

# Commercial quarterly examiner

Economy | Offices | Industrial | Retail | Outlook

Q4 | 2025



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# 1. Key takeaways

The UK economy is currently operating below potential, with stalled employment growth and cautious spending and investment from households and businesses. However, the outlook has improved, with strengthening PMI data. The annualised growth forecast has been revised up to 1.8% per annum over the next three years. Inflation is expected to return to the 2% target by the end of 2026, driven by declining energy and food prices and slower wage growth.

World financial markets remained positive in Q4, with the MSCI World Index rising by 4.1% in both USD and hedged GBP terms. However, concerns exist about the stretched valuations of AI stocks and the impact of President Trump's policies. UK gilts yields fell across all maturities in Q4, but the yield on 10-year Gilts remains at its highest level since the banking crisis of November 2008.

The UK commercial real estate market slowed in Q4, with MSCI Monthly Index total returns decreasing by 36 basis points to 1.42% quarter-on-quarter and 7.1% for the 12 months to 31st December 2025. Capital growth was limited in 2025. All Property equivalent yields have hardened by 10 bps in the 12 months to December but have made a negligible contribution to any change in valuations over the course of the last year. Meanwhile, market rental value growth remained resilient, particularly in the office and industrial sectors. Total returns remain largely driven by the income component.

The Investment Property Forum (IPF) lowered its 2026 projection for total returns to 8.3%. Forecasts for market segments show continuing support for Shopping Centres, Retail Warehouses, and West End Offices. Whilst we expect All Property market rental value growth to slow from its current annual rate of 3.4%, it will remain above the 2.0% post GFC annualised average. The outlook for yields will also improve should risk-free rates ease and UK real estate benefit from foreign direct investment originating in Europe and further afield. We now expect All Property total returns to reach 9.0% in 2026, and to average 8.0% annually through to 2028, though these forecasts are subject to risks stemming from ongoing global geopolitical instability.

# 2. The UK economy

- Economic activity is currently below potential, the labour market shows stalled employment growth, whilst households and businesses remain cautious about spending and investment.
- But the outlook over the three-year forecast period has improved from an annualised growth rate of 1.5% to 1.8% and respondents to the PMI survey support the view of a strengthening outlook for the UK economy.

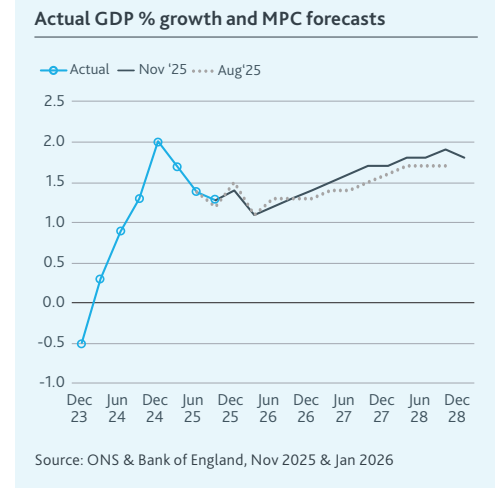
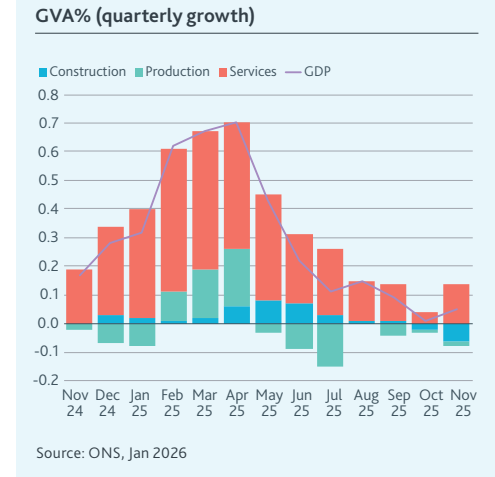
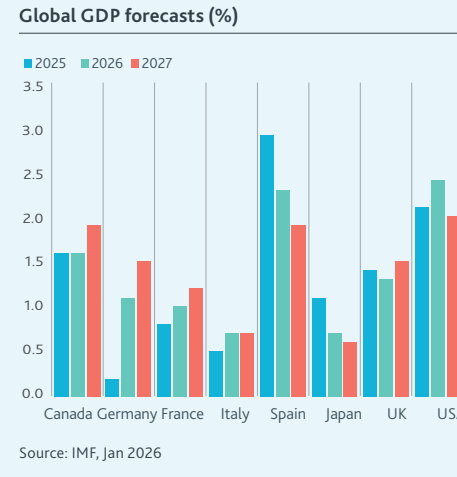
The recent moves by the US in Venezuela, and President Trump's threats of additional tariffs on European countries for resisting his purported annexation of Greenland reflect the current global risks facing countries and economies. Andrew Bailey, the Governor of the Bank of England, warned a Treasury Select Committee that there are "substantial risks" of spillovers to UK financial markets from President Trump's attacks on the independence of the Federal Reserve and his threat to annex Greenland.

Even so, the IMF's January World Economic Outlook (WEO) written before the latest events, predicts that global growth will remain resilient at 3.3% in 2026 and at 3.2% in 2027. These rates are similar to the

estimated 3.3% outturn expected in 2025. The forecast represents a small upward revision for 2026 but no change for 2027 compared with that in the October's WEO. This steady performance reflects the balancing of the headwinds from shifting trade policies offset by tailwinds from surging investment related to technology, including artificial intelligence, more so in North America and Asia than in other regions.

Yet risks to the outlook remain tilted to the downside. Disappointment around current AI-related productivity growth expectations could lead to a decline in investment, and trigger an abrupt financial market correction, spreading from AI-linked companies to other segments and eroding household wealth. Trade and political tensions could also disrupt the global economy by affecting financial markets, supply chains, and commodity prices. In addition, policy uncertainty, although lower than it was in October, is still much higher than it was in January 2025.

For advanced economies, growth is projected to be 1.8% in 2026 and 1.7% in 2027. Growth in the euro area is expected to pick up modestly to 1.3% in 2026 and 1.4% in 2027. In the UK, economic growth of 1.3% in 2026 is expected to rise to 1.5% in 2027. Inflation, which increased last year partly due to one-off regulated price changes, is expected to return



to target by the end of 2026 as a weakening labour market continues to exert downward pressure on wage growth.

UK GDP surprised on the upside and is estimated to have grown by 0.3% in November, following a fall of 0.1% in October 2025 and growth of 0.1% in September 2025. In the three months to November GDP is estimated to have grown by 0.1% compared to the previous three-month period, following no growth in the three months to October and 0.1% in the three months to September. The largest contribution to the three-month-on-three-month growth came from the services' sector. Within the production sector, there was a 18.9% fall in the manufacture of motor vehicles, trailers and semi-trailers resulting from the Jaguar Land Rover cyberattack. Over the longer term, GDP is estimated to have grown by 1.4% in the 12 months to November, compared with the same twelve months a year ago. Over this period, services grew by 1.7%, construction grew by 1.4%, and manufacturing rose by 0.3%.

November's Monetary Policy Report from the Bank of England warns that economic activity in the UK is currently operating below its potential, reflecting weaker-than-expected US exports and temporary disruption caused by the Jaguar Land Rover cyberattack. Underlying GDP growth may have been marginally better than expected, but it still remains weak.

The labour market is softening. Employment growth has stalled, job vacancies have declined, and the unemployment rate has risen to 5.1% in the three months to November from 4.4% at

the start of the year. Recent policy-driven cost increases, including higher employer National Insurance contributions and the National Living Wage, have weighed on hiring decisions. With demand remaining weak, businesses are unlikely to expand their workforce significantly, and spare capacity in the economy appears to be increasing.

Household demand also remains fragile. Although retail sales volumes reached their highest level since 2022 in September, they are still around 2% below their pre-pandemic level in late 2019. The household savings ratio which peaked at 27.4% in Q2 2020 during the Covid lockdown, and pre-pandemic was around 6.5%, has yet to return to historical norms. It decreased to 9.5% in Q3 2025 from 10.2% in Q2 2025.

Business confidence remains weak and investment intentions subdued. Global conditions provide only limited support. While the world economy has shown resilience to recent trade developments and benefitted from strong AI-related investment, particularly in the US, global growth has eased.

The MPC now expects annual UK GDP growth to dip below its current rate of 1.4% before recovering, supported by the lagged effects of recent interest rate cuts, gradually looser monetary policy, improved financial conditions, and stronger global demand. The annualised average forecast over the next three years has improved from 1.5% to 1.8%. However, the growing risks of weak demand

and a softening labour market underline the importance of ensuring that policy remains sufficiently supportive to prevent an entrenched period of low growth and below-target inflation, suggesting that further cuts to base rate are in the pipeline so long as UK GDP growth remains subdued.

With the uncertainties caused by November's messy budget process ended, there is additional evidence that supports the view of a strengthening outlook for the UK economy. The S&P Global UK Composite PMI increased to 51.4 in December 2025 from 51.2 in

November and 50.1 in September, reflecting the eighth consecutive period of expansion in British private sector activity with a slightly firmer expansion for services and an extension to the rebound for manufacturers who recorded their highest reading in over a year. The rise in new business was the strongest for 14 months reflecting improved service sector demand as client confidence improved. New overseas work increased in December, ending a 13-month period of decline but higher employment costs and uncertainty surrounding future demand drove down employment numbers.



# 3. Inflation and prices

- Annual CPI inflation rose unexpectedly to 3.4% in December from 3.2% a month earlier, but is still down from 3.8% in September
- The MPC said market pricing indicates that CPI inflation will drop to around 3% in the coming months, mainly due to declining energy and food prices and slower wage growth, is expected to fall back to the 2% target by the middle of next year.

Annual CPI inflation growth remains above the MPC's 2% target. The latest CPI numbers disappointed as 12-month inflation rose by more than expected in December, climbing by 3.4% compared to a 3.2% rise in the 12 months to November. Alcohol and tobacco, and transport, made the largest upward contributions to the monthly change in annual CPI rates.

Core inflation excluding energy, food, alcohol and tobacco has fallen steadily over the last year, reaching 3.2% in December, but this remains above the 2.7% average registered between 2011 and the pandemic. Service sector CPI inflation decreased to 4.5% in December from 4.7% in September. Annual wage growth excluding bonuses is also slowing, down to 4.5% in the three months to November, compared to 4.7% in the three months to August.

External factors have also modestly supported disinflation. Higher global tariffs have slightly reduced UK-weighted global export prices, partly through trade diversion away from the US towards the UK and euro area, particularly from China. Together with a small appreciation in sterling, this has contributed to subdued UK import price inflation.

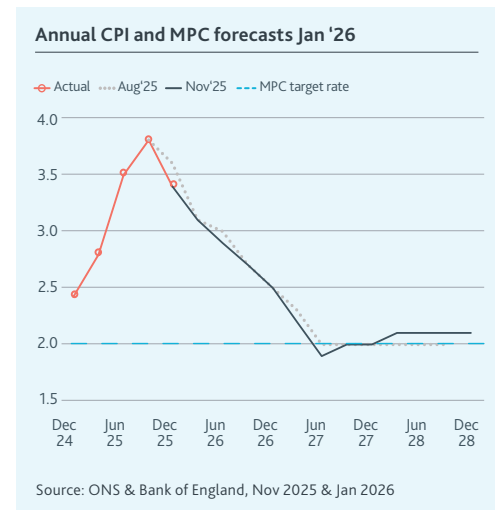
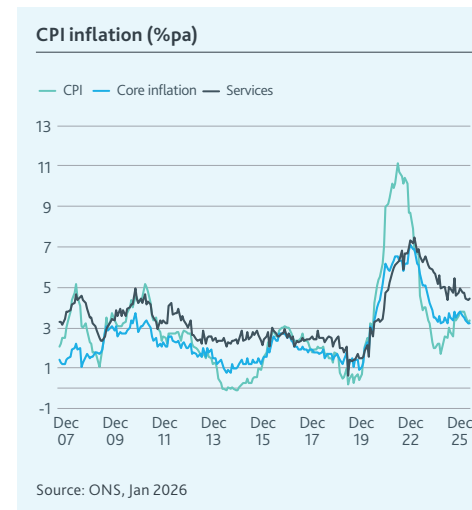
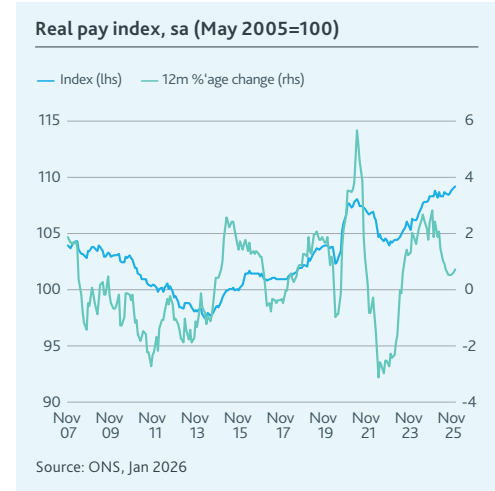
The MPC's November forecast indicates that CPI inflation is projected to fall below 3% this year, driven by lower contributions from energy and then fall towards 2% target next year, as economic slack continues and food prices and a further easing in services inflation as wage growth slows. Inflation is then expected to return gradually to the 2% target over the medium term, as economic slack continues to weigh on domestic price and wage-setting.

Wage growth is forecast to slow significantly, with private sector regular earnings growth falling from around 4.4% in mid-2024 to about 3% by mid-2027, reflecting weaker labour market conditions and lower inflation expectations.

The MPC has reduced Bank Rate from 5.25% to 3.75% since August 2024, lowering the degree of monetary restriction. However, with inflation still above target, policy must remain sufficiently tight to ensure inflation

returns to and remains at 2%. Further rate cuts are therefore likely to be gradual .

The market-implied path for interest rates underpinning November's MPC forecasts indicates that a further reduction in base rates from 3.75% to 3.5% could be expected by the end of H1 2026. However, as we commented in our last report, a continuation of the UK's weak economic growth could make a reduction in Base Rate to 3.25% or 3.00% in H2 2026 possible.



# 4. Stock markets, interest rates & asset yields

- World financial markets remained positive in Q4, with the MSCI World Index rising by 4.1%. But threats to stability exist from the stretched valuations of AI and the intemperate policy decisions of President Trump.
- UK gilts yields fell across all maturities in Q4 but the yield on 10-year Gilts of 4.57% at the end of Q4 was still at the highest since the banking crisis of November 2008.

Over the course of Q4, the number of warnings that US tech – especially AI-linked – stocks look richly valued and vulnerable to a correction has grown. Following cautions issued by Investment Banks, asset managers as well as the IMF and Bank of England, the European Central Bank has warned that investors are being driven by the “fear of missing out”. Stretched valuations and the risk that disappointment on earnings, interest rates, or macro data could trigger a sharp pullback. AI may very well be a transformative technology justifying long-term gains, but markets often overshoot first.

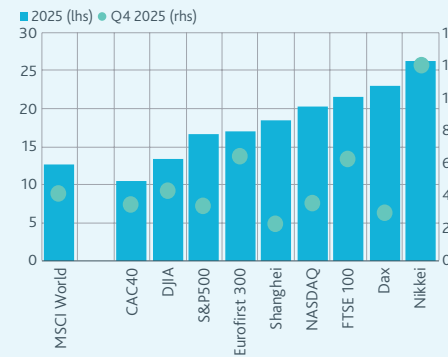
World financial markets maintained their positive momentum through Q4. The MSCI World Index has large and mid-cap representation across 23 developed markets.

It also has 72% exposure to the US markets and 27% to IT with a 24% exposure to the so called “Magnificent 7”. It grew by 4.1% both in USD terms and on a hedged GBP basis, as the dollar and pound maintained parity over the last three months and ended the year 12.6% higher in USD terms and 17.2% on a hedged GBP basis as the currency appreciated by 7.7%.

In the USA, the tech-focused NASDAQ delivered growth of 20.2% in 2024 while the broader based Dow Jones and S&P 500 grew by 13.4% and 16.7% respectively. Eurozone Eurofirst 300 index gained 6.4% in Q4 and 17.1% over the year. The UK's FTSE 100 rose by a further 6.2% in Q4 and ended the year 21.5% higher, representing its best year since 2009. This momentum has carried into 2026 as the index passed through the 10,000 mark. Performance was driven by internationally – focused businesses benefitting from a resilient global economy and a weak British pound. Investors were also attracted by a high dividend yield that provided a stable income return in a year marked by volatility and risk aversion.

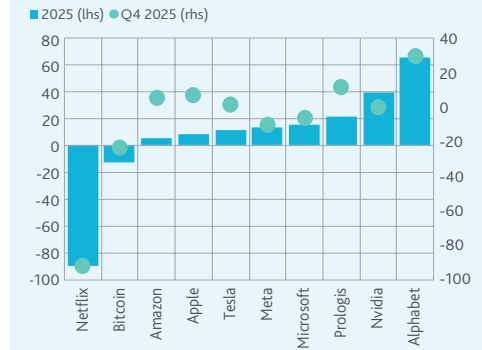
Markets remain reactive to the changeable actions of President Trump. The most recent escalation of the Greenland crisis wiped out

World stock markets in 2025 (%'age growth)



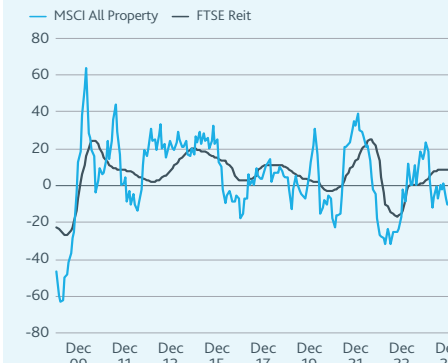
Source: Yahoo Finance, Jan 2026

Tech & other selected stocks in 2025 (%'age growth)



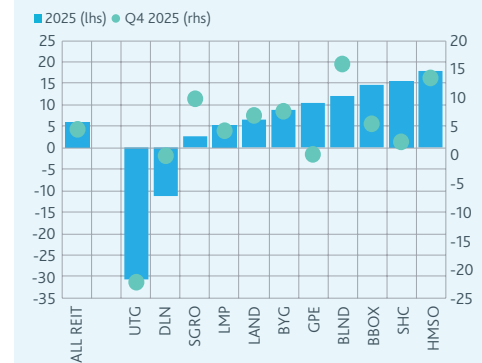
Source: Yahoo Finance, Jan 2026

Long-term 12m total returns



Source: Yahoo Finance & MSCI, Jan 2026

UK REIT price movement in 2025 (%'age growth)



Source: Yahoo Finance, Jan 2026

all market gains so far in January. But when Trump backed down on European tariffs he had earlier threatened, bond yields fell and stocks rose.

The performance of the FTSE REIT index improved in Q4, registering 4.4% growth, compared to a -6.7% fall in Q3. The index ended the year 6.0% higher. The average annualised rate of growth is -1.8% over three years and -4.8% over five years. However, the high dividend yield of 5.5% offered by the sector boosted 2025's total return to 11.9%.

Retail specialists Hammerson and Shaftesbury Capital were the best performers of 2025 delivering growth of 18.0% and 15.5% respectively. Hammerson the owner of the ten largest retail and leisure city destinations across the UK, Ireland and France undertook a program of consolidation in 2025 by acquiring outstanding minority stakes in North London's Brent Cross Shopping Centre, Birmingham's Bullring & Grand Central and the Oracle in Reading. In its half year results, the company reported like-for-like gross rental income up 5.0%, total gross rental income up 11.0% after acquisitions and portfolio valuation up 11.0%. Hammerson's trailing dividend yield amounted to 4.9% in 2025 but its shares traded at a 30% discount to NAV.

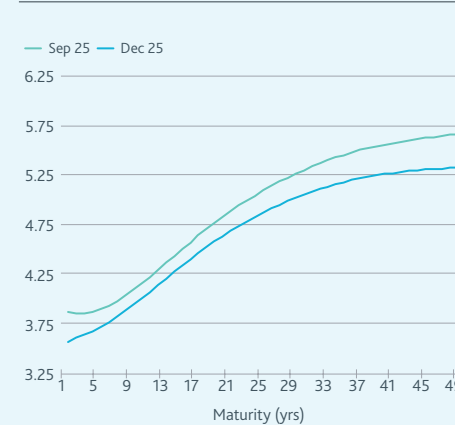
Shaftesbury Capital has a £5.2 billion portfolio with 2.7 million sq ft of retail, food and beverage, office and residential assets across Covent Garden, Soho and Carnaby

Street and Chinatown. In April the company completed the sale of a 25% interest in its £2.7 billion Covent Garden Estate to Norges Bank Investment Management, Norway's sovereign wealth fund. In its half year results it reported 193 leasing transactions, representing £19.2 million of contracted rent, 9.0% ahead of December 2024 ERV and 16.3% ahead of previous passing rents. The portfolio valuation increased by 3.1%. Shaftesbury's trailing dividend yield amounted to 2.3% in 2025 and its shares traded at a 22% discount to NAV.

Key developments across other companies in the sector over the course of 2025 have included Segro's plans for a 2.3GW+ land-enabled power bank and joint venture to develop its first fully fitted data centre; the acquisition by Tritax Big Box from Blackstone of a £1.04bn logistics portfolio; London Metric's takeover of Urban Logistics REIT; Blackstone's takeover of Warehouse REIT and in the alternative sector, Primary Healthcare Properties takeover of Assura Plc. Additionally, Land Securities announced plans to sell £2bn worth of office buildings and scale back office developments as 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.

The yield on UK gilts fell across all maturities in Q4 by 30 bps for short-dated bonds and 20 bps or more for maturities of ten years and longer. Although, the gap between long-term and short-term yields remains

Gilt yield curve (%)



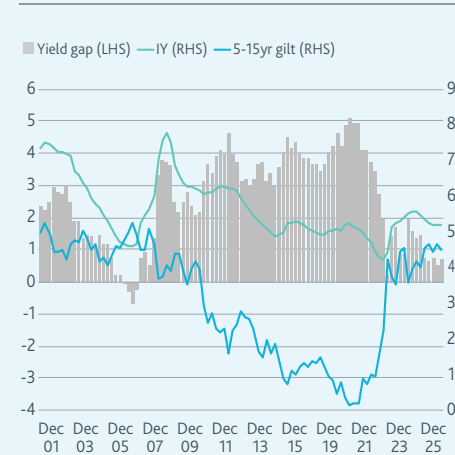
Source: Bank of England, Jan 2026

UK gilt yields (%)



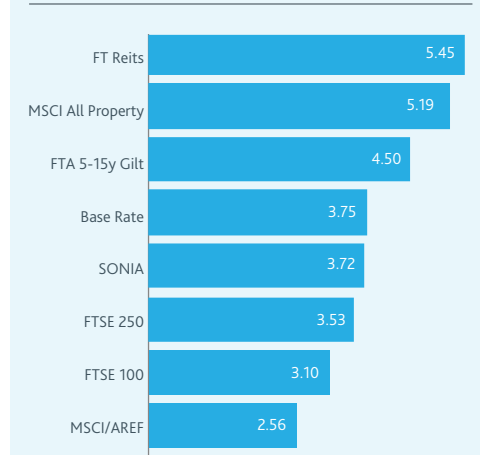
Source: Bank of England, Jan 2026

Property IY – Gilt yield gap (%)



Source: MSCI & Bank of England, Jan 2026

UK asset yields Q4 2025 (%)



Source: Yahoo Finance & MSCI, Jan 2026

steep by recent standards it was materially larger post-GFC. Nevertheless, for the reasons previously discussed in Q3 2025's "Commercial Property Examiner", the yield on 10-year gilts of 4.57% at the end of Q4 is the highest since November 2008 when it reached 4.70% as the UK Government was forced to support the banking system by re-structuring Northern Rock, HBOS, Lloyds and RBS / Nat West.

The yield on the 5-15 year gilt index hardened by 15 bps in the fourth quarter to 4.50%. This is reflected in the total return performance on the FTSE Actuaries 5-15 year gilt index in Q4 of 2.76%. Over the last 12 months, the gilt index has provided a total return of 5.87% as yields have decreased by 7 bps since December 2024. Changes in the risk-free rate are a key metric referenced in the valuation of commercial real estate.

After December's meeting of the MPC, the UK's base rate has been reduced by 25bps to 3.75%, and minutes from that meeting indicate that Bank Rate is likely to continue on a gradual downward path. However, the UK's long-term borrowing costs remain the highest across the G7.



# 5. Commercial property market performance

- All Property total returns decreased to 7.1% year-on-year from 8.6% in September. Although this was only a 10 bp improvement on 2024's 7.0% it represented the best year-end result since December 2021.
- The Retail sector achieved the strongest total return performance at 8.8%, bolstered by Shopping Centres' impressive 11.9% performance. Offices were the weakest sector but their performance was lifted by the West End and Midtown office segment which delivered a total return of 8.2%.

The MSCI Monthly Index is predominantly made up of core open ended non-listed real estate vehicles with some closed-ended and listed vehicles. As originally designed in December 1986, the constituent sectors of the index were 45% Retail, 42% Offices and 12% Industrial. Today Industrials dominate, representing 46% of the index, Retail 21%, and Offices 18%. Other property including Residential, Hotels, Healthcare and Leisure is now 14%.

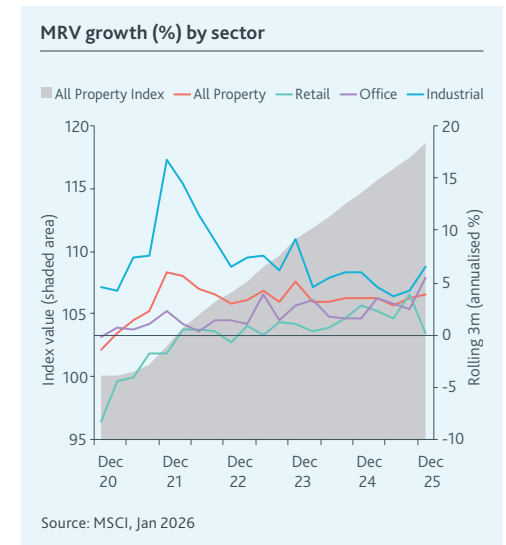
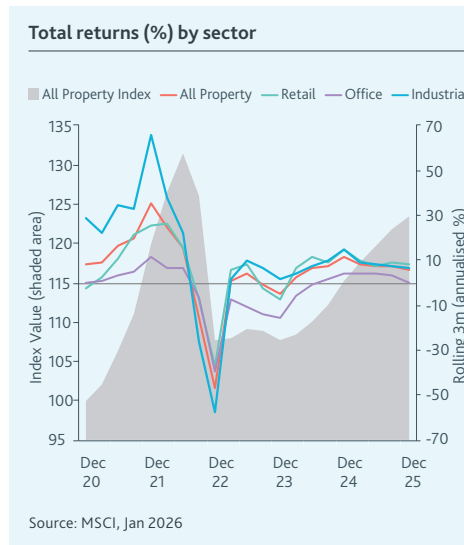
As noted above, risk free rates hardened by 15 bps in Q4, and the All Property initial yield itself softened very slightly by just 1 bp. Consequently, the property initial / gilt yield gap has increased by 16 bps to 0.69% easing concerns of adjustments to pricing levels. However, market rental value growth across most segments of the market remains resilient, which may add support to the current risk premium.

In Q4, the UK commercial real estate market slowed further as rolling 3-month total returns remained on a downward trajectory. All Property total returns, as recorded by the MSCI Monthly Index, decreased by 36 bps to 1.42% from 1.77% in Q3. Capital growth was limited to less than 4 bps after a rise of 0.4% (40 bps) three months earlier. Property equivalent yields softened by 3 bps but had no material contribution to changes in valuations. All Property market rental value growth in Q4 remained 0.9% as in Q3 but growth of 0.17% in December was the weakest monthly outcome of the year. Fourth quarter income returns remained at 1.4%.

The biggest surprise over the course of the fourth quarter in rental value growth came from the retail sector as MRV growth fell to near zero from 0.9% in Q3 after 11 consecutive quarters of growth. This appears to have been driven by a -5% quarterly decrease in Rest of UK standard retail units and more particularly a sharp -12.5% decline in Birmingham retail MRV's. Rents in the other two sectors exhibited more strength. Office rental growth increased to 1.3% from 0.6% and Industrial rental value growth increased to 1.6% from 1.0% a quarter earlier.

In the last three months, retail equivalent yields hardened by 15 bps and the office sector yields ended the quarter 19 bps lower. Equivalent yields in the dominant industrial sector rose 6 bps.

In the 12 months to the end of December, index performance has largely been driven by income returns with a modest contribution



from capital growth. The limited capital growth was driven by MRV growth rather than yield compression.

All Property total returns decreased to 7.1% from 8.6% in the year to September. This represented the best year-end result since December 2021 when the performance reached 19.9% during post-COVID recovery. The strongest total return performance of 8.8% came from the Retail sector supported by the 11.9% performance of Shopping Centres. Offices were the weakest sector, but their performance was boosted by the West End and Midtown office segment which delivered total returns of 8.2%. Industrials delivered total returns of 8.0% as the Rest of UK segment outperformed London and the South East for the second consecutive year.

All Property capital growth decreased from 2.6% y-on-y in September to 1.3% y-on-y in December as office yields weakened further. All Property MRV growth was unchanged from Q3 at 3.4% y-on-y and the income return decreased very slightly from 5.8% in the year to September to 5.7% y-o-y in December.

At the segment level, a shift in momentum may be appearing. South East and Rest of UK Industrial MRV growth has decreased to 4.9% and 4.3% in 2025 from 5.7% and 5.1% in 2024 respectively. Meanwhile Retail Warehouse and Midtown & West End Office MRV growth has increased to 3.1% and 8.4% from 2.1% and 5.4%.

Property equivalent yields rose sharply in 2022 and 2023 as interest rates and bond

yields spiked but yields have stabilised at this higher level in 2024 and 2025 albeit with some minor volatility. All Property equivalent yields have hardened by 10 bps in the 12 months to December but have made a negligible contribution to any change in valuations over the course of the last year.

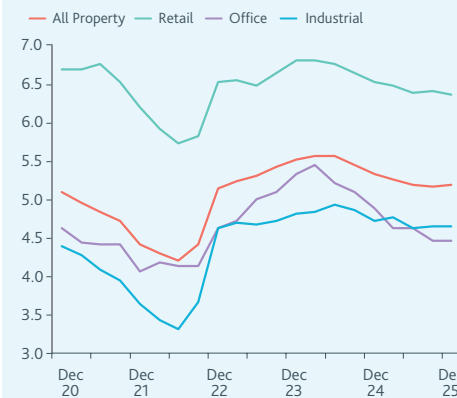
In the last 12 months, Retail equivalent yields have hardened by 23 bps. Industrial equivalent yields increased by 5 bps y-o-y. Office sector yields re-rated by 20 bps in 2025 and y-o-y MRV growth increased to 3.5% in December from 2.6% in September. However, the rate of 12-month decline in capital values increased to -2.3% in December from -1.4% in September. This counter intuitive outcome is explained by higher office sector vacancy rates of more than 20% and the shortest weighted lease terms of just 5.2 years reducing net operating income by 7.3% y-on-y across the sector.

The recovery stage in the current cycle continues to disappoint compared to the vigorous bounce in capital growth enjoyed after previous downturns in both 1991-92 and 2008-09. Despite six consecutive reductions in Bank Rate from 5.25% to 3.75%, the market has not experienced a "V" shaped recovery reminiscent of the episodes in 1993-94 or 2009-10. Market uncertainties caused by tepid economic growth, persistent inflation and doubts over the future path of monetary policy continue to prevail.

The tables included (page 12) contain further performance data for UK commercial real estate in Q4 2025.

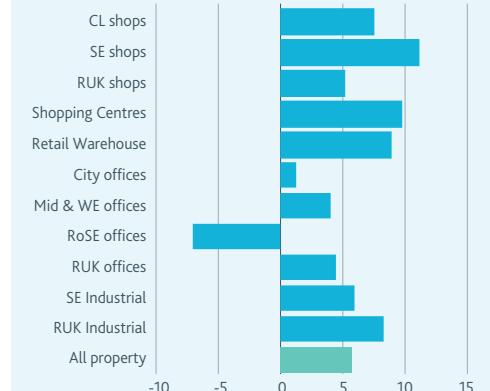


Initial yield (%) by sector



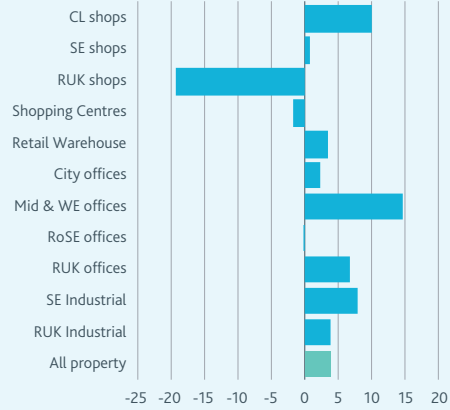
Source: MSCI, Jan 2026

Total returns (%) by segment – Q4 2025 annualised



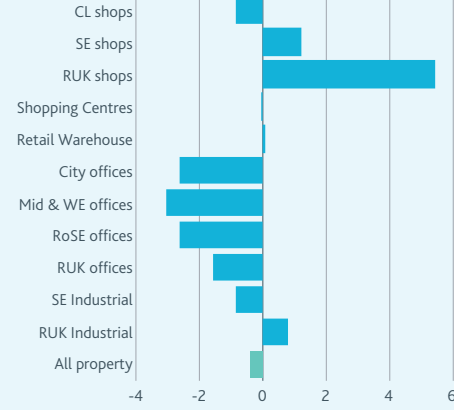
Source: MSCI, Jan 2026

### MRV growth (%) by segment Q4 2025 annualised



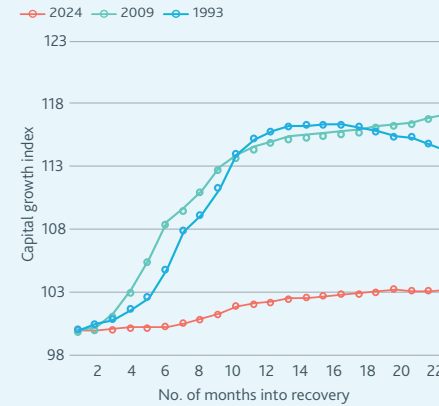
Source: MSCI, Jan 2026

### Yield impact (%) – Q4 2025



Source: MSCI, Jan 2026

### The pace of recovery from market downturn by quarter



Source: MSCI, Jan 2026

### Total returns (%)

	Dec	3m	6m	12m
All Property	0.6	1.4	3.2	7.1
Retail	0.8	2.1	4.4	8.8
Office	0.4	0.1	0.9	3.0
Industrial	0.5	1.7	3.6	8.0
<b>Annualised</b>				
All Property	7.0	5.8	6.5	7.1
Retail	9.9	8.5	8.9	8.8
Office	5.0	0.5	1.8	3.0
Industrial	6.5	6.8	7.2	8.0

Source: MSCI, Jan 2026

### Capital growth (%)

	Dec	3m	6m	12m
All Property	0.1	0.0	0.4	1.3
Retail	0.2	0.4	0.9	1.7
Office	0.0	-1.2	-1.7	-2.3
Industrial	0.1	0.5	1.1	3.0
<b>Annualised</b>				
All Property	1.4	0.2	0.8	1.3
Retail	2.9	1.5	1.9	1.7
Office	-0.3	-4.6	-3.4	-2.3
Industrial	1.7	1.8	2.3	3.0

Source: MSCI, Jan 2026

### Income return (%)

	Dec	3m	6m	12m
All Property	0.5	1.4	2.8	5.7
Retail	0.5	1.7	3.4	7.0
Office	0.4	1.3	2.7	5.4
Industrial	0.4	1.2	2.4	4.9
<b>Annualised</b>				
All Property	5.5	5.6	5.7	5.7
Retail	6.8	6.9	7.0	7.0
Office	5.3	5.3	5.4	5.4
Industrial	4.7	4.9	4.8	4.9

Source: MSCI, Jan 2026

### MRV growth (%)

	Dec	3m	6m	12m
All Property	0.2	0.9	1.8	3.4
Retail	-0.4	0.0	0.9	1.9
Office	0.4	1.3	1.9	3.5
Industrial	0.4	1.6	2.6	4.7
<b>Annualised</b>				
All Property	2.0	3.8	3.7	3.4
Retail	-4.2	0.1	1.9	1.9
Office	4.3	5.4	3.9	3.5
Industrial	4.5	6.4	5.3	4.7

Source: MSCI, Jan 2026

### Net initial yield (%)

	Dec	3m	6m	12m
All Property	5.2	5.2	5.2	5.3
Retail	6.4	6.4	6.4	6.5
Office	4.5	4.5	4.6	4.9
Industrial	4.7	4.6	4.6	4.7

Source: MSCI, Jan 2026

# 6. Investment in property

- All Property investment volumes remain muted by historical measures of activity but investment volumes in Q4 have benefitted from a customary year-end bounce and increased by 30% quarter on quarter.
- Preliminary estimates for Q4 indicate that Central London office transaction volumes almost doubled quarter on quarter. Investment volumes so far recorded in 2025 are better than both 2024 and 2023.

A rise in the overall value of transactions can be driven by a small group of deals struck at higher prices. The best gauge of market liquidity is the number of transactions which gives investors greater price transparency and proof of a deep and liquid market into which they can sell on the assets if needed. Therefore, we focus in this section on investment volumes represented by the current value of investment transactions adjusted for capital growth.

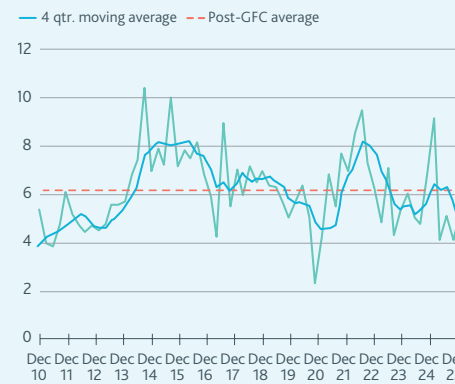
All Property investment volumes remain on a downward trend limiting any capital value uplift from yield compression. In the first half of 2025 investment volumes were lower than both 2023 and 2024. Investment volumes decreased by -20% in the third quarter and

were a disappointing -33% below their long run post GFC average.

Preliminary estimates suggest that investment volumes in Q4 have benefitted from a customary year-end bounce and increased by 30% quarter on quarter but were still -41% below the level achieved in Q4 2024 and -13% below the long run average. As usual the latest numbers for Q4 are likely to be revised in the coming months. However, cumulative four quarter UK investment volumes so far recorded in 2025 are currently the lowest since September 2020 in the aftermath of the first pandemic lockdown.

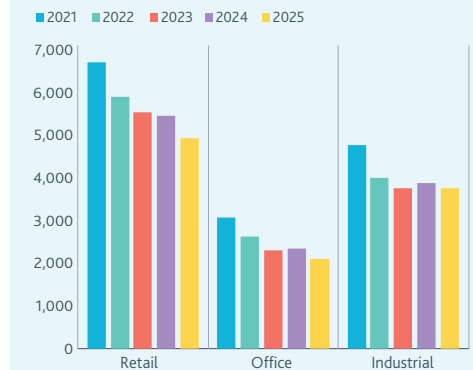
Retail made up 51% of investment volumes in Q3; offices represented a further 37% and industrials made up the remaining 12%. In the 12 months ending September 2025, the retail sector accounted for 47% of transactions. Offices represented 19% of transaction numbers and industrials a further 34%. The volume of Retail Park investment transactions has decreased since it peaked in Q4 2024. Similarly, the volume of Shopping Centre investment transactions fell away in early 2025 but has since recovered as investors have been boldened by the current total return outperformance of this segment. The declining number of transactions suggests that investors are

All property investment volumes (£bn)



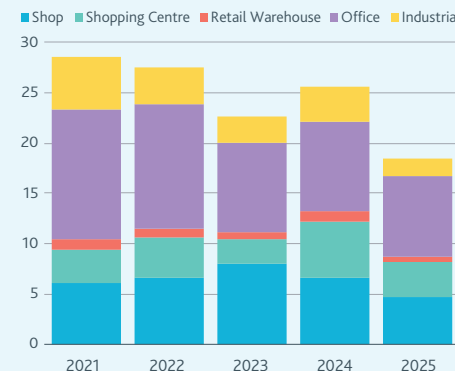
Source: CoStar, MSCI & APR, Jan 2026

UK investment transactions by year



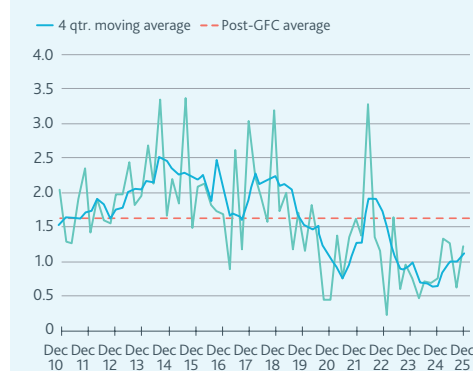
Source: CoStar, MSCI & APR, Jan 2026

UK investment volumes by year (£bn)



Source: CoStar, MSCI & APR, Jan 2026

Central London office investment volumes (£bn)



Source: CoStar, MSCI & APR, Jan 2026

making highly selective stock selection decisions rather than deploying capital through broader brush asset allocation approach.

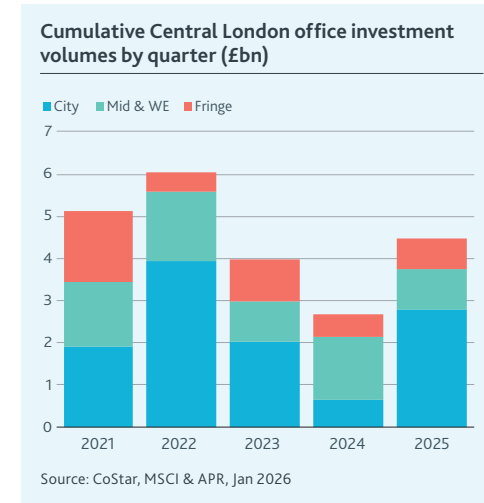
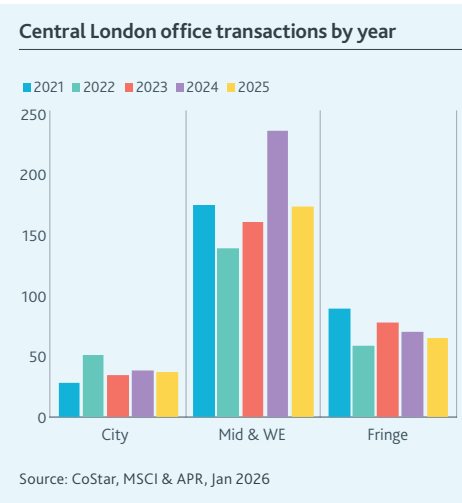
Investment volumes in the UK's key Central London office market have been slowly recovering since March 2024 albeit in a volatile manner. Having improved in the first half of 2025, they decreased by -51% in the third quarter and were -61% below their long run average.

Preliminary estimates for Q4 indicate that there has been a dramatic improvement in investment market liquidity as Central London office transaction volumes almost doubled quarter on quarter. As usual the latest numbers for Q4 are likely to be revised in the coming months. Nevertheless, cumulative four quarter investment volumes so far recorded in 2025 are better than both 2024 and 2023. In 2025 Central London investment transactions numbered 272, down from 340 in 2024 but the average transaction value rose sharply to £16.4 million from £7.8 million in 2024 suggesting the market witnessed a smaller number transaction but with a higher value.

Throughout 2025 City investment volumes have surpassed those across the West End and Midtown and made up 63% of Central London office investment transactions in Q3; Midtown and West End offices represented 21% and Fringe offices made up the remaining 20%.

Outstanding loans from UK banks and financial institutions to real estate businesses grew 11.6% in the 12 months to November, to £142bn, according to Bank of England data. That was the fastest year-on-year growth rate since at least 2010. Earlier in the year London's Bayes Business School reported that banks have made significant progress in reducing their defaulted loan books, through refinancing and increased syndication. This has renewed their appetite for new lending, with loans now offered at highly competitive rates. Loan pricing has become increasingly competitive with loan margins narrowing. Bayes confirmed that 74% of new lending has been deployed to refinance expiring debt. Consequently, 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.

Better prospects for economic growth together with an improving inflation outlook may act as a catalyst for renewed inward investment into UK commercial real estate. INREV's 2026 Investment Intentions Survey indicates that the UK's residential and industrial / logistics sectors remain the preferred destinations for investment capital within Europe. In addition 93% of non-European real estate investors will be targeting the UK this year.



# 7. Office focus

Average UK office occupancy continues to push higher and reached a new post-pandemic high, increasing to 41.9% in November from of 40.2% in early October according to Remit Consulting's Return survey. Pre-pandemic, the consensus is that office occupancy typically hovered around 70%.

Transport for London also tracks demand for its network through footfall by station, and this data highlights that the total number of passengers visiting Zone 1 stations has fallen by -18% between 2019 and 2025. However, throughout 2025, footfall was lowest on Mondays, building through the week and declining again on Fridays, underlining the move towards more days in the office that tend to come in the middle of the week.

## Central London offices Occupational view

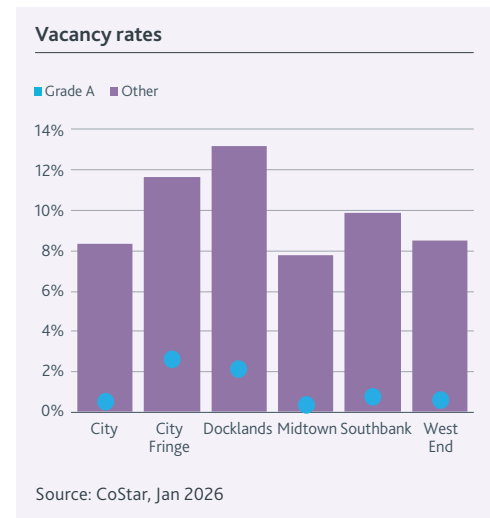
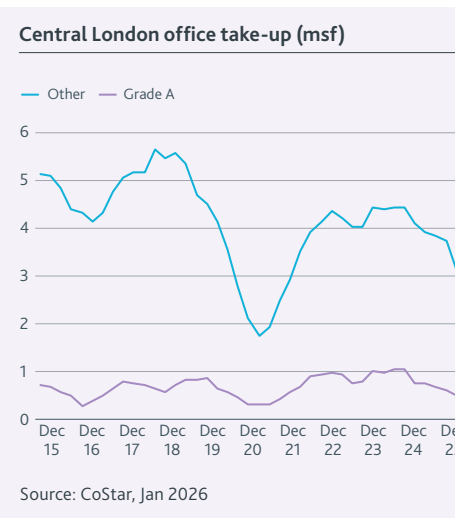
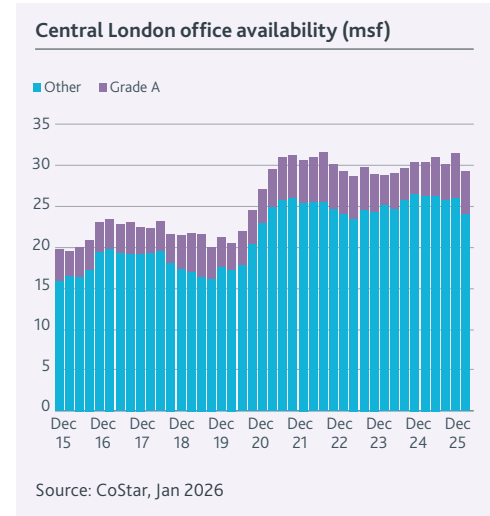
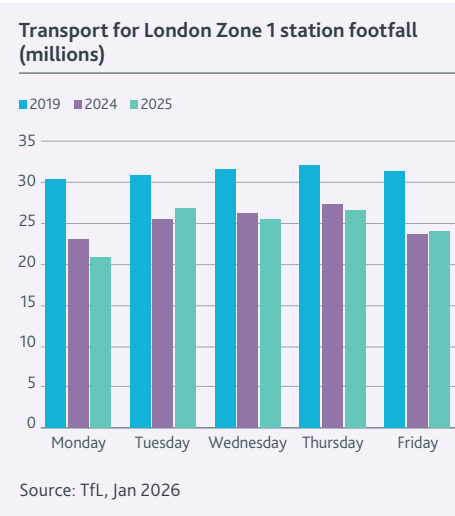
- **Central London office availability and take-up both declined in Q4 2025, with Grade A space particularly constrained. Weakening activity is symptomatic**

of ongoing supply challenges and it is putting upward pressure on rents.

- **Despite high construction costs putting a brake on new starts in some parts of the market, the City of London Corporation is proactively encouraging future growth, evidenced by several high-rise office proposals to meet anticipated demand.**

Central London office availability decreased in Q4 2025 by -6.6% to 29.2 million sf, which represents 22 months' supply at the post-Covid average rate of take-up. The occupational market for the very best buildings typically called "Grade A" is even tighter. Availability for the best office space decreased by -4.9% in Q4 to 5.1 million sf having grown by 23.2% the previous quarter. This represents 19 months' supply.

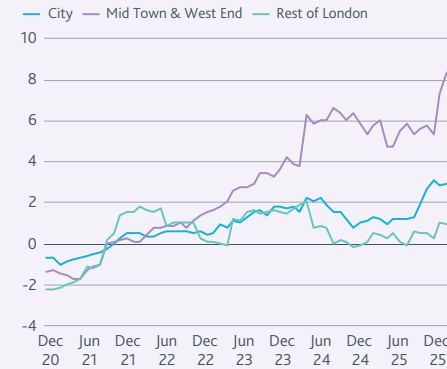
In the City office market, the availability of Grade A office space in Q4 decreased by -6.5% but remains above one million sf, representing nine months' supply. In the West End, the availability of newly constructed Grade A trophy office space in Q4 decreased by -2.7%. Although there is 928,000 sf of this best-in-class space available across all West End sub-markets only 38,000 sf or 4% of this space is in the core Mayfair and St. James's sub-markets representing little more than two month's supply.



Take-up across the central London market decreased by -24% in 2025 to 12.4 million sf from 16.4 million sf in 2024. This was the lowest total since 2021, but may be closely linked to the lack of supply. Docklands was one highlight as availability decreased to its lowest level in seven years. Visa is relocating its European headquarters from Paddington to Canary Wharf in summer 2028 and has agreed a 15-year lease of 300,000 sf at One Canada Square. University College of London School of Management is also reported to be taking a further 50,000 sf in the same building. Moreover, JPMorgan announced in Q4 that it is going ahead with a Foster & Partners designed tower at Riverside South providing three million sf.

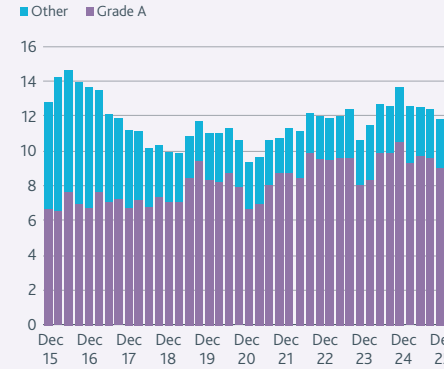
Take-up of Grade A space disappointed as it fell -37% to 1.9 million sf in 2025 from 3.1 million sf in 2024, and it's worth reiterating that this may be aligned with the constrained levels of supply being registered in the market. Leasing activity declined in all sub-markets. In the City and West End markets Grade A take-up fell -14% to 1.1 million sf and -64% to just 185,000 sf respectively. Since the end of the pandemic take-up of this space has averaged 40,000 sf per quarter across all West End sub-markets but there were no lettings of Grade A space in Q4.

Central London offices MRV 12m (%)



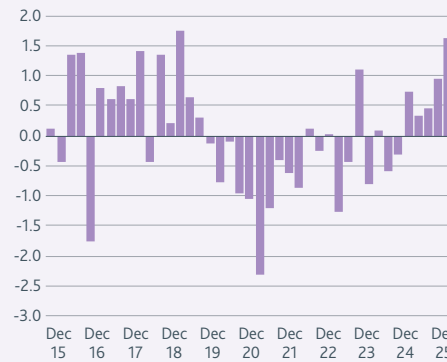
Source: CoStar, Jan 2026

Under construction (m sf.)



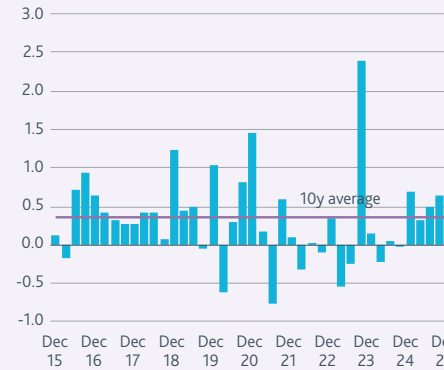
Source: CoStar, Jan 2026

Net absorption (msf)



Source: CoStar, Jan 2026

Net completions (msf)



Source: CoStar, Jan 2026

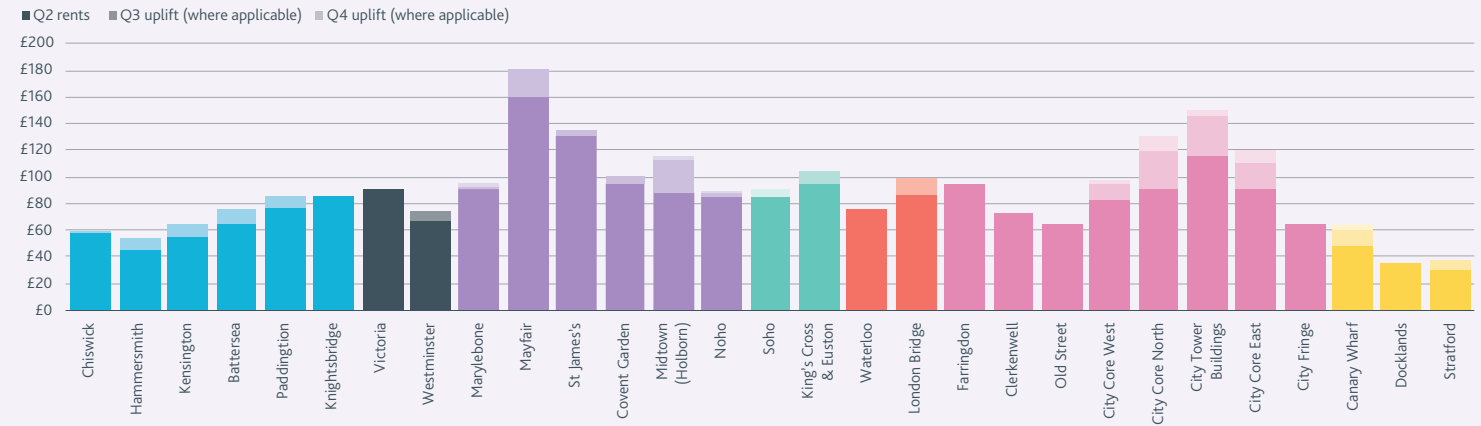


In 2025, development completions totalled 2.3 million sf but only 131,000 sf of new space was delivered in the West End. This thin supply pipeline is set to continue with all new construction activity limited to the new construction activity was limited to the City, Midtown and Southbank. Just five new buildings under 100,000 sf started in 2025, compared with nearly 50 in 2018, while 6 developments of 100,000 sf+ have started, compared to 29 in 2015. Developers blame high construction costs, weak capital valuations and planning restrictions, particularly in the West End.

The lack of supply is continuing to put upwards pressure on rents, especially for Grade A stock as the chart shows. Rents have risen in the last two quarters in nearly every sub-market across central London.

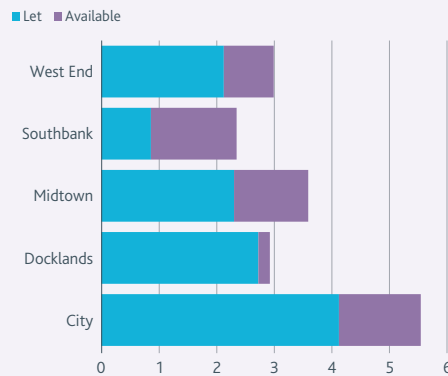
Looking to the future, the pipeline in the City is looking strong however, with the Corporation receiving a record-breaking number of applications for high rise office buildings in 2025. To meet future demand, the authority aims to encourage the development of at least 12 million sf of new office space over the coming years. Work has already started on 1 Undershaft on the site of the former St Helen's Tower with completion expected between 2029 and 2030 and other buildings in the pipeline include 130 Fenchurch Street, 70 Gracechurch Street, 50 Fenchurch Street, 63 St Mary Axe and 99 Bishopsgate.

### Central London Grade "A" headline rents (£psf) Q4



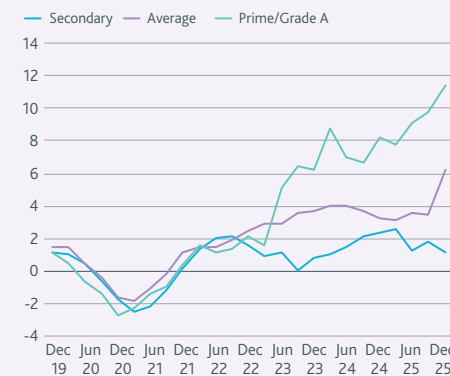
Source: Cluttons, Jan 2026

### Q4 development pipeline space available v pre-let



Source: CoStar, Jan 2026

### 12m MRV growth (%)



Source: MSCI, Jan 2026



## Investment view

- Central London's prime office values are projected to rise in 2026, with the West End market showing continued resilience and outperforming other regions, while secondary office values are expected to decline further.
- Investment activity saw a decrease in transaction numbers but an increase in total value, due to a small number of larger value City deals.

The Q4 2025 RICS UK Commercial Property Monitor notes that prime office values are projected to rise by 1.9% in 2026 (compared to a previous forecast of 1%), although respondents to the survey forecast that secondary office values will decline by a further -2%. From a regional perspective, London continues to demonstrate relative resilience as prime office rental and capital values are anticipated to out-perform Rest of UK offices in the year ahead. Reinforcing this somewhat downbeat view the Central London office market recovery stalled in Q4. Capital value growth as measured by MSCI decreased from 1.02% in Q3 to -0.17% in Q4. Year-on-year capital value growth fell to 2.67% in December from 2.99% in September but improved on 2024's number of -3.27%.

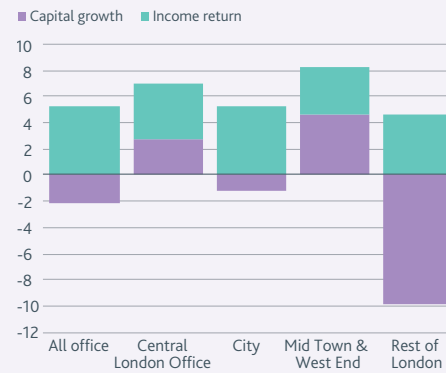
The West End office market continues to be an outlier despite capital growth falling from 1.62% in Q3 it remained positive at 0.14% in Q4. City office valuations fell by -0.22% in Q3 and the

decline accelerated to -0.98% in Q4. During 2025 West End capital growth of 4.48% was supported by MRV growth of 8.38%. However, City office capital values have fallen by -1.28% in 2025 whilst rental growth increased to 2.90% from 1.15% in 2024.

The number of Central London office investment transactions in 2025 decreased to 272 from 340 in 2024, but the value of these transactions increased by 6.3% from £5.78 billion in 2024 to £6.14 billion in 2025 supported by a leap in the lot size of City transactions. In 2024, 38 City investment transactions amounted to £557 million with an average transaction size of £14.7 million. In 2025, the volume of 37 City investment transactions increased to £2.365 billion with an average transaction size of £63.9 million. Outside the "Square Mile" the investment market was more lacklustre.

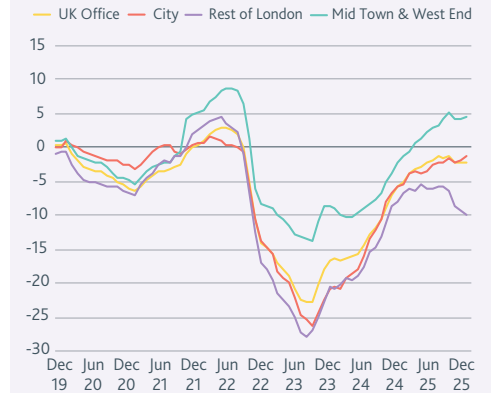
One landmark transaction was Nuveen's sale to Hayfin Capital and Capreon of 70 St Mary Axe, known as the "Can of Ham" for £340 million. Hayfin are a European alternative asset manager specialising in credit, direct lending, private equity solutions and real estate. Capreon are a London-headquartered investment and asset management firm focused on commercial property across the UK and Europe. Nuveen is the asset management arm of the Teachers Insurance and Annuity Association of America (TIAA). The 90 metre, 21 floor building providing 300,000 sf of space was developed by Nuveen in 2019 and is fully let to 13 tenants, with an average lease length of eight years, including law firm Sidley Austin, National Bank of Canada, AIB and Samsung Electronics.

12m total returns Q4 2025 (%)



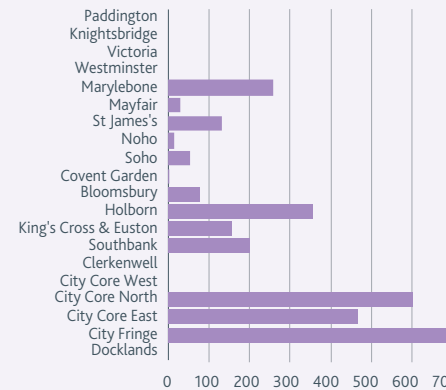
Source: MSCI, Jan 2026

12m capital growth (%)



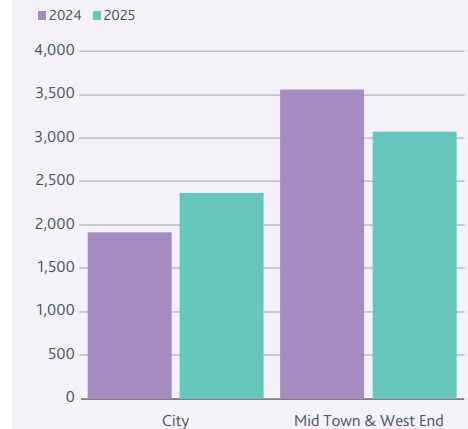
Source: MSCI, Jan 2026

Central London development completions y-o-y ('000 sf)



Source: CoStar, Jan 2026

Central London office investment volumes (£m)

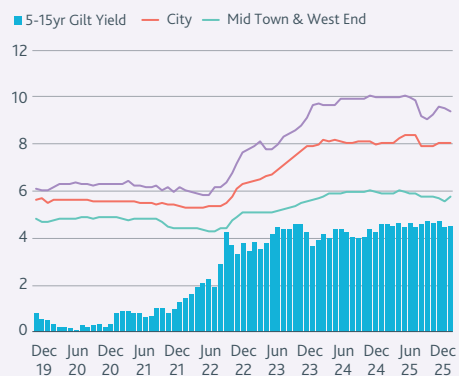


Source: CoStar, Jan 2026

In another notable end of year transaction Henderson Park acquired 70 Fenchurch Street, EC3 from Lloyds Register for an estimated £90 million. Henderson Park are an international real estate investment manager focused on core and core-plus assets, and Lloyd's Register Group are a global professional, technical and business services organisation. The building currently offers 215,000 sf across 13 floors. The purchaser intends to comprehensively refurbish and reposition the building into modern Grade-A office space providing new roof terraces, the mandatory "End-of-trip" facilities (e.g. showers and cycle storage) and ESG upgrades to strengthen environmental and building performance credentials. The target completion date for the project is 2028. The sale was initiated after Lloyd's Register relocated its headquarters into the adjacent newly refurbished historic Grade II listed 71 Fenchurch Street.



#### Equivalent yields (%)



Source: MSCI & Bank of England, Jan 2026

#### Featured investment transactions

Building	Price (£m)	Price (£psf)	Yield (%)	Avg. uxp lease term (yrs)	Buyer
70 St Mary Axe, EC3 (aka Can of Ham)	340.00	1,075	5.50 (niy)	6.3	Hayfin & Capreon
70 Fenchurch Street, EC3	90.00	419	4.9 (niy)		Henderson Park
1 Newman Street, W1	250.00	2,062	4.49 (niy)	6.4	Royal London AM.

Source: Cluttons, Jan 2026

# Central London offices

## Summary tables

### Availability (msf)

	Q3 2025	Q4 2025	5y avg.	Trending
City	8.06	7.00	9.13	
City Fringe	3.76	3.43	3.88	
Docklands	2.10	1.88	2.65	
Midtown	7.94	7.60	6.85	
Southbank	3.87	3.63	2.38	
West End	5.50	5.65	4.96	

Source: CoStar, Jan 2026

### Take-up (msf)

	Q3 2025	Q4 2025	5y avg.	Trending
City	1.68	1.06	1.25	
City Fringe	0.23	0.24	0.44	
Docklands	0.31	0.28	0.19	
Midtown	0.67	0.27	0.83	
Southbank	0.19	0.12	0.24	
West End	0.47	0.48	0.75	

Source: CoStar, Jan 2026

### Vacancy rates

	Q3 2025	Q4 2025	5y avg.	Trending
City	11.6%	10.0%	13%	
City Fringe	12.7%	11.6%	14%	
Docklands	10.7%	9.6%	14%	
Midtown	11.5%	10.9%	10%	
Southbank	17.9%	16.8%	11%	
West End	9.6%	9.9%	9%	

Source: CoStar, Jan 2026

### Completions ('000 sf)

	Q3 2025	Q4 2025	5y avg.	Trending
City	467	530	267	
City Fringe	-	-	139	
Docklands	-	-	35	
Midtown	281	238	180	
Southbank	34	-	49	
West End	-	18	111	

Source: CoStar, Jan 2026

### Construction ('000 sf)

	Q3 2025	Q4 2025	5y avg.	Trending
City	3,543	3,732	3,976	
City Fringe	121	121	1,152	
Docklands	823	823	457	
Midtown	3,623	3,385	3,412	
Southbank	1,668	1,668	954	
West End	2,020	2,237	1,720	

Source: CoStar, Jan 2026

### 12m MRV growth

	Q3 2025	Q4 2025	5y avg.	Trending
City	2.6%	2.9%	1.4%	
Mid Town & West End	5.8%	8.4%	3.9%	
Rest of London	0.6%	0.9%	0.8%	

Source: MSCI, Jan 2026

### Average rents (£psf)

	Q3 2025	Q4 2025	Trending
City	59.40	61.60	
City Fringe	55.80	55.50	
Docklands	49.50	49.10	
Midtown	68.20	68.60	
Southbank	65.00	65.80	
West End	75.00	75.40	

Source: CoStar, Jan 2026

### Investment volumes (£bn)

	Q3 2025	Q4 2025	5y avg.	Trending
City	334.20	582.28	667.09	
City Fringe	71.86	225.76	211.86	
Docklands	9.00	0.00	18.02	
Midtown	252.73	111.20	562.07	
Southbank	22.82	9.98	70.90	
West End	167.90	810.25	590.40	

Source: CoStar, Jan 2026

### Prime yields (%)

	Q3 2025	Q4 2025	Trending
City	5.25%-5.50%	5.25%-5.50%	
West End	4.00%	3.75%-4.00%	
West End (non-core)	5.25%-5.50%	5.25%-5.50%	

Source: Cluttons, Jan 2026

## Rest of UK offices

### Occupational view

- Availability of South East and Rest of UK offices represents four years of supply. The market for Grade A space is tighter with 31 months of supply.
- The South East office development pipeline has stalled, with no major new office buildings expected to complete beyond 2026.

Office availability in the South East decreased for the second consecutive quarter by -2.3% in Q4 but increased by 2.3% y-o-y, representing more than four 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 2.4% in Q4 and by 2.6% year-on-year also representing four years of supply.

South East Grade A availability decreased by -13.3% in Q4 but has increased by 5.2% y-o-y and there is 31 months of supply. Rest of UK Grade A office availability increased by 7.5% in Q4 and 1.1% y-on-y and there is also 31 months of supply.

Headline vacancy rates across all the "Big 6" regional office markets post-pandemic remain elevated. At the end of Q4 2025 the vacancy rate across the UK's largest regional office markets increased from 9.7% in Q3 to 10.0% and ranged between 7% in Leeds and 11% in Glasgow. However, vacancy rates for Grade A space across all "Big 6" centres is less than 2%. Overall vacancy rates across South Eastern centres decreased from 9.9% in Q3 to 9.6% but

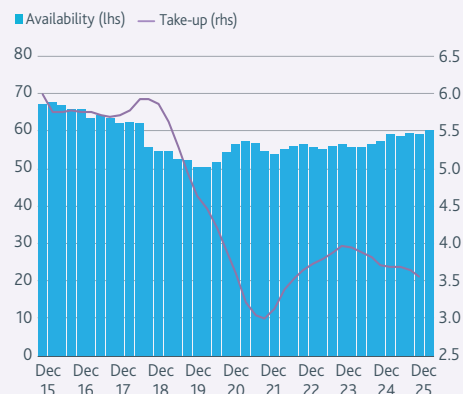
limited development activity has left Grade A vacancy rates at just 0.3%.

"Big 6" market rental value growth has increased to 3.5% in the year to December from 2.4% in the year to September. Bristol remains a strong regional office market, but y-o-y rental growth remains 3.8% as it was three months earlier. Manchester is now the strongest regional office centre with y-o-y MRV increasing to 4.5% in Q4 from 0.9% in Q3. However, South East office market rental value growth has increased from 1.1% y-o-y in Q3 to 1.3% in Q4.

In the South East and Rest of UK office markets 68 developments were completed in 2025 providing 4.1 million sf. However, only eight of those buildings had a high enough specification to be classified as "Grade A". No "Grade A" developments were completed in either Q3 or Q4 2025.

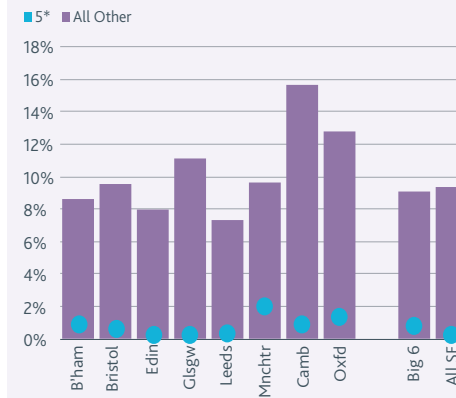
The South East office development pipeline has stalled, with no major new office buildings expected to complete beyond 2026. Only one speculative office capable of delivering "Grade A" space in the near term is currently on site. Trehus, One Maidenhead is being developed by Smedvig Capital who describe themselves as part of the Smedvig Family Office, investing out of Stavanger, Norway. Trehus will be a landmark office building at the gateway to Maidenhead's town centre, set within newly a landscaped public square and part of the wider One Maidenhead development. The building will have a timber-framed construction targeting net zero carbon emissions, providing 79,200 sf of office space over six floors.

Rest of UK office availability & Take up (msf)



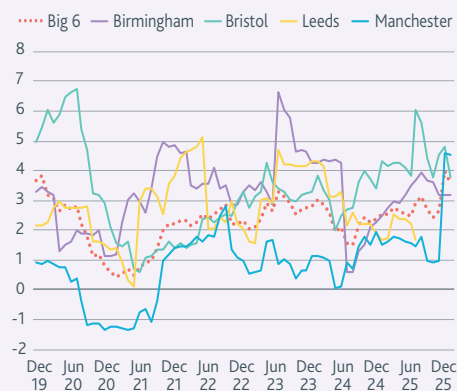
Source: CoStar, Jan 2026

SE & RUK vacancy rates



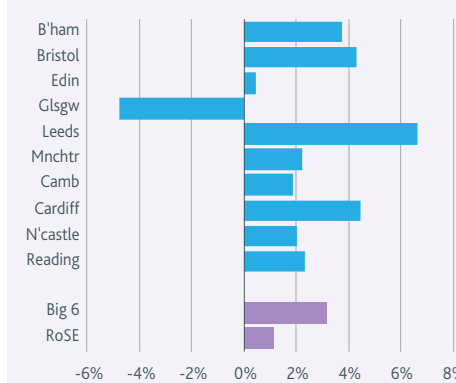
Source: CoStar, Jan 2026

12m market rental growth (%)



Source: MSCI, Jan 2026

Key Centres - 12m MRV growth (%)

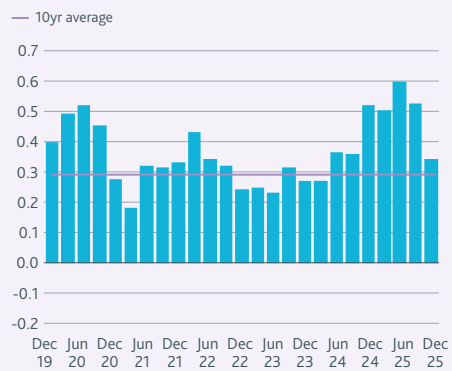


Source: MSCI, Jan 2026

At the end of Q3, 1.2 million sf of office space was under construction in the "Big 6" office markets in 12 buildings where 751,000 sf remained available, 38% having been pre-let. By the end of Q4, the Big 6 development pipeline had grown to 1.7 million sf in 14 buildings and availability has risen to 1.0 million sf after 39% of the space has been pre-let.

Latest additions to the pipeline include Plus Ultra Manchester, part of the Upper Brook Street Life Sciences and Innovation District. It comprises a £100 million+ development providing flexible laboratories, offices, cleanrooms and amenity space totalling around 217,000 sf on eight floors to support life sciences, advanced materials, tech and innovation companies, with adaptable floorplates suitable for mixed office and lab use. The building will be 100% electric, targeting high sustainability standards and scheduled for completion in Q1 2028.

UK excl. London development completions (msf)



Source: CoStar, Jan 2026



## Investment view

- Even as the UK's major regional office investment markets strengthened in Q3, overall investment performance disappointed compared to the All Property average in 2025.
- Manchester and Liverpool have attracted robust levels of inward investment, but the outstanding transaction of 2025 was the sale of the Daubney Project in Oxford to fund further expansion of the Science Park.

The average total return performance across all "Big 6" centres increased to 1.1% in Q4 from 0.9% in Q3 as capital growth improved to -0.4% from -0.9% in Q3. Total returns for the year to December increased to 3.8% from 3.5% in the year to September. This was disappointing compared to 2025's 7.1% All Property total return but an improvement on "Big 6" office performance of -2.3% in 2024. Capital values decreased by -2.7% y-o-y in December.

The UK's major regional office investment markets strengthened further in the third quarter when investment volumes increased by 14% to £228 million from £200 million in Q2 but were nevertheless -49% below the post-pandemic quarterly average of £440 million. Preliminary estimates suggest that investment volumes in Q4 decreased by -1% to £226 million. As usual the latest numbers for Q4 are likely to be revised in the coming months.

Investment volumes in the South East also increased in Q3, growing 49% to £285 million from £191 million in Q2. But preliminary estimates suggest that investment volumes in Q4 fell back -53% to £134 million.

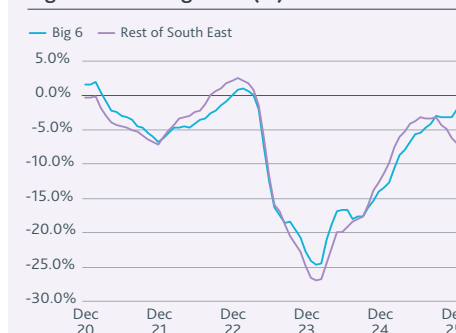
Manchester was the destination for almost 30% of investment in the "Big 6" markets in 2025 as investors bought 70 assets worth £146 million. Slightly more unexpectedly, investment in Liverpool's commercial office market reached £128 million in 2025 in only 13 transactions as we highlighted last quarter.

Oxford Science Park's sale of part of its estate to the Ellison Institute of Technology (EIT) to enable the expansion of the Ellison Institute's campus adjacent to the Park, dwarfed all other transactions in Q4. Three buildings on Edmund Halley Road known as the Daubney Project comprising 448,000 sf were sold for a combined price in the region of £890 million. EIT is planning to develop a further 2 million sf of laboratory and office space on the land purchased from The Oxford Science Park dedicated to health, medical science and generative biology; food security and sustainable agriculture; climate change and managing atmospheric CO2 and AI and robotics.

In Manchester Westminster House, 11 Portland Street and 201 Deansgate were sold in separate Q4 transactions. Westminster House was sold for £34 million by Aviva who had held the asset for 25 years, to a joint venture between

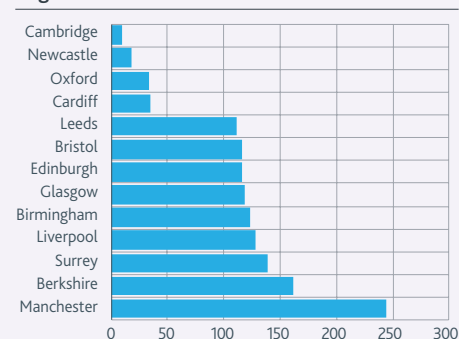
Cross Ocean Partners Management and RPG. The building comprises 160,000 sf let to Lloyds Banking Group and others. The multi-let five storey 201 Deansgate comprising 90,000 sf was sold by CBRE Investment Management to French Fund, Corum XL for £28.8 million. It was built in 1997 and refurbished in 2022.

Big 6 – 12m MRV growth (%)



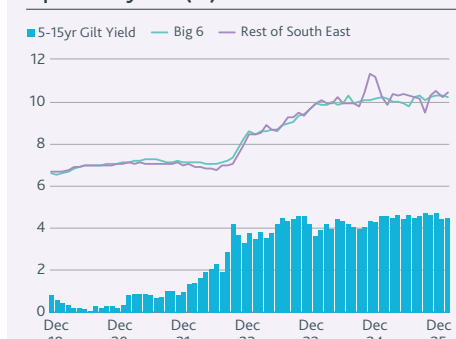
Source: MSCI, Jan, 2026

Regional office investment volumes 2025



Source: CoStar, Jan 2026

Equivalent yields (%)



Source: MSCI & Bank of England, Jan 2026

Featured investment transactions

Building	Price (£m)	Yield (%)	Price (psf)	Avg. uxp lease term (yrs)	Buyer
Oxford Science Park	890.00		1,882-2,164		Ellison Institute of Technology
Westminster House, Portland St. Manchester	34.00		191		Ocean Cross Ptnrs & RPG
18-20 Waterloo St. Glasgow G2	22.15	10.69 (niy)	233		Ediston & Strathclyde Pension Fund

Source: Cluttons, Jan 2026

## Rest of UK offices Summary tables

Take-up (msf)	Q3 2025	Q4 2025	5y avg.	Trending
Big 6	1.51	1.41	1.83	
Eastern	0.44	0.22	0.48	
Rest of UK	1.04	0.93	1.69	
South East	0.80	0.66	1.14	

Source: CoStar, Jan 2026

Vacancy rates	Q3 2025	Q4 2025	5y avg.	Trending
Big 6	9.7%	10.0%	9.4%	
Eastern	7.8%	7.8%	6.5%	
Rest of UK	7.5%	7.7%	7.2%	
South East	9.9%	9.6%	8.8%	

Source: CoStar, Jan 2026

Average rents (£psf)	Q3 2025	Q4 2025	Trending
Big 6	90.40	90.40	
Eastern	75.40	75.40	
Rest of UK	48.80	48.80	
South East	85.80	85.80	

Source: CoStar, Jan 2026

Completions ('000 sf)	Q3 2025	Q4 2025	5y avg.	Trending
Big 6	-	-	530	
Eastern	10	-	158	
Rest of UK	8	682	484	
South East	129	57	231	

Source: CoStar, Jan 2026

12m MRV growth	Q3 2025	Q4 2025	5y avg.	Trending
South East	1.13%	1.12%	1.48%	
Birmingham	2.11%	3.75%	3.53%	
Bristol	4.15%	4.28%	3.77%	
Leeds	6.53%	6.64%	3.85%	
Manchester	1.24%	2.21%	2.02%	

Source: CoStar, Jan 2026

Investment volumes (£m)	Q3 2025	Q4 2025	5y avg.	Trending
South East	284.79	134.15	513.98	
Birmingham	40.82	21.91	67.77	
Bristol	25.56	43.50	64.92	
Edinburgh	4.91	65.81	64.84	
Glasgow	19.83	63.08	57.31	
Leeds	18.37	11.64	60.27	
Manchester	90.65	21.94	145.72	

Source: CoStar, Jan 2026

Availability (msf)	Q3 2025	Q4 2025	5y avg.	Trending
Big 6	27.46	28.19	26.52	
Eastern	8.31	8.27	6.90	
Rest of UK	31.69	32.37	30.28	
South East	19.19	18.59	17.17	

Source: CoStar, Jan 2026

Construction ('000 sf)	Q3 2025	Q4 2025	5y avg.	Trending
Big 6	1,305	1,608	3,752	
Eastern	1,138	1,138	937	
Rest of UK	1,459	781	2,499	
South East	1,742	1,695	1,686	

Source: CoStar, Jan 2026

Prime yields (%)	Q3 2025	Q4 2025	Trending
M25 / Thames Valley	7.50%-8.00%	8.00%	
Prime Regional Centres	7.25%-7.50%	7.00%-7.25%	
Secondary Regional Centres	10.00%-20.00%	10.00%-20.00%	

Source: Cluttons, Jan 2026

# 8. Industrial focus

Online sales as a proportion of retail sales rose throughout 2025 and are now at the highest level since January 2022. Internet sales penetration of the UK retail market peaked at 37.2% in February 2021 during the third lockdown, but rapidly fell back the following year. However online sales now account for 28.3% of all retail, sustaining demand for logistics space.

Output of the Transport and Storage industry decreased in the three months to the end of November by -0.38% but grew by 2.33% y-on-y adding further support to the story of growing demand for logistics space. The sector has grown by 10.1% since the onset of the pandemic in February 2020 compared to growth of 5.7% from the whole economy.

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

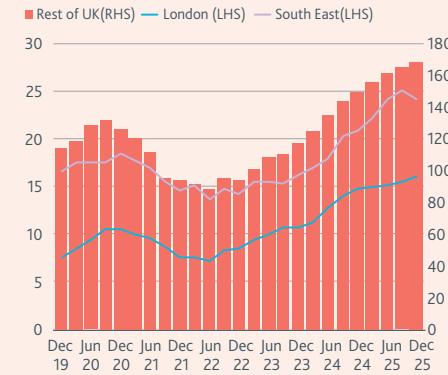
- Availability increases as take-up decreases causing rental growth to soften.
- Development completions, construction starts and the development continue to slip.

Availability of logistics space to let continues to increase across London and the Rest of the UK but has recently fallen in the South East. In Q4 2025 availability increased by 3.5% in London and by 1.8% in the Rest of the UK but decreased by -3.9% in the South East.

Across the UK the take-up of all industrial space decreased quarter-on quarter in Q3 by -33.4% whilst the demand for logistics space fell by a relatively modest -9.1% to 14.1 million sf. Preliminary figures for Q4 suggest that all industrial take-up has fallen by a further -24.5% quarter-on-quarter to 13.9 million sf.

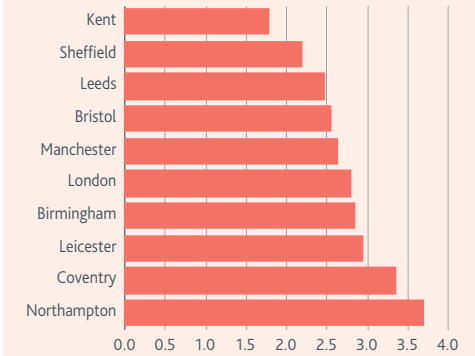
Two of the largest industrial and logistic lettings in Q4 2025 featured buildings in Kent. Panattoni are citing the letting of let 440,000 sf to ID Logistics at S440, Panattoni

### Logistics development (msf)



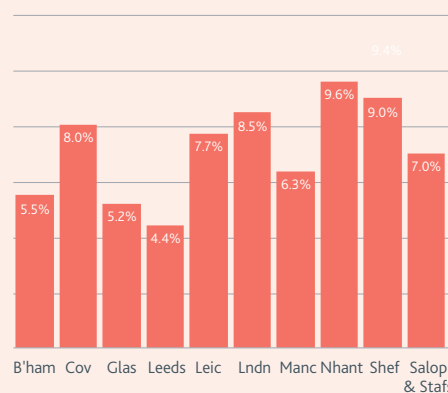
Source: CoStar, Jan 2026

### Logistics take-up by top 10 centres - 12m to December (m sf)



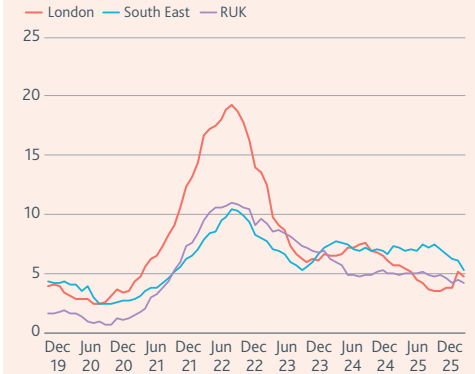
Source: CoStar, Jan 2026

### Logistics vacancy rates



Source: CoStar, Jan 2026

### 12m MRV growth rates



Source: MSCI, Jan 2026

Park, Sittingbourne as one of 2025's largest speculative deals in the South East. The warehouse has a 15 meter clear internal height with extensive level access doors and access via the A249 to the newly reconfigured Junction 5 of the M2. Less than 20 miles away, Ares Management let 246,000 sf at Aylesford 245 close to Junction 4 of the M20, to online retailer, Must Have Ideas as a distribution hub for the growing business.

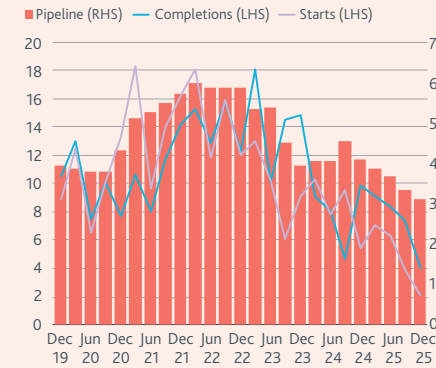
Given the recent uncertainty caused by the latest business rates revaluation it is not surprising that industrial market rental value (MRV) growth is trending downwards in some markets and showing signs of volatility in others. Although London MRV growth increased by 100 bps to an annual rate of 4.9% in December from 3.9% in September, in the 12 months to December 2024 it was higher still at 5.8%. South East MRV growth decreased to 5.4% y-on-y in December from 6.7% in September but MRV growth across the Big 6 regional centres rose to 5.5% y-on-y in December from 4.9% in September. In Birmingham 12m MRV growth was 5.2% and in Manchester it reached 6.2% in Q4 although that was a reduction from 6.5% achieved y-on-y in Q3.

A combination of weaker rental growth, softer valuations and high construction costs are constricting the industrial development

market. The amount of logistics space under construction has been declining since 2022 and decreased nationally by a further -6.1% in Q4 to 30.9 million sf from 32.9 million sf in Q4. Regionally, the Logistics Triangle dominates the development pipeline. This area in the East and West Midlands, within four hours driving distance of 90% of the British population, has 10.9 million sf under construction in 68 buildings. Most of this pipeline space is in and around Northampton where 7.35 million sf is under construction in 24 buildings.

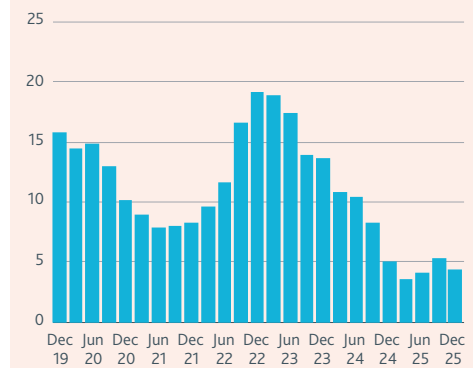
The largest speculative scheme in the Logistics Triangle is M1 XL just off J24 and J24A of the M1 in Sawley, Derbyshire near the East Midlands Airport. The building developed by specialist industrial and logistics property developer and investors, PLP and Indurent will provide 608,000 sf of warehouse space with a clear internal height of 18m and 60 dock-level loading doors. The development will be targeting a BREEAM "Excellent" rating for environmental performance; an EPC rating A+, indicating high energy efficiency together with provision for EV charging infrastructure and future-proofed PV solar roof readiness.

UK logistics pipeline and completions (m sf)



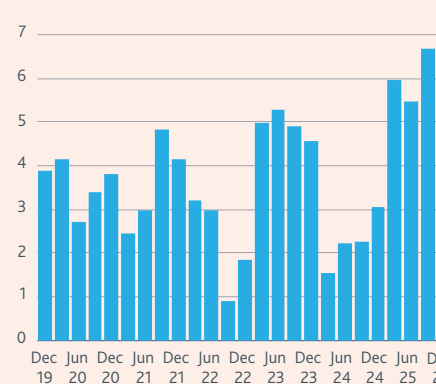
Source: CoStar, Jan 2026

Logistics triangle 12m net development completions (msf)



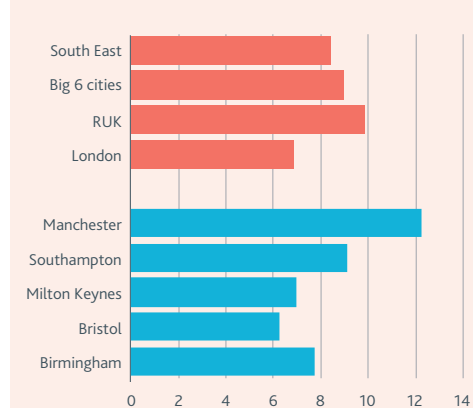
Source: CoStar, Jan 2026

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



Source: CoStar, Jan 2026

Key centre 12m total returns



Source: MSCI, Jan 2026

## Investment view

- **Industrial in London and the South-East is being outperformed by assets in the Rest of the UK, driven by higher income returns and stronger rental growth.**
- **London continues to attract the largest share of inward investment but the Rest of UK, including cities like Manchester and Bristol saw significant investment activity in 2025.**

Consistently, throughout 2025, Rest of UK industrials have outperformed London and the South-East due to a combination of higher income return and stronger rental growth. In Q4 y-o-y London industrial total returns decreased to 6.9% from 8.9% in Q3. Across the Big 6 regional cities, y-o-y total returns decreased to 9.0% in December from 11.8% in September; and in the South East y-o-y returns also decreased to 8.4% in Q4 from 11.9% a quarter earlier. In Manchester 12m total returns fell back to 12.2% in Q4 from 16.6% in Q3.

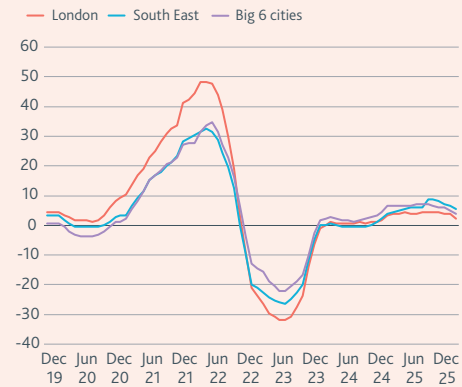
In all locations much of the yield tightening seen in the year to September was reversed in Q4. Yields for London industrials have marginally de-rated / softened over the last 12 months but have re-rated / hardened by an average of 12 bps in the Big 6 regional centres.

Industrial investment transaction numbers had been falling through H1 2025 but witnessed an uplift in Q3. All industrial Investment volumes<sup>1</sup> increased y-on-y in Q3 by 15.8% to £899 million in 824 transactions or, £1.834 billion in current value terms, from £776 million (£1.573 billion) in 781 transactions in Q2. Preliminary estimates indicate that investment volumes decreased to £646 million (£1.325 billion) in 998 transactions in Q4 compared to the ten-year quarterly average of £1.46 billion (£2.650 billion) and 1,073 transactions.

Despite the growing strength of performance from Rest of UK industrials, London attracted the largest slice of inward investment in the year to September amounting to £1.291 billion in value terms, but this was a 19% fall from £1.591 billion invested y-on-y in Q2. A further £4.071 billion was targeted across the Rest of the UK including Manchester, Birmingham, Liverpool, Bristol, Leeds Sheffield and Northampton.

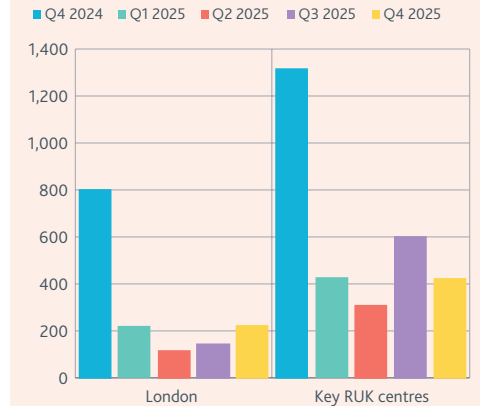
The strength of the Bristol market was demonstrated in Q4 when Mountpark Bristol 360, a 361,000 sf BREEAM outstanding, EPC A+ warehouse let to Waitrose for 15 years at an annual rent of £3.1 million was sold to Leftfield (Fund III) by Affinius Capital, in partnership with its wholly owned development subsidiary Mountpark. The purchaser is a non-listed specialist UK warehouse and distribution property fund with institutional and private investors.

### 12m capital growth



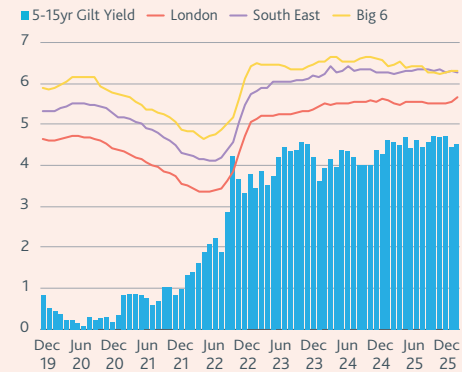
Source: MSCI, Jan 2026

### Industrial investment (£m)



Source: CoStar, Jan 2026

### Equivalent yields (%)



Source: MSCI, Jan 2026



<sup>1</sup> Investment volumes are the quarterly value of investment transactions adjusted for capital growth over the analysis period and provide a measure of transaction activity that is not obscured by changes in value.

In November KSP announced that its GLI investment platform, a joint venture with PATRIZIA, had completed the sale of PR1 in Park Royal, London NW10 to Tritax London Logistics Fund for £43.9 million. The 61,600 sf warehouse was styled as ultra-sustainable and achieved net zero in construction. It is fully let to Classic Fine Foods serving prestigious restaurants, hotels and gourmet outlets across Central London.

One sector seeing plenty of activity is Data Centres which can be categorised as either “hyperscale” or “Colocation”. Hyperscale data centres, owned by major cloud providers, offer massive, automated infrastructure for large-scale workloads. Colocation facilities, owned by third parties, provide flexible space for businesses to house their own hardware. Slough currently has the largest concentration of “hyperscale” centres in the UK amounting to 1.5 million sf with a further 1.27 million sf proposed. However, this is dwarfed by proposals to develop 12.5 million sf at the Humber Tech Park and Elsom Wolds Industrial Estate in North Lincolnshire.

**Featured investment transactions**

Building	Price (£m)	Yield (%)	Price (£ psf)	Avg. uxp lease term (yrs)	Buyer
PR1, Park Royal	43.90	4.47 (niy)	706	13	Tritax
Panattoni Poyle 80, Slough	37.80		477	Owner Occupier	Davies Turner Air Cargo
Mountpark Bristol 360	55.55	5.50 (niy)	154	15.0	Leftfield (Fund III)

Source: Cluttons, Jan 2026



# Industrial focus

## Summary tables

### Availability (msf)

	Q3 2025	Q4 2025	5y avg.	Trending
London	18.21	18.98	13.43	
South East	30.50	29.99	21.10	
Logistics Triangle	52.00	52.84	37.65	
Manchester	12.07	11.49	8.57	
Leeds	6.84	7.25	6.13	
Rest of UK	127.16	131.20	96.22	

Source: CoStar, Jan 2026

### Take-up (msf)

	Q3 2025	Q4 2025	5y avg.	Trending
London	1.24	0.79	1.35	
South East	1.72	3.22	2.82	
Logistics Triangle	6.32	3.29	6.65	
Manchester	0.80	0.74	1.04	
Leeds	0.29	0.39	1.10	
Rest of UK	8.08	5.50	12.12	

Source: CoStar, Jan 2026

### Vacancy rates

	Q3 2025	Q4 2025	5y avg.	Trending
London	8.2%	8.5%	6.0%	
South East	7.6%	7.5%	5.4%	
Logistics Triangle	6.6%	6.7%	4.9%	
Manchester	5.6%	5.4%	4.0%	
Leeds	3.8%	4.0%	3.4%	
Rest of UK	5.9%	6.1%	4.6%	

Source: CoStar, Jan 2026

### Completions ('000 sf)

	Q3 2025	Q4 2025	5y avg.	Trending
London	1,064	324	446	
South East	914	851	1,492	
Logistics Triangle	2,127	891	3,289	
Manchester	373	-	349	
Leeds	2	-	489	
Rest of UK	4,810	2,401	6,301	

Source: CoStar, Jan 2026

### Construction ('000 sf)

	Q3 2025	Q4 2025	5y avg.	Trending
London	3,997	6,004	3,321	
South East	5,688	5,193	6,852	
Logistics Triangle	11,125	11,041	15,023	
Manchester	797	995	1,266	
Leeds	1,039	1,042	2,234	
Rest of UK	20,916	19,758	27,345	

Source: CoStar, Jan 2026

### 12m MRV growth

	Q3 2025	Q4 2025	5y avg.	Trending
London	4.9%	4.8%	8.6%	
South East	3.8%	4.0%	6.8%	
Logistics Triangle	4.5%	3.6%	5.8%	
Manchester	7.8%	6.5%	9.6%	
Leeds	5.3%	5.1%	7.1%	
Rest of UK	5.0%	4.4%	6.5%	

Source: CoStar & MSCI, Jan 2026

### Average rents (£psf)

	Q3 2025	Q4 2025	Trending
London	20.20	20.30	
South East	13.20	13.20	
Logistics Triangle	9.00	9.00	
Manchester	8.20	8.30	
Leeds	7.50	7.50	
Rest of UK	8.30	8.30	

Source: CoStar, Jan 2026

### Investment volumes (£bn)

	Q3 2025	Q4 2025	5y avg.	Trending
London	150.33	223.69	565.28	
South East	267.92	373.68	471.04	
Logistics Triangle	264.16	286.16	693.29	
Manchester	130.98	79.88	137.34	
Leeds	106.29	54.65	113.18	
Rest of UK	914.40	301.15	1312.19	

Source: CoStar, Jan 2026

### Prime yields (%)

	Q3 2025	Q4 2025	Trending
Prime Distribution Sheds –OmrV	5.25%	5.50%	
Secondary Distribution Sheds	6.00%-6.25%	6.00%-6.50%	
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, Jan 2026

# 9. Retail focus

According to January’s BRC Retail Sales Monitor , the 2025 festive trading period was marked by volatility but enjoyed a post-Christmas rebound in physical store footfall and sales. Many Non-Food categories were sluggish, with a few bright spots, including Toys, Home Accessories and Gaming. Retail sales were up 1.2% in 2025 compared to growth of 0.4% in 2024.

In a Christmas Trading Statement, Next reported that growth in the UK slowed but not by as much as expected. UK growth was +5.9%, compared to previous guidance of +4.1%. International Online sales were up +38.3%. Next expects continuing pressures on UK employment are likely to filter through into the consumer economy and growth to be lower in 2026.

At M&S, Food performed strongly with like – for – like food sales up 5.6%. Fashion, Home & Beauty sales decreased 2.5 % as online sales growth was offset by a decline in store sales. This performance reflected reduced high street footfall, and the continuing impact of the data breach earlier in the year. New and refurbished stores outperformed the rest of the business, with new locations such as Cannock and the recently extended Chiswick store exceeding expectations.

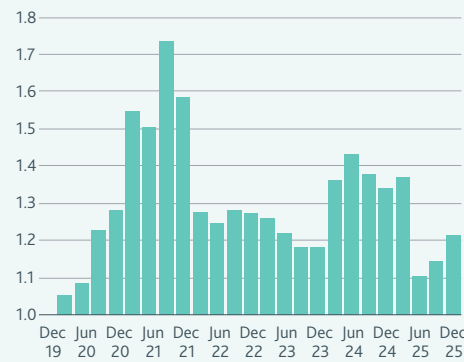
## Occupational view

- Availability continued to fall for the fourth consecutive quarter, mainly due to conversions to alternative uses rather than new lettings.
- Rental value growth continues across the retail sector. Shopping Centre and Retail Park rents continue to improve. Particularly strong MRV growth in Central London was balanced by weaker market conditions in the South East and Rest of UK.

In December 2025 annual take up of all retail space was -20.3% lower than a quarter earlier and -28.4% lower compared to the same quarter last year. However, all retail net absorption rates were positive for the second quarter. A negative reading indicates that more space is being released onto the market than is being let.

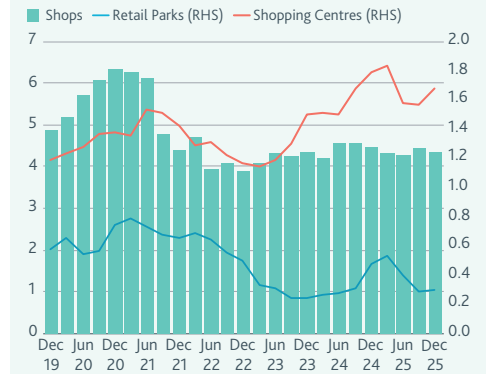
Weak take-up was experienced across all retail formats in 2025. In Q4 nationwide Retail Park lettings fell for the fourth consecutive. Between December 2025 and December 2024 y-on-y take up has decreased by -32.9%. The amount of Shopping Centre space let fell by -22.4% y-on-y and take-up was -30.9% lower than the same quarter last year. The amount of traditional retail space let y-o-y decreased by -17.3% in Q4 compared to Q3 and has been falling for four consecutive quarters.

Central London shop availability ('000 sf)



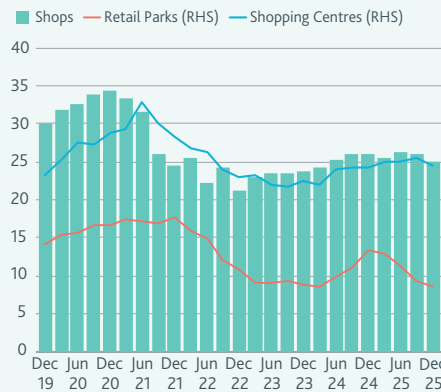
Source: CoStar, Jan 2026

South East retail availability (msf)



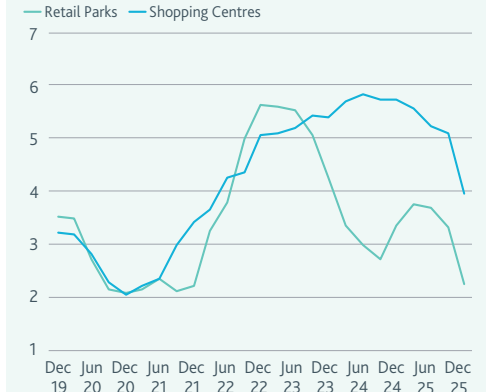
Source: CoStar, Jan 2026

Rest of UK Retail availability (msf)



Source: CoStar, Jan 2026

Rolling 12m take-up (msf)



Source: CoStar, Jan 2026

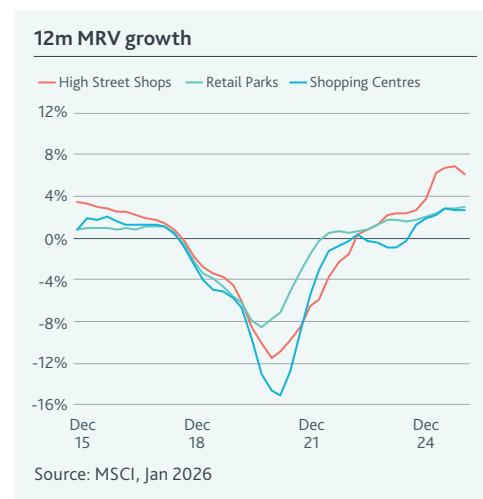
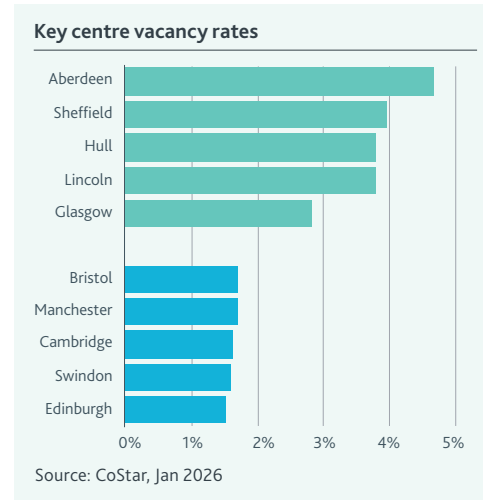
Ikea is shifting focus from out-of-town megastores to compact urban formats in Britain due to rising property taxes and changing shopping habits. This strategic shift, influenced by factors like the new surcharge on commercial properties, aims to improve fulfilment, click-and-collect, and in-store services. The success of smaller stores like Oxford Street and Brighton has prompted Ikea to explore mid-sized stores in retail parks as well.

The amount of all UK retail space available to let decreased for the fourth consecutive quarter by -2.4% in Q4. Shopping Centre availability fell by -1.3% and Retail Park availability decreased by -5.0% having previously fallen by -17.6% in Q3. The availability of traditional shops decreased slightly by -2.5%. As take-up is also decreasing it is possible that this decrease in availability is being driven by the conversion of retail premises for alternative use.

The Chimes Shopping Centre in Uxbridge secured three new restaurant lettings in the former Debenhams space to Pizza Express, Taco Bell and Afrikana. Pizza Express opened a 3,000 sf restaurant on the High Street before Christmas, while Taco Bell has taken a 3,800 sf unit over the ground and mezzanine floors and Afrikana has also taken 3,200 sf.

All Shopping Centre market rental values (MRV) have grown by 2.7% in the year to December, the same as in September and an improvement on growth of 1.8% y-on-y a year earlier. Retail Park rental growth continues to be stronger and was 2.9% in the 12-months to December 2025, as it was in September. Strongly positive MRV growth for standard high street shops continued in Q4 2025 although growth of 6.9% y-on-y in

September fell to 6.1% in December. There is, however, a noticeable division between y-on-y growth of more than 9% for Central London shops and less than 2% for South East and Rest of UK shops.



## Investment view

- The retail sector continues to deliver robust performance, chiefly driven by high income returns but performance from Shopping Centres and Retail Parks has declined since mid-2025, with capital growth and total returns both lower in Q4 compared to earlier in the year.
- Investment volumes across all retail formats have decreased through 2025. Despite this, significant sale-and-leaseback deals and large-scale acquisitions, such as Asda's £196 million supermarket deal and Hammerson's acquisition of The Oracle, show that high-value transactions are still taking place, particularly in the Shopping Centre segment.

High income returns and a re-rating in yields continue to drive strong performance numbers from the Retail Sector. However, the indices suggest that yields for High Street shops in general have hardened by more than 100 bps in Q4 while Central London yields have softened by 27 bps. Shopping Centre yields softened / increased by 18 bps in Q4 and by 59 bps over the whole of 2025. Meanwhile Retail Park yields continue to fall by 5 bps in Q4 and 18bps in 2025.

The investment performance of Shopping Centres and Retail Parks has been in decline since June 2025. Shopping Centre capital growth in the year to December 2025 decreased to 0.2% from 2.5% in September and total returns decreased to 10.0% from 12.4% in September. Retail Park total returns slipped to 8.5% y-on-y in December from 10.4% in September. High Street shop performance fell back in Q4 as total returns decreased to 8.8% from 9.1% in Q3 but were still more than double the performance of 4.0% in the year to December 2024.

Retail Park investment volumes<sup>2</sup> decreased y-on-y in Q3 by -17.9% to £2.738 billion in 337 transactions or, £2.707 billion in current value terms, from £3.334 billion (£3.277 billion) in 397 transactions in Q2.

Shopping Centre investment volumes decreased y-on-y in Q3 by -18.7% to £4.352 billion in 126 transactions or, £1.727 billion in current value terms, from £5.354 billion (£2.109 billion) in 135 transactions in Q2.

Investment in traditional high street shops decreased q-on-q throughout 2025. Preliminary estimates indicate that All Retail investment volumes decreased by -24.1% to £9.978 billion (£7.164 billion) in 4,846 transactions in Q4.

12-month total returns



Source: CoStar, Jan 2026

Rolling 12m total returns



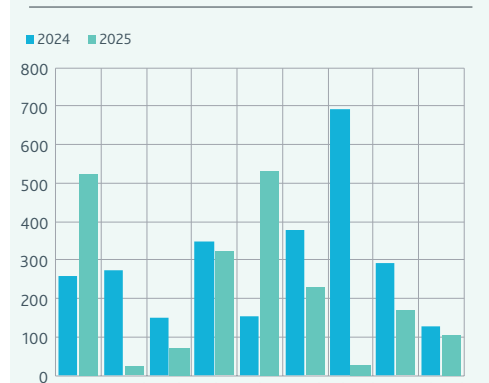
Source: MSCI, Jan 2025

Retail investment volumes (£m)



Source: CoStar, Jan 2026

Key centre investment (£m)



Source: CoStar, Jan 2026

<sup>2</sup> Investment volumes are the quarterly value of investment transactions adjusted for capital growth over the analysis period and provide a measure of transaction activity that is not obscured by changes in value.

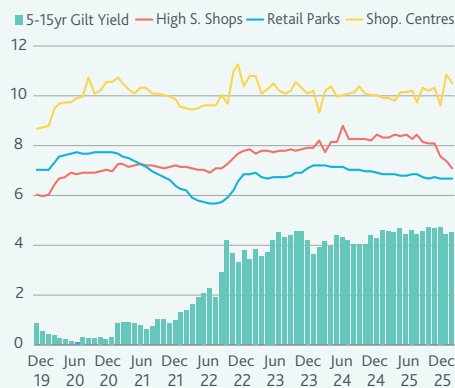
Whether they are a truly a real estate deal or financial engineering, sale and leaseback transactions have seemingly never gone out of fashion. In Q4 Asda sold ten of its “omnichannel” supermarkets that support both in-store and online operations in a sale-and-leaseback deal. The total value of this sale was £196 million. These 10 stores were acquired by a joint venture (JV) between Supermarket Income REIT and Blue Owl Capital. Asda will lease back the properties under 25-year leases, with an option to extend for a further 10 years. Rent reviews are linked to CPI (Consumer Price Index) inflation, with a cap of 4% and a floor of 1% per year. The “passing rent” (i.e., the current rent Asda will pay) averages at £19.90 per sf.

Hammerson continued to buy out its shopping centre investment partners and acquired the remaining 50% interest in The Oracle shopping centre in Reading for £104.5 million. This acquisition, funded from existing cash, provides a stable yield and the opportunity to capture future growth. The Oracle has seen recent repurposing, additional leasing deals, and increased occupancy, with further value unlocking opportunities planned.

Other Shopping Centre investment transactions were also prominent in Q4 including USA based Realty Income’s acquisition of The Lexicon shopping centre in Bracknell for £150 million; the purchase of St James Quarter, Edinburgh for £250 million by Unibail-Rodamco-Westfield; and Fraser Group’s acquisition of Braehead Shopping Centre, Glasgow and Swindon Designer Outlet.



#### Equivalent yields (%)



Source: MSCI, Jan 2026

#### Featured investment transactions

Building	Price (£m)	Yield (%)	Price (£psf)	Avg. uxp lease term (yrs)	Buyer
St James Quarter, Edinburgh (25% stake)	250.00	7.30 (niy)	1,157		Unibail-Rodamco-Westfield
Braehead Shopping Centre	270.00	9.60 (niy)	200		Fraser Group
Sprucefield Retail Park, Lisburn	48.900	7.10 (niy)	212		Realty Income Corp
Tesco Extra, Aylesbury	56.00	5.20 (niy)	622	11 yrs	Supermarket Income REIT
Monks Cross Shopping Centre, York	70.10	7.50 (niy)	255		Royal London
Goldstone Retail Park, Brighton	43.30	5.30 (niy)	528		Swiss Life

Source: Cluttons, Jan 2026

## Retail focus

### Summary tables

#### Availability (msf)

	Q3 2025	Q4 2025	5y avg.	Trending
London	5.34	5.47	5.41	
South East	4.43	4.37	4.60	
Rest of UK	26.26	25.28	25.94	
Shopping Centres	10.11	9.98	10.33	
Retail Parks	3.30	3.13	4.46	

Source: CoStar, Jan 2026

#### Take-up (msf)

	Q3 2025	Q4 2025	5y avg.	Trending
London	0.692	0.428	0.816	
South East	0.546	0.351	0.730	
Rest of UK	2.131	1.696	2.998	
Shopping Centres	1.160	0.490	1.150	
Retail Parks	0.372	0.160	0.878	

Source: CoStar, Jan 2026

#### Vacancy rates

	Q3 2025	Q4 2025	5y avg.	Trending
London	3%	3%	3%	
South East	2%	2%	2%	
Rest of UK	3%	3%	3%	
Shopping Centres	4%	4%	5%	
Retail Parks	2%	2%	3%	

Source: CoStar, Jan 2026

#### Completions ('000 sf)

	Q3 2025	Q4 2025	5y avg.	Trending
London	43.66	126.57	259.38	
South East	18.32	138.57	182.19	
Rest of UK	349.97	181.03	789.42	
Shopping Cen.	-	-	61.56	
Retail Parks	1.85	-	83.25	

Source: CoStar, Jan 2026

#### Construction ('000 sf)

	Q3 2025	Q4 2025	5y avg.	Trending
London	670	567	1,361	
South East	636	498	788	
Rest of UK	1,843	1,874	2,909	
Shopping Cen.	-	-	110	
Retail Parks	5	7	207	

Source: CoStar, Jan 2026

#### 12m MRV growth

	Q3 2025	Q4 2025	5y avg.	Trending
London	10.7%	9.1%	2.1%	
South East	1.2%	1.4%	-1.0%	
Rest of UK	2.8%	1.7%	-0.5%	
Shopping Centres	2.7%	2.7%	-0.5%	
Retail Parks	2.9%	2.9%	1.1%	

Source: MSCI, Jan 2026

#### Average rents (£psf)

	Q3 2025	Q4 2025	Trending
London	43.50	43.70	
South East	25.80	26.00	
Rest of UK	19.00	19.10	
Shopping Centres	33.90	34.30	
Retail Parks	20.90	21.10	

Source: CoStar, Jan 2026

#### Investment volumes (£bn)

	Q3 2025	Q4 2025	5y avg.	Trending
London	223.09	162.58	527.95	
South East	217.35	275.24	308.49	
Rest of UK	560.04	592.53	848.33	
Shopping Cen.	371.50	641.55	383.60	
Retail Parks	97.17	202.00	552.49	

Source: CoStar, Jan 2026

#### Prime yields (%)

	Q3 2025	Q4 2025	Trending
Prime Shops	6.25%-6.50%	6.25%-6.50%	
Secondary Shops	7.50%-9.50%	7.50%-9.50%	
<b>Shopping Centres</b>			
Prime – Dominant Regional	8.00%	7.50%-8.00%	
<b>Retail Warehouse</b>			
Prime Parks (Open A1/Food Store)	5.25%	5.25%	
Prime – Solus (15Yrs/10Yrs)	5.75%-6.25%	5.75%-6.25%	

Source: Cluttons, Jan 2026

# 7. Outlook & house view

- November's IPF consensus outlook shows that All Property commercial market performance is expected to improve from 7.1% to 8.3% in 2026.
- Market rental value growth is expected to slow in 2026 but, supported by some key segments, will remain above the 2% post GFC annualised average. Our house view is that All Property total returns will reach 9.0% in 2026, with a three-year annualised forecast of 8% through to 2028.

Forecasters' confidence in a recovery of the UK's commercial property market weakened further as the end of the year approached. Consequently, November's Investment Property Forum (IPF) consensus forecasts for total returns in 2025 decreased to 6.9% from 7.6% in August. This final adjustment proved to more accurately reflect the eventual outcome for 2025 of 7.1%. At the start of the year the consensus All Property total return outlook was a more optimistic 9.0%.

November's IPF consensus outlook for 2026 also weakened from 8.7% to 8.3%. However, 2026 is expected to mark the high point of the recovery and expectations slip back thereafter. The IPF's average annualised total return forecast over the next three years

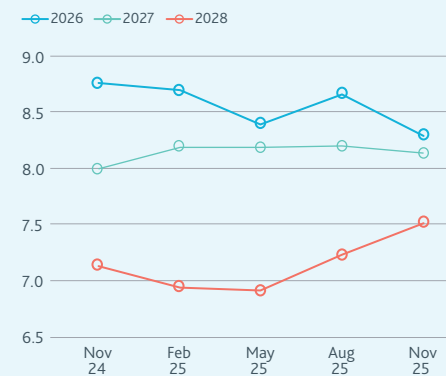
to the end of 2028 remains at 8.0% as it was in August.

Total return expectations for 2026 decreased across all segments in November's survey except Retail Warehouse and West End Offices. Expectations for 2026 are highest for Shopping Centres, Retail Warehouses and West End Offices although the performance of Shopping Centres is expected to decline from 11.9% in 2025 to 8.7%. The outlook continues to be weakest for Rest of UK offices.

The range of forecasts for 2026 narrowed in November, with the highest prediction at 9.8% and the lowest at 7.3%, a range of 2.5%, compared to 3.3% in August, suggesting the consensus view is narrowing in the face of the uncertain economic headwinds. The range of forecasts for 2027 has increased to 4.1% for 2027, ranging from 5.8% to 9.9% reflecting that uncertainty increases the further out the forecast horizon.

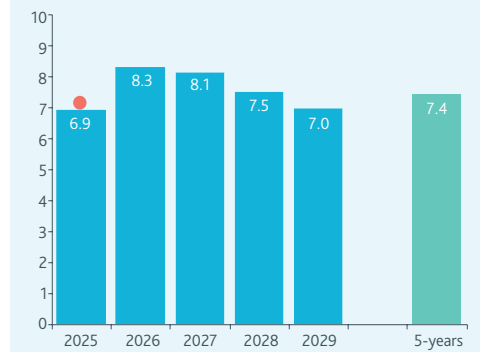
The Q4 2025 RICS UK Commercial Property Monitor results continue to reflect subdued market conditions, although there are some tentative signs of a more positive shift emerging. There has been an increase in the number of respondents that believe conditions are consistent with the early stages of an upturn across the market. Occupier sentiment has improved slightly although tenant demand

IPF Consensus forecast evolution (%)



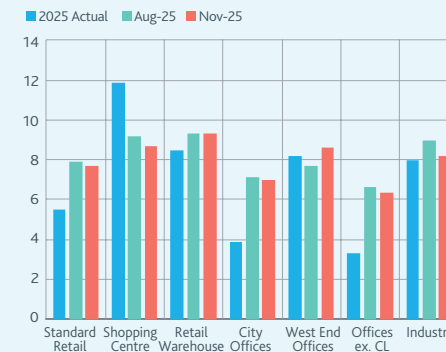
Source: IPF, Nov 2025

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



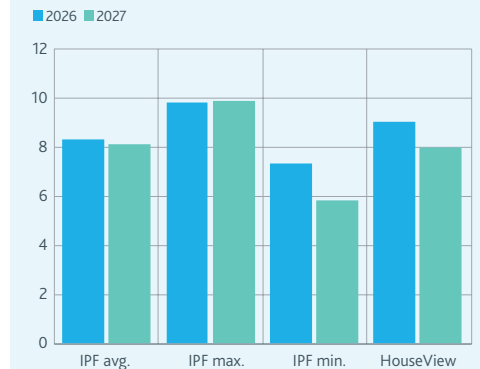
Source: IPF, Nov 2025

IPF 2026 total return forecasts by sector Nov 25 v Aug 25 (%)



Source: IPF, Nov 2025

UK commercial total return forecast range (%)



Source: IPF, APR & Cluttons, Nov 2025 & Jan 2026

continues to fall particularly in the retail sector. Rental projections for prime office and industrial sectors have improved, while prime retail rents remain flat and secondary office and retail rents are expected to decline. Investment market sentiment improved slightly in Q4. Capital value expectations were upgraded for prime industrial and office properties. However, the retail sector continues to reflect a divergence between the outlook for prime assets which are expected to benefit from capital growth and secondary assets characterised by negative expectations.

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. We started last year believing that the momentum behind UK commercial real estate's recovery would continue and that All Property total returns of 7.0% in 2024 would grow to 10% in 2025. We soon realised that weak economic growth combined with a troublesome inflationary outlook and increasing risk free rates had created strong headwinds that would slow the recovery in commercial property values and reduced our guidance to 8.0% in March and 7.0% in June, close to the eventual outturn of 7.1%.

A fifth consecutive reduction in UK base rate to 3.75% was only announced in December and it may be too soon to detect any improved appetite from the UK's commercial real estate investors. As noted above, capital growth in

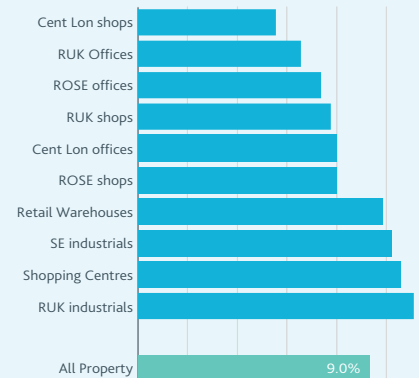
2025 remains limited, income is the main driver of performance and transaction numbers remain underwhelming. However, we are more optimistic this quarter that inflation will continue on a downward track allowing the MPC to further reduce base rate to boost the sub-par performance of the economy.

Macro-economic fundamentals suggest that market rental value growth may slow further from the current 3.4% y-on-y rate. But growth will nevertheless remain relatively strong in selected segments of the market. The outlook for yields is also improving. It is to be hoped that recent tax rises have re-assured the bond market. National Statistics has just reported that the UK borrowed less than expected in December. Public sector net borrowing totalled £11.6bn, below the £13bn forecast by economists polled by Reuters and 38% lower than in the same month a year earlier. A reduction in the risk free rate used to benchmark the capitalisation rate of property income could be one outcome. The favourable view of the UK from overseas investors highlighted by INREV's 2026 Investment Intentions Survey may also provide a welcome fillip to the investment market this year.

Accordingly, we now expect All Property total returns of 9.0% in 2026 and 8.0% annualised over the three years ending 2028. However, this forecast must come with a warning regarding the threats to financial markets from the prevailing geo-political instability.

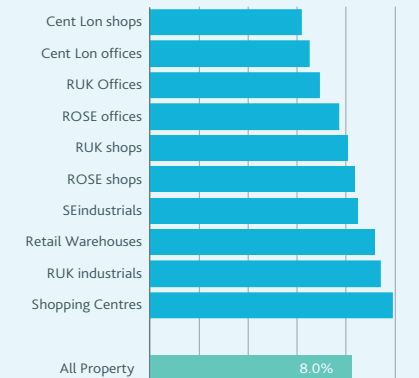


Cluttons house view – 2026 relative total returns (%)



Source: IPF, APR & Cluttons, Jan 2026

Cluttons house view - 2026-2028 relative total returns (%)



Source: IPF, APR & Cluttons, Jan 2026

## Uniform Business Rate update from

Commercial properties in England, Wales, and Scotland have been revalued. The Valuation Office Agency in England estimated the assessment based on the rent that would have been paid on 1st April 2024.

There have been some substantial increases in assessment, but other sectors have benefitted from a more conservative approach. In some cases, the Valuation Office may lack relevant evidence to support larger increases or decreases.

Large high bay distribution warehouses were expected to see large increases but seem to have been spared from this outcome. In some cases, assessments are at 2/3 of their potential value.

Conversely, we expected substantial decreases in assessments for secondary shopping centres, but this hasn't happened. Some centre assessments have remained the same or even increased despite evidence suggesting otherwise. The Valuation Office's cautious approach to increasing assessments may be due to concerns about challenges and reductions. They also seem to have avoided substantially reducing assessments, especially in struggling sectors like secondary retail centres.

We also have concerns regarding the multipliers announced in the Chancellor's budget speech. Though diminished, intricate reliefs still cause complications. In Retail, Hospitality & Leisure, a blanket 40% relief was replaced by three multipliers based on property rateable value. Strict rules determine ratepayer benefits, making liability calculations unique. Billing Authorities may struggle with accurate rate demands, leading to challenges.

Compounding matters, the Government introduced a transitional relief scheme limiting yearly liability increases based on rateable value to a preset percentage. While welcome, it represents a complication and any relief will be lost if the ratepayer changes. Moreover, if the property does not benefit from transitional relief there is a surcharge applicable to the multiplier from those who are benefiting from the relief.

The system may be falling into disrepute and is certainly becoming increasingly complex to administer. The public house sector has been particularly affected, with substantial increases in assessment that haven't been offset by a multiplier that provides the same level of relief as under the current scheme. The problem is that properties in this sector were last valued for the 2023 Revaluation with reference to trade as of 1st April 2021, at the height of the pandemic. The latest valuation date is 1st April 2024, by which time trade had recovered significantly. Consequently, properties in this sector have seen substantial increases in liability, leading to outcry from publicans and chain operators. The Government is looking at this and may reduce the multiplier for public houses to offset the substantial increases. Details are likely to be revealed to allow Billing Authorities to amend their records.

## Upward only rent reviews update

The Government's proposed ban on upward-only rent reviews, part of the English Devolution and Community Empowerment Bill, has reached the House of Lords committee stage.

During the Public Bill Committee stage, some MPs raised concerns about the Government's proposal, warning it could deter commercial investment and create unintended consequences in sectors such as logistics. Mike Reader MP highlighted that Ireland introduced protections alongside bans, while David Simmonds MP argued the change could undermine contractual freedom and lead to complex workaround leasing structures. The Government pushed back, insisting the ban is overdue, internationally standard, and essential for fairer, more flexible leasing that supports small businesses and high streets, stressing that landlords still have viable alternative rent setting tools and that the existing system is illogical and harmful.

Intended to support small businesses and revive high streets, the ban has sparked wider debate and criticism due to limited consultation and potential impacts on investors. Upward-only rent reviews have long underpinned confidence in commercial leases, and their removal could have significant implications for landlords and their portfolios.

The ban will apply to all review mechanisms, and capture attempts to circumvent through methods such as side letters but will not be retrospective. It will only affect tenancies entered after the Bill's implementation. Stepped or fixed rental uplifts will remain permitted. Recent amendments to the draft Bill address inconsistencies between leases and subleases and clarify that tenancies where the tenant is not in physical occupation will also be captured.

Whilst revitalising town centres is a worthy aim, blanket legislation risks unintended consequences in a complex market. Former Treasury analyst Martin Beck estimates the removal of upward-only rent reviews could reduce commercial property values by 15%, equating to an £11bn loss across the sector. Beck also warns of reduced investor appetite for large-scale developments, such as data centres, where guaranteed returns are critical.

Potential knock-on effects are not just limited to the landlord community. A two-tier market may emerge, disadvantaging incumbent occupiers compared to new tenants until renewal. Although average lease lengths have fallen below seven years across all sectors segments of the market incurring significant fit-out costs often favour longer terms. These occupiers could remain outside the new regime for years, unable to align with evolving norms.

How might the market respond:

- Shorter lease terms and increased prevalence of contracted-out leases.
- Landlords having to balance guaranteed returns against maximising rental value for new developments, with potentially reduced investment and lending.
- Greater reliance on alternatives to market reviews, such as stepped rents, fixed increases, or index-linked mechanisms (e.g., CPI + 1%).

Supporting commercial occupiers is welcome, but investor and landlord needs must also be considered. More targeted relief would likely be a better solution than a one-size-fits-all approach, minimising uncertainty and disruption in the market at a time when confidence is paramount.

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