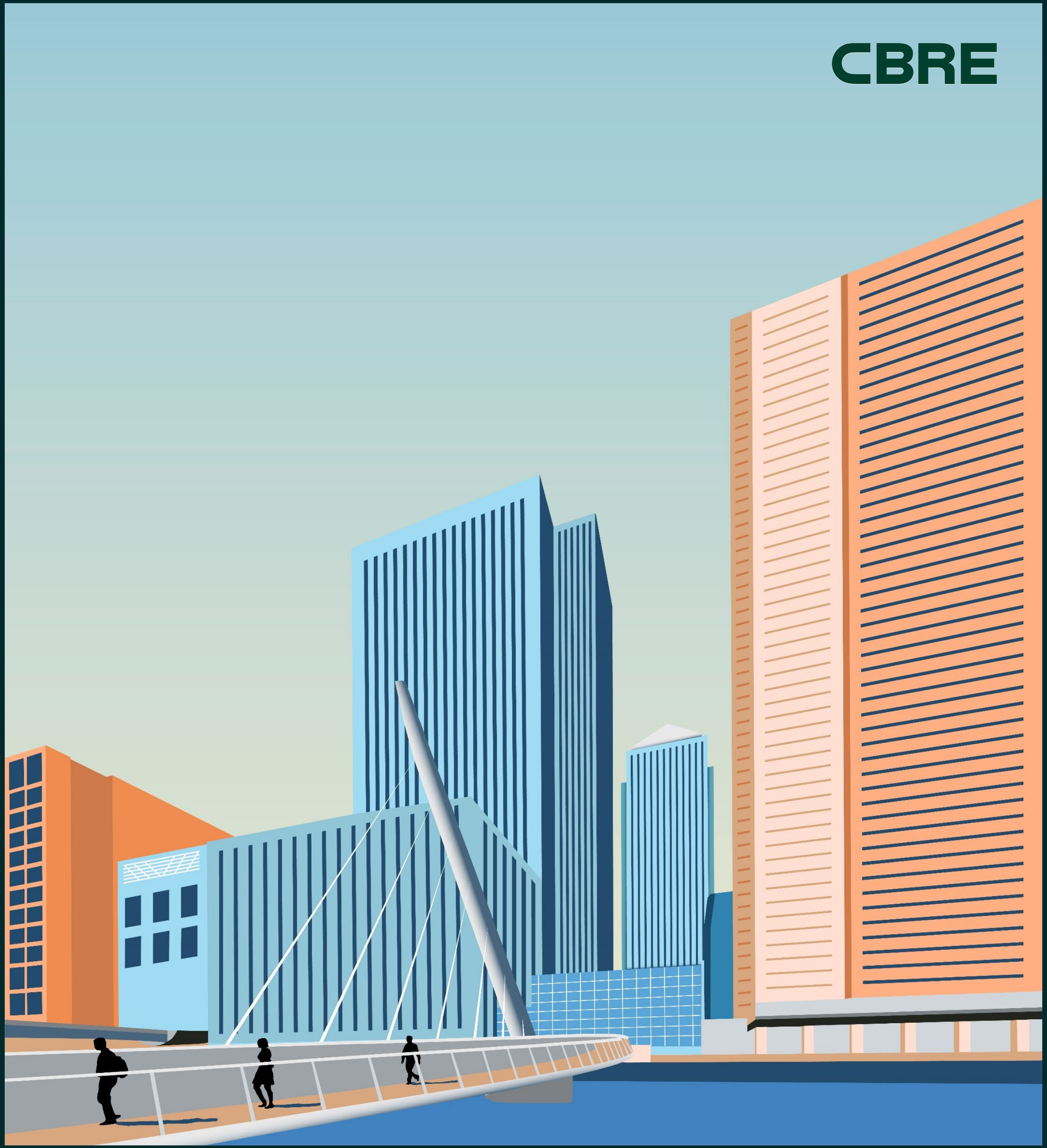
Intelligent Investment

2025 UK Real Estate Market Outlook Mid-Year Review

REPORT

UNITED KINGDOM
REAL ESTATE

CBRE RESEARCH
AUGUST 2025



Overview

Welcome to CBRE's 2025 UK Real Estate Market Outlook Mid-Year Review, in which we look back and evaluate our expectations for 2025 made at the beginning of this year.

At the outset of 2025, the **economic** environment had begun to stabilise and inflationary pressures had reduced. Last year's General Election and Budget announcements set new agendas for the UK and established certainty and focus for the year ahead.

The first half of this year has seen a slight increase in inflation, expected to peak in the summer, but reasonable price stability has persisted. Consumer activity has continued to show positive signs through a rise in retail sales despite the slowdown in wage growth, and continued uncertainty globally. We expect consumption to continue to drive growth as we anticipate a reduction in inflation and further interest rate cuts by the Bank of England later this year.

We are yet to see direct Government investment into the key areas mentioned in the Autumn Budget. However, Government spending has increased, indicating that we could begin to see progress across a broad range of Government initiatives such as the National Planning Policy Framework (NPPF) and The UK's Modern Industrial Strategy 2025.

Real estate investment in the UK is yet to see a full recovery. Transaction activity in H1 fluctuated in reflection of economic uncertainty, although the **office** sector saw a rebound in investment.

Other signs of recovery are evident through continued capital growth, the progression of major transactions, and improved sentiment towards lending, particularly on prime assets. We expect an uptick in investment volumes in the second half of this year, including a recovery in investment for larger lot sizes, as well as continued M&A activity in the listed sector. However, the potential impact on investment from recently announced proposals to reform rent reviews needs further consideration.

The **occupational** market for commercial real estate assets has been underpinned by steady demand drivers such as growing household incomes, rising e-commerce penetration, and growth in office-based employment. Focusing on the **retail, office, and industrial** sectors, prime assets have demonstrated rental growth, which is expected to continue throughout the remainder of this year.

2025 is a key year for the **living** sector. The Government's pledges to boost supply are now translating into action, showing that they are committed to fixing the country's housing crisis. This will be hugely positive for the living spectrum, with investment across sectors including Build-to-Rent, student accommodation, and affordable housing expected to be strong.

Alternative asset types will continue to play a crucial role as our demands for healthcare, digital technologies, and a sustainable future increase. Although demand is growing, supply is still insufficient in some sectors. Stimulating new development and improving infrastructure is essential to make headway. We expect planning policy reform and wider governmental initiatives to support this change, alongside private investment, in the drive to improve economic growth in 2025 and beyond.

Tasos Vezyridis
Executive Director, Head of Research, UK&I and Continental Europe

01

Economic Outlook

Economic Outlook

January 2025 Forecast

01

STABLE INFLATION AND 100BPS OF CUTS FROM BANK OF ENGLAND

We expected inflation to increase, due to the anticipated gas price increases, but to peak around 3%. The broadly stable inflationary environment would therefore allow four further cuts from the Bank of England (BoE). We highlighted long rates trending up at the end of 2024 and the threat this posed to private sector demand and property investment.

02

RISING REAL INCOMES WILL BOOST CONSUMPTION AND GROWTH

Lower inflation and falling interest rates will support real income growth, boosting consumption. Furthermore, increased Government spending in areas such as defence, healthcare, and housebuilding will help to support GDP growth of 1.8% in 2025.

03

INCREASING BUSINESS COSTS WILL SOFTEN THE LABOUR MARKET

Increases in the Minimum Wage and Employer National Insurance contributions announced in the Autumn Budget will increase business costs, leading to lower wage growth and lower private sector job creation.

Mid-year review

- Despite inflation breaching 3%, driven primarily by regulated gas price increases, there has been greater price stability than in recent history. We expect inflation to peak at 3.5% during the summer.
- The BoE has cut rates twice, in February and May, and we now expect three further cuts in line with market expectations.
- Long rates have remained elevated so far this year, which has impacted property investment in the first half of 2025.

- Real household income has fallen slightly due to a greater-than-anticipated increase in inflation and softer labour markets. However, consumption has still improved as retail sales volumes have risen 1.6% since the start of 2025, after a period of stagnation in 2024.
- Government expenditure has increased by 5%, driven by departmental spending and support to local governments. We are yet to see direct investment in key areas outlined in the Autumn Budget.
- Due to global uncertainty around trade stunting short-term growth, we have revised our GDP growth outlook down to 1.3% in 2025 and 2026, respectively.

- Since the Autumn Budget announcement both nominal and real wage growth have slowed. Unemployment has increased 30bps to 4.7%, unfilled job vacancies have fallen 8.7%, and the number of payrolled employees has fallen 0.5%.
- We expect the labour market to continue loosening, but we anticipate unemployment will not breach the 5% mark. However, nominal wage growth will continue to moderate as lower inflation and labour market softening feeds through.

Outlook sensitive to downside risks

Consumption will drive economic recovery

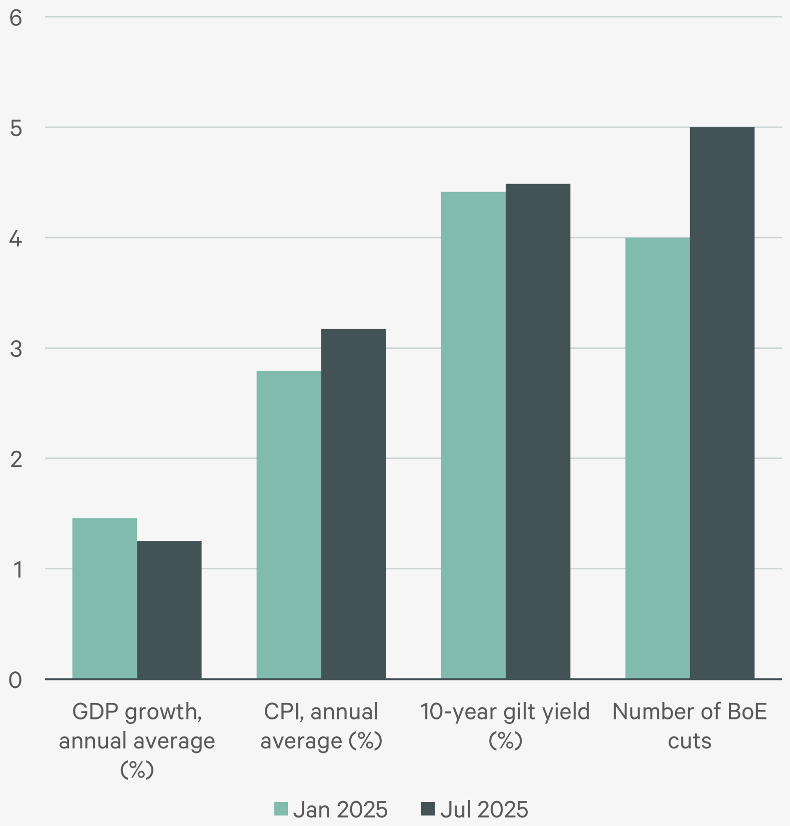
We anticipate price stability to be maintained and facilitate three further rate cuts by the BoE. Labour markets will continue to soften and wage growth will slow as businesses continue to adjust to new cost levels. We still expect improved consumption and greater fiscal stimulus to drive growth. Despite not coming down as expected, bond yields have been broadly flat despite global uncertainty and we expect this will continue.

Global uncertainty and risks create headwinds

U.S. trade policy created shockwaves throughout the global economy and stunted activity. Despite the UK reaching a trade deal with the U.S., there remains a 10% tariff on most goods and 25% on exports of steel and aluminium. We anticipate the U.S. Administration to reach trade deals with other major partners, but countries without a deal are subject to reciprocal tariffs as of 1 August. At the time of writing, the U.S. has reached further trade agreements with both the EU and Japan.

Furthermore, the ongoing geopolitical conflicts and potential escalation remains a threat to energy markets and medium-term price stability.

Figure 1: Forecast Changes for 2025, January vs July



Source: CBRE Research

Figure 2: UK retail sales volumes, three-month moving average, excluding fuel (2022-25)

Source: CBRE Research

02

Capital Markets

Capital Markets

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Forecast

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TOTAL RETURNS SET TO IMPROVE IN 2025

Total returns from private real estate investments will improve compared to last year, as income return is supported by a resumption of capital growth. Increases in rental values will be the main driver for capital value growth, but some yield compression is possible, especially in sub-sectors where investor demand is stronger.

02

INVESTMENT ACTIVITY TO INCREASE GRADUALLY THIS YEAR

There are signs that more capital will flow to UK real estate in 2025. Some investors are well-positioned to act on the market reaching a trough, but others will proceed cautiously until more certainty around pricing emerges. Hence, we expect real estate investment activity to increase only gradually as the market continues to normalise.

03

LENDING TO RISE AS LEVERAGE BECOMES MORE ATTRACTIVE

We expect real estate lending to increase in 2025 and demand for loans to be split more evenly between finance for new acquisitions and refinance of existing loans. This will be facilitated by falls in debt costs that will make leverage more attractive for new real estate investments.

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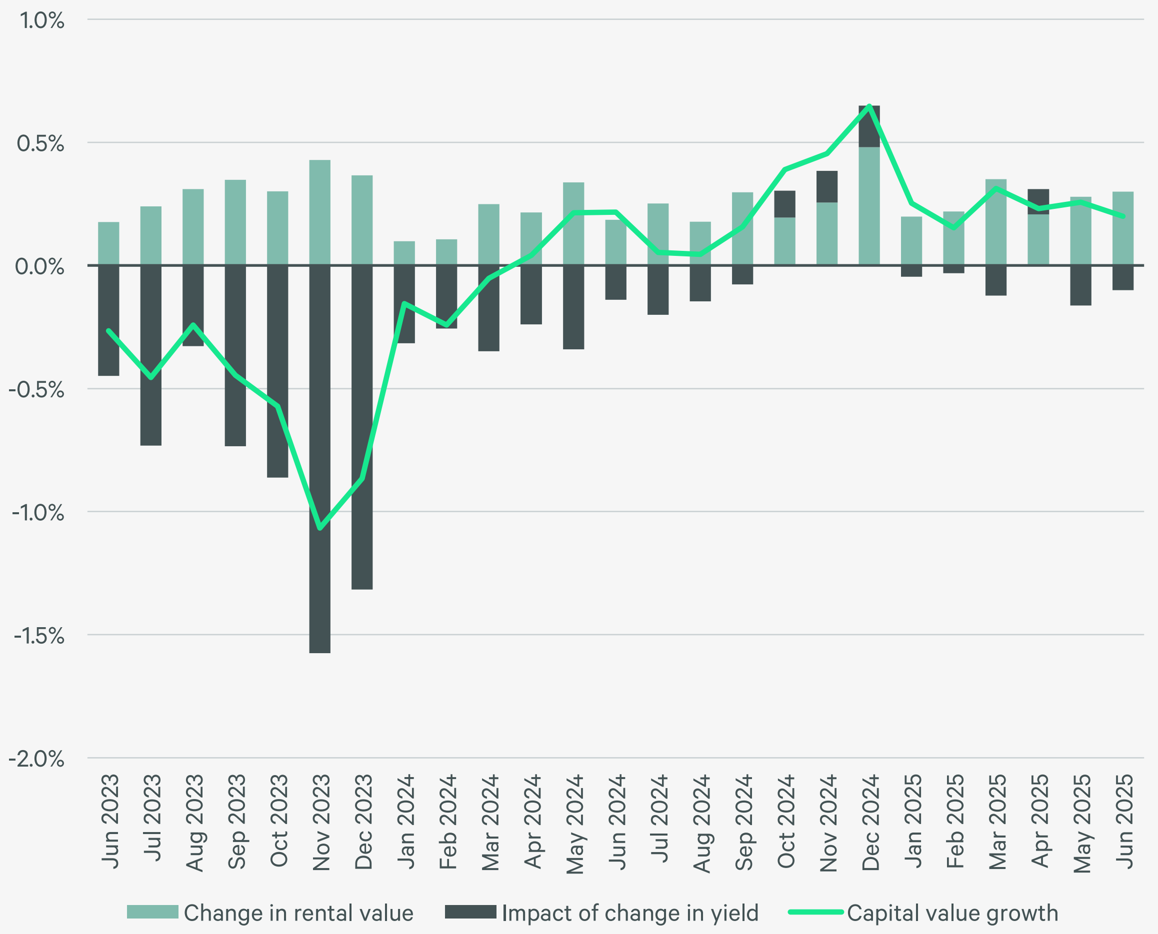
review

- A strong fourth quarter led to a 7.7% total return for UK real estate in 2024 according to the CBRE UK Monthly Index. While this set a challenging target to beat, all property total returns to June were 4.2%, putting the UK market on track to record 8%+ total returns this year, despite headwinds in the first half of 2025.
- Income returns continue to be the main driver of total returns, but performance across the retail, office, and industrial sectors has been boosted by capital growth. Capital values at an all-property level have risen 1.4% in H1, driven by rental values rising 1.6% in this period. In contrast, property yields have been largely unchanged – with little scope for compression if long-term bond yields stay at their current levels, while Government proposals to amend leasing practices might also weigh on pricing.

- Real estate investment volumes in H1 2025 have fallen when compared with H1 last year. While transaction volumes in Q1 and Q2 2025 were not expected to reach the levels we saw in Q4, activity slowed because of uncertainty around economic prospects, which also impacted UK bond yields. Investors have been cautious in the deployment of capital, but more deals are now coming to fruition, and so we expect higher investment volumes in H2 2025.
- We continue to see mergers and acquisitions in the UK listed real estate sector. This reflects the persistence of large discounts to net asset value in stock market pricing for some firms. Activity has centred on REITs that own logistics, retail, and operational real estate. Yet, the office sector stands out as having seen a stronger rebound in private real estate transactions so far this year.

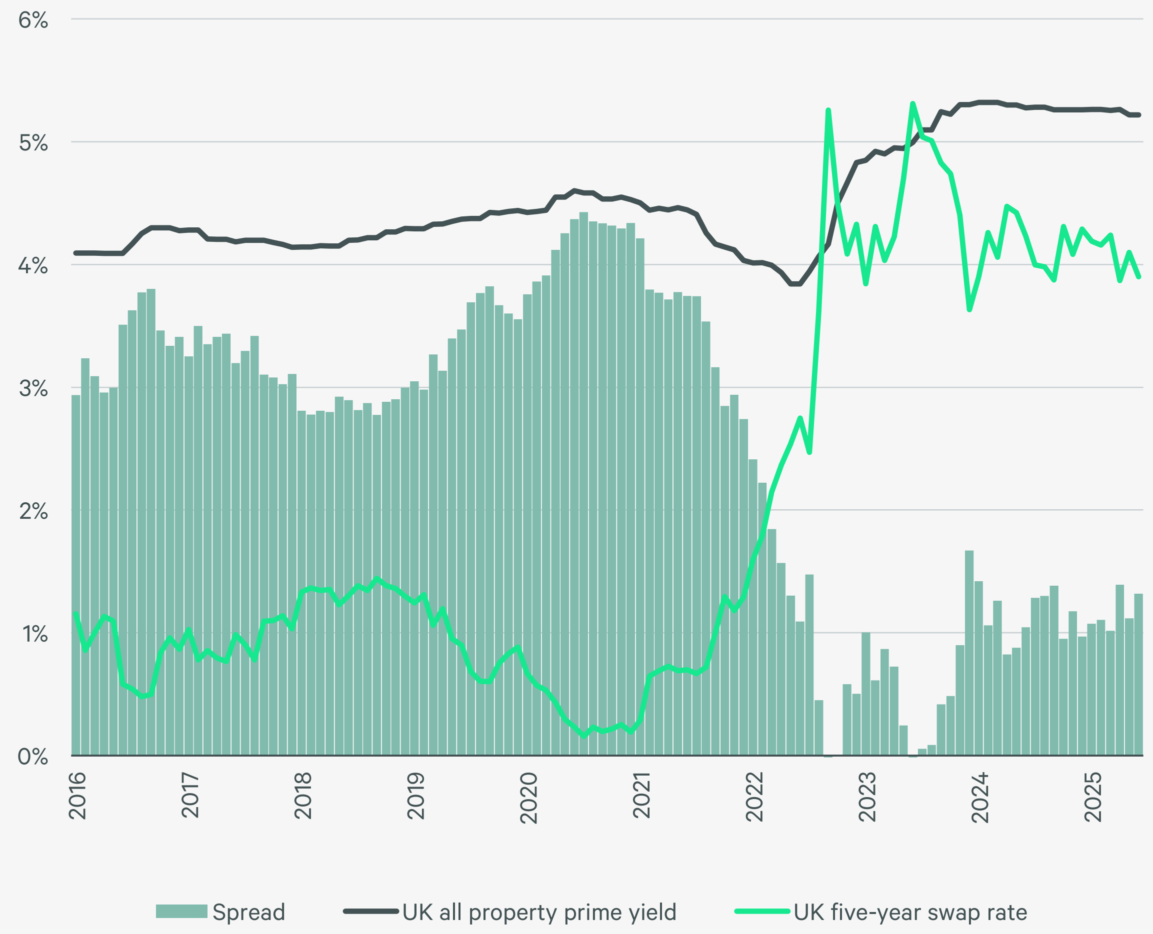
- Lenders have maintained their appetite to deploy capital into real estate, despite economic headwinds. 78% of lenders expect to increase originations in 2025 according to our European Lender Intentions Survey published in June. Refinancing will remain the main source of demand for loans as the transactional market continues to recover. While lenders still prefer the living and logistics sectors, sentiment towards prime assets across most sectors has improved relative to 2024.
- Debt costs for new real estate loans have fallen year-on-year, but only moderately as there has been no sustained downward movement in key benchmark rates such as the UK five-year swap rate. The principal driver of lower debt costs has been a reduction in lender margins as the debt market becomes increasingly liquid and competitive.

Figure 3: Drivers of UK all property capital value change



Source: CBRE UK Monthly Index

Figure 4: UK all property prime yield vs five-year swap rate



Source: CBRE Research, Macrobond

03

Living

Living

January 2025 Forecast

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INVESTMENT TO RISE, BUT SLOWER RENT GROWTH

Investment is expected to be stronger in 2025, particularly across the Build-to-Rent (BTR) and Purpose-Built Student Accommodation (PBSA) sectors, as the supply and demand imbalance persists. This will underpin robust rent growth, but the pace of growth will continue to decelerate reflecting broader inflation and the stretched affordability of tenants.

02

AFFORDABLE HOUSING TO BE DOMINATED BY INSTITUTIONAL INVESTMENT

Demand for affordable housing will remain strong and investment activity is expected to be robust in 2025. In addition, legislation for social rents will buoy investor sentiment.
However, investment into new build homes will continue to be led by For-Profit Registered Providers which are unencumbered by commitments to improve legacy stock.

03

RESIDENTIAL SALES MARKET WILL GRADUALLY IMPROVE

Lower interest rates have improved the outlook for the sales market. Mortgage rates are projected to continue to fall in 2025 which will improve affordability and drive a recovery in sales volumes and house prices. The reversion to the previous Stamp Duty thresholds in April will also boost sales volumes in Q1 2025. Across the UK, we forecast sales volumes to return to their long-run average of 1.2 million, and for house prices to increase by 3.5% in 2025.

Mid-year review

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- Living investment totalled £4.3bn in H1 2025, 30% below the same period of 2024. However, BTR investment was broadly stable at £1.9bn. There were also £2.7bn of BTR transactions under offer in Q2 2025, the highest pipeline recorded to date. As a result, BTR investment is expected to reach £4.3bn in 2025, 11% higher than 2024. However, we expect broader living investment to be 7% lower than last year at £10.3bn.
- The supply and demand imbalance persists, with new regulation driving some landlords out. Several factors including higher construction and debt costs, planning delays, and new building safety regulations means the viability of BTR and PBSA development is still challenging.
- Rents have increased by 2.1% in the first half of 2025, a deceleration from the 4.4% recorded over the same period last year. Rents look set to perform in line with our forecast.

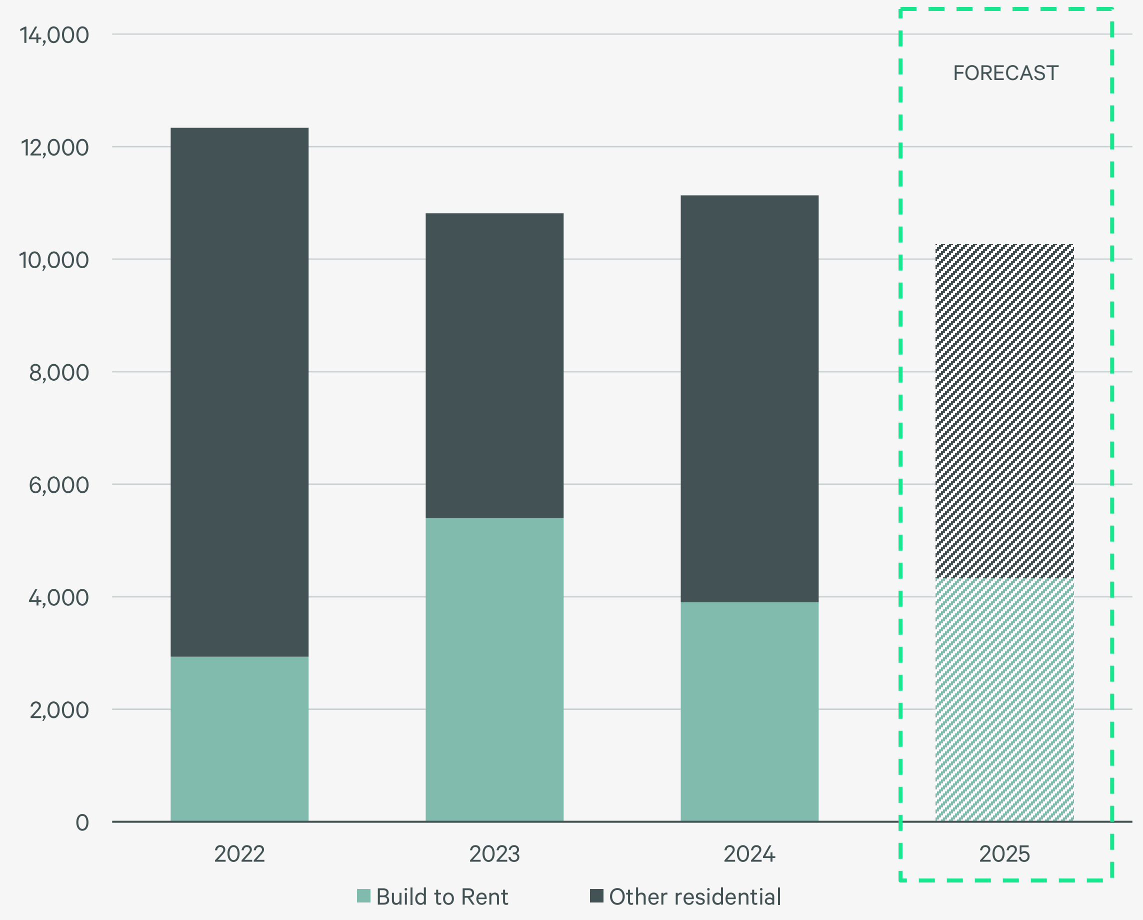
02

- The Spending Review was hugely positive for the Affordable Housing sector, with £39bn allocated to the Affordable Homes Programme over the next decade.
- In addition, the confirmation of a ten-year rent settlement of CPI+1% has given certainty to investors, which will underpin confidence and investment into the sector. The potential for rent convergence will be another boon for the sector.
- Although these recent Government initiatives offer a significant boost for the sector, it will take time to materialise and unlock development. Hence, the outlook for 2025 remains unchanged, but the future looks very optimistic.

03

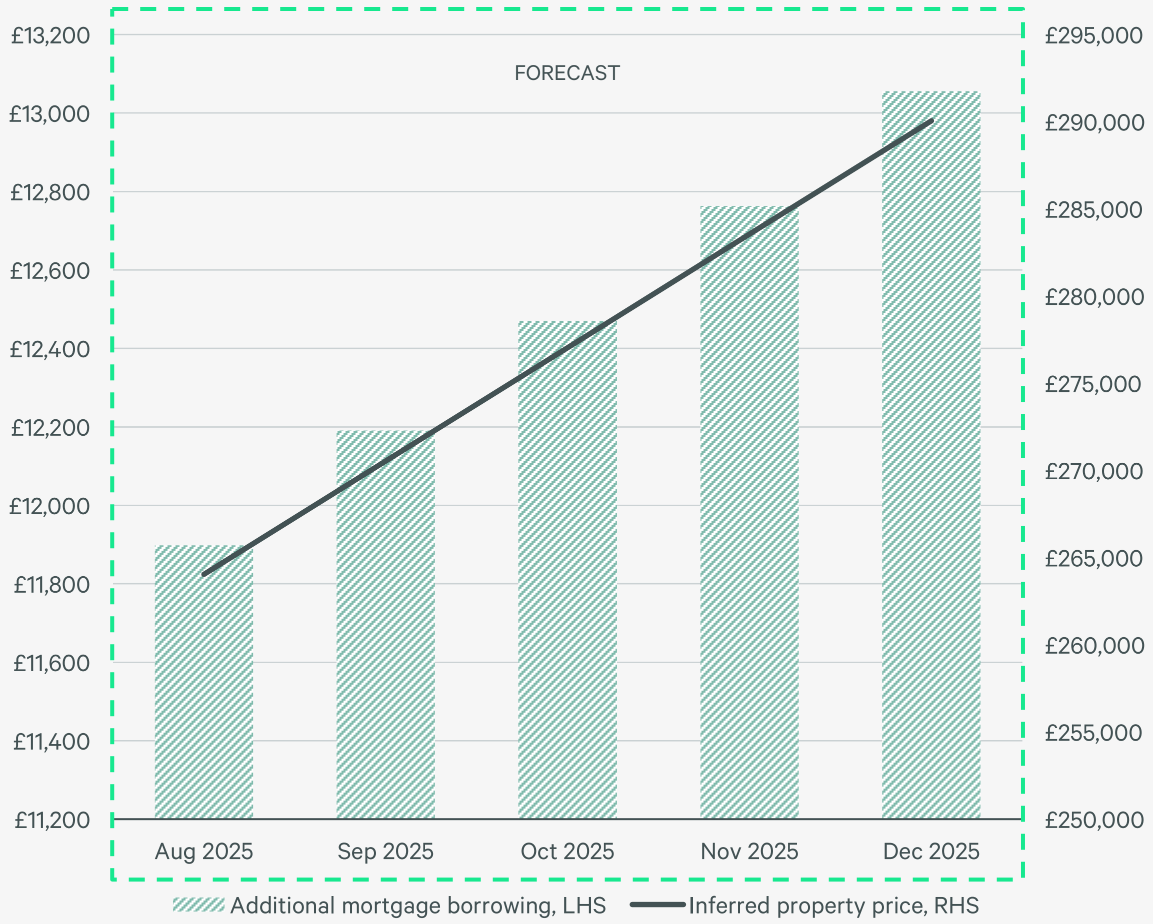
- Fixed mortgage rates have fallen between 20-40 bps since the end of 2024. More importantly, lenders relaxed their stress tests earlier in the year, meaning buyers can now borrow more. This will underpin house price growth and the rebound in the housing market.
- The improved mortgage environment, combined with the Stamp Duty changes in April, boosted sales volumes and house prices at the start of 2025. Sales more than doubled in March as buyers rushed to beat the Stamp Duty change. This contributed to total sales up 30% in the year to April compared with the same period of 2024. Prices also rose 2.5% to March but subsequently fell back in April and are broadly level with where they started the year. The market looks set to perform in line with our current forecasts.

Figure 5: Living investment volumes, actual and forecast (£millions)



Source: CBRE Research

Figure 6: Forecast of additional borrowing and purchase price of first-time buyers



Source: UK Finance, CBRE Research
Note: Based on lower stress test rates and forecasted mortgage rates to end of 2025

04

Logistics

Logistics

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01

STABLE OCCUPIER DEMAND

With a stable economic backdrop, we expect occupier activity in 2025 to remain consistent with the levels seen in 2024. The retail sector will likely be particularly active with upgrading assets to enhance operations. Given steady occupier demand and reductions to the development pipeline, the UK vacancy rate will continue to stabilise throughout 2025.

02

CONTINUED RENTAL GROWTH, ALBEIT AT A SLOWER RATE

Prime rents will continue to grow, albeit at a more modest pace than seen in recent years. However, incentive packages may also grow given the amount of available stock in the market. The trend of flight to quality is expected to continue as caution surrounding the obsolescence of assets increases.

03

INCREASED INVESTMENT VOLUMES

Investment volumes are expected to rise in 2025. Building on a healthy market for smaller assets, there will also be increased demand for larger lot sizes. As a result, yield compression is expected to become more consistent throughout the UK regions.

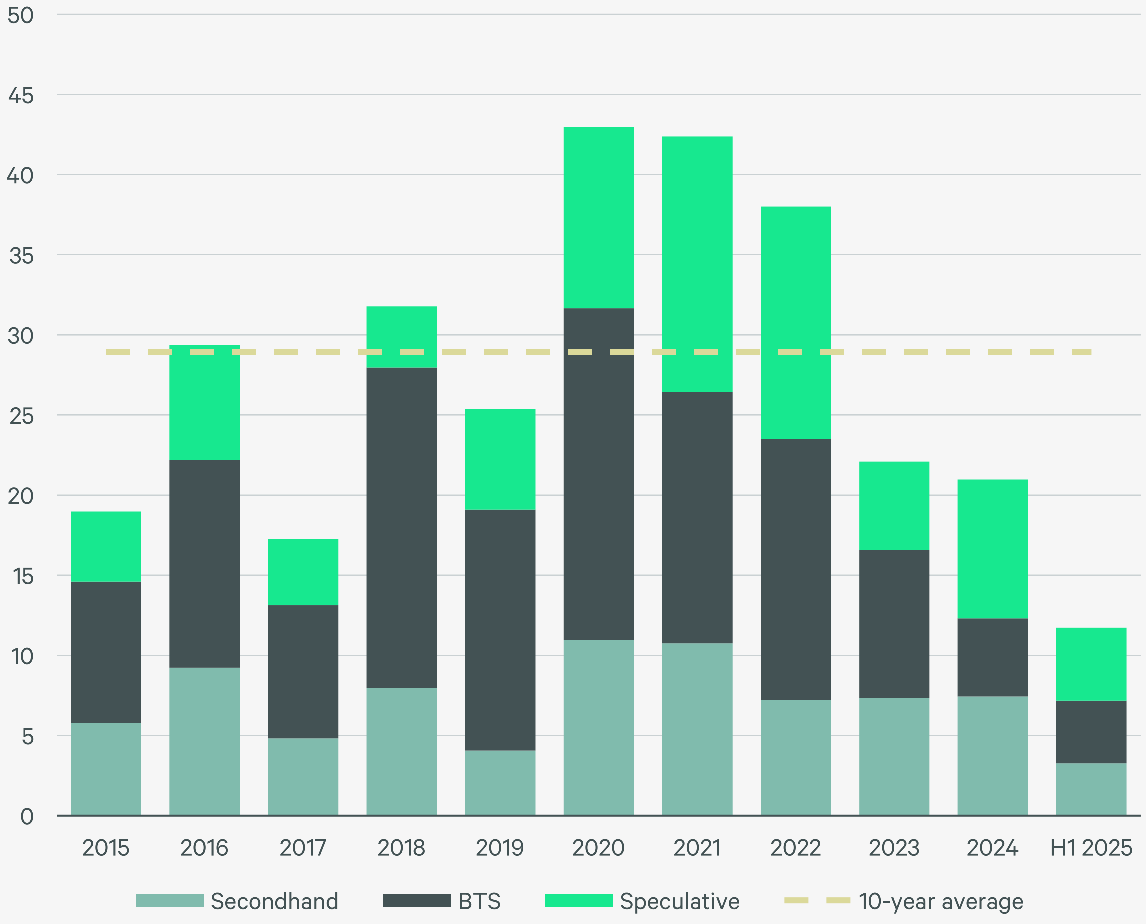
Mid-year review

- Industrial and logistics demand has been steady throughout the first half of the year, with the e-commerce penetration rate returning to its pre-pandemic trend level. Demand from retail occupiers has remained strong this year, contributing 31% of take-up in the 12-months to Q2 2025. We anticipate take-up will remain steady throughout H2 2025, with 9.9m sq ft of space under offer in the UK.
- The UK vacancy rate increased in the first half of the year, due to rising secondhand availability and speculative developments completing. This comes as occupiers look to consolidate their real estate footprint into prime locations and assets. Speculative space under construction is expected to fall in H2, due to a high level of completions. As a result, it is likely the vacancy rate will increase throughout the remainder of the year, as this new space becomes ready to occupy.

- In line with expectations, prime rental performance across the UK is still positive, but it is segmented across the regions and more modest than previous years. Rental growth throughout H1 2025 was strongest in the northern regions of the UK. However, prime rents increased year-on-year across all regions except the Inner South East.
- Headline prime rents are expected to continue growing throughout the remainder of the year across all UK regions as take-up stabilises to normalised post-pandemic levels. As the amount of available space has risen, there has also been a rise in incentives in most regions.

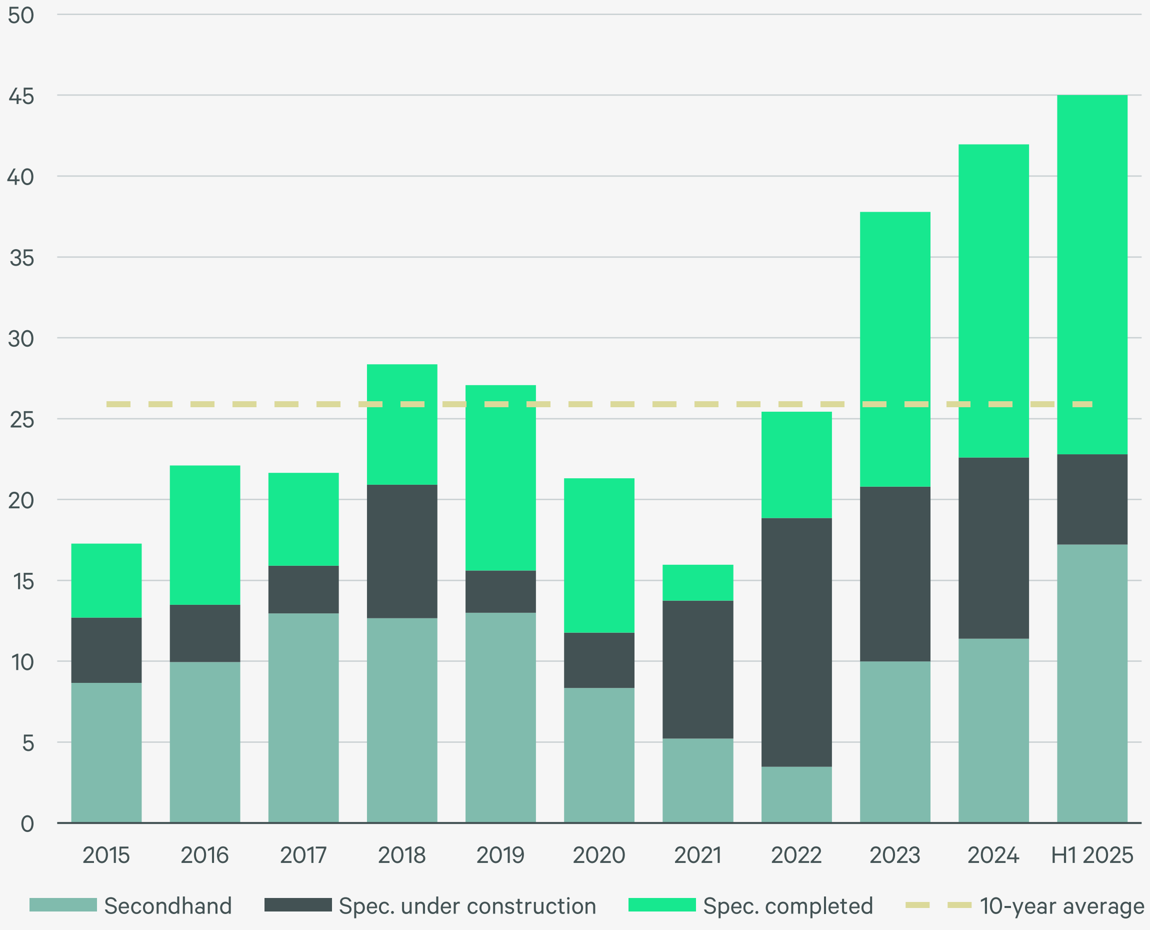
- Investment volumes in H1 2025 totalled £2.5bn, which was slightly lower than H1 2024 (£2.7bn), with conditions remaining challenging for investors due to geopolitical uncertainty. Matching our early expectations for larger transactions, portfolio sales accounted for 46% of volumes in H1, accompanied by some large individual asset sales. However, as more large lot sizes come to market throughout the year, investors have more options and are likely to be increasingly selective.
- Investment volumes are likely to grow in H2, as industrial and logistics was the preferred sector by investors targeting the UK in 2025, according to our European Investor Intentions Survey. However, as elevated long-term interest rates are forecast, yields are expected to remain stable in 2025, with yield compression to be pushed into next year.

Figure 7: UK logistics take-up, millions sq ft



Source: CBRE Research

Figure 8: UK logistics availability, millions sq ft



Source: CBRE Research

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Offices

Offices

January 2025 Forecast

01

PRIME RENTAL GROWTH

The limited supply for Grade A offices driven by a constrained pipeline and high demand from occupiers is expected to put pressure on prime rents in 2025. We are forecasting prime rental growth in all markets, with London's City sub-market seeing the largest increase in 2025. We expect other factors like public transport and amenities to continue to influence which buildings experience exceptional rental growth.

02

FLEX MARKET

The flex office market saw growth and demand diversified across the UK in 2024, leading to strong take-up for serviced offices. We expect a continuation of the same trends throughout 2025, with a further diversification in the pool of occupiers driven by several factors. This includes flexible offices as a solution to short-notice, temporary, or uncertain demand.

03

LARGER LOT SIZES AND OVERSEAS INVESTMENT

There was a return of larger lot-size deals transacting in the second half of 2024. We expect this trend to continue in 2025, as this activity continued into the start of this year and several larger deals across the UK were already secured by January. We also expect to see a mix of European funds, domestic funds, and well-capitalised global family offices to form the buyer pool in 2025 because of an increase in liquidity and greater price discovery expected through the year.

Mid-year review

01 Prime rental growth

- Prime rents increased in the first half of 2025 across Central London, with all the five main submarkets seeing an upward movement in rents. Some markets across the South East and regional cities also saw rental growth during H1.
- The pipeline remains constrained with lack of availability of high quality stock. Markets with good transport links and amenities are expected to see consistent growth throughout the year.
- Prime rental values are projected to increase across all the UK markets tracked by CBRE in 2025. The highest growth for Central London is expected in the West End, followed by the City, with Birmingham and Glasgow expected to take the lead in the regional markets.

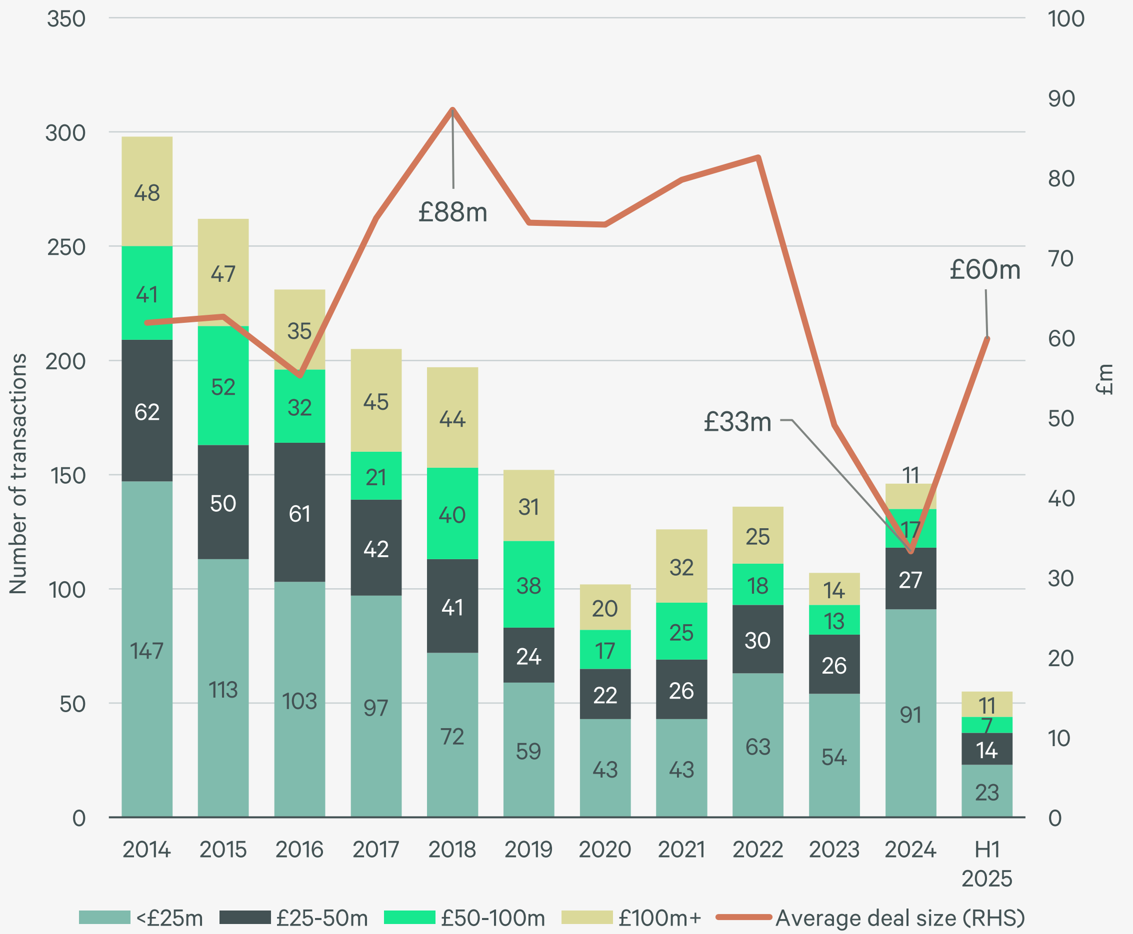
02 Flex market

- Office take-up by flex operators has been subdued in the first quarter of 2025. Nonetheless, we continue to see demand from different occupiers seeking flex space in the UK, and particularly across London. We expect corporate occupiers to expand their use of flexible space through the year, likely boosting leasing activity within the flex market.
- In regional cities, landlords have started to bring forward their own flex products and are able to deliver a high-quality product at a lower cost than flex operators. We expect this trend to continue throughout the rest of the year.

03 Larger lot sizes and overseas investment

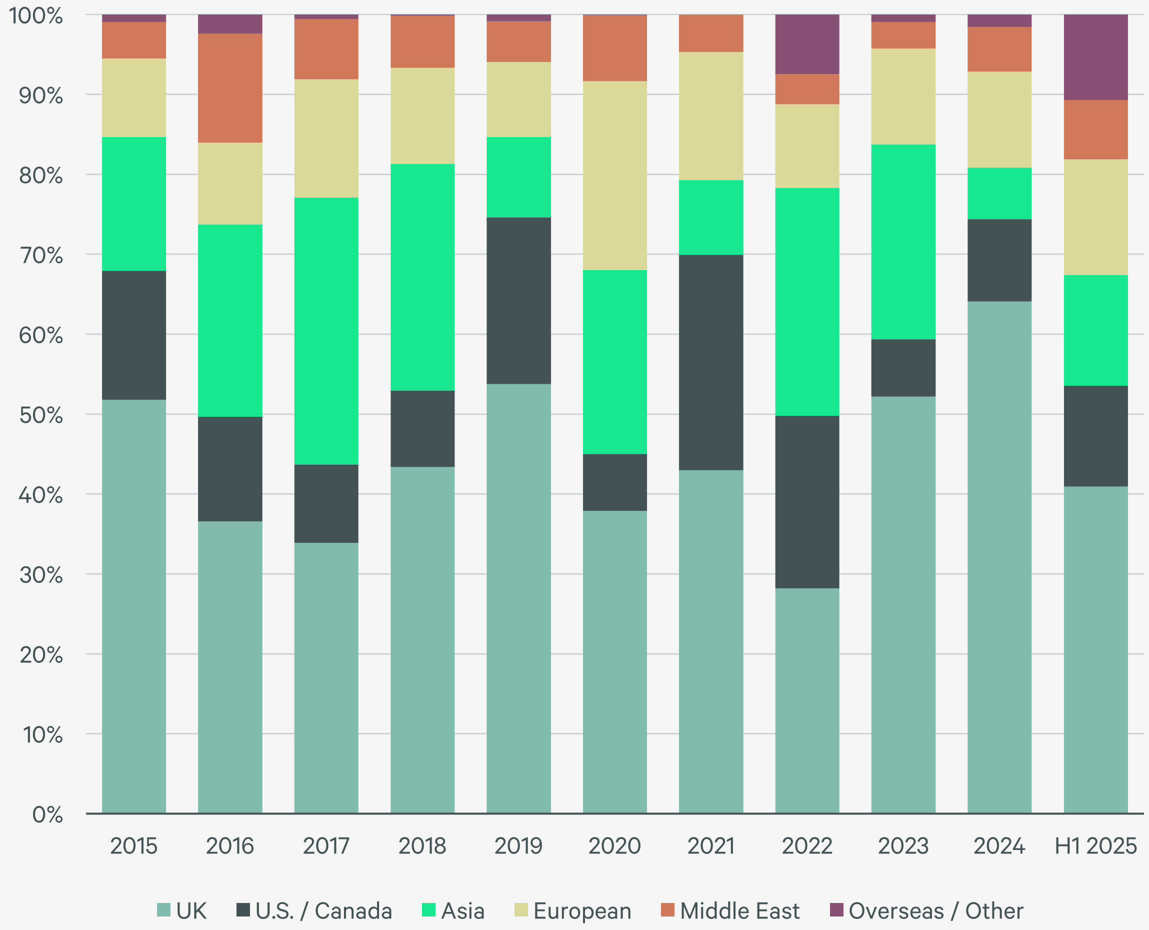
- In Central London, 11 deals over £100m have transacted in the first half of the year, exactly the same number as full-year 2024. London's City submarket in particular has seen significantly more investment activity for larger lot sizes in the year-to-date; so far, there have been six transactions larger than £100m this year (compared to zero in 2024).
- We have also seen the return of overseas buyers to the UK office market, accounting for 59% of year-to-date investment volumes as compared to only 36% in 2024.
- With the BoE's first interest rate cut in February and second in May, there is more liquidity in the market, making conditions favourable for investment. Additional interest rate cuts projected for year-end would reduce the cost of debt even further. Consequently, we expect investment volumes in 2025 to be stronger than the previous two years but still remain below the trend level.

Figure 9: Central London office investment by lot sizes



Source: CBRE Research

Figure 10: UK office investment volumes by purchaser region



Source: CBRE Research

06

Retail

Retail

January 2025
Forecast

01

MODEST SALES GROWTH

Although consumer confidence dipped towards the end of 2024, sales volumes have broadly continued to improve throughout the course of the year. During 2025, sales are expected to see further modest growth, driven by an increase in real household income, and will be further supported by the increasing offering of Buy Now, Pay Later services by retailers. Additional base rate cuts should also help stimulate consumer spending.

02

E-COMMERCE TO CONTINUE TO GROW MODESTLY

The UK online penetration has grown steadily throughout the year. According to ONS, 27.7% of all retail sales in the UK in November 2024 occurred online, up from 25.8% in January that year. Looking to 2025, online penetrations are expected to see continued organic growth, driven by underlying demographic trends. However, several retailers introduced return fees to mitigate the costs of 'serial returners', which could dampen online sales growth – particularly in the fast fashion sector.

03

PRIME SPACE TO BECOME INCREASINGLY SCARCE

In 2024, the all sector vacancy rate remained stable, though variances exist across the sub-sectors. Looking to the year ahead we may start to see some compression of this metric. Retail Parks continue to exhibit the lowest vacancy rate, consistently declining since 2021. While average in-town vacancy rates for High Streets and Shopping Centres remain elevated, prime locations are maintaining their appeal.

Mid-year
review

01

- Consumer confidence remains volatile, showing month-to-month swings despite a general year-on-year improvement. In June it rose to -18, indicating higher optimism about personal finances.
- UK annual average wage growth increased by 5.5% in May, outpacing price inflation that rose to 3.4%. This, in turn, boosts real household income.
- Retail sales started the year 0.3% higher than the January 2024 level and, since then, have risen month-over-month until April, increasing 1.8% in June. Over the coming months, we foresee a modest increase.
- We note that there are plans to regulate Buy Now, Pay Later products commencing in 2026, and consultation is already underway.
- Interest rate cuts are expected to continue, which should boost consumer spending.

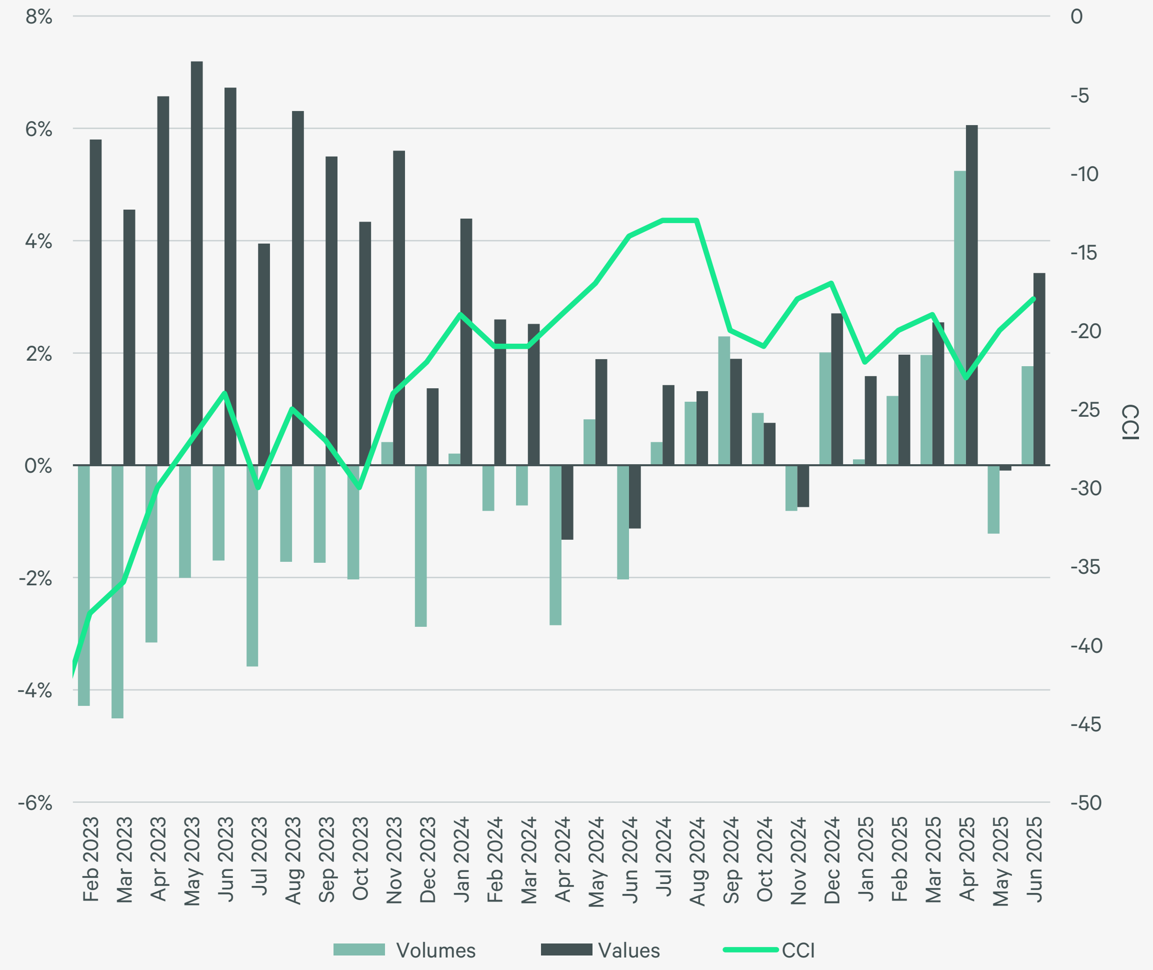
02

- Online retail penetration in the UK has been increasing since the beginning of the year, settling at 27.8% in June, according to ONS.
- Clothing & Footwear accounts for the largest share of online sales (27.6%), while non-food goods represent 24.3%.
- Our 2025 UK Consumer Survey shows that 52% of consumers prefer to buy in-store, and more than 50% prefer to go to the physical store to return an online purchase.
- We foresee that online penetration will continue to grow organically, but physical retail will remain a core component of occupiers' business strategies.

03

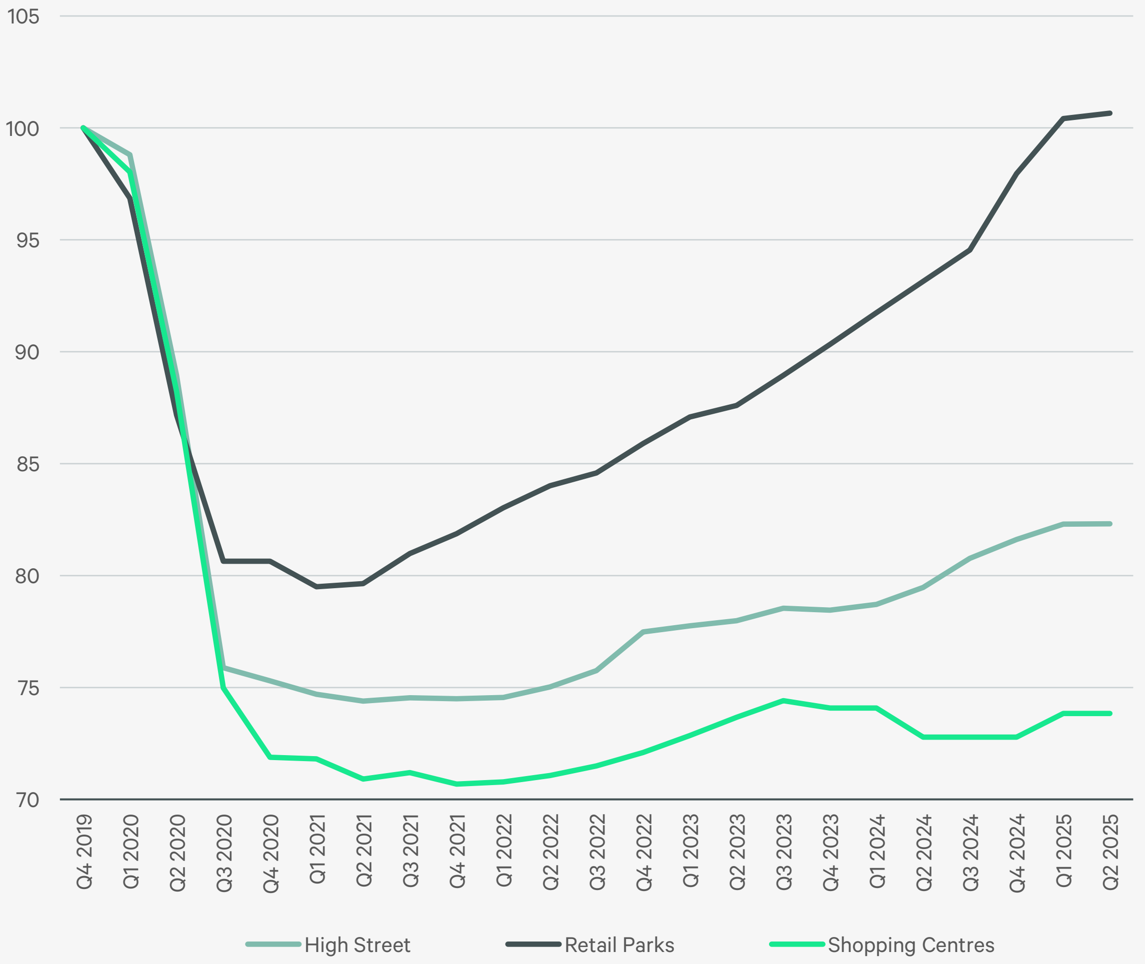
- Retail Parks continue to have the lowest vacancy rate (declining from 6.1% in Q1 2025 to 6% in Q2 2025), as new developments remain at very low levels.
- On the High Street, vacancy rates have continued to tighten with limited supply in prime locations, settling at 13% in the UK and below 10% in Central London.
- In Shopping Centres, strong leasing and low occupier failures drove a fall in vacancy levels in the best locations – decreasing from 17.2% in Q4 2024 to 16.8% in Q1 2025.
- Continued low vacancy has created competitive tension with retailers, bidding more aggressively to secure sites (new brands and significant upsizes are driving new demand), fuelling rental growth.
- Investment in retail remained robust totalling £3.6bn in H1 2025. Retail Parks continued to deliver the strongest activity – a trend we believe will continue in the coming months.

Figure 11: UK retail sales and consumer confidence index



Source: CBRE Research, ONS, GfK

Figure 12: UK prime rents index by asset type



Source: CBRE Research

07

Operational Real Estate

Operational Real Estate

January 2025 Forecast

01

ROBUST OPERATIONAL PERFORMANCE IN HOTELS AND LEISURE

The hotel industry is expected to maintain strong performance, with RevPAR growth driven by increased occupancy from returning corporate demand. With the economic environment stabilising, operators are expected to increase profitability and counterbalance ongoing inflationary pressures.

Despite a squeeze on consumer spending, the stable leisure trading and operator environment will drive investment activity. Demand for experiential leisure continues to be strong.

02

HEALTHCARE INVESTMENT SET TO RISE

Healthcare investment volumes will continue to increase in 2025 following a surge in activity in H2 2024, driven by increasing demand and needs. Strong operational performance, attractive lease features, and improving investment market conditions for a growing buyer pool continue to attract investors to the sector.

Demand for senior housing continues to grow, however a shortage of suitable properties is constraining uptake where demand outweighs supply. There remains strong demand for established, well-operated schemes, with re-sales expected to perform well in 2025.

03

INCREASED DEMAND FOR SELF STORAGE AND ROADSIDE ASSETS

The UK self storage market continues to gather positive momentum with multiple large scale platform transactions anticipated over the next 12 months. As customer awareness of the service offering increases, demand is expected to rise even more.

There is a renewed sense of optimism across the Roadside & Automotive sector as investment activity gradually increases and the electric vehicle sector continues to grow rapidly. We expect Petrol Filling Station (PFS) yields to gradually move throughout 2025 as investment transaction volumes across the wider market increase.

Mid-year review

01

- The hotel sector is now expected to see marginal RevPAR growth across the UK, still driven by an occupancy-led strategy, rather than ADR, due to the headwinds brought on by geopolitical and economic uncertainty. The challenge for operators is maintaining the growth in revenue, thereby offsetting increasing operating expenses to maintain profit margins.
- Experiential leisure demand remains high. However, the impact of the Employer National Insurance and the National Living Wage rises has impacted prices and demand in other subsectors. Premium ends of the health and fitness market have continued to outperform.

02

- Investment activity started more slowly than expected in 2025, as transactions have been taking longer. This reflects the wider real estate investment market trends.
- However, there is currently more capital targeting UK healthcare than there are available opportunities, creating pent up demand, especially for larger platforms with growth potential. We expect this to spur healthcare investment volumes across the risk spectrum in H2, in addition to a widening buyer pool with increasing focus from overseas buyers, most notably North American.
- Delivery of new senior living developments has slowed, driven by delivery costs and uncertainty over wider residential market performance. Re-sales performance at existing villages continues to be robust and the sector is increasingly able to demonstrate long-term durable cash flows.

03

- Investment activity in the self storage sector in H1 2025 has been more cautious, largely in response to broader economic uncertainty. However, mid-scale opportunities continue to attract private equity, institutional, and international investors. A clear shift in investor preference has emerged, favouring income-generating assets underpinned by high quality real estate fundamentals.
- PFS yields have continued to compress, accompanied by an increase in investment volumes. There has been particularly high demand in H1 for strong covenants and long leases to supermarkets and oil companies are sought after. As anticipated, investment volumes in car parks have risen, and we expect this upward trend to continue into the second half of the year.

New capital flows

OPRE's market share within total real estate investment continues to grow, reaching 19% in 2024. This sustained performance, even amid economic uncertainty, highlights the sector's resilience. We anticipate a rebound in transactional activity in the latter half of 2025, with opportunities for a broadening of capital to enter the market.

Insurance and infrastructure capital

The strong funding position of UK Defined Benefit pension schemes has accelerated growth in the Pension Risk Transfer (PRT) market, where liabilities are transferred to insurers. In 2024, nearly 300 scheme buy-ins completed, worth £50bn. One consequence for commercial real estate is investment by insurers, either directly or through external managers, in structures that are matching adjustment compliant. We expect this expanding market to open a range of opportunities for OPRE as investors seek to maximise value via OpCo and PropCo models and debt structures. In the senior living sector, we have seen Audley Group secure nearly £40m in a sector-first ground rent deal with BlueWater Capital, arranged for a leading UK insurer.

We anticipate an increase in infrastructure capital entering the market in H2 2025.

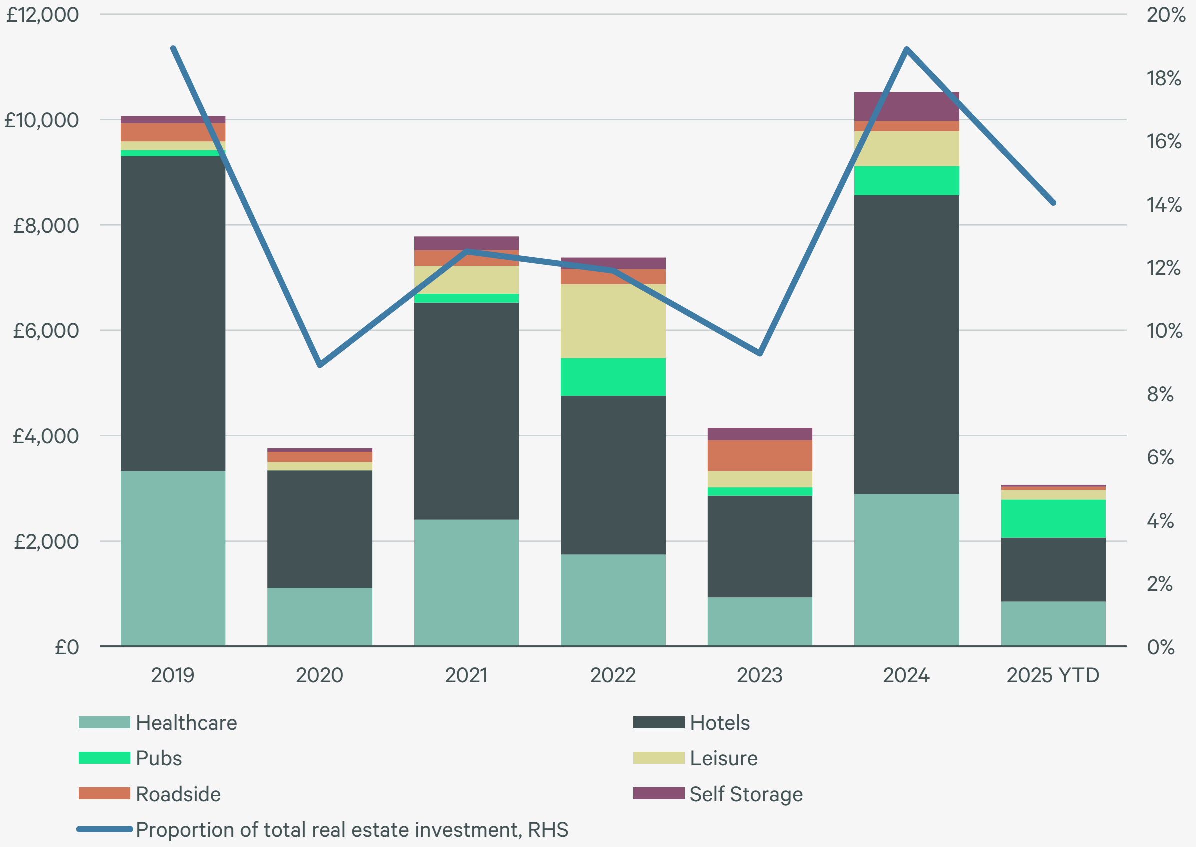
This rising confidence is evidenced by recent interest from an infrastructure fund in two listed healthcare REITs, as well as competitive bidding observed in the Marina sector.

The quasi-infrastructure nature of car parks draws strong interest from investment and infrastructure funds. Investors are seeking resilient, inflation-protected cash flows in sectors with long-term growth potential.

Operational performance

The durability of cashflows in OPRE sectors is driving investor confidence. Despite rising operational costs, our analysis of over 1,000 OPRE assets from 2019 to 2024 revealed sustained growth in both revenue and EBITDA. Care homes have experienced 12% annualised revenue growth, and pubs 8%. Across sectors, operational performance has emerged as the primary driver of capital values, with continued occupational strength expected to support further investment in H2 2025.

Figure 13: UK OPRE investment volumes (£m)



Source: CBRE Research

08

Data Centres

Data Centres

January 2025 Forecast

01

NEAR RECORD TAKE-UP FORECAST

Colocation take-up in London is forecast to reach 130MW in 2024, close to the previous record high take-up of 139MW seen in 2022, given continued strong demand from the largest cloud service providers (hyperscalers) and enterprises. We forecast even stronger take-up of 171MW in 2025.

02

NEW SUPPLY TO BE LET OUTSIDE TRADITIONAL AREAS

There is more capacity to be let in locations outside of the established data centre markets such as Slough and London Docklands. More organisations are likely to let space in data centres that are further afield as availability in these markets is expected to decline to a new low in 2025.

03

SITES OUTSIDE THE M25 BECOME MORE ATTRACTIVE

Difficulties in securing capital and raising development and operational costs at data centres within the M25 will lead more enterprises and hyperscalers to look for space at facilities further away. An increase in new capacity is being planned outside of the M25 as power constraints force operators into surrounding areas.

Mid-year review

– 2024 take-up reached 116MW, slightly below forecast. However, take-up in 2025 is now forecast to increase to 183MW, surpassing the record level in 2022, and ahead of our previous forecast of 171MW.

– There are 187MW of new data centre capacity expected to be delivered this year in London, or c. 55MW more than the previous high set in 2022. Approximately 80% of the UK's total data centre stock is in London.

– Almost all of the new data centre space expected in London this year will be accounted for before it is delivered. The vacancy rate in London is expected to decline to under 8% by the end of 2025 due to strong demand and a lack of available stock.

– There is limited power availability in all of London including the established markets of Slough – the largest single sub-market in Europe – and in the Docklands market.

– Power supply in Slough will remain constrained as a key substation is set to be upgraded in 2029 at the earliest.

– The Docklands is a market of retail data centres hosting primarily enterprise tenants. Supply remains tight, however data centre operators have plans to enter the East London area with wholesale facilities, including Newham and the Royal Docks, which will boost it in later years.

– Consistent with our view at the beginning of this year, we expect organisations to let space in data centres outside of established markets in the remainder of 2025.

– Operators are planning new data centres around the M25. Data centre investors who are building around the London area are receiving support by the UK Government, which has classified data centres as 'Critical National Infrastructure'. Data centres are seen as being key to promoting economic growth and enabling AI across the UK.

– As a result, relaxed planning rules are allowing facilities to be built in 'grey belt' and some green belt areas surrounding London.

– The Government has overturned planning bans for data centre projects in Hertfordshire and has supported a new data centre development in a green belt site between Slough and Hayes. It is likely that more schemes will be supported to underpin future economic growth.

Take-up to hit a new record

Demand in London to reach a new high in 2025

The London area accounts for c. 80% of all UK data centre stock. Manchester, the third largest cluster, is only 2% of London's size.

The capital has benefitted from a network effect and an established ecosystem, with all hyperscalers active in the city and surrounding areas.

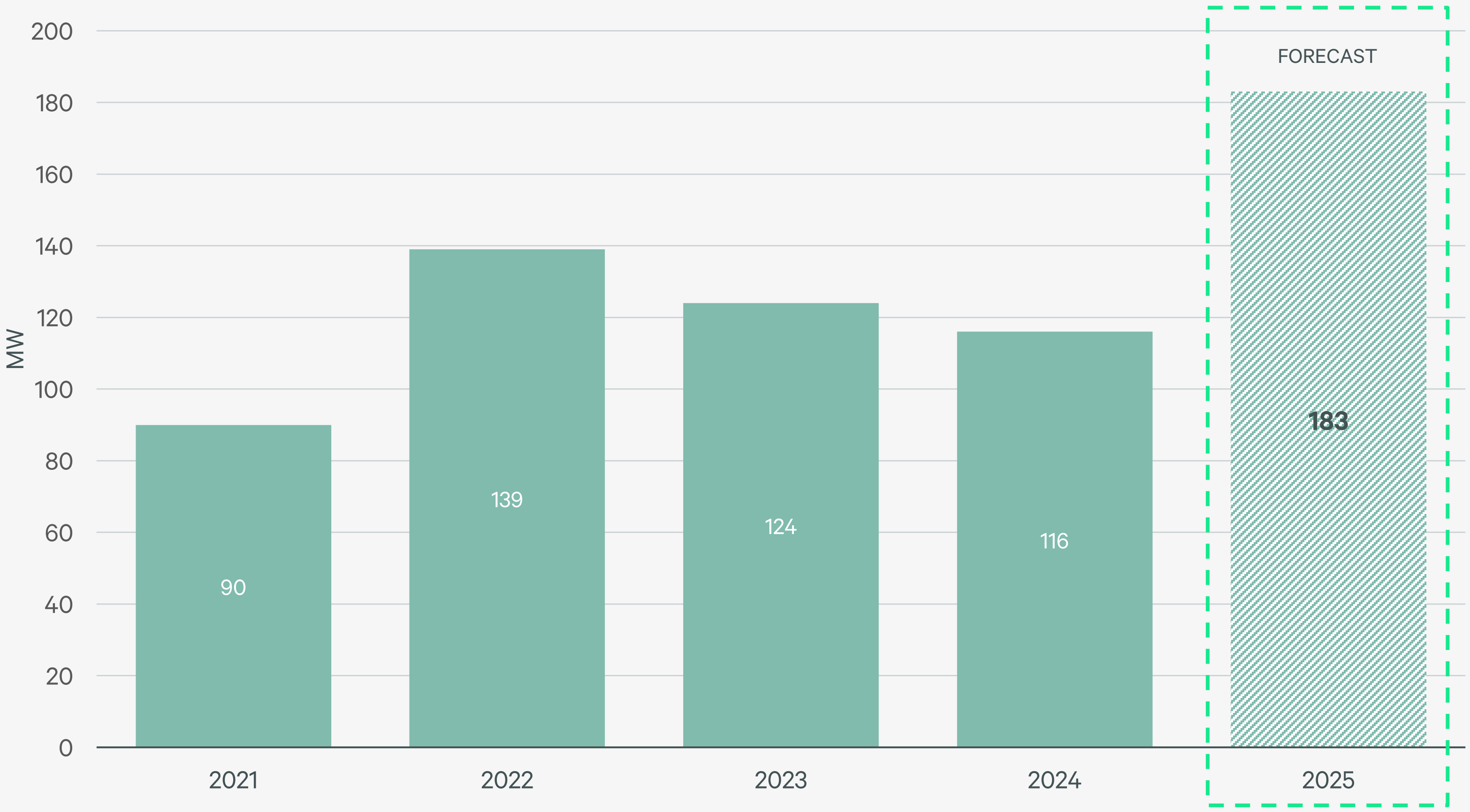
London, like the rest of the UK, has high power costs when compared with other European countries. But the capital still has advantages including the depth of expertise and ecosystem which make it attractive to data centre investors. Also, data sovereignty concerns mean that commercially sensitive applications used in the UK will continue to be placed locally rather than in Europe.

Hyperscalers are further expanding their presence in their existing facilities and are developing new facilities adjacent to the London cloud region where power is available to accommodate GPU usage and AI workloads.

Take-up in London is set to soar to a record level of 183MW in 2025, a 58% rise compared to 2024 and double the 2021 total. Demand from hyperscalers will again drive much of the need for capacity in the capital, although requirements from AI providers are starting to make their presence felt and will also be dominant.

London providers are trying to keep pace with demand. Despite a record amount of supply expected this year, the London vacancy rate is expected to decline to under 8% by the end of 2025 due to difficulties providers are having meeting demand.

Figure 14: London data centre take-up (MW), 2021-2025F



Source: CBRE Research, Q1 2025

09

Life Sciences

Life Sciences

January 2025 Forecast

01

INCREASE IN DEMAND

Venture Capital funding is forecast to increase in 2025. This is expected to drive demand for lab and office spaces as companies seek growth opportunities across the UK.

02

RENEWED LIFE IN CAPITAL MARKETS

The UK life sciences real estate investment market is expected to gain momentum in 2025, supported by the anticipated delivery of new development schemes. These completions are projected to create entry points for capital, particularly as assets transition from speculative construction to income-generating phase.

03

GOVERNMENT TO PLAY A KEY ROLE

Government engagement is expected to play a defining role in shaping the UK life sciences sector in 2025. Following the General Election, the new administration has an opportunity to signal its long-term commitment to the sector and its role in driving economic growth.

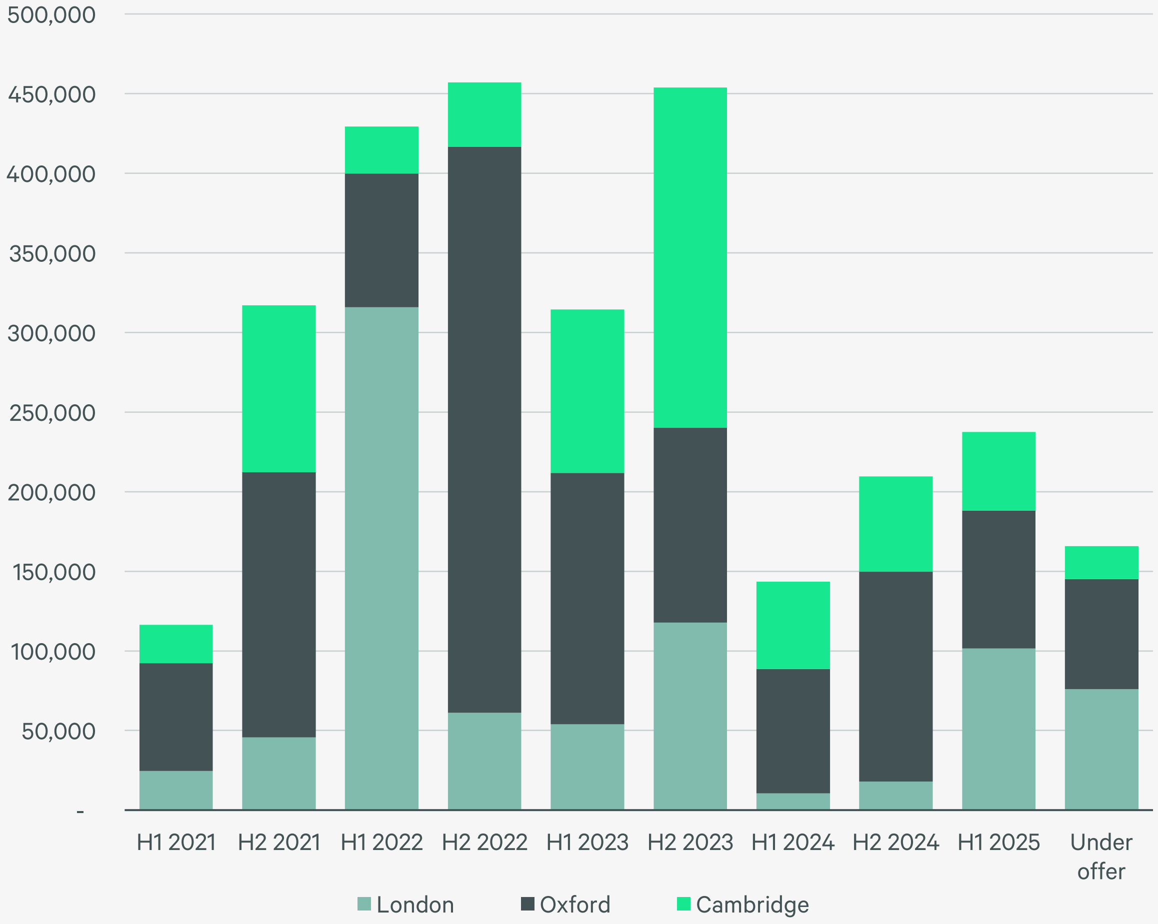
Mid-year review

- Venture Capital activity remained resilient in the first half of 2025, with Q1 delivering £1.3bn in total investment, the largest quarterly capital deployment since Q3 2021. Q2 followed with a more measured performance of £700m, bringing the H1 total to £2bn, surpassing the equivalent periods of 2022, 2023, and 2024.
- Life sciences leasing volumes reached 237,000 sq ft in H1 2025; a 65% increase on H1 2024. However, while funding and leasing volumes have improved, there is not always a direct correlation between companies receiving venture funding and requiring immediate expansion of space.

- Capital markets activity in the UK life sciences real estate sector remained muted in the first half of the year, with no major transactions completing. Notably, Unity Campus was brought to market but has yet to transact. A persistent bid-ask spread continues to weigh on deal flow, with pricing expectations between buyers and sellers remaining misaligned. Investors are seeking repricing to reflect current market risk, while vendors have largely been unwilling to adjust valuations accordingly.
- It is expected that there will be a marginal improvement in transaction volumes in H2, relative to H1. However reduced occupier demand matched with existing (high) valuations on life sciences assets are likely to continue to drag on investor sentiment towards the sector for the remainder of the year.

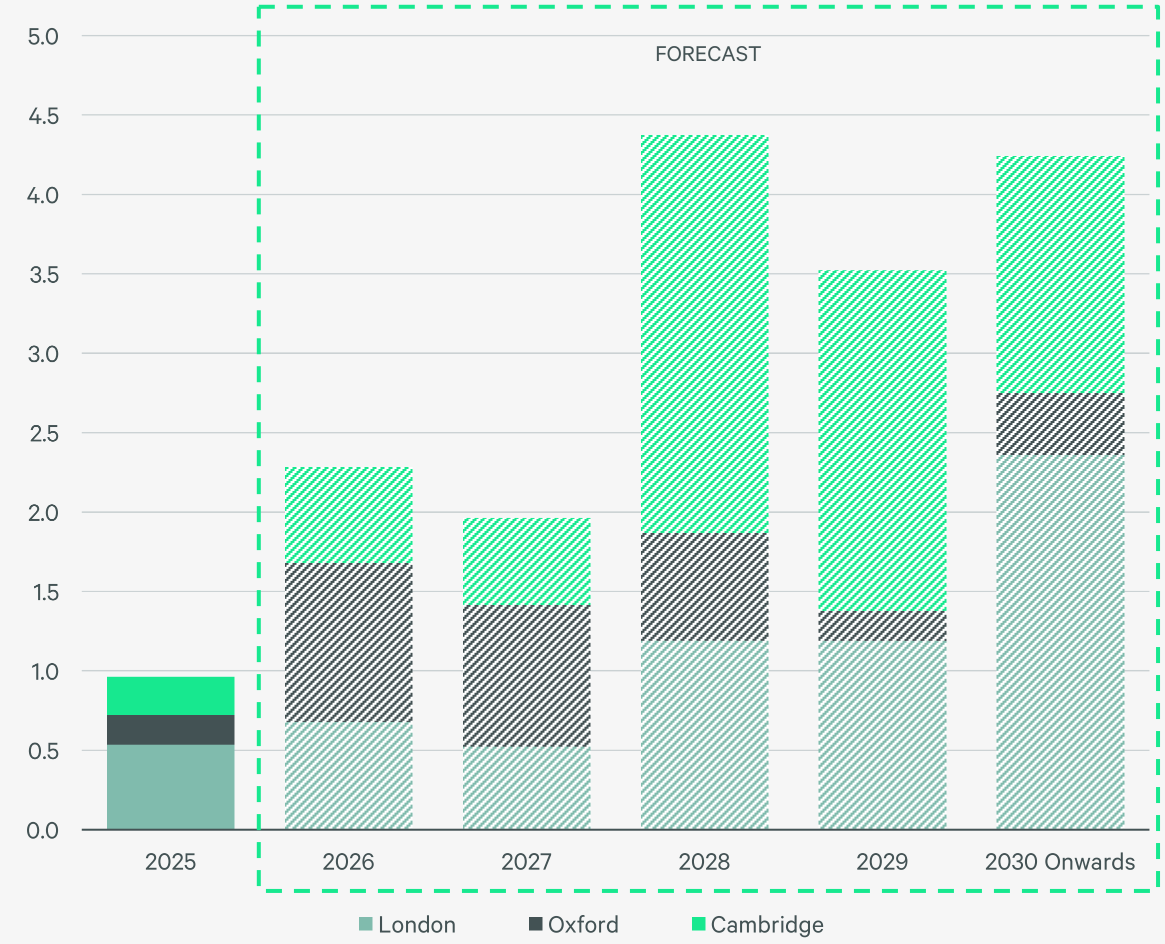
- The UK Government reaffirmed its commitment to the Life Sciences sector In July, positioning it as a core pillar of the National Industrial Strategy. The new Life Sciences Sector Plan sets out a ten-year mission aimed at positioning the UK as Europe's leading life sciences economy by 2030 and third in the world, only behind China and the U.S. The sector is also seen to be a crucial and integral part of the newly announced ten-year plan to transform the NHS.
- However, challenges remain around the UK's business environment. In particular, the current drug rebate scheme (VPAG) for branded medicines is still imposing rebates on drug sales far in excess of other peer countries in Europe and regulatory hurdles still delay clinical trials and new product launches.

Figure 15: Life sciences laboratory take-up, Golden Triangle (sq ft)



Source: CBRE Research

Figure 16: UK life sciences development pipeline (million sq ft)



Source: CBRE Research

10

Sustainability

Sustainability

January 2025 Forecast

01

CHANGING SUSTAINABILITY REGULATIONS

The incoming Labour Government will announce a raft of sustainability policies including regulations specifically affecting real estate. These regulations will focus on improving the energy efficiency of existing buildings as well as new developments.

02

SUSTAINABILITY DISCLOSURE

There will be confirmation of how the ISSB's International Financial Reporting Standards (IFRS) will be adopted as part of the UK's Sustainability Reporting Standards (SRS). Whether reporting will be mandatory and for whom will be confirmed. Real estate occupiers and investors will both be affected by this decision.

03

CLIMATE RISKS REFLECTED IN LENDING AND VALUATIONS

Throughout 2025 transition and physical climate risks to real estate will increasingly be reflected in real estate lending, valuations, and transactions. Sustainability objectives will become increasingly important to securing debt. Physical risk exposure and insurance premiums could undermine some transactions. Valuations will continue to reflect the costs of regulatory compliance and adaptation to physical risks.

Mid-year review

- The industry has had confirmation of the intention to raise the Minimum Energy Efficiency Standards (MEES) for private rented accommodation to C by 2030.
- Commercial MEES uplift is set to be announced later this year. We expect the minimum EPC to be set at B, with a deadline at least one year after 2030 but not later than 2035.
- The Future Homes Standard will lay out new building regulations for residential properties when published in the autumn. Mandatory solar panels have been confirmed as a requirement.

- The Government has confirmed that IFRS disclosures will form the basis of UK SRS. We expect a decision towards the end of the year on which entities will have to report on the following:
  - SRS S1 covering sustainability-related financial risks and opportunities. This goes beyond climate-related issues, also covering regulatory risk and governance risks related to executive oversight of sustainability decisions.
  - SRS S2 covering climate-related physical and transition risks and opportunities. This includes information like greenhouse gas emissions, exposure to physical risks like flooding or wildfires, and details of climate transition plans.
  - The Government is consulting on requiring the development of climate transition plans.

- 71% of respondents to our 2025 European Lender Intentions Survey said they would not lend where assets either do not meet their sustainability criteria or lack a business plan to improve sustainability.
- Our Sustainability Index continues to show underperformance in valuations for assets deemed energy inefficient based on their EPC rating. We expect this underperformance could become more pronounced later in 2025 when changes to the commercial MEES are confirmed.
- CBRE valuers are aware of instances in 2025 where transactions have fallen through because of the difficulty in insuring assets against physical climate risks.

Office stock facing MEES challenge

60% of office stock, on average, is below expected future minimum EPC standard

In the second half of 2025 we expect the Government to announce its intention to raise MEES for commercial property in England and Wales to EPC B.

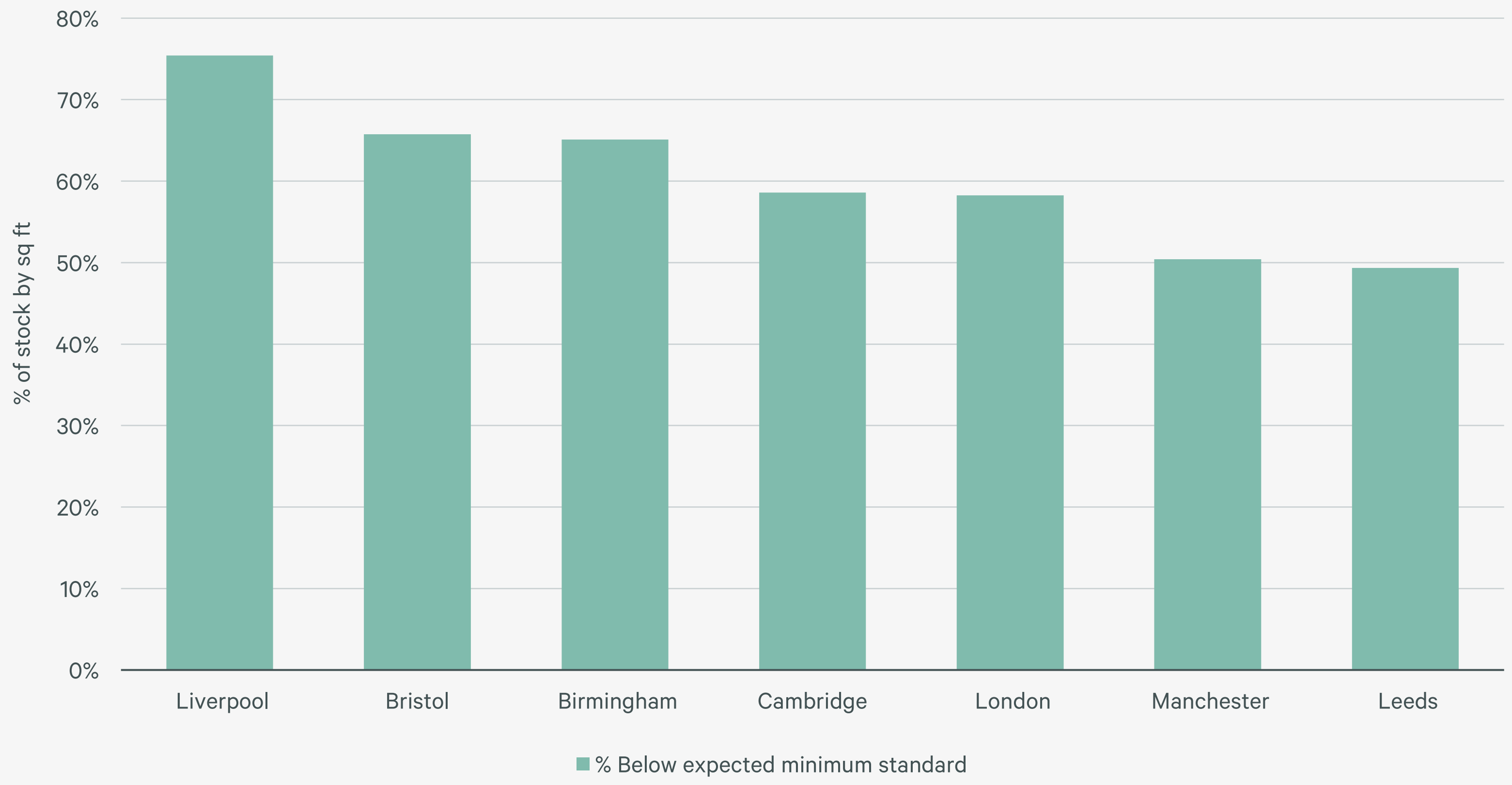
We expect the deadline for compliance to be set after 2030 but not later than 2035. Under this regulation, it would be illegal to lease a building that fails to comply by the deadline. However, we expect buildings where the cost of upgrade exceeds a certain threshold to be exempt.

Across the seven markets shown in figure 17, an average of 60% of office stock (by sq ft) currently has an EPC below B and risks becoming unlettable if no investment is made to improve efficiency.

Promisingly, an average of 28% of this stock has an EPC of C; just one band away from compliance. For these buildings, the cost of compliance is likely to be lower due to their proximity to the minimum standard. This almost compliant stock could present an opportunity for value creation through brown-to-green refurbishment.

If a MEES uplift is confirmed later this year, we expect the demand for building retrofit services to rise as there is a rush to comply before the deadline. This is likely to increase costs and reduce choice the closer we get to the compliance deadline.

Figure 17: Percentage of office stock (by sq ft, as of Q2 2025) below the expected future minimum EPC standard of B



Note: Figures cover city centre office stock only. In London, figures cover The City, West End, Midtown, Southbank, and Docklands markets.

Source: CBRE Research, Ministry of Housing, Communities & Local Government

Contacts

Research contacts

Tasos Vezyridis
Executive Director
Head of Research, UK&I and Continental Europe
tasos.vezyridis@cbre.com

Ruth Hollies
Head of European Forecasting
ruth.hollies@cbre.com

Daniel Jones
Senior Analyst, Economics & Forecasting,
Global Research
daniel.jones@cbre.com

Steven Devaney
Senior Director, UK Research
steven.devaney@cbre.com

Toby Radcliffe
Associate Director,
UK Sustainability Research
toby.radcliffe@cbre.com

Simon Brown
Head of UK Office Research
simon.brown@cbre.com

Yukti Singh
Senior Analyst, UK Office Research
yukti.singh@cbre.com

Rita Neto
Associate Director,
UK Industrial & Logistics and Retail Research
rita.neto@cbre.com

Nick Baring
Associate Director,
UK Research
nick.baring@cbre.com

Scott Cabot
Director, Head of UK Residential Research
scott.cabot@cbre.com

Lily Clark
Senior Analyst, UK OPRE Research
lily.clark@cbre.com

Contacts

Business contacts

Colin Thomasson
Head of UK Investment Properties
colin.thomasson@cbre.com

Amanda Stevenson
Head of UK Investor ESG
amanda.stevenson@cbre.com

Allan Wickham
Global Head of Occupier, Sustainability Advisory
allan.wickham@cbre.com

Lydia Dutton
Senior Director,
Regional ESG & Sustainability Lead
lydia.dutton@cbre.com

Rob Madden
Head of UK Leasing
rob.madden@cbre.com

Paul Farrow
Head of UK Industrial & Logistics
paul.farrow@cbre.com

Graham Barr
Head of UK Retail
graham.barr@cbre.com

Jason Hardman
Head of UK Living Sector
jason.hardman@cbre.com

Sharief Ibrahim
Head of UK Residential Agency
sharief.ibrahim@cbre.com

Andrew Saunderson
Head of UK Residential Capital Markets
andrew.saunderson@cbre.com

Justin Carty
Executive Director, Affordable Housing
justin.carty@cbre.com

Tom Morgan
Executive Director, Head of OPRE
tom.morgan@cbre.com

Andrew Jay
Head of Europe Data Centre Solutions,
Advisory & Transaction Services
andrew.jay@cbre.com

Kevin Restivo
Head of Data Centre Research,
Advisory & Transaction Services, Europe
kevin.restivo@cbre.com

Morgan Davies
Senior Analyst, Life Sciences, UK & Europe
morgan.davies@cbre.com

Joanne Henderson
Head of Life Sciences, Europe
joanne.henderson@cbre.com

Keith Breed
Senior Analyst, Data Centre Solutions,
Advisory & Transaction Services, Europe
keith.breed@cbre.com

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