London Property Alliance

Global Cities Survey

October 2023

London Property Alliance

WPA | CPA

Westminster Property Association | City Property Association

Acknowledgements

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.

The Global Cities Survey is commissioned by the London Property Alliance and produced in partnership with the Centre for London.

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About the London Property Alliance

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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

The research is undertaken by Centre for London, an independent urban policy think-tank using a range of indicators including economic growth data from Oxford Economics. In the survey, London is compared to New York, Paris, Berlin and Hong Kong. As the UK's leading world city, London's quest for talent, private sector investment and visitors is global. The capital acts as a gateway for the rest of the UK especially for business, visitors and investment. Our analysis aims to promote a better understanding of London's economic performance on the world stage. The London Property Alliance considers that London can only play its full role in national growth and prosperity when it is succeeding on the international stage.

We hope that this report provides policy makers and business with additional insight and analysis to help make better decisions on many of the issues that affect London's ability to prosper over the short, medium and longer term.

Charles Begley

Chief Executive

London Property Alliance

Executive summary

- **Unemployment:** Unemployment has begun to rise in London, but is still lower than in Paris, Berlin, or NYC. Berlin's unemployment remained the highest of our sample, while unemployment fell to its lowest level since the pandemic in Hong Kong.

- **Job vacancies:** London is the only city of those we track to have fewer job vacancies than before the pandemic, potentially signalling a forthcoming slowdown in economic activity. Only Paris still has vacancy rates significantly higher than before the pandemic.

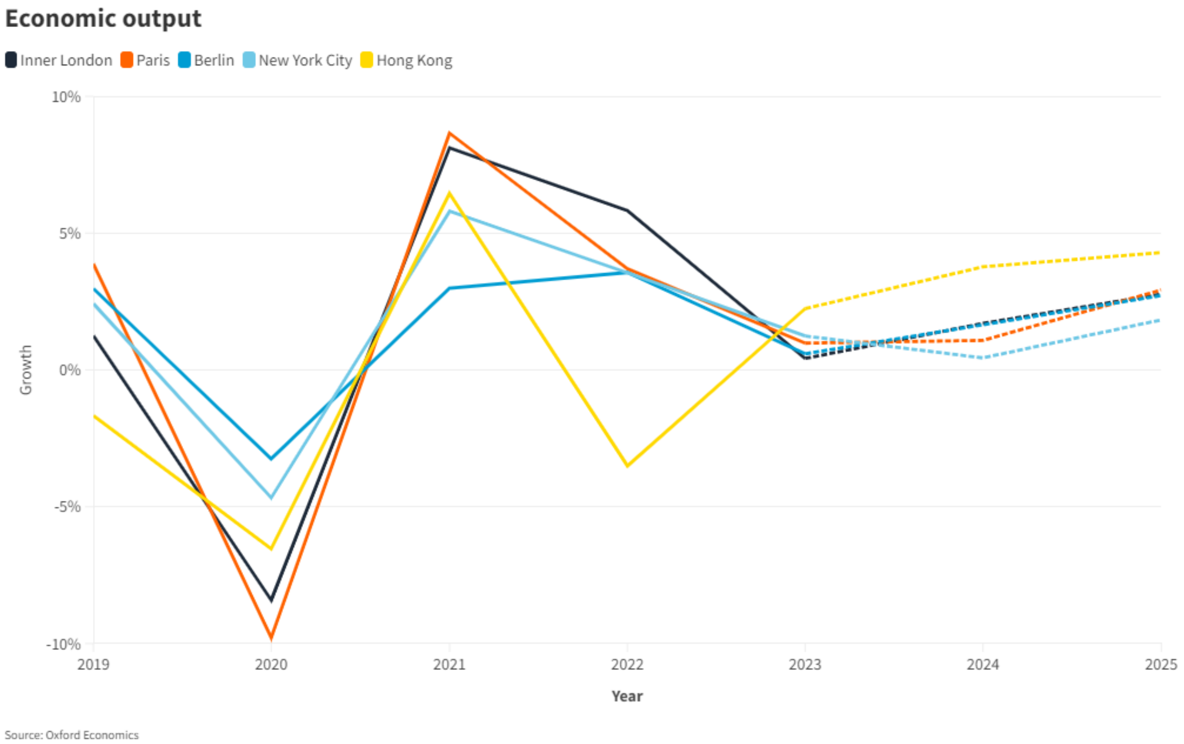
- **Office vacancies:** Approximately 22% of office space in Manhattan is unoccupied, as has been the case over the last twelve months. Although vacancies in Central London fell slightly, available stock is building up in East London, as the slowdown in the tech industry deepens.

- **Airport passengers:** Growth in passenger numbers has plateaued across all cities except Hong Kong, where air traffic is growing rapidly. Airport passengers in New York have fallen to marginally below 2019 levels (99%), so technically, no city in our sample has consistently maintained above-pandemic levels since 2020; London and Paris recorded demand at 93% and 91% of 2019 levels respectively.

- **New homes completed:** The rate of new completions in London and Hong Kong (the cities that have released new data) has fallen sharply. Market uncertainty, falling prices, and the end of Help to Buy could see completions fall lower than any year since 2014 in London, while the effect of the pandemic on public housing completions in Hong Kong mean building rates could almost halve over this year.

Detailed analysis

Economic Output



Our data on economic output has not been updated since our previous edition, which was forecasted in March 2023 for June.

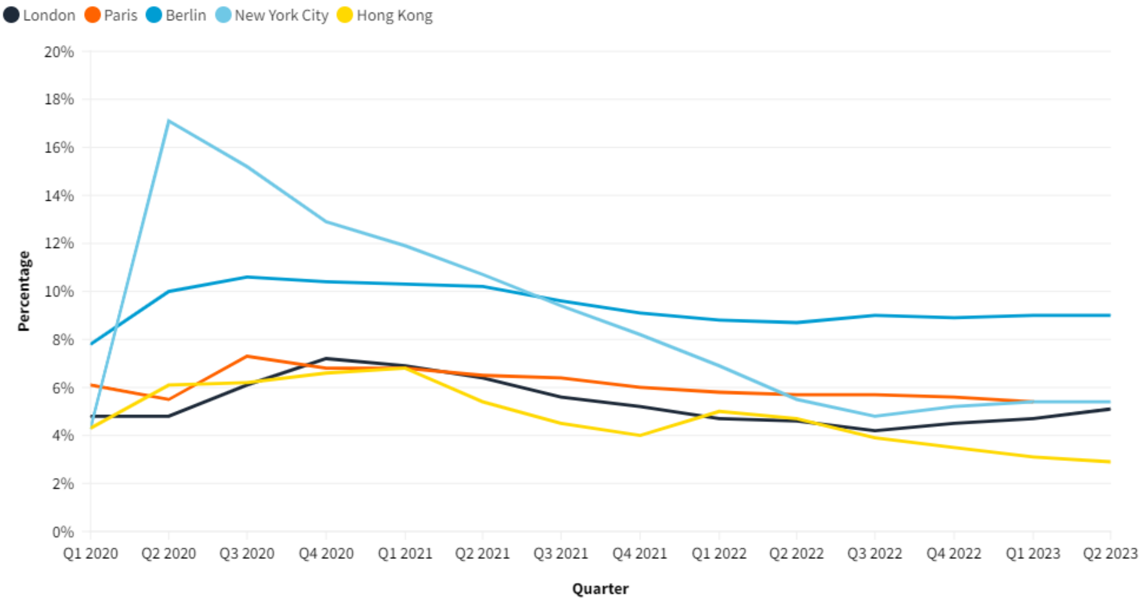
However, the Greater London Authority's recent forecast of London's economy predicted that 2023 would see 1.1% growth in Gross Value Added – significantly above the 0.4% forecasted by Oxford Economics for Inner London in March. GLA economists explain this divergence from consensus forecasters by arguing that the city's labour market and excess savings have remained stronger than predicted, supporting consumer spending.

On the other hand, the OECD's economic outlook told a more pessimistic story for the UK as a whole. UK's growth was forecasted at 0.3% year-on-year, barely avoiding a decline in output, and far below the OECD average of 1.4%. Across the UK, business activity is falling – August's Composite Output PMI survey fell to just under 48, a thirty-month low (any figure below 50 indicates a shrinking of output), resulting from a fall in new orders. Having said this, the recent revision of UK economic performance by the ONS meant that almost 2 percent was added to the size of the economy (by the end of 2021); it was 0.6 percent larger than pre-pandemic instead of being 1.2 percent smaller.

France's growth was predicted to hit 0.8% over 2023 and Germany to stagnate at 0%, with households' real wages falling by over 4% by the end of last year, significantly more deeply than in any other country in our sample. Germany's poor performance appears to be the result of declining demand for its manufacturing exports. Of the countries of cities we monitor, only the United States has been forecast to exceed the OECD average with 1.6% annual growth.

Unemployment

Unemployment rate



NY Department of Labor • Census and Statistics Department Office for National Statistics, INSEE, Arbeits Agentur Deutschland • London uses the Labour Force Survey's headline indicators, rather than Claimant Count, to meet ILO standards. French data is not currently up-to-date. None are seasonally adjusted to maintain consistency, so may be influenced by cyclical factors.

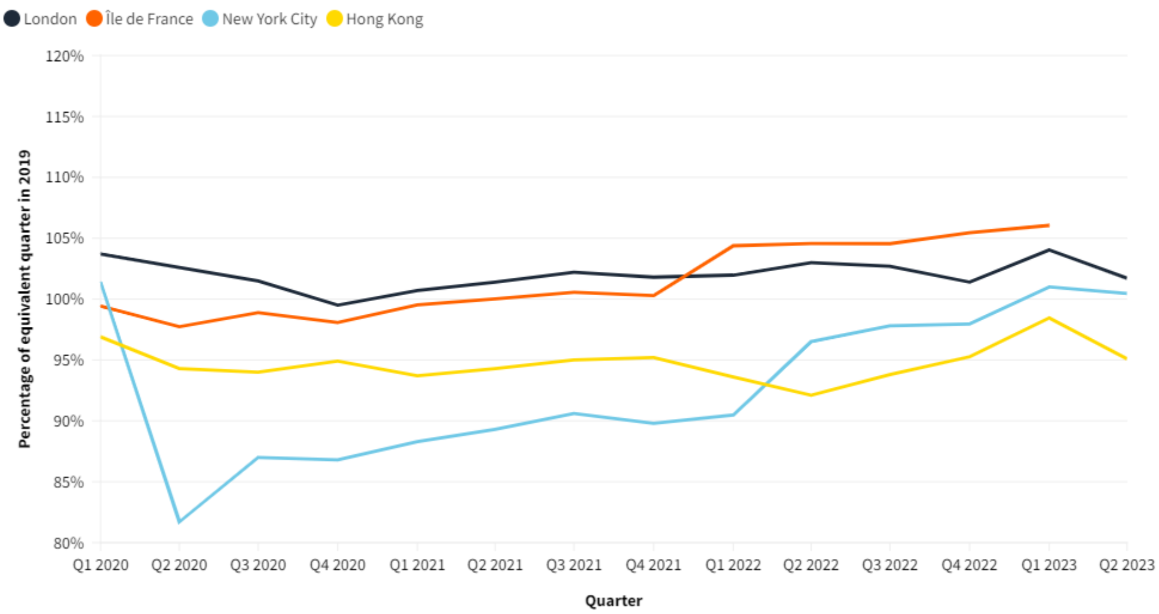
After hitting a floor in autumn 2022 of 4.2%, unemployment has begun to rise in London. At 5.1% they have returned to levels last seen in late 2021. After a buoyant two years, the effects of high inflation and subsequent interest rate rises have begun to impact the city's job market.

Having said this, London's labour market remains stronger than those of Paris, Berlin, or New York City, but is converging with its American rival. Falling growth in job vacancies in London (on which more below), combined with rising unemployment, indicates that the persistent undersupply of workers relative to demand might at an aggregate level be coming to an end in the UK capital. However, skills shortages in specific sectors are likely to persist.
Berlin remains the city with the highest unemployment rate of any of our sample, remaining at 9% in Q2 2023; it had been expected to increase. New York's unemployment rate remains significantly higher than the rest of the state – New York State as a whole saw rates fall to 3.9% in July, as against 5.6% for NYC.

Unemployment has continued to fall in Hong Kong, although decreases have slowed in recent quarters. The city still has the lowest rate of unemployment of any of our cities at under 3% – the lowest figure since the start of the pandemic. The largest sectoral improvements came in retail and accommodation services, which are both influenced heavily by the reopening of the city's tourist and leisure economy following the pandemic (see also airport data below).

Employment

Recovery of employment

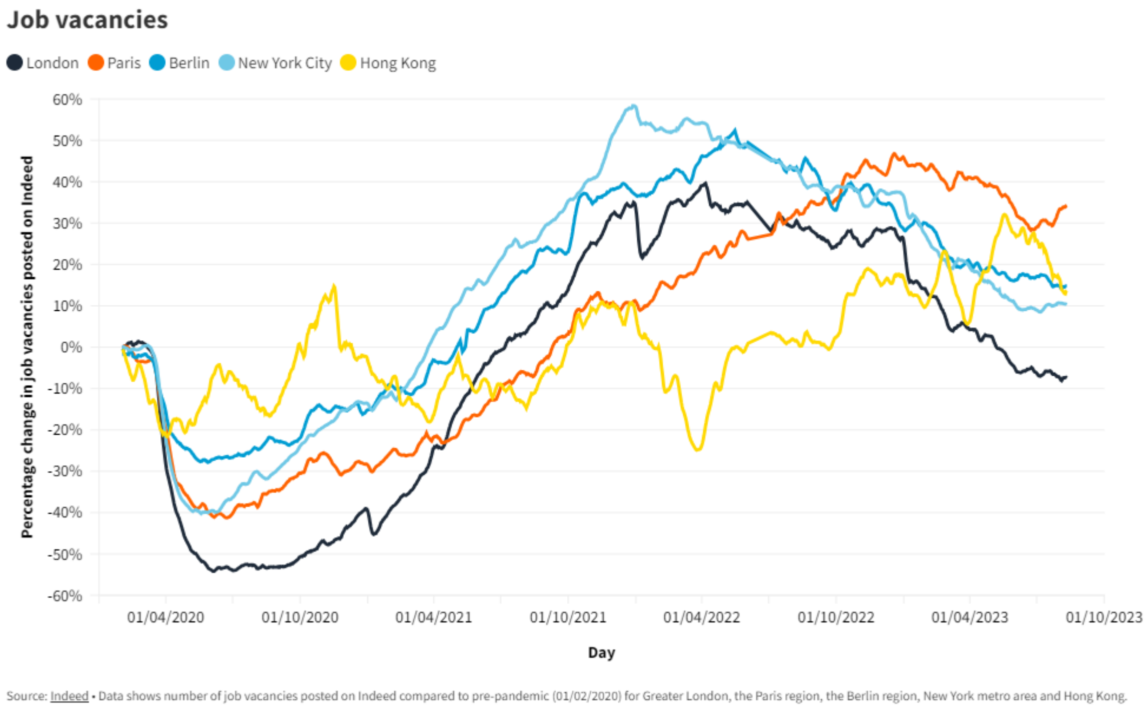


Office for National Statistics, INSEE, New York State Department for Labor • The Government of The Hong Kong SAR.
Berlin data unavailable. Only Île de France data available (not updated for Q1 2022). London uses the Labour Force Survey

The number of workers employed in London has stayed above pre-pandemic levels, but has fallen notably since the start of 2023, as the city's labour market has begun to ease. The city's employment rate has hit 74.3%, a fall of more than one percentage point since the previous quarter and a 0.7 point fall since the equivalent quarter last year.

New York City, which has seen a weaker recovery in employment than the UK capital's, is also seeing its demand for workers soften, while Hong Kong's employment figures have fallen to 95% of equivalent 2019 levels.
Updated data for Paris is not yet available, but in Q1 2023, the city had the strongest employment figures relative to before the pandemic of the cities that we monitor.

Job vacancies

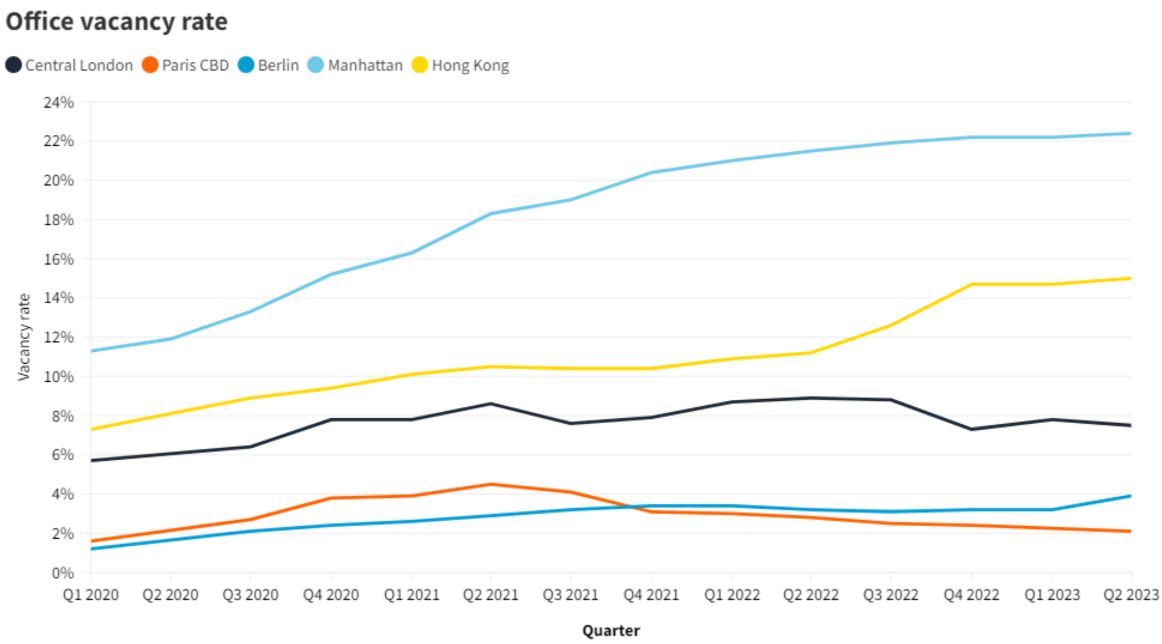


With the exception of Paris, all the cities in our sample are seeing their labour markets loosen considerably. London has seen the deepest fall in job vacancy figures relative to pre-pandemic levels.

Job vacancies in London are now 7.5% lower than before the pandemic – the only city to have seen its labour market fall *below* 2019 levels. This could be because nominal wage growth has been stronger in the UK - and in London in particular (see below) - than in the EU or US for much of 2023. This has largely been driven by a substantial increase in the National Living Wage and the settlement of industrial disputes in the public sector since April where unions have been at least partly successful in extracting improved deals from government. Across the UK, London has experienced the strongest average pay growth of any region in real terms, with employees of London-based organisations seeing pay growth of 5% between February 2020 and May 2023, though this was largely driven by high earners.

Although New York, Berlin, and Hong Kong have all seen their vacancy figures fall from the highs of 2021, when demand for workers outstripped supply by significant margins, they are all still seeing higher demand for labour than before the pandemic. Paris alone, with its uniquely low unemployment rates and comparatively low inflationary environment (see below), is still enjoying a buoyant labour market.

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.

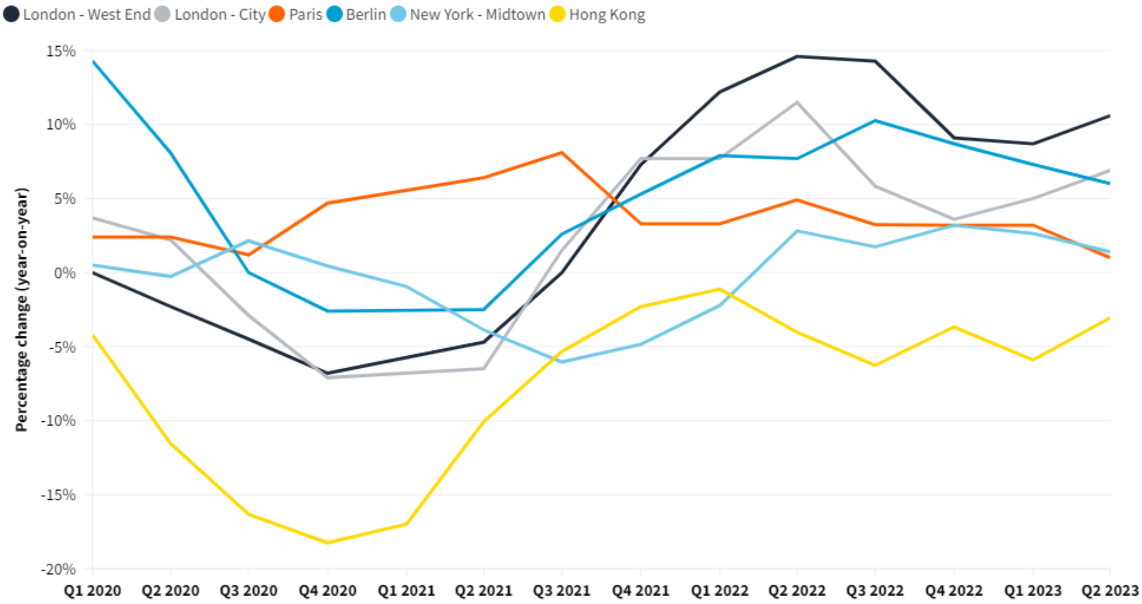
Manhattan's office vacancy crisis continues to roil the city's commercial real estate sector, with empty offices making up nearly 22.5% of total stock: this has remained stubbornly high throughout the year.

Vacancy rates in Central London fell slightly through 2023, although this disguises variation across the city. In the West End, for example, vacancies fell from 5.3% to 4.4% of office stock in a single quarter, while the City saw office vacancies rise slightly from 9.5% to 9.7%. It is, however, in East London where available stock is mounting up most notably, reaching nearly 12% in Q2 2023 – potentially due to the slowdown in the technology sector, which is focused in this part of the city. EY analysis found that profit warnings have almost tripled year-on-year in the technology and telecoms sectors, due to economic uncertainty causing problems with contracts. According to analysis from Avison Young, across central London, real estate dealmaking and investment remain suppressed compared to pre-pandemic levels, with smaller occupiers forming the bulk of moves. Higher borrowing costs and the uncertain future of working arrangements among London's office workers mean the future position remains unclear.

Hong Kong has seen the percentage of office stock sitting empty increase since mid-2022, as Chinese firms fail to counteract the exodus of Western businesses from the island, particularly in the financial sector. Economic weaknesses in mainland China, driven by the country's tottering real estate sector, have limited the scope for employers to expand into Hong Kong.

Prime office rents

Change in prime office rents



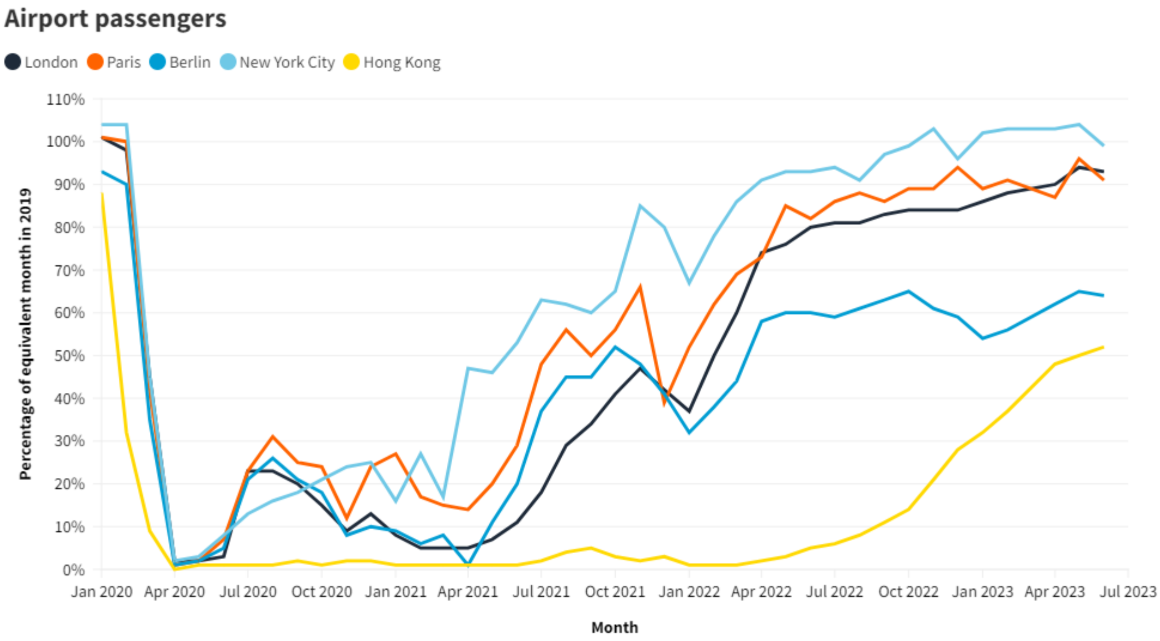
Source: Cushman and Wakefield - DNA of Real Estate (Europe), Cushman and Wakefield - DNA of Real Estate (Manhattan), Private Retail - Rental and Price Indices (from 1978), from the Ratings and Valuation Department of the HKSAR Government • Data show percentage change in Prime Rent. No consistent historical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

Rent growth for prime office space has fallen from its post-pandemic peak in every city in our sample. However, London's West End remains the area with the fastest growing rents on a comparative basis, with over 10% year-on-year growth in Q2 2023. Avison Young analysis puts this down to a lack of supply of high-quality office space in the area. Growth rates in the City of London (up from 5% (Q1 2023) to 6.9% (Q2 2023)) have also recovered from their trough in late 2022. This reflects slowing growth in vacancy rates in the Square Mile.

Rents in New Year's Midtown are close to flatlining – likely a consequence of the rise in unfilled office space detailed above. Rising interest is also making refinancing a difficult proposition for property owners in the city, particularly as real rents continue to fall. New York City budgets, the largest part of which is funded by property taxes, are also under pressure, which could result in further deterioration of public realm and some transport services.

Only in Hong Kong are prime office rents falling in nominal terms - by 3% in Q2 2023 - reflecting the long-term downturn in office rents on the territory which predates the pandemic. As the single most expensive city in the region for office occupiers, a consistent decline in rents could eventually work to counteract losses of firms to Singapore and other neighbouring competitors, but risks threatening the city's real estate industry.

Airport passenger demand



Civil Aviation Authority, Paris Aeroport, Berlin Airport • Port Authority of NY and NJ, Airport Traffic Statistics • HK International Airport
Percentage of equivalent month in 2019. 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.

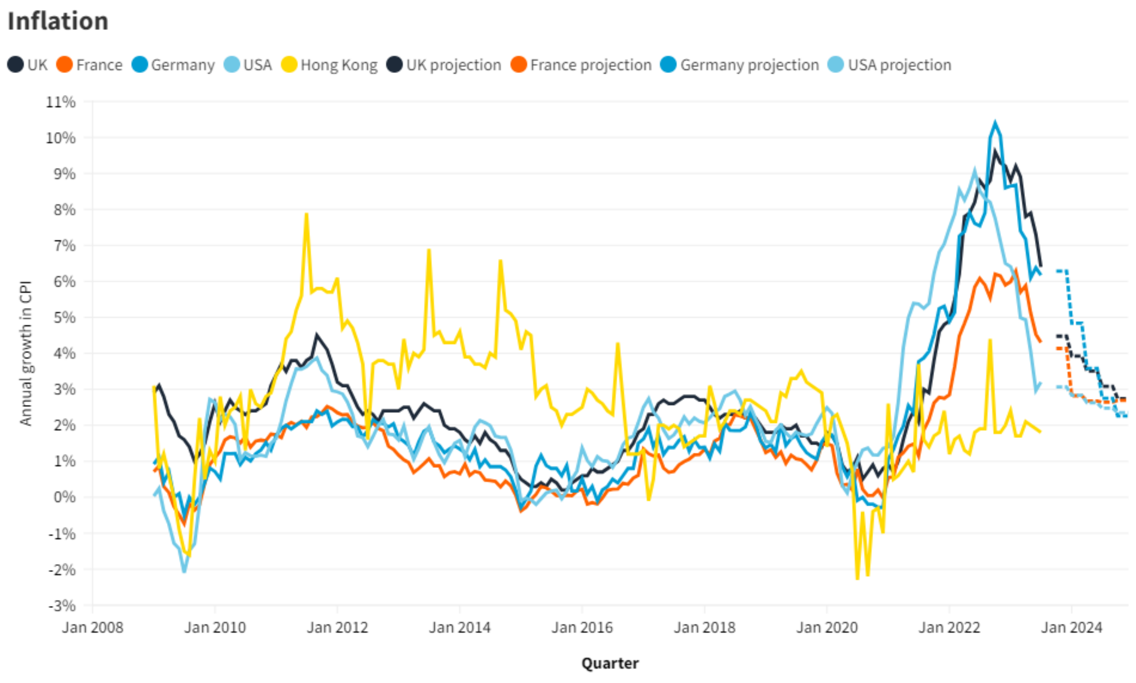
Relative growth in air travel has plateaued across most of our cities. Summer 2023 has been affected significantly by the war in Ukraine, which has limited the airspace available for commercial flights.

In New York, which has seen the strongest post-pandemic recovery in passenger numbers of our sample cities, June saw passenger numbers fall below pre-pandemic levels for the first time since the end of 2022, to 99% of 2019 figures. This means that no global city in our sample has maintained a growth in airport passengers on pre-pandemic levels.

London's recovery in air traffic faltered slightly in July, as air traffic control delays caused EasyJet (amongst others) to cancel nearly 2,000 summer flights, mainly from London airports.

Hong Kong's travel numbers increased at an extraordinary pace after the city-state opened up to foreign travellers although they remain 12 percentage points below Berlin, the lowest Western city in our set.

Inflation



OECD, HK Census and Statistics Department, OECD • 2023 and 2024 data is projected on a quarterly basis.

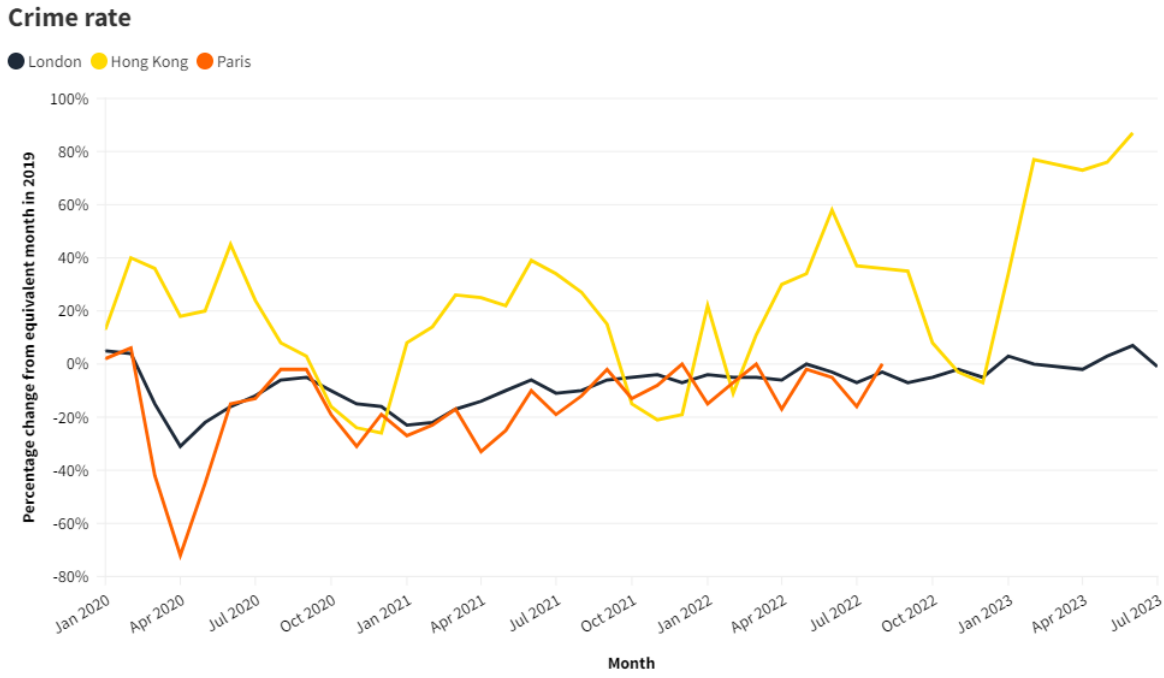
The UK continues to suffer from the highest inflation rate of any country in our sample, with the closely watched CPIH measure at 6.4%. Rates have been falling, driven by decreasing prices for fuel and energy (although they have since been on the move up in some instances). Although core inflation stayed flat in July, ONS analysis showed recently that the component of inflation shared by all goods in the CPI basket has fallen faster than headline rates of inflation, indicating that underlying inflation is in theory, slowly cooling.

German inflation rebounded by just under 0.3 percentage points between May and June, bringing rates very close to the UK's 6.4%. But they resumed their downward trajectory in July at 6.2%. This summer lacked the disinflationary policies that characterised German policy in 2022, such as price caps for public transport and tax cuts on consumer energy bills.

After precipitously falling since its 9% peak in June 2022, US inflation rates have ticked up slightly for the first time in over a year, rising from 3.0% to 3.2% from June to July 2023. However, they remain lower than any other country in our sample other than Hong Kong, which has been importing deflationary pressures from Mainland China.

In the US, interest rates are at 5.25-5.5%. Federal Reserve Chair Jerome Powell's speech at the influential central bankers' conference in Jackson Hole suggested that the Fed was prepared to continue raising interest rates to bring down inflation. Earnings, sales, and labour market outcomes remain strong in the US, while inflation may have peaked, but central bankers are still concerned that growth may be too high to maintain price stability.
Hong Kong's inflation remains significantly below any other country in our sample – its September 2022 spike (4.4%) was attributed to effect of the government waiving rents for public housing a year earlier. It is now just 1.4 percentage points below inflation in the United St

Crime



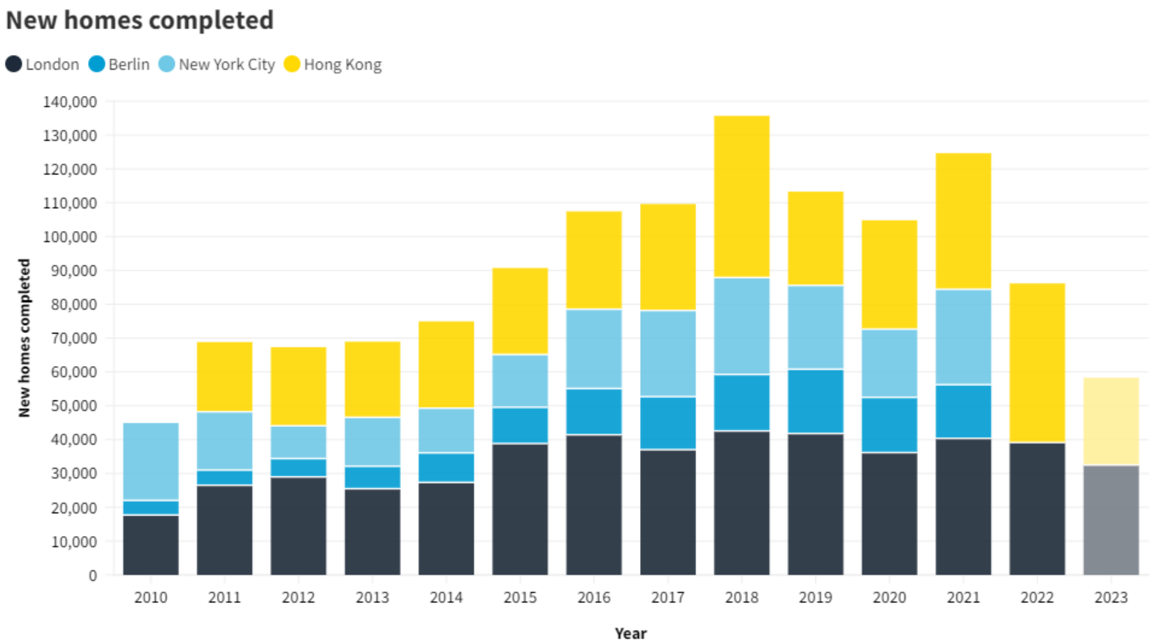
Source: Metropolitan Police, Ministere de l'Interieur, Hong Kong Police Force • Paris data is not currently being updated.

Throughout 2023, crime rates in London have hovered at a similar level to those recorded before the pandemic. A small spike in June 2023 saw crime rates increase by 7% but these have since fallen back to pre-pandemic levels.

Hong Kong, the only other city for which we have recent data, has seen a substantial increase in crime in 2023, with the number of incidents reported each month since February consistently more than 70% above pre-pandemic levels. The rise appears to be driven in part by a rise in fraud, especially online fraud. While making up a small proportion of the overall number of reported crimes, it's notable that nearly 4,000 violent crimes were reported in January-May 2023, compared to 598 in the same period last year.

Comparable data for crime levels in Paris has not yet been released. Remarkably, neither New York nor Berlin provide consistent data on a quarterly basis.

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. Hong Kong data begins in 2011. Île-de-France only tracks authorisations and new starts, so not comparable.

The rate of completions in London has begun to slow, as the effects of the housing market slowdown caused by interest rate rises and increased red tape start to bite. ONS data showed house prices falling by 0.6% from June 2022-June 2023, while analysis from Zoopla shows that house price growth has been weakest in the expensive markets, of which London is the stand-out case.

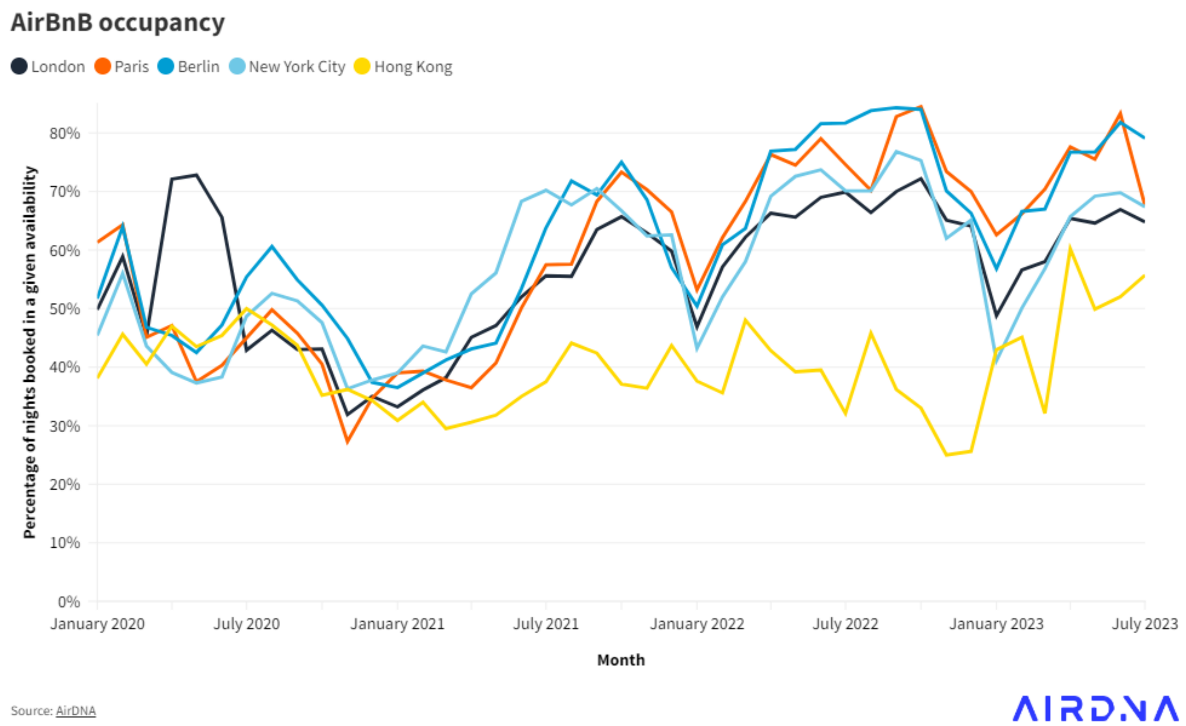
The end of the Government's Help to Buy scheme has likely also played a role, representing the withdrawal of a significant subsidy for many purchasers. Across England, 2023 so far has seen the lowest rate of completions since 2017. In London, if building continues at its current rate, 2023 will see fewer homes built than any year since 2014, when the effects of the financial crisis were continuing to depress supply.

In Hong Kong, the rate of completions has collapsed. At current rates, the city will build just over half of the number of homes it did in 2022. This is largely the result of the pandemic's effects on public sector building programmes – over 7,500 flats scheduled for completion in 2022/23 were delayed until next year, resulting in lower building rates than any year in recent memory.

Though New York has not released any data from 2023, newly released results from 2022 show that building rates fell slightly on 2021 levels to just under 26,000 completions. Although these figures are broadly in line with recent trends in delivery, 2022 saw an unprecedented rise in the number of future new units receiving permits: just under 70,000, almost half of which were in Brooklyn. Planning department analysis explained this spike by reference to the expiration of a tax benefit for developers last summer, which incentivised applicants to submit as many projects as possible before the deadline.

Other cities have not yet released up-to-date data since our last edition.

Airbnb occupancy

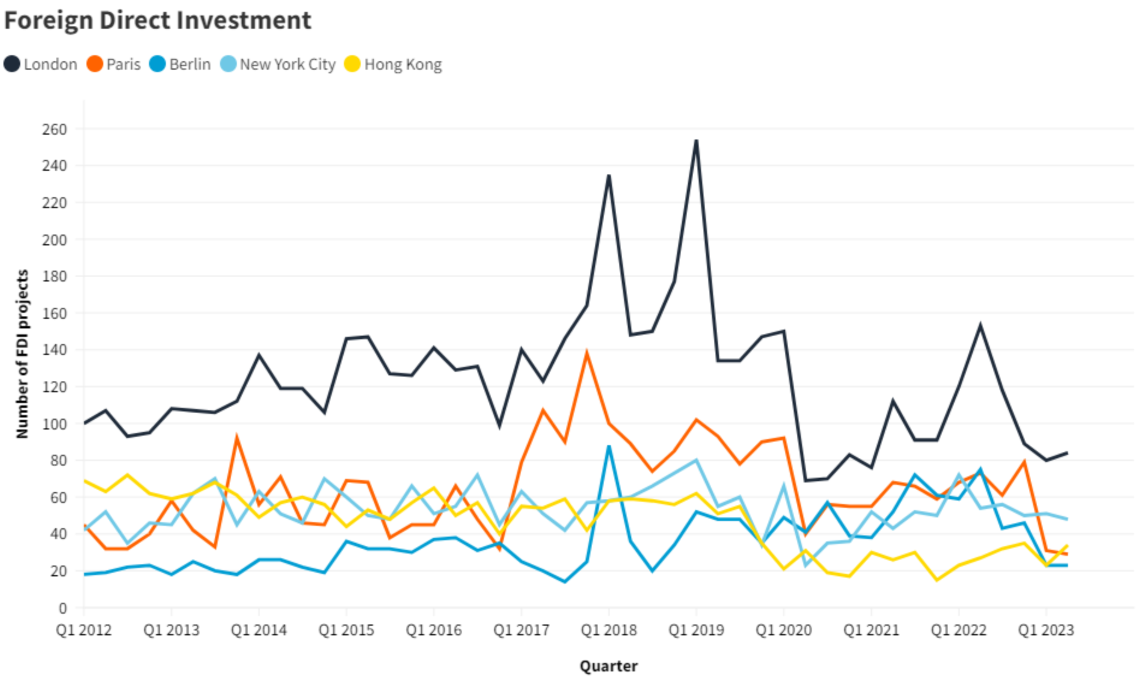


Berlin and Paris have seen the highest proportion of Airbnb listings occupied over the summer, with 79% of those in Berlin and 75% of those in Paris occupied, on average, from May through July.

Throughout the same period, London and New York have seen slightly lower rates of occupancy than last year (on average 5 percentage points lower than last year), while Paris and Berlin have seen similar rates to 2022.

In Hong Kong, occupancy rates are lower than any of the cities we monitor. However, they have seen by far the most positive change this year, with occupancy rates throughout the summer at their highest rates since the pandemic. This maps onto the rapid increase in air traffic to the city, detailed above. In July 2023, the proportion of available nights booked was 74% higher than they were a year earlier (56% compared to 32%) – this follows the lifting of COVID restrictions in late 2022.

FDI



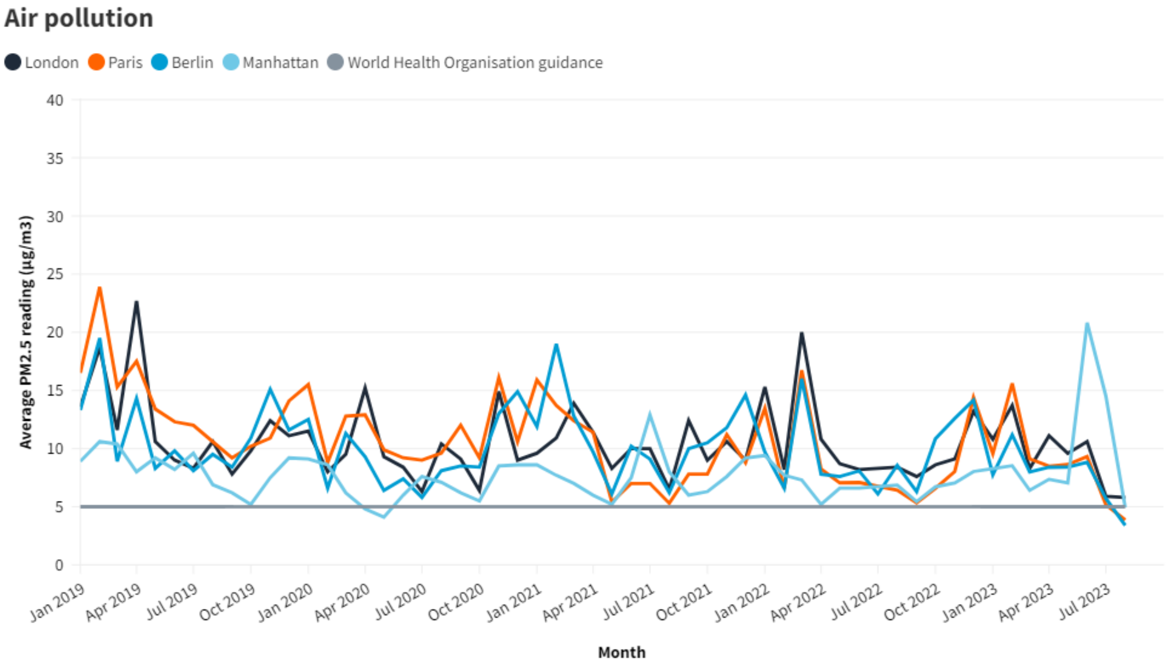
Data sourced from fDi Markets by London & Partners, as of 14/08/2023

London continues to receive the most Foreign Direct Investment projects of any of our cities (84 projects in Q2 2023), though figures have fallen significantly since its recent peak in mid-2022, and remain far below rates seen in 2019. This appears to be largely the result of a decline in FDI into digital technology, which has been heavily affected by Brexit.

The number of FDI projects in Paris' has fallen considerably since late 2022, when it saw 79 projects; Q2 of this year saw just 29. However, a study from EY earlier this year found that France led the United Kingdom as a recipient of FDI projects overall, suggesting that London's performance has not made up for the gap in performance between non-capital cities in the UK and France.

Berlin now sits at the bottom of our sample, below even Hong Kong. In the wake of the Russian invasion of Ukraine and increasing tensions between G7 members and China, the German government has increased restrictions on FDI projects, tightening the review process for each project.

Air quality



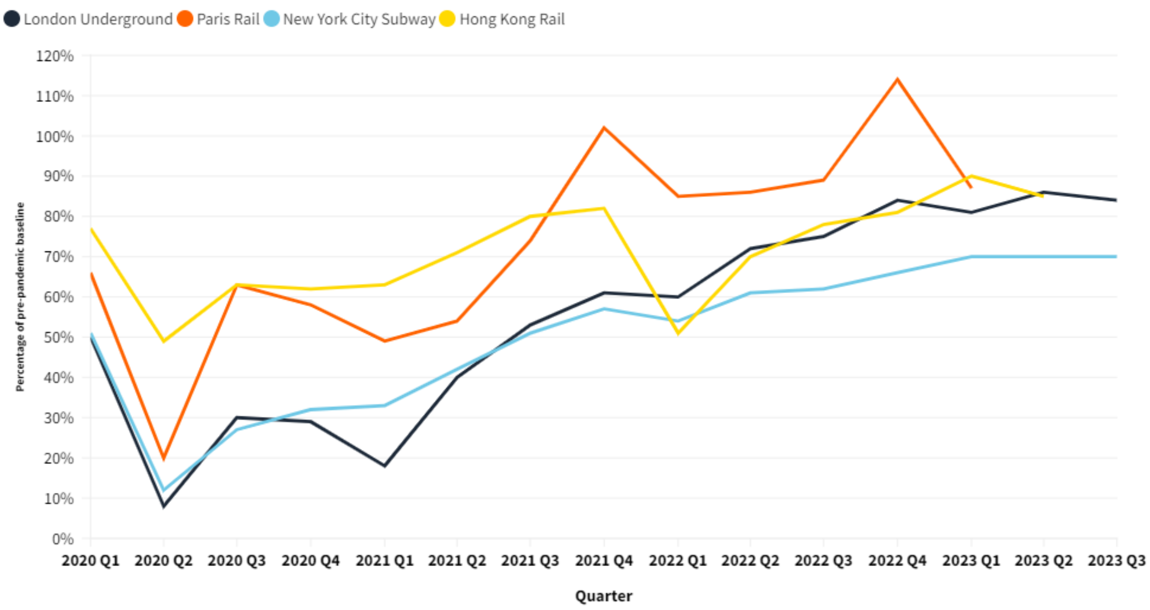
Source: Berkeley Earth • PM2.5 readings track any particles smaller than 2.5 micrometres in diameter in the air. This data is a monthly average. The World Health Organization's guideline for air quality is 5μg/m3 averaged across a year. Within New York, only data for Manhattan is available, so results are not directly comparable with other cities.

Manhattan saw a sharp rise in air pollution in June 2023 due to a few critical days of extremely high particulate levels: the monthly average exceeded 20.8 μg m^{-3}. This was the result of drifting smoke from wildfires which were engulfing Quebec, in Eastern Canada, causing orange-red skies across the city. It hit higher levels on some days such as June 8 when it was over 118 μg m^{-3}, which is classified as hazardous for even those without pre-existing health conditions**.** This bout of intense pollution was brief, lasting only 1-2 days, after which pollution levels returned to normal.

London's particulate readings in August 2023 were considerably lower than in June but remain slightly higher than any other city in our sample and are now the only city studied with levels above the WHO's guidelines for a healthy level of particulates.

Public transport usage

Public transport usage



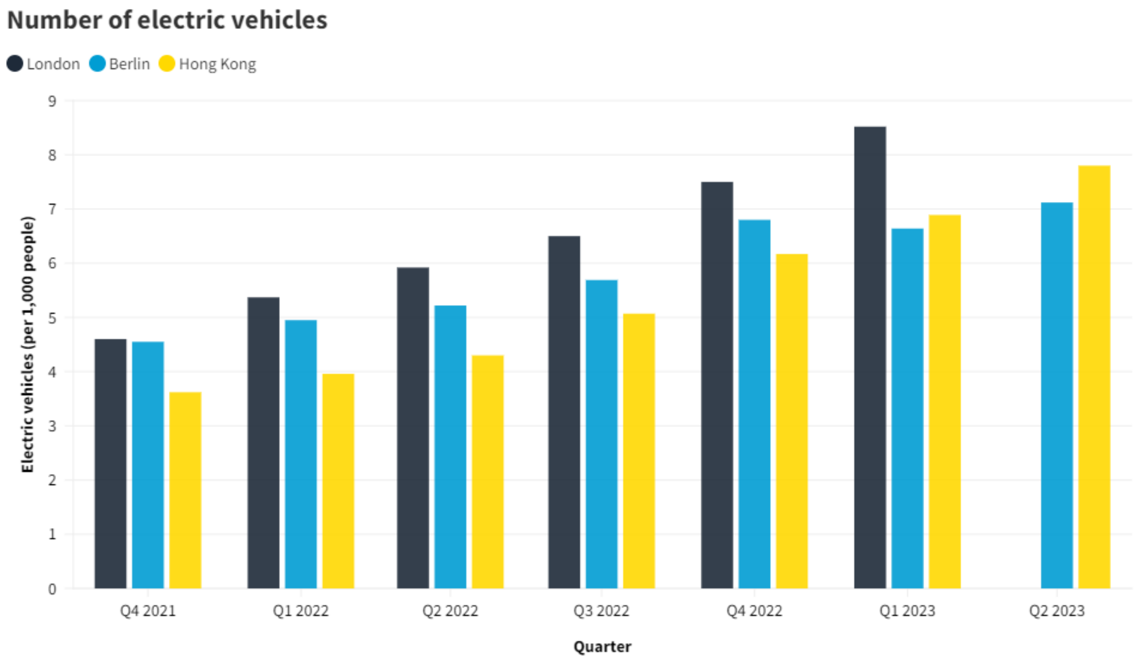
DfT, Transport use during the coronavirus (COVID-19) pandemic, Open Data Paris, Quarterly Travel Barometer, MTA, Day-by-day ridership numbers • HKTD, Monthly Traffic and Transport Digest
Q3 data for London and New York is projected, based on data up to mid-August. Hong Kong's Q2 data is projected based on data up to May.

The recovery of public transport ridership has plateaued across all of our cities. In Q2 2023, London Underground's ridership was 86% of its pre-pandemic baseline, similar to Hong Kong Rail (85%) but higher than the New York Subway (70%). This has since fallen slightly to a projected 84% in Q3, while Hong Kong has not provided updated Q3 figures.

The New York subway continues to languish at the bottom of the league table, reflecting the city's unusually slow return to the office, particularly in Manhattan. The subsequent lack of commuters has only exacerbated the financial and technical problems caused by a sustained lack of investment. As a result, fares on the subway will rise for the first time in 8 years in August, from $2.75 to $2.90, to make up for lost income and attempt to balance the Metropolitan Transportation Authority's large budget shortfall. While subway ridership remains 30 percentage points below pre-pandemic levels, use of the city's bridges and tunnels by motor vehicles has fully recovered and, earlier in the year, even exceeded 2019 figures, threatening a sustained increase in vehicle use on the island of Manhattan and perhaps acting as a spur for the introduction of congestion pricing as early as next year.

Published data from Paris continues to lag several quarters behind our other cities – its extraordinary Q4 2022 performance of 114% of pre-pandemic figures fell sharply to 87% in Q1 2023. The city has not published any updated figures since then.

EV ownership

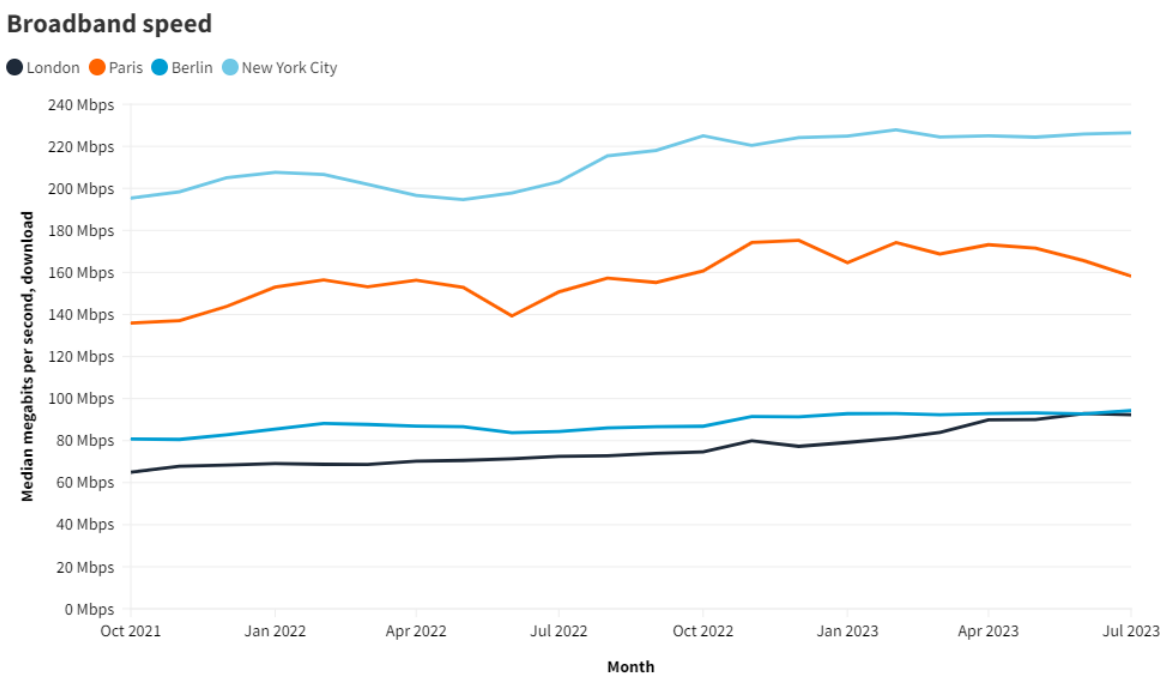


Source: DfT and DVLA, Vehicle licensing statistics data tables, KBA Vehicle Stock, HK TD, Monthly Traffic and Transport Digest
Population data: ONS, Eurostat, World Bank

In Q2 2023, electric car ownership continued to climb in Berlin and Hong Kong, reaching just under eight EVs per 1,000 people in the latter.

London's data is released on a slower schedule but shows that the capital had the highest proportion of electric car owners of any of the cities studied in Q1 2023 at 8.5 per 1,000 people. EV ownership has grown faster in London than in Berlin since the end of 2021, with Berlin's figures nearly unchanged since the end of 2022.

Broadband speed



Source: Speedtest Global Index

The gap between London and Berlin's broadband speeds has narrowed, with fewer than 2 Mbps of difference between the two cities in July 2023. London's speeds remain the lowest of any of our cities, but they have climbed steadily since late 2022, which is reflected in the city climbing six spots in global rankings to the 68th position.

New York remains the city studied here with by far the fastest broadband speeds. However, it has fallen from third place to eighth in global rankings since 2022, caused by climbing speeds in East Asia.

Paris' relatively high performing networks have seen a fall in speeds since the spring of 2023, but remain unusually fast for a European country. This may be due to the 2013 *Plan France Très Haut Débit*, which financed a substantial investment in digital infrastructure, with the aim of connecting everyone in the country to high-speed internet by 2025.

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