RESEARCH

THE LONDON OFFICE MARKET
Q4 2021
A GUIDE TO RENTS, RENT FREE PERIODS & MARKET TRENDS

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Carter Jonas

2022: A TURNING POINT FOR LONDON OFFICE OCCUPIERS

Advertised rents for new and refitted Grade A London office space have barely moved since the beginning of 2020, before the outbreak of the pandemic. However, typical discounts that can be negotiated have widened from 1.5 – 3.5%, pre-pandemic, to 4 - 6% during the fourth quarter of 2021.

In tandem with the widening in rent discounts since the onset of the pandemic there has also been an expansion of rent free periods as successive lockdowns intensified the competition between landlords for a declining number of footloose tenants. Notwithstanding the recovery in demand for Grade A office accommodation during 2021, illustrated by the increased volume of lettings throughout the year, tenants seeking leases of 5 – 10 years can still secure rent free period letting packages that are typically 2 – 4 months longer than could have been negotiated pre-pandemic.

Demand Confined To Quality Office Space

The success of the Government's COVID vaccination programme has undoubtedly been a factor that has boosted consumer and business confidence during 2021, which has translated into steadily increasing office floor space take-up across the capital.

The recent emergence of the Omicron variant is likely to temporarily disrupt the recovery in the London office market during the first quarter of 2022 but the general trend is one of rising demand, albeit confined to quality Grade A office space, against a backdrop of declining vacancy and reduced choice for footloose tenants.

Employers are increasingly recognising the importance of operating from buildings that are capable of offering a vibrant, attractive, COVID-safe working environment to support their return to the office, workforce wellness, recruitment, retention and productivity strategies and these objectives are unlikely to be realised by leasing poorly specified, badly ventilated, low grade, accommodation. These operational requirements are driving the shift in demand towards Grade A space and it therefore comes as no surprise that the vast majority of lettings that took place during 2021 were of Grade A accommodation. This trend is likely to continue for the foreseeable future.

"THE DISCOUNTS THAT CAN BE NEGOTIATED ON ADVERTISED RENTS HAVE WIDENED FROM 1.5 – 3.5%, PRE-PANDEMIC, TO TYPICALLY 4 - 6% DURING THE FOURTH QUARTER OF 2021."

The Impact Of Climate Change On Demand

Climate change is another factor that is playing an increasingly important role in underpinning demand for new and refitted Grade A, energy-efficient, floor space as shareholders, customers and employees become increasingly assertive in demanding that the business community plays its part in ameliorating the negative impact of human activity on the planet.

The global real estate industry is one of the largest contributors of greenhouse gases through both manufacture and use. Glass, steel and concrete – the key ingredients of any new commercial and residential development, are subject to energy intensive manufacturing processes that do little to address the environmental issues facing the world and the lighting, heating and cooling of occupied buildings further compounds matters.

Wood is undergoing a revival in the world of international architecture as a credible replacement building material. Not only do trees represent a sustainable building material source, their absorption of carbon from the atmosphere makes wood a very effective material for carbon capture. Further, unlike concrete, glass and steel, wood can be more easily re-cycled and re-used following demolition. Finland, Norway and the USA are some of the first countries to host the construction of a new generation of multi-storey residential and office blocks, with structures made almost entirely of wood.

A relocation to energy-efficient premises constructed from recycled, recyclable and sustainable materials is one of the most effective ways that any organisation can ameliorate its impact on the environment. An increasing number of the UK's more enlightened business leaders have grasped this important point and, in line with their stated environmental, social and corporate governance (ESG) policies, are trading up into new and refitted Grade A floor space to reduce their carbon footprint.

A significant number of those businesses that have decided to use a break option or lease expiry as an opportunity to move to higher grade accommodation to create a better

"LANDLORDS WITH VACANT GRADE A SPACE IN AREAS OF LIMITED VACANCY, INCLUDING THE WEST END, MIDTOWN AND SOUTH BANK, ARE BECOMING LESS GENEROUS WITH THE INCENTIVES THAT THEY ARE OFFERING, REFLECTING DECLINING CHOICE."

quality, more environmentally friendly, office environment for their workforce have also used their relocation to downsize, to reduce their exposure to real estate costs, reflecting the adoption of new operating practices including "hybrid" working from home and the office.

Better Value In The Eastern Sub-Markets

Small wonder, then, that demand for new and refitted Grade A space in central London rallied during 2021 as workforce-related and environmental issues conspired to underpin the market. Those landlords with vacant Grade A space in areas of limited vacancy – including the West End, Midtown and South Bank, are becoming a little less generous with the incentives that they are offering footloose tenants, reflecting a tightening market and declining choice. In recent months some landlords, in a few isolated cases, have been bold enough to raise advertised rents on prime-located space.

However, for those tenants that are willing to cast the net wider and include the City of London, or Docklands, in their areas of search, there is still sufficient choice, and opportunity, to secure a rent and rent free period letting package that reflects better value than could have been negotiated pre-pandemic.

The disparity in the supply and demand dynamics for new and refitted Grade A space in the different London office sub-markets is reflected in the wide variation in rent, business rates and service charge occupancy costs. In Mayfair and St James's occupancy costs are currently typically £179.50 per sq ft per annum compared with £109.50 per sq ft per annum in the City of London, for equivalent quality space, and £86.00 per sq ft per annum at Canary Wharf.

These occupancy cost trends are likely to become even more divergent during 2022 if, as is likely, the speed of recovery in the West End market outstrips that of its City and Docklands rivals.

The Challenge Of Leasing Low Grade Office Space

The future is, however, a little more challenging for those landlords with vacant, older, poorly specified, floor space with a low energy performance rating as ever-more-stringent environmental legislation makes it increasingly difficult to lease low grade buildings. Owners will either have to invest in a significant upgrade to make the floor space compliant in order to secure lettings or else convert to alternative use(s), or sell, albeit that pricing will need to reflect the structural shift in occupier demand towards new and refitted energy-efficient space.

Forecast Rent Increases In The Western Sub-Markets

Barring any economic shocks, including runaway inflation and a consequent faster and higher than expected increase in interest rates, it is very likely that rising rents for new and re-fitted Grade A office space will become a widespread trend in the West End, Midtown and South Bank sub-markets by the end of 2022, as improving demand and increasingly limited choice conspire to inflate pricing. It is not inconceivable that headline rents for well-located new and refitted Grade A space in these key sub-markets might be 5 – 7.5% higher by the end of the year.

However, footloose tenants wishing to trade up into new and refitted Grade A space to underpin their workforce and environmental strategies still have a window of opportunity to secure good value deals – but that window is likely to narrow. By the second half of 2022 it is very probable that tenants will increasingly be confronted with less choice as Grade A office vacancy declines in response to increasing take-up.

Those occupiers seeking plenty of choice at competitive rents will, as 2022 progresses, find that their property searches are confined to the eastern sub-markets: the City of London, east City fringe and Canary Wharf / Docklands, where vacancy rates are higher, and where widespread rental growth is unlikely to manifest itself until the middle of 2023, at the earliest.

Still A Tenant's Market – But Time Will Favour Landlords

The London office market continues to offer tenants better value when compared with the rent and rent free period leasing packages that were being agreed pre-pandemic. The emergence of the Omicron variant of COVID-19 will almost certainly cause a degree of temporary disruption in the recovery in the central London office market during the first quarter of 2022 and provide tenants with an extended window of opportunity to secure competitive leasing terms.

However, the remainder of the year is likely to favour landlords that are marketing vacant Grade A space in areas of low vacancy, including the West End, Midtown and South Bank, where footloose tenants will increasingly find their choice of options becoming more limited as take-up further reduces the space available. By contrast the supply and demand dynamics of the City of London, east City fringe and Canary Wharf / Docklands sub-markets should continue to offer tenants choice and good value, at least until the middle of 2023.

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RENTS AND RENT FREE PERIODS

Advertised Rents

Landlords' advertised rents for new and refitted Grade A accommodation during the fourth quarter of 2021 have remained broadly static and have continued to be at similar levels to those prevailing during Q1 2020, prior to the onset of the pandemic.

However, in some districts of the West End and Midtown sub-markets a small minority of landlords have increased advertised rents by, typically, £2.50 - £5.00 per sq ft per annum for best in class, prime-located, Grade A space. This trend is likely to become more widespread during 2022 as take-up increases and the choice of best space begins to decline.

In the City of London the advertised rents on some of the most recently developed best-in-class tower buildings have increased by a similar order of magnitude, reflecting declining choice. Contrast with the advertised rents for low and mid-rise City office space where competition between landlords to secure lettings continues to depress rents.

Advertised rents for low grade, poorly specified, office accommodation with low energy performance ratings continue to be under pressure across all the London office sub-markets, reflecting poor demand for space of this type. Some landlords are overtly reducing rents, reflecting the structural shift in occupier demand towards space that provides a vibrant, attractive, environmentally friendly, energy-efficient, workplace.

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

Rent Discounts

During the fourth quarter of 2021, the discounts that can be negotiated on landlords' advertised rents for new and refitted Grade A space have narrowed, reflecting increasing take-up and declining choice in some sub-markets.

Discounts of 4 – 6% are now more typically being negotiated on landlords' advertised rents – with discounts at the higher end of the range more common in the City of London, east City fringe and London Docklands sub-markets. This compares with discounts of 5 – 10% which were prevalent during the first quarter of 2021.

By contrast, discounts of over 10% on the advertised rents of poorly located, low quality, Grade B accommodation are not uncommon.

Rent Free Periods

The increasing take up of Grade A office space across central London has boosted the confidence of landlords in lease negotiations resulting in reduced levels of rent discount being conceded (see above). In tandem, landlords are also generally being less generous in the levels of rent free periods that they are willing to offer to secure lettings, compared with the lettings that were being agreed during the second half of 2020.

In some segments of the West End, Midtown and South Bank sub-markets low levels of Grade A vacancy are resulting in tenants competing for the best available space resulting in the rent free periods for 5 – 10 year leases typically contracting by 1 – 2 months during the second half of 2021.

However, the supply and demand dynamics of the City of London, east City fringe and London Docklands sub-markets still favour tenants resulting in little change in these sub-markets in rent free period incentives during 2021 – see Table 1.

Moribund demand for lower specified, poorer quality, Grade B space is likely to result in continued pressure on landlords for the foreseeable future to offer generous rent free period incentives to attract tenants.

Rent Free Periods

Table 1 – Typical Rent Free Period Agreed By Sub-Market – Q4 2021
New / refitted & Refurbished Grade A Space

Location	Typical Rent Free Period Agreed (lettings over 5,000 sq ft)	
	5-year lease	10-year lease
City of London – St Paul's, Bank, Liverpool Street, Cannon Street	12 – 15 months	24 – 28 months
City Fringe North – Shoreditch, Clerkenwell, Farringdon	11 – 14 months	22 – 26 months
City Fringe East – Aldgate East, Spitalfields	12 – 15 months	24 – 28 months
Midtown – Bloomsbury, Holborn, King's Cross, Covent Garden	10 – 14 months	22 – 26 months
West End – Mayfair, St James's, Marylebone, Fitzrovia, Soho, Victoria, Paddington	10 – 14 months	22 – 26 months
South Bank – Waterloo, Southwark, London Bridge	10 – 14 months	22 – 26 months
East London – Docklands – Canary Wharf, Wood Wharf	13 – 16 months	25 – 30 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	11 – 15 months	22 – 26 months

Source: Carter Jonas Research

SUMMARY OF FORECAST MARKET TRENDS

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

Advertised Rents

- landlords' advertised rents for Grade A space, are likely to remain static during the first quarter of 2022, reflecting the uncertainty created by the emergence of Omicron
- providing that the Omicron phase of the pandemic is short-lived, and barring any economic shocks, it is very likely that advertised rents for well-located new and refitted Grade A space in the West End, Midtown and South Bank sub-markets and high-rise space in the City of London will increase by 5 – 7.5% by the end of 2022, reflecting declining choice for footloose tenants

Rent Discounts

- the discounts that can be negotiated on advertised rents for new and refitted, well located, Grade A space are likely to remain at their current level of 4 - 6% for the first half of 2022
- rent discounts on poorly located / specified Grade B office space are likely to continue unchanged and remain typically at 10%+ during the same period

Rent Free Periods

- rent free period incentives for well-located Grade A space are likely to remain broadly static during the first half of 2022, reflecting short term uncertainty associated with Omicron
- rent free periods in areas where Grade A vacancy is low, including the West End, Midtown and South Bank sub-markets, are likely to resume contracting during the second half of 2022, as take-up erodes vacancy levels

Greater Lease Flexibility

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

Demand For Good Quality Office Space

- continued demand for good quality, energy-efficient, environmentally-friendly, Grade A office space – to reinforce return to office, workforce wellbeing, recruitment, retention, productivity and ESG strategies

Downsizing

- a continuing trend towards businesses downsizing their real estate footprint, reflecting the adoption of new "hybrid" work from office / home operating practices and, in some cases, reduced headcount

The Bargaining Position of Tenants

- a continuing bias in favour of tenants in the bargaining position in lease negotiations – although weaker in some districts of the West End and Midtown sub-markets where good quality Grade A office vacancy is low

Office Leasing Activity

- a continued steady increase in the number of tenants proceeding with their plans to relocate – driven by a desire to downsize and / or move to higher grade office space that reinforces employee wellbeing and environmental policies

Serviced Offices

- a continued improvement in demand for serviced and co-working space from those tenants with lease expires and break options seeking to downsize and / or move to better quality space and requiring "stop-gap accommodation" before a move to more permanent premises

"EMPLOYERS ARE INCREASINGLY RECOGNISING THE IMPORTANCE OF OPERATING FROM ACCOMMODATION THAT IS CAPABLE OF OFFERING A VIBRANT, ATTRACTIVE, COVID-SAFE WORKING ENVIRONMENT TO SUPPORT THEIR RETURN TO THE OFFICE, WORKFORCE WELLNESS, RECRUITMENT, RETENTION, PRODUCTIVITY AND ENVIRONMENTAL STRATEGIES."

Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q4 2021

£ 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	£62.50 – £75.00 (UF = £77.50 – £97.50)	£50.00 – £65.00 (UF = £67.50 – £85.00)	£40.00 – £49.50
Secondary – Blackfriars, Aldgate	£57.50 – £68.50 (UF = £70.00 – £85.00)	£45.00 – £57.50 (UF = £65.00 – £77.50)	£38.00 – £45.00
City Fringe			
North – Shoreditch, Clerkenwell	£65.00 – £75.00 (UF = £75.00 – £90.00)	£55.00 – £65.00	£38.00 – £55.00
North West – Farringdon, Smithfield	£70.00 – £85.00 (UF = £87.50 – £92.50)	£57.00 – £68.50	£40.00 – £56.00
East – Spitalfields	£60.00 – £75.00	£48.00 – £60.00	£37.50 – £46.50
East – Aldgate East, Wapping	£49.50 – £59.50 (UF = £60.00 - £69.50)	£38.00 – £48.50 (UF= £49.50 - £57.50)	£34.00 – £37.00
South Bank			
Waterloo, Southwark, London Bridge	£67.50 – £75.00 (UF= £76.50 – £92.50)	£52.00 – £66.50 (UF = £67.50 – £75.00)	£39.50 – £52.50
Battersea, Nine Elms, Vauxhall	£55.00 – £67.50	£45.00 – £53.50	£37.50 – £43.00
East London			
Docklands Prime – Canary Wharf & Wood Wharf	£50.00 – £57.50 (UF = £58.50 – £62.50)	£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)	£105.00 – £125.00 (UF= £130.00 – £140.00)	£85.00 – £105.00	£65.00 – £77.50
Central – Mayfair, St James's (Secondary)	£87.50 – £100.00	£72.50 – £88.50	£62.50 – £72.50
North – Euston	£65.00 – £78.50	£55.00 – £65.00	£42.50 – £52.50
North East – Fitzrovia	£78.00 – £90.00	£63.00 – £78.50	£48.00 – £62.50
North West – Marylebone	£78.00 – £92.50 (UF = £95.00 – £110.00)	£65.00 – £78.50	£50.00 – £62.50
South – Victoria, Westminster, Haymarket	£72.50 – £85.00 (UF = £87.50 – £92.50)	£57.50 – £72.50	£45.00 – £55.00
South West – Knightsbridge	£82.50 – £95.00	£72.50 – £80.00	£60.00 – £70.00
East – Soho, Regent Street, Leicester Square	£82.50 – £97.50 (UF = £95.00 – £110.00)	£67.50 – £82.00	£50.00 – £66.00
West – Paddington	£70.00 – £78.50 (UF = £82.50 – £90.00)	£55.00 – £66.50	£42.50 – £52.50
Midtown			
North – King's Cross	£72.50 – £87.50	£60.00 – £72.50	£47.50 – £57.50
South – Covent Garden	£70.00 – £82.50 (UF = £83.50 – £88.50)	£55.00 – £69.50	£47.50 – £55.00
East – Holborn	£62.50 – £70.00 (UF = £72.50 – £80.00)	£52.00 – £62.50	£40.00 – £50.00
West – Bloomsbury	£75.00 – £90.00	£60.00 – £72.50	£45.00 – £55.00
South West London			
Chelsea	£75.00 – £87.50	£62.50 – £72.50	£47.50 – £60.00
West London			
Kensington	£55.00 – £65.00	£45.00 – £53.50	£32.50 – £45.00
Hammersmith	£52.00 – £59.50	£40.00 – £50.00 (UF = £55.00 – £57.50)	£35.00 – £42.50
White City	£45.00 – £55.00	£40.00 – £45.00	£32.50 – £40.00
Chiswick	£47.50 – £55.00	£37.50 – £46.00	£32.50 – £37.50
Ealing	£40.00 – £50.00	£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

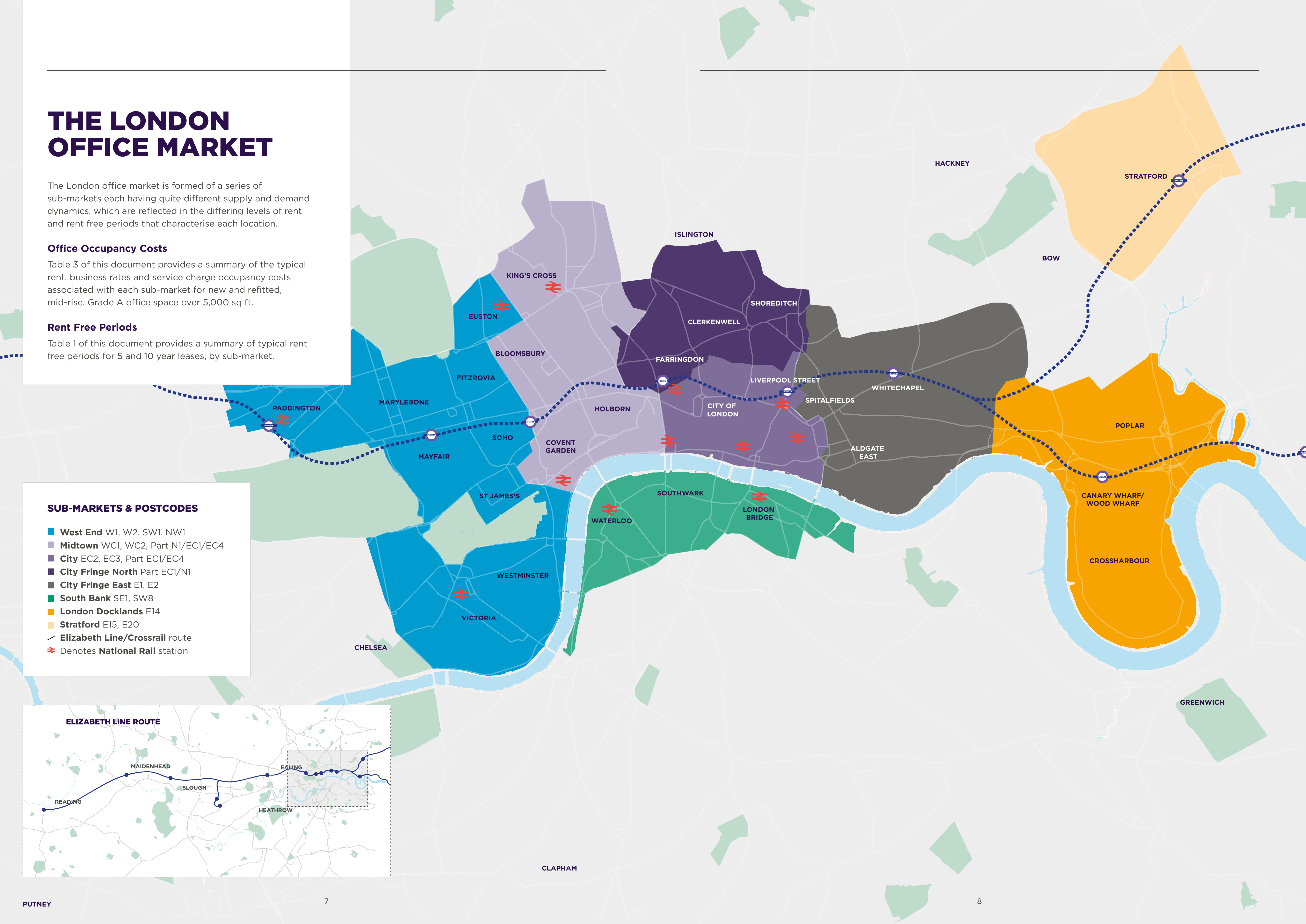
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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 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.



PRINCIPAL OFFICE OCCUPATION COSTS

The principal annual outgoings associated with occupying multi-let office space are rent, business rates and building service charge.

Table 3 provides a comparison of the typical rent, business rates and service charge costs associated with mid-rise new and refitted Grade A office space over 5,000 sq ft, located in each of the key Central London office sub-markets.

Table 3 – Comparison Of Rent, Business Rates and Service Charge Costs By Sub-Market – Q4 2021

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	£70.00	£28.00	£11.50	£109.50
City Fringe North – Shoreditch, Clerkenwell	£68.50	£22.00	£11.00	£101.50
City Fringe North West – Farringdon	£85.00	£23.50	£11.00	£119.50
City Fringe East – Aldgate East	£56.50	£21.00	£11.00	£88.50
City Fringe East – Spitalfields	£65.00	£24.00	£11.00	£100.00
South Bank – Southwark, London Bridge	£72.50	£24.50	£11.50	£108.50
East London – Canary Wharf	£52.50	£17.25	£16.25*	£86.00
East London – Crossharbour	£35.00	£12.50	£12.00	£59.50
East London – Stratford	£47.50	£12.50	£10.00*	£70.00
Midtown East – Holborn	£70.00	£28.00	£11.50	£109.50
Midtown West – Bloomsbury	£85.00	£31.25	£11.50	£127.75
Midtown North – King's Cross	£85.00	£32.00	£11.00	£128.00
Midtown South – Covent Garden	£77.50	£32.25	£11.50	£121.25
West End Central – Mayfair, St James's	£115.00	£52.00	£12.50	£179.50
West End North – Fitzrovia	£92.50	£35.95	£11.50	£139.95
West End North – Marylebone	£95.00	£40.50	£11.50	£147.00
West End South – Victoria, Westminster	£77.50	£35.25	£11.50	£124.25
West End West – Paddington	£77.50	£26.00	£11.50	£115.00
West End East – Soho	£92.50	£40.50	£11.50	£144.50
West London – Hammersmith	£57.50	£22.50	£10.50	£90.50
West London – White City	£52.50	£18.75	£11.00	£82.25
South West London – Battersea, Nine Elms	£62.50	£21.00	£10.00	£93.50

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 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 utilities costs
- Rents for the upper floors of tower buildings will command a premium of circa 15 – 25% above those illustrated in the table

"THE KEY ANNUAL OCCUPANCY COSTS TO BUDGET FOR WHEN LEASING SPACE IN A MULTI-OCCUPIED OFFICE BUILDING INCLUDE RENT, BUSINESS RATES AND BUILDING SERVICE CHARGE."

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 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 Q4 2021

The number and size of lettings in the London office market has continued to increase during the fourth quarter of 2021. Extending the trend witnessed during the first three quarters of 2021, the majority of fourth quarter key lettings have been of new and refitted Grade A space, with a bias towards the City of London sub-market.

The table below provides a summary of key Q4 2021 lettings.

Table 4 – Key Office Lettings – Q4 2021

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Allen and Overy	Legal Services	2 Broadgate, EC2	254,000
	Apple	Technology	22 Bishopsgate, EC2	78,000
	Dechert	Legal Services	25 Cannon Street, EC4	58,500
	Cognizant	Technology	280 Bishopsgate, EC2	52,000
	abdrn	Financial Services	280 Bishopsgate, EC2	40,000
City Fringe North West - Farringdon	Snap Inc	Media / technology	Bloom, Farringdon Road, EC1	114,000
City Fringe East	YouView	Media	Aldgate Tower, Whitechapel High Street, E1	10,100
London Docklands	Queen Mary University & Newham College	Education	City Island, Leamouth Peninsula, E14	38,000
London Docklands	York St John University	Education	The Export Building, East India Dock, E14	24,000
Midtown - Covent Garden	Sharkmob	Technology	80 Strand, WC2	40,000
Midtown - Covent Garden	Olam Europe	Food & Agriculture	The Adelphi, John Adam Street, WC2	12,500
South Bank - Southwark	Halkin	Serviced Offices	3 Paris Garden, SE1	21,600
West End - Fitzrovia	Gamesys	Technology	70 Berners Street, W1	96,500
West End - Victoria	Edelman	Business Services	Francis House, 11 Francis Street, SW1	38,200
West London - White City	OpenCell	Serviced Laboratories	West Works, 195 Wood Lane, W12	15,000

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

Demand for serviced, co-working and managed office space has continued to improve during the fourth quarter of 2021 and this trend is likely to be extended throughout 2022.

The uptick in demand is being driven by a number of factors including small and mid-size businesses that have decided to exercise a break option or not renew a lease as part of their longer term strategy to downsize / relocate to better quality conventional, non-serviced, office accommodation when business revenues become less volatile / more certain.

In some parts of the West End and Midtown sub-markets, serviced office rents have risen close to their pre-pandemic levels, reflecting lower vacancy levels compared with the City of London and Canary Wharf / Docklands sub-markets where the recovery in rents has been less marked.

Serviced and co-working office space is also in demand by UK Government agencies and larger, multinational, businesses seeking to reduce their exposure to long term leasing commitments on conventional office space. The likes of BP, HSBC and other global businesses have cited the ability to flex their workforce headcount quickly in response to changes in trading conditions as one of the key reasons why they have moved some of their business units into serviced and co-working office space.

Why Move To Serviced & Co Working Space?

For those occupiers facing an imminent lease expiry or break option there is certainly merit in considering serviced and co-working space, particularly as a short-term stop-gap measure, pending a later relocation to longer term, conventional, office space, when the economic climate is a little more certain.

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.

"SERVICED OFFICES AND CO-WORKING SPACE OFFER A RANGE OF BENEFITS OVER CONVENTIONAL OFFICE ACCOMMODATION, INCLUDING THE ABILITY TO EXPAND AND CONTRACT QUICKLY IN RESPONSE TO CHANGES IN MARKET CONDITIONS, WITHOUT BEING LOCKED IN TO A LONG TERM LEASING COMMITMENT."

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
- 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
- A 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 TENANT REPRESENTATION TEAM

Our tenant representation services include:

- Serviced & co-working property searches and negotiations
- Break option linked lease re-negotiation
- Workplace design & floorspace re-configuration
- Marketing & leasing services – surplus space
- Conventional office space search & cost appraisal
- Office move management
- 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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40 Holborn Viaduct, EC1

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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.