

# Commercial quarterly examiner

Economy | Offices | Industrial | Retail | Outlook

Q2 | 2025



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# 1. Key takeaways

The downside risks to the outlook for the UK are dominant. The uncertainty surrounding trade policy has been heightened by an extension to the original 90-day reprieve on global Tariffs implemented by US Presidential Trump that will now expire on 1st August. Longer-term solutions are also required on other global events, mainly to end conflicts in the Middle East and Ukraine, primarily from a humanitarian point of view, but also to address energy supply security. World leaders also have to consider how to work together to reduce the frequency of extreme climate events.

Financial markets around the world are once again pushing higher. The FTSE REIT index outperformed the wider all share market by 4.7 percentage points in Q2, suggesting that investors in public real estate markets finally expect the performance of the underlying direct real estate market to improve. Direct real estate investors, however, remain uncertain about pricing levels as All Property investment volumes decreased by -48% in the first quarter of 2025 compared with Q4 2024.

In Q2, the commercial real estate market continued its gradual slowdown. All Property UK total returns, as recorded by the MSCI Monthly Index, slipped by 27 bps to 1.7% from 2.0% in Q1. On an annual basis, total returns were broadly similar, at 8.6% to the end of June, compared to 8.5% in the 12 months to the end of March.

A likely further 75 basis points reduction in the UK Base Rate by the end of Q1 next year will reduce borrowing costs for real estate investors. But the steepening of the yield curve and increase in longer-dated yields is likely to be supported by quantitative tightening. Higher risk-free rates will put a collar on the scope for any re-rating of property yields. This quarter we have again downgraded our 2025 All Property total return forecast to 7.0% but have maintained our projection of 8.0% on a three year annualised basis reflecting our expectation for improved performance through 2026 and 2027.

# 2. The UK economy

- Escalating trade barriers, policy uncertainty, and geopolitical tensions add to the risks surrounding the macro economic background.
- Expectations for annual GDP growth remain in the 1.0 – 1.25% range this year and next, but increase to 2.0% by 2028.

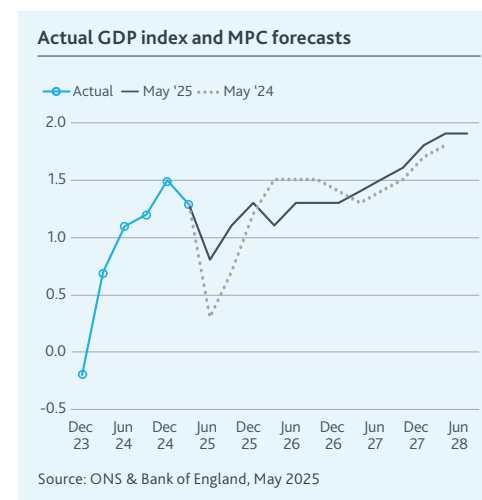
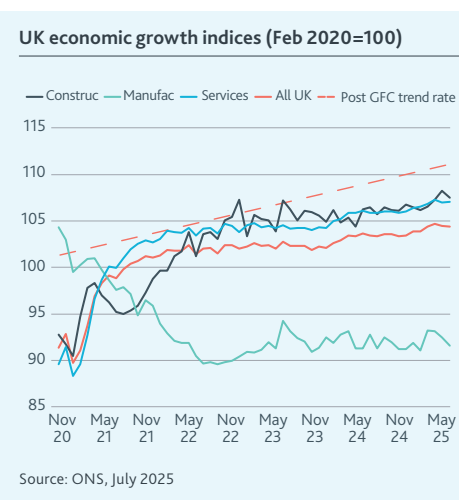
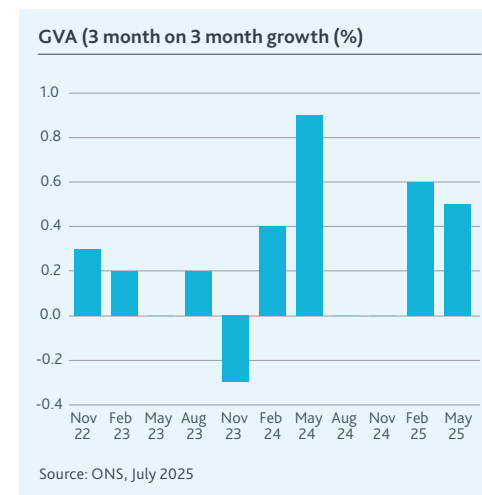
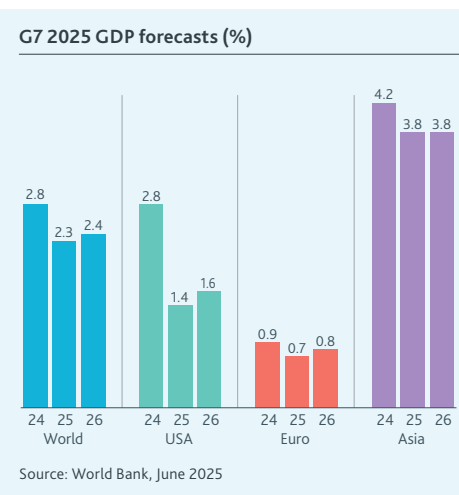
The World Bank recognises that the global economy has encountered another significant obstacle characterised by heightened trade tensions. In its latest edition of "Global Economic Prospects" it ranks this alongside Covid 19 and the resulting global recession. Global economic growth is projected to decline to 2.3% in 2025, with a slowdown affecting most economies. This would represent the lowest rate of global growth since 2008, excluding outright global recessions.

Downside risks to the outlook predominate, including the escalation of trade barriers and persistent policy uncertainty. Donald Trump's 90-day reprieve from his "Liberation Day" reciprocal tariffs which was due to expire on 9th July, were extended to the start of August, and now there are increasing discussions taking place.

Geopolitical tensions are rising. Russia continues its assault on Ukraine and January's

ceasefire between Israel and Hamas lasted 42 days. In June, Israel and subsequently the USA launched airstrikes on Iran which retaliated with reciprocal attacks until a ceasefire was agreed. Despite temporary surges, the price of oil has fallen by 15% from \$80 a barrel in early January. At the same time, the frequency of extreme climate events continues to increase. This year has again seen devastating wildfires in California, flash floods in Texas and record temperatures across Europe, Africa and Asia. Any upside outcomes will depend on major economies successfully concluding far reaching and long-lasting agreements that address these issues.

The rate of annual UK economic growth has been increasing since Q1 2024 but the most recent monthly estimate of GDP released by the Office for National Statistics (ONS) indicates that the UK economy has slowed since February. As President Trump announced a blanket 10% tariff on all imports from the UK and a higher 25% tariff on imports of steel and aluminium, and cars and car parts, UK exports to the US fell by £2 billion in April; the worst month on month decline since records began. UK exports to the US rebounded by £0.3 billion in May. However, UK vehicle production dropped 33% year-on-year, with US-bound auto exports declining 55%.



UK GDP is estimated to have grown by 0.5% in the three months to May 2025, compared with the three months to February 2025, largely driven by growth in the services sector in this period. Total economic output is 4.4% above its pre-pandemic level, but it is -6.0% below its potential level if output had continued at its post-GFC trend rate during Covid and its aftermath. Manufacturing is -8.4% below its February 2020 level and will struggle further despite the “Economic Prosperity Deal” between the UK and USA which maintains a 10% baseline tariff compared to a pre-2025 effective tariff rate of 2%.

The current stance of monetary policy remains restrictive according to May’s Monetary Policy report from the Bank of England. It recognises that the policy of maintaining Bank Rate at the level deemed necessary to control inflation has restricted growth. The latest market-implied path for interest rates underpinning the current MPC forecasts indicate that a reduction in base rates from 4.25% to 3.75% can be expected by the end of the year, followed by a further quarter point cut Q1 2026. However, this is expected to have a broadly neutral impact on GDP growth over much of the forecast period.

Global trade policy changes are likely to slow UK GDP growth as demand weakens across

the board. US consumers may switch from buying imported UK goods to domestically produced products, reducing UK growth. Furthermore, financial market developments, such as the appreciation of the sterling exchange rate, will also act as a drag on growth. The MPC’s May forecasts indicate that year-on-year GDP growth is expected to remain in the 1.0 – 1.25% range this year and next but increase gradually thereafter to 2.0% by the middle of 2028.

Alternative data suggests that the UK economy is showing some resilience. The UK S&P Global Composite PMI reached 52.0 in June 2025, up from 50.3 in May, marking the second straight month above the 50.0 growth threshold. Output grew at the fastest pace since September 2024, though the rate of expansion remained modest. New business increased for the first time in seven months, despite continued weakness in export sales. Business optimism for the year ahead eased slightly from May, indicating cautious sentiment. However, at the same time, firms noted increased business uncertainty and low customer confidence. Respondents remain concerned regarding the impact from the rise in employers’ National Insurance contributions and from US tariffs. The consequences of the latter include supply chain disruption, cost increases and lower demand from US clients.



# 3. Inflation and prices

- Annual CPI inflation growth rose to 3.6% in June, above the MPC's 2% target.
- CPI inflation is projected to fall to around 2% in the medium term due to weak growth and lower import prices.

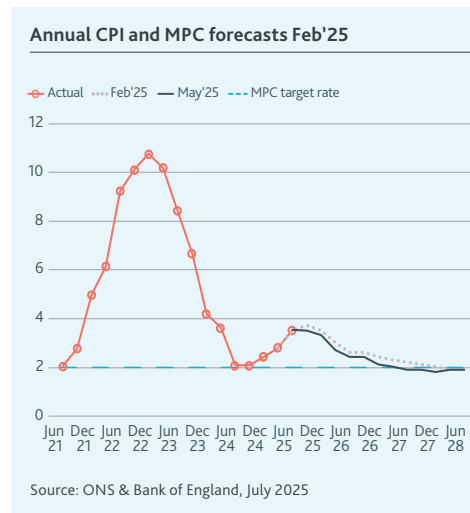
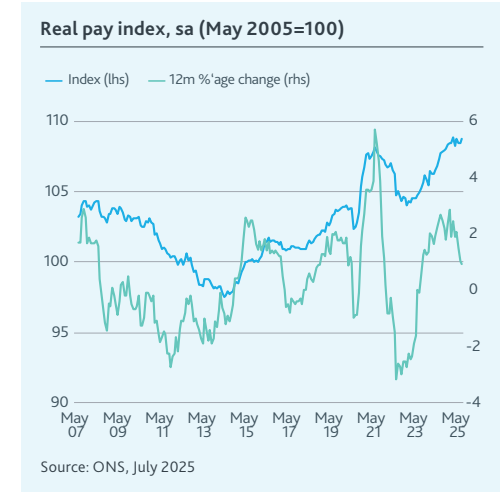
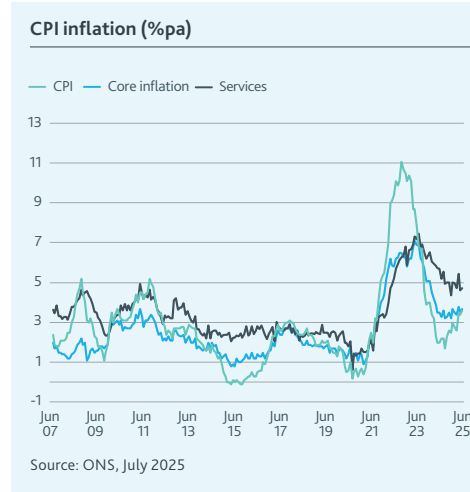
Despite the MPC's restrictive monetary policy, annual CPI inflation growth remains stubbornly above the MPC's 2% target. CPI rose by 3.6% in the 12 months to June, up from 2.6% in the 12 months to March, and the highest rate since January 2024.

Core inflation excluding energy, food, alcohol and tobacco has increased from 3.4% in March to 3.7% in June and continues above its post-GFC average of 2.7%. Service sector CPI inflation, however, has for the moment stabilised at 4.7%, the same rate as at the end of March, although it briefly rose to 5.5% in April. The annual rate of growth in employee earnings across the country eased 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 modestly to 2.0% in the year to February from 1.9% in November.

The Bank's forecast outlook for inflation anticipates an increase in CPI to 3.5%, but in

the medium term reflects the downward pressure on inflation from the weak outlook for growth and the weaker contribution from import prices. CPI inflation is projected to fall back gradually from 3.5% in Q3 2025 to around the 2% target in the medium term reflecting the continuing restrictive stance of monetary policy and the growing margin of slack in the economy. June's increase in CPI seems to have been anticipated and it is unlikely to postpone an expected cut to Base Rate in August and a further reduction by the end of the year.

The overall impact of trade developments on the UK is currently thought to be disinflationary rather than inflationary. Increased trade restrictions will slow global economic growth and consequently lower energy prices. UK non-energy import prices are also projected to be lower over the forecast period than previously expected as reduced US demand for imports in response to higher tariffs is expected to reduce global export prices. The recent appreciation in sterling also weighs on UK import prices over the forecast period, which drags further on inflation.



# 4. Stock markets, interest rates & asset yields

- Stock markets rebounded in Q2 as investors recalled lessons from the first Trump administration and began to parse recent extreme policy announcements.
- The yield curve has risen at the longer end increasing the risk-free rate used to value risky assets. This trend is unlikely to be quickly reversed.

In Q1, global equity prices fell sharply following news that tariffs in excess of 10% would be placed on most of the United States' biggest trading partners, before recovering somewhat following the announcement of a 90-day pause to these measures for all countries except China.

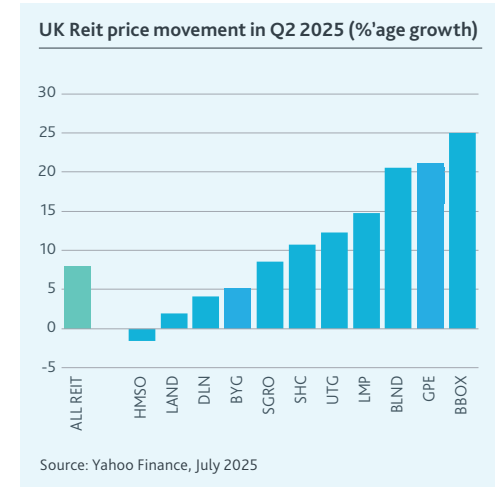
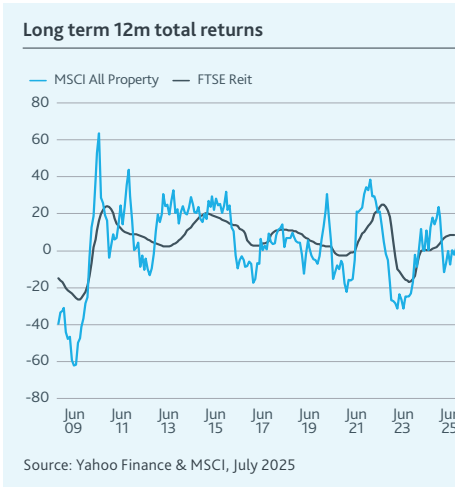
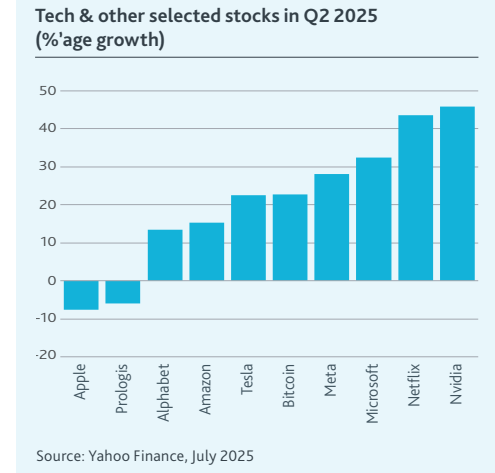
World financial markets in Q2 remained nonplussed by the fluid nature of White House announcements on trade policy. The MSCI World Index, with large and mid-cap representation across 23 developed markets, grew by 5.6% in USD terms in Q2 having fallen -6.0% in Q1. On a hedged GBP basis, the index rose 9.7% as the dollar weakened further against the pound. The World Index is down -0.7% in H1 in USD terms, but up 5.3% on a hedged GBP basis.

However, US shares advanced in Q2, driven by tech and communication sectors, particularly AI-related stocks. Robust Q1 corporate earnings also contributed to the gains, while

healthcare and energy sectors underperformed. The Nasdaq increased 18.9% in Q2, the S&P 500 rose 11.4%, and the Dow Jones Industrial Average gained 5.6%.

Tech stocks recovered in Q2. Cloud computing and AI businesses gained favour as investors reassessed China's DeepSeek. Despite concerns about DeepSeek's low cost model reducing demand for high-end AI semiconductors, investors viewed competition as reducing development costs and accelerating AI adoption and demand. Further postponement of 50%+ tariffs on chips from outside the US has allowed semiconductor manufacturers to prioritise orders and relocate manufacturing to the US, Japan, and India. Expansion plans in Arizona and Texas have been accelerated, and subsidies under former President Biden's CHIPS and Science Act have boosted cash flows. Nvidia's share price rose 45.8% in Q2, and in July, it became the first company to reach a market valuation of \$4 trillion.

Apple's share price fell 7.6% in Q2. Soft iPhone demand impacted revenue growth. Most iPhones are now built in India but that has not stopped repeated warnings of a 50% tariff on iPhones manufactured outside the US. Moving production to the US is impractical due to infrastructure and skilled labour requirements but a 50% tariff would increase the cost of an iPhone 16 from \$829 to \$1,249.



<sup>1</sup>"Trump always chickens out".

The progress of Eurozone shares in Q2 was more sedate. The broad-based Eurofirst 300 index gained just 0.8%. Germany's DAX rose by 7.9%, but France's CAC 40 decreased -1.4%. Industrial and Real Estate stocks led the markets higher. Defence stocks also performed well as the NATO countries, recognising the threat posed by Russia and President Trump's sceptical attitude towards the alliance, agreed to lift defence spending.

The UK's FTSE 100 rose by 2.1% in Q2. Top performing sectors included industrials, telecommunications, utilities and real estate, while energy and healthcare shares did not perform as well.

However, investors in Prologis were disappointed by a -6.0% fall in share price in Q2. The impetus towards onshoring and reshoring seems to have increased the demand for logistics real estate in the short term, but the medium-term outlook is more subdued. The largest logistics and warehouse real estate company in the world published one of its regular market insights in May noting that many of its occupiers had been accelerating imports to manage their tariff exposure. Space utilisation has improved, and leasing pipeline volumes also increased. However, tariffs have resulted in the scrutiny of long-term supply chain investments, with capital expenditure and real estate decisions delayed until policies become clearer.

Two further longer-term real estate trends have been noted by Prologis. Firstly, rising development costs have widened the gap between market rents and replacement cost

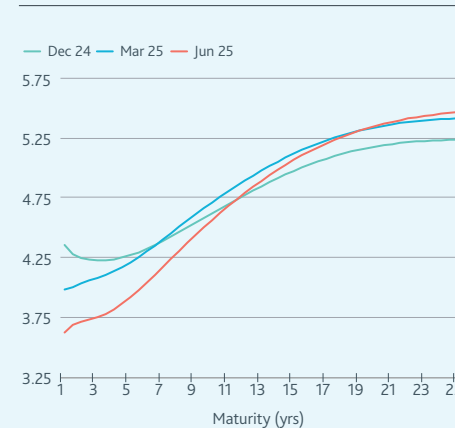
rents, disincentivising speculative construction starts. This will put upward pressure on rents when conditions normalise. In the meantime, under-construction pipeline levels are 25% lower than 2019 and expected to stay historically low through 2026.

Secondly, e-commerce remains a structural driver of demand for logistics assets, with its growth necessitating an additional 50 to 75 million square feet per year in the US by 2030. However, the situation in the US may not be directly comparable to the UK due to the geographical scale, which adds great logistical complexity in the US. E-commerce currently represents 16% of US retail sales and is forecast to grow to 20% by 2028. In contrast, UK consumers have more readily adopted online grocery shopping, leading to UK e-commerce reaching 38% of retail sales during the third Covid lockdown in February 2021, although this has since fallen back and settled at around 27%.

The performance of the **FTSE REIT index** improved in Q2 suggesting that investors finally expect the future performance of the direct market for real estate assets to improve. In Q2 the index outperformed the wider all share market by 4.7 percentage points shaking off concerns over high borrowing costs, weak underlying growth, and rising gilt yields.

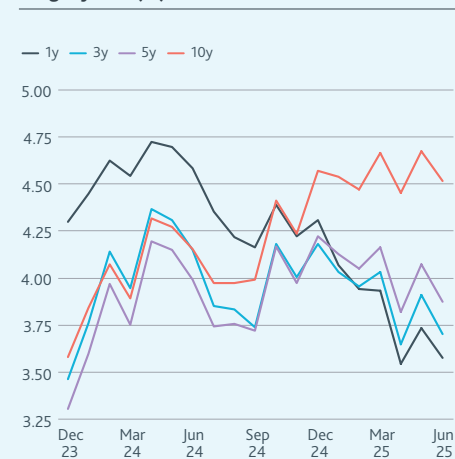
Hammerson advertises itself as the owner of the ten largest retail and leisure city destinations across the UK, Ireland and France and has £2.66 billion of assets under management. In 2025 the company continued its program of consolidation

Gilt yield curve (%)



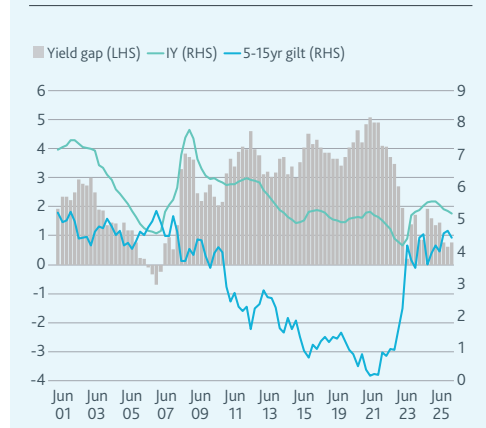
Source: Bank of England, July 2025

UK gilt yields (%)



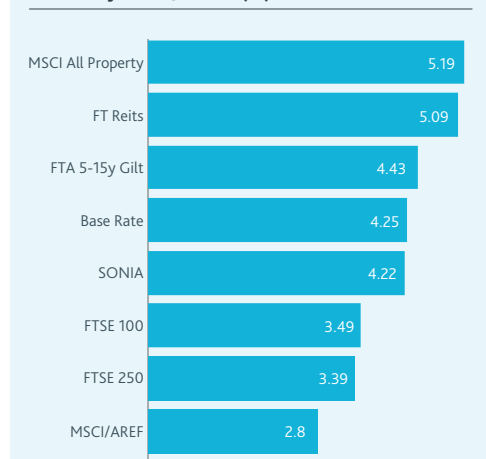
Source: Bank of England, July 2025

Property IY – Gilt yield gap (%)



Source: MSCI & Bank of England, July 2025

UK asset yields Q2 2025 (%)



Source: Yahoo Finance & MSCI, July 2025

by acquiring 95% of the units in ABRDN's UK Shopping Centre Trust at a 16% discount to book value, taking its holding of North London's Brent Cross Shopping Centre to 97%. However, its share price fell -1.6% in Q2.

Great Portland Estates' share price rose 21.2% in Q2 as the outlook for grade A Central London, and in particular, West End offices improved. In June, the business announced 17 new leases and renewals signed since the start of April, generating a net annual rent of £20.6 million with market lettings on average 6.7% ahead of March 2025 ERV.

**Treasury markets** are concerned about the sustainability of US debt. The recently approved Reconciliation Bill is expected to increase the budget deficit and further raise the national debt. Moody's credit rating agency has cut the sovereign rating to Aa1 due to the increased burden of financing the budget deficit. U.S. Treasury yields have risen due to investor concerns about the outlook for the fiscal deficit. The 10-year yield is between 4.34% and 4.42%, while the 30-year approached 4.96% as bond prices fell. Fixed-income managers warn that long-term yields may rise further due to the deficit and future bond issuance.

In response, yield curves across major government bond markets steepened, with longer-dated bonds experiencing higher yields. At the shorter end of the curve, UK gilt yields dipped by 30-35bps during Q2. But despite further concerns over the fiscal outlook as Government backbenchers forced the Cabinet

to re-consider benefit cuts yields for longer UK maturities have risen, but only by 15 bps.

The yield on the 5-15 year gilt index hardened by 22 bps in Q2 to reach 4.43%. This is reflected in the total return performance on the FTSE Actuaries 5-15 year gilt index in Q2 of 2.9%. Over the last 12 months, the gilt index has provided a total return of 2.8% as yields have increased by 24 bps since June 2024. The yield on the index was below 0.25% during Covid, so the dislocation experienced by assets such as CRE valued relative to Gilts has been extreme.

Quantitative easing (QE) was introduced to stimulate the economy after the GFC, involving the purchase of government bonds to lower interest rates. At its peak, the Bank of England's gilt holdings under QE reached approximately £875 billion. Gilt yields fell by about 100 basis points in response to the first QE program of £200 billion although it is likely that subsequent QE program announcements had a less significant impact on the yield curve.

The Bank of England (MPC) voted to reduce the amount of government bonds it holds in September 2022. This move known as quantitative tightening (QT) tightens monetary policy by reducing liquidity. The impact of the first sale of £80 billion is estimated to be a 20bp increase in 10-year yields. Further sales of up to £280 billion are planned up to the end of September 2025, the impact of which could be significant for gilt yields.



# 5. Commercial property market performance

- Macro economic headwinds have slowed the recovery in the UK's commercial real estate markets.
- Yields have stabilised but market rental growth rates are slipping.

Risk free rates tightened by 22 bps in Q2, and the All Property initial yield itself also hardened by just 7 bps. Consequently, the property initial/gilt yield gap increased by 15 bps to 0.76%. 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.

In Q2 the UK commercial real estate market continued its gradual slowdown. All Property total returns, as recorded by the MSCI Monthly Index, decreased by 27 bps to 1.7% from 2.0% in Q1. Capital values climbed by 0.3% after a rise of 0.6% three months earlier. Property equivalent yields hardened by two basis points and made no material contribution to changes in valuations. The pace of all property market rental value growth slowed to 0.7% in Q2 from 0.9% in Q1. First quarter income returns amounted to 1.4%.

Over the course of the second quarter, retail rental growth decreased slightly to 0.4% from 0.5% in Q1 and office rental growth decreased to 0.7% from 0.8%. Industrial rental value growth decreased to 0.9% from 1.1% a quarter earlier. Market rental value growth was positive for all retail segments including South East and

Rest of UK shops as well as shopping centres and retail warehouses.

In the last three months, retail equivalent yields have softened by 7 bps. The office sector re-rated by 5 bps in Q2 but office values continue to drift down further. Industrial equivalent yields remained stable over the course of the quarter.

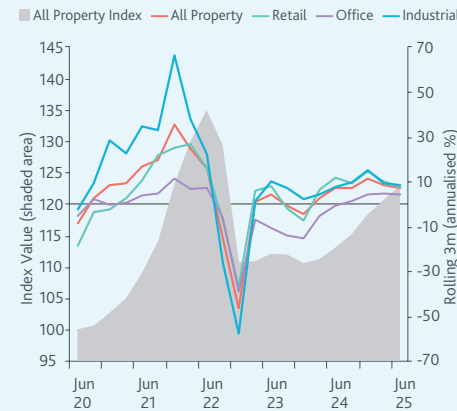
On an annual basis, All Property total returns increased slightly to 8.6% from 8.5% in the year to June. All Property capital growth continued to improve on annual basis in Q2, increasing to 2.6% in June from 2.5% in March. Property equivalent yields have softened by just 2 bps in the 12 months to June 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 5.8%.

In the last 12 months, Retail equivalent yields have hardened by 4 bps. The Office sector de-rated by 11 bps and Industrial equivalent yields decreased by 6 bps y-o-y.

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. Four reductions in Bank Rate in the second half of last year and the first quarter of the current year have not created any market impetus. It is to be hoped that the three further cuts implicit in the MPC's latest forecasts finally give investors the confidence to return to the market.

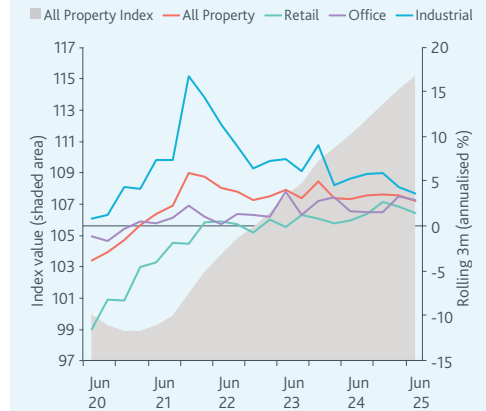
The tables on the next page include further performance data for UK commercial real estate in Q2 2025.

Total returns (%) by sector



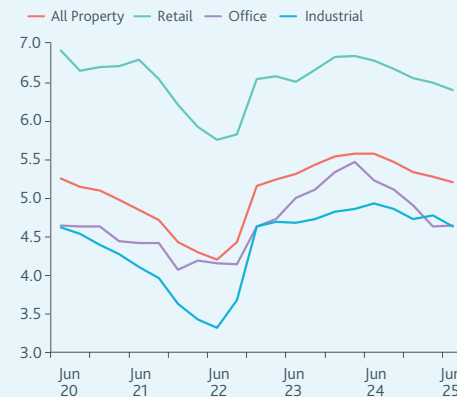
Source: MSCI, July 2025

MRV growth (%) by sector



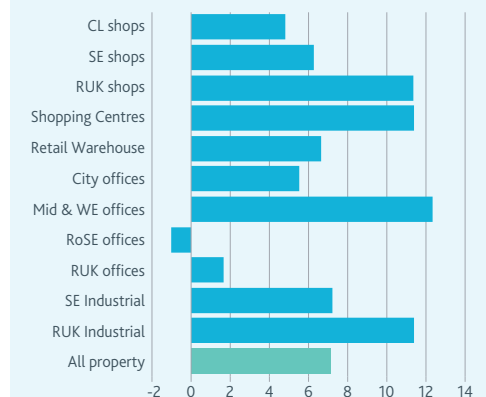
Source: MSCI, July 2025

Initial yield (%) by sector



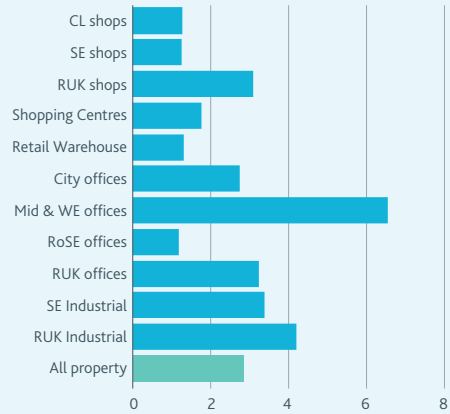
Source: MSCI, July 2025

Total returns (%) by segment – Q2 2025 annualised



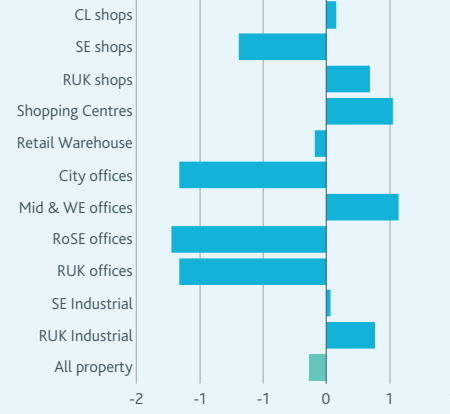
Source: MSCI, July 2025

### MRV growth (%) by segment Q2 2025 annualised



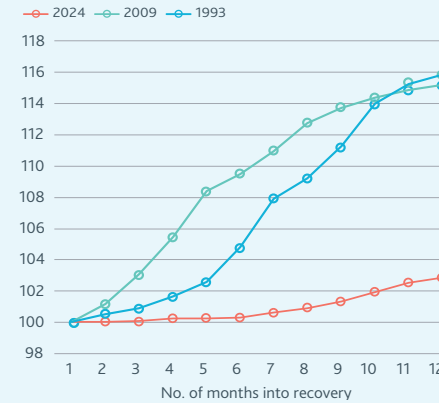
Source: MSCI, July 2025

### Yield impact (%) – Q2 2025



Source: MSCI, July 2025

### The pace of recovery from market downturn by month, CRE capital growth



Source: MSCI & APR, July 2025

### Total returns (%)

	Jun	3m	6m	12m
All Property	0.6	1.7	3.8	8.6
Retail	0.6	1.8	4.3	10.3
Office	0.4	1.0	2.1	3.6
Industrial	0.7	2.1	4.3	10.6
<b>Annualised</b>				
All Property	7.1	7.2	7.7	8.6
Retail	7.7	7.6	8.7	10.3
Office	4.3	4.1	4.3	3.6
Industrial	9.1	8.6	8.9	10.6

Source: MSCI & APR, July 2025

### Capital growth (%)

	Jun	3m	6m	12m
All Property	0.1	0.3	0.9	2.6
Retail	0.1	0.1	0.8	3.0
Office	-0.1	-0.4	-0.5	-1.8
Industrial	0.3	0.9	1.8	5.3
<b>Annualised</b>				
All Property	1.3	1.3	1.8	2.6
Retail	0.6	0.5	1.5	3.0
Office	-1.2	-1.4	-1.1	-1.8
Industrial	4.1	3.5	3.7	5.3

Source: MSCI & APR, July 2025

### Income return (%)

	Jun	3m	6m	12m
All Property	0.5	1.4	2.9	5.8
Retail	0.6	1.7	3.5	7.2
Office	0.5	1.4	2.7	5.5
Industrial	0.4	1.2	2.5	5.0
<b>Annualised</b>				
All Property	5.7	5.8	5.8	5.8
Retail	7.0	7.0	7.1	7.2
Office	5.5	5.6	5.5	5.5
Industrial	4.8	5.0	5.0	5.0

Source: MSCI & APR, July 2025

### ERV growth (%)

	Jun	3m	6m	12m
All Property	0.3	0.7	1.6	3.4
Retail	0.2	0.4	0.9	2.0
Office	0.4	0.7	1.6	2.4
Industrial	0.3	0.9	2.0	5.0
<b>Annualised</b>				
All Property	3.1	2.8	3.2	3.4
Retail	2.0	1.5	1.9	2.0
Office	4.4	3.0	3.2	2.4
Industrial	3.4	3.7	4.1	5.0

Source: MSCI & APR, July 2025

### Net initial yield (%)

	Jun	3m	6m	12m
All Property	5.2	5.3	5.3	5.6
Retail	6.4	6.5	6.5	6.8
Office	4.6	4.6	4.9	5.2
Industrial	4.6	4.8	4.7	4.9

Source: MSCI & APR, July 2025

# 6. Investment in property

- There are some signs that liquidity is returning to the central London office market.
- Investment volumes across all other segments of the market remain below average.

Investor sentiment remains changeable. All Property investment volumes, represented by the current value of investment transactions adjusted for capital growth, increased by 35% in Q4 2024 compared to Q3 but then decreased by -48% in the first quarter of 2025. First quarter transaction volumes were -43% below their long run average.

Preliminary estimates suggest that investment volumes in Q2 decreased by a further -8% and were -47% below the long run average. As usual the latest numbers for Q2 are likely to be revised in the coming months. Cumulative UK investment volumes so far recorded in Q1 and Q2 this year are currently lower than in either 2023 or 2024.

Retail made up 46% (by number) of investment transactions in Q1 2025; offices represented a further 19% and industrials made up the remaining 35%. In the 12 months ending June 2025, the retail sector accounted for 46% of transactions. Offices

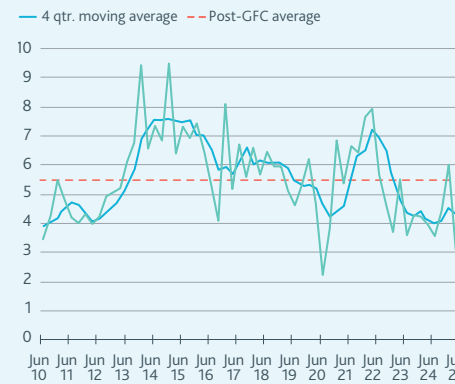
represented 19% of transaction numbers and industrials a further 34%. The volume of Shopping Centre and Retail Park investment transactions has remained consistent throughout the last 12 months although there was a temporary spike in Retail Park volumes in Q4 2024.

Investment volumes, represented by the current value of investment transactions adjusted for capital growth, in the UK's key central London office market increased by 13% in the last quarter of 2024 but were nevertheless -45% below their long run average. The recovery was short lived and investment volumes decreased by -11% in the first quarter of 2025 and were 51% below their long run average.

The improvement in liquidity promised at the end of last year has been restricted by the destabilising impact of US trade policy on the global economy. In May, Mark Preston, CEO of Grosvenor Group, said that Trump's global tariff trade war is damaging to all countries, including the US, and will eventually be corrected. However, he added that the trade war had not affected Grosvenor's business.

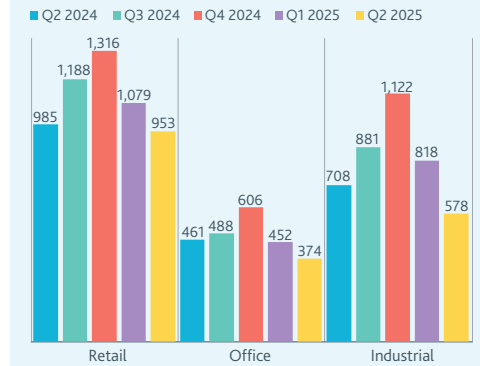
However, preliminary estimates for Q2 indicate that there has been a marginal improvement in investment market liquidity in the central London office market in Q2 as

All property investment volumes (£bn)



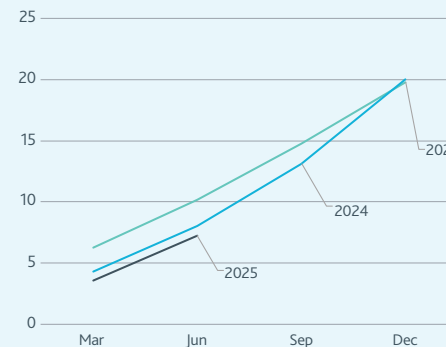
Source: CoStar, MSCI & APR, July 2025

UK investment transaction nos. by quarter



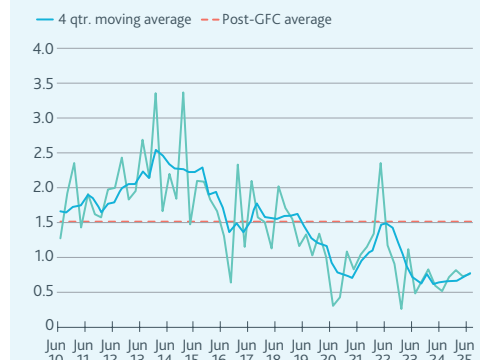
Source: CoStar, MSCI & APR, July 2025

Cumulative UK investment volumes by quarter (£bn)



Source: CoStar, MSCI & APR, July 2025

Central London office investment volumes (£bn)



Source: CoStar, MSCI & APR, July 2025

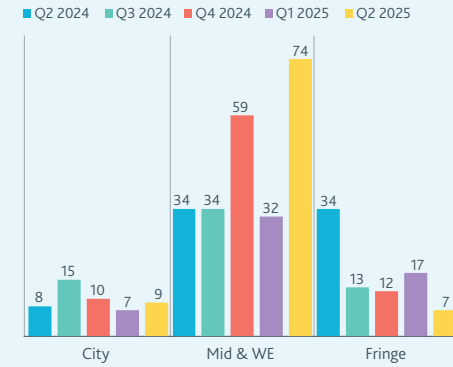
transaction volumes improved by 5%. Cumulative investment volumes so far recorded in Q1 and Q2 this year for central London offices are currently higher than those achieved last year and are approaching the levels achieved in 2023.

Midtown and West End made up 57% (by number) of Central London office investment transactions in Q1 2025; City offices represented 13% and Fringe offices made another 30%.

Total investment volumes for the 12 months ending June 2025 indicate that Midtown and West End accounted for 69% of transactions; the City 14%; and the Fringe markets of Docklands, Southbank and City fringe 17%.

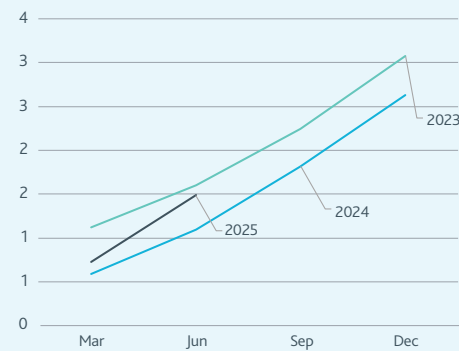
Overall, the data suggests that for central London office investment, measured by transaction levels, a slight recovery is underway.

**Central London Office transaction nos. by quarter**



Source: CoStar, MSCI & APR, July 2025

**Cumulative Central London office investment volumes by quarter (£bn)**



Source: CoStar, MSCI & APR, July 2025



# 7. Office focus

Average UK office occupancy reached a new post-Covid high of 38.1% in the first two weeks of June, according to Remit Consulting. While occupancy is increasing, it remains lower than pre-pandemic levels, particularly on Mondays and Fridays, suggesting a shift towards a more strategic approach to office attendance.

Some companies are driving employees back in to the office to strengthen collaboration and culture. For some businesses, however, office attendance has little impact on performance and employers are prepared to take a more flexible approach based on their business model, workforce demographics, and even geography.

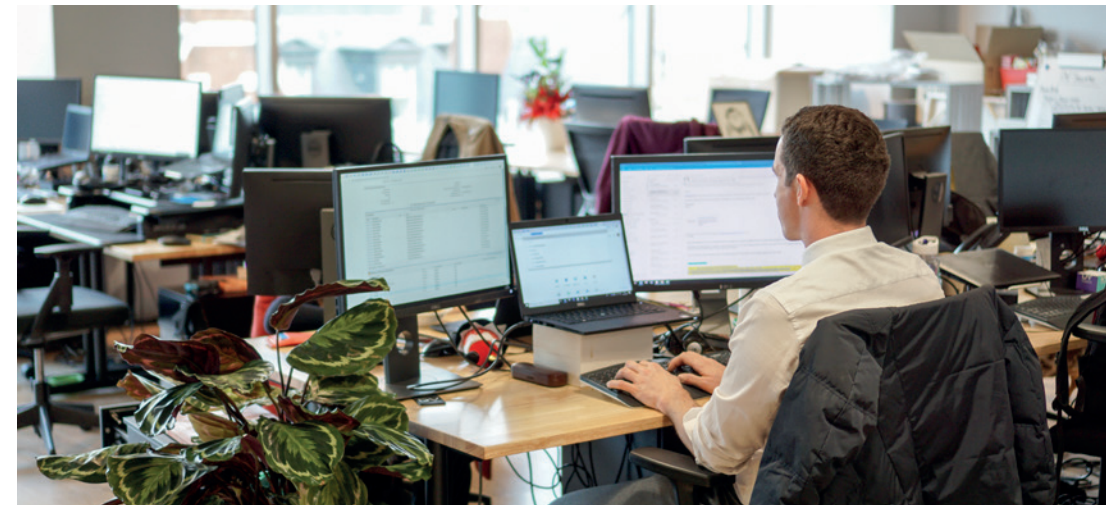
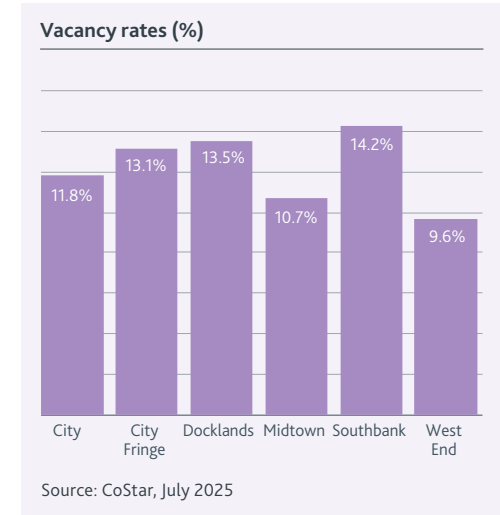
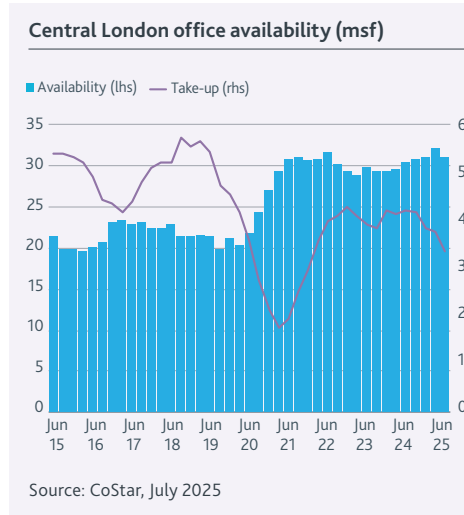
Office based economic output rose by 0.66% in Q1 2025 and 1.70% year-on-year (y-o-y) outperforming all-sector economic output growth of 0.41% in Q1 and 0.9% in the year ending in June. Office output has grown at an annualised average of 2.26% since June 2000, outperforming a more broad-based measure of GDP which has grown at 1.50% a year over the same period.

## Central London offices Occupational view

- Occupiers are seeking best-in-class, well-located buildings and, as such, record rents are being registered across a number of sub-markets.
- Developers are creating super-prime offices with amenities including terraces, rooftop gardens, and enhanced hotel standard 'end of journey' facilities to attract occupiers.

Central London office availability fell in Q2 for the first time since Q3 2023. It decreased by -3.1% to 30.98 million sf which represents 32 months' supply at the post-Covid average rate of take-up. The occupational market for the very best buildings is even tighter. The availability of the best office space decreased by -8% representing 15 months' supply.

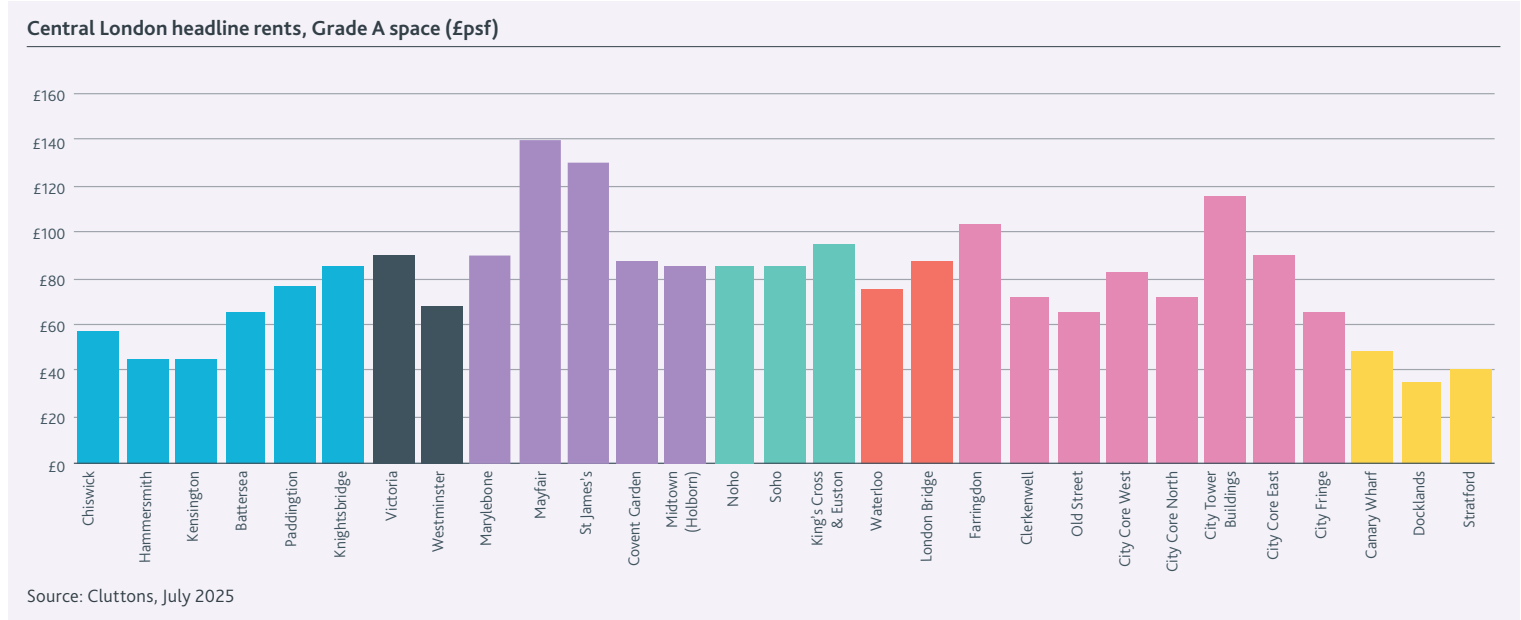
In the City office market, the availability of Grade A office space fell below one million sf for the first time in at least ten years. Availability of the best space now represents just 7 months' supply. The market for Grade A office space in the core West End sub-markets of Mayfair and St James's is tighter still. Immediately available supply amounts to less than 50,000 sf and take-up has averaged 91,700 sf per quarter since the start of 2022.



In the last twelve months more than 3.24 million sf of new office development has been completed across Central London. Most of this space was in the City and City Fringe. In the Square Mile and its periphery year-on-year completions amounted to 2 million sf. In Mayfair and St James's completions amounted to 270,000 sf over the same period. In the next two years five Grade A buildings are scheduled to complete in the City market; all are 100% pre-let. In April investment management firm Squarepoint agreed to pre-let 400,000 sf at 65 Gresham Street, EC2. However, the scheme has not yet started on site and is not due for completion until 2028.

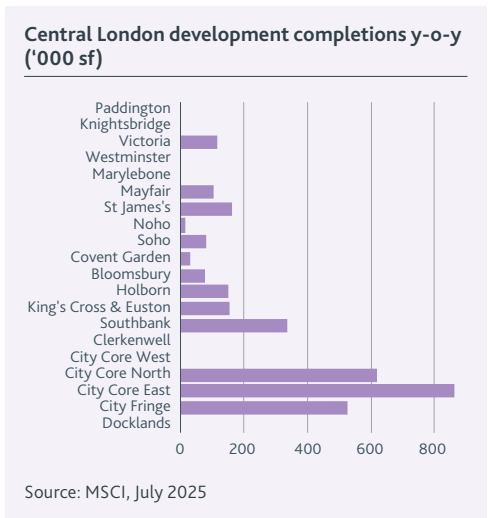
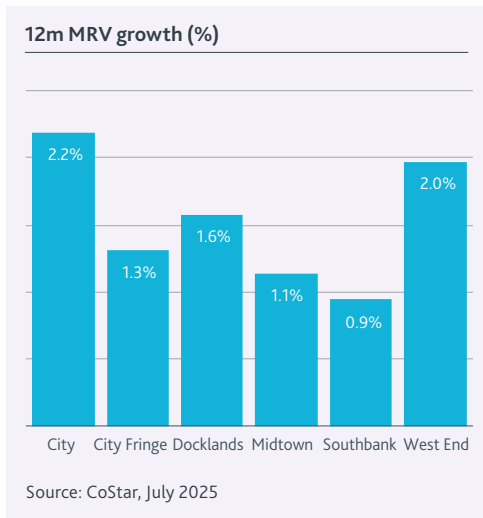
Mayfair and St James's rents continue to reflect strong demand and limited development, but the levels achieved are being challenged by new occupational deals in the City tower buildings. But a lack of available space in these new towers is driving occupiers to widen their search to include more peripheral locations.

KKR and Fore Partnership have agreed a pre-let of the sixth and seventh floors at Tower Bridge Court to Allfunds, who describe themselves as a global wealth tech company. The £98.75 per square foot rent for the 16,530 square foot space is the highest in SE1 and illustrates the trend of a flight to quality driving prime rental growth. Fore Partnership has created an "urban village hall" on the ground floor, a flexible 3,500 square feet social and cultural space for local community use and markets the building as a net zero Thames-side landmark designed for wellbeing. It has a large terrace and some of the best views in London, and quoted rents on the lower floors



range from £79.50 to £87 psf. It also provides a dedicated entrance for cycles, 217 cycle spaces, showers, lockers and e-bike charging.

Developers are competing for occupiers by creating a new category of "super-prime" offices. A refurbishment of St Magnus House, Lower Thames Street, originally completed in 1978, will include terraces on upper floors with views of the Thames, Tower Bridge, The Shard, and London Bridge; a roof garden; first-floor restaurant; and upgraded bike parking. The refurbishment of Adelaide House, King William Street will include a rooftop terrace, riverside gardens, lounge areas, 330 cycle spaces with 330 lockers, showers, a cycle repair hub and e-charging points. The scheme has just started on site.



## Investment view

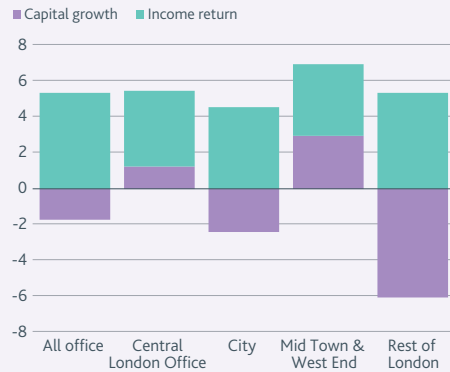
- Improving market conditions suggest it is now time for the return of investors.
- Driven by hotel room scarcity, obsolete or redundant office buildings are being re-purposed as hotels, but London's luxury hotel market is experiencing an unfortunate coincidence of falling demand and rising supply from new openings.

The London office market continues to gain strength from a low base. Capital value growth improved by more than one percentage point from 0.37% in Q1 2025 to 1.44% in Q2 representing an annualised rate of 5.9%. In the year to the end of June, capital values rose by 1.26%. But this performance is largely being driven by the West End which has benefitted from growth of 2.03% in the three months to June. In comparison, offices in the City registered just 0.11% capital value growth.

The latest data suggest that it is time to call the bottom of the market and "buy the dip". American investors have been supporting this narrative and taking advantage of buying opportunities at relatively low prices. Capital values remain -24.6% lower than levels registered in August 2022 despite recent improvements.

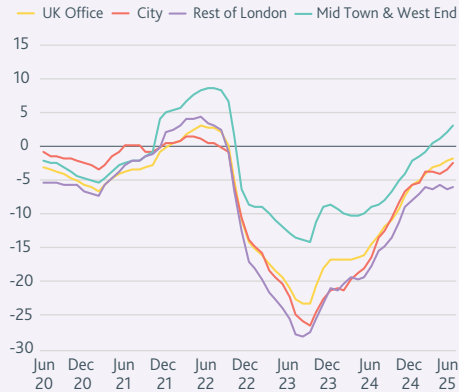
This quarter, Helical Plc and Orion Capital Managers exchanged contracts on a forward sale of 100 New Bridge Street, EC4 with a purchaser

12m total returns Q1 2025 (%)



Source: MSCI, July 2025

12m capital growth (%)



Source: MSCI, July 2025



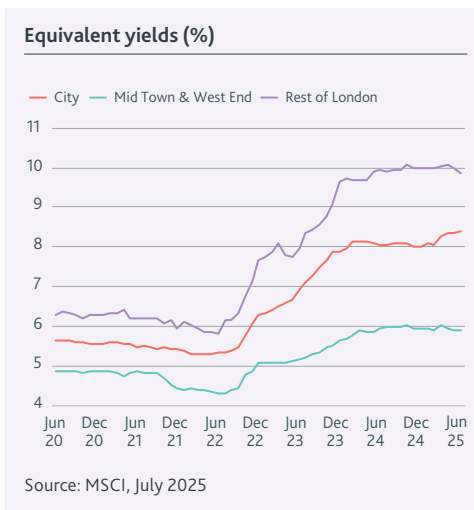
thought to be Boston based bank, State Street, for a price of £333 million reflecting a yield of 5.0%. The refurbished building contains 195,000 sf of offices on ten floors together with ground floor retail and a 7,450 sf roof terrace overlooking St. Pauls Cathedral. State Street will occupy part of the building themselves as they plot a move away from Canary Wharf when their lease at 20 Churchill Place expires in 2028.

However, at the same time, the post-pandemic shift towards hybrid working and pivot by occupiers towards highly specified Grade A space has left many secondary buildings under-utilised or empty. Since 2022, some 3.3 million sf of office stock in Central London has been sold for a combined £2.5 billion for conversion to alternative uses including life sciences, student accommodation, and residential.

The conversions of secondary or redundant office buildings to hotel use have been driven by a scarcity of "budget" hotel rooms in the centre of the capital. Whitbread, the UK's largest hotel business, has bought the freehold of Dorset House in Stamford Street, SE1 and will retrofit the vacant nine-storey, 90,000 sf building into a 400-bedroom Hub by Premier Inn hotel. The price paid was reportedly £47.5 million. The acquisition of Dorset House adds to the other 15 Hub hotels by Premier Inn already trading in London. Premier Inn opened its first Hub hotel in 2014. The hotels contain all the features of a Premier Inn room but in a smaller space.

However, the hotels market is also entering a more challenging phase at the luxury end. This year the FT reported that London's hotel

operators are experiencing falling demand just as 757 new luxury hotel rooms open in 2025. Several new luxury hotels, including Chancery Rosewood, Six Senses, and Auberge Resorts Collection, will open in London in 2025, following openings and refurbishments in 2024 including Mandarin Oriental Mayfair and Park Hyatt London River Thames, The Savoy and London Hilton on Park Lane, creating a surge in supply.



**Featured investment transactions**

Building	Price (£m)	Price (£psf)	Yield (%)	Avg. uxp lease term (yrs)	Buyer
20 Manchester Square, W1	120.00	1,521	5.10 (niy)	2.8	Delancey
11-12 Hanover Square, W1	170.00	2,477	3.80 (niy)		Aware Super & Delancey (JV)

Source: Cluttons, July 2025

# Central London offices

## Summary tables

### Availability (msf)

	Q1 2025	Q2 2025	5y avg.	Trending
City	8.55	8.24	9.26	▼
City Fringe	3.86	3.79	3.78	▼
Docklands	2.68	2.79	2.84	▲
Midtown	7.73	7.34	6.66	▼
Southbank	3.37	3.27	2.16	▼
West End	5.78	5.55	4.72	▼

Source: CoStar, July 2025

### Take-up (msf)

	Q1 2025	Q2 2025	5y avg.	Trending
City	0.89	0.75	1.12	▼
City Fringe	0.36	0.23	0.42	▼
Docklands	0.09	0.08	0.17	▼
Midtown	1.05	0.49	0.77	▼
Southbank	0.15	0.28	0.21	▲
West End	0.51	0.35	0.70	▼

Source: CoStar, July 2025

### Vacancy rates

	Q1 2025	Q2 2025	5y avg.	Trending
City	12.3%	11.8%	14%	▼
City Fringe	13.3%	13.1%	13%	▼
Docklands	13.0%	13.5%	14%	▲
Midtown	11.3%	10.7%	10%	▼
Southbank	14.7%	14.2%	9%	▼
West End	10.0%	9.6%	8%	▼

Source: CoStar, July 2025

### Completions ('000 sf)

	Q1 2025	Q2 2025	5y avg.	Trending
City	106	-	265	▼
City Fringe	134	-	94	▼
Docklands	-	-	34	◀▶
Midtown	385	77	170	▼
Southbank	112	61	50	▼
West End	177	105	133	▼

Source: CoStar, July 2025

### Construction ('000 sf)

	Q1 2025	Q2 2025	5y avg.	Trending
City	3,785	3,926	4,210	▲
City Fringe	606	606	1,109	◀▶
Docklands	1,364	1,364	642	◀▶
Midtown	3,843	3,766	3,401	▼
Southbank	1,757	1,696	854	▼
West End	1,784	1,731	1,647	▼

Source: CoStar, July 2025

### 12m MRV growth

	Q1 2025	Q2 2025	5y avg.	Trending
City	1.0%	1.2%	0.9%	▲
Mid Town & West End	4.8%	5.8%	2.8%	▲
Rest of London	0.3%	-0.1%	0.4%	▼

Source: MSCI, July 2025

### Average rents (£psf)

	Q1 2025	Q2 2025	Trending
City	60.10	58.30	▼
City Fringe	57.00	56.00	▼
Docklands	48.00	47.50	▼
Midtown	69.60	68.30	▼
Southbank	62.50	62.50	◀▶
West End	76.20	75.90	▼

Source: CoStar, July 2025

### Investment volumes (£bn)

	Q1 2025	Q2 2025	5y avg.	Trending
City	758.76	606.95	642.79	▼
City Fringe	212.90	9.82	203.45	▼
Docklands	0.00	0.71	52.86	▲
Midtown	234.86	529.30	560.55	▲
Southbank	47.70	54.56	69.35	▲
West End	186.87	335.67	519.89	▲

Source: CoStar, July 2025

### Prime yields (%)

	Q1 2025	Q2 2025	Trending
City	5.25%-5.50%	5.00%-5.25%	◀▶
West End	4.00%-4.25%	4.00%	▲
West End (non-core)	5.25%-5.50%	5.25%-5.50%	◀▶

Source: Cluttons, July 2025

## Rest of UK offices

### Occupational view

- Vacancy rates in major regional office markets has doubled since 2020 but the supply of Grade A space has decreased.
- The Government's continued commitment to the "Places for Growth" program, involving the closure of London offices and expansion of regional campuses could act as a much needed catalyst for growth.

Office availability In the South East increased by 2.4% in Q2 and 8.9% y-o-y, representing more than 4.5 years' supply at the post-Covid average rate of take-up. Availability across all Rest of UK office markets outside London and the South East increased by 1.4 % in Q2 and by 4.3% year-on-year representing 4.25 years' of supply. The supply of the best Grade A space is becoming more restricted. South East Grade A availability decreased by -7.9% in Q2 and there is 1.5 years of supply. Rest of UK Grade A office availability decreased by -7.9% in Q2 and there is 2.5 years of supply vs average take-up.

Despite a more constricted supply of Grade A space, headline vacancy rates across all the "Big 6" regional office markets have doubled since the Covid pandemic driven by secondary buildings. In the first quarter of 2020 Big 6 vacancy rates averaged 5%. By Q2

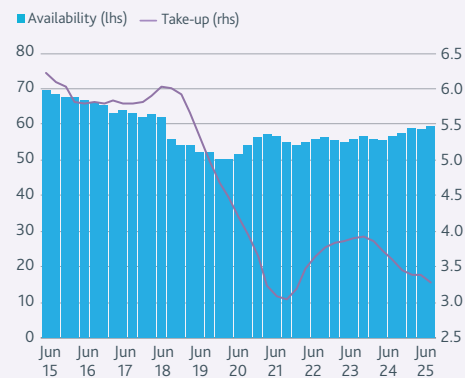
2025 the vacancy rate across the UK's largest regional office markets had risen to 9.8%, ranging between 8% in Leeds and Edinburgh and 11% in Manchester. Vacancy rates are higher still across key South Eastern centres.

Despite higher vacancy rates, "Big 6" market rental value growth has slightly increased to 2.9% in the year to June from 2.6% in the year to March reflecting strengthening demand for Grade A space. In Bristol rental growth has increased from 4.25% to 6.0% y-on-y. Rental growth of 2.9% across all Rest of UK office markets matched the performance of the major regional centres but South East office rental growth was lower at 0.7% y-o-y in Q2.

Development completions of Grade A space in the South East and Rest of UK office markets have been relatively consistent both pre and post pandemic. In the last ten years, an average of 19 buildings providing 75,000 sf per scheme have been completed every quarter. However, in Q2 2025 Grade A development completions numbered 22 schemes providing 1.4 million sf, marking a significant step up in supply.

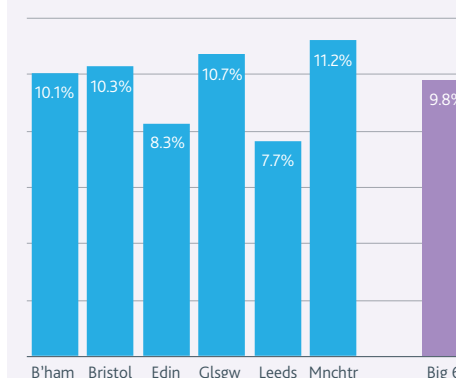
Demand remains strong, with many of the buildings currently under construction pre-let. Space is only available in a handful of schemes including the Rylands Building in Manchester and Birmingham's mixed use

Rest of UK office availability & Take up (msf)



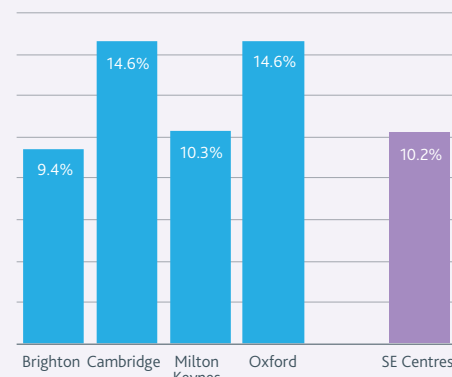
Source: CoStar, July 2025

Big 6 vacancy rates



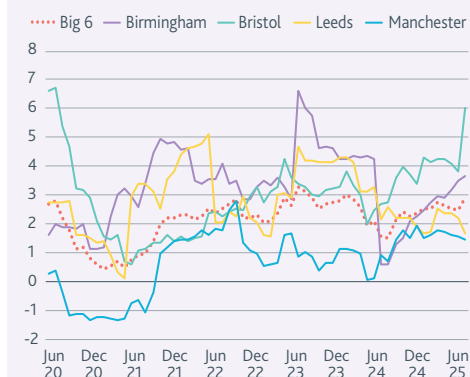
Source: CoStar, July 2025

South East & Eastern vacancy rates



Source: CoStar, July 2025

12m market rental growth (%)



Source: MSCI, July 2025

Beorma Tower. On completion, Birmingham's latest tower will provide 11 floors of Grade A office space, 124 luxury apartments with private winter gardens or terraces, and ground floor retail and restaurants together with 28th floor gym.

HMRC's 9,000 staff in the 463,000 sf Pilgrim's Quarter office development in Newcastle's Pilgrim Street regeneration area will be joined by colleagues from the Department of Work and Pensions in the adjacent 1 Pilgrim Place providing 173,000 sf on completion in 2027. Further projects of this nature can be expected as the current government is committed to continuing its predecessor's Places for Growth programme by closing 11 buildings in Central London and opening or expanding regional campuses in the Big 6 regional centres as well as Aberdeen, Cardiff, Belfast, Sheffield, Darlington, Newcastle and York.



## Investment view

- The UK's major regional office markets experienced a significant decrease in investment volumes with Q1 2025, marking the weakest quarter for investment in the last decade.
- A move towards the repurposing of vacant office buildings into residential units, educational spaces, student accommodation and hotels is gaining pace.

The UK's major regional office markets endured a weak first quarter of 2025 when investment volumes decreased by -74% to £142 million from £539 million in Q4, and down -71% compared to the five year quarterly average of £493 million. This was the weakest quarter in the last ten years. Preliminary estimates suggest that investment volumes in Q2 increased by 63% to £232 million but were still -53% below the five-year average. As usual the latest numbers for Q2 are likely to be revised in the coming months.

Manchester received 26.5% of total investment in the "Big 6" markets over the last 12 months, including Guernsey-based Melford Capital's acquisition of 101 Embankment from M&G for £75 million. This deal has been hailed as one of the largest in Greater Manchester in recent years. M&G originally put the 171,000-square-foot office building up for sale in May 2023, seeking £80 million with a net initial yield of 8.45%.

The reduced price of the current deal highlights continued pressure on capital values in this market.

The average total return performance across all "Big 6" centres fell to 0.5% in Q2 from 1.2% in Q1 as capital growth decreased to -1.1% from -0.4% in Q1. Total returns for the year to June increased to 2.4% from 0.9% in the year to March 2024. Nevertheless, capital values still decreased by -4.2% y-o-y.

The move towards re-purposing under-utilised or vacant secondary buildings is also apparent in regional office markets. This quarter, TT Group, one of the UK's largest, privately owned property investment and development firms, acquired BT's vacant former Stoke-on-Trent offices with 103,000 sf on seven floors, for a proposed conversion into 99 residential units, including 61 one-bedroom apartments, 24 studios, and 14 two-bedroom apartments and 110 secure bike storage units.

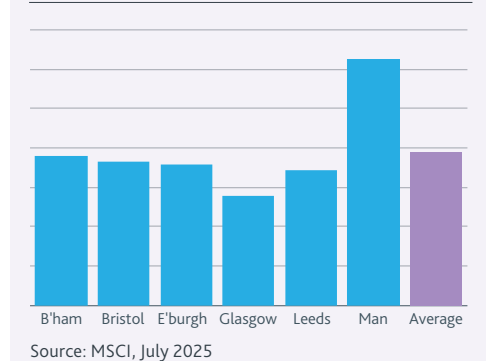
The UK's universities are under financial stress as domestic tuition fees remain frozen and international student numbers are falling in response to restrictions on the right to remain in the UK after graduation. Nevertheless, record UCAS applications from domestic and US students has created a growing demand for centrally located, adaptable spaces from higher education.

In Birmingham, between 2022 and 2024, 220,997 sf of redundant office space has been re-purposed for educational use including Aston University's acquisition of

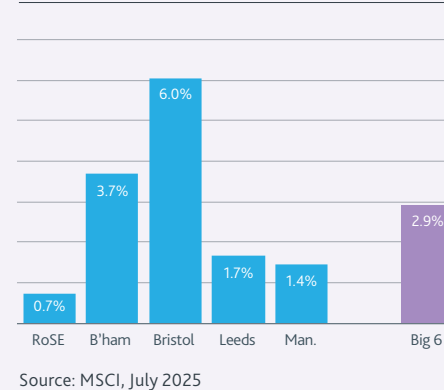
10 Woodcock Street from Birmingham City Council. A further 62,477 sf was sold for student accommodation.

Artisan Real Estate, Scottish property developer, has acquired a five-story 1980s, Georgian style neoclassical townhouse in Edinburgh's New Town. The developer has agreed terms with Whitbread to operate the hotel as a 102-bedroom Hub by Premier Inn hotel.

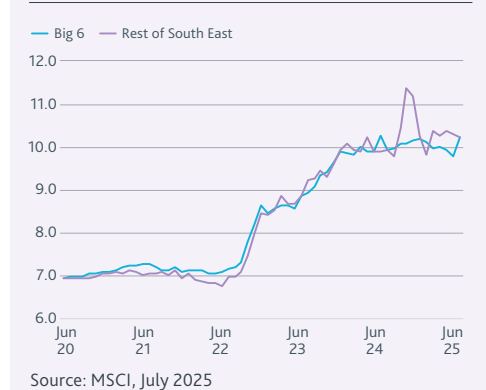
Big 6 - 12m inward investment Q2 2025



Big 6 - 12m MRV growth (%)



Equivalent yields (%)



Featured investment transactions

Building	Price (£m)	Yield (%)	Price (psf)	Avg. uxp lease term (yrs)	Buyer
Baskerville House, B'ham	48.20	7.29 (niy)	238	2.8	TBC
101 Embankment, M'chester	75.00	8.61 (niy)	439	10.2	Melford Capital

Source: Cluttons, July 2025

## Rest of UK offices Summary tables

### Take-up (msf)

	Q1 2025	Q2 2025	5y avg.	Trending
Big 6	1.95	0.98	1.74	▼
Eastern	0.52	0.25	0.45	▼
Rest of UK	1.48	0.92	1.67	▼
South East	1.08	0.50	1.04	▼

Source: CoStar, July 2025

### Vacancy rates

	Q1 2025	Q2 2025	5y avg.	Trending
Big 6	9.9%	9.8%	9.4%	▼
Eastern	7.7%	7.9%	6.4%	▲
Rest of UK	7.6%	7.8%	7.4%	▲
South East	9.9%	10.2%	8.8%	▲

Source: CoStar, July 2025

### Average rents (£psf)

	Q1 2025	Q2 2025	Trending
Big 6	21.90	22.20	▲
Eastern	21.20	21.40	▲
Rest of UK	14.10	14.20	▲
South East	24.10	24.30	▲

Source: CoStar, July 2025

### Completions ('000 sf)

	Q1 2025	Q2 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

### 12m MRV growth

	Q1 2025	Q2 2025	5y avg.	Trending
South East	0.8%	0.7%	0.9%	▼
Birmingham	2.9%	3.7%	3.5%	▲
Bristol	4.3%	6.0%	3.0%	▲
Leeds	2.3%	1.7%	2.7%	▼
Manchester	1.7%	1.4%	0.8%	▼

Source: MSCI, April 2025

### Investment volumes (£m)

	Q1 2025	Q2 2025	5y avg.	Trending
South East	158.98	115.99	493.08	▼
Birmingham	45.46	42.23	76.98	▼
Bristol	30.94	0.70	71.15	▼
Edinburgh	13.50	77.86	74.89	▲
Glasgow	9.59	10.73	56.51	▲
Leeds	30.36	13.04	59.48	▼
Manchester	12.53	87.59	154.36	▲

Source: CoStar, July 2025

### Availability (msf)

	Q1 2025	Q2 2025	5y avg.	Trending
Big 6	27.80	27.63	26.14	▼
Eastern	8.15	8.35	6.77	▲
Rest of UK	30.88	31.86	30.09	▲
South East	19.39	19.84	17.17	▲

Source: CoStar, July 2025

### Construction ('000 sf)

	Q1 2025	Q2 2025	5y avg.	Trending
Big 6	1,805	1,242	4,252	▼
Eastern	809	828	1,089	▲
Rest of UK	2,281	1,904	3,093	▼
South East	1,829	1,998	1,955	▲

Source: CoStar, July 2025

### Prime yields (%)

	Q1 2025	Q2 2025	Trending
M25 / Thames Valley	7.50%-8.00%	7.50%-8.00%	↔
Prime Regional Centres	7.00%-7.25%	7.25%-7.50%	↔
Secondary Regional Centres	11.00%+	10.00%-20.00%	▼

Source: Cluttons, July 2025

# 8. Industrial focus

At the end of Q2 internet sales as a proportion of all retailing increased to 27.2% from 26.8% in Q1. It has been tracking in a range between 25% and 28% since the end of the last pandemic lockdown in Q1 2022.

E-commerce sales represent 19.5% of the worldwide retail market. Although e-commerce currently represents 47% of the Chinese market, it accounts for 16% of US retail sales and 14% in France and Germany. The UK is a mature e-commerce market where internet sales penetration has plateaued. Consequently, the demand for logistics space in the UK has stabilised and future growth will either be organic or driven by the need to modernise supply chains.

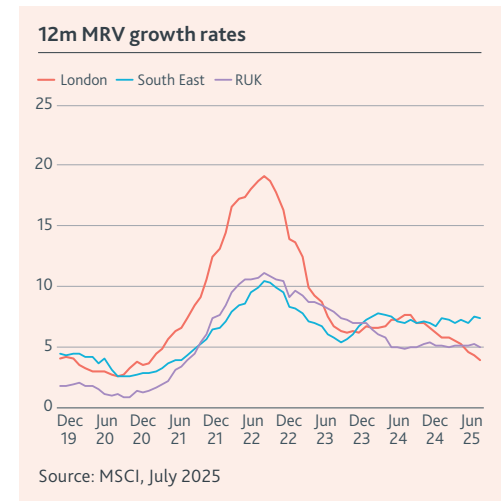
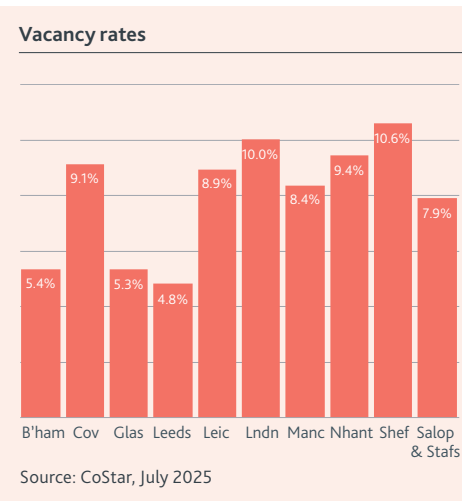
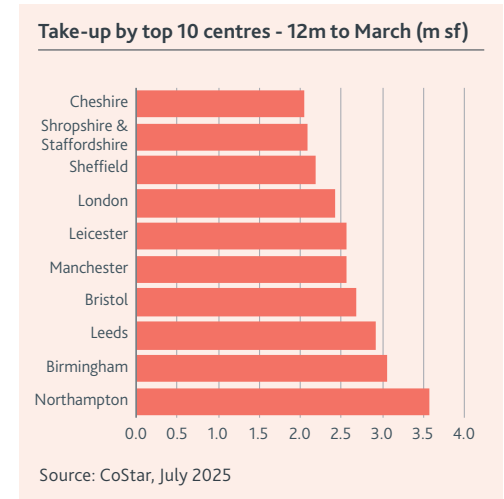
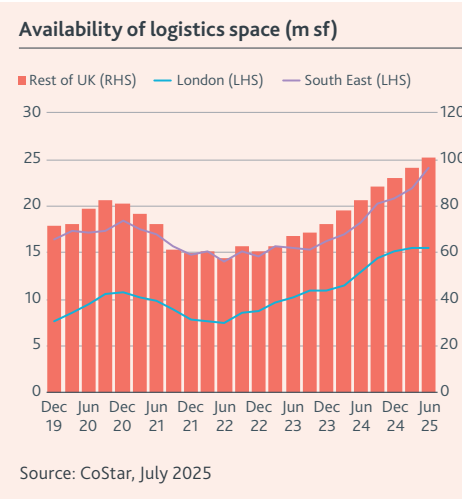
The industrial market is segmented between Logistics being 50,000+ sf of warehouse space; smaller Light Industrial units for local distribution, and smaller scale manufacturing and repair workshops; and Specialised space for large scale manufacturing, R&D, Cold Storage and data centres. Most of the UK's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

## Occupational view

- The development pipeline has been declining as construction costs increase.
- The uptake of logistics space is decreasing due to a mismatch between the supply of mainly secondary space and the demand from operators for top-spec space.

Availability of logistics stock to let has been increasing across London, the South East and Rest of the UK since 2023. In Q2 2025 availability increased by just 0.6% in London but by 5.0% in the Rest of the UK and 9.8% in the South East. Across the UK the take-up of all industrial space decreased quarter-on quarter in Q1 2025 by -11.1%. However, the demand for logistics space fell by a more modest -9.5% to 13.9 million sf. Yet preliminary figures for Q2 suggest take-up was lower again, at 11.8 million sf, down -14.8% quarter-on-quarter.

Agency teams suggest that there is currently a mismatch between a supply of mainly secondary space and the demand from operators for top-rated green buildings with an A or A+ EPC rating. Despite falling take-up, there remains a market for the best specified new space. This is exemplified by Panattoni concluding a lease of an 885,000 sf logistics facility at Panattoni Park Avonmouth to GXO



Logistics. The building achieved BREEAM 'Excellent' and EPC A ratings and was delivered to Net Zero Carbon standards in construction.

Market rental value (MRV) growth is slowing in London but increasing in the largest centres in the rest of the UK. In the year to June, London MRV growth decreased to 3.8% from 5.3% y-o-y in March. South East y-o-y MRV growth increased very slightly to 7.3% in June from 7.2% in March; and y-o-y MRV growth across the Big 6 regional centres rose to 6.1% in June from 5.6% in March. In Leeds 12m growth was 7.8% and in Southampton it reached 9.0%.

The amount of logistics space under construction has been declining since the end of 2022 and decreased by a further -3.4% in Q2 to 36.5 million sf from 37.8 million sf in Q1 2025. Northampton remains the centre of logistics development activity with 7.1 million sf of space being built representing 19.5% of new supply. The demand in this market is clear - in February 2024 Yusen Logistics pre-let 1.191 million sf of sustainable warehouse space at SEGRO Logistics Park, Northampton, a 600-acre industrial and logistics park, benefitting from a 35-acre Strategic Rail Freight Interchange. The unit is fully automated and provides storage for 236,000 pallets. It is expected to be fully operational this summer. Yusen Logistics are a global supply chain logistics company.

## Investment view

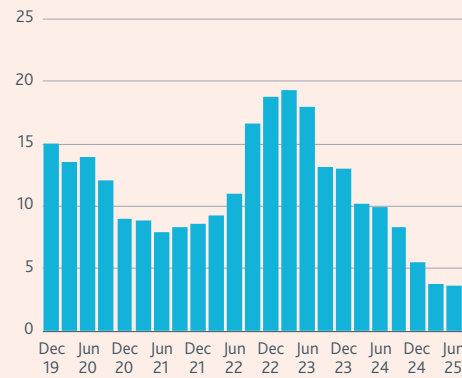
- Industrial investment performance remains strong, but investment volumes are decreasing.
- The main investment activity in Q2 centred around corporate M&A activity.

The South East and Big 6 regional cities continue to outperform other segments of the industrial investment market. In Q2 y-o-y total returns amounted to 8.7% in London. Across the Big 6 regional cities, y-o-y total returns increased to 13.0% in June from 12.5% in March; and in the South East y-o-y returns increased to 13.5% in Q2 from 13.2% a quarter earlier. In Manchester 12m total returns increased to 17.2% in Q2 from 15.4% in Q1. Yields remain stable so this performance is driven entirely by MRV growth and income.

Industrial investment volumes decreased q-on-q in Q1 2025 by 50.0% to £806 million from 1,606 million in Q4 2024. Preliminary estimates indicate that investment further decreased to £473 million in Q2 2025 compared to the ten year quarterly average of £1,474 million. This may reflect investor caution or a lack of assets available on or off market.

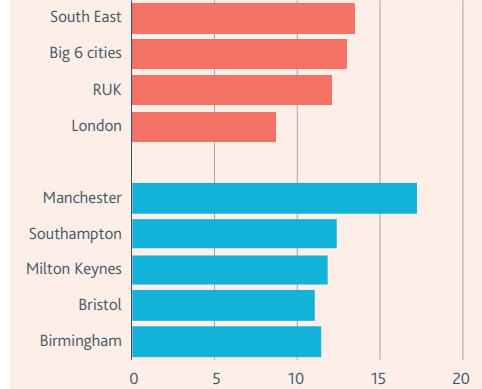
London again attracted the largest slice of inward investment in the year to March

Logistics triangle 12m net development completions (m sf)



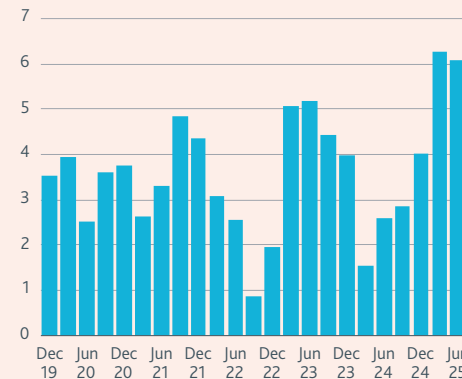
Source: CoStar, July 2025

Key centre 12m total returns



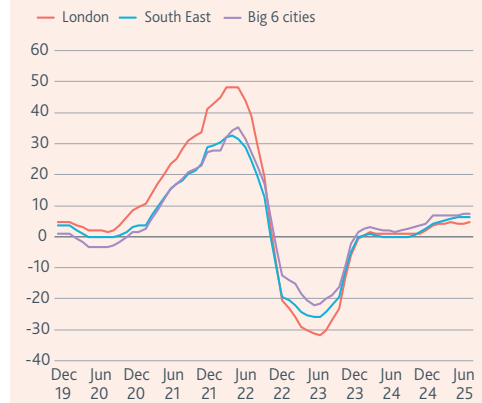
Source: MSCI, July 2025

London & South East 12m net development completions (m sf)



Source: CoStar, July 2025

12m capital growth



Source: MSCI, July 2025

amounting to £257 million but this was a 63% fall from £696 million invested in Q4 2024. Nevertheless, London's total industrial investment in the first quarter was almost four times the £66 million targeted at Birmingham, the next most popular centre for investors.

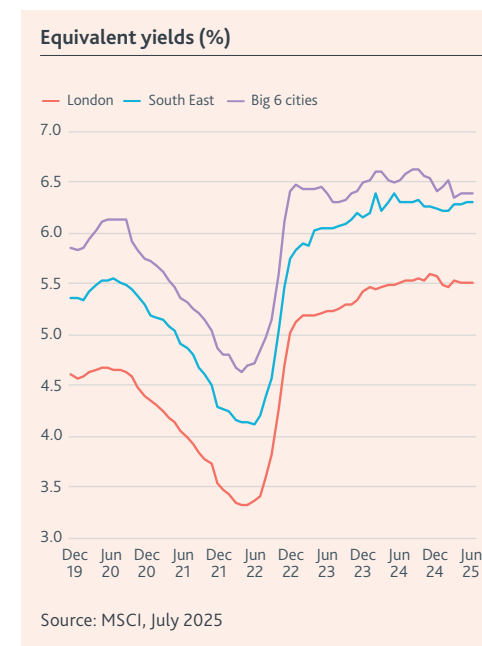
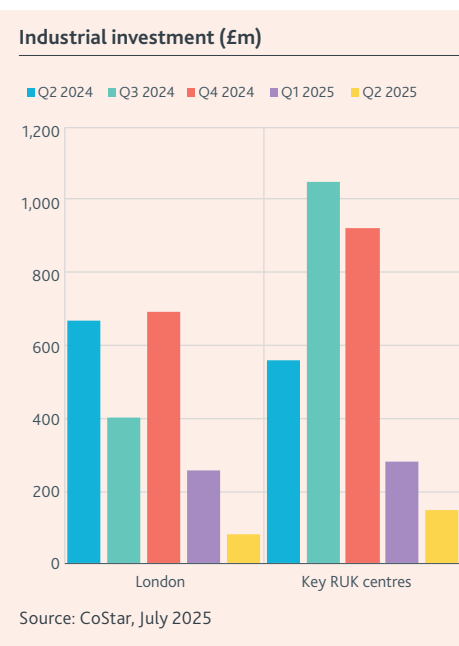
Whether motivated by crystallising gains or portfolio re-balancing, Barings rotated out of the Rest of UK market by selling four assets providing 809,000 sf of logistics space in Bristol, Daventry, Warrington, and Nottingham to a joint venture between Copley Point Capital and Sixth Street in an off-market transaction reputed to be worth £100 million. It subsequently acquired the Access portfolio of four urban logistics properties in providing 747,000 sf in Basingstoke, Bracknell, Welwyn and Milton Keynes for £145.2 million.

Corporate transactions are the most efficient way to access scale and were the largest investment story in the second quarter. Blackstone, the world's largest alternative asset manager with a global real estate portfolio of \$596 billion, won a bidding battle with Tritax Big Box for Warehouse REIT. The target company has a focus on multi-let warehouses. It has 60 estates with 6.9 million sf, 409 occupiers and a rent roll of £42.5 million. Its March 2025 portfolio valuation

was £805.4 million and NAV after adjusting for debt and liabilities was £544 million.

Blackstone's successful bid, subject to shareholder approval, is worth £489 million. REIT valuations typically offer a discount to NAV reflecting investor concerns regarding uncertainty in the direct real estate market and the prospects for rental growth, refinancing risks and a portfolio discount.

In a second example from the M&A world, London Metric completed a cash and shares offer for Urban Logistics REIT focused on last mile logistics with 130 assets, 9.7 million sf of warehousing and a September 2024 portfolio value of £1.14 billion. The market valued Urban Logistics at a 30% discount to NAV of £746 million. London Metric paid £699 million reflecting a 23% premium to the closing share price.



Featured investment transactions					
Building	Price (£m)	Yield (%)	Price (£ psf)	Avg. uxp lease term (yrs)	Buyer
Access 12, Theale	9.20	5.24 (niy)	216	2.8	Indurant
Bedford Commercial Park	100.00	5.40 (niy)	152		Private equity
Compton Fields, Crawley	21.60	5.00 (niy)	220	2.0	Marchmont Invesco

Source: Cluttons, April 2025

# Industrial focus

## Summary tables

### Availability (msf)

	Q1 2025	Q2 2025	5y avg.	Trending
London	17.92	18.08	13.28	
South East	25.85	28.76	20.54	
Logistics Triangle	50.43	50.24	36.94	
Manchester	12.85	13.48	8.51	
Leeds	7.39	6.56	6.06	
Rest of UK	118.63	124.57	94.39	

Source: CoStar, July 2025

### Take-up (msf)

	Q1 2025	Q2 2025	5y avg.	Trending
London	0.57	0.40	1.24	
South East	1.85	1.55	2.65	
Logistics Triangle	3.83	3.58	6.35	
Manchester	0.66	0.40	1.01	
Leeds	1.20	0.74	1.23	
Rest of UK	8.53	6.60	10.87	

Source: CoStar, July 2025

### Vacancy rates

	Q1 2025	Q2 2025	5y avg.	Trending
London	8.1%	8.2%	6.0%	
South East	6.7%	7.5%	5.5%	
Logistics Triangle	6.4%	6.4%	4.8%	
Manchester	6.0%	6.3%	4.0%	
Leeds	4.2%	3.8%	3.5%	
Rest of UK	5.8%	6.0%	4.7%	

Source: CoStar, July 2025

### Completions ('000 sf)

	Q1 2025	Q2 2025	5y avg.	Trending
London	454	620	440	
South East	1,993	1,140	1,392	
Logistics Triangle	2,436	2,601	3,228	
Manchester	216	28	351	
Leeds	-	5	507	
Rest of UK	2,948	1,639	5,978	

Source: CoStar, July 2025

### Construction ('000 sf)

	Q1 2025	Q2 2025	5y avg.	Trending
London	3,293	2,900	2,938	
South East	5,908	5,421	6,500	
Logistics Triangle	14,083	11,516	14,639	
Manchester	1,003	1,229	1,381	
Leeds	1,378	1,413	2,535	
Rest of UK	17,708	19,455	26,053	

Source: CoStar, July 2025

### 12m MRV growth

	Q1 2025	Q2 2025	5y avg.	Trending
London	5.6%	4.5%	8.5%	
South East	6.3%	6.0%	7.2%	
Logistics Triangle	5.6%	4.5%	6.8%	
Manchester	6.8%	7.1%	9.1%	
Leeds	0.0%	0.0%	0.0%	
Rest of UK	5.6%	5.2%	6.0%	

Source: CoStar & MSCI, July 2025

### Average rents (£psf)

	Q1 2025	Q2 2025	Trending
London	20.00	19.90	
South East	12.90	13.00	
Logistics Triangle	8.80	8.90	
Manchester	8.10	8.20	
Leeds	7.40	7.50	
Rest of UK	8.00	8.00	

Source: CoStar, July 2025

### Investment volumes (£bn)

	Q1 2025	Q2 2025	5y avg.	Trending
London	257.06	80.59	532.33	
South East	422.87	156.82	420.90	
Logistics Triangle	181.48	144.80	627.55	
Manchester	39.96	49.61	120.82	
Leeds	5.29	6.90	105.76	
Rest of UK	733.74	482.52	1152.04	

Source: CoStar, July 2025

### Prime yields (%)

	Q1 2025	Q2 2025	Trending
Prime Distribution Sheds –Omrv	5.25%	5.25%	
Secondary Distribution Sheds	6.00%-6.25%	6.00%-6.25%	
Prime Industrial Within M25	4.75%	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, July 2025

# 9. Retail focus

In Q2 the UK's retail real estate market benefitted from supportive underlying macro-economic conditions.

According to the BRC Retail Sales Monitor total retail sales increased by an annual 3.1% in June, against a decrease of 0.2% in June 2024. In-store non-food sales increased by 2.2% y-o-y in June, compared to a fall of 2.6% in June 2024. Online Non-Food sales increased by 2.3% year on year in June, against a decline of 0.7% in June 2024. The online penetration rate being the proportion of Non-Food items bought online of 36.6% was slightly below the 12-month average of 36.8% and unchanged compared to June 2024.

As is customary, the increase in UK sales was attributed to the weather as soaring temperatures increased the sales of electric fans while sports and leisure equipment sales were boosted by both the weather and the start of Wimbledon.

In May, Next plc released its trading statement for the first quarter of the year. UK online sales increased by 8.9% and retail sales rose by 5.2%. All UK sales growth was 7.3%. Much of the strong performance in the first quarter was the result of warmer weather, which benefited the sale of light-weight summer clothing. But it is

likely that some of these sales have been pulled forward from Q2.

Marks & Spencer (M&S) revealed its results for the year ending March 2025 in May. Fashion, Home & Beauty sales increased 3.5%, with like for like (LFL) sales up 4.4%. Food sales increased 8.7%, with LFL growth of 8.6%. The cyber-attack which "had a significant impact that will endure for some months" was after the financial year-end. M&S is opening an additional 12 large standalone food stores on former Homebase sites, eight of which will be trading by July 2026.

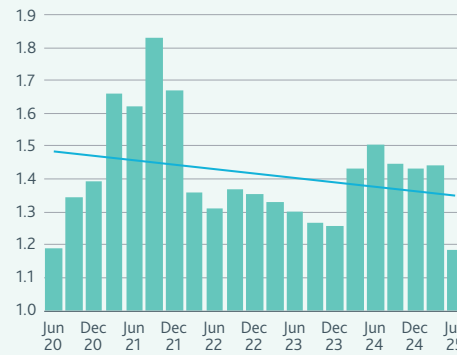
## Occupational view

- **More retail space is being vacated than newly occupied. However, Retail Parks are benefitting from increasing demand.**
- **The sector remains a dynamic environment as administrations for some retailers continue as other retailers plan expansion and shop openings.**

The amount of retail space **available to let** decreased by -0.3% in Q2 across the UK. Shopping Centre availability fell by -1.5% and Retail Park availability decreased by -12.7% but the availability of traditional shops increased by 1.6%.

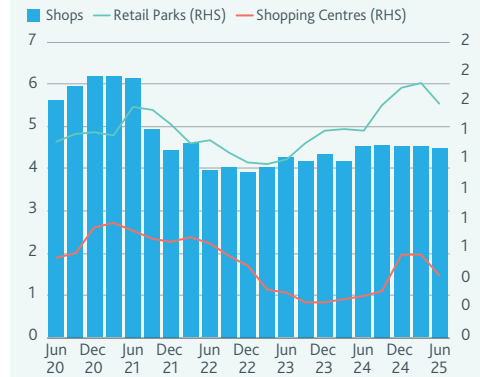
However, net absorption rates for the whole retail market have been negative in each of

Central London shop availability ('000 sf)



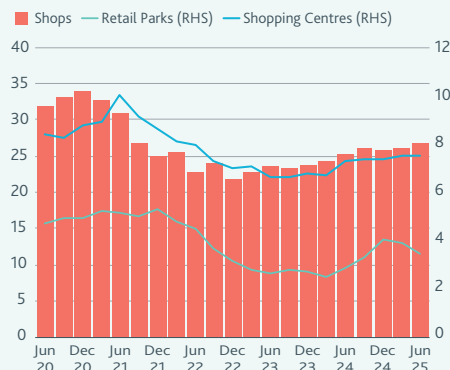
Source: CoStar, July 2025

South East retail availability (m sf)



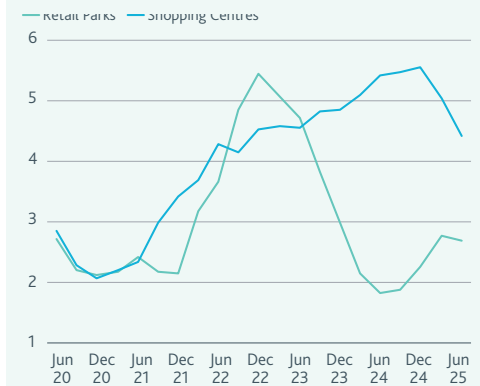
Source: CoStar, July 2025

Rest of UK Retail availability (m sf)



Source: CoStar, July 2025

Rolling 12m take-up (m sf)



Source: CoStar, July 2025

the last five quarters, indicating that more space is being released onto the market than is being let.

In March 2025 annual **take up** of all UK retail space was 1.7% lower than a quarter earlier compared to -5.0% in March 2024. Some locations, especially in London and the South East, have registered improving take up.

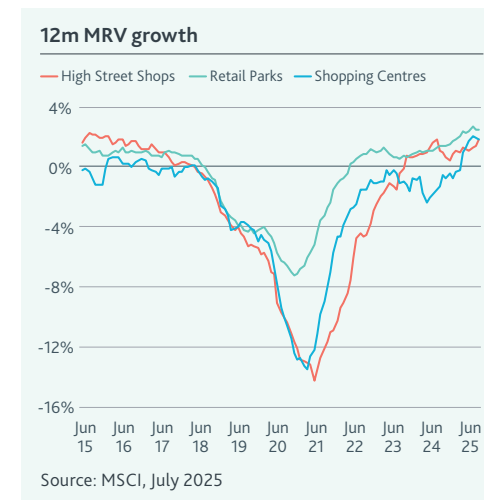
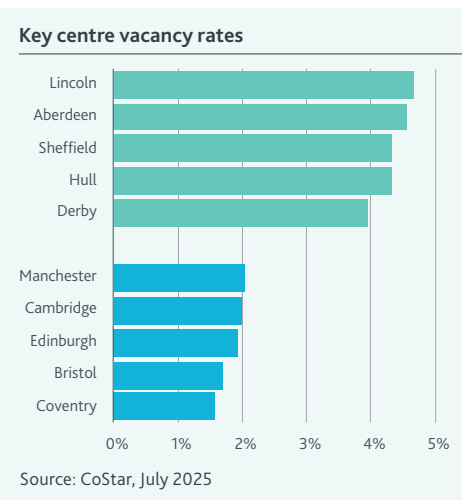
Retail Park MRV growth has recovered since 2021 due to low vacancy rates and strong tenant demand, especially for prime parks. The rationalisation of the Carpetright and Homebase portfolios last year released available space, giving landlords the opportunity to let units on retail parks that were either fully occupied or had low vacancy rates. Many new lettings resulted in higher rental levels, contributing to the growth in prime retail park rental values. However, the amount of Shopping Centre space let fell by -9.0% y-on-y compared to an increase of 5.4% in Q1 2024 and the amount of traditional retail space let decreased by -2.6% y-o-y in Q1 2025 and -4.1% in Q1 2025 y-o-y.

The High Street remains a volatile environment. Poundland, which has 825 UK stores was sold for £1bn in June after it entered administration. Up to 100 stores are likely to close as a result of a restructuring exercise. At the same time, JD Sports tripled the size of its flagship store at Manchester's Trafford Centre opening a 41,000 sf store, featuring a 92-metre frontage. Similarly, Foot Locker

opened its largest UK store in Birmingham Bullring. Aldi plans 10 new stores and 30 upgrades in 14 weeks, aiming for 40 openings this year and Zara plans to open a new flagship store on London's Oxford Street. The new store, located near Tottenham Court Road Tube station, will be Zara's fifth on Oxford Street.

All Shopping Centre market rental values (MRV) have grown by 1.9% in the year to June, up from 1.4% in June last year. Retail Park rental growth is stronger and reached 2.5% in the 12-months to June 2025, up from 1.4% in June 2024. MRV growth for standard high street shops has also been improving, to 1.9% in the year to June from 1.1% a year earlier. Rental growth, however, is not consistent across every centre.

High Street vacancies in central Oxford have reached a 15-year high. Leasing has been particularly subdued in the city centre. The largest deal this year was Waterstone's acquisition of the former Topshop store as it downsized to 5,300 sf from the 15,000 sf it had previously occupied since 1998. The Topshop unit had been vacant since its administration in 2021. In contrast, Oxford's retail parks have experienced healthy demand and vacancy rates of just 3% as free parking, easy car access, lower rents, and the "one-stop shop" appeal to consumers and retailers alike.



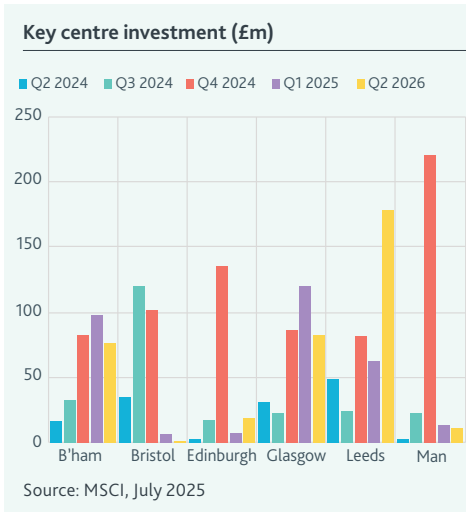
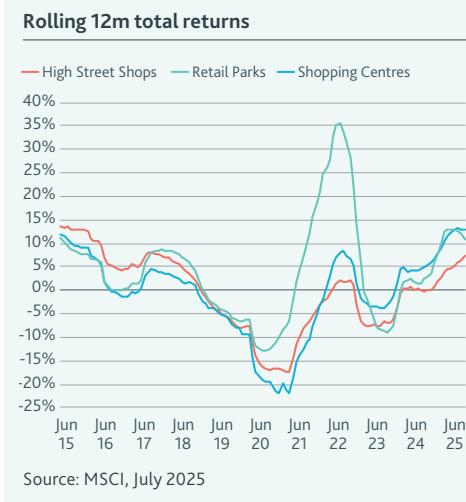
## Investment view

- Shopping Centre outperformance is driven by high levels of income return.
- Investors are returning to the sector attracted by the out performance of Shopping Centres and Retail Parks.

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

Shopping Centre capital growth in the year to June 2025 amounted to 3.1% and total returns were 13.0%, unchanged from March 2025 but a significant improvement on 4.9% in June 2024. Retail Park total returns slipped a little to 11.0% y-on-y in June from 13.0% in March, but were still well up on 2.5% in March 2024. The performance of High Street shops has also improved, with total returns climbing from -0.2% in June 2024 to 7.2% in June 2025.

The superior recent performance of Retail Parks and Shopping Centre have prompted activity from investors. Retail Park investment volumes on the year were 15.2% higher in June compared to March and 158.5% higher than in June 2024. Shopping Centre investment volumes y-on-y were 10.5% higher in June 2025 compared to March 2025 and 108.9% higher than in June 2024. Investment in traditional high street shops continues to slide.



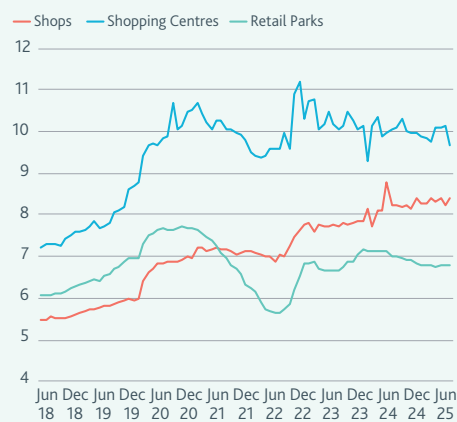
Global real estate investment manager, Hines, increased its exposure to UK retail parks through its acquisition of The Peel Centre in Bracknell in June, from Landsec for £49 million, who had previously listed the asset for sale in 2019 for £62 million. The park contains 168,000 sf let to Poundland, Halfords, Pets at Home, Currys, Home Bargains, The Range, Dreams, Tapi Carpets, Consol Suncentre, and others. Hines had previously bought Junction 27 Retail Park, Birstall for £54.6 million and Drakehouse Retail Park, Sheffield for £50.75% reflecting a net initial yield of 7.0%

Quarterly London retail investment volumes increased by 47% to £751 million in June 2025 compared to £511 million in March 2025 and by 15% from £652 million in June 2024. In Q2, Aprirose, a private limited company with a balanced multi-sector portfolio, acquired a mixed-use portfolio in St John's Wood, London NW8, an affluent Central London neighbourhood, renowned for Lords Cricket Ground and the Abbey Road Studios, for £65 million. The portfolio includes 32 retail and 75 residential units, with 19 car parking spaces.

Ares Management Corporation, a global alternative investment manager, furthered its UK real estate investment strategy by the purchase of 10 Brook Street, W1, for £43 million. The multi-let building includes a flagship Issey Miyake store on the ground floor. In 2024 Ares was raising funds for its Ares European Property Enhancement Partners IV fund targeting European and Particularly London real estate.



#### Equivalent yields (%)



Source: MSCI, July 2025

#### Featured investment transactions

Building	Price (£m)	Yield (%)	Price (£psf)	Avg. uxp lease term (yrs)	Buyer
<b>Building</b>					
St John's Wood Portfolio	65.00				Aprirose
<b>Retail Parks</b>					
Sears Retail Park, Solihull	40.50	6.00 (niy)	511		Standard Life PPF
<b>Shopping Centres</b>					
SCUT units in Brent Cross	186.00	8.60 (niy)			Hammerson

Source: Cluttons, July 2025

## Retail focus

### Summary tables

#### Availability (msf)

	Q1 2025	Q2 2025	5y avg.	Trending
London	5.60	5.50	5.50	▼
South East	4.53	4.50	4.75	▼
Rest of UK	26.02	26.71	26.48	▲
Shopping Centres	10.19	10.04	10.44	▼
Retail Parks	4.73	4.13	4.69	▼

Source: CoStar, July 2025

#### Take-up (msf)

	Q1 2025	Q2 2025	5y avg.	Trending
London	0.953	0.516	0.753	▼
South East	0.503	0.392	0.683	▼
Rest of UK	2.376	1.585	2.759	▼
Shopping Centres	0.941	0.752	1.019	▼
Retail Parks	0.917	0.337	0.749	▼

Source: CoStar, July 2025

#### Vacancy rates

	Q1 2025	Q2 2025	5y avg.	Trending
London	3%	3%	3%	▼
South East	2%	2%	2%	▼
Rest of UK	3%	3%	3%	▲
Shopping Centres	5%	4%	5%	▼
Retail Parks	3%	3%	3%	▼

Source: CoStar, July 2025

#### Completions ('000 sf)

	Q1 2025	Q2 2025	5y avg.	Trending
London	57.49	28.44	278.36	▼
South East	45.25	47.05	196.82	▲
Rest of UK	420.40	133.01	823.75	▼
Shopping Cen.	-	-	64.86	
Retail Parks	26.33	-	89.25	▼

Source: CoStar, July 2025

#### Construction ('000 sf)

	Q1 2025	Q2 2025	5y avg.	Trending
London	706	685	1,535	▼
South East	411	366	802	▼
Rest of UK	2,475	2,433	3,107	▼
Shopping Cen.	-	-	227	
Retail Parks	16	16	322	◀▶

Source: CoStar, July 2025

#### 12m MRV growth

	Q1 2025	Q2 2025	5y avg.	Trending
London	0.1%	0.4%	-3.3%	▲
South East	1.4%	1.0%	-2.6%	▼
Rest of UK	1.0%	2.4%	-2.7%	▲
Shopping Centres	2.0%	1.9%	-2.4%	▼
Retail Parks	2.5%	2.5%	0.3%	▲

Source: MSCI, July 2025

#### Average rents (£psf)

	Q1 2025	Q2 2025	Trending
London	44.20	44.00	▼
South East	25.80	25.70	▼
Rest of UK	19.00	18.90	▼
Shopping Centres	34.40	34.10	▼
Retail Parks	13.60	13.40	▼

Source: CoStar, July 2025

#### Investment volumes (£bn)

	Q1 2025	Q2 2025	5y avg.	Trending
London	483.68	482.95	532.89	▼
South East	148.41	47.68	275.24	▼
Rest of UK	478.77	376.99	770.93	▼
Shopping Cen.	22.99	463.09	351.89	▲
Retail Parks	531.77	570.16	541.50	▲

Source: CoStar, July 2025

#### Prime yields (%)

	Q1 2025	Q2 2025	Trending
Prime Shops	6.50%	6.50%	▲
Secondary Shops	7.50%-9.50%	7.50%-9.50%	◀▶
<b>Shopping Centres</b>			
Prime - Dominant Regional	8.00%	8.00%	◀▶
<b>Retail Warehouse</b>			
Prime Parks (Open A1/Food Store)	5.25%	5.25%	◀▶
Prime - Solus (15Yrs/10Yrs)	6.00%-6.50%	5.75%-6.25%	◀▶

Source: Cluttons, July 2025

# 10. Outlook & House view

- Cluttons has downgraded its outlook for 2025 for the second consecutive quarter to 7.0% from 8.0%.
- Performance is set to strengthen in 2026 and 2027 as borrowing costs come down and lenders appetite to expand their loan portfolios increases.

The implications of US trade policy for the global economy, financial markets and UK commercial real estate continues to evolve. So far tariffs have not caused any sudden deterioration in the US or global economies. However, forecasters' confidence in a recovery of the UK's commercial property market weakened in Q2. Consequently, May's Investment Property Forum (IPF) consensus forecasts for total returns in 2025 were decreased to 7.9% from 9.0% in February. The IPF outlook for 2026 deteriorated to 8.4% from 8.7%.

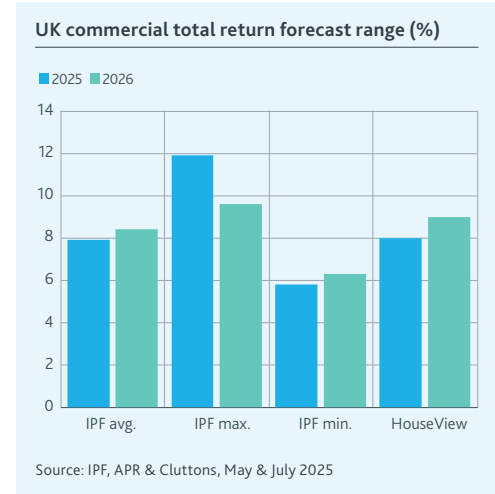
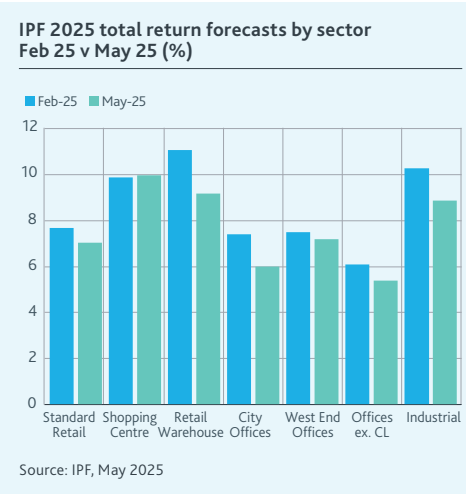
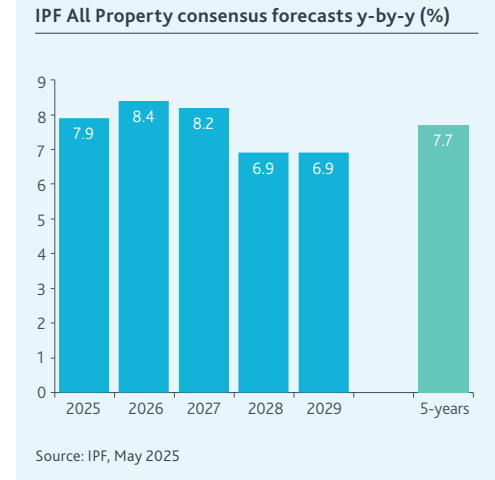
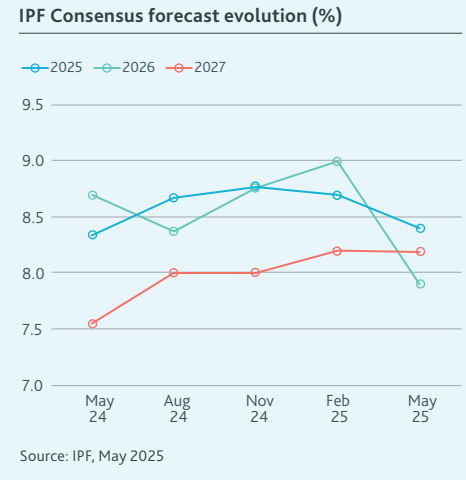
The IPF's average annualised total return forecast over the three years to 2027 is 8.2%, and 7.7% for the five years ending 2029. Total return expectations for 2025 worsened across all segments in May's survey except Shopping Centres which was MSCI's best performing market segment in the year to June.

The range of forecasts for 2025 expanded in May, with the highest prediction at 11.9% and

the lowest at 5.8%, a range of 6.1%, compared to a range of 2.6% in February, underlining the uncertainty in the wider economic landscape. The range of forecasts for 2026 narrows to 3.3% for next year, ranging from 6.3% to 9.6%, suggesting hopes that much of the uncertainty over the economic and financial outlook will have been removed by the end of next year.

The cost of UK borrowing will continue to fall, with more base rate cuts coming this year and next. Lending rates are likely to fall to 6.0% or 250 bps over SONIA and many lenders are actively seeking to deploy debt capital into UK real estate particularly the living sectors, residential development, and prime logistics. However, lending transaction volumes remain low due to pricing uncertainty and a reluctance from investors to commit equity in the face of the current macro-economic uncertainties.

We continue to think that despite anticipated reductions to Base Rate and borrowing costs, weak economic growth combined with a troublesome inflationary outlook and increasing risk free rates have created strong headwinds that will in all likelihood limit the recovery in commercial property values in 2025. Since the start of the year the UK's commercial real estate markets have exhibited a phlegmatic



approach, as investors wait to see the final resting place in the chaotic evolution of US trade policy. Property yields have remained broadly static for a year and there is little prospect of any tightening until the gilt yield curve flattens at the long end. Our analysis above suggests that this is unlikely to happen in the short term.

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.

Our forecasts in Q1 were downgraded to reflect the prevailing economic uncertainties and a reluctance by investors to commit capital until these uncertainties have been removed. This quarter we have again downgraded our 2025. All Property total return forecast to 7.0% from 8.0% but have maintained our projection of 8.0% on a three year annualised basis reflecting our expectation for improved performance through 2026 and 2027. The UK's commercial real estate market has produced an annualised average return since 1980 of 8.1% and a real inflation adjusted return of 3.9%.

## Upwards-only Rent Reviews

The Government has proposed a ban on upwards-only rent reviews in new leases adding to the uncertainty facing the UK's commercial real estate market. The industry has been critical of the proposal, and there is a risk that the move will weigh on investor sentiment.

Upwards-only rent reviews are a key factor in why business leases are attractive to investors and lenders, with a stable guaranteed cash flow over the lifetime of a lease.

Abolishing this long-established, upwards-only rent review could undermine the business lease as a secure investment and lending model and impact how commercial property is valued.

But the reality is more nuanced. The days of the institutional 25-year lease with five yearly upwards-only rent reviews are long gone. Many leases, especially of more secondary assets are let for three or five years or ten years with a five-year break. The average lease length including breaks across All Property Types is now less than 7 years.

The ban is likely to affect longer leases on trophy assets, but upwards-only rent reviews to market rental value could be replaced by indexation.

However, higher inflation rates seen in recent years cast a different light on this proposal.

### Clutton's Lease Advisory Team says:

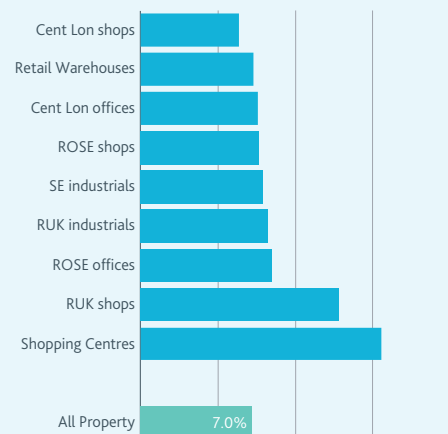
*"Abolishing upwards-only rent reviews will be of benefit for some tenants and will certainly make open market rent reviews more interesting to negotiate. Making a blanket change across all sectors to well established commercial terms will likely cause wider knock-on effects in the market."*

*"We have seen increased reliance on index-linked reviews, particularly in the industrial and logistics sector and whilst it won't be valid to include an upwards-only mechanism, in reality it is uncommon for the RPI or CPI to decrease over a long period of time. Therefore, we would anticipate landlords exploring fixed uplifts or index-linked reviews during lease terms."*

*Shorter leases, outside the act, may also become more common.*

*"This unexpected proposal and lack of consultation has shocked the market and we would welcome the Government to share the data and information they used to build a case for this move. A blunt implement such as this change may not be the best way to support tenants."*

Cluttons House View – 2025 relative total returns (%)



Source: IPF, APR & Cluttons, July 2025

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



Source: IPF, APR & Cluttons, July 2025

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