RESEARCH

The London Office Market Q2 2024

A Guide To Rents, Rent Free Periods & Market Trends

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Carter Jonas

Change & The Evolving London Office Market

The new Labour Government's mantra during the recent General Election was "Change" underpinned by the desire, rightly, to prioritise economic growth. Certainly, the economic headwinds look favourable for the new administration with the likelihood of lower interest rates later in the year as inflationary pressures in the UK economy continue to ease.

Lower interest rates should stimulate business investment and, importantly, the creation of new jobs - the key driver of demand for office space. The European Central Bank's decision to cut interest rates in June should foster economic growth in the European Union. Despite political uncertainty in one of the EU's key member states – France – the recent easing of monetary policy should have a positive knock-on effect for the global financial markets, as well as underpinning UK trade with the EU.

Notwithstanding the political uncertainty associated with the American presidential election in November, the forecast cut in US interest rates later this / early next year should further boost the global economy which will benefit the UK, including London's financial services industry.

London – A Global Hub

Research by the City of London Corporation ranks London the second largest global asset management hub after New York, measured by funds under management. The UK has also recently been ranked second after the US in terms of its ability to attract venture capital, in particular associated with investment in technology and life sciences businesses, in research carried out by Tracxn.

London's status as Europe's premier technology hub has recently been underpinned following Microsoft's decision to develop its artificial intelligence research and innovation hub in Paddington. The tech-focussed Smart Centres Index, published in May by research group Z / Yen, ranked London top out of 79 cities, in terms of the capital's ability to support innovation and develop new technologies, with Zurich coming second and New York third.

The UK and its capital city are therefore well placed to exploit the forecast easing in monetary policy in the key global trading blocs which should ultimately translate in to new jobs and increasing demand for office space.

Developer Optimism

Since the beginning of the year there have been a string of new London office developments announced as resilient demand, declining vacancy, rising rents and easing construction and development finance cost pressures conspire to underpin developer optimism.

Going Up In The City

The latest, and perhaps the most eye-catching, office development proposal, the development of 1 Undershaft, envisages a new 74 storey 1,013 ft / 309 metre tower building, comprising circa 1.65 million sq ft / 154,000 sq m, incorporating public viewing galleries.

The grant of planning consent for the new building is anticipated soon, subject to addressing issues associated with the existing public open space around the building. Once completed, 1 Undershaft will be the City of London's tallest office tower, surpassing 22 Bishopsgate which was completed in 2020. The building will also be the same height as The Shard, located on London's South Bank, currently western Europe's tallest tower building.

The development of 1 Undershaft is symbolic of a city that is renewing its credentials as a place to attract international investment, confident of its place in the world and its status as Europe's pre-eminent financial services and technology hub.

Disparity In Rents

Rents for new Grade A office space situated in the prime areas of London's West End (the Mayfair and St James's districts) are now typically £145.00 per sq ft per annum (over £185.00 per sq ft for the upper floors of buildings located in Berkeley and St James's Squares). By contrast, the rents for office accommodation of equivalent quality to the east, in the City of London, the home of the UK financial services industry, average £75.00 per sq ft, ignoring premium rents for the upper floors of City tower buildings – see Tables 2 and 3.

This very significant disparity in West End and City rents is primarily driven by a lack of supply, reflecting the much tighter planning controls in the West End, restricting high rise development in the interests of preserving the historic Georgian and Victorian streetscapes that characterise districts such as Marylebone, Mayfair and St James's.

> " The very significant disparity in West End and City office rents is primarily driven by a lack of supply, reflecting the much tighter planning controls in the West End. "

Occupancy Costs

When business rates and building service charge costs are taken in to account, the City of London offers footloose tenants a discount on annual occupancy costs of 43% - £123.50 per sq ft per annum compared with £216.85 per sq ft in Mayfair and St James's – see Table 3. Small wonder, then, that established West End-based business are increasingly looking east when planning their accommodation strategies ahead of a break option or lease expiry.

However, the eastward migration of West End businesses is nothing new. It is a trend that manifested itself almost a decade ago when new planning policies were introduced that encouraged the conversion / redevelopment of office buildings for residential use. The consequent reduction in the stock of office buildings fuelled significant increases in rents in many parts of the West End's established office districts.

Going Up In The West End

Historically, large-scale, mid-rise, office developments have been principally confined to the Victoria and Paddington districts of the West End. It is very noticeable, however, that a spate of new developments clustered around the northern end of New Bond Street in Mayfair, and across Oxford Street into south Marylebone, including the recently completed "The Burlian" and the mixed-use redevelopment of the former House of Fraser and Debenhams department stores, have broken with tradition.

The massing and height of these schemes, including the proposals for the redevelopment of 19 - 24 Dering Street and the site fronting Vere Street and Oxford Street, represent a significant departure from Westminster City Council's established planning policies, albeit that each scheme is located on the periphery of the core historic areas that the planning authority has sought to preserve.

Changing Occupier Demographics

Each new development referred to above is located within a few minutes walk of the Bond Street Elizabeth Line station and will provide much needed additional office floorspace in this key area of the West End. The former department store buildings will also, very significantly, offer large floor plates – in excess of 20,000 sq ft per floor – hitherto a rarity in this area of London. Because of their size, each scheme is likely to attract large scale employers - including international corporates - to an area of central London that has traditionally been characterised by small and medium sized owner-managed businesses drawn from the financial and professional services and media industries.

The redevelopment and conversion of Oxford Street's former department stores, including the proposals for Marks and Spencer's flagship store, will therefore not only change the visual appearance of the streetscape but will ultimately change the demographics and quantum of the local workforce. Local retailers, restaurants and leisure businesses should ultimately benefit.

Demolition & Embodied Carbon

In an earlier edition of this publication we highlighted new sustainability policies being promulgated by, arguably, the two most influential central London planning authorities - the City of London Corporation and Westminster City Council. Both local authorities are promoting policies that deter demolition in order to preserve embodied carbon in existing building structures, with developers being required to provide evidence to justify demolition.

In two recent cases involving Westminster City Council, consent for redevelopment and demolition was granted. It was accepted by the Planning Committee that the design of the former police station at Savile Row in Mayfair was such that it was not practical, or economic, to repurpose / convert the building and in the case of 7 Soho Square the developer demonstrated that it would be replacing the existing building with new, more sustainable, accommodation while also recycling some of the building materials from the building that would be replaced.

While these sustainability policies are to be applauded they are, non-the-less, likely to prolong the process, and increase the costs, of securing permission for new office developments. This will further extend the lag between the market trends in supply and demand.

It's Not All Doom In Docklands

After the well-documented woes of Canary Wharf, with the loss of a succession of anchor tenants, including HSBC and law firm Clifford Chance, comes some brighter news. Fintech business Revolute has voted to remain at the Wharf having recently committed to leasing 113,000 sq ft at the YY Building at South Colonnade. In another piece of good news, Morgan Stanley has decided to extend its lease on 547,000 sq ft at 20 Bank Street.

Historically, London Docklands, including Canary Wharf and the neighbouring Crossharbour district, have tended to be discounted by businesses located in the more centrally located West End, Midtown, South Bank and City of London sub-markets.

However, appreciably lower rents and business rates costs (see Table 3), more choice and the vastly improved transport connectivity conferred by the Elizabeth Line, might be conspiring to entice existing tenants to stay put in Docklands. The key, now, is for developers and investors to encourage new tenants to move there.

Epilogue

London has, for centuries, been one of the world's key trading hubs. The city's success in maintaining its status and relevance in an ever-changing world, as business trends ebb and flow, has been achieved by adopting a strategy of renewal and reinvention.

Today, the most tangible manifestation of this trend can be seen through the property development process as obsolete buildings make way for a new generation of properties that have been designed with the requirements of the 21st century occupier in mind, with their emphasis on sustainability, mixed use and the provision of an attractive and engaging public realm.

Political and economic stability and a business-friendly immigration policy and regulatory framework are each fundamental to underpinning the UK's capital city as a pre-eminent global financial services and technology hub. The quality of London's built environment plays its part too in attracting inward investment – and global talent. Britain therefore has good reason to look to the future with optimism.

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Rents and Rent Free Periods

Advertised Rents

The second quarter of 2024 has played witness to the continuing structural shift in demand towards new, best in class, environmentally sustainable, Grade A space. This market segment continues to be characterised by low vacancy levels in the West End, Midtown, South Bank and City of London sub-markets, limiting choice for footloose tenants and underpinning rents.

Landlords' advertised rents for new and refitted Grade A space in the aforementioned sub-markets have been broadly static during the second quarter of the year, reflecting resilient but subdued demand.

Demand for office space in the north and east City fringes (Shoreditch and Aldgate East), east London (Stratford and Canary / Wood Wharf) and west London (Hammersmith, Chiswick) continues to be weak as businesses increasingly focus their searches in the more central locations, where London's labour pool is concentrated - prioritising recruitment and retention policies over real estate costs.

The lower levels of available good quality, environmentally sustainable, office space in these peripheral locations is also catalysing the shift in demand to the central sub-markets referred to above. Landlord's advertised rents for Grade A space in the peripheral sub-markets have been broadly static during the second quarter of the year, notwithstanding that deeper rent discounts can be negotiated compared with more central locations.

Rent Discounts

During the second quarter of the year the West End continued to be characterised by historically low levels of available environmentally sustainable Grade A office space, which is underpinning rental growth in this market segment. It continues to be difficult to secure any significant rent discounts on prime located, best in class, space in this sub-market. Discounts have typically shrunk from 5 – 10 % at the beginning of 2021 to 0 – 3.5% today.

Rent Free Periods

Table 1 – Typical Rent Free Periods By Sub-Market – Q2 2024
New / Refitted & Refurbished Grade A Space Space (Not fitted plug-in-and-go)

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	23 - 25 months
City Fringe North - Shoreditch, Clerkenwell, Farringdon	11 - 13 months	24 - 26 months
City Fringe East - Aldgate East, Spitalfields	12 - 14 months	24 - 27 months
Midtown - Bloomsbury, Holborn, King's Cross, Covent Garden	9 - 12 months	22 - 24 months
West End - Mayfair & St James's	8 - 12 months	20 - 24 months
West End - Marylebone, Fitzrovia, Soho, Victoria, Paddington	9 - 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

The Midtown sub-market, comprising the Bloomsbury, Covent Garden, Holborn and King's Cross districts, and South Bank sub-markets are similarly characterised by a shortage of well-located, sustainable, 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 have higher rates of Grade A floorspace vacancy, offering more choice to footloose tenants, which is reflected in higher levels of rent discount – typically between 2.5 – 4%. Discounts at the higher end of the range being associated with the peripheral Clerkenwell, Shoreditch and Aldgate East districts.

The west London (Hammersmith and Chiswick) and east London (Stratford and Canary / Wood Wharf) markets continue to suffer from weak demand and the preference of many businesses to focus their property searches in more central locations, driven by recruitment issues and the desire to attract and retain the brightest and the best. Rent discounts on advertised rents for Grade A space in these areas are the highest in London, typically between 3 – 6 %.

By comparison, discounts on landlord's advertised rents in excess of 10% are not unusual throughout London for low quality buildings with poor energy efficiency ratings, reflecting weak demand.

Rent Free Periods

The mismatch between supply and demand for Grade A space with good environmental credentials in the central sub-markets is typically being reflected in a narrowing of discounts on advertised rents – see above - and rising advertised rents rather than a compression in rent free periods.

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, reflecting a slackening in demand during the summer months and geo-political uncertainty. A key exception is likely to be in the prime areas of the West End where a contraction in rent free periods is possible, 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

- for new, prime-located, best in class, sustainable Grade A space are likely to increase during 2024, reflecting the mismatch between supply and demand
- for refurbished accommodation in non-prime locations are likely to remain static for at least the next two quarters

Rent discounts

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

Rent free period incentives

- for sustainable Grade A space are likely to remain broadly static during the next two quarters

Greater lease flexibility

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

Continued demand for good quality, energy-efficient, environmentally-friendly, Grade A office space

- to reinforce return to the office, workforce wellbeing, recruitment, retention, productivity and environmental strategies

Downsizing

- a weaker trend towards businesses downsizing their real estate footprint, reflecting the resumption of desk / head count growth in some business sectors including financial and business services

Declining levels of immediately available new and refitted Grade A space

- and reduced choice, for footloose tenants in the West End, Midtown, South Bank and City of London sub-markets

The bargaining position of landlords of Grade A space

- in areas of particularly low Grade A vacancy in the West End and Midtown sub-markets the bargaining position in lease negotiations will continue to favour landlords
- in sub-markets where there is a better balance between supply and demand – the City of London, City fringes and west and east London – tenants should have more influence in lease negotiations

Office leasing activity

- below trend letting activity during the next two quarters reflecting political uncertainty associated with elections in America and Europe

Serviced offices

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

“ The mismatch between immediately available Grade A office space and demand in the central sub-markets will continue to underpin rents and define the 2024 central London office market. ”

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 and boost it's "green" and corporate social responsibility credentials.

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 lighting systems and 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 that falls within categories A to E inclusive before it can be offered to let. With effect from 1 April 2030, under the Government's proposals, it will be necessary for commercial properties to have an EPC rating of A or B.

It is, however, intended 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. "

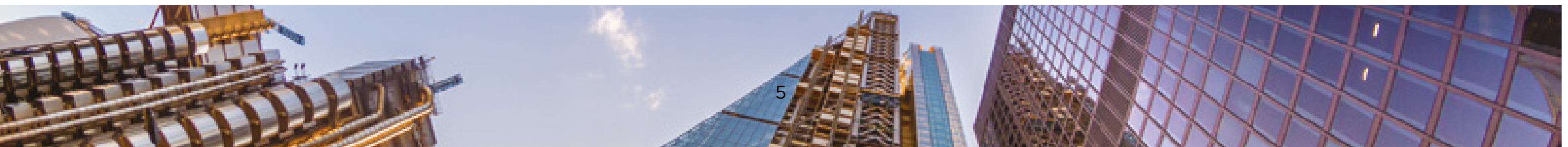


Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q2 2024

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

Location	Grade A		Grade B
	New/Refitted	Refurbished	Refurbished
City			
Prime - Bank, Leadenhall Street	£69.50 - £80.00 (UF = £85.00 - £120.00)	£57.50 - £68.50 (UF = £80.00 - £107.50)	£42.50 - £52.50
Secondary - Blackfriars, Aldgate	£65.00 - £75.00 (UF = £82.50 - £95.00)	£52.50 - £62.50 (UF = £67.50 - £82.50	£38.00 - £45.00
City Fringe			
North - Shoreditch, Clerkenwell	£67.50 - £77.50 (UF = £80.00 - £90.00)	£55.00 - £65.00	£40.00 - £50.00
North West - Farringdon, Smithfield	£77.50- £92.50 (UF = £97.50 - £115.00)	£65.00 - £75.00	£45.00 - £57.50
East - Spitalfields	£70.00 - £80.00 (UF = £85.00 - £95.00)	£55.00 - £67.50	£37.50 - £46.50
East - Aldgate East, Wapping	£49.50 - £60.00 (UF = £62.50 - £67.50)	£38.00 - £48.50	£34.00 - £37.00
South Bank			
Waterloo, Southwark, London Bridge	£72.50 - £82.50 (UF/RV = £85.00 - £99.50)	£57.50 - £70.00 (UF/RV = £72.50 - £77.50)	£42.50 - £55.00
Battersea, Nine Elms, Vauxhall	£57.50 - £67.50 (UF = £69.50 - £75.00)	£45.00 - £55.00	£37.50 - £43.00
East London			
Docklands Prime - Canary Wharf & Wood Wharf	£47.50 - £60.00 (UF = £62.50 - £70.00)	£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 - £50.00	£35.00 - £42.50	£22.50 - £29.50
West End			
Central - Mayfair, St James's (Prime)	£125.00 - £155.00 (UF = £165.00 - £195.00)	£95.00 - £115.00	£67.50 - £77.50
Central - Mayfair, St James's (Secondary)	£95.00 - £120.00	£82.50 - £92.50	£65.00 - £75.00
North - Euston	£75.00 - £85.00	£62.50 - £72.50	£45.00 - £55.00
North East - Fitzrovia	£89.50 - £107.50 (UF = £110.00 - £130.00)	£77.50 - £87.50	£52.50 - £65.00
North West - Marylebone	£92.50 - £112.50 (UF = £115.00 - £130.00)	£77.50 - £87.50	£60.00 - £70.00
South - Victoria, Westminster, Haymarket	£80.00 - £95.00 (UF = £97.50 - £115.00)	£65.00 - £77.50 (UF = £82.50 - £92.50)	£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	£90.00 - £112.50 (UF = £115.00 - £125.00)	£72.50 - £89.50	£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	£79.50 - £95.00	£67.50 - £77.50	£47.50 - £57.50
South - Covent Garden	£77.50 - £87.50 (UF = £90.00 - £110.00)	£65.00 - £75.00	£50.00 - £57.50
East - Holborn	£67.50 - £79.50 (UF = £80.00 - £87.50)	£55.00 - £65.00	£40.00 - £49.50
West - Bloomsbury	£80.00 - £92.50 (UF = £95.00 - £98.50)	£67.50 - £77.50	£47.50 - £57.50
South West London			
Chelsea	£82.50 - £115.00	£67.50 - £80.00	£47.50 - £60.00
West London			
South Kensington	£80.00 - £115.00	£67.50 - £77.50	£45.00 - £57.50
Hammersmith	£52.00 - £58.50	£40.00 - £50.00 (UF = £55.00 - £57.50)	£32.50 - £42.50
White City	£48.50 - £56.50 (UF = £57.50 - £60.00)	£40.00 - £45.00	£32.50 - £40.00
Chiswick	£48.50 - £55.00	£37.50 - £47.50	£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

Table 2 rents are for space that is not being offered to let on a ready fitted out "plug-in-and-go" basis.

The London Office Market

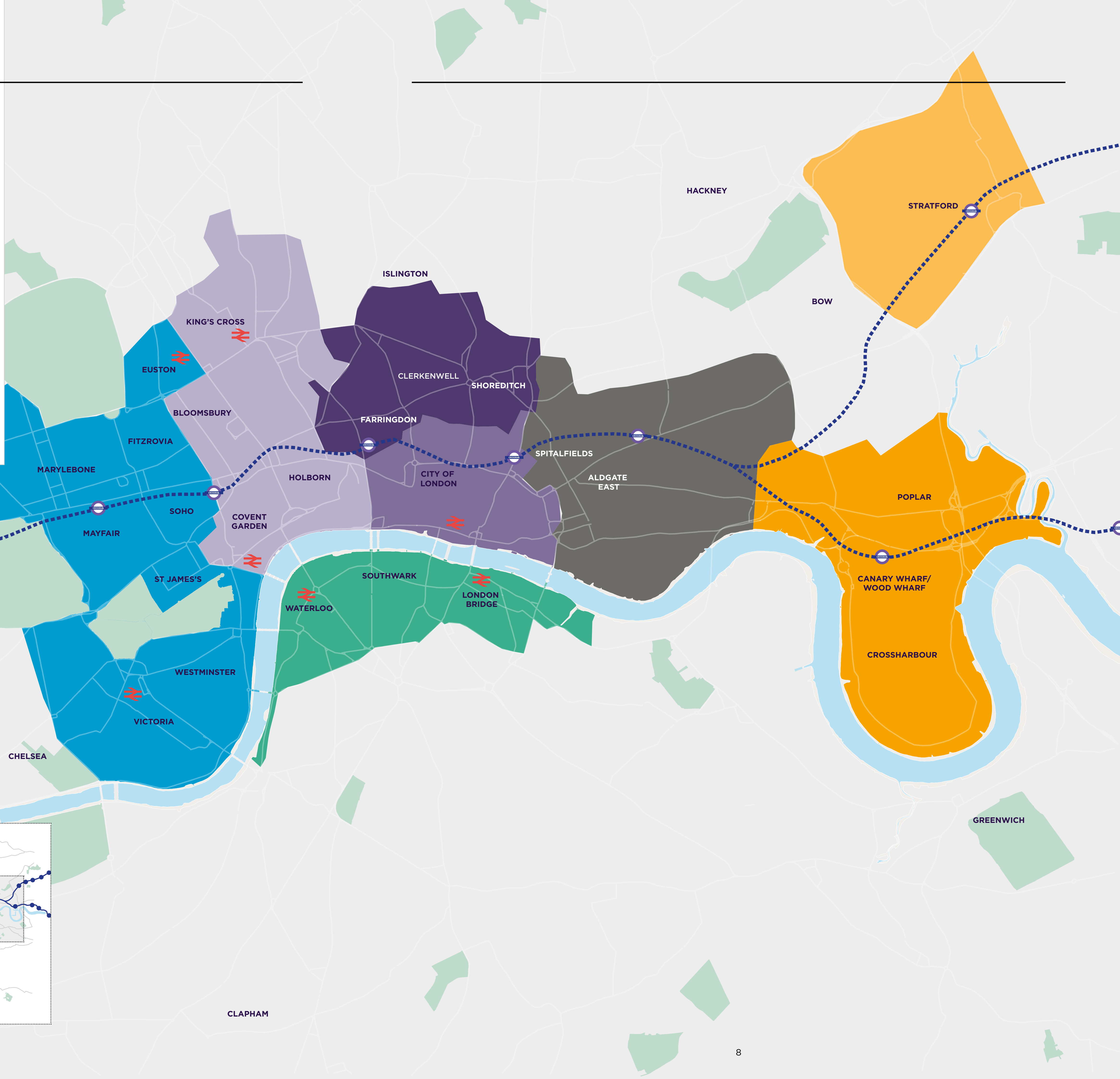
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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.

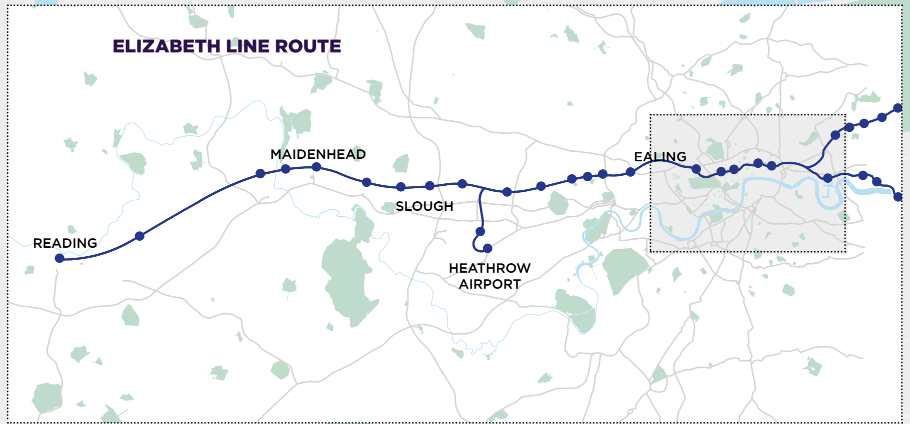
Rent Free Periods

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



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 – Q2 2024

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

Sub-market	Rent	Business Rates	Service Charge	Total
City of London – Bank, Leadenhall Street	£75.00	£34.00	£14.50	£123.50
City Fringe North - Shoreditch, Clerkenwell	£70.00	£26.90	£13.00	£109.90
City Fringe North West - Farringdon, Smithfield	£90.00	£30.00	£13.00	£133.00
City Fringe East - Aldgate East	£57.50	£25.00	£13.00	£95.50
City Fringe East - Spitalfields	£75.00	£28.25	£13.00	£116.25
South Bank - Southwark, London Bridge	£77.50	£28.50	£13.00	£119.00
East London - Canary Wharf	£55.00	£17.85	*£18.50	£91.35
East London - Crossharbour	£35.00	£12.80	£13.00	£60.80
East London - Stratford	£47.50	£17.60	*£13.00	£78.10
Midtown West - Bloomsbury	£90.00	£35.20	£13.00	£138.20
Midtown East - Holborn	£75.00	£33.00	£13.00	£121.00
Midtown North - King's Cross	£90.00	£37.30	£13.00	£140.30
Midtown South - Covent Garden	£82.50	£37.30	£13.00	£132.80
West End Central - Mayfair, St James's	£145.00	£57.85	£14.00	£216.85
West End North - Marylebone	£99.50	£44.25	£13.00	£156.75
West End North - Fitzrovia	£97.50	£41.60	£13.00	£152.10
West End South - Victoria, Westminster	£92.50	£41.00	£13.00	£146.50
West End West - Paddington	£85.00	£28.80	£13.00	£126.80
West End East - Soho	£107.50	£43.20	£13.00	£163.70
West London - Hammersmith	£56.00	£25.60	£12.50	£94.10
West London - White City	£55.00	£24.00	£12.50	£91.50
South West London - Battersea, Nine Elms	£62.50	£23.50	£12.50	£98.50

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 for space that is not ready fitted out (plug-in-and-go) and exclude the value of rent free periods
- Business rates cost estimates are from 1 April 2024 and 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

Business Rates Relief

Business rates relief of up to 80% is typically available to organisations with charitable status providing that certain qualifying criteria are met.

Reducing Real Estate Costs

Real estate typically comprises the second highest operating cost of most businesses after staff salaries. The efficient management and control of real estate costs should therefore have a positive impact on profitability.

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

> " The efficient management of real estate costs should flatter profitability given that property typically forms the second highest operating cost of most businesses after staff salaries. "

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 Q2 2024

The financial services sector continues to be the key driver of demand for central London office space – as demonstrated in the table of second quarter key lettings detailed below. Healthy demand for serviced offices from "start-ups" and small and mid-size businesses is also fuelling demand in the conventional lettings market from the providers of flexible office space.

It is also very significant that almost all of the transactions featured in the table of second quarter key lettings are of new and refitted, environmentally sustainable, Grade A space.

Table 4 – Key Office Lettings – Q2 2024

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Citadel	Financial Services	2 Finsbury Avenue, EC2	250,000
City of London	Industrious	Flexi Offices	131 Finsbury Pavement, EC2	70,600
City of London	Huckletree	Flexi Offices	8 Bishopsgate, EC2	30,000
City of London	Confidential	Business Services	22 Bishopsgate, EC2	25,000
City of London	Mott MacDonald	Business Services	10 Fleet Place, EC4	20,000
City of London	Sthree	Recruitment	8 Bishopsgate, EC2	15,000
City Fringe - North - Shoreditch	Amazon	Online Retail	The Stage, 20 Curtain Road, EC2	177,000
City Fringe - North - Shoreditch	Infiniti Space	Flexi Offices	The Bower, 207 Old Street, EC1	37,650
City Fringe - East - Aldgate East	Confidential	Financial Services	The White Chapel Building, 10 Whitechapel High Street, E1	27,000
West End - Victoria	Mountain Warehouse	Retail	7 Howick Place, SW1	31,500
West End - North - Marylebone	Cushman & Wakefield	Business Services	25 Baker Street, W1	17,000
West End - Mayfair	EMK Capital	Financial Services	11 Hanover Square, W1	6,319
South Bank - Southwark	Wipro	Technology	Arbor, Bankside Yards, SE1	24,500
South Bank - Southwark	Flutter Entertainment	Entertainment - Gambling	Arbor, Bankside Yards, SE1	22,500
South Bank - Southwark	Costello Medical	Healthcare	Tide Bankside, SE1	13,907
East London - Canary Wharf	Revolute	Financial Services	YY Building, 30 South Colonnade, E14	113,000
East London - Wood Wharf	Aviado Bio	Life Sciences	20 Water Street, E14	11,000
West London - Chiswick	Sega	Entertainment	Building 12, Chiswick Park, 566 Chiswick High Road, W4	21,000
West London - Chiswick	Dell	Technology	Building 4, Chiswick Park, 566 Chiswick High Road, W4	15,000
West London - Kensington	VR Capital	Financial Services	The Kensington Building, 1 Wrights Lane, W8	4,273
South West London - Battersea	Shark Ninja	Technology	50 Electric Boulevard, SW11	32,000
South West London - Chelsea	Arrow Shipbroking Group	Shipbroking	60 Sloane Avenue, SW3	22,600

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

As illustrated in the table of key second quarter lettings (Table 4), the providers of flexible offices – serviced, co-working and managed accommodation – are continuing to expand their portfolios of serviced office centres by leasing conventional space for conversion.

This trend is reflective of the robustness in demand for serviced, co-working and managed offices among smaller and mid-size businesses (typically those with less than 50 employees) for accommodation that is ready fitted out, and therefore not requiring any significant capital investment by the incoming tenant, that is available on flexible leases of 1 – 3 years.

Contrast with WeWork – the game changing disruptor from North America that, almost a decade ago, set up in the UK and transformed the nation's serviced office market into a smart, attractive, flexible alternative to the conventional office leasing market. Over-expansion and too much debt has, however, enabled imitators to expand their market share at WeWork's expense.

Competition – Conventional Space

To compete with a vibrant and very active London serviced office market, an increasing number of landlords of "conventional" (non-serviced) small office suites, typically below 5,000 sq ft, are fitting available accommodation out and offering it to let on a "plug-in-and-go" basis – see page 14.

" The robustness in demand for serviced offices is leading increasing numbers of landlords of small conventional office suites to fit the accommodation out and offer it "plug-in-and-go" in order to compete. "

Demand

Flexible office demand continues to be 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. Demand is further being boosted by those businesses that are reluctant to commit to a long term lease in the wake of the current uncertain geo-political climate.

Artificial Intelligence

It is likely that the flexible office market will be one of the main beneficiaries of the unfolding artificial intelligence revolution as increasing numbers of small start-up enterprises develop from this emerging business sector.

Typical Rents

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, scope of services being provided by the landlord 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.

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 tenant's 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.

Fitting Out Office Space To Make It Operational

Traditionally, landlords have typically developed and refurbished office space and left it ready for the incoming tenant to fit out with data / telecoms infrastructure, furniture, meeting rooms, private offices, video call / pod rooms, reception, break out, kitchen and storage areas, to render it operational for the tenant's particular needs.

Creating An Attractive, Cost-Effective, Work Environment

Well informed organisations understand the importance of providing a bright, attractive, environmentally sustainable workplace in order to underpin recruitment, retention, productivity, wellness and corporate social responsibility policies. Creating that environment – whether relocating or staying put and refurbishing / reconfiguring – requires significant financial investment and careful design and procurement.

Costs

Inflation in building materials and labour costs has, over the last couple of years, seen the cost of fitting out office accommodation rise substantially.

While those businesses that pay corporation tax can make use of capital allowances tax relief to offset some of the expenditure associated with fitting out, or reconfiguring / upgrading existing workspace, fitting out and refurbishment costs nonetheless represent a very significant drain on a business' working capital and cashflow.

"Plug-In-And-Go" Office Space

To minimise their exposure to letting voids an increasing number of landlords are offering vacant space just before the pandemic but was, at that time, typically confined to the sub-5,000 sq ft lettings market, as landlords sought to compete for tenants against the providers of serviced office accommodation. Today, it is not uncommon for office space of up to 20,000 sq ft to be offered in CAT A+ fit out, either on a "plug-in-and-go" or on a bespoke basis – the latter forming part of the negotiated letting package.

However, when leasing "plug-in-and-go Cat A+" floorspace care should be taken to ensure that data service line connections have been installed within the accommodation. If not, it can take 12 weeks or more to procure a dedicated, leased, data service line connection.

Bespoke Fit Out

Where office space is being marketed without it having been ready fitted out, increasing numbers of landlords are offering to fit the space out for the incoming tenant, on a bespoke basis. The key advantage for footloose tenants is that landlords will typically bear all the costs of the fitting out works, including the cost of providing data / telecoms infrastructure and furniture, on the basis that the landlord's costs will be recouped by way of a shorter rent free period and / or higher rent.

Either way, a landlord-funded bespoke fit out represents a lower capital expenditure, cashflow-friendly, accommodation solution for footloose tenants with the added advantage of avoiding the distractions associated with the tenant having to procure and manage a fitting out contractor.

Dilapidations

Where office accommodation that is being offered ready fitted out by the landlord is to be leased, and where the landlord is funding the fit out in return for a shorter rent free period and / or higher rent, it should be possible to negotiate the letting on the basis that the tenant's future lease exit / dilapidations liabilities will be zero, or significantly reduced.

A zero / reduced dilapidations liability will also flatter the tenant's accounts because the provisions associated with lease exit obligations can be reduced

Break Options & Bespoke Fit Outs

As well as increasing the prospects of securing a letting, offering office space on a bespoke fitted out basis has another, more subtle, advantage for a landlord. By charging a rental premium to reflect the cost of the fitting out works a landlord can often enhance the valuation of its property asset. Rental premiums of between £5.00 and £10.00 per sq ft per annum are quite typical depending upon the specification, quality and scale of the fitting out works and the length of lease to be granted / timing of tenant break options.

If the letting of bespoke fitted out accommodation is to include a break option, the landlord's amortisation period for the cost of the fitting out works will typically be up to the break option date. Tenants should not therefore continue paying any rental premium associated with the landlord's fitting out works capital expenditure beyond the break option date, should the tenant decide not to exercise its break option and continue in occupation past the break date.

The Tenant Representation Team

Our tenant representation services include:

- Stay / go property options cost appraisals
- 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
- Fitting out contractor procurement, supervision and project 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

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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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