Carter Jonas

LONDON OFFICE MARKET TRENDS Q3 2018

The Carter Jonas Research Team has just completed its third quarter survey of the London office market and the following key trends have been identified:

HIGHEST RENT INCREASES – IN ELIZABETH LINE CONNECTED DISTRICTS

Rents for prime located, new, Grade A space have risen the fastest in Paddington and Farringdon – both districts have recorded increases of 15.4% since Q3, 2017, up from £65.00 per sq ft to £75.00 per sq ft per annum for mid-rise floors, representing record highs for both areas.

The substantial above inflation increase in rents in Paddington and Farringdon is directly attributable to occupier willingness to pay a rental premium to be near an Elizabeth Line station which will offer direct and frequent rail services to the Thames Valley and Essex labour markets and Heathrow airport. Developer Derwent London's Brunel Building in Paddington and Helical Bar's One Bartholomew Close in Farringdon have been the latest buildings to set new rent benchmarks in each location.

FORECAST RENTAL GROWTH – THE WINNERS & LOSERS

Southwark, Holborn, Farringdon, King's Cross, Paddington and Victoria are each forecast to see rents for new, prime located, Grade A space increase by over 3% by Q3, 2020, assuming that the UK avoids a 'hard' Brexit. Significantly, all these districts have two things in common: very low vacancy and excellent transport links.

By contrast secondary City locations, Shoreditch, Spitalfields and Docklands are forecast to see rents decline, typically by around 4%, over the next two years as landlords compete for tenants in sub-markets with less constrained vacancy levels and which are, themselves, competing against each other. This represents a modest readjustment in rents in the wake of Brexit uncertainty. A crash in rents on the scale seen after the banking crisis 10 years ago is very unlikely because vacancy levels are at historically low levels and demand is far more robust than most market commentators had predicted immediately after the Brexit vote.

QUALITY OF SPACE AND PLACE – THE LINK BETWEEN REAL ESTATE & RECRUITMENT

Employers are becoming increasingly

Figure 1

Source: Carter Jonas Research

London Office Market - Typical Occupancy Costs For New & Refitted, Mid-Rise, Grade A Space Over 5,000 sq ft - Q3 2017 Vs. Q3 2018

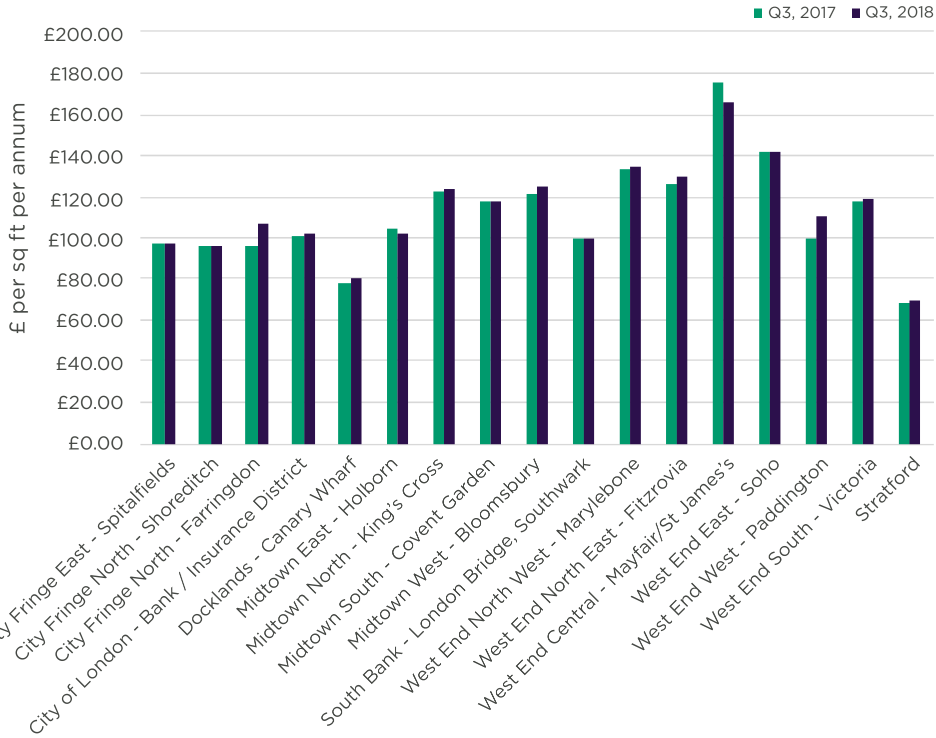
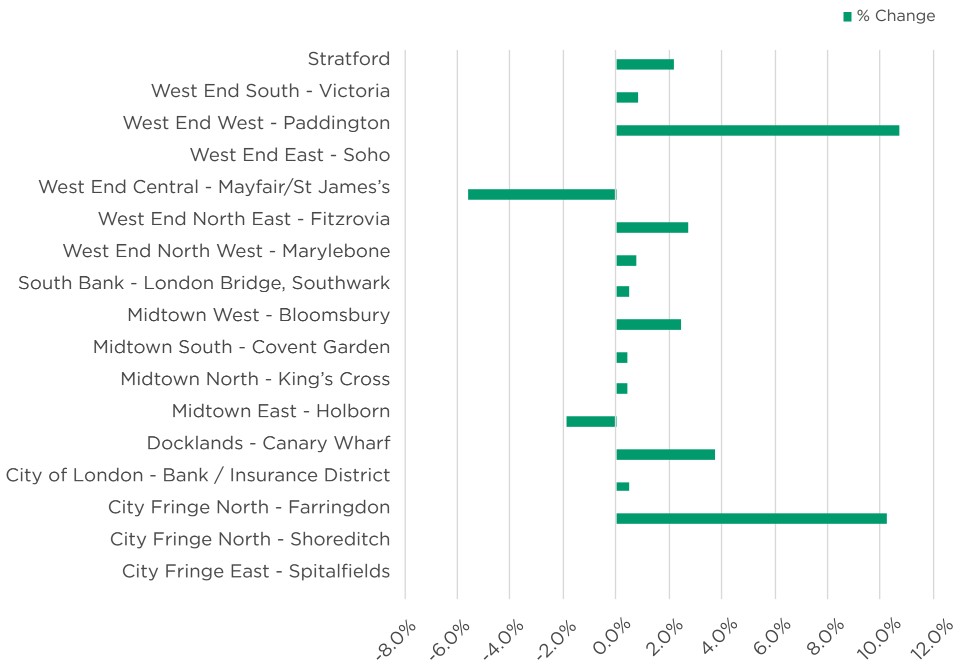


Figure 2

Source: Carter Jonas Research

Percentage Change In Typical Occupancy Costs For New & Refitted, Mid-Rise, Grade A Space Over 5,000 sq ft - Q3 2017 Vs. Q3 2018



Notes:

1. Occupancy costs take no account of any business rates transitional relief that may be available on properties constructed and completed before 1 April 2017.
2. Occupancy costs = rent, business rates and building service charge

aware of the importance of the need to create an office environment, and culture, that will attract, and reinforce the retention of, high calibre staff – without which the productivity and profitability of their businesses will suffer.

Ten years ago occupiers' primary property selection criterion would have been cost. Today's tenants are more sophisticated and understand that cheap, poor quality, buildings are likely to hinder recruitment and foster higher staff turnover and, ultimately, poorer productivity and lower profitability.

The greater emphasis by occupiers on workplace environment, rather than cost, explains why there is currently a stronger level of take-up of new Grade A space across London compared with the second-hand market where vacancy levels are set to rise as tenants trade up into new space.

CITY OF LONDON OCCUPANCY COSTS STATIC

Rent, business rates and service charge occupancy costs for prime located, new, Grade A City space have remained broadly static since Q3, 2017 and are currently at £102.50 per sq ft per annum for mid-rise space.

Rents tend to be the biggest influencer in the movement of occupancy costs and rents for well located, new, Grade A space in the City have remained broadly flat over the last twelve months due to low vacancy and better than forecast take-up.

Between them the co-working / serviced office, media, technology and creative sectors have plugged the gap in demand left by the bankers. This is no bad thing as the City office market evolves with an increasingly diverse occupier base as a new generation of tenants are attracted to the area with interesting, iconic, buildings that offer better value than other sub-markets – particularly those in the West End.

Figure 3

Source: Carter Jonas Research

London Office Market - Rent Free Periods For New & Refitted, Mid-Rise, Grade A Space Over 5,000 sq ft - Q3 2017 Vs. Q3 2018

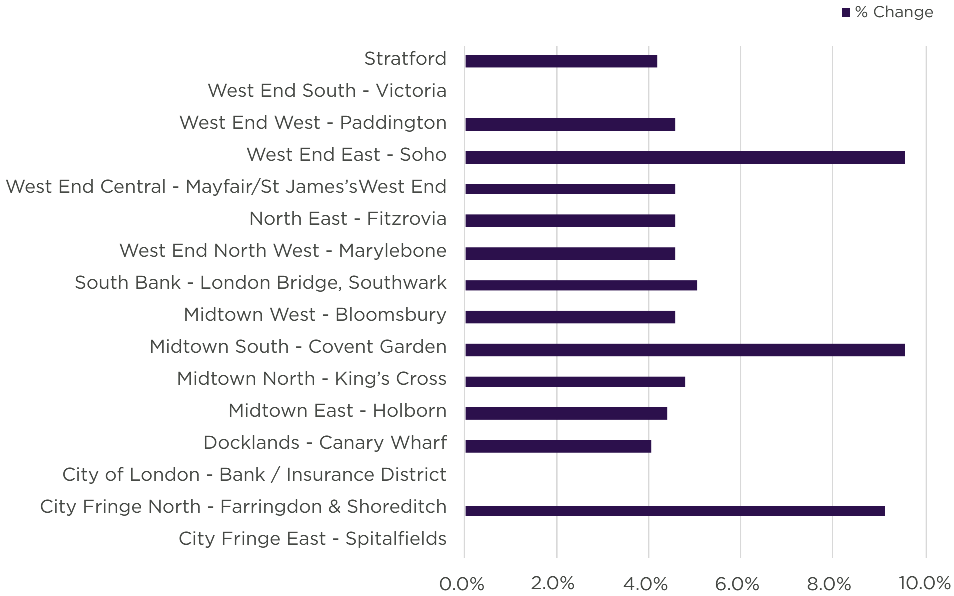
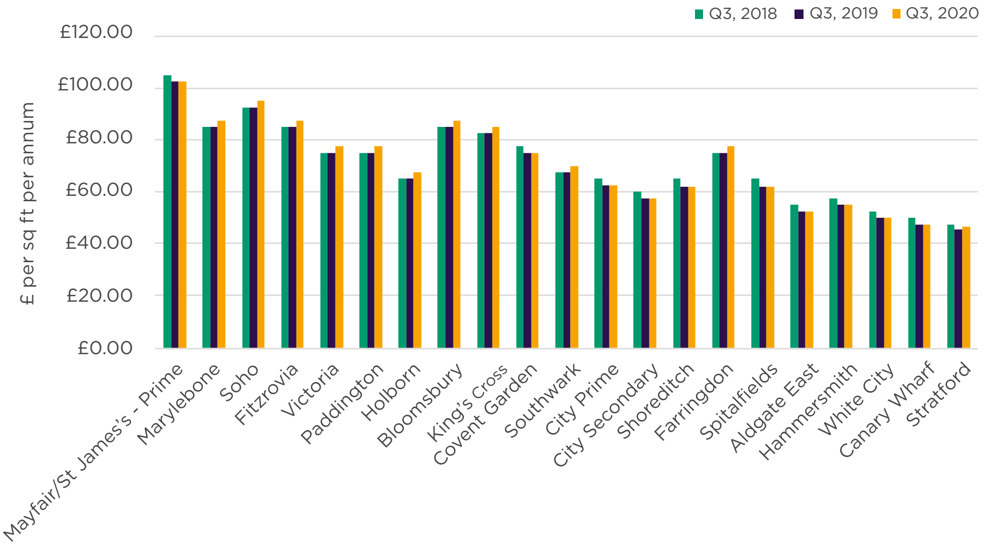


Figure 4

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:

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