Here's How Big A Chunk Covid Has Chomped Out Of London Office Rents

19 August 2021 | Mike Phillips, Bisnow London (https://www.bisnow.com/author/mike-phillips-103547) (mailto:mike.phillips

London office rents (https://www.bisnow.com/tags/london-office-rents) have dropped an average of 8% since the start of the coronavirus pandemic and are likely to keep falling even as leasing volumes improve, according to new data.

A rental index produced by Carter Jonas (https://www.bisnow.com/tags/carter-jonas) showed that while headline rents have remained fairly steady, when factors like rent-free periods and tenant incentives are taken into account, net effective rents have fallen in every London submarket.

The Mayfair (https://www.bisnow.com/tags/mayfair) and St James (https://www.bisnow.com/tags/st-james)'s district saw the biggest drop, with net effective rents falling 11% in the 12 months to the end of June 2021. The City of London (https://www.bisnow.com/tags/the-city-of-london), Midtown and the West End (https://www.bisnow.com/tags/the-west-end) have all seen a decline in headline rents during the last 12 months, with rents for prime space falling by nearly 1% and net effective rents falling by about 8% on a five-year lease.

In east London, including Docklands, prime headline rents dropped 3.2% and net effective rents by 9.7% over the same period.

Carter Jonas said that in a recession, landlords tend to offer rent-free periods as discounts to tenants rather than cutting headline rents.

Rent-free periods have expanded by three to five months for a five-to-10-year lease since the start of the pandemic, taking the typical rent-free across most central London districts to 12 to 16 months for a five-year lease and 25 to 29 months for a 10-year lease.

In Docklands, rent-free periods are slightly higher, at 14 to 18 months for a five-year lease and 26 to 31 months for a 10-year lease, reflecting the different supply and demand dynamics of that submarket.

Though it was good news that take-up from occupiers improved in the second quarter of 2021 (https://www.bisnow.com/london/news/office/law-firm-takes-158k-sf-in-the-city-as-london-leasing-recovery-continues-109876), Carter Jonas said, it won't necessarily lead to increased net effective rents.

“While the increase in take-up is encouraging, it is unlikely to prevent a further fall in net effective rents, and we expect occupier demand to remain subdued until there is greater certainty over future working patterns,” it said. “Vacancy rates are likely to rise further, especially for second-hand poorer quality stock, in tandem with reductions in advertised rents."

Carter Jonas added higher-quality stock wouldn't be immune from downward pressure on rents as companies move to reduce their occupied estates, subletting surplus they can't dispose of via lease breaks and expiries.

“As vacancy rises and as landlords increasingly need to compete with tenant-marketed space, advertised rents are expected to decline as competition hots up for footloose tenants," it said. "However, we remain optimistic about demand for office space in the medium term, and with a constrained level of new development, we are likely to see a shortage of premium quality space emerge.”

Contact Mike Phillips at mike.phillips@bisnow.com (mailto:mike.phillips@bisnow.com)

See Also: What A Dating App Can Tell Us About The Return To The Office (/london/news/office/what-dating-app-data-tells-us-about-the-return-to-the-office-109995)

Related Topics: Carter Jonas (https://www.bisnow.com/tags/carter-jonas), London office rents (https://www.bisnow.com/tags/london-office-rents)