

SPACEPOINT[↑]

London Office Update
September 2024



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The shrinking supply of Tenant space

>> Market Update

The pandemic had a significant impact on the commercial real estate market, with one of the most noticeable effects being the sharp increase in the amount of office space released onto the market through subleases or assignments.

As companies tried to cut costs by offloading space they no longer needed, tenant-controlled office space flooded the market. Over the past few years, however, the volume of this subleased or assigned space has steadily declined, and it has now returned to the levels seen in 2020, before the pandemic's disruptions.

For the last three years, this trend has been reversing as leases have either expired, leading companies to return the spaces to landlords, or the spaces have been successfully subleased or assigned to new tenants. Across the country, just under 12 million square feet of office space remains available for sublease or assignment—a 5% decrease from last year and a notable 23% drop from the peak in 2021.

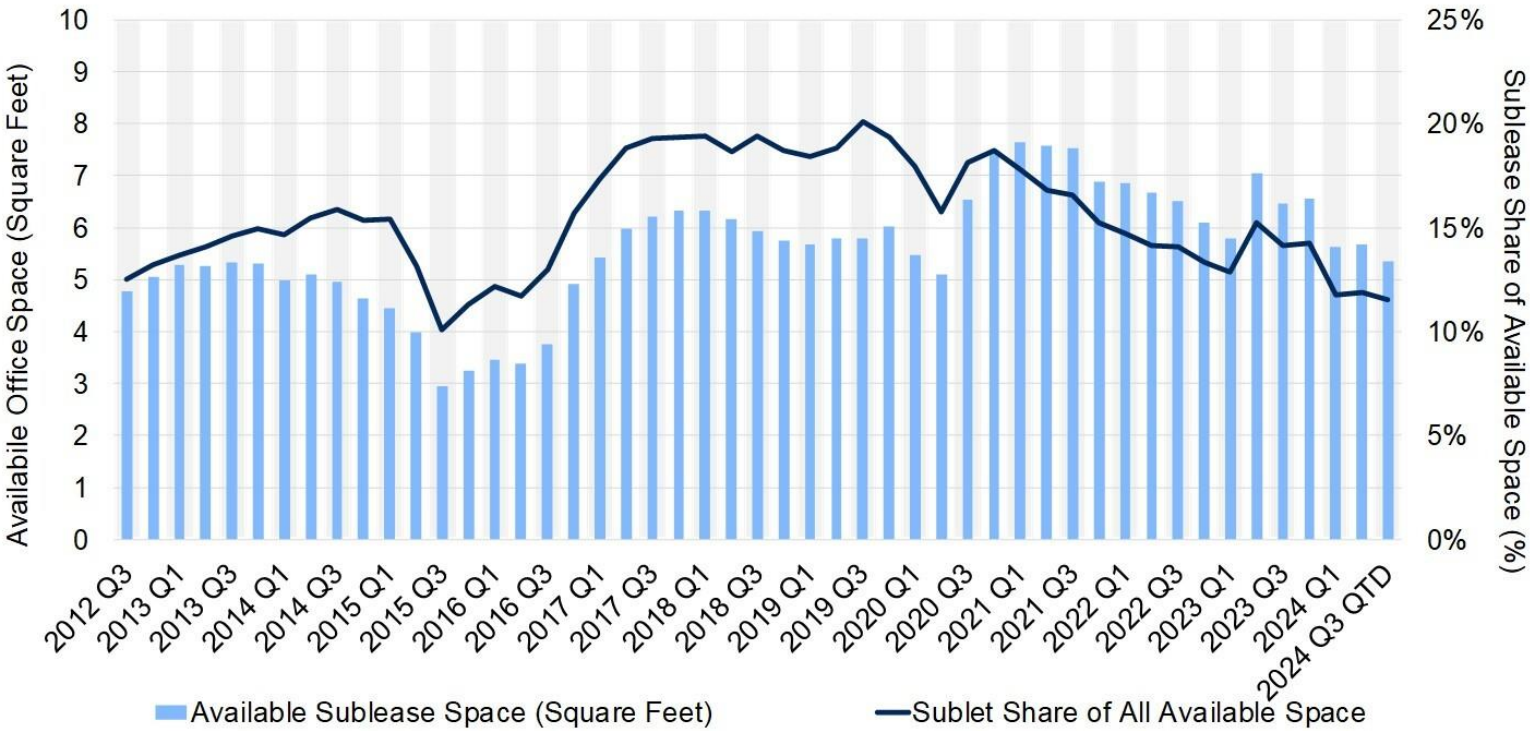
London, in particular, has seen a dramatic reduction in the availability of sublease space. At the height of the pandemic, available sublease space in London surged to nearly 8 million square feet. Since then, it has fallen by 30%, now sitting at just over 5 million square feet—the lowest level recorded in the past seven years. The situation is even more striking in London's West End, where less than 600,000 square feet of space is available for sublease, marking a 17-year low. This scarcity of sublease space is one reason why the West End has performed relatively well compared to other areas.

It's worth noting that sublease space usually commands lower rents than space leased directly from landlords. Tenants are often motivated to offload this space quickly to reduce costs, while landlords have a vested interest in maintaining high headline rents to protect their property valuations. Last year in London, asking rents for sublease spaces were, on average, 6% cheaper than those for direct leases. As the amount of sublease space continues to decline, landlords in high-demand areas may find themselves with increased leverage during rent negotiations.

Even though landlords might appreciate the reduced competition from tenants eager to sublease space, the overall availability of office space across the UK continues to rise. In the first half of 2024, businesses continued to shed more space than they were taking on, contributing to this ongoing trend.

To learn more about how we exclusively specialise in advising Tenants, visit - [Spacepoint](#)

Sublease Share of London Availability at Eight-Year Low



Source: CoStar Group, August 2024



ESG in commercial real estate



Commentary

Commercial real estate is a major contributor to global carbon emissions, accounting for 37% of total emissions and 34% of energy consumption. Green buildings have proven to be more effective, staying leased longer, commanding higher rents, reducing operating costs, and selling at higher prices. However, despite the availability of various green building initiatives, there is no clear consensus on the best approach, as each building and strategy requires a unique solution.

James Magor, director of sustainability at Actis, notes that the industry is increasingly focusing on energy, water, and embodied carbon improvements, which are becoming critical factors in property valuation. Buildings with certifications such as BREEAM, Energy Star, or LEED tend to see higher capital values and rents. For instance, BREEAM-certified buildings enjoy an average capital value increase of 20.6% and rent increases of 11.6%.

The challenge of decarbonizing the built environment can seem overwhelming, especially as green building initiatives are not always feasible. According to Stéphanie Bensimon of Ardian, true sustainability requires addressing social and governance aspects in addition to environmental concerns. Enhancements that improve occupant wellbeing and benefit the surrounding community, such as creating green spaces, developing smart buildings, improving acoustics and air quality, and promoting green mobility, are increasingly valued.

With regulatory shifts making sustainable building practices mandatory, investors face the question of whether they can afford not to invest in greener buildings. The risks of owning obsolete or empty buildings could outweigh the costs of implementing green upgrades. A CBRE survey found that 32% of European investors are willing to pay premiums for ESG-friendly assets, reflecting the growing importance of sustainability in real estate investment.

However, there is also a risk of greenwashing, where businesses superficially adopt green measures without delivering genuine long-term value. Magor cautions that tenants and investors are becoming more attuned to these

deceptive practices, and superficial green initiatives for points-scoring are increasingly being seen through.

As the energy transition accelerates, the drive of building owners to embrace sustainability is increasingly motivated by the desire to optimize building assets and achieve the best outcomes for clients, rather than merely complying with regulations.

This commentary piece is a summary of [this article](#) from PERE.

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Rent-Free Periods: A Strategic Advantage for Tenants



Education

Rent-free periods are exactly what they imply—specific intervals during which a landlord waives the rental charges. However, the duration and terms of these periods vary widely depending on factors such as location, market demand, property specifications, and the length of the lease.

Understanding how to negotiate and maximize these rent-free periods can be crucial for tenants, offering significant financial relief and strategic benefits, and Tenants should always aim to secure the most favourable terms possible. A well-reasoned and strategic request is essential. Below are some common scenarios where rent-free periods are typically granted.

Setup Period

When a tenant needs time to complete a fit-out, landlords often grant rent-free periods to offset the time during which the property is unusable. This arrangement is mutually beneficial, as it allows the tenant to enhance the space—often increasing the property’s value—without the burden of immediate rent payments. Fit-outs can be both time-consuming and costly, making rent-free periods essential for managing cash flow during this phase.

Incentive for Leasing

Rent-free periods serve as powerful incentives for tenants. Landlords may offer them to encourage new leases or to retain existing tenants. In cases where a landlord struggles to lease a space, tenants can leverage this situation to negotiate more generous rent-free terms. Some landlords might prefer to maintain a higher nominal rent while extending rent-free periods, as this strategy helps preserve the property's investment value. In certain cases, additional rent-free time is agreed upon and documented separately in a side letter.

Periods of Interruption

Extraordinary circumstances, such as the COVID-19 pandemic, provide a strong case for rent-free relief. While landlords were not contractually obligated to offer rent-free periods during enforced lockdowns, some tenants successfully negotiated relief due to the unprecedented disruption.

How Much Rent-Free Time Is Reasonable?

The amount of rent-free a tenant can secure varies widely. For further insights, we have detailed below some recent deals negotiated by the Spacepoint team, which illustrate the potential advantages of strategically negotiating rent-free periods.

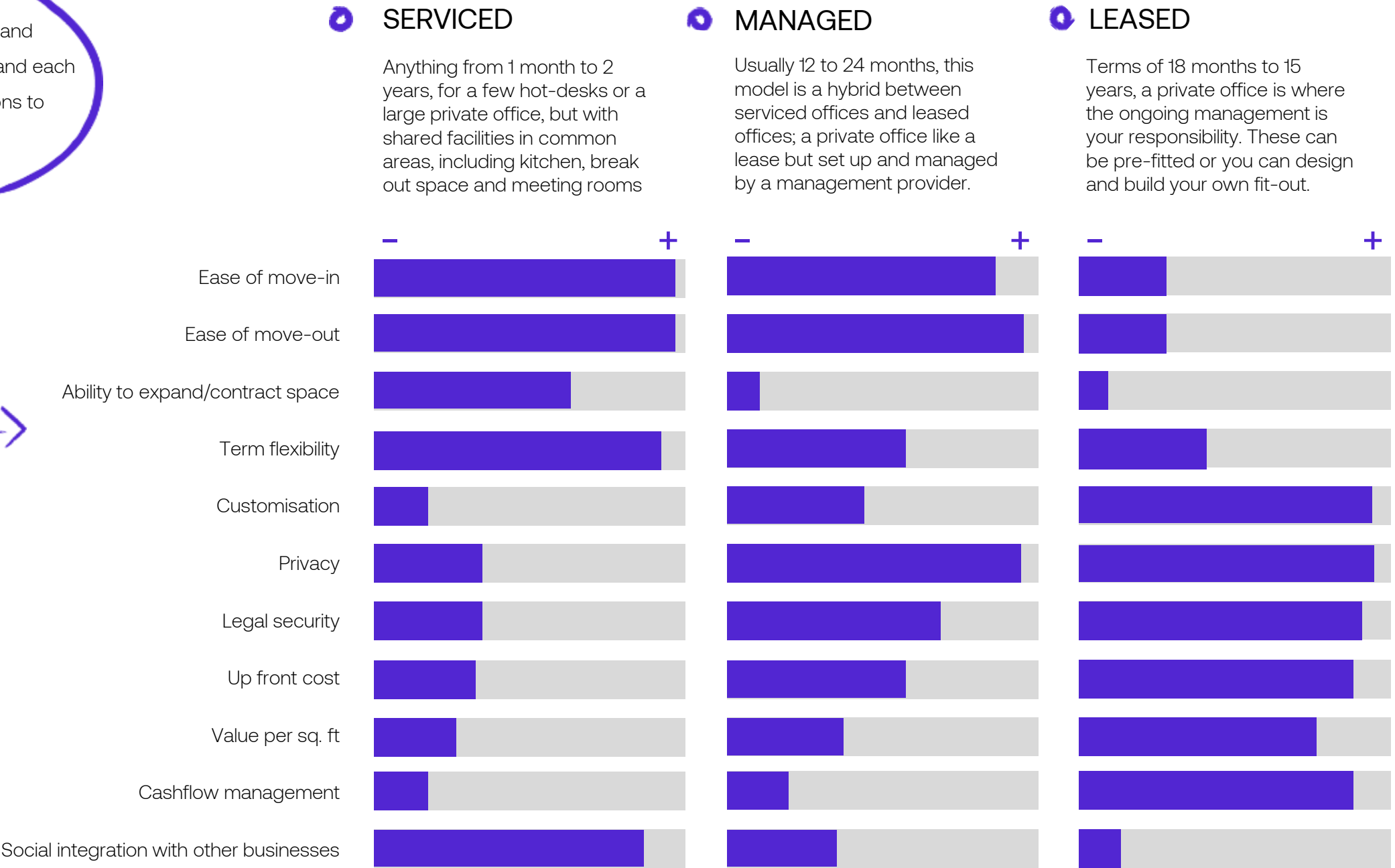
For robust negotiators when considering your next office move visit - [Spacepoint](#)

Location	Property / Deal Type	Length of Lease (years)	Rent Free (months)
City	New lease with a new fit-out by the Landlord	5	9
Marylebone	New lease with a new fit-out by the Landlord	5	5
Covent Garden	New lease with a previous Tenant fit-out	5	9
City	Lease Renewal with existing fit-out remaining unchanged	6	10
Soho	New lease with no fit-out	5	11
St. James’s	Lease Renewal with existing fit-out remaining unchanged	10	16
Mayfair	Assignment of an existing lease with small changes to the fit-out	3.5	8
Covent Garden	New lease with no fit-out	10	25

Which type of office is right for you?

>> Types of office

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 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



Covent Garden Strand

Desks 18
Monthly Total £16,295

[Click here for more details](#)



Holborn Kingsway

Desks 15 desks
Monthly Total 12,750

[Click here for more details](#)



Holborn High Holborn

Desks 22 desks + 1x meeting room
Monthly Total £16,910

[Click here for more details](#)



Southwark Southwark Street

Desks 28
Monthly Total £18,000

[Click here for more details](#)



City Liverpool Street

Desks 14
Monthly Total £9,000

[Click here for more details](#)



St James St James Square

Desks 40
Monthly Total £26,250

[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



City **Cannon Street**

Size (sq ft) 6,325 sq. ft

Monthly Total **£52,050**

[Click here for more details](#)



City **Great St. Helens Street**

Size (sq ft) 2,648 sq. ft

Monthly Total **£24,608**

[Click here for more details](#)

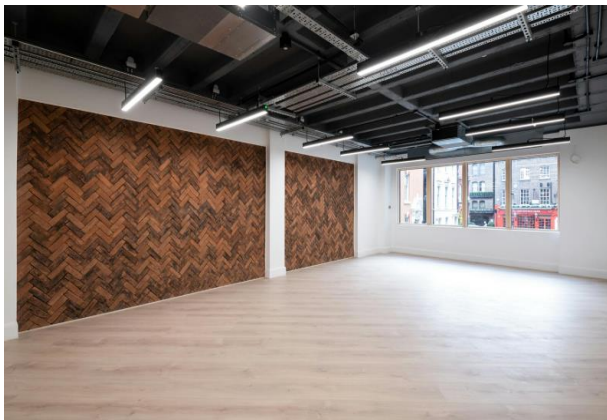


The City **St. Mary Axe**

Size (sq ft) 12,226 sq. ft

Monthly Total **£132,254**

[Click here for more details](#)



Mayfair **Hertford Street**

Size (sq ft) 2,069 sq. ft

Monthly Total **£25,362**

[Click here for more details](#)



Hammersmith **Iffley Road**

Size (sq ft) 7,000 sq. ft

Monthly Total **£37,716**

[Click here for more details](#)



Soho **Great Marlborough Street**

Size (sq ft) 904 sq. ft

Monthly Total **£11,750**

[Click here for more details](#)

Case Study



GLOVERS

Location

Covent Garden

Sector

Legal

“Glovers Solicitors are London’s leading property law specialists, and I have been fortunate to work alongside this highly skilled team for over 10 years. It has been my privilege to assist them with their own relocation projects and this latest one was an exceptional success.

Whilst not the usual destination for a legal practice, this new home is centred in the beating heart of lively Covent Garden – exactly where this modern firm of progressive of lawyers wanted to be.

The office itself was an outstanding find; a bright space, benefitting from a fantastic vantage over one of the primary thoroughfares of this bustling location. And the commercial dealing terms we secured were genuinely market-beating.

An awesome project for an awesome client (more usually a partner!).”

Mark O’Neill – Director, Spacepoint



property perfected ✓



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