RESEARCH

The London Office Market Q1 2022

A Guide To Rents, Rent Free Periods & Market Trends

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The London Office Market Remains Resilient Despite War In Ukraine And The Emergence Of Inflation

Supply and demand: the key drivers of any economy and the ultimate determinants of pricing. As detailed in Table 4 of this document, which summarises the key lettings that took place during Q1 2022, demand for central London office space continues to improve from its COVID lockdown lows of 2020. The focus of market activity continues to be on new and refitted Grade A space as employers use the quality of their workplace as a tool to underpin return to the office, recruitment, retention, productivity and environmental strategies.

While demand has improved for new and refitted Grade A space across many of the central London office sub-markets during the first quarter of the year, this has been against a backdrop of gradually declining vacancy, which has been exacerbated by the disruption in the office construction pipeline as a consequence of the COVID pandemic.

The West End, Midtown and South Bank sub-markets are particularly undersupplied across most size ranges. Landlords of vacant Grade A space in these locations have lost little time in hardening their bargaining positions in lease negotiations as the level of rent discounts and rent free period incentives becomes increasingly less generous.

Seeking Better Value – The City of London & Docklands

The supply and demand dynamics of the City of London and Docklands sub-markets are such that there is greater choice for footloose tenants in both these locations. Save for the upper floors of iconic City tower buildings, where vacancy is declining, it is still possible to secure rent discounts and rent free periods in these sub-markets that represent better value than could have been negotiated pre-pandemic.

Inflation and Interest Rates

Many of today's senior managers and captains of industry are unlikely to have experienced running a business during the 1970s – a decade that was defined by inflation and economic crises across much of the developed world. Half a century later the spectre of inflation has re-appeared and we should be very concerned about it.

The most immediate impact of inflation on the business community is increased operating costs in the form of higher salaries, as employers grapple with the problem of losing staff to competitors that are offering larger salaries in a tight labour market. The problem of salary inflation is further compounded by the significant rise in the cost of living, in particular associated with energy costs. The cost of borrowing is also increasing, as many of the central banks across the globe raise interest rates in an attempt to choke off inflation – a policy that could lead to declining investment and reduced productivity if rates rise significantly.

The impact of rising inflation and consequent higher operating costs is likely to deter some footloose businesses from investing in a relocation to newer / better quality accommodation preferring, instead, to stay put and upgrade and refurbish their existing space. This strategy is, however, unlikely to succeed in creating an attractive work environment unless the common parts of the building are similarly refurbished in tandem, and the landlord's air conditioning and passenger lift plant overhauled.

> "There is an increasing realisation among occupiers seeking best in class Grade A space that choice is declining"

The Russian Invasion Of Ukraine

Having brushed aside the threat of the Omicron variant with relative ease, the London office market still faces challenges following Russia's invasion of Ukraine in February. It is too early to say what the short and medium term impact of the war will be on demand for London office space but the signs are, at the time of writing this commentary, that the office market remains quite resilient, notwithstanding that the conflict is adding to inflationary pressures, especially in the energy and food sectors - reflecting Ukraine's importance as a wheat exporting nation.

Demand is likely to transcend the impact of the war given London's dominance as a global financial services and technology hub. It is certainly the experience of the Carter Jonas Tenant Representation Team, during the last month, that many of our clients have decided to take a long term view when planning their future and are pressing on with their plans to relocate.

For those who are contemplating an office move there is an increasing realisation that if they wish to operate from the best in class Grade A buildings, prevarication is not an option, as the choice of suitable available properties continues to decline.

Staff Recruitment & The Environment

Since the publication of the Carter Jonas Research Team's Q4 2021 report on the London office market, the trend for footloose tenants to downsize and focus on energy-efficient, low carbon footprint, buildings has continued. Table 4 of this report features a summary of the key central London office lettings that took place during Q1 2022. One of the striking trends in the data is that almost all the lettings have been of new or refitted Grade A buildings that have good environmental credentials.

Carter Jonas' Q4 2021 report on the London office market documented the shift in demand towards environmentally friendly buildings – a trend that has continued during the first quarter of this year which is being driven by increased public awareness of the implications of climate change. Those businesses that wish to increase their market share, and revenues, are more likely to achieve their stated objectives if they demonstrate their commitment to ameliorating their impact on the environment to their shareholders and customers.

As competition between employers intensifies to attract the best and the brightest employees, a business' commitment to reduce its impact on the environment is likely to appeal to a new generation of employees that, rightly, take environmental issues very seriously. Real estate is a significant contributor to greenhouse gases through both occupancy and manufacture.

A business can, very effectively, demonstrate its green credentials through its real estate policy, by operating from accommodation that is energy efficient, has a low carbon footprint and has been constructed from recycled and recyclable materials. An increasing number of employers are recognising the link between real estate, the environment and their human resource strategies, and are trading up into better quality office space to underpin their recruitment and retention policies.

BREEAM and Other Environmental Standards

To assist footloose occupiers in selecting the best-in-class environmentally friendly properties a number of grading systems have been developed including BREEAM and the north American equivalent, LEED – both of which assess a building in terms of its energy performance, carbon footprint and sustainability credentials.

Energy Performance – Implications For Tenants

The UK government is reviewing initiatives to improve the energy efficiency of the country's stock of real estate. It is proposed that the present energy performance D rating threshold for commercial properties will be raised to B by 2030, below which neither landlords or those tenants with surplus space will be permitted to lease non-compliant space. If this proposal becomes law it will have a significant impact on the UK office market where much of the existing stock is graded C and D.

Those tenants that are considering renewing their tenancy or relocating would therefore be well advised to check the energy performance certificate (EPC) rating of the property that they are about to lease if they are to avoid a situation where they are potentially unable to offload unwanted surplus space in the future.

Return To The Office

The last six months has seen a steady increase in commuter traffic on London's public transport systems as employees gradually get back into the routine of working from the office.

Different businesses, and business sectors, are adopting a variety of strategies to entice their workforces back to the office including refurbishment of existing accommodation to provide a more vibrant, attractive, COVID-safe and uplifting place to work. Some tenants that have the benefit of an imminent break option or lease expiry in their tenancy are using their lease event to upgrade by moving to new / newer space in order to provide their employees with a more attractive work environment.

Other return to the office strategies include employer sponsored weekly / monthly social events, "office days" policies specifying days of the week when certain teams are required to attend the office, and flexible daily starting and finishing times.

The Limits To Downsizing

As outlined in our Q4 2021 report, those office occupiers that are facing a lease event such as a break option or expiry are challenging the assumptions that were made before the pandemic about the quantum of floor space required. This is particularly relevant to those professional services businesses such as law firms and accountants where collaboration between teams is not a priority, enabling a rota system to be employed under which separate teams can be allocated specific days during the week when they will be required to attend the office.

However, downsizing is not a realistic prospect for those businesses that have an operating model that is predicated on collaboration between teams in order to innovate or transact. This is particularly true of the technology and creative industries and some areas of the commodities and financial services sectors that incorporate trading activities. The extent to which savings in real estate costs can be made by shrinking a business' property footprint will therefore be dictated by the occupier's business model.

To sum up, the war in Ukraine and the re-emergence of inflation represent potential threats to economic growth and job creation – the key drivers of demand for office space. However, the structural shift in demand towards new and refitted environmentally and recruitment friendly Grade A space, and historically low levels of vacancy, are likely to continue conspiring to reduce choice for footloose tenants, to the advantage of landlords.

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Rents and Rent Free Periods

Advertised Rents

Landlord's advertised rents for new and refitted Grade A accommodation during the first quarter of 2022 have remained broadly static and have continued to be at similar levels to those prevailing during Q4 2021.

As recorded during the last quarter of 2021, in some areas of the West End and Midtown sub-markets a minority of landlords have, in a few isolated cases, increased advertised rents by, typically, £2.50 - £5.00 per sq ft per annum for best in class, prime-located, Grade A space. This trend is beginning to gather pace and is likely to become more widespread in the coming months, as take-up improves and the choice of best space declines.

As detailed in Carter Jonas' Q4 2021 report, the advertised rents on some of the most recently developed best-in-class City tower buildings have increased by a similar order of magnitude, reflecting declining choice. This contrasts with the advertised rents for low and mid-rise City office space where competition between landlords to secure lettings continues to suppress rental growth.

Advertised rents for low grade, poorly specified, office accommodation with low energy performance ratings continue to be under pressure across all the London office sub-markets, reflecting poor demand for space of this type for the reasons set out in the commentary at the beginning of this document. Some landlords are overtly reducing rents, reflecting the structural shift in occupier demand towards space that provides a vibrant, attractive, environmentally friendly, energy-efficient, workplace.

Please refer to Table 2 which provides an overview of current typical landlord's advertised rents for the various London office sub-markets.

Rent Discounts

Discounts of 2.5% – 6% are now more typically being negotiated on landlord's advertised rents for new and refitted Grade A space – with discounts at the higher end of the range more common in the City of London, east City fringe and London Docklands sub-markets. Contrast with discounts of 5 – 10% across many parts of London which were prevalent during the first quarter of 2021.

By contrast, discounts of over 10% on the advertised rents of poorly located, low quality, Grade B accommodation are not uncommon in many of London's office sub-markets.

Rent Free Periods

The increasing take up of Grade A office space across central London has boosted the confidence of landlords in lease negotiations resulting in reduced levels of rent discount being conceded in many of the capital's sub-markets (see above). In tandem, landlords are also tending to be less generous in the levels of rent free periods that they are willing to offer to secure lettings, compared with the lettings that were being agreed during the first quarter of last year.

In the West End, Midtown and South Bank sub-markets low levels of Grade A vacancy in some market segments is resulting in tenants competing for the best available space resulting in a contraction in rent free periods during the second half of 2021 of, typically, 1 – 2 months for 5 – 10 year leases.

Except for the upper floors of some of the more prominent City tower buildings, where pressure for shorter rent free periods continues due to declining choice, the vacancy levels of low and mid-rise space in the City of London, east City fringe, London Docklands and West London sub-markets still favour tenants. This has resulted in little change in rent free period incentives in these areas since Q4 2021 – see Table 1.

Poor demand for lower specified, inferior quality, Grade B space is likely to result in continued pressure on landlords for the foreseeable future to offer generous rent free period incentives to attract tenants.

Rent Free Periods

Table 1 – Typical Rent Free Period By Sub-Market – Q1 2022
New / refitted & Refurbished Grade A Space

Location	Typical Rent Free Period (lettings over 5,000 sq ft)	
	5-year lease	10-year lease
City of London - St Paul's, Bank, Liverpool Street, Cannon Street	11 - 14 months	23 - 27 months
City Fringe North - Shoreditch, Clerkenwell, Farringdon	10 - 13 months	22 - 26 months
City Fringe East - Aldgate East, Spitalfields	12 - 15 months	24 - 28 months
Midtown - Bloomsbury, Holborn, King's Cross, Covent Garden	10 - 13 months	22 - 26 months
West End - Mayfair, St James's, Marylebone, Fitzrovia, Soho, Victoria, Paddington	9 - 13 months	21 - 25 months
South Bank - Waterloo, Southwark, London Bridge	9 - 13 months	21 - 25 months
East London - Docklands - Canary Wharf, Wood Wharf	13 - 16 months	25 - 30 months
East London - Stratford	13 - 15 months	25 - 28 months
West London - Hammersmith, White City, Chiswick	12 - 15 months	24 - 28 months
South West London - Vauxhall, Battersea	11 - 15 months	22 - 26 months

Source: Carter Jonas Research

Summary of Forecast Market Trends

A summary of the key current and forecast trends in the London office market is provided below:

Advertised Rents

- landlord's advertised rents for best in class new and refitted Grade A space are beginning to creep up on the upper floors of City tower buildings and in some of the most under-supplied sub-markets, including Midtown, South Bank and the West End, reflecting declining choice for footloose tenants

Rent Discounts

- the discounts that can be negotiated on advertised rents for new and refitted, well located, Grade A space are likely to remain at their current level of 2.5 - 6% for the first half of 2022

Rent Free Periods

- rent free period incentives for well-located Grade A space are likely to remain broadly static during the second quarter of 2022, reflecting the economic uncertainty associated with interest rates, inflation and the war in Ukraine
- rent free periods for best in class, prime located, new and refitted Grade A space may continue contracting during Q2 2022, reflecting declining choice, especially in the most undersupplied markets including the West End, Midtown and South Bank

Greater Lease Flexibility

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

Demand For Good Quality Office Space

- continued demand for good quality, energy-efficient, environmentally-friendly, Grade A office space – to reinforce return to the office, workforce wellbeing, recruitment, retention, productivity and ESG strategies

Downsizing

- a continuing trend towards businesses downsizing their real estate footprint, reflecting the adoption of new "hybrid" work from office / home operating practices and, in some cases, reduced headcount

The Bargaining Position of Landlords

- a gradual shift in favour of landlords in the bargaining position in lease negotiations during Q2 2022 for best in class new and refitted Grade A space in sub-markets where vacancy is low and where choice is becoming more limited

Office Leasing Activity

- a continued steady increase in the number of tenants 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 environmental policies

Serviced Offices

- a continued improvement in demand for serviced and co-working space from start-up / high growth businesses and established enterprises that wish to lease short term space, pending a return to a more certain economic climate

“The Eastern sub-markets: the City of London, East City fringe and Canary Wharf / Docklands, where vacancy rates are higher, currently represent the best value central London office locations.”

Table 2 – The London Office Market – Typical Landlord’s Advertised Rents Q1 2022

£ 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 = £78.50 - £100.00)	£55.00 - £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	£67.50 - £77.50 (UF = £78.50 - £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	£49.50 - £55.00 (UF = £57.50 - £62.50)	£38.00 - £48.50	£34.00 - £37.00
South Bank			
Waterloo, Southwark, London Bridge	£67.50 - £75.00 (UF= £77.50 - £95.00)	£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	£65.00 - £78.50	£50.00 - £62.50
North West – Marylebone	£80.00 - £92.50 (UF = £95.00 - £110.00)	£67.50 - £80.00	£55.00 - £65.00
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)	£57.50- £69.50	£47.50 - £55.00
East – Holborn	£62.50 - £72.50 (UF = £75.00 - £80.00)	£52.00 - £62.50	£40.00 - £50.00
West – Bloomsbury	£77.50 - £90.00	£65.00 - £75.00	£47.50 - £57.50
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

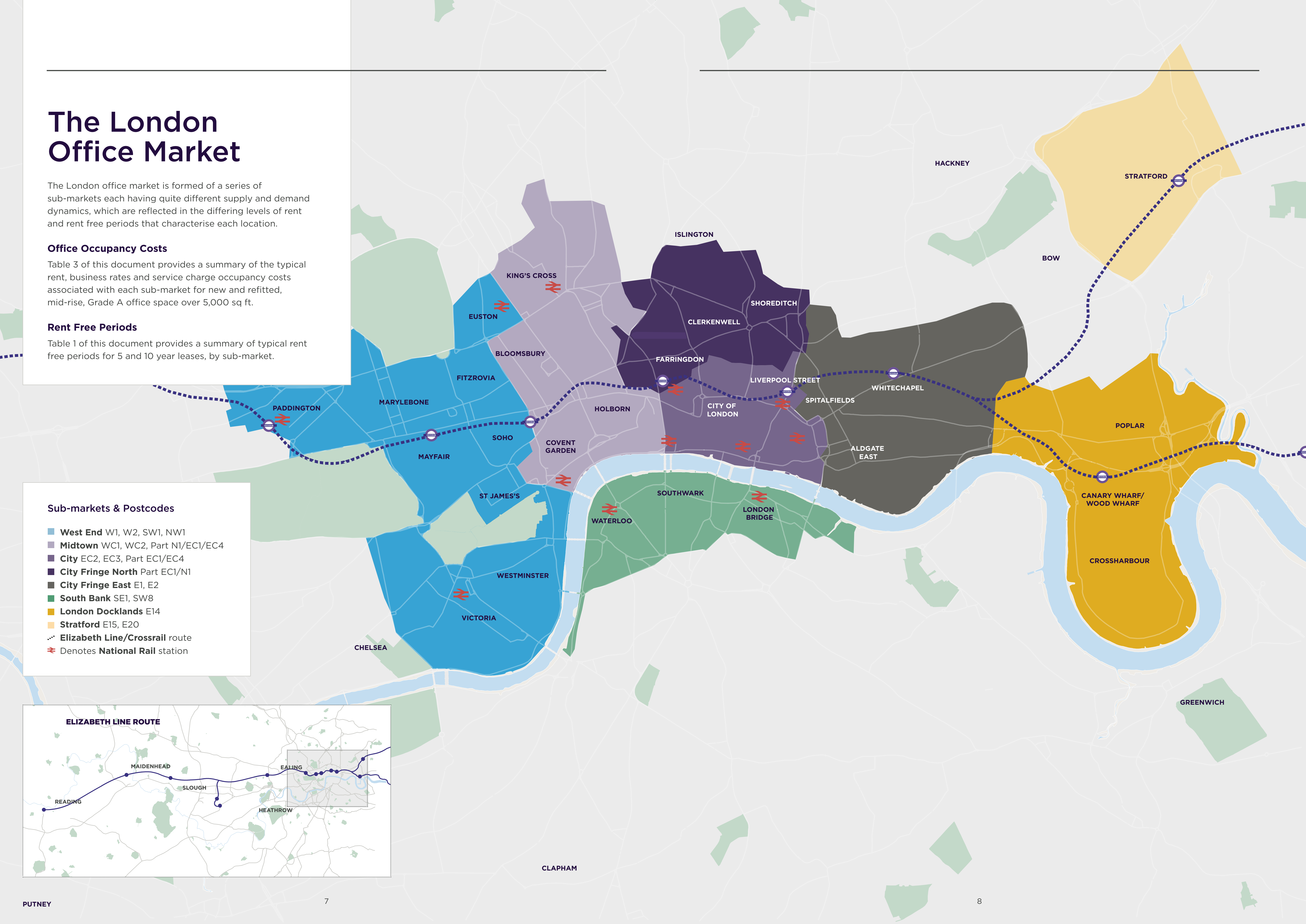
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

Office Occupancy Costs

Table 3 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 1 of this document provides a summary of typical rent free periods for 5 and 10 year leases, by sub-market.



Principal Office Occupation Costs

During Q1 2022 there has been little significant discernible change in central London office occupation costs since the publication of Carter Jonas' Q4 2021 report.

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

Table 3 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 3 – Comparison Of Rent, Business Rates and Service Charge Costs By Sub-Market – Q1 2022

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 West – 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	£115.00	£52.00	£12.50	£179.50
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 typically command a premium of circa 15 – 25% above those illustrated in the table

> "The key annual occupancy costs to budget for when leasing space in a multi-occupied office building include rent, business rates and building service charge."

Reducing Real Estate Costs

A lease expiry or break option presents an ideal opportunity for a business to reduce its real estate costs by enabling:

- new lease terms to be negotiated - including a revised rent and a rent free period
- potential downsizing of the floor area occupied at the existing premises
- a relocation to smaller / lower cost / better quality premises

Negotiating A Cost-Effective, Tenant-Friendly, Lease

The principal terms set out below should form the bedrock of the lease negotiations, in order to cap future lease liabilities and to achieve the objective of securing a cost-effective, tenant-friendly, tenancy:

- a rent that reflects the current economic climate
- a rent free period, including additional post break option rent free periods
- landlord's capital contributions towards any refurbishment / fitting out works
- a service charge cap – to limit future increases in real estate costs
- the inclusion of regular tenant-only break options – to build in lease flexibility
- a cap on the tenant's repairing and removal of fixtures and fittings exit obligations
- tenant-friendly rent review valuation provisions (leases of 5 years, or longer)

Reducing The Property Footprint

Shrinking the property footprint occupied is another effective way of reducing exposure to rent, business rates and service charge costs.

Whether staying-put and downsizing or relocating to smaller premises, the most effective floor area reduction strategies will typically incorporate:

- the adoption of new operating practices such as "hybrid" working from home and the office, adopting a rota system - to reduce desk-count
- a greater emphasis on use of the office as a "drop-in when required" collaboration hub
- the use of smaller desks and less office furniture
- a move to "cloud" based data storage and the digitisation of documents – to negate the need to allocate floor space for a server room and archive storage

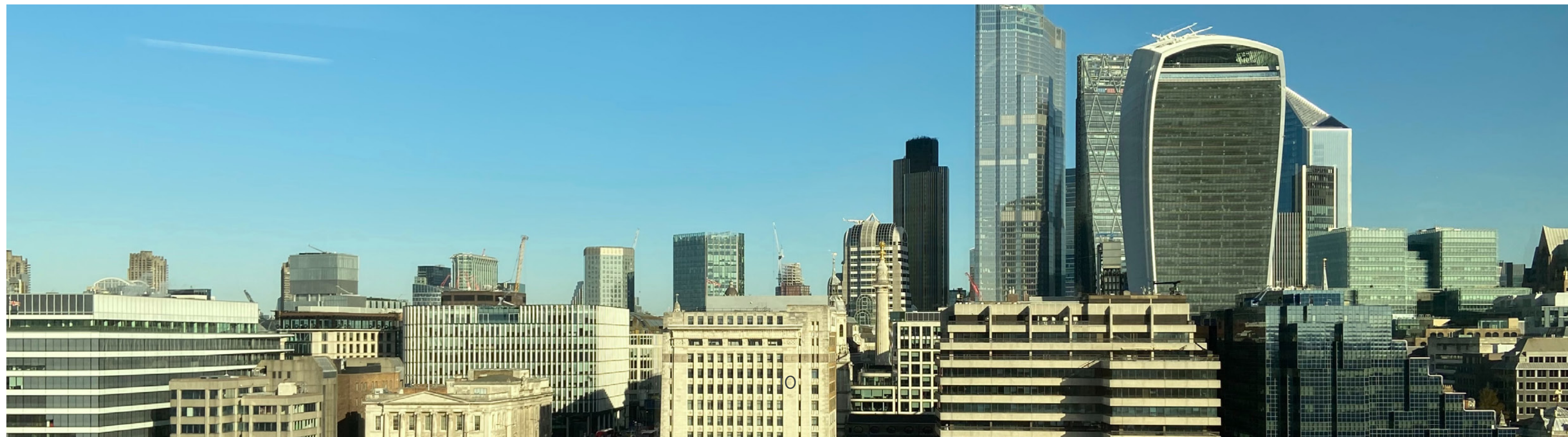
Minimising Relocation Costs

If the decision is taken to move a relocation cost saving plan can be devised to preserve working capital and minimise the negative impact of the office move on cashflow.

A relocation cost saving plan would typically include:

- focusing the property search on "plug-in-and-go" ready fitted out space that includes meeting rooms, senior manager's offices, kitchen facilities, data / telecoms infrastructure and furniture
- where non-ready fitted out space is to be leased, tendering the fitting out contract to drive down interior design and construction costs
- making use of HMRC capital allowances tax breaks (where paying UK corporation tax) to reduce fit out costs
- employing a suitably experienced building surveyor to challenge, and negotiate, the landlord's lease exit liabilities claim relating to the existing premises
- developing a detailed relocation timetable to benchmark and regulate the speed of the project, to synchronise the move, so that overlap rent, business rates and service charge costs are minimised

The Carter Jonas Tenant Representation Team can provide further advice on the various issues outlined above.



Key Leasing Transactions During Q1 2022

During the first quarter of 2022, the trend in demand towards "greener" new and refitted Grade A space, away from lower quality, energy hungry, buildings with a high carbon footprint, has continued.

The table below illustrates the key lettings that have taken place during Q1 2022 in the various London office sub-markets. Significantly, most of the buildings featured in the table are new and refitted Grade A properties that have good environmental credentials.

Table 4 – Key Office Lettings – Q1 2022

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Hogan Lovells	Legal Services	Atlantic House, Holborn Viaduct, EC1	266,000
	Acacium Group	Healthcare	9 Appold Street, EC2	28,000
	McDermott Will and Emery	Legal Services	22 Bishopsgate, EC2	27,200
	Moore Kingston Smith	Professional Services (Accountancy)	9 Appold Street, EC2	21,520
	Hudson River Trading	Financial Services	100 Liverpool Street, EC2	20,300
City Fringe North West - Farringdon	Julius Baer	Financial Services	20-23 Greville Street, EC1	27,000
City Fringe East - Spitalfields	Guild Esports	Leisure	2 Chance Street, E1	9,831
Midtown - King's Cross	AstraZeneca	Pharmaceutical	2 Pancras Square, N1C	37,000
Midtown - Covent Garden	Darktrace	Technology	80 Strand, WC2	30,000
Midtown - Bloomsbury	Clintons	Legal Services	2 St Giles Square, WC2	10,500
West End - Mayfair	Blackstone	Asset Management & Investment	Berkeley Square House, Berkeley Square, W1	40,000
West End - Mayfair	Millennium Management	Financial Services	20 Grosvenor Street, W1	40,000
West End - Mayfair	KKR	Financial Services	1 Medici Courtyard, W1	8,900
West End - Mayfair	Valesco	Financial Services	25 Berkeley Square, W1	6,000
West End - St James's	Warburg Pincus	Financial Services	5-7 Carlton Gardens, SW1	22,000
West End - St James's	Low Carbon Ltd	Financial Services	5-7 Carlton Gardens, SW1	14,000

Source: Carter Jonas Research

Comparing The Costs Of Relocating & Staying Put

The existence of a lease break option or expiry presents a tenant with an opportunity to assess its real estate options which could include:

- using the existence of the break option / expiry, and the option of relocating, as a bargaining counter to negotiate a new tenancy that offers better value and more tenant-friendly lease terms
- relocating to alternative premises – which may offer better value and the ability to downsize, or operate from larger premises to accommodate growth, as well as the opportunity to create a new, vibrant and engaging work environment which will underpin ESG policies and return to the office, workforce wellbeing, recruitment, retention and productivity strategies

Stay-put / Relocate Property Options Cost Appraisal

In order to assess and compare the costs of staying put or relocating, and to assist with obtaining Board approvals for budgets, it would be prudent to undertake a stay put / relocate property options cost appraisal. The appraisal will also identify where the largest cost savings can be made.

A property options cost appraisal would typically include an analysis of the following, taking into account the value of any rent free periods and landlord's capital contribution incentives that can be negotiated as part of the letting package:

- **the one-off capital expenditure associated with staying put including:**
  - transaction costs – solicitor's and property consultant's fees and stamp duty land tax
  - refurbishment costs – the costs of any upgrade / reconfiguration works that the tenant may wish to make to its existing office space
  - the cost of funding the capital expenditure
- **the capital costs associated with moving – including:**
  - the exit costs associated with the existing premises – repairs / dilapidations
  - fitting out costs at the selected premises, including furniture and any upgrades to data / telecoms hardware, in the absence of finding suitable ready fitted out space
  - the overlap rent, business rates and service charge costs payable from the date of commencement of the lease on the selected premises to the date of expiry of the lease on the existing accommodation
  - transaction costs – solicitor's, property consultant's and building surveyor's fees and stamp duty land tax
  - the cost of funding the capital expenditure
- **the annual running costs of the existing premises, subject to the new lease, which will include:**
  - the negotiated rent
  - business rates
  - building service charge and insurance premium contribution
  - utilities costs
- **the annual running costs of alternative premises –** which will account for the same variables, as detailed above

Further information on carrying out a stay put / relocate property options cost appraisal is available on request from the Carter Jonas Tenant Representation Team.

The Serviced Office & Co-Working Sector

During Q1 2022, the serviced and co-working office space sector has continued its recovery from the lows of mid 2020, during the height of the COVID lockdown period.

Demand continues to be driven by a number of factors including:

- businesses that have operated a break option or not renewed a lease on conventional, non-serviced, space, and therefore require serviced / co-working space as a "stop-gap" measure, to "re-group" following the impact of COVID, before moving on to more permanent accommodation
- start-up businesses that do not wish to commit to a longer term lease on conventional office space – particularly relevant to businesses that have plans to expand rapidly. This area of the serviced office market continues to be powered by the technology and "fintech" business sectors
- national and international corporates that wish to accommodate new business units without wishing to commit to a long term lease
- Government agencies that do not wish to be saddled with long term leasing commitments

Serviced and co-working office rents in some districts of the West End and Midtown sub-markets have continued to rise close to their pre-pandemic levels, reflecting lower vacancy levels compared with the City of London and Canary Wharf / Docklands sub-markets where the recovery in rents continues to be sluggish.

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

The key advantages of serviced / co-working office space is 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 to 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
- The ability to expand and contract quickly in response to changes in market conditions
- No stamp duty land tax payable on the grant of the service agreement

"Serviced and co-working office space represents a quick "easy in / easy out", short term, cashflow friendly, accommodation solution that requires little or no capital expenditure."

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.

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Our Experience

Lease negotiations and relocations 10,000 sq ft+

UK Payments Administration

43,000 sq ft
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2 Thomas More Square, E1

Care Quality Commission

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Care Quality Commission
151 Buckingham Palace Road, SW1

Shedmedia

28,000 sq ft
Warner Bros/Shed Media
85 Grays Inn Road, WC1

RGA®

27,000 sq ft
Reinsurance Group of America
22 Bishopsgate, EC2

HACKETT

17,500 sq ft
Hackett Limited
The Clove Building, SE1

Circle Housing

16,000 sq ft
Circle Housing
Two Pancras Square, N1

HITACHI
Inspire the Next

15,000 sq ft
Hitachi Rail Europe
40 Holborn Viaduct, EC1

SALAMANCA Group
Merchant Banking

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.