Central London Office Market

Q4 2024

Central London Office Market snapshot

Q4 sees a pick-up in leasing activity and investment activity though market awaits return of large-scale assets

Take-up

10.1m sq ft

Take-up was down just 5% on the long-term avg

Demand

13.5m sq ft

Active demand was up 44% on the long-term average

Supply

7.5%

Vacancy Rate is down 70 bps on the previous quarter

Under offers

2.3m sq ft

Space under offer was down 18% on the L/T average

City Prime Rent

£98.60 psf

Avg prime rent was up 7.5% on 2023

WE Prime Rent

£157.15 psf

Avg prime rent was down 2% on 2023

Dev Pipeline

22.6m sq ft

26% of 2025-2028 completions have already been pre-let

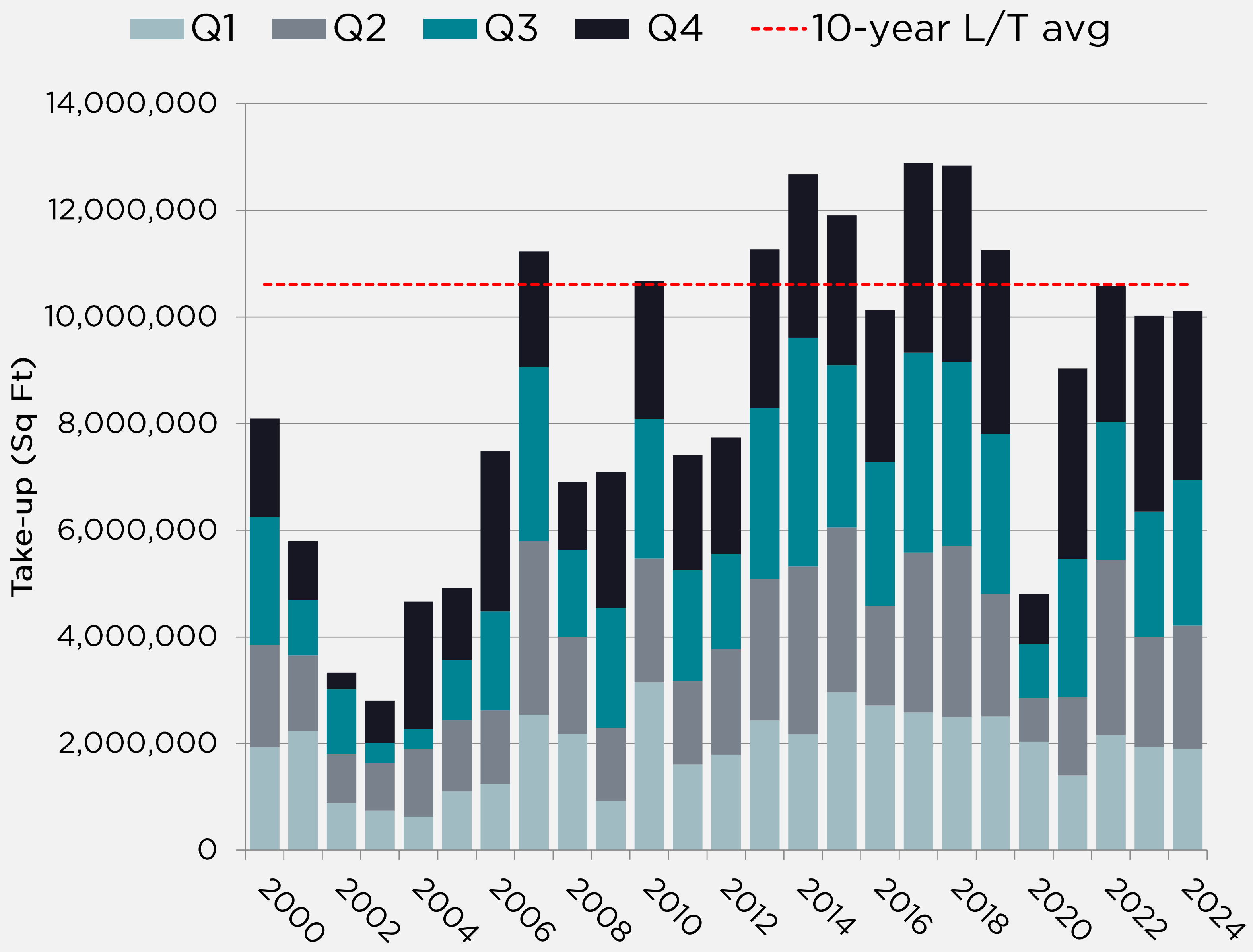
Investment

£6.38Bn

Turnover remains 58% down on the long-term average

LEASING SUMMARY

- Take-up across Central London during the final quarter of the year reached 3.2m sq ft, across 214 transactions. This was up 16% on the previous quarter, with the year-end seeing a boost to the number of 50,000 sq ft+ transactions completing.
- The largest transaction to complete during Q4 was Moodys' pre-let of the 4th to 8th floors at 10 Gresham Street, EC2 (110,862 sq ft), at £85 per sq ft. Another large pre-let to complete during the quarter was A&O Shearman taking 100,000 sq ft of option space at 1 Broadgate on confidential terms. The largest transaction to complete in the West End, (and largest Q4 West End investment transaction), was an owner occupier transaction, with Larry Ellison Institute of Technology acquiring 11-12 St James's Square SW1 (80,695 sq ft).
- This brought 2024 take-up to 10.1m sq ft, which was down only 5% on the long-term average, with City take-up up 2% on the long-term average (at 6.54m sq ft). Whilst leasing activity in the West End continues to trail 16% behind the long-term average, having reached 3.56m sq ft, leasing across the Central sub-markets (Mayfair, St James's, North of Oxford Street, Soho, Covent Garden) was only 1% down on the long-term average, reflecting the sustained demand for more centrally located stock.
- Encouragingly, the number of transactions completing during 2024 was 3% up on 2023 with all size-bands seeing an increase on the previous year, with 10-15,000 sq ft transactions up 6% on the long-term average.
- The preference for newer quality offices is reflected by the fact recently redeveloped or comprehensively refurbished office space accounted for 68% of space acquired during 2024 with BREEAM rated Excellent and Outstanding offices accounting for 59% of space acquired over the year.
- We are anticipating similar levels of take-up during 2025 with the combination of limited supply of the best space and increase fit-out cost likely to result in higher levels of renewals.



10.1m sq ft
Central London take-up

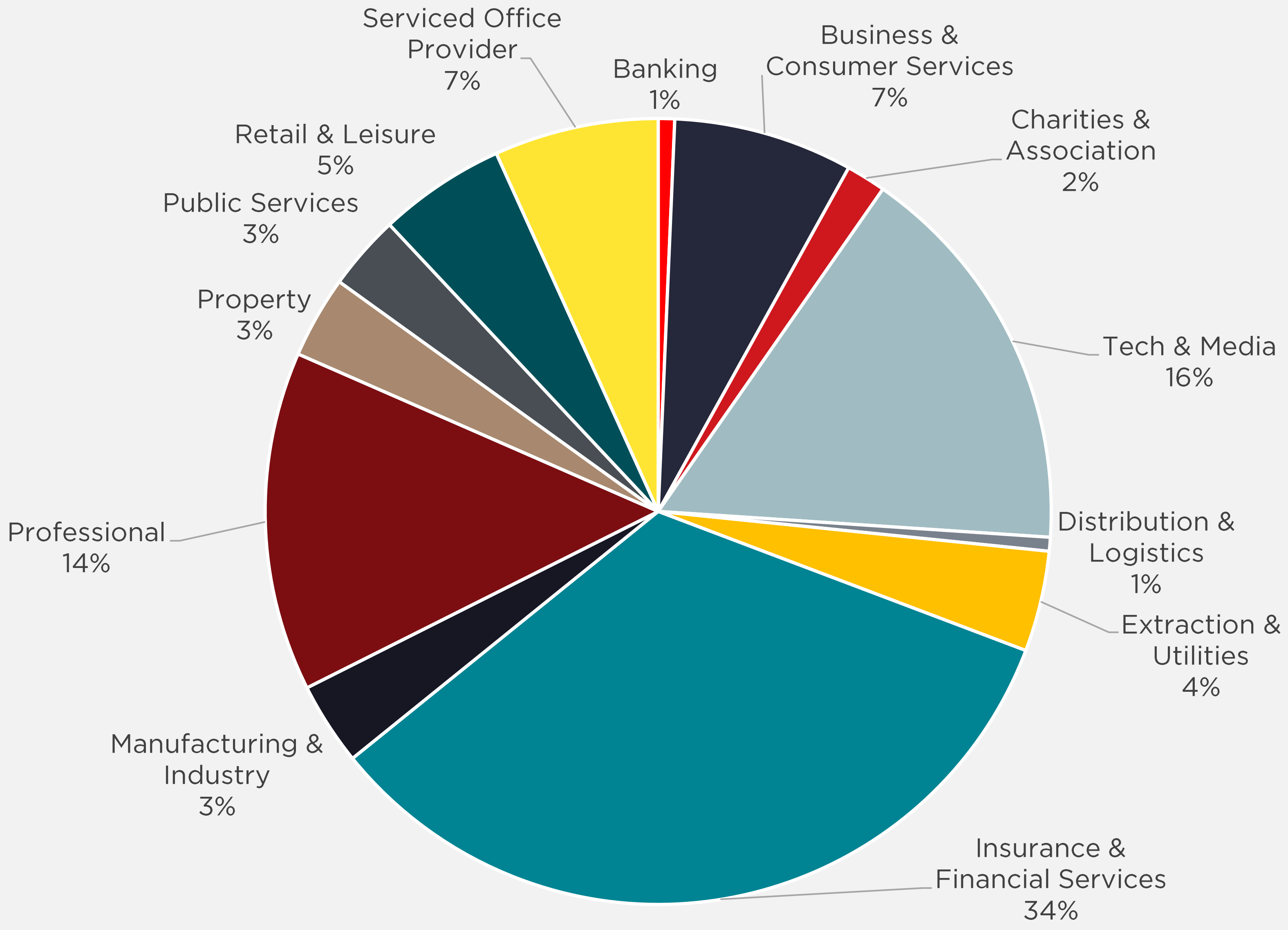
778
transactions

59%
BREEAM Outstanding/Excellent

TAKE-UP BY SECTOR

- The Insurance & Financial sector continued to be the main driver of leasing activity and accounted for over a third (34%) of 2024's take-up. At 3.2m sq ft, financial sector take-up was up 54% on the 10-year long-term average illustrating the strong levels of demand Central London continues to receive from Financial sector occupiers. Further to this 2024 witnessed the highest number of transactions to the sector at 210, up on the long-term average of 170 transactions per annum.
- During 2024, we saw the highest Tech & Media sector take-up in 2 years, with the sector accounting for the next largest share of take-up, with a 16% share. The number of transactions to complete to Tech & Media sector occupiers, at 128 was substantially up on the volume we saw complete in 2023, where transaction numbers to the sector fell to their lowest level since 2008, owing to the various challenges the sector faced.
- The largest transaction to complete to a Tech and Media sector occupier during the final quarter was Creative Artists Agency's acquisition of the entire building, (79,789 sq ft) at 21 Bloomsbury Street, WC1 on confidential terms.
- The Professional Services sector followed with the third largest share of take-up, though overall we have seen a substantial increase in demand from this sector, with take-up up 19% on the 10-year long-term average. Whilst the overall sq ft acquired by the sector was down on the record level we saw during 2022, the number of transactions to this sector was the highest number in over a decade and it continues to be driven by mid-sized law firms acquiring office space in the City market.
- Whilst Serviced Office Provider sector only accounted for 7% of take-up, the continued growth of demand for flexible space has resulted in an increase in Serviced Office Provider requirements. During 2024 a further 27 locations (654,277 sq ft) were acquired by operators.

*L/T avg – 10-year long-term average



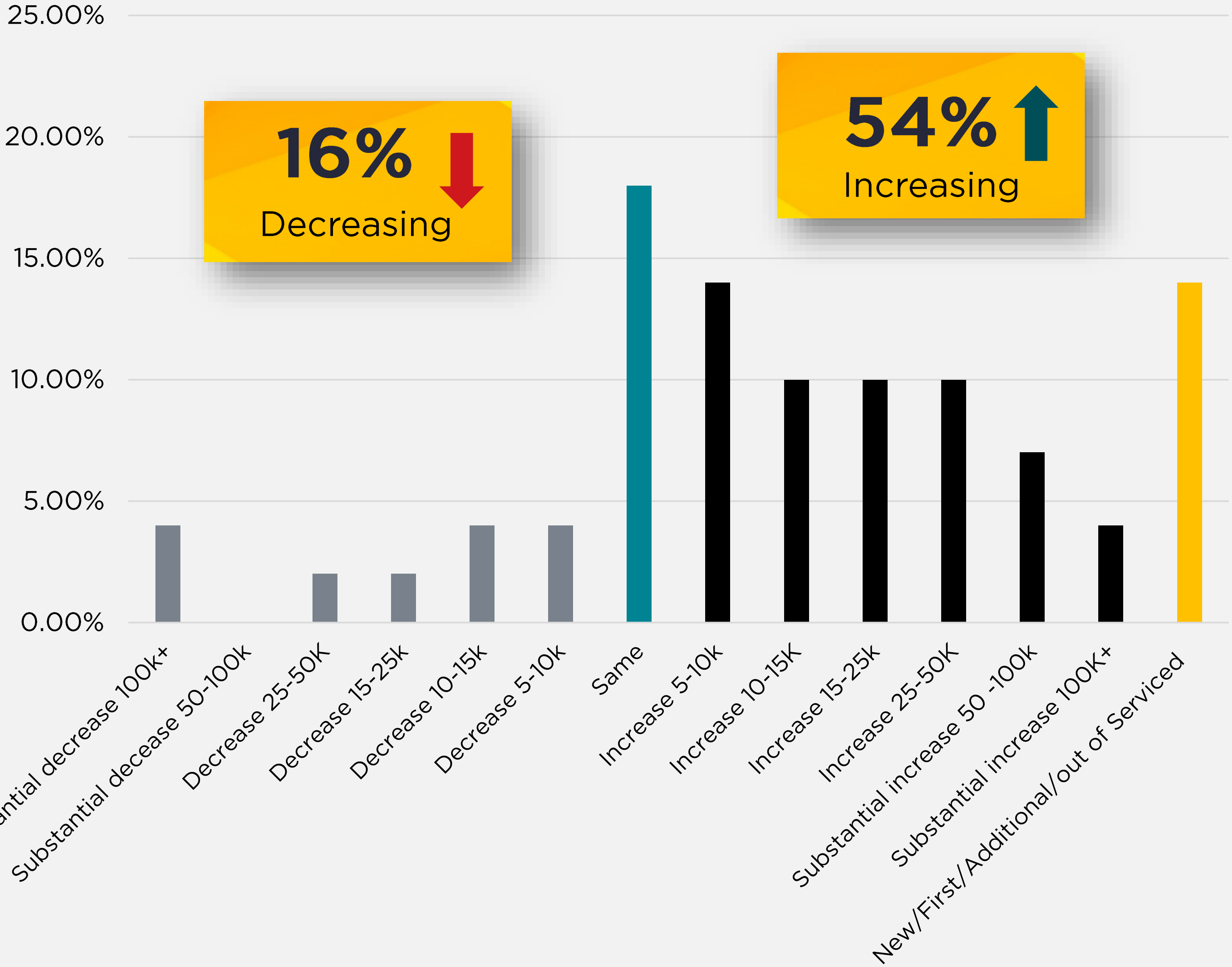
54%+
Insurance & Financial take-up vs L/T avg*

-30%
Tech & Media take-up vs L/T avg*

19%+
Professional Services take-up vs L/T avg*

FUTURE DEMAND

- Active demand at the end of the year stood at 13.5m sq ft, up 44% on the long-term average with the number of 15-25,000 sq ft requirements having increased and underlying demand continuing to be driven by the Insurance & Financial Services sector.
- The Insurance & Financial Services sector accounted for 4.6m sq ft of active Central London demand, which equated to over a third (34%) of active demand at year end. 27% of these Financial sector occupiers have been at their primary current Central London Office for 15 years or more, and a further 26% for 10 to 15 years, increasing the likelihood of this resulting in a new lease for new space given the sectors general preference for higher quality office space. As a result, we expect leasing activity in 2025 will continue to be dominated by this sector.
- The Professional Services sector accounted for the next highest share of active demand with 21%, with Law firms and Accountancy firms in the City continuing to boost overall Central London demand.
- 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 (54%), than seeking to decrease the amount of space they occupy (16%). The number of occupiers seeking to increase their footprint was up 8% on the same period a year earlier and the number of those seeking to decrease was down 1%.
- A further 18% 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 who are acquiring additional space.
- Whilst we expect the rise in business costs and fit-out cost over recent years will likely result in a higher level of lease renewals during 2025, around 4.5m sq ft of active demand consists of occupiers who have been at their existing premises for at least 15 years.



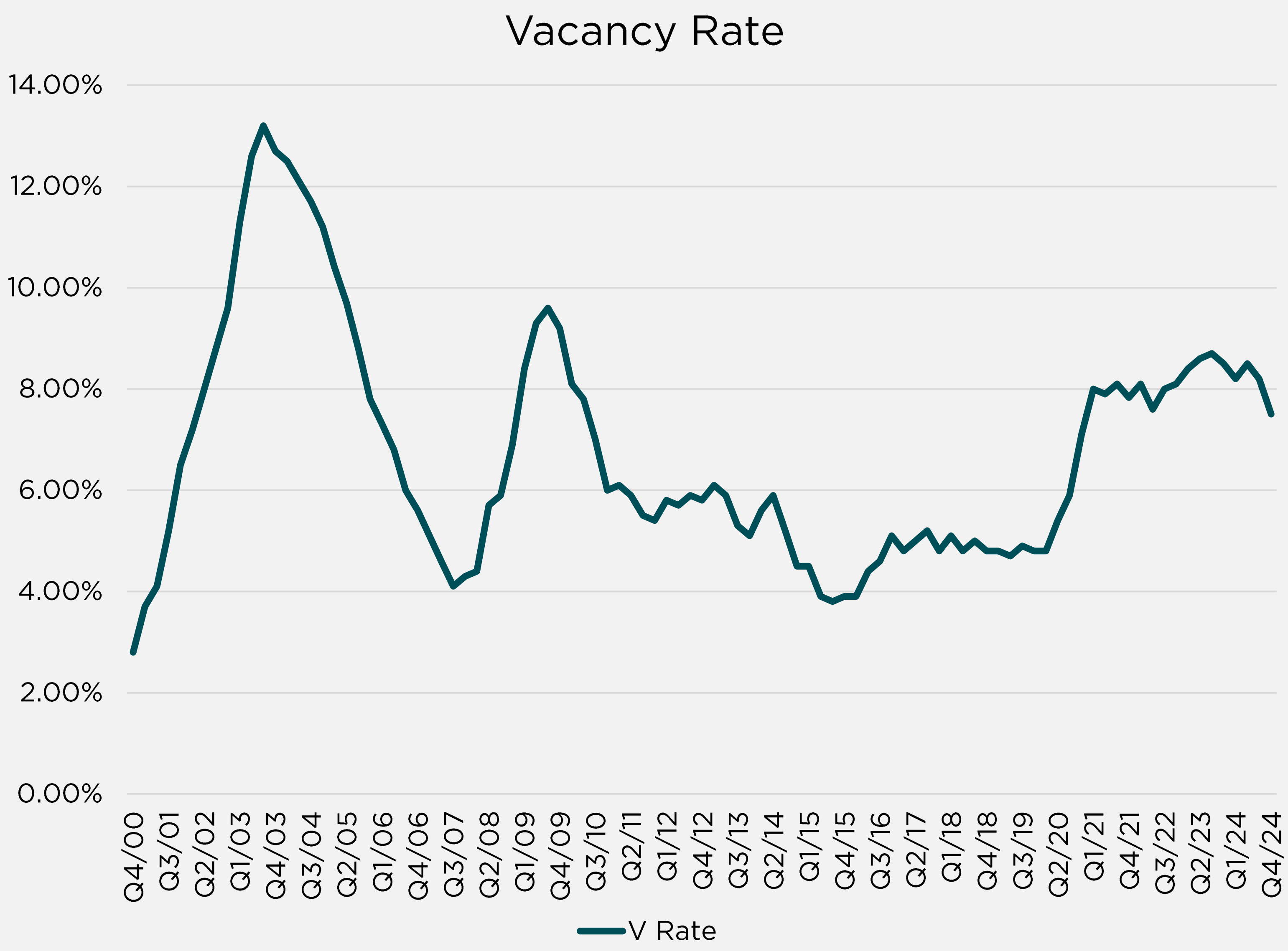
34%
Insurance & Financial sector demand

21%
Professional Services

4.5m
In occupation for 15+ years

SUPPLY AND VACANCY

- During the final quarter of the year, the Central London market saw the largest quarterly reduction to supply in over a decade with limited new supply and availability resulting in a 70-bps reduction to the vacancy rate. At 7.5%, this is the lowest Central London vacancy rate in 4 years, although the vacancy rate remains 160 bps above the long-term average (5.9%).
- This equates to 19.5m sq ft available across Central London, only 15% of which is tenant-controlled, with overall tenant space continuing to decline further during the quarter, reaching 2.96m sq ft. This was the lowest level of tenant–controlled supply across Central London since July 2021, with many pockets of shorter-term tenant space having returned to Landlords on expiry.
- Based on the current level of available space, Central London supply equates to 23 months' worth of take-up at the rate we have seen during the past three years, this is down 2 months on the previous quarter.
- The City market accounted for most of the fall in supply, with the City vacancy rate declining a further 90 bps to 7.9% during the quarter.
- Meanwhile the West End market saw a 40 bps reduction to vacancy. The reduction in vacancy in the West End was mainly concentrated across the Core sub-markets which continue to experience high levels of occupier demand, with Mayfair, St James's & Soho vacancy rates at pre-covid levels.
- 43% of space available (8.8m sq ft) is BREEAM rated Excellent or Outstanding compared to over 54% of take-up over the past five years.
- 53% of current supply is made up of sub 5,000 sq ft floorplates and on the larger end of the scale, there are 18 Grade A options that are currently available across Central London for an occupier seeking 100,000 sq ft or more that is available now or will be in the next six months.



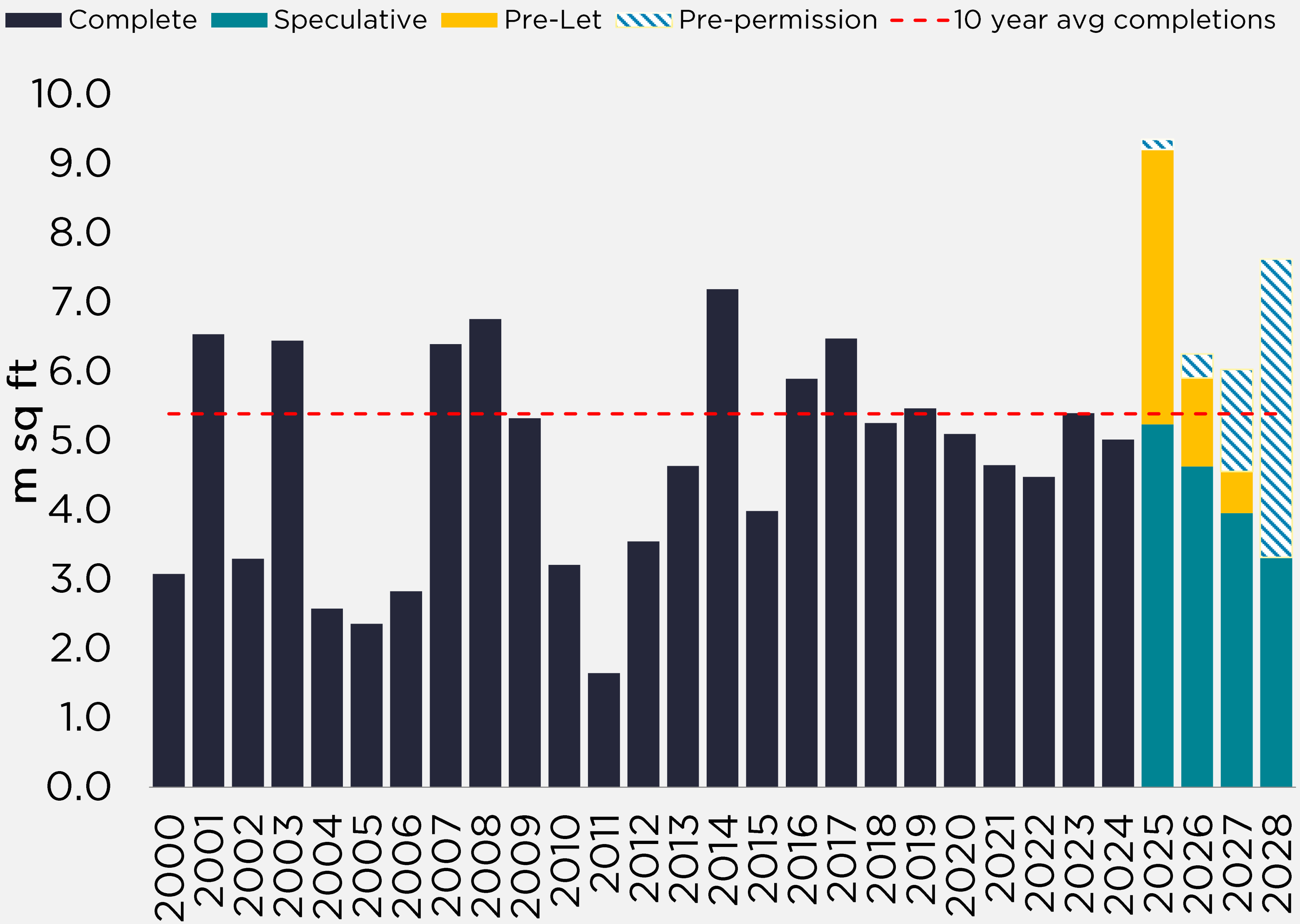
7.5%
Central London vacancy rate

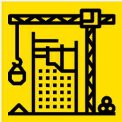
7.0%
West End Vacancy rate

7.9%
City vacancy rate

DEVELOPMENT PIPELINE

- Central London development completions in Q4 reached 1.19m sq ft and brought completions for 2024 to 5m sq ft, which is down 7% on the 10-year annual level of completions. The sustained appetite for newer stock, is reflected by the fact that 51% of 2024's extensive refurbishments and new developments were let prior to completion.
- Currently development completions during 2025 are set to hit a new historical high with 9.3m sq ft scheduled for delivery during 2025. Overall, 21 schemes sized over 100,000 sq ft are set to be delivered, the largest being Orion Capital & Pella's Panorama, 81 Newgate Street, EC1 (556,000 sq ft), which was fully pre-let to HSBC in 2023. Other notable schemes set for delivery during 2025 include Yoo Capital's 533,700 sq ft, One Olympia Scheme, W14 and over in the City Core, Brookfield's 1 Leadenhall development, EC3 (73% of which has already been let). In total 42% of 2025's development pipeline has already been acquired prior to completion as a result of the strong occupational demand for newer office product.
- Over the next four years development completions are expected to reach 29.2m sq ft, already 20% of this has been pre-let. However, 40% 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, actual completions are unlikely to reach these levels.
- We have further analysed the development pipeline and assigned a certainty score based on prospects of delivery to give a more realistic view. Based on our analysis, over the next four years development completions in reality are likely to reach 22.6m sq ft with completions in 2028 set to hit the lowest level we have seen since 2015.
- New developments account for 39% of schemes that will be delivered between 2025 and 2028 by number, (51% of the overall sq ft), this is down from 48% a year earlier, reflecting the increased viability challenges for ground up schemes and we expect to see a rise to refurbishments as a result.



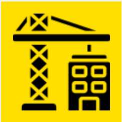


40%

Yet to start construction

20%

Already pre-let

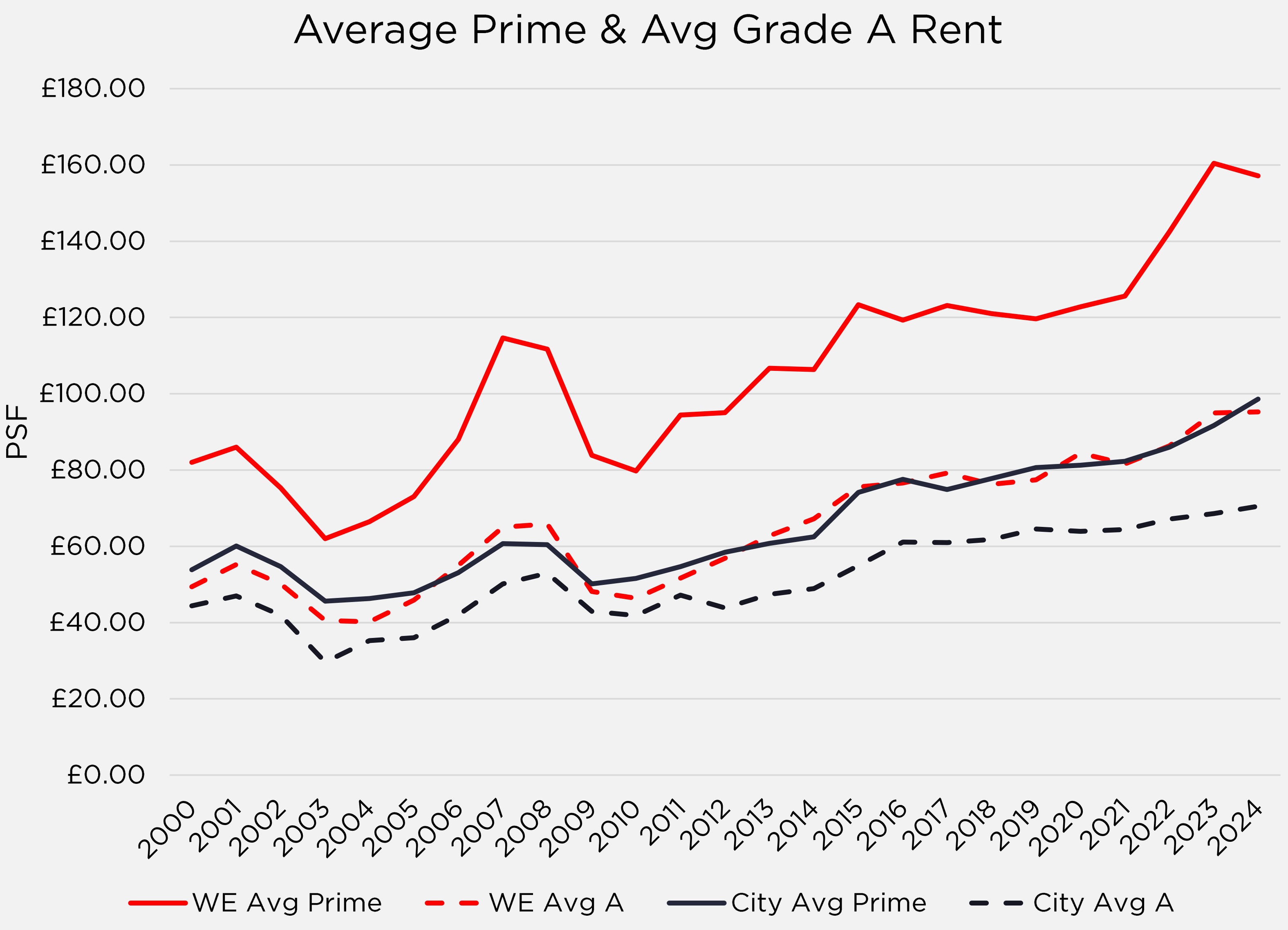


22.6m sq ft

Development pipeline 2025-2028

CITY & WEST END RENTS

- At the end of 2024, the average City prime rent stood at £98.60 per sq ft, this was 7.5% up on 2023, with a flight to quality continuing to drive prime rental growth for best-in-class offices. A new record rent, at £122.00 per sq ft, was achieved earlier on in Q3, with Brazilian banking firm Banco, and a near record £118 per sq ft was achieved during Q4 with King & Spalding acquiring the 41st floor (8,544 sq ft) at 8 Bishopsgate, EC2, highlighting the rental premium paid for best-in-class space with the best sustainability ratings. With occupier demand expected to remain for the best space we expect the rental premium paid for best-in-class space to continue.
- The average Prime rent achieved across the West End at the end of the year stood at £157.50 per sq ft and was down 2% on the previous year as a result of the lack of prime supply in the core resulting in a lower level of completing transactions in Mayfair/St James's and as our average rents are based on actual evidence. The highest rent achieved earlier on in Q1 with a Confidential Insurance Firm having acquired the 3rd floor (8,000 sq ft) at £200 per sq ft.
- In terms of Grade A rents, the average City rent stood at £70.51 per sq ft, which was up 2.8% on 2023 meanwhile the West End average remained broadly stable, at £95.27 per sq ft.
- The average City Grade B rent, at £43.98 per sq ft, held broadly stable during 2024, meanwhile the average Grade B rent in the West End was up from £43.82 in 2023 and back in line with where it stood in 2022 at £52.09 per sq ft because of a slight pick-up in demand from smaller (sub 5,000 sq ft) Business and Consumer Service occupiers during 2024, following demand from this sector having fallen to a record low level during 2023.
- Our analysis indicates there continues to be a rental premium for office buildings with a BREEAM certification, with rents achieved on BREEAM-certified Excellent or outstanding buildings up 15% when compared to rents for lower or non-rated buildings.



£157.50 psf

West End avg prime rent

£98.60 psf

City avg prime rent

15%

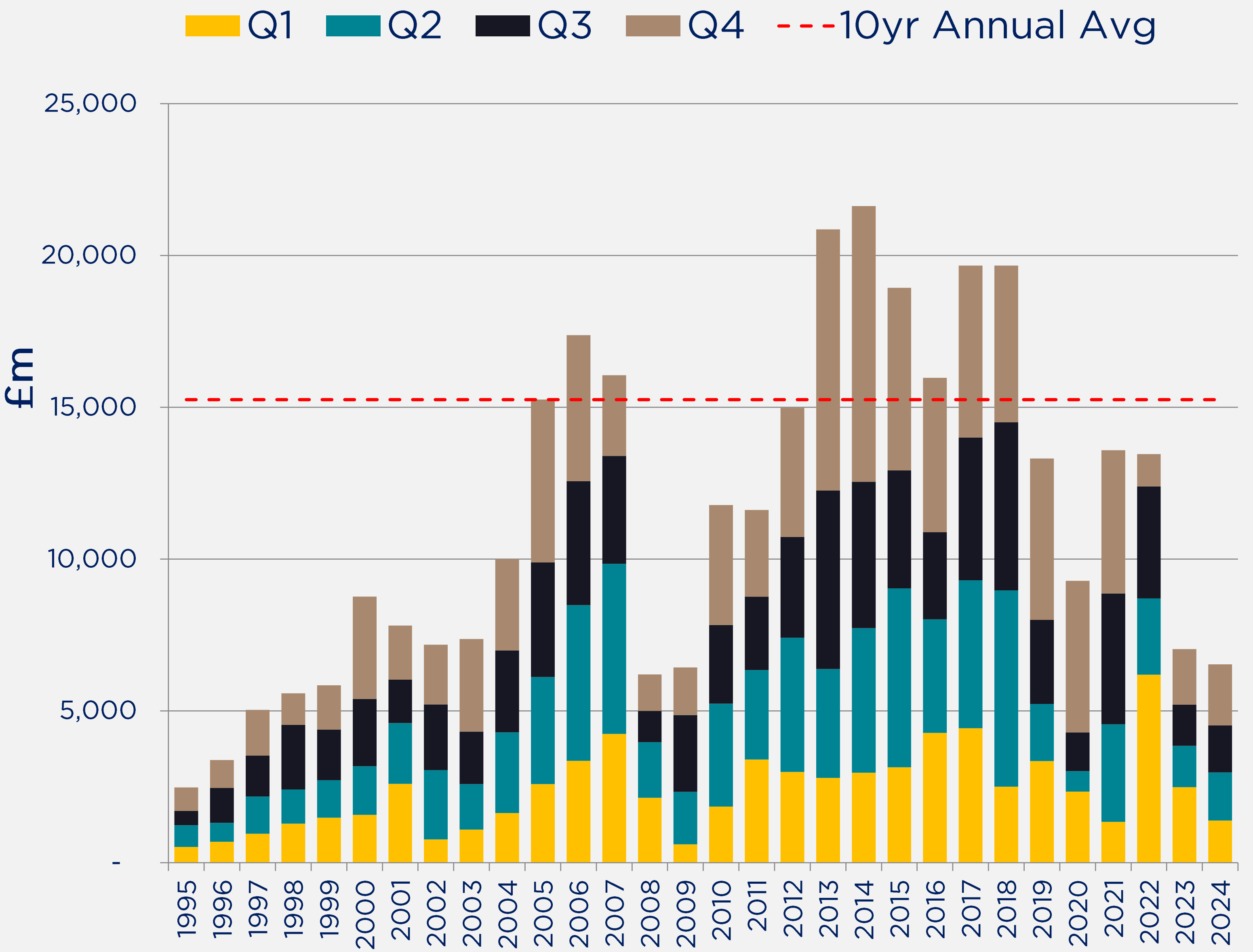
BREEAM Excellent/Outstanding rental premium in 2024

RENTS

CENTRAL LONDON INVESTMENT

- During Q4 we saw a pickup in investment activity across the capital with investment turnover reaching £2.0bn, which was up 30% on the previous quarter.
- Despite this upswing in activity towards the tail end of the year the overall investment volume at the end of 2024 stood at £6.4bn. This was down 58% on the long-term average and down on 2023’s £7bn, as the scarcity of large-scale trades continue to impact overall turnover. By the end of the year only 12 assets over £100m traded, which was down on the average volume we have seen complete over the past 10 years (38).
- This dearth of larger asset trades is further illustrated by the average lot size for assets exchanging, with the average for the year in the West End standing at £33.6m and in the City £27.0m. The overall number of sub £50m assets that traded across Central London was up 8% on the 5-year average.
- As a result of the lower level of trades in the City, the West End accounted for the larger majority 64% of turnover with demand for the West End’s core locations remaining resilient. This is illustrated by the largest trade in Q4 with technology billionaire Larry Ellison acquiring 11–12 St James’s Square, SW1 from Chinese Estates for £162m, reflecting a capital value of £1,966 per sq ft. The building was offered almost entirely vacant and requires refurbishment.
- The largest asset to trade in Q4 in the City (and second largest of the year), was Greycoat’s acquisition of the freehold interest in 90 High Holborn, WC1, (183,667 sq ft which is multi-let to office tenants, including Quinn Emanuel Urquhart & Sullivan UK, UCL and Labs Worldwide.

- UK Purchasers dominated investment activity over the year accounting for 42% of overall turnover and have accounted for a third of £50m+ assets traded.
- Savills City prime yield remains at 5.25% and the West End prime yield at 4.00%.



£2.0bn
Q4 2024 turnover

42%
UK investors accounted for the largest share of turnover

80%
of assets (by number) that have traded are sub £50m