

The London Office Market Q4 2024

A Guide To Rents,
Rent Free Periods
& Market Trends



US Interest Rate & Trade Policies Will Ultimately Shape The Fortunes Of The London Office Market During 2025

The cornerstone of the Labour Government's stated economic policy is, rightly, growth. President-elect Trump has a similar economic agenda. An expanding economy should support jobs growth: one of the fundamental drivers of demand for office space

UK Business Taxes & Interest Rates

However, it is widely considered that the content of the UK Government's post-election budget, in particular the increase in the national insurance (NI) employee tax that businesses will be required to pay from April 2025, will have a negative impact on economic growth, leaving businesses with less money available for investment / creating new jobs. Recent surveys of the UK business community give a strong indication that cost control / reduction will be the key priority, and that some of the consequential increase in operating costs will be passed on in higher prices to the consumer, in order to maintain profit margins. Investment and jobs growth are likely to stall.

The anticipated inflationary impact of the budget is also likely to mean that the forecast decline in the Bank of England base rate will be slower than had been expected. The overall impact of the budget is, therefore, likely to weaken already anaemic economic growth.

“ US interest rate and trade policies, rather than UK business taxes, are more likely to decide the fortunes of London businesses and, by extension, the London office market, during 2025. ”

Global Risks

London's economy is highly diversified and internationalised. The fortunes of London-based businesses are therefore influenced more by global, rather than domestic, economic trends.

Given that the global economy is largely influenced by US interest rate policy, the decisions of the Federal Reserve are more likely to dictate the investment decisions of London based businesses rather than the content of the UK Government's budget.

While a Trump presidency is no doubt welcome news for the US business community it will be fundamentally important that business-friendly economic policies do not unleash inflationary pressures in the US economy that could lead to US interest rates staying higher than anticipated for longer. Tight US monetary policy is likely to result in weaker global economic growth.

The more immediate, and potentially very significant, risk to both the UK and global economies is the threat of US trade tariffs. At the time of writing, president-elect Trump is indicating that when he gets the keys to the White House trade tariffs are likely to be imposed on those countries that are deemed to have an unfair trading advantage over America and / or are not contributing sufficiently to defence spending / NATO. The UK could be in the firing line.

The uncertain geopolitical climate - with wars in Ukraine, the Middle East and North East Africa, and the economic and political issues affecting France and Germany - the powerhouses of the European Union - also plays its part in influencing the investment decisions of the business community and the direction of the global economy.

Reasons To Be Optimistic

However, the UK is far better placed than many other countries to shrug off these global economic and geopolitical challenges. The UK is an international magnet for inward investment in key growth areas including artificial

intelligence / technology, life sciences, “fin-tech” and asset management.

The UK government has just announced a series of measures to relax the regulatory regime associated with the development of AI applications, echoing President-elect Trump's business-friendly approach, which is likely to boost inward investment in this area of the economy.

The UK's world class universities / research, culture, language, time-zone and business-friendly regulatory regime, underpinned by the rule of law, its legal system which typically provides the foundation for international business contracts, the country's immigration policies and relative political stability (contrast with France and Germany's current political woes) are also factors that will continue to underpin the UK economy. Collectively these factors not only foster investment in London-based jobs but underscore one of the UK's key strengths - its ability to attract a highly skilled, creative, innovative international workforce.

China

China, the world's second largest economy, is the UK's fourth largest trading partner. The recent trade delegation to Beijing, headed by the Chancellor, has secured new trade agreements with the Chinese government with an emphasis on expanding trade in financial services, which should ultimately benefit City-based institutions, and the office market.

Supply

The hallmark of the 2024 London office market - across all the central sub-markets - has been the undersupply of immediately available Grade A floor space with good environmental credentials. An analysis of the pipeline supply of new developments and refurbishments coming to the market (see Graphs 1 & 2) demonstrates that supply-side constraints throughout

central London are likely to persist well beyond 2028.

The last 12 months have witnessed robust rental growth for new Grade A space across much of central London, in tandem with declining vacancy levels. These key market indicators have underpinned developer optimism which has bounced back from the lows of the pandemic. However, construction cost inflation and higher interest rates / development financing costs have conspired to narrow profit margins which is constraining the volume of floor space under construction / refurbishment.

In the meantime, footloose tenants that are seeking to relocate to good quality office space that aligns with their corporate environmental strategies are likely to be faced with limited choice in all of the core sub-markets: West End, Midtown, South Bank and City.

Demand

During 2024 the key sectors of the economy that drove office demand in central London were business (including legal) and financial services. That trend is likely to continue during 2025 in contrast to the technology and media sectors which are still recovering from their post pandemic retrenchment.

The first half of 2025 is likely to see office demand constrained by uncertainty associated with domestic, but more importantly, US economic policy - in particular the impact of possible trade tariffs. Providing that a trade war between the various trading blocs that collectively form the global economy does not break out, the second half of the year should see business confidence strengthen, underpinned by declining US interest rates. These factors should, collectively, lead to a resumption in demand for London office space during the second half of 2025.

Currently, tenants that are wishing to renew their lease or relocate arguably have a short window of opportunity to secure better lease terms than are likely to be achievable during in the second half of the year.

Pre-letting Activity

It is very likely that 2025 will see an increase in pre-letting activity across all the central London office sub-markets. Rising numbers of footloose tenants will, if being properly advised, be starting their property searches early and signing pre-letting agreements on space that is under construction / refurbishment in order to secure operationally suitable accommodation that falls within budget, ahead of rivals. This trend has been well documented throughout 2024 (see Table 4) and is likely to persist for the foreseeable future until the pipeline supply of office space catches up with demand and offers more choice.

Rental Growth

Notwithstanding possible US trade tariffs, not to mention the uncertain geopolitical climate, demand during 2025 is likely to be sufficient to underpin rental growth for new and refurbished Grade A space in areas of low vacancy in the central sub-markets. However, much of that growth is likely to manifest itself during the second half of the year - for the reasons set out above. The West End, starved, as it is, of new Grade A space, is likely to see the highest rates of rental growth.

By the end of 2025 rents for new best-in-class space in the prime locations of the West End - Mayfair and St James's - are likely to be established over £200 per sq ft per annum (they are currently typically between £160 - £185 per sq ft). Rents for similar quality space in the Midtown, South Bank and City of London are likely to show modest rental growth of around 3% over the same period, reflecting the (relatively) better balance between supply and demand in these sub-markets.

“ The imbalance between the supply and demand of available Grade A office space across central London will continue to reduce choice for footloose tenants for the foreseeable future. ”

Locations That Offer Better Value

Peripheral markets including Canary Wharf and Stratford in the east and Hammersmith and White City in the

west may, during 2025, benefit from the “ripple effect” as demand in the undersupplied central markets radiates outwards. However, rental growth in these districts is likely to be anaemic, at best.

Footloose tenants that are seeking good value may therefore wish to focus their office searches in these areas where they are likely to have a stronger bargaining position in lease negotiations.

Epilogue

The threat of US trade tariffs, and the economic uncertainty associated with them, are likely to hold back the London office market during the first half of 2025.

Providing that a trade war between the various trading blocs that collectively form the global economy does not break out, the second half of the year should see business confidence strengthen, underpinned by declining US interest rates. These factors should, collectively, lead to a resumption in demand for London office space during the second half of the year.

There is, therefore, a good opportunity for well-advised footloose tenants, and those seeking to renew their lease, to take advantage of the anticipated lull in market activity during the next six or so months. In an under-supplied market, rental growth is likely to be restored as soon as the uncertainty associated with the UK and global economies recedes.

Reasons, indeed, to see that the glass is half full.



Michael Pain
Head of Tenant
Representation Team
07715 001013
michael.pain@carterjonas.co.uk

“ Providing that a trade war between the various trading blocs that collectively form the global economy does not break out, the second half of 2025 should see business confidence strengthen, underpinned by declining US interest rates. ”

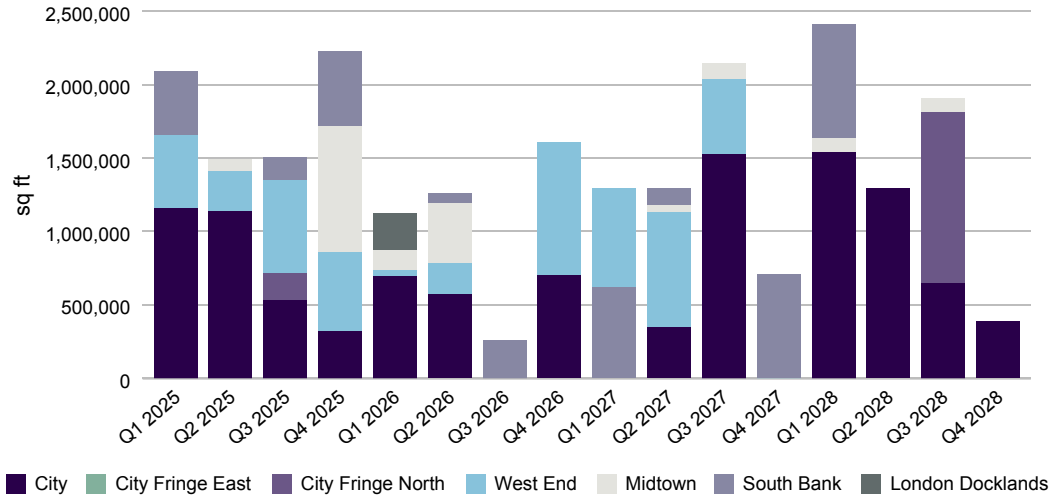
The Supply Pipeline

The graphs below show the pipeline of new office developments and refurbishments above 50,000 sq ft for the period to December 2028 (West End and Midtown sub-markets over 25,000 sq ft).

Graph 1 illustrates the total quantum of floor space that will reach completion in each of the key London office sub-markets and excludes properties that have planning consent and where the developer has yet to decide whether to proceed with construction.

Graph 1
London Office Development / Refurbishment Completions
By Sub-Market

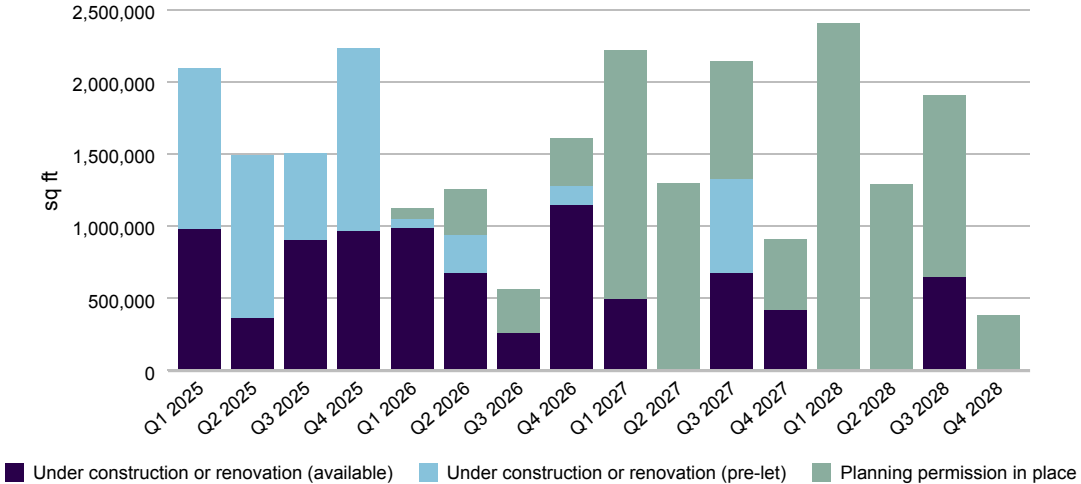
Source: Carter Jonas Research and Glenigan



Graph 2 illustrates the extent to which pipeline floor space has been pre-let (and is therefore no longer available). As can be seen, a significant proportion of the office space that is due to be delivered during 2025 has already been pre-let. The Graph also shows how little new development is forecast to be under construction beyond 2026.

Graph 2
The London Office Development / Refurbishment Pipeline

Source: Carter Jonas Research and Glenigan





“ Tenants that are wishing to renew their lease or relocate arguably have a short window of opportunity during the next six or so months, while the market pauses for breath, to secure better lease terms than are likely to be achievable during in the second half of 2025. ”

Rents and Rent Free Periods

Rent Free Periods

Table 1 – Typical Rent Free Periods By Sub-Market – Q4 2024
New / Refitted & Refurbished Grade A Space (Not fitted plug-in-and-go)

Location	Typical Rent Free Period (lettings over 5,000 sq ft)		Typical Rent Discount (%)
	5-year lease	10-year lease	
City of London - St Paul's, Bank, Liverpool Street, Cannon Street	10 - 12 months	23 - 25 months	2.5 - 4.0
City Fringes North & North West - Shoreditch, Clerkenwell, Faringdon	11 - 13 months	24 - 26 months	2.5 - 4.0
City Fringe East - Aldgate East, Spitalfields	12 - 13 months	24 - 26 months	3.0 - 6.0
Midtown - Bloomsbury, Holborn, King's Cross, Covent Garden	9 - 12 months	22 - 24 months	1.5 - 3.5
West End - Mayfair & St James's	8 - 12 months	20 - 24 months	0 - 3.0
West End - Marylebone, Fitzrovia, Soho, Victoria, Paddington	9 - 12 months	20 - 24 months	1.5 - 3.0
South Bank - Waterloo, Southwark, London Bridge	9 - 12 months	21 - 24 months	2.0 - 3.5
East London - Docklands - Canary Wharf, Wood Wharf	13 - 16 months	26 - 32 months	4.0 - 7.0
East London - Stratford	13 - 15 months	25 - 28 months	3.5 - 6.5
West London - Hammersmith, White City, Chiswick	12 - 15 months	24 - 28 months	3.5 - 6.5
South West London - Vauxhall, Battersea	12 - 15 months	24 - 26 months	3.0 - 6.0

Source: Carter Jonas Research

Advertised Rents

During the fourth quarter of 2024 upward pressure continued on landlords' advertised rents for new and refurbished Grade A office space with good environmental credentials across the West End, reflecting the acute shortage of available space. By contrast, advertised rents for new and refurbished Grade A accommodation across the remainder of central London were broadly flat reflecting subdued demand and (relatively) higher vacancy levels.

Similarly, advertised rents for Grade B office space throughout much of London have remained broadly static during the fourth quarter of 2024, with some isolated cases of rent reductions, as businesses shun office accommodation that does not align with their environmental and social responsibility policies or operational requirements.

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

“ Rental growth in the Grade A market segment will be underpinned by the continued imbalance between supply and demand for the foreseeable future. ”

Rent Discounts & Rent Free Periods

Notwithstanding upward pressure on advertised rents for best-in-class Grade A space, it is nonetheless possible to secure rent discounts and rent free periods, as detailed in Table 1. The variation in the level of rent discounts and rent free periods between sub-markets reflects the different supply and demand dynamics of each market.

Because the value of commercial property investments is more sensitive to the level of rent payable under a lease compared with the quantum of rent free period or other financial concessions, the current imbalance in supply and demand in the central London office market is being reflected by landlords in higher rents rather than shorter rent free periods.

However, compression in rent free periods may become more widespread during the second half of 2025 in areas of particularly low vacancy – including the West End and Midtown office markets.

“ Compression in rent free periods is likely to become more widespread in the central sub-markets during the second half of the year, reflecting the anticipated receding economic uncertainty and rising business confidence. ”

Summary of Forecast Market Trends

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



Supply

- declining levels of immediately available new and refitted Grade A space across the West End, Midtown, South Bank and City of London sub-markets for the foreseeable future



Demand

- subdued demand across London for good quality Grade A space during the first half of 2025 reflecting the uncertain UK and global economic environments
- improving demand during the second half of the year, reflecting anticipated improving business confidence as the direction of the global economy becomes clearer



Pre-letting activity

- a continuing trend for footloose tenants to start their property searches early, reflecting declining vacancy / choice, and a rise in occupiers committing to pre-let leasing agreements on space that is under construction / refurbishment to secure operationally suitable space that falls within budget, ahead of rivals



Advertised rents

- for new, prime-located, best in class, Grade A space are likely to continue rising modestly during the second half of 2025 in many areas of central London where vacancy levels are particularly low
- upward pressure on Grade A office rents across central London is likely to gather pace during the second half of the year as business confidence strengthens



Rent discounts

- for well-located new and refitted, best in class, Grade A space are likely to stay at current levels for at least the first half of the year



Rent free period incentives

- for new and refurbished Grade A space are likely to remain broadly static, at least until the end of 2025



Lease length / break options

- landlords of well-located new and refitted Grade A space are likely to begin pressing for longer leases / leases without break options during the second half of 2025, reflecting the anticipated uptick in demand



Landlords bargaining position

- the balance of bargaining power in lease negotiations on well-located Grade A space will be weaker for landlords during the first half of 2025 but strengthening during the second half of the year



Office leasing activity

- below trend letting activity during much of 2025, but improving during the second half of the year, reflecting economic uncertainty associated with US trade policy and domestic economic issues



Serviced offices

- continued good 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

“ Reflecting declining vacancy / choice, 2025 is likely to witness an increase in pre-letting activity as footloose tenants, eager to secure operationally suitable space that falls within budget ahead of rivals, commit to pre-let leasing agreements on space that is under construction. ”

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 its “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 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. ”

- the existence of any hazardous materials

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

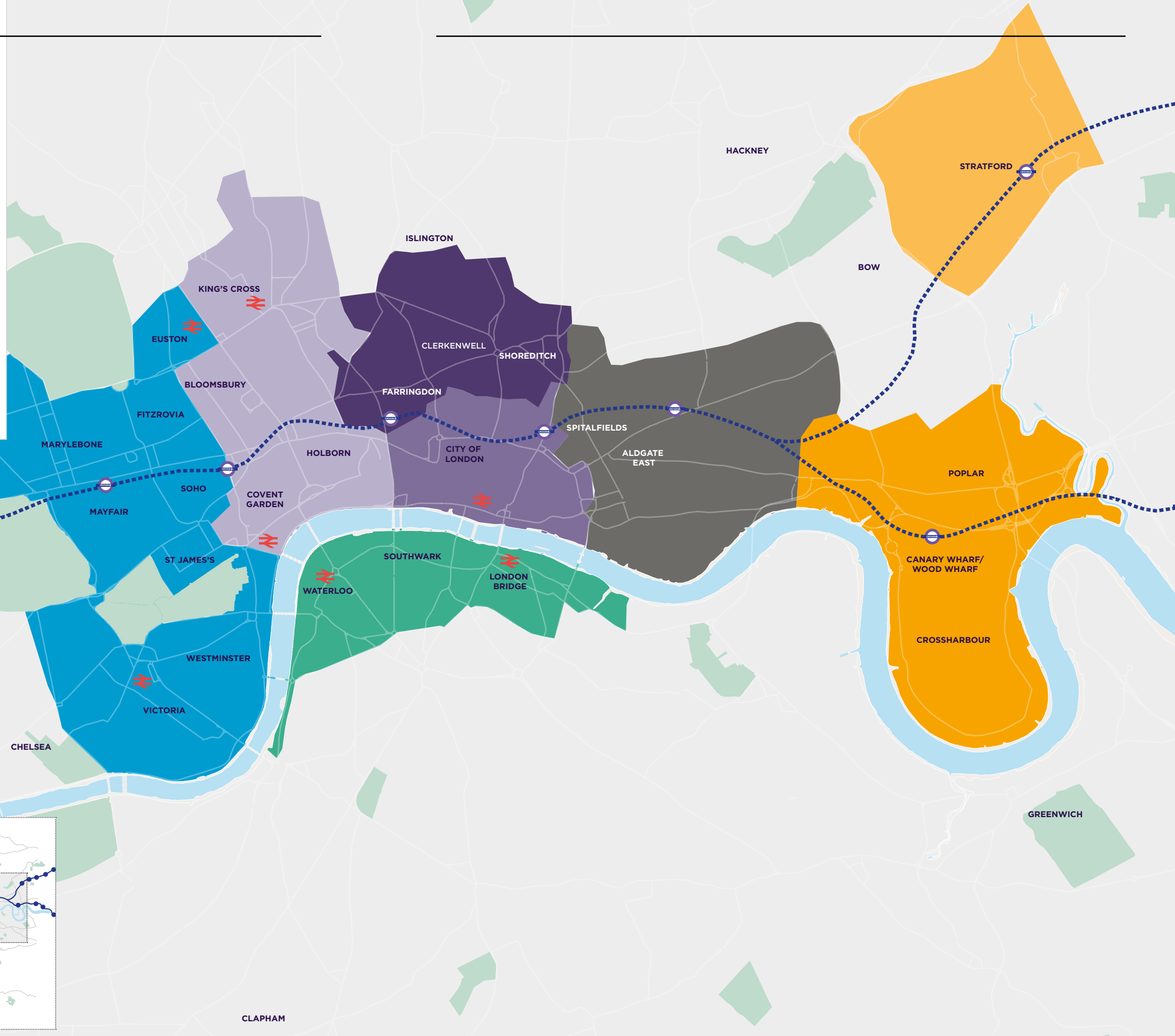
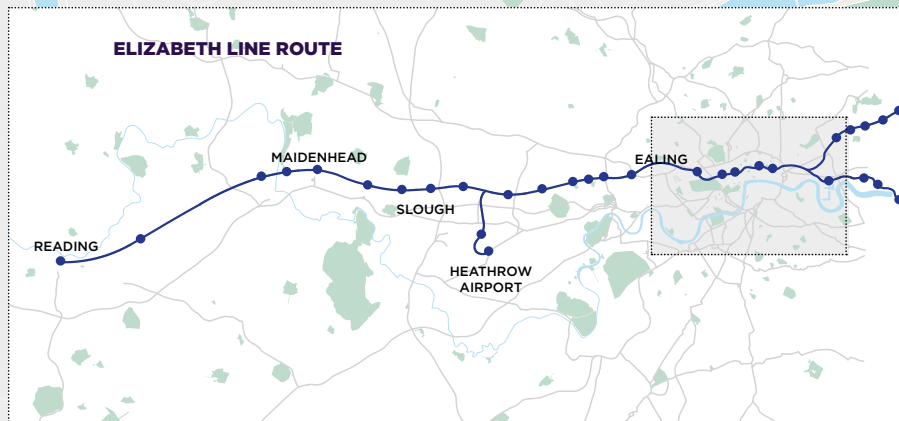
Table 3 of this document provides a summary of the typical rent, business rates and service charge occupancy costs associated with each sub-market for new and refitted, mid-rise, Grade A office space, with good sustainability credentials, over 5,000 sq ft.

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





“ Footloose tenants that are seeking better value may wish to focus their office searches in Canary Wharf and Stratford in the east and Hammersmith and White City in the west, where they are likely to have a stronger bargaining position in lease negotiations. ”

Table 2 - The London Office Market - Typical Landlord's Advertised Rents Q4 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	£75.00 - £90.00 (UF = £97.50 - £127.50)	£60.00 - £72.50 (UF = £82.50 - £112.50)	£45.00 - £55.00
Secondary - Blackfriars, Aldgate	£67.50 - £82.50 (UF = £90.00 - £120.00)	£55.00 - £65.00 (UF = £70.00 - £85.00)	£40.00 - £50.00
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	£80.00 - £92.50 (UF = £97.50 - £115.00)	£67.50 - £77.50	£47.50 - £60.00
East - Spitalfields	£72.50 - £82.50 (UF = £85.00 - £95.00)	£57.50 - £70.00	£40.00 - £50.00
East - Aldgate East, Wapping	£55.00 - £60.00 (UF = £62.50 - £67.50)	£42.50 - £52.50	£35.00 - £37.50
South Bank			
Waterloo, Southwark, London Bridge	£75.00 - £85.00 (UF/RV = £87.50 - £105.00)	£60.00 - £72.50 (UF = £75.00 - £85.00)	£45.00 - £55.00
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 - £52.50	£35.00 - £42.50	£22.50 - £29.50
West End			
Central - Mayfair, St James's (Prime)	£130.00 - £165.00 (UF = £170.00 - £197.50)	£97.50 - £125.00	£70.00 - £82.50
Central - Mayfair, St James's (Secondary)	£97.50 - £122.50	£85.00 - £95.00	£67.50 - £77.50
North - Euston	£75.00 - £85.00	£62.50 - £72.50	£45.00 - £55.00
North East - Fitzrovia	£90.00 - £112.50 (UF = £115.00 - £130.00)	£77.50 - £87.50	£55.00 - £67.50
North West - Marylebone	£92.50 - £120.00 (UF = £125.00 - £160.00)	£80.00 - £92.50	£60.00 - £72.50
South - Victoria, Westminster, Haymarket	£82.50 - £105.00 (UF = £107.50 - £115.00)	£65.00 - £77.50 (UF = £82.50 - £92.50)	£42.50 - £57.50
South West - Knightsbridge	£92.50 - £115.00	£77.50 - £89.50	£62.50 - £72.50
East - Soho, Regent Street, Leicester Square	£90.00 - £115.00 (UF = £117.50 - £125.00)	£72.50 - £89.50	£55.00 - £67.50
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, Strand	£77.50 - £90.00 (UF/RV = £92.50 - £110.00)	£65.00 - £75.00	£50.00 - £57.50
East - Holborn	£72.50 - £85.00 (UF = £87.50 - £110.00)	£57.50 - £68.50	£45.00 - £52.50
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
Battersea, Nine Elms, Vauxhall	£57.50 - £67.50 (UF = £70.00 - £80.00)	£45.00 - £55.00	£37.50 - £43.00
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, Shepherd's Bush	£52.50 - £60.00 UF = £62.50 - £65.00	£42.50 - £50.00	£32.50 - £40.00
Chiswick	£48.50 - £55.00	£37.50 - £47.50	£32.50 - £37.50
Ealing	£47.50 - £55.00	£36.50 - £45.00	£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.

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 – Q4 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 Prime – Bank, Leadenhall Street	£85.00	£34.00	£14.50	£133.50
City of London Secondary - Blackfriars, Aldgate	£75.00	£30.00	£14.50	£119.50
City Fringe North - Shoreditch, Clerkenwell	£72.50	£26.90	£13.00	£112.40
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	£82.50	£28.50	£13.00	£124.00
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	£82.50	£33.00	£13.00	£128.50
Midtown North - King's Cross	£90.00	£37.30	£13.00	£140.30
Midtown South - Covent Garden	£87.50	£37.30	£13.00	£137.80
West End Central - Mayfair, St James's	£150.00	£57.85	£14.00	£221.85
West End North - Marylebone	£105.00	£44.25	£13.00	£162.25
West End North - Fitzrovia	£100.00	£41.60	£13.00	£154.60
West End South - Victoria, Westminster	£95.00	£41.00	£13.00	£149.00
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	£55.00	£25.60	£12.50	£93.10
West London - White City	£57.50	£24.00	£12.50	£94.00
South West London - Battersea, Nine Elms	£65.00	£23.50	£12.50	£101.00

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

Source: Carter Jonas Research

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 20 - 35% 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.

Mitigating 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 mitigate 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.

"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."

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 2024

During the last quarter of 2024 the business (including legal) and financial services sectors continued to be the key drivers of demand for London office space in most of the sub-markets that form the central London office market.

Almost all of the transactions featured in the table of fourth quarter key lettings are of new and refitted, environmentally sustainable, Grade A space – a trend that continues to dominate the London office market as businesses move out of older buildings with poor “green” credentials.

Table 4 - Key Office Lettings - Q4 2024

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Moody's (pre-let)	Financial Services	10 Gresham Street, EC2	110,000
City of London	A&O Shearman (pre-let)	Legal Services	1 Broadgate, EC2	100,000 (expansion)
City of London	Morgan Lewis (pre-let)	Legal Services	Peterborough Court, 133 Fleet Street, EC4	80,000
City of London	Akin Gump Strauss Hauer & Field	Legal Services	155 Bishopsgate, EC2	77,000
City of London	Just Group (pre-let)	Financial Services	Peterborough Court, 133 Fleet Street, EC4	64,000
City of London	Allianz	Financial Services	15 Bishopsgate, EC2	54,000
City of London	Handelsbanken	Financial Services	Woolgate Building, 10 Coleman Street, EC2	53,000
City of London	Phaidon International	Recruitment	CityPoint, 1 Ropemaker Street, EC2	42,000
City of London	Daiwa Capital (pre-let)	Financial Services	Peterborough Court, 133 Fleet Street, EC4	25,000
City of London	SGN	Energy	Nexus, 25 Farringdon Street, EC4	15,000
City Fringe - North West - Barbican	Cambridge Education Group	Education	200 Aldersgate Street, EC1	21,500
City Fringe - East - Whitechapel	London College of Contemporary Arts	Education	The Amp, 41-71 Commercial Road, E1	19,000
West End - North East - Fitzrovia	VCCP	Business Services	66 Berners Street, W1	65,000
West End - North - Euston	Halkin	Flexi Offices	Mainframe, 24 Eversholt Street, NW1	32,773
West End - South - Haymarket	The Government of Ireland (pre-let)	Public Sector	10 Spring Gardens, SW1	30,000
West End - East - Soho	Confidential	-	Ilona Rose House, 111-119 Charing Cross Road, WC2	18,000
West End - North East - Fitzrovia	Heineken	Brewing	Wells & More, 45 Mortimer Street, W1	17,000
Midtown - Bloomsbury	Creative Artists Agency (pre-let)	Media / Entertainment	21 Bloomsbury Street, WC1	85,000
Midtown - Holborn	Canvas Offices	Flexi Offices	175 High Holborn, WC1	40,000
South Bank - Battersea	Foster & Partners	Architects	50 Electric Boulevard, SW11	48,000
South Bank - Southwark	CoStar Group	Business Services	The Blue Fin Building, 110 Southwark Street, SE1	31,700 (expansion)
South Bank - London Bridge	Sage Group (pre-let)	Business Services	Tower Bridge Court, 224/226 Tower Bridge Road, SE1	30,800
South West London - Chelsea	Oakley Capital	Financial Services	Sixty Sloane Avenue, SW3	23,500

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 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

During Q4 2024, the London serviced office market – with its ability to offer footloose tenants a minimal / nil capital expenditure, cashflow-friendly, accommodation solution at short notice – continued to thrive.

Because of the declining availability of well-located new and refitted Grade A floor space that is available on conventional (non-serviced) leases, it is likely that some footloose tenants with break options and lease expires may opt to take serviced office accommodation in the short term pending the future availability of operationally suitable office space that falls within their budget. Serviced office operators therefore stand to gain from the “treading water” phenomenon.

Demand for flexible office space also continues to be fuelled by a combination of drivers including start-up businesses, 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 economic and geopolitical climate.

“ The serviced office market continues to be popular among the business community – offering a minimal / nil capital expenditure, cashflow-friendly, flexible accommodation solution at short notice. ”

Typical Rents

Typical rents for serviced office accommodation range between £750 - £1,250 per desk per month in the West End and £600 - £950 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” (virtually no capital expenditure required) 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 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 increasing numbers of landlords were, prior to the pandemic, offering vacant space on a ready fitted out “plug-in-and-go” basis. This trend was

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 often 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 financial accounting 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.

Key Contacts

Michael Pain Partner
Head of Tenant Representation Team
07715 001013
michael.pain@carterjonas.co.uk

Daniel Francis Head of Research
07801 666137
daniel.francis@carterjonas.co.uk

Matt Lee Partner
Head of Science and Technology
07815 469115
matt.lee@carterjonas.co.uk

Ed Caines Partner
07966 188632
ed.caines@carterjonas.co.uk

Ollie Lee Associate Partner
07815 039501
ollie.lee@carterjonas.co.uk

David Simnock Associate Partner
07765 937001
david.simnock@carterjonas.co.uk

Lucy Atkins Associate
07703 198946
lucy.atkins@carterjonas.co.uk

carterjonas.co.uk
One Chapel Place, London W1G 0BG

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.

Follow us on X,
LinkedIn & Instagram



Carter Jonas