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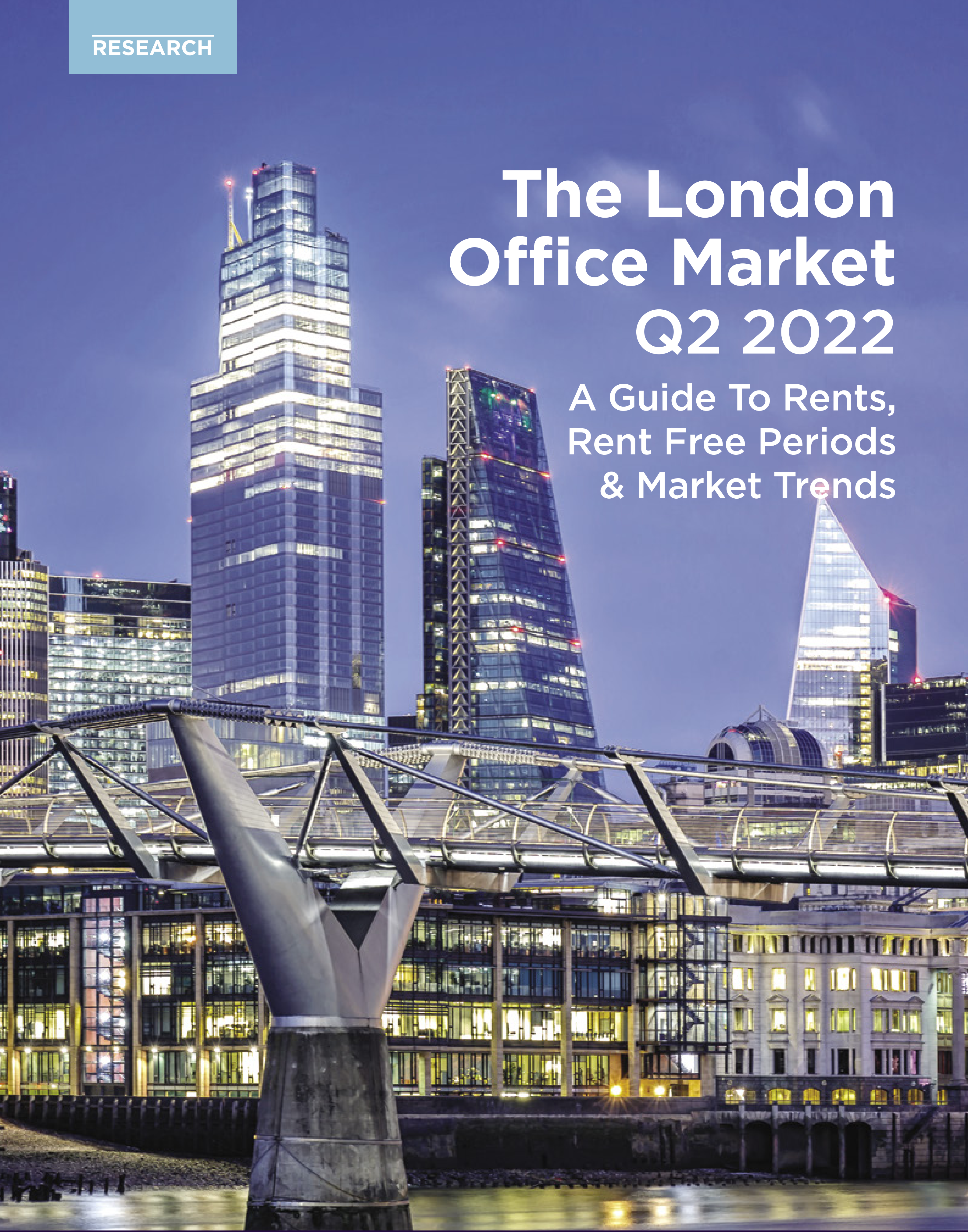

The London Office Market Q2 2022

A Guide To Rents, Rent Free Periods & Market Trends

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The London Office Market: A Tale Of Two Cities

The winds of change are sweeping through the London office market. Gone are the days when employers could get away with operating from low-cost, low-grade, environmentally dubious office space in out-of-the-way locations. In a labour market that continues to be very challenging for many employers to recruit in, the better-informed businesses are recognising the importance of providing a vibrant, attractive and well located, sustainable, energy-efficient, work environment to underpin recruitment, retention, productivity, wellness and sustainability policies.

A Two-Tier Market

During the second quarter of 2022, the structural shift in demand towards new and refitted, environmentally sustainable, energy-efficient, space has continued with Grade A accommodation dominating the lettings statistics for all of the London office sub-markets – see Table 4.

Landlords of low-grade space with poor environmental credentials and low energy performance certificate (EPC) ratings will almost certainly continue to struggle to achieve lettings unless they are prepared to invest in a heavy duty, sustainable, re-fit that raises the energy performance rating of the accommodation to A or B. Inaction by landlords will accelerate the emerging two-tier market: good quality, environmentally sustainable space vs the rest of the market.

Inflation and Interest Rates

The second quarter of the year has witnessed a continued increase in interest rates in the world's key trading blocs, as central banks attempt to contain supply-side inflation, with rates likely to continue rising during the third and fourth quarters of the year. The impact of higher borrowing costs will not only erode the profitability of many businesses, as their operating costs rise, but is also likely to lead to reduced investment in new jobs – the key driver of demand for office space.

Market Conditions Likely To Move In Favour Of Tenants

Over the coming months it is therefore likely that demand for office space across London will weaken which will confer a stronger bargaining position on those tenants with a lease expiry, break option or rent review.

> "Over the coming months demand for office space across London is likely to weaken in response to higher interest rates which will confer a stronger bargaining position on footloose tenants."

East Vs West

While the Russian invasion of Ukraine has done much to fracture the relationship between the eastern and western economic and political blocs, the resultant inflationary impact of the war on commodities, including energy and food, has done little to dampen the enthusiasm of West End office landlords to increase advertised rents. Best in class, prime located, space has witnessed an increase in rents of, typically, £2.50 - £7.50 per sq ft per annum during the first half of the year

The picture in the City of London, City fringe and Docklands sub-markets is rather different, reflecting the differing supply and demand dynamics of the eastern and western sub-markets. Upward pressure on rents in the eastern sub-markets during the second quarter of this year has been principally confined to the upper floors of City tower buildings, as vacancy in this market segment declines.

Interestingly, increasing numbers of West End based businesses, frustrated in their efforts to find operationally suitable space that falls within budget, are considering the City of London. Low vacancy, limited choice and high rent and business rates costs in all market segments are factors that are conspiring to shift demand eastwards. The recent opening of the Elizabeth Line, which has boosted accessibility and shrunk journey times between London's eastern and western business districts, and the 2023 business rates revaluation, are also factors that are likely to reinforce the attractiveness of the City of London. However, the jury is out as to whether this trend in demand will be sufficient to generate any significant rental growth in the City sub-market.

Post COVID Floor Space Trends

While many column inches of newsprint were filled with doom-laden predictions of the negative impact of Brexit on the London office market the fact remains that the number of financial services jobs that have migrated from the City to Frankfurt, Paris, Dublin, Amsterdam and other key European Union cities can be measured in the few thousands rather than the forecast tens of thousands.

By far the biggest impact on the London and, indeed, international, office market has been the emergence of the COVID pandemic which has demonstrated to many businesses that they can operate quite effectively with significantly reduced office space – adopting "hybrid" office / home working operating models.

It is still too early to establish how the London / global business community will operate and occupy office space in a post COVID world. However, the trend towards less floor space remains dominant and empirical evidence suggests that a significant number of organisations are seeking to reduce their property footprint by, typically, 20 – 40%.

However, the operating models of some businesses are not compatible with a reduced floor area. This is particularly relevant to the media / creative and technology industries where team collaboration is central to product and business development. The financial and commodities trading sectors similarly require close team co-operation which cannot be replicated by adopting a hybrid accommodation model.

Tenants Beware: Minimum Energy Efficiency Standards

In the Q1 2022 edition of this publication reference was made to the UK government's proposals to tighten the regulations governing energy performance certificates (EPCs). It is proposed that by 2027 any commercial property with an EPC rating of D or below may not be leased until works are completed to raise the EPC rating to C or above. By 2030, it is proposed that commercial premises must have an A or B EPC rating before they can be leased.

If enacted, this legislation will not only affect landlords but those tenants that wish, in future, to downsize / sub-let or assign / transfer their lease. For this reason, it is essential for tenants to future-proof their tenancies by building in a contractual obligation for the landlord to take responsibility for maintaining the building to an EPC rating that is compliant with prevailing EPC legislation, to enable the tenant to assign / transfer the lease or sub-let. Such contractual obligations should be negotiated on the basis that the landlord bears all costs associated with any EPC-related upgrades on the basis that none of the costs are later passed on to the tenant directly or via the building service charge.

Despite the fact that the government's EPC proposals have yet to be adopted, their mere existence is already having an impact on the office market. Some of the better informed occupiers are unwilling to consider accommodation that does not have an A or B EPC rating. Not only does this policy chime well with their stated Environmental, Social and Governance (ESG) strategies but it also avoids any potential future disputes with landlords associated with the scope of any EPC upgrade works and their likely disruptive impact on the tenant's use of its office space. This point is particularly relevant if the works necessary to raise the EPC rating require upgrade to ceiling mounted air conditioning facilities which is likely to necessitate the removal of some of the tenant's fixtures and fittings.

As an increasing number of occupiers get to grips with the true impact of the proposed tightening of EPC regulations, it is very likely that the two-tier market referred to above will become even more pronounced as tenants reject buildings with C and D EPC ratings or else insist upon the inclusion of break options linked to the government's timetable for the introduction of tighter EPC regulations.

> "The best informed tenants are avoiding office space with poor energy performance ratings, reflecting the proposed introduction of tighter environmental legislation."

Social Responsibility

Read any business magazine and the recurring theme that emerges from the pages of such publications is "ESG" – the adoption by businesses of environmental, social and governance policies that have a positive impact on the environment, society, employees and shareholders. Much has been written about the "E" in ESG. Much less talked about is the "S".

However, there is a "quiet" revolution emerging among some organisations and business sectors that are eager not only to ameliorate their impact on the environment but are also keen to address some of society's social ills – in particular unemployment, poverty and crime.

The Carter Jonas Tenant Representation Team is currently advising several not-for-profit and charitable organisations that have pointedly rejected relocating within the more established central business districts and wish to concentrate their searches in areas where unemployment is persistently high. The rationale for this strategy is that it is mutually beneficial: it is easier to recruit in areas of higher unemployment and the jobs created boost the local economy which is likely to lead to lower levels of crime.

However, one of the key stumbling blocks associated with this embryonic trend is the lack of good quality accommodation from which to operate.

We live in a world of change and while the short term outlook for the business community may be challenging, a more benevolent and responsible approach to the environment, and society in general, is emerging as a new, younger, more "socially aware", generation of business managers respond to the climate change debate, environmental legislation and the needs of the less fortunate in society.

The ramifications for the real estate industry are far reaching: property developers and investors will need to respond to the structural changes in the business community's real estate needs, and environmental legislation, to avoid being saddled with vacant, non-income-producing, floor space.

Some very difficult financial decisions concerning old and environmentally unsound properties will need to be taken imminently as break options are exercised and leases expire, and as tenants move on and trade up into environmentally compliant space. Significant investment in refurbishment programmes that provide an attractive and energy-efficient, sustainable, work environment will be required if landlords wish to secure tenants and receive rental income from their real estate investments.

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Rents and Rent Free Periods

Rent Free Periods

Table 1 – Typical Rent Free Period By Sub-Market – Q2 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 - 13 months	23 - 27 months
City Fringe North - Shoreditch, Clerkenwell, Farringdon	10 - 13 months	22 - 26 months
City Fringe East - Aldgate East, Spitalfields	12 - 14 months	24 - 28 months
Midtown - Bloomsbury, Holborn, King's Cross, Covent Garden	9 - 12 months	22 - 26 months
West End - Mayfair, St James's, Marylebone, Fitzrovia, Soho, Victoria, Paddington	9 - 12 months	21 - 25 months
South Bank - Waterloo, Southwark, London Bridge	9 - 12 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

Advertised Rents

Advertised rents for prime-located, best-in-class, Grade A space in some areas of the West End sub-market have increased by, typically, £2.50 - £7.50 per per sq ft per annum during the first half of the year, reflecting declining vacancy and less choice for footloose tenants. Notwithstanding that supply side constraints favour landlords, demand is likely to weaken in the coming months in response to higher interest rates and slower economic growth, which may dampen the keenness of landlords to raise rents.

The advertised rents for the upper floors of some of the most recently developed best-in-class City tower buildings have increased by circa £2.50 - £5.00 per sq ft per annum since the beginning of the year, reflecting the erosion of vacancy levels. Contrast with the advertised rents for low and mid-rise City office space where weaker demand and competition between landlords to secure lettings continues to supress 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 – 4% 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, City fringe and London Docklands sub-markets. Contrast with discounts of 5 – 10% which were prevalent during the first quarter of 2021.

By comparison, discounts of over 10% on the advertised rents of poorly located, low quality, Grade B accommodation are not uncommon.

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 generally being 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.

The West End, Midtown and South Bank sub-markets, where low levels of Grade A vacancy are, in some market segments, resulting in tenants competing for the best available space, have witnessed rent free periods for 5 – 10 year leases typically contracting by 1 – 2 months since the beginning of the year.

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, City fringe, London Docklands and West London sub-markets still favour tenants, resulting in little change in rent free period incentives in these areas since the beginning of this year – 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.

Summary of Forecast Market Trends

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

Advertised Rents

- the increase in advertised rents for prime located, best in class, Grade A space located in the West End and Midtown markets and the upper floors of City tower buildings, witnessed over the last six months, is likely to be arrested in the wake of weaker demand and the economic uncertainty created by higher interest rates and inflation
- the advertised rents for well-located new and refitted Grade A space with good energy performance ratings are likely to remain static for the remainder of the year

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 - 4% during the third quarter of the year but may begin to increase towards the end of the year as the market adjusts to weaker levels of demand

Rent Free Periods

- rent free period incentives for well-located Grade A space are likely to remain broadly static during the third quarter of 2022, and may begin to expand during the fourth quarter, reflecting the economic uncertainty associated with rising interest rates and inflation

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

The Bargaining Position of Landlords

- a gradual weakening in the bargaining position of landlords in lease negotiations is likely during the remainder of the year, reflecting weaker demand, except in areas of particularly low vacancy in the Grade A market segment in the West End

Office Leasing Activity

- a steady decline in the year-on-year levels of letting activity over the next two quarters, reflecting weaker demand and increased economic uncertainty

Serviced Offices

- continued steady 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 move to more permanent accommodation, following the return to a more certain economic climate

"As interest rates across the globe rise, the resultant slowdown in economic growth is likely to translate in to weaker demand for office space. Landlords with well-located vacant Grade A floor space with good energy performance ratings should fare better in tougher trading conditions than those with inferior quality accommodation."

Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q2 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	£65.00 - £77.50 (UF = £82.50 - £110.00)	£57.50 - £67.50 (UF = £67.50 - £85.00)	£40.00 - £49.50
Secondary - Blackfriars, Aldgate	£57.50 - £70.00 (UF = £75.00 - £90.00)	£47.50 - £57.50 (UF = £65.00 - £77.50)	£38.00 - £45.00
City Fringe			
North - Shoreditch, Clerkenwell	£65.00 - £77.50 (UF = £78.50 - £92.50)	£55.00 - £65.00	£38.00 - £55.00
North West - Farringdon, Smithfield	£72.50 - £87.50 (UF = £90.00 - £97.50)	£57.50 - £69.50	£40.00 - £56.00
East – Spitalfields	£67.50 - £80.00	£52.50 - £65.00	£37.50 - £46.50
East – Aldgate East, Wapping	£49.50 - £55.00 (UF = £57.50 - £65.00)	£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 - £65.00)	£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)	£110.00 - £135.00 (UF = £140.00 - £150.00)	£85.00 - £105.00	£67.50 - £77.50
Central – Mayfair, St James's (Secondary)	£87.50 - £100.00	£75.00 - £88.50	£65.00 - £75.00
North – Euston	£72.50 - £85.00	£57.50 - £67.50	£42.50 - £52.50
North East – Fitzrovia	£85.00- £95.00	£72.50 - £82.50	£52.50 - £65.00
North West – Marylebone	£87.50 - £97.50 (UF = £100.00 - £120.00)	£75.00 - £85.00	£60.00 - £70.00
South – Victoria, Westminster, Haymarket	£75.00 - £87.50 (UF = £89.50 - £95.00)	£65.00 - £72.50	£47.50- £57.50
South West – Knightsbridge	£87.50 - £97.50	£75.00 - £85.00	£60.00 - £70.00
East – Soho, Regent Street, Leicester Square	£85.00 - £97.50 (UF = £97.50 - £110.00)	£72.50 - £85.00	£52.50 - £66.00
West – Paddington	£70.00 - £79.50 (UF = £82.50 - £90.00)	£55.00 - £66.50	£42.50 - £52.50
Midtown			
North – King's Cross	£75.00 - £87.50	£62.50 - £72.50	£47.50 - £57.50
South – Covent Garden	£72.50 - £82.50 (UF = £83.50 - £88.50)	£60.00- £69.50	£47.50 - £55.00
East – Holborn	£62.50 - £72.50 (UF = £75.00 - £80.00)	£52.50 - £62.50	£40.00 - £50.00
West – Bloomsbury	£77.50 - £90.00	£65.00 - £75.00	£47.50 - £57.50
South West London			
Chelsea	£77.50 - £90.00	£65.00 - £75.00	£47.50 - £60.00
West London			
Kensington	£75.00 - £110.00	£55.00 - £65.00	£40.00 - £52.50
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

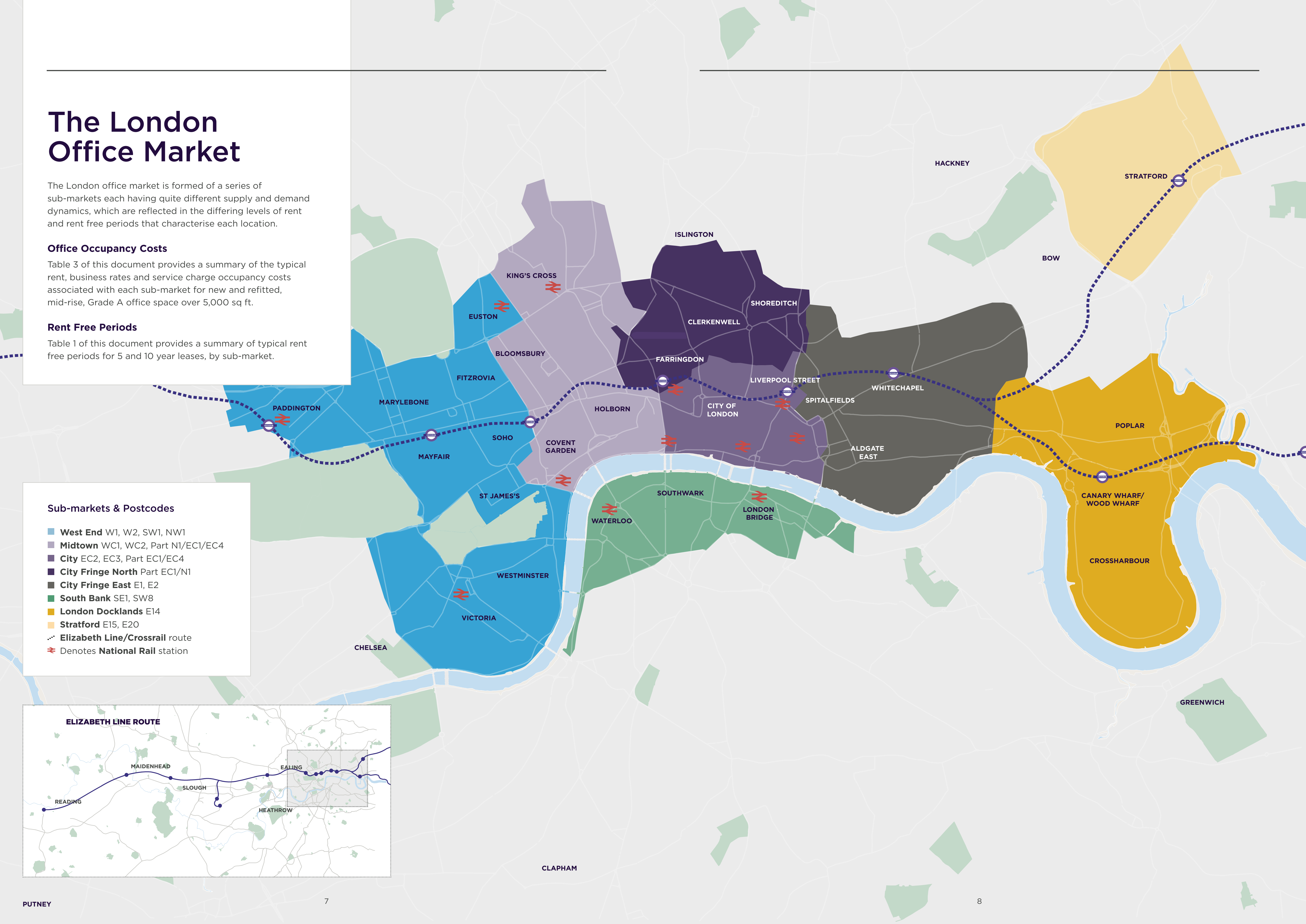
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

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 Q2 2022 there has been little change in central London office occupancy costs for new and refitted Grade A space, reflecting the freezing of the business rates multiplier which remains unchanged since April 2020.

However, it is very likely that service charge costs will rise across all central London sub-markets over the next few quarters as the inflationary impact of higher energy costs filters through.

Table 3 – Comparison Of Rent, Business Rates and Service Charge Costs By Sub-Market – Q2 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

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, environmentally-friendly, 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 Q2 2022

During the second 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 Q2 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 – Q2 2022

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Kirkland and Ellis	Legal Services	40 Leadenhall Street, EC3	215,000
	HFW	Legal Services	8 Bishopsgate, EC2	62,000
	Hogan Lovells	Legal Services	10 Fleet Place, EC4	33,112
City Fringe East - Spitalfields	Reed Smith	Legal Services	Blossom Yard, Norton Folgate, E1	127,000
South Bank - Battersea	SharkNinja	Technology / Manufacturing	Switch House Hall, Battersea Power Station, SW8	25,000
Midtown - Covent Garden	IK Investment Partners	Financial Services	80 Strand, WC2	13,500
West End - Paddington	Capital Group	Financial Services	Paddington Square, Praed Street, W2	220,000
West End - Marylebone	Forsters	Legal Services	22 Baker Street, W1	50,000
West End - Victoria	Qube Research & Technologies	Financial Services	N2, Bressenden Place, SW1	40,000
	Epic Games	Technology	111 Buckingham Palace Road, SW1	31,000
West End - Fitzrovia	Gerald Eve LLP	Professional Services (Real Estate)	1 Fitzroy Place, W1	26,000
West End - Westminster	Capital.com	Financial Services	Orchard Place, Caxton Street, SW1	21,500
West End - Soho	CDPQ	Financial Services	70 Broadwick Street, W1	17,429
West End - Marylebone	TDR Capital	Private Equity	4 Bentinck Street, W1	11,965

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

It is very likely that the forecast slowdown in the UK economy will underpin demand for serviced / co-working space as those footloose businesses based in conventional / non-serviced space take advantage of break options and lease expires to reduce their property footprint and move to temporary accommodation pending a more certain economic climate and a later relocation to more permanent premises.

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
- Enables the level of working capital available for investment in the business to be maximised
- Cashflow-friendly
- 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
- 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

"Any slowdown in the UK economy is likely to underpin demand for serviced office space - providing the business community with stop-gap accommodation, pending a later move to longer-term space when more certain economic conditions return."

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+

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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
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