RESEARCH

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The London Office Market Q3 2023

A Guide To Rents, Rent Free Periods & Market Trends

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Carter Jonas

Technology, Climate Change & People - Their Influence On Real Estate

The office has developed as a focal point from which businesses operate, collaborate, innovate and transact. All are key activities that involve human interaction. Many of the key trends in the London office market set out in this commentary are shaped and influenced by the need for businesses to attract and retain a productive workforce that will sustain business growth in an increasingly competitive world.

The Artificial Intelligence Revolution

Service sector businesses that employ people to undertake repetitive and predictable tasks arguably stand to gain most from the artificial intelligence revolution that is beginning to unfold. The preparation and execution of standard form contracts, such as those used in the financial services industry, are a text book example of where AI can be employed to slash administration costs and, importantly, eliminate human error. The legal profession, too, is another area of the services sector economy that could see AI replace staff who are employed to carry out routine tasks including the analysis of contracts and processing of legal documents.

This opportunity (or threat depending on your point of view) is leading some businesses to re-think their accommodation strategies. At the time of writing, Carter Jonas is advising several City-based firms on their future office relocations where the anticipated impact of AI is being factored in to their relocation plans in terms of future head / desk count and quantum of floor space required.

However, as Carter Jonas' research earlier in the year on the impact of AI on the global real estate market concluded, while artificial intelligence may result in a decline in low skilled employment it is unlikely to replace highly skilled and creative jobs, particularly where collaboration between teams is required. Further, jobs growth in the technology sector is likely to accelerate as the application of artificial intelligence, in all it's various forms, becomes increasingly widespread both in business and in our daily lives. AI could therefore catalyse the replacement of poorly paid, low-skilled, jobs with higher value, higher skilled, employment. London / the UK has already established itself as an AI / technology hub to rival those of Asia-Pacific and North America and its employment and real estate markets should therefore benefit as AI becomes an increasingly common feature in today's society.

The Four Day Week

If you are brave enough to travel into central London using public transport on a Friday you will no doubt be acutely conscious of the significant decline in footfall compared with the preceding four days of the week. While many London-based businesses are gradually getting ever closer to office occupancy rates that are beginning to approach pre-COVID levels Monday – Thursday, Friday appears to be a stubbornly difficult post-COVID nut to crack, as many employees elect to "WFH" on the last day of each week.

Should employers think the unthinkable and simply opt for a Monday - Thursday working week in the office? There would certainly be some very significant environmental benefits by adopting such a strategy. Offices designed for hundreds (and thousands) that house just a handful on a Friday could have their energy hungry building services operating just four days a week. As has been referenced in earlier editions of this publication, global real estate is one of the largest consumers of energy with high rise, air conditioned, office buildings being the most needy.

Employers, too, would benefit from lower building service charges and utilities costs if a four office day week were adopted. The co-operation of landlords of multi-occupied buildings would, of course, be critical, but tax breaks and the greater longevity of the building services due to reduced use might be sufficient to encourage the adoption of this environmentally-friendly initiative. Alternatively, businesses could organise themselves to operate on fewer floors on a Friday.

HR & Environmental Considerations

Despite the Conservative Government's apparent rowing back on some of its flagship environmental policies, there is little sign that the international business community is losing its appetite for energy-efficient Grade A office space with good sustainability credentials. This is notwithstanding the uncertainty over the timing of the introduction of tighter Minimum Energy Efficiency Standards regulations which are currently proposed to be phased in from April 2027.

> " Service sector businesses that employ people to undertake repetitive and predictable tasks stand to gain most from the unfolding artificial intelligence revolution which is leading some businesses to re-think their accommodation strategies. "

There is a heightened awareness among an increasing number of office occupiers that their human resource, environmental and social responsibility policies are inextricably linked and reinforce each other. The entity that unifies these key issues is the real estate from which they operate.

An increasing number of organisations now require the business community to demonstrate its green credentials before awarding contracts. In addition, the EU's Corporate Sustainability Reporting Directive will be introduced at the beginning of next year, which will affect UK businesses that trade with EU based organisations. Therefore, well informed, responsible, businesses know that they

can no longer get away with operating from low grade office space that has a high carbon footprint.

A Segmented Market

The London office market is highly segmented. There is plenty of low grade office space with poor sustainability credentials left vacant as businesses exercise break options or decide not to renew leases and trade up into higher grade accommodation for the reasons set out above. By contrast the Grade A market is characterised by low vacancy and robust demand resulting in declining choice for footloose tenants, particularly in the West End. This trend is likely to continue for the next year or two until the supply pipeline catches up.

Supply Pinch Point

Depending upon the scale of the project, it can often take 2.5 – 3 years to complete a new office development from the submission of the planning application to practical completion of the construction programme. As a consequence, supply typically lags demand. COVID disrupted the pipeline supply of new office developments and has exacerbated the issue.

Vacancy levels in Midtown, and especially the West End, are at historic lows, which is underpinning rental growth in these areas. As reported in the Q2 2023 edition of this publication, record rents for prime located Grade A space are being recorded in many West End districts with rents of over £180 per sq ft per annum now established in Mayfair. Some commentators are forecasting that rents over £200 per sq ft per annum will be achieved on some of the latest wave of developments that are currently under construction in Mayfair and St James's. They are probably right given that the imbalance between supply and demand is unlikely to be addressed in the near term.

The City of London, City fringe and Canary Wharf / Docklands sub-markets offer more choice of good quality Grade A space where rents and business rates costs for mid-rise office space are appreciably lower than the West End – see Table 3.

New developments in the City including 8 Bishopsgate and 40 Leadenhall Street are attracting good interest from occupiers and a significant proportion of the floorspace in these developments is either let or under offer with lettings of the upper floors reportedly achieving rents well over £90.00 per sq ft per annum.

Interest Rates, Inflation & Office Demand

Many economists agree that the key trading blocks – the Americas, Asia-Pacific and Europe – have probably reached, or are very close to reaching, the peak of their current interest rate cycle as inflation pressures across the world begin to ease.

Providing that there no nasty geo-political surprises, confidence in the UK and international business communities should continue to strengthen which is likely to manifest itself in an increased rate of job creation – the fuel that fires demand for office space. However, the correlation between headcount and desk-count has, in a post COVID world where technology allows employees to work anywhere, broken down and the impact of job creation on office demand is likely to be more muted. The lack of supply in the labour market is an impediment to employment growth, unless immigration policy is relaxed, that is also likely to translate into weaker demand for office space.

Plug In & Go

Real estate typically comprises the second highest operating cost of most businesses after staff salaries. Where the decision is taken to relocate, the capital expenditure associated with an office move will have a negative impact on a business' cashflow, leaving aside the direct and opportunity costs of funding the CAPEX.

The post pandemic surge in office fitting out costs has added to the expense of relocating and is fostering an increasing trend for businesses to focus their property searches on buildings that offer a ready fitted out, plug-in-and-go, accommodation solution - where meeting rooms, collaboration and kitchen space, furniture and data / telecoms infrastructure are already in situ.

Taking a lease on surplus tenant-controlled ready fitted space that is being offered to let by sub-lease or assignment / transfer of the existing lease is one way of reducing office move costs. Increasing numbers of landlords are also offering "Cat A+" ready fitted space, or are offering leasing packages where they will carry out, and fund, a bespoke fit out for the tenant in return for a shorter rent free period and rental premium, typically between £5.00 and £10.00 per sq ft per annum depending upon lease length, the timing of tenant break options and the quality and specification of the works required.

As well as the cashflow benefits, and the absence of any funding costs, there should be limited exposure to dilapidations / lease exit liabilities, enabling provisions in the tenant's accounts for such expenditure to be reduced. For organisations that are unable to fully recover the value added tax on their operating costs, there is the added advantage of not having to bear this cost burden if the landlord of the selected property is to fund the fitting out costs, providing that the landlord is Vat registered.

As can be seen from this commentary, the fortunes of the London office market are inextricably linked with technological, environmental, economic and demographic trends - many of which are likely to prove positive for landlords with well located, environmentally sustainable, Grade A space.

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Rents and Rent Free Periods

Advertised Rents

There is continued upward pressure on rents for well-located new and refitted Grade A office space with good sustainability credentials in the West End, Midtown and South Bank sub-markets, as vacancy levels decline and demand shows no sign of abating.

The picture is rather different in the north and east City fringes, east London (Stratford and Canary / Wood Wharf) and west London (Hammersmith and Chiswick) where the supply and demand dynamics of these areas favours tenants. Significantly, many businesses are prioritising location, to underpin their recruitment and retention strategies, over real estate costs and are focussing their property searches in central locations.

Please refer to Table 2 which provides an overview of current typical landlords' advertised rents for the various London office sub-markets.

Rent Discounts

The acute shortage of environmentally sustainable Grade A space in the West End is underpinning rental growth in this area of London where it is becoming increasingly difficult to secure any significant rent discounts on prime located, best in class, space. Discounts have typically shrunk from 5 - 10% at the beginning of 2021 to 0 – 3.5% today.

The Midtown sub-market, comprising the Bloomsbury, Covent Garden, Holborn and King's Cross districts, and the South Bank sub-market are similarly characterised by a shortage of well-located Grade A stock notwithstanding that rent discounts are slightly more generous – typically between 1.5 – 3.5%.

The City of London and City fringe sub-markets are characterised by rent discounts of 2 – 4%, reflecting higher levels of vacancy and more choice - discounts at the higher end of the range being associated with the Clerkenwell and Shoreditch areas.

The west London and east London markets are still recovering from the shock of the COVID pandemic and the preference of many businesses to focus their property searches in more central locations, a decision that more often than not is driven by recruitment issues and the desire to attract and retain the brightest and the best. Rent discounts for Grade A space in these areas are the highest in London – typically 3 – 6%.

By comparison, larger discounts across London of 10% and more on landlords' advertised rents are not unusual for low quality buildings with poor energy efficiency ratings, reflecting weak demand.

Rent Free Periods

Table 1 – Typical Rent Free Periods By Sub-Market – Q3 2023
New / Refitted & Refurbished Grade A Space

Location	Typical Rent Free Period (lettings over 5,000 sq ft)	
	5-year lease	10-year lease
City of London - St Paul's, Bank, Liverpool Street, Cannon Street	11 - 13 months	24 - 26 months
City Fringe North - Shoreditch, Clerkenwell, Farringdon	11 - 13 months	24 - 26 months
City Fringe East - Aldgate East, Spitalfields	12 - 15 months	24 - 28 months
Midtown - Bloomsbury, Holborn, King's Cross, Covent Garden	9 - 12 months	22 - 25 months
West End - Mayfair, St James's, Marylebone, Fitzrovia, Soho, Victoria, Paddington	8 - 12 months	20 - 24 months
South Bank - Waterloo, Southwark, London Bridge	9 - 12 months	21 - 25 months
East London - Docklands - Canary Wharf, Wood Wharf	13 - 16 months	26 - 32 months
East London - Stratford	13 - 15 months	25 - 28 months
West London - Hammersmith, White City, Chiswick	12 - 15 months	24 - 28 months
South West London - Vauxhall, Battersea	12 - 15 months	24 - 26 months

Source: Carter Jonas Research

Rent Free Periods

In areas where the availability of new and refitted Grade A space with good "green" credentials is limited, some landlords are offering slightly shorter rent free periods compared with a year ago – with reductions of one month typical for a 5 – 10 year lease on well located, best in class space.

Significantly, and as has typically been the case in the recovery phases of previous market cycles, landlords have been increasing headline rents, rather than reducing rent free periods, in areas such as the West End where demand for Grade A space in many districts exceeds supply.

This should come as no surprise given that the value of commercial property investments is more sensitive to the level of headline rents than the quantum of rent free period incentives that have been granted to secure a letting.

By contrast, rent free periods for low grade office space with poor environmental credentials have shifted little over the last twelve months.

Over the next few quarters it is quite likely that rent free periods across much of central London for new and refitted Grade A floor space will remain broadly static, except for the prime areas of the West End where a contraction in rent free periods is likely, reflecting supply-side constraints.

Summary of Forecast Market Trends

A summary of the key current and forecast trends in the London office market is provided below:

Advertised Rents

- are likely to remain broadly static, reflecting weak economic growth, for new Grade A space with good sustainability credentials during the next two quarters, except in areas of low vacancy in the West End, Midtown and South Bank where upward pressure on rents is likely to persist

Rent discounts

- for well-located new and refitted, best in class, Grade A sustainable space are likely to stay at current levels across London for the next two quarters

The Grade A market

- continued demand for Grade A space with good sustainability credentials - to reinforce return to the office, workforce wellbeing, recruitment, retention, productivity and environmental strategies

Rent free period incentives

- for environmentally compliant Grade A space are likely to remain broadly static during the next two quarters and may expand slightly in those sub-markets where there is a better balance between supply and demand

Greater lease flexibility

- continued demand for greater lease flexibility – shorter leases and more frequent break options

Downsizing

- a continuing, but weaker, trend towards businesses downsizing their real estate footprint, reflecting improving weekly office occupancy rates and increasing headcount within some business sectors

> “ Demand for environmentally-friendly Grade A office space continues to outstrip supply – especially in the West End where rents for the best accommodation are at record levels. The City, City fringe and Docklands sub-markets offer better value and more choice. ”

The bargaining position of landlords of Grade A space

- a gradual weakening in landlord’s bargaining position in lease negotiations is likely for the remainder of the year, reflecting weaker demand, except in areas of particularly low Grade A vacancy in the West End and Midtown sub-markets

Office Leasing Activity

- a steady decline over the next two quarters in the year-on-year levels of letting activity, reflecting weaker demand

Serviced Offices

- continued good demand for serviced and co-working space from start-ups and established businesses that value lease flexibility to accommodate rapid changes in headcount

Assessing A Building’s Sustainability Credentials

Research demonstrates that real estate consumes circa 40% of global energy annually and contributes to approximately 20% of carbon emissions. Operating from energy-efficient, sustainable, accommodation is therefore one of the key ways that a business can ameliorate its impact on the environment.

To assist footloose tenants in their quest to identify accommodation that will align with their adopted environmental policies a number of building certifications have been developed.

Energy Performance Certificates

Introduced under the UK Government’s Minimum Energy Efficiency Standards (MEES) legislation, energy performance certificates (EPCs) are helpful in demonstrating whether a building is well insulated and fitted with building services, including heating and air conditioning plant, that are energy-efficient.

The Government’s proposed phased tightening of the existing MEES regulations will mean that from 1 April 2027 landlords, and tenants with surplus space, will not be able to let or derive rental income from accommodation that has an EPC rating below C (or else be faced with a fine). At present a property must have an EPC rating of at least E before it can be offered to let. With effect from 1 April 2030 it will be necessary for commercial properties to have an EPC rating of A or B.

It is, however, proposed that some exemptions to the proposed new regulations will apply, providing that certain qualifying criteria are met. For example, some listed buildings will be exempt if the works to upgrade the energy efficiency rating of the property will adversely affect the architectural features of the building. Listed and non-listed buildings may also be exempt if the cost of the works to upgrade the property to render it compliant with MEES regulations exceeds any savings in energy costs over a seven year period. The switch to using energy generated from renewable resources, instead of fossil fuels, can sometimes be sufficient to boost a building’s EPC rating sufficiently to render it compliant with the proposed tighter energy performance regulations.

Despite the fact that the proposed tighter energy performance regulations have yet to be introduced, the mere fact that they have been proposed is already having an impact on the office market. Footloose tenants that are currently seeking alternative premises are typically focussing their property searches on buildings that will be compliant with the new proposals, ahead of their introduction, to future-proof their ability to assign / transfer their lease or sub-let space that may later be surplus to requirements.

Energy performance certificates have a ten year life-space from the date of issue. It is a legal requirement for those leasing office space to maintain a valid, in-date, EPC and to include in the marketing material details of the energy performance rating of the accommodation, which should assist footloose occupiers in avoiding properties that will be non-compliant when the new MEES regulations come in to force.

BREEAM & LEED

Other real estate environmental accreditations include BREEAM (British) and LEED (American), which are gradually being adopted internationally by property developers and investors, each of which include an assessment of a building’s design and use of materials to benchmark its sustainability credentials.

Buildings that incorporate environmentally-friendly features such as roof gardens, solar panels, wind turbines, bike racks and shower facilities (to discourage the use of motor- based commuting), energy saving devices and mechanisms to harness and recycle rainwater will score high ratings. The use of recycled and recyclable building materials and materials derived from sustainable sources will also boost a building’s BREEAM and LEED scores.

NABERS

In Australia, the NABERS real estate accreditation has been developed and is, similarly, being adopted internationally by real estate owners and developers to complement BREEAM and LEED accreditations. Unlike the latter, NABERS is an annually renewable accreditation and measures the environmental performance of a building and how efficiently it is being managed, with particular emphasis on energy and water consumption and waste recycling.

Landlords are responding to the structural shift in demand for sustainable accommodation by obtaining the aforementioned accreditations, details of which will typically be included in marketing material.

WELL

The WELL standard is another real estate accreditation that is complementary to the BREEAM, LEED and NABERS certifications. With its emphasis on the wellbeing of the users of real estate, a building’s WELL accreditation will be concerned with the following:

- air and water quality (including drinking water)
- building design in so far as it affects / promotes the wellbeing of its occupants
- lighting levels and light quality
- the existence of any hazardous materials

“The impact of the European Union’s Corporate Sustainability Reporting Directive on those based outside the EU, that trade with EU businesses, is likely to reinforce demand for environmental-friendly Grade A office space in non-EU countries”

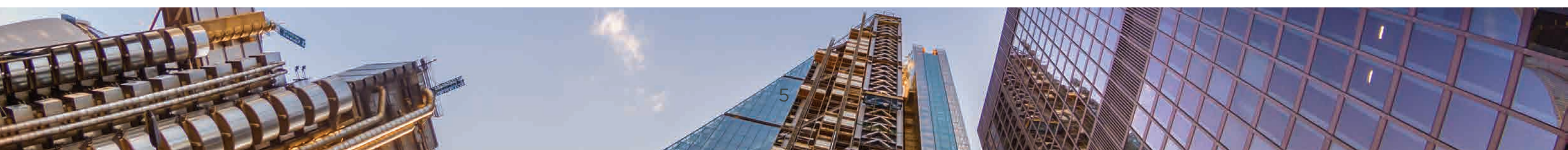


Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q3 2023

£ per sq ft per annum | space over 5,000 sq ft | UF= Upper Floors

Location	Grade A		Grade B
	New/Refitted	Refurbished	Refurbished
City			
Prime - Bank, Leadenhall Street	£68.50 - £80.00 (UF - £82.50 - £115.00)	£57.50 - £67.50 (UF = £75.00- £90.00)	£42.50 - £52.50
Secondary - Blackfriars, Aldgate	£62.50 - £72.50 (UF = £75.00 - £90.00)	£47.50 - £59.50 (UF = £65.00 - £77.50)	£38.00 - £45.00
City Fringe			
North - Shoreditch, Clerkenwell	£65.00 - £75.00 (UF = £77.50 - £90.00)	£52.50 - £62.50	£38.00 - £50.00
North West - Farringdon, Smithfield	£75.00 - £87.50 (UF = £90.00 - £97.50)	£62.50 - £72.50	£40.00 - £56.00
East – Spitalfields	£67.50 - £75.00 (UF = £77.50 - £82.50)	£52.50 - £65.00	£37.50 - £46.50
East – Aldgate East, Wapping	£49.50 - £59.50 (UF = £60.00 - £65.00)	£38.00 - £48.50	£34.00 - £37.00
South Bank			
Waterloo, Southwark, London Bridge	£70.00 - £80.00 (UF= £82.50 - £97.50)	£59.50 - £67.50 (UF = £69.50 - £77.50)	£42.50 - £58.50
Battersea, Nine Elms, Vauxhall	£55.00 - £67.50	£45.00 - £53.50	£37.50 - £43.00
East London			
Docklands Prime – Canary Wharf & Wood Wharf	£47.50 - £60.00 (UF = £62.50 - £72.50)	£32.50 - £42.50 (UF = £45.00 - £50.00)	£27.50 - £35.00
Docklands Secondary – Crossharbour	£32.50 - £39.50	£27.50 - £32.50	£22.50 - £27.50
Stratford	£45.00 - £49.50	£35.00 - £45.00	£22.50 - £29.50
West End			
Central – Mayfair, St James's (Prime)	£120.00 - £150.00 (UF = £160.00 - £185.00)	£95.00 - £110.00	£67.50 - £77.50
Central – Mayfair, St James's (Secondary)	£92.50 - £115.00	£77.50 - £90.00	£65.00 - £75.00
North – Euston	£70.00 - £85.00	£57.50 - £67.50	£42.50 - £52.50
North East – Fitzrovia	£89.50 - £107.50 (UF = £110.00 - £130.00)	£77.50 - £87.50	£55.00 - £67.50
North West – Marylebone	£92.50 - £112.50 (UF = £115.00 - £120.00)	£77.50 - £87.50	£60.00 - £70.00
South – Victoria, Westminster, Haymarket	£75.00 - £89.50 (UF = £90.00 - £97.50)	£65.00 - £72.50	£42.50 - £57.50
South West – Knightsbridge	£90.00 - £115.00	£75.00 - £87.50	£62.50 - £72.50
East – Soho, Regent Street, Leicester Square	£89.50 - £110.00 (UF = £112.50 - £120.00)	£70.00 - £87.50	£52.50 - £65.00
West – Paddington	£75.00 - £87.50 (UF = £90.00 - £95.00)	£62.50 - £72.50	£42.50 - £52.50
Midtown			
North – King's Cross	£75.00 - £87.50	£62.50 - £72.50	£47.50 - £55.00
South – Covent Garden	£75.00 - £85.00 (UF = £87.50 - £92.50)	£60.00- £72.50	£47.50 - £55.00
East – Holborn	£65.00 - £77.50 (UF = £80.00 - £87.50)	£52.50 - £62.50	£40.00 - £49.50
West – Bloomsbury	£77.50 - £90.00	£65.00 - £75.00	£47.50 - £57.50
South West London			
Chelsea	£80.00 - £95.00	£65.00 - £77.50	£47.50 - £60.00
West London			
Kensington	£75.00 - £110.00	£57.50 - £70.00	£40.00 - £52.50
Hammersmith	£52.00 - £58.50	£40.00 - £50.00 (UF = £55.00 - £57.50)	£32.50 - £42.50
White City	£46.50 - £56.50	£40.00 - £45.00	£32.50 - £40.00
Chiswick	£47.50 - £55.00	£37.50 - £46.00	£32.50 - £37.50
Ealing	£45.00 - £55.00	£36.50 - £42.50	£29.50 - £36.50

Grades of Office Accommodation

For marketing purposes office accommodation is generally categorised into Grades which are defined as follows:

Grade A

Space fitted with air conditioning & passenger lift facilities & fully accessible raised floors for data / telecoms cable management

Grade B

Accommodation that typically incorporates under floor or perimeter trunking for data / telecoms cable management, rather than raised floors, and / or air cooling facilities, instead of an air conditioning system that dehumidifies & draws fresh air in to the building

Refitted space

Accommodation where the entire building, including the common parts, has been refitted and is "as new", incorporating new building services, including lighting, air conditioning and passenger lift facilities

Refurbished space

Premises where the existing building services have been overhauled, rather than replaced with new systems

Source: Carter Jonas Research

The London Office Market

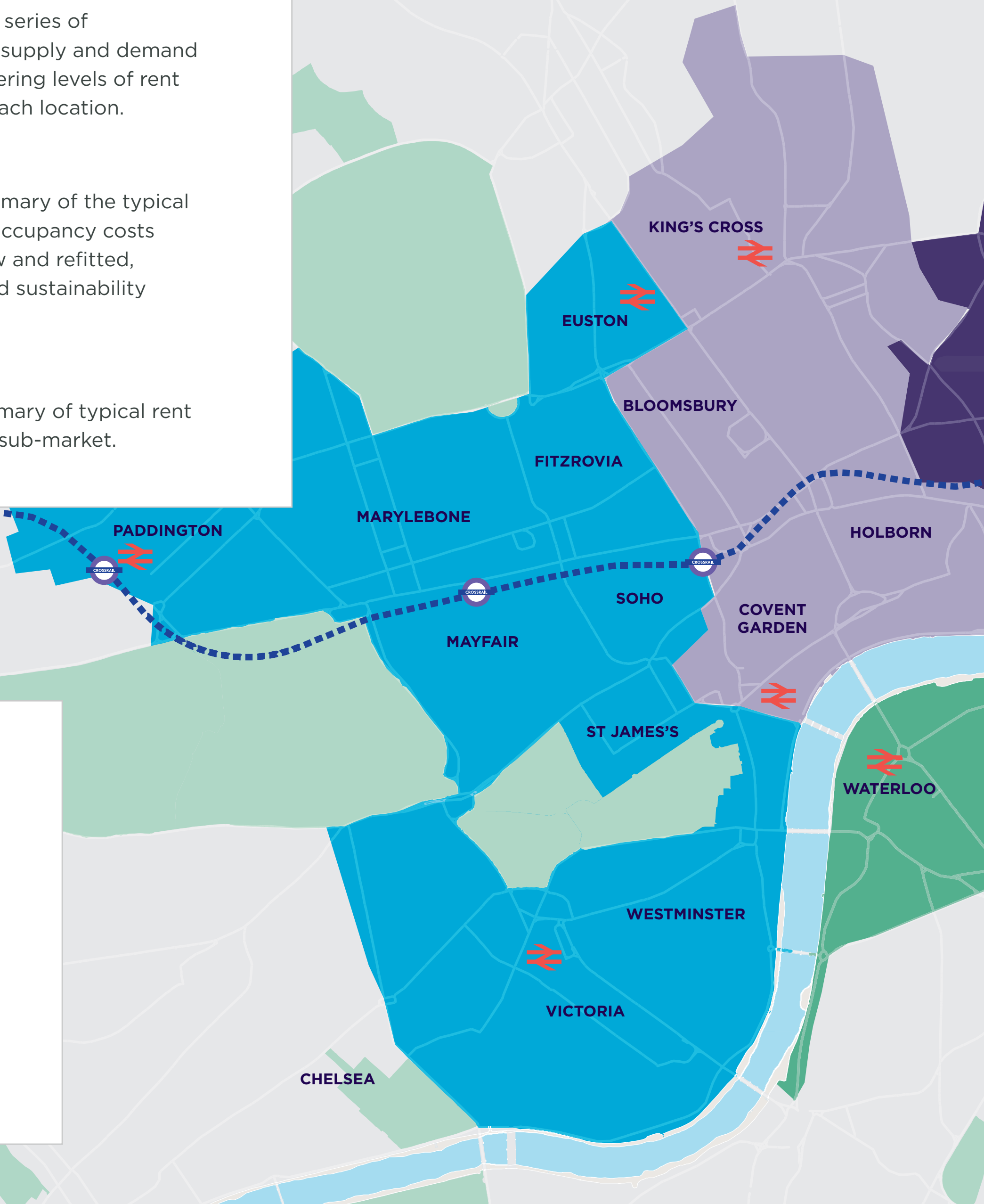
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

Office Occupancy Costs

Table 3 of this document provides a summary of the typical rent, business rates and service charge occupancy costs associated with each sub-market for new and refitted, mid-rise, Grade A office space, with good sustainability credentials, over 5,000 sq ft.

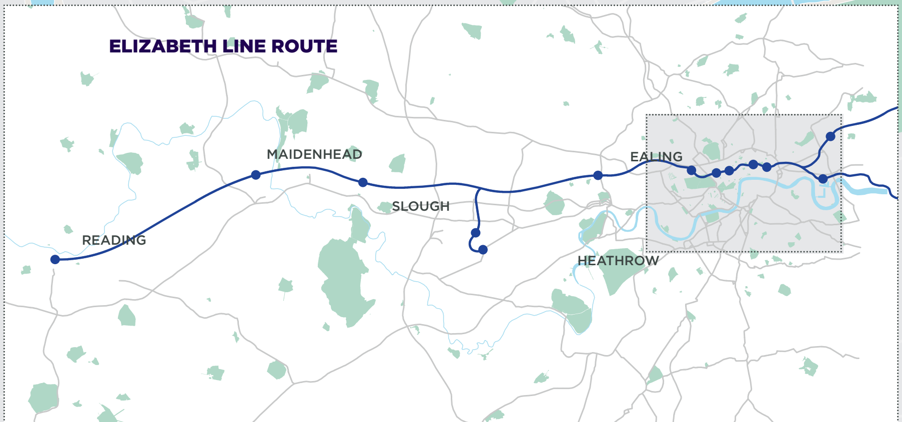
Rent Free Periods

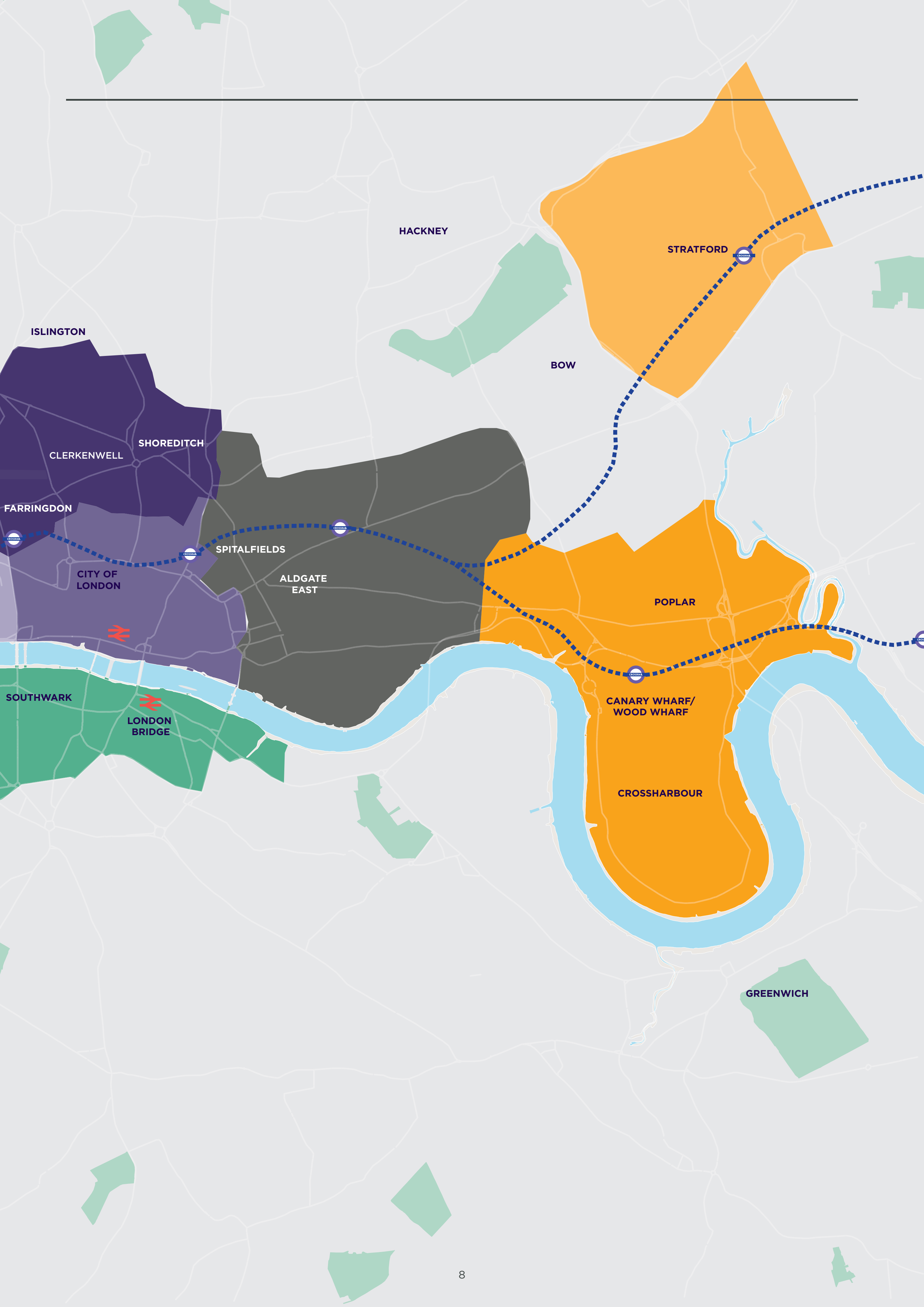
Table 1 of this document provides a summary of typical rent free periods for 5 and 10 year leases, by sub-market.



Sub-markets & Postcodes

- **West End** W1, W2, SW1, NW1
- **Midtown** WC1, WC2, Part N1/EC1/EC4
- **City** EC2, EC3, Part EC1/EC4
- **City Fringe North** Part EC1/N1
- **City Fringe East** E1, E2
- **South Bank** SE1, SW8
- **London Docklands** E14
- **Stratford** E15, E20
- **Elizabeth Line/Crossrail** route
- Denotes **National Rail** station




HACKNEY
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FARRINGDON
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ALDGATE
EAST
CITY OF
LONDON
POPLAR
SOUTHWARK
LONDON
BRIDGE
CANARY WHARF/
WOOD WHARF
CROSSHARBOUR
GREENWICH

Principal Office Occupation Costs

Rent, business rates and building service charge costs form the principal office occupancy overheads.

Value Added Tax

Where a property has been opted to tax by the landlord, the tenant will be required to pay VAT on the rent and service charges payments due under the lease. Charities, banks, insurance companies and some businesses operating in the medical profession will typically wish to avoid properties that have been opted to tax given their inability to recover 100% of their VAT costs.

Table 3 – Comparison Of Rent, Business Rates and Service Charge Costs By Sub-Market – Q3 2023

Typical costs per sq ft per annum for new and refitted mid-rise Grade A space over 5,000 sq ft

Sub-market	Rent	Business Rates	Service Charge	Total
City of London – Bank, Leadenhall Street	£75.00	£31.75	£14.00	£120.75
City Fringe North - Shoreditch, Clerkenwell	£67.50	£25.25	£13.00	£105.75
City Fringe North West - Farringdon, Smithfield	£85.00	£26.00	£13.00	£124.00
City Fringe East - Aldgate East	£55.00	£23.50	£13.00	£91.50
City Fringe East - Spitalfields	£72.50	£26.50	£13.00	£112.00
South Bank - Southwark, London Bridge	£75.00	£27.00	£13.00	£115.00
East London - Canary Wharf	£55.00	£16.75	*£18.25	£90.00
East London - Crossharbour	£35.00	£12.00	£13.00	£60.00
East London - Stratford	£47.50	£16.50	*£12.00	£76.00
Midtown West - Bloomsbury	£85.00	£33.00	£13.00	£131.00
Midtown East - Holborn	£72.50	£31.00	£13.00	£116.50
Midtown North - King's Cross	£85.00	£35.00	£13.00	£133.00
Midtown South - Covent Garden	£82.50	£35.00	£13.00	£130.50
West End Central - Mayfair, St James's	£135.00	£54.25	£14.00	£203.25
West End North - Marylebone	£99.50	£41.50	£13.00	£154.00
West End North - Fitzrovia	£97.50	£39.00	£13.00	£149.50
West End South - Victoria, Westminster	£78.50	£38.50	£13.00	£130.00
West End West - Paddington	£80.00	£27.00	£13.00	£120.00
West End East - Soho	£97.50	£40.50	£13.00	£151.00
West London - Hammersmith	£56.00	£24.00	£12.50	£92.50
West London - White City	£53.00	£22.50	£12.50	£88.00
South West London - Battersea, Nine Elms	£62.50	£22.00	£12.50	£97.00

Source: Carter Jonas Research

Please refer to the map overleaf which illustrates the various London office sub-markets.

Notes

- Rents are typical landlord's advertised rents and exclude the value of rent free periods
- Business rates cost estimates include the Crossrail levy
- * includes estate charge
- Total costs are estimates and exclude building insurance and tenant's own utilities costs
- Rents for the upper floors of tower buildings will typically command a premium of circa 15 – 30% above those illustrated in the table
- The cost estimates in the table are provided for guidance only. Actual occupancy costs and will vary from building to building

Reducing Real Estate Costs

A lease expiry or break option presents an ideal opportunity for a business to reduce its real estate costs by enabling:

- new lease terms to be negotiated - including a revised rent and a rent free period
- potential downsizing of the floor area occupied at the existing premises
- a relocation to smaller / lower cost / better quality, environmentally-friendly, premises

Negotiating A Cost-Effective, Tenant-Friendly, Lease

The principal terms set out below should form the bedrock of the lease negotiations, in order to cap future lease liabilities and to achieve the objective of securing a cost-effective, tenant-friendly, tenancy:

- a rent that reflects the current economic climate
- a rent free period, including additional post break option rent free periods
- landlord's capital contributions towards any refurbishment / fitting out works
- a service charge cap – to limit future increases in real estate costs
- the inclusion of regular tenant-only break options – to build in lease flexibility
- a cap on the tenant's repairing and removal of fixtures and fittings exit obligations
- tenant-friendly rent review valuation provisions (leases of 5 years, or longer)

Reducing The Property Footprint

Shrinking the property footprint occupied is another effective way of reducing exposure to rent, business rates and service charge costs.

Whether staying-put and downsizing or relocating to smaller premises, the most effective floor area reduction strategies will typically incorporate:

- the adoption of new operating practices such as "hybrid" working from home and the office, adopting a rota system - to reduce desk-count
- a greater emphasis on use of the office as a "drop-in when required" collaboration hub
- the use of smaller desks and less office furniture
- a move to "cloud" based data storage and the digitisation of documents – to negate the need to allocate floor space for a server room and archive storage

Minimising Relocation Costs

If the decision is taken to move a relocation cost saving plan can be devised to preserve working capital and minimise the negative impact of the office move on cashflow.

A relocation cost saving plan would typically include:

- focusing the property search on "plug-in-and-go" ready fitted out space that includes meeting rooms, senior manager's offices, kitchen facilities, data / telecoms infrastructure and furniture
- where non-ready fitted out space is to be leased, tendering the fitting out contract to drive down interior design and construction costs
- making use of HMRC capital allowances tax breaks (where paying UK corporation tax) to reduce fit out costs
- employing a suitably experienced building surveyor to challenge, and negotiate, the landlord's lease exit liabilities claim relating to the existing premises
- developing a detailed relocation timetable to benchmark and regulate the speed of the project, to synchronise the move, so that overlap rent, business rates and service charge costs are minimised

The Carter Jonas Tenant Representation Team can provide further advice on the various issues outlined above.

Key Leasing Transactions During Q3 2023

As with earlier editions of this publication, the key leasing transactions table for Q3 2023 highlights the continuing trend for occupiers to focus their property strategies on leasing well located, new and refitted Grade A space with good sustainability credentials to underpin recruitment, retention, productivity, wellness, environmental and social responsibility policies.

It is significant that the size of key lettings during Q3 2023 were smaller compared with the previous two quarters – which were characterised by lettings typically in excess of 40,000 sq ft.

Table 4 – Key Office Lettings – Q3 2023

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Arbuthnot Latham	Financial Services	20 Finsbury Circus, EC2	75,000
City of London	Acrisure	Financial Services	40 Leadenhall Street, EC3	50,827
City of London	Orega	Flexi Offices	51 Lime Street, EC3	36,000
City of London	Halkin	Flexi Offices	68 King William Street, EC4	33,000
City London	Redburn	Financial Services	Capital House, 85 King William Street, EC4	24,056
City of London	Hampshire Trust Bank	Financial Services	80 Fenchurch Street, EC3	19,787
City of London	The Post Office	Business Services	100 Wood Street, EC2	17,495
City Fringe - East - Spitalfields	Wilson Sonsini	Legal Services	8 Spital Square, E1	33,000
City Fringe - North West - Farringdon	Pentland Brands	Retail - Fashion	The Johnson Building, 77 Hatton Garden, EC1	30,000
South Bank	Work.Life	Flexi Offices	The Typewriter Building, 140-148 Borough High Street, SE1	29,000
South Bank	The Labour Party	Politics	Southworks, Rushworth Street, SE1	10,000
South Bank	Carbon Clean	Business Services	The Forge, 105 Sumner Street, SE1	9,400
West End - South - Pimlico	The John Lewis Partnership	Retail	1 Drummond Gate, SW1	108,000
West End - North West - Marylebone	Moelis & Company	Financial Services	25 Baker Street, W1	49,200
West End - St James's	Symmetry Investments	Financial Services	31 St James's Square, SW1	34,270
West End - North East - Fitzrovia	Ink	Retail - Fashion	Arthur Stanley House, 40 Tottenham Street, W1	12,889
West London - Hammersmith	IWG	Flexi Offices	12 Hammersmith Grove, W6	55,000

Source: Carter Jonas Research

Comparing The Costs Of Relocating & Staying Put

The existence of a lease break option or expiry presents a tenant with an opportunity to assess its real estate options which could include:

- using the existence of the break option / expiry, and the option of relocating, as a bargaining counter to negotiate a new tenancy that offers better value and more tenant-friendly lease terms
- relocating to alternative premises – which may offer better value and the ability to downsize, or operate from larger premises to accommodate growth, as well as the opportunity to create a new, vibrant and engaging work environment which will underpin ESG policies and return to the office, workforce wellbeing, recruitment, retention and productivity strategies

Stay-put / Relocate Property Options Cost Appraisal

In order to assess and compare the costs of staying put or relocating, and to assist with obtaining Board approvals for budgets, it would be prudent to undertake a stay put / relocate property options cost appraisal. The appraisal will also identify where the largest cost savings can be made.

A property options cost appraisal would typically include an analysis of the following, taking into account the value of any rent free periods and landlord's capital contribution incentives that can be negotiated as part of the letting package:

- **the one-off capital expenditure associated with staying put including:**
  - transaction costs – solicitor's and property consultant's fees and stamp duty land tax
  - refurbishment costs – the costs of any upgrade / reconfiguration works that the tenant may wish to make to its existing office space
  - the cost of funding the capital expenditure
- **the capital costs associated with moving – including:**
  - the exit costs associated with the existing premises – repairs / dilapidations
  - fitting out costs at the selected premises, including furniture and any upgrades to data / telecoms hardware, in the absence of finding suitable ready fitted out space
  - the overlap rent, business rates and service charge costs payable from the date of commencement of the lease on the selected premises to the date of expiry of the lease on the existing accommodation
  - transaction costs – solicitor's, property consultant's and building surveyor's fees and stamp duty land tax
  - the cost of funding the capital expenditure
- **the annual running costs of the existing premises, subject to the new lease, which will include:**
  - the negotiated rent
  - business rates
  - building service charge and insurance premium contribution
  - utilities costs
- **the annual running costs of alternative premises –** which will account for the same variables, as detailed above

Further information on carrying out a stay put / relocate property options cost appraisal is available on request from the Carter Jonas Tenant Representation Team.

The Serviced Office & Co-Working Sector

Despite the much publicised financial woes of international serviced office provider WeWork, which stem from over expansion and taking on too much debt, occupier demand for serviced, co-working and managed office space across London remained robust during the third quarter of the year.

Demand is being fuelled by a combination of drivers including start-up businesses, established enterprises that are unable to find good quality conventional space with good sustainability credentials that falls within budget, fast-growing businesses that need the flexibility to be able to move to larger accommodation at short notice and those organisations serving a short-term business contract.

The robustness of demand is leading some serviced office businesses to go back on the acquisition trail – as demonstrated in Table 4 of this document – seeking space for conversion.

Typical rents for serviced office accommodation range between £700 - £1,200 per desk per month in the West End and £550 - £900 per desk per month in The City depending upon quality and micro-location.

Serviced / Co-working Office Space - The Pros & Cons

The key advantages of serviced / co-working office space are that it is "cash-flow friendly" and offers a high degree of lease flexibility – enabling a relocation to more permanent accommodation to be effected at short notice.

" Demand for serviced office accommodation has remained robust during the third quarter of 2023 and is fuelling renewed interest from flexi-office operators in increasing the size of their leasing portfolios. "

In detail, serviced / co-working space offers the following advantages:

- Ready fitted out with data / telecoms infrastructure and furniture – therefore little or no capital expenditure
- Enables the level of working capital available for investment in the business to be maximised
- Cashflow-friendly
- A quick, plug in and go, accommodation solution
- Typically no dilapidations / repairing / exit costs – a contribution to which is usually reflected in the rent payable
- Short form service agreement that can be issued and signed within a matter of hours – no complicated, lengthy, real estate lease requiring the advice of a real estate lawyer
- The ability to expand and contract quickly in response to changes in market conditions
- No stamp duty land tax payable on the grant of the service agreement

However, serviced / co-working office space is not suitable for all businesses, especially those that require a high degree of data security such as private client wealth managers and law firms, or those businesses that wish to stamp their own brand on their office space.

The London Life Sciences Market

London continues to scale it's offer as one of the leading life sciences hubs of the world, with a strong concentration of universities, research institutions, and pharmaceutical companies. The London life sciences market is highly competitive, with rents for lab space among the highest in Europe, in part due to the current supply / demand imbalance.

The market is expected to continue to grow in the coming years, driven by factors such as increasing investment in research and development, a strong academic and research base, a vibrant entrepreneurial ecosystem, a strong network of partners and a favourable business environment.

The capital is home to a growing biotech sector, with a number of successful companies such as the cell and gene therapy companies Quell Therapeutics and OriBiotech. London is also a major player in the digital health sector, with companies such as Babylon Health and PatientsLikeMe developing innovative solutions to improve healthcare delivery. The medtech sector is also growing, with companies such as Smith & Nephew developing new devices and technologies to improve patient care. Overall, these elements provide a conducive environment for innovation and growth in the life sciences field in the capital.

Attracted by the extensive talent pool and favourable business environment, investors have put a significant amount of funds into life sciences companies based in the capital. After record funding received in the past three years life sciences companies headquartered in London received just over $600 million in H1 2023. This compares to $2.2 billion in funding in 2022 and nearly $3.3 billion in 2021.

In H1 2023, several companies in London secured significant funding, but only one was above $100 million. Beacon Therapeutics, an ophthalmic gene therapy firm, stood out by raising $120 million in a Series A round. Meanwhile, Complement Therapeutics, a preclinical stage company, raised close to $80 million in Series A funding, while Orchard Therapeutics, a leading provider of gene therapies, successfully raised $60 million in its Series B round.

Table 5 - Key lease deals - H1 23

Property	Developer/Owner	Occupier	Size (sq ft)	Type
Victoria House, Bloomsbury Square	Oxford Properties Group and Pioneer Group	BioIndustry Association	2,350	Conversion into life sciences hub
Paper Yard	British Land	CheMastery	2,000	Lab Enabled
I-Hub in White City	Imperial College	ADC Therapeutics	12,000	Lab Enabled
HYLO, 105 Bunhill Row	CIT	Hoxton Farms	13,548	Lab Enabled
The Francis Crick Institute	UKCMRI Consortium	MSD	11,818	Lab Enabled
Lacon House, 84 Theobalds Road	Al Ain Holding	ONO Pharma	12,934	Lab Enabled

Table 6 - Key sale deals - H1 23

Property	Type	Price	Size (sq ft)	Vendor	Buyer
17 Columbus Courtyard	Conversion	£99.75m	176,000	Sun Hung Kai / Macquarie / DPK	GIC / Oaktree
Tribeca	Development	£290m	615,502	BlackRock / Reef Group	GIC

The Tenant Representation Team

Our tenant representation services include:

- Office space search & cost appraisal
- Break option linked lease re-negotiation
- Workplace design & floorspace re-configuration
- Marketing & leasing services – surplus space
- Serviced & co-working property searches and negotiations
- Office move management
- Lease renewal negotiation
- Relocation budgeting & planning
- Lease & rent review negotiation
- Repairs/dilapidations cost assessment & negotiation
- Building, air conditioning & passenger lift surveys
- Business rates analysis & appeal
- Service charge audit

For more data on the London office market, office availability, rents & rent free periods, market trends & information on budgeting & planning for a lease renewal, rent review or office relocation please contact one of the team.

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Our Experience

Lease negotiations and relocations 10,000 sq ft+

43,000 sq ft
UK Payments Administration
2 Thomas More Square, E1

39,000 sq ft
Care Quality Commission
151 Buckingham Palace Road, SW1

28,000 sq ft
Warner Bros/Shed Media
85 Grays Inn Road, WC1

27,000 sq ft
Reinsurance Group of America
22 Bishopsgate, EC2

17,500 sq ft
Hackett Limited
The Clove Building, SE1

16,000 sq ft
Circle Housing
Two Pancras Square, N1

15,000 sq ft
Hitachi Rail Europe
40 Holborn Viaduct, EC1

11,000 sq ft
Salamanca Group
50 Berkeley Street, W1

The data in this document is provided to illustrate the key trends in the London office market. We recommend that the advice of an experienced property consultant is sought where a specific property transaction is being contemplated before any irreversible decisions are made.

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