Carter Jonas

LONDON OFFICE MARKET TRENDS Q1 2018

Carter Jonas' Research Team has just completed its latest analysis of London office rents, business rates and service charge occupancy costs for new and refitted Grade A space.

The key findings of the research are summarised in this document.

TOTAL RENT, BUSINESS RATES AND SERVICE CHARGE OCCUPANCY COSTS

Occupancy costs for new and refitted Grade A office space rose in all the London office sub-markets since Q1 2017, except at Canary Wharf and Marylebone where costs remained static and in Mayfair and St James's where costs fell 5% - as a consequence of the continued decline in rents for super prime office space – see figure 2.

KING'S CROSS

Saw the highest increase in Grade A office occupancy costs since Q1, 2017 – rising 7.9% to £123.50 per sq ft per annum due, primarily, to increased business rates costs following the 2017 rating revaluation.

PADDINGTON

Witnessed the second highest increase in office occupancy costs since Q1, 2017 – increasing by 6.7% to £107.75 per sq ft per annum, principally due to an increase in rents as new developments such as 4 Kingdom Street set new rent benchmarks, reflecting the impending arrival of Crossrail services which will vastly improve the area's connectivity.

CLERKENWELL AND SHOREDITCH

Rent, business rates and service charge occupancy costs have risen in the North City fringe 'tech belt' by 4.3% since Q1, 2017 and are now £97.00 per sq ft per annum – just £5.00 per sq ft per annum lower than the City of London which is more centrally located for access to Crossrail and Heathrow airport.

RENT FREE PERIODS

Across London rent free periods have widened typically by 1-2 months for a 10 year lease, since Q1, 2017.

THE DOCKLANDS SUB-MARKET

Docklands offers the longest rent free periods – typically 25 months on a 10 year lease, with the City of London coming a close second at 24 months.

LOWEST RENTS

Rents for refurbished air conditioned office space in the Crossharbour area of Docklands are typically sub-£37.50 per sq ft per annum – the lowest of all the Central and peripheral Central London office sub-markets.

Figure 1

Source: Carter Jonas Research

Typical Office Occupancy Costs For New & Refitted, Mid-Rise, Grade A Space Over 5,000 Sq Ft

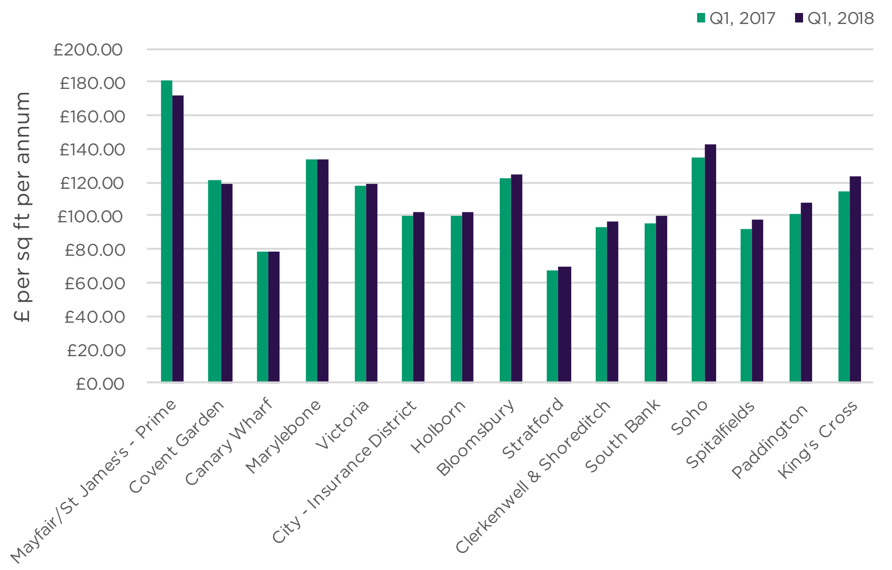
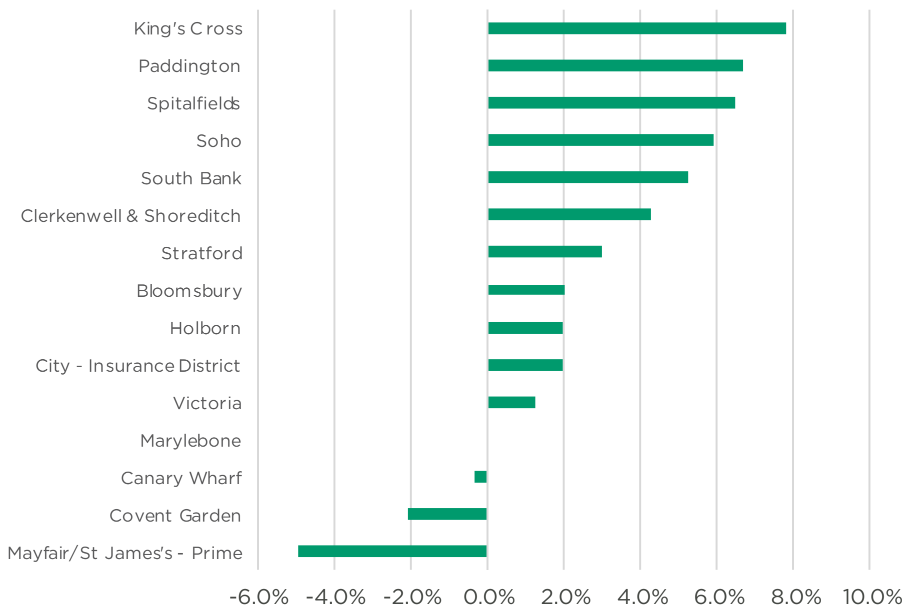


Figure 2

Source: Carter Jonas Research

Percentage Change In Typical Occupancy Costs For New & Refitted, Mid-Rise, Grade A Space Over 5,000 Sq Ft - Q1 2017 Vs. Q1 2018



Notes:

1. Occupation costs take no account of any business rates transitional relief that may be available on properties constructed and completed before 1 April 2017.
2. King's Cross and Spitalfields - the increased occupancy costs in Spitalfields and King's Cross principally reflect the increase in business rates costs following the 2017 business rates revaluation.

RENT FORECAST
The Carter Jonas Research Team predicts that rents for Grade A space in many parts of London will decline by £2.00 - £3.00 per sq ft per annum over the next 12 months, reflecting continued economic uncertainty associated with Brexit – see figure 4.

THE "ELIZABETH LINE EFFECT"
Rents in Paddington, Marylebone, Fitzrovia, Soho and Bloomsbury, however, are forecast to remain static for the period to Q1, 2019, reflecting both low vacancy and the commencement of Elizabeth Line services, which has boosted office demand in these locations which all benefit from a Crossrail station.

RENT FREE PERIOD FORECAST
Rent free periods are predicted to continue increasing by 1-2 months for a 5-10 year lease during the next twelve months.

BEYOND 2020
Rents for new Grade A space in many areas of London are forecast to plateau by Q1, 2020, underpinned by low vacancy – a direct consequence of disruption to the office development pipeline, precipitated by the Brexit vote.

THE CITY OF LONDON
Traditionally dominated by the banking, insurance and financial services industries, the City's occupier base is changing as competitive occupancy costs, good accessibility to the Elizabeth Line, improved broadband speeds and new and refitted buildings, designed for the 'Millennial' generation, attract 'tech' and creative businesses.

COWORKING AND SERVICED OFFICE PROVIDERS
Coworking and serviced office providers have been one of the key drivers of office demand in London over the last 12 months.

Figure 3
Source: Carter Jonas Research
Percentage Increase In Rent Free Periods For New & Refitted, Mid-Rise, Grade A Space Over 5,000 Sq Ft - Q1 2017 Vs. Q1 2018

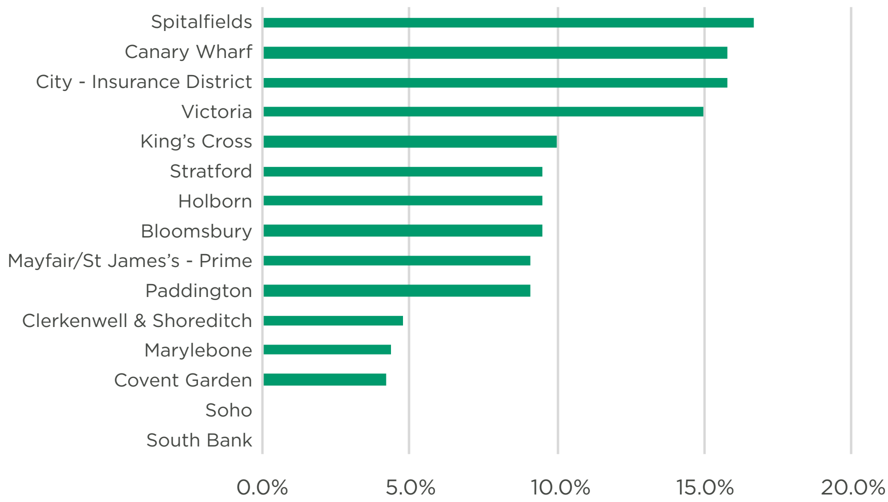
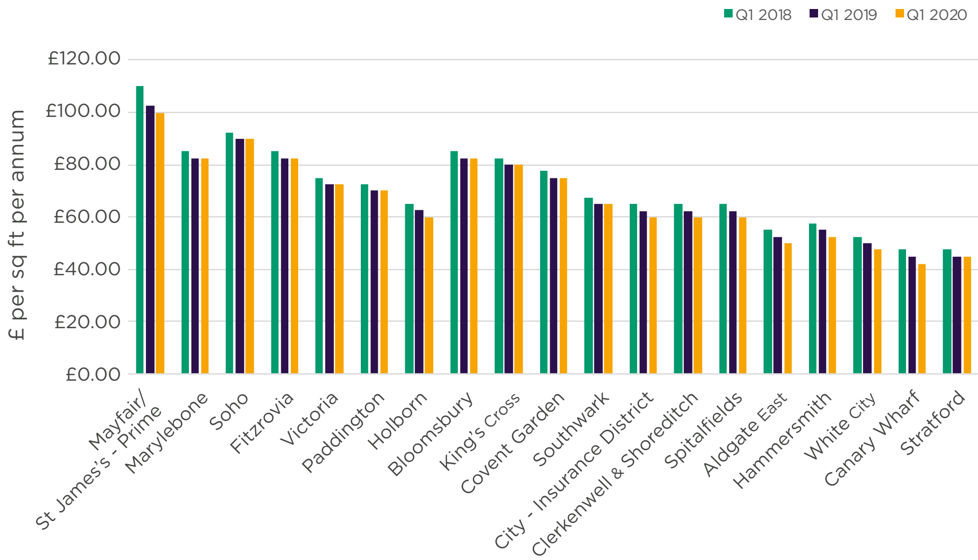


Figure 4
Source: Carter Jonas Research
Typical Current & Forecast Rents - New & Refitted Grade A Space Over 5,000 Sq Ft



For more data on office availability, rents and rent free periods and information on developing a rent review or lease renewal negotiating strategy, or budgeting and planning for an office move, please contact:

One Chapel Place, London W1G 0BG

Michael Pain
Partner, Head of Tenant Advisory
020 7016 0722
michael.pain@carterjonas.co.uk

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Carter Jonas