RESEARCH

THE LONDON OFFICE MARKET

Q2 2021

A GUIDE TO RENTS, RENT FREE PERIODS & MARKET TRENDS

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Carter Jonas

THE LONDON OFFICE MARKET: LATEST TRENDS

During the second quarter of the year the number and size of lettings across the London office market has steadily increased – see Table 5 which provides a summary of key leasing transactions. The uptick in leasing activity has manifested itself in tandem with the successful implementation of the British Government's COVID vaccination programme which, in turn, has boosted consumer and business confidence. The tapered lifting of lockdown restrictions is also playing its part in underpinning letting activity as life slowly gets back to something resembling normality.

The Phasing Out Of Government Business Support Measures

There are, however, challenges ahead for many businesses including the ending of the Government's furlough scheme which is scheduled to cease in the autumn. There is also, for some, the issue of meeting their contractual leasing commitment to pay off rent arears, notwithstanding the Government's decision to extend the moratorium on commercial property evictions to March 2022. Both factors, and the gradual phasing out of other Government business support measures, are likely to conspire to depress the appetite of some businesses to embark on an expensive office move, unless downsizing, given that the operating costs of many businesses are likely to rise once Government subsidies cease.

A Two Tier Market - Quality Space Wins Out

Over recent months evidence has begun to emerge of a two tier office market as footloose tenants increasingly favour new, refitted and good quality refurbished Grade A office space at the expense of lower cost, lower grade, accommodation. This trend was explored in Carter Jonas' Q1 2021 London office market report and has since gathered pace, manifesting itself in the letting activity that has taken place during the second quarter of this year – which has been dominated by new and refitted Grade A space.

Further evidence of a divergence in demand for high quality Grade A space and poor quality second hand accommodation is emerging as landlord's advertised rents for the former continue to show little sign of declining in contrast to the latter. The need to provide a vibrant, attractive, high quality, COVID-safe work environment that promotes return to office working initiatives and workforce wellness, and that also underpins recruitment, retention and productivity strategies, are all factors that are underpinning demand for quality space. An increasing desire of many businesses to operate from low energy, low carbon footprint, accommodation to meet their stated Environmental, Social and Governance (ESG) objectives is also influencing the shift towards good quality accommodation.

Weak Demand & Nervousness Among Some Landlords

Notwithstanding the encouraging improvement in demand for new and refitted Grade A space over the last two quarters it is still, nonetheless, well below the 10-year trend level. Demand is likely to remain weak for the foreseeable future as businesses seek to reduce their property footprint and real estate costs to underpin profitability. The migration of some London jobs to the regions by a number of large-scale employers including HSBC, the BBC and the British government is unlikely to ease the situation for landlords.

Some landlords are clearly nervous about the future direction of demand – and rents. Members of the Carter Jonas Tenant Representation Team, acting for tenants that are seeking space in new City office buildings that currently have high levels of vacancy, have recently witnessed attempts by several landlords, in lease negotiations, to block the ability of the prospective tenant to offer surplus space to let for the first 12 – 18 months of the lease. Such moves by landlords are an attempt to prevent new tenants later creating competition within a building and undercutting the rents that landlords are seeking to achieve on, as yet, unlet space.

Downward Pressure On Rents & Longer Rent Free Periods

Weak demand, combined with the ongoing rise in the availability of good quality, ready fitted out, tenant-controlled, Grade A sub-let space, and the completion of office refurbishments and new developments that were initiated before the pandemic, will continue to put pressure on landlords to compete hard to secure fewer footloose tenants in a market where there is more choice. These factors will continue to weigh down the market at least until the second half of 2022.

Landlord's advertised rents for new and refitted Grade A space are likely to begin declining over the next few quarters – see Table 1 which features the Carter Jonas Research Team's twelve month rent forecast. A continued expansion of rent free periods over the same period is also likely.

Returning To The Office

Passenger numbers on public transport have increased over the last few months and footfall in central London's key retails streets is also up, as some members of London's workforce begin their tentative return to working from the office, albeit for part of the week.

Many of the businesses with which the Carter Jonas Tenant Representation Team is currently dealing are, following staff consultation, developing new flexible operating models, typically predicated on key members of the workforce working in the office three days a week, with September being the target deadline for implementation. Large-scale employers including PwC, EY, BT and Deloitte have, in recent months, announced that they will be implementing new flexible working operating models that are based on similar principles.

By contrast, many of the US banks including Morgan Stanley, Goldman Sachs and the Bank of America have confirmed their commitment to the pre-COVID pandemic operating model on the basis that all members of staff will be expected to work in the office with Labour Day, 6 September, being, in many cases, the target return to office date. The reluctance of the US banks to embrace flexible working reflects, in part, the different culture of such businesses and the practical need to have trading teams working together – many of which have, throughout the various lockdowns, been working in the office, by necessity.

The Importance Of Workforce Consultation – The Apple Experience

The chief executive of Apple has reportedly recently come under pressure from staff for not giving the Apple workforce a proper say in how they might like to work in a post COVID world. Recent reports suggest that some of the tech giant's staff have left the company because they felt that the senior management team was not listening to their needs in relation to flexible working arrangements.

The Apple "experience" demonstrates the importance of consulting staff on return to work operating policies. The Carter Jonas Tenant Representation Team has been busy over the last few months helping clients formulate new workplace operating policies with, importantly, a heavy emphasis on consulting staff through interview and online questionnaires.

Nothing unsettles and demotivates employees more than rumours about changes to their working arrangements. The lesson to be learned from Apple is to be open with the workforce, engage fully and let members of staff have their say. While it would not be reasonable to expect an employer to address the concerns of every member of staff, employees should at least be happy in the knowledge that their views have been considered.

A Better Work / Life Balance - A More Productive Workforce

The COVID-19 pandemic has provided an opportunity for many to reassess their work / life balance. The cost and length of the typical London office worker's commute is appreciably more expensive and longer compared with those working in the UK's regional cities. These factors are encouraging some to migrate to jobs outside the capital – a trend that is manifesting itself at a time when some large-scale employers are moving some London jobs to the regions (see above) where real estate and workforce costs are appreciably lower.

Notwithstanding the isolation and mental health issues that some have experienced during their enforced requirement to work from home during the various lockdowns, others have welcomed the fact that they no longer have to endure a stressful, tiring, time-consuming and costly commute into the office.

Recent surveys suggest that a significant proportion of London's workforce would prefer to limit their time in the office to two / three days per week. Employers that are willing to embrace flexible working are likely to benefit from a happier, less tired, less stressed, and more productive workforce. Mindful of the impending structural shift in commuting patterns, flexible rail season tickets are now being introduced based on a two / three day a week commute. This innovation will no doubt be welcomed by many commuters, enabling savings to be made in travel costs.

"LANDLORDS ARE UNDER PRESSURE TO COMPETE FOR FEWER FOOTLOOSE TENANTS IN A MARKET WHERE THERE IS MORE CHOICE."

Reducing The Property Footprint - Minimising Operating Costs

The results of PwC's recent Occupier Survey of 258 of the UK's largest businesses indicate that half expect to reduce their property footprint and over one third of these businesses intend to shrink their current floor space by over 30%, reflecting the adoption of flexible working practices and the desire to reduce real estate costs to underpin profitability. BT, BP, Shell and Deloitte are just a few of the many large-scale businesses that have recently confirmed their intention to significantly reduce their real estate footprint.

This shift in the way that businesses are using their office space will almost certainly have a negative impact on demand. However, for the reasons set out earlier, it is likely to be the landlords of older, poorly specified, buildings that have a high carbon footprint, that will feel the impact of this structural shift in demand the most, as occupiers use break options and lease expiries as an opportunity to trade up into better quality, often smaller, floor space.

All Change

As can be seen from this commentary the London office market is being subjected to a number of very significant structural changes: a shift towards quality space to promote employee wellbeing and underpin workforce recruitment and retention, the trend towards flexible working arrangements and the consequent need for less floor space and the migration of some jobs to the regions.

These trends are likely to persist for the foreseeable future and will continue to depress demand for central London office space. Weak demand, and the ongoing rise in office vacancy across London, will present footloose tenants with an impending break option or lease expiry with the opportunity to lease good quality and, in many cases, ready fitted out, office space at a significant discount to pre-pandemic office costs.

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RENTS AND RENT FREE PERIODS

Advertised Rents

Landlord's advertised rents for new and refitted Grade A space have, during the second quarter of the year, remained broadly static and continue to be at similar levels to those prevailing during Q1 2020, prior to the onset of the COVID pandemic.

However, in the face of weak demand and increased vacancy it is likely that landlord's advertised rents will begin to decline during the next two quarters. Reductions in advertised rents for poorly specified accommodation are already manifesting themselves as occupiers increasingly focus their searches on new, refitted and good quality refurbished Grade A space.

Please refer to Tables 1 and 3 which, respectively, provide a summary of the Carter Jonas Research Team's forecasts for the decline in rents and an overview of current typical landlord's advertised rents for the various London office sub-markets.

Rent Discounts

The levels of discount that can presently be negotiated on advertised rents have widened from 1.5 – 3.5%, at the beginning of 2020, to typically around 5 – 10%. Rent discounts have been at this level since the autumn of last year.

Rent Free Periods

Rent free periods have, ultimately, been the key financial "shock-absorber" in lease negotiations, reflecting the decline in demand since the onset of the COVID-19 pandemic, and have typically widened by 3 – 5 months for a 5 – 10 year lease since Q1 2020. It is likely that rent free periods will continue to widen over the next 12 months.

Advertised Rents Forecast

Table 1 – Forecast Decline, By Sub-Market, In Landlord's Advertised Rents (To Q2 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 Q2 2021

	Q1 2020	Q2 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

SUMMARY OF FORECAST MARKET TRENDS

Many of the market trends highlighted in the Carter Jonas Q1 2021 London Office Market report remain broadly unchanged during the second quarter of the year and a summary is provided below:

Advertised Rents

- a decline in advertised rents of 10 – 15% in the City of London, Docklands and West London office markets by Q2 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 stabilising 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 2019 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 gradual 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

“OVER THE NEXT TWO QUARTERS IT IS LIKELY THAT THERE WILL BE WIDESPREAD DECLINES IN LANDLORD’S ADVERTISED RENTS FOR NEW AND REFITTED GRADE A CENTRAL LONDON OFFICE SPACE, REFLECTING LACKLUSTRE DEMAND AND INCREASED OFFICE VACANCY.”

Table 3 – The London Office Market – Typical Landlord’s Advertised Rents Q2 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

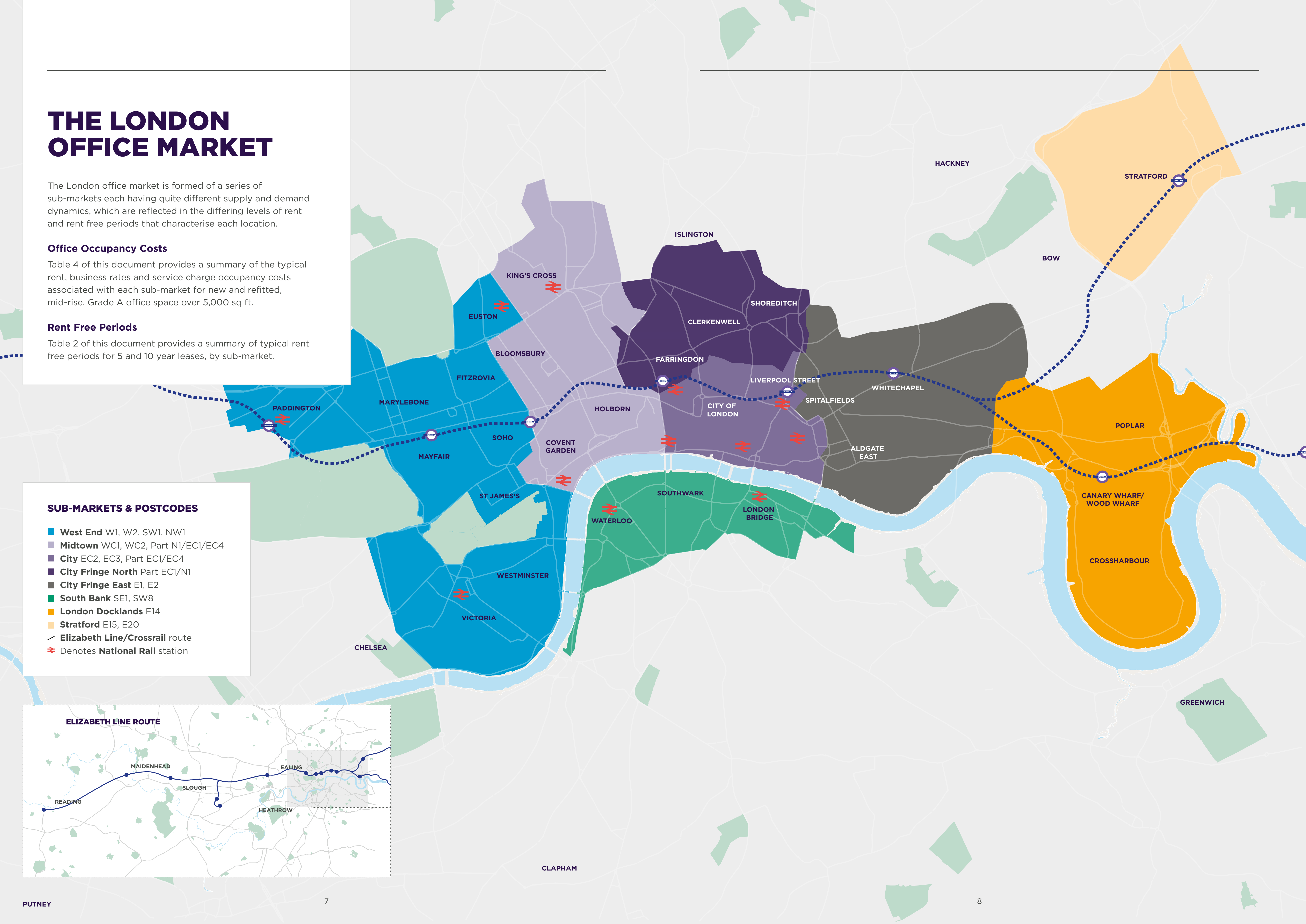
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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 – Q2 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

"OCCUPIERS ARE NATURALLY CONCERNED ABOUT THE LEVEL OF RENT THAT THEY ARE REQUIRED TO PAY UNDER A LEASE BUT IT IS THE PRINCIPAL OCCUPATION COSTS THAT ARE OF GREATER SIGNIFICANCE WHEN DEVELOPING A REAL ESTATE BUDGET."

"THE MANUFACTURE OF TRADITIONAL CONSTRUCTION MATERIALS SUCH AS CONCRETE, GLASS AND STEEL – SO OFTEN USED IN THE CONSTRUCTION OF OFFICE BUILDINGS – IS A HUGELY ENERGY HUNGRY PROCESS WHICH CONTRIBUTES SIGNIFICANTLY TO GREENHOUSE GAS EMISSIONS AND, THEREFORE, CLIMATE CHANGE."

REAL ESTATE & THE ENVIRONMENT

Sustainable & Recycled Construction Materials

As businesses become increasingly sensitive to their impact on the environment – in many cases in response to pressure from both consumers and shareholders – a shift towards leasing properties that have a low carbon footprint and that have been constructed from sustainable building materials has begun to emerge.

The manufacture of traditional construction materials such as concrete, glass and steel – typically favoured by the architects and developers of office buildings – is a hugely energy-hungry process which contributes significantly to greenhouse gas emissions and, therefore, climate change.

Those pioneering best practice in the construction industry are, instead, promoting the use of wood from sustainable sources, bamboo and recycled and recyclable materials. Over the next year or so, it will be interesting to see how committed those investing in the construction of new commercial and residential properties are to their stated environmental, social and governance (ESG) policies and whether they will be willing to finance the first generation of truly sustainable buildings.

Green Leases

In keeping with the trend towards mitigating their impact on the environment, some of the more forward thinking landlords such as Canary Wharf Group (CWG), are including "green clauses" in their leases which make it a contractual requirement for the building to be managed in a sustainable way. Examples of sustainable building management policies include a requirement to procure energy from renewable sources, the minimisation of energy usage and the recycling of waste.

"Green leases" should assist in demonstrating both the landlord's and the tenant's joint commitment to addressing environmental issues and meeting their stated ESG objectives. It is to be hoped that more landlords, in particular the institutional landlords with large property investment portfolios, will take a leaf out of CWG's book and adopt green leases.

KEY LEASING TRANSACTIONS DURING Q2 2021

The number and size of lettings in the London office market during the second quarter of 2021 has increased compared with the first quarter of the year. This trend has been driven, in the main, by the desire of footloose occupiers with imminent lease break options and expiries, to trade up into better quality space that reinforces return to office and employee wellbeing policies and underpins employer's environmental, recruitment, retention and productivity strategies.

The table below provides a summary of key Q2 2021 lettings over 10,000 sq ft.

Table 5 – Key Office Lettings Over 10,000 sq ft – Q2 2021

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Jones Lang LaSalle	Real estate	1 Broadgate, EC2	134,000
	Mondrian Investment Partners	Financial services	60 London Wall, EC2	37,900
	Interxion	Business services	60 London Wall, EC2	25,000
Midtown – King's Cross	Cinch Cars	Online retail	Fjord Building, 20 New Wharf Road, N1	20,440
West End - Soho	Boohoo.com	Online retail	10 Great Pulteney Street, W1*	46,000
West End - Mayfair	Brown Advisory	Financial services	18 Hanover Square, W1	16,500
West End – St James's	Genesis Investment Management	Financial services	16 St James's Street, SW1	11,400
West End – Victoria	Superbet	Entertainment	111 Buckingham Palace Road, SW1	10,400
South Bank - Southwark	IBM	Technology	1 Southbank Place, SE1	132,000
	Synlab Group	Medical	41 Blackfriars Road, SE1	95,000
South Bank – London Bridge	PRS for Music	Media	Hays Galleria, Battle Bridge Lane, SE1	28,200
Docklands – Wood Wharf	Jones Lang LaSalle	Real estate	20 Water Street, E14	38,000
West London – White City	ITV	Media	Broadcast Centre, Wood Lane, W12	120,000

*building purchase

Source: Carter Jonas Research

WORKFORCE WELLBEING - BOOSTING PRODUCTIVITY & PROFITABILITY

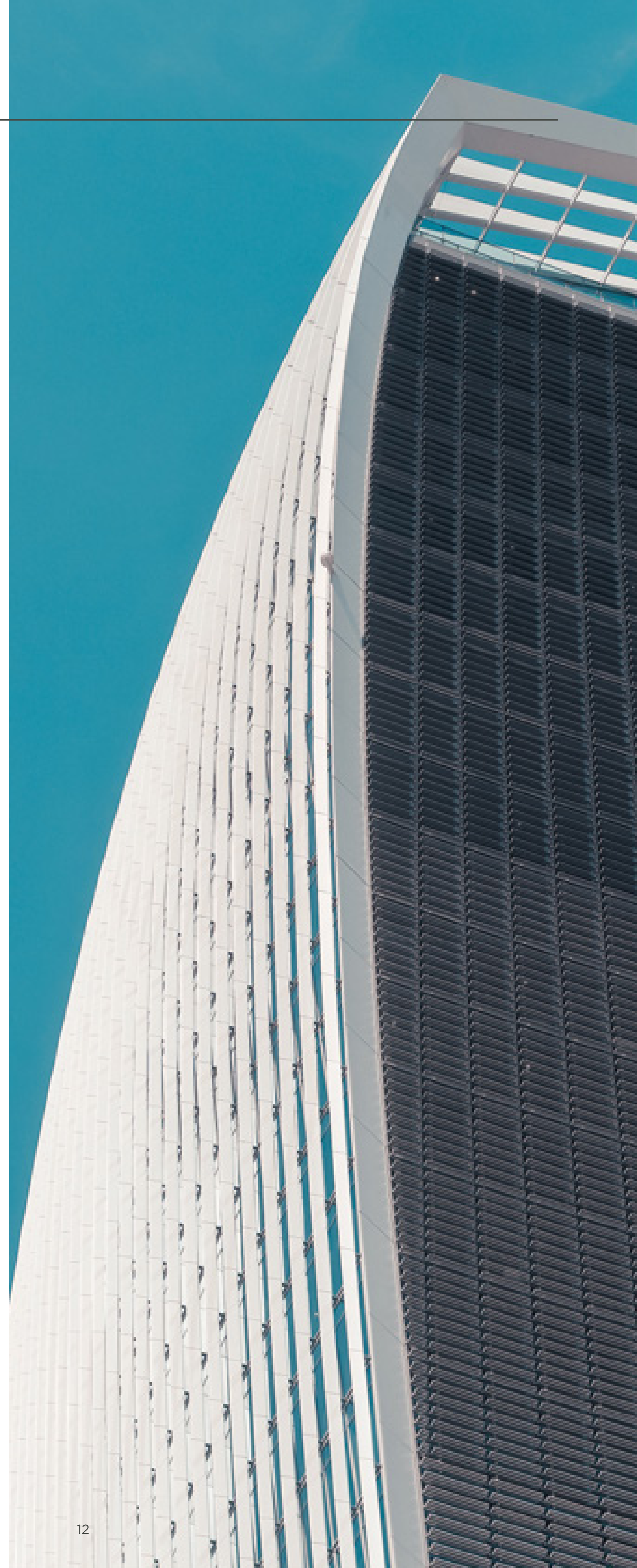
A trite statement it may be, but the assets of any business, and service sector "knowledge-based" businesses in particular, are its people. The hiatus that society has endured following the onset of the COVID-19 pandemic has demonstrated the importance of employers ensuring that their workforce is fit and healthy – both physically and mentally – if their businesses are to be productive and profitable.

The Human Resources teams of an increasing number of organisations are, rightly, now forming a key part in developing the real estate strategies of many businesses – their input is key to ensuring that the workplace fosters a healthy and happy working environment.

Developers and property investors are responding to the changing needs of employers by building "wellness features" into new and refurbished office space including, for example, bicycle racks, shower facilities, better ventilation – with an emphasis on fresh, rather than air conditioned, air – improved fenestration that admits more natural light and the inclusion of "biophilia" - all of which, collectively, have been shown to reinforce human physical and mental wellbeing.

Balconies, "winter gardens" and terraces are key features that promote wellness and are increasingly being designed in to buildings in order to offer members of the workforce an opportunity to break away from the intensity of the computer screen and clear their head in the fresh air while taking in the views that London has to offer.

The increasing recognition among many employers that a healthy and happy workforce is a more productive and profitable one is a key factor that is shifting occupier demand towards new and refitted office space and away from low grade accommodation.



THE SERVICED OFFICE & CO-WORKING SECTOR

During the second quarter of the year leasing activity in the serviced and co-working office market has continued to improve, following the uptick in demand during the first quarter of the year.

Demand is emanating from a number of sources including those businesses based in conventional, non-serviced, office space that have exercised a break option or not renewed a lease and that simply need stop-gap accommodation to "buy-time" to establish the impact of the pandemic on their business before committing to a longer term lease on conventional office space.

There is also a growing trend towards some large-scale employers, including BP, Salesforce, NTT and the UK Government, leasing serviced office accommodation. Many of these organisations have cited the ability to increase or reduce the amount of floor space required at short notice, as employee headcount fluctuates, as a key reason for opting for the serviced / co-working office accommodation model.

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.

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+

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

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.