RESEARCH

THE LONDON OFFICE MARKET

Q1 2021

A GUIDE TO RENTS, RENT FREE PERIODS & MARKET TRENDS

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Carter Jonas

THE LONDON OFFICE MARKET: LATEST TRENDS

Is the office, as a place to operate a business, dead? How is the London office market going to respond to the post pandemic structural changes in occupier demand? These are the questions that I am increasingly being asked by journalists, landlords and tenants.

The Office: A Focal Point For Business

My answer to the first question is simple. No. The feedback that I and the other members of the Carter Jonas Tenant Representation Team are receiving from occupiers is very clear: businesses recognise the importance of the office as a focal point for team collaboration, innovation, training and mentoring. Working from home cannot properly address these important issues that are key to fostering business development.

The negative impact of prolonged periods of working from home on the mental health of some is also now well documented. Most employers and employees alike are becoming increasingly aware of the importance of the office to promote social interaction, underpin personal wellbeing, productivity and, ultimately, profitability.

Structural Changes In Occupier Behaviour

The answer to the second question is not so clear cut and will ultimately be influenced by the extent to which occupiers adopt new, post-pandemic, working practices. The evidence that is gradually gathering, as employers plan returning their workforces to their usual place of work, the office, indicates that a return to the 9 – 5 five days a week work routine is unlikely for many businesses.

"OCCUPIERS ARE RE-THINKING THE WAY THAT THEY USE THEIR OFFICE SPACE – WITH GREATER EMPHASIS ON THE WORKFORCE UTILISING IT AS A HUB, WHEN REQUIRED, FOR SPECIFIC PROJECTS THAT REQUIRE TEAMS TO COLLABORATE AND INNOVATE."

As ever, the "tech-giants", including Google and Facebook, appear to be leading the way in developing workplace strategies to accommodate new ways of operating. Both companies are introducing what are, in effect, "spoke and hub" accommodation models. These are predicated on their employees working from home on the basis that they will be required to attend the office on specified days to participate in collaborative projects. The UK government, the Nationwide Building Society and outsourcing firm, Capita, are just a few examples of major employers that have recently announced a shift to more flexible operating models, based on employees working for a significant part of the week from home.

This operating model may work well for some businesses but not for all. Commodities trading companies that rely on very close co-operation and rapid exchange of information between team members, and professional services businesses, including law firms, where junior employees are required to "shadow" more senior staff as an essential part of their training, are likely to be less suited to the Google and Facebook approach to workforce management. As a consequence, there are likely to be fewer opportunities for such businesses to adopt working practices that would necessitate less floor space.

A Trend Towards Needing Less Space

On balance, however, the current trend across London is for occupiers to require less floor space, reflecting the desire to reduce operating costs, as well as the increasing adoption of new working practices and, in some cases, headcount reductions. The experience of Carter Jonas' Workplace Consultancy Team is that the extent to which a particular business can reduce its property footprint will be directly correlated to headcount and the new operating practices that it decides to adopt.

The Death Of The Office Tower Building?

Will office tower buildings become increasingly unlettable? This was a question that was put to me at a recent presentation on the London office market. Certainly, passenger lifts represent a significant "bottleneck" in tower buildings, if social distancing measures are to remain the norm for the foreseeable future. I am aware of two major international businesses that are currently reviewing their real estate portfolios, with a view to consolidating some of their London and regional offices, and both have stated that they will only consider ground and first floor office accommodation – to reduce their workforce's exposure to using passenger lift facilities.

"LANDLORDS OF OFFICE BUILDINGS SHOULD NOT UNDERESTIMATE THE LONGER-TERM IMPACT OF ARTIFICIAL INTELLIGENCE. AI IS LIKELY TO SHAPE THE FUTURE PATTERN OF OFFICE DEMAND IN FAVOUR OF THOSE REQUIRING SPACE FOR CREATIVE AND COLLABORATIVE PURPOSES – AREAS OF BUSINESS WHERE THE APPLICATION OF AI IS LIKELY TO BE LESS EFFECTIVE."

Tower buildings were written off as redundant status symbols of property developers with big egos immediately after the terrorist attacks on the World Trade Centre in New York on 11 September 2001, on the basis that no responsible employer would expose their workforce to such risks. Since then key cities across the world have seen new, and ever taller, tower buildings added to their skyline. London is no exception – witness the recent completion of 22 Bishopsgate which, at 62 storeys, currently holds the record for the tallest office building in the City of London.

Despite depressed demand, energy company Dtek reportedly paid a record City rent of just under £110.00 per sq ft per annum for the 7,000 sq ft top floor in the 48 storey Leadenhall Building at the end of 2020. It is therefore too early to write off the traditional City tower building as a place to host businesses.

Artificial Intelligence: Friend or Foe?

Job creation is the key driver of demand for office space. Advances in artificial intelligence are beginning to reach a point where they are likely to have a negative impact on employment growth, particularly in areas such as law, banking and financial services where routine tasks can be carried out more cheaply and efficiently by machines.

Indeed those, like me, who work in the property profession are not immune from the impact of the AI revolution: machines are now being employed to read leases and undertake valuations. In the medium to long term AI is likely to have a depressing effect on the demand for office space. Landlords of office buildings should not underestimate the longer-term impact of AI which is likely to shape the future pattern of office demand in favour of those requiring space for creative and collaborative purposes. These are areas of business where the application of AI is likely to be less effective.

More London Decentralisation

The BBC's recent announcement that it is to relocate up to 400 London jobs to the regions by 2027 comes a year after the Government unveiled its plans to similarly relocate up to 22,000 Civil Service jobs from the capital over the next 10 years as part of its "Levelling-up" agenda.

The impact of the decision of both organisations to broaden their investment in jobs more equitably across the regions will, necessarily, be a phased process – recruitment and the procurement of suitable premises will take time – which should enable the London office market to adjust accordingly.

A Bright Future In The Medium Term

2021 will continue to be a year of lower rents and longer rent free periods, rising vacancy, greater choice for footloose tenants and weak demand, as structural changes in occupier requirements result in the need for less office space.

However, in the medium term, the London office market has, in my view, a bright future. The capital is a pre-eminent global technology and financial services hub, underpinned by its language, laws and culture. Overseas investment in London based businesses will translate into an increased rate of job creation over the medium term and increased demand for office space.

Tenants will be the key beneficiaries in the London office market over the next year or so but landlords of good quality, well located, buildings will ultimately benefit from positive returns over the medium term.

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RENTS AND RENT FREE PERIODS

Advertised Rents

Advertised rents for new and refitted Grade A space have remained largely unchanged since the first quarter of 2020. However, it is likely that widespread reductions will begin to manifest themselves over the next 3 – 6 months, dragged down by increasing competition from tenant controlled space. Please refer to Table 1 which provides a twelve month advertised rent forecast.

Rent Discounts & Rent Free Periods

Ready fitted out, plug in and go, tenant-controlled space, that requires little or no capital expenditure on the part of the incoming tenant, represents significant competition for landlords.

Landlords are responding by offering longer rent free periods (see Table 2) and deeper rent discounts of, typically, 5 – 10% on advertised rents.

Ready Fitted Out Space – A Challenge For Landlords

Traditionally, landlord space has been offered on the basis that the incoming tenant would fit the space out, at the tenant's expense, to render it operational for its particular purposes. However, an increasing number of landlords are now fitting out vacant floor space speculatively with meeting rooms, kitchen and reception area facilities – in order to compete with available ready fitted out tenant-controlled space.

The trend towards landlords offering space to a "Cat A+" finish began before the pandemic, in response to competition from serviced offices, and is now being underscored by the increasing availability of fitted out sub-let space.

Advertised Rents Forecast

Table 1 – Forecast Decline, By Sub-Market, In Landlord's Advertised Rents (To Q1 2022)

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

Rent Free Periods

Table 2 – Comparison of Typical Rent Free Periods Q1 2020 vs Q1 2021

	Q1 2020	Q1 2021
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

"LANDLORD'S ADVERTISED RENTS FOR NEW AND REFITTED GRADE A SPACE ARE LIKELY TO BE UNDERMINED IN THE COMING MONTHS AS COMPETITION FROM GOOD QUALITY, READY FITTED OUT, PLUG-IN-AND-GO, TENANT-CONTROLLED SPACE INCREASES."

SUMMARY OF FORECAST MARKET TRENDS

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

Advertised Rents

- a decline in advertised rents of 10 – 15% in the City of London, Docklands and West London office markets by Q1 2022 for both new and refitted space
- advertised rents in the West End, Midtown, City fringes, South Bank and Stratford sub-markets are forecast to decline by 7.5 – 12.5% over the same period

Rent Discounts

- The rent discounts that can be negotiated on advertised rents are likely to stabilise at their current level of 5 – 10%, reflecting the anticipated widespread discounting of advertised rents

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 continuing trend towards businesses downsizing their real estate footprint, reflecting the adoption of new operating practices and reduced headcount, in order to reduce real estate costs

The Bargaining Position of Tenants

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

Office Vacancy

- a rise in the vacancy levels of previously occupied landlord-controlled space as some tenants cease trading and disclaim leases
- an increase in new Grade A space vacancy as developments that were started during the 2018 / 19 construction cycle reach completion
- a continued rise in the quantum of available tenant-controlled space, as occupiers downsize and offload surplus accommodation
- 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

Office Relocation Activity

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

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

“LANDLORDS ARE RESPONDING TO WEAK DEMAND AND INCREASING OFFICE VACANCY BY OFFERING DISCOUNTS OF, TYPICALLY, 5 – 10% ON ADVERTISED RENTS.”

Table 3 – The London Office Market – Typical Landlord’s Advertised Rents Q1 2021

£ 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 systems

Source: Carter Jonas Research

THE LONDON OFFICE MARKET

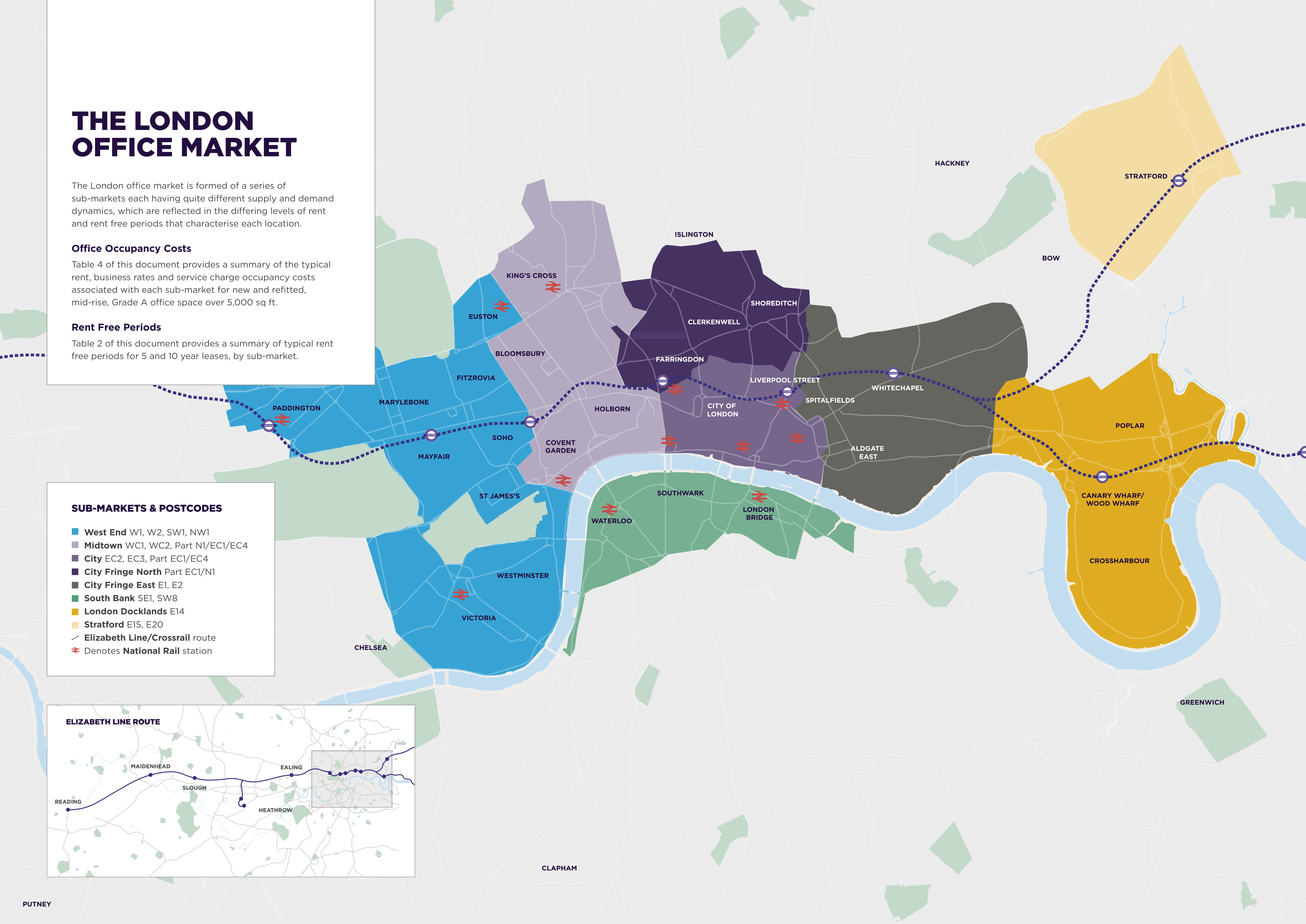
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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



PRINCIPAL OFFICE OCCUPATION COSTS

The principal annual outgoings associated with occupying multi-let office space are rent, business rates and building service charge.

Table 4 provides a comparison of the typical rent, business rates and service charge costs 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 – Q1 2021

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

"IN A WORLD WHERE PROFITABILITY IS UNDER THREAT, BUSINESSES ARE BECOMING INCREASINGLY CONSCIOUS OF THEIR REAL ESTATE OUTGOINGS WHICH TYPICALLY FORM THE SECOND HIGHEST OPERATING COST AFTER SALARIES."

SUPPLY AND DEMAND

Office Vacancy Continues To Rise

During the first quarter of this year, the volume of Grade A tenant-controlled office space being brought to the market by those businesses eager to reduce their exposure to real estate costs has continued to rise. This trend is likely to continue for the rest of the year, adding to vacancy levels across London and offering footloose tenants more choice and a stronger bargaining position in lease negotiations.

The Impact Of The Serviced Office Sector On Office Vacancy

During the last few months reports have increased indicating that the woes of the co-working and serviced office sector are far from over. Most recently, serviced office operator IWG is understood to have notified the landlords of the twenty plus office buildings occupied in London by its "Spaces " brand that it will require its tenancies to be restructured or else be forced to disclaim leases.

Landlords could therefore be facing the prospect of no rental income and the need to find replacement tenants in a market characterised by weak demand. Defaults in the serviced office sector are therefore likely to increase vacancy levels of landlord-controlled space, adding further to the total stock of vacant office space across London.

The Flight To Quality Continues

The first quarter of 2021 has witnessed an improvement in the turnover of lettings in the London office market (see table 5), from a very low base, as some occupiers take advantage of break options or lease expiries to downsize and / or trade up into better quality space.

Very significantly, the majority of lettings that have taken place during Q1 2021 are of new and refitted Grade A space, rather than low cost, lower quality, floorspace.

Protecting The Workforce

Recent Carter Jonas Research shows that employers are acutely aware that if they are to succeed in reassuring their workforce that it is safe to return to the usual place of work, they must offer a bright, attractive, vibrant work environment in a building with an air conditioning system that, fundamentally, underpins the wellbeing of their employees and provides protection against the spread of COVID-19.

An Increasingly Environmentally Aware Business Community

The flight to quality office space is a trend that has continued to gather pace during Q1 2021 and is being underpinned by an increasing desire by businesses to demonstrate their "green" credentials by moving to buildings that are energy efficient, have a low carbon footprint and have been constructed from sustainable materials.

"THE FLIGHT TO QUALITY OFFICE SPACE CONTINUES AS EMPLOYERS RECOGNISE THE IMPORTANCE OF CREATING AN ATTRACTIVE WORK ENVIRONMENT THAT REINFORCES EMPLOYEE WELLBEING. THIS TREND IS BEING UNDERPINNED BY THE NEED FOR BUSINESSES TO DEMONSTRATE THEIR "GREEN" CREDENTIALS BY MOVING TO BUILDINGS THAT HAVE A LOW CARBON FOOTPRINT."

KEY LEASING TRANSACTIONS DURING Q1 2021

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 25,000 sq ft market segment – in sharp contrast to market trends a year earlier. The table below provides a summary of key Q1 2021 lettings over 10,000 sq ft.

Table 5 – Key Office Lettings Over 10,000 sq ft – Q1 2021

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Donnelly Financial	Financial services	138 Cheapside, EC2	10,007
	HKA	Business services	100 Victoria Embankment, EC4	10,150
	Plexus	Law	40 Gracechurch Street, EC3	12,970
	J M Finn	Financial services	25 Copthall Avenue, EC2	26,500
	International Dispute Resolution Service	Business services	100 St Paul's Churchyard, EC4	46,250
	AllianceBernstein	Financial services	60 London Wall, EC2	52,800
	Latham & Watkins	Law	1 Leadenhall Street, EC3	200,000
North City Fringe – Farringdon	TikTok Information Technologies	Media / Technology	Kaleidoscope, 4 Lindsey Street, EC1	88,500
Midtown – Covent Garden	MSQ Partners	Media / Marketing	34 Bow Street, WC2	20,315
Midtown – Aldwych	Forrester	Business services – research	61 Aldwych, WC2	17,702
Midtown – King's Cross	Gyroscope Therapeutics	Biotechnology	Rolling Stock Yard, 188 York Way, N7	23,800

Source: Carter Jonas Research

"THE TURNOVER OF LETTINGS ACROSS THE LONDON OFFICE MARKET IS LIKELY TO REMAIN LOW DURING 2021 REFLECTING THE UNCERTAIN ECONOMIC CLIMATE AND THE DESIRE OF SOME BUSINESSES TO EXTEND EXISTING TENANCIES TO CONSERVE WORKING CAPITAL, RATHER THAN EXPENDING IT ON A CASH-HUNGRY OFFICE RELOCATION."

THE SERVICED OFFICE & CO-WORKING SECTOR

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 "cash-flow friendly" and offers a high degree of lease flexibility – enabling a 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 required
- 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.

"LEASING ACTIVITY IN THE SERVICED OFFICE SECTOR HAS IMPROVED DURING Q1 2021 AS SOME OCCUPIERS WITH LEASE BREAK OPTIONS AND EXPIRIES ON CONVENTIONAL SPACE PAUSE TO REASSESS THE IMPACT OF THE PANDEMIC ON THEIR BUSINESSES BEFORE COMMITTING TO LONGER-TERM LEASES ON NON-SERVICED SPACE."

CENTRAL LONDON – INVESTMENT OVERVIEW

The Central London investment market has remained relatively subdued during Q1 2021. This has been caused, in the main, by a lack of available buying opportunities rather than a lack of investor demand. The general perception in the market is that there is significant pent up buyer appetite from both UK and overseas investors as they await a combination of the easing of travel restrictions and increase in availability and deliverability of good quality assets.

Having said that, there has been some, principally 'off market', activity in both the West End and City. In excess of £650 million has been transacted in those combined markets during February and more completions are expected before the end of the Quarter, albeit volumes are generally around 50% down on the same period last year. Those few sales that have been openly marketed, such as Amshold's Lever Building in Clerkenwell and Tellon's 40 Broadway development site have attracted strong levels of interest, although only UK and overseas buyers with a presence in London have realistically been able to engage fully in any bidding process. In the end Lever Street sold to Merseyside Pension Fund and Broadway is at the time of writing going through a bidding process. Also of interest in the market is the Scouts' Association Baden-Powell House in South Kensington, offering a wide variety of end uses such as residential, educational and hotel. It is understood that at least 40 separate parties have expressed interest and the bidding process should demonstrate a broad spectrum of investor appetite.

Looking to the future, buyers are generally feeling bullish about the prospects for an economic recovery in a relatively short time frame. The success of the vaccination programme and the ongoing roadmap out of the lockdown offer genuine reasons for optimism to occupiers and investors alike and should enable a swift return to relative normality in the office sector. In terms of investment, best in class assets will remain the profile of choice, particularly those assets with robust income, although there will continue to be interest in value-add situations where the underlying real estate fundamentals are strong.

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

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One Chapel Place, London W1G 0BG

OUR EXPERIENCE

Lease negotiations and relocations 10,000 sq ft+

43,000 sq ft
UK Payments Administration
2 Thomas More Square, E1

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

28,000 sq ft
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