

ADVISOR'S \

HOW IS THE LONDON OFFICE MARKET FARING SINCE THE REFERENDUM ON EU MEMBERSHIP? MUCH AS THE CARTER JONAS RESEARCH TEAM HAD PREDICTED WHEN THE REFERENDUM RESULT WAS ANNOUNCED, THE MARKET HAS NOT GONE INTO FREE FALL BUT HAS, INSTEAD, ENTERED A PERIOD OF READJUSTMENT, REFLECTING A LOWER LEVEL OF DEMAND, WITH RENTS DECLINING AND RENT FREE PERIODS INCREASING.

Vacancy levels are, in parallel, gradually increasing as new office developments reach completion. Supply has been further boosted by increased vacancy in second hand stock as some tenants implement agile working and hot desking policies to reduce their property footprint and trade up into new, more efficient, buildings.

RENTS

Landlords of buildings that have been on the market for much over six months, and where there is little tenant interest, are beginning to lower their advertised rents, typically by £2.00-£5.00 per sq ft per annum, and in some cases by as much as £8.00 per sq ft per annum – a trend that is beginning to gather pace, in particular, in the City office market. Contrast with the West End sub-market where rents on some super prime buildings in Mayfair and St James's have been marked down by up to £15.00 per sq ft per annum as occupiers become increasingly reluctant to pay rents over the psychologically significant £100 per sq ft per annum.

The discounts that can be negotiated on advertised rents have continued to widen and are now typically 3 - 7.5% in contrast to discounts of 2.5 - 5% at the beginning of the year.

There are, however, some isolated cases where the upper floors of newly constructed buildings continue to set new rent benchmarks, including a reported £110.00 per sq ft per annum in Soho at 30 Broadwick Street, over £90.00 per sq ft at The Post Building, Museum Street in Bloomsbury, and circa £190.00 per sq ft is understood to have been agreed at 5 St James's Square.

RENT FREE PERIODS

Rent free periods across all the London office sub-markets have continued to increase by, typically, 1 - 2 months for a 10 year lease since January this year. In many parts of London it is now possible to secure rent free periods of 10-12 months on a five year lease and 20-24 months on a ten year lease.

A MORE 'TENANT-FRIENDLY' MARKET

While the economic uncertainty that Brexit has brought is unwelcome it has, nevertheless, created opportunities for tenants to take advantage of a weaker office market.

Those tenants with lease expiries or break options should be able to secure far better rent and rent free period letting packages than could have been negotiated a year ago as landlords become increasingly anxious not to lose their existing tenants to rivals and as landlords with space to let compete more aggressively against one another to secure new tenants.

Weaker market conditions are also encouraging landlords to offer tenants greater lease flexibility – shorter leases and more frequent break options. It is also proving easier to secure more 'tenant friendly' lease features such as service charge caps, reduced or no rent deposits and less restrictive lease assignment/transfer, sub-letting and break option pre-conditions.

THE TECHNOLOGY SECTOR

The digital economy continues to be an important driver of demand for London office space with the likes of Expedia, Amazon, Apple, Google, Facebook, Snap Group and

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others having made post-EU referendum decisions to expand their operations in London. The technology sector continues to plug the gap in the demand for office space left by the banking and financial services sector, post 2008/09 credit crisis, particularly in the City of London, where the occupier profile is gradually shifting away from financial services.

As recently highlighted by The Coalition For A Digital Economy, if the UK is to continue to dominate the European technology scene it is essential that post-Brexit immigration and visa regulations are 'gig-economy friendly' to ensure that UK based firms can recruit the brightest and the best tech entrepreneurs and developers from a global talent pool.

EMERGING MARKETS & THE ELIZABETH LINE/CROSSRAIL

Regeneration initiatives, including transport infrastructure improvements, in areas including White City, Battersea, Greenwich Peninsula, Wood Wharf in Docklands, Royal Albert Docks at Silvertown, Old Oak Common and Wembley are creating new business districts, with lower rent and business rates profiles, to rival the City, Midtown and West End .

The Elizabeth Line/Crossrail is scheduled to become operational by December 2018 and will put further pressure on the landlords of properties located in the established central business districts to offer competitive letting packages as the number of options available to footloose tenants increases. Some will inevitably consider a relocation of all or part of their operations to lower cost, Crossraillinked, Thames Valley locations where rents and business rates costs for new and refitted Grade A space, in areas such as Maidenhead and Reading, are typically £32.50-£37.50 per sq ft per annum and £7.00-£9.00 per sq ft per annum respectively.

WHAT WILL HAPPEN TO RENTS OVER THE NEXT TWO YEARS?

We anticipate that rents in the London office market will decline by 4-6% during 2017 and by 10-12% for the period up to Q2 2019 – see Table 1. We forecast that the greatest falls will be in the City, Docklands and Victoria – areas where large scale new developments have, or are shortly to reach completion, and which are reliant on large scale, capital intensive, office relocations, typically in excess of 20,000 sq ft.

REASONS TO BE CHEERFUL!

There is, therefore, good reason for tenants to be cheerful – increased choice, falling rents, longer rent free periods and more tenant friendly lease terms – trends that are likely to gather pace this year and continue for at least the next 18-24 months until the terms of the UK's exit from the EU are known.

GRADES OF OFFICE ACCOMMODATION

For marketing purposes office accommodation is generally categorised into Grades which are defined as follows:

Grade A

New or newly refurbished office space where the building specification includes suspended ceilings and fully accessible raised floors for data/telecoms cable management, passenger lift and air conditioning facilities.

Grade B

Office space that may only incorporate under floor or perimeter trunking for data/telecoms cable management, rather than fully accessible raised floors, and/or air cooling facilities, instead of an air conditioning system that dehumidifies, filters and draws fresh air into the building. Grade B space also tends to be of a generally lower quality building specification.

"Refitted"

Office space that is 'as new', having been completely refitted throughout, to include new fixtures and fittings to the common parts and reception area, new building services – including air conditioning and passenger lift facilities, electrical, plumbing and lighting systems, and new raised floors, suspended ceilings and sanitary ware. The specification of works will comply with the latest health and safety legislation and may also include re-cladding the exterior of the building.

"Refurbished"

Space is defined as office accommodation where the landlord has redecorated and recarpeted the available office space (but not necessarily the common parts) and overhauled, but not renewed, the building services, such as the air conditioning and passenger lift facilities.

Table 1

Typical Current and Forecast Rents For New and Refitted Grade A Space Source: Carter Jonas Research

	£ per sq ft per annum		
ocation	Q2 2017	Q2 2018	Q2 2019
Mayfair/St James's - Prime	£115.00	£107.50	£102.50
Marylebone	£88.50	£85.00	£82.50
Soho	£90.00	£87.50	£85.00
itzrovia	£80.00	£77.50	£75.00
/ictoria	£77.50	£73.50	£70.00
Paddington	£65.00	£62.50	£60.00
Holborn	£67.50	£65.00	£62.50
King's Cross	£82.50	£80.00	£78.50
Covent Garden	£80.00	£77.50	£75.00
City - Prime	£67.50	£65.00	£60.00
Clerkenwell & Shoreditch	£65.00	£62.50	£58.50
Southwark	£67.50	£65.00	£62.50
Spitalfields	£67.50	£65.00	£62.50
Aldgate East	£55.00	£52.50	£50.00
Hammersmith	£57.50	£53.50	£50.00
Canary Wharf	£47.50	£45.00	£42.50
Stratford	£47.50	£42.50	£42.50

KEY CITY LETTINGS:

100 Bishopsgate, EC3

256,500 sq ft to Freshfields Bruckhaus

20 Old Bailev. EC4

Angel Court, EC2

60,000 sq ft to Withers

56,000 sq ft to Bupa &

25,000 sq ft to British Bankers Association

Monument Building, 11 Monument St, EC3

22,200 sq ft to M7 Real

Deringer

THE VARIOUS SUB-MARKETS THAT FORM THE LONDON OFFICE MARKET **EACH HAVE VERY DIFFERENT SUPPLY. DEMAND, RENT AND RENT FREE PERIOD DYNAMICS.**

CITY

CITY FRINGE NORTH





- It has been widely reported that the banking sector is making contingency plans to relocate Euro-dependant banking functions to EU financial centres such as Frankfurt, Paris and Dublin in anticipation of the UK government agreeing a "hard" Brexit. However, the chief executives of banks including JP Morgan and Goldman Sachs have recently stated publicly that while some City jobs are likely to drift to the EU, Brexit is unlikely to lead to a mass exodus of banking jobs.
- The dominance of the banking and insurance sectors in the City office market continues to weaken as new entrants migrate from higher cost West End and Midtown locations. Recent examples of this trend include Deliveroo's relocation from Bloomsbury to 50,000 sq ft at Cannon Bridge House, EC4 and wealth management firm, Rathbone's, move from Mayfair to 75,000 sq ft at 8 Finsbury Circus, EC2.
- · Notwithstanding the scale of new City office developments currently under construction, and which are scheduled for completion within the next 12-18 months, a significant number have already been part pre-let including Brookfield's 100 Bishopsgate, comprising 944,000 sq ft, due for completion in 2018, of which over 70% has been pre-let.
- City office rents have typically declined by circa £2.50-£5.00 per sq ft per annum since Q2, 2016, reflecting weaker demand, post-EU referendum. Similar falls are forecast over the next 12 months - see Table 1.
- Recognising the importance of the technology sector as an increasingly important engine for economic growth, the City of London Corporation is working with 'FinTech' industry body, Innovate Finance, to develop a fintech start-up hub at Broadgate to attract innovative technology firms to the Square Mile.

- · Regeneration initiatives, the construction of new buildings and the promotion of the area as a global centre of excellence for the technology sector are factors that have conspired to erode the cost advantages of the north City fringe.
- Rents for new Grade A office space are now typically £62.50 - £67.50 per sq ft per annum in Clerkenwell/Shoreditch on a par with locations such as Holborn and the City - contrast with rents of £45.00-£55.00 per sq ft per annum three years ago. It is quite possible, therefore, that the north City fringe will lose ground to more central, better connected. City and Midtown locations.
- The north City fringe sub-market has been one of the most adversely affected by the 2017 business rates revaluation with rates having typically increased from £14.50 per sq ft per annum to over £20.00 per sq ft per annum where the property is not subject to transitional relief (see Business Rates box), which further undermines the location as a lower cost alternative to more centrally located business districts.
- Helical Bar's recently completed 25 Charterhouse Square, comprising 38,500 sq ft, is a rare example of much needed new development in Smithfield - an area where development is constrained by conservation area planning policies.

KEY CITY FRINGE NORTH LETTINGS:

The Angel Building, 403 St John St, EC1 136.650 sq ft to Expedia

25 Charterhouse Square, EC1 12,200 sq ft to Anomaly



CITY FRINGE EAST

- Rents for new and refitted Grade A space in the east City fringe vary between £50.00-£55.00 per sq ft per annum for space in the Aldgate East district to £62.50-£70.00 per sq ft per annum at Spitalfields, located
- The supply of vacant floor space in the east City fringe is lower than in the north City fringe, although under-supply issues are slowly being addressed with the refurbishment of the five buildings forming at Royal Mint Court at Tower Hill, totalling 600,000 sq ft, which are scheduled for completion during H1, 2020.

closer to the City core.

· The Butterfly Building, which will comprise circa 335,000 sq ft when complete in Q1, 2021, is to be developed on the site of the Lloyds Chambers Building at Portsoken Street and will further boost tenant choice in the east City fringe market - a prelet on part is being sought to kick-start construction of the development.

KEY CITY FRINGE EAST LETTINGS:

Principal Place, Norton Folgate, EC2 89,300 sq ft to Amazon (take-up of option space)

WEST END



- Over the last few years the West End has developed a reputation for being one of the sub-markets with the shortest rent free periods. Following the EU referendum last June, and the subsequent weakening in office demand, rent free periods in some areas of the West End have extended to a point where they are now almost on a par with the City office market where rent free periods are typically 10-12 months for a five year lease and 22-25 months for a ten year lease (see office cost map).
- The current pattern of vacancy in the Victoria and Paddington districts is characterised by new or refitted buildings with floor plates typically in excess of 10,000 sq ft - in contrast to other areas of the West End such as Marylebone, Fitzrovia, Mayfair, St James's and Soho where office buildings tend to be of a smaller scale and the floor plates are more usually sub-5,000
- Victoria and Paddington are both reliant on national and international companies with sizeable relocation budgets, with office requirements typically in excess of 10,000 sq ft for 100 or more staff. Brexit uncertainty has weakened demand in this sector of the office market, more so than the sub-5,000 sq ft market, and it is likely that rents will decline and rent free periods extend more so in Paddington and Victoria than other areas of the West End.

· The loss of office stock to higher value residential redevelopment has catalysed the migration east of established West End businesses to Midtown, the City and City fringe, in search of better value for money premises. New Scotland Yard, the former Metropolitan Police HQ in Westminster, is one such example the property is being redeveloped for luxury apartments.

KEY WEST END LETTINGS:

80 Charlotte Street, W1 133,600 sq ft to Arup

2 St James's Market, SW1 21,000 sq ft to Formula 1

7 Clarges Street, W1 23,700 sq ft to Capula

77 Shaftesbury Avenue, W1 20,000 sq ft to Snap Inc.

Nova North, Bressenden Place, 22,000 sq ft to Child & Child

LSQ. 30 Panton Street, SW1 70,000 sq ft to Hearst



MIDTOWN



- Regeneration initiatives, transport infrastructure improvements and the development of new Grade A buildings in King's Cross and Bloomsbury have resulted in new rent benchmarks of £80.00 £85.00 per sq ft per annum being set in both of these Midtown districts. Contrast with rents of £60.00 £65.00 per sq ft per annum for Grade A space at both locations a couple of years ago.
- Bloomsbury is the one area of Central London that has bucked the trend in the decline in rents. Lettings at two new office developments The Avenue, off Tottenham Court Road and The Post Building at Museum Street, have both set new rent benchmarks for the area since the beginning of the year rents of £85.00 per sq ft per annum and £90.00 per sq ft per annum respectively have reportedly been achieved.
- Because business rates are based on the rental value of commercial properties, areas that have witnessed high levels of rental growth in recent years will be more adversely affected by the 2017 business rates revaluation. King's Cross, in particular, has witnessed a significant increase in business rates costs rising from £22.00 per sq ft per annum to, typically, £31.00 per sq ft per annum for properties that are not subject to transitional relief.

The occupier mix in Covent
Garden continues to change –
moving from one dominated
by the media and creative
industries that have been

by the media and creative industries that have been priced out by an influx of financial and professional services firms. Many of these firms have migrated from higher rental and business

rates cost locations in the

West End.

KEY MIDTOWN LETTINGS

The Post Building, 21-31 New Oxford Street, WC1 100,000 sq ft to McKinsey

1 New Oxford Street, WC1 60,000 sq ft to H&M

The Adelphi, John Adam Street, WC2 35,000 sq ft to PetroChina 26,800 sq ft to Conde Nast

SOUTH BANK



- The South Bank office market is characterised by low vacancy levels – a consequence of Southwark and Lambeth Council's planning policies that have encouraged the redevelopment of commercial properties for higher value residential use.
- Historically low vacancy levels have underpinned rents in districts such as London Bridge and Southwark. Compared with other London office sub-markets there has been a limited decline in rents, while the rents for space with river views have remained broadly static since Q2, 2016.
- The Shard has set new rent benchmarks for the area with rents for upper floors now well established above £90.00 per sq ft per annum, reflecting the building's iconic status.
- Waterloo has, for over a decade, been starved of much needed Grade A office space. This issue is gradually being addressed with the development of No. 2 Southbank Place, which will comprise 297,500 sq ft at the former Shell Centre, due for completion in Q3, 2018.
- The long awaited redevelopment of Elizabeth House at York Road, adjacent to Waterloo Station, continues. The site has recently been purchased by developer HB Reavis and has planning consent for a 945,000 sq ft mixed use office, residential and retail scheme, of which c. 750,000 sq ft will comprise offices. The timetable for development of the site has yet to be announced.



- Docklands (excluding Canary Wharf) and Stratford are the two remaining peripheral central London office sub-markets that continue to offer refurbished Grade A office space at rents below £40.00 per sq ft per annum.
- The Docklands office market is split between the prime (Canary Wharf) and secondary (Crossharbour) markets. Rents for refitted Canary Wharf office space are typically £42.50-£50.00 per sq ft per annum in contrast to £32.50-£38.50 per sq ft per annum for refitted Grade A space located in the Crossharbour district. The variation in rents reflects both the age and the quality of the office stock and accessibility to public transport.
- The supply of new and refitted Grade A office accommodation in Stratford that is immediately available is limited to Here East, the former Olympic Press and Broadcast centre. However, supply is set to increase on completion of the FCA's building at the International Quarter in April 2018, where circa 75,500 sq ft is available to let.
- The development of Crossrail stations at Canary Wharf and Stratford is likely to boost demand for office space in both submarkets when the Elizabeth Line becomes operational at the end of 2018. Journey times from the West End, Midtown and City business districts will be reduced to less than 15 minutes.

 Westfield has also recently gained planning consent for two office buildings totalling 846,233 sq ft on a site adjacent to its Stratford shopping centre.

KEY DOCKLANDS LETTING:

Columbus Building, Westferry Circus, E14 13,600 sq ft to Motive Partners

WEST LONDON

- The redevelopment of the BBC TV Centre campus, and neighbouring sites, at White City is transforming the area in to a new, vibrant business district to rival the West End and, not least, Hammersmith. The scheme incorporates residential, leisure and restaurant uses and up to 940,000 sq ft of office space in five buildings with phase one now complete offering circa 290,000 sq ft.
- Tenant choice of Grade A space in Hammersmith has been boosted by the recent completion of Kier Group's 58,100 sq ft Kings House redevelopment at Hammersmith Road.

KEY WEST LONDON LETTING:

12 Hammersmith Grove, W6 29,100 sq ft to Medidata

THE 2017 BUSINESS RATES REVALUATION

The 2017 business rates revaluation, which came into effect from 1 April this year, has been an unwelcome additional cost to most commercial property occupiers in London. The areas that have seen some of the largest increases in business rates for Grade A office space include the City of London, up by an average of 25% and Shoreditch, King's Cross and Spitalfields all up by over 35% for properties not benefitting from transitional relief. However, in some areas, such as Canary Wharf and Mayfair, business rates costs have remained broadly static.

SUBSTANTIALLY ABOVE INFLATION RATES INCREASES IN SOME AREAS OF LONDON ARE LIKELY TO FURTHER DEPRESS RENTS IN THOSE SUB-MARKETS

The office cost map overleaf provides a summary of the typical rent, business rates and service charge costs for each London office sub-market.

While the Government has introduced a transitional relief capping mechanism to phase in business rates increases, the caps have been set at 42% for 2017/18 and 32% for 2018/19 which afford little comfort for occupiers facing large increases in their rates bills.

There is a right to appeal the new 2017 business rates assessment if an occupier feels that it is incorrect. More information is available from the Carter Jonas Business Rates Team.

TYPICAL COSTS FOR NEW/REFITTED MID-RISE **GRADE A OFFICE SPACE OVER 5,000 SQ FT**

Q2 2017

Costs = £ per sq ft per annum Rent Free Periods = Months

Business rates cost estimates include the Crossrail levy but take no account of any transitional relief that may be available

MIDTOWN •

KING'S CROSS £123.50

Rent	£82.50
Business Rates	£31.00
Service Charge	£10.00
Total Occupancy Cost	£123.50

Typical Rent Free Periods

5 year lease	8-11
10 year lease	18-22

COVENT GARDEN £121.00

Rent	£80.00
Business Rates	£31.00
Service Charge	£10.00
Total Occupancy Cost	£121.00

Typical Rent Free Periods

5 year lease	8-11
10 year lease	17-22

HOLBORN

£104.50

Rent	£67.50
Business Rates	£27.00
Service Charge	£10.00
Total Occupancy Cost	£104.50

Typical Rent Free Periods 5 year lease 9-12 10 year lease 20-24

BLOOMSBURY £122.50

Rent	£82.50
Business Rates	£30.00
Service Charge	£10.00
Total Occupancy Cost	£122.50

Typical Rent Free Periods

9-12 5 year lease 20-24 10 year lease

MARYLEBONE

9-12

20-24

CITY FRINGE NORTH £97.00

Rent	£65.00
Business Rates	£21.00
Service Charge	£11.00
Total Occupancy Cost	£97.00

Typical Rent Free Periods

• •	
5 year lease	8-12
10 year lease	18-24

CLERKENWELL

HOLBORN

WATERLOO

ISLINGTON

CITY FRINGE EAST

SPITALFIELDS £100.50

10 year lease

SPITALFIELDS

ALDGATE

SHOREDITCH

Rent	£67.50
Business Rates	£23.00
Service Charge	£10.00
Total Occupancy Cost	£100.50

Typical Rent Free Periods 5 year lease 10-12

22-24

Total Occupancy Cost £84.00 **Typical Rent Free Periods** 10-12 5 year lease

£55.00

£19.00

£10.00

22-24

BOW

ALDGATE EAST

£84.00

Business Rates

Service Charge

10 year lease

POPLAR

CANARY WHARF

CROSSHARBOUR

STRATFORD

STRATFORD £69.00

Rent	£47.50
Business Rates	£12.00
Service Charge	£9.50
Total Occupancy Cost	£69.00

Typical Rent Free Periods

s year lease	10-13
10 year lease	21-25

COVENT GARDEN SOUTHWARK

CROSSRAL

KING'S CROSS

BLOOMSBURY

FITZROVIA

WEST END

MAYFAIR & ST JAMES'S £177.00

Rent	£115.00
Business Rates	£50.00
Service Charge	£12.00
Total Occupancy Cost	£177.00

Typical Rent Free Periods

5 year lease	9-12
10 year lease	18-24

FITZROVIA £124.50

Rent	£80.00
Business Rates	£33.50
Service Charge	£11.00
Total Occupancy Cost	£124.50

Typical Pent Free Periods

Typical Rent Free Periods	
5 year lease	9-12
10 year lease	20-24

VICTORIA £121.50

Rent	£77.50
Business Rates	£33.00
Service Charge	£11.00
Total Occupancy Cost	£121.50

Typical Rent Free Periods

5 year lease	9-12
10 year lease	20-24

PADDINGTON £100.25

10 year lease

Rent	£65.00
Business Rates	£24.25
Service Charge	£11.00
Total Occupancy Cost	£100.25

Typical Rent Free Periods 5 year lease 9-12

20-24

MARYLEBONE £137.50

Rent	£88.50
Business Rates	£39.00
Service Charge	£10.00
Total Occupancy Cost	£137.50

Typical Rent Free Periods

<u> </u>	5 year leas
24	10 year lea

£140.00

Rent	£90.00
Business Rates	£39.00
Service Charge	£11.00
Total Occupancy Cost	£140.00

Typical Rent Free Periods

Typical Keller ree remoas	
5 year lease	8-11
10 year lease	17-22

• CITY

CITY OF LONDON

CITY PRIME £104.50

Rent	£67.50
Business Rates	£27.00
Service Charge	£10.00
Total Occupancy Cost	£104.5

LONDON BRIDGE

Typical Rent Free Periods 5 year lease 10-12 10 year lease 22-25

CITY SECONDARY £97.00

Rent	£65.00
Business Rates	£22.00
Service Charge	£10.00
Total Occupancy Cost	£97.00

Typical Rent Free Periods 5 year lease

10 year lease

- DOCI
CANARY W
£79 6

10-12

22-25

• SOUTH BANK £100.25

Rent	£67.50
Business Rates	£22.75
Service Charge	£10.00
Total Occupancy Cost	£100.25

Typical Rent Free Periods

5 year lease	8-11
10 year lease	18-22

CLAPHAM

Rent	£67.50
Business Rates	£22.75
Service Charge	£10.00
otal Occupancy Cost	£100.25

5 year lease	8-11
10 year lease	18-22

Typical Rent Free Periods		
5 year lease	9-12	
10 year lease	20-24	

£57.50

£20.50

£9.00

£87.00

WEST LONDON

HAMMERSMITH

£87.00

Business Rates

Service Charge

10 year lease

Total Occupancy Cost

DOCKLANDS

VHARF £78.05

Rent	£47.50
Business Rates	£16.2
Service Charge	£14.30
Total Occupancy Cost	£78.0

Typical Rent Free Periods

7 1	
5 year lease	11-14
10 year lease	23-26

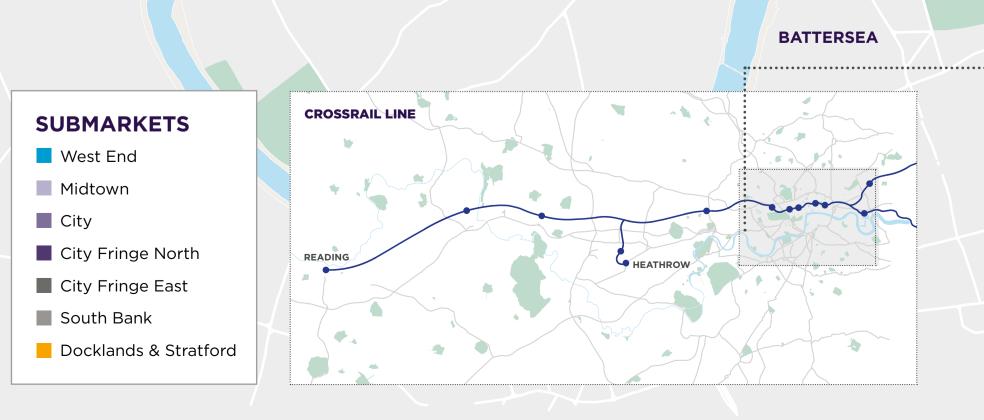
CROSSHARBOUR £60.50

Rent	£37.50
Business Rates	£12.00
Service Charge	£11.00
Total Occupancy Cost	£60.50

Typical Rent Free Periods

l	5 year lease	11-14
	10 year lease	23-26
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Carter Jonas



THE TENANT ADVISORY TEAM

Our tenant representation services include:

- Office search and relocation management
- Relocation budgeting and planning
- Lease and rent review negotiation
- Repairs/dilapidations cost assessment and negotiation
- Building, air conditioning and passenger lift surveys
- Business rates analysis and appeal
- Service charge audit

For more data on the Central London office market, office availability, rents and rent free periods and information on budgeting and planning for a lease renewal, rent review or office relocation please contact one of the team.

One Chapel Place, London W1G OBG carterjonas.co.uk/officesearch



OUR EXPERIENCE

Lease negotiations and relocations 10,000 sq ft+

43,000sqft 2 Thomas More Square, E1

UK Payments Administration

37,000 sq ft

Frank Hirth

236 Gray's Inn Road, WC1

28,000_{sq ft}

Warner Bros/Shed Media

85 Grays Inn Road, WC1

23,000_{sq ft}

Nursing & Midwifery Council

Two Stratford Place, E20

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

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RENT & RENT FREE PERIOD GUIDE Q2 2017

LANDLORD'S ADVERTISED RENTS & RENT DISCOUNTS

Table 1 illustrates landlord's typical advertised rents as at Q2, 2017. The bargaining power in lease negotiations is moving towards tenants post Brexit vote as demand for London office space weakens. In many cases it is possible to negotiate deeper discounts on landlord's advertised rents, typically of 3 - 7%, compared with a year ago.

The variation in rents is a consequence of the different supply and demand dynamics of each sub-market. The advertised rents on some Grade B warehouse-style office space in locations such as Farringdon and Clerkenwell will typically be higher than rents for refurbished 'corporate'-style Grade A space in the same location, reflecting the rental premium that creative and media firms place on such space.

Floors with terraces will usually command a rental premium of 5-10% above those set out in the table and the upper floors of buildings that provide panoramic views of London will typically attract a rental premium of 20-30% above those illustrated in the table.

RENT FREE PERIODS

Landlords are offering longer rent free periods than could have been negotiated before the EU Referendum – typically an additional 1-3 months on leases of up to 5 years and 2-4 months on leases of up to 10 years. **Table 2** illustrates the typical rent free periods that can currently be negotiated.

NEGOTIATING A LEASE - THE KEY ISSUES

While rent discounts and rent free periods will form the key components of all lease negotiations it is also important to 'future-proof' the lease by building in flexibility and mechanisms to limit future property costs, by negotiating the following:

- a service charge cap
- 'tenant-friendly' rent review valuation provisions
- a limitation on the scope of the tenant's repairing and removal of fixtures and fittings obligations – to minimise future exit costs
- the removal of any onerous sub-letting or lease assignment/transfer pre-conditions
- the inclusion of a tenant-only break option(s)
- no requirement to provide a guarantor and/or rent deposit.

Table 1 Source: Carter Jonas Research
London Office Market - Typical Advertised Rents - Q2 2017 (space over 5,000 sq ft)

Location	Grade A		Grade B
UF: Upper Floors	New/Refitted	Refurbished	Refurbished
City			
Prime – Insurance District	£62.50 - £72.50 (UF = £85.00 - £92.50)	£52.50 - £62.50 (UF = £75.00 - £85.00)	£42.50 - £50.00
Secondary - Blackfriars, Moorgate	£59.50 - £70.00 (UF = £77.50 - £87.50)	£47.50 - £57.50 (UF = £65.00 - £72.50)	£40.00 - £47.50
City Fringe			
North/North West - Clerkenwell, Shoreditch	£62.50 - £70.00	£55.00 - £62.50	£42.50 - £57.50
East - Spitalfields	£62.50 - £70.00	£55.00 - £60.00	£40.00 - £47.50
East - Aldgate East	£50.00 - £55.00	£42.50 - £47.50	£37.50 - £40.00
South Bank			
Waterloo, Southwark, London Bridge	£65.00 - £70.00 (UF= £75.00 - £92.50)	£55.00 - £62.50	£42.50 - £52.50
East London			
Docklands Prime - Canary Wharf	£45.00 - £50.00	£42.50 - £45.00	£32.50 - £37.50
Docklands Secondary - Crossharbour	£32.50 - £38.50	£25.00 - £31.50	£20.00 - £25.00
Stratford	£37.50 - £47.50	£27.50 - £35.00	£19.50 - £25.00
West End			
Central - Mayfair, St James's (Prime)	£110.00 - £125.00	£85.00 - £105.00	£65.00 - £75.00
Central - Mayfair, St James's (Secondary)	£90.00 - £105.00	£75.00 - £87.50	£60.00 - £70.00
North - Euston	£67.50 - £75.00	£52.50 - £65.00	£40.00 - £47.50
North East - Fitzrovia	£75.00 - £85.00	£62.50 - £72.50	£50.00 - £60.00
North West - Marylebone	£80.00 - £90.00	£67.50 - £77.50	£45.00 - £57.50
South - Victoria, Westminster	£72.50 - £80.00 (UF = £82.50 - £85.00)	£57.50 - £70.00	£47.50 - £57.50
South West - Knightsbridge	£80.00 - £95.00	£70.00 - £77.50	£52.50 - £65.00
East - Soho, Regent Street	£77.50 - £92.50	£65.00 - £75.00	£52.50 - £65.00
West - Paddington	£60.00 - £68.50 (UF = £70.00 - £72.50)	£49.50 - £59.50	£40.00 - £47.50
Midtown			
North - King's Cross	£75.00 - £85.00	£52.50 - £75.00	£45.00 - £55.00
South - Covent Garden	£72.50 - £85.00 (UF = £87.50 - £92.50)	£55.00 - £70.00	£45.00 - £55.00
East - Holborn	£62.50 - £70.00	£52.50 - £62.50	£42.50 - £49.50
West - Bloomsbury	£67.50 - £85.00	£55.00 - £65.00	£45.00 - £50.00
South West London			
Chelsea	£70.00 - £90.00	£57.50 - £67.50	£40.00 - £50.00
Vauxhall, Battersea	£52.50 - £60.00	£42.50 - £50.00	£30.00 - £40.00
West London			
Kensington	£55.00 - £65.00	£45.00 - £52.50	£37.50 - £45.00
Hammersmith, White City	£52.50 - £58.50	£45.00 - £52.50	£35.00 - £45.00
Chiswick	£48.50 - £55.00	£42.50 - £47.50	£35.00 - £45.00

GRADES OF OFFICE ACCOMMODATION

For marketing purposes office accommodation is generally categorised into Grades which are defined as follows:

GRADE A

New or newly refurbished office space where the building specification includes suspended ceilings and fully accessible raised floors for data/telecoms cable management, passenger lift and air conditioning facilities.

GRADE B

Office space that may only incorporate under floor or perimeter trunking for data/telecoms cable management, rather than fully accessible raised floors, and/or air cooling facilities, instead of an air conditioning system that dehumidifies, filters and draws fresh air into the building. Grade B space also tends to be of a generally lower quality building specification.

"REFITTED"

Office space that is 'as new', having been completely refitted throughout, to include new fixtures and fittings to the common parts and reception area, new building services – including air conditioning and passenger lift facilities, electrical, plumbing and lighting systems, and new raised floors, suspended ceilings and sanitary ware. The specification of works will comply with the latest health and safety legislation and may also include re-cladding the exterior of the building.

"REFURBISHED"

Space is defined as office accommodation where the landlord has redecorated and recarpeted the available office space (but not necessarily the common parts) and overhauled, but not renewed, the building services, such as the air conditioning and passenger lift facilities.

THE TENANT ADVISORY TEAM

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- Office search and relocation management
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- Lease and rent review negotiation
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- Building, air conditioning and passenger lift surveys
- Business rates analysis and appeal
- Service charge audit
- Office fit out procurement and project management

Table 2
Rent Free Periods By Sub-Market - Q2 2017

Location

Cocation Typical Rent Free Peri (lettings over 5,00		
	5-year lease	10-year lease
City - Prime - Insurance District	10 - 12	22 - 25
City - Secondary - Blackfriars, Moorgate	10 - 12	22 - 25
City Fringe - North/North West - Clerkenwell, Shoreditch	8 - 12	18 - 24
City Fringe - East - Spitalfields, Aldgate East	10 - 12	22 - 24
South Bank - Waterloo, Southwark, London Bridge	8 - 11	18 - 22
Docklands Prime & Secondary	11 - 14	23 - 26
Stratford	10 - 13	22 - 25
West End - Central - Mayfair, St James's	9 - 12	18 - 24
West End - West - Paddington	9 - 12	20 - 24
West End - East - Soho	8 - 11	17 - 22
West End - North East - Fitzrovia	9 - 12	20 - 24
West End - North West - Marylebone	9 - 12	20 - 24
West End - South - Victoria, Westminster	9 - 12	20 - 24
Midtown - West - Bloomsbury	9 - 12	20 - 24
Midtown - East - Holborn	9 - 12	20 - 24
Midtown - South - Covent Garden	8 - 11	17 - 22
Midtown – North - King's Cross	8 - 11	18 - 22
West London - Hammersmith	9 - 12	20 - 24

TOTAL OFFICE OCCUPANCY COSTS: The Carter Jonas office costs map provides a geographical summary of rent, business rates and building service charge costs. A copy of the map is available free of charge.

For more data on the Central London office market, office availability, rents and rent free periods and information on budgeting and planning for a lease renewal, rent review or office relocation please contact one of the team.



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Source: Carter Jonas Research

Typical Pont Eros Poriod Agreed









RENT & RENT FREE PERIOD GUIDE Q3 2018

LANDLORD'S ADVERTISED RENTS & RENT DISCOUNTS

The bargaining power in lease negotiations has moved towards tenants, post Brexit vote, reflecting weaker demand for London office space. In many cases it is possible to negotiate discounts on landlord's advertised rents of, typically, 2.5 - 5%.

The advertised rents on some Grade B warehouse-style office space in locations such as Farringdon, Clerkenwell and Shoreditch will typically be higher than rents for refurbished 'corporate' style Grade A space in the same location, reflecting the rental premium that creative and media firms place on such space.

Floors with terraces will usually command a rental premium of 5-10% and the upper floors of tower buildings that provide panoramic views of London will attract a rental premium of up to 35%.

THE ELIZABETH LINE EFFECT

New/refitted and refurbished Grade A office space located near an Elizabeth Line station in areas such as Paddington and Bloomsbury have seen advertised rents increase, typically by up to £7.50 per sq ft per annum since Q3 2017, reflecting the vastly improved accessibility to markets and labour supply that Crossrail will bring.

RENT FREE PERIODS

Table 2 overleaf illustrates the typical rent free periods that can currently be negotiated on office space throughout London.

NEGOTIATING A LEASE - THE KEY ISSUES

While rent discounts and rent free periods will form the key components of any lease negotiations it is also important to 'future-proof' the tenancy by building in flexibility and mechanisms to limit future property costs, by negotiating the following:

- a service charge cap
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- a limitation on the tenant's repairing and removal of fixtures and fittings obligations – to minimise future exit
- the removal of any onerous sub-letting or lease assignment/transfer pre-conditions
- the inclusion of a tenant-only break option(s)
- no requirement to provide a guarantor and/or rent deposit.

Table 1 Source: Carter Jonas Research
London Office Market - Typical Advertised Rents - Q3 2018 (space over 5,000 sq ft)

Location	Grade A		Grade B
UF: Upper Floors	New/Refitted	Refurbished	Refurbished
City			
Prime - Insurance District	£62.50 - £70.00 (UF = £75.00 - £88.50)	£50.00 - £60.00 (UF = £62.50 - £80.00)	£40.00 - £47.50
Secondary - Blackfriars, Aldgate	£55.00 - £67.50 (UF = £70.00 - £80.00)	£45.00 - £55.00 (UF = £62.50 - £75.00)	£37.50 - £42.50
City Fringe			
North/North West - Farringdon, Shoreditch	£62.50 - £75.00 (UF = £77.50 - £87.50)	£52.50 - £62.50	£39.50 - £55.00
East - Spitalfields	£60.00 - £65.00	£50.00 - £60.00	£37.50 - £47.50
East - Aldgate East	£50.00 - £57.50 (UF = £62.50 - £65.00)	£42.50 - £47.50	£37.50 - £40.00
South Bank			
Waterloo, Southwark, London Bridge & Wood Wharf	£67.50 - £72.50 (UF= £75.00 - £93.00)	£52.50 - £66.50	£42.50 - £50.00
East London			
Docklands Prime - Canary Wharf & Wood Wharf	£47.50 - £52.50 (UF = £54.00 - £57.50)	£37.50 - £42.50 (UF = £45.00 - £50.00)	£30.00 - £35.00
Docklands Secondary - Crossharbour	£35.00 - £38.50	£27.50 - £33.50	£22.50 - £27.50
Stratford	£40.00 - £49.50	£32.50 - £42.50	£20.00 - £28.00
West End	·		
Central - Mayfair, St James's (Prime)	£102.50 - £125.00 (UF= £130.00 - £135.00)	£85.00 - £97.50	£67.50 - £77.50
Central - Mayfair, St James's (Secondary)	£87.50 - £97.50	£75.00 - £85.00	£62.50 - £72.50
North - Euston	£67.50 - £75.00	£57.50 - £65.00	£42.50 - £55.00
North East - Fitzrovia	£80.00 - £87.50	£65.00 - £79.50	£50.00 - £60.00
North West - Marylebone	£77.50 - £87.50	£65.00 - £77.50	£50.00 - £60.00
South - Victoria, Westminster	£70.00 - £80.00 (UF = £82.50 - £90.00)	£55.00 - £69.50	£45.00 - £52.50
South West - Knightsbridge	£85.00 - £95.00	£65.00 - £79.50	£60.50 - £70.00
East - Soho, Regent Street	£85.00 - £97.50	£69.50 - £82.50	£55.00 - £67.50
West - Paddington	£67.50 - £77.50 (UF = £80.00 - £90.00)	£55.00 - £65.00	£42.50 - £52.50
Midtown			
North - King's Cross	£75.00 - £85.00	£60.00 - £70.00	£47.50 - £57.50
South - Covent Garden	£72.50 - £80.00 (UF = £82.50 - £85.00)	£55.00 - £70.00	£47.50 - £55.00
East - Holborn	£62.50 - £70.00 (UF = £72.50 - £77.50)	£52.50 - £62.50	£39.50 - £52.50
West - Bloomsbury	£75.00 - £90.00	£60.00 - £72.50	£45.00 - £55.00
South West London			
Chelsea	£77.50 - £90.00	£65.00 - £75.00	£47.50 - £60.00
Vauxhall, Battersea	£52.50 - £60.00	£42.50 - £50.00	£30.00 - £40.00
West London			
Kensington	£55.00 - £65.00	£45.00 - £52.50	£37.50 - £45.00
Hammersmith	£52.50 - £57.50	£42.50 - £52.50	£35.00 - £42.50
White City	£45.00 - £55.00	£40.00 - £45.00	£32.50 - £40.00
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Rent Free Periods By Sub-Market - Q3 2018

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	(lettings over 5,000 sq ft)

Source: Carter Jonas Res

	(lettings over 5,000 sq ft)	
	5-year lease	10-year lease
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City Fringe - North/North West - Farringdon, Shoreditch	9 - 12	20 - 24
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South Bank - Waterloo, Southwark, London Bridge	9 - 12	21 - 24
Docklands - Canary Wharf & Crossharbour	12 - 14	24 - 27
Stratford	10 - 13	24 - 27
West End - Central - Mayfair, St James's	9 - 12	20 - 24
West End - West - Paddington	9 - 12	20 - 24
West End - East - Soho	8 - 12	20 - 24
West End - North East - Fitzrovia	9 - 12	20 - 24
West End - North West - Marylebone	9 - 12	20 - 24
West End - South - Victoria, Westminster	10 - 12	22 - 24
Midtown - West - Bloomsbury	9 - 12	20 - 24
Midtown - East - Holborn	10 - 12	21 - 24
Midtown - South - Covent Garden	10 - 12	21 - 24
Midtown - North - King's Cross	8 - 11	19 - 23
West London - Hammersmith & White City	10 - 13	22 - 25

TOTAL OFFICE OCCUPANCY COSTS: The Carter Jonas London office occupancy costs map provides a geographical summary of rent, business rates and building service charge costs. If you would like a free copy of the map, please contact a member of our Team.

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ADVISOR'S VIE

DESPITE BREXIT UNCERTAINTY, LOW VACANCY CONTINUES TO UNDERPIN THE MARKET

What is the London office market like for tenants at the moment? How is it likely to develop in the run-up to Brexit and beyond? These are the two most common, and pertinent, questions that I get asked by clients, as a property professional specialising in tenant advisory work.

In a market as diverse and sophisticated as the London office market, the answers to these questions are not clear cut but I will attempt to simplify them in this commentary.

RECORD RENTS ACHIEVED NEAR ELIZABETH LINE STATIONS

Despite the recent disappointing announcement that commencement of Elizabeth Line / Crossrail services is to be delayed at least until the second half of next year, this temporary setback is unlikely to dent rental growth in those areas of the West End, Midtown, City and City fringe that will have the benefit of an Elizabeth Line station.

The Elizabeth Line represents a major infrastructure project that will revolutionise east / west transport connectivity across London. Crossrail has already led to increased inward investment in the public realm and new office, retail, leisure and residential development in the vicinity of the various Crossrail stations.

Office rents for new Grade A space in Elizabeth Line connected locations such as Paddington, Bloomsbury and Farringdon have risen to record levels - from £60.00 - £70.00 per sq ft per annum just before the Brexit vote to, typically, £75.00 - £90.00 per sq ft per annum now.

This trend demonstrates that occupiers are willing to pay a rental premium for Grade A space with good accessibility, including a direct link to Heathrow airport and the Thames Valley and Essex labour pools.

LOW VACANCY IS UNDERPINNING RENTS

The Elizabeth Line has brought about a shift north in the centre of gravity of the London office market, away from more established markets such as Victoria in the West End, Covent Garden in Midtown and London Bridge on the South Bank. However, historically low levels of office vacancy in most size ranges above 5,000 sq ft continue to underpin rents in these locations where the influence of Crossrail is less powerfully felt.

The Carter Jonas Research Team's Q3 2018 survey of the London office market shows that landlord's advertised rents for new Grade A

space in areas with no Elizabeth Line station have remained broadly static during Q3, although rents for second-hand space in secondary locations have declined in many sub-markets across Central London.

LESS CHOICE & HIGHER RENTS FORECAST FROM H1 2020

The hiatus in the property development pipeline, precipitated by the Brexit vote, has resulted in a below trend level of new developments reaching the Central London office market. Supply side constraint are likely to persist for the next couple of years which will result in reduced tenant choice for new and refitted space, placing landlords in a stronger bargaining position. However, the stock of vacant second-hand, refurbished, space is likely to increase one the next 12-18 months as tenants trade up into new buildings.

Providing that there is no hard Brexit, from H1 2020 it is quite possible that there will be a return of unwelcome rental growth for new and refitted office space above 5,000 sq ft in some sub-markets, including the West End, Midtown and the South Bank where vacancy levels are particularly low.

THE SUB-5,000 SQ FT MARKET / CO-WORKING AND SERVICED OFFICES

There is increasing evidence indicating that the market for office space of sub-5,000 sq ft, for up to 50 desks, that is available on conventional / non serviced leases, is suffering - with vacancy increasing and rents declining in many area of London as the co-working and serviced office sectors continue to expand market share.

Gone are the days when businesses that based themselves in serviced offices were stigmatised as being 'transient'. The advent of agile working, the emergence of a new source of demand – the tech / creative start-up – and the arrival of a new, smarter, 'younger', class of serviced / co-working space provider from America are factors that have conspired to underpin the growth in the co-working / serviced office sector.

An increasing number of small and midsize businesses, typically employing up to 50 staff – not just from the technology and creative sectors – are choosing co-working / serviced offices which is a very cash-flow positive accommodation option. There's no need to tie up scarce working capital in an expensive fit out and the lease flexibility



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that co-working and serviced office providers offer is another important consideration for fast growing businesses.

Landlords of 'conventional' office space in the sub-5,000 sq ft office market are reacting to this structural market change in several ways, including reducing rents, offering longer rent-free periods and more flexible leases or fitting the space out for the tenant and subsidising or rentalising some / all of the cost.

However, not all occupiers will consider co-working / serviced office space. Some businesses in the legal, accountancy, IT and financial services sectors have shied away – citing privacy, data security and branding / identity issues as reasons to stick with the conventional leasing model.

staff - without which the productivity and profitability of their businesses will suffer. Organisations that better understand what motivates the millennial workforce are focussing more on 'quality of space and place' and less on cost - and they will almost certainly prosper at the expense of those competitors who fail to grasp these issues.

Landlords, too, are more alive to the demand for better build quality and design and are developing buildings with occupiers' 'wellness' in mind – including features that provide high levels of natural light, better ventilation and high water quality.

"EMPLOYERS
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WHICH THE PRODUCTIVITY
AND PROFITABILITY OF
THEIR BUSINESSES
WILL SUFFER."

RECRUITMENT - 'QUALITY OF SPACE AND PLACE'

Ten years ago the majority of office occupiers would have put cost at the top of the list of deciding factors when selecting office space. While cost is undoubtedly still an important consideration that will influence a business' relocation decision, it is highly significant that today's generation of office occupiers are also placing the quality of the space and the public realm around the building as being fundamentally important relocation variables. What has caused this shift in mindset? Workforce demographics. As time passes, the 'millennial' generation is becoming increasingly dominant in the labour market.

Research shows that in the list of 'must-haves' when job hunting the typical 'millennial' will consider the quality of the office environment, and the vibrancy of the public realm around the building to be key priorities when deciding to apply for / accept a job.

THE LINK BETWEEN REAL ESTATE & PROFITABILITY

Employers are becoming increasingly aware of the importance of creating an office environment, and culture, that will attract, and reinforce the retention of, high calibre

Table 1Typical Current & Forecast Rents - New & Refitted Mid-Rise Grade A Space Over 5,000 Sq Ft

£ per sq ft per annum	
Q3 2019	Q3 2020
£102.50	£102.50
£85.00	£87.50
£92.50	£95.00
£85.00	£87.50
£75.00	£77.50
£75.00	£77.50
£65.00	£67.50
£85.00	£87.50
£82.50	£85.00
£75.00	£75.00
£67.50	£70.00
£62.50	£62.50
£57.50	£57.50
£62.00	£62.00
£75.00	£77.50
£62.00	£62.00
£52.50	£52.50
£55.00	£55.00
£50.00	£50.00
£47.50	£47.50
£45.50	£46.50
	G3 2019 £102.50 £85.00 £92.50 £85.00 £75.00 £75.00 £65.00 £82.50 £75.00 £62.50 £62.50 £62.50 £57.50 £62.00 £75.00 £62.00 £75.00

SUB-MARKET

"PLAN AHEAD &

START THE PROCESS EARLY"

If your business is facing a lease expiry, rent review or break option plan well in advance of the lease event. Consider each of the available property options carefully and how each may influence the business's operating costs, recruitment policies, staff retention and productivity. If an office move is being considered, the Carter Jonas team can prepare a stay-put / relocate property options cost appraisal to demonstrate the costs of each option to assist with budgeting and obtaining Board approvals. Further information is available upon request.

CITY

NORTH CITY FRINGE





- Supply is declining for primelocated Grade A space as take up erodes vacancy levels and the development pipeline fails to keep up with demand.
- **Demand** the insurance, bank and financial services sectors have been the dominant 'players' in the market during Q3, accounting for a high proportion of lettings.
- The trend towards the diversification of the City's occupier base continues as businesses from the creative, media and technology sectors migrate from other sub-markets - attracted by lower property costs and high quality buildings with good transport connections.
- Pre-letting activity tenants with large requirements, typically above 25,000 sq ft, are entering into pre-letting agreements on space that is under construction to secure space ahead of rivals. Much of the space in new developments such as 'The Scalpel', 52 Lime Street, EC3 (387,000 sq ft) and 'The Can of Ham', 70 St Mary Axe EC3 (445,000 sq ft), has been let before construction of the buildings has been completed.
- Rents for new, prime located, midrise Grade A space have remained broadly static since Q3 2017 and are typically £62.50 £70.00 per sq ft per annum. However, rents for refurbished Grade A space in inferior locations have declined by up to £2.50 per sq ft per annum over the same period.
- Rent free periods have increased marginally since Q3, 2017, by circa 2
 4 weeks on 5 10 year leases. See map overleaf for details.

- **Supply** the recent completion of Helical's 171,000 sq ft 'The Tower', of which 88,700 sq ft has been pre-let to Fartech and WeWork, has increased the availability of new, completed, Grade A stock near Old Street roundabout.
- Demand as neighbouring sub-markets, including Midtown, the City and east City fringe reinvent themselves as 'tech-hubs' and vie for occupiers. Their more central location and proximity to Crossrail stations is enabling them to achieve a measure of success at the expense of the North City fringe market.
- Rents there have been a number of lettings in Smithfield and Farringdon, over the last two quarters on new Grade A space, at record rents reported to be between £75.00 and £85.00 per sq ft per annum, including the upper floors of One Bartholomew Close, EC1. This extraordinary rental growth has been driven by the desire of occupiers to be close to the Farringdon Elizabeth Line station. Elsewhere in the north City fringe, rents have remained broadly static for space above 5,000 sq ft below this threshold the co-working and serviced office sector has taken market share from the landlords of conventional space and rents are declining as a consequence.
 - Rent free periods have increased by circa 2
 3 months for a 5-10 year lease since Q3 2017, reflecting weaker/demand, but are now broadly static see map overleaf for details.

CITY OF LONDON LETTINGS REPORTED DURING Q3. 2018

55 Gresham Street, EC2

- 121,600 sq ft to Investec Asset Management (financial services)

22 Bishopsgate, EC2 - 75,000 sq ft to Hiscox (insurance)

30-34 Moorgate, EC2 – 27,000 sq ft to Spaces (serviced office provider)

201 Bishopsgate, EC2 – 25,600 sq ft to Bravura Solutions (IT/software)

1 King William Street, EC4

- 28,000 sq ft to London Executive Offices (serviced office provider)

KEY NORTH CITY FRINGE LETTINGS REPORTED DURING Q3, 2018

The Ray, 119 Farringdon Road, EC1 - 83,000 sq ft to LinkedIn (technology / media)

One Bartholomew Close, EC1 - 55,000 sq ft pre-let to The Trade Desk (media)

The Smithson, 6-9 Briset Street, EC1 – 35,700 sq ft – Pan Macmillan (media / publishing)



EAST CITY FRINGE



- Supply the east City fringe market has lower levels of vacancy, compared with the neighbouring north City fringe, across all size ranges a consequence of the loss of the stock of office buildings to higher value residential development, particularly in the Aldgate East and Spitalfields areas. The completion of 1 Braham Street in Q2 2020, comprising 320,000 sq ft, will bring some much needed increased choice for tenants, as will the completion of the 240,000 sq ft refurbishment and extension of Lloyds Chambers at Portsoken Street which is scheduled for completion during Q4, 2019.
- **Demand** those City-based occupiers that have traditionally migrated to the east City fringe in search of better value space in terms of both rent and business rates outgoings are now seeing rents in secondary City of London areas decline to a level that makes the economic case for migrating east marginal. The significant disparity in office occupancy costs is, however, likely to underpin the continued migration of occupiers to the east City fringe from the higher cost Midtown and West End sub-markets.
- Rents -Spitalfields rents for new / refitted Grade
 A space have declined by up to £2.50 per sq
 ft per annum since Q3, 2017, reflecting rental
 decline in adjoining secondary City locations.
 Elsewhere within the east City fringe rents have
 remained broadly static.
- Rent free periods have increased by 2 4
 weeks for a 5-10 year lease since Q3 2017 and
 are currently broadly static. See map overleaf
 for details.

KEY EAST CITY FRINGE LETTINGS REPORTED DURING - Q3, 2018

The Relay Building, Whitechapel High Street, E1 - 15,897 sq ft let to LADbible (social media)

1 Alie Street, E1 - 18,268 sq ft let to Kuoni (leisure / travel)

WEST END



- Supply vacancy levels continue to decline as new Grade A space in buildings including Nova and Verde in Victoria and 4 Kingdom Street and The Brunel Building in Paddington is taken up. Work has begun on site clearance to make way for the 430,000 sq ft office, retail and leisure Paddington Square development, incorporating 360,000 sq ft offices, which is due for completion at the end of 2021. In Soho, enabling works have started on Derwent's Soho Place, located above Tottenham Court Road Station, which will include 209,000 sq ft of office space and due for completion during H2 2022.
- **Demand -** is sufficient to drive a steady stream of 10,000 sq ft plus lettings across the West End during Q3 2018. Demand appears strongest in Paddington at present driven by Elizabeth Line connectivity, and because it is one of the few districts in the West End capable of accommodating large scale requirements on floor plates of 15,000 sq ft plus.
- **Rents -** due to the factors above, rents for new Grade A space in Paddington have increased by up to £7.50 per sq ft per annum since Q3, 2017. In Mayfair and St James's rents for new prime located space have fallen by a similar quantum. However, in Marylebone, Soho and Fitzrovia rents have increased by up to £2.50 per sq ft per annum, reflecting accessibility to Crossrail. Premium rents can still, however, be achieved on landmark buildings. At Smithson Plaza (formerly The Economist Tower), St James's, Pelham Capital has reportedly taken the 13th and 14th floors,

- totalling 7,240 sq ft, at rents of £160 and £170 per sq ft per annum respectively – close to record West End rent levels.
- Rent free periods have increased by circa 1 - 2 months for a 5-10 year lease since Q3 2017 but are currently broadly static. See map overleaf for details.

KEY WEST END LETTINGS -REPORTED DURING Q3, 2018

The Brunel Building, North Wharf Road, Paddington, W2

- 77,200 sq ft to Sony Pictures (media)
- -20,500 sq ft to Hellman & Friedman (financial services)

123 Buckingham Palace Road, Victoria, SW1 - 40,000 sq ft to WeWork (co-working provider)

33 Foley Street, Fitzrovia, W1 - 11,666 sq ft to Work.Life (serviced office provider)

1 Welbeck Street, Marylebone, W1 - 44,000 sq ft to Ambulatory Surgery International (medical)

30 Broadwick Street, Soho, W1 - 10,500 sq ft to Meyer Bergman (real estate)

5 Savile Row, Mayfair, W1 - 21,000 sq ft to Cerberus (financial services /

KEY SOUTH BANK LETTINGS REPORTED DURING Q3, 2018

Battersea Power Station, SW8 - 40,000 sq ft to IWG (serviced office provider)

South Bank Central, Stamford Street, SE1 - 17,500 sq ft to South Western Trains (Transport)



SOUTH BANK



- Supply in common with the Midtown market, the South Bank sub-market has one of the lowest levels of office vacancy - limiting tenant choice and mitigating against a decline in office rents.
- The development pipeline for the next few years is very limited. One of the few schemes of significant scale that could boost availability is the redevelopment of Elizabeth House at York Road, Waterloo. Revised plans for a mixed use retail, restaurant and office scheme, which is proposed to total over 900,000 sq ft, have been prepared and are subject to obtaining planning consent. A date for commencement of the project has yet to be formally announced. Development opportunities that would have traditionally been built out for office use have instead been developed for higher value hotel and residential developments, which has eroded the stock of office buildings in the area. One Southwark Bridge, comprising circa 150,000 sq ft, will become vacant when the Financial Times moves out of the building early next year. Plans for the refurbishment / redevelopment of the building have yet to be announced.
- Demand tenants from the creative and media sectors have been significant drivers of demand in recent years - attracted by the vibrant riverside public realm and associated amenities. Demand is proving surprisingly resilient in the run up to Brexit.
- Rents have remained broadly static since Q3 2017, reflecting low vacancy and are typically £67.50 £72.50 per sq ft per annum for new and refitted mid-rise Grade A space. Contrast with the upper floors of The Shard where rents above £90.00 per sq ft per annum were achieved during Q2, 2018.
- Rent free periods have increased marginally by 2 - 4 weeks since Q3 2017 for a 5 - 10 year lease. See map overleaf for details.

EAST LONDON



- Supply Canary Wharf Group's decision to develop four buildings speculatively, totalling 758,000 sq ft, at Wood Wharf, located adjacent to Canary Wharf, will increase the supply of new Grade A space in Docklands, notwithstanding that over 145,000 sq ft at 15 Water Street has already been pre-let. At Crossharbour supply is limited to refurbished first generation Docklands buildings where rents are lower than those of Canary and Wood Wharf due to poorer building quality and inferior rail transport connectivity.
- In Stratford, the supply of new, prime located, vacant floor space that is immediately available is limited to 42,870 sq ft at Building S5 at The International Quarter, which is majority occupied by the FCA, and Building S9 where there will be circa 60,276 sq ft available on completion in September 2019.
- Demand the development of a Crossrail station at Canary Wharf has underpinned demand for the Docklands area and has been cited as a key driver in securing pre-lettings at the Wood Wharf development. The majority owner of Canary Wharf, Canary Wharf Group, is actively pursuing a policy of targeting 'fintech', mainstream technology and creative businesses to the Docklands area in order to diversify the occupier base away from banks, financial services and corporate law firms.
- Stratford is similarly located on the Jubilee and Elizabeth lines but rents and business rates costs are lower than Canary Wharf and Wood Wharf.

- Consequently some large scale lettings to government departments have taken place in the area the latest being the pre-let of 240,000 sq ft to HMRC at 14 Westfield Avenue, E20.
- Rents typical advertised rents for new Grade A space at Wood Wharf are £50.00 - £55.00 per sq ft per annum with rents at the higher end of the range for upper floors.
- By contrast rents for prime located new space at the International Quarter in Stratford are £45.00 - £47.50 per sq ft per annum and up to £49.50 per sq ft per annum for upper floors.
- The Crossharbour area of Docklands continues to offer refurbished, air conditioned, office space at some of the lowest rents in Central London and peripheral Central London locations – typically £27.50 - £33.50 per sq ft per annum.
- Rent free periods Stratford and Docklands both offer some of the longest rent free periods available in the Central London and peripheral Central London office markets 24 27 months on a 10 year lease and 12 14 months on a 5 year lease. See map overleaf for details.

KEY EAST LONDON LETTINGS REPORTED DURING Q3, 2018

The Cabot, 25 Cabot Square, E14 - 105,829 sq ft to The Competition and Markets Authority (Government / regulator)

Boatmans House, 2 Selsdon Way, E14 - 19,500 sq ft to Tower Hamlets Homes (property management)

Here East, Queen Elizabeth
Olympic Park, Stratford, E15 140,000 sq ft to Victoria & Albert
Museum and Research Centre



MIDTOWN



- Supply the Midtown market is one of the most under-supplied although the recently completed "Bureau", 90 Fetter Lane, EC4, comprising 60,859 sq ft will provide marginally more choice for tenants. The King's Cross Central Partnership's decision to commence the speculative construction of Building S1 at Handyside Street, comprising 195,000 sq ft, would have boosted tenant choice in the King's Cross market, which is currently starved of vacant Grade A space, but for the fact that Nike has leased circa 63,000 sq ft and terms have been agreed to lease the remainder of the building to another occupier. Facebook's decision to pre-let 611,000 sq ft at King's Cross Central has also boosted the location as a 'tech' hub which will also be home to Google's UK campus, comprising over 1 million sq ft.
- Demand Midtown occupier demand emanates from a mix of uses, including business services, technology, media, as well as the legal sector, which has traditionally been associated with Holborn.
 Demand is proving surprisingly resilient in the run up to Brexit.
- Rents for new and refitted Grade
 A space in all the districts that
 comprise the 'Midtown' market have
 remained broadly static since Q3
 2017, save for Holborn and Covent
 Garden, where rents have declined
 by circa £2.50 per sq ft per annum.
- Rent free periods have increased by 1 - 2 months in Holborn and Covent Garden since Q3 2017 for a 5 - 10 year lease but are now broadly static thoughout Midtown. See map overleaf for details.

KEY MIDTOWN LETTINGS REPORTED DURING Q3, 2018

11 & 21 Canal Reach & P2 Lewis Cubitt Square, Kings Cross Central, N1 – 611,000 sq ft pre-let to Facebook (media)

S1, Handyside Street, N1 - 63,000 sq ft to Nike (sportswear)

Summit House, 12 Red Lion Square, WC1 - 42,000 sq ft to The Office Group (serviced office provider)

1 Waterhouse Square, EC1 - 74,958 sq ft to WeWork (coworking provider)

Fetter Yard, 86 Fetter Lane, EC4
- 30,000 sq ft pre-let to Marriott
Hotels International (leisure)

15 Fetter Lane, EC4 – 21,000 sq ft to Marks and Clerk (legal services)

KEY WEST LONDON LETTINGS REPORTED DURING Q3, 2018

Media Works Building, White City Place, Wood Lane, W12 - 33,000 sq ft to Autolus (Biopharmaceuticals)

Waterfront, Hammersmith Embankment, W6 - 26,000 sq ft to Juice Plus (food industry)

3 Shortlands, Hammersmith, W6 - 11,276 sq ft let to Formula E Operations (motorsport)

WEST LONDON



- Supply Hammersmith has a new competitor for the title of 'capital of the West London office market' as the former BBC and Imperial College office campuses located off Wood Lane at White City undergo redevelopment and attract occupiers. The recent letting of circa 212,000 sq ft to Publicis Media at 2 Television Centre has taken a significant element of supply out of the White City office market. There is, however, still sufficient vacancy in the area to pose serious competition to Hammersmith. L&G's 245 Hammersmith Road, comprising 242,477 sq ft will also heap pressure on the Hammersmith office market as vacancy levels rise and landlords compete for tenants.
- **Demand** the West London office market is still quite active as the Publicis letting demonstrates, although competition from Elizabeth Line connected areas such as Slough, Maidenhead and Reading where rents and business rates costs are significantly lower could pose a threat to the longer term health of the West London office market.
- Rents in Hammersmith for new and refurbished Grade A space have fallen, typically by circa £2.50 per sq ft per annum since Q3 2017. This trend is likely to continue for the reasons set out above. Rents in White City have held up better, by contrast, although it is likely that increased discounts on advertised rents could materialise over the next 12 18 months, particularly once Elizabeth Line services commence boosting competition from the Thames Valley market.
- Rent free periods have increased in Hammersmith and White City since Q3 2017 by circa 1 2 months for a 5 10 year lease and may increase by another 1 2 months over the next 12 months. See map overleaf for details.

Typical Costs of New Office Space - Key European Cities - Q3, 2018

	Prime office rent	Service charges	Real estate taxes	Total Occupancy costs
Dublin	€646 -700/sq m pa	€54 - 86/sq m pa	€54 -65/sq m pa	€753 -850/sq m pa
Amsterdam	€400/sq m pa	€50 /sq m pa	Negligible	€450/sq m pa
Paris	€480 - 780/sq m pa	€40 - 100 /sq m pa	€50/sq m pa	€570 - 930/sq m pa
Frankfurt	€483/sq m pa	€55 - 90/sq m pa	Included in service charges	€538 - 573/sq m pa
1unich	€438/sq m pa	€45 - 75/sq m pa	Included in service charges	€483 - 513/sq m pa
Brussels	€300/sq m pa	€30-65/sq m pa	€20-30/sq m pa	€350 - 395/sq m pa
Luxembourg	€ 560/sq m pa	€30-65/sq m pa	€20-30/sq m pa	€610 - 655/sq m pa

THE TENANT ADVISORY TEAM

Our tenant representation services include:

- Stay put/relocate cost appraisals Repairs/dilapidations cost
- Office search & relocation 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 and rent free periods, market trends and information on budgeting and planning for a lease renewal, rent review or office relocation please contact one of the team.

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 sa ft

Warner Bros/Shed Media 85 Grays Inn Road, WC1

23,000 sq ft

Nursing & Midwifery Council Two Stratford Place, E20

17,500 sq ft

Hackett Limited

The Clove Building, SE1

16,000 sq ft

Circle Housing

Two Pancras Square, N1

15.000 sa ft

Hitachi Rail Europe 40 Holborn Viaduct, EC1

11,000 sq ft

Salamanca Group 50 Berkeley Street, W1

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TYPICAL COSTS FOR NEW/REFITTED MID-RISE **GRADE A OFFICE SPACE OVER 5,000 SQ FT** Q3 2018

Costs = £ per sq ft per annum

Business rates cost estimates include the Crossrail levy but take no account of any transitional relief that may be available Rents are landlord's advertised rents which will be negotiable, typically by 2.5%-5.0%

Rent (refurbished) = typical rent for refurbished Grade A space

HOLBORN

£102.50

Rent Free Periods = Months

MIDTOWN •

Rent	£82.50
Business Rates	£31.00
Service Charge	£10.50
Total Occupancy Cost	£124.00

Typical Rent Free Periods

5 year lease	0-11
10 year lease	19-23
Rent (refurbished) £60.00	- £70.00

COVENT GARDEN £119.00

Rent	£77.50	
Business Rates	£31.00	
Service Charge	£10.50	
Total Occupancy Cost	£119.00	

Typical Rent Free Periods

WEST END

£167.00

Total Occupancy Cost

Typical Rent Free Periods

Business Rates

Service Charge

5 year lease

MAYFAIR & ST JAMES'S

5 year lease	10-12
10 year lease	21-24
Rent (refurbished) £55.00	- £70.0

SHOREDITCH £97.00

Rent	£65.00
Business Rates	£21.00
Service Charge	£11.00
Total Occupancy Cost	£97.00

CITY FRINGE NORTH

Typical Rent Free Periods

	5 year lease	9-12
:	10 year lease	20 -24
	Rent (refurbished) £52.50	- £62.50

FARRINGDON £107.00

Rent	£75.00
Business Rates	£22.00
Service Charge	£10.00
Total Occupancy Cost	£107.00

Typical Rent Free Periods

7,010011110110110110110110	
5 year lease	9-12
10 year lease	20-24
Rent (refurbished) £55.00	- £62 50

ALDGATE EAST £84.00

£65.00 £23.00 £10.00

BOW

£98.00

Typical Rent Free Periods	
5 year lease	10-12
10 year lease	22-24
Rent (refurbished) £50.00	- £60.00

CITY FRINGE EAST

SPITALFIELDS

£98.00

Business Rates

Service Charge

Total Occupancy Cost

Rent	£55.00
Business Rates	£19.00
Service Charge	£10.00
Total Occupancy Cost	£84.00

Typical Rent Free Periods

10-12 22-24 10 year lease Rent (refurbished) **£42.50 - £47.50**

STRATFORD

STRATFORD

£68.50

Business Rates

Service Charge

5 year lease

10 year lease

CANARY **WHARF**

CROSSHARBOUR

Total Occupancy Cost

Typical Rent Free Periods

Rent (refurbished) **£32.50 - £42.50**

£47.50

£12.00

£9.00

£68.50

10-13

22-27

KING'S CROSS

£124.00

Rent	£82.50
Business Rates	£31.00
Service Charge	£10.50
Total Occupancy Cost	£124.00

BLOOMSBURY

Rent	£65.00
Business Rates	£27.00
Service Charge	£10.50
Total Occupancy Cost	£102.50

Typical Rent Free Periods	
5 year lease	10-12
10 year lease	21-24
Rent (refurbished) £52.50	- £62.50

£125.50

MARYLEBONE

Business Rates

Service Charge

5 year lease

10 year lease

£135.00

Total Occupancy Cost

£142.50

Typical Rent Free Periods

Rent (refurbished) **£65.00 - £77.50**

Rent	£85.00
Business Rates	£30.00
Service Charge	£10.50
Total Occupancy Cost	£125.50

Typical Rent Free Periods	
5 year lease	9-12
10 year lease	20-24
Rent (refurbished) £60.00	- £72.50

MARYLEBONE

£85.00

£39.00

£11.00

£135.00

9-12

20-24

£92.50

£39.00

£11.00

£142.50

8-12

20-24



CLERKENWELL









VATERLOO





EUSTON

HOLBORN

COVENT GARDEN

• SOUTH BANK

£100.75

Total Occupancy Cost

Typical Rent Free Periods

Rent (refurbished) **£52.50 - £66.50**

Business Rates Service Charge

5 year lease

10 year lease



SOUTHWARK

ISLINGTON

ALDGATE EAST



SPITALFIELDS

LONDON BRIDGE

CITY **CITY PRIME**

	\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \
£67.50	
£22.75	
£10.50	
£100.75	

£27.00 **Business Rates** Service Charge £10.50 Total Occupancy Cost £102.50

Typical Rent Free Periods 11-13 5 year lease 23-26 10 year lease Rent (refurbished) **£50.00 - £60.00**

CITY SECONDARY £93.00

Rent	£60.00
Business Rates	£22.50
Service Charge	£10.50
Total Occupancy Cost	£93.00

Typical Rent Free Periods	
5 year lease	11-13
10 year lease	23-26
Rent (refurbished) £45.00	- £55.00

DOCKLANDS

CANARY WHARF £81.00

Rent	£50.00
Business Rates	£16.50
Service Charge	£14.50
Total Occupancy Cost	£81.00

Typical Rent Free Periods

5 year lease	12-14
10 year lease	24-27
Rent (refurbished)	£37.50 - £42.50

CROSSHARBOUR

ent	£37.50
usiness Rates	£12.00
ervice Charge	£11.00
otal Occupancy Cost	£60.50

I	Typical Rent Free Periods	
I	5 year lease	12-14
I	10 year lease	24-27
	Rent (refurbished) £27.50	- £33.5

FITZROVIA £130.50

10 year lease Rent

Rent	£85.00
Business Rates	£34.50
Service Charge	£11.00
Total Occupancy Cost	£130.50

Rent (refurbished) **£85.00 - £97.50**

Typical Pont Froe Poriods

Typical Rent Free Periods	
5 year lease	9-12
10 year lease	20-24
Rent (refurbished) £62.50	- £75.00

£120.00

VICTORIA

£105.00

£50.00

£12.00

£167.00

9-12

20-24

Rent	£75.00
Business Rates	£34.00
Service Charge	£11.00
Total Occupancy Cost	£120.00

Typical Rent Free Periods 5 year lease 10-12

10 year lease 22-24 Rent (refurbished) **£55.00 - £69.50**

PADDINGTON £111.00

Rent	£75.00
Business Rates	£25.00
Service Charge	£11.00
Total Occupancy Cost	£111.00

Typical Rent Free Periods 9-12 10 year lease

20-24

Rent	£75.00	Rent
Business Rates	£25.00	Business Rates
Service Charge	£11.00	Service Charge
Total Occupancy Cost	£111.00	Total Occupancy Cost

Typical Rent Free Periods 5 year lease 10 year lease Rent (refurbished) **£55.00 - £65.00**

Rent (refurbished) **£69.50 - £82.50**

£88.50	
Rent	£57.50
Business Rates	£21.50
Service Charge	£9.50
Total Occupancy Cost	£88.50

VICTORIA

Typical I	Rent	Free	Periods
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WEST LONDON

HAMMERSMITH

5 year lease	10-13
10 year lease	22-25
Rent (refurbished) £42.50	- £52.50

GRADES OF OFFICE ACCOMMODATION

9-12

21-24

For marketing purposes office accommodation is generally categorised into Grades which are defined as follows:

GRADE A New or newly refurbished office space where the building specification includes suspended ceilings and fully accessible raised floors for data/telecoms cable management, passenger lift and air conditioning facilities.

GRADE B Office space that may only incorporate under floor or perimeter trunking for data/telecoms cable management, rather than fully accessible raised floors, and/or air cooling facilities, instead of an air conditioning system that dehumidifies, filters and draws fresh air into the building. Grade B space also tends to be of a generally lower quality building specification.

Office space that is 'as new', having been completely refitted throughout, to include new fixtures and fittings to the common parts and reception area, new building services - including air conditioning and passenger lift facilities, electrical, plumbing and lighting systems, and new raised floors, suspended ceilings and sanitary ware. The specification of works will comply with the latest health and safety legislation and may also include re-cladding the exterior of the building.

Space is defined as office accommodation where the landlord has redecorated and recarpeted the available office space (but not necessarily the common parts) and overhauled, but not renewed, the building services, such as the air conditioning and passenger lift facilities.



ELIZABETH LINE ROUTE SUBMARKETS West End Midtown City City Fringe North READING City Fringe East South Bank Docklands & Stratford