RESEARCH

THE LONDON OFFICE MARKET
Q4 2020
A GUIDE TO RENTS, RENT FREE PERIODS & MARKET TRENDS

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Carter Jonas

THE LONDON OFFICE MARKET CONTINUES TO SHIFT IN FAVOUR OF TENANTS

The Government's recent announcement of a post Brexit trade deal with the European Union and the implementation of a COVID-19 vaccination programme should make 2021 the "turn-around" year when individuals and businesses can begin getting their lives and livelihoods back on track following the 2020 coronavirus pandemic.

Notwithstanding the recent imposition, rightly, of a third national lockdown, occupiers never-the-less seem to be looking beyond the first half of 2021 and focussing on developing their accommodation strategies for the medium term. This is a particularly relevant consideration in the case of a lease expiry where a course of action will need to be decided irrespective of economic circumstances.

While all is set fair for a recovery in the British and world economies for the second half of the year, COVID-19 has, non-the-less, catalysed structural change in the London office market. For those tenants with an imminent lease expiry or break option there is an opportunity to downsize and trade up into better quality, more COVID-safe, accommodation at a significant discount to pre-pandemic real estate costs.

As the infographic on forecast market trends on page 4 of this document illustrates, the London office market, during 2021, is likely to be remembered as a "tenant's market".

How Will Demand For Office Space Play Out In 2021?

Demand for office space is inextricably linked to the rate of new job creation. The Bank of England's November 2020 economic forecast indicates that UK unemployment will rise from 4.5% in mid 2020 to 7.75% by mid 2021, representing a 72% increase, as Government business support initiatives such as the furlough scheme are wound down. The London-centric services sector will not be immune from the rise in unemployment.

Demand for Central London office space during 2021 is therefore likely to be muted and confined to the new and refitted Grade A office market, driven by those tenants seeking to downsize and, at the same time, trade up into better quality space in order to create a new, attractive and COVID-safe working environment for their workforce - to break the now established pattern of working from home.

"LANDLORDS OF VACANT GRADE A SPACE WILL, DURING 2021, SEE COMPETITION INTENSIFY FROM NEW, AND NEARLY NEW, TENANT-CONTROLLED SPACE THAT IS BEING OFFERED AT LOWER RENTS ON FLEXIBLE SUB-LEASES."

Sub 20,000 sq ft lettings, for a workforce of up to 200, are likely to dominate the London office market during 2021 as large space occupiers, eager to conserve working capital rather than investing it in an expensive office relocation, decide to extend leases and refurbish. International law firm Slaughter and May's recent decision to abort its 260,000 sq ft office search in favour of renewing its lease at 1 Bunhill Row, EC1 to 2036 is one such example of a trend that is likely to become established over the next 12 months.

The "Global Tech Giants" – Can They Still Be Relied Upon To Underpin Demand?

The London office market's reliance on the, hitherto, floor space hungry global technology giants is likely to be tested over the next year or two following the recent filing of several anti-trust lawsuits against Google and Facebook for alleged anti-competitive behaviour. If successful, the US Federal Trade Commission could force the breakup of these businesses, leading to lower profitability and, therefore, reduced investment in people and real estate.

The Emergence Of New Competitive Pressures For Landlords

As 2021 unfolds it is very likely that two distinct tiers in the London office market will become established. The differential in rents between new / refitted Grade A space and the second-hand market is likely to widen as occupiers shun poor quality space for accommodation that underpins their environmental, social and governance (ESG) credentials and, equally important, employee wellbeing.

However, a further market tier is beginning to manifest itself as those tenants that took leases on new and refitted Grade A space, and pre-lets on space that was under construction, before the pandemic reassess their floor space needs and implement headcount and real estate downsizing strategies. Deloitte, for example, is reportedly re-assessing its floor space needs across the UK. In London, it is understood that the firm is considering options for sub-letting a significant proportion of the 150,000 sq ft of office space that it leased at the beginning of last year at 66 Shoe Lane, EC4. Media giant WarnerMedia and energy company BP are also reportedly undertaking similar reviews of their international operational property portfolios, which will include their London operations, in the wake of headcount reductions.

Landlords of vacant Grade A space are, during 2021, likely to find that while competition from cheap, low grade, office stock wanes, pressure to compete will never-the-less come from new, and nearly new, tenant-controlled space that is being offered on flexible sub-leases, at lower rents.

Weak demand and rising vacancy will conspire to shift the bargaining power in lease negotiations still further in favour of tenants – a trend that began to gather pace during the summer of 2020. The year 2021 will be characterised by declining rents, longer rent free periods and shorter leases. For those tenants with imminent lease break options and expiries there should therefore be opportunities to secure better value from landlords for the foreseeable future.

Michael Pain
Head of Tenant
Representation Team
07715 001013
michael.pain@carterjonas.co.uk

VACANT TENANT-CONTROLLED SPACE: COST-EFFECTIVE & CASHFLOW-FRIENDLY

Given that the underlying value of a property investment is more sensitive to headline rents than rent free periods, landlords are often very reluctant to reduce advertised rents and offer deep rent discounts preferring, instead, to offer longer rent free periods. This issue is particularly relevant to those property investors that are heavily indebted and where a fall in the value of the property could result in a breach of the landlord's loan agreement with its financiers.

Tenants, by contrast, have no interest in securing the highest headline rent when offering surplus space to let: their objective is simply to get the space let as quickly as possible consistent with securing lease terms that are reflective of prevailing market conditions.

Consequently, for those footloose tenants that are in the market seeking alternative premises, tenant-controlled, sub-let, space is likely to offer a more cost-effective alternative than taking a new lease directly from a landlord. There is also the added, and very significant, cashflow-friendly, advantage that tenant-controlled accommodation will probably be ready fitted out with meeting rooms, office furniture and data / telecoms infrastructure, thus offering a cheaper, quicker, "plug in and go", accommodation solution.

Advertised Rents & Rent Discounts

In an economic environment where most businesses are looking at ways to reduce their operating costs, and with real estate often representing the second largest overhead after salaries, tenants will be shopping around to get the best deal in an office market where demand is low and office vacancy is rising.

Having endured the shock of the collapse in demand for office space, the London office market is now in the "denial" phase with, so far, little sign of any significant reductions in landlord's advertised rents since the outbreak of the coronavirus in March 2020. Table 2 provides an illustration of typical Q4 2020 landlord's advertised rents broken down by sub-market.

However, the discounts that can be negotiated on advertised rents have widened and now typically stand at between 5 – 10%, in contrast to discounts of 1.5 – 3.5% at the beginning of 2020.

Increasing Vacancy & The Correction In Office Rents

The volume of tenant-controlled space coming to the market has continued to rise during the last quarter of 2020 as occupiers seek ways to reduce their operating costs by offering surplus space to sub-let. This trend is likely to continue for at least the first half of 2021.

To compete with the ever-increasing volume of good quality, ready fitted out, tenant-controlled space that is coming to the market, landlords will, eventually, have to reduce advertised rents. The spring and early summer months of 2021 are likely to be the most painful for landlords as pressure for a "correction" in rents gathers pace.

"LANDLORD'S ADVERTISED RENTS ARE LIKELY TO DECLINE BY UP TO 15% IN SOME SUB-MARKETS FROM THEIR Q4 2020 LEVELS BY THE END OF 2021, DRAGGED DOWN BY COMPETITION FROM TENANT-CONTROLLED SPACE."

Table 1 below illustrates the forecast rates of decline in landlord's advertised rents across the various areas of the London office market. The disparity between sub-markets reflects the different supply and demand dynamics in each location.

It is very likely that office rents for poorly specified, second-hand, space will decline by up to 17.5% by Q4 2021 in some sub-markets, given the weaker demand for lower grade office space.

Table 1 – Forecast Decline, By Sub-Market, In Landlord's Advertised Rents To Q4 2021

New and refitted mid-rise Grade A space over 5,000 sq ft

Sub-market	Forecast Decline
City of London - Bank, Leadenhall Street, Blackfriars, Aldgate	10.0 – 15.0%
City Fringe North – Shoreditch, Clerkenwell, Farringdon	7.5 – 12.5%
City Fringe East – Aldgate East, Spitalfields	7.5 – 12.5%
South Bank – Southwark, London Bridge	7.5 – 12.5%
East London – Canary Wharf, Crossharbour	10.0 – 15.0%
East London – Stratford	7.5 – 12.5%
Midtown – Holborn, Bloomsbury, King's Cross, Covent Garden	7.5 – 12.5%
West End – Mayfair, Marylebone, Fitzrovia, Soho, Paddington, Victoria	7.5 – 12.5%
West London – Hammersmith & White City	10.0 – 15.0%

Source: Carter Jonas Research

SUMMARY OF FORECAST MARKET TRENDS

During 2021 the following trends are likely to become widely established in the London office market:

Advertised Rents

- a decline in advertised rents of up to 15% in some sub-markets by Q4 2021 for both new and refitted Grade A space - larger declines are expected for poorly specified, second-hand, space

Rent Discounts

- a continued widening in the discounts that can be negotiated on advertised rents as competition between tenants offering surplus space to sub-let and landlords intensifies

Rent Free Periods

- a further widening in rent free period incentives

Lease Length

- continued demand for greater lease flexibility – shorter leases and more frequent break options

Downsizing

- a further rise in the number of businesses downsizing their real estate footprint to minimise exposure to real estate costs, and also reflecting reduced headcount

Office Relocation Activity

- a gradual increase in the number of tenants proceeding with their plans to relocate – driven by a desire to downsize and / or move to higher grade space that reinforces employee wellbeing and ESG policies

Office Vacancy

- increasing availability of second-hand sub-let space as occupiers continue to downsize and offload surplus accommodation
- an increase in new Grade A space vacancy as developments that were started during the 2018 / 19 construction cycle reach completion
- the emergence of the availability of new, previously unoccupied, surplus, Grade A space being offered by tenants that, prior to the COVID-19 pandemic, entered into pre-letting agreements on buildings that were under construction

The bargaining position of tenants

- a continued shift in favour of tenants in the bargaining position in lease negotiations

Serviced Offices

- a short term improvement in demand for serviced and co-working space from those tenants with lease expires and break options seeking to downsize and requiring "stop-gap accommodation" before a move to more permanent space, until the business climate becomes more certain

Table 2 – The London Office Market - Typical Landlord's Advertised Rents Q4 2020			
£ per sq ft per annum / space over 5,000 sq ft / UF= Upper Floors			
Location	**Grade A**		**Grade B**
	New/Refitted	**Refurbished**	**Refurbished**
City			
Prime - Bank, Leadenhall Street	£62.50 - £75.00 (UF = £77.50 - £97.50)	£50.00 - £65.00 (UF = £67.50 - £85.00)	£40.00 - £49.50
Secondary - Blackfriars, Aldgate	£57.50 - £68.50 (UF = £70.00 - £85.00)	£45.00 - £57.50 (UF = £65.00 - £77.50)	£38.00 - £45.00
City Fringe			
North - Shoreditch, Clerkenwell	£65.00 - £75.00 (UF = £75.00 - £90.00)	£55.00 - £65.00	£38.00 - £55.00
North West - Farringdon, Smithfield	£70.00 - £85.00 (UF = £87.50 - £92.50)	£57.00- £68.50	£40.00 - £56.00
East - Spitalfields	£60.00 - £75.00	£48.00 - £60.00	£37.50 - £46.50
East - Aldgate East, Wapping	£50.00 - £59.50 (UF = £60.00 - £69.50)	£38.00 - £48.50	£34.00 - £37.00
South Bank			
Waterloo, Southwark, London Bridge	£67.50 - £75.00 (UF= £76.50 - £92.50)	£52.00 - £66.50 (UF = £67.50 - £75.00)	£39.50 - £52.50
Battersea, Nine Elms, Vauxhall	£55.00 - £67.50	£45.00 - £53.50	£37.50 - £43.00
East London			
Docklands Prime – Canary Wharf & Wood Wharf	£50.00 - £57.50 (UF = £58.50 - £62.50)	£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 - £49.50	£35.00 - £45.00	£22.50 - £29.50
West End			
Central - Mayfair, St James's (Prime)	£105.00 - £125.00 (UF= £130.00 - £140.00)	£85.00 - £105.00	£65.00 - £77.50
Central - Mayfair, St James's (Secondary)	£87.50 - £100.00	£72.50 - £88.50	£62.50 - £72.50
North - Euston	£65.00 - £78.50	£55.00 - £65.00	£42.50 - £52.50
North East - Fitzrovia	£78.00 - £90.00	£63.00 - £78.50	£48.00 - £62.50
North West - Marylebone	£78.00 - £92.50 (UF = £95.00 - £110.00)	£65.00 - £78.50	£50.00 - £62.50
South - Victoria, Westminster, Haymarket	£72.50 - £85.00 (UF = £87.50 - £92.50)	£57.50 - £72.50	£45.00 - £55.00
South West - Knightsbridge	£82.50 - £95.00	£72.50 - £80.00	£60.00 - £70.00
East - Soho, Regent Street, Leicester Square	£82.50 - £97.50 (UF = £95.00 - £110.00)	£67.50 - £82.00	£50.00 - £66.00
West - Paddington	£70.00 - £78.50 (UF = £82.50 - £90.00)	£55.00 - £66.50	£42.50 - £52.50
Midtown			
North - King's Cross	£72.50 - £87.50	£60.00 - £72.50	£47.50 - £57.50
South - Covent Garden	£70.00 - £82.50 (UF = £83.50 - £88.50)	£55.00 - £69.50	£47.50 - £55.00
East - Holborn	£62.50 - £70.00 (UF = £72.50 - £80.00)	£52.00 - £62.50	£40.00 - £50.00
West - Bloomsbury	£75.00 - £90.00	£60.00 - £72.50	£45.00 - £55.00
South West London			
Chelsea	£75.00 - £87.50	£62.50 - £72.50	£47.50 - £60.00
West London			
Kensington	£55.00 - £65.00	£45.00 - £53.50	£32.50 - £45.00
Hammersmith	£52.00 - £59.50	£40.00 - £50.00 (UF = £55.00 - £57.50)	£35.00 - £42.50
White City	£45.00 - £55.00	£40.00 - £45.00	£32.50 - £40.00
Chiswick	£47.50 - £55.00	£37.50 - £46.00	£32.50 - £37.50
Ealing	£40.00 - £50.00	£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

Source: Carter Jonas Research

Rent Free Periods

During Q4 2020, the rent free periods that were being offered on landlord and tenant-controlled space continued to expand by a further 1 – 2 months for leases of at least five years duration, reflecting a market backdrop of weak demand and increasing vacancy.

Rent free periods have increased by up to five months since the start of the pandemic and are now typically as set out in Table 3. It is likely that rent free periods will continue to expand throughout 2021.

Table 3 – Comparison of Typical Rent Free Periods Q1 vs Q4 2020

	Q1 2020	Q4 2020
City, West End, Midtown, South Bank, Stratford & West London		
5 year lease	9 – 12 months	12 – 16 months
10 year lease	20 – 24 months	25 – 29 months
Docklands		
5 year lease	12 – 14 months	14 – 18 months
10 year lease	24 – 27 months	26 – 31 months

Source: Carter Jonas Research

"THE CITY OF LONDON, DOCKLANDS AND STRATFORD SUB-MARKETS CONTINUE TO OFFER EXCELLENT QUALITY OFFICE SPACE AT A SIGNIFICANT DISCOUNT TO WEST END AND SOME MIDTOWN LOCATIONS."

Which Locations Offer The Best Value?

The City of London, Docklands and Stratford sub-markets continue to offer excellent quality office space at a significant discount to West End and some Midtown locations. Transport connectivity to each of these areas is set to be given a significant boost following completion of the Elizabeth Line / Crossrail, which is now scheduled to open during the first half of 2022.

Principal Office Occupation Costs

The principal annual outgoings associated with leasing space in a multi-occupied office building are rent, business rates and building service charge.

Table 4 provides a comparison of the typical rent, business rates and service charge costs, as at Q4 2020, associated with mid-rise new and refitted Grade A office space over 5,000 sq ft, located in each of the key Central London office sub-markets.

Table 4 – Comparison Of Rent, Business Rates and Service Charge Costs By Sub-Market – Q4 2020

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

Sub-market	Rent	Business Rates	Service Charge	Total
City of London – Bank, Leadenhall Street	£70.00	£28.00	£11.50	£109.50
City Fringe North – Shoreditch, Clerkenwell	£68.50	£22.00	£11.00	£101.50
City Fringe North – Farringdon	£85.00	£23.50	£11.00	£119.50
City Fringe East – Aldgate East	£56.50	£21.00	£11.00	£88.50
City Fringe East – Spitalfields	£65.00	£24.00	£11.00	£100.00
South Bank – Southwark, London Bridge	£72.50	£24.50	£11.50	£108.50
East London – Canary Wharf	£52.50	£17.25	£16.25*	£86.00
East London - Crossharbour	£35.00	£12.50	£12.00	£59.50
East London – Stratford	£47.50	£12.50	£10.00*	£70.00
Midtown East – Holborn	£70.00	£28.00	£11.50	£109.50
Midtown West – Bloomsbury	£85.00	£31.25	£11.50	£127.75
Midtown North – King's Cross	£85.00	£32.00	£11.00	£128.00
Midtown South – Covent Garden	£77.50	£32.25	£11.50	£121.25
West End Central – Mayfair, St James's	£110.00	£52.00	£12.50	£174.50
West End North – Fitzrovia	£92.50	£35.95	£11.50	£139.95
West End North – Marylebone	£95.00	£40.50	£11.50	£147.00
West End South – Victoria, Westminster	£77.50	£35.25	£11.50	£124.25
West End West - Paddington	£77.50	£26.00	£11.50	£115.00
West End East – Soho	£92.50	£40.50	£11.50	£144.50
West London – Hammersmith	£57.50	£22.50	£10.50	£90.50
West London – White City	£52.50	£18.75	£11.00	£82.25
South West London - Battersea, Nine Elms	£62.50	£21.00	£10.00	£93.50

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 and exclude the value of rent free periods
- Business rates cost estimates include the Crossrail levy
- * includes estate charge
- Total costs are estimates and exclude building insurance and utilities costs
- Rents for the upper floors of tower buildings will command a premium of circa 15 – 25% above those illustrated in the table

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

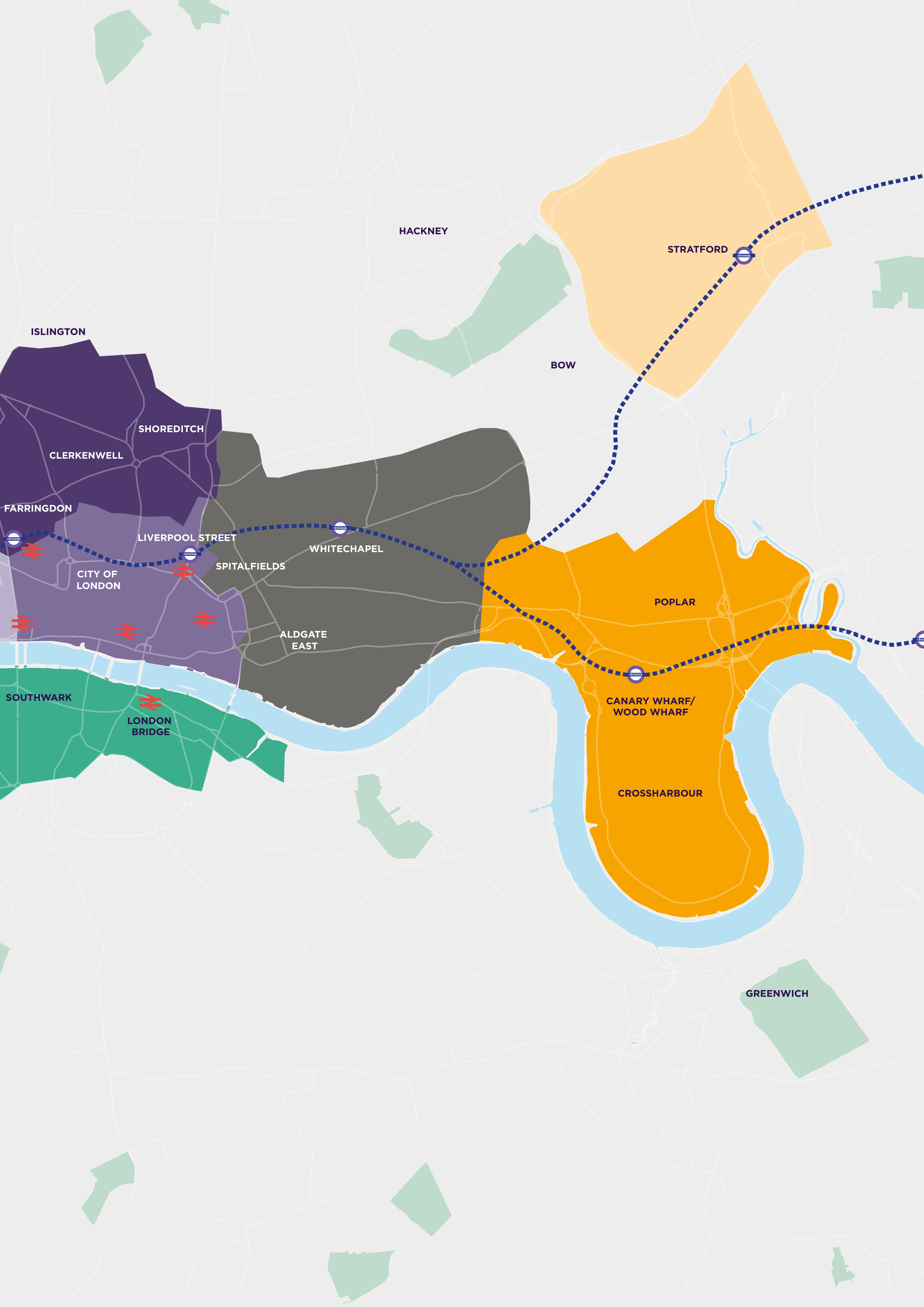
Table 4 of this document provides a summary of the typical rent, business rates and service charge occupancy costs associated with each sub-market for new and refitted, mid-rise, Grade A office space over 5,000 sq ft.

Rent Free Periods

Table 3 of this document provides a summary of typical rent free periods for 5 and 10 year leases, by sub-market.

SUB-MARKETS & POSTCODES

- **West End** W1, W2, SW1, NW1
- **Midtown** WC1, WC2, Part N1/EC1/EC4
- **City** EC2, EC3, Part EC1/EC4
- **City Fringe North** Part EC1/N1
- **City Fringe East** E1, E2
- **South Bank** SE1, SW8
- **London Docklands** E14
- **Stratford** E15, E20
- **Elizabeth Line/Crossrail** route
- Denotes **National Rail** station


HACKNEY
STRATFORD
ISLINGTON
BOW
SHOREDITCH
CLERKENWELL
FARRINGDON
LIVERPOOL STREET
WHITECHAPEL
SPITALFIELDS
CITY OF LONDON
POPLAR
ALDGATE EAST
SOUTHWARK
LONDON BRIDGE
CANARY WHARF/ WOOD WHARF
CROSSHARBOUR
GREENWICH

Business Rates Relief For Office Occupiers

Following lobbying by landlord and occupier groups, the Government has recently agreed to extend COVID-19 pandemic business rates relief to office occupiers – a concession that was initially only offered to the retail and leisure sectors.

Further details of this new initiative are to be announced imminently. For more information please contact the Carter Jonas Tenant Representation Team.

Using A Lease Event To Secure Lower Real Estate Costs

Given current office market conditions, a lease event such as a break option or expiry represents an excellent opportunity to secure lower real estate costs by using the option of relocating as a bargaining counter. Providing that negotiations start sufficiently early, it is often possible to secure a lower rent, a rent free period and tenant-friendly lease terms, including regular break options. The Carter Jonas Tenant Representation Team can provide advice on developing a robust lease negotiating strategy.

Downsizing & Trading Up In To Better Quality Space

The great international working from home "experiment" that has been forced on most organisations by the COVID-19 pandemic has convinced many sceptics of the viability of adopting "agile working" operating policies indefinitely, in tandem with reducing their desk-count and property footprint – to slash real estate costs.

A significant proportion of Carter Jonas' clients who are facing a lease expiry or break option are choosing not to renegotiate their tenancies but simply downsize to new / newer, higher grade, space that offers a more COVID-safe work environment.

While trading up in to better quality space is likely to mean paying a higher pro-rata rental, the reduced floor area will often result in total annual rent, business rates and building service charge outgoings that are no higher than those that were payable on the tenant's former premises. The ability to negotiate much longer rent free periods, compared with a year ago, also goes some way to offsetting a significant proportion of the capital costs of moving.

"THE ABILITY TO NEGOTIATE LONGER RENT FREE PERIODS, COMPARED WITH A YEAR AGO, GOES SOME WAY TO OFFSETTING A SIGNIFICANT PROPORTION OF THE CAPITAL COSTS OF RELOCATING."

Working From Home - A Structural Shift In The Use of Office Space

For many employees it is very likely that working from home will continue to be the "norm" at least until the second half of 2021 when, it is anticipated, a sufficient cohort of the population will have been vaccinated against COVID-19, making it safer to travel to work. Google, for example, has reportedly advised its employees that it is unlikely to be implementing return to office policies until Q3 2021. Twitter and Facebook have also reportedly informed their employees that they may continue to work from home indefinitely.

In a recent Institute of Directors poll, 74% of respondents considered that working from home is likely to be an operating policy that will be adopted permanently albeit, like Google, "collaboration" and "Team" days will be specified during which employees will be expected to attend the office.

"THE IMPORTANCE OF THE OFFICE, AS A FOCAL POINT TO FOSTER TRAINING, PRODUCTIVITY, COLLABORATIVE WORKING, INNOVATION AND, IMPORTANTLY, EMPLOYEE WELLBEING, HAS NEVER BEFORE BEEN BROUGHT INTO SUCH SHARP RELIEF. "

"THOSE OCCUPIERS THAT ARE SEEKING TO RELOCATE ARE FOCUSSING THEIR SEARCHES ON HIGHER GRADE SPACE THAT REINFORCES EMPLOYEE WELLBEING AND OFFERS A COVID-SAFE WORK ENVIRONMENT."

Mental Health, Wellbeing & Productivity

Quite rightly, many organisations have, during the pandemic, been implementing policies to support the mental wellbeing of their employees. Prolonged periods of working from home can, for some, lead to a feeling of isolation. For those with children living at home there is the challenge of meeting reporting deadlines and participating in online meetings without being distracted.

The importance of the office, as a focal point to foster training, productivity, collaborative working, innovation and, importantly, employee wellbeing, has never before been brought into such sharp relief.

Keeping The Workforce Safe: The Flight To Quality Continues

Prior to the outbreak of the coronavirus pandemic, employers were using the quality of their work environment as a recruitment tool to secure the brightest and the best in a tight labour market. Lease expiries and break options were being used as an opportunity to relocate and trade up in to new and refitted office space that offered opportunities to create a bright, engaging, healthy and vibrant workplace.

This trend will almost certainly continue for, arguably, different reasons. Clients of the Carter Jonas Tenant Representation Team have, since the outbreak of the coronavirus pandemic, been consistent in their demand for high grade office space. However, their motives have been less about recruitment and more about reassuring existing staff that it is safe to return to a new, COVID-safe, work environment with an air conditioning system that can be relied upon to safeguard their wellbeing.

Decentralisation: Breaking The Commuting Culture

The risk of COVID-19 infection during the commute into the office has, rightly, been cited as one of the key factors holding businesses back from re-occupying their office space. To address this issue employers of large workforces including, for example, Standard Chartered, are looking at ways to move the place of work nearer to the workforce.

The development of "spoke and hub" accommodation strategies, predicated on the decentralisation of some jobs from large, densely populated, cities such as London, is likely to become a trend that gathers pace over the next 12 – 18 months, which should provide a fillip for regional office markets.

A shorter, healthier, lower cost, commute to and from work will almost certainly be welcomed by employees. Employers, too, should reap benefits from a less tired, more productive, workforce.

Although formulated before the COVID-19 pandemic, as part of its "levelling-up" agenda, the British Government confirmed at the beginning of 2020 that it, too, was similarly working up plans to implement a policy of workforce decentralisation, with the announcement to relocate up to 22,000 civil servants out of London over a 10 year period.

The completion of major transport infrastructure projects such as the Elizabeth Line and HS2 should underpin such accommodation strategies, whether being implemented by private or public sector organisations, enabling quick and frequent access to and from the London-based hub.

KEY LEASING TRANSACTIONS DURING Q4 2020

The turnover of lettings in the London office market is at historic lows, reflecting the current economic climate, with much of the letting activity confined to the sub 20,000 sq ft market segment – in sharp contrast to market trends a year earlier. The table below provides a summary of key Q4 2020 lettings over 10,000 sq ft.

Table 5 – Key Office Lettings Over 10,000 sq ft – Q4 2020

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London - Blackfriars	Enyo Law	Law	1 Tudor Street, EC4	10,136
East City Fringe	Four Communications	Media	The Hickmann, 2/4 Whitechapel Rd, E1	17,700
East City Fringe	New College of Humanities	Education	Devon House, St Katherine's Way, E1	38,744
East City Fringe	Transferwise	Financial services	Tea Building, 56 Shoreditch High St, E1	17,228
West End – Mayfair	One Avenue	Serviced offices	64 North Row, W1	16,250
Midtown – Covent Garden	Hines UK	Real estate	30-35 Drury Lane, WC2	36,000
Midtown – Holborn	McGuire Woods	Law	5 New Street Square, EC4	14,477
South Bank	Proposition Studios	Charity	60-72 Upper Ground, SE1	23,750

Source: Carter Jonas Research

CLIMATE CHANGE & REAL ESTATE

“THE FLIGHT TO QUALITY OFFICE STOCK BY OCCUPIERS AND PROPERTY INVESTORS IS BEING DRIVEN BY EMPLOYEE WELLBEING CONSIDERATIONS, THE PROSPECT OF BETTER INVESTMENT RETURNS & ESG OBJECTIVES.”

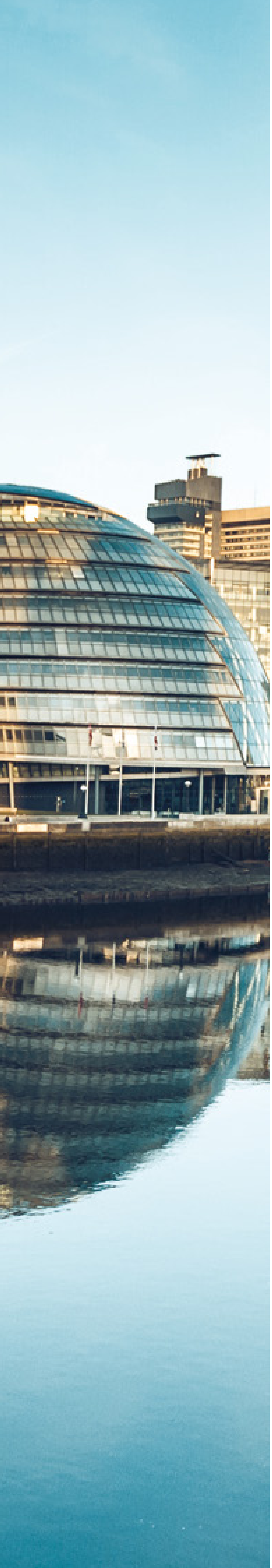
Real estate is a key contributor to global warming. Researchers at Northumbria University estimate that international real estate consumes 40% of global energy annually and contributes to over 20% of carbon emissions.

Occupiers are, rightly, becoming increasingly sensitive to environmental issues and how their business operations affect the environment – not least because those with a poor environmental track record are likely to lose market share. Initiatives such as Legal and General Investment Management’s “Climate Change Pledge”, which ranks businesses in which LGIM has a shareholding by their environmental track record, are part of a wider policy of shareholder activism among investment funds to bring about a change in the culture and working practices in the businesses in which they have shareholdings. These initiatives are also raising public awareness of those organisations that are just paying lip service to addressing environmental issues.

The flight to quality office stock by occupiers and investors alike is, therefore, not only being driven by employee wellbeing considerations and the prospects of better investment returns, but by the need to demonstrate that they are each playing their part in addressing the climate change crisis to meet their stated corporate environmental, social and governance (ESG) objectives.

The Crown Estate, one of the West End’s largest landlords, has recently announced its objective to become a net zero carbon business by 2030 by adopting a policy of upgrading and “decarbonising” its real estate portfolio to reduce carbon emissions and moving to renewable energy sources. The Grosvenor Estate has also reportedly committed itself to a £90 million decarbonising programme of its London real estate portfolio.

These are just two examples of a trend that will undoubtedly become widespread over the next few years. Landlords of older office buildings will either have to invest in upgrades to reduce their carbon footprint and energy usage to secure lettings or be faced with buildings that will remain vacant and non-income producing.



THE SERVICED OFFICE & CO-WORKING SECTOR

The growth in the serviced office and co-working sector in London over the last five or so years has resulted in overcapacity. The COVID-19 pandemic has catalysed a period of consolidation that had started at the beginning of 2020, before the outbreak of the pandemic.

"THE COVID-19 PANDEMIC AND OVER-CAPACITY HAVE CONSPIRED TO DEPRESS SERVICED OFFICE RENTS BY OVER 20% SINCE Q1 2020."

The rents that can now be agreed on serviced and co-working office space are at a discount of over 20% compared with Q1 2020 and the discount is likely to widen still further during H1 2021 as competition from tenant controlled, ready fitted out, "plug in and go", conventional (non-serviced), office space increases.

The ubiquitous WeWork and IWG, the owner of the Regus and "Spaces" brands, as well as many smaller players, have closed poorly performing business centres since the first half of 2020. Leases have been re-negotiated on others while some landlords have elected to enter into management agreements with serviced office providers under which the landlord's rental return is geared to the level of serviced office space occupancy and the rental income derived from serviced office lettings.

Why Move To Serviced & Co-working Space?

For those occupiers facing an imminent lease expiry or break option there is certainly merit in considering serviced and co-working space, particularly as a short-term stop-gap measure, pending a later relocation to longer term, conventional, office space, when the economic climate is a little more certain.

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

The key advantages of serviced / co-working office space are that it is "cashflow friendly" and offers a high degree of lease flexibility – enabling a later 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
- 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
- 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.

THE TENANT REPRESENTATION TEAM

Our tenant representation services include:

- Serviced & co-working property searches and negotiations
- Break option linked lease re-negotiation
- Workplace design & floorspace re-configuration
- Marketing & leasing services – surplus space
- Conventional office space search & cost appraisal
- Office move management
- 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.

KEY CONTACTS

Michael Pain Partner
Head of Tenant Representation Team
07715 001013
michael.pain@carterjonas.co.uk

Daniel Francis Head of Research
07801 666137
daniel.francis@carterjonas.co.uk

Ed Caines Associate Partner
07966 188632
ed.caines@carterjonas.co.uk

Georgia Eckert Associate
07826 884704
georgia.eckert@carterjonas.co.uk

Anders Horwood Surveyor
07836 246049
anders.horwood@carterjonas.co.uk

One Chapel Place
London
W1G 0BG

OUR EXPERIENCE

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UK Payments Administration
2 Thomas More Square, E1

39,000 sq ft
Care Quality Commission
151 Buckingham Palace Road, SW1

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Warner Bros/Shed Media
85 Grays Inn Road, WC1

27,000 sq ft
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

The data in this document is provided to illustrate the key trends in the London office market. We recommend that the advice of an experienced property consultant is sought where a specific property transaction is being contemplated before any irreversible decisions are made.