

# Central London Office Market Outlook



Prepared for Alony Hetz Capital Markets Call  
Q2 2024

# Improved levels of take-up evident, whilst under offer remains above average

## Central London office performance – Q2 2024



2.1 million sq ft  
take-up (Q2 2024)

↔ 2023 Q2 (2.1 million sq ft)

↓ 10-year Q2 average (2.4 million sq ft)



3.8 million sq ft  
take-up (2024 YTD)

↓ 2023 H1 (4.0 million sq ft)

↓ 10-year H1 average (4.6 million sq ft)



3.4 million sq ft  
under offer

↓ June 2023 (3.7 million sq ft)

↑ 10-year quarterly average (2.7 million sq ft)



12.8 million sq ft  
active demand

↑ June 2023 (10.8 million sq ft)

↑ 10-year quarterly average (9.3 million sq ft)



8.5%  
overall vacancy rate

↓ June 2023 (9.4%)

↑ 10-year quarterly average (5.9%)



1.4%  
new build vacancy rate

↓ June 2023 (1.6%)

↑ 10-year quarterly average (1.0%)



£140.00 / £82.50 per sq ft  
prime office rent

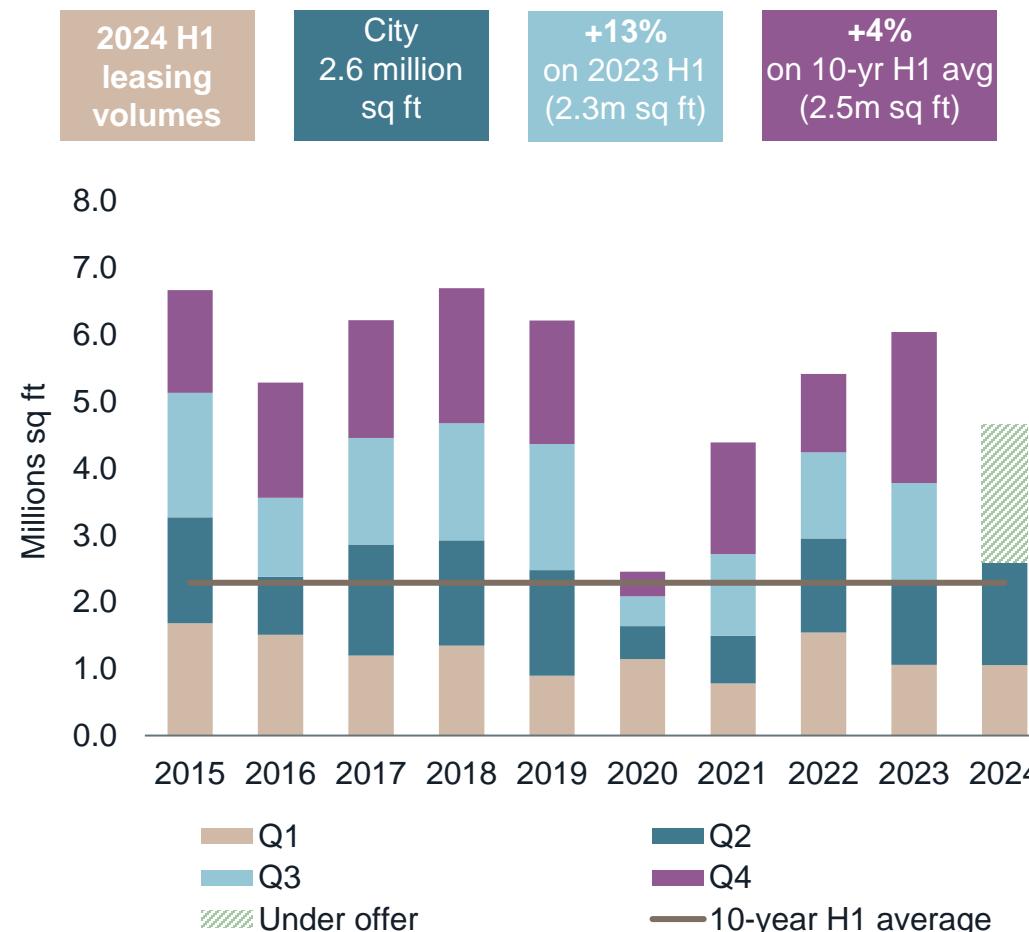
↑ 2023 Q2 (£130.00 / £75.00 psf)

↑ 10-year average (£118.10 / £70.80 psf)

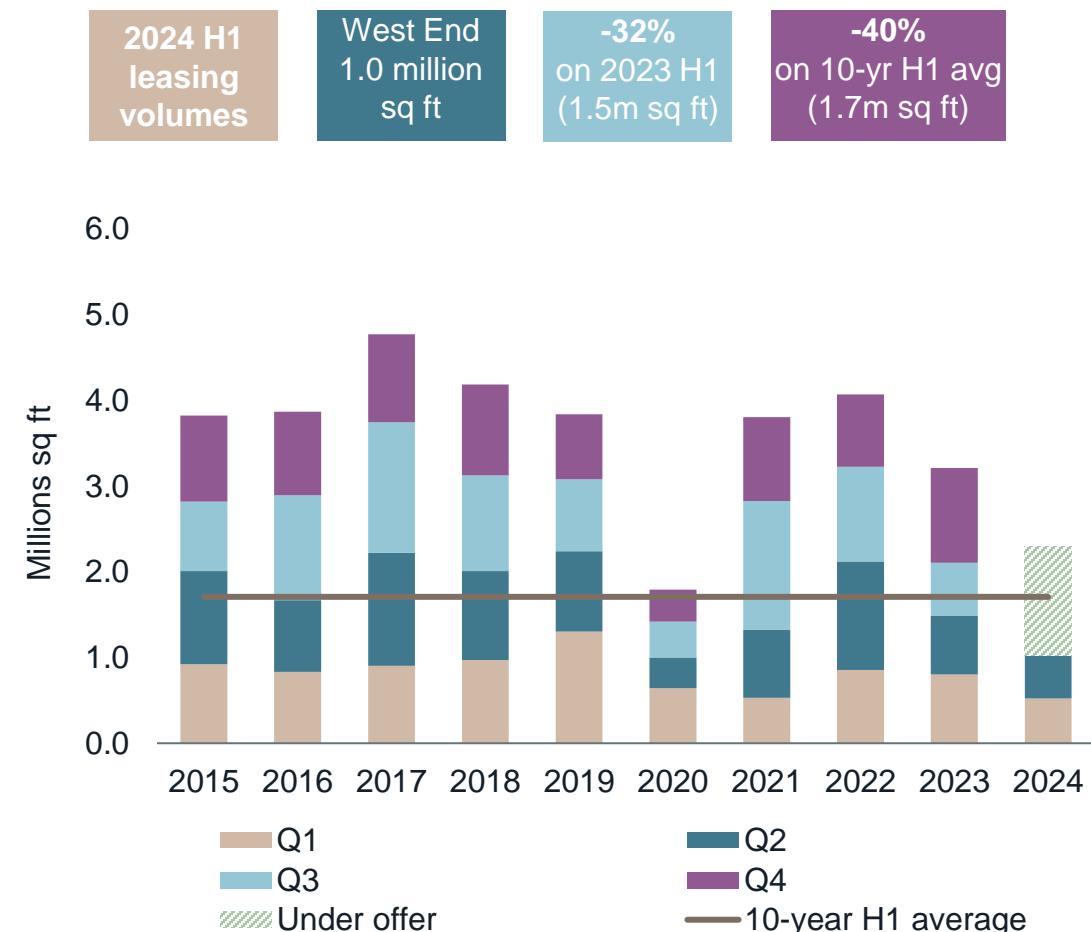
# Improved leasing activity in the City, whilst West End remains subdued

## City & West End leasing activity, 2015-2024 Q2

### City leasing activity 2024 H1 – 2.6 million sq ft

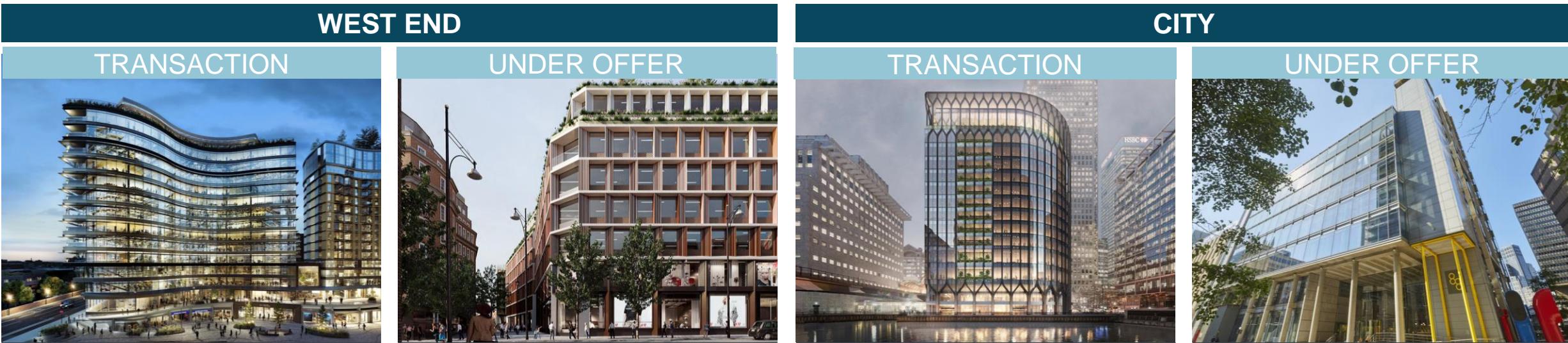


### West End leasing activity 2024 H1 – 1.0 million sq ft



# Key activity across Central London

Q2 2024



## 50 Electric Boulevard, SW8

**SharkNinja**

Size: 32,000 sq ft

Beginning of resurgence of activity in non-core submarkets?

## M Building, 334 Oxford St, W1

**BDO**

Size: 187,000 sq ft

Quality of development pipeline generating pre-let activity

## YY London, E14

**Revolut**

Size: 114,000 sq ft

Expansion led - Fintech  
Potential spin off?

## 88 Wood Street, EC2

**Mako / Millenium Capital**

Size: 25,000 sq ft

Investment = activity  
Significant discount to prime

# Replacement demand grows over the quarter

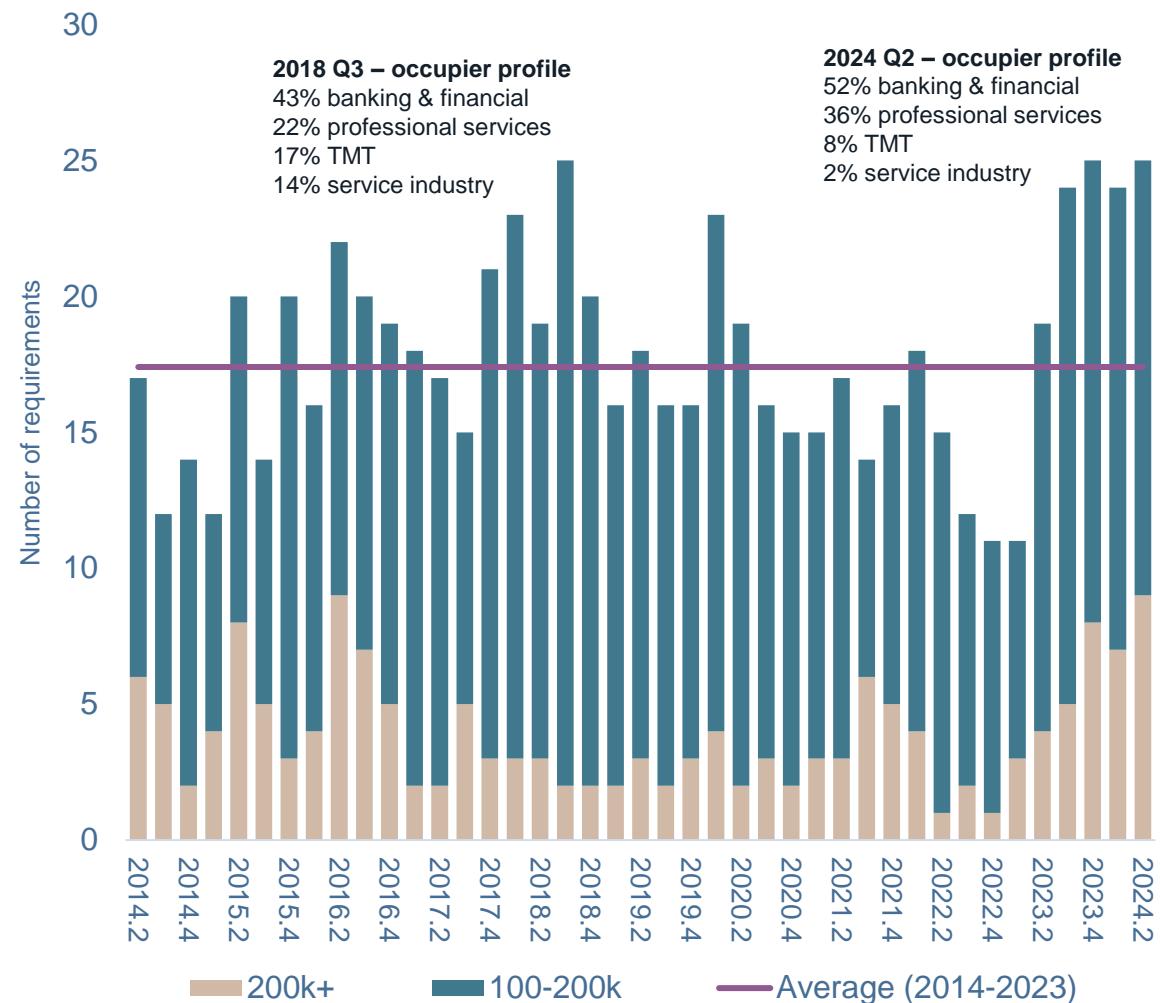
		Average size (sq ft)
1.	Confidential Financial	425,000
2.	<b>NOMURA</b>	350,000
3.	 London Stock Exchange	300,000
4.	 HERBERT SMITH FREEHILLS	300,000
5.	 Jane Street	300,000
6.	 accenture	300,000
7.	 Gallagher	300,000
8.	 EY Building a better working world	270,000
9.	 Investec	250,000
10.	 Legal & General	190,000
11.	 VISA	175,000
12.	 BDO	175,000
13.	 simmons + simmons	175,000

		Average size (sq ft)
14.	 NBC UNIVERSAL	165,000
15.	 wellcome	150,000
16.	 MOODY'S	140,000
17.	 Mishcon de Reya It's business. But it's personal.	140,000
18.	 FTI CONSULTING	140,000
19.	 MAYER   BROWN	135,000
20.	 EVERCORE	130,000
21.	 JUST EAT	125,000
22.	 SQUARE POINT	125,000
23.	 Fitch Ratings	110,000
24.	 deliveroo	100,000
25.	 Spotify	100,000

Source: JLL Research

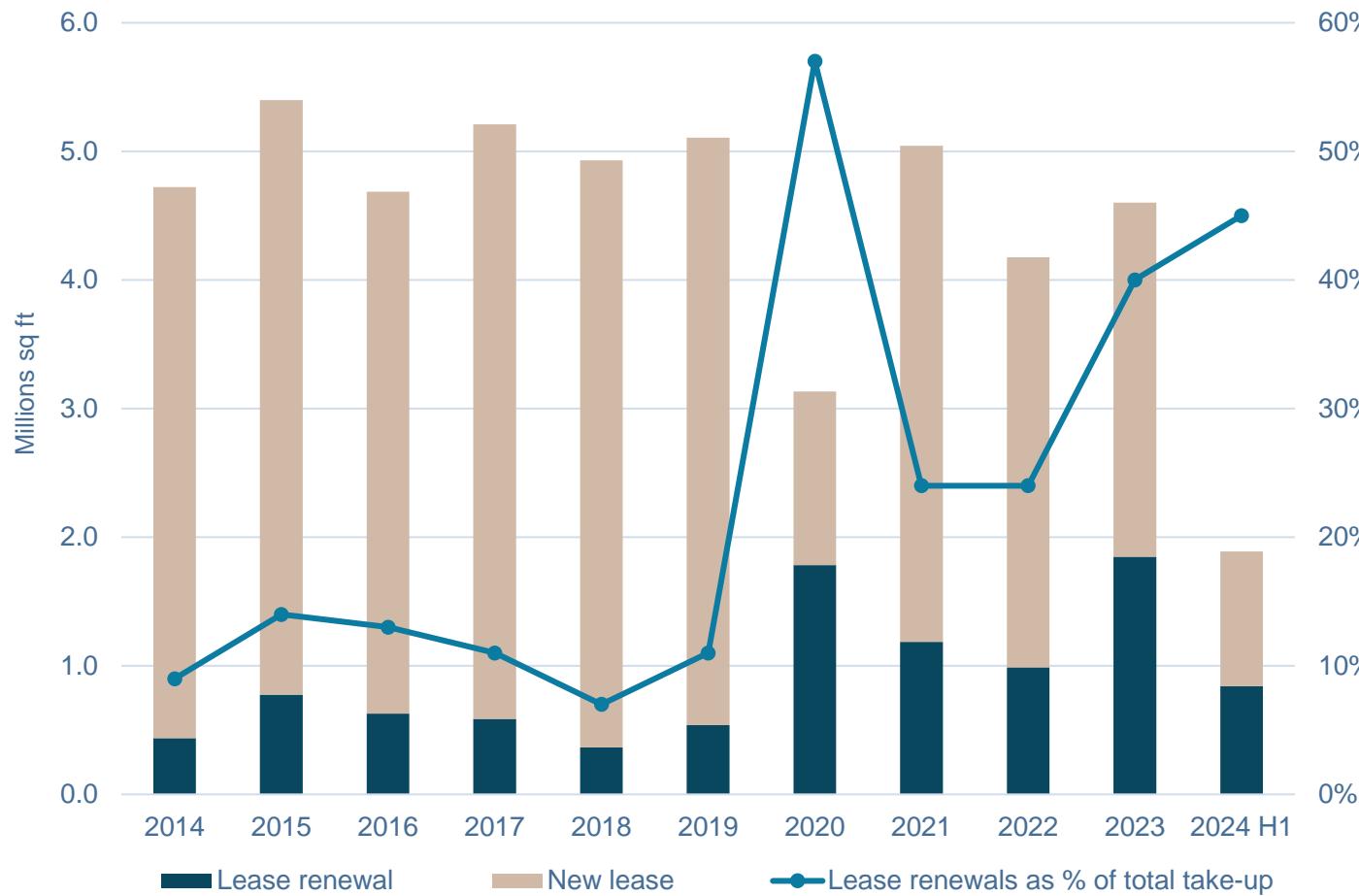
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## Central London active requirements over 100,000 sq ft



# Stay vs Go a consideration for most occupiers

## Central London take-up over 50,000 sq ft



Source: JLL Research

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Large renewals/re-gears across  
Central London

2022



**Deloitte.**



2023



**LLOYD'S**  
LLOYD'S OF LONDON

**TaylorWessing**

**STEWARTS**



2024



**E V E R S H E D S**  
**S U T H E R L A N D**

**fieldfisher**



# Occupier Insights

Key themes – Occupier, July 2024



## Confidence varies from sector to sector

- Enquiries from financial and professional remain robust
- Technology and media confidence and demand remains muted



## Shortage of high-quality tower space

- Reducing availability in new City towers leading to improved interest in non-tower buildings



## Widening rents impacting occupier strategy

- Forecast jump in prime rents are now a reality for future pre-let stock
- The gap in cost between stay put and go is widening



## Core vs non-core locations

- Core locations pre-eminent but now some signs of life for large units of new space in lower cost non-core locations



## Geopolitical landscape

- Not mentioned by many clients yet, but for some the US elections are an influence on delayed decisions

# Debt Market – Key Themes



**The Debt Market is Open**



**Valuations**



**Managing Execution Risk**



**Covenants**



**Interest Rates**



**Deal Size Matters**



**Fixed / Floating**



**Cost of Hedging**



**Growing Lender Pool**

	12 <sup>th</sup> July 2024	Previous Month (11 <sup>th</sup> June 2024)
Daily SONIA Rate	5.20% -	5.20%
3Y SONIA Swap	4.16% <span style="color: green;">↓</span>	4.44%
5Y SONIA Swap	3.90% <span style="color: green;">↓</span>	4.14%
3M EURIBOR	3.69% <span style="color: green;">↓</span>	3.74%
3Y EURIBOR Swap	2.94% <span style="color: green;">↓</span>	3.18%
5Y EURIBOR Swap	2.79% <span style="color: green;">↓</span>	2.99%

## 2024 Lender Appetite & Allocations Spectrum

### Debt Funds

- Most liquid part of the stack – LPs and existing platforms favouring risk-adjusted returns
- First signs that forward looking liquidity may be constrained due to capital raising challenges, given investors are reconsidering RE allocations
- Many lenders require back leverage, which presents an additional execution “risk”

### Insurance Companies

- Focused on cash-flowing assets with strong WAULTs and good credits
- Majority provide fixed rate debt (above prevailing swap or gilt rates)
- Continue to look for new opportunities, albeit focused on low-risk deals

### Investment Banks

- Whilst still active, are more focused on post loan sell down visibility and liquidity
- With the syndication and securitisation markets more challenging, IBs are less attracted to very large transactions
- For new deals, many require an element of the loan to be “pre-syndicated” or “soft-circled”

### Banks

- Banks increasingly occupied with managing existing loan books
- Increasing pressures of regulatory capital from Basel III and IV requirements which is leading to reduced LTV appetite
- With increasing rates and existing loan pressures, general risk appetite is reducing

## Indicative Lender Appetite<sup>(1)</sup>

Loan Size £/€	30-150
LTV	60-70%
ICR	1.1-1.3x
Pricing	3.25-4.50%
Loan Size £/€	50-150
LTV	45-55%
ICR	1.4-1.6x
Pricing	1.85-2.45%
Loan Size £/€	75-150
LTV	50-60%
ICR	1.3-1.5x
Pricing	2.00-3.00%
Loan Size £/€	25-75
LTV	45-55%
ICR	1.3-1.5x
Pricing	1.85-2.75%

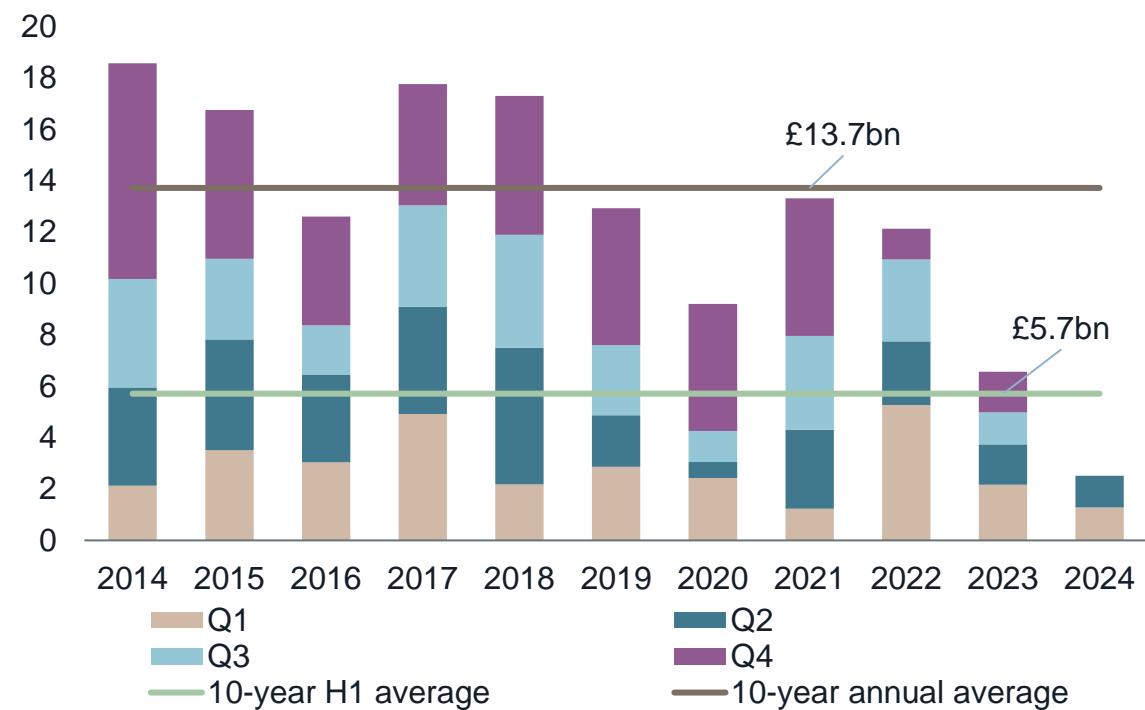
<sup>(1)</sup> Lender “sweet spot” assuming high quality sponsor and stabilized asset.

# Central London investment of £2.5bn in H1 2024

## Q2 2024

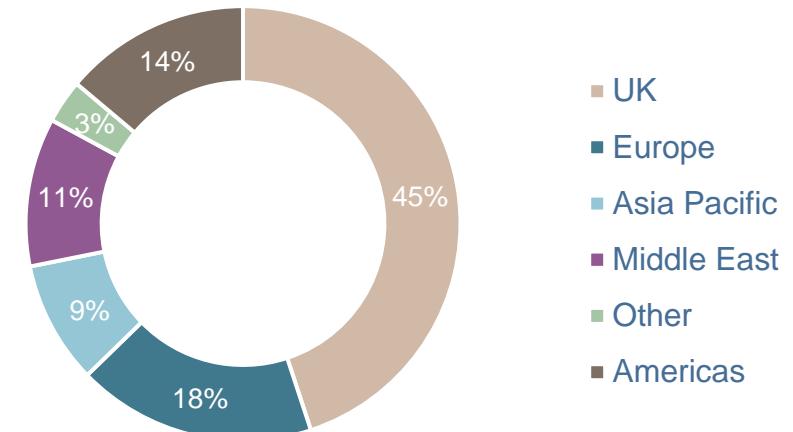
### Quarterly investment volumes

£ billion

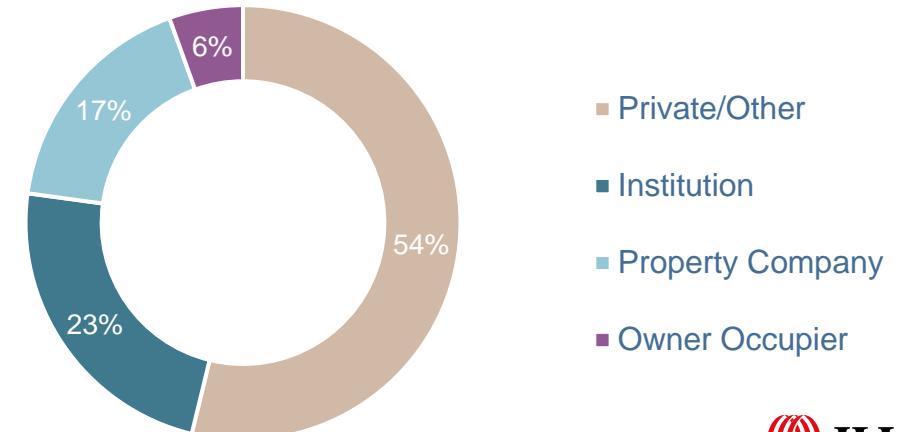


55% of H1 purchasers were from overseas

### Central London Purchaser by Nationality – H1 2024



### Central London Purchaser by type – H1 2024



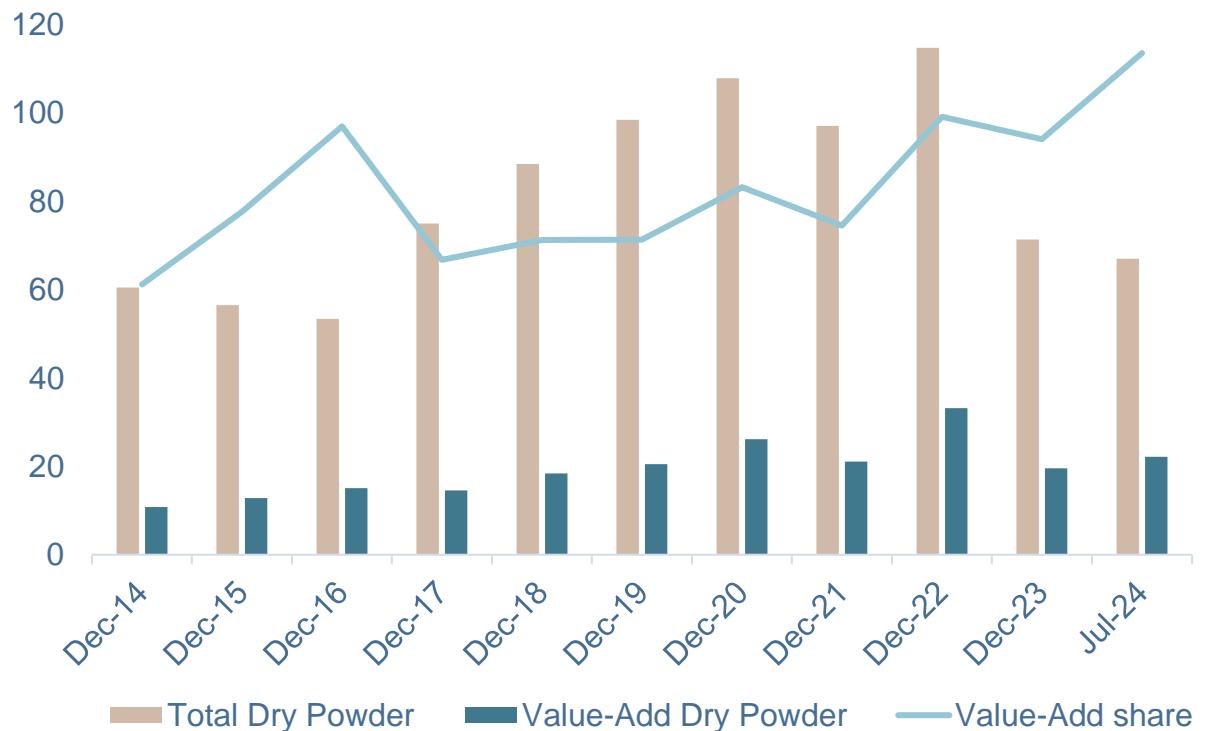
Source: JLL Research

# Finding opportunities to satisfy capital

Fundraising increasingly focussed on Value-Add strategies, matching majority of recent sales

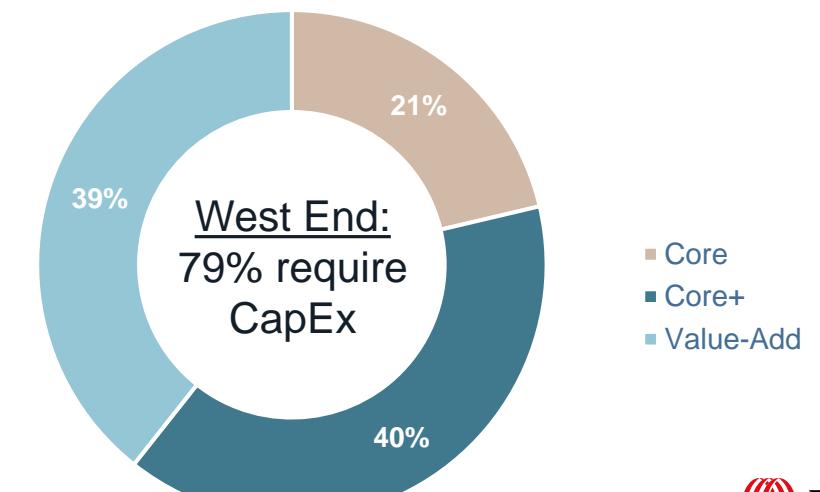
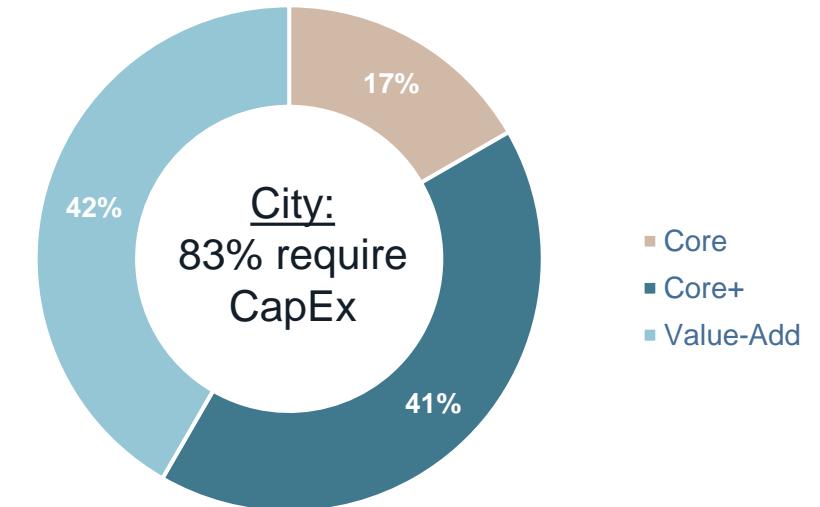
## Dry Powder targeting European Real Estate

US\$ billion



Source: JLL Research, Preqin, July 2024

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# Investor Insights

## Key themes – Capital Markets, July 2024



### Volumes remain subdued

- Investment has totalled just £2.5bn so far this year.
- Notwithstanding likely seasonal uplift, could finish even lower than last year's £6.5bn.



### Withdrawals are frequent

- Mismatch between expectations and valuations continues to hamper transaction processes



### Lot size continues to be crucial

- Only one deal of £100m + in the City during H1, landing on last day of June.
- Counterparty risk often cited as core capital remains cautious.



### Seller motivations beginning to emerge

- CapEx is a driver, with some owners preferring to exit than spend.
- Geographically, Hong Kong emerging as a net seller.



### Receivership sales are coming through

- Still not the wave expected at the start of this cycle, but a steady stream of forced sales occurring.
- Consensual sales also prevalent.

# Thank you

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