

# Q2 2026 Market Update



In our Q2 2026 Market Update, amid a backdrop of ongoing geopolitical conflict, we focus on the London prime workplace market, which faces a continued shortage of suitable space, and rising rent and fit-out cost increases.

In this environment, several large occupiers are deciding to stay put: upgrading what they already have, rather than contend with constrained new supply, rising costs and macroeconomic volatility.

We explore how this trend is shaping the market – and workplace design – in 2026 and beyond.

MARKET OUTLOOK



**Hopes of a stable year unseated by renewed conflict in the Middle East**

At the start of 2026, there were hopes that this would be the year industry could collectively focus on delivering a steady, stable supply of work, propelled by falling UK inflation and expectations of further Bank of England (BoE) interest rate cuts.

## MARKET OUTLOOK (CONTD)

However, just three months later, as Q2 2026 begins, the outlook has already been reshaped by renewed conflict involving the US, Israel and Iran, starting in late February.

Disruption to shipping routes, aviation and energy production is already causing commodity price volatility. This has had knock-on effects on global financial market confidence, and insurers' willingness to underwrite certain risks, further driving up costs.

The incursion overshadowed the Spring Statement in early March, which revealed the Office for Budget Responsibility (OBR) downgraded its UK GDP growth forecast for 2026 to 1.1%, down from the 1.4% previously projected. Meanwhile, UK unemployment is rising, and is forecast to reach an 11-year high this year as rising National Insurance costs and wage growth cuts into businesses' bottom lines.

However, there are also positive indicators which should not be ignored. Construction



Station Road – Fora ©Toby Mitchell

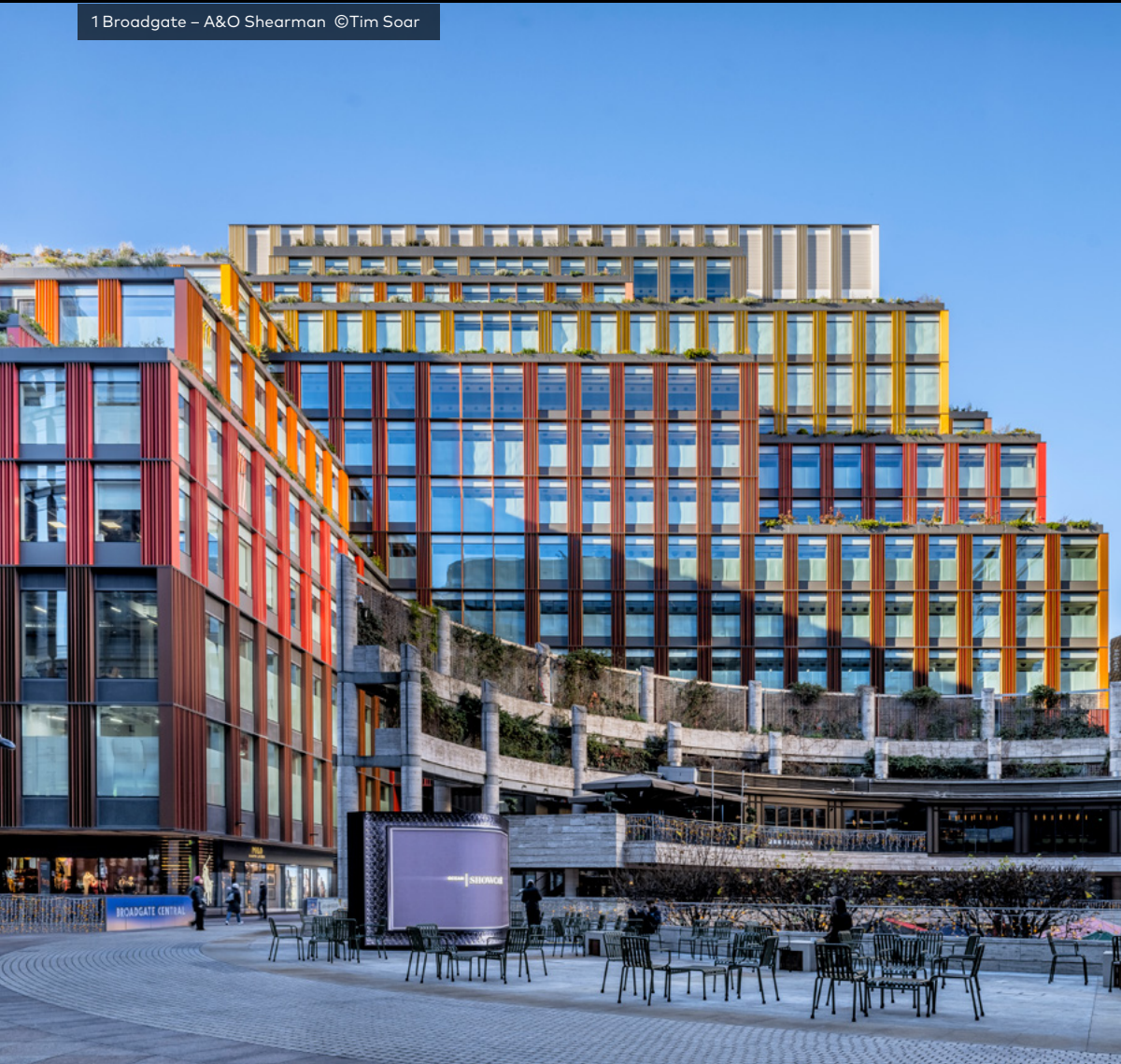
vacancies have fallen sharply, while wage growth eased to 1.6% in the year to January 2026 and remained steady into February. At the same time, the Bank of England has raised its inflation forecast for Q3 2026 from 2.0% to as much as 3.5% driven by rising energy prices. Even so, UK government borrowing is falling

significantly and is this year set to sit below the G7 average for the first time in 22 years.

The OBR's medium-term outlook for GDP growth is stronger than its forecast for 2026, with average annual growth of 1.6% expected through to 2030.

In this Market Update, we look at a sector which is performing strongly amidst these fast-evolving global and national economic and political events: London's prime office workspace sector.

1 Broadgate - A&O Shearman ©Tim Soar



## Should I stay or should I go? Why occupiers are taking a more cautious approach in 2026

Offices have been a volatile real estate asset ever since the pandemic caused many of them to become temporarily surplus to requirements in 2020.

As hybrid working became the norm in 2021-2023, investors had to grapple with higher debt costs, sparsely occupied workspaces and an unpredictable macroeconomic climate. The Great Resignation also hit the market between 2021 and 2023, peaking in late 2022 in the UK, with record levels of job switching as people re-evaluated their jobs and quality of life post-pandemic.

As the wider office market suffered significantly amidst these headwinds, there was one winner: London prime office space proved highly resilient as a flight to quality took place, recovering faster than other office categories. Fast forward to 2025, and attitudes towards home working were starting to change. The introduction of AI into the workplace, a more precarious job

market and rising layoffs seem to have muted employee restlessness. Instead, many people are choosing to stay in their jobs, a behaviour often described as 'job hugging' in an uncertain economic climate, choosing to stay with what is known and working to optimise it.

Some employers appear to be taking a similarly cautious approach to their offices and wider real estate strategies. A shortage of new grade A space in the City and West End is driving many tenants to stay put rather than relocate.

EY, Vodafone, Accenture, Salesforce and Nomura are among the global businesses extending their current London office leases in 2025. Morgan Stanley has extended the lease on its 547,000 sq ft EMEA headquarters at 20 Bank Street in Canary Wharf to 2038. Spanish bank BBVA has re-committed to its One Canada Square location until 2035, 15 years after signing the initial lease in 2011. The company is also taking an additional floor on the premises, bringing its total space to 60,000 sq ft.

## Grade A office space remains in high demand but with continued constrained supply

Besides caution, there are few new places to move to. The volatility of the past five years has significantly damaged the new build development pipeline.

The new build vacancy rate across London sat at just 1.4% by Q3 2025, according to JLL. Knight Frank says vacancy rates for new, high-spec offices are at just 0.3% in the City and 0.8% in the West End as of Q1 2026.

Grade A London office space is thus in high demand. The cost to occupiers of taking space in the best prime office buildings in the capital rose 5.1% during 2025, according to Savills data.

In the West End, net costs for occupiers (rent and fit-out costs) rose by 4.2% in Q4 2025 alone, to approximately £247 PSF. This increase ranks the West End alongside New York's Midtown and Hong Kong as the most expensive prime office locations for occupiers in the world.

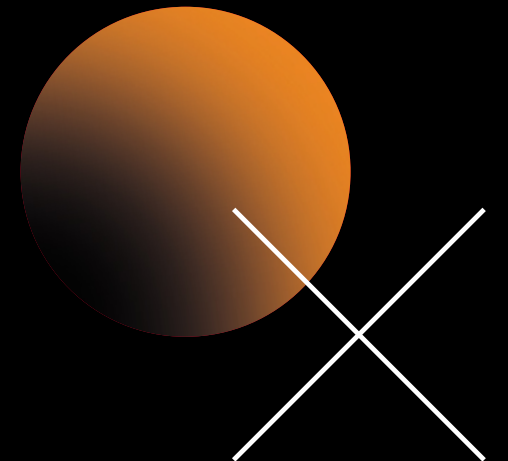
The sharp rise towards the end of the year was driven by a lack of new completions and rising tenant demand, partly linked to return-to-office (RTO) mandates from employers including JP Morgan Chase, Amazon, Meta, Deutsche Bank and Salesforce, which has led to problems: after floorplates shrank in the pandemic years, there are now not enough desks to support the staff called back in.

The stay-put trend could also be fuelled by the substantial expenses associated with exiting existing leases – from dilapidations to the legal, surveying and time costs associated with moving, and fitting out a new space so it is fit for purpose.

This is leading some major occupiers not only to refurbish existing space, but also to take on additional floors or buildings. Institutions including HSBC, Deutsche Bank and JP Morgan Chase are developing or leasing significant new spaces, particularly in Canary Wharf.

The financial district has been rebranded as a mixed-use neighbourhood by Canary Wharf Group (CWG) and is enjoying a welcome renaissance, after struggling since 2020. H2 2025 marked the first increase in rents across the Docklands district since Q4 2022.

There are, of course, advantages to leasing or creating new space over renewing an existing lease. A corporate's requirements as a business and what they need from an office are likely to have changed dramatically from when they took the space. A new space also offers a design carte blanche and is a signal of business confidence. Nevertheless, in this high-demand, low-supply climate, and after a slew of lease extensions in 2025, we can expect a strong pipeline of fit-out and refurbishment projects in 2026 and 2027.



## THE FIT OUT IN 2026

## High functionality is trumping flashy fripperies

Quality workspaces are vital to keeping existing talent and attracting new staff. For RTO mandates to work, employers must make their offices a more compelling choice than working from home. Occupier expectations of prime offices have changed markedly since 2020 as a result.

Location has always been key, and a smooth, sensible commute is a primary influence on office locations and designs in 2026. If people are going to travel into the office, they want the journey to be simple and to make sense. Those places with excellent transport connectivity will win out: the introduction of the Elizabeth Line, for example, is supporting Canary Wharf, the West End and Paddington's growth.

Visa is leasing 300,000 sq ft on a 15-year term at One Canada Square, relocating its European headquarters from Paddington to Canary Wharf from the summer of 2028. BDO plans to relocate its UK headquarters from Baker Street to Oxford Street's new The M Building in 2027.

At Category A level, large floorplates providing excellent flexibility, tall ceilings, big windows and plentiful natural light remain important for prime locations seeking major occupiers. High levels of resilience and power, and a dedicated entrance are also high up on tenant wish lists. Aspects such as roof terraces, indoor amenity space and shower facilities are expected features.

More in-situ, heavily phased Category B refurbishment work is expected to come to market in 2026. When considering Category B, functionality is the number one priority: fit-outs are driven by re-configurability, and the creation of flexible zones for specific teams. Flexibility and modularity also allow for experimentation, and fast corrections if a floor plan does not work. This supports innovation, rather than holding it back.

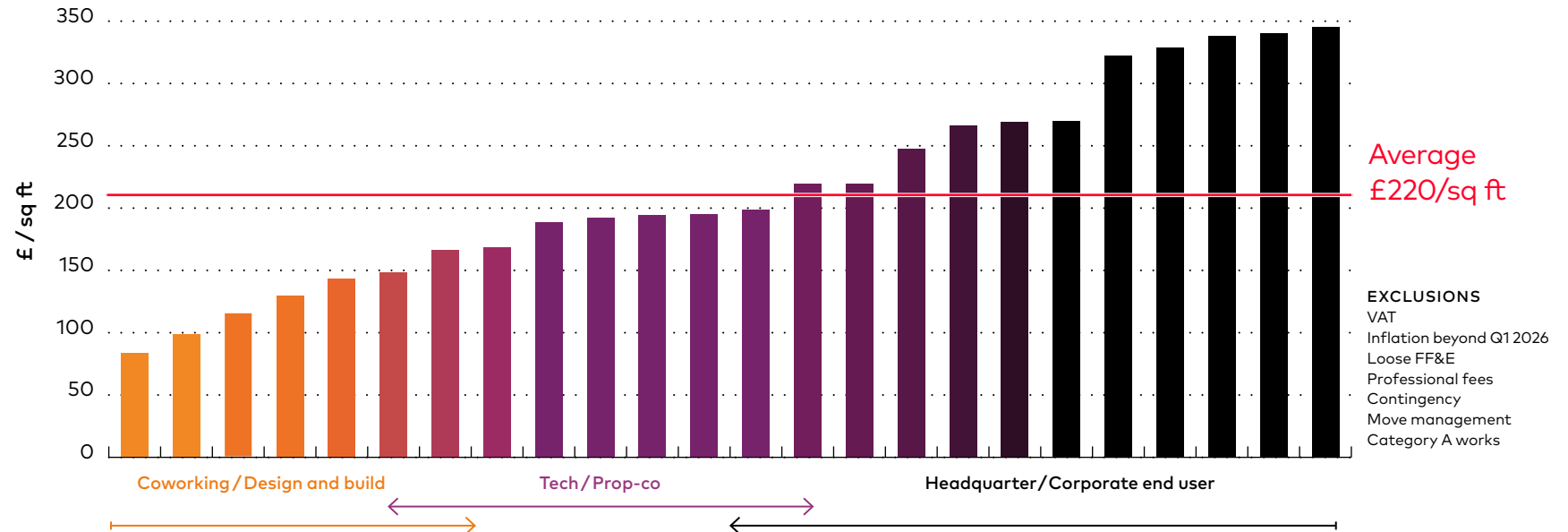


Deep focus, individual work is now often thought of as an at-home task. In contrast, the office is a place to check in with colleagues, hold internal and external meetings and to gather teams together. As a result, meeting and collaboration areas are expanding, while open-plan banks of desks have contracted. This is also driving demand for enclosed, flexible spaces that support calls, meetings and focused work. Hybrid working models have redefined space utilisation in offices. In the past five years, people have found their own preferences for how they work best. The intention is to make office workspaces as flexible as possible, so that as many needs as possible can be met. Employees want a variety of different ways to work. LinkedIn's flagship office offers 75 different types of seating.

Private phone booths, flexible meeting spaces and reconfigurable desks now rank as top priorities, displacing amenities like gyms and large restaurants from being top considerations.

Power, data and AV are key, and acoustics are at the top of clients' lists of priorities. Excellent audiovisual capabilities and acoustic performance are critical design requirements to meet the needs of distributed teams, while soundproofed phone booths provide privacy

### Category B benchmarking



and prevent others from being distracted. Meanwhile, small banks of fixed desks set away from communal working areas serve as quiet zones for always-on-site teams that require focus and productivity.

Making every space a potential workspace is another theme. Cafés, terraces and micro-kitchens are built for work as well as relaxation and breaks.

Overall, workplaces now feel more grown-up – the attention-grabbing, (arguably) productivity-sapping ping-pong tables and prosecco taps of pre-pandemic prime workspaces have been replaced with a need for complete flexibility and high functionality, as people increasingly want to simply be able to do their job well and then go home.

This office culture reflects wider trends towards less time spent interacting in-person and the decline of after-work socialising. The long-term impacts of this post-pandemic reduction in professional social interaction are yet to be seen.



Platform 37 – Google



## CASE STUDY

## Google's St John's Terminal, New York

Google calls its desk areas 'neighbourhoods' in its newest office, the \$2.1 billion St John's terminal building in Manhattan, encouraging teams to cluster together.

Dedicated meeting rooms for specific teams prevent competition for meeting space across the whole building.

Meeting rooms can be modularised using demountable room systems, and room size can be adjusted based on need. Individual seated desks are also light enough to be moved by employees and reconfigured according to day-to-day requirements.

A mix of desks and more informal workspaces, such as communal tables and private booths, provides the flexibility that employees now value. Good storage that reduces clutter, and high-quality joinery and finishes are also markers of a prime workspace that makes day-to-day working smoother and easier for users.

### Wider neighbourhood integration is also a theme.

Many best-in-class new build offices are encouraging a sense of permeability between the office and the outside world, with large, sparse lobbies increasingly replaced by cafés that are open to the public and blur the boundary between inside and outside.

The word 'neighbourhood' crops up repeatedly in discussions about what makes offices desirable in 2026. As mentioned, Google refers to its internal office floor plans as being grouped into 'neighbourhoods'; Canary Wharf's renaissance has been supported by efforts to rebrand it as a neighbourhood, with marketing by Canary Wharf Group emphasising its retail and restaurants, parks and boardwalks.

## Raising the sustainability baseline

A Category A headquarter building built in 2005 on a 20-year lease may still be in excellent condition, but for those choosing to refurbish their existing space, they will find that sustainability expectations have changed dramatically since they first took on the lease.

What was considered prime-level sustainability then will likely no longer be considered sufficient for the prime category now.

This could significantly impact costs. Plant and equipment will likely need to be upgraded to support all-electric, lower-carbon operation. Facades may need upgrading to meet updated decarbonisation regulations.

Sustainability expectations can also be driven by landlords. Morgan Stanley's lease extension at its Canary Wharf headquarters included investment to enhance the property's sustainability performance. Since the bank first moved into the space, Canary Wharf Group has moved to 100% renewable electricity and adopted science-based decarbonisation targets.

We are seeing green priorities shift from symbolic features to systemic improvements. The most forward-thinking developers and tenants are focused on meaningful, large-scale decarbonisation measures—such as transitioning MEP systems to all-electric solutions—rather than aesthetic additions that ultimately do little.

Citi's £1 billion refurbishment of Citi Tower in Canary Wharf, for example, is updating the 20-year-old tower to become net zero in operation. Structural sustainability improvements include lower-carbon steel, a new greywater recycling system to cut the building's water consumption by at least 20%, a solar PV installation on the roof, and new, highly efficient MEP systems. The refurbishment is pursuing LEED, BREEAM and WELL accreditations.

Material circularity has become standard practice rather than exceptional for prime office spaces. Tenants expect spaces that are highly functional, aesthetically pleasing, and with auditability of fit-out processes and materials provided from day one through lifecycle documentation such as material passports.

The 8,400 sq m speculative office development Edenica in the City at 100 Fetter Lane, which completed in 2025, is an example of this approach to office development. A redevelopment of a 1950s building, some 4,817 building elements were



passported – a reported 80% of the building's mass – including the structure, piling, and its brick facade. The fit-out has also added to the building's digital material passport database.

Echoing the neighbourhood theme, the ground floor now includes a café, a pub and a 'pocket park.' The redevelopment's overall whole-life carbon footprint has improved on the GLA's benchmarks.

While an early example, it might not be long before all prime office redevelopments are expected to incorporate whole-life material tracking. The EU has legislated for digital passports to become mandatory for construction projects in the coming years, a move which could be replicated in the UK, supporting 'golden thread' Building Safety Act requirements.

## Market outlook for 2026 and beyond

The market outlook for workspaces in the coming years is mixed. While the pipeline of refurbishment and fit-out work is substantial on paper, questions persist regarding whether current supply chain capacity can deliver projects at viable costs.

Relatively minimal new office supply is anticipated through to 2028 as basebuild viability issues continue to bite, reinforcing the dominance of refurbishment and fit-out activity.

The supply chain supporting fit-out delivery remains constrained: the data centre boom means Tier 1 MEP specialists, in particular, can be difficult to secure. Material costs have moderated in some areas, but exceptions remain, with copper prices rising sharply and availability still tight. Continued conflict in the Middle East is also likely to intensify material cost pressures. Flexible procurement strategies will be key to mitigating these issues.

Meanwhile, main contractor consolidation has narrowed competitiveness, placing a premium

on early market engagement and strategic procurement timing. Two-stage tendering and early appointment of supply chain partners have become industry standard as clients seek to secure resources as soon as possible.

In this constrained basebuild office contracting market, there is also an opportunity for fit-out contractors willing to expand beyond their traditional interior work to encompass more complex refurbishment works including structural and facade elements. Those who can take on the additional risk, and have the capacity, could find rich seams of work taking on projects in under-resourced areas that they may not have taken on in the past.

Media headlines in 2025 focused on job cuts, including across consultancy firms, many of which occupy prime London workspaces. Other occupiers of prime London office space, however, present a different picture: financial services vacancies in London were 16% higher year-on-year in Q4, while total sector employment rose by 12%. We expect continued headcount growth in the sector, further supporting demand for prime workspaces.



### Our TPI predictions

Annual change (%)

SENSITIVITY RANGE	2023	2024	2025	2026	2027	2028
LOW				1.0%	1.5%	2.0%
<b>BALANCED</b>	<b>4.0%</b>	<b>2.5%</b>	<b>2.75%</b>	<b>3.5%</b>	<b>3.75%</b>	<b>3.5%</b>
HIGH				7.0%	6.0%	6.0%

Our balanced TPI forecast suggests inflationary pressure will remain elevated over the medium term, but it assumes the conflict in the Middle East is relatively short-lived, with the hope that recent ceasefire announcements can be sustained.

While we have already seen immediate material price volatility, it is still too early to determine the full impact. Any prolonged disruption is likely to increase upside risk, pushing inflation closer to our high case, with a return to pre-war stability likely to take time. However, a more competitive market, together with viability-challenged schemes, may see some material price increases absorbed through the supply chain, which could help dampen inflationary pressure on a project-dependent basis.

## Middle East conflict could lead to price hikes later in 2026 if disruption continues

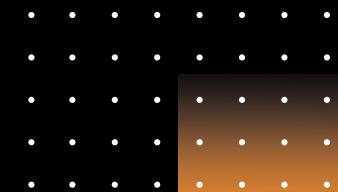
The current conflict between the US, Israel and Iran may have limited immediate cost impacts on projects, but upward pressure on energy and input costs is highly likely to materialise in due course if disruption continues.

If the crisis continues well into the spring and summer, energy price rises will continue to work their way through to energy price-sensitive materials, such as steel, rebar, concrete, aluminium and fuels. We will then move from short-term volatility to sustained price increases and broader tender price inflation. For the time being, the conflict should be recognised as a potential upside risk to inflation.

Energy and fuel costs typically account for 5-10% of the costs of a new build office. Any sustained, major increase in oil and gas will thus have a noticeable impact on construction costs. For example, we estimate that a sustained 20% increase in energy costs could represent a 1.0-1.5% increase in TPI further into 2026.

We are already starting to witness contractors discussing issues such as fluctuation clauses. We will start to see contractors not willing to fix certain material prices in due course. Steel products, aluminium, facades, copper and MEP equipment will likely be most exposed. For example, by mid-March, steel mills and stockists had withdrawn their price lists and put all structural steelwork procurement on a 5-day validity period only, with price increases directly related to the conflict being applied to all new orders by global mills.

In this operating environment, clients will continue to be cautious about investment, sensitive to procurement, and will want to be able to fix prices as soon as possible.



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## Despite the challenges, London's prime office market is resilient and rich in appetite and opportunity

Navigating this environment requires agility, proactive market engagement and an anticipation of ongoing uncertainty. The challenge is to design highly adaptable spaces capable of accommodating changing headcounts and evolving work patterns.

Success depends on careful market timing, early supply chain engagement, and the creation of office environments that are highly functional and straightforward to use.

Five years after offices and the workspace market faced an existential crisis, the dust has not fully settled. Even so, we are seeing a rational, price-conscious approach to creating the best, most flexible and most sustainable workplaces possible in the capital. Despite renewed geopolitical instability in the Middle East, we see the London prime office market as resilient and rich in appetite and opportunity.

Successfully navigating current market conditions demands delivering good-quality, well-coordinated design, sensible risk allocation, and flexible, clear procurement strategies to deliver strong outcomes and best value for money.

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