London Property Alliance

Global Cities Survey

September 2024

London Property Alliance

WPA | CPA

Westminster Property Association | City Property Association

Acknowledgements

The Global Cities Survey is commissioned by the London Property Alliance and produced in partnership with the Centre for London featuring data from Oxford Economics.

Authors

- Jon Tabbush, Centre for London
- Antonia Jennings, Centre for London
- Alexander Jan, London Property Alliance

About the London Property Alliance

London Property Alliance brings together the Westminster Property Association (WPA) and the City Property Association (CPA). The Alliance provides a unified voice for the leading owners, developers, investors and professional advisors of real estate across Central London.
www.londonpropertyalliance.com

About Centre for London

Centre for London is London's dedicated think tank. The Centre undertakes research and organises events aimed at developing new solutions to the capital's critical challenges. Centre for London is a registered charity and politically independent, advocating for a fair and prosperous global city.
www.centreforlondon.org

For further information about this survey, please contact London Property Alliance at team@cwpa.org.uk.

Introduction

Prior to the calling of the elections in France, the strong performance of Paris is the standout story of this edition of the Global Cities Survey. In the run-up to the 2024 Summer Olympics and Paralympics, Mayor Anne Hidalgo's city government will have been reassured by the outperformance of Paris across a variety of metrics. Notwithstanding some headwinds for the visitor economy when non-Olympic fans stay away, the City of Light is set to boast strong economic output, prime office rents and public transport ridership, amid low unemployment, office vacancy rates and inflation.

London presents a more mixed story. Prior to the surprise election at the beginning of July, its labour market was starting to show signs of loosening. Falls in unemployment reversed and employment growth was overtaken by New York. However, office vacancy rates in key sub-markets have begun to fall and prime office rents are rising fast, demonstrating a revival of demand in the inner city.

Hong Kong's economy is set to outperform our selection of five global cities over the coming two years, amid a recovery in goods exporting in early 2024. Whilst Berlin had a less severe recession during the pandemic, its projected growth is amongst the lowest of our cities.

New York City's office sector is still struggling, with vacancies in Manhattan hitting a record 23% in Q1 2024. Rates were even higher in sub-Class A buildings, demonstrating the 'flight to quality' discussed in the London context applies to NYC.

Charles Begley

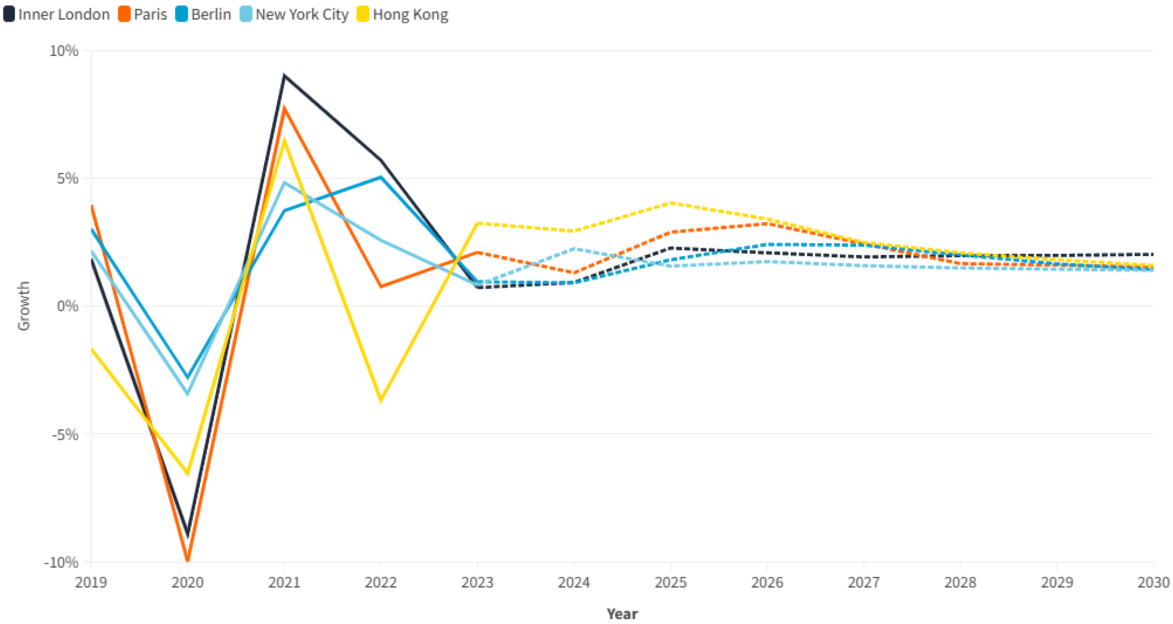
Chief Executive

London Property Alliance

Detailed Analysis

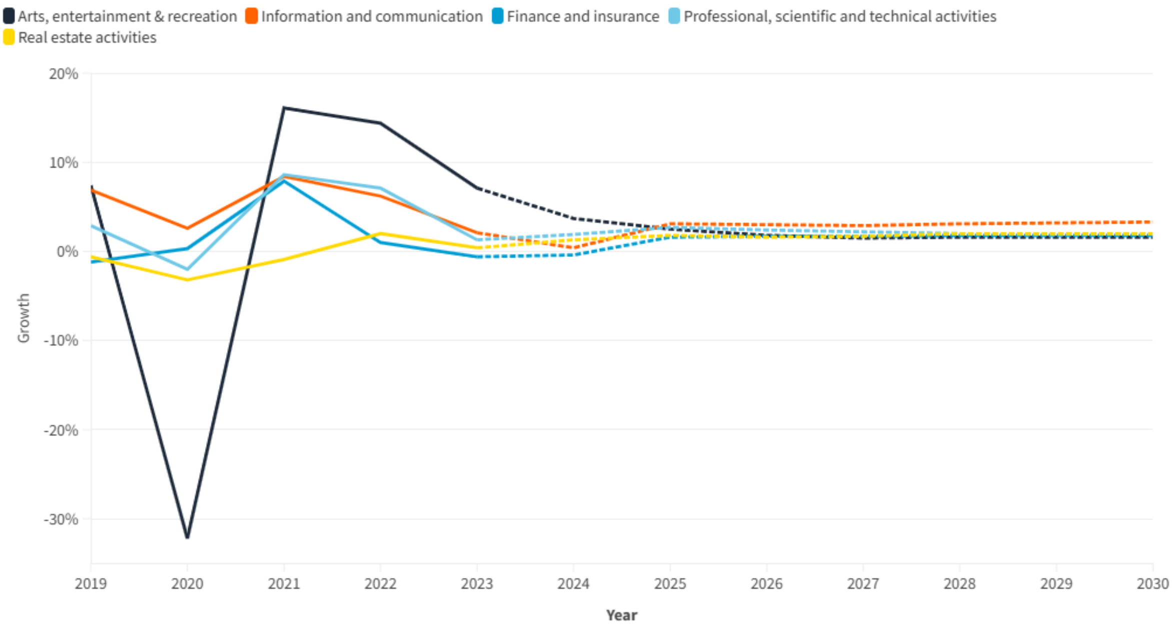
Economic Output

Economic output
Year-on-year change in output



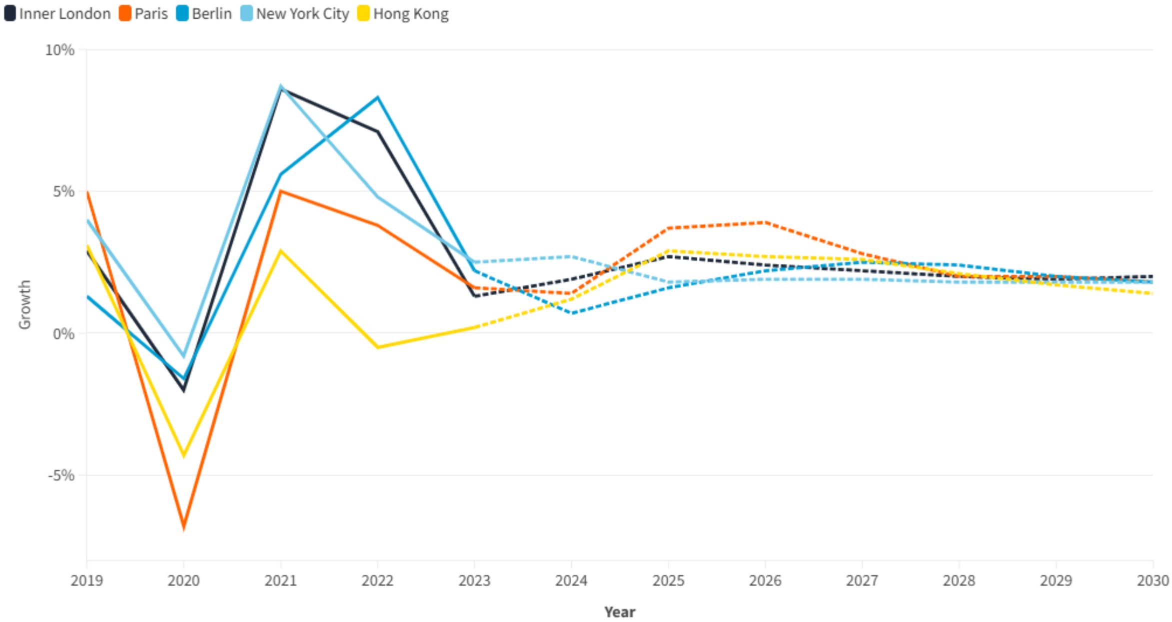
Source: Oxford Economics

Output, by sector
Year-on-year change in output



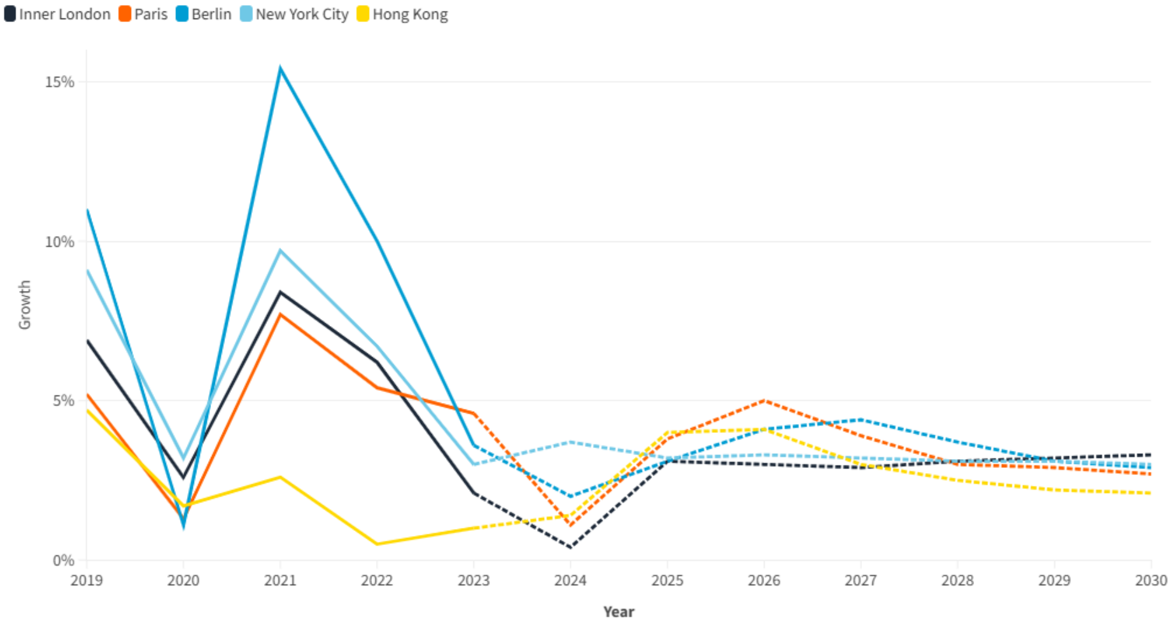
Source: Oxford Economics

Professional, scientific and technical activities
Year-on-year change in output



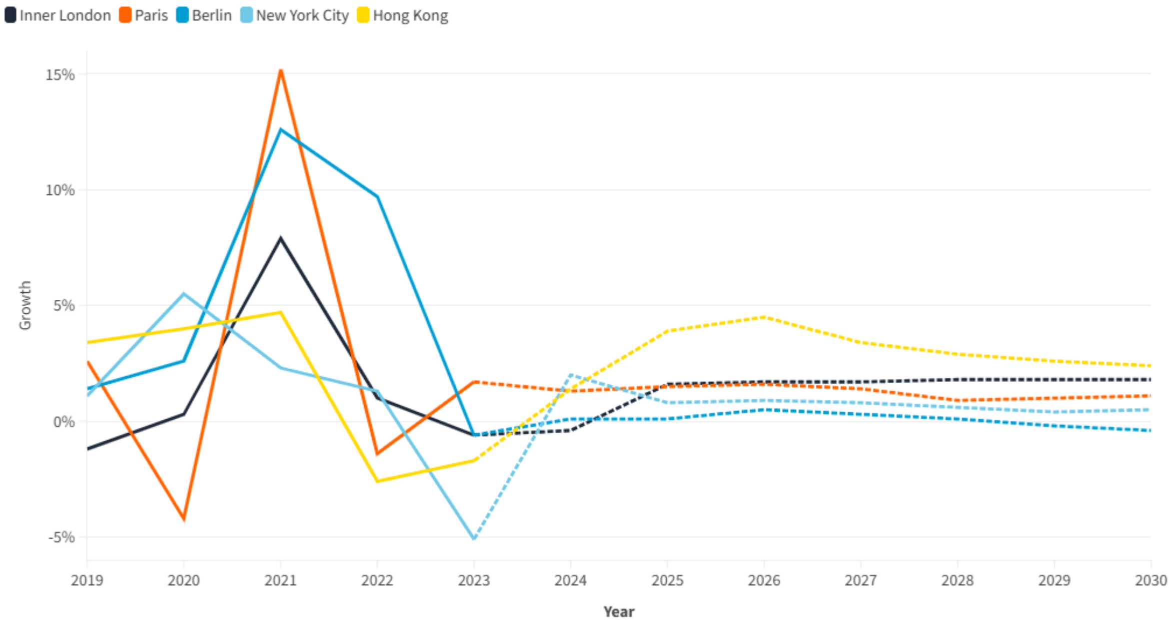
Source: Oxford Economics

Information and communication
Year-on-year change in output



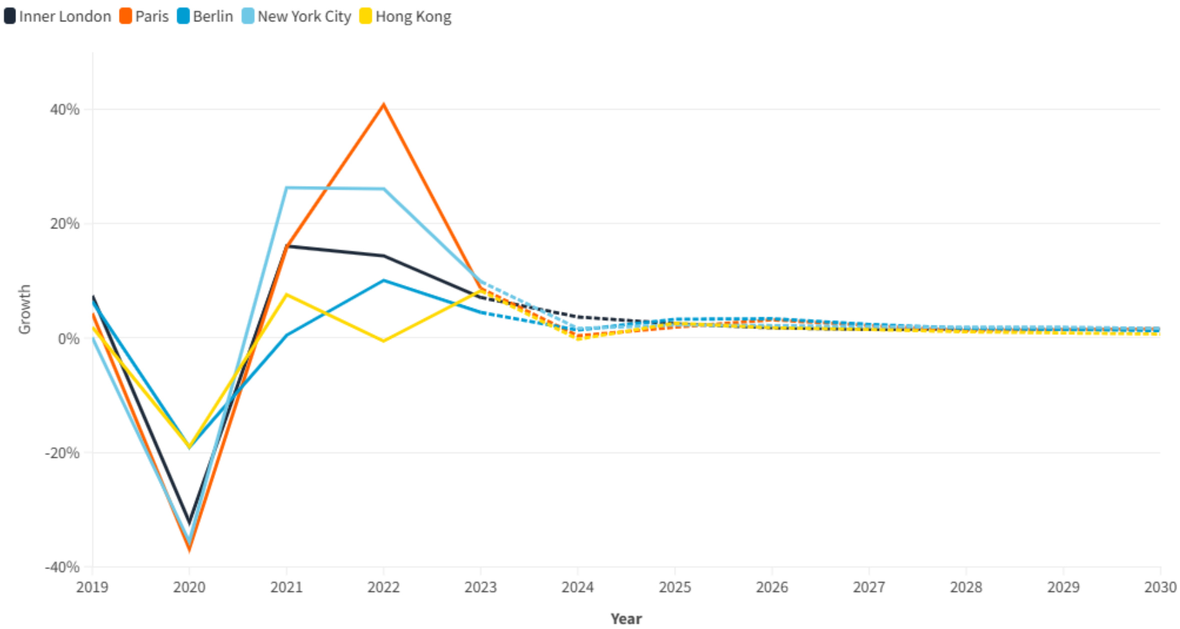
Source: Oxford Economics

Financial & insurance activities
Year-on-year change in output

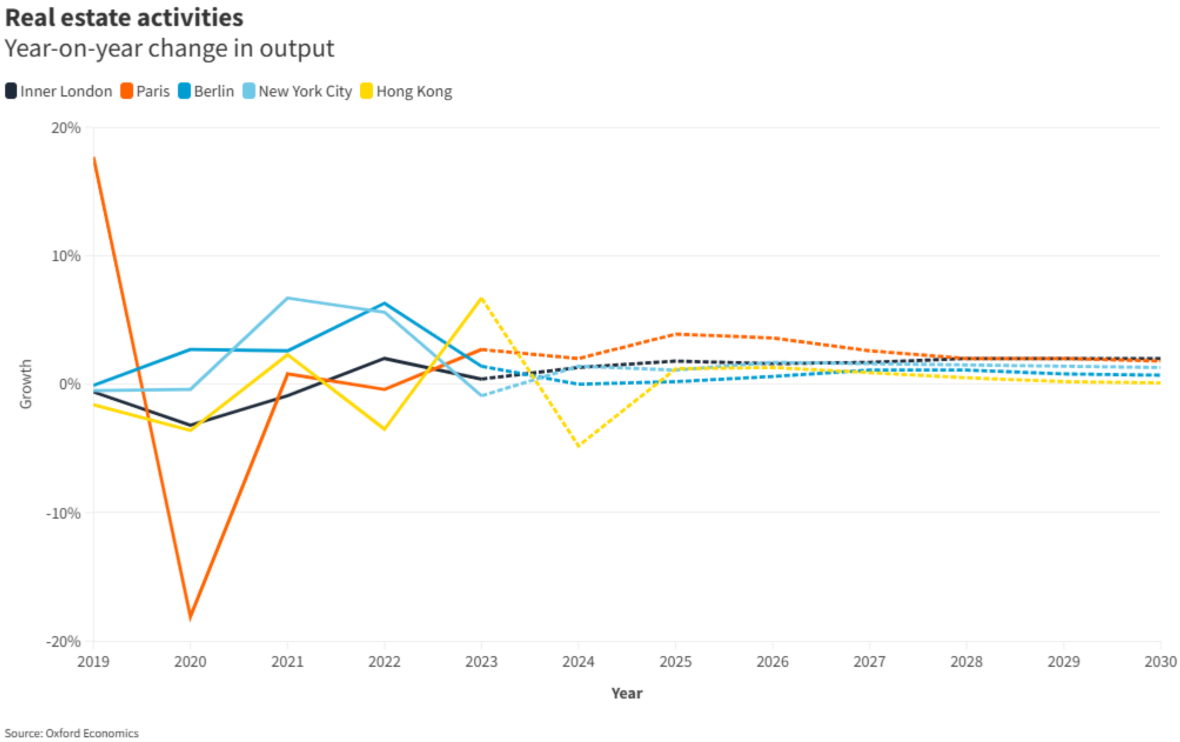


Source: Oxford Economics

Arts, entertainment & recreation
Year-on-year change in output



Source: Oxford Economics



Our forecasts from Oxford Economics show that Hong Kong is set to outperform all of our global cities over the coming two years, amid a recovery in goods exporting in early 2024. Inner London, on the other hand, is destined to share the dubious prize of the lowest growth in 2023, and the second lowest growth in 2024 with Berlin, at under 1%. However, since these forecasts were prepared, the UK has experienced a national 0.6% rise (subsequently revised up to 0.7%) in GDP in the first quarter of 2024, the strongest rate since the end of 2021. Growth in Q2 2024 has also been robust at 0.6%.

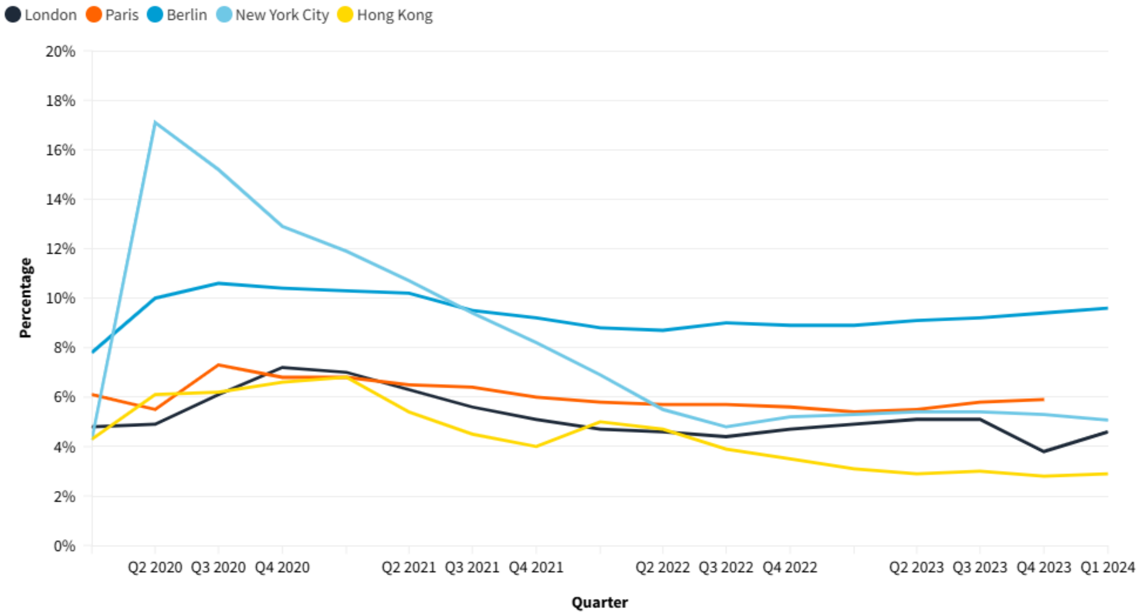
The bright spot for Inner London has been in its arts, entertainment, and recreation sector – even after slowing from the rebound seen in 2022 (14.4%), 2023 saw growth of 7.1% in this sector. This matches the national picture, with the UK creative sector having grown more than 60% faster than the wider national economy between 2010 and 2019. However, London's growth in the sector was still notably lower than growth in Paris, New York, and Hong Kong, potentially reflecting the long-term impact of Brexit on creative sector exports, which fell sharply in 2016 and 2020.

Berlin had a less severe recession during the pandemic, but subsequent weak year-on-year growth. The forecast predicts growth to only exceed 2% in 2026, in part driven by poorer performance in its financial services sector. It shrank in 2023, like every city other than Paris, but uniquely, is not forecast to see significant growth at any point in the 2020s.

Paris is forecast to see a relatively rosy mid-2020s, with the highest growth of any of our cities apart from Hong Kong in 2023 and consistently high growth until 2026. Information and communication is a major driver of the city's outperformance, with growth rates of 5% forecast for 2026 and a boom in professional, scientific and technical activities set to characterise the mid-decade. This reflects consistently higher growth than London in labour productivity in high-value sectors. Centre for Cities' analysis shows that historically higher output growth in the UK capital since 2007 was driven by a boom in employment, while productivity has flatlined. The Parisian metropolitan area saw far higher productivity growth since the financial crisis.

Unemployment

Unemployment rate



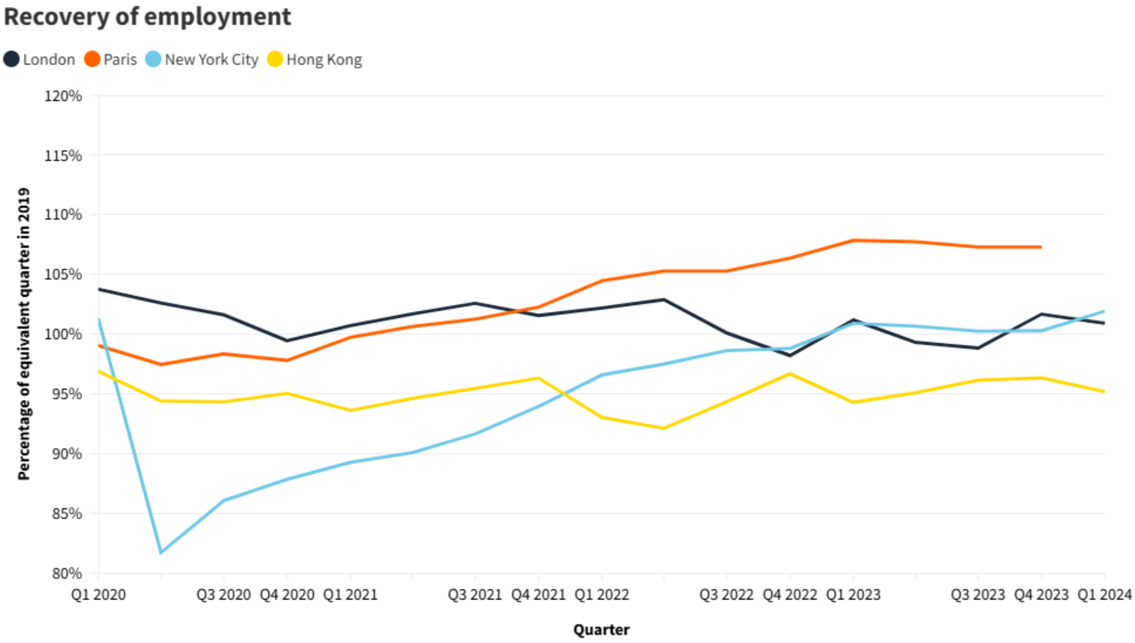
NY Department of Labor • Census and Statistics Department Office for National Statistics, INSEE, Arbeits Agentur Deutschland

Data for London has been subject to significant change, after the ONS reweighted the dataset based on updated population estimates in the wake of the pandemic. This may partially explain the rapid fall in unemployment in the capital to 3.8% in Q4 2023, only to surge to 4.6% at the start of 2024. Across the UK, unemployment was rising in the first quarter of the year but has since fallen back to 4.2% (April to June 2024). However, as we shall see below, job vacancies have been falling – the ratio of unemployed people to vacancies in March 2024 has risen to 1.6 from one in mid-2022, but is still below the 2.9 average of the last two decades. Despite increasingly loose labour markets, wages, especially for low-paid jobs, continued to rise, hitting a year-on-year rate of 7.5% in April 2024.

In Paris, a highly stabilised labour market means that the city has seen comparatively little change in its unemployment rate in the last four years – the pandemic-induced peak of joblessness in late 2020 was only 1.4% points higher than today's comparatively benign figure. By comparison, New York has seen a peak-to-trough of over 12% points. Berlin's labour market has still failed to recover from its post-pandemic slump. Unemployment approached the 10% seen in mid-2020, having risen slowly since the end of 2022. In some areas of the city, rates were even higher, reaching 14.5% in Neukölln. Hong Kong is seeing a slight uptick in its unemployment rates, which have reached 2.9%, suggesting its tight labour market is beginning to slacken.

In New York City, on the other hand, the labour market slowdown suffered in 2022-23 – significantly induced by rapid rises in interest rates – has begun to subside, with joblessness falling since the end of 2023. This is despite wider US unemployment ticking minorly upwards to 3.9% in early 2024. Improvements in New York City were concentrated in Manhattan, which saw claims for unemployment insurance fall by almost 10% from March 2023 to March 2024.

Employment



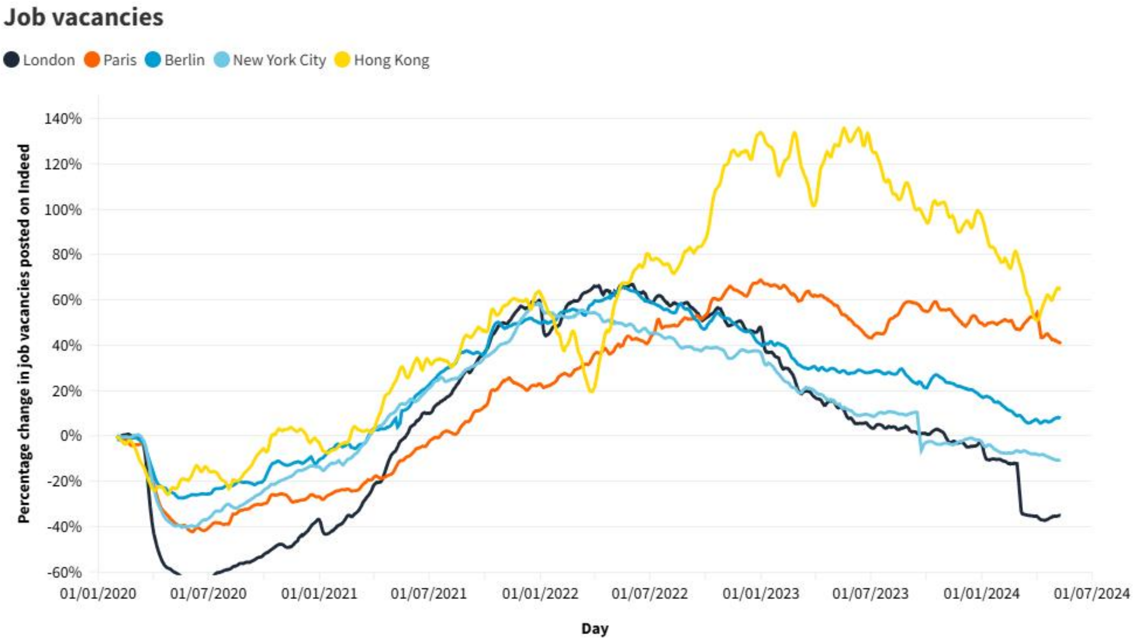
Office for National Statistics, INSEE, New York State Department for Labor • The Government of The Hong Kong SAR.
Berlin data unavailable.

Although Hong Kong's unemployment rate was the lowest of any of our cities, slight labour marketing loosening is also visible in the weak recovery of its employment numbers. The city state only hosts 95% of the number of jobs it did in 2019, while no other city in the sample has fewer than it did pre-pandemic.

New York's employment recovery, on the other hand, surpassed that of London in the first quarter of 2024, as the city's labour market has regained strength amid a wider economic recovery. Job growth has been focused on private education and health services, and leisure and hospitality, though growth rates remained weaker than in 2023 and 2022. The UK capital, on the other hand, is stuck in a holding pattern in which its job market largely fluctuates around the pre-pandemic average of employment numbers but fails to sustainably grow, even as unemployment remains below the 2021-2023 average.

At the end of 2023, Paris had continued to see the strongest growth in employment of any of our cities. Rates were over 7% higher than pre-pandemic levels, while no other city in our sample has surpassed 3% since 2019. In 2023, there was almost 1% growth in employment, just above the Ile-de-France average.

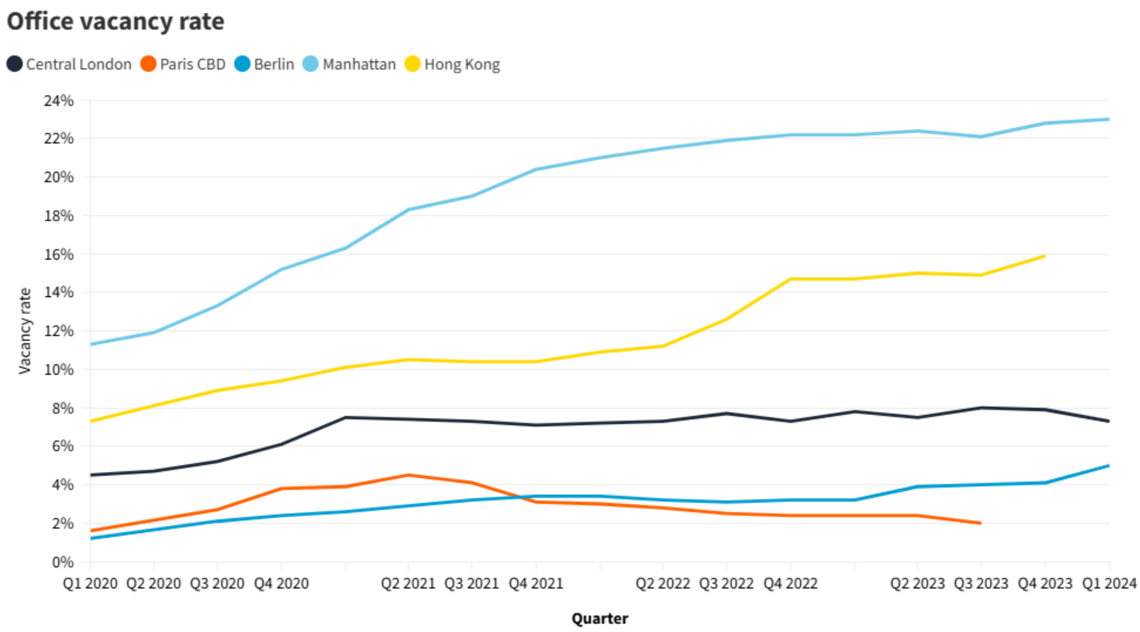
Job Vacancies



Source: Indeed • Data shows number of job vacancies posted on Indeed compared to pre-pandemic (01/02/2020) for Greater London, the Paris region, the Berlin region, New York metro area and Hong Kong. This edition has seen a significant change to Indeed's methodology for calculating its Job Posting Index.

Methodological changes have seen recorded vacancy rates fall sharply across several of our sample of cities, leaving London posting 35% fewer jobs in May 2024 than pre-pandemic. Postings sourced from recruiters, rather than employers themselves, are now only registered if they have an active budget behind them, causing posting rates to fall sharply in London, New York and Berlin, and to rise astronomically in Hong Kong. This last point suggests that in 2019, Hong Kong saw a larger number of unfunded job adverts than later into the pandemic. With this in mind, New York became the second city to see the pandemic-era growth in vacancies turn negative. This is despite, as described above, unemployment falling in the city. The biggest change from the adjustment has been in Hong Kong, which went from third place in November 2023, at just under 40% above pre-pandemic levels, to a standout leader, at 65% in May.

Office Vacancy Rates



Source: Avison Young, BNP Paribas IDF, BNP Paribas Berlin • Cushman Wakefield • Colliers
In Q1 2020, BNP Paribas did not produce European editions of its quarterly update, we instead used: Knight Frank: London • Colliers: Paris• Savills: Berlin Only available NYC data is Manhattan-specific, hence the divergence. The data for Berlin and Hong Kong encompasses the whole of both cities, which may influence rates.

Vacancy rates in Manhattan continued to climb after a short plateau in the autumn of 2023, hitting a record 23% in Q1 2024. Rates were even higher in sub-Class A buildings, demonstrating the ‘flight to quality’ discussed in the London context applies to NYC. However, although demand for Class B and C properties has fallen substantially, rising supply among Class A properties has led to increases in vacancies among high-end properties. Assessing the market as a single entity with a single average vacancy rate only gives a partial view – there are multiple separate narratives occurring at once in the city: a confident, growing premium market, combined with a highly distressed lower-end. This has prompted some property owners to explore converting offices to residential uses, particularly in the Financial District, encouraged by tax exemptions from the city government. At the time of writing, some 600 units have been completed, with just over 2,000 more granted permission.

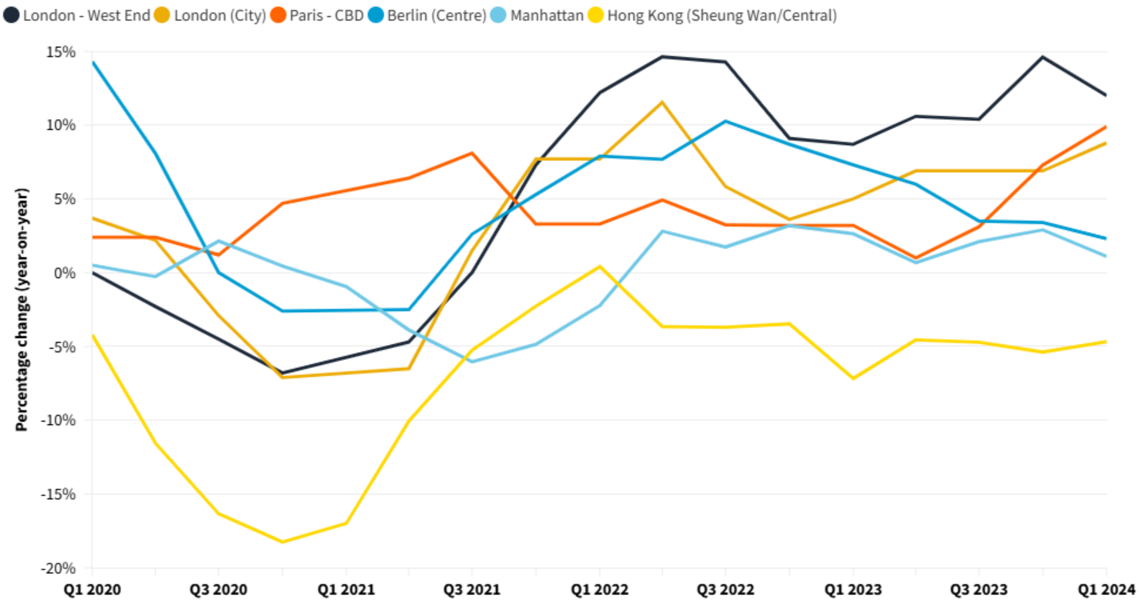
Given the substantial lag in commercial office markets of leases expiring, predictions that Hong Kong’s office market would begin to suffer are now materialising. Vacancy rates hit 16% at the end of 2023 due to poor performance in the city’s financial sector. This is very much a demand-led story.

London, on the other hand, is seeing a minor recovery in vacancy rates, as they return to their levels at the end of 2022. This has been buoyed by the West End, where vacancy rates are at their lowest since 2020, and, newly, the City of London, where rates fell for the second quarter in a row. Analysis from real estate consultancy Knight Frank suggests that insufficient supply is playing a major role. It predicts an undersupply of the best quality office space of 5.3m sq ft by 2026.

Data from Paris’ Central Business District – the best-performing region in our sample in the previous quarter – will be updated in the next edition of this survey.

Prime Office Rents

Change in prime office rents



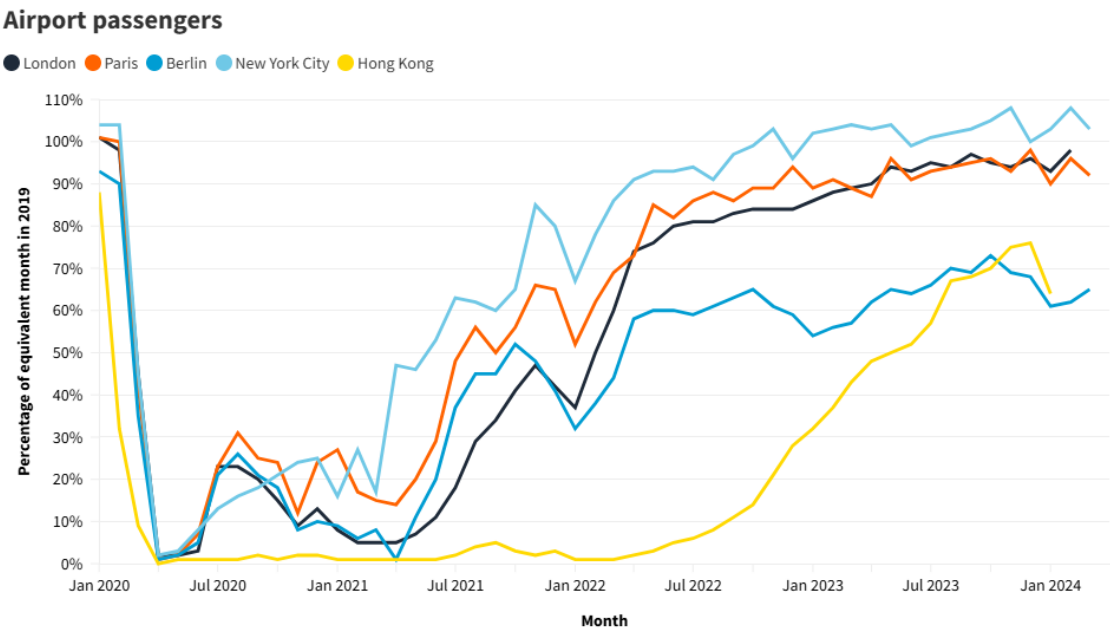
Source: Cushman and Wakefield - DNA of Real Estate (Europe), Cushman and Wakefield - DNA of Real Estate (Manhattan), Private Retail - Rental and Price Indices (from 1978), from the Ratings and Valuation Department of the HKSAR Government • Data show percentage change in Prime Rent. No consistent historical data available

In the first quarter of 2024, London and Paris stood out from the rest of our sample, with prime rent growth of between 9% and 12%. Both capitals have recovered from COVID-era oversupply.

Hong Kong's apparent recovery came to a bit of a halt, with prime rents falling by nearly 5% in Q1 2024; the only city to see rents decrease in nominal terms.

In both Manhattan and Berlin's Mitte district, rental growth was very modest at 1.1% and 2.3% respectively. In the case of Manhattan, insufficient demand amid monumental oversupply is the clear culprit. Some submarkets in the city's downtown, like Financial West, have vacancy rates of nearly 40%, with widespread talk of office-to-residential conversions. This is despite the fact that building security firm Kastle's Back to Work Barometer has seen the New York metropolitan area's office occupancy rates rising to above the average of the top ten largest metropolitan areas in the US, with 64.8% on the most occupied day. The New York City Comptroller's office reported that rents are likely overstated due to concessions by building owners to avoid admitting falling demand.

Airport Passenger Demand

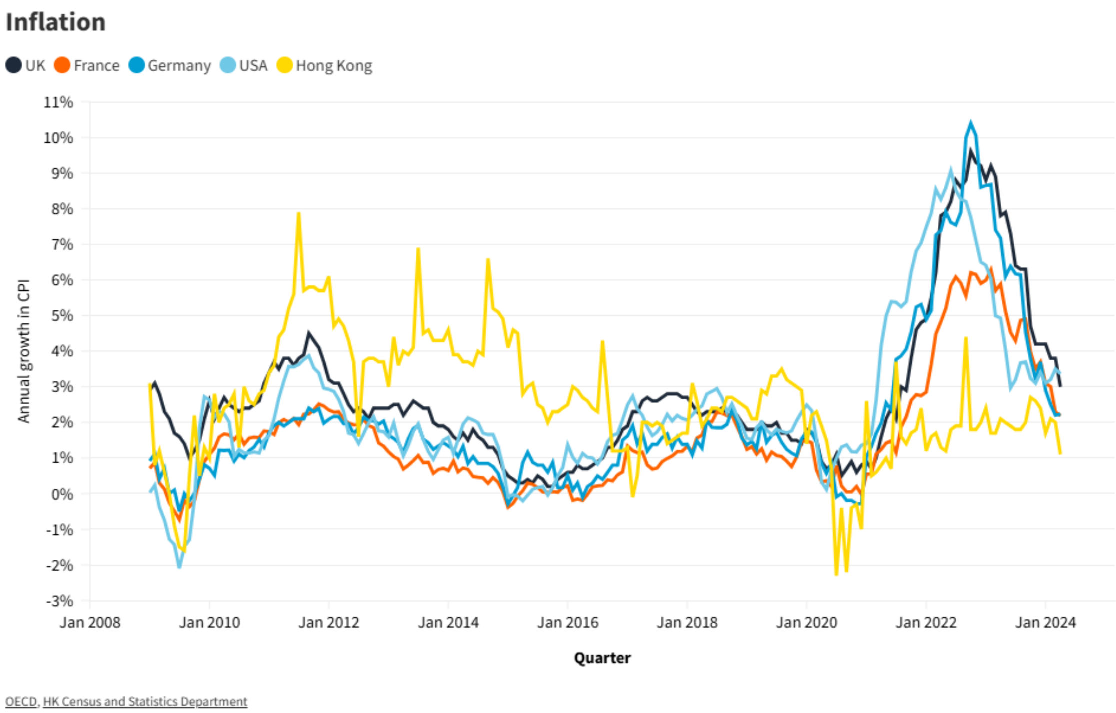


Civil Aviation Authority, Paris Aeroport, Berlin Airport • Port Authority of NY and NJ, Airport Traffic Statistics • HK International Airport
London Airports are defined here as Heathrow, Gatwick, Stansted, Luton, Southend, and London City. Paris Airports are defined as CDG and Orly. Berlin Airports was defined as Schönefeld, Tegel, and Tempelhof before 31/10/2020 and has been defined as Willy Brandt since then. New York City Airports are defined as LaGuardia, JFK, and EWR.

While Paris and London continued to hover around 95% of pre-pandemic levels of air traffic, New York City remained above its 2019 figures (since June 2023), demonstrating sustained growth in its airport ridership. Notably, both JFK and LaGuardia Airports are highly capacity-constrained, meaning that growth in passenger numbers is most likely driven by airlines operating larger planes. Despite the city's recovery, it still remains outside the top ten busiest airports in the world, which Atlanta's Hartfield-Jackson International Airport leads at 104.6 million passengers per year.

Hong Kong's rapid recovery hit its first roadblock at the start of 2024, with figures falling from 76% of pre-pandemic figures to 64%. What is most notable, however, is that Berlin's performance is even worse. While Hong Kong saw its tourism industry decimated by harsh COVID lockdowns and increasing fear from Western visitors of national security regulation from Beijing, the German capital has performed even more poorly since October 2023.

Inflation



Since late 2023, inflation rates across our global cities have changed in unexpected ways. The UK was suffering from particularly prolonged price rises, with rates stuck above 4% since October, while they were falling to 3% and below across the rest of our city sample. The United States, on the other hand, was riding high (or should it be low), with rates falling slightly below 3% in June 2023.

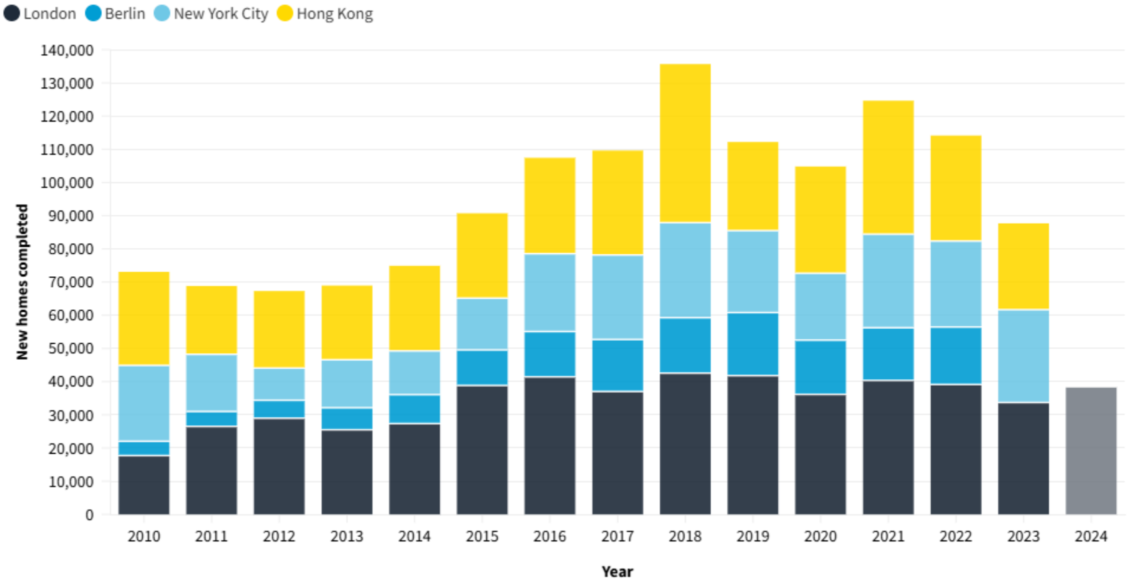
By April of 2024, the tables turned using CPIH for this analysis – a measure that includes owner occupiers' housing costs provided by the OECD, the UK was at 3% and the US at just under 3.4%. In terms of "pure" CPI, the UK's inflation rate was at an even lower 2.3% in April; neither measure has been this low since 2021. This is largely the result of falling energy prices, which saw the largest decrease on record after the energy price cap was reduced by £238 over the last year. How projected increases in electricity and gas price caps of up to 9% in October 2024 will feed through into UK inflation is yet to be seen.

In the US, the downward inflation trajectory has gone into reverse since our last survey report. Compared with 3.2% in June, rates spiked at 3.7% in September 2023 and hovered around similar numbers. The majority of changes have been due to increases in the cost of housing and gasoline – core inflation stayed static at 3.8% in February and March 2024 and fell to 3.6% in April. These figures have surprised US policymakers, who had expected cuts in interest rates earlier in the year. High interest rates at the Federal Reserve are a potential cause for concern worldwide, given that many central banks base their decisions on those of their US counterparts to avoid generating monetary imbalances and "hot money" (speculative) flows.

Good news in Britain means that the country was no longer suffering from the highest inflation of our sample. However, it was significantly higher than figures recorded in France and Germany, which were both around the 2.2% mark in April of this year. Hong Kong, by contrast, saw inflation plummet to 1.1%.

New Homes Completed

New homes completed



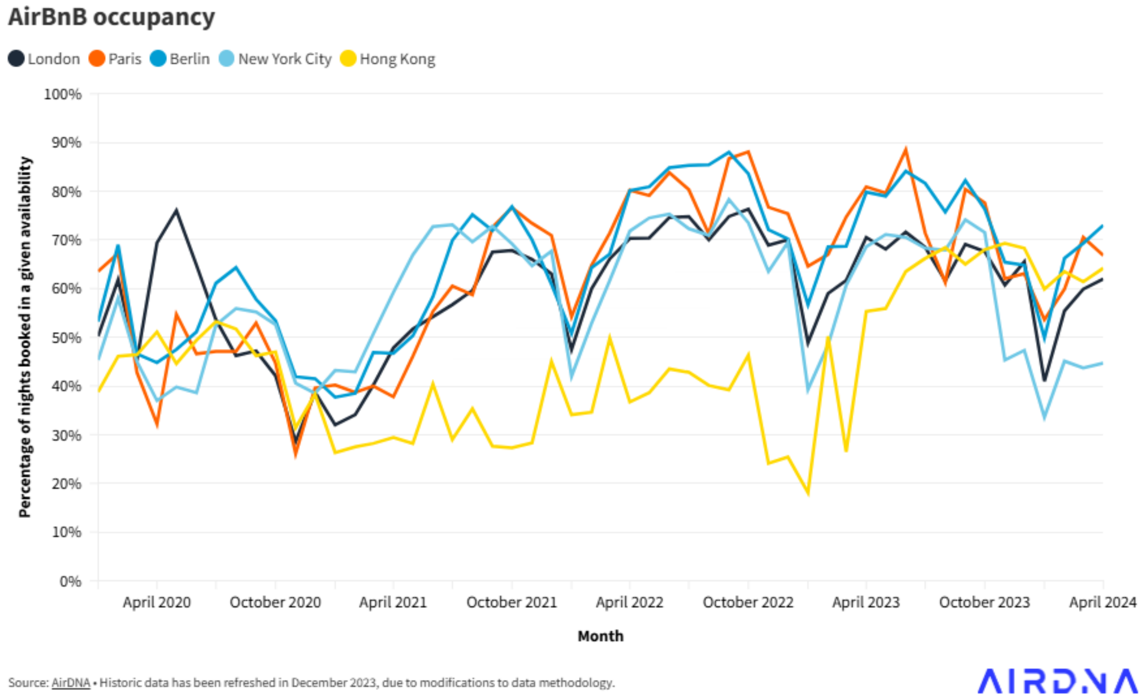
UK Government, Berlin Brandenburg, New York City Department of City Planning • Transport and Housing Bureau, Government of Hong Kong SAR • Hong Kong Housing Authority
London data calculated from domestic Energy Performance Certificates issued for new dwellings (including new builds, conversions, and change of use). Hong Kong data combines private, public, and homes for subsidised rent construction. Île-de-France only tracks authorisations and new starts, so not comparable. 2024 data for London is linearly projected.

End of year statistics for 2023 show that London underperformed its record in 2021 and 2022 with regard to delivering new homes. At under 34,000, completion figures have not been as low for almost 10 years. Delivery in Q1 2024 has been relatively strong, meaning that if results in the first quarter were repeated throughout the year, delivery would almost recover to 2022 levels, but despite the incoming Labour government's enthusiasm for housing construction, 2016 volumes of almost 41,500 are unlikely to be repeated for some time.

In Hong Kong delivery has truly underperformed. Completions, both private and public, fell to just 26,000 in 2023, down from a peak of nearly 48,000 in 2018. This is largely the result of collapsing delivery in the private sector, which completed no more units in 2023 as it did in 2010, despite population growth of almost 150,000 over that period.

New York's figures recovered from 2022's slump to nearly 28,000 in 2023, almost matching 2021's record high of 28,200 in recent years. Notably, the Bronx provided 35% of these new completions – the first time that it overtook Brooklyn. A full quarter of homes built in the Bronx were in one neighbourhood, Mott Haven-Port Morris, the site of a major waterfront redevelopment scheme. Almost half of the units in that neighbourhood were located in one development – Lincoln at Bankside – demonstrating the sizable role played by individual large-site housing projects in housing delivery.

Airbnb Occupancy



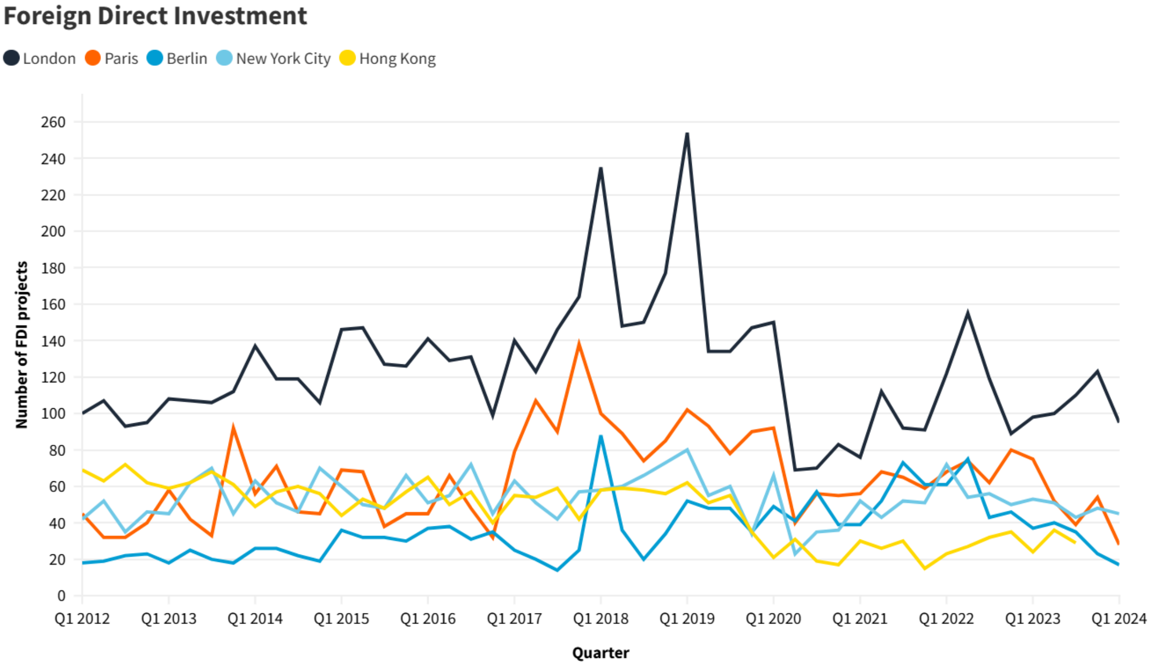
While occupancy rates of properties listed on AirBNB have largely plateaued in London, correcting for the seasonal drop off seen each year in January, New York's market showed signs of weakening. This was no-doubt driven in part by regulations prohibiting rentals of fewer than 30 days (unless the host stays with the guests). April 2024 rates failed to exceed 45% in 2024 compared to 70% in April 2022 and 2023.

Although Hong Kong's occupancy rates are still notably above their performance since the start of the pandemic, the rapid growth seen throughout 2023 has ended, and rates are stable around 65%. These figures demonstrate the persistent underperformance of the city's tourism industry, prompting the government to allocate more than HK$1 billion ($130m) to the city's Tourism Commission and Tourism Board this year.

Berlin can now boast the strongest performance of any of our cities, at 73% in April. But future growth in occupancy rates may be constrained by the weak recovery of airport passenger numbers after the pandemic, unless in-country tourism from Germans and growth in rail travel can counteract it. For this to happen, Deutsche Bahn, the country's rail authority, will need to improve its performance – the end of 2023 saw punctuality reach a record low of 52% for long-distance trains.

It will be intriguing to see the effect of the Olympics and Paralympics on Paris AirBNB occupancy rates, not least given media stories suggesting that many holiday tourists were planning to stay away from the city.

FDI Investment

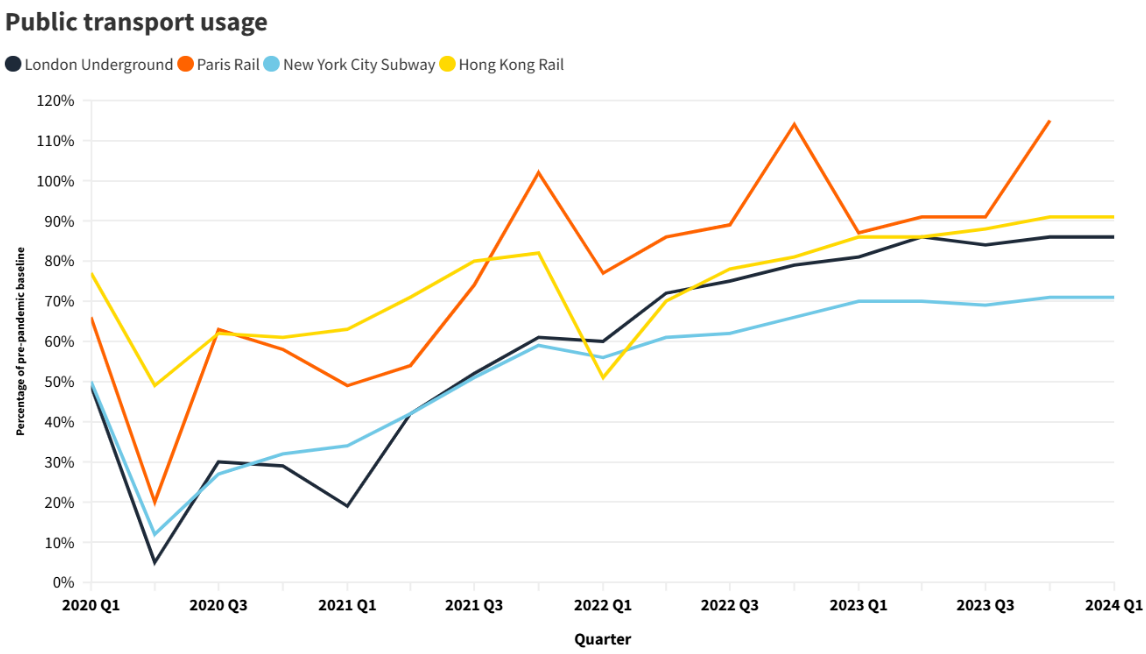


Data sourced from fDi Markets by London & Partners, as of 15/05/2024.

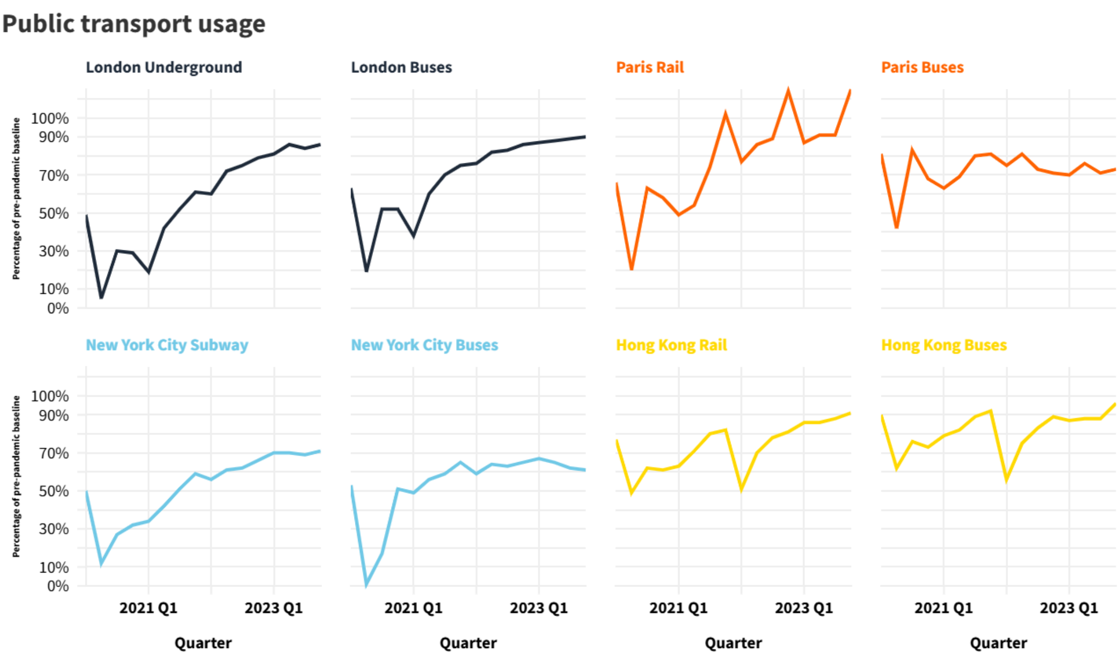
Berlin is now benefitting from fewer FDI projects than it has for seven years, with the boom in foreign investment it enjoyed in 2022 firmly over. This is visible in the value of direct investment assets too, which fell from over €160bn in 2022 to less than €80bnn in 2023. This reflects falling numbers across Europe – a 4% decline since 2023 and one of 11% since before the pandemic.

London is still seeing the most projects of any of our cities, contributing to the UK's share of all inward investment into Europe rising from 15.6% in 2022 to 17.3% in 2023. But this is significantly below pre-pandemic levels. In Q1 2019, numbers peaked at nearly 260 projects in one quarter, while the first quarter of this year saw just 95. London's status as a hub for major multinational companies means that 2021, the last year for which data is available , saw a far larger rate of outward investment (i.e. from London to other countries) than inward, with £62.8 billion leaving London and £31 billion coming in.

Public Transport Usage



DfT, Transport use during the coronavirus (COVID-19) pandemic, Open Data Paris, Quarterly Travel Barometer, MTA, Day-by-day ridership numbers • HKTD, Monthly Traffic and Transport Digest
Q1 2024 data for Hong Kong is based on January and February.

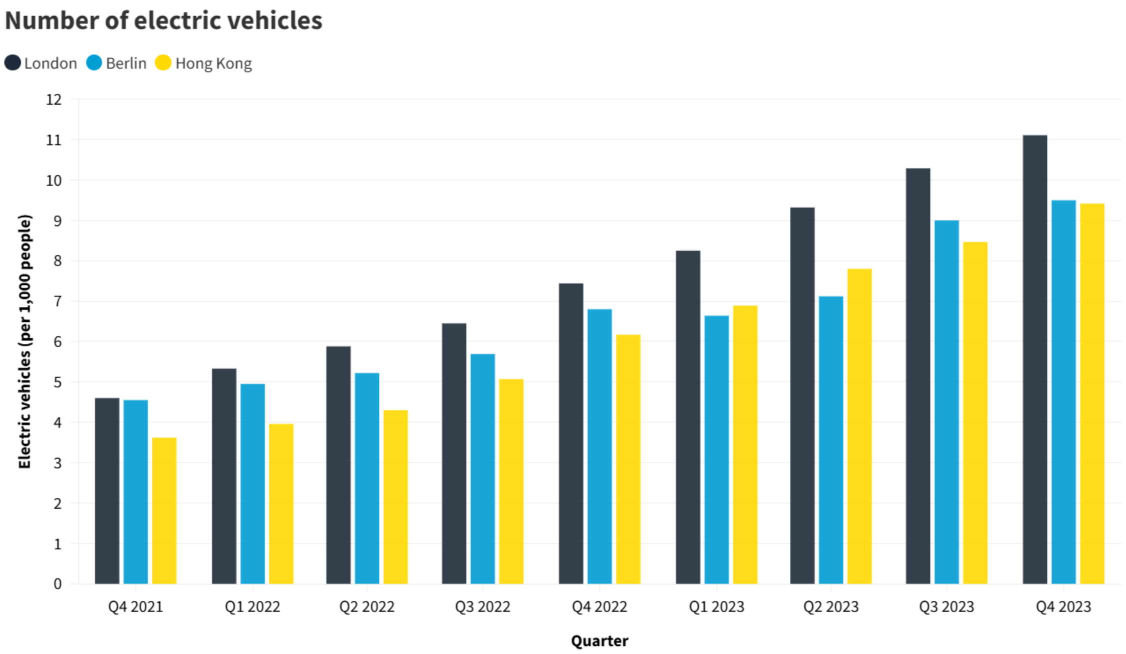


DfT, Transport use during the coronavirus (COVID-19) pandemic, Open Data Paris, Quarterly Travel Barometer, MTA, Day-by-day ridership numbers • HKTD, Monthly Traffic and Transport Digest
Q1 2024 data for Hong Kong is based on January and February.

Paris has shown the strongest recovery in its public transport ridership of any city in our sample. An anomalous fall in Q4 2019 means that Q4 figures for each succeeding year show large increments, causing an unprecedented 115% to be recorded in Q4 of last year. However, even excluding these quarters, the French capital was – at the very least – neck and neck with Hong Kong. The Grand Paris Express project may boost growth in ridership numbers by adding four entirely new lines to the Paris Metro and extending existing lines into the city's suburbs. Just in time for the summer Olympics, line 14 of the metro – the 'backbone' of the Express extension – opened in its upgraded form in late June 2024. The line now reaches all the way from Orly airport to Saint-Denis Pleyel, providing a novel north-south link across the city and providing eight new stations.

London's recovery has continued to plateau just below 90% in recent quarters – hopes for a full return to pre-pandemic ridership have proven unwarranted to date. The Mayor's 'Let's Do Friday' campaign, which discounted Friday peak fares to off-peak levels had a modest impact on ridership recovery. The relatively small discount may have played a role in the scheme's limited impact, as well as the low-price elasticity of those using the Tube for business travel. The trial came to an end on 31 May 2024 and will no doubt be evaluated in greater detail in the coming months.

EV Ownership

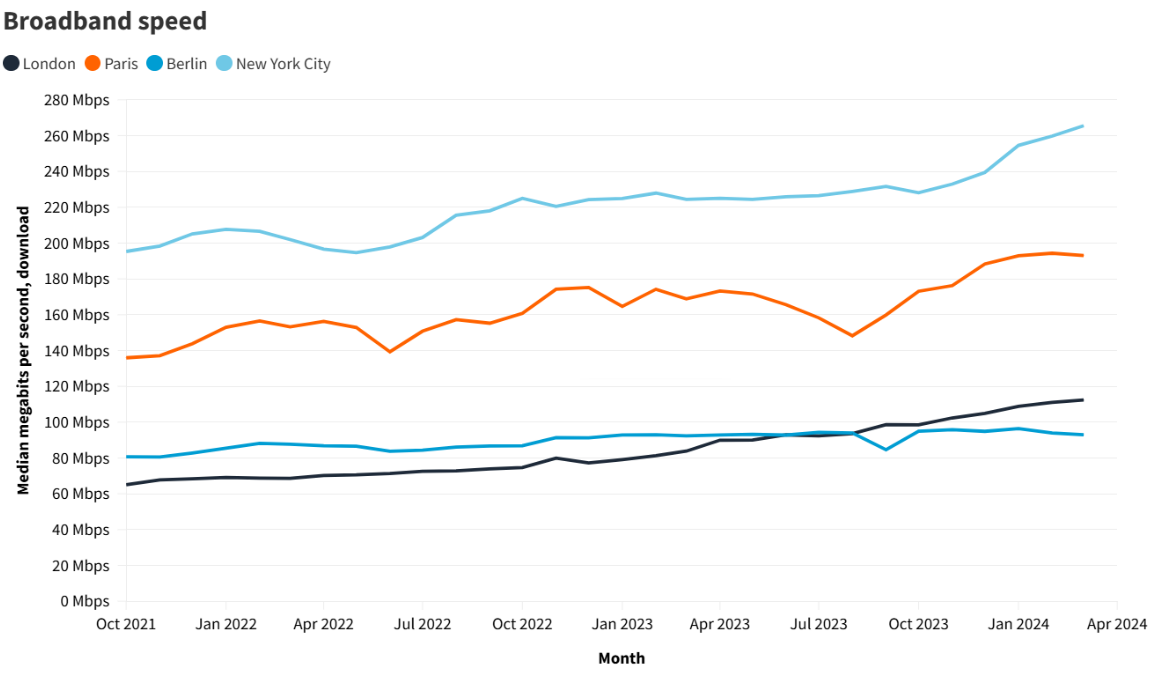


Source: DfT and DVLA, Vehicle licensing statistics data tables, KBA Vehicle Stock, HK TD, Monthly Traffic and Transport Digest
Population data: ONS, Eurostat, World Bank

London led our sample of cities by some margin, with the number of battery electric vehicles reaching over 11 per 1,000 residents, while Berlin and Hong Kong continued to score under 10 per 1,000 respectively. Notably, these figures are likely suppressed by relying on population estimates, given that all three cities have unusually low rates of car ownership.

Notably, however, none of our global cities come close to matching the true global standout. Across the entirety of Norway, 2020 saw 81 electric cars per 1,000 residents, a figure which has likely risen since then. And moving from stocks to flows, Norway is also a world leader – in 2022, nearly 80% of all cars sold were battery powered electric vehicles, with Tesla and Volkswagen dominating the market. In the UK, on the other hand, BEVs made up just 16.6% of new car registrations in 2022. This differential is also reflected in (and exacerbated by) EV charging bay figures – although London has the second highest rate of charging bays per km^2, Norway's capital city of Oslo tops the list with over 70% more bays.

Broadband Speed



Source: Speedtest Global Index

Berlin's broadband speeds have not only flatlined but begun to fall in 2024 with London overtaking the German capital in recent months. Although Berlin enjoys a high level of broadband coverage by comparison to the rest of Germany, its speeds are famously sub-par. Some commentators blame this on Deutsche Telekom, the near-monopolist in domestic telecoms, which has focused investment on upgrading older copper wiring systems over installing new fibre-optic broadband.

Both New York, the leader of the pack, and Paris, have seen their download speeds rise sharply since 2023, providing a boost to their respective technology ecosystems. In Manhattan, over 97% of people have access to broadband at or above 100Mbps – making New York state the fourth best performing state in the US.

London Property Alliance

WPA | CPA

Westminster Property Association | City Property Association

www.londonpropertyalliance.com