

The London Series



Our approach

January 2025

The London Series addresses the key issues shaping the future of London and its office market.

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BRINGING CLARITY THROUGH INSIGHT,
NUANCE THROUGH DATA

Momentum, polarisation, volatility

These three dynamics will converge to shape the London office market in 2025

Three dynamics lie at the heart of the future performance of the London office market: momentum, polarisation, and volatility. The interplay and interdependence of these factors will determine the market's speed and trajectory, the nature of its challenges, and London's longer-term potential to sustain and enhance its global standing.

MOMENTUM BUILDS: ONE YEAR ON

One year since the inaugural publication of *The London Series*, momentum – a central theme of that campaign – continues to reshape the London office market.

Active demand has grown by 1 m sq ft year-on-year, with take-up increasing by over 0.5 m sq ft each quarter in 2024, surpassing 3 m sq ft in Q3 – the

strongest third-quarter performance since 2019.

On the supply side, total available office space has declined by 1.7 m sq ft over the year, driven by both this increasing occupier engagement, and refurbishment, repurposing, and repositioning efforts on the supply side. Vacancy rates have similarly fallen, decreasing by 80 basis points over the same period.

Momentum is undoubtedly building, yet its distribution across the market remains uneven. Geographically, core markets – bolstered by the Crossrail effect – have sustained a stronger cadence than non-core markets. Leasing markets have also outperformed investment markets, with a decoupling favouring the former. This contrasts sharply

with the pre-Covid cycle, where the capital markets ran ahead of occupational dynamics. However, the starkest example of a two-tiered market dynamic lies in the quality of office products.

POLARISATION DEEPENS

Last year, we observed that structural changes in real estate markets generate polarisation. London has indeed become more divided regarding office quality and rental performance. Over the past year, there has been a marked divergence in occupier demand, leasing activity, and financial outcomes between new or fully refurbished offices and secondary stock. Notably, 65% of all space let in the four quarters to Q3 2024 was either new or fully refurbished.



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The investment market has also experienced polarisation, with distinct differences between active and inactive investors. While the market is expected to be driven by institutional investment in low-risk core assets (trophy properties), uncertainty surrounding interest rate peaks and price troughs has created a landscape dominated by private investors. These investors face fewer barriers to entry and often focus on smaller, value-add assets.

FROM UNCERTAINTY TO VOLATILITY

The London office market has faced persistent uncertainty over the last decade, influenced by Brexit, political upheaval, elections, geopolitical tensions, conflicts, and Covid. This prolonged period has normalised uncertainty, leaving investors and occupiers to adapt or pause, hoping for a return to normality. However, the sustained nature of this uncertainty suggests a permanent shift away from past market norms.

Instead, volatility will become the defining characteristic of the macroeconomic and operating environment. Political changes illustrate this subtle shift. While 2024 saw global elections impacting over half the world's population, many political transitions have now been enacted or accepted. The new Labour government is navigating domestic economic health in the UK against a complex global economic backdrop. At the same time, in the US, Donald Trump's return to the presidency will reignite the domestic agenda, reshape geopolitics, and trigger



volatility through significant policy shifts. The precise policy mechanisms used on both sides of the pond and how they are received will invariably generate challenge, opportunity, upheaval, and volatility.

IMPLICATIONS FOR THE LONDON MARKET

Momentum, polarisation, and volatility elicit varied responses from market participants, ultimately shaping the market.

- **Momentum:** Fear of missing out (FOMO) often prompts action from investors and occupiers. However, the inconsistent nature of the investment market, particularly, has yet to generate the confidence needed to trigger more widespread activity.

- **Polarisation:** Market participants face two options: a superior product at a premium cost amid tight supply or an inferior product at a lower price but with significant limitations and future expenditure requirements.

- **Volatility:** While some opportunistic players may thrive, heightened volatility more commonly results in decision paralysis, as the fear of mistakes on timing or selection outweighs potential gains.

The confluence of rising momentum, deepening polarisation, and growing volatility will define the London office market in 2025. Together, these dynamics will provide the foundation for London's long-term future as a globally relevant and competitive city.

The London Series: Delivering clarity through insight, nuance through data

The 2025 edition of *The London Series* examines the intersection of momentum, polarisation and volatility. Through four insight papers, Knight Frank provides a detailed analysis of the trajectory, positioning, and performance of the London market in 2025 and beyond.

INSIGHT ONE

THE BLUEPRINT FOR LONDON

London consistently ranks among the world's leading cities, celebrated as a global hub for investment, business, culture, retail, tourism, education and living. Its position may seem secure – so why re-evaluate London's case now? Because 2024 has been a year of profound domestic, global, financial, and political change.

Insight One in our series highlights London as both a beacon of relative stability in uncertain and volatile times and a pioneer of technological innovation, modernisation, and economic growth. These strengths, combined with its enduring competitive advantages, present a compelling opportunity for investors, developers, and occupiers. As the paper explores, this is the moment to engage, at the start of the next chapter in London's evolution.

INSIGHT TWO

SHIFTING BEHAVIOURS, EMERGING OPPORTUNITIES: UNLOCKING THE LONDON OFFICE MARKET

Market behaviour and performance is always shaped by the interplay between supply and demand. The post-Covid period has seen the London leasing market diverge from traditional norms, driven by profound structural

changes and broader economic uncertainty, with an associated recalibration of market metrics.

In our inaugural London Series, we observed that demand and take-up levels were recovering, albeit slowly and steadily, after a period of conjecture and reassessment. At the same time, supply-side confidence weakened, hindered further by surging construction costs effectively stalling the development pipeline and the refurbishment of office space at the growing risk of obsolescence. This generated an acute imbalance between supply and demand, particularly at the higher quality end of the market. Subsequently, polarisation became a watchword for the market, as did the 'flight to quality', leading to us redefining prime rents and resetting their levels.

A year on, what has shifted?

Has the market dynamic evolved?

How are occupiers responding?

And, ultimately, what does that mean for market performance?

This is the focus of Insight Two. In our view, while recognising wider economic and operating market volatility,

conjecture is giving way to conviction on the demand side. But with that conviction comes greater variability in response. And that's a good thing, as it is this variety of behaviours that will be essential in unlocking the London office market. The paper focuses on the market implications of these behaviours, their impacts on rents and key considerations for 2025 and beyond.

INSIGHT THREE

THE CORE OPPORTUNITY

The investment market remains challenged, but signs of stabilising investor sentiment and emerging activity suggest a revival in volumes for 2025. Advanced economies are beginning to reduce policy rates, and while long-term financing costs have risen following the UK Budget and US election, interest rates are expected to decline over the medium to long term.

A well-functioning market requires increased institutional investment in larger lot-size assets. Institutional investors are steadily returning, and the availability of core assets for sale is growing. In Insight Three, we present



the investment case for these lower-risk profile assets. We argue that with values down nearly 30% from their peak and with leasing market and rental growth expectations improving, they now present an attractive case for investment.

INSIGHT FOUR

LONDON AS A MEGA CITY

Having made the case for London's continued global relevance, Insight Four in our series focuses on London's future and what it must achieve to sustain and accommodate growth while maintaining cohesion and functionality. This is not just a local issue but one central to the UK's productivity and prosperity.

A recent UK Foundations report underscores three critical enablers of progress: housing, infrastructure, and energy supply. The report argues that the future growth trajectory of London, and the wider UK, hinges on private investment, economic clustering, and an increase in power leading to reduced energy costs.

To thrive, London must grow further, anchored by these essential pillars, and reimagine itself as a modern megacity that appeals to global investors, businesses, and talent. This requires not just physical transformation but a fundamental rethinking of how Londoners live, work, and interact with their city.

The final part of The London Series explores the real estate challenges and opportunities that lie ahead, offering a strategic vision for London's future.

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ABOUT THE LONDON SERIES

Clarity through insight. Nuance through data.

Navigating structural change requires clarity – an objective analysis of the present to enable progress. It demands new perspectives, innovative metrics, and the willingness to challenge conventional assumptions. Creativity and adaptation are vital.

Structural change also dismantles generalisations and questions traditional data. The real insights lie in

the nuance, requiring granular data and detailed analysis.

This is the mission of *The London Series*.

In a four-part insight series, aligned with the 2025 London Breakfast, Knight Frank addresses the pressing issues shaping London's market to provide a view on what impact and opportunity it will have on London's near-term and longer-term future. By leveraging proprietary market data, cutting-edge analysis, and the expertise of our London teams, we aim to deliver both clarity and nuance for our clients.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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