SPACEPOINT

London Office Update
August 2024

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Office Take-up: City vs West End

The fortunes of the London office market are tightly linked to the global economy. Historically, the West End and City markets have moved in sync with economic changes, but recent indicators show a divergence in performance.

Vacancies in the City have surged to around 12% since the pandemic, the highest level in 20 years, exacerbated by a historic high in construction levels before the pandemic. Since the pandemic, the vacancy rate spread between the City and West End has been the highest since 2012, showing little sign of narrowing.

Meanwhile, West End vacancies have plateaued around 7%. The West End faced a gentler lead-in to the pandemic with less new space delivery, thus suffering less from demand losses. Rents in the City have stagnated over the last four years due to high vacancies, while West End rents have grown by about 12%.

Additionally, leasing voids in the City are longer compared to the West End. Offices in the City still take upwards of three months longer to let on average. This is partly due to the larger size of recent developments in the City. Although this gap has narrowed over the last 12 months, West End landlords continue to enjoy shorter leasing voids in the short term.

However, the West End is experiencing a decline in annual take-up, reaching its lowest level since the pandemic. Influenced by market uncertainty following the mini-budget of 2022, occupiers placed business decisions on hold, causing a sustained downward movement in activity since the end of 2022. The average deal size in the West End has fallen by 20% as occupier footprints shrink.

Conversely, the City has seen an increase in the share of large deals, now accounting for 55% of all 100,000-square-foot deals in Central London over the last five years, up from 40% over the last 20 years. Larger occupiers in the City cannot delay relocation decisions due to redevelopment or refurbishment plans, limiting their options. For those seeking 100,000 square feet of good-quality office space in London, 90% of available space is outside the West End.

Geopolitical uncertainty, high base rates, and lending costs continue to impact capital expenditure, with City take-up already weakening. Despite this, the West End may see a boost from imminent large acquisitions by BDO and Evercore, totaling over 300,000 square feet. While vacancies are forecasted to rise in both markets over the next 12 months, the renewed demand for large spaces may lead to realignment between the two markets.

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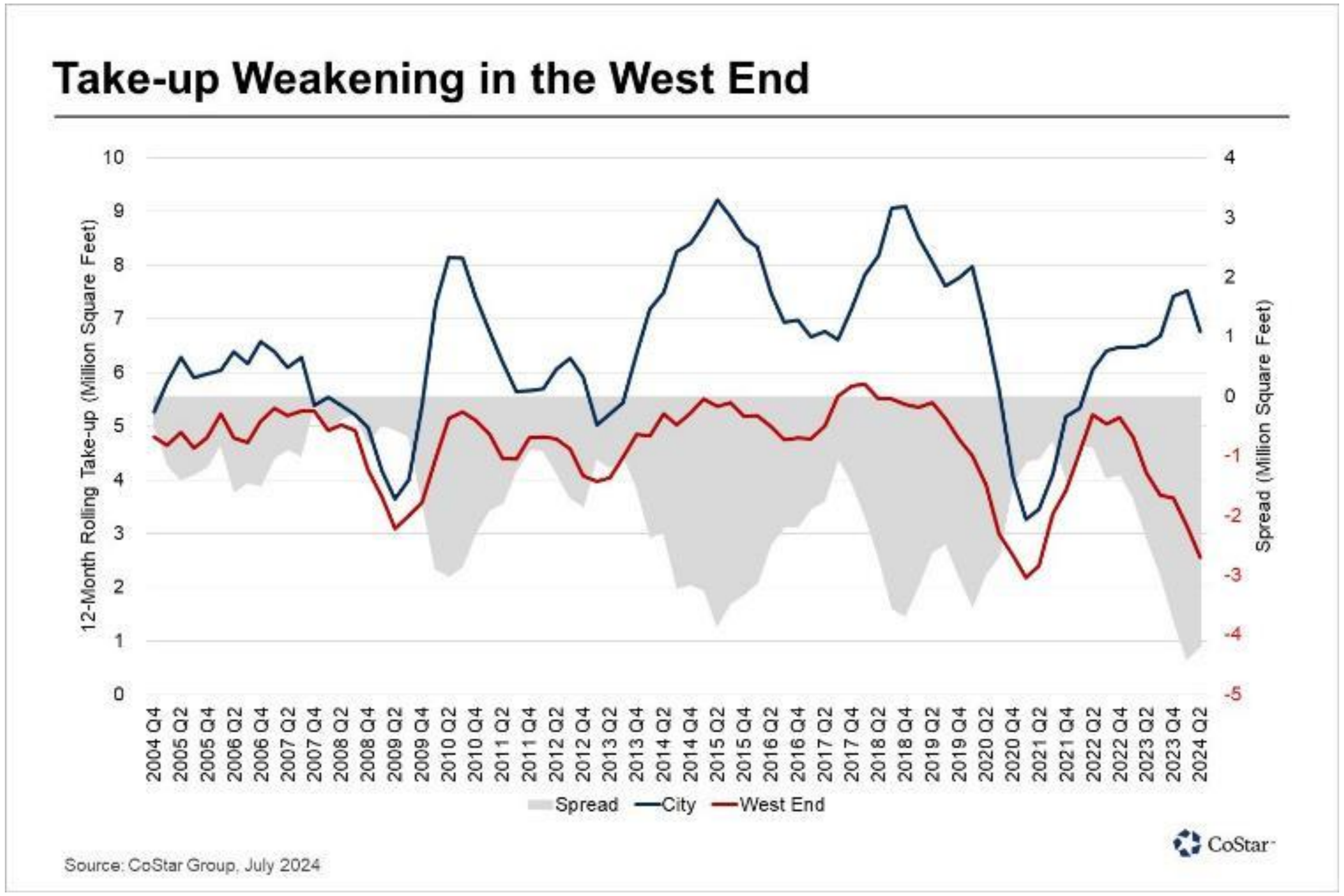

Europe returns to the office

According to their 2024 European Office Occupier Survey, 61% of companies now report average building use of 41%-80%, up from 48% in 2023. Meanwhile, the proportion of companies with lower utilisation has dropped, with only a third reporting utilisation of 40% or below, compared to nearly half last year.

CBRE's annual survey gathered insights from over 120 companies across Europe on various topics related to the future of work. The biggest changes are happening in large companies with 5,000 or more employees. Nearly two-thirds of these companies report building use at 41% or higher, thanks to "natural momentum" and increased use of attendance mandates.

The number of employees going to the office three or more days a week has risen to 43%, up from 37% in 2023. This suggests that higher utilisation rates are mainly because employees are visiting the office more often, rather than companies reducing their office space.

Smaller companies are also seeing higher rates of frequent attendance. For companies with fewer than 5,000 employees, there has been an 18% increase in employees attending four to five days a week. This is even more pronounced in companies with fewer than 1,000 employees, with 31% seeing four to five day attendance.

CBRE notes that the implementation of attendance mandates is growing. Their research found that 76% of companies have some form of attendance policy in place, though only 40% are mandatory. Another 17% said attendance decisions are made within individual teams.

Further consolidation in office occupancy is likely. Over half (57%) of companies plan to decrease their portfolio size in the next three years, probably due to larger companies having surplus space and needing to cut real estate costs. Some companies (17%) plan to maintain their portfolio size, while 24% plan to expand, driven by anticipated business growth.

Most companies looking to reduce their footprint plan to do so through lease expirations. CBRE said 58% are likely to renew existing leases if they remain fit for purpose, as landlords are increasingly willing to negotiate and offer more flexibility.

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Considerations for sub-letting your space

When an office occupier considers sub-letting part of their space, several key considerations must be addressed to ensure a smooth and beneficial process.

Occupiers need to verify if their lease allows for sub-letting, as most agreements require the landlord's consent and may include specific conditions or restrictions.

The primary tenant retains responsibility for the lease obligations, including rent and maintenance, even after sub-letting, making it vital to ensure the sub-tenant's reliability and financial stability. Additionally, insurance policies may need adjustments to cover the sub-let area and any additional liabilities.

Market conditions play a significant role in the feasibility of sub-letting. Assessing current market conditions helps determine the potential rental income and attractiveness of the sub-let space. Effective marketing strategies, such as hiring a real estate agent, are necessary to attract suitable sub-tenants.

The suitability of the sub-let space is another consideration. The space should meet the sub-tenant's requirements, including layout and facilities, and may require modifications. Common areas and access must be clearly defined to avoid ambiguity and ensure smooth operations.

Relationship management is crucial for successful sub-letting. Establishing a good relationship with the sub-tenant involves clear communication regarding expectations and responsibilities, which helps prevent conflicts. Maintaining a positive relationship with the landlord is equally important, as their approval and cooperation may be needed throughout the sub-letting period.

Operational considerations should not be overlooked. Sub-letting can impact daily operations, potentially causing disruptions and necessitating shared resources. It is important to determine how property management and maintenance responsibilities will be divided between the primary tenant and the sub-tenant.

In summary, office occupiers must carefully evaluate lease terms, legal and financial implications, market conditions, space suitability, and relationship and operational management when considering sub-letting.

Spacepoint can assist with guidance through these considerations, allowing you to make informed decisions that align with your business needs and lease obligations, ensuring a beneficial sub-letting arrangement.

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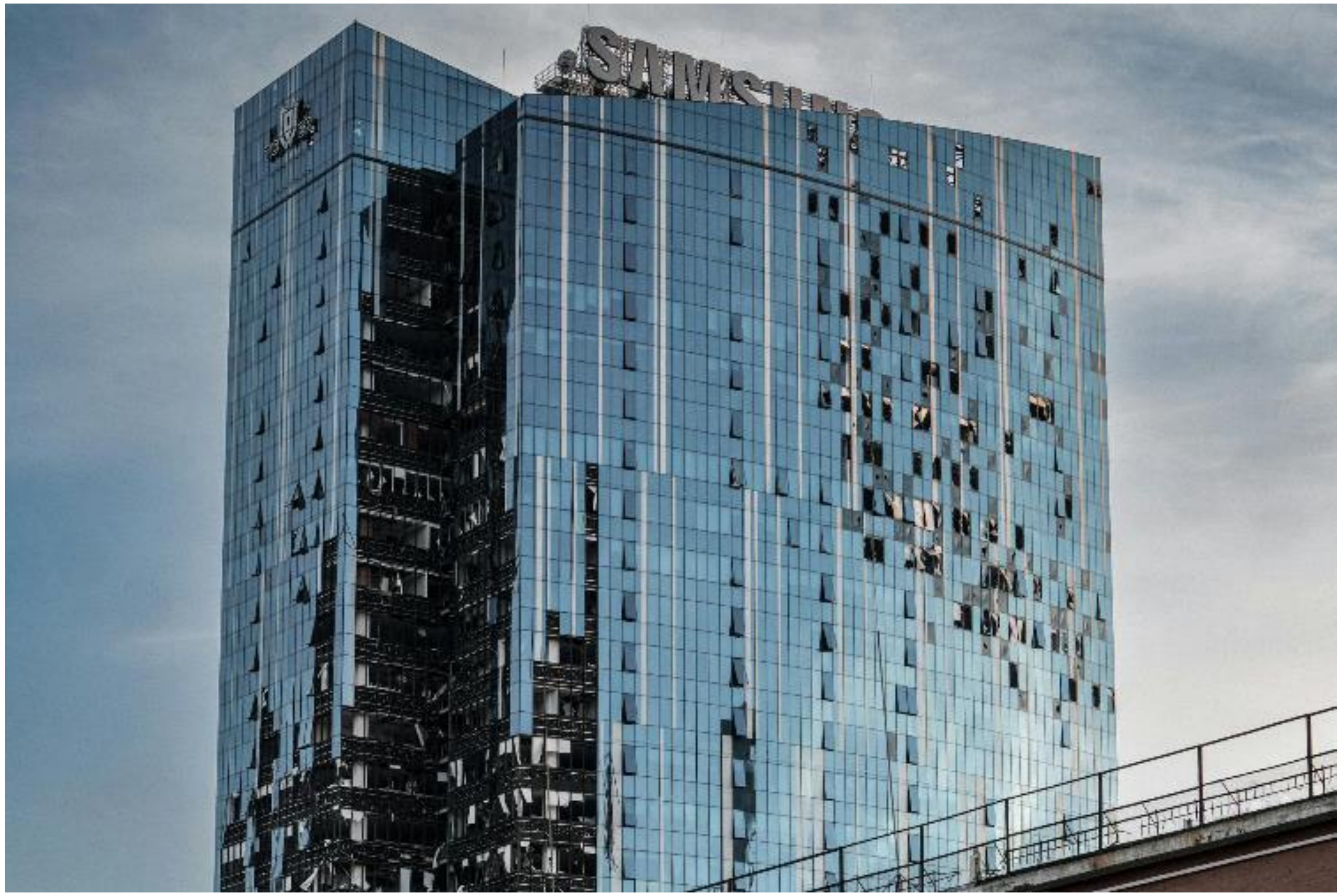

Which type of office is right for you?

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

Holborn — High Holborn

Desks — 18

Monthly Total — £13,500

Click here for more details

Southwark — Southwark Bridge Road

Desks — 20 + 2x Meeting room

Monthly Total — £20,400

Click here for more details

Chancery Lane — Fulwood Place

Desks — 41

Monthly Total — £38,000

Click here for more details

Liverpool Street — St Marys Axe

Desks — 20

Monthly Total — £17,400

Click here for more details

Old Street — Old Street Yard

Desks — 12

Monthly Total — £7,140

Click here for more details

Mayfair — Stratton Street

Desks — 12

Monthly Total — £10,900

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.

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Leased office availability

For a bespoke search, please click here

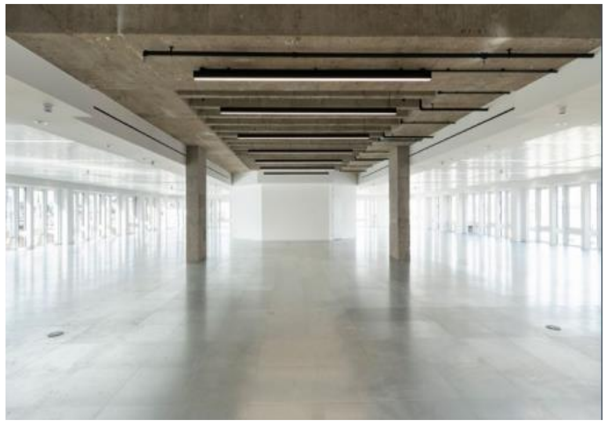
SEARCH

Holborn	Red Lion Street
Size (sq ft)	2,958 sq. ft
Monthly Total	£28,603

Click here for more details

Farringdon	Watchmaker Court
Size (sq ft)	3,305 sq. ft
Monthly Total	£23,513

Click here for more details



Charing Cross	The Strand
Size (sq ft)	6,174 sq. ft
Monthly Total	£69,750

Click here for more details

City	Aldermanbury Square
Size (sq ft)	6,508 sq. ft
Monthly Total	£68,876

Click here for more details

Mayfair	Park Street
Size (sq ft)	1,200 sq. ft
Monthly Total	£16,271

Click here for more details

Fitzrovia	Bourlet Close
Size (sq ft)	845 sq. ft
Monthly Total	£7,125

Click here for more details

Case Study

ZENOBĒ ENERGY

Location
Charing Cross

Sector
Renewables

Rapidly expanding renewable energy company seeking growth space.

Our search initially began for a 2,500 sq. ft space, but as Zenobe's headcount grew, they needed to accommodate closer to 80 staff. We adjusted the search parameters and began viewing larger spaces. With the need for multiple meeting rooms, we secured an office where we could implement our own design. The chosen office was the last floor in the building and had been on the market for months.

We leveraged our position and negotiated a deal that saved Zenobe over £400k.

property perfected

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