RESEARCH

The London Office Market Q1 2025

A Guide To Rents, Rent Free Periods & Market Trends

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Carter Jonas

London's Status As A Global Financial, Technology & Media Hub Will Underpin Its Resilience In The Wake Of Economic & Geopolitical Uncertainty

The commentary in the fourth quarter 2024 edition of this publication highlighted a number of risks facing the London office market including domestic economic policy – notably increased employment taxes which come into effect from April 2025 - and US trade policy.

The Business Services Sector

At the time of writing, the Trump administration's policy has been to focus trade tariffs on imported raw materials and manufactured goods. With a baseline tariff of 10%, the UK has, arguably, fared far better than the likes of China, Mexico, Canada and the European Union, although the country's automotive industry will, like others that export vehicles to the US, still be subject to tariffs of 25%.

So far US trade policy has not yet targeted the services sector of the global economy which, in the UK, accounts for circa 80% of GDP and employs a similar percentage of the UK workforce, according to the Office for National Statistics.

Indeed, there is likely to be more work for management consultants and other business services advisors as Britain's manufacturers seek advice on the best way to re-shape their businesses to minimise the impact of US trade tariffs, which may lead to employment growth in these business sectors in the short term.

London: A Global Hub

Much of Britain's services activities are concentrated in London. The UK's capital city is a global hub for financial services and is second only to New York in terms of both the volume of assets traded and managed. London is also home to a vibrant and internationally renowned creative and media sector. The UK is also a magnet for overseas investment in technology - artificial intelligence being the latest manifestation of this trend - and life sciences, underpinned by world class universities. London invariably attracts a large proportion of that investment.

US Investment Banks & Global Tech

Comfort should also be taken from the fact that London is home to the European operations of many of America's key investment banks including Goldman Sachs, JP Morgan Chase and Morgan Stanley. The US's tech giants including Google, Apple and Meta also have a substantial presence in the UK's capital city. This may make London less vulnerable to the imposition of any punitive tariffs by the Trump White House on the global services industry. Reason, indeed, to be optimistic.

Inflation & Interest Rates

The scale and magnitude of the Trump administration's recently announced trade tariffs is likely to result in inflationary pressure in the US economy, a view shared by the Chairman of the Federal Reserve, Jerome Powell, as importers pass on higher import taxes to consumers. The forecast reduction in US interest rates is therefore likely to be more gradual and slower than predicted by market commentators at the end of last year. In tandem with America's trade policies, tighter US monetary policy is likely to weaken global economic growth.

Economic & Geopolitical Influences

It is likely that until the impact of UK employment taxes and US trade policy on the business community becomes clear, the London office market will pause for breath after a couple of years of robust growth in both leasing volumes and rents for Grade A space. Geopolitical uncertainty associated with the war in Ukraine and the threat of the erosion of democratic values in countries that are important contributors to the global economy are also weighing on the London office market.

Market Resilience

The volatility in the global financial markets sparked by US trade policy is likely, in the short term, to weaken demand for London office space from the banking sector.

While some landlords of average quality, refurbished, office space in secondary locations may be minded to reduce advertised rents on space that has been available for a prolonged period, rents for well-located best in class Grade A space are less likely to suffer the same fate, reflecting historically low vacancy rates across central London and limited choice in this segment of the market. Supply-side constraints are likely to persist well beyond 2028 based on the current pipeline of refurbishments and new developments (see page 4), a significant proportion of which have been pre-let, underpinning rents for Grade A space.

Opportunities For Footloose Tenants

As has been the pattern during periods of economic weakness in the past, the temporary slackening in demand for office space in London is likely to be reflected in a lengthening in rent free period incentives, rather than a reduction in headline rents, for Grade A accommodation. There is, therefore, a window of opportunity for those footloose tenants that are wishing to trade up into better quality space to underpin their recruitment and retention policies and environmental credentials to take advantage of current market weakness.

Return To The Office

A slower national and global economy, and weaker jobs market with the increased risk of redundancy, is likely to be used increasingly by some employers to "encourage" members of staff to work more frequently in the office, as businesses continue to address the post COVID challenge of getting the workforce back into the habit of working from the office.

It has been well documented that the likes of Dell, Amazon, JP Morgan Chase and Goldman Sachs have implemented five day week return to the office (RTO) policies in order to reinforce team working, collaboration and innovation - which is widely considered to be best achieved in-person, in the office - with the key objectives of enhancing productivity and profitability.

"Carrot & Stick" Strategies

Interestingly, the "carrot and stick" strategies that are being adopted by employers to implement return to the office policies are many and varied according to research carried out by the think tank, Centre for Cities. One of the most popular strategies adopted to entice staff back to the office is the offer of free, or significantly subsidised, food. Amazon is reported to have reinforced its five days a week RTO policy, which came into effect from January this year, by offering staff a 10% pay increase.

IBM is understood to have ordered its staff to work at least three days a week in the office or else face having their job being replaced by artificial intelligence. The use of CCTV and under desk sensors are being used by some employers to monitor the implementation of their return to the office policies.

The Work Environment

Creating a vibrant, attractive, well-lit and ventilated workplace that blurs the lines between the home and work environments, and underpins employee wellbeing, is another well established strategy to lure employees back to the office. This trend, reinforced by the desire of many businesses to operate from environmentally sustainable accommodation, has fuelled the surge in demand for new and refitted, energy-efficient, Grade A office space which has led to the current imbalance between supply and demand in this market segment across most parts of central London.

New Employees

Employers are also updating the employment contracts that are being offering to new employees to reinforce their RTO policies by including provisions that make it a requirement to attend the office on a specified number of days each month, and on specific days each week.

Three Days A Week

Centre for Cities' research illustrates that three days per week is currently the most popular working pattern adopted by most London businesses, as exemplified by Deutsche Bank, Barclays and Santander, in contrast to the two days per week during 2023. Some employers are specifying that one of the three days should be either a Monday or Friday – typically the days least favoured by employees. Time will tell whether this trend will become the "new normal".

Demographics

The research carried out by Centre for Cities also dispels the myth that it is the younger members of the workforce who are least inclined to attend the office, as they seek on-the-job training and mentoring which is best achieved in-person, in the office environment. Those over 35, and arguably with longer commutes as they start families and move out of London to larger homes, tend to have lower office attendance rates.

Occupancy Rates

Data from Remit Consulting shows that the national daily office occupancy average reached 37% in March this year compared with 34% a year ago. London's March average daily office occupancy was similarly 37%, mirroring the national trend, with the West End recording an average occupancy rate of over 60% in contrast to circa 40% in the City of London and Docklands. Remit's research also shows that Tuesday – Thursday occupancy is broadly level with Friday being the lowest and Monday falling in between.

Pre-COVID, research from organisations including the British Council For Offices suggests that daily UK office occupancy rates were typically between 60 – 80%, reflecting staff absences due to holidays, external meetings, employee sickness and other operational issues.

Increased Utilisation

Increasing weekly occupancy rates means that employer's office space is being utilised more intensively than ever before, post pandemic, which is likely to leave less opportunity for some businesses to reduce their operating costs by sub-letting surplus space. Indeed the "downsizing" trend that manifested itself in the immediate aftermath of the pandemic was being reversed during 2023 and 2024 as office occupancy rates gradually increased and as employers began to increase investment in new jobs in the wake of the improving economic climate.

Epilogue

Weakness in the UK and global economies sparked, respectively, by UK and US economic policies, is likely to translate into lower leasing volumes in the London office market during 2025. Landlords will be keener to secure lettings in a market which is likely to be populated with fewer footloose tenants. This should provide an opportunity for those occupiers who are thinking of renewing their lease, or relocating, to negotiate lease terms that are more tenant-friendly than those that could have been agreed during the second half of 2024.

A substantial adjustment in the market is, however, unlikely. Historically low vacancy levels in the Grade A market segment across central London and a limited pipeline of new developments, a significant proportion of which have been pre-let, will, fundamentally, underpin the market.

A slower global economy, and weaker jobs market, is likely to encourage some employers to become more assertive in the implementation of their return to the office policies to enhance the mentoring and training of younger employees and boost team collaboration and productivity.

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" Construction cost inflation, higher financing costs and restrictive planning policies, requiring developers to justify demolition, are conspiring to constrain the London office development pipeline. "

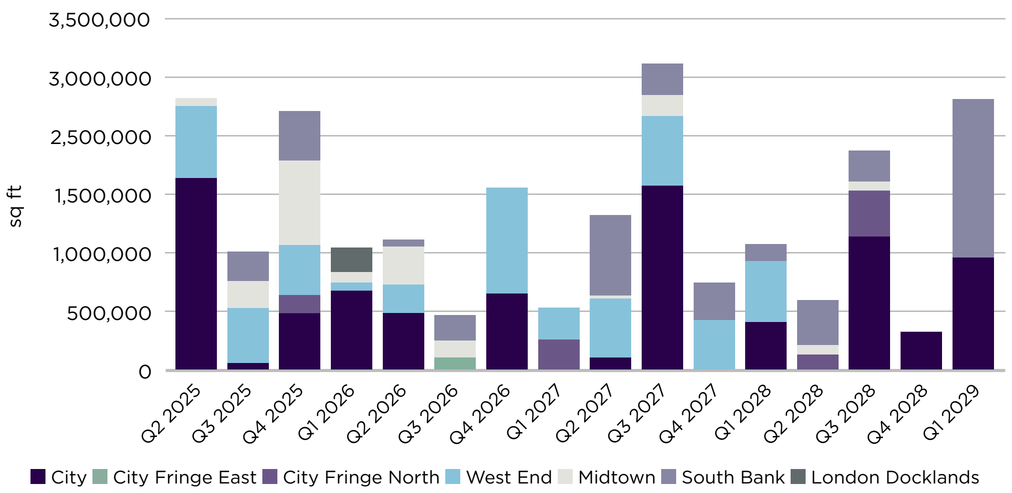
The Supply Pipeline

Despite robust rental growth in the Grade A office market segment across central London during the last 18 or so months, typically the key driver of development starts, inflation in construction costs, higher financing costs and new planning policies that challenge developers to justify demolition are collectively conspiring to constrain the pipeline supply of new space under construction.

The tables below show the pipeline of new office developments and refurbishments above 30,000 sq ft for the period from Q2 2025 to Q1 2029. Graph 1 illustrates the total quantum of floor space that will be reaching 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 and those properties that are in the planning process and where consent has yet to be granted.

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

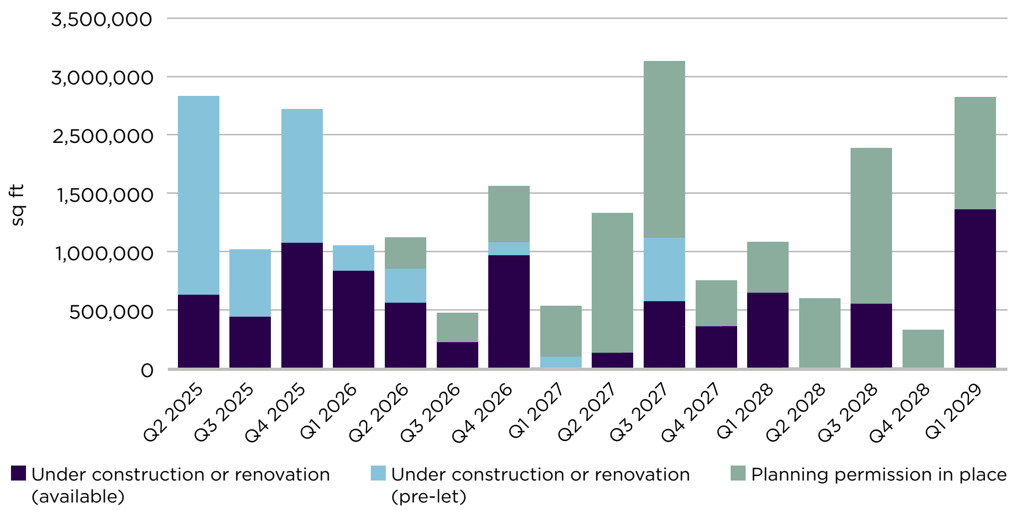
Source: Carter Jonas Research



Graph 2 illustrates the extent to which pipeline floor space has been pre-let (and is therefore no longer available). A significant proportion of the office space that is due to be delivered during 2025 has already been pre-let – a trend that is likely to continue for the foreseeable future given the shortage of space across central London that can accommodate office requirements in excess of 50,000 sq ft.

Graph 2
The London Office Development / Refurbishment Pipeline

Source: Carter Jonas Research



“ There is a window of opportunity for those footloose tenants that are wishing to trade up into better quality space to underpin their recruitment and retention policies and environmental credentials to take advantage of current market weakness. ”

Rents and Rent Free Periods

Rent Free Periods

Table 1 – Typical Rent Free Periods & Rent Discounts By Sub-Market – Q1 2025
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

“ The next few quarters are likely to see a modest expansion in rent free periods across the London office market, in both the Grade A and Grade B market sectors, in the wake of weaker demand. ”

Advertised Rents

Landlords' advertised rents for new, best-in-class, Grade A office space during the first quarter of 2025 have continued to rise in Mayfair and St James's by around 6.5% as developers capitalise on falling vacancy and as tenants grapple with declining choice. In Holborn, Southwark, London Bridge and the City core the increase has been a more modest circa 3%. Significantly, the increases were recorded before the announcement by President Trump of America's new trade tariffs.

Until the impact of the recently announced US trade policies on the global economy becomes clearer, it is quite likely that advertised rents for new and refurbished Grade A space across central London will remain broadly flat, reflecting subdued demand. Rents for low quality space with poor environmental credentials may decline over the next few quarters, reflecting poor demand in this market segment.

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

Rent Discounts & Rent Free Periods

Notwithstanding the persisting imbalance between supply and demand for Grade A space with good environmental credentials located in the central sub-markets, it is non-the-less possible to negotiate rent discounts on advertised rents, 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.

Rent discounts on landlords' advertised rents for both Grade A and Grade B space are likely to widen during the next few quarters in the wake of weaker demand.

Valuation Impact

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 between supply and demand for Grade A space in the central London office market is being reflected by landlords in higher rents rather than shorter rent free periods.

Depending upon the extent to which UK employment taxes and US trade tariffs affect London based businesses, it is likely that the next few quarters will witness a modest expansion in rent free periods in the Grade A and Grade B market sectors across most of the London office sub-markets, reflecting weaker demand.

“ Rents for best in class Grade A office space are unlikely to be significantly affected by the current uncertain economic climate, underpinned by low vacancy rates. Market weakness is likely to be reflected in longer 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:

Demand

- subdued demand across London for good quality Grade A space during the rest of 2025 reflecting the uncertain UK and global economic environments

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

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
- the continued pre-letting of space that is under construction will reduce the pipeline supply of unlet, available, floor space reaching the market for the foreseeable future

Advertised rents

- for new, best in class, Grade A space are likely to remain broadly flat for the remainder of 2025
- reductions in advertised rents for lower quality, refurbished, accommodation in secondary locations is likely during the next few quarters

Discounts on advertised rents

- for both Grade A and Grade B space are likely to widen modestly during the next few quarters reflecting weaker demand

Lease length / break options

- tenants are likely to press for greater lease flexibility - shorter leases / more frequent break options - to reflect global economic uncertainty

Tenants bargaining position

- the balance of bargaining power in lease negotiations is likely to shift in favour of tenants in most areas of London during the remainder of 2025, except in the core areas of the West End office market where Grade A vacancy levels are particularly low

Office leasing activity

- below trend letting activity across London during much of 2025 reflecting economic uncertainty associated with US trade policy and domestic economic issues

Serviced offices

- demand likely to remain resilient for the remainder of 2025 for serviced office space from start-ups and established businesses that value lease flexibility to hedge against economic uncertainty or to accommodate rapid changes in headcount

> “ Weakness in the UK and global economies sparked, respectively, by UK and US economic policies, is likely to translate into lower leasing volumes in the London office market during 2025. ”

Assessing A Building’s Sustainability Credentials

Research demonstrates that real estate consumes circa 40% of global energy annually and contributes to approximately 20% of carbon emissions. Operating from energy-efficient, sustainable, accommodation is therefore one of the key ways that a business can ameliorate its impact on the environment and boost it’s “green” and corporate social responsibility credentials.

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

Energy Performance Certificates

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

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

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

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

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

BREEAM & LEED

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

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

NABERS

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

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

WELL

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

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

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

The London Office Market

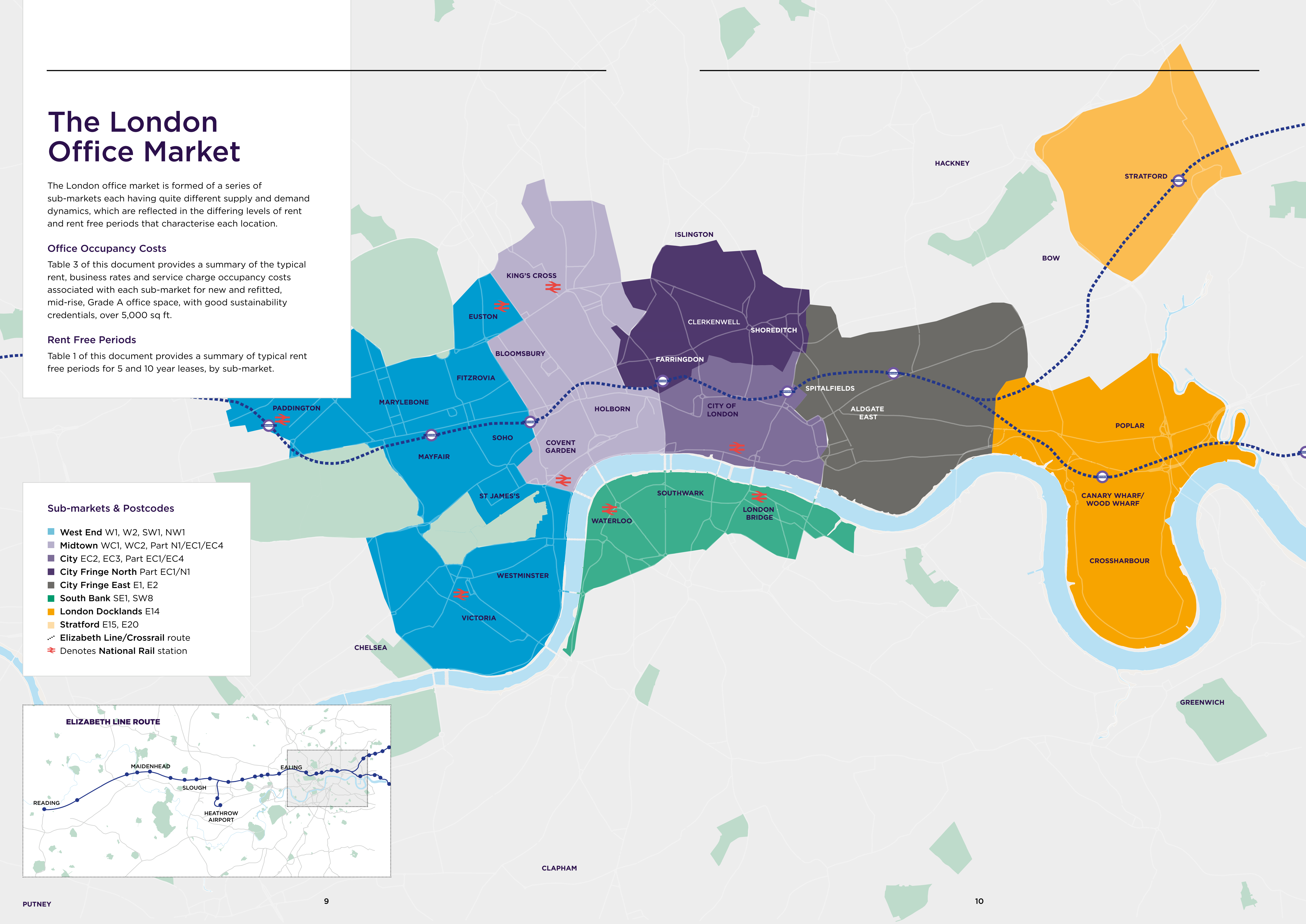
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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.



“ A slower global economy, and weaker jobs market, is likely to encourage some employers to become more assertive in the implementation of their return to the office policies to enhance the mentoring and training of younger employees and boost team collaboration and productivity. ”

Table 2 – The London Office Market – Typical Landlords’ Advertised Rents Q1 2025

£ per sq ft per annum | space over 5,000 sq ft | UF= Upper Floors | RV = River Views (Not fitted plug-in-and-go)

Location	Grade A		Grade B
	New/Refitted	Refurbished	Refurbished
City			
Prime - Bank, Leadenhall Street	£77.50 - £95.00 (UF = £99.50 - £135.00)	£62.50 - £75.00 (UF = £82.50 - £112.50)	£45.00 - £55.00
Secondary - Blackfriars, Aldgate	£69.50 - £85.00 (UF = £90.00 - £120.00)	£55.00 - £67.50 (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 - £85.00 (UF = £87.50 - £97.50)	£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 - £87.50 (UF/RV = £90.00- £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)	£135.00 - £170.00 (UF = £180.00 - £200.00)	£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 - £125.00 (UF = £130.00 - £165.00)	£80.00 - £90.00	£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	£92.50 - £115.00 (UF = £117.50 - £125.00)	£72.50 - £89.50	£55.00 - £67.50
West - Paddington	£75.00 - £88.50 (UF = £90.00 - £95.00)	£62.50 - £72.50	£42.50 - £52.50
Midtown			
North - King's Cross	£79.50 - £95.00 (UF= £100.00 - £110.00)	£67.50 - £77.50	£47.50 - £57.50
South - Covent Garden, Strand	£77.50 - £90.00 (UF/RV = £95.00 - £115.00)	£65.00 - £75.00	£50.00 - £57.50
East - Holborn	£72.50 - £85.00 (UF = £87.50 - £110.00)	£57.50 - £69.50	£45.00 - £52.50
West - Bloomsbury	£82.50 - £95.00 (UF = £96.50 - £98.50)	£67.50 - £79.50	£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
Olympia	£57.50 - £80.00	£42.50 - £55.00	£35.00 - £40.00
Hammersmith	£52.00 - £58.50	£40.00 - £50.00 (UF = £55.00 - £57.50)	£32.50 - £42.50
White City	£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 – Q1 2025

Typical costs per sq ft per annum for new and refitted mid-rise Grade A space over 5,000 sq ft (excluding VAT) – Not Fitted Plug-In-And-Go

Sub-market	Rent	Business Rates	Service Charge	Total
City of London Prime – Bank, Leadenhall Street	£87.50	£34.55	£15.00	£137.05
City of London Secondary - Blackfriars, Aldgate	£75.00	£30.50	£15.00	£120.50
City Fringe North - Shoreditch, Clerkenwell	£72.50	£27.30	£13.50	£113.30
City Fringe North West - Farringdon, Smithfield	£92.50	£30.50	£13.50	£136.50
City Fringe East - Aldgate East	£57.50	£25.40	£13.50	£96.40
City Fringe East - Spitalfields	£77.50	£28.70	£13.50	£119.70
South Bank - Southwark, London Bridge	£85.00	£29.00	£13.50	£127.50
East London - Canary Wharf	£55.00	£18.10	*£19.00	£92.10
East London - Crossharbour	£35.00	£13.00	£13.50	£61.50
East London - Stratford	£47.50	£17.90	*£13.50	£78.90
Midtown West - Bloomsbury	£90.00	£35.75	£13.50	£139.25
Midtown East - Holborn	£85.00	£33.50	£13.50	£132.00
Midtown North - King's Cross	£90.00	£37.90	£13.50	£141.40
Midtown South - Covent Garden	£87.50	£37.90	£13.50	£138.90
West End Central - Mayfair, St James's	£160.00	£58.80	£14.50	£233.30
West End North West - Marylebone	£105.00	£45.00	£13.50	£163.50
West End North East - Fitzrovia	£100.00	£42.30	£13.50	£155.80
West End South - Victoria, Westminster	£95.00	£41.70	£13.50	£150.20
West End West - Paddington	£85.00	£29.25	£13.50	£127.75
West End East - Soho	£107.50	£43.90	£13.50	£164.90
West London - Hammersmith	£55.00	£26.00	£13.00	£94.00
West London - White City, Shepherds Bush	£57.50	£24.40	£13.00	£94.90
South West London - Battersea, Nine Elms	£65.00	£23.90	£13.00	£101.90

Source: Carter Jonas Research

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

Notes

- Rents are typical landlords' 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 2025 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 Q1 2025

During the first quarter of 2025 the financial services sector was the key driver of demand for London office space in many of the sub-markets that form the central London office market.

Almost all of the transactions featured in the table of first 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 – Q1 2025

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Simmons & Simmons	Legal Services	25 Finsbury Circus, EC2	155,000
City of London	AlixPartners	Financial Services	1 Millennium Bridge, EC4	90,000
City of London	Knight Frank	Business Services - Real Estate	1 Liverpool Street, EC2	72,400
City of London	SS&C	Technology	CityPoint, 1 Ropemaker Street, EC2	42,178
City of London	The Work Project	Flexi Offices	One Leadenhall, EC3	30,000
City of London	RiverStone International	Financial Services	22 Bishopsgate, EC2	25,000
City of London	Broadridge Financial	Financial Services	12 Arthur Street, EC4	20,000
City of London	Railpen	Financial Services	Building 7, Devonshire Square, EC2	17,222
City Fringe North - Shoreditch	Capital on Tap	Financial Services	Hylo, 105 Bunhill Row, EC1	19,000
City Fringe North - Clerkenwell	BE Offices	Flexi Offices	20 Garrett Street, EC1	18,128
West End - Victoria	American Express	Financial Services	Belgrave House, 76 Buckingham Palace Road, SW1	80,000
West End - North West - Marylebone	Generation Investment Management	Financial Services	The M Building, Marylebone Lane, W1	58,491
West End - North West - Marylebone	Unity Working	Flexi Offices	Ambika House, 9-11 Portland Place, W1	25,350
West End - North - Euston	Synthesia	Technology	20 Triton Street, Regent's Place, NW1	20,000
West End - North East - Fitzrovia	Aurum Funds	Financial Services	80 Charlotte Street, W1	11,250
Midtown - Bloomsbury	Next	Retail	31 Alfred Place, WC1	11,500
Midtown - North - King's Cross	Centre For Governance	Research	210 Pentonville Road, N1	10,000
South Bank - London Bridge	Allfunds Group	Financial Services	Tower Bridge Court, 224-226 Tower Bridge Road, SE1	16,500
South Bank - Southwark	Core Five	Business Services - Construction	Southbank Central, 30 Stamford Street, SE1	15,000
West London - Hammersmith	Qantas Airways	Aviation	The Ark, 201 Talgarth Road, W6	7,000
East London - Canary Wharf	UCL School of Management	Education	1 Canada Square, E14	44,550
East London - Wood Wharf	Zopa Bank	Financial Services	20 Water Street, E14	45,000
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 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 uncertain national and global economic climate has, during the first quarter of 2025, reinforced demand for serviced office space from small and mid-size businesses, typically those employing less than 50 staff. The serviced office, co-working and managed office accommodation models are proving attractive because they offer footloose tenants a minimal / nil capital expenditure, cashflow-friendly, accommodation solution at short notice.

There is no lengthy and complicated lease to sign, no requirement to tie-up working capital in a fit out or the purchase of office furniture, there are typically no dilapidations liabilities and the landlord can provide data / telecoms services and support.

Demand for flexible office space 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.

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.

> " The serviced office, co-working and managed office accommodation models are proving attractive because they offer footloose tenants a minimal / nil capital expenditure, cashflow-friendly, accommodation solution at short notice. "

Ready Fitted Out & Non-Fitted Office Space

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 / Tax Relief

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.

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