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Workplace change

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# Fiscal implications of workplace change

September 2025



## Introduction

**The story of corporate real estate (CRE) in London is one of cycles: boom and bust, growth and retrenchment, expansion and consolidation. Each decade brings new forces, from financial crises to geopolitical shocks, that reshape how organisations think about space.**

Today, we stand at another turning point. Rising interest rates, stubborn inflation, and the upcoming 2026 business rates revaluation are adding significant cost pressures to already stretched balance sheets. At the same time, investors are sharpening their focus on ESG performance, and employees continue to demand flexible, purpose-driven workplaces.

This paper explores past market cycles, the fiscal and political forces at play in 2025, and what these mean for the future of workplace change. It is designed to provide context for our roundtable discussion on 25th September.

## Lessons from past cycles

Looking back at 25 years of CRE in London reveals recurring patterns of expansion, contraction, and reinvention. Each era offers lessons on how fiscal and geopolitical forces directly shape workplace decisions.

### The millennium hinge (2000–2002)

The dot-com surge tipped into bust just as Canary Wharf's skyline rose from the docks. Leasing slowed and vacancies crept up, but development momentum carried on. Corporates turned to property as a balance-sheet lever. The most striking example was [BT's £2.4bn sale-and-leaseback in 2001](#), involving 6,700 assets leased back under a 30-year deal that freed up cash while locking in long-term liabilities.





### Cheap money and trophy years (2003–2007)

Easy credit and global capital turned London's offices into a magnet. The period's peak was defined by record single-asset trades: [HSBC's tower sold for about £1.09bn](#) and [Citi's for £1bn](#) in 2007. These weren't just property deals — they symbolised how debt, not rental growth, was driving value.

### The great unravelling (2008–2009)

Lehman Brothers collapsed; credit disappeared. Values fell ~44% from 2007–09, rents tumbled nearly 20% year-on-year, and vacancies hit double digits. HSBC was forced to re-purchase its own tower after the buyer defaulted on refinancing. Equity became king: [Blackstone acquired half of Broadgate with just £77m in equity](#), taking on nearly £1bn of debt.



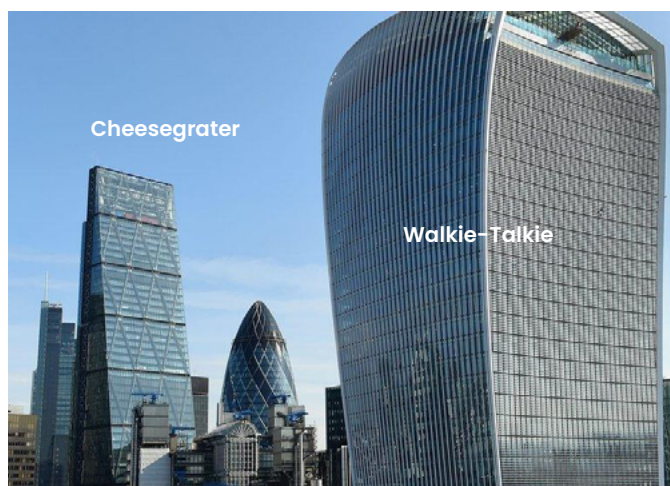
### Safe-haven London and the sovereign wave (2010–2014)

Ultra-low rates and quantitative easing re-inflated demand. London was seen as a global safe haven. Sovereign wealth and Asian insurers entered decisively — [Qatar bought HSBC's tower for £1.17bn in 2014](#), while [Google planted its £650m King's Cross HQ deal in 2013](#). Prime offices re-rated above pre-GFC peaks.



### Brexit as catalyst, not coffin (2015–2017)

The 2016 vote froze funds and repriced risk, but the weaker pound turned London into a bargain for Asian investors. By 2017, two skyscraper deals set records: the [Walkie-Talkie sold for £1.3bn](#) and the [Cheesegrater for £1.15bn](#). Despite political upheaval, capital flowed where covenant and quality were strong.



### Late-cycle churn and the rise of sheds (2018–2019)

With Brexit deadlines looming and trade tensions rising, some Asian investors flipped assets while others doubled down. Meanwhile, logistics emerged as the new core. E-commerce and supply-chain resilience pushed warehouse rents and drew global capital.

### Pandemic shock and the hybrid era (2020–2021)

Covid-19 froze office leasing. [Q2 2020 saw only 1.26m sq ft leased](#) — the weakest quarter in 30 years. Yet capital didn't abandon London: long-income offices still traded, and logistics surged. By 2021, activity rebounded, but the occupier brief had changed. Wellness, flexibility, ESG and digital readiness became baseline requirements.

## War, inflation and the rates reset (2022–2023)

Russia's invasion of Ukraine spiked energy prices; interest rates rose from 0.1% to over 5% in less than two years. [UK commercial property values fell ~13% in 2022](#). Prime, green, well-let offices like Google's £871m Central St Giles acquisition (2022) and NPS's £1.21bn purchase of UBS's Broadgate HQ (2022) still attracted buyers, but secondary stock struggled. [Canary Wharf vacancies reached ~20% by 2023](#).

## Finding a floor (2024–2025)

With rates peaking, liquidity is cautiously returning. The deal mix has shifted toward joint ventures and recapitalisations. Banks are resizing: [HSBC plans](#) to leave its 1.1m sq ft Docklands HQ for a 556,000 sq ft City base, while also leasing 210,000 sq ft at Canary Wharf to cover overflow. Repurposing of older towers into mixed-use is firmly on the agenda.

## What really moved the market (and why)

The two decades of corporate real estate in London show clear themes:

- **Geopolitical shocks set the tempo;** fiscal policy sets the key. 9/11 cooled demand, the GFC detonated leverage, Brexit reordered buyers, Covid rewrote occupier behaviour, and war plus inflation reset discount rates.
- **Capital follows credibility,** covenant, and carbon. In the 2000s, value was debt-driven; the 2010s were about sovereign capital; today, assets on a believable net zero pathway command the highest liquidity.
- **Tech tenants became the new anchors;** logistics the new core. Google's King's Cross and Central St Giles moves reframed demand around amenity-rich, hybrid-ready campuses, while e-commerce cemented logistics as a structural growth sector.
- **Scale can be fragile or adaptable.** Canary Wharf's journey from rapid expansion, through crisis-driven ownership changes, to today's repurposing plans, illustrates both concentration risk and the potential for reinvention.

### Fiscal and political pressures today

As we approach 2026, fiscal and political headwinds are converging:

- **Business rates:** The revaluation effective from April 2026 will add an estimated £432m to Central London occupiers' bills – a 9% rise for prime office space – with large buildings facing a multiplier up to 10p higher than the standard rate.
- **Rents and valuations:** Between 2021 and 2024, City office rents rose more than 10% and West End rents by over 20%, feeding into higher rateable values and liabilities.
- **Interest rates and inflation:** The Bank of England's fastest tightening cycle in a generation lifted Bank Rate from 0.1% in 2021 to 5.25% in 2023, before easing back toward 4% in 2025. This raised debt costs and repriced assets.
- **ESG expectations:** Investor focus on net zero pathways has made carbon performance a financial issue. Buildings without credible retrofitting plans are at risk of obsolescence.

### Emerging fiscal trends shaping workplace change

Several patterns are shaping corporate strategies today:

- **Consolidation as a cost lever:** Many organisations are reducing footprints in response to cost pressures. HSBC's downsizing is a high-profile example.
- **Repurposing and retrofit as value strategies:** Investors are targeting secondary assets for "brown-to-green" upgrades. This represents both a financial and ESG opportunity.
- **Hybrid permanence:** Remote and hybrid working are embedded. X (Twitter) and other tech firms have sublet surplus space, realising overhead savings.
- **Evolving deal structures:** With financing tighter, joint ventures and recapitalisations are replacing outright sales.

## Questions for discussion

1

How will the 2026 business rates hike affect your workplace strategy? Will it drive relocation, consolidation, or creative solutions such as flexible storage?

2

Are we entering a new cycle of value creation where 'brown-to-green' retrofits and hybrid work models redefine demand?

3

How can organisations balance short-term cost-cutting with long-term ESG and talent priorities?

4

What role should government policy play in helping organisations adapt their workplace strategies during periods of fiscal pressure?

5

With banks resizing and tech firms still anchoring prime locations, how do you see your sector's workplace footprint evolving?

## Conclusion

**London's CRE market has always been cyclical, shaped by global shocks, fiscal resets and evolving business models. Today, occupiers face a perfect storm: higher business rates, elevated financing costs, inflationary pressures and ESG-driven investor expectations.**

History shows that downturns often accelerate change, from BT's 2001 sale-and-leaseback to HSBC's current consolidation. The opportunity now is to approach workplace change not just as a cost challenge, but as a chance to rethink portfolios, unlock value from assets, and align real estate with long-term organisational and societal goals.

As we come together for this roundtable, the central challenge is clear: how can organisations navigate fiscal headwinds while creating workplaces that remain productive, sustainable and future-ready?

