SPACEPOINT

London Office Update
August 2023

Contents

London Office Take-Up Continued to Decline in Second Quarter

Leasing Eased to a Two-Year Low as Economic Worries Mount

Office take-up fell to a two-year low in the second quarter of 2023 and deal activity also ebbed, based on deals collected by month-end. This measure is used in the analysis to allow for like-for-like comparisons as CoStar researchers continue to collect deals that have occurred in recent weeks. Take-up by this measure was down 11% on the previous quarter and down 14% year-over-year.

One reason was the lack of blockbuster deals. There were no new lettings over 100,000 square feet in a quarter for the first time in 26 years, though a lease renewal did occur as law firm Taylor Wessing signed a contract extension for 154,000 square feet at 5 New Street Square in Holborn.

Noteworthy deals

Law firms continue to drive activity at the larger end. Other noteworthy deals last quarter included Goodwin Procter taking 90,000 square feet at the Sancroft building on Newgate Street and Dentons signing a 67,000 square feet pre-let at One Liverpool Street, both in the City of London. The largest deal in the West End was by luxury retailer Chanel, which prelet 83,000 square feet on Mayfair's Berkeley Square. Demand from big tech, meanwhile, has dissipated since the pandemic.

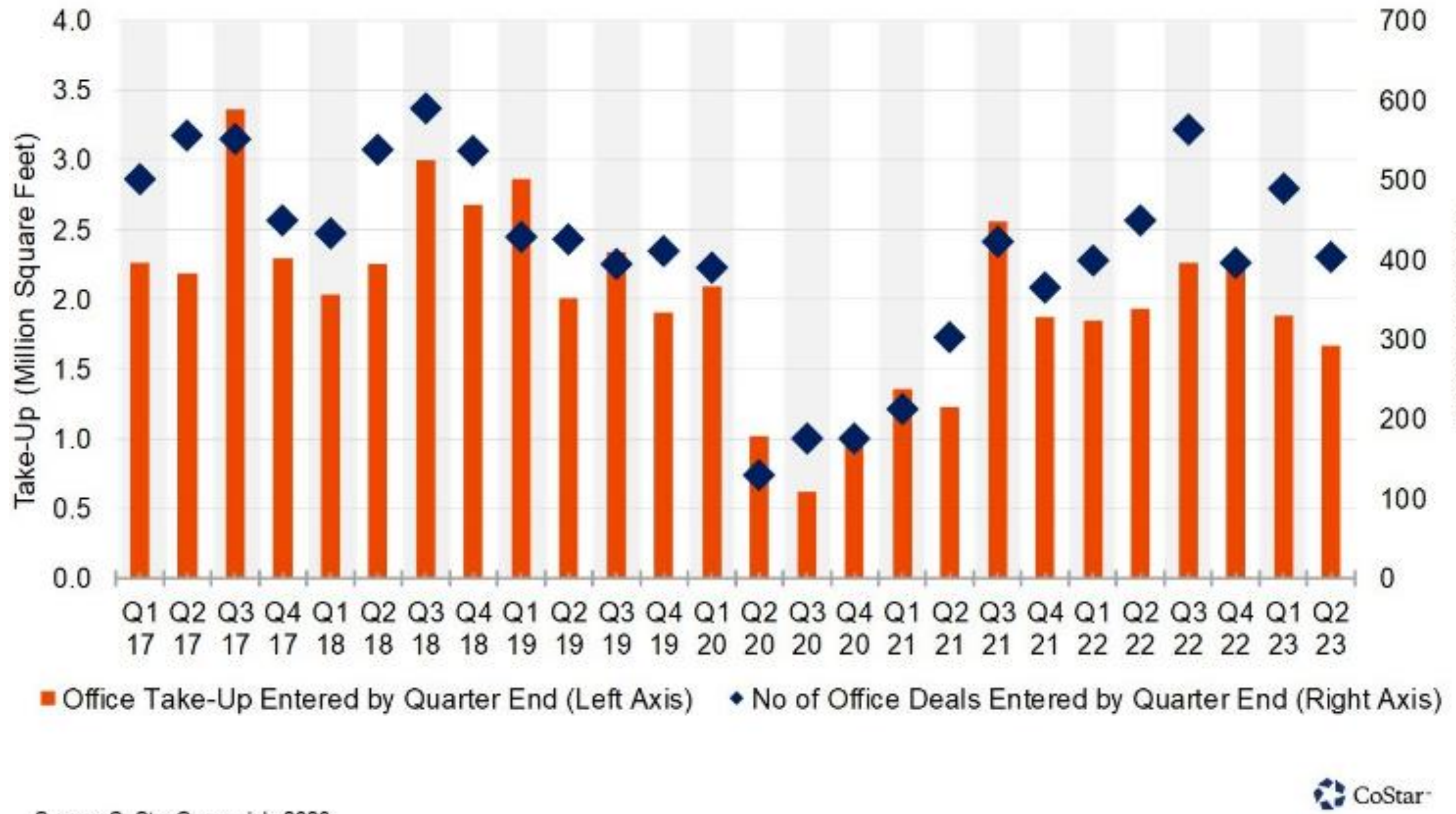
Net absorption, which measures the change in occupied stock, turned negative in London in the first half of this year, with more space vacated than occupied. This followed a rebound in net absorption in 2022, when some of the heavy demand losses recorded during the pandemic were reversed as the leasing market sprang back to life. London's vacancy rate ticked upwards accordingly to stand just below 9%.

Current market

Hopes for an imminent rebound in leasing activity have receded in recent weeks, as rising interest rates and concerns over the economic outlook likely continue to weigh on leasing decisions. The summer months are also typically quiet as holidays intervene. The capital's newest, most sustainable buildings should continue to fare relatively well when the market does pick up again amid an ongoing flight to quality. Net absorption in London's best-quality, 5 Star-rated office buildings has totalled 3 million square feet over the past four quarters, a far stronger showing than the market at large, though even this part of the market has calmed a little recently.

Get in touch if you'd like some further information on other London sub-markets.

Call 0203 369 9800



Source: CoStar Group, July 2023

The "...substantial doubt..." announcement from WeWork

Commentary

Its recent public announcement that "substantial doubt exists" about its ability to continue as a going concern has highlighted the £3.1bn risk to UK commercial Landlords, should WeWork file for bankruptcy. According to the credit risk monitoring firm Creditsafe, 72% of WeWork's bills are paid late, adding the company started slowing payments in April - WeWork called Creditsafe's figures inaccurate.

This recent announcement is unquestionably of enormous concern. It may be surprising to learn that WeWork is London's largest private Tenant, with around 3 million sq ft of space, as well as having extensive presence beyond the capital to Birmingham, Manchester, Edinburgh, Cambridge and many more regional locations, so, if this ship were to go down the ripple effects could be very far reaching.

Looking deeper into the same financial release that contains the above alarming statement, on a year-on-year basis WeWork reports that revenues have increased, losses have decreased, EBITDA has improved and occupation of its centre's has increased. So something is working!

WeWork operates in a market that is experiencing continually increasing demand – the serviced office sector. But despite this, perhaps not quite enough is working in order to stave off what may be the inevitable. And the announcement will have done little to aid it's chances of turnaround, with some competitors already claiming they have secured members from WeWork as the snowball effect gathers pace.

So, what are the possible outcomes if this giant goes into administration?

If you are a member sitting at a WeWork desk then the possible worst-case scenario is that you may find yourself suddenly homeless due to the lack of protective rights that serviced office licenses offer. What is probably more likely is that you may simply experience a change in "Landlord", where another operator (or even the building owner) takes over and continues the operations – at least in the near-term.

Until some degree of stabilisation and confidence returns, concerned WeWork members are likely to seek space with alternative serviced office providers. This will naturally compress supply in the wider serviced office market, and in turn prices may rise. Members may also look out towards the managed office and conventional lease markets, particularly the smaller suites that are ready-fitted.

Our hope is that WeWork finds a way to continue as a business and maintain the majority of its centres – the alternative is a devastating outcome for so many partners to this once hailed start-up.

Need advice if you are in a WeWork?

Call 0203 369 9800

MEES – the risks to office Tenants

Education

Minimum Energy Efficiency Standards – The energy performance of a building should be at the forefront of considerations for every Tenant whom may be at a juncture in their office occupation, whether that be to remain in their current space or to relocate to a new space.

The UK government has set a target for at least 40% reduction in greenhouse gas emissions from buildings by 2030, and to achieve net zero carbon emissions by 2050. Accordingly, there are several future dates around Energy Performance Certificates (EPCs) for commercial properties, including office buildings, that office Tenants should be aware of; 2025, 2028 and 2030, where potential regulatory changes may take place.

EPC regulations are expected to become stricter in order to meet the emissions goals, with a proposal that all new tenancies from 1 April 2025 and all existing tenancies by 1 April 2028 must meet band C or higher on an EPC, and B or better by 2030. Whilst these targets are not yet confirmed, an occupier will be well-placed to be mindful of this potential revision to minimum standards for any building that they may be considering occupying across this timeline.

The main risk for office Tenants regarding MEES is that their Landlord may need to make energy efficiency improvements to the building in order to comply with the regulations, which could lead to disruptions and increased costs for the occupiers. If a Landlord fails to meet the minimum standards, they may face financial penalties, which could ultimately lead to the termination of the lease. This could result in office Tenants having to prematurely relocate their business - clearly undesirable.

And of course, given the increasing focus on sustainability and environmental issues in the business world, office Tenants may also face reputational risks if they are seen to be occupying a building that has poor energy performance. This could potentially impact the Tenant's ability to attract and retain customers, employees, and investors who prioritize sustainability.

Overall, the risks associated with MEES for office Tenants highlight the importance of considering energy efficiency when selecting an office space, whether that be a leased office or a serviced office. It is important for Tenants to work with trusted advisors to ensure that their next occupational commitment is one that has had all potential considerations and risks accounted for and mitigated.

Do you know the EPC rating of your current office?

Call 0203 369 9800

Which type of office is right for you?

Each business has differing needs and priorities for their staff and clients, and each office type offers alternative solutions to cater for those requirements:

SERVICED

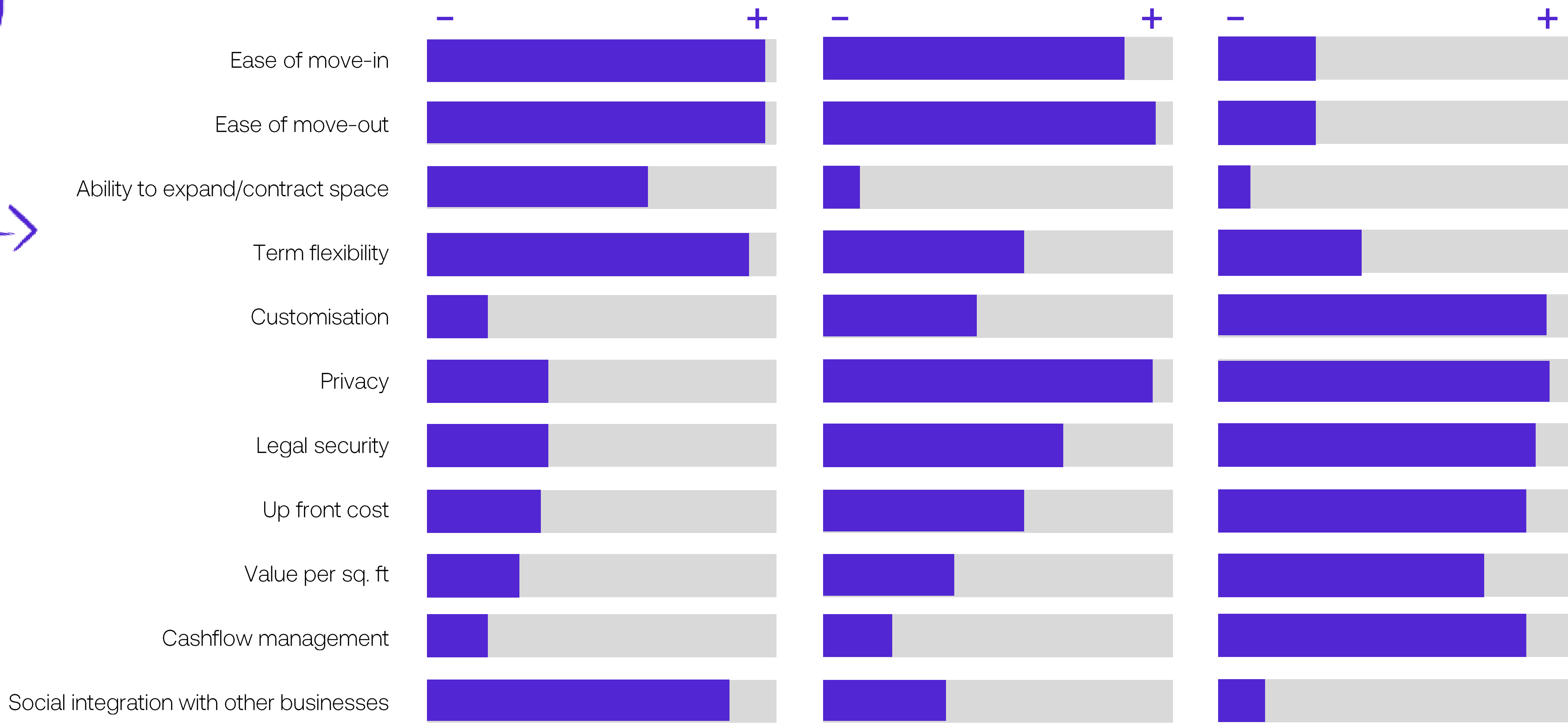
Anything from 1 month to 2 years, for a few hot-desks or a large private office, but with shared facilities in common areas, including kitchen, break out space and meeting rooms

MANAGED

Usually 12 to 24 months, this model is a hybrid between serviced offices and leased offices; a private office like a lease but set up and managed by a management provider.

LEASED

Terms of 18 months to 15 years, a private office is where the ongoing management is your responsibility. These can be pre-fitted or you can design and build your own fit-out.



Serviced offices

What is a serviced office?

A simple analogy is to think of a serviced office as a hotel for businesses. You turn up, and everything you need in an office is there and ready to go. Serviced offices are fully managed, set up and equipped to enable you to start work immediately, with all costs wrapped up into one monthly bill. The concept of the serviced office revolves around a combination of hospitality and flexibility. It delivers all the office amenities required to run a business, on a contract length of your choice and served with a smile.

The benefits of serviced offices

Flexibility – you can occupy a serviced office for any period of time from a few months to a few years. As your company grows or your needs change, you will be able to scale accordingly.

Simplicity – you arrive, you plug in, and you go. The offices are fully furnished, internet is installed, and telephone can be at the ready. Set up is absolutely minimal.

Speed – as the agreement is by license rather than lease, solicitors do not typically need to be involved. This means agreements can be finalised in a few days, allowing an almost immediate move.

Low set up costs – you won't incur solicitors fees, fit out costs, there is no need to purchase any furnishings or pay any IT instalment costs. The office is plug and play. Unlike a leased office, all these aspects are already in hand.

Facility management – the operator will manage the office to ensure it runs smoothly, dealing with everything, from call handling, meeting and greeting visiting clients, overseeing the cleaning, and to supplying teas and coffees.

Leverage their portfolio – A lot of providers have multiple locations situated across London and other parts of the country, and you can use their facilities across all locations.

Will serviced suit my business?

Serviced offices appeal to companies of all shapes and sizes, from small start-ups to large corporates. Serviced really comes into its own when companies require flexibility.

Scaling companies – If your head count is expected to grow quickly and you want your office to scale in line with your headcount, then serviced is worth considering.

Start-ups – you don't have to commit to a long lease length, which will allow you to adapt with your business in which ever direction it takes.

Project space – if you only require the space to last for the duration of a certain project, that is no problem.

Overflow – if your current office proves to be too small but you are tied into it for another year or so, then serviced can act as excellent overflow space.

Between offices – whilst you wait for your new dream space to come to fruition, you can keep the doors open and occupy a serviced office as a stop gap.

Serviced office availability

For a bespoke search, please click here

SEARCH

City	Bishopsgate, EC2
Desks	11
Monthly Total	£5,500

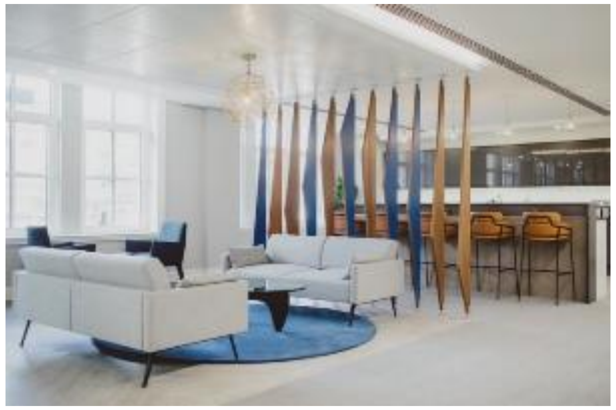
Click here for more details

City	Bevis Marks, EC3
Desks	4
Monthly Total	£2,400

Click here for more details

Shoreditch	Great Eastern Street, EC2
Desks	32
Monthly Total	£16,000

Click here for more details



Holborn	Chancery Lane, WC1
Desks	15
Monthly Total	£9,385

Click here for more details

Canary Wharf	Churchill Place, E14
Desks	86
Monthly Total	£37,331

Click here for more details

Holland Park	Princes Place, W11
Desks	5
Monthly Total	£2,750

Click here for more details

Leased offices

What is a leased office?

A conventional leased office is the predominant method for companies occupying office premises. A company (the Tenant) will agree a lease contract to rent an office space for a period of time (usually a number of years) from a Landlord.

It is a more complex arrangement than that of the simplicity of a serviced office, but, with it, comes substantially more freedom to create exactly the space you want, as well as greater privacy, and significantly more security from a legal rights perspective.

The leased office market is comprised of:

New leases - offered by the building owner, are typically on contractual terms of 5 -20 years, and incorporating lease break opportunities within those periods. These are often presented in a condition known as CAT-A; meaning heating, lighting, ventilation and power are all supplied to the space, but the incoming Tenant will need to install their own fixtures, fittings and furnishings, etc. Although, it is becoming more frequent for Landlords to install a "speculative fit-out" (known as CAT-A+) that offers most elements of what a business may need from a space.

Sub-leases - offered by Tenants who no longer need some or all of their space. This will be an office that is typically offered with the existing fit-out in place, although larger spaces with many years left on the lease may be stripped out and offered as CAT-A space. By taking out a sub-lease, it is the current Tenant who becomes your Landlord, and they themselves retain their Tenant relationship with their original Landlord, the Superior Landlord. Sub-leases may be short term, such as 12 months, or sometimes up to 10 years.

Assignments - are existing lease contracts that are being offered to the market by the outgoing Tenant. Unlike a sub-lease, which can offer part or all of the demised area on new contractual terms, an assignment of a lease is the trading of an existing lease on its prescribed terms, though it is possible to latterly make amendments to the prescribed terms, to a certain degree. Assigning their lease, for the most part, absolves the assignor Tenant from their contractual obligations to the premises, and the assignee Tenant becomes entirely responsible. Much like sub-leases, assigned office premises are frequently offered with the existing fit-out in situ, and are often for terms from 12 months – 5 years.

Preparing for the end of your lease:

When approaching the end of your contract in a conventional lease space, a lot of planning is required to ensure your exit from your current space and transition into your new space goes as smoothly as possible. Some elements are simply organisational good practice, but other considerations are those of your legal obligations contained within your lease which, if not appropriately managed, then it could cost your organisation significant amounts of money and turmoil.

Leased office availability

✱ For a bespoke search, please click here → **SEARCH**

Midtown	Grays Inn Road, WC2
Size (sq ft)	1,809 sq ft
Monthly Total	**£14,788**

Click here for more details

Soho	Wardour Street, W1
Size (sq ft)	1,554 sq ft
Monthly Total	**£13,585**

Click here for more details

Shoreditch	Curtain Road, EC2
Size (sq ft)	7,556 sq ft
Monthly Total	**£47,665**

Click here for more details

Covent Gdn	Stukeley Street, WC2
Size (sq ft)	2,551 sq ft
Monthly Total	**£24,553**

Click here for more details

Clerkenwell	Cowcross Street, EC1
Size (sq ft)	12,073 sq ft
Monthly Total	**£142,360**

Click here for more details

St. James's	Jermyn Street, SW1
Size (sq ft)	1,749 sq ft
Monthly Total	**£20,869**

Click here for more details

Case Study

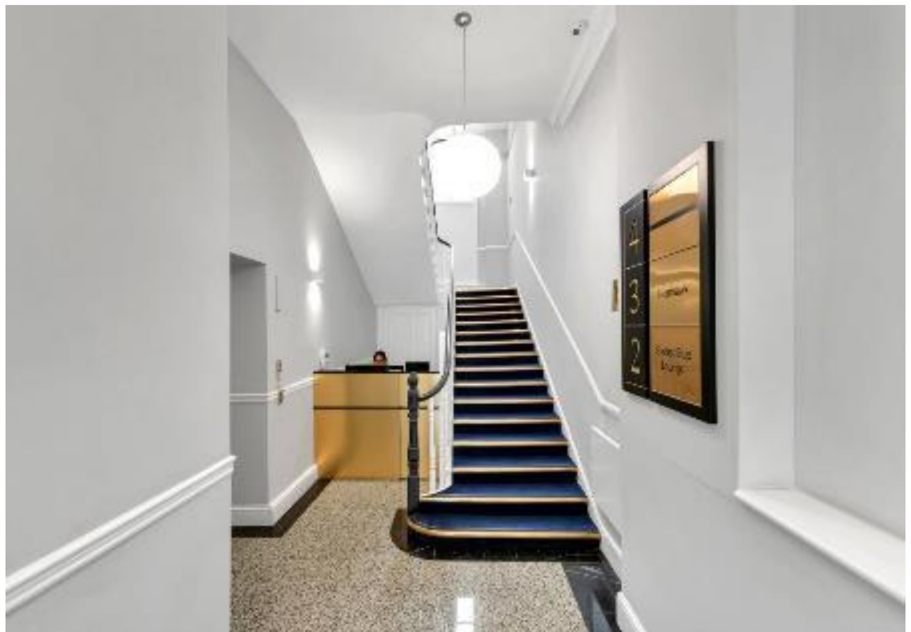
THOR EQUITIES

Location
Mayfair

Sector
Finance

Having initially started the search on their own, Thor were struggling to secure anywhere.

After months of searching themselves, Thor had not managed to find anything suitable. Spacepoint were instructed and we comprehensively covered the Mayfair and St James market. When 18-19 Albemarle came to market, Thor Equities were first through the door. After a long negotiation with the landlord, we whittled the terms to an agreeable level and placed the property under offer. The property came fully fitted. A superb deal on a great floor.



property perfected

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