Appetite for Prime Space Drives Central London Office Demand to Record High

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Active demand for Central London offices remained at record high levels of 13 million sq ft in Q2, according to Cushman & Wakefield's latest Central London Marketbeat Report.

This was driven by continued strong appetite for prime spaces, with grade A offices registering the highest ever proportion of overall take-up, reflecting many occupiers commencing searches earlier than they previously would have – particularly in light of a constrained development pipeline beyond 2025.

Q2 saw leasing activity across Central London increase to 2.13 million sq ft, up by 29% compared to the previous quarter. Grade A take-up accounted for 77% of the total, the highest quarterly share on record. While overall leasing volumes decreased by 21% against the ten-year average in the first half of 2024, grade A leasing volumes increased by a percentage point during the same period. This reinforces occupiers ongoing "flight to quality".

Supply across Central London reduced during the quarter to 27.3 million sq ft, but was still 61% above the ten-year average of 16.92 million sq ft. As a result, the vacancy rate decreased by 18 basis points to 9.41% in Q2, with the grade A vacancy rate at 5.35%.

Andy Tyler, Head of London Office Leasing at Cushman & Wakefield, comments: "While historically high vacancy rates underscores ongoing challenges in the market, we've further observed a stabilisation in supply levels over the past five quarters. With the majority of occupiers focussed on Grade A space there is an increasing awareness that the availability of the best in class space is under increasing pressure. Looking ahead, the constrained development pipeline suggests a tapering of new office space entering the market. This should lead to a gradual decrease in both overall and grade A vacancy rates over the coming year, and fuel rental growth, particularly at the top end of the market."

In particular, demand for buildings with strong environmental credentials is growing rapidly, as changes to energy efficiency requirements means that most offices in London will not meet the minimum standard for leasing within the next four years. The UK Government currently requires rented commercial properties in England and Wales to have a minimum EPC rating of E, this is anticipated to increase to a minimum rating of C in 2027 and B in 2030.

Heena Gadhavi, Associate Director – UK Research & Insight, Cushman & Wakefield, said: "The notable quarterly increase in Central London office leasing activity illustrates that occupier demand for assets remains strong with the increased volume of space under offer reinforcing this. In particular, appetite for eco-friendly offices is growing, as environmental requirements get stricter, and businesses look to low carbon workspaces as an efficient way to meet both ESG targets and increasing employee expectations around sustainability."

Q2 saw contrasting levels of activity between the West End and City continue, as the former experiences severe supply shortages in some of the most prominent submarkets. The City market remained the most active during the quarter, with 1.53 million sq ft trading (74% grade A), while the West End's 485,000 sq ft accounted for 23% of take-up (82% grade A).