

PORTFOLIO50 OPINION

The High-Yield Catch-22.

Every clock on a secondary Central London office asset is running the moment you buy it — and headline yield is quietly asking you to ignore all five.

By Bhuvan U. Kochar, CEO

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Executive Summary

Headline yield doesn't buy you income. It buys you time.

Every secondary Central London office asset trading at an elevated entry yield is, in effect, selling investors a countdown. The yield looks generous today because the market is pricing in a set of deadlines — physical, regulatory, commercial, financial, and reputational — that the asset is already running against. The moment you buy the building, you inherit five clocks, and every year that passes consumes part of the yield you thought you'd banked.

An attractive entry yield is not compensation for low risk. It is compensation for time pressure.

In Central London's commercial property market, a widening rift has emerged between ultra-prime assets and refurbished mid-tier stock. To the casual observer, a retrofitted Central London office hitting the market at a high initial yield looks like a bargain. Compared to prime yields — Mayfair and the wider West End trading at tight, low-single-digit levels, and even City Core prime stock pricing in the low-to-mid 5% range [1] — an elevated yield on secondary stock appears to offer immediate cash flow potential.

But behind that entry yield sit five clocks already running — Geometry, Regulation, Occupier expectations, Capital cost, and Exit. Understanding how much time each has left, not the yield itself, is the real underwriting question. This note walks through each clock and what happens to your underwriting when it runs out.

Clock One — The Geometry Clock

The building can't physically accommodate future upgrades indefinitely.

Floor-to-ceiling clearance is fixed the day the building is built. It is the one clock an investor cannot reset with capital — only work around, at escalating cost, until the physical limit is reached. No amount of retrofit spend changes a building's year of construction; capital can disguise a building's age, but it cannot revise it.

British Council for Offices (BCO) guidance sets new-build clear heights at roughly 2.60m to 2.75m, rising to 3.00m for shallow-plan layouts, while its refurbishment standard permits a minimum of 2.45m [3]. Many retrofitted legacy assets already sit at or below that 2.45m floor — meaning the Geometry Clock has, in effect, already run down before a single new system is installed.

FLOOR-TO-CEILING HEIGHT COMPARISON

ASSET CLASSIFICATION	CLEARANCE	MARKET VIABILITY & RENT RANGE
Modern Ground-Up Prime Towers (shallow-plan)	2.75m – 3.00m	Ultra-Prime / Top Rental Tier (£155–£220+/sq ft)
BCO Grade A Baseline (new-build)	2.60m – 2.75m	Institutional Standard Grade A (£105–£130/sq ft)
Legacy Retrofitted Frame	2.45m or below	Secondary / Constrained MEP Space (£40–£70/sq ft)

Every subsequent clock in this note collides with this one. Energy retrofits require high-efficiency Mechanical Ventilation with Heat Recovery (MVHR), and MVHR needs bulky, insulated ductwork. Squeezing that ductwork into a shallow ceiling plenum can drop finished headroom to 2.40m or below — under even BCO's refurbishment minimum, and a height corporate occupiers find claustrophobic. Daylight also degrades sharply past 4 to 5 metres from window perimeters on low-ceiling floorplates, and multinational tenants filter these buildings out on sight.

The workaround — custom low-profile micro-ductwork or perimeter VRF systems — exists, but it isn't cheap. It pushes HVAC retrofit costs to £75–£90+ per sq ft [5], which is where the Geometry Clock hands off directly to the Capital Clock.

Every other clock in this note can be paused, slowed, or bought off with sufficient capital. This one cannot. An investor who hasn't measured the ceiling has already misjudged how much runway the building has left.

Clock Two — The Regulation Clock

Standards keep tightening.

Unlike the Geometry Clock, the Regulation Clock is set externally, and it is still ticking down toward a deadline that isn't yet fixed in law — which makes it harder to price, not less real.

Under the UK's Minimum Energy Efficiency Standards (MEES) framework, the current confirmed legal minimum for privately rented commercial buildings remains EPC E. In June 2026, the Department for Energy Security and Net Zero (DESNZ) set out its intention that privately rented non-domestic buildings over 1,000 square metres in England and Wales should reach EPC Band B by 2031, “where cost effective” [2]. This is policy direction, not yet binding law — secondary legislation is still required, an earlier interim milestone of EPC C by 2027 has already been dropped, and a cost-effectiveness test is expected to remain available as an exemption route [2].

That uncertainty is precisely the trap. Large retrofit programmes take years to design, procure, and execute, so investors underwriting mid-tier stock must treat 2031 as the working assumption regardless of whether it's finalised — the lead time consumes the same years either way.

EPC BAND COMPARISON

METRIC	EPC BAND C (MID-TIER STATUS)	EPC BAND B (PROPOSED 2031 TARGET)
Asset Rating Score	51 – 75	26 – 50
Primary Energy & HVAC	Gas boilers / hybrid chiller networks	All-electric (ASHP, VRF, MVHR)
Building Controls	Basic BMS, manual lighting	Smart BMS, occupancy-driven scaling
Estimated Upgrade CapEx	Baseline state	£35 – £90+ / sq ft across demise

The correct response isn't to bet on the regulation softening. It's to underwrite two scenarios — target proceeds as proposed, and target is delayed or softened — and size the reserve accordingly. A single-outcome model is really a bet against the Regulation Clock, dressed up as underwriting.

Clock Three — The Occupier Clock

Tenant expectations continue to rise.

Even if an owner never touches the ceiling and never triggers an EPC upgrade, the Occupier Clock still runs. What corporate tenants consider acceptable Grade A space is a moving target, and secondary assets fall further behind it every year they aren't refreshed.

This clock shows up as friction, not headlines. When a major corporate tenant's lease comes up for renewal in a secondary asset, landlords are currently required to offer extended rent-free incentive periods to retain or replace them, alongside paying for fresh Cat A fit-outs [6]. Each rollover is a small, recurring proof that the market's bar has moved and the building hasn't kept pace.

Owners often paper over this by converting underperforming floors into flexible, managed workspace operator brands to hold up headline occupancy. That's a reasonable operational tactic — but underwriting volatile, short-term serviced-desk revenue as if it carries the security of a 10-year institutional lease inflates the apparent entry yield and hides how much ground has actually been lost against occupier expectations.

Clock Four — The Capital Clock

Retrofit costs escalate.

The Capital Clock is where the other three send their bill, and it rarely runs at a flat rate. Costs compound the longer an owner waits.

A deep decarbonisation retrofit typically requires decanting tenants entirely. A 12 to 24-month construction period means a significant, sometimes total, loss of rental income — while the owner keeps paying holding costs, debt service, and empty building rates. That void cost sits on top of the direct HVAC and fit-out spend already noted (£35–£90+/sq ft), and it compounds with financing costs the longer the project timeline stretches.

If an asset is purchased on paper at an attractive yield but is being underwritten against a multi-million-pound decarbonisation programme tied to a target still subject to legislation and a cost-effectiveness test, the true effective purchase price — and the probability-weighted capital commitment — rises significantly, diluting the actual net yield.

The entry yield was never the price. It was a downpayment on the Capital Clock.

Clock Five — The Exit Clock

Institutional buyers become increasingly selective.

The fifth clock is the one most investors forget to check until they're the seller. Even if an owner successfully navigates geometry, regulation, occupier expectations, and capital cost, they still need a buyer on the other end — and that buyer pool is shrinking for exactly this category of asset.

When institutional developers and major REITs place mature, retrofitted assets on the market at steep discounts to previous valuations, it's rarely distress. It's capital recycling. These sellers understand the same five clocks better than most buyers do. Rather than deploying tens of millions in CapEx to keep pace with a tightening EPC trajectory on a building with a ceiling height it can never fix, they exit — and redeploy into ground-up, ultra-prime pipeline developments commanding record rents (£200+/sq ft on the best floors) and long-term pre-lets from top-tier tenants.

That REIT selling behaviour is itself the signal. The Exit Clock tells you that the most sophisticated players in this market have already priced in the other four clocks and decided the terminal value doesn't clear the hurdle. An investor buying at the high headline yield is often buying the asset a REIT has already timed out of.

Strategic Underwriting Checklist

Every clock above converts into a specific number. Before committing capital to secondary Central London opportunities, calculate:

1. True All-In Basis — Purchase Price + Probability-Weighted EPC B CapEx (Regulation Clock, both scenarios) + Void Cost Reserves (Capital Clock) + Tenant Incentive Reserves (Occupier Clock).
2. Net-Net Yield — Gross Rental Income minus Flexible Operator Expenses, Vacancy Leakage, and Service Charge Deficits.
3. Terminal Value Risk — Whether the asset's physical structure (Geometry Clock) will allow it to attract institutional buyers on exit in 5 to 7 years (Exit Clock).
4. Regulatory Sensitivity — Model underwriting under both a “2031 target proceeds as proposed” case and a delayed/softened case.

The headline yield was never wrong, exactly. It was just answering a different question than the one that matters. It tells you what the asset earns today. It says nothing about how many of its five clocks have already run down — and how much of that “yield” you'll spend racing them.

The Case For Secondary — At the Right Price

None of this makes secondary Central London offices uninvestable. It makes the entry price the whole game.

The investors who lose money on these assets aren't the ones who bought secondary stock — they're the ones who underwrote it as if it were prime stock with a yield discount, rather than a turnaround project with a construction budget attached. Priced correctly, with the full weight of all five clocks reflected in the purchase price and a genuine reserve for the scenarios where regulation, costs, or timelines run against you, a secondary asset stops being a trap and becomes exactly what a turnaround should be: a chance to buy time cheaply and convert it into value before the clocks run out.

That reframes the Exit Clock itself. For many secondary assets today, the realistic exit isn't selling to another building buyer in 5 to 7 years — the institutional bid for constrained, ageing stock may simply not be there on that timeline. The more realistic path is to survive the next tenant cycle, roughly the next two decades, collecting good rents from occupiers who value location over ceiling height, while the building pays for itself. The eventual exit is not a sale of the building at all — it's a joint venture with a developer to redevelop the underlying land, monetising what was always the scarce asset in Central London: the site, not the structure sitting on it.

That's the opportunity hiding inside the catch-22. The market's mispricing isn't always in the seller's favour — sometimes an asset is priced by someone who hasn't done this arithmetic, discounting for a headline yield problem when the real issue is a fixable capital and timing problem, with a land-value exit nobody has underwritten. For the investor who has actually run the five-clock math, that gap between the market's price and the true all-in basis is where the return lives.

The discipline this note argues for isn't avoidance. It's pricing every clock into the offer, reserving real capital against the scenarios where they run faster than planned, and only proceeding when what's left — rental income through the hold, plus eventual land value on exit — still clears your hurdle. Get that right, and headline yield stops being the trap. It becomes the first honest number in a much more interesting deal.

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