The London Office Market Q3 2024

A Guide To Rents, Rent Free Periods & Market Trends

Carter Jonas

Rents Rise As Vacancy Levels Decline

It was Labour Prime Minister Harold Wilson who coined the phrase "A week is a long time in politics". The same could almost be said of the London office market. Since the publication of the second quarter edition of this report there have been some significant changes in sentiment among the landlords of prime-located best in class Grade A office buildings – as vacancy levels and interest rates decline.

Rising Advertised Rents

During the third quarter of the year increasing numbers of landlords have raised advertised rents (see Table 2) on the remaining available floors of new Grade A buildings – a trend common to the City of London, West End, Midtown and South Bank sub-markets. This practice is not unusual in an undersupplied market as footloose tenants face declining choice. The magnitude of the increases in advertised rents is, however, striking: typically representing 8 – 12% compared with the beginning of the year - underpinned by the rents that are being achieved on the pre-lettings of buildings under construction, many of which are setting new benchmarks.

Robust Demand

Declining interest rates in the key global trading blocs are gradually translating into increasing investment in new jobs and, in turn, rising demand for office space. The post COVID trend towards downsizing is gradually being overtaken by the need for more space to accommodate growth in headcount as increasing numbers of businesses resume investment in people. The trend towards occupiers moving out of buildings with poor environmental credentials also continues to underpin demand for Grade A space.

The Carter Jonas Tenant Representation Team has, since the beginning of this year, witnessed rising numbers of its clients seeking more floor space to operate from. This trend spans a broad range of business sectors including architecture, legal and financial services. We have also seen increasing numbers of overseas organisations wishing to set up new offices in London, particularly those from south east Asia, which is further fuelling demand for office space in a tightening market.

Notwithstanding the robustness of demand it is likely that the remainder of 2024 will see below trend letting activity reflecting geopolitical and economic uncertainty associated with the American election and the wars in Ukraine and the Middle East.

The Tech Sector

Very significantly the global technology sector – the key driver of office demand pre-COVID – remains becalmed although it is very likely, given London's / the UK's pre-eminence as a global tech and life sciences hub, that demand from these areas of business will, over the next few years, once again underpin demand across the London office market. The evolving artificial intelligence revolution, and the consequent growth in employment in this business sector, is also likely to become an important driver of office demand in the coming years.

Impediments To Development

Rising rents have, historically, been a clear signal to developers to start building. However, unlike previous development cycles, property developers have a few more hurdles to overcome this time before they can "break ground". New planning regulations, rooted in sustainability policies, have been introduced by the two key central London planning authorities – the City of London Corporation and Westminster City Council - that require developers to justify the demolition of existing buildings. Inflation in building materials and construction labour costs and the increased cost of development finance in the wake of higher interest rates are also impediments to raising the volume of development starts.

Refurbishment Of Older Buildings

Some property owners are taking the line of least resistance and simply refurbishing older buildings rather than seeking to demolish and increase the density of floor space. Adopting this strategy is typically less risky and is likely to enable the developer to bring the floor space to the market in a shorter timeframe, enabling a quicker return to be achieved.

Vacancy Levels & Pre-Letting Activity

Those new developments that are under construction have typically secured pre-completion lettings – one of the most recent being the leasing of 220,000 sq ft at The M Building, Marylebone Lane, W1 to accountants BDO. This pre-letting leaves just 58,000 sq ft of the building available which is due for completion at the end of 2025. In the City, insurance company Legal and General is taking 190,000 sq ft at Woolgate, 25 Basinghall Street, EC2 which is under refurbishment and is due for completion during Q1 2025, leaving circa 130,000 sq ft of the building available.

> " Tenants of older buildings should not assume that they will be offered a new lease: their landlord may secure a higher return from refurbishment / redevelopment. "

Those Tenants that wish to relocate will find choice becoming increasingly constrained in the City, Midtown, South Bank and West End sub-markets over the next few years as increasing numbers of tenants start their searches early and enter in to pre-letting agreements on buildings that are still under construction / refurbishment - to secure the best space ahead of rivals.

The Development Pipeline

An analysis of the current development pipeline shows that, based on current lettings / take up rates, vacancy levels across the West End, Midtown, City and South Bank markets are likely to be below long-term trend levels at least until 2028 when the current wave of proposed development starts are expected to reach completion.

If developers fight shy of developing speculatively, ie, without any tenants lined up to take some of the floor space on a pre-letting commitment, it could be nearer to 2030 before the current imbalance between supply and demand in the central sub-markets is properly addressed.

Peripheral Locations

It is quite possible that peripheral locations such as Canary / Wood Wharf and Stratford in East London and Hammersmith and Chiswick in the West, which have struggled to recover since the pandemic, may start to benefit from the current imbalance between supply and demand in the central sub-markets, and see an upturn in office letting activity. However, in a tight labour market it will be interesting to see if the business community continues to prioritise proximity to the pool of talent over lower real estate costs in peripheral locations.

Displacement Of Tenants

Demand for office space is also being self-generated by the property development community as some landlords decide not to offer new leases to existing tenants, preferring instead to refurbish or redevelop in order to secure a higher rent / return on their investment.

Those businesses that are occupying older buildings that have not been refurbished for 20 or so years (the typical lifespan of air conditioning systems) should not assume that they will be offered a new lease by their landlord. An early conversation with the landlord is recommended to establish whether a new lease would be available so that there is time left, if necessary, to plan an orderly relocation.

Rental Disparity – West End Vs The Rest

Since the 1990s there has been a very clear demarcation in West End office rents compared with the other sub-markets that form the central London office market (see map on pages 7 & 8). Tight planning controls that limit high rise development in the West End have been the key factor in constraining supply and keeping West End rents above those for equivalent quality space elsewhere.

This trend continues as rents appreciably in excess of £100 per sq ft per annum for new Grade A space are now well established in most of the districts forming the West End sub-market including Mayfair, St James's, Marylebone, Fitzrovia, Soho and Victoria. Contrast with the tone of rents for the Midtown, City and South Bank sub-markets where rents in all three sub-markets have coalesced around £75.00 - £90.00 per sq ft per annum for equivalent quality space, albeit that the rents for the upper floors for high rise buildings in these areas typically exceed £100.00 per sq ft.

Lease Renewals & Rent Reviews

It is market practice for rents payable under commercial property leases to be reviewed at least every five years. As with a lease renewal, the rent at review will be set by reference to the rents and levels of rent free period incentives that are being agreed in the open market on comparable properties close to the review date. Those tenants occupying Grade A space that have a rent review or lease expiry coming up within the next couple of years are likely to see an increase in the rent that they are currently paying, reflecting rental trends in the open market, and representing an unwelcome increase in operating costs.

All Electric

In the drive to make the stock of London office buildings energy efficient, most new office developments and refurbishments are being fitted with building services – lighting, air conditioning, passenger lifts etc - that are powered by electricity generated from renewable sources. It is a brave developer who does not embrace this trend as increasing numbers of footloose tenants demand to know what impact the building that they propose to lease will have on the environment.

Energy Performance Upgrades

Leasing agents marketing office space that does not have an A or B energy performance rating (see page 5) will often refer to the fact that the landlord has in place a "pathway" to achieving an A / B energy performance certificate (EPC) rating. Whether considering a lease renewal, the exercise of a break option or a relocation to alternative accommodation, a well-informed tenant should seek evidence from the landlord's property consultant of the plan, and funding, that the landlord has in place to raise the energy performance rating of a non-compliant building to A or B.

It will also be fundamentally important to establish whether the landlord is intending to fund the energy performance upgrade works by increasing the service charge. If so, the lease negotiations should exclude the tenant from any liability to fund the works or, at the very least, include provision for a service charge cap. The scope of works should also be established to assess their impact on the tenant's ability to operate its business from the premises. Will there be a need to relocate temporarily? If so, is the landlord going to pay for the costs of temporary accommodation?

Epilogue

The imbalance between supply and demand for new and refitted Grade A office space is likely to persist for several years across the West End, City, Midtown and South Bank sub-markets. It is anticipated that it will be 2028 / 29 at the earliest before supply begins to catch up and offers footloose tenants more choice and a better bargaining position in lease and rent review negotiations.

Tenants of older buildings that are facing a lease expiry should not assume that their landlord will offer a new lease. The combination of rising rents and cheaper development finance, as interest rates begin to decline, may be just enough to tempt more property investors to take buildings back for refurbishment and environmental upgrade to secure a better rent / return. It would therefore be prudent for tenants to engage with their landlords well ahead of their lease expiry.

Those Tenants that wish, or are required, to relocate will find choice in the Grade A market segment becoming increasingly constrained in the central sub-markets, as pre-letting activity increases, and would be well advised to start their property searches early. Peripheral locations such as Hammersmith and Canary Wharf may benefit from the "ripple effect" as unsated demand radiates from the centre.

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Rents and Rent Free Periods

Rent Free Periods

Table 1 – Typical Rent Free Periods By Sub-Market – Q3 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)		Typical Rent Discount (%)
	5-year lease	10-year lease	
City of London - St Paul's, Bank, Liverpool Street, Cannon Street	11 - 13 months	23 - 25 months	2.5 - 4.0
City Fringe North - Shoreditch, Clerkenwell, Farringdon	11 - 13 months	24 - 26 months	2.5 - 4.0
City Fringe East - Aldgate East, Spitalfields	12 - 14 months	24 - 27 months	3.0 - 6.0
Midtown - Bloomsbury, Holborn, King's Cross, Covent Garden	9 - 12 months	22 - 24 months	1.5 - 3.5
West End - Mayfair & St James's	8 - 12 months	20 - 24 months	0 - 3.0
West End - Marylebone, Fitzrovia, Soho, Victoria, Paddington	9 - 12 months	20 - 24 months	1.5 - 3.0
South Bank - Waterloo, Southwark, London Bridge	9 - 12 months	21 - 24 months	2.0 - 3.5
East London - Docklands - Canary Wharf, Wood Wharf	13 - 16 months	26 - 32 months	4.0 - 7.0
East London - Stratford	13 - 15 months	25 - 28 months	3.5 - 6.5
West London - Hammersmith, White City, Chiswick	12 - 15 months	24 - 28 months	3.5 - 6.5
South West London - Vauxhall, Battersea	12 - 15 months	24 - 26 months	3.0 - 6.0

Source: Carter Jonas Research

Advertised Rents

As set out in the commentary of this report supply-side constraints continue to underpin rents for Grade A office space with good environmental credentials across the West End, Midtown, South Bank and City office markets. The developers of new and refitted, best in class, office space in these sub-markets are increasing advertised rents in the wake of declining vacancy as footloose tenants are faced with less choice.

By contrast, there has been little or no increase in rents during Q3 2024 for older accommodation as businesses shun office accommodation that does not align with their environmental and social responsibility policies or operational needs.

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 increase in advertised rents for best in class Grade A space, it is nonetheless possible to secure rent discounts on advertised rents, and rent free periods, as detailed in Table 1. The higher discount percentages are associated with lower rental value properties.

" The pipeline supply of new Grade A floor space is unlikely to adequately meet demand for several years - a trend that is likely to underpin rental growth in this segment of the City, Midtown, West End and South Bank sub-markets. "

The variation in the level of rent discounts and rent free periods between sub-markets reflects the differing supply and dynamics of each market.

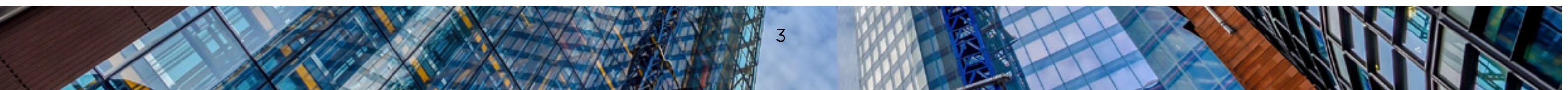
Because the value of commercial property investments is more sensitive to the level of rent payable under a lease compared with the quantum of rent free period or other financial concessions granted, the current imbalance between supply and demand in the central London office market is being reflected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

However, compression in rent free periods is likely to become more widespread over the next few quarters in areas of particularly low vacancy – including the West End and Midtown office markets.

Office Fit Out Costs & Rent Free Periods

There is evidence to suggest that the high cost of relocating a business, in the main associated with inflation in fitting out costs, is encouraging some footloose tenants to stay-put and renew their lease / not exercise their break option. It is therefore likely that developers will continue to offer generous rent free periods to those tenants that are to carry out their own fitting out works to offset some of the costs, in order to persuade undecided tenants to relocate.

The post COVID inflation in office fitting out costs has catalysed the relatively new trend for landlords to offer, and fund, bespoke fitting out packages to prospective tenants in consideration for a rental premium and / or a shorter rent free period. This approach to addressing the costs of relocating is proving popular with tenants - reducing their exposure to capital expenditure and minimising the negative impact of moving on cashflow - see page 14.



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 and refitted, well-located, best in class, Grade A space are likely to continue rising throughout the rest of 2024 and H1 2025 reflecting the mismatch between supply and demand
- for refurbished accommodation in non-prime locations are likely to remain broadly static for at least the next two quarters

Rent discounts

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

Rent free period incentives

- for sustainable Grade A space are likely to remain broadly static during the next two quarters
- for best-in-class space in areas of particularly low vacancy – including the West End sub-market – may see a decline over the same period

Lease length / break options

- landlords of well-located new and refitted Grade A space are likely to begin pressing for longer leasing commitments including longer leases / leases without break options, reflecting declining choice

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

" Vacancy rates in the new / refitted Grade A market segment are declining in many parts of the central sub-markets as large pre-lettings on buildings under construction take supply out of the development pipeline. "

Demand

- continued robust demand for good quality Grade A space in the central sub-markets as the rate of new job creation improves and the desire for environmentally friendly space with A or B energy performance ratings continues

Downsizing

- a continued decline in the trend towards businesses downsizing their real estate footprint, reflecting the resumption of desk / headcount growth in some business sectors including financial and business services

Landlords bargaining position

- the balance of bargaining power in lease negotiations on well-located Grade A space becoming increasingly biased towards landlords for the foreseeable future, underpinned by declining vacancy and choice

Office leasing activity

- below trend letting activity during the next two quarters reflecting geo-political and economic uncertainty associated with the American election, the wars in Ukraine and the Middle East

Serviced offices

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

Pre-letting activity

- increasing numbers of footloose tenants starting their property searches earlier to secure well located, environmentally sustainable, Grade A space in the wake of declining vacancy and committing to pre-let leasing agreements on space that is under construction / refurbishment

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. "

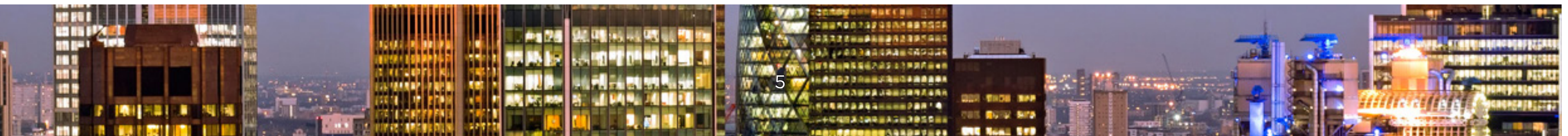


Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q3 2024

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

Location	Grade A		Grade B
	New/Refitted	Refurbished	Refurbished
City			
Prime - Bank, Leadenhall Street	£75.00 - £90.00 (UF = £95.00 - £127.50)	£60.00 - £72.50 (UF = £82.50 - £112.50)	£45.00 - £55.00
Secondary - Blackfriars, Aldgate	£67.50 - £80.00 (UF = £87.50 - £100.00)	£55.00 - £65.00 (UF = £70.00 - £85.00)	£40.00 - £50.00
City Fringe			
North - Shoreditch, Clerkenwell	£67.50 - £77.50 (UF = £80.00 - £90.00)	£55.00 - £65.00	£40.00 - £50.00
North West - Farringdon, Smithfield	£80.00 - £92.50 (UF = £97.50 - £115.00)	£67.50 - £77.50	£47.50 - £60.00
East - Spitalfields	£72.50 - £82.50 (UF = £85.00 - £95.00)	£57.50 - £70.00	£40.00 - £50.00
East - Aldgate East, Wapping	£55.00 - £60.00 (UF = £62.50 - £67.50)	£42.50 - £52.50	£35.00 - £37.50
South Bank			
Waterloo, Southwark, London Bridge	£75.00 - £85.00 (UF = £87.50 - £105.00)	£60.00 - £72.50 (UF = £75.00 - £85.00)	£45.00 - £55.00
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 - £52.50	£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 - £120.00	£70.00 - £80.00
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	£89.50 - £107.50 (UF = £110.00 - £130.00)	£77.50 - £87.50	£55.00 - £67.50
North West - Marylebone	£92.50 - £115.00 (UF = £117.50 - £130.00)	£77.50 - £87.50	£60.00 - £70.00
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	£90.00 - £115.00	£77.50 - £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 - £95.00	£67.50 - £77.50	£47.50 - £57.50
South - Covent Garden	£77.50 - £90.00 (UF = £92.50 - £110.00	£65.00 - £75.00	£50.00 - £57.50
East - Holborn	£72.50 - £85.00 (UF = £87.50 - £110.00)	£57.50 - £68.50	£45.00 - £52.50
West - Bloomsbury	£80.00 - £92.50 (UF = £95.00 - £98.50)	£67.50 - £77.50	£47.50 - £57.50
South West London			
Chelsea	£82.50 - £115.00	£67.50 - £80.00	£47.50 - £60.00
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	£52.50 - £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

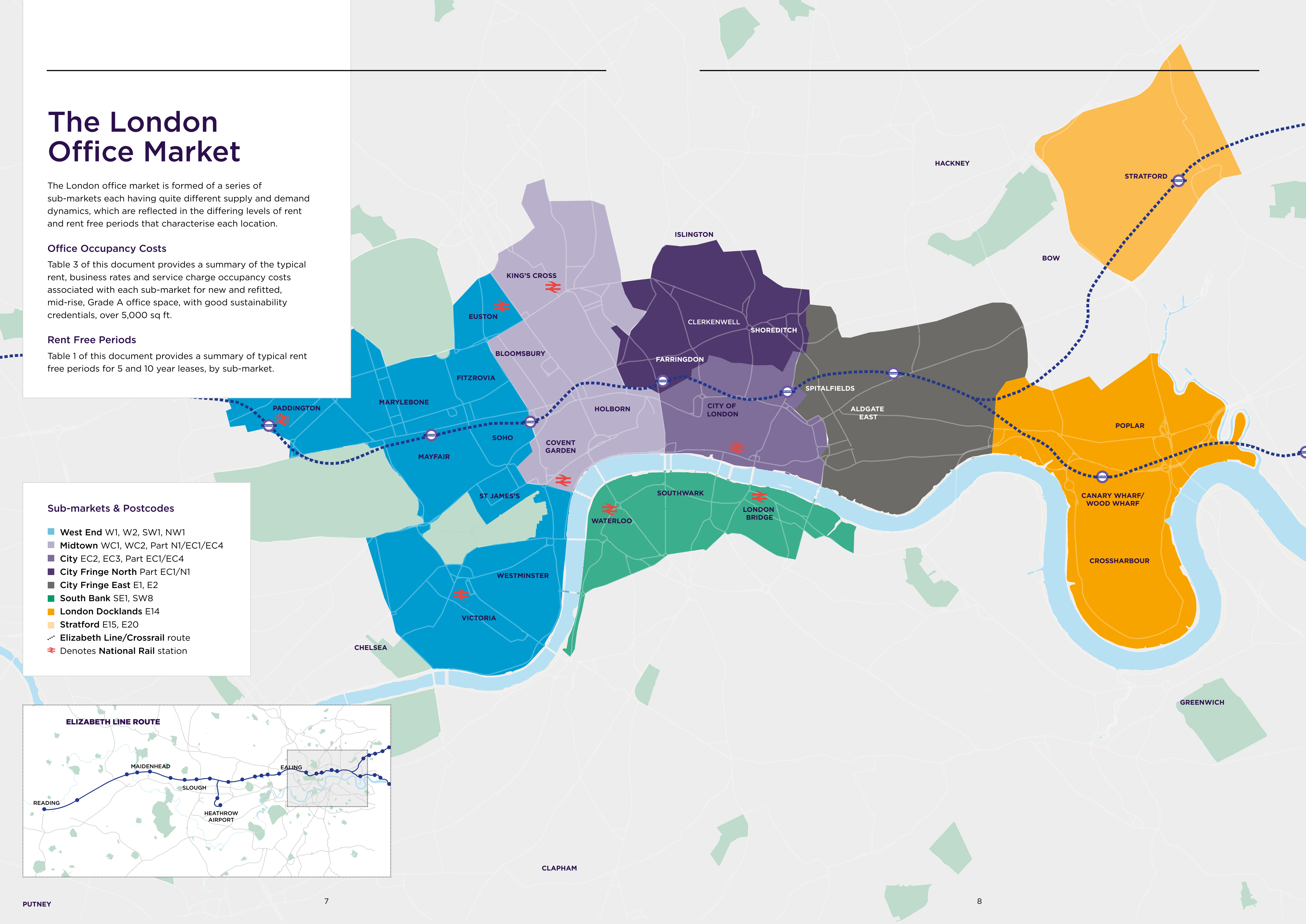
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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 – Q3 2024

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

Sub-market	Rent	Business Rates	Service Charge	Total
City of London Prime – Bank, Leadenhall Street	£85.00	£34.00	£14.50	£133.50
City of London Secondary - Blackfriars, Aldgate	£75.00	£30.00	£14.50	£119.50
City Fringe North - Shoreditch, Clerkenwell	£72.50	£26.90	£13.00	£112.40
City Fringe North West - Farringdon, Smithfield	£90.00	£30.00	£13.00	£133.00
City Fringe East - Aldgate East	£57.50	£25.00	£13.00	£95.50
City Fringe East - Spitalfields	£75.00	£28.25	£13.00	£116.25
South Bank - Southwark, London Bridge	£80.00	£28.50	£13.00	£121.50
East London - Canary Wharf	£55.00	£17.85	*£18.50	£91.35
East London - Crossharbour	£35.00	£12.80	£13.00	£60.80
East London - Stratford	£47.50	£17.60	*£13.00	£78.10
Midtown West - Bloomsbury	£90.00	£35.20	£13.00	£138.20
Midtown East - Holborn	£82.50	£33.00	£13.00	£128.50
Midtown North - King's Cross	£90.00	£37.30	£13.00	£140.30
Midtown South - Covent Garden	£87.50	£37.30	£13.00	£137.80
West End Central - Mayfair, St James's	£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	£92.50	£41.00	£13.00	£146.50
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	£55.00	£25.60	£12.50	£93.10
West London - White City	£57.50	£24.00	£12.50	£94.00
South West London - Battersea, Nine Elms	£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

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 Q3 2024

As was the case during the first half of 2024, the financial and business services sectors continued to be the key driver of demand for central London office space during the third quarter of the year – as demonstrated in the table of third quarter key lettings, detailed below.

Almost all of the transactions featured in the table of third 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 – Q3 2024

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Legal & General	Financial Services	Woolgate, 25 Basinghall Street, EC2	190,000
City of London	Watson Farley & Williams	Legal Services	25 Moorgate, EC2	70,000
City of London	Sompo	Financial Services	40 Leadenhall Street, EC3	75,900
City of London	Confidential	Financial Services	22 Bishopsgate, EC2	21,500
City Fringe - North - Shoreditch	Fresha	Health & Beauty	The Tower, The Bower, Old Street, EC1	30,000
City Fringe - East - Aldgate East	Medecins Sans Frontieres	Medical	Artesian, 9 Prescot Street, E1	12,052
West End - Marylebone	BDO	Business Services - Accountancy	The M Building, Marylebone Lane, W1	220,000
West End - Victoria	Evercore	Financial Services	105 Victoria Street, SW1	135,000
West End - Fitzrovia	monday.com	Technology	1 Rathbone Square, W1	80,000
West End - Paddington	Urenco	Nuclear Energy	Paddington Square, 128-142 Praed Street, W2	25,186
West End - Fitzrovia	Gleeds	Business Services - Construction	Berners & Wells, 60 Berners Street, W1	13,000
Midtown - Holborn	Technip Energies	Engineering	Edenica, 100 Fetter Lane, EC4	20,000
Midtown - Holborn	Quinn Emanuel & Sullivan	Legal Services	90 High Holborn, WC1	17,000
Midtown - Holborn	Fletcher Priest	Architecture	Edenica, 100 Fetter Lane, EC4	15,000
Midtown - Holborn	Boies Schiller Flexner	Legal Services	Edenica, 100 Fetter Lane, EC4	12,000
Midtown - Covent Garden	Confidential	Business Services	The Acre, 90 Long Acre, WC2	29,000
South Bank - Southwark	Veson Nautical	Logistics	Arbor, Bankside Yards, SE1	13,521
South Bank - Battersea	Team Lewis	Business Services	50 Electric Boulevard, SW11	10,500
West London - White City	Imperial College	Education	MediaWorks, White City Place, Wood Lane, W12	47,650
South West - Wandsworth	Populous	Architecture	Parklife, 116 Putney Bridge Road, SW15	33,000
South West - Wandsworth	Winch Design	Media	Parklife, 116 Putney Bridge Road, SW15	24,500

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

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

Demand for flexible office space also continues to be fuelled by a combination of drivers including start-up businesses, fast growing businesses that need the flexibility to move to larger accommodation at short notice and those organisations servicing a short-term business contract. Demand is being boosted further by those businesses that are reluctant to commit to a long term lease in the wake of the current uncertain economic and geo-political climate.

" The London serviced office market – with its ability to offer footloose tenants a minimal / nil capital expenditure, cashflow-friendly, accommodation solution at short notice – continues to thrive. "

Typical Rents

Typical rents for serviced office accommodation range between £750 - £1,250 per desk per month in the West End and £600 - £950 per desk per month in the City, depending upon quality, scope of services being provided by the landlord and micro-location.

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

The key advantages of serviced / co-working office space are that it is "cash-flow friendly" (virtually no capital expenditure required) and offers a high degree of lease flexibility – enabling a relocation to more permanent accommodation to be effected at short notice.

In detail, serviced / co-working space offers the following advantages:

- Ready fitted out with data / telecoms infrastructure and furniture – therefore little or no capital expenditure
- Enables the level of working capital available for investment in the business to be maximised
- Cashflow-friendly
- A quick, plug in and go, accommodation solution
- Typically no dilapidations / repairing / exit costs – a contribution to which is usually reflected in the rent payable
- Short form service agreement that can be issued and signed within a matter of hours – no complicated, lengthy, real estate lease requiring the advice of a real estate lawyer
- The ability to expand and contract quickly in response to changes in market conditions
- No stamp duty land tax payable on the grant of the service agreement

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

Fitting Out Office Space To Make It Operational

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

Creating An Attractive, Cost-Effective, Work Environment

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

Costs

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

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

"Plug-In-And-Go" Office Space

To minimise their exposure to letting voids increasing numbers of landlords were, prior to the pandemic, offering vacant space on a ready fitted out "plug-in-and-go" basis. This trend was typically confined to the sub-5,000 sq ft lettings market as landlords sought to compete for tenants against the providers of serviced office accommodation. Today, it is not uncommon for office space of up to 20,000 sq ft to be offered in CAT A+ fit out, either on a "plug-in-and-go" or on a bespoke basis – the latter forming part of the negotiated letting package.

However, when leasing "plug-in-and-go Cat A+" floorspace care should be taken to ensure that data service line connections have been installed within the accommodation. If not, it can often take 12 weeks or more to procure a dedicated, leased, data service line connection.

Bespoke Fit Out

Where office space is being marketed without it having been ready fitted out, increasing numbers of landlords are offering to fit the space out for the incoming tenant, on a bespoke basis. The key advantage for footloose tenants is that landlords will typically bear all the costs of the fitting out works, including the cost of providing data / telecoms infrastructure and furniture, on the basis that the landlord's costs will be recouped by way of a shorter rent free period and / or higher rent.

Either way, a landlord-funded bespoke fit out represents a lower capital expenditure, cashflow-friendly, accommodation solution for footloose tenants with the added advantage of avoiding the distractions associated with the tenant having to procure and manage a fitting out contractor.

Dilapidations

Where office accommodation that is being offered ready fitted out by the landlord is to be leased, and where the landlord is funding the fit out in return for a shorter rent free period and / or higher rent, it should be possible to negotiate the letting on the basis that the tenant's future lease exit / dilapidations liabilities will be zero, or significantly reduced.

A zero / reduced dilapidations liability will also flatter the tenant's financial accounting because the provisions associated with lease exit obligations can be reduced.

Break Options & Bespoke Fit Outs

As well as increasing the prospects of securing a letting, offering office space on a bespoke fitted out basis has another, more subtle, advantage for a landlord. By charging a rental premium to reflect the cost of the fitting out works a landlord can often enhance the valuation of its property asset. Rental premiums of between £5.00 and £10.00 per sq ft per annum are quite typical depending upon the specification, quality and scale of the fitting out works and the length of lease to be granted / timing of tenant break options.

If the letting of bespoke fitted out accommodation is to include a break option, the landlord's amortisation period for the cost of the fitting out works will typically be up to the break option date. Tenants should not therefore continue paying any rental premium associated with the landlord's fitting out works capital expenditure beyond the break option date, should the tenant decide not to exercise its break option and continue in occupation past the break date.

The Tenant Representation Team

Our tenant representation services include:

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

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

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Our Experience

Lease negotiations and relocations 10,000 sq ft+

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151 Buckingham Palace Road, SW1

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85 Grays Inn Road, WC1

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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