RESEARCH

The London Office Market Q2 2023

A Guide To Rents, Rent Free Periods & Market Trends

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East vs West: Rents for New Grade A, Sustainable, Space Rise In Areas Of Low Vacancy

Those who, during the COVID pandemic, predicted the demise of the office singularly failed to understand its importance as a focal point to transact and innovate as well as providing an important training environment for the next generation of entrepreneurs, professionals and business managers.

If any proof were needed that the office is indeed alive and kicking, letting activity in the London office market during the last few quarters will have undoubtedly provided it. Since the third quarter of last year there have been a series of lettings across London where record rents have been achieved including the leasing of 37,880 sq ft to Partners Group at The JJ Mack Building, 33 Charterhouse Square, Farringdon, EC1 at a blended rent reported to be circa £100.00 per sq ft per annum.

Record Rents In The West

During the second quarter of this year French fashion company Chanel committed to leasing the entire 86,000 sq ft at 38 Berkeley Square, Mayfair, W1 for its global headquarters. The transaction has broken all previous records for lettings in excess of 10,000 sq ft – it is understood that a rent comfortably in excess of £180.00 per sq ft per annum has been achieved. Further, and very significantly, post Brexit, Chanel has chosen London – not Paris – for the expansion of its global headquarters to accommodate growth in headcount.

> "In a fillip for the London office market, and post Brexit, Chanel has chosen London – not Paris – to expand its global headquarters"

Demand: Sustainability & Workforce Considerations

Demand continues to be driven by "push factors" – the desire of the international business community to move out of older, energy hungry, high carbon footprint buildings with inefficient and ineffective air conditioning systems that fail to support a working environment that fosters the positive physical and mental wellbeing of the workforce.

The new generation of office buildings that are currently being developed major on wellness, energy efficiency and sustainability and incorporate design features that blur the lines between the work and home environment – all the accoutrements that a responsible business will be incorporating into its accommodation strategy to underpin its return to the office, recruitment, productivity, wellness, environmental and social policies.

The property development pipeline, which is constrained in its ability to respond quickly to changes in market conditions by the planning process and construction timescales, is currently lagging demand across many parts of the central London office market. Landlords of Grade A space with good green credentials that is available now have not been slow to exploit the mismatch between supply and demand and are pushing up rents for the best space. This trend is likely to continue for at least the next year or so until supply catches up, providing that the UK and global economies continue to support employment growth.

Downsizing - Update

Interestingly, while downsizing is a factor that is continuing to drive demand, this trend does not appear to be as prominent as it was in the immediate aftermath of the COVID pandemic. In some business sectors, including the professional services, media and creative industries, the desire to downsize is being tempered by the realisation that if increasing numbers of the workforce are in the office three out of five days of the week, the scope to shrink the property footprint becomes more limited. This issue is further compounded where headcount is increasing, as some businesses begin hiring again – see Chanel, above.

Migration From The East

HSBC has recently announced that it will be leaving its global headquarters at 8 Canada Square, Canary Wharf, comprising over 1 million sq ft in 2026. The bank has taken a pre-let on the "Panorama St Paul's" development at 81 Newgate Street, EC1, comprising 556,000 sq ft, the design of which majors on wellness and sustainability. The bank's decision to move from London Docklands, the London office market's eastern periphery, after more than twenty years, comes close on the heels of law firm Clifford Chance's announcement in November last year that it would not be renewing the lease of its Canary Wharf office at 10 Upper Bank Street, having taken a pre-let on the entire 321,000 sq ft at 2 Aldermanbury Square, EC2.

> "HSBC's decision to relocate its global headquarters from Canary Wharf to the City is underpinned by the preference for a more central location that underpins the bank's return to the office, recruitment and retention policies"

This is a significant coup for investors and developers with an interest in the City of London and City fringes. Since Canary Wharf's inception in 1988, when Olympia and York decided to "break ground" and develop the 1.7 million sq ft iconic tower building, No 1 Canada Square, it has often been seen as a competing location for a finite number of businesses with large scale office requirements.

So why have these large space occupiers decided to jump ship? Downsizing and the desire to move to more environmentally friendly office space with good wellness credentials have played their part. However, in an employment market which, despite the current macro-economic climate, remains tight and where competition to recruit and retain the best and the brightest remains fierce, employers are using the quality and location of their real estate as a recruitment and retention tool. A more central location, with an easy commute, that provides a vibrant after work nightlife, is more appealing to the "GenZs" and "Millennials" – precisely the demographic that many employers, including HSBC and Clifford Chance, are keen to attract.

Eastern Promise - Life Sciences

Notwithstanding the recently completed Elizabeth Line which has vastly improved rail connectivity between Canary Wharf and London's more central business districts, the London Docklands district is still, among some employers, perceived as being too far from London's "centre of gravity" - lacking a mainline railway station from which many can walk to their place of work, with perceived inferior leisure facilities and "nightlife culture".

However, the London Docklands district has already established itself as a successful and attractive location for organisations in the higher education, technology and life sciences sectors. This point has not been lost on Canary Wharf Group – the key landowner and developer of the Canary Wharf district – following its decision to enter in to a joint venture with Dutch developer, Kadans, to construct a 23 storey, 823,000 sq ft, health and life sciences wet-lab, Europe's largest, at North Quay, scheduled for completion in 2026. The building will complement health and life sciences organisations such as the General Pharmaceutical Council, the Medicines and Healthcare Products Regulatory Agency and UK Government funded Genomics England, that are already based in the area.

Seeking Value For Money

For those footloose London businesses that have an imminent break option or lease expiry Canary Wharf, and its recently developed neighbour, Wood Wharf, offer good quality, sustainable, office space at significantly lower cost compared with London's more central business districts.

Rent, business rates and service charge annual occupancy costs for new and refitted, mid-rise, Grade A space in the City core are now typically £120.75 per sq ft, and £203.25 per sq ft in the West End (Mayfair), in contrast to Canary Wharf - £90.00 per sq ft – see Table 3, reflecting the different supply and demand dynamics of each sub-market.

> "Records are continuing to be broken in London's West End (Mayfair) for office lettings over 10,000 sq ft, reflecting supply side constraints, with Berkeley Square rents approaching £200.00 per sq ft per annum for the upper floors of new Grade A space."

London's Tech Belt

London's tech belt is unique in being the only central business district in London where rents for new and refitted Grade A space, with good sustainability credentials, are declining. The area around the Old Street roundabout, that has become synonymous with technology businesses has, in particular, struggled to secure lettings over the last few quarters prompting some developers to reduce rents – typically by at least £5.00 per sq ft per annum, as demand from the global tech sector continues to stall, post pandemic. A more cautious funding climate in the wake of higher interest rates, and a less certain macro-economic outlook, is holding back job creation in the sector which, coupled with hybrid working, has undermined demand for office space.

Environmental Legislation & Supply Side Constraints

In contrast to North America, rents for environmentally compliant Grade A office space in London and other key UK cities are being underpinned by the Government's initiatives to "decarbonise" the UK's stock of commercial properties. The Government's proposals to boost the energy efficiency of the UK's real estate will require commercial properties to have an energy performance rating of A, B or C by April 2027 and A or B by April 2030. Landlords, and tenants with surplus space that they may wish to sub-let, will be barred from leasing non-compliant space.

Although the proposals have yet to become law, they are already affecting demand. The better-informed tenants are, very sensibly, planning ahead and focussing their property searches on Grade A space that will be compliant when the proposed legislation is introduced. Environmental regulations are therefore contributing to supply side constraints by making a significant proportion of London's and the UK's stock of office buildings unlettable.

Epilogue

London is fast becoming a tale of two cities as far as its office market is concerned: the expensive west and the more affordable east. In each region of the capital, two market tiers co-exist: Grade A sustainable, environmentally compliant, accommodation; and the rest. The owners of the former are fairing quite well despite the uncertain macro-economic climate. The same cannot be said of those with vacant office space that has poor environmental credentials.

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Rents and Rent Free Periods

Advertised Rents

Following the first quarter of 2023, rents for energy efficient, sustainable, Grade A office space have, during the second quarter of this year, remained broadly static in many parts of central London save for the acutely under-supplied areas of the West End, including Mayfair and Fitzrovia, where record highs have been achieved for lettings over 10,000 sq ft (see commentary).

The West End and, to a lesser extent, Midtown sub-markets are characterised by low vacancy which is fostering rental growth for prime-located, best in class, sustainable, Grade A buildings. However, it is likely that rents in the remaining areas of London for new and refitted, sustainable, Grade A space will remain flat for the next few quarters, reflecting weaker demand in the wake of lower UK economic growth.

By contrast, the once vibrant City fringe districts of Clerkenwell and Shoreditch, home to many of London's technology businesses, have, for much of this year, been struggling to secure lettings – a reflection of the slowdown in job creation in the global technology market. Advertised rents on several new Grade A buildings have been reduced, typically by at least £5.00 per sq ft per annum, in order to attract interest.

Rents for second-hand space with poor environmental credentials across most parts of London are likely to weaken during the remainder of this year reflecting the shift in demand towards new and refitted, energy efficient, Grade A accommodation that is capable of underpinning employer's recruitment, retention, wellness and environmental policies.

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

Rent Free Periods

Table 1 – Typical Rent Free Periods By Sub-Market – Q2 2023
New / Refitted & Refurbished Grade A Space

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

Source: Carter Jonas Research

Rent Discounts

Discounts of 1 - 4% are now more typically being negotiated on landlord's advertised rents for new and refitted, environmentally compliant, Grade A space – with discounts at the higher end of the range more common in the City of London, City fringe and Docklands sub-markets, where vacancy rates are higher. Contrast with discounts of 2.5 – 6% that were typical during the first quarter of 2022.

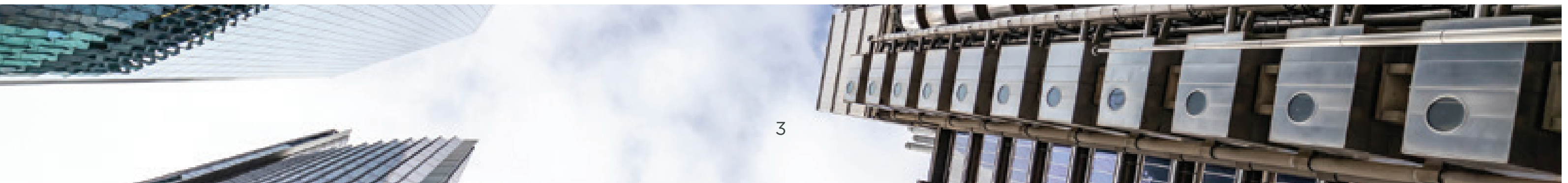
By comparison, larger discounts of up to 10%, and more, on landlord's advertised rents are not unusual for low quality buildings with poor energy efficiency ratings.

Rent Free Periods

In tandem with underpinning rental growth, low levels of vacancy in the new and refitted Grade A office market segment in many parts of central London have fostered compression in rent free periods following the recovery in demand since last of the COVID lockdowns in 2021. Since Q1 2022 rent free periods have typically declined by 1 - 3 months for a 5 – 10 year lease. Docklands is the exception, where rent free periods are largely unchanged from a year ago, reflecting weaker demand for that sub-market and higher levels of vacancy relative to other, more central, sub-markets.

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

Table 1 provides a summary of typical rent free periods for each sub-market prevailing during the second quarter of 2023. Over the next few quarters it is quite likely that rent free periods across central London for new and refitted Grade A floor space will remain static. In some sub-markets such as the City, Docklands and West London, where there is a better balance between supply and demand, rent free periods may expand slightly, as landlords use rent free period incentives to maintain headline rental levels in the wake of likely weaker demand.



Summary of Forecast Market Trends

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

Advertised Rents (West End)

- upward pressure on rents for best in class, sustainable, prime located Grade A space in districts including Mayfair, St James's, Marylebone, Soho and Fitzrovia, underpinned by low vacancy

Advertised Rents (Rest of London)

- advertised rents for best in class Grade A space are likely to remain flat at least for the next two quarters in those parts of London where there is a better balance between supply and demand, reflecting weak economic growth and subdued demand

Rent Discounts

- the discounts that can be negotiated on advertised rents for new and refitted, well located, Grade A space may expand slightly from their current level of 1 – 4% during the next two quarters as the market adjusts to weaker demand

Rent Free Periods

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

Greater Lease Flexibility

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

"The trend towards downsizing is weakening, reflecting the success of return to the office policies and the resumption of employment growth in some business sectors"

Demand For Good Quality Office Space

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

The bargaining position of landlords of Grade A space

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

Office Leasing Activity

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

Serviced Offices

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

Assessing A Building's Sustainability Credentials

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

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

Energy Performance Certificates

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

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

It is, however, proposed that some exemptions to the proposed new regulations will apply, providing that certain qualifying criteria are met. For example, some listed buildings will be exempt if the works to upgrade the energy efficiency rating of the property will adversely affect the architectural features of the building. Listed and non-listed buildings may also be exempt if the cost of the works to upgrade the property to render it compliant with MEES regulations exceed 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 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 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"

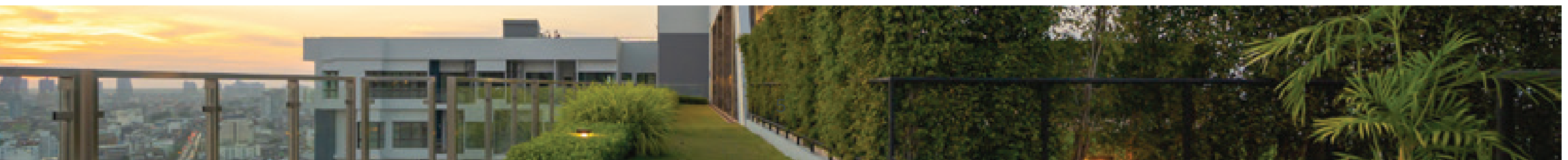


Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q2 2023

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

Location	Grade A		Grade B
	New/Refitted	Refurbished	Refurbished
City			
Prime - Bank, Leadenhall Street	£68.50 - £80.00 (UF = £82.50 - £110.00)	£57.50 - £67.50 (UF = £70.00 - £85.00)	£42.50 - £52.50
Secondary - Blackfriars, Aldgate	£62.50 - £72.50 (UF = £75.00 - £90.00)	£47.50 - £59.50 (UF = £65.00 - £77.50)	£38.00 - £45.00
City Fringe			
North - Shoreditch, Clerkenwell	£65.00 - £75.00 (UF = £77.50 - £90.00)	£52.50 - £62.50	£38.00 - £50.00
North West - Farringdon, Smithfield	£75.00 - £87.50 (UF = £90.00 - £97.50)	£62.50 - £72.50	£40.00 - £56.00
East – Spitalfields	£67.50 - £75.00 (UF = £77.50 - £82.50)	£52.50 - £65.00	£37.50 - £46.50
East – Aldgate East, Wapping	£49.50 - £59.50 (UF = £60.00 - £65.00)	£38.00 - £48.50	£34.00 - £37.00
South Bank			
Waterloo, Southwark, London Bridge	£67.50 - £75.00 (UF = £77.50 - £95.00)	£59.50 - £66.50 (UF = £67.50 - £75.00)	£42.50 - £58.50
Battersea, Nine Elms, Vauxhall	£55.00 - £67.50	£45.00 - £53.50	£37.50 - £43.00
East London			
Docklands Prime – Canary Wharf & Wood Wharf	£47.50 - £60.00 (UF = £62.50 - £72.50)	£32.50 - £42.50 (UF = £45.00 - £50.00)	£27.50 - £35.00
Docklands Secondary – Crossharbour	£32.50 - £39.50	£27.50 - £32.50	£22.50 - £27.50
Stratford	£45.00 - £49.50	£35.00 - £45.00	£22.50 - £29.50
West End			
Central – Mayfair, St James's (Prime)	£120.00 - £150.00 (UF = £160.00 - £185.00)	£95.00 - £110.00	£67.50 - £77.50
Central – Mayfair, St James's (Secondary)	£92.50 - £115.00	£77.50 - £90.00	£65.00 - £75.00
North – Euston	£70.00 - £85.00	£57.50 - £67.50	£42.50 - £52.50
North East – Fitzrovia	£87.50 - £105.00 (UF = £107.50 - £120.00)	£77.50 - £87.50	£55.00 - £67.50
North West – Marylebone	£89.50 - £107.50 (UF = £110.00 - £120.00)	£77.50 - £87.50	£60.00 - £70.00
South – Victoria, Westminster, Haymarket	£75.00 - £89.50 (UF = £90.00 - £97.50)	£65.00 - £72.50	£42.50 - £57.50
South West – Knightsbridge	£90.00 - £115.00	£75.00 - £87.50	£62.50 - £72.50
East – Soho, Regent Street, Leicester Square	£89.50 - £107.50 (UF = £110.00 - £120.00)	£70.00 - £87.50	£55.00 - £67.50
West – Paddington	£75.00 - £85.00 (UF = £87.50 - £95.00)	£62.50 - £72.50	£45.00 - £55.00
Midtown			
North – King's Cross	£75.00 - £87.50	£62.50 - £72.50	£47.50 - £55.00
South – Covent Garden	£75.00 - £85.00 (UF = £87.50 - £92.50)	£60.00- £72.50	£47.50 - £55.00
East – Holborn	£65.00 - £77.50 (UF = £80.00 - £87.50)	£52.50 - £62.50	£40.00 - £47.50
West – Bloomsbury	£77.50 - £90.00	£65.00 - £75.00	£47.50 - £57.50
South West London			
Chelsea	£80.00 - £95.00	£65.00 - £77.50	£47.50 - £60.00
West London			
Kensington	£75.00 - £110.00	£57.50 - £70.00	£40.00 - £52.50
Hammersmith	£52.00 - £58.50	£40.00 - £50.00 (UF = £55.00 - £57.50)	£32.50 - £42.50
White City	£46.50 - £56.50	£40.00 - £45.00	£32.50 - £40.00
Chiswick	£47.50 - £55.00	£37.50 - £46.00	£32.50 - £37.50
Ealing	£45.00 - £55.00	£36.50 - £42.50	£29.50 - £36.50

Source: Carter Jonas Research

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

The London Office Market

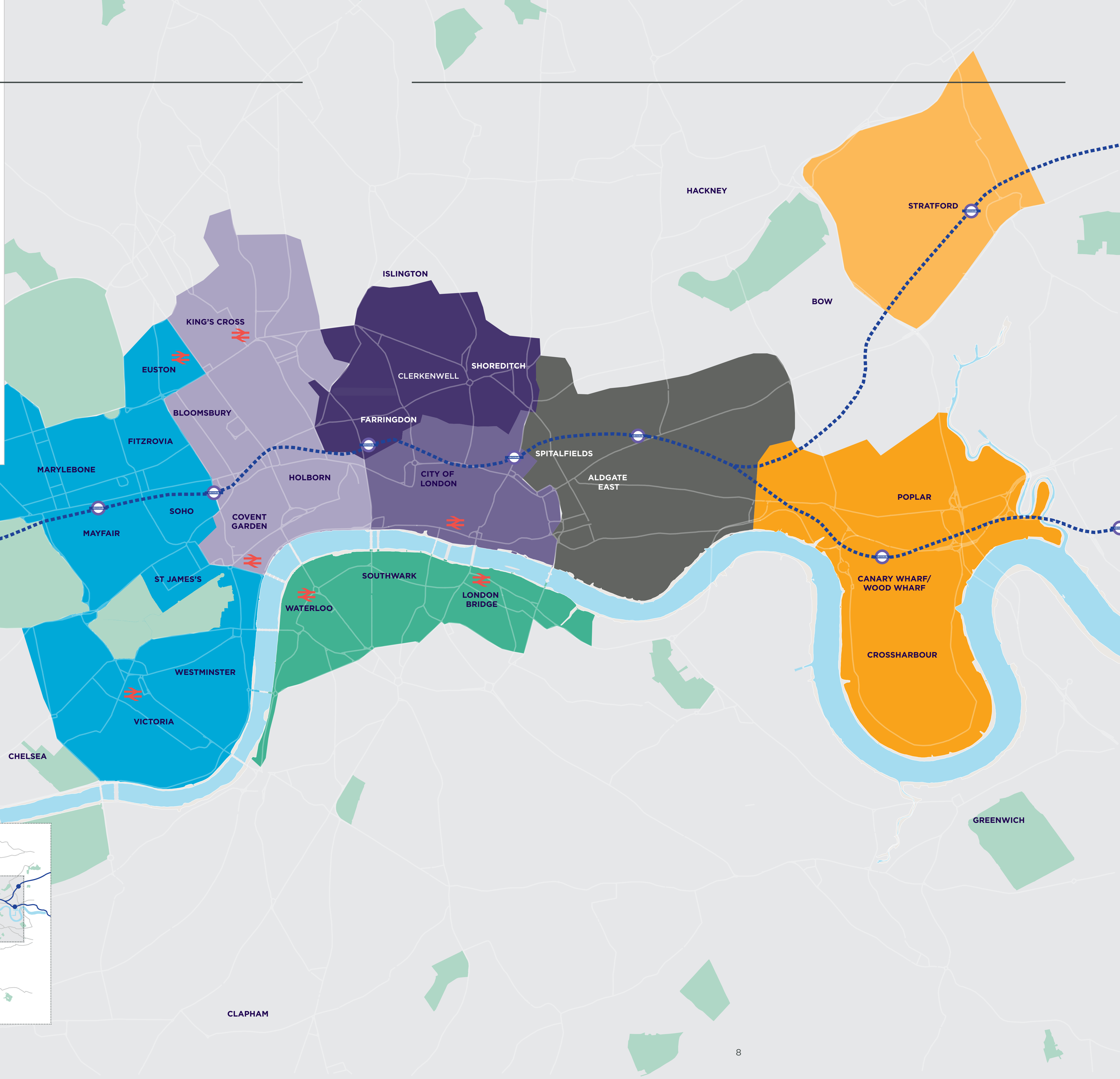
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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.

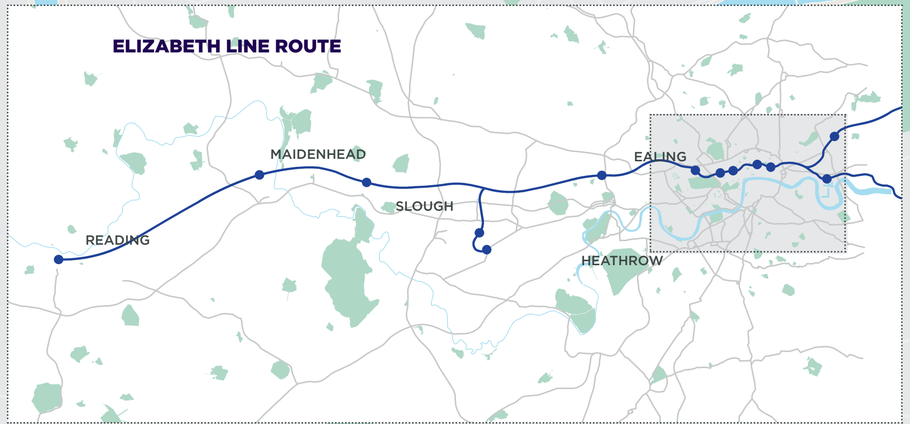
Rent Free Periods

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

The second quarter of 2023 has seen increases in annual office occupancy costs for new and refitted Grade A space, with good green credentials, in some West End districts such as Mayfair and Fitzrovia, as lettings in these districts during Q2 2023 set new record rent benchmarks (see commentary). However, occupancy costs during the second quarter of the year in many other parts of central London have remained broadly static.

Table 3 – Comparison Of Rent, Business Rates and Service Charge Costs By Sub-Market – Q2 2023

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

Sub-market	Rent	Business Rates	Service Charge	Total
City of London – Bank, Leadenhall Street	£75.00	£31.75	£14.00	£120.75
City Fringe North - Shoreditch, Clerkenwell	£70.00	£25.25	£13.00	£108.25
City Fringe North West - Farringdon, Smithfield	£85.00	£26.00	£13.00	£124.00
City Fringe East - Aldgate East	£55.00	£23.50	£13.00	£91.50
City Fringe East - Spitalfields	£72.50	£26.50	£13.00	£112.00
South Bank - Southwark, London Bridge	£72.50	£27.00	£13.00	£112.50
East London - Canary Wharf	£55.00	£16.75	*£18.25	£90.00
East London - Crossharbour	£35.00	£12.00	£13.00	£60.00
East London - Stratford	£47.50	£16.50	*£12.00	£76.00
Midtown West - Bloomsbury	£85.00	£33.00	£13.00	£131.00
Midtown East - Holborn	£72.50	£31.00	£13.00	£116.50
Midtown North - King's Cross	£85.00	£35.00	£13.00	£133.00
Midtown South - Covent Garden	£80.00	£35.00	£13.00	£128.00
West End Central - Mayfair, St James's	£135.00	£54.25	£14.00	£203.25
West End North - Marylebone	£98.50	£41.50	£13.00	£153.00
West End North - Fitzrovia	£95.00	£39.00	£13.00	£147.00
West End South - Victoria, Westminster	£77.50	£38.50	£13.00	£129.00
West End West - Paddington	£80.00	£27.00	£13.00	£120.00
West End East - Soho	£95.00	£40.50	£13.00	£148.50
West London - Hammersmith	£56.00	£24.00	£12.50	£92.50
West London - White City	£53.00	£22.50	£12.50	£88.00
South West London - Battersea, Nine Elms	£62.50	£22.00	£12.50	£97.00

Source: Carter Jonas Research

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

Notes

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

Reducing Real Estate Costs

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

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

Negotiating A Cost-Effective, Tenant-Friendly, Lease

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

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

Reducing The Property Footprint

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

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

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

Minimising Relocation Costs

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

A relocation cost saving plan would typically include:

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

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

Key Leasing Transactions During Q2 2023

As illustrated below in Table 4, take-up during the second quarter of 2023 has been dominated by the lettings of energy efficient, new and refitted Grade A space, reflecting the continuing shift in demand away from low grade accommodation, and illustrating the high priority that occupiers are placing on recruitment and environmental issues when selecting office space.

Table 4 – Key Office Lettings – Q2 2023

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	HSBC	Banking/Financial Services	Panorama St Paul's, 81 Newgate Street, EC1	556,000
City of London	Amazon	e-commerce - Retail	Moor Place, 1 Fore Street, Avenue, EC2	100,000
City of London	Goodwin Proctor	Legal Services	Sancroft, Paternoster Square, EC4	89,600
City of London	Latham & Watkins	Legal Services	One Leadenhall Street, EC3	77,000
City London	Pension Insurance Corporation	Financial Services	22 Ropemaker Street, EC2	65,830
City of London	Teneo	Business Services	The Carter, 11 Pilgrim Street, EC4	46,000
City of London	Convene	Flexi Offices	Sancroft, Paternoster Square, EC4	45,000
City of London	Orega	Flexi Offices	70 Mark Lane, EC3	27,832
City of London	Alantra	Financial Services	25 Cannon Street, EC4	20,000
City Fringe - North	Greystar	Financial Services	The Gilbert, 39-45 Finsbury Square, EC2	29,500
South Bank - Southwark	Winckworth Sherwood	Legal Services	Arbor, Bankside Yards, SE1	27,321
Midtown - Covent Garden	Spencer Stuart	Business Services (recruitment)	80 Strand, WC2	25,000
Midtown - Covent Garden	Samsung	Technology / Manufacturing	80 Strand, WC2	23,000
Midtown - Bloomsbury	Runway East	Flexi Offices	24-28 Bloomsbury Way, WC1	45,000
Midtown - Bloomsbury	Mission Group	Media - Advertising	The Manufactory, Tottenham Court Road, W1	11,500
West End Central - Mayfair	Chanel	Fashion	36-38 Berkeley Square, W1	86,000
West End East - Soho	Eisler Capital	Financial Services	Lucent, 1 Sherwood Street, W1	49,300
West End South West - Knightsbridge	3i Group	Financial Services	1 Knightsbridge, SW1	48,300
West End West - Paddington	Alpha Group	Financial Services	The Point, 37 North Wharf Road, W2	23,500
West End Central - Mayfair	Harris Williams	Financial Services	65 Davies Street, W1	19,100
West London - Kensington	Ilex Capital	Financial Services	The Kensington Building, 1 Wrights Lane, W8	7,822
East London - Canary Wharf	McLaren Construction Group	Real Estate	20 Churchill Place, E14	22,573
East London - Canary Wharf	HCA International	Healthcare	40 Bank Street, E14	22,500
East London - Canary Wharf	Euronext	Financial Services	Cargo, 25 North Colonnade, E14	12,000
East London - Canary Wharf	World Association of Nuclear Operators	Trade Association	5 Churchill Place, E14	9,092

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

The second quarter of 2023 has witnessed continued robust demand for serviced and co-working space – driven by business start-ups and established businesses that are seeking a temporary home, pending a move to more permanent accommodation as and when suitable accommodation becomes available. Demand is further being underpinned by businesses that need short term accommodation associated with a specific project.

During the second quarter of 2023, typical rents for serviced office accommodation have ranged between £700 - £1,200 per desk per month in the West End and £550 - £900 per desk per month in The City depending upon quality and micro-location.

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

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

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

"During the second quarter of 2023 demand for serviced office space across most areas of central London has continued to remain resilient."

- Typically no dilapidations / repairing / exit costs – a contribution to which is usually reflected in the rent payable
- Short form service agreement that can be issued and signed within a matter of hours – no complicated, lengthy, real estate lease requiring the advice of a real estate lawyer
- The ability to expand and contract quickly in response to changes in market conditions
- No stamp duty land tax payable on the grant of the service agreement

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

The Tenant Representation Team

Our tenant representation services include:

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

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

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Our Experience

Lease negotiations and relocations 10,000 sq ft+

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

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

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

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

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

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

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

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