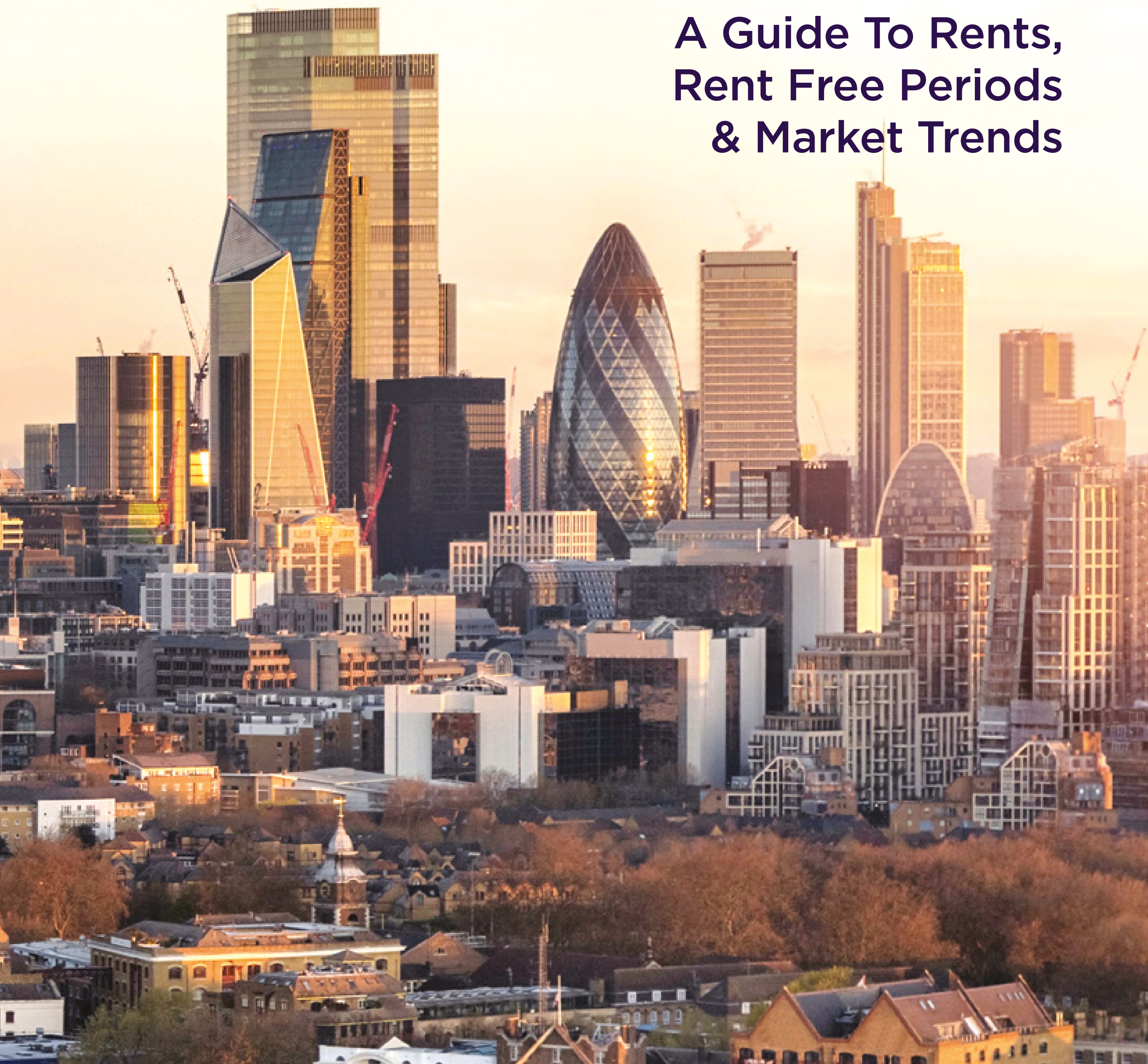
RESEARCH

The London Office Market Q1 2024

A Guide To Rents, Rent Free Periods & Market Trends



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The London Office Market: The Mismatch Between Supply & Demand

A Two Tier Market

Divergence in the London office market continues. Landlords of well-located office buildings with good environmental credentials and A or B energy performance certificate (EPC) ratings are not having too much difficulty in securing lettings. The same cannot be said of office accommodation that does not meet these key criteria.

Limited Choice

The COVID pandemic and the consequent disruption to the development pipeline still casts a long shadow across the London office market. Four years on from the first lockdown the mismatch between supply and demand for new and refitted Grade A space with good sustainability credentials persists.

However, easing build cost inflation, an anticipated lower interest rate climate and rising rents are conspiring to boost investor / developer confidence in the market as increasing numbers of new development and refurbishment project starts are announced and planning applications submitted.

This is good news for footloose tenants that will be seeking office space in the next 2 – 3 years, when the current wave of developments will be completed, but is of little comfort to those businesses that are intending to move between 2024 and 2026, as historically low vacancy limits choice.

Rents & Rent Free Periods

Despite a slow start to leasing activity in January, the first quarter of 2024 has witnessed continued upward pressure on rents for well located, environmentally friendly, new and refitted Grade A space across many of the central London office sub-markets, especially in the West End, a trend underpinned by resilient demand and low vacancy.

Rent free periods during Q1 2024 have remained broadly static across many parts of London – see Table 1. Landlords continue to reflect the mismatch between supply and demand for Grade A space in areas of particularly low vacancy, such as the West End, by pushing up rents rather than reducing rent free periods. A not unsurprising trend given that asset values are more sensitive to the level of rents than the length of rent free periods.

> “ Footloose tenants seeking well located new and refitted Grade A space will find more choice in the City of London, City fringes and Canary Wharf. ”

Go East

For those seeking more choice and cost-effective Grade A space with good green credentials look no further than the City of London and City fringes – see Tables 2 and 3. For those footloose tenants that are feeling particularly adventurous there is always Canary and Wood Wharfs in East London – just 15 minutes from the West End (Bond Street) and 7 minutes from the City (Liverpool Street) on the Elizabeth Line.

Politics & The Global Economy

With elections due this year in America and the UK, political uncertainty is likely to have a restraining influence on London office demand as businesses defer investment decisions in relation to both people and real estate, notwithstanding the positive news that inflation is declining and the peak in the current interest rate cycle is likely to have been reached.

However, London will continue to be a magnet for both highly skilled professionals and international investment capital, reflecting the capital's status as a key global financial, technology / artificial intelligence and life sciences hub. These factors will continue to fuel demand for office space.

Artificial Intelligence & “Smart” Offices

Digital technology and the increasing use of artificial intelligence in building management systems should enable office occupiers to exercise more control over their working environment – with greater flexibility to control air conditioning, heating and lighting remotely in zoned areas of the tenant's leased accommodation, using mobile phone technology.

Office occupiers should therefore be able to optimise their consumption of electricity while enhancing their environmental credentials and reducing their operating costs.

Less Downsizing

More regular post COVID working patterns - typically Tuesday, Wednesday and Thursday office working – is leading many in the business community to become increasingly confident in assessing the quantum of floor space required when planning their office move.

An improving world economic outlook with lower inflation and anticipated lower interest rates across the globe's key trading blocs are factors that are underpinning business confidence, which is beginning to translate into greater investment by London-based employers in new jobs, especially in the financial and business services sectors.

More predictable working patterns and the resumption of headcount growth are both conspiring to weaken the trend towards downsizing that was prevalent among footloose occupiers during 2021 and 2022, in the aftermath of the COVID pandemic.

Human Resources & The Workplace

Reflecting the trend witnessed during 2022 and 2023, demand for Grade A office space during the first quarter of 2024 continues to be driven by the desire of the business community to create a vibrant, attractive and environmentally sustainable workplace that fosters employee wellbeing and underpins recruitment, retention, productivity and return to the office human resources policies.

Plug In & Go CAT A+ Fitted Accommodation

The cost of fitting out office accommodation with data / telecoms infrastructure, furniture, meeting rooms, video / pod rooms, private offices and other facilities is very substantial. Traditionally, landlords have offered office space to let on the basis that the incoming tenant will fit the accommodation out to suit its particular operational requirements, and will also bear the costs of the fit out works, draining businesses of working capital and having a negative impact on cashflow.

However, increasing numbers of landlords are offering office space ready fitted out on a “plug-in-and-go” basis (also known as CAT A+ accommodation) or are offering to fund, design and fit out space for tenants on a bespoke basis. Page 14 of this document provides more information on this market trend.

Epilogue

While the decline in inflation signals the likely peak in the current interest rate cycle, political uncertainty associated with elections in America and the UK is likely to dampen leasing activity in the London office market in the short term.

However, London's pre-eminence as a global hub for finance, technology / artificial intelligence and life sciences will, fundamentally, underpin demand for office space in an undersupplied market. Rents for well-located Grade A space with good environmental credentials are therefore likely to be higher at the end of the year.

> “ The acute shortage of Grade A accommodation in London's West End has pushed rents to over £185 per sq ft per annum for new, prime located, space. ”

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Rents and Rent Free Periods

Advertised Rents

The first quarter of 2024 has witnessed the continued shift in demand towards new, best in class, environmentally sustainable, Grade A space. Low vacancy levels in this market segment in the West End, Midtown, South Bank and City of London sub-markets have limited choice for footloose tenants and underpinned rents.

In the north and east City fringes (Shoreditch and Aldgate East), east London (Stratford and Canary / Wood Wharf) and west London (Hammersmith, Chiswick) the supply and demand dynamics favour 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.

By contrast, some landlords of Grade B space have been reducing advertised rents during Q1 2024, especially for accommodation that has a D, or below, energy performance certificate (EPC) rating. This trend reflects the increasing awareness among footloose occupiers of the need to future-proof 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 in the Minimum Energy Efficiency Standards (MEES) regulations which are intended to be phased in from 1 April 2027.

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

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.

Rent Free Periods

Table 1 – Typical Rent Free Periods By Sub-Market – Q1 2024
New / Refitted & Refurbished Grade A Space Space (Not fitted plug-in-and-go)

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 & North West - 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	8 - 12 months	20 - 24 months
West End - Marylebone, Fitzrovia, Soho, Victoria, Paddington	9 - 12 months	21 - 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

The Midtown sub-market, comprising the Bloomsbury, Covent Garden, Holborn and King's Cross districts, and South Bank sub-markets, 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 %.

By comparison, discounts on landlords' 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.

Landlords of Grade A space have been increasing headline rents, rather than reducing rent free periods, particularly in the West End where demand for Grade A accommodation in many districts exceeds supply. By contrast, there is pressure on landlords to offer longer rent free periods on low grade office space with poor environmental credentials in order to secure lettings.

Over the next few quarters rent free periods across much of central London for new and refitted Grade A space are forecast to remain broadly static, except for the prime areas of the West End where a contraction in rent free periods is possible.

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

Rent discounts

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

Rent free period incentives

- for sustainable Grade A space are likely to remain broadly static during the next two quarters

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

- below trend letting activity during the next two quarters reflecting political uncertainty associated with the US and British elections

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

" 2024 is likely to favour landlords as low Grade A vacancy in the central sub-markets limits choice for footloose tenants. "

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 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. "

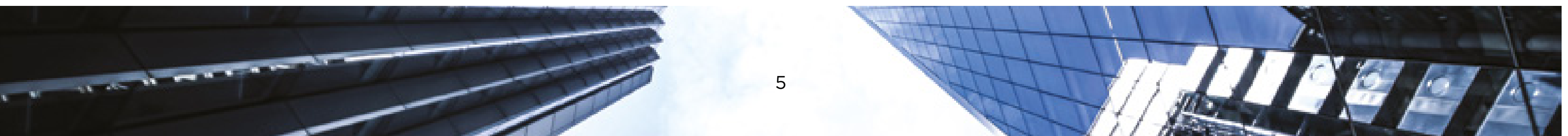


Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q1 2024

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

Location	Grade A		Grade B
	New/Refitted	Refurbished	Refurbished
City			
Prime - Bank, Leadenhall Street	£69.50 - £80.00 (UF = £85.00 - £115.00)	£57.50 - £68.50 (UF = £80.00 - £107.50)	£42.50 - £52.50
Secondary - Blackfriars, Aldgate	£65.00 - £75.00 (UF = £80.00 - £95.00)	£50.00 - £62.50 (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	£77.50- £92.50 (UF = £97.50 - £115.00)	£65.00 - £75.00	£40.00 - £56.00
East - Spitalfields	£70.00 - £80.00 (UF = £85.00 - £95.00)	£55.00 - £67.50	£37.50 - £46.50
East - Aldgate East, Wapping	£49.50 - £60.00 (UF = £62.50 - £67.50)	£38.00 - £48.50	£34.00 - £37.00
South Bank			
Waterloo, Southwark, London Bridge	£72.50 - £82.50 (UF/RV = £85.00 - £99.50)	£57.50 - £70.00 (UF/RV = £72.50 - £77.50)	£42.50 - £58.50
Battersea, Nine Elms, Vauxhall	£57.50 - £67.50 (UF = £69.50 - £75.00)	£45.00 - £55.00	£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 - £50.00	£35.00 - £42.50	£22.50 - £29.50
West End			
Central - Mayfair, St James's (Prime)	£125.00 - £155.00 (UF = £165.00 - £195.00)	£95.00 - £115.00	£67.50 - £77.50
Central - Mayfair, St James's (Secondary)	£95.00 - £120.00	£82.50 - £92.50	£65.00 - £75.00
North - Euston	£72.50 - £85.00	£62.50 - £72.50	£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	£77.50 - £92.50 (UF = £95.00 - £100.00)	£65.00 - £75.00	£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)	£72.50 - £89.50	£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	£79.50 - £87.50	£65.00 - £77.50	£47.50 - £55.00
South - Covent Garden	£77.50 - £87.50 (UF = £90.00 - £110.00)	£65.00 - £75.00	£50.00 - £57.50
East - Holborn	£67.50 - £77.50 (UF = £80.00 - £87.50)	£55.00 - £65.00	£40.00 - £49.50
West - Bloomsbury	£80.00 - £92.50 (UF = £95.00 - £98.50)	£67.50 - £77.50	£47.50 - £57.50
South West London			
Chelsea	£82.50 - £115.00	£67.50 - £80.00	£47.50 - £60.00
West London			
South Kensington	£80.00 - £115.00	£67.50 - £77.50	£45.00 - £57.50
Hammersmith	£52.00 - £58.50	£40.00 - £50.00 (UF = £55.00 - £57.50)	£32.50 - £42.50
White City	£48.50 - £56.50 (UF = £57.50 - £60.00)	£40.00 - £45.00	£32.50 - £40.00
Chiswick	£48.50 - £55.00	£37.50 - £47.50	£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

Table 2 rents are for space that is not being offered to let on a ready fitted out "plug-in-and-go" basis.

The London Office Market

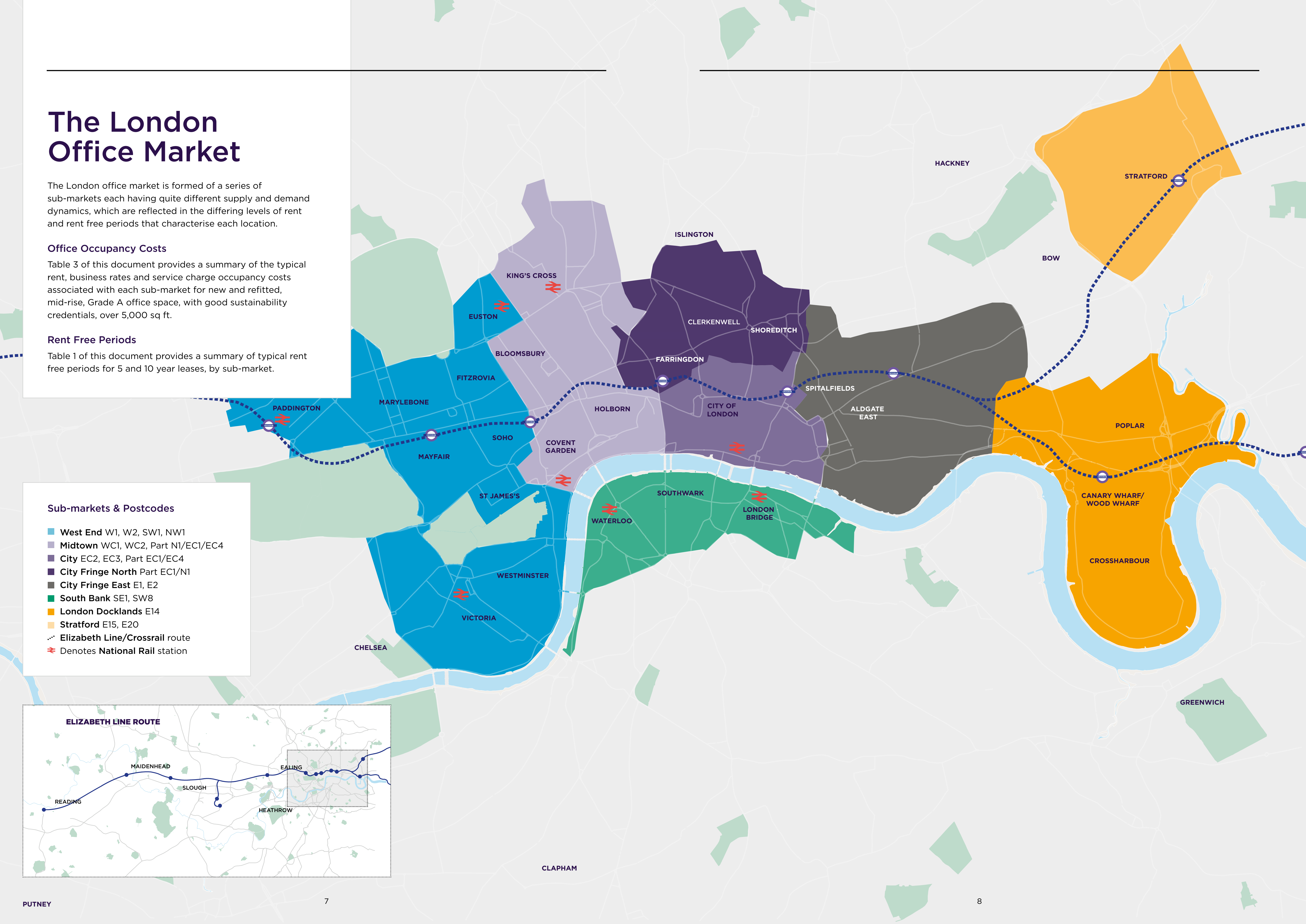
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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 – Q1 2024

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	£34.00	£14.50	£123.50
City Fringe North - Shoreditch, Clerkenwell	£70.00	£26.90	£13.00	£109.90
City Fringe North West - Farringdon, Smithfield	£90.00	£30.00	£13.00	£133.00
City Fringe East - Aldgate East	£57.50	£25.00	£13.00	£95.50
City Fringe East - Spitalfields	£75.00	£28.25	£13.00	£116.25
South Bank - Southwark, London Bridge	£77.50	£28.50	£13.00	£119.00
East London - Canary Wharf	£55.00	£17.85	*£18.50	£91.35
East London - Crossharbour	£35.00	£12.80	£13.00	£60.80
East London - Stratford	£47.50	£17.60	*£13.00	£78.10
Midtown West - Bloomsbury	£90.00	£35.20	£13.00	£138.20
Midtown East - Holborn	£75.00	£33.00	£13.00	£121.00
Midtown North - King's Cross	£85.00	£37.30	£13.00	£135.30
Midtown South - Covent Garden	£82.50	£37.30	£13.00	£132.80
West End Central - Mayfair, St James's	£145.00	£57.85	£14.00	£216.85
West End North - Marylebone	£99.50	£44.25	£13.00	£156.75
West End North - Fitzrovia	£97.50	£41.60	£13.00	£152.10
West End South - Victoria, Westminster	£87.50	£41.00	£13.00	£141.50
West End West - Paddington	£85.00	£28.80	£13.00	£126.80
West End East - Soho	£107.50	£43.20	£13.00	£163.70
West London - Hammersmith	£56.00	£25.60	£12.50	£94.10
West London - White City	£55.00	£24.00	£12.50	£91.50
South West London - Battersea, Nine Elms	£62.50	£23.50	£12.50	£98.50

Source: Carter Jonas Research

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

Notes

- Rents are typical landlord's advertised rents for space that is not ready fitted out (plug-in-and-go) and exclude the value of rent free periods
- Business rates cost estimates are from 1 April 2024 and include the Crossrail levy
- * includes estate charge
- Total costs are estimates and exclude building insurance and tenant's own utilities costs
- Rents for the upper floors of tower buildings will typically command a premium of circa 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

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 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

> "Real estate costs typically form the second highest operating cost of most businesses after staff salaries."

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 Q1 2024

As was the case throughout 2023, the financial and business services, including legal services, sectors have been the key drivers of demand for office space during the first quarter of 2024, reflecting London's dominance as a global financial and business services hub. Flexible (serviced and managed) office providers have also played their part in contributing to the office take up figures for Q1 2024 – a trend that was similarly prevalent during 2023.

The key leasing transactions table for Q1 2024 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 – Q1 2024

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Steamship Mutual	Financial Services	155 Bishopsgate, EC2	24,767
City of London	Johnson Matthey	Industrial	2 Gresham Street, EC2	22,450
City of London	Faegre Drinker	Legal Services	8 Bishopsgate, EC2	14,539
City Fringe - North - Shoreditch	Wise	Financial Services	Worship Square, 65 Clifton Street, EC2	80,000
City Fringe - East - Aldgate East	London College of Contemporary Arts	Education	The Amp, 41-71 Commercial Road, E1	37,000
City Fringe - East - Aldgate East	Gravita	Business Services	Aldgate Tower, 2 Leman Street, E1	20,274
City Fringe - East - Spitalfields	On	Fashion - Sportswear	Loom Court, Norton Folgate, E1	20,000
City Fringe - North West - Farringdon	Three Crowns	Legal Services	JJ Mack Building, 33 Charterhouse Street, EC1	15,484
Midtown - North - King's Cross	Super Group	Leisure	St Pancras Campus, Royal College Street, NW1	60,000
Midtown - South - Covent Garden	Orega	Flexi Offices	80 Strand, WC2	35,000
West End - Central - St James's	Campbell Lutyens	Financial Services	20 Carlton House Terrace, SW1	26,000
West End - East - Soho	Veriton Fund Management	Financial Services	Lucent, 1 Sherwood Street, W1	25,000
West End - North West - Marylebone	BNP Paribas Real Estate	Real Estate	7 Harewood Avenue, NW1	22,000
West End - North - Euston	Clarion Housing	Real Estate	Greater London House, 180 Hampstead Road, NW1	18,500
West End - West - Paddington	Shionogi	Pharmaceuticals	50 Eastbourne Terrace, W2	13,628
West End - Central - Mayfair	Allwyn Services	Entertainment	The Burlian, 80 New Bond Street, W1	11,500
West London - West Kensington	IWG	Flexi Offices	One Olympia, Olympia Way, W14	73,000
West London - White City	Vue	Entertainment	One Ariel Way, W12	14,000

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 the 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

WeWork Contracts
The well documented woes of serviced office / co-working provider WeWork continue to feature in the financial and property trade press. The company is to be credited with bringing a fresh approach to the serviced office sector during the 2010s – providing a more vibrant, engaging and attractive workplace for small and fast growing businesses to operate.

However, over-expansion and too much debt has caught up with the co-working behemoth as the company continues to retrench. During the first quarter of 2024 the firm has announced more closures in its London office portfolio.

Others Expand
By contrast, a number of WeWork's well-funded competitors are continuing to expand their London presence – witness the office lettings take up data detailed in Table 4 of the last four editions of this publication.

This trend is reflective of the robustness 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 incoming tenant, that is available on flexible leases of 1 – 3 years.

Competition – Conventional Space
An increasing number of landlords of "conventional" (non-serviced) office space are fitting available accommodation out speculatively and offering it to let on a "plug-in-and-go" basis in order to compete with the serviced office market – see page 14.

Demand
Flexi-office demand continues to be fuelled by a combination of occupier types, 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 geo-political climate.

Artificial Intelligence
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.

Typical Rents
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 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" 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 robustness of demand for serviced office space in central London is leading increasing numbers of serviced office providers to resume their pre-COVID acquisition programmes. "

Fitting Out Office Space To Make It Operational

Traditionally, landlords have typically developed and refurbished office space and left it ready for the incoming tenant to fit out with data / telecoms infrastructure, furniture, meeting rooms, private offices, video call / pod rooms, reception, break out, kitchen and storage areas, to render it operational for the tenant's particular needs.

Creating An Attractive, Cost-Effective, Work Environment
Well informed organisations understand the importance of providing a bright, attractive, environmentally sustainable workplace in order to underpin recruitment, retention, productivity, wellness and corporate social responsibility policies. Creating that environment – whether relocating or staying put and refurbishing / reconfiguring – requires significant financial investment and careful design and procurement.

Costs
Inflation in building materials and labour costs has, over the last couple of years, seen the cost of fitting out office accommodation rise substantially.

While those businesses that pay corporation tax can make use of capital allowances tax relief to offset some of the expenditure associated with fitting out, or reconfiguring / upgrading existing workspace, fitting out and refurbishment costs nonetheless represent a very significant drain on a business' working capital and cashflow.

"Plug-In-And-Go" Office Space
To minimise their exposure to letting voids an increasing number of landlords are offering vacant space just before the pandemic but was, at that time, 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 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 accounts 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:

- 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
- Stay / go property options cost appraisals

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

The data in this document is provided to illustrate the key trends in the London office market. We recommend that the advice of an experienced property consultant is sought where a specific property transaction is being contemplated before any irreversible decisions are made.