

# LONDON OFFICE MARKET TRENDS Q2 2018

The Carter Jonas Research Team has just completed its latest analysis of London office rent, 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.

### HIGHEST OFFICE COST INCREASE

**Paddington saw the highest increase in rent, business rates and service charge occupancy costs for new Grade A space since Q2, 2017** - rising by 8.2% to £108.50 per sq ft per annum due, primarily, to the new rent benchmarks that have been set by British Land's 4 Kingdom Street development, reflecting the start of Elizabeth Line services at the end of the year.

### LARGEST COST DECREASE

**Mayfair recorded the largest fall in London office occupancy costs since Q2, 2017** - declining by 5.6% to £167.00 per sq ft per annum, principally due to a decrease in rents as tenants continue to seek better value in neighbouring sub-markets.

### CITY VS. WEST END OFFICE COSTS

**Mayfair continues to hold the record for the most expensive office location in London** - notwithstanding the decline in Mayfair rents over the last 12 months.

The rent, business rates and service charge occupancy costs for new Grade A space in Mayfair are now £64.50 per sq ft per annum above those for equivalent quality, prime located, mid-rise City space. The cost gap between the two sub-markets has narrowed - a year ago it was £72.50 per sq ft per annum.

### LOWEST OFFICE OCCUPANCY COSTS

**Stratford has the lowest office occupancy costs** of all the central and peripheral central London sub-markets - currently £70.50 per sq ft per annum - which has encouraged several government agencies to move to the area - the latest being HMRC which has taken a pre-let on 240,000 sq ft at 14 Westfield Avenue.

### RENT FORECAST

The Carter Jonas Research Team predicts that rents for new Grade A space in many parts of London will decline by £1.50 - £2.50 per sq ft per annum over the next 12 months, reflecting continued economic uncertainty associated with Brexit.

Figure 1

London Office Market - Typical Occupancy Costs For New & Refitted, Mid-Rise, Grade A Space Over 5,000 sq ft - Q2 2017 Vs. Q2 2018

Source: Carter Jonas Research

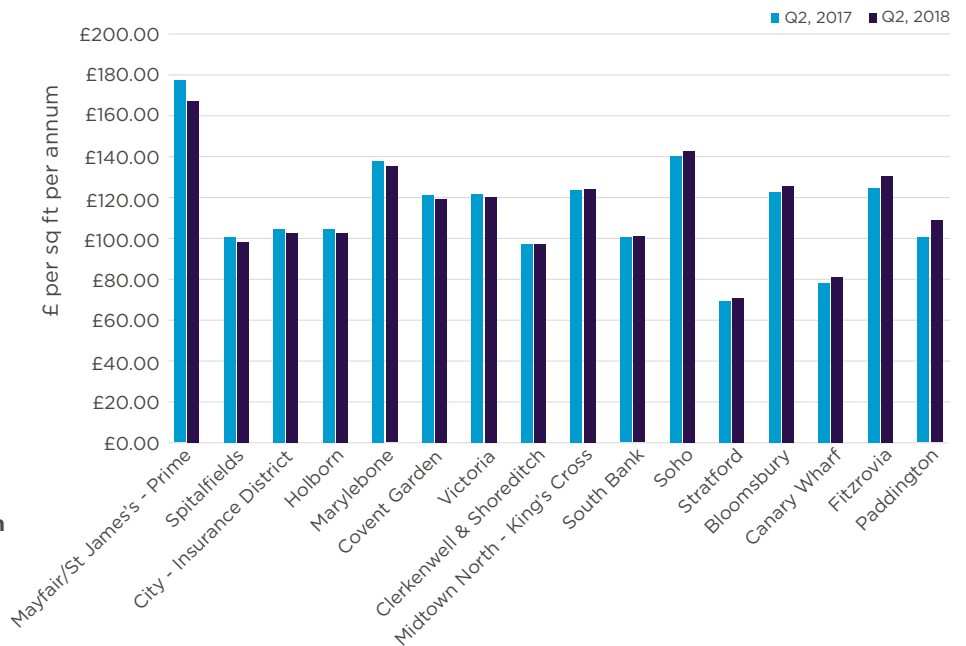
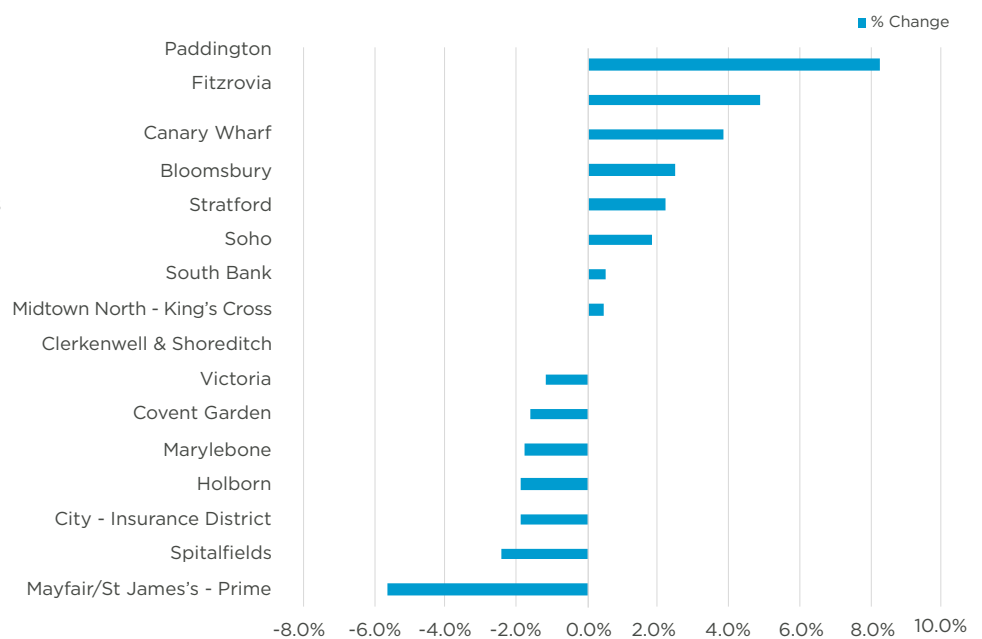


Figure 2

Percentage Change In Typical Occupancy Costs For New & Refitted, Mid-Rise, Grade A Space Over 5,000 sq ft - Q2 2017 Vs. Q2 2018

Source: Carter Jonas Research



**Notes:**

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

### STATIC RENTS IN SOME AREAS

In Paddington, Fitzrovia, Soho and Bloomsbury rents are forecast to remain static for new Grade A space for the period to Q2, 2019, reflecting both low vacancy and the imminent commencement of Elizabeth Line services, which has boosted office demand in these areas.

By the first half of 2020, rents for new and refitted Grade A space in most areas of London are forecast to plateau, underpinned by low vacancy, and a limited number of development completions – the latter being a consequence of the economic uncertainty created following the Brexit vote.

### RENT FREE PERIODS

Since Q2 2017 rent free periods have continued to harmonise across Central London - it is now possible to secure a 22- 24 month rent free period on a 10 year lease in all the Central London office sub-markets.

Rent free periods in the north City fringe have increased the most since Q2 2017, typically rising by up to 3 months to 23 months on a 10 year lease, reflecting the need for landlords operating in the Farringdon, Clerkenwell and Shoreditch areas to compete harder for tenants as the occupancy costs of Grade A space in neighbouring, more central, sub-markets decline.

### THE LONGEST RENT FREE PERIODS

Canary Wharf, in Docklands, and Stratford are the two areas of London that offer the longest rent free periods – up to 27 months for a 10 year lease in the former and up to 26 months in the latter.

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 - Q2 2017 Vs. Q2 2018

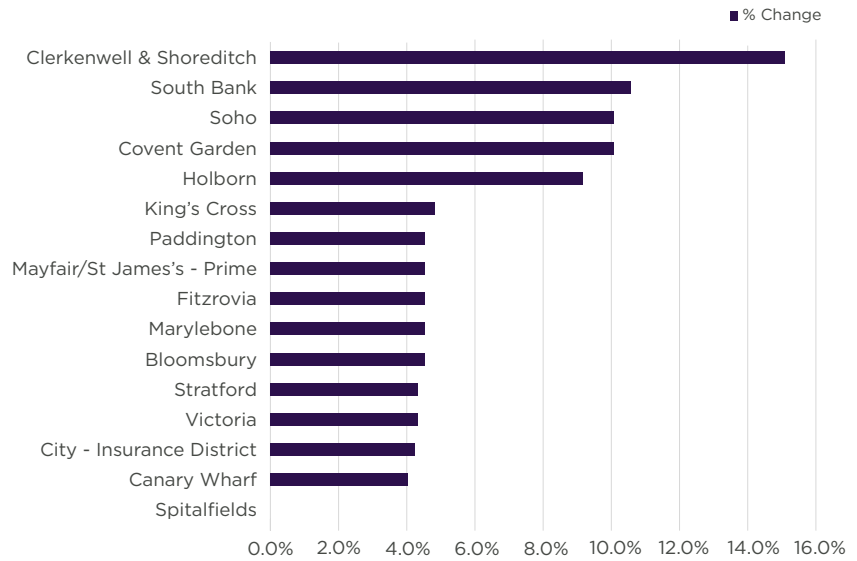
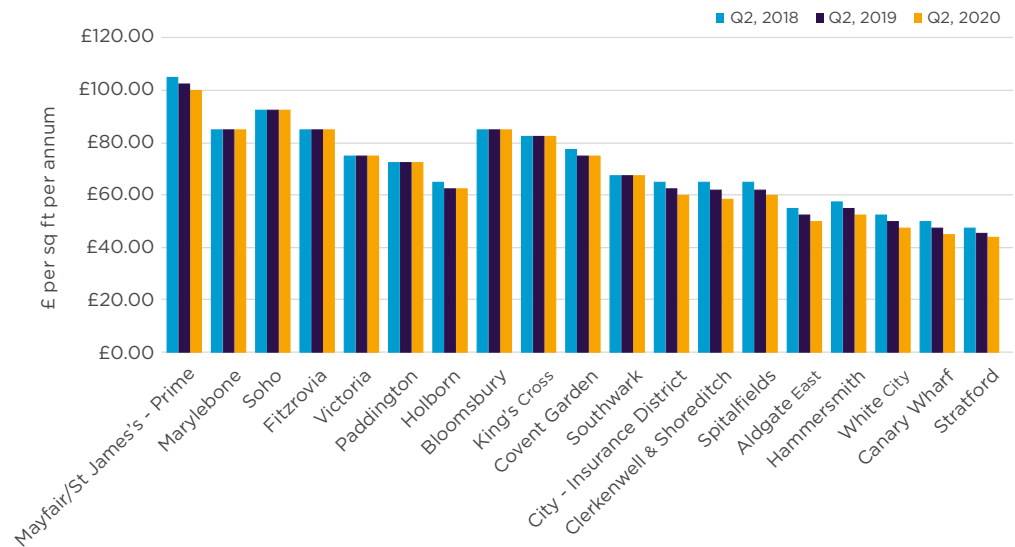


Figure 4

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:



**Michael Pain**

Partner, Head of Tenant Advisory

020 7016 0722

michael.pain@carterjonas.co.uk

One Chapel Place, London W1G 0BG

Follow us on Twitter, LinkedIn and Instagram



© Carter Jonas 2018. The information given in this publication is believed to be correct at the time of going to press. We do not however accept any liability for any decisions taken following this report. We recommend that professional advice is taken.

**Carter Jonas**