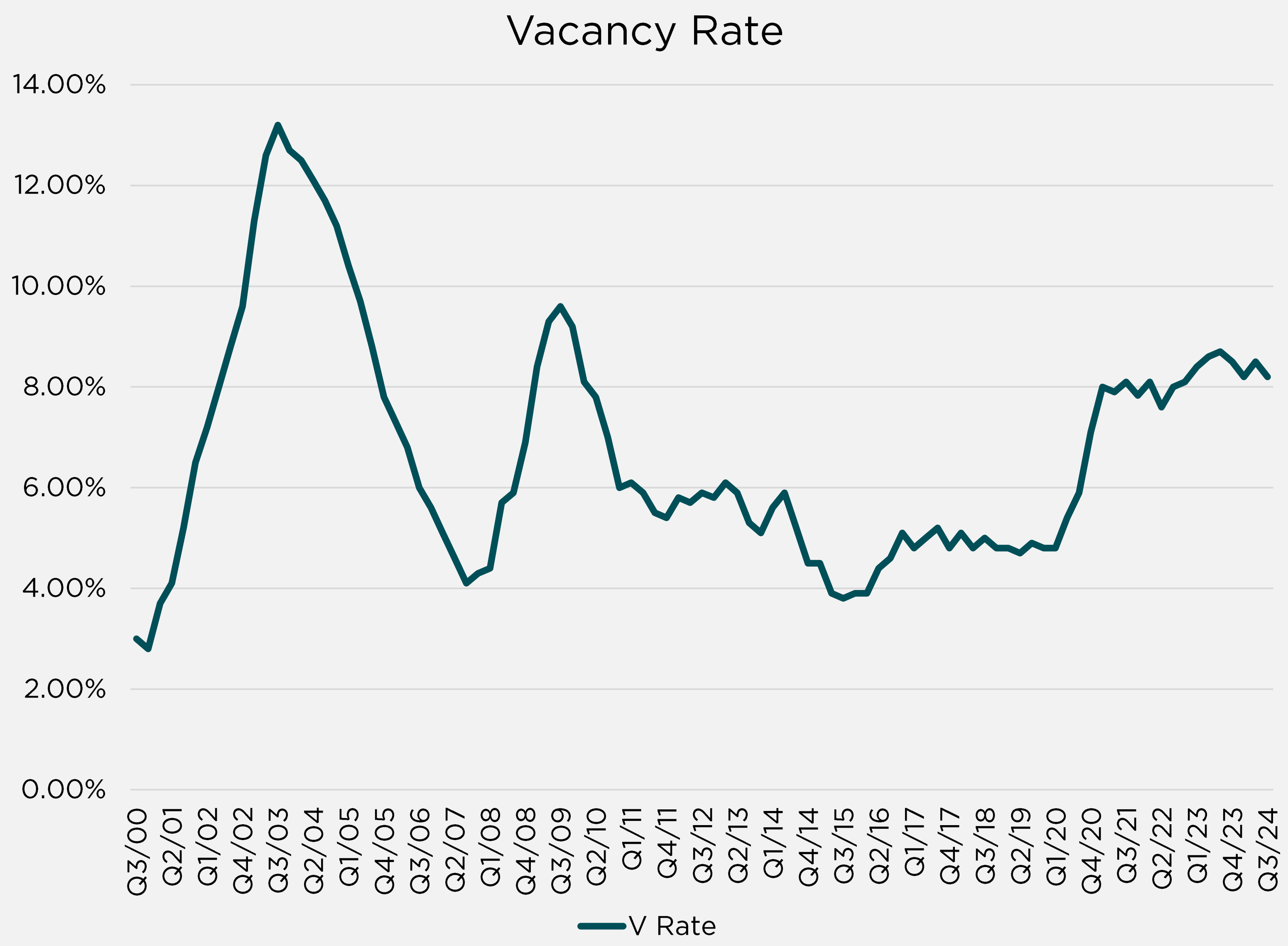
27%
Insurance & Financial sector demand

26%
Professional Services

4.1m
In occupation for 15+ years

SUPPLY AND VACANCY

- Supply across Central London stood at 21.3m sq ft, at the end of Q3, which equates to a vacancy rate of 8.2%. This is a 30 bps decrease on the previous quarter and is 50 bps down on Q3 2023, with both the West End and City seeing reductions to overall supply with many pockets of shorter-term tenant space having returned back to Landlords. As a result, tenant-controlled space fell by 14% over the quarter to its lowest level since April 2020. 43% of tenant-controlled space that remains on the market is for a term of 5-years or less.
- 41% of space available (8.7m sq ft) is BREEAM Excellent or Outstanding compared to over 54% of take-up over the past five years.
- 47% of current supply is made up of sub 5,000 sq ft floorplates and on the larger end of the scale, there are 32 Grade A options available across Central London for an occupier seeking 100,000 sq ft or more, 13 of which are in the West End.
- Based on the current level of available space, Central London supply equates to 25 months' worth of take-up at the rate we have seen during the past three years.
- With 1.4m sq ft of development completions currently anticipated for Q2 2025, (which will be added to supply at the end of Q4), we are currently expecting the vacancy rate will remain broadly stable during the final quarter of the year.
- 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%.



8.2%
Central London vacancy rate

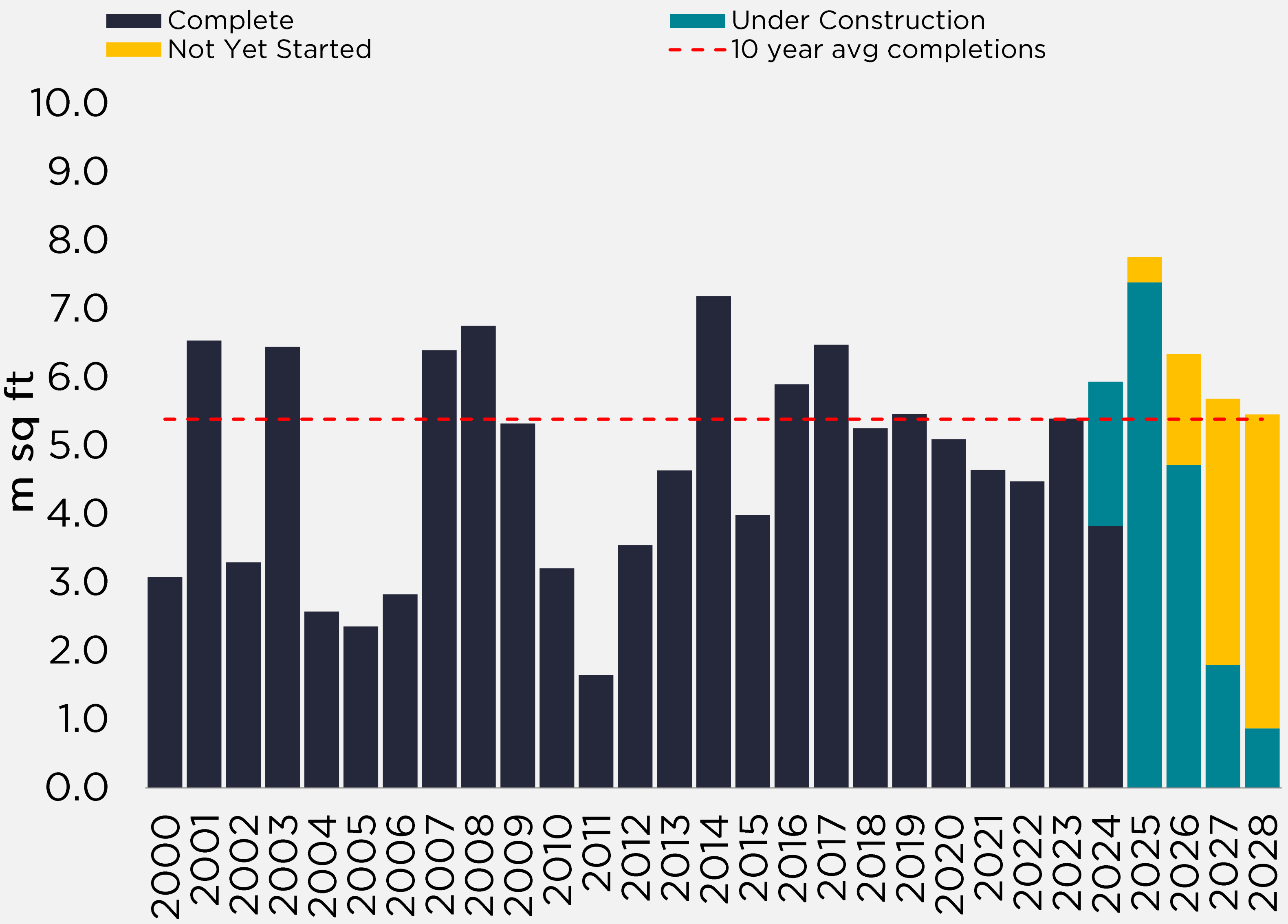
7.4%
West End Vacancy rate

8.8%
City vacancy rate

SUPPLY AND VACANCY

DEVELOPMENT PIPELINE

- Q3 witnessed a lower level of development completions, with just 1m sq ft of new developments and extensive refurbishments having completed, down 28% on the previous quarter. This brought year-to-date development completions to 3.83m sq ft. Notable schemes which completed during Q3 include Seaforth's Space House, Kemble St, WC2 (260,000 sq ft), The Emerson Building – Tide Bankside, SE1 (134,000 sq ft) and Worship Square, 65 Clifton Street, EC2 (118,000 sq ft).
- Overall Q1-Q3 development completions were 39% down on the volume we initially anticipated at the start of the year with many schemes being moved out into 2025.
- Currently we are anticipating development completions this year will reach 5.9m sq ft. This is up 10% on the 10-year annual average and would be the highest level of development completions in 7 years, although it is unlikely to reach this level due to typical development delays. over the last year we have seen the timing on 29% of schemes pushed out by at least 2-3 quarters and a further 11% by a year, so in reality completions are unlikely to reach this level.
- Development completions from now until the end of 2028 are expected to reach 27.4 sq ft, 21% of which has already been pre-let. However, 38% of the space scheduled for delivery is yet to start, and with cost pressures and viability related pressures adding to the pressure on project timescales as a result of the high levels of insolvency in the construction industry, actual completions will most likely be 20-30% below current projections.
- New developments account for 46% of the overall sq ft that will be delivered between now and 2028, (36% by number of schemes), this is down from 58% a year earlier, reflecting increased viability challenges for ground up schemes and we expect to see a rise to refurbishments as a result.



38%
Yet to start construction

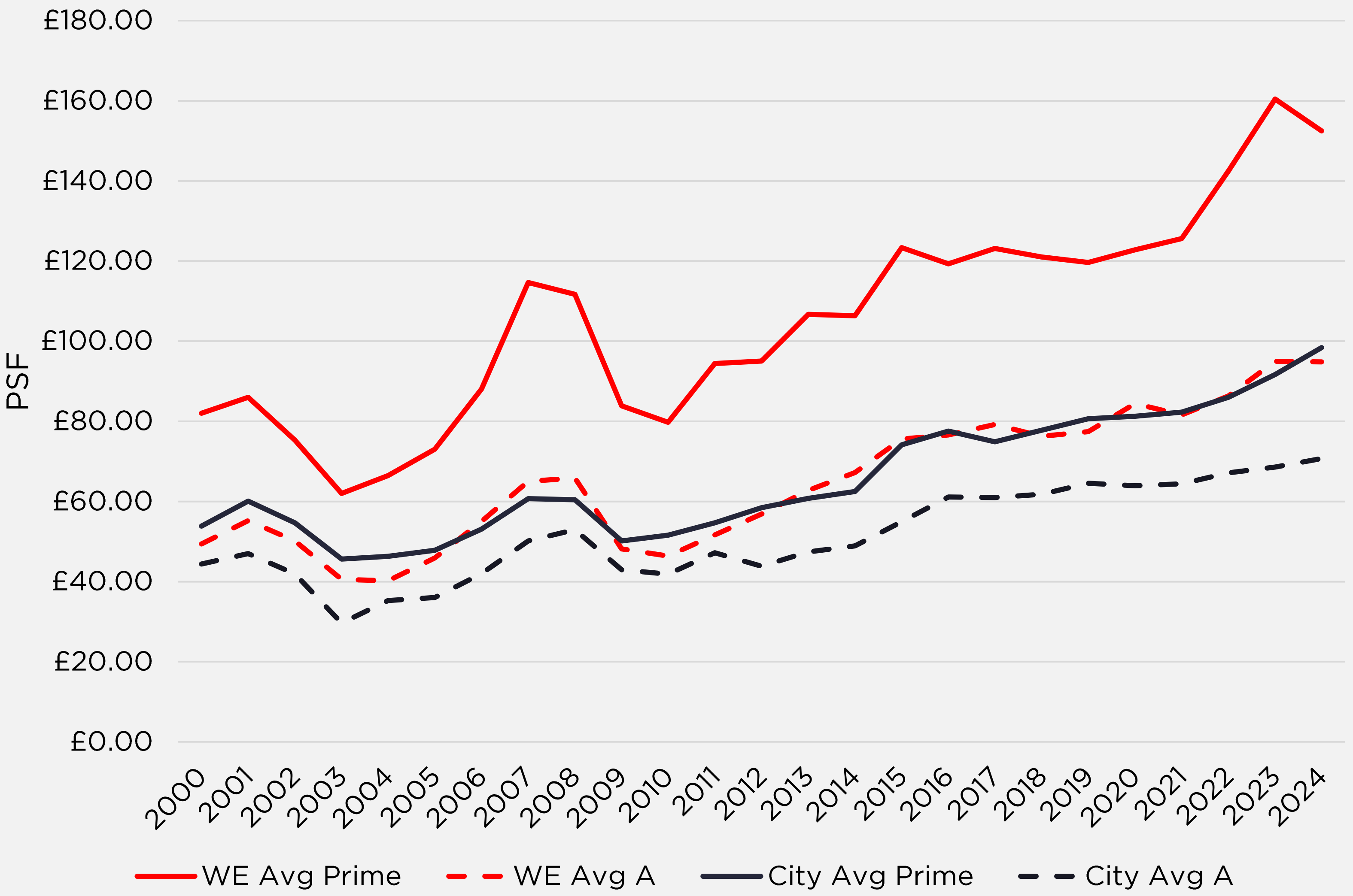
21%
Already pre-let

27.4m sq ft
Development pipeline Q4 24-2028

RENTS & RENTAL OUTLOOK

- At the end of Q3, the average City Grade A rent for the year so far stood at £70.73 per sq ft up 7% on Q1-Q3 last year. Both Prime and Grade A rents are expected to continue to rise in spite of cost pressures on businesses, as the costs of delivering new developments continue to rise and prime space remains limited. We have seen the average City Grade B rent fall in the first three quarters of 2024 to £45.64 per sq ft, down 3% on the same period last year down to the lack of demand for lower quality space.
- In the third quarter of 2024 the average City prime rent stood at £100.81 per sq ft up 16% on the average prime rent achieved in the third quarter of last year, this brought the year-to-date average to £98.42 per sq ft up 14% on the same period last year.
- The top City rent achieved this year currently stands at £122.00 per sq ft, with Brazilian banking firm Banco. This highlights the rental premium paid for best-in-class space with the best sustainability ratings and as a result we are currently anticipating prime rental growth of 4.5% for the City in 2025.
- The average Grade A rent in the West End has remained stable at £98.87 per sq ft in line with where it stood at the end of the same period a year earlier.
- However, following on from 2023 where we saw record levels of pre-lets in the West End core, at £152.50 per sq ft, the West End prime rent was down 5% on the previous year. This though is based on actual achieved rents as opposed to a fall in material prime rents and as we continue to see limited levels of transaction activity in Mayfair/St James 's sub-markets with supply continuing to remain constrained, (with the vacancy rate currently at 4.1%). Despite this we expect the flight to quality to result in continued rental growth for prime assets across the West End and are currently forecasting West End prime rental growth of 4.4% for 2025.

Average Prime Rent & Avg Grade B Rental Forecast



£152.50 psf
West End avg prime rent

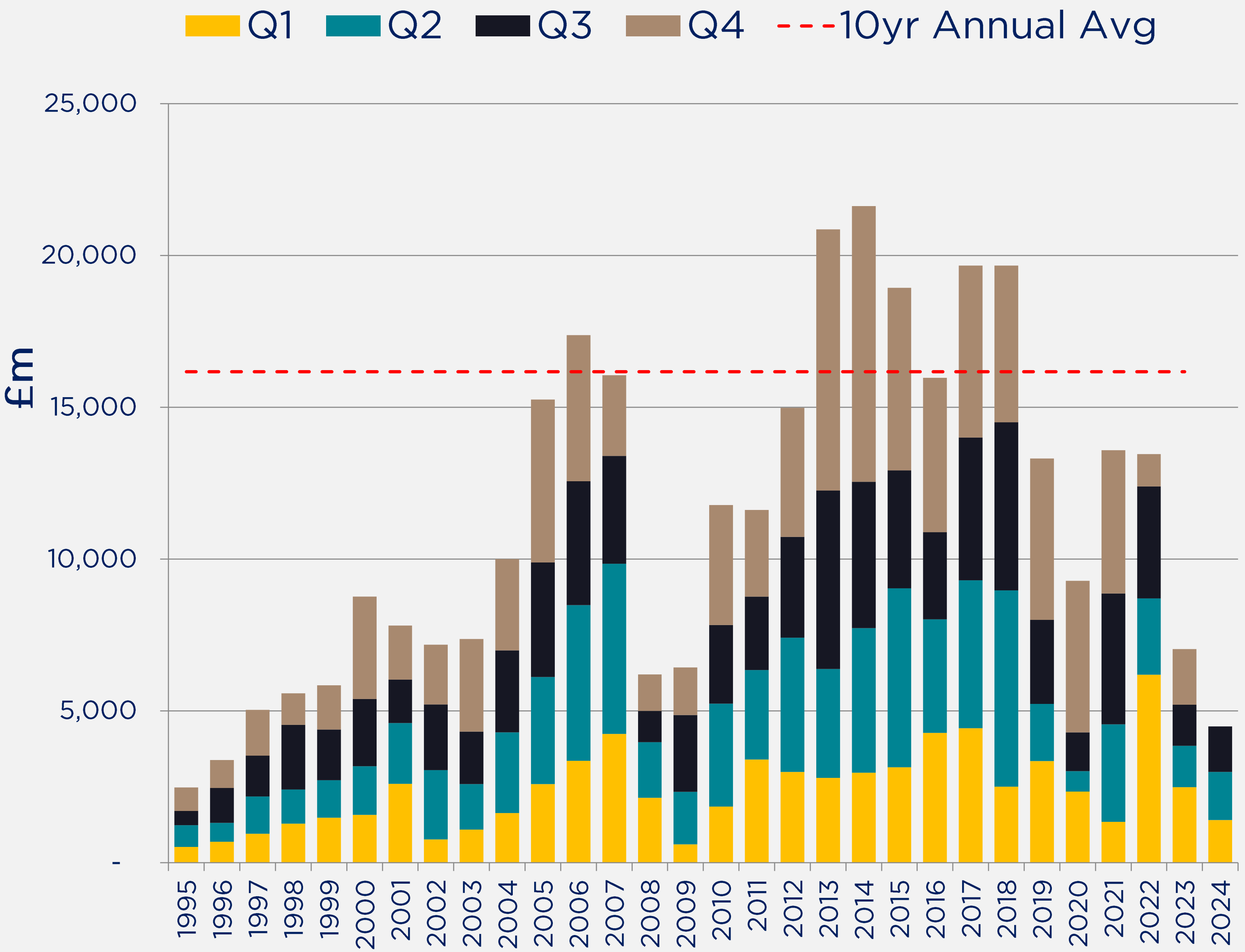
£98.42 psf
City avg prime rent

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

RENTS

CENTRAL LONDON INVESTMENT

- Central London investment turnover at the end of Q2 reached £1.54bn, with 48 assets exchanging during the quarter, down 5% on Q2.
- This brought H1 investment turnover to 4.5bn which is down on the 10-year long-term average by 57% as the scarcity of large-scale trades continues to lower levels of turnover. The average lot size for assets exchanging in the West End so far this year has been £31.5m, and for the City £24.3m.
- Whilst City Investment turnover remained down 72% on the long-term average, Q3 saw the largest transaction of the year trade with Royal London acquiring the freehold interest in Atlantic House, 45–51 Holborn Viaduct, EC1, from CBRE IM. The freehold interest was acquired for a sum of circa £185m, which reflects a net initial yield of 7.44% and a capital value of £707 per sq ft.
- Cumulative West End Investment turnover at the end of Q3 stood at £2.87 bn reflecting a 10% and 41% decrease on the five- and ten-year averages, respectively. The most notable transaction to complete in the West End during Q3 was the sale of the freehold interest in 14 St George Street, W1 to Oval Real Estate / Elliott at a headline price of £133m, 3.91% (topped up) & £2,565 psf.
- So far this year we have witnessed a dearth of large-scale trades; only 6 above £100m (compared to the 10-year average of 30).
- UK Purchasers dominated investment activity and have accounted for 45% of investment turnover and have accounted for 38% of £50m+ asset purchases (by number) so far this year.
- Savills City prime yield remains at 5.25% and the West End prime yield at 4.00%.



£1.5bn
Q3 2024 turnover

45%
UK investors accounted for the largest share of turnover

82%
of assets (by number) that have traded are sub £50m

INVESTMENT