Carter Jonas

LONDON OFFICE RENT FORECAST TO Q4 2020

The Carter Jonas Research Team has prepared a two-year London office rent forecast, based on new and refitted mid-rise, prime-located, Grade A space over 5,000 sq ft.

The research covers the period to Q4 2020 and assumes no hard Brexit.

The key themes that emerge from the forecast are as follows:

- **West End, Midtown and South Bank sub-markets -** rents are predicted to plateau in these sub-markets during 2019 due to low vacancy, save for the Mayfair and St James's prime market where rents are forecast to decline by 2.4% as occupiers continue to seek better value space in neighbouring districts.
- **The City, City Fringe, Docklands and West London sub-markets** are forecast to witness a continued, but gradual, decline in rents during 2019 – see Figure 1 – reflecting economic uncertainty in the aftermath of Brexit and higher levels of vacancy compared with the West End, Midtown and South Bank sub-markets.
- **West End office 2 year forecast -** rents across the West End are forecast to increase by around 3% overall by Q4 2020, reflecting declining vacancy, with the growth gathering pace during 2020.
- **City office rents 2 year forecast -** prime City rents are forecast to decline 3.8% by Q4 2019 and remain flat during 2020, reflecting higher vacancy compared with the West End, and competition from the City fringe, Docklands and Stratford sub-markets.
- **The resumption of rental growth -** the majority of the London office sub-markets are forecast to witness the restoration of rental growth during 2020 – principally during the second half of the year – as the UK economy emerges from Brexit and as business confidence is restored. Declining vacancy will also play a significant part in fostering rental growth.
- **Buildings located in Elizabeth Line connected locations** are likely to witness some of the highest rates of rental growth as occupiers see the merits of enhanced transport connectivity to the Thames Valley and Essex labour markets, and the advantages of a direct east/west link to the key central London business districts and Heathrow airport.

Figure 1
Forecast Percentage Change In Rents By Location

Source: Carter Jonas Research

	£ per sq ft per annum			Forecast % Change	
Location	Q4 2018	Q4 2019	Q4 2020	Q4 2018 vs Q4 2019	Q4 2018 vs Q4 2020
Mayfair/St James's - Prime	£105.00	£102.50	£102.50	-2.4%	-2.4%
Marylebone	£85.00	£85.00	£87.50	0.0%	2.9%
Soho	£92.50	£92.50	£95.00	0.0%	2.7%
Fitzrovia	£85.00	£85.00	£87.50	0.0%	2.9%
Victoria	£75.00	£75.00	£77.50	0.0%	3.3%
Paddington	£75.00	£75.00	£77.50	0.0%	3.3%
Holborn	£65.00	£65.00	£67.50	0.0%	3.8%
Bloomsbury	£85.00	£85.00	£87.50	0.0%	2.9%
King's Cross	£82.50	£82.50	£85.00	0.0%	3.0%
Covent Garden	£77.50	£75.00	£77.50	-3.2%	0.0%
Southwark	£67.50	£67.50	£70.00	0.0%	3.7%
City Prime	£65.00	£62.50	£62.50	-3.8%	-3.8%
City Secondary	£60.00	£57.50	£57.50	-4.2%	-4.2%
Shoreditch	£65.00	£62.50	£62.50	-3.8%	-3.8%
Farringdon	£75.00	£75.00	£77.50	0.0%	3.3%
Spitalfields	£65.00	£62.50	£62.50	-3.8%	-3.8%
Aldgate East	£55.00	£53.00	£53.00	-3.6%	-3.6%
Hammersmith	£57.50	£55.00	£57.50	-4.3%	0.0%
White City	£52.50	£50.00	£52.50	-4.8%	0.0%
Canary Wharf	£50.00	£47.50	£47.50	-5.0%	-5.0%
Stratford	£47.50	£45.50	£48.00	-4.2%	1.1%

- **The emerging trend towards a two tier market is likely to be reinforced during 2019 –** as the take up of new and refitted Grade A space continues to outpace that of the second-hand, refurbished, market, as occupiers increasingly favour quality over cost.

- **Occupiers are increasingly using real estate as a recruitment tool** to attract the best employees, and are more focussed on build quality, design, wellness, transport connectivity and the vibrancy of the public realm around the buildings they occupy.

- **Cost, although important, tends to play a less influential role in property decision making** than it did 10 years ago. The Millennial workforce demands a vibrant, engaging and healthy place to work. Realising this, many employers are shying away from cheap, lower grade, buildings in poor locations.

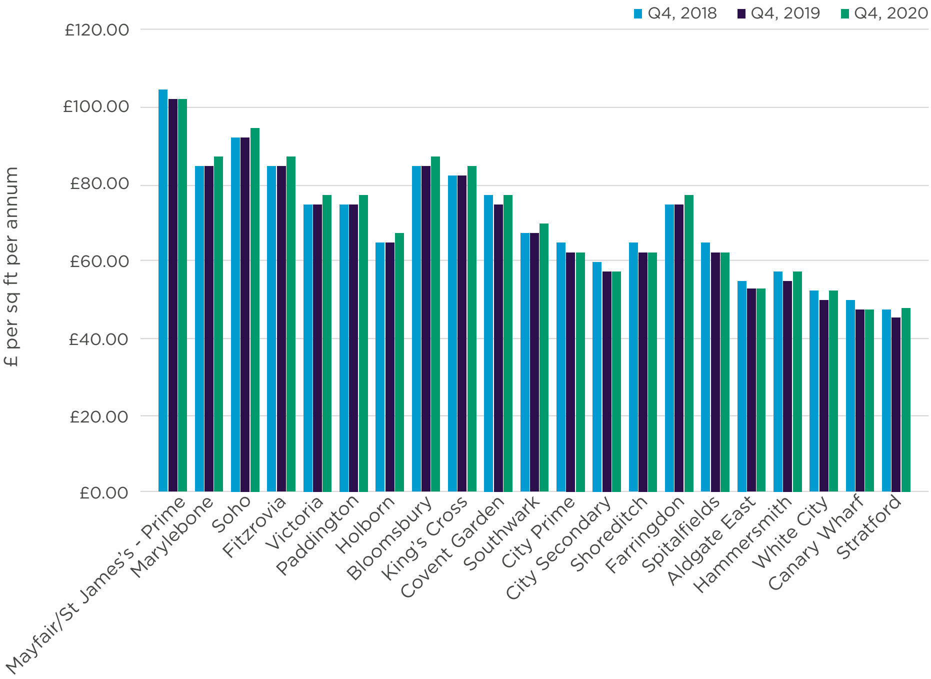
- **The take-up of new and refitted Grade A space has been higher than predicted.** The changing demographics in the workforce is the driving force behind this trend as the proportion of Generations Y and Z making up the global workforce increases.

- **Second-hand space -** rents across London for poorly located second hand space are likely to fall throughout 2019 and beyond – in contrast to new and refitted space – a trend that will be underpinned by increasing vacancy in the second-hand market as occupiers trade up into new and refitted space.

- **Rent free periods -** in many parts of London are likely to remain static throughout 2019, except for the City of London, City fringe, Docklands and West London where rent free periods on buildings that have been on the market for a prolonged period are likely to increase by one - two months for leases in excess of five years duration.

Figure 2
Forecast Rents By Location

Source: Carter Jonas Research



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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