The London Series

Insight 4 – Capital: Risk re-priced and volatility tamed

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Our fourth paper in the London Series, focusing on capital.

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Key takeaways

1

London remains one of Europe's most durable office markets.

London's scale, liquidity and labour-market depth underpin its resilience. Over 2026-2030, GDP growth will average 1.6% annually, and the city will add c.186,000 office-based jobs – far ahead of Paris, Berlin, Madrid or Amsterdam. Vacancy rates are below long-term norms, and prime rents in the City and West End have risen 11% and 22% respectively, outpacing all major peers.

Implication for Occupiers
Occupiers face a tightening market where high-quality space is increasingly scarce. Securing future-proofed buildings early will be critical as demand outpaces supply.

Implication for Developers/Landlords
Developers can leverage London's structural resilience to justify new schemes, but must anticipate strict planning and longer lead times. Investment strategies should prioritise prime assets to capture rental growth and liquidity.

2

Winning strategies look different from previous cycles.

The next phase is defined by structural scarcity, not cyclical exuberance. Planning and procurement now consume a larger share of development timelines, providing a first mover advantage. Occupiers demand energy efficiency, amenity and digital capability, while investors must rethink hurdle rates as volatility declines and downside risks narrow.

Implication for Occupiers
Occupiers should commit decisively to best-in-class space and avoid optionality that delays delivery. Specifications around sustainability and technology are now non-negotiable.

Implication for Developers/Landlords
Developers and investors can currently deliver into periods of tight supply. Strategies such as targeting reversionary potential and recalibrating underwriting assumptions to reflect a changing investment landscape will outperform in a market where risk-adjusted returns are improving. Design must prioritise operational performance and amenity.

3

London enters this cycle from a position of quiet but accumulating strength.

Office jobs growth will outpace every major European peer; capital inflows remain robust (£6.9bn annually in 2023-25, peaking at £9.3bn in 2025). Supply of best-in-class space is tightening, with an undersupply projected to reach 11.6m sq ft by 2030. Combined with moderating macro volatility, this points to a multi-year period of steady rental growth (c.4.8% per annum), resilient income and superior risk-adjusted returns.

Implication for Occupiers
Occupiers should expect rising rents and limited availability of prime space. Timely engagement and long-term commitments will mitigate cost pressures and ensure access to quality assets.

Implication for Developers/Landlords
Landlords and developers can position for sustained rental growth and income resilience. Core and Core Plus strategies offer compelling returns (up to 13% annually over five years), supported by scarcity and disciplined delivery.

Risk re-priced and volatility tamed

London's office market is entering a new cycle shaped less by volatility and more by structural clarity. The turbulence of the early 2020s has given way to a market where risk has been re-priced, supply is tightening, and demand is consolidating around high-quality space. This is not the exuberant growth of past cycles, but a steadier, more disciplined expansion – one where London's scale, liquidity and labour-market depth give it an advantage that few European cities can match. As the conditions that once fuelled oversupply fade, the city is shifting into a position where momentum feels quieter, but ultimately more durable.

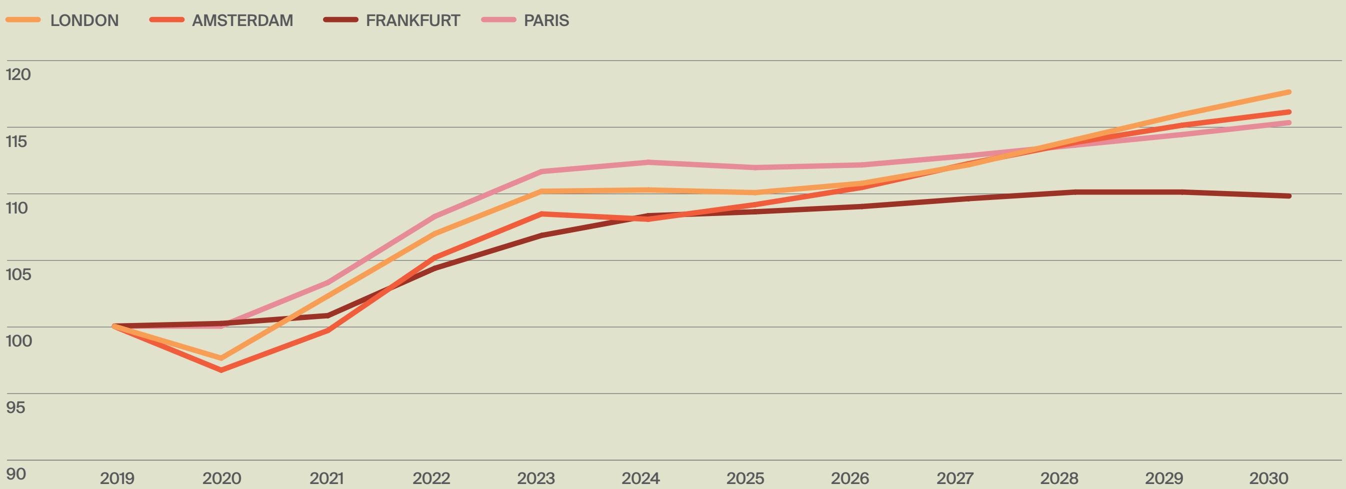
STRENGTH IN SCALE, MOMENTUM IN DEMAND

London's economic outlook over 2026-30 signals a period of steady, broad-based expansion rather than exuberant growth – but in relative terms, it remains one of Europe's most durable office markets. Real GDP growth is expected to average around 1.6% per year, a touch softer than the pre-pandemic five-year average (2015-19) but broadly in line with other major European cities. What distinguishes London is not its macro pace, but the depth of its labour market: over the next five years, the city is projected to add around 186,000 office-based jobs, far more than Paris (51,500), Madrid (81,400), Berlin (33,500) or Amsterdam (30,600) and nearly an order of magnitude above Frankfurt (3,800). Even Dublin – coming off a decade of exceptional growth – adds roughly 25,700, well short of London's scale. In a continental context, London's labour market remains the engine room: large enough to absorb shocks, diverse enough to sustain hiring across sectors, and attractive enough to continue pulling in firms seeking access to global talent.

This labour-market momentum matters because it shapes the demand side of the office equation, which is increasingly the decisive factor in market performance. Even as real-estate delivery slows across Europe, London's ability to generate far more incremental office jobs than any peer reinforces its relative resilience. With most cities entering a period of subdued construction and tighter planning environments, the cities that grow their knowledge-economy workforce the fastest – and by the largest absolute numbers – are best placed to sustain rental growth. Seen through this lens, London's forward profile is not one of runaway growth but of quiet strength: an economy still expanding, a labour market still deepening, and a projected wave of new office-using workers unmatched anywhere else in Europe. For a market increasingly defined by scarcity of high-quality space, those fundamentals position London as one of the few major cities where demand is likely to keep outpacing supply, supporting both occupier and investor confidence.

Key European cities – Office employment

Growth index Dec-2019=100



Source: Knight Frank Insight

THE CAPITAL THAT KEEPS ATTRACTING CAPITAL

Staying power has always been one of London's defining advantages, and the investment data confirms that resilience. Even through a period of sharply higher rates and weaker global risk appetite, London has continued to attract more capital than any other major European office market. In the most recent window, 2023-2025, the city drew an average of £6.9bn per year, ahead of Paris at £6.0bn and far beyond Amsterdam, Berlin, Madrid and Milan, which each sat closer to £1bn annually according to MSCI data. Even in 2025, when investment flows were still recovering, London reached £9.3bn, maintaining a clear lead over all peers. This consistency – capital finding its way back to London even when markets are hesitant – speaks to the city's long-standing role as Europe's most liquid, most internationally recognised safe harbour for real estate investment.

That depth of cross-border demand is not purely a function of size, it reflects the breadth of London's investor base, the transparency of its market, and the global familiarity that continues to anchor allocations through cycles. For a forward-looking market defined by structural scarcity of high-quality space and a strengthening labour market, the persistence of this capital inflow reinforces the point that – London is not just generating more demand – it remains the city investors return to first and leave last.

BREAKING AWAY FROM THE PACK

Across Europe, office markets are still settling into a slower, structurally more selective cycle, and the fundamentals reveal which cities are emerging with real momentum. In many markets the landscape is softening: Berlin and Paris are carrying vacancy levels above their long-run norms, and rental growth has cooled to only modest annual gains. London, by contrast, is beginning to separate from this middle ground. Vacancy in both the City Core and West End Core is now below long-term averages, with the City falling from 7.6% to 6.2% in a single year – one of the clearest signs of demand re-anchoring around high-quality space. At the same time, prime rents in London are rising more decisively than in any major peer: City rents increased by 11% over the past year, and the West End by 22%, outpacing Paris, Berlin, Madrid and Amsterdam, all of which posted far smaller uplifts. Forward indicators tell a similar story: London is projected to record the strongest prime-rent growth in Europe between 2026 and 2030, supported by its deep occupier base and a sustained shift toward modern, high-spec buildings.

> "City rents increased by 11% over the past year, and the West End by 22%, outpacing Paris, Berlin, Madrid and Amsterdam, all of which posted far smaller uplifts."

These fundamentals translate into a compelling investment proposition. While most European markets are still adjusting to tighter financing conditions, the City market in London stands out by offering higher prime yields – around 5.25% – than Paris (4.15%) or Berlin (4.70%), giving investors more income on day one. Crucially, this yield sits alongside a stronger rental outlook and healthier occupancy trends, creating

a combination of income resilience and growth potential that is hard to match elsewhere. Even the spread over government bonds, at around 0.8 percentage points, remains competitive once the rental trajectory is accounted for. In a cycle increasingly defined by scarcity of top-tier space and a flight to quality, the City's blend of rising rents, improving vacancy and attractive yield positions it as one of Europe's most fundamentally appealing office markets for the years ahead.

The West End meanwhile functions as London's defensive core – a market where scarcity, brand value and global occupier demand have consistently translated into resilient income. Prime yields are tighter at around 3.75%, reflecting the West End's safe-haven characteristics and a track record of rental growth that has historically outpaced inflation. Over the next five years, prime rents are expected to grow by around 4.2% per annum, supporting real income growth even in a calmer economic environment. The recent period – when higher rates temporarily sidelined some institutional buyers – briefly lowered barriers to entry in a market that is usually tightly held, offering rare access to assets defined by durability rather than cyclicality. Looking ahead, as capital markets stabilise, the West End's combination of deep scarcity and inflation-resilient rents reinforces its role as one of Europe's most secure long-term office investment markets.

> "London's combination of reliable income, genuine rental momentum and clear reversion capture positions Core and Core Plus strategies as among the most attractive risk-adjusted propositions available."

ATTRACTIVE TODAY, COMPELLING OVER FIVE YEARS

Core offices in the City look increasingly compelling as the next cycle takes shape. Using the market's own forward signals – a 4.8% annual rental growth forecast for 2026-2030 and a prime yield of 5.25% – a stabilised, income-secure asset delivers a gross annual return of around 10%, and this is without any yield compression. That is driven by a balanced combination of steady income and real capital growth as rents compound from a low-vacancy, supply-constrained base. The assumption of no yield shift is intentionally conservative, particularly given that several independent macro-economists expect 10-year government bond yields to drift lower over the next five years, which historically has supported tightening real-estate yields. In other words, the core return we calculate is the floor, not the ceiling, in a market where fundamentals are already improving and capital is returning.

For Core Plus strategies, the opportunity looks even more pronounced. By capturing reversionary potential of roughly 15% – in this case assumed to crystallise through lease renewals in year three – the total return profile changes meaningfully. With rents reset to market levels and continuing to grow at the 4.8% per-year trajectory, a Core Plus London City asset generates a five-year cumulative return of around 83%, equivalent to around 13% per year, again with no yield movement assumed. That uplift

> “Today, high construction costs, planning friction and more stringent occupier requirements mean that new space cannot appear quickly enough to soften the market.”

reflects both the step-change in rent and the compounding, thereafter, magnified by a market still short of high-quality space. In a European landscape where many cities face rising vacancy, muted rent growth or tighter pricing, London’s combination of reliable income, genuine rental momentum and clear reversion capture positions Core and Core Plus strategies as among the most attractive risk-adjusted propositions available.

SCARCITY ERA BEGINS

London is moving into a period where scarcity, not surplus, will define the office market, and that scarcity is becoming quantifiable. Over the coming years, the pipeline of best-in-class space falls well short of what the market will require. By 2026-2028, London is projected to be undersupplied by around 5.2m sq ft, rising to 8m sq ft by 2029, and reaching as much as 11.6m sq ft by 2030 as demand continues to concentrate in high-performing, energy-efficient buildings. This widening gap is structurally different from previous cycles, where a responsive and often highly speculative development market kept rents volatile and supply plentiful. Today, high construction costs, planning friction and more stringent occupier requirements mean that new space cannot appear quickly enough to soften the market. The result is a fundamentals backdrop where rental growth is less cyclical, less fragile and far more predictable – and that naturally reduces leasing risk for investors. In other words, risk-adjusted returns improve not because returns are unusually high, but because the risks that once undermined them have materially diminished.

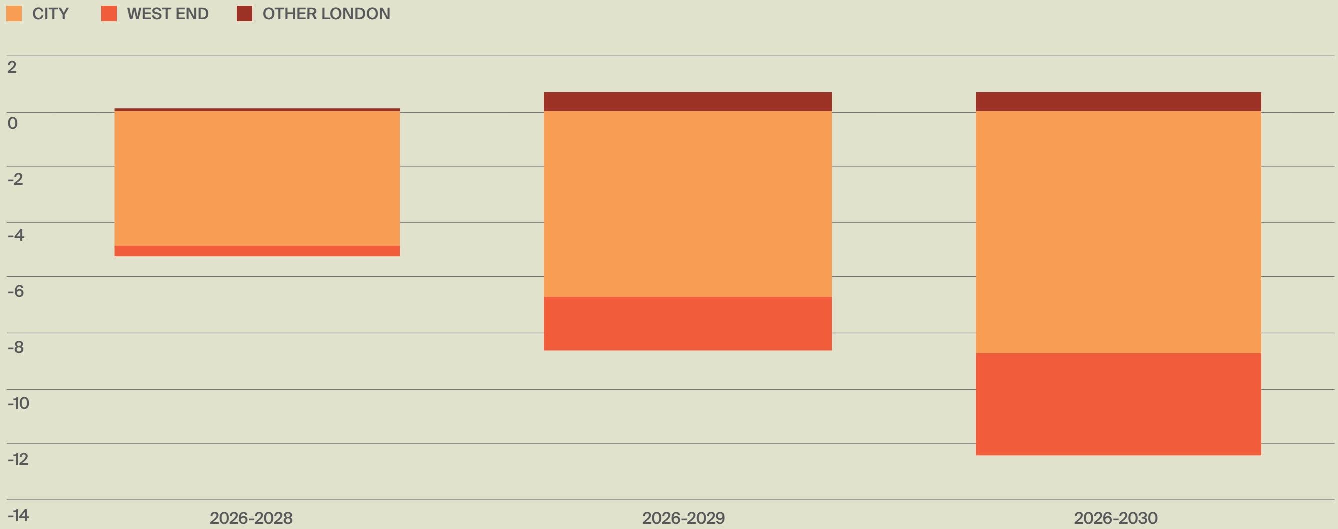
TIME TO RESET THE HURDLE

In this environment, there is a growing argument that traditional real-estate hurdle rates – borrowed from cycles defined by cheap debt and abundant supply – no longer reflect market reality. The conditions that once justified high target returns have fundamentally changed and applying them mechanically risks mispricing today’s opportunity set. Importantly, this reset is occurring alongside broader shifts in capital markets: equity investors are grappling with elevated valuations and more volatile earnings, while fixed-income returns, though improving, remain exposed to inflation and reinvestment risk. Against that backdrop, high-quality offices in structurally constrained global cities offer a combination of income visibility and capital preservation that compares favourably on a risk-adjusted basis.

If supply remains structurally limited and rental growth less volatile, the rational response is a recalibration of underwriting assumptions – recognising that downside risks have narrowed while income resilience has strengthened. In markets like London, where true Prime and Grade A space is scarce, this stability becomes a differentiator rather than a compromise. Requiring the same risk premia as past cycles, shaped by very different macro and supply conditions, becomes counterproductive. For investors, the reward is clear: a market where disciplined delivery supports rental performance, downside protection is enhanced, and hurdle rates evolve to reflect a more balanced, durable investment landscape.

London – Projections of under supply

m sq ft



Source: Knight Frank Insight

> "Jobs growth is set to outpace every major European peer, capital continues to flow back into the city, and the supply of best-in-class space is tightening just as occupier needs become more demanding."

NAVIGATING A NEW AND MORE INVESTIBLE CYCLE

1. IMPLICATIONS FOR THE MARKET

The next phase of London's office cycle will be shaped by structural scarcity rather than cyclical exuberance. With development pipelines thinning as viability challenges persist, planning windows lengthening and occupier expectations rising, the market is moving decisively toward a regime where high-quality space remains chronically undersupplied. This does not just support rental growth; it stabilises it. In previous cycles, surges in speculative supply often pushed rents into sharp reversals, but the current backdrop – marked by modest delivery and more selective capital – limits the risk of overbuild. Investors can therefore expect a market in which leasing risk is lower, growth is steadier and volatility is materially reduced compared with the decade that preceded the pandemic.

As demand concentrates further into best-in-class buildings and occupiers become increasingly intolerant of secondary space, the divide between resilient, future-proofed assets and everything else will widen.

2. PLAYBOOK FOR MARKET PARTICIPANTS

For those navigating this new landscape, the winning strategies look different from the ones that dominated earlier cycles. Planning and procurement lead times now consume a larger share of the development process, meaning projects that move first will deliver into the years of tightest supply.

Commit with clarity: In a market shaped by structural constraints rather than cyclical swings, excessive optionality can dilute outcomes where well defined strategies benefit from consistency and follow through.

Specify for performance: Occupiers are choosing buildings on the basis of energy efficiency, amenity and digital capability, not just location or floorplate, so assets that do not meet elevated standards will fall behind quickly.

Target reversion: In a market where prime space is scarce and rental growth is less volatile, capturing embedded upside through lease events becomes a critical lever for returns, particularly for Core Plus strategies.

Rethink hurdle rates: Applying historic return targets to a market with lower volatility and tighter supply misprices risk and may lead capital to overlook some of the cycle's strongest opportunities.

3. OUTLOOK

London enters this cycle from a position of quiet but accumulating strength. Jobs growth is set to outpace every major European peer, capital continues to flow back into the city, and the supply of best-in-class space is tightening just as occupier needs become more demanding. The combination of subdued delivery, deep demand and moderating macro volatility points toward a multi-year period where rents rise steadily, income remains resilient and risk-adjusted returns exceed those of previous cycles.

This is not the high-growth, high-build environment of the 2010s; it is a more disciplined, more durable and ultimately more investible phase – one where early movers will benefit most. For investors and developers willing to align with this new reality, the coming years offer something increasingly rare: a market where the fundamentals are not only improving but doing so with unusual clarity.

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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