RESEARCH

THE LONDON OFFICE MARKET
Q3 2021
A GUIDE TO RENTS, RENT FREE PERIODS & MARKET TRENDS

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Carter Jonas

THE LONDON OFFICE MARKET: LATEST TRENDS

The third quarter of 2021 has witnessed a continued increase in leasing activity in the office market across London as businesses emerge from the various COVID lockdowns and begin implementing their plans for the future.

Advertised Rents Holding Steady For Grade A Space

The London office market continues to demonstrate its resilience following the shock to the UK and global economies wreaked by COVID-19. Landlords' advertised rents for new and refitted, well located, Grade A office space remain at levels broadly unchanged since Q1 2020. In some isolated cases landlords have even been bold enough to increase advertised rents on some of their newest, best in class, office developments that major on workforce wellbeing.

Rent Discounts

Notwithstanding that the advertised rents for well-located Grade A space have shifted little since the beginning of 2020, the discounts that can be negotiated on landlords' published rents have widened during the last 18 months. Pre-pandemic rent discounts of up to 3.5% were typical on new and refitted Grade A space – in contrast to discounts of 5 - 10% today. Discounts of over 10% on lower quality, poorly located, Grade B accommodation are currently not uncommon.

Achieved Rents

In essence, the rents that are currently being achieved on the lettings of new and refitted Grade A office space have declined since Q1 2020 by around 10% in many parts of London. This is a modest fall when compared with the sharp reduction in central London rents of over 25% twelve years ago, during the global financial crisis, when office vacancy levels across most parts of the capital were higher.

Rent Free Periods

Rent free periods have remained broadly static during the third quarter of this year – see Table 1 – but have nonetheless expanded by, typically, 2 – 4 months for a lease of 5 – 10 years duration since the beginning of 2020.

The City of London and London Docklands are the two sub-markets where the longest rent free periods can be negotiated, reflecting their differing supply and demand dynamics compared with the West End, Midtown and South Bank markets, where office vacancy is lower and the stock of new and refitted Grade A space more limited.

Continuing Demand For Quality Office Space

While the number and average size of lettings in the London office market over the last three months has continued to increase, albeit from a low base, an analysis of the key lettings (see Table 4) reveals that almost all have been of new or refitted Grade A space – mirroring the same trend witnessed during the first and second quarters of the year.

Employers are increasingly recognising the importance of leasing good quality office space that provides a healthy, vibrant and attractive work environment that reinforces post COVID lockdown return to the office, workforce wellbeing, recruitment, retention and productivity strategies.

It is this, now firmly established, trend towards occupiers favouring new and refitted Grade A space that is encouraging some landlords to raise advertised rents on some of the best in class, prime located, buildings.

Real Estate & Increasing Environmental Awareness

As Generation X senior managers plan for their retirement and a younger and, arguably, more environmentally aware, generation of business managers become more influential in real estate decision making, there has been a noticeable shift in occupier interest in buildings that have been constructed from sustainable materials and that have a low carbon footprint. Landlords of poorly insulated, energy hungry, buildings will need to invest heavily in a refit if they are to secure lettings.

In this third quarter report we include a checklist on page 10 that sets out how those organisations that are contemplating an office move can ameliorate their impact on the environment though real estate decision making.

Office Vacancy: Spoilt For Choice?

As detailed in earlier editions of this publication, there has been a steady increase in office vacancy across most parts of the central London office market since the summer last year. This rise has been driven by the completion of new office developments and refurbishments that were started before the pandemic struck and, in the wake of the COVID crisis, by businesses downsizing their property footprint to reduce operating costs – by exercising break options, not renewing leases or offering surplus space for sub-letting.

"THE LIMITED AVAILABILITY OF VACANT NEW AND REFITTED GRADE A SPACE IN SOME WEST END AND MIDTOWN DISTRICTS IS LIKELY TO LEAD TO REDUCED RENT DISCOUNTS AND SHORTER RENT FREE PERIODS DURING 2022 AS OCCUPIER DEMAND FOR QUALITY ACCOMMODATION STRENGTHENS."

Despite the general increase in vacancy levels, some areas of the London office market remain starved of good quality Grade A space in most size ranges. The West End, Midtown and South Bank sub-markets are typical of this trend, reflecting planning policies that discourage large-scale, high-rise, development and, in the case of the South Bank market, reflecting policies that have been biased towards residential and hotel development. As a consequence, the choice of available good quality office space for footloose tenants to shortlist is more constrained in these areas – in contrast to the City of London and Docklands sub-markets.

A Window Of Opportunity For Footloose Tenants

While it is certainly the case that throughout most parts of London footloose tenants will secure a far better rent and rent free period letting package than would have been possible pre-pandemic, some areas of the West End and Midtown office markets, where Grade A space vacancy is low, are already beginning to show signs of tightening up. This trend is manifesting itself in the form of landlords taking a much more "bullish" approach in lease negotiations than might otherwise have been expected, with reduced levels of rent discount being offered and increasing pressure for shorter rent free periods.

It is very likely that those seeking Grade A space in these areas of London will, during 2022, continue to secure better terms than could have been agreed during the first quarter of 2020. However, the second half of 2022 could well see a turning point in the market in favour of landlords as shorter rent free periods and less generous rent discounts become more widespread in those districts where the availability of new and refitted Grade A space is particularly limited.

By contrast, the City of London and Docklands markets are likely to take longer to recover, given the higher levels of vacancy, which should provide those tenants that are seeking space in these areas more time to select suitable accommodation. Providing that letting activity continues to improve, both sub-markets are likely to show a trend towards becoming "landlord-friendly" by the middle of 2023, as the choice of well located, good quality, Grade A space diminishes.

Return To The Office

The next few months will be critical in establishing the extent to which London's service sector workforce feels confident about returning to their usual place of work – the office. Judging by the increasing volume of passenger traffic in recent weeks on the underground and mainline rail networks, it would seem that employers are having some success in luring staff back to the office.

Many of the Carter Jonas Tenant Representation Team's clients have now implemented "hybrid" operating models, predicated on staff working 2 – 3 days each week in the office. Some have set up desk booking / rota systems to avoid "desk-congestion" while others have developed policies under which certain teams will be required to attend the office on specified days of the week, to collaborate on projects.

"HIGHER RATES OF GRADE A OFFICE VACANCY IN THE CITY OF LONDON AND DOCKLANDS MARKETS SHOULD PROVIDE FOOTLOOSE TENANTS WITH MORE CHOICE AND A BETTER BARGAINING POSITION IN LEASE NEGOTIATIONS AT LEAST UNTIL THE MIDDLE OF 2023."

To overcome "commuter-anxiety" – the fear of travelling on overcrowded modes of public transport – some employers are implementing "flexi-hours" policies, enabling travel to / from the office to take place outside the usual morning and evening peak commuting periods.

The Psychology Of Working In The Office

It is becoming increasingly apparent from both client and external, national, surveys that, for some, the novelty of working from home for the best part of 18 months is now wearing thin. The "fear of missing out" and not being visible to line managers, and the consequent increased risk of being passed over for promotion, is a concern which is encouraging some back to the office.

For junior members of staff working in the business services sector, their reliance on being mentored by more experienced staff is rightly seen as a barrier to career progression in the absence of working together in the office.

It should also not be forgotten that work is not just about having a career, and remuneration to match, but is, fundamentally, about the spontaneity of in-person social interaction with colleagues and clients – something that cannot be replicated during a video meeting.

The challenge, during the coming months, will be for employers to get the balance right by implementing policies that will allow the workforce the flexibility to work from home and the office.

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RENTS AND RENT FREE PERIODS

Advertised Rents

Notwithstanding a few isolated cases where landlords' advertised rents for best in class, prime-located, space have increased, quoting rents for new and refitted Grade A accommodation during the third quarter of the year have remained broadly static, and continue to be at similar levels to those prevailing during Q1 2020, prior to the onset of the COVID pandemic.

By contrast, reductions in landlords' advertised rents for poorly located / specified accommodation are becoming more common as occupiers increasingly focus their searches on new and refitted Grade A space.

Please refer to Table 2 which provides a summary of current typical landlords' advertised rents for the various London office sub-markets.

Rent Discounts

During the third quarter of 2021, the discounts that can be negotiated on landlords' advertised rents for new and refitted Grade A space have remained stable and are typically between 5 – 10% – broadly unchanged since the autumn of last year.

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

Rent Free Periods

Rent free periods for new and refitted Grade A space are likely to remain broadly static over the next two quarters across much of central London.

In some areas of the West End and Midtown sub-markets, where new and refitted Grade A space vacancy levels are particularly low, pressure for shorter rent free periods is beginning to build as some landlords become more "bullish" in their dealings with tenants. It is probable that, by the middle of 2022, in areas of particularly low vacancy, reductions in rent free periods by 1 – 2 months, for a lease of at least 5 years, will become more common.

Over the same period, moribund demand for lower specified, poorer quality, Grade B space is likely to result in a continued lengthening in rent free periods across many parts of the London office market, particularly in areas such as the City and Docklands which are characterised by higher rates of vacancy.

Advertised Rents Forecast – Market Divergence

Providing that the UK and world economies continue to rebound from the COVD-19 shock, it is quite probable that in most parts of London advertised rents for new and refitted Grade A space will, during the third quarter of next year, be at broadly similar levels compared with those prevailing during Q3 2021. Increases in advertised rents in some parts of the West End, Midtown and South Bank sub-markets may well become more established over the same period, reflecting the limited availability of well-located new and refitted Grade A space.

These forecast trends reflect the fact that office occupiers are shunning low grade accommodation in favour of new and refitted space where vacancy levels are lower and where choice is more constrained.

By contrast, the advertised rents of low quality, poorly located, Grade B space are likely to fall over the next twelve months, reflecting the decline in demand for such properties. The imminent introduction of tighter environmental regulations governing the leasing of commercial properties that have low levels of energy performance will also add to the challenge of leasing low grade office accommodation.

The divergence in demand for good quality and lower grade office space is likely to become more pronounced over the next 12 months as the rental gap between the two markets widens.

Rent Free Periods

Table 1 – Typical Rent Free Periods By Sub-Market – Q3 2021
New / refitted & Refurbished Grade A Space

Location	Typical Rent Free Period Agreed (lettings over 5,000 sq ft)	
	5-year lease	10-year lease
City of London – St Paul's, Bank, Liverpool Street, Cannon Street	12 – 15 months	24 – 28 months
City Fringe North – Shoreditch, Clerkenwell, Farringdon	11 – 14 months	22 – 26 months
City Fringe East – Aldgate East, Spitalfields	12 – 15 months	24 – 27 months
Midtown – Bloomsbury, Holborn, King's Cross, Covent Garden	10 – 14 months	22 – 26 months
West End – Mayfair, St James's, Marylebone, Fitzrovia, Soho, Victoria, Paddington	10 – 14 months	22 – 26 months
South Bank – Waterloo, Southwark, London Bridge	10 – 14 months	22 – 26 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 – 16 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

- landlords' advertised rents for new and refitted, well located, Grade A space, are likely to remain static for the next two quarters, providing that occupier demand continues to improve
- advertised rents for poorly located / specified Grade B office space are likely to decline over the same period

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 5 – 10% for the next two quarters
- rent discounts on poorly located / specified Grade B office space are likely to widen to over 10% over the same period

Rent Free Periods

- rent free period incentives for well-located new and refitted Grade A space are likely to remain broadly static over the next two quarters in most parts of central London

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 Grade A office space – to reinforce return to the office, workforce wellbeing, recruitment, retention and productivity 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 Tenants

- a continuing bias in favour of tenants in the bargaining position in lease negotiations – although weaker in some districts of the West End and Midtown sub-markets where good quality Grade A office vacancy is low

Office Leasing Activity

- a continued 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 ESG policies

Serviced Offices

- a continued 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

"PROVIDING THAT THE UK AND WORLD ECONOMIES CONTINUE TO RECOVER, IT IS LIKELY THAT DEMAND FOR CENTRAL LONDON OFFICE SPACE WILL SIMILARLY IMPROVE OVER THE NEXT FEW QUARTERS, ALBEIT WITH A FOCUS ON DOWNSIZING TO NEW AND REFITTED GRADE A, COVID-SAFE, SPACE THAT HAS A LOW CARBON FOOTPRINT."

Table 2 – The London Office Market – Typical Landlord's Advertised Rents Q3 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

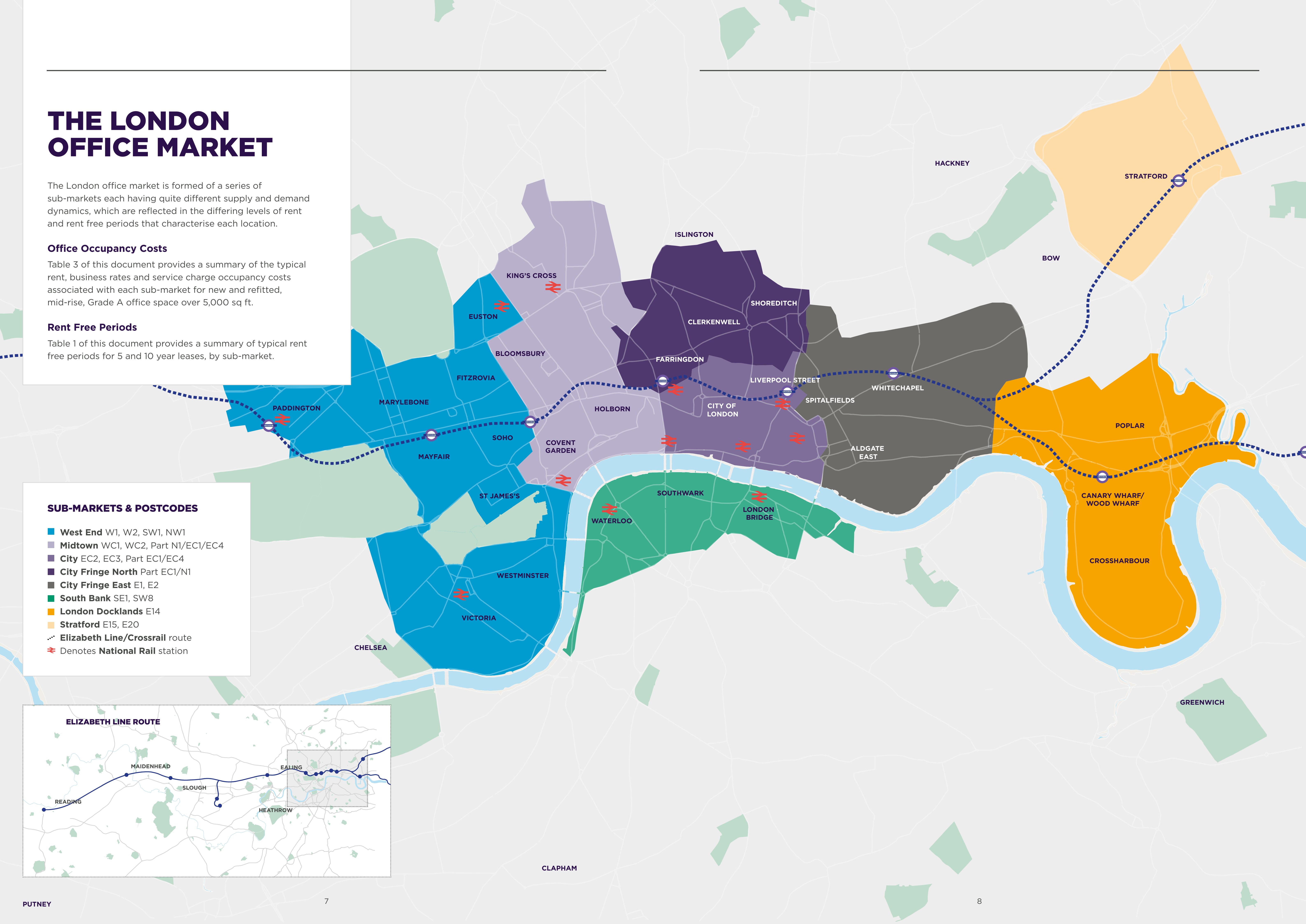
The London office market is formed of a series of sub-markets each having quite different supply and demand dynamics, which are reflected in the differing levels of rent and rent free periods that characterise each location.

Office Occupancy Costs

Table 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

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 – Q3 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."

AN OFFICE OCCUPIER'S GUIDE TO ESG

Most organisations are becoming increasingly aware of their impact on the environment and on society in general. Many are adopting environmental, social and governance (ESG) policies in the knowledge that their shareholders, customers, workforce and members of the general public expect them to bear their share of responsibility for conserving the environment as well as ensuring that their activities have a positive impact on their workforce and society.

Carbon emissions from real estate are a significant contributor to climate change in two key ways. Firstly, through the manufacture of building materials including steel, glass and concrete, from which most office buildings are constructed and, secondly, through the occupation and use of real estate.

The Relevance Of ESG In The Context Of An Office Move

If an office relocation is being considered, we set out below how an organisation can meet some of its ESG objectives in the context of selecting a suitable building:

- **Location, location, location** – choose a building that:
  - minimises the majority of the workforce's commute. Shorter journey times will reduce carbon emissions associated with traveling and are likely to be viewed positively by employees – resulting in a less stressed / tired, and more productive, workforce. Staff should also benefit from lower commuting costs.
  - is located within convenient walking distance of local amenities such as cafes, food shops and bars – which will negate the need to use transport services to access these facilities and will provide the workforce with a convenient place to have lunch and socialise in the evening
- **Energy usage** – how energy efficient is the building? Choose a building:
  - that is well insulated and has a low level of energy consumption – preferably with a UK Government Energy Performance Certificate (EPC) rating of A, B or C
  - has built-in energy generating features such as solar panels and / or wind turbines
- **Designed for wellness** – select a building that reinforces workforce wellness and, by extension, productivity. Research demonstrates that the physical and mental wellbeing of office workers is enhanced where the workplace offers the following features:
  - high levels of natural light
  - high air quality – buildings with openable windows in areas with low aerial pollution and minimal street noise are becoming particularly popular with office occupiers

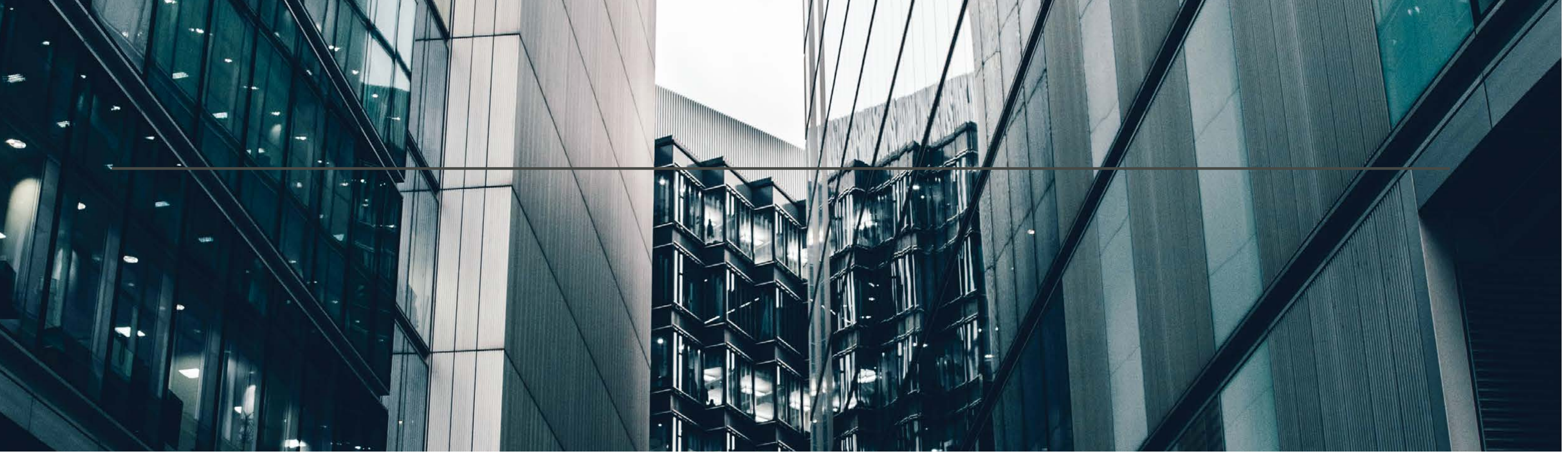
"OPERATING FROM A BUILDING WITH A LOW CARBON FOOTPRINT THAT HAS BEEN CONSTRUCTED FROM SUSTAINABLE MATERIALS WILL GO A LONG WAY TO MITIGATING A BUSINESS' IMPACT ON THE ENVIRONMENT – A FACTOR THAT IS CURRENTLY DRIVING DEMAND FOR NEW AND REFITTED GRADE A OFFICE SPACE."

- **Construction materials** – does the building contain only materials that are non-toxic, ethically sourced and sustainable? What proportion of the building materials have been recycled and are, themselves, recyclable?
- **Environmental compliance ratings** - there are numerous ratings and accreditations available for commercial properties including BREEAM, SKA, EPC, LEED, WELL and Fitwell. Each takes a range of different approaches for measuring and ranking the different aspects of a building in terms of its energy consumption, sustainability and wellness credentials. Which measures are the most important to your organisation and how do the shortlisted properties rate against your expectations?

The Benefits Of Adopting ESG Policies

Addressing an organisation's stated ESG policies at the real estate level should provide the following benefits:

- A healthier, happier and more productive workforce, with lower levels of absenteeism
- A greater rate of staff uptake in relation to post COVID lockdown return to the office policies
- A positive impact on workforce recruitment and retention policies
- Lower operating costs / increased profits associated with lower energy consumption and lower levels of staff turnover and absenteeism
- The wider social benefits of:
  - reduced carbon emissions, addressing the climate change crisis
  - conserving the planet's natural resources by operating from a building made from sustainable, recycled and recyclable materials



KEY LEASING TRANSACTIONS DURING Q3 2021

The number and size of lettings in the London office market has continued to increase during the third quarter of the year. Continuing the trend witnessed during the first and second quarters of 2021, the majority of third quarter key lettings have been of new and refitted Grade A space.

The table below provides a summary of key Q3 2021 lettings over 13,000 sq ft.

Table 4 – Key Office Lettings Over 13,000 sq ft – Q3 2021

Sub-market	Tenant	Business Sector	Property	Floor Area (sq ft)
City of London	Travers Smith	Legal Services	Stonecutter Court, Stonecutter Street, EC4	158,000
	T. Rowe Price	Investment Management	Warwick Court, 5 Paternoster Square, EC4	130,000
	Skadden Arps, Slate, Meagher & Flom	Legal Services	22 Bishopsgate, EC2	65,000
	Mazars	Financial Services	Two New Ludgate, 60 Ludgate Hill, EC4	59,600
	Royal London	Insurance	80 Fenchurch Street, EC3	55,000
	Hannover RE	Insurance	20 Gracechurch Street, EC3	28,975
	Fidelis	Insurance	22 Bishopsgate, EC2	25,376
	Berenburg	Financial Services	60 Threadneedle Street, EC2	22,400
City Fringe North	Inmarsat Global	Telecoms	50 Finsbury Square, EC2	121,800
City Fringe North West - Farringdon	SEC Newgate UK	Media	14 Greville Street, EC1	14,000
Midtown - Bloomsbury	Thought Machine	Technology – Financial	7 Herbrand Street, WC1	67,000
Midtown - King's Cross	The Office Group	Serviced Offices	R8, King's Cross Central, N1C	170,000
	University College London	Education	105 Judd Street, WC1	35,000
	The Office Group	Serviced Offices	The Gridiron Building, 1 Pancras Road, N1	28,300
	Eurostar	Transport	90 York Way, N1	14,500
West End - Knightsbridge	Babylon Health	Health Services	1 Knightsbridge Green, SW1	63,600
West End - Paddington	Future plc	Media	121-141 Westbourne Terrace, W2	60,000
West End - Victoria	Fora	Serviced Offices	6-8 Greencoat Place, SW1	32,400
West End - Fitzrovia	Octopus Energy	Energy	UK House, 180 Oxford Street, W1	51,600
	Ted Baker	Retail	101 Cleveland Street, W1	30,000
	Adyen	Financial Services	12-13 Wells Mews, W1	14,000
West End - Marylebone	Tate & Lyle	Food & Beverage	5 Marble Arch Place, W1	13,000

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

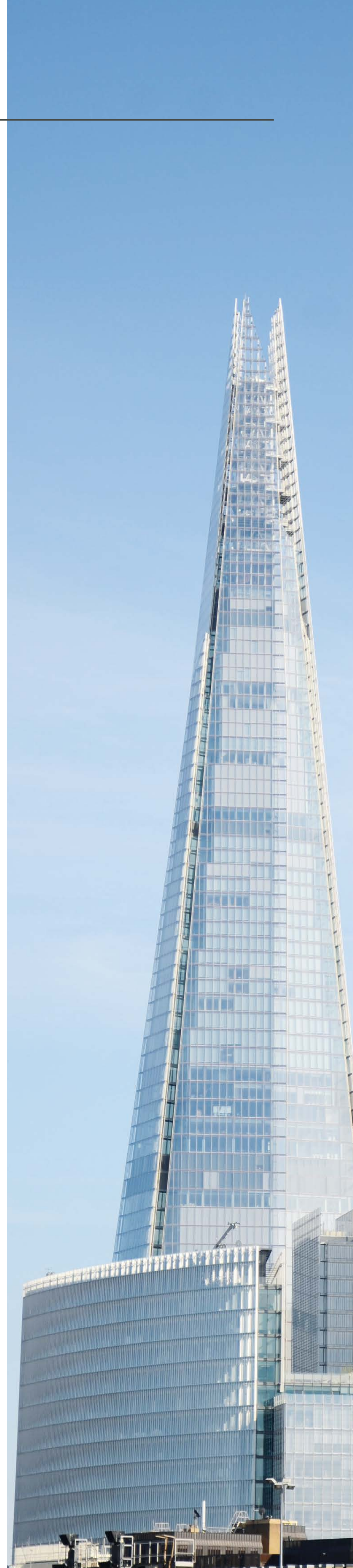
Stay put / Relocate Property Options Cost Appraisal

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 the third quarter of 2021 leasing activity in the serviced and co-working office market has continued to improve, following the uptick in demand during the first and second quarters of the year.

Interestingly, as with the conventional, non-serviced, office market, demand has been dominated by those businesses that are seeking good quality premises – in the knowledge that providing a vibrant, attractive, COVID-safe work environment is likely to reinforce post COVID lockdown return to the office policies.

The rents being achieved on the lettings of serviced and co-working space have increased from their lockdown lows in areas of central London where the stock of available, good quality, serviced office space is low – which includes many areas of London's West End, including Mayfair, St James's, Soho, Marylebone and Fitzrovia.

By contrast, rents for serviced and co-working space in the City of London and Docklands are still at an appreciable discount to those that were being achieved before the onset of the pandemic, reflecting the different supply and demand dynamics of these sub-markets.

Those occupiers that are currently seeking serviced / co-working office space comprise a mix of fledgling businesses that do not wish to commit to a longer-term lease on conventional, non-serviced, office space; and mid-size businesses that have exercised a break option, or have decided not to renew a lease, and wish to operate from temporary, stop-gap, accommodation, pending the return of a more certain business environment and a later move to more permanent accommodation.

Larger national and international businesses, and organisations such as the UK government, are also active in the serviced / co-working office market with interest, in particular, from organisations that have decided to adopt an operating model based on using the office as a hub where staff can drop in when they need to, when working on collaborative / team projects.

Why Move To Serviced & Co-Working Space?

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

"THE RENTS BEING ACHIEVED ON GOOD QUALITY SERVICED OFFICE SPACE IN SOME WEST END DISTRICTS, WHERE VACANCY IS LOW, ARE RISING FROM THEIR COVID LOCKDOWN LOWS. THE RECOVERY IN THE CITY OF LONDON SERVICED OFFICE MARKET IS PROVING RATHER SLOWER, REFLECTING THE HIGHER LEVELS OF VACANCY."

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
- 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