RESEARCH

The London Office Market Q4 2023

A Guide To Rents, Rent Free Periods & Market Trends

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Carter Jonas

Resilient Demand and Low Vacancy Will Underpin The London Office Market During 2024

Resilient demand, declining vacancy, less choice for footloose tenants, the pre-letting of buildings that have not yet reached completion and rising rents have, throughout 2023, characterised the London office market. These trends, however, have been confined to environmentally compliant Grade A buildings in central locations, where London's labour pool is concentrated, reflecting the ongoing challenge that many business sectors face in recruiting the best and the brightest.

Providing that the global economy does not sustain any shocks - geopolitical or otherwise – the trends that have dominated 2023 are likely to continue during 2024, albeit that the volume of lettings across London is unlikely to rise significantly, reflecting continued weak economic growth.

Demand & Downsizing

Demand for office space continues to be driven by a desire of those businesses with a break option or lease expiry to move to better quality space to underpin their recruitment, return to the office, wellness and environmental policies. While downsizing has, since the pandemic, also been a factor that has driven demand, this trend has not been as pronounced during 2023 as it was during the two preceding years.

The decline in the number of businesses seeking to reduce their property footprint is reflective of increasing headcount in some business sectors and the gradual increase in weekly office occupancy rates witnessed since the end of the pandemic, as the London office workforce spends less time working from home. A recent poll of Carter Jonas clients indicates that many are now seeing their employees typically working from the office three days each week – with Fridays being the least favoured day.

Rents

Rents for well-located, environmentally sustainable, Grade A space in each of the key central sub-markets – the West End, Midtown, South Bank and the City of London have increased since the beginning of 2023 – driven, principally, by supply-side constraints. However, peripheral locations such as Hammersmith and Chiswick in west London and Canary Wharf and Stratford in the east have, post COVID, struggled to attract tenants, reflecting the preference of employers to prioritise location ahead of real estate costs, and the ability to readily tap into London's skills base.

Rents for new mid-rise Grade A space in the City of London core have risen by 3.5% since Q4 2022 and typically stand at £75.00 per sq ft per annum. In the West End the increase has been more pronounced, reflecting lower vacancy – rising by 16% in the central districts of St James's and Mayfair to, typically, £145.00 per sq ft. Rents of over £180.00 per sq ft are now well established for the upper floors of buildings located in "super-prime" locations including St James's and Berkeley Squares.

During 2024, it is likely that rents for new, well-located, best in class, mid-rise, Grade A space will rise by circa 5% in the City, Midtown and South Bank sub-markets, reflecting the lack of available stock, and by around 10% in the West End (Mayfair and St James's) where the supply and demand mismatch is greatest. Rents for the remainder of the Grade A market are likely to stay flat, at least for the first half of 2024.

Rent Free Periods

Interestingly, there has been no significant compression in rent free periods during 2023 in many of London's office sub-markets – as landlords seek to reflect the increasing imbalance between supply and demand through higher rents in order to underpin the value of their assets. In many of the districts forming the central sub-markets it is still possible to secure a rent free period of up to 12 months for a 5 year lease and up to 24 months for a 10 year lease – see Table 1.

It is likely that rent free periods for well located, best in class, Grade A space will decline by 1 – 2 months for a 5 – 10 year lease by the end of 2024.

> "The international business community's appetite for energy-efficient Grade A office space with good sustainability credentials continues to grow - to meet the expectations of customers, shareholders and employees."

Supply - The Development Pipeline

Footloose businesses with which the Carter Jonas Tenant Representation Team is currently dealing are increasingly asking when more choice will be available. While an encouraging number of new developments and refurbishments have been announced in the property press over the last few quarters, the reality is that it is likely to be 2025 / 26 before many will be completed – and longer if planning consent has yet to be granted.

During 2023, the two most influential central London planning authorities – Westminster City Council and the City of London Corporation – introduced more stringent tests for developers to pass in order to justify the demolition of existing buildings, rather than their refurbishment and re-use. While these sustainability policies are certainly to be welcomed from an environmental perspective they will, nonetheless, prolong the planning application process and exacerbate the lag between demand and supply.

The rising cost of finance, reflecting the Bank of England's tightening of monetary policy during 2023, and inflation in building materials and labour costs are also impediments to the office refurbishment and development pipeline, notwithstanding that rising rents should help to ameliorate the impact of increasing development costs.

Despite the unfriendly economic environment for property developers some of the more seasoned real estate companies are pressing on with their development projects and placing their confidence in the London office market. Land Securities, for example, has recently started refurbishment of Thirty High (formerly Portland House) at Bressenden Place, Victoria, comprising 300,000 sq ft, which is due for completion in 2025. British Land's 1 Broadgate development, EC2, is under construction, comprising circa 400,000 sq ft of office space, of which 134,000 sq ft has been pre-let.

Conversion Of Older Stock

Property investors with low grade office buildings with poor sustainability credentials that are, or are about to become, vacant and non-income producing will need to carefully consider their options, especially if the property is not located in an established office location. Picton Property, for example, recently secured planning consent for a change of use to residential at its 64,000 sq ft Angel Gate office estate at 326 City Road, EC1. The conversion of lower grade office space in secondary locations to alternative uses is a trend that is likely to gather pace over the next year or so, providing that planning policy and conversion costs will allow.

AI & Future Office Demand

According to the latest research by DataCity, the UK is fast becoming a global leader in the development of artificial intelligence technologies to rival China and the USA – underpinned by world-class university research, a highly skilled pool of labour and established sources of development funding.

While university cities including Bristol, Oxford and Cambridge stand to benefit from the artificial intelligence revolution, London is also a key AI hub. Over the next few years it is likely that the AI industry will become a significant contributor to office demand in London as the number of jobs created in this business sector, and associated venture capital industry, increases.

Demand is likely to favour the flexi / serviced office market initially as start-up enterprises develop from this emerging business sector. However, rising flexi office demand will ultimately benefit the wider office market as increasing numbers of serviced office operators go on the acquisition trail and acquire office space for conversion to serviced accommodation. This trend is demonstrated in the Q4 2023 London office take up data – see Table 4.

Epilogue

While continued sluggish UK economic growth during 2024 is likely to result in weak demand for London office space, the limited availability of well located, environmentally sustainable, Grade A space will continue to restrict choice for footloose tenants that are seeking centrally located accommodation.

Barring any economic shocks, it is quite likely that rents for new, best in class, space in the West End, Midtown, South Bank and City of London sub-markets will be higher by the end of 2024, reflecting the mismatch between supply and demand.

> "Many businesses are prioritising location, to underpin recruitment and retention policies, over real estate costs and are focussing their property searches in the central sub-markets."

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Rents and Rent Free Periods

Advertised Rents

Q4 2023 saw some landlords of new, best in class, environmentally sustainable, Grade A space located in the central sub-markets – the West End, Midtown, South Bank and City of London – continue to push up advertised rents. This trend reflects declining vacancy levels and limited choice for footloose tenants. The picture is rather different in the north and east City fringes, east London (Stratford and Canary / Wood Wharf) and west London (Hammersmith and Chiswick) where the supply and demand dynamics of these areas favours tenants. Significantly, many businesses are prioritising location, to underpin recruitment and retention policies, over real estate costs and are focussing their property searches in the central sub-markets.

Advertised rents for second-hand refurbished space have, by contrast, remained broadly static during the same period, especially for accommodation that has an energy performance certificate (EPC) rating of C or below. This trend reflects the increasing awareness among footloose occupiers of the need to futureproof their real estate liabilities by focussing their property searches on space that has an energy performance certificate rating of A or B in order to be compliant with the UK Government's proposed tightening of the Minimum Energy Efficiency Standards (MEES) regulations which are proposed to be phased in from 1 April 2027.

Downward pressure on advertised rents continues on low quality / poorly located accommodation with poor environmental credentials, reflecting limited demand.

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

Rent Free Periods

Table 1 – Typical Rent Free Periods By Sub-Market – Q4 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

The West End is the sub-market with the lowest levels of vacancy in the environmentally sustainable Grade A market segment, which is underpinning rental growth. It continues to be difficult to secure any significant rent discounts on prime located, best in class, space in this location. Discounts have typically shrunk from 5 – 10% at the beginning of 2021 to 0 – 3.5% today.

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

The City of London and City fringe sub-markets have higher rates of Grade A vacancy, offering more choice to footloose tenants, which is reflected in higher levels of rent discount – typically between 2 – 4%. Discounts at the higher end of the range are associated with the Clerkenwell, Shoreditch and Aldgate East districts.

The west London (Hammersmith and Chiswick) and east London (Stratford and Canary / Wood Wharf) markets continue to recover from the shock of the COVID pandemic and the preference of many businesses to focus their property searches in more central locations, a decision that more often than not is driven by recruitment issues and the desire to attract and retain the brightest and the best. Rent discounts on advertised rents for Grade A space in these areas are the highest in London, typically 3 – 6 %.

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

Rent Free Periods

In areas where the availability of new and refitted Grade A space with good "green" credentials is limited, some landlords are offering slightly shorter rent free periods compared with a year ago – with reductions of 1 – 2 months typical for a 5 – 10 year lease on well located, best in class space.

Significantly, and as has typically been the case in the recovery phases of previous market cycles, landlords have been increasing headline rents, rather than reducing rent free periods.

Summary of Forecast Market Trends

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

Advertised rents

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

"Well-advised tenants are hedging their future real estate liabilities by focussing their property searches on office space that will be compliant with the government's proposed tightening in energy performance regulations."

Rent discounts

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

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

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

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

Office leasing activity

- a steady decline during the first half of 2024 in the year-on-year levels of letting activity, reflecting weaker demand and lower economic growth

Serviced offices

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

Assessing A Building's Sustainability Credentials

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

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

Energy Performance Certificates

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

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

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

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

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

BREEAM & LEED

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

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

NABERS

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

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

WELL

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

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

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

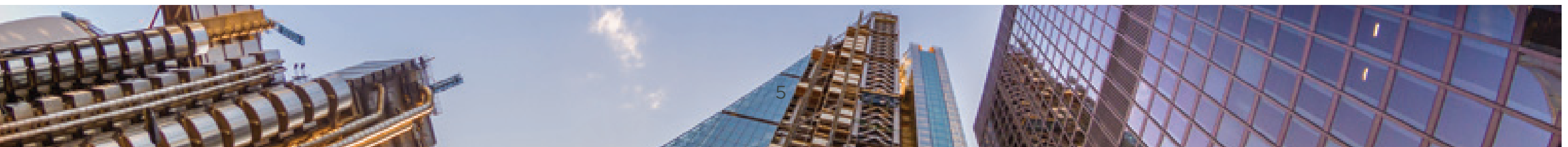


Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q4 2023

£ 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 - £87.50 - £115.00)	£57.50 - £67.50 (UF = £80.00 - £107.50)	£42.50 - £52.50
Secondary - Blackfriars, Aldgate	£62.50 - £72.50 (UF = £80.00 - £95.00)	£47.50 - £59.50 (UF = £65.00 - £80.00)	£38.00 - £45.00
City Fringe			
North - Shoreditch, Clerkenwell	£65.00 - £75.00 (UF = £77.50 - £90.00)	£52.50 - £62.50	£38.00 - £50.00
North West - Farringdon, Smithfield	£75.00 - £87.50 (UF = £90.00 - £97.50)	£62.50 - £72.50	£40.00 - £56.00
East – Spitalfields	£67.50 - £75.00 (UF = £77.50 - £82.50)	£52.50 - £65.00	£37.50 - £46.50
East – Aldgate East, Wapping	£49.50 - £59.50 (UF = £60.00 - £65.00)	£38.00 - £48.50	£34.00 - £37.00
South Bank			
Waterloo, Southwark, London Bridge	£70.00 - £80.00 (UF= £82.50 - £99.50)	£59.50 - £67.50 (UF = £69.50 - £77.50)	£42.50 - £58.50
Battersea, Nine Elms, Vauxhall	£55.00 - £67.50 (UF= £69.50 - £75.00)	£45.00 - £53.50	£37.50 - £43.00
East London			
Docklands Prime – Canary Wharf & Wood Wharf	£47.50 - £60.00 (UF = £62.50 - £70.00)	£32.50 - £42.50 (UF = £45.00 - £50.00)	£27.50 - £35.00
Docklands Secondary – Crossharbour	£32.50 - £39.50	£27.50 - £32.50	£22.50 - £27.50
Stratford	£45.00 - £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 - £195.00)	£95.00 - £110.00	£67.50 - £77.50
Central – Mayfair, St James's (Secondary)	£92.50 - £115.00	£77.50 - £90.00	£65.00 - £75.00
North – Euston	£70.00 - £85.00	£57.50 - £67.50	£42.50 - £52.50
North East – Fitzrovia	£89.50 - £107.50 (UF = £110.00 - £130.00)	£77.50 - £87.50	£52.50 - £65.00
North West – Marylebone	£92.50 - £112.50 (UF = £115.00 - £130.00)	£77.50 - £87.50	£60.00 - £70.00
South – Victoria, Westminster, Haymarket	£75.00 - £90.00 (UF = £92.50 - £98.50)	£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	£90.00 - £112.50 (UF = £115.00 - £125.00)	£69.50 - £87.50	£52.50 - £65.00
West – Paddington	£75.00 - £87.50 (UF = £90.00 - £95.00)	£62.50 - £72.50	£42.50 - £52.50
Midtown			
North – King's Cross	£75.00 - £87.50	£62.50 - £72.50	£47.50 - £55.00
South – Covent Garden	£75.00 - £87.50 (UF = £90.00 - £110.00)	£62.50 - £72.50	£50.00 - £57.50
East – Holborn	£65.00 - £77.50 (UF = £80.00 - £87.50)	£52.50 - £62.50	£40.00 - £49.50
West – Bloomsbury	£77.50 - £90.00	£65.00 - £75.00	£47.50 - £57.50
South West London			
Chelsea	£80.00 - £95.00	£65.00 - £77.50	£47.50 - £60.00
West London			
Kensington	£75.00 - £110.00	£57.50 - £70.00	£40.00 - £52.50
Hammersmith	£52.00 - £58.50	£40.00 - £50.00 (UF = £55.00 - £57.50)	£32.50 - £42.50
White City	£48.50 - £56.50 (UF = £57.50 - £59.50)	£40.00 - £45.00	£32.50 - £40.00
Chiswick	£47.50 - £55.00	£37.50 - £46.00	£32.50 - £37.50
Ealing	£45.00 - £55.00	£36.50 - £42.50	£29.50 - £36.50

Grades of Office Accommodation

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

Grade A

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

Grade B

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

Refitted space

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

Refurbished space

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

Source: Carter Jonas Research

The London Office Market

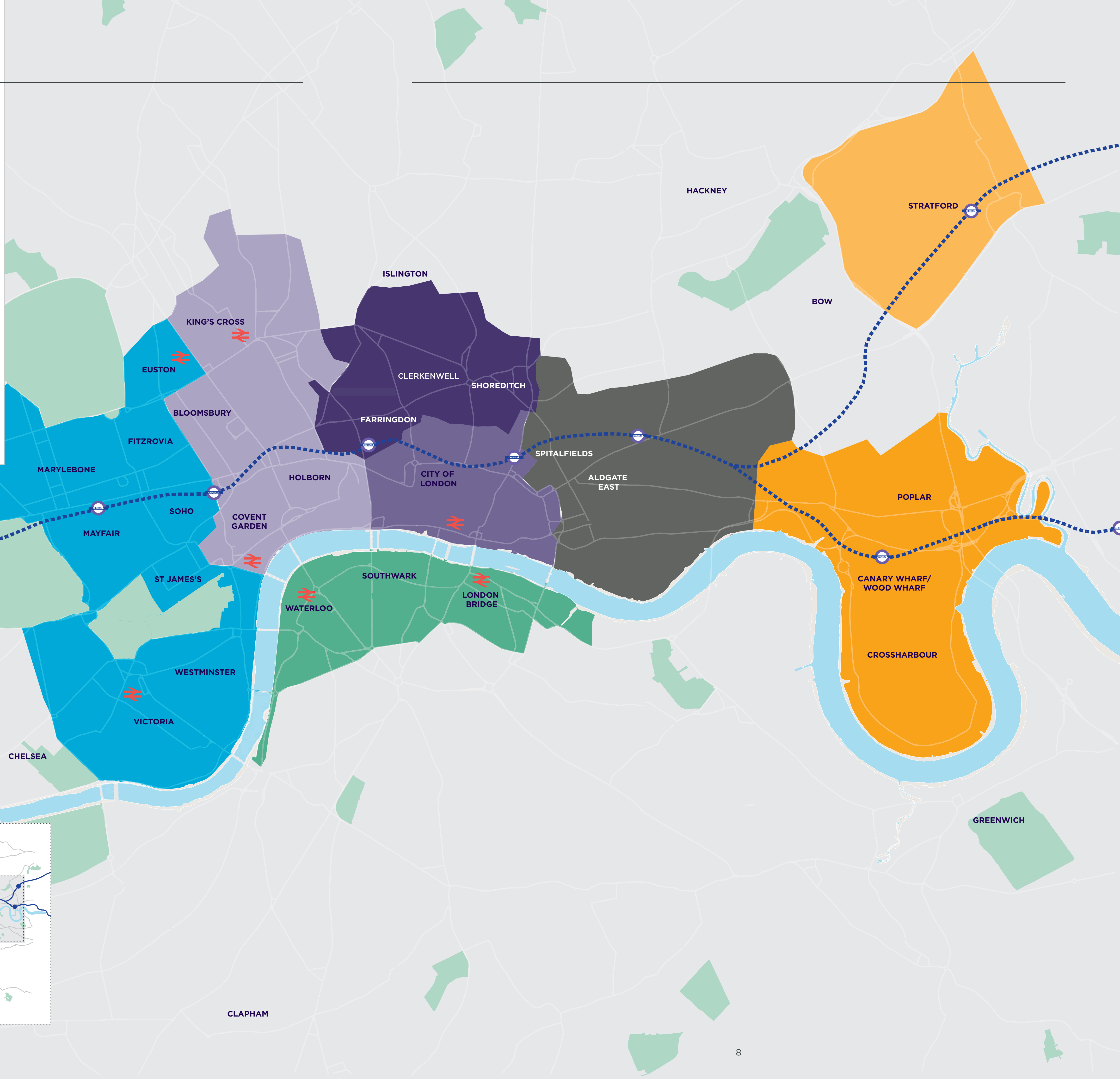
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

Office Occupancy Costs

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

Rent Free Periods

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



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 2023

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

Sub-market	Rent	Business Rates	Service Charge	Total
City of London – Bank, Leadenhall Street	£75.00	£31.75	£14.00	£120.75
City Fringe North - Shoreditch, Clerkenwell	£67.50	£25.25	£13.00	£105.75
City Fringe North West - Farringdon, Smithfield	£85.00	£26.00	£13.00	£124.00
City Fringe East - Aldgate East	£55.00	£23.50	£13.00	£91.50
City Fringe East - Spitalfields	£72.50	£26.50	£13.00	£112.00
South Bank - Southwark, London Bridge	£75.00	£27.00	£13.00	£115.00
East London - Canary Wharf	£55.00	£16.75	*£18.25	£90.00
East London - Crossharbour	£35.00	£12.00	£13.00	£60.00
East London - Stratford	£47.50	£16.50	*£12.00	£76.00
Midtown West - Bloomsbury	£85.00	£33.00	£13.00	£131.00
Midtown East - Holborn	£72.50	£31.00	£13.00	£116.50
Midtown North - King's Cross	£85.00	£35.00	£13.00	£133.00
Midtown South - Covent Garden	£82.50	£35.00	£13.00	£130.50
West End Central - Mayfair, St James's	£145.00	£54.25	£14.00	£213.25
West End North - Marylebone	£99.50	£41.50	£13.00	£154.00
West End North - Fitzrovia	£97.50	£39.00	£13.00	£149.50
West End South - Victoria, Westminster	£85.00	£38.50	£13.00	£136.50
West End West - Paddington	£82.50	£27.00	£13.00	£122.50
West End East - Soho	£105.00	£40.50	£13.00	£158.50
West London - Hammersmith	£56.00	£24.00	£12.50	£92.50
West London - White City	£55.00	£22.50	£12.50	£90.00
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

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

Reducing Real Estate Costs

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 Q4 2023

The “flexi-office” – serviced and managed office – sector has been a notable component of letting activity during Q4 2023 reflecting the shift in occupier demand, at the sub 5,000 sq ft / 50 person end of the office market, towards a more flexible, less capital-intensive, office accommodation model – see page 13. As with the second and third quarters of the year, financial services businesses continued to be the main drivers of demand for central London office space during the final quarter.

The key leasing transactions table for Q4 2023 also highlights the continuing trend for occupiers to focus their property strategies on leasing well-located, new and refitted Grade A space with good sustainability credentials to underpin recruitment, retention, productivity, wellness, environmental and social responsibility policies.

Table 4 – Key Office Lettings – Q4 2023

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	King and Spalding	Legal Services	8 Bishopsgate, EC2	41,000
City of London	The Office Group / Fora	Flexi Offices	60 London Wall, EC2	33,000
City of London	Ardonagh Specialty	Insurance	3 Minster Court, EC3	30,000
City of London	Bank of Ireland	Financial Services	31-45 Gresham Street, EC2	18,807
City Fringe - North - Shoreditch	Amazon	Online Retail	The Stage, 22 Hewett Street, EC2	180,000
City Fringe - North - Shoreditch	Regal London / Platform	Flexi Offices	Shoreditch Exchange, Gorsuch Place, E2	143,000
City Fringe - North West - Farringdon	J Sainsbury plc	Food Retailing	The JJ Mack Building, 33 Charterhouse Street, EC1	68,000
City Fringe - North - Clerkenwell	Impact Working	Flexi Offices	The Arc, 225 City Road, EC1	17,200
Midtown - West - Bloomsbury	Rothesay Ltd	Financial Services	The Post Building, 100 Museum Street, WC1	44,000
West End - Central - Mayfair	Millennium Capital Partners	Financial Services	50 Berkeley Street, W1	176,000
West End - North East - Fitzrovia	Landmark Space	Flexi Offices	99 Great Portland Street, W1	37,000
West End - Central - St James's	Heidrick & Struggles	Business Services	31 St James's Square, SW1	28,000
West End - East - Soho	Harbourvest Partners	Financial Services	Air W1, 20 Air Street, W1	28,000
West End - North - Euston	Snyk	Technology	Mainframe, Eversholt Street, NW1	11,900
West End - Central - Mayfair	Blue Owl Capital	Financial Services	65 Davies Street, W1	11,371
West End - Central - Mayfair	Findlay Park Partners	Financial Services	16 New Burlington Place, W1	9,000
West London - North Kensington	Phoebe Philo	Fashion	The Notting Dale Campus, Nicholas Road, W11	30,000

Source: Carter Jonas Research

Comparing The Costs Of Relocating & Staying Put

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

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

Stay-put / Relocate Property Options Cost Appraisal

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

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

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

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

The Serviced Office & Co-Working Sector

As can be seen from the office lettings take up data for the final quarter of 2023 – see Table 4 – the flexi-office (serviced, co-working and managed office sector) has been a notable component of leasing activity. This trend is reflective of the continued growth in demand among smaller and mid-size businesses (typically those with less than 50 employees) for office space that is ready fitted out, therefore not requiring any significant capital investment by the ingoing tenant, that is available on flexible leases of 1 – 3 years.

Interestingly, an increasing number of landlords of "conventional" (non-serviced) small office suites, typically below 5,000 sq ft, are fitting out available accommodation and offering it to let on a "plug-in-and-go" basis in order to compete with the serviced office market.

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

It is likely that the flexi-office market will be one of the main beneficiaries of the unfolding artificial intelligence revolution as increasing numbers of small start-up enterprises develop from this emerging business sector – see commentary on page 1.

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

The robustness of flexi-office demand is leading some serviced office businesses to go back on the acquisition trail – as demonstrated in Table 4 of this document – seeking space for conversion. However, and very significantly, an increasing number of flexi-office operators are seeking to structure the acquisition of additional accommodation by way of management agreements with building owners, rather than conventional leases, under which revenues generated (and risks) are shared.

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

> "Demand for office accommodation in central London is being driven, in part, by the operators of serviced and co-working office space that are seeking accommodation for conversion, reflecting the robustness of occupier demand in that market sector."

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