The London Series

Insight 3 – Product: Building at the limits

Q1 2026

Our third paper in The London Series, focusing on product.

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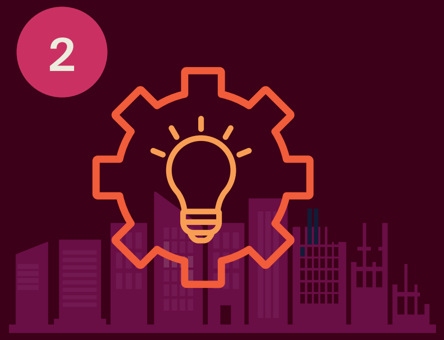
Key takeaways

London's office market is shifting from a race to build more to a race to build what truly works.

Demand remains strong for future-proofed, high-spec workspace, but delivery is constrained by high costs, planning friction and financing hurdles. Vacancy for new/refurbished space in core markets is below 1%, while development volumes remain muted.

Implication for Occupiers
Occupiers face limited choice and prolonged scarcity of best-in-class space. Securing preferred locations increasingly requires early engagement and pre-letting.

Implication for Developers/Landlords
Developers must prioritise certainty of delivery, specification and where possible scale. Early planning and disciplined execution are critical to capture rental upside in a structurally tight market.



Occupier demand has undergone a structural reset.

Best-in-class offices now combine technical performance (low energy use, smart systems, all-electric MEP) with hospitality-driven amenity and flexibility. Older stock cannot meet these standards, driving concentrated demand for premium buildings.

Implication for Occupiers
Occupiers need to recalibrate expectations: ESG compliance, wellness and digital capability are non-negotiable. Delaying decisions risks losing access to high-performing space.

Implication for Developers/Landlords
Refurbishment will dominate future supply, but only assets with structural capacity to meet modern standards will succeed. Design must prioritise operational performance and amenity.

London is not running out of demand – it is running out of the buildings demand wants.

Development volumes will remain lower than previous cycles, but projects that proceed will be more resilient and valuable. Economic rents are rising faster than costs, improving viability without relying on ultra-cheap capital.

Implication for Occupiers
Occupiers should anticipate continued rental growth and scarcity. Pre-letting early is increasingly the only way to secure prime space on favourable terms.

Implication for Developers/Landlords
Developers who act early will deliver into a market defined by constrained supply and strong rental dynamics. Timing and conviction matter: waiting for perfect conditions risks missing the window entirely.

Product: Building at the limits

London at a turning point

London's office market is shifting from a race to build more to a race to build what truly works. The city is not short of demand – it is short of deliverable, future-proofed workspace. Rising costs, planning friction and a rapid shift in occupier expectations have created a development landscape where only the most resilient schemes break ground.

Demand has been robust, seeking low-carbon, high-amenity, digitally capable buildings, while supply has been stuck in a lower gear. Recent completions have not matched occupier demand. Since 2019, there has been 36.1m sq ft of new and refurbished take-up whilst completions have only tallied 27.6m sq ft. This structural shift in better quality lease-up has resulted in vacancy rates for new and refurbished space in the City Core and West End Core submarkets below 1%.

Developers who can deliver certainty, not just ambition, will define the next cycle.

WHAT HAS CHANGED – A NEW SET OF LIMITS

1. COSTS UP, VIABILITY DOWN

London's office development market has moved from a period of growth to one defined by structural constraints. Strong rental growth and resilient demand have not translated into a surge in new supply. Instead, rising costs and higher financing rates have reshaped viability, creating a market where demand is concentrated in prime space, amenity rich schemes in high connectivity locations – but delivery remains muted.

> "Rising costs, planning friction and a rapid shift in occupier expectations have created a development landscape where only the most resilient schemes break ground."

Construction costs have been a major headwind. The BCIS All-In Tender Price Index has risen by nearly 20% since 2020, reflecting higher labour costs, volatility in material prices, and compliance requirements including planning led interventions.

Fit-out costs have also escalated sharply. Cat A fit-out, which provides a landlord-ready base, now typically ranges from an average of £70 per sq ft, compared to £40-£50 per sq ft five years ago – although, it is plausible for fit-out costs to exceed £100 per sq ft. This uplift adds significant pressure to overall development appraisals, especially when combined with sustainability upgrades and enhanced building services.

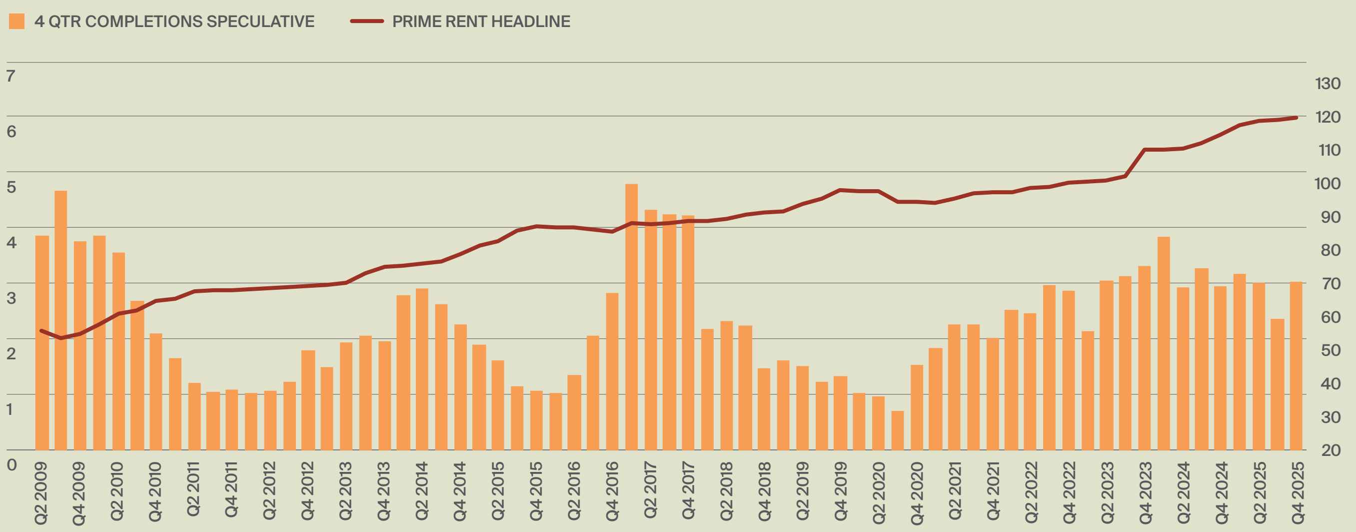
2. RENTAL GROWTH WITHOUT A SUPPLY SURGE

Prime headline rents in the City Core have grown strongly, from £72.50 per sq ft in 2019 to £102.50 per sq ft in 2025 (+41.4%), whilst in the West End Core they have grown from £115.00 per sq ft to £185.00 per sq ft (+60.9%) – our definition of prime was recalibrated in 2024 to reflect the shift in occupier requirements for premium spec office space.

Historically, such rental growth would have triggered a surge in speculative development. However, in this cycle, development completions have been more modest – at an annual average of 2.4m sq ft across the capital – broadly in-line with historic averages. The restricted availability of sites in these core locations has added further inflationary pressure to costs.

London – Completions and prime rents

m sq ft (LHS), growth index Dec-2019=100 (RHS)



Source: Knight Frank Insight

Rental growth has occurred during a period where the composition of leasing activity has fundamentally changed, driving the vacancy rates for the best quality offices to historic lows (below 1%) in London's two main business districts. New and refurbished space now accounts for over two-thirds of total take-up, reflecting occupiers' preference for the highest quality new workspace. This means demand is concentrated in the very product that is most expensive to deliver – a tension that defines today's market.

3. THE COST OF MONEY HAS RESET

Financing costs have compounded the challenge. Policy rates rose from a low of 0.10% in Q1 2020 to a peak of 5.25% in Q2 2024, compared to an average of 0.51% in the previous cycle.

Similarly, five-year swap rates, a benchmark for development loans, averaged 1.5% during the 2010s, climbing from a low of 0.19% in Q2 2020 to a peak of over 5.0% in Q3 2023.

Higher rates mean higher borrowing costs and tougher viability tests. Even strong rental growth cannot fully offset the drag from expensive debt and heavier discount rates. Moreover, the pool of buyers for completed office buildings is smaller as debt driven buyers struggle to service loans with rental income.

This mismatch – rents up, cranes down – signals a structural constraint, where rising costs and financing hurdles have kept many schemes on hold despite strong occupational demand.

4. PLANNING FRICTION NARROWS THE PATH

Planning has never been a single hurdle, but it has evolved into a longer, more tightly sequenced corridor that slows delivery and compresses development windows. Determination periods have lengthened significantly, with major schemes often taking 12-18 months from submission to consent, compared to 6-9 months a decade ago. Pre-application cycles have become more iterative, requiring multiple rounds of design revisions to address sustainability, heritage, and community impact concerns.

> "Technical scrutiny is deeper than ever. Energy performance, embodied carbon, biodiversity net gain and fire safety compliance are now core planning tests."

Technical scrutiny is deeper than ever. Energy performance, embodied carbon, biodiversity net gain and fire safety compliance are now core planning tests, not peripheral considerations. Indeed, post-Grenfell, planning policy tightened around façade and cladding materials, requiring far more stringent fire-safety compliance and documentation. Schemes in or near residential buildings now face heightened scrutiny on fire separation, escape routes and building interfaces, increasing design and regulatory requirements. This all adds cost and time, but also a further layer of uncertainty, while months are absorbed navigating successive technical gateways, the economic context can shift materially. As financing costs, build inflation and occupier demand move during prolonged determinations, schemes that were bankable at submission can emerge unviable at consent – forcing repricing, redesign or outright non-delivery.

A large majority of future supply is refurbishment-led (52.3%) reflecting carbon priorities and cost realities. Retrofit is London's future strength. But a retrofit-first pipeline is not enough. A significant share of older buildings cannot – even with deep intervention – meet the structural, spatial or ESG performance standards that modern occupiers require.

CONDITIONS ARE STARTING TO EASE – BUT PLANNING REMAINS A TALE OF TWO BOROUGHS

There are signs of improvement. Cost inflation has moderated from its 2021–2022 peak, and tender price inflation is now running at low single digits. At the same time, policy and swap rates have begun a downward trajectory from their 2023 highs. If these trends persist, conditions for development will improve, though not to the ultra-low-rate environment of the 2010s.

Furthermore, there are reasons for optimism from a planning standpoint. The City of London Corporation has been proactive, materially increasing the volume of higher-level planning consents despite a more demanding regulatory backdrop. In 2025, the Square Mile recorded its highest number of planning applications in a decade, with over 5.4m sq ft of office floorspace granted consent and major commercial schemes up 36% year-on-year. Importantly, this has not reflected looser scrutiny, but a more strategic and action-oriented planning approach, supported by the emerging City Plan 2040 and a comprehensive sustainability guidance framework.

Around half of approved space is already moving into construction, signalling that the City has been able to convert planning momentum into delivery more effectively than most London authorities. The resulting pipeline is highly selective

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– skewed toward large, premium schemes with strong sustainability credentials – but it demonstrates that, where policy clarity and planning capacity align, significant scale can still clear the system.

Despite this improvement, the forward supply position remains structurally tight. An under-construction and highly likely speculative delivery programme of just under 5.0m sq ft over the next five years equates to only around 50% of forecast occupier take-up over the same period. Even with the City's elevated consent rate and improved conversion into delivery, the pace of new supply falls materially short of expected demand, reinforcing the risk of continued vacancy compression and upward pressure on prime rents unless additional capacity is unlocked beyond the current pipeline.

In contrast, Westminster remains a net drag on office capacity. Policy and practice prioritise heritage protection, townscape preservation and mixed-use balance, which routinely dilutes office outcomes via change-of-use to residential, hotels and cultural uses. Change-of-use should be encouraged in locations where office demand is weak. Conservation area and listed-building constraints narrow the scope for height, massing and deep structural upgrade, pushing schemes toward boutique refurbishments rather than larger scale redevelopment.

The supply consequence is negative. The pipeline is fragmented – new consents are heavily conditioned and slow to convert – and net additions are frequently offset by ongoing stock loss elsewhere. Unlike the City, Westminster has not materially grown its Prime and Grade A base through planning. For occupiers, this means reduced choice, slower delivery, and a persistent mismatch between modern workspace requirements and what the borough can realistically bring forward.

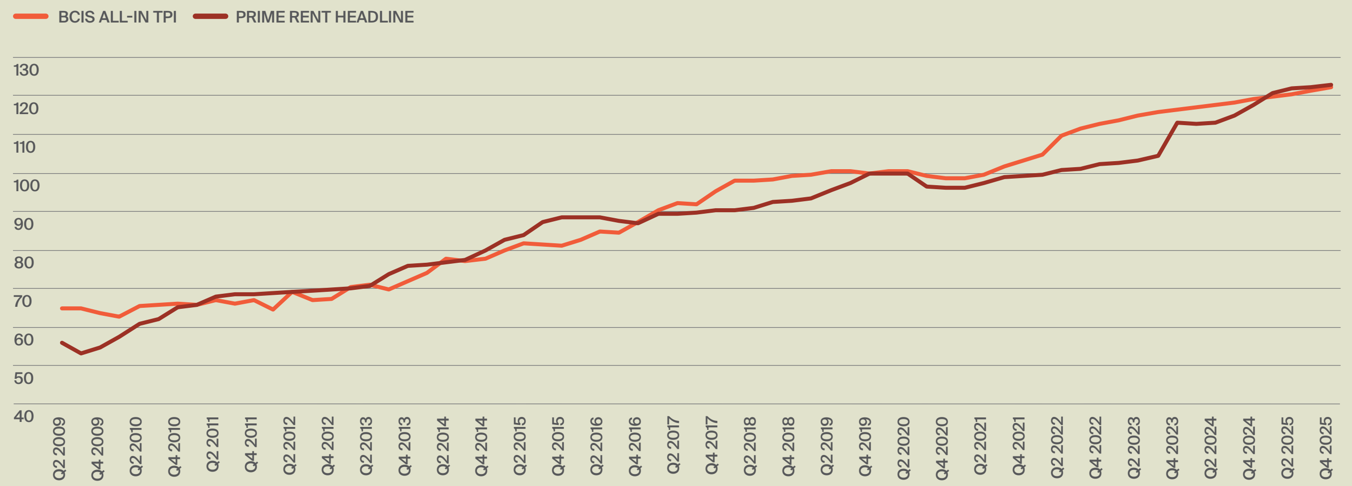
OCCUPIERS ARE MOVING UP THE QUALITY CURVE

Occupier demand has undergone a fundamental reset. Best-in-class offices today are defined by a blend of performance, experience and flexibility that older buildings simply cannot match.

These buildings deliver materially lower operational energy use, higher air quality and thermal comfort, all

London – Prime headline rent and tender price inflation

Growth index Dec-2019=100



Source: Knight Frank Insight

electric MEP systems, and embedded smart-building infrastructure that supports real-time optimisation. They pair this technical performance with hospitality-driven amenity – terraces, wellness facilities, collaboration zones, high-quality food and service offerings – that support culture and talent retention.

They are also inherently flexible, with efficient floorplates, resilient risers, robust digital infrastructure and future-proofed layouts that allow occupiers to evolve space as working patterns shift. This is a permanent shift, not a cyclical taste: leasing activity is disproportionately concentrated in these high-performing buildings that support greater productivity.

London is now structurally undersupplied in this category. Accordingly, larger scale pre-lets are being struck earlier and reflecting an imbalance between what occupiers seek and what London can deliver.

OUTLOOK – FEWER BUILDINGS, BETTER BUILDINGS, BIGGER OPPORTUNITY

It is likely London will build fewer offices in the coming cycle, but the buildings that emerge will be higher performing, more resilient and more valuable. Scarcity will support rental strength at the top end, while ageing and non-compliant stock faces accelerating obsolescence. Of course, this might not be good for London over the long-term.

THE ECONOMIC RENT CURVE HAS TURNED

After four years of costs outrunning rents, the viability equation is finally shifting. The turning point is not from falling construction costs, but from rents rising faster than cost inflation, narrowing the gap from above. This reflects a structural improvement in development economics as rental growth accelerates while cost inflation remains contained.

Our model of economic rents assumes delivery of a 100,000 sq ft office in the City Core and 50,000 sq ft in the West End Core delivered in 2029 and compounding construction costs at 2.9% per annum. Total development cost is built from inflation-adjusted build costs, professional fees, contingency, and developer overhead and profit at 15% of subtotal before finance, with finance charges applied at 6%. Lease assumptions include a 10-year term with 24 months rent-free, reducing the rent-paying fraction to 80%.

Under these assumptions, the required headline rent to clear the cost-of-capital hurdle is estimated at £91.50 per sq ft in the City Core and £138.00 per sq ft in the West End Core. These figures are benchmarked against current and forecast market rents – £102.50 today and rising to £129.75 by 2030 in the City Core and £185.00 rising to £227.50 per sq ft in the West End Core – illustrating the improving economics. In both cases, current rents comfortably exceed the required level, widening viability margins as rental growth outpaces cost inflation.

These estimates are necessarily a broad generalisation and are not intended to represent the economics of any specific site or asset. Individual schemes will vary depending on land price, specification, procurement route, finance structure, and market conditions at the time of delivery.

Nevertheless, the model provides a consistent framework for comparing relative feasibility across submarkets and cycles, helping to indicate the level of rent required to make a typical scheme viable under current cost assumptions.

In short, the economics of development are turning positive – not because costs are falling, but because rents are rising faster than costs. This dynamic supports renewed confidence in pipeline delivery and underpins a more favourable risk-return profile for prime London offices.

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The next cycle favours those who start early

1. IMPLICATIONS FOR THE MARKET

The next phase of London’s office cycle will be defined by scarcity rather than oversupply. Structural constraints on delivery – planning friction, capital intensity and ESG obsolescence – mean the volume of new, high-quality office space will remain limited even as occupier demand continues to concentrate at the top end of the market. An element of this is a cyclical pause in development activity, but more notably is becoming a structural thinning of the pipeline.

As a result, vacancy compression is likely to persist in prime submarkets, with letting risk materially lower for well-specified, buildings in strong locations. Rental growth is being driven not by speculative exuberance, but by a widening gap between what occupiers require and what the market can realistically deliver. For secondary and non-compliant stock, the reverse applies: functional obsolescence, rising capex burdens and weaker liquidity will accelerate value divergence.

Importantly, this cycle will reward timing and scale. Projects that can navigate planning early, lock in specification and move decisively into construction will deliver into the period of strongest rental tension. Those that wait for perfect conditions risk missing the window entirely, as build costs, finance and planning timelines remain asymmetric to short-term market shifts.

2. PLAYBOOK FOR MARKET PARTICIPANTS

For developers and investors, the playbook has changed. Success in the next cycle is less about optionality and more about execution discipline.

Start earlier and commit sooner: planning and pre-construction now absorb a greater share of the development timetable. Schemes that enter the system early are better positioned to withstand economic volatility and deliver into constrained supply windows.

Design for demand concentration: specification should prioritise operational performance, flexibility and amenity rather than maximising floor area. Buildings that cannot genuinely meet occupiers’ ESG, wellness and digital expectations will struggle to compete, regardless of location.

Recalibrate viability metrics: traditional hurdle rates and cost-of-capital models understate the value of reduced letting risk. Economic rents should be assessed in the context of structural scarcity, not historic averages.

Be selective on retrofit: retrofit will dominate future supply, but not all buildings are suitable candidates. Capital should be directed toward assets with the capacity to meet modern standards without disproportionate intervention.

Lean into disciplined speculation: with supply structurally constrained and demand increasingly front-loaded toward best-in-class space, the risk balance has shifted. High-conviction speculative development – executed early and to the right specification – now offers asymmetric upside as leasing velocity and rental growth outpace delivery.

For occupiers, the implication is equally clear: delaying decisions narrows choice. Pre-letting earlier in the development cycle may increasingly be the only way to secure best-in-class space on preferred terms.

3. OUTLOOK

London is not running out of demand – it is running out of the buildings demand wants. While development volumes will remain lower than in previous cycles, the projects that do proceed will be higher-performing, more resilient and more valuable. Economic rents are turning decisively upward as rental growth begins to outpace cost inflation, improving viability without relying on a return to ultra-cheap capital.

The next cycle will therefore belong to those who recognise that conditions are quietly but materially improving – and act before that improvement becomes consensus. Developers who start early will deliver into a market characterised by constrained supply, strong occupier hunger and supportive rental dynamics. Those who wait for absolute certainty may find that the opportunity has already passed.

In this environment, certainty of delivery is the ultimate competitive advantage.

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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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