Commercial quarterly examiner

Economy | Offices | Industrial | Retail | Outlook

Q1 | 2025

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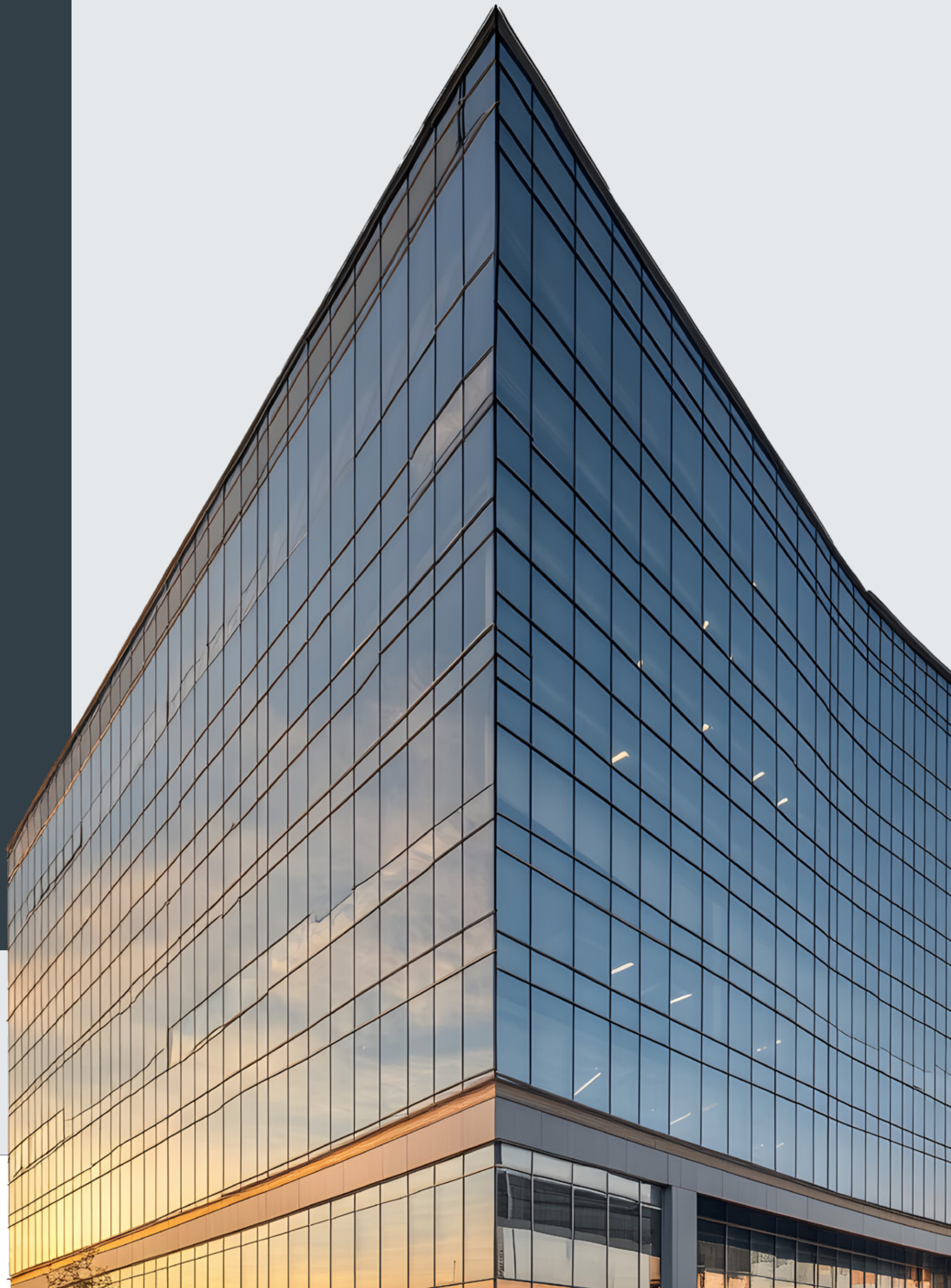


1. Key takeaways

The introduction of tariffs on goods being exported into the US in April is the biggest change in world trade seen in a century. As countries move quickly to try and agree trade deals, with the first deal with the UK, which reduces some tariffs, recently announced, the landscape remains uncertain, but the expected impact on trade and economic growth around the world means the IMF has already cut its forecasts for growth across all advanced economies. The outlook for UK GDP growth in 2025 has been downgraded from 1.6% to 1.1%.

President Trump's tariff regime has also introduced new levels of volatility into financial markets. The MSCI World Index, dropped -6.0% in USD terms in Q1 and the dollar has weakened against all major currencies. Since the start of the year, the price of gold has risen 26% as investors look for any perceived safe-haven. Less volatile assets are looking increasingly attractive, but uncertainty can also delay investment decisions, although with interest rates set to fall, there will be an increasing imperative to look for good opportunities.

The sentiment of UK real estate investors had been improving as the market produced some strong performance numbers at the end of 2024, but this momentum stalled at the start of the year. In Q1, All Property total returns, as recorded by the MSCI Monthly Index, decreased by 80 bps to 2.0% from 2.8% in Q4 2024.

Further reductions in base rate are anticipated throughout this year. However, weak economic growth combined with a troublesome inflationary outlook and increasing risk-free rates have created strong headwinds that will slow the recovery in commercial property values in 2025. At the All-Property level, performance expectations for 2025 have been cut by two percentage points to 8.0%. Average annual total returns over the next three years are also expected to be 8.0%, down from a previous forecast of 9.0%.

2. The UK economy

The IMF's "World Economic Outlook," published in April 2025, notes that the United States and its trading partners have announced and implemented a series of new tariff measures and countermeasures bringing effective tariff rates to levels not seen in a century. This is a major shock to the outlook for growth. In addition, the unpredictability with which these measures have been unfolding makes it more difficult to assess their impact.

Global growth expectations for 2025 have been downgraded from 3.3% to 2.8% and are now well below the average level of 3.6% achieved pre-pandemic between 2000 and 2019. Forecasts for growth have been reduced across all advanced economies. In the USA growth is expected to slow by 90 bps to 1.8%. The forecast for UK GDP growth in 2025 has been downgraded from 1.6% to 1.1%, although the UK is expected to outperform its European neighbours, except for Spain.

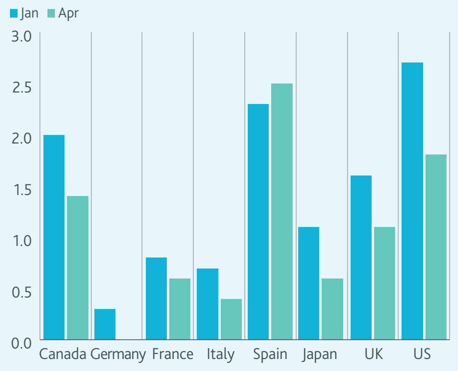
The most recent monthly estimate of GDP released by the Office for National Statistics (ONS) indicates that the UK economy surprised on the upside. GDP is estimated to have grown by 0.5% in February 2025, with growth in all main sectors, following January 2025 which showed no growth after the data was revised up from a previously reported fall of 0.1%. The economy grew by 0.9% in the three months to February having shrunk by -0.1% in the three months to November 2024.

The service sector, which represents 80% of the UK's economy, grew by 0.6% in the three months to February. Manufacturing output rose also by 0.6% in the three months to February and has now increased by 0.3% in the last 12 months. Construction output is estimated to have grown by 0.4% in February but has shown no growth in the three months to February having fallen back in January and December.

Economic output is now 4.4% above its pre-pandemic level, but it is also 5.6% below its potential level if output had continued at its post-GFC trend rate during Covid and its aftermath. Manufacturing is -6.9% below its February 2020 level and will doubtless struggle further after the USA, its second largest car export market for cars, imposed a 25% tariff on all vehicle imports.

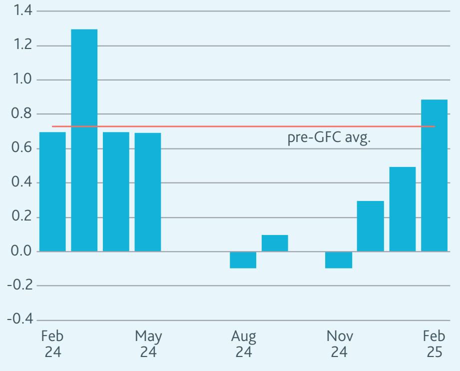
February's Monetary Policy report from the Bank of England recognises that the current stance of monetary policy is restrictive, and that indicators of business and consumer confidence have declined since November. The report projects that GDP growth in 2025 will be weaker than it previously forecast, before staging a stronger and more sustained recovery from the middle of this year, to over 1.5% by March 2008. As the MPC not only targets inflation but also sustained

G7 2025 gdp forecasts (%)



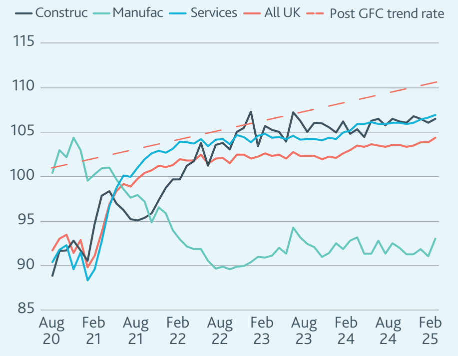
Source: IMF, April 2025

Rolling 3m UK economic growth (%)



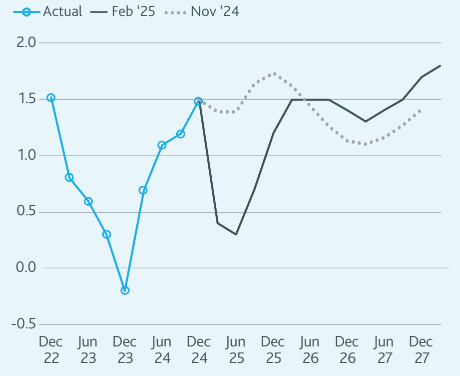
Source: IMF, April 2025

UK economic growth indices (Feb 2020=100)



Source: IMF, April 2025

Actual GDP index and MPC forecasts



Source: ONS & Bank of England, Feb 2025

growth and employment, it is likely that further reductions in the Bank's Base Rate can be expected. The MPC voted for the second quarter point rate cut of the year on May 8th, taking the base rate to 4.25%. But the uncertainty created by the trade challenges was underlined by the fact that two members of the nine-strong committee voted for no change to rates, while two voted for a 0.5% rate cut. It now seems highly likely there will be two more rate cuts this year.

Annual CPI inflation growth remains above the MPC's 2% target. Consumer prices spiked in January reflecting the traditional adjustments to the price of goods and wages at the start of the year, but the inflation numbers have been easing back in the last two months. CPI rose by 2.6% in the 12 months to March, up from 2.5% in the 12 months to December but nevertheless an improvement on 2.8% recorded in the 12 months to February. Core inflation excluding energy, food, alcohol and tobacco has increased from 3.2% in December to 3.4% in March and continues above its post-GFC average of 2.7%. Similarly, service sector CPI inflation has increased to 4.7% at the end of March from 4.4% in December.

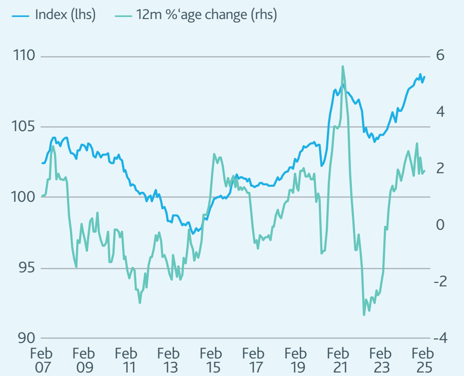
February's Monetary Policy Report projects that CPI inflation will be stronger than the central Bank forecast in November last year. It is now projected to rise to around 3.7% by the second half of 2025 driven by rapidly rising global energy costs. However, current weak levels of growth have created some slack in the economy and a looser labour market. Consequently, CPI inflation is projected to return to around 2% in the medium term. The MPC considers that the main risks to this outlook come from uncertainty surrounding the degree of slack in the economy and the persistence of the "second round effects" of domestic prices and wages.

The annual rate of growth in employee earnings across the country fell in Q1 2025. Pay excluding bonuses increased by 4.8% in the three months to March compared to the previous year, a reduction from 5.4% recorded in December. Real regular pay growth increased to 2.0% in the year to February from 1.9% in November.

It now seems likely that increased trade restrictions will slow global economic growth and consequently lower energy prices. But there is significant uncertainty surrounding the impact of tariffs on the size and direction of UK inflation.

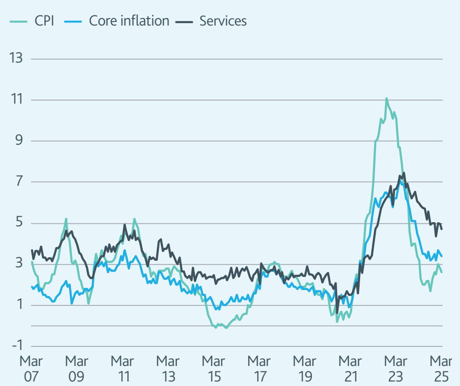
This uncertainty is echoed by the Office for Budget Responsibility (OBR) in its Economic and Fiscal Outlook, published in March, which found that the outlook has become more uncertain with upward pressure on defence spending and a tightening of global trade restrictions. The OBR has halved its 2024 GDP forecast and now expects real GDP growth of 1.0% this year, before it recovers to average around 1.75% over the rest of the decade. Higher energy and food prices and more persistently high wage growth cause inflation to rebound to a quarterly peak of 3.7% in mid-2025, before returning to target over the rest of the forecast. The Bank's base rate is expected to fall back to 3.5% next year.

Real pay index, sa (May 2005=100)



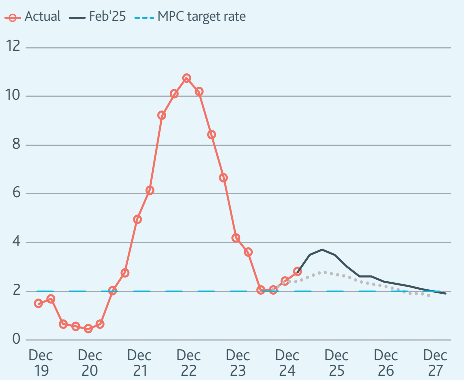
Source: ONS, April 2025

CPI inflation (%pa)



Source: ONS, April 2025

Annual CPI and MPC forecasts Feb'25



Source: ONS & Bank of England, Feb 2025

3. Stock markets, interest rates & asset yields

President Trump's "Liberation Day" and subsequent ad-hoc adjustments to tariffs imposed on imports to the US have caused huge volatility in financial markets. But even before 2nd April, markets were experiencing problems dealing with White House policy uncertainty. Since the start of the year, the price of gold has risen 26% as investors look for any perceived safe haven.

The MSCI World Index, with large and mid-cap representation across 23 developed markets, dropped -6.0% in USD terms in Q1. On a hedged GBP basis, the index fell -4.0% as the dollar weakened against the pound. The market sell off has continued beyond the end of the quarter and at the time of writing, the World Index is down a further -3.5%, having recovered after falling -10.6% immediately following "Liberation Day".

European markets displayed a degree of resilience in Q1. The broad-based Eurofirst 300 index gained 5.5%. Germany's DAX rose by 11.3%, as sentiment improved following the general election and announcements of spending on defence and infrastructure projects. France's CAC 40 increased by 5.6%, while the UK's FTSE 100 gained 5.0%.

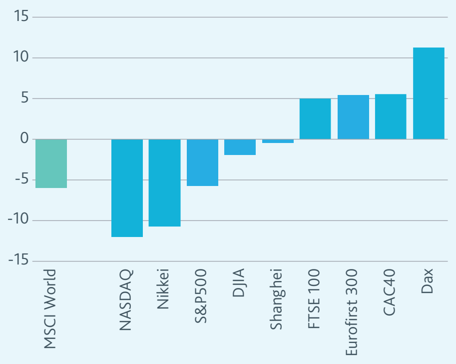
U.S. markets experienced significant declines in Q1 2025. The Nasdaq decreased by -12.0%, the S&P 500 fell by -5.8%, and the Dow Jones Industrial Average lost -2.0%.

China's DeepSeek artificial intelligence model, comparable to market leaders but developed at a fraction of the cost, caused investors to reassess expectations for tech stocks. In addition, investors feared that trade tariffs and public sector job cuts could reduce consumer confidence, cut growth prospects and heighten inflation risks. In March, the US Federal Reserve (Fed) cut its US growth forecast for 2025 to 1.7% from 2.1% and lifted its inflation outlook to 2.7% from 2.5%. Interest rates were kept on hold at 4.25-4.50% during the quarter.

The Nikkei index experienced losses of -10.7% during the first quarter as Japanese equities faced selling pressure, driven by uncertainty surrounding US tariff policies and an announcement that the Trump administration would impose 25% tariffs on imported cars.

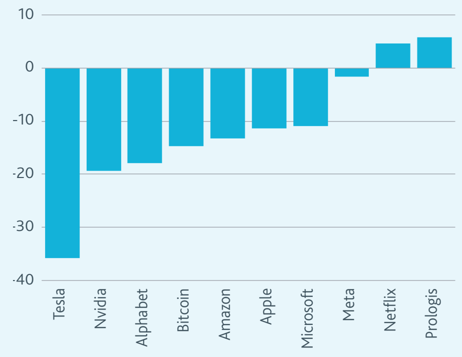
The same tech stocks that had led markets sharply higher in the previous two years, disappointed in Q1. Tesla's shares were down -35.8% as it faced increased competition from Chinese EV manufacturers. Distaste for Elon Musk's role within the Trump administration produced demonstrations outside Tesla dealerships and reduced the global demand for its cars. Nvidia shares were marked down following fears that it was overvalued after the emergence of DeepSeek and the threats US tariffs posed to its manufacturing bases in

World stock markets in Q1 2025 (%'age growth)



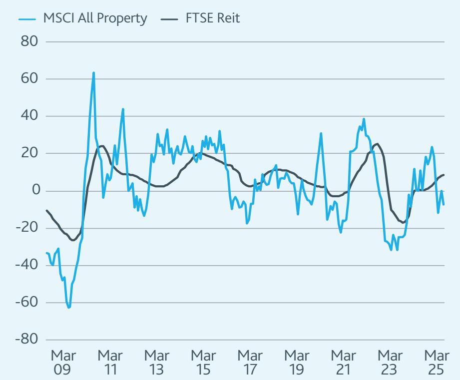
Source: Yahoo Finance, April 2025

Tech & other selected stocks in 2024 (%'age growth)



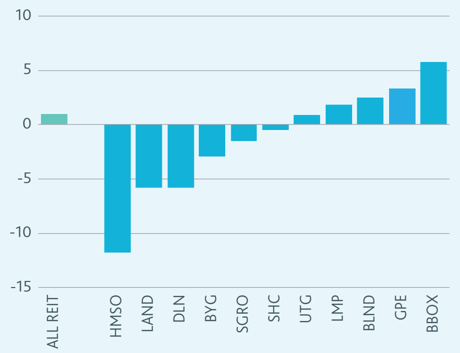
Source: Yahoo Finance, April 2025

Long term 12m total returns



Source: Yahoo Finance & MSCI, April 2025

UK Reit price movement in 2024 (%'age growth)



Source: Yahoo Finance, April 2025

Taiwan and South Korea. Apple is another business threatened by global trade wars. Its largest manufacturing partners are in China although it has been trying to diversify its manufacturing base in India and Vietnam. Mobile phones, computers and semiconductors have now received some relief from "reciprocal" tariffs, but this exemption could just be temporary.

Investors in Prologis enjoyed a 5.8% uplift in share price in Q1 as the impetus towards onshoring and reshoring strengthened, increasing demand for logistics real estate. The largest logistic and warehouse real estate company in the world published one of its regular market insights in December last noting that *"global logistics real estate rents declined by 5% in 2024 as market conditions normalized after historic growth during the pandemic. An influx of new supply – coupled with positive but subdued demand rooted in economic, financial market and supply chain uncertainty – pushed vacancy rates up in most markets across the globe."*

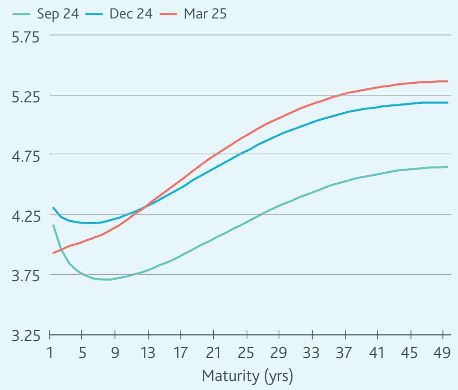
A recent note also explains that the relationship between building costs and market rents produced a challenging environment for speculative development. New building starts in Prologis' key markets fell nearly 40% in 2024. Consequently, completions are poised to fall in 2025, and new supply will fall short of demand forcing down vacancy rates and causing rents to rise later in 2025.

The performance of the FTSE Reit index has fallen away since last September and suggests that investors expect the future performance of the direct market for real estate assets to disappoint. The Reit index again underperformed the wider all share market in Q1 by 2.5 percentage points driven by concerns over continued high borrowing costs, weak underlying growth, and rising gilt yields. Despite recent M&A activity including Segro and Tritax EuroBox and New River and Capital & Regional, the sector could benefit from further consolidation as many smaller Reits struggle with scale and liquidity.

Hammerson advertises itself as the largest UK-listed owner of ten retail and leisure city destinations across the UK, Ireland and France. Its UK assets posted a total property return of 8.6% in 2024. However, its share price fell -11.7% in Q1 as year-end results revealed a £497 million impairment on the sale of its 40% stake in Value Retail, the owner of Bicester Village.

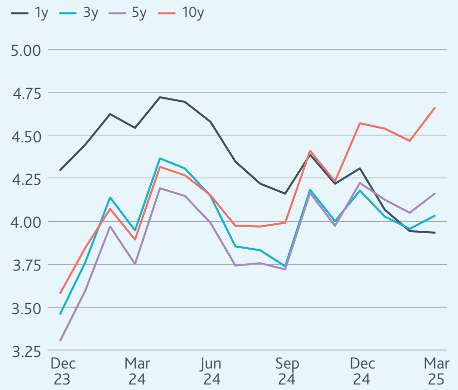
Segro's share price fell by -1.5% in Q1 despite reporting a total property return of 5.2% across its whole portfolio and a 5.8% increase in like for like rental growth. The UK's largest real estate company said that the industrial and logistic markets "have a shortage of modern, sustainable space with low land availability and restrictive planning policies limiting the supply of competing space" and "demand for space will continue to be supported by powerful, enduring

Gilt yield curve (%)



Source: Bank of England, April 2025

UK gilt yields



Source: Bank of England, April 2025

structural trends: data and digitalisation, urbanisation, supply chain optimisation and sustainability. Sentiment in occupier markets is improving" resulting in improving occupier activity through the final months of last year.

Great Portland Estates' share price rose 3.3% in Q1 as the outlook for grade A Central London, and, in particular, West End offices improved. GPE's "Flex" offers fully managed, premium, fully furnished office space which is letting well and delivering premium levels of rental growth.

Last quarter we commented on Land Securities' strategy of acquiring flagship shopping malls. In February, the Reit presented its plan to investors to sell £2bn worth of office buildings and scale back office developments as it pivots towards residential property. It aims to reduce the allocation to offices from about 65% to a third by 2030, while boosting retail and housing to roughly a further third each. Nevertheless, its share price ended Q1 down -5.8%, possibly as investors doubted whether it would be able to sell down its office asset without suffering painful impairments.

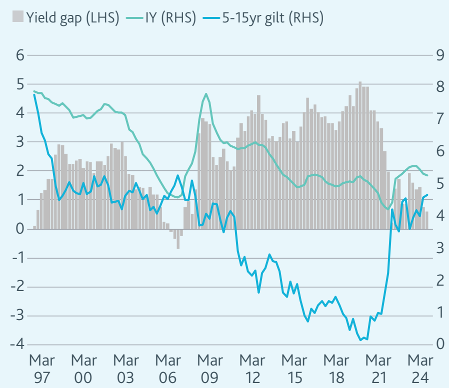
An increase in inflation expectations and concerns arising over the fiscal outlook has put pressure once again on the pricing of UK risk-free assets. At the shorter end of the curve, yields ended Q1 slightly lower than at the start. But yields have risen for longer maturities. Policy uncertainty in Washington has seen the ten-year US Treasury yield increase and this trend has been exported to UK.

Yet, despite the prevailing uncertainties, the yield on the 5-15 year gilt index softened by just 8 bps in the first quarter to reach 4.65%. This is reflected in the total return performance on the FTSE Actuaries 5-15 year gilt index in Q1 of 2.5%. However, over the last 12 months, the gilt index has provided a total return of -7.5% and Q1's yield is 97 bps higher than it was 15 months ago.

As risk free rates expanded further in Q1, the All Property initial yield itself hardened by 7 bps. Consequently, the property initial / gilt yield gap decreased by 15 bps to 0.61% . Judging by recent market history, UK CRE once again looks to be priced above fair value. However, throughout the recent downturn, market rental value growth particularly in the dominant industrial sector has proved resilient, which may justify a narrower risk premium.

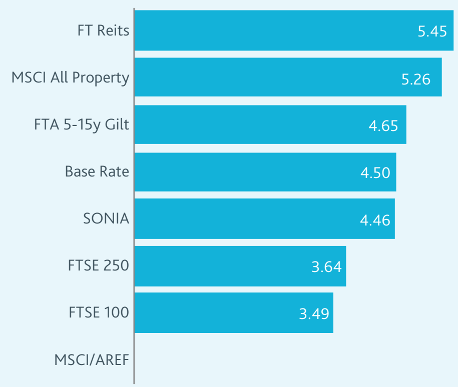
Direct property continues to offer a competitive income return compared to other UK asset classes. But gilts are now yielding more than 4.6% without the risk of holding and managing the assets and the dividend yield on Reits of 5.5% is attractive with the share price currently implying some large discounts to Net Asset Value.

Property IY – Gilt yield gap (%)



Source: MSCI & Bank of England, April 2025

UK asset yields Q1 2025 (%)



Source: Yahoo Finance & MSCI, April 2025

4. Commercial property market performance

In Q1, All Property total returns, as recorded by the MSCI Monthly Index, decreased by 80 bps to 2.0% from 2.8% in Q4 2024. Capital values rose by 0.6% compared to a rise of 1.3% three months earlier. Property equivalent yields softened by 2 bp and made no material contribution to changes in valuations. All Property market rental value growth in Q1 again remained at 0.9% as it was in both Q4 and Q3 2024. First quarter income returns amounted to 1.4% .

Over the course of the first quarter, retail rental growth decreased to 0.5% from 0.7% in Q4 2024 while office rental growth increased to 0.8% from 0.4%. Industrial rental value growth decreased to 1.1% from 1.5% a quarter earlier. Market rental values for shopping centres and retail warehouses remain positive but there is still little improvement in rental values for the traditional high street shop segments.

In the 12 months to the end of March, All Property total returns increased to 8.5% from 7.0% in the 12 months ending December as weak numbers from Q1 2024 fell out of the calculation.

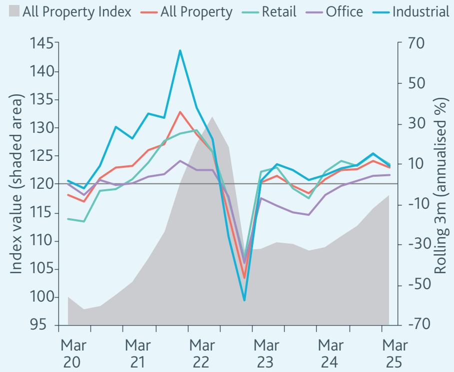
All Property capital growth continued to improve on annual basis in Q1, increasing to 2.5% in March from 1.1% in December. Property equivalent yields have softened by less than one basis point in the 12 months to March and made a negligible contribution to any change in valuations over the course of the last 12 months. All Property rental values increased year-on-year by 3.4% and income return amounted to 5.9%.

In the last three months, retail equivalent yields have hardened by 3 bps. The office sector re-rated in December by 21 bps but has given back 11 bps with another de-rate in Q1 as office values continue to drift further. Industrial equivalent yields remained stable over the course of the quarter.

The recovery stage in the current cycle remains disappointing compared to the vigorous bounce in capital growth enjoyed after previous downturns in both 1991-92 and 2008-09. Cuts to the Bank Rate in August and November last year and most recently in February have not added impetus to any upswing. The latest economic developments will not have added to confidence.

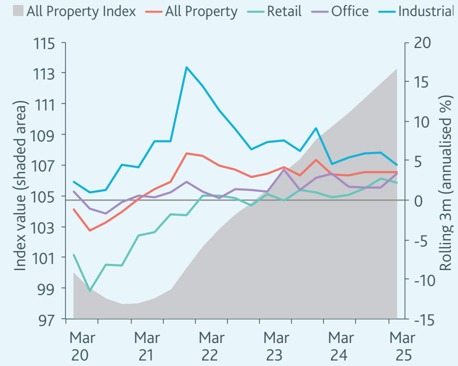
The Tables included contain further performance data for UK commercial real estate in Q1 2025.

Total returns (%) by sector



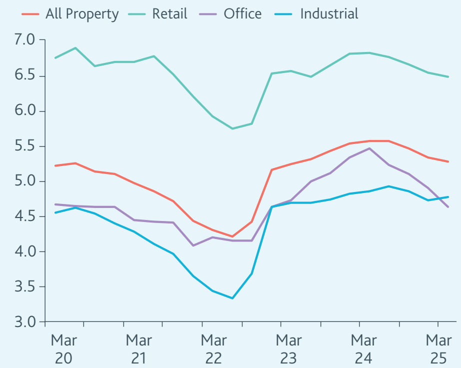
Source: MSCI, April 2025

MRV growth (%) by sector



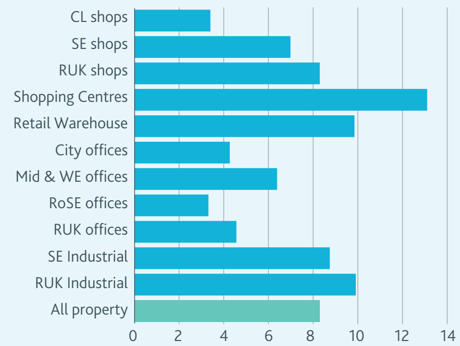
Source: MSCI, April 2025

Initial yield (%) by sector



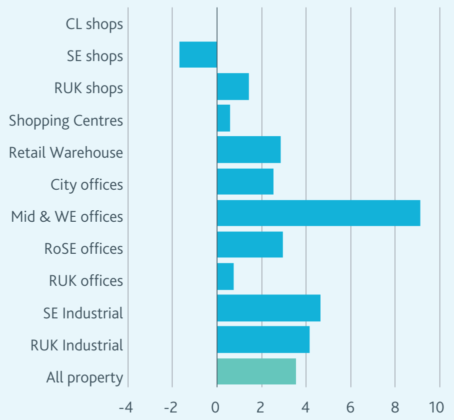
Source: MSCI, April 2025

Total returns (%) by segment – Q1 2025 annualised



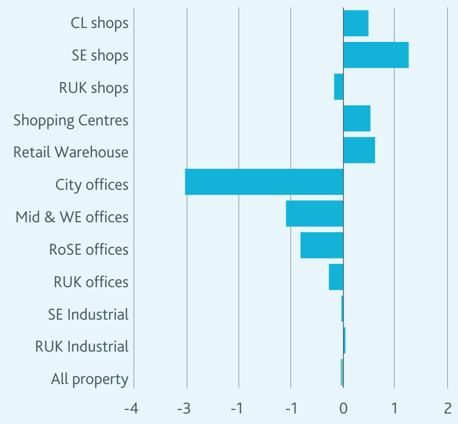
Source: MSCI, April 2025

MRV growth (%) by segment Q1 2025 annualised



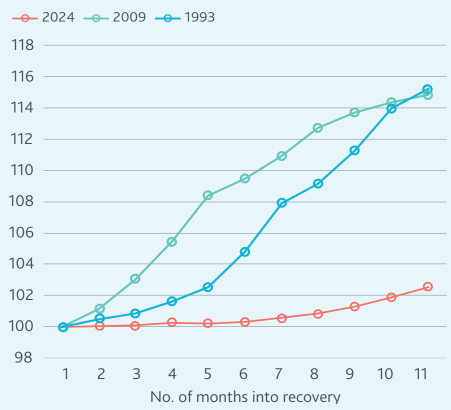
Source: MSCI, April 2025

Yield impact (%) – Q4 2024



Source: MSCI, April 2025

The pace of recovery from market downturn by month



Source: MSCI & APR, April 2025

Total returns (%)

	Mar	3m	6m	12m
All Property	0.7	2.0	4.8	8.5
Retail	0.9	2.4	6.0	11.4
Office	0.4	1.1	2.2	2.4
Industrial	0.8	2.2	5.9	10.4
Annualised				
All Property	9.1	8.3	9.9	8.5
Retail	10.8	9.9	12.3	11.4
Office	5.1	4.6	4.4	2.4
Industrial	10.5	9.1	12.1	10.4

Source: MSCI & APR, April 2025

Capital growth (%)

	Mar	3m	6m	12m
All Property	0.3	0.6	1.9	2.5
Retail	0.3	0.6	2.4	3.9
Office	0.0	-0.2	-0.5	-3.1
Industrial	0.4	1.0	3.3	5.1
Annualised				
All Property	3.2	2.4	3.9	2.5
Retail	3.5	2.6	4.8	3.9
Office	-0.1	-0.8	-1.0	-3.1
Industrial	5.1	3.9	6.7	5.1

Source: MSCI & APR, April 2025

Income return (%)

	Mar	3m	6m	12m
All Property	0.5	1.4	2.9	5.9
Retail	0.6	1.7	3.5	7.2
Office	0.4	1.3	2.7	5.6
Industrial	0.4	1.2	2.5	5.1
Annualised				
All Property	5.8	5.8	5.8	5.9
Retail	7.1	7.2	7.2	7.2
Office	5.2	5.4	5.5	5.6
Industrial	5.1	5.0	5.0	5.1

Source: MSCI & APR, April 2025

ERV growth (%)

	Mar	3m	6m	12m
All Property	0.4	0.9	1.8	3.4
Retail	0.2	0.5	1.2	1.8
Office	0.5	0.8	1.2	2.1
Industrial	0.5	1.1	2.6	5.4
Annualised				
All Property	5.0	3.5	3.5	3.4
Retail	2.3	2.2	2.5	1.8
Office	5.9	3.4	2.5	2.1
Industrial	6.0	4.5	5.2	5.4

Source: MSCI & APR, April 2025

Net initial yield (%)

	Mar	3m	6m	12m
All Property	5.3	5.3	5.5	5.6
Retail	6.5	6.5	6.7	6.8
Office	4.6	4.9	5.1	5.5
Industrial	4.8	4.7	4.9	4.8

Source: MSCI & APR, April 2025

5. Investment in property

As investor sentiment improved at the end of last year, All Property investment volumes, represented by the current value of investment transactions adjusted for capital growth, increased by 51% in Q4 2024 compared to Q3. This was the second consecutive rise in activity. Encouragingly, fourth quarter transaction volumes were 8% above their long run average. This improvement in liquidity seems unlikely to have survived the destabilising impact of US trade policy on the global economy. Preliminary estimates suggest that investment volumes in Q4 decreased by 57% and were 53% below the long run average. As usual the latest numbers for Q1 2025 are likely to be revised in the coming months.

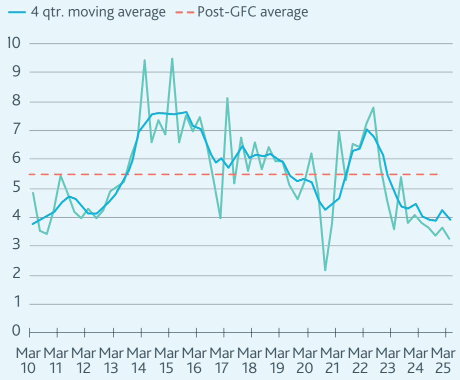
Retail made up 47% (by number) of investment transactions in Q4 2024; offices represented a further 22% and industrials made up the remaining 31%. In the 12 months ending March 2025, the retail sector accounted for 44% of transactions with the volume of shopping centre and particularly Retail Park investments increasing. Offices represented 22% of transaction numbers and industrials a further 33%.

Retail, office and industrial investment volumes so far recorded in Q1 this year are all lower than in Q4 2024. Despite the upwards revision, total investment volumes recorded in 2024 were lower than in each of the previous five years except 2020, the year of two lock downs.

In a reflection of the upturn in the broader All Property investment market, volumes in the UK's key Central London office market increased by 30% in Q4 2024 compared to Q3 but fourth quarter transaction volumes were still -45% below their long run average. Preliminary estimates for Q4 indicate that the momentum may not have carried into the first quarter. In Q1 2025, Central London office transaction volumes deteriorated by 13% .

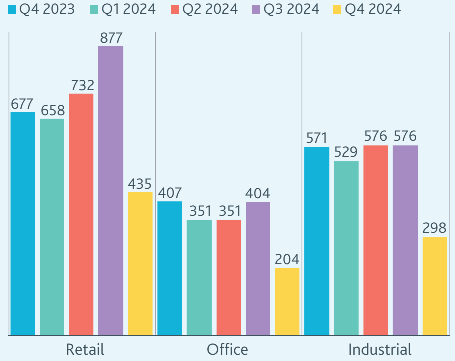
Midtown and West End made up 74% (by number) of Central London office investment transactions in Q4; City offices represented 9% and Fringe offices made another 17%. Total investment volumes for the 12 months ending March 2025 indicate that Midtown and West End accounted for 58% of transactions; the City 13%; and the Fringe markets of Docklands, Southbank and City fringe 28%. Central London investment volumes so far recorded in Q1 2015 have continued to disappoint. Central London office investment volumes in 2024 were lower than in each of the previous five years including 2020.

All property investment volumes (£bn)



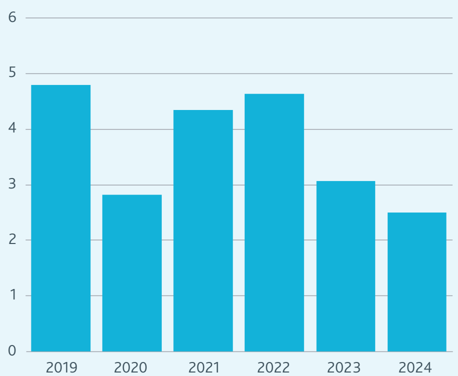
Source: CoStar, MSCI & APR, April 2025

UK investment transaction nos. by quarter



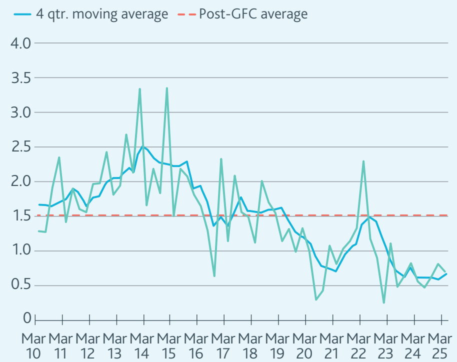
Source: CoStar, MSCI & APR, April 2025

UK investment volumes by year (£bn)



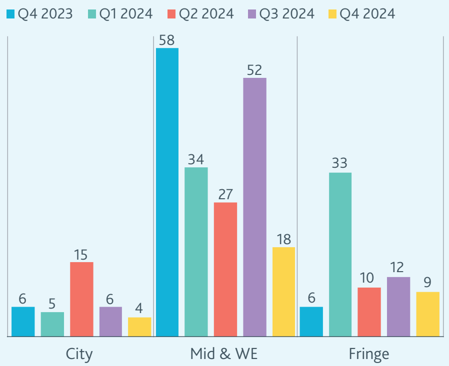
Source: CoStar, MSCI & APR, April 2025

Central London office investment volumes (£bn)



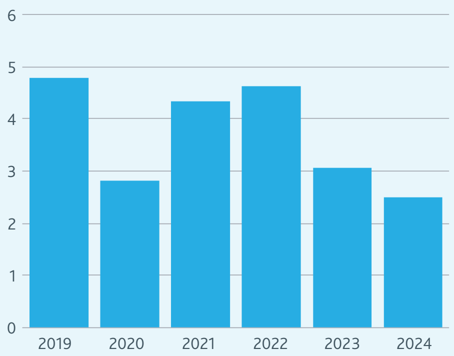
Source: CoStar, MSCI & APR, April 2025

Central London Office transaction nos. by quarter



Source: CoStar, MSCI & APR, April 2025

Cumulative Central London office investment transactions by year (£bn)



Source: CoStar, MSCI & APR, April 2025

6. Office focus

Working from home and the state of the economy continue to be the largest forces shaping the UK's office market.

Office based economic output rose by 0.24% in Q4 2024 and 1.96% in 2024 outperforming the all-sector economic output of 0.06% in Q4 and 1.42% in the year. Office output has grown at an annualised average of 2.28% since December 2000.

Office occupancy rates across the UK have reached their highest point since the beginning of the pandemic, according to Remit Consulting, hitting an average of 37.8% in March 2025. This may appear a modest achievement, but the British Council for Offices (BCO) has previously suggested 60% as a realistic benchmark after allowing for annual leave and external meetings.

> "Central London office availability is still increasing. It rose by 4.4% in Q1 2025 to 31.6 million sf; the highest level for at least ten years."

The Economist recently reported in April that data from office-entry swipes, phones and job postings finds that the average British respondent still worked 1.8 days a week at home. In addition, data collected by British Land indicate that footfall across its office portfolio is back above pre-pandemic levels on the "core" midweek days of Tuesdays, Wednesday and Thursdays.

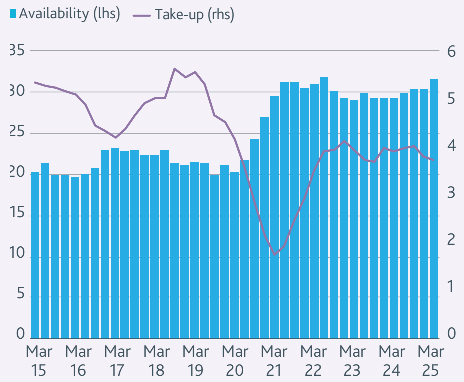
Central London offices

Occupational view

Central London office availability is still increasing. It rose by 4.4% in Q1 2025 to 31.6 million sf; the highest level for at least ten years. Across the Central London office market vacancy rates are 12%. But this varies by sub-market. West End vacancy rates are 9% and the City vacancy rate of 12.4% drops down to 7.7% for the very best buildings typically called "Grade A". In Mayfair the Grade A vacancy rate is as low as 2.5%.

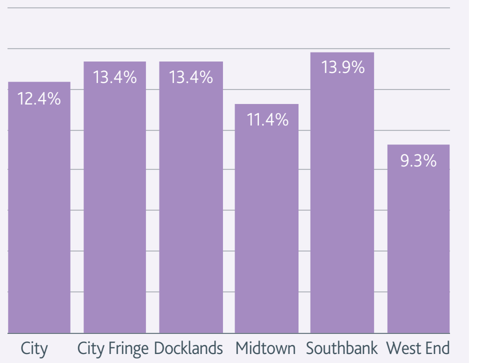
Net absorption across all Central London office markets has been positive for each of the last three quarters meaning that more property has been let than come onto the market. This is normally indicative of a strong or improving market conditions. But a large amount of space coming onto the market through development completions can increase availability and push up vacancy rates.

Central London office availability (msf)



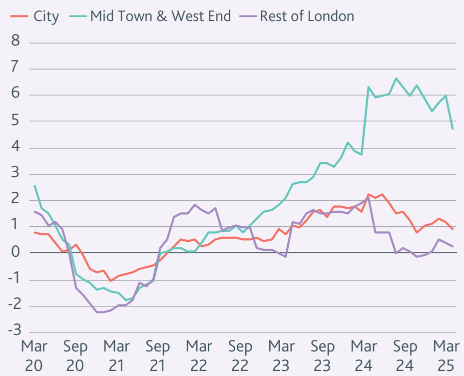
Source: CoStar, April 2025

Vacancy rates (%)



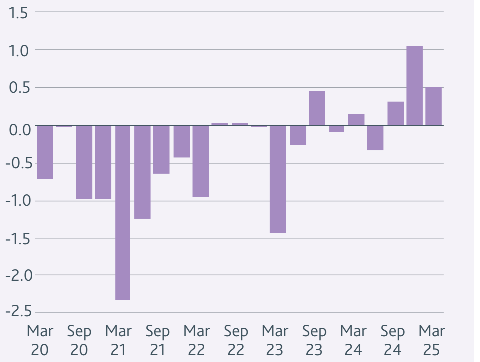
Source: CoStar, April 2025

12m market rental growth (%)



Source: MSCI, April 2025

Net absorption (msf)



Source: CoStar, April 2025

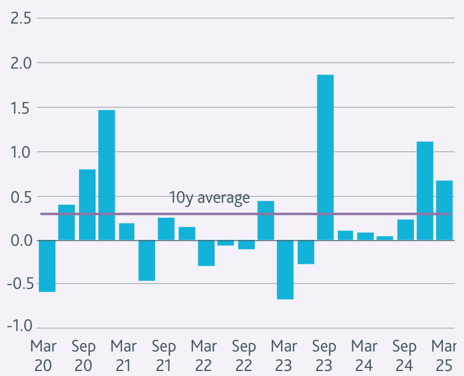
In the last twelve months more than 2 million sf of new office development has been completed. Only 200,000 sf was completed in the West End but more than 1.6 million sf of completions were in the City and City Fringe sub-markets.

Many of the largest buildings completed in 2024 or due to be delivered this year are fully or substantially let including Google's new 860,000 sf UK headquarters building in Kings Cross and 38 Berkeley Square, where Chanel have taken a pre-letting of all 83,000 sf for their London headquarters. The largest substantially vacant development due to complete this year is One Olympia on the former exhibition centre site in Hammersmith previously owned by Capital and Counties. A consortium including Deutsche, Yoo Capital and investors from the Middle East have developed 550,000 sf of office space with a live music venue, a gym, performing arts theatre, conference facilities, hotels, restaurants and bars.

The more plentiful supply of this key product in the City means that headline rents are £85 psf, whilst in the West End they are at £137 psf.

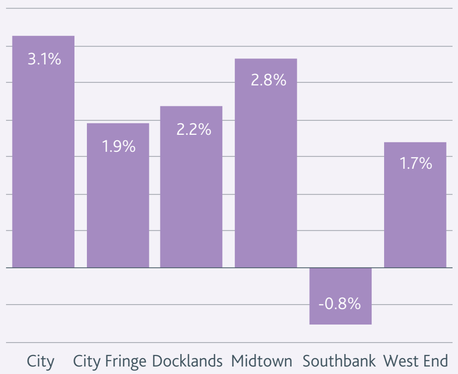
The emergence of Cat A+ offices has enabled landlords to demand a premium rent for a turn-key product that has been fully fitted out with desks, meeting rooms and IT. These premium rents may be disguising some of the falls in average rents for mid-tier stock.

Net completions (msf)



Source: CoStar, April 2025

12m MRV growth (%)



Source: CoStar, April 2025

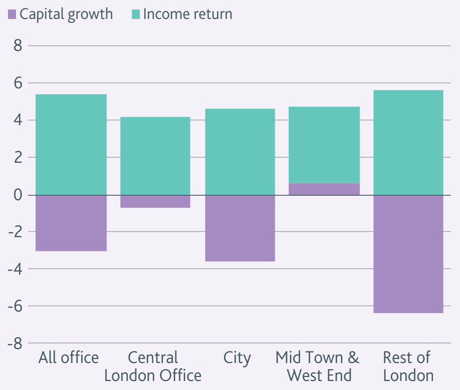
Investment view

Central London office investment markets have been improving since mid-2023 but only in the sense that the rate of decline in capital values has been slowing. Since commercial real estate markets first turned down in 2022 capital values have fallen back 25.8%. However, over a 12-month horizon Mid Town and West End capital growth turned positive for the first time since Q4 2022.

Blackstone, the world's largest alternative investment manager has rarely bought offices over the past decade and has regularly cited that office make up only 2% of its real estate portfolio. Earlier this year, however, the asset manager called the bottom of the market for high-quality, well-located office markets and has reportedly been negotiating the purchase of 70 St Mary Axe known as the "Can of Ham", an iconic 21 storey City tower completed in 2019. Although Blackstone offered a sum more than the £322 million asking price, Nuveen have chosen to retain the building encouraged by signs of a market recovery.

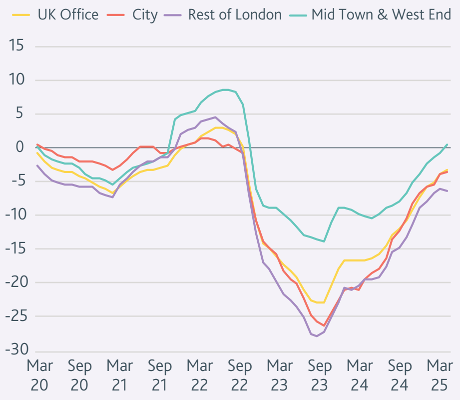
Disregarding a recent political trend to undermine the green agenda and "net zero" targets, IJM, a Malaysian conglomerate, paid £72.5 million for 25 Finsbury Circus, a Grade II listed Edwardian office. It plans a £150 million sustainability-focused refurbishment which will provide 251,000 sf of net lettable space and aims to reduce embodied carbon and construction waste. The buildings design includes underfloor air distribution systems, heat pumps, energy-efficient lifts, LED lighting, modular green walls, and Sustainable Urban Drainage System (SuDS) while preserving the building's architectural heritage. Simmons & Simmons have taken a 20-year pre-let of 62% with an option to expand up to 80%.

12m total returns Q1 2025 (%)



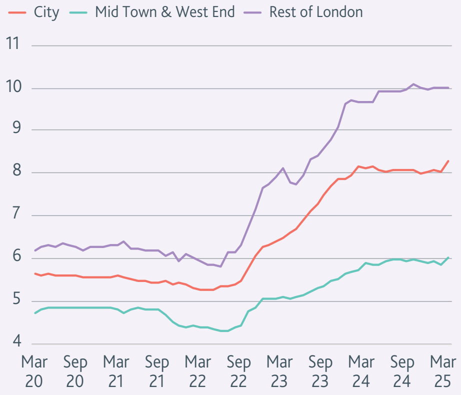
Source: MSCI, April 2025

12m capital growth (%)



Source: MSCI, April 2025

Equivalent yields (%)



Source: MSCI, April 2025

Featured investment transactions

Building	Price (£m)	Price (£psf)	Yield (%)	Avg. uxp lease term (yrs)	Buyer
25 Finsbury Circus, EC2	72.50	346			IJM Corp.
One Portsoken St. E1	160	670	6.87 (niy)	8.5	Sumitomo Mitsui
35 Red Lion Square, WC1	25	736			Whitbread

Source: Cluttons, April 2025

> "Since commercial real estate markets first turned down in 2022 capital values have fallen back 25.8%. However, over a 12-month horizon Mid Town and West End capital growth turned positive for the first time since Q4 2022."

Central London offices

Summary tables

Availability (msf)

	Q4 2024	Q1 2025	5y avg.	Trending
City	8.44	8.64	9.22	▲
City Fringe	3.82	3.85	3.70	▲
Docklands	2.75	2.76	2.84	▲
Midtown	7.41	7.76	6.53	▲
Southbank	2.69	3.15	2.04	▲
West End	5.11	5.40	4.50	▲

Source: CoStar, April 2025

Take-up (msf)

	Q4 2024	Q1 2025	5y avg.	Trending
City	1.62	0.85	1.12	▼
City Fringe	0.51	0.30	0.41	▼
Docklands	0.09	0.09	0.17	◄►
Midtown	1.20	0.95	0.75	▼
Southbank	0.29	0.14	0.20	▼
West End	0.88	0.58	0.71	▼

Source: CoStar, April 2025

Vacancy rates

	Q4 2024	Q1 2025	5y avg.	Trending
City	12%	12%	14%	◄►
City Fringe	13%	13%	13%	◄►
Docklands	13%	13%	14%	◄►
Midtown	11%	11%	10%	◄►
Southbank	12%	14%	9%	◄►
West End	9%	9%	8%	◄►

Source: CoStar, April 2025

Completions ('000 sf)

	Q4 2024	Q1 2025	5y avg.	Trending
City	1,375	-	277	
City Fringe	230	134	102	▼
Docklands	9	-	23	
Midtown	-	214	172	
Southbank	-	149	44	
West End	-	186	125	

Source: CoStar, April 2025

Construction ('000 sf)

	Q4 2024	Q1 2025	5y avg.	Trending
City	3,969	3,969	4,300	◄►
City Fringe	756	621	1,246	▼
Docklands	1,299	1,299	499	◄►
Midtown	4,183	3,969	3,359	▼
Southbank	1,057	908	713	▼
West End	1,865	1,678	1,587	▼

Source: CoStar, April 2025

12m MRV growth

	Q4 2024	Q1 2025	5y avg.	Trending
City	1.2%	1.0%	0.7%	▼
Mid Town & West End	5.4%	4.8%	2.4%	▼
Rest of London	0.1%	0.3%	0.4%	▲

Source: MSCI, April 2025

Average rents (£psf)

	Q4 2024	Q1 2025	Trending
City	59.50	60.10	▲
City Fringe	57.00	57.00	◄►
Docklands	48.80	47.90	▼
Midtown	69.00	69.60	▲
Southbank	63.00	62.60	▼
West End	77.80	76.10	▼

Source: CoStar, April 2025

Investment volumes (£bn)

	Q4 2024	Q1 2025	5y avg.	Trending
City	104.41	518.80	643.32	▲
City Fringe	110.18	202.25	226.66	▲
Docklands	12.98	0.00	54.23	▼
Midtown	673.09	221.91	551.25	▼
Southbank	35.82	44.95	67.21	▲
West End	681.18	422.62	538.85	▼

Source: CoStar, April 2025

Prime yields (%)

	Q4 2024	Q1 2025	Trending
City	5.50%-5.75%	5.50%-5.75%	◄►
West End	4.00%-4.25%	4.00%-4.25%	◄►
West End (non-core)	5.25%-5.50%	5.25%-5.50%	◄►

Source: Cluttons, April 2025

Prime rents (£psf)

	Q4 2024	Q1 2025	Trending
City	£85 psf	£85 psf	◄►
West End	£135 psf	£137 psf	▲

Source: Cluttons, April 2025

Rest of UK offices

Occupational view

Availability across all Rest of UK office markets has fallen by -1.2% in Q1 2025 but increased by 4.4% year-on-year. In the South East and Eastern regions availability increased by 1.7% in Q1 and 8.0% y-o-y.

Vacancy rates across all the "Big 6" regional office markets range between 8% in Leeds and Edinburgh and 12% in Manchester. Although vacancies have been increasing y-on-y they have fallen in Q1 in all major regional markets except Birmingham.

"Big 6" market rental value growth has slightly increased to 2.6% in the year to March from 2.5% in the year to December 2024. In Bristol rents have grown by more than 4% y-on-y. Outside the major regional centres office rents continue to drift.

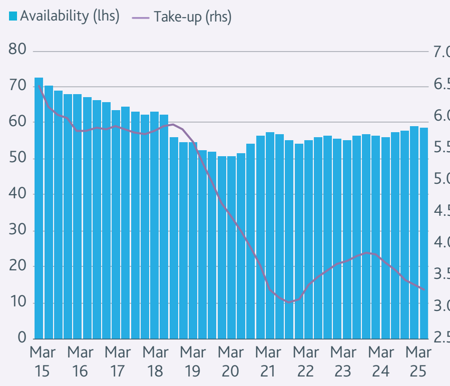
> "Availability across all Rest of UK office markets has fallen by -1.2% in Q1 2025 but increased by 4.4% year-on-year."

Completions of prime new office space in the South East and Rest of the UK are limited. In the last ten years an average of 53 buildings comprising 1.6 million sf have been completed every quarter. In Q1 2025 just 14 developments completed with just 725,000 sf.

The Pilgrim's Quarter office development in Newcastle's Pilgrim Street regeneration area is the largest office development under construction in the UK's regional office centres. The building incorporates the preserved façade of the Grade II listed Carliol House, an Art Deco structure originally built between 1924 and 1927 and on completion in 2027 will provide 463,000 sf accommodating 9,000 staff in HMRC's largest regional hub.

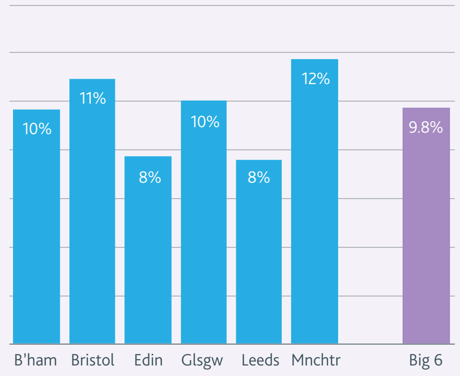
The largest regional speculative office scheme is a re-purposing of the Rylands Building, in Manchester's Market Street. It was originally constructed in 1932 as a warehouse and later became a Debenhams department store until its closure in 2021. The Grade II listed Art Deco building is undergoing a comprehensive refurbishment to become a modern mixed-use development with 298,000 sf of office space and 70,000 sf of ground floor retail and leisure. The design includes staff changing and shower rooms, an exercise studio, a wellness suite, and secure cycle storage located in the basement.

Rest of UK office availability & Take up (msf)



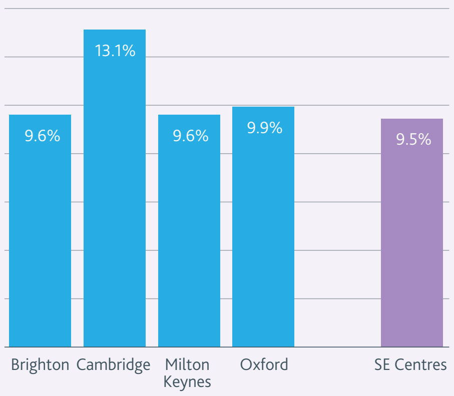
Source: CoStar, April 2025

Big 6 vacancy rates



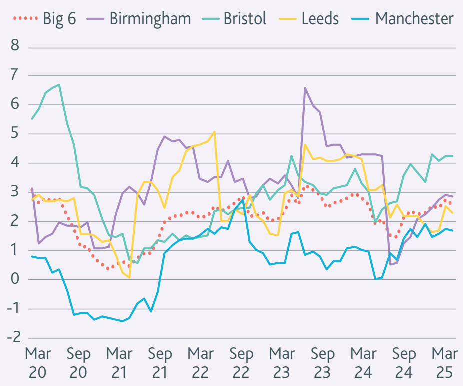
Source: CoStar, April 2025

South East & Eastern vacancy rates



Source: CoStar, April 2025

12m market rental growth (%)



Source: MSCI, April 2025

Investment view

The regional office investment market enjoyed a strong last quarter of 2024 when investment volumes reached £568 million and exceeded the ten year quarterly average of £664 million. Bristol, Leeds and Manchester were the recipients of 70% of this inward investment. However, investment volumes in Q1 2025 totalled just £91 million, representing the weakest quarter in the last ten years.

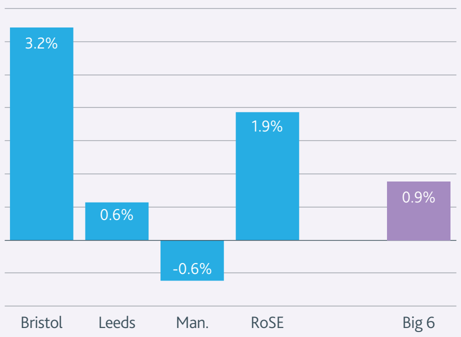
The average total return performance across all "Big 6" centres turned positive in Q1 2025 over both three months and 12 months. Total returns for the year to March increased to 0.9% from -2.3% in the year to December 2024. Nevertheless, capital values still decreased by -5.7%.

Average office investment yields for Big 6 and South East offices are finally stabilising. Big 6 and South East office equivalent yields hardened by 19 bps and 2 bps respectively in Q1 2025. But investors are still engaged in a process of price discovery.

The Mint on Sweet Street in Leeds South Bank area offers 118,000 sf of office space on eight floors completed in 2009. It is let to Jet2 Plc for a term expiring in January 2033 with a tenant break option in January 2029. The building was marketed for sale with an asking price of £24.5 million and sold in February this year for just £16 million reflecting a net initial yield of 16%. The asset had previously sold in 2015 for £30 million and again in 2019 for £42 million.

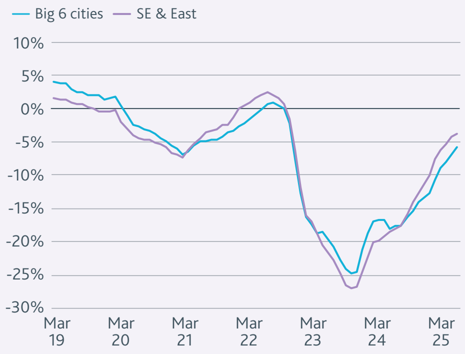
The Brinell Building, a Grade A 65,000 sf office development located on Station Street in Brighton's North Lane area, was completed in 2019. It has BREEAM "Excellent" and EPC "A" ratings. The building is fully pre-let on record rents for Brighton at up to £32.00 psf. In 2019 the building was sold to Orchard Street Investment Management on behalf of St James's Place Property Unit Trust for £39 million, reflecting a yield of 4.75%. In March 2025 the building was sold to French real estate fund, Iroko Zen, for £27 million, representing a 7.5% yield as part of the £1.84 billion winding up of St. James's Place open ended property funds.

Big 6 - 12m total returns Q1 2025 (%)



Source: MSCI, April 2025

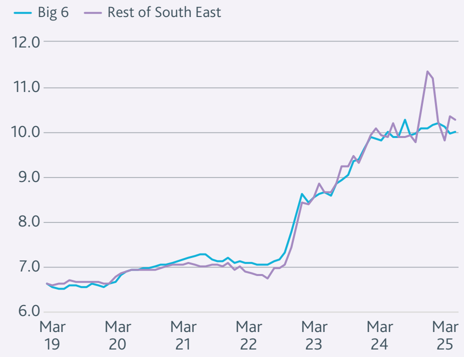
Big 6 - 12m capital growth (%)



Source: MSCI, April 2025

"The regional office investment market enjoyed a strong last quarter of 2024 when investment volumes reached £568 million and exceeded the ten year quarterly average of £664 million."

Equivalent yields (%)



Source: MSCI, April 2025

Featured investment transactions

Building	Price (£m)	Price (£psf)	Yield	Avg. uxp lease term (yrs)	Buyer
The Brinell Building, Brighton	27.00	425	7.50 (niy)	4.3	Iroko Zen
The Forge, Woking	26.34	342	9.4 (niy)		Sun Capital

Source: Cluttons, April 2025

Rest of UK offices

Summary tables

Availability (msf)

	Q4 2024	Q1 2025	5y avg.	Trending
Big 6	28.12	27.47	25.91	▼
Eastern	8.22	8.20	6.55	▼
Rest of UK	31.07	31.03	30.00	▼
South East	18.09	18.55	16.84	▲

Source: CoStar, April 2025

Take-up (msf)

	Q4 2024	Q1 2025	5y avg.	Trending
Big 6	1.97	1.52	1.78	▼
Eastern	0.27	0.42	0.45	▲
Rest of UK	1.33	1.25	1.64	▼
South East	0.87	0.86	1.04	▼

Source: CoStar, April 2025

Vacancy rates

	Q4 2024	Q1 2025	5y avg.	Trending
Big 6	10%	10%	9%	◀▶
Eastern	8%	8%	6%	◀▶
Rest of UK	8%	8%	7%	◀▶
South East	9%	9%	9%	◀▶

Source: CoStar, April 2025

Average rents (£psf)

	Q4 2024	Q1 2025	Trending
Big 6	21.70	21.90	▲
Eastern	21.00	21.20	▲
Rest of UK	14.10	14.20	▲
South East	24.20	24.10	▼

Source: CoStar, April 2025

Completions ('000 sf)

	Q4 2024	Q1 2025	5y avg.	Trending
Big 6	227	260	572	▲
Eastern	160	169	186	▲
Rest of UK	194	190	450	▼
South East	436	106	275	▼

Source: CoStar, April 2025

Construction ('000 sf)

	Q4 2024	Q1 2025	5y avg.	Trending
Big 6	2,170	1,910	4,431	▼
Eastern	1,019	850	1,123	▼
Rest of UK	3,098	2,910	3,202	▼
South East	1,448	1,347	1,937	▼

Source: CoStar, April 2025

12m MRV growth

	Q4 2024	Q1 2025	5y avg.	Trending
South East	0.5%	0.8%	0.8%	▲
Birmingham	2.5%	2.9%	3.3%	▲
Bristol	4.3%	4.3%	2.7%	◀▶
Leeds	1.7%	2.3%	2.8%	▲
Manchester	1.5%	1.7%	0.7%	▲

Source: MSCI, April 2025

Headline rents (£psf)

	Q4 2024	Q1 2025	Trending
Manchester	£42.00	£42.00	◀▶
Bristol	£47.00	£47.00	◀▶
Birmingham	£42.00	£42.00	◀▶
Newcastle	£32.00	£32.00	◀▶

Source: Cluttons, April 2025

Investment volumes (£m)

	Q4 2024	Q1 2025	5y avg.	Trending
South East	520.94	141.49	521.28	▼
Birmingham	69.28	30.06	40.45	▼
Bristol	166.12	9.11	30.24	▼
Edinburgh	14.59	11.03	117.16	▼
Glasgow	95.95	4.93	15.23	▼
Leeds	120.07	23.84	83.52	▼
Manchester	101.87	11.69	263.43	▼

Source: CoStar, April 2025

Prime yields (%)

	Q4 2024	Q1 2025	Trending
M25 / Thames Valley	7.5%	7.50%-8.0%	▲
Prime Regional Centres	7.0%-7.25%	7.0%-7.25%	◀▶
Secondary Regional Centres	11.00%+	11.00%+	◀▶

Source: Cluttons, April 2025

7. Industrial focus

The main driver of growth for industrial and logistics property has been demand from operators servicing consumers increasing use of online shopping. Before Covid, internet sales represented 19.8% of all retailing in the UK. This grew to 37.5% during the second lock-down in early 2022. At the end of Q1 the internet accounts for 26.8% of retail sales. A situation that has been stable for at least the last two years.

The industrial market is segmented between Logistics being 50,000+ sf of warehouse space; smaller Light Industrial units for local distribution, and smaller scale manufacturing and repair workshops; and Specialised space for large scale manufacturing, R&D, Cold Storage and data centres. Most of the UK's stock of industrial space belongs to the logistics segment (66%) whilst 26% is Specialised and less than 10% Light Industrial.

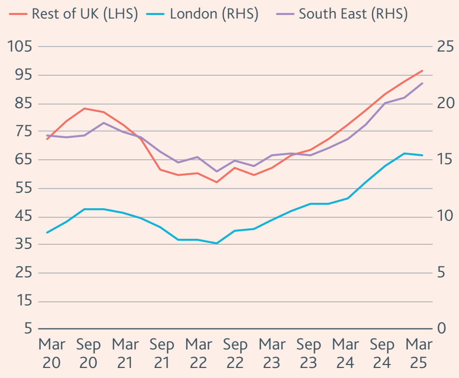
Occupational view

Availability of Logistics stock to let increased across the South East and Rest of the UK in Q1 2025 but fell slightly in London. Across the UK the take-up of all industrial space increased quarter-on quarter in Q4 2024 by 5.1%. However, the demand for logistics space fell by-2.3% to 13.8 million sf. In Q1 2025 preliminary figures suggest that the take-up of logistics space decreased by -31.3% to 9.5 million sf. The increased demand for green buildings with an A or A+ EPC rating from operators and a fall in the availability of such stock has created a "bottleneck" in the occupier market.

In the year to March, market rental values have grown by more than 5% in London and & 5% in the South East. Across the Big 6 regional centres rental values increased by 5.6% y-on-y with growth peaking in Leeds at 7.9% and Bristol at 6.7%.

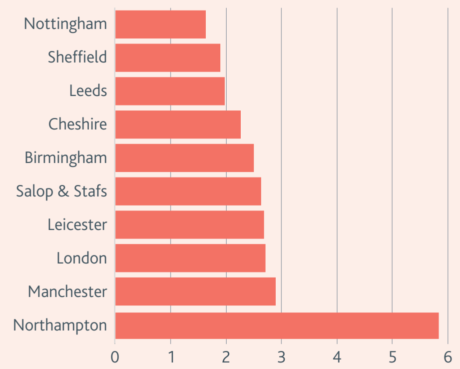
Logistics occupiers leased 54 million sf of space in the year to March. There was 13.4 million sf of space representing 25% of total take-up let in the Logistics Triangle centred on the West Midlands and within a four-hour drive of 90% of the British population.

London & South East availability (msf)



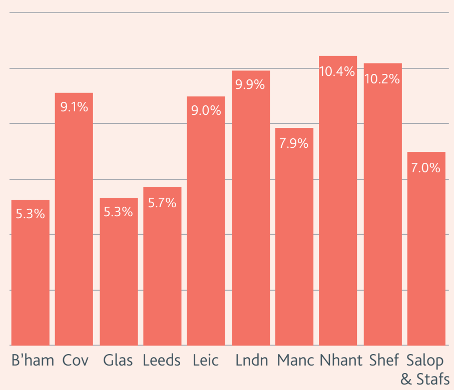
Source: CoStar, April 2025

Take-up by top 10 centres - 12m to March (msf)



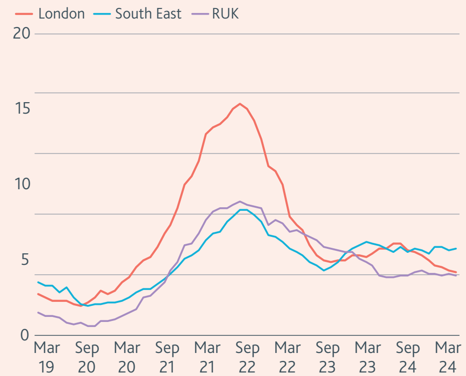
Source: CoStar, April 2025

Vacancy rates



Source: CoStar, April 2025

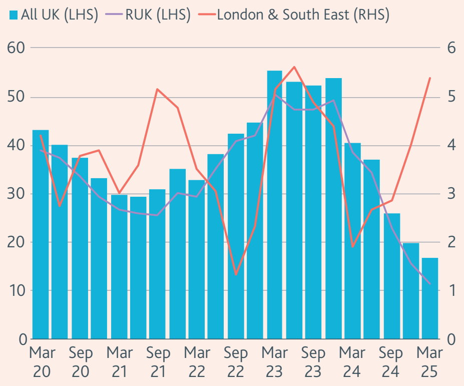
12m MRV growth rates



Source: MSCI, April 2025

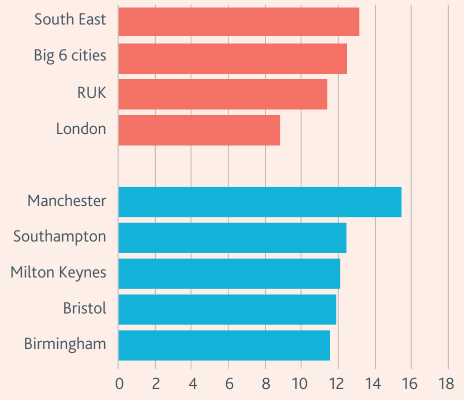
The amount of space under construction decreased by 6.5% in Q1 2025 to 37.7 million sf from 40.3 million sf in the last quarter of 2024. Northampton, where 6.3 million sf of space representing 16.6% of total construction activity, remains the centre of development activity. Many of the largest schemes under construction have been pre-let including Lidl's Distribution Centre in Belvedere and Microsoft's 9.5 acre three storey data centre facility in Park Royal. Microsoft are also working with the Harworth Group on the re-development of a former coal fired power station site at Skelton Grange, Leeds which will provide a further 800,000 sf data centre.

Net development completions (msf)



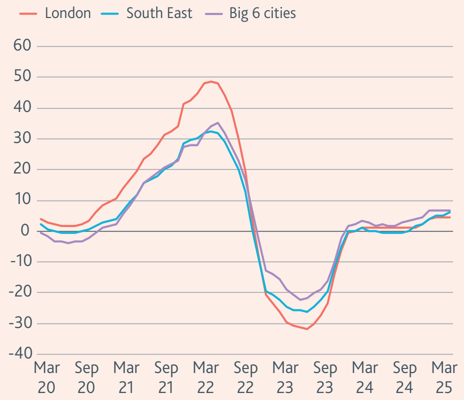
Source: CoStar, April 2025

Key centre 12m total returns



Source: MSCI, February 2025

12m total returns



Source: MSCI, February 2025

Investment view

The South East and Big 6 regional cities outperformed other segments of the industrial investment market including London in the year to March as total returns reached 13.2%. Manchester industrial increased to 15.4% in Q1 2025 from 14.3% in Q4 2024.

Industrial investment volumes increased q-on-q in Q4 2024 by 47.0% to £1.1 billion. However, preliminary estimates indicate that investment decreased to £573 million in Q1 2025 under shooting the ten year quarterly average of £7666.7 million.

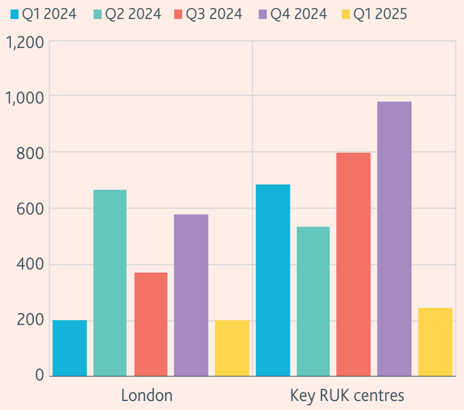
London attracted the largest slice of inward investment in the year to March amounting to £1.8 billion. This was more than three

times the amount of money targeted at Northampton, the next most popular centre for investors.

In January 2025, Valor Real Estate Partners and QuadReal Property Group acquired Tesco's last-mile distribution centre at Dolphin Park in Purfleet, Essex, for approximately £130 million. This 630,000 sf facility is leased to Tesco with nine years remaining on the lease. Strategically located near the M25 corridor, Dartford Crossing, and major ports like Tilbury and London Gateway, the centre serves as a crucial hub for Tesco's food supply chain, supporting around 550 stores across London and the southeast. The facility operates 24/7, handling approximately 800 truck movements daily and employing about 1,200 staff. This transaction represents the largest single-let last-mile logistics deal in the UK since 2022

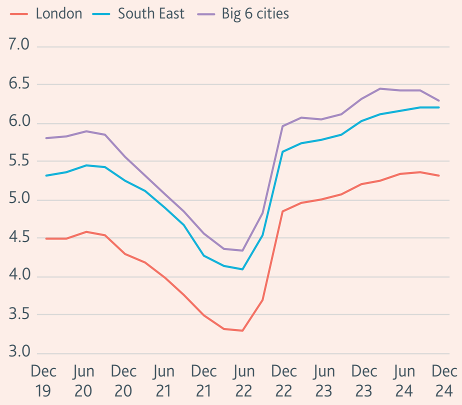
In February 2025, Tritax Big Box REIT acquired the 650,000 sf Sainsbury's distribution centre in Haydock, Merseyside, for £75 million in an off-market transaction. The deal reflects a net initial yield of 6.0%. Strategically located near Junction 23 of the M6, between Liverpool and Manchester, the cross-dock facility features both chilled and ambient storage spaces. It is currently leased to Sainsbury's until 2038, with an uncapped Retail Price Index (RPI) rent review scheduled for 2028.

Industrial investment (£m)



Source: CoStar, April 2025

Equivalent yields (%)



Source: MSCI, February 2025

Featured investment transactions

Building	Price (£m)	Yield (%)	Price (£ psf)	Avg. uxp lease term (yrs)	Buyer
Tesco Distribution, Thurrock, Daventry	127.70	4.2 (niy)	203	14	Quad Real & Valor
Sainsburys Distribution, Haydock	75.00	6.00 (niy)	115	8.9	Tritax Big Box
Tuscam Trading Estate, Camberley	40.59	5.25 (niy)	231	3.3 (to breaks)	Argo REM

Source: Cluttons, April 2025

Industrial focus
Summary tables

Availability (msf)

	Q4 2024	Q1 2025	5y avg.	Trending
London	18.01	17.98	13.09	▼
South East	24.59	26.14	20.18	▲
Logistics Triangle	38.61	40.29	28.91	▲
Manchester	12.01	12.60	8.35	▲
Leeds	7.55	7.50	6.05	▼
Rest of UK	114.94	119.55	93.19	▲

Source: CoStar, April 2025

Take-up (msf)

	Q4 2024	Q1 2025	5y avg.	Trending
London	0.90	0.39	1.25	▼
South East	1.55	1.31	2.54	▼
Logistics Triangle	3.97	2.70	5.09	▼
Manchester	0.75	0.52	1.01	▼
Leeds	0.69	0.60	1.01	▼
Rest of UK	9.17	5.81	10.53	▼

Source: CoStar, April 2025

Vacancy rates

	Q4 2024	Q1 2025	5y avg.	Trending
London	8%	8%	6%	◀▶
South East	6%	7%	5%	◀▶
Logistics Triangle	6%	7%	5%	◀▶
Manchester	6%	6%	4%	◀▶
Leeds	4%	4%	4%	◀▶
Rest of UK	6%	6%	5%	◀▶

Source: CoStar, April 2025

Prime Rents (£psf)

	Q4 2024	Q1 2025	Trending
London	35.00	35.00	◀▶
South East	24.50	24.75	▲
Logistics Triangle	11.50	12.00	▲
Manchester	10.50	10.75	▲
Bristol	12.25	12.25	◀▶

Source: CoStar, April 2025

Completions ('000 sf)

	Q4 2024	Q1 2025	5y avg.	Trending
London	1,048	390	447	▼
South East	1,003	1,249	1,344	▲
Logistics Triangle	2,832	2,036	2,916	▼
Manchester	341	65	376	▼
Leeds	222	-	530	▼
Rest of UK	4,336	2,493	6,163	▼

Source: CoStar, April 2025

Construction ('000 sf)

	Q4 2024	Q1 2025	5y avg.	Trending
London	3,744	3,381	2,984	▼
South East	7,707	7,368	6,617	▼
Logistics Triangle	10,373	9,169	12,257	▼
Manchester	1,154	1,089	1,481	▼
Leeds	1,484	1,725	2,513	▼
Rest of UK	18,712	18,534	26,702	▼

Source: CoStar, April 2025

12m MRV growth

	Q4 2024	Q1 2025	5y avg.	Trending
London	5.6%	5.6%	8.4%	◀▶
South East	6.3%	6.3%	7.0%	◀▶
Logistics Triangle	4.5%	3.6%	6.5%	▼
Manchester	8.4%	6.8%	8.7%	▼
Leeds	6.2%	6.4%	6.9%	▲
Rest of UK	5.9%	5.6%	5.8%	▼

Source: CoStar & MSCI, April 2025

Average rents (£psf)

	Q4 2024	Q1 2025	Trending
London	19.90	20.00	▲
South East	12.70	12.80	▲
Logistics Triangle	9.00	9.10	▲
Manchester	8.00	8.00	◀▶
Leeds	7.30	7.30	◀▶
Rest of UK	7.90	7.90	◀▶

Source: CoStar, April 2025

Investment volumes (£bn)

	Q4 2024	Q1 2025	5y avg.	Trending
London	576.74	197.55	521.64	▼
South East	499.19	375.46	413.90	▼
Logistics Triangle	505.67	169.31	526.26	▼
Manchester	254.87	17.46	121.48	▼
Leeds	129.01	0.21	110.07	▼
Rest of UK	1164.25	637.22	1157.94	▼

Source: CoStar, April 2025

Prime yields (%)

	Q4 2024	Q1 2025	Trending
Prime Distribution Sheds –Omrv	5.25% - 5.50%	5.25%	▼
Secondary Distribution Sheds	6.00% - 6.25%	6.00% - 6.25%	◀▶
Prime Industrial Within M25	4.75% - 5.00%	4.75%	▼
Prime Industrial Regional	5.25% - 5.75%	5.25% - 5.75%	◀▶
Secondary Industrial Estate	6.50% - 7.25%	6.50% - 7.25%	◀▶

Source: Cluttons, April 2025

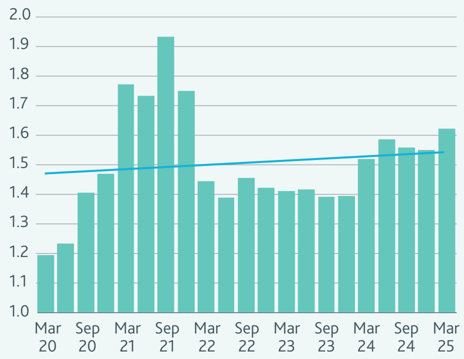
8. Retail focus

The latest available BRC-Sensormatic Footfall Monitor data, covering March 2025, indicates a year-on-year decline in shopper numbers across the UK. UK shopping centres, retail parks, and high streets saw a 5.4% decline in footfall compared to the previous year. Year-on-year High Street footfall decreased 4.0% and shopping centres experienced a 5.8% drop. Retail Park footfall fell 1.2%. This downturn is largely attributed to the timing of Easter, which fell in April this year, shifting seasonal shopping patterns and impacting March footfall figures.

According to the BRC In-Store Non-Food sales decreased by 0.1% year on year in March, against an increase of 0.1% in March 2024. Online Non-Food sales increased by 1.8% year on year in March, against a decline of 1.4% in March 2024. The online penetration rate being the proportion of Non-Food items bought online increased to 37.1% in March from 36.6% in March 2024. This was above the 12-month average of 36.8%.

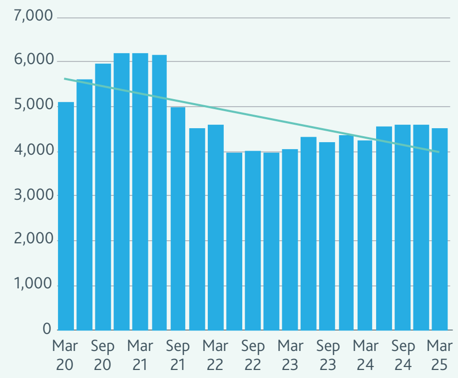
As is customary, total UK sales increase of 1.1% y-o-y was attributed to the weather as a warm spell resulted in gardening and DIY equipment flying off the shelves. The small sales increase

Central London shop availability ('000 sf)



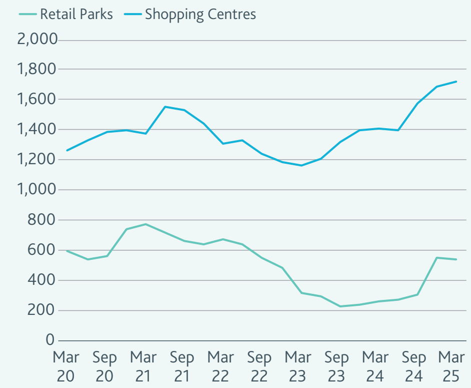
Source: CoStar, April 2025

South East shop availability ('000 sf)



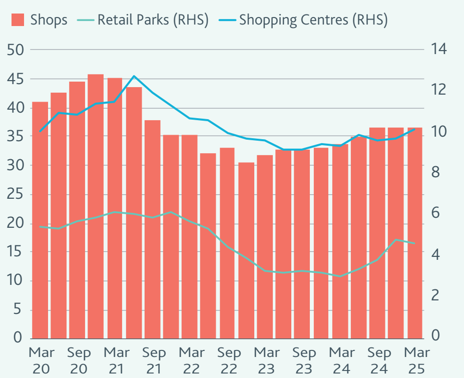
Source: CoStar, April 2025

South East retail availability ('000 sf)



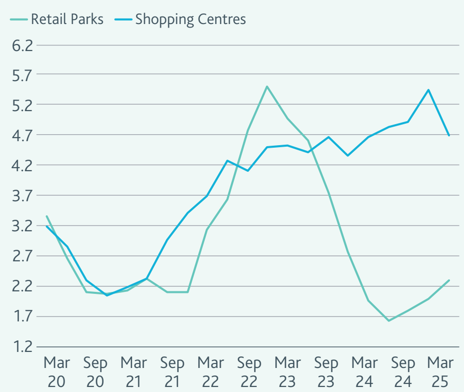
Source: CoStar, April 2025

Retail availability (msf)



Source: CoStar, April 2025

Rolling 12m take-up (msf)



Source: CoStar, April 2025

All GBR 12m net absorption (msf)

Source: CoStar, April 2025

was achieved despite the comparisons with last year including an earlier Easter.

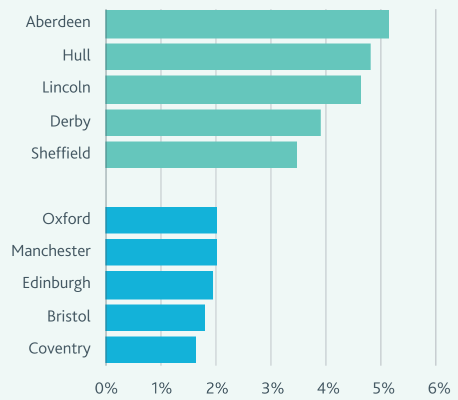
In March, Next plc released its preliminary full-year results for the fiscal year ended January 2025. UK online sales increased 5% but retail sales fell by-1%. Overall sales growth was 3%. The introduction of new tariffs in the USA, along with the removal of de-minimis customs thresholds13 in the US and EU (the latter of which is planned for 2028), are currently anticipated to have relatively little impact on the overall Group's sales or profits.

Marks & Spencer was enjoying a strong start to 2025 thanks to a fashion revival and the warm spring weather. That has now been seriously undermined as the retailer scrambles to deal with disruption caused by a massive cyber-attack. The company paused contactless payments and the collection of online orders for 48 hours and has M&S halted all orders on its website which contributes a third of clothing and homewares sales amounting to almost £3.8m a day.

Occupational view

The amount of retail space available to let rose by 0.9% in Q1 2025. Shopping Centre availability increased 5.2% but Retail Park availability decreased by -3.2%. Net absorption of retail space over the 12-months to March was across traditional retail outlets, Retail Parks and Shopping Centres was again negative

Key centre vacancy rates



Source: CoStar, April 2025

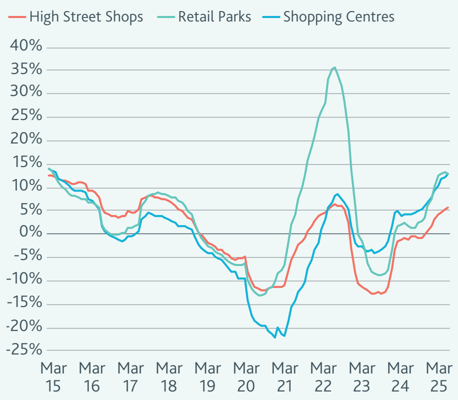
12m MRV growth

Source: MSCI, April 2025

12-month total returns

Source: MSCI, April 2025

Rolling 12m total returns

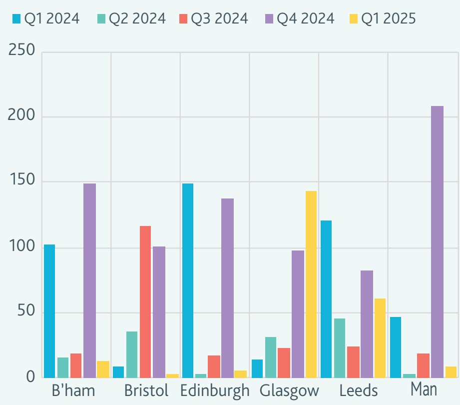


Source: MSCI, April 2025

Retail investment volumes and trend (£m)

Source: CoStar, April 2025

Key centre investment (£m)



Source: CoStar, April 2025

indicating that more space is being released onto the market than is being let.

In 2024 the year-on year take up of retail space was 13.5% lower than in 2023. However, there are indications that the demand for space in Retail Parks and Shopping Centres is increasing. Take-up of Shopping Centre space rose by 10.3% in 2024 and in the 12-months ending March Retail Park take-up was 16.6% higher. This not a feature of the occupier market for traditional shops.

All Shopping Centre market rental values have grown by 1.6% in the year to March and 12-month Retail Park rental growth is stronger still at 2.5%, up from 2.1% in December 2024. However, rental value growth for standard high street shops is barely positive although this varies from centre to centre. Asking rents for High Street Shops have been falling in Northampton, Lincoln and Derby but increasing in Liverpool, Manchester and Edinburgh.

Equivalent yields (%)

Source: MSCI, April 2025

Featured investment transactions

Building	Price (£m)	Yield (%)	Price (£psf)	Avg. uxp lease term (yrs)	Buyer
Tesco Extra, Newmarket	63.50	5.17 (niy)	588	12	Tesco
Retail Parks					
Lion Retail Park, Woking	40.50	5.25 (niy)	502	8	Abrdn
Eastern Avenue Retail Park, Romford	26.85	5.50 (niy)	374		Royal London AM
Shopping Centres					
Festival Place, Basingstoke	99.10		88	4.3	MDSR Investments

Source: Cluttons, April 2025

Investment view

High income returns and a slight re-rating in yields continue to produce some strong performance numbers from Shopping Centres and Retail Warehouses. Shopping Centre total returns over the year to March increased to 13.0% from 10.5% in the year to December 2024 and y-on-y Retail Park total returns were similarly 13.0% in March having been 12.5% in December 2024.

Retail Park and Shopping Centre investment volumes were respectively 45% and 36% higher in 2024 than in 2023.

Festival Place, Basingstoke, a 1,127,629 sf Shopping Centre with over 200 retail and leisure units anchored by Marks & Spencer, Next, and H&M, fell into receivership in May 2023. A long leasehold interest at a fixed rent was sold by the Receivers, BDO, in April 2025 to MDSR Investments for £99,100,000 reflecting £88 psf CV. The freehold continues to be held by Basingstoke and Deane Borough Council.

Retail Parks are once again being acquired to support a strategy of investing in well-let assets delivering stable, secure income and long-term capital growth potential. In February this year, Royal London Asset Management Property acquired the freehold interest in Eastern Avenue Retail Park in Romford from abrdn for £26,850,000 reflecting a 5.50% NIY and £374 psf. The Park contains 71,869 sf in units let to Wren Kitchens, Home Bargains, Burger King, Costa Coffee and others.

"High income returns and a slight re-rating in yields continue to produce some strong performance numbers from Shopping Centres and Retail Warehouses."

Retail focus
Summary tables

Availability (msf)

	Q4 2024	Q1 2025	5y avg.	Trending
London	5.96	5.90	5.73	
South East	4.59	4.51	4.79	
Rest of UK	25.97	26.25	26.45	
Shopping Centres	9.68	10.18	10.38	
Retail Parks	4.78	4.63	4.69	

Source: CoStar, April 2025

Take-up (msf)

	Q4 2024	Q1 2025	5y avg.	Trending
London	0.702	0.483	0.731	
South East	0.527	0.284	0.665	
Rest of UK	2.172	1.775	2.673	
Shopping Centres	1.616	0.707	0.976	
Retail Parks	0.631	0.609	0.718	

Source: CoStar, April 2025

Vacancy rates

	Q4 2024	Q1 2025	5y avg.	Trending
London	3%	3%	3%	
South East	2%	2%	3%	
Rest of UK	3%	3%	3%	
Shopping Centres	4%	5%	5%	
Retail Parks	3%	3%	3%	

Source: CoStar, April 2025

Completions ('000 sf)

	Q4 2024	Q1 2025	5y avg.	Trending
London	85.97	44.60	312.41	
South East	127.29	13.72	207.85	
Rest of UK	663.10	734.18	970.22	
Shopping Cen.	22.00	-	64.17	
Retail Parks	-	-	92.50	

Source: CoStar, April 2025

Construction ('000 sf)

	Q4 2024	Q1 2025	5y avg.	Trending
London	952	941	1,917	
South East	356	388	866	
Rest of UK	3,052	2,523	3,281	
Shopping Cen.	-	-	277	
Retail Parks	-	-	343	

Source: CoStar, April 2025

12m MRV growth

	Q4 2024	Q1 2025	5y avg.	Trending
London	3.6%	2.5%	-2.1%	
South East	1.4%	1.2%	-3.6%	
Rest of UK	2.5%	2.2%	-4.0%	
Shopping Centres	2.0%	1.6%	-1.3%	
Retail Parks	1.3%	1.5%	-4.1%	

Source: MSCI, April 2025

Average rents (£psf)

	Q4 2024	Q1 2025	Trending
London	44.90	45.00	
South East	26.20	26.20	
Rest of UK	19.20	19.20	
Shopping Centres	34.90	35.10	
Retail Parks	21.50	21.60	

Source: CoStar, April 2025

Investment volumes (£bn)

	Q4 2024	Q1 2025	5y avg.	Trending
London	622.57	198.87	533.02	
South East	222.47	66.32	274.69	
Rest of UK	931.92	403.82	756.84	
Shopping Cen.	452.90	49.84	326.41	
Retail Parks	1500.81	361.13	511.19	

Source: CoStar, April 2025

Prime yields (%)

	Q4 2024	Q1 2025	Trending
Prime Shops	6.75%	6.50%	
Secondary Shops	8.00%-10.00%	7.50%-9.50%	
Shopping Centres			
Prime - Dominant Regional	8.00%	8.00%	
Retail Warehouse			
Prime Parks (Open A1/Food Store)	5.50%	5.25%	
Prime - Solus (15Yrs/10Yrs)	6.00% - 6.50%	6.00% - 6.50%	

Source: Cluttons, April 2025

9. Outlook & House view

Forecasters' confidence in a recovery of the UK's commercial property market strengthened in Q1. Consequently, February's Investment Property Forum (IPF) consensus forecasts for 2025 were increased to 9.0% from 8.8% in November. The IPF outlook for 2026 marginally deteriorated to 8.7% from 8.8%. However, the data was collected before contributors had fully digested the implications of US trade policy for the global economy and financial markets.

It is likely that the forecasters responding to the survey expected that the momentum from the recovery in Q4 2024 would continue into 2025 and beyond. The annualised total return average forecast over the three years to 2027 is 8.6 % and 7.8% for the five years ending 2029. Total return expectations for 2025 improved in February's survey across all segments except Rest of UK offices.

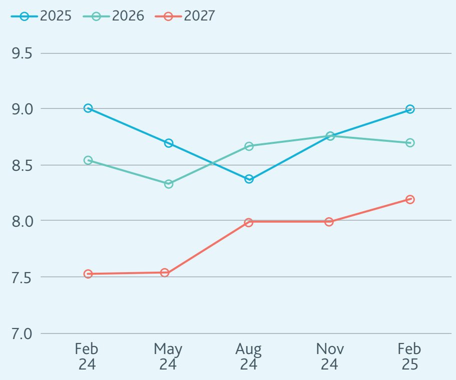
Although the maximum total return forecast for 2025 decreased from +11.2% in November to +9.9% in February's consensus report, the minimum forecast has increased to +7.3% from +6.4% three months earlier. The forecast range for 2026 is 3.0%, with a maximum of +10.2% and a minimum of +7.2% .

The central forecast from the House View model is revised on a quarterly basis to reflect the changing macro-economic outlook and the current performance of commercial real estate. A third reduction in UK base rate to 4.25% is anticipated in early May. Ordinarily this would provide a boost to commercial real estate markets. But presently the focus has shifted from movements in the risk-free rate and the cost of borrowing to the possibility of a US recession being exported around the world.

The old aphorism that "When America sneezes, the world catches a cold" is a reminder of the close relationship between the US economy and the global economy, and how the US can play a significant role in shaping global economic fortunes. An aggressive U.S. tariff policy will trigger a significant slowdown in the U.S. economy this year and next, with the median probability of recession in the next 12 months approaching 50%, according to economists polled by Reuters in April. The same month, J.P. Morgan, the investment bank, raised the probability of a recession in the USA to 60% from 40%.

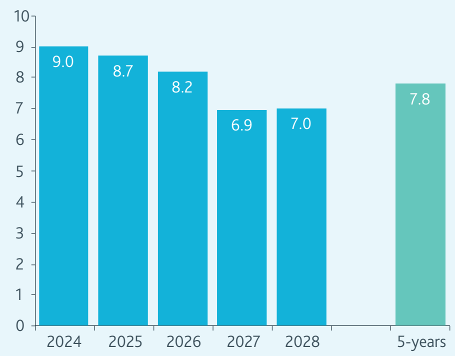
It seems unlikely that the UK economy will emerge unscathed from the tariff shock. The UK is an open economy with high exposure to global trade markets. Although the EU remains the UK's largest trading partner, the US is the second largest destination for 22% or £187 billion of exports. The UK

IPF Consensus forecast evolution (%)



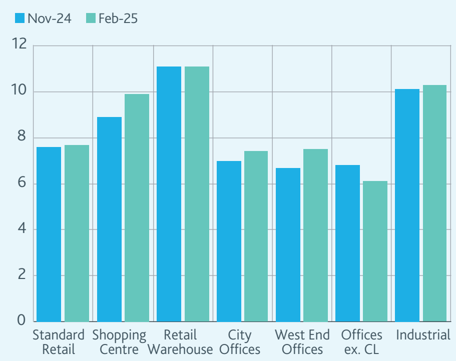
Source: IPF, Feb 2025

IPF All Property consensus forecasts y-by-y (%)



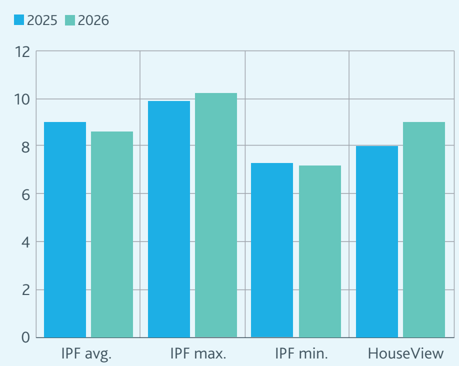
Source: IPF, Feb 2025

IPF 2025 total return forecasts by sector Nov 24 v Aug 24 (%)



Source: IPF, Feb 2025

UK commercial total return forecast range (%)



Source: IPF, APR & Cluttons, Feb & April 2025

Manufacturing PMI declined in April as expectations of a contraction in the manufacturing sector increased. Already, senior executives from the UK's manufacturing sector, including Rolls Royce, Bentley, Aston Martin and McLaren have warned a Parliamentary committee that job losses are likely "within weeks".

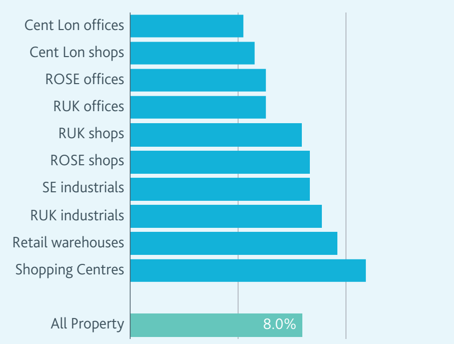
Historically, there has been a strong link between economic performance and rental value growth. A recession would inevitably lead to declining rents with a lag. More recently, strong rental growth from the industrial and logistics sector has supported continued rental growth at the All-Property level despite weakening retail and office rents. The forces that have driven this industrial rental growth are likely to continue. Segro's view that there is a shortage of modern space and increased demand is persuasive. For the moment, therefore, we have maintained last quarter's rental growth forecasts in the house view model.

We nevertheless think that weak economic growth combined with a troublesome inflationary outlook and increasing risk free rates have created strong headwinds that will in all likelihood slow the recovery in commercial property values in 2025. To reflect this, we have removed any yield compression from the house view model in the current year.

At the All-Property level, performance expectations for 2025 have been reduced by two percentage points to 8.0% and on a three-year view annualised average total returns have fallen back by one percentage point also to 8.0%. The market will continue to be driven by relatively strong levels of rental growth for industrial and logistics while Shopping Centre performance is boosted by high income returns. Post Covid, investor demand for Retail Warehouses is supported by retailer demand, ample car parking and the ability to service click and collect customer fulfilment. Offices continue to be penalised by reduced occupier demand as hybrid working patterns now seem to be established and the cost of upgrading buildings to meet energy and emissions requirements. However, risks lie firmly to the downside and upside risks are strictly limited.

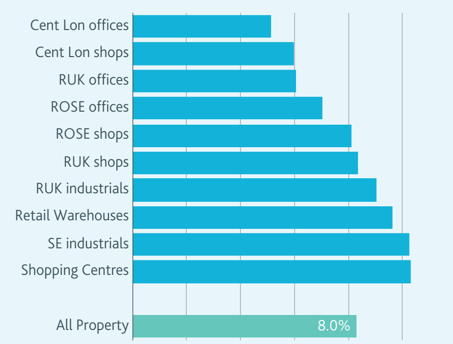
Lastly, a current theory points to an alignment between the current economic environment and the 1973 oil crisis. Briefly, then President Nixon prevailed on Fed chair, Arthur Burns, to temper any increases in interest rates. Inflation peaked at 15% and Burns' successor, Paul Volcker, was left to push rates higher, cause a recession and crush inflation. In such circumstances, real assets such as commercial real estate, infrastructure and gold outperform core stocks and bonds. From 1970-81 UK All Property produced an annualised average total return of 16.9% while inflation ran at 12.4% a year.

Cluttons House View – 2025 relative total returns (%)



Source: IPF, APR & Cluttons, April 2025

Cluttons House View – 2025-2027 relative total returns (%)



Source: IPF, APR & Cluttons, April 2025

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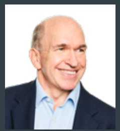

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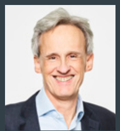

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