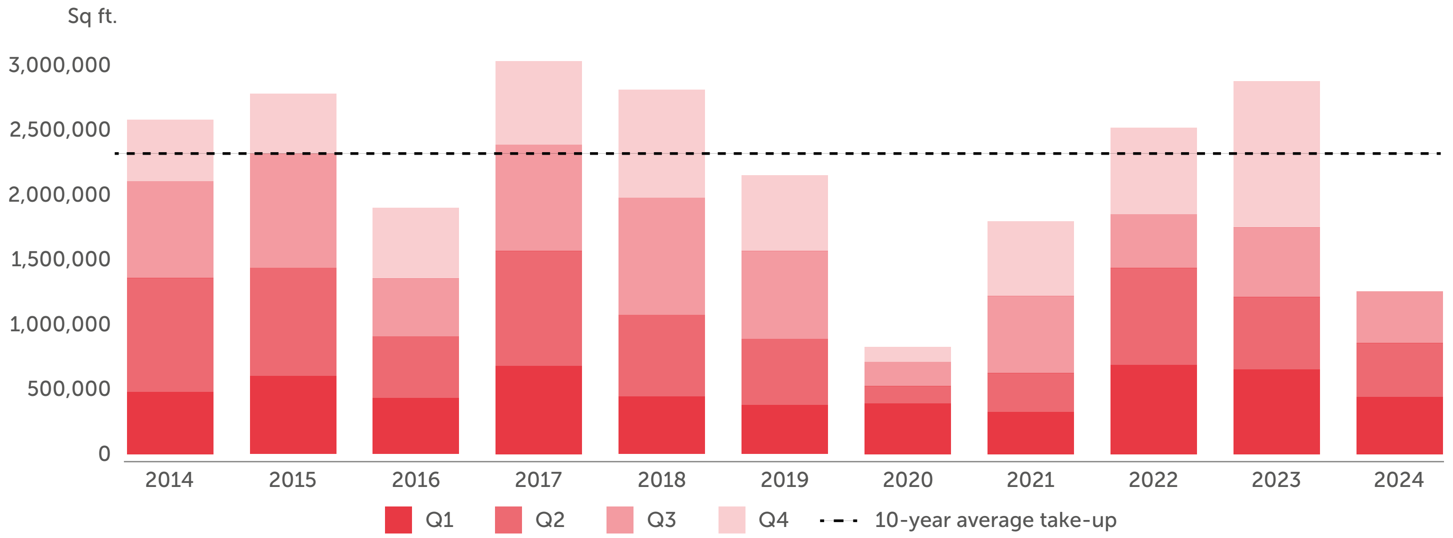
Q3 2024

MIDTOWN MARKET OVERVIEW

EXECUTIVE SUMMARY

- Take-up for Q3 was at its lowest for three years
- The level of demand and space under offer has increased quarter on quarter
- Overall availability is starting to tick up, influenced by an increase in office completions
- The peak in office completions will hit the market this quarter, with a subdued pipeline thereafter
- Completed investment transactions remain low, however the market “feels” busier

TAKE-UP



Take-up for the third quarter of the year totalled 398,717 sq ft, well below the ten year Q3 average of 585,529 sq ft and down 4% quarter on quarter. This has been the quietest quarter of 2024 and lowest since Q2 2021; it has been a subdued year with quarterly take-up levels performing below average across the year. The restrained take up can in part be put down to some uncertainty around the wider Global and UK political environment, but also a direct result of the low levels of new/refurbished stock of best in class stock that is readily available to occupy. The market is witnessing consistent levels of active requirements, all looking for high quality and amenity rich workspace; however, the availability of completed space of any scale is limited.

There has been a huge shift in occupier demand since COVID, it has never been more important for occupiers to find the absolute best workspace and this lack of standout space combined with a larger pool of office space across the wider Central London market is having an impact on the level of take-up in Midtown.

The largest deal of the quarter was to Work.Life who took the entire building at 6-7 St Cross Street, EC1 – 31,582 sq ft - which will be their largest new coworking flex office hub. There has been some stand out rents recorded this quarter with BSI Group taking the top two floors of The Acre, WC2 (29,000 sq ft) at a rent of £115 per sq ft. These are the first two floors to be let in the building which Is due to complete by the end of the year. Edenica, EC4, also due to complete by the year end has let 55% of the building during the quarter to three different occupiers, (Genesis Energies, Fletcher Priest Architects and Boies Schiller Lexner) with rents on the top floor reaching £100 per sq ft. The JJ Mack, EC1 has let it's penultimate available floor to Amex, the 4th floor - 23,500 sq ft at £92.00 per sq ft. These are excellent examples of how well designed schemes are attracting strong covenants, meeting the demand which continues to underline the strength and attraction of Midtown for a mix of global businesses.

Occupiers are targeting best in class quality offices with strong amenity credentials. 57% of take-up (year to date) by volume was on new or refurbished space – which is now consistently above the 10 year quarterly average of 50%. The average deal size during the quarter was 6,328 sq ft. As we've reported previously, the gap between the best of the best space and the poorer quality Second-hand Grade B space continues to widen with very little demand for Grade B space, just 2% of the volume transacted over the quarter was of this quality.

The table below details the amount transacted across Midtown during the quarter by postcode and grade of space:

	EC1	EC4	WC1	WC2	Total (sq ft)
Pre-let	-	-	-	-	**-**
New – New Build	36,946	46,567	-	-	**83,513**
Refurbished (existing)	42,358	20,269	5,688	48,387	**116,702**
Second-hand Grade A	79,755	34,004	62,911	16,059	**192,729**
Second-hand Grade B	1,894	-	3,879	-	**5,773**
Total (sq ft)	**160,953**	**100,840**	**72,478**	**64,446**	**398,717**

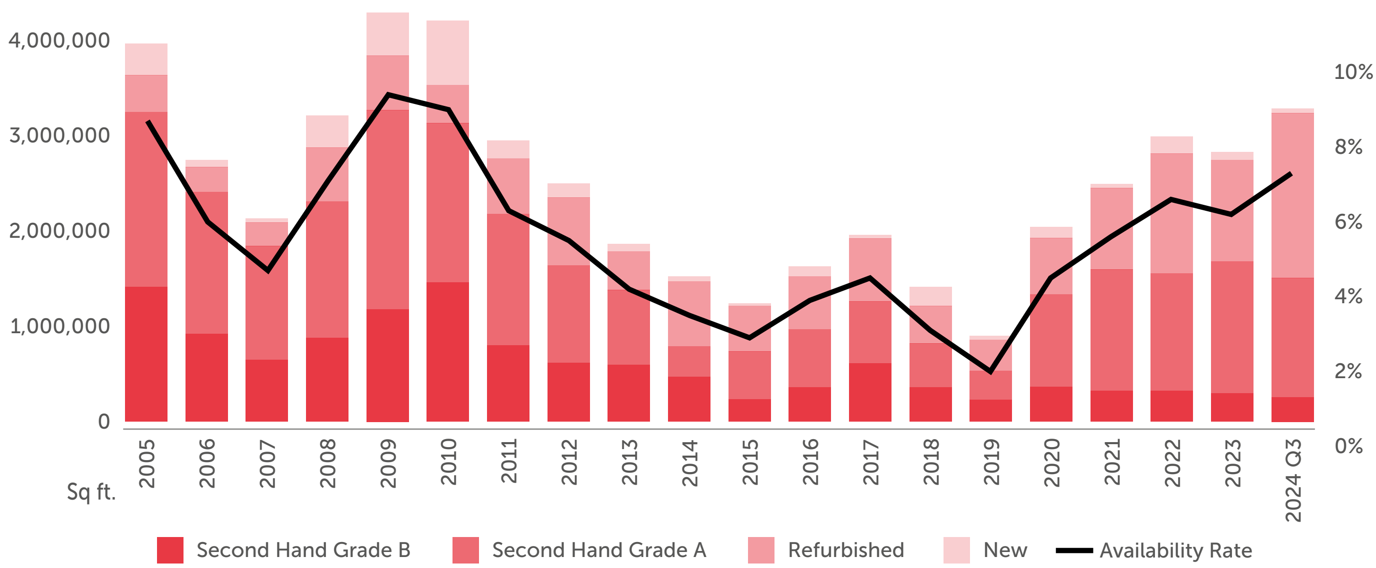
The largest number of deals (very typical for our market) was in the smaller "churn" portion of take up; 68% of the number of transactions were between 1,000 sq ft and 5,000 sq ft, slightly higher than average. The average deal size within this bracket was 2,548 sq ft and 86% of the total number of lettings were 10,000 sq ft or less.

Size Band	Total (sq ft)	No. of transactions	% of Take-up (no. of deals)
1,000 - 3,000	48,938	28	44%
3,000 - 5,000	44,228	12	19%
5,000 - 10,000	71,355	10	16%
10,000 - 20,000	122,463	9	14%
20,000 - 30,000	80,151	3	5%
30,000 - 40,000	31,582	1	2%
40,000 – 50,000	0	0	0%
50,000 +	0	0	0%
Total (sq ft)	**398,717**	**63**	**100%**

Year to date take-up now sits at 1.25 million sq ft but despite the sluggish levels of leasing activity we are recording a very healthy level of space currently under offer - c.1.05 million sq ft. This sits considerably above the five year quarterly average of 526,000 sq ft and increased by 26% quarter on quarter. The last time we were recording over one million sq ft of under offer space was a year ago and the quarter that followed saw a decade high level of take-up. We are therefore looking towards a healthy final quarter of the year. There are 89 buildings with space under offer, a large portion of which is recorded in buildings that are close to completion. There are 5 large schemes due to complete this year totalling just under 900,000 sq ft - 40% of this space is either let, or under offer as demand from larger occupiers means they have to look to the pipeline to satisfy demand.

AVAILABILITY

Long-run availability by grade



Available office accommodation in Midtown now stands at 3.28 million sq ft, a 6% increase quarter on quarter, with the overall availability rate standing at 7.3%, well above the ten year average of 4.4%. The increase in availability has fundamentally been through an uptick in space completing over the quarter and some smaller refurbished space coming to the market, with a decrease witnessed in both second-hand Grade A and Grade B space.

The headline numbers suggest a relatively high volume of available space, however you need to delve into the figures to truly understand the impact this is having on the market. The level of "New" space available is extremely low, sitting at its lowest level ever. We classify new space as ground up development as opposed to a building that has had a significant extension/refurb. There are just two buildings across the whole of the Midtown office market that can offer available new space. The JJ Mack Building, EC1 has just the fifth floor available (21,734 sq ft) and Type Works, Bowling Green Lane, EC1 which launched earlier this year has 29,000 sq ft available across Ground-5th floors. Midtown is traditionally a period, heritage market, however it is the very best and new space that is driving demand therefore a focus on quality and scale within exiting stock is essential in todays market.

The real crunch point in the availability numbers at present Is the sheer volume of available space within the “Refurbished” part of the market. A refurbished building by our definition is a floor or building that has had a significant refurbishment, change of M&E, reception areas and/or strip back to the core etc, not just a lick of paint. We have seen this section of the market increase by one million sq ft over the last five years with 1.7 million sq ft of refurbished readily available stock now in the market. This has been a response from Landlords to upgrade buildings once vacant, driven by occupier demand, and the impact of the new sustainability legislation.

There is however a mis-match currently within this 1.7 million sq ft. There is actually very little choice of the truly best in class units within the 1.7 million sq ft which is ultimately what the vast majority of occupiers are demanding (high amenity driven, excellent location, etc). Occupier demands have never been so high and within that 1.7 million sq ft there are a lot of frankly average floors, in average buildings that unfortunately are not quite hitting the mark, resulting in sluggish take-up and high availability rates. Additionally, within the refurbished section, our research suggests that there are 174 different units (66% of the number of units available) than can offer between 1,000-5,000 sq ft reflecting the sheer scale of competing space. Landlords need to ensure that their units stand out amongst a crowded market to let well by offering further flexibility within the design, “dressing” the space and offering both conventional and managed leases. However, deals are still happening within this size bracket - 68% of the number of deals that have transacted so far this year have been on space sub 5,000 sq ft – its an integral part of the Midtown market.

We continue to see a consistent level of space offering an element of fit out, with 50% of total availability (1.6 million sq ft), presented as fully fitted/Cat A Plus accommodation, with levels having hovered around this mark for the last 18 months. Of this space, 52% is Landlord fit out, rather than existing tenant space, and is inherently therefore better quality.

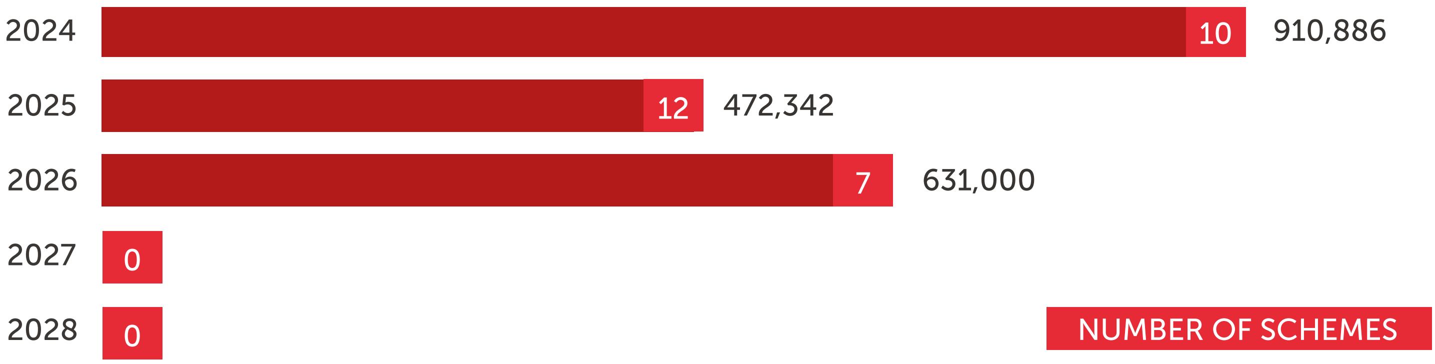
The table below highlights the amount of space available by grade and postcode, all in sq ft.

Quantum of space available by grade and postcode

	EC1	EC4	WC1	WC2	Total (sq ft)
New	47,809	0	0	0	**47,809**
New – refurb existing	499,425	316,343	236,557	671,565	**1,723,890**
Second-hand Grade A	377,635	389,741	350,834	129,868	**1,248,078**
Second-hand Grade B	42,516	5,570	136,712	72,360	**257,158**
Grand Total	**967,385**	**711,654**	**724,103**	**873,793**	**3,276,935**

PIPELINE

Available under construction (sq ft)



There is currently 3.6 million sq ft of office space under construction across 29 schemes in Midtown. Of the space underway, 55% has been either let during construction or is currently under offer – this is highest proportion we have ever recorded as larger occupiers look to the pipeline to satisfy the demand.

Of the space under construction there is 1.6 million sq ft available (excluding let and under offer) and with the average annual take-up of new and refurbished space being 1.4 million sq ft there is just over one year's current supply in this development cycle (2024-2026). Just over 900,000 sq ft of office space is scheduled to complete by the year end influenced by five large schemes , Edenica, Peterborough Court, One Millenium Bridge, The Acre and 21 Bloomsbury Street. These five schemes make up 90% of the availability due to complete this year, and there is 33% currently under offer across these building. This build-up of development completions over the next three months may push up vacancy rates in the short term, however history suggests that large schemes let very well in Midtown.

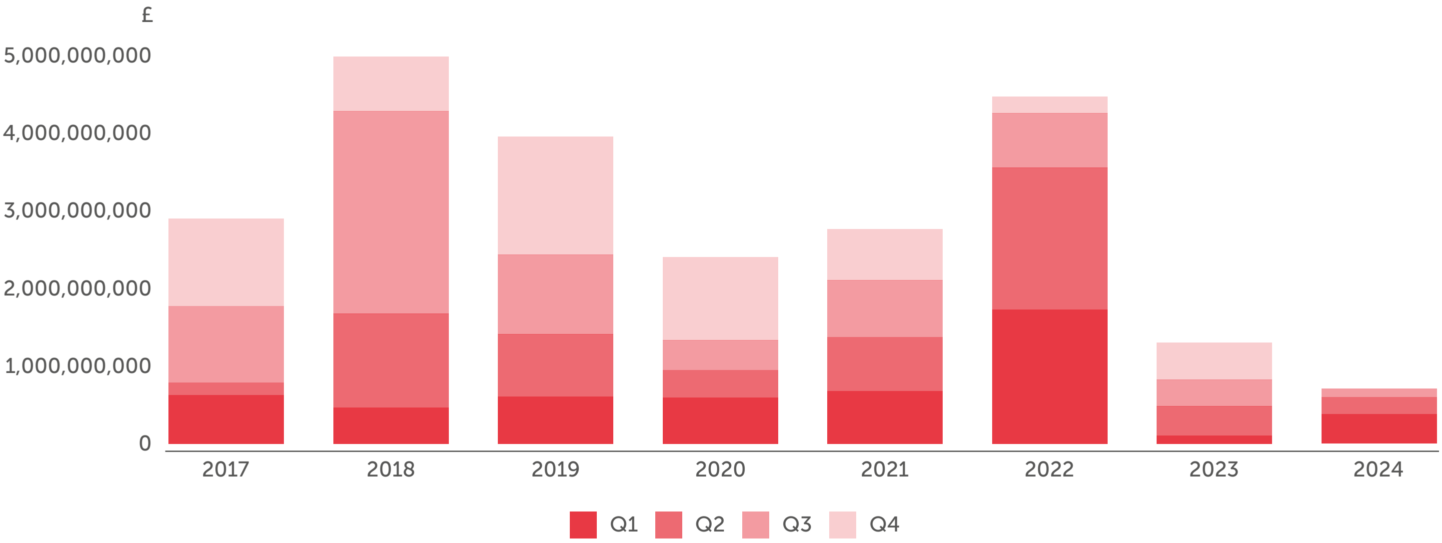
The market has been working hard to redress the lack of delivery post 2024; this time last year we were recording no construction activity, due to complete in 2025. The pipeline now has 11 schemes delivering 472,342 sq ft of available space into 2025 and 631,000 sq ft of available space across five schemes in 2026. The split between brand new and refurbished schemes is evidence of Landlords, where possible, refurbishing small buildings or floor by floor refurbishments with five new builds currently under construction versus 24 refurbishments.

There is no committed development delivering into 2027 or 2028 and the window of opportunity to deliver a large scheme into this time frame is closing. With a long run average annual completion level of 792,000 sq ft, it's clear to see the opportunity for developers to deliver into an undersupplied market. The quantum of space under construction has been muted due to high build cost, cost of debt and general uncertainty in the strength of the occupational market - all these factors have slowed decision making. There are a number of schemes that are site ready with planning permission and we would urge those that can, to get on site and start works - If you deliver the right product it will let well in today's market.

Despite the challenges we recorded three new starts during the quarter totalling 157,100 sq ft, the largest of which is Norges Bank Investment Management Group's 20 Giltspur Street, EC1 scheme of 121,000 sq ft. This is a major refurbishment of a separate building in the Bank of America Merrill Lynch's long-term EC1 campus, the scheme is due to complete in early 2026. The other two new starts are internal refurbishments of Tavistock House, WC1 – 16,900 sq ft and Aldwych House, WC2 – 19,200 sq ft.

The current pipeline is set out below, all in sq ft;

Year	Quarter	Spec under construction	Let under construction	Under Offer
2024	Q4	910,886	210,657	276,334
2025	Q1	106,589	0	0
	Q2	224,863	169,538	26,791
	Q3	140,890	0	0
	Q4	0	556,000	0
2026	Q1	566,000	647,000	121,000
	Q2	0	0	0
	Q3	0	0	0
	Q4	65,000	0	0
2027	Q1-Q4	0	0	0
2028	Q1-Q4	0	0	0
TOTAL (sq ft)		**2,014,228**	**1,583,195**	**424,125**



The investment market remains challenging across all areas of London and in Midtown we recorded a total of just £107.9 million traded across eight deals in the third quarter. This is the lowest single quarterly volume since Q1 2023 and considerably below the average long run (10 year) volume of £774.5 million sq ft. The largest deal to transact during the quarter was 77 Kingsway, WC2 which was sold by LaSalle Investment Management to Valeo Capital, an Asset Management Company; it sold for £32 million at a yield of 8%. The second largest sale was to DBS, Private Family Investors who bought The Ragged School on Vine Hill, EC1 for £21 million at a yield of 6.2%. The Ragged School is a 18,867 sq ft office building let in its entirety to Lotus Group.

As has been the case for most of the year, the pricing gap between buyers and sellers still exists but it is continuing to narrow. Opportunistic buyers remain active, although we continued to see less distress than anticipated and few forced sales with vendors in the market hesitant to accept lower pricing levels leading to assets generally taking longer to sell. There are active purchasers out there interested in well-located, best-in-class assets with secure income and strong ESG credentials, however the market is witnessing a shortage of all stock, especially within this category with vendors who are not under pressure to liquidate lacking the motivation to sell. The pending outcome of the UK Government's October budget and the US election have meant that many in the commercial real estate arena have sat on the sidelines, however the market is starting to "feel" busier, and we anticipate more investment activity in the final quarter of the year.

Official figures in October showed inflation has now dipped to its lowest level since April 2021 (standing at 1.7% in September) with the expectations that the Bank of England will reduce borrowing costs next month which should help create a more favourable environment encouraging both buyers and sellers who have been hesitant.

Prime yields in the core segment of the market ended the quarter at 5.25%. However, the limited number of transactions makes it difficult to provide solid evidence of this. The situation is more challenging for lower-quality offices. Older assets with obsolescence issues and poor ESG credentials will continue to face challenges in the next market cycle, leading to a widening yield gap between prime and secondary properties.

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