Intelligent Investment

UK Real Estate Market Outlook 2025

REPORT

REAL ESTATE

CBRE RESEARCH

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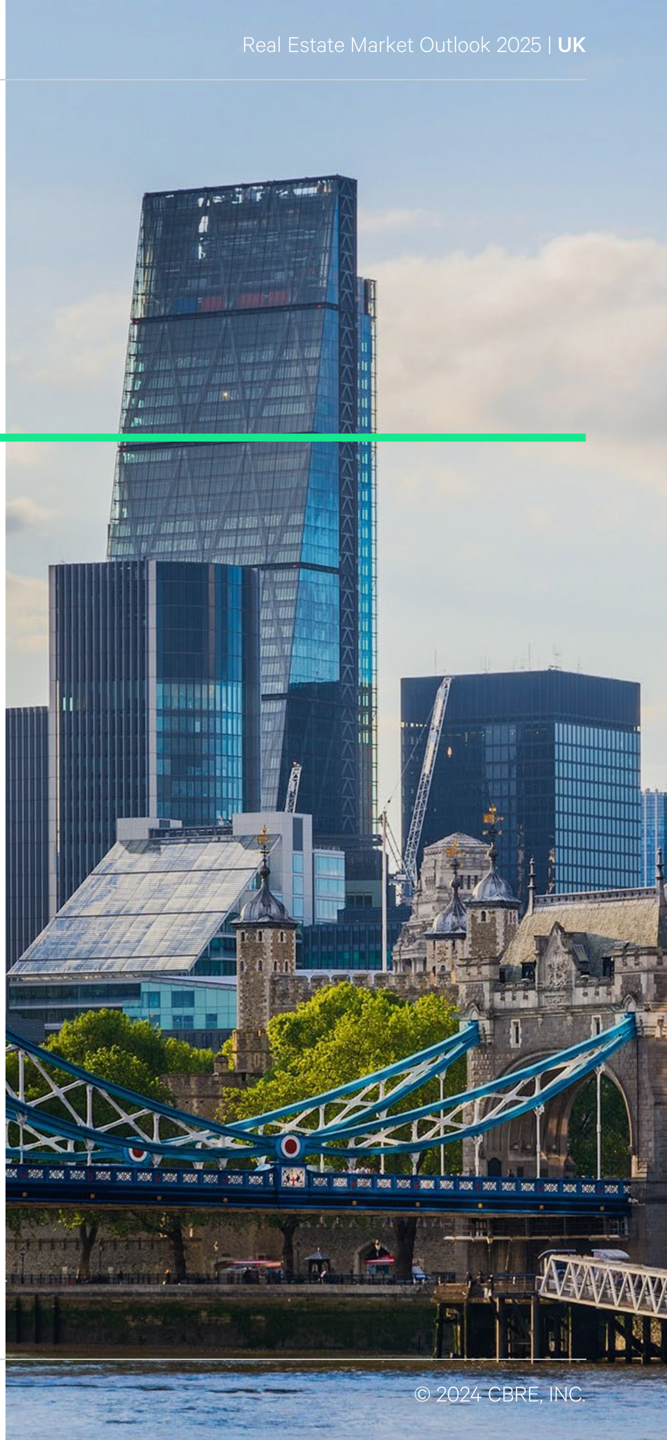
Introduction



2024 had its fair share of ups and downs, but from an economic point of view, it turned out to be better than expected. Inflation fell in the first quarter and was near, or at target, for the rest of the year. Consequently, the Bank of England (BoE) started its interest rate cutting cycle. Overall, the economy grew by around 1%. We now appear to be firmly on the road to recovery, and we forecast the growth trajectory to continue in 2025, boosted by further interest rate cuts.

However, the earlier than expected general election helped bring a level of certainty to the country, albeit the long wait for the budget was unnerving, especially given the down beat narrative, particularly around the need to fund the large public finance black hole. Some of the measures introduced in the 2024 Autumn Budget will be challenging for businesses, particularly the additional National Insurance contributions effective from April 2025. Still, there is much to be positive about. The Invest 2035 strategy sets out a strong vision, highlighting growth areas including the life sciences, finance, and tech sectors. The paper also recognises the need for infrastructure improvements to underpin the growth agenda. This vision, if enacted, combined with the fiscally stimulating spending plans, will help drive the UK economy in the coming years.

Moreover, we expect the revised National Planning Policy Framework (NPPF) to land imminently. This revision will see a return to ambitious mandatory housing targets and introduce a progressive new classification of land – the ‘grey belt’. With it comes increased pressure for Local Authorities to review the Green Belt if they are unable to meet housing targets on brownfield land. These changes have been well-received by the development industry and are a cause for optimism. The NPPF consultation has elicited a significant response, and we are eager to see how the Government adapts the NPPF from its draft version.

Of course, planning changes alone won’t solve the ongoing housing crisis. But it may help provide a well-needed fillip to housebuilders, which, coupled with a more stable economic backdrop and lower interest rates, will help drive momentum in the housing market.

A further fillip to housing delivery, should come via the Government’s initiative to establish New Towns. An independent task force led by Sir Michael Lyons and Dame Kate Barker has been commissioned to develop a vision for the 'New' New Towns, identifying suitable locations for communities of at least 10,000 homes within 12 months. While the exact number of New Towns remains unspecified, the prospect of a new Milton Keynes emerging nearby is quite possible. Politically, it will be interesting to see if groundbreaking on a New Town occurs before the next election.

Looking through a commercial real estate lens, it is becoming increasingly evident that the market reached the trough in 2024. According to our monthly index, all property capital values are now showing embryonic signs of a turning point, which we expect to continue and gather more strength in 2025. As we leave a year where investment volumes remained at historically low levels, a rise in values, alongside lower interest rates and lower costs of debt, will stimulate a pick up in investment in 2025 of around 15% to £53bn.

2024 was the year of the election, with more than 50 countries going to the polls. The last of the year saw the Republic of Ireland vote on 29 November. Still, 2025 won't be without its political turmoil as we expect a general election in Germany and France following the collapse of their respective governments. This will contribute to the ongoing geopolitical uncertainty. And of course, we will see Donald Trump return to the White House after the U.S. election saw him become only the second U.S. president to win non-consecutive terms.

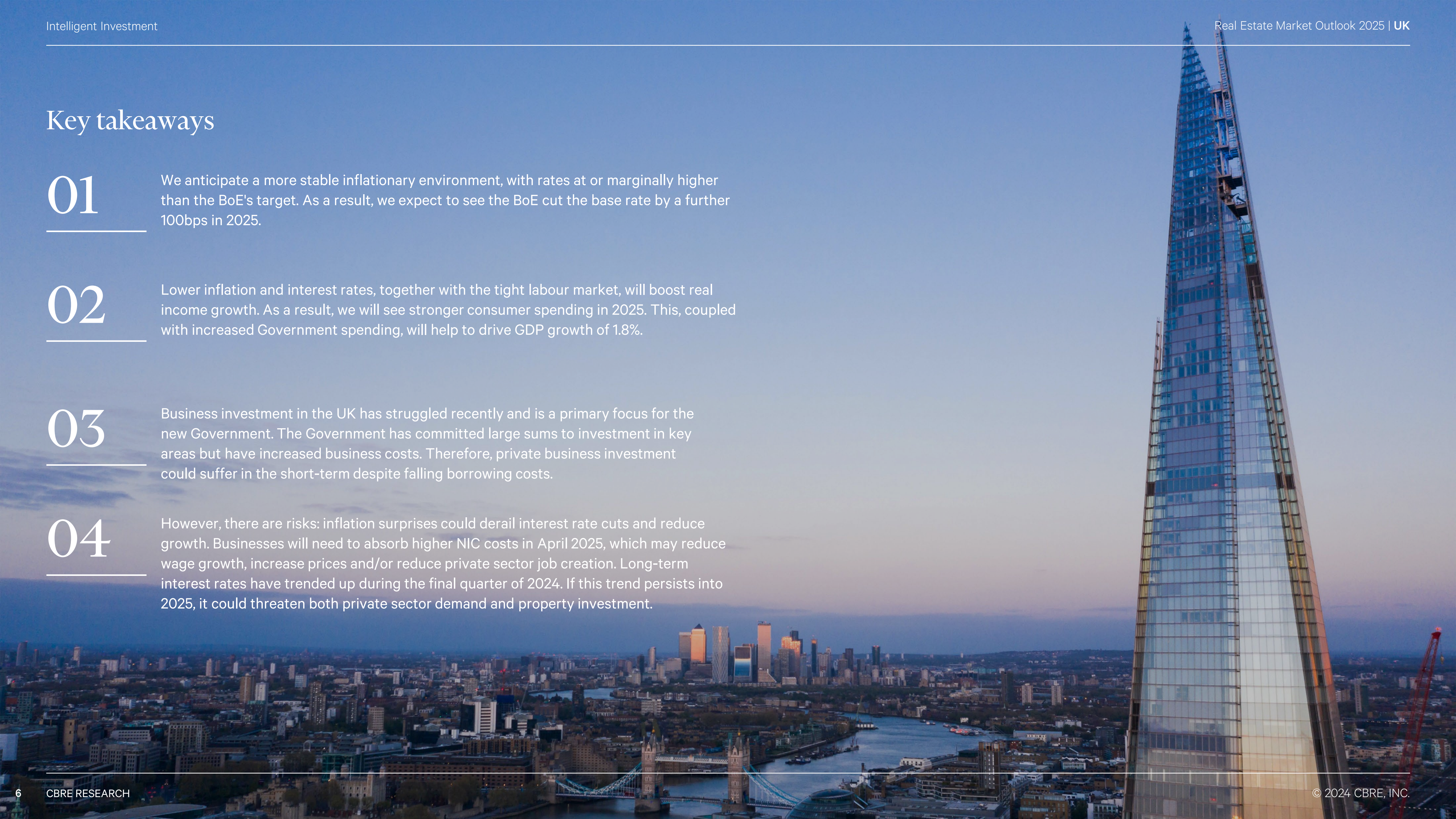
Trump's return to office will likely bring with it some fiscal stimulus and a tax policy favourable for real estate investors and occupiers in the U.S. While a growing U.S. economy would be net positive for the UK, the possibility of higher U.S. import tariffs on European goods may weaken EU growth. Yet it is uncertain whether tariffs will be applied to the UK, but if so, they could reduce U.S. demand for UK goods. U.S. tariffs, in combination with more restrictive immigration policies, could affect labour availability, reignite inflation, and result in higher U.S. interest rates. This may further strengthen the dollar, which might encourage a wave of U.S. capital to target European real estate assets.

The sustainability agenda remains a notable consideration for investors, developers, and occupiers, not least due to the fast-approaching deadline for tighter MEES regulations. Investors and developers are also becoming increasingly aware of the need to mitigate against physical risk. In the UK, one in six properties is at risk of flooding, with an annual remediation cost of £1bn. But there are also opportunities in areas like electric vehicle charging points and renewables.

Artificial Intelligence remains front of mind, and we expect it to develop further in 2025. While it may take some time for its applications to be truly revolutionary, its impact on efficiency through automating repetitive processes should continue to feed through quickly. In the medium-to-long-term, commercial real estate is likely to see substantial benefits from AI. In the shorter-term, data centres are poised for transformation; the expansion of AI is not only driving a significant increase in demand for capacity, but also the requirements are evolving to reflect the computational and storage needs of these advanced applications.

On the surface, 2025 may seem like a benign year, with steadier economic growth and modest levels of commercial real estate activity. But the underlying picture and nuances will be far more exciting.

01 Economic Outlook



Key takeaways

01

We anticipate a more stable inflationary environment, with rates at or marginally higher than the BoE's target. As a result, we expect to see the BoE cut the base rate by a further 100bps in 2025.

02

Lower inflation and interest rates, together with the tight labour market, will boost real income growth. As a result, we will see stronger consumer spending in 2025. This, coupled with increased Government spending, will help to drive GDP growth of 1.8%.

03

Business investment in the UK has struggled recently and is a primary focus for the new Government. The Government has committed large sums to investment in key areas but have increased business costs. Therefore, private business investment could suffer in the short-term despite falling borrowing costs.

04

However, there are risks: inflation surprises could derail interest rate cuts and reduce growth. Businesses will need to absorb higher NIC costs in April 2025, which may reduce wage growth, increase prices and/or reduce private sector job creation. Long-term interest rates have trended up during the final quarter of 2024. If this trend persists into 2025, it could threaten both private sector demand and property investment.

THE UK ECONOMY PERFORMED BETTER THAN EXPECTED IN 2024

Inflation fell sharply in the first quarter of 2024, remaining at or near target thereafter. In response, the Bank of England made its first rate cut in over four years in August, and a further cut in November. This, coupled with tight labour markets, continued to drive positive real income growth, which in turn supported household consumption. Although consumer confidence weakened in the latter part of the year, retail sales and consumer spending were ahead of H2 2023 levels. In addition, survey evidence suggests businesses were in expansionary territory for all of 2024. Together, this produced higher than anticipated growth, although at 1.0%, it is still well below the long-term average.

ECONOMIC RECOVERY TO CONTINUE INTO 2025

We expect 2025 to see the UK economy to return to a more stable long-term trend rate of growth, with GDP at 1.8%. Inflation will likely fluctuate around or just above the target level, with some short-term volatility related to energy, wages, and service sector inflation. Even so, we expect the Bank of England to continue its rate cutting cycle with around 100bps of cuts in 2025.

The backdrop of price stability, rising real incomes, and falling debt costs, which we expect to see in 2025, are all conducive to stronger growth. In addition, the Labour Government has committed large sums to investment in key areas, including transport improvements, health, schools, and housing. This will further stimulate growth. As a result, we expect employment growth of 0.8% in 2025. However, businesses will face higher costs due to the increase in employers' NICs, effective in April 2025. This could marginally slow the rate of job creation as firms look at ways to maintain profit margins. And while increases in the minimum wage are fiscally expansionary, they will further add to some business costs and may dampen private business investment levels. Firms may try to pass their higher costs to consumers via higher prices, which may prove marginally inflationary. There are other inflationary risks, not least from the Trump administration's proposed import tariffs, and an escalation of the Middle East conflict, which could impact energy availability and prices.

Figure 1: CBRE economic forecasts

	2023A*	2024	2025	2026
GDP growth	0.3	1.0	1.8	1.8
Inflation	7.3	2.5	2.4	2.3
Unemployment	4.0	4.3	4.3	4.0
Base rate	5.25	4.75	3.75	3.00
Ten-year gilts	4.2	4.0	3.4	3.3

Source: CBRE Research
*Actual

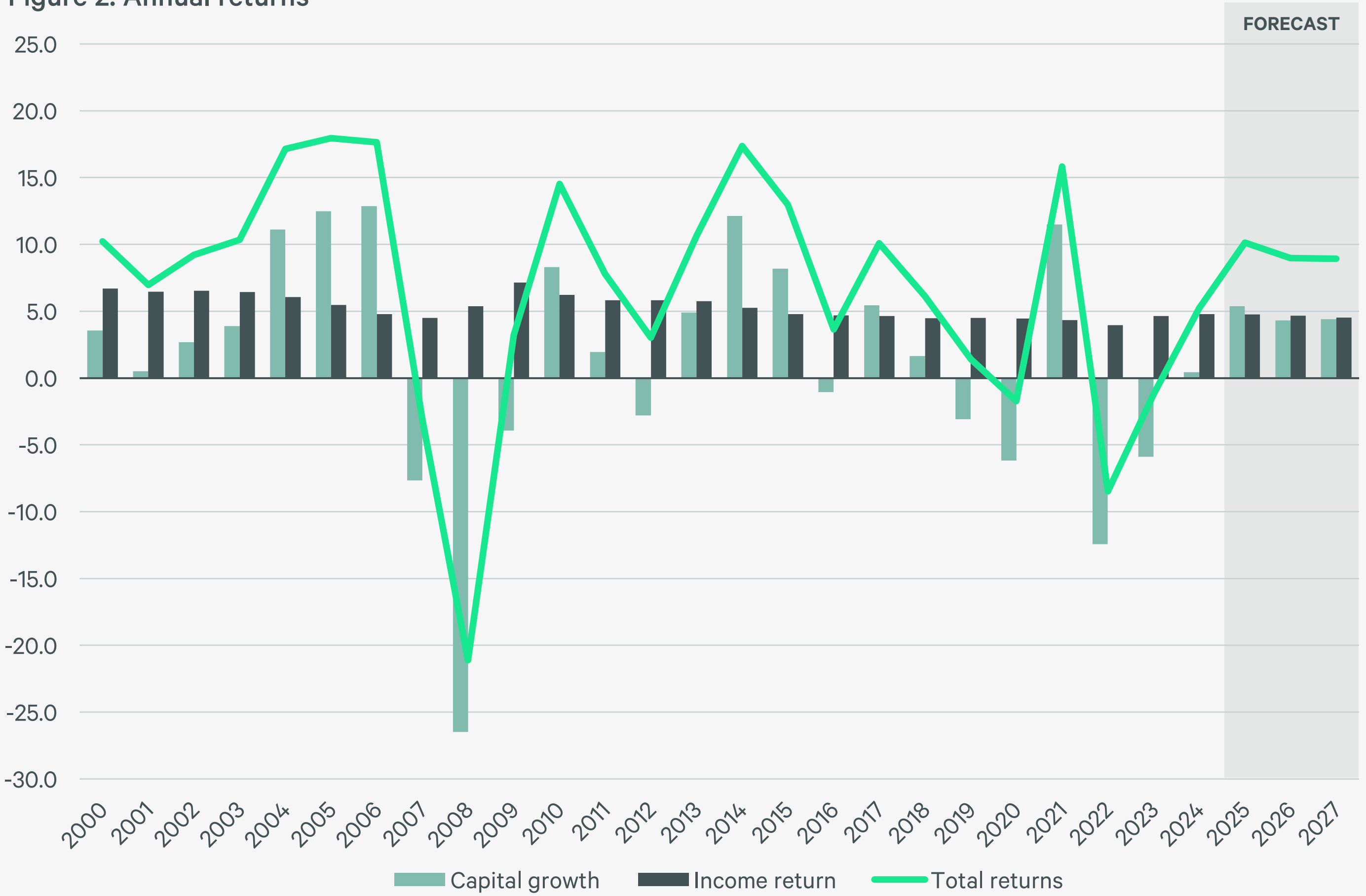
WHAT THIS MEANS FOR THE COMMERCIAL PROPERTY MARKET

The property market reached the bottom of the cycle in 2024 and ended the year with slightly improving values. Yields remained stable for the majority of 2024, but we expect them to compress in early 2025, reflecting the modest interest rate cuts.

Prime, well-located office stock should benefit from the expected jobs growth. Both the retail and logistics sectors will gain from the increasing consumer demand. Although lower interest rates will support activity in the for sale residential market, the continued demand and supply imbalance is supporting strong rental growth in the private rented sector. However, planning reforms may alleviate supply shortages in the medium-term and provide more investment opportunities.

In figure 2, our all property net total returns forecasts show returns will be competitive across all segments. However, our analysis suggests that prime property returns could be stronger. Strong income growth, combined with capital value appreciation, will make 2025 an opportune moment to buy, and unlike 2024, more credit should become available.

Figure 2: Annual returns



Source: MSCI, CBRE Forecasting

02

Investment

Key takeaways

01

Total returns from UK real estate investments are set to improve in 2025, with income return supported by a resumption of capital growth. While rental growth is likely to be the main driver for any capital growth, some yield compression is possible – especially in sub-sectors where investor demand is stronger.

02

There is an improved outlook for most sectors of real estate following repricing over the last two years. Yet there are ongoing challenges for older, lower quality assets in each sector where the expenditure needed to reposition these properties will act as a drag on investment performance.

03

Recent activity in the listed real estate sector supports our perception that the investment environment is shifting. While some investors will continue to act cautiously over the next few months, others appear well-positioned to take advantage of the market reaching a trough.

04

Institutions are looking to invest more capital into private markets. We expect real estate to be compared more frequently with alternatives such as private equity, private debt, and infrastructure, as allocations are made across private asset classes. More institutional capital is likely to be deployed into real estate debt.

05

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

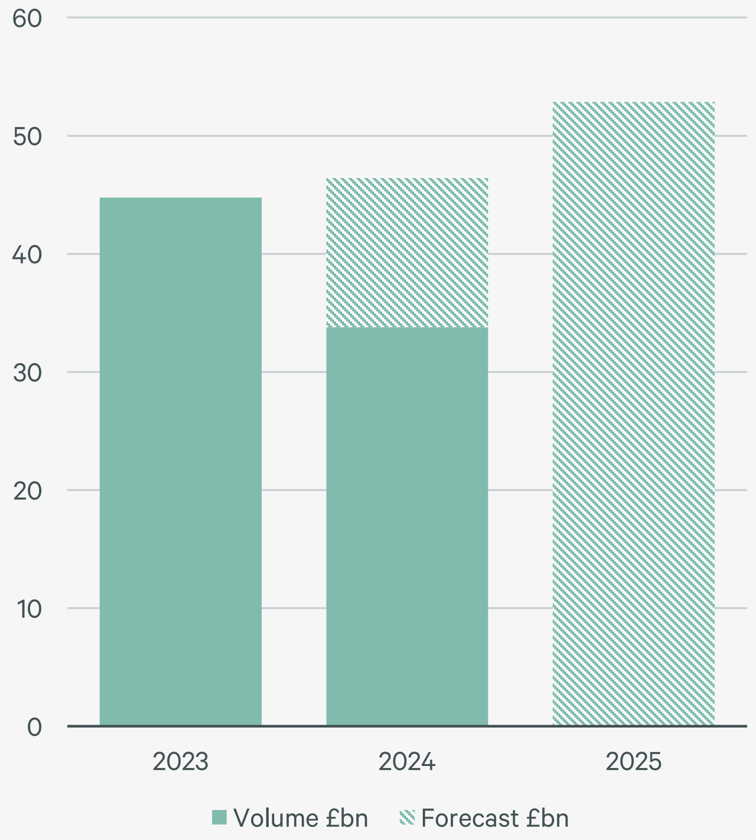
INVESTMENT RETURNS ARE IMPROVING

Conditions in the UK real estate investment market have improved over the course of 2024, placing the market on a more stable foundation for the year ahead. Pressures from higher interest rates have eased and more investors are making plans to deploy capital in real estate. However, world challenges for investment remain. We expect investment activity to increase next year as the market continues to normalise.

Total returns as recorded by our Monthly Index are now consistently positive, and capital values have stopped falling in many parts of the real estate market. At an aggregate level, we expect total returns to improve further over 2025, underpinned by income return and a resumption of capital growth. Rental growth is likely to be the main driver for capital value increases in the year ahead, but some yield compression is possible – especially in those sub-sectors where investor demand is stronger.

The aggregate picture can hide trends affecting different types of assets. The performance of the main commercial property sectors has diverged in recent years, and this continued in 2024 with values falling for longer in the office sector than for other property types. Although we think that prospects are better for all sectors next year, challenges remain for older assets. This is especially true in the office sector where CapEx needed to improve the quality and energy efficiency of older stock will act as a drag on pricing and performance.

Figure 3: Projected UK real estate investment volumes



Source: CBRE Research

MORE OPPORTUNITIES ARE EMERGING

Nonetheless, we believe that the trough in capital values has been reached and, historically, real estate investments made at the trough of the market have outperformed investments made in other market conditions. While investors have been acting cautiously given uncertainty around pricing, sentiment is improving and there is more recognition of the opportunities presented by repricing in the UK real estate market, especially among private equity investors.

Activity in the listed real estate sector supports our view that the investment environment has shifted. M&A activity, bond issuance, and capital raising by UK REITs in recent months have sought to capitalise on changing sentiment towards real estate investment. REIT share prices have been rising, albeit gradually, and the discount to net asset value (NAV) at which REITs trade has narrowed, while secondary market pricing for unlisted real estate funds is now closer to NAV.

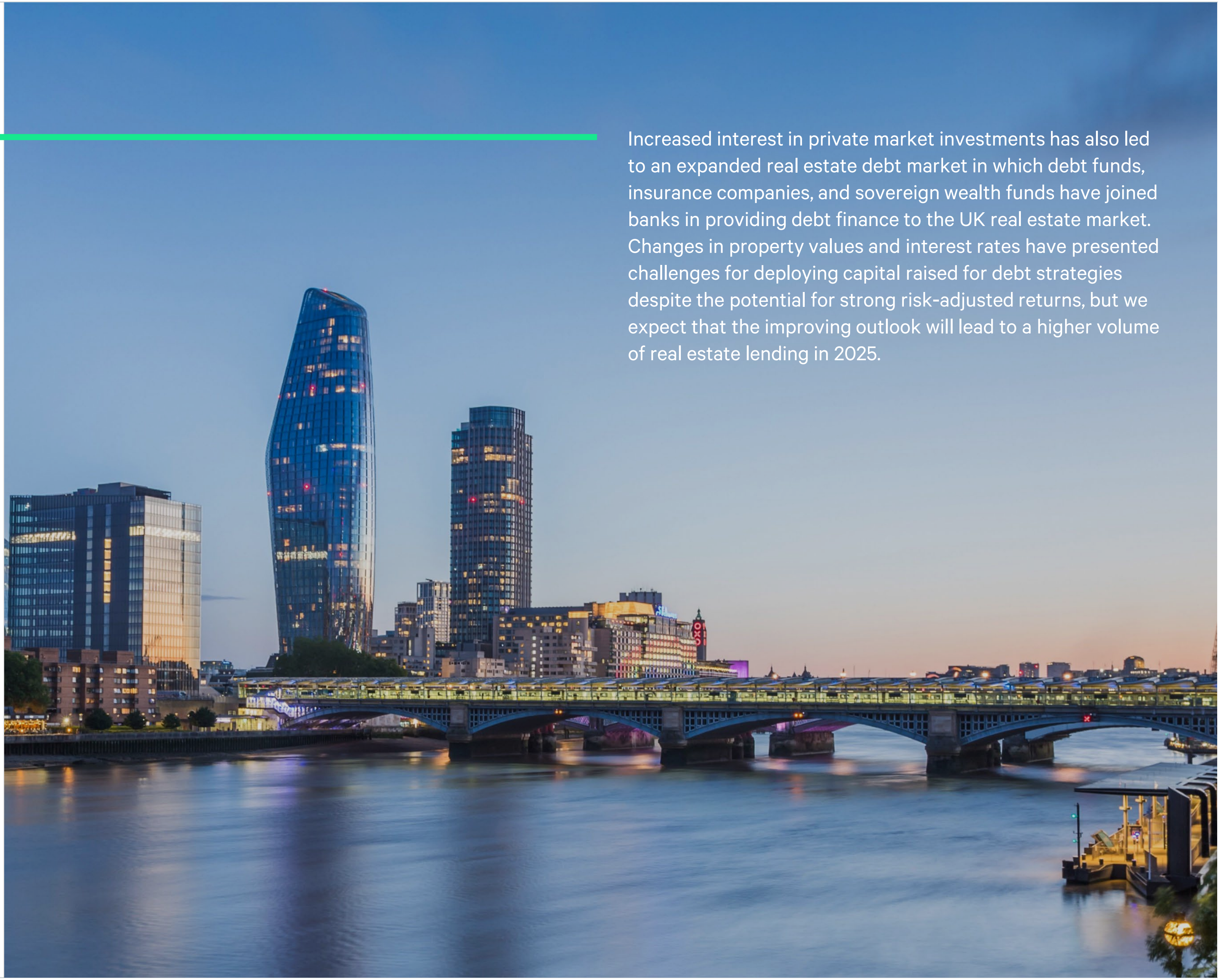
There was only a limited amount of new equity raised for real estate funds in 2024, but there are signs that more capital will flow into the real estate market in 2025. However, UK institutional investment is in a period of transition. While private sector defined benefit pension funds will continue to dispose of growth-oriented assets like equities and real estate in favour of fixed income investments, local Government pension schemes are seeking to pool their existing real estate holdings and deploy more capital into the asset class.

THE INVESTMENT MARKET IS EVOLVING

There is also a growing pool of capital managed by insurance companies and other investment managers on behalf of defined contribution pension plans. Hybrid funds that invest in both private and listed real estate assets are one route for more of this capital to be invested into real estate while satisfying liquidity requirements. Another route is through Long-Term Asset Funds (LTAFs), which operate under different liquidity rules.

The launch of LTAFs illustrates a wider interest among institutions to deploy more capital in real assets and private markets generally. This should be beneficial for property investment, but competition for capital is being reframed as a result, with real estate now more frequently compared with private equity, private debt, infrastructure, and natural capital. Thematic investment is also influencing decisions, and we expect this to benefit sectors such as healthcare, affordable housing, and data centres, which might attract capital from infrastructure allocations as well.

Increased interest in private market investments has also led to an expanded real estate debt market in which debt funds, insurance companies, and sovereign wealth funds have joined banks in providing debt finance to the UK real estate market. Changes in property values and interest rates have presented challenges for deploying capital raised for debt strategies despite the potential for strong risk-adjusted returns, but we expect that the improving outlook will lead to a higher volume of real estate lending in 2025.



DEBT HAS BECOME MORE AFFORDABLE

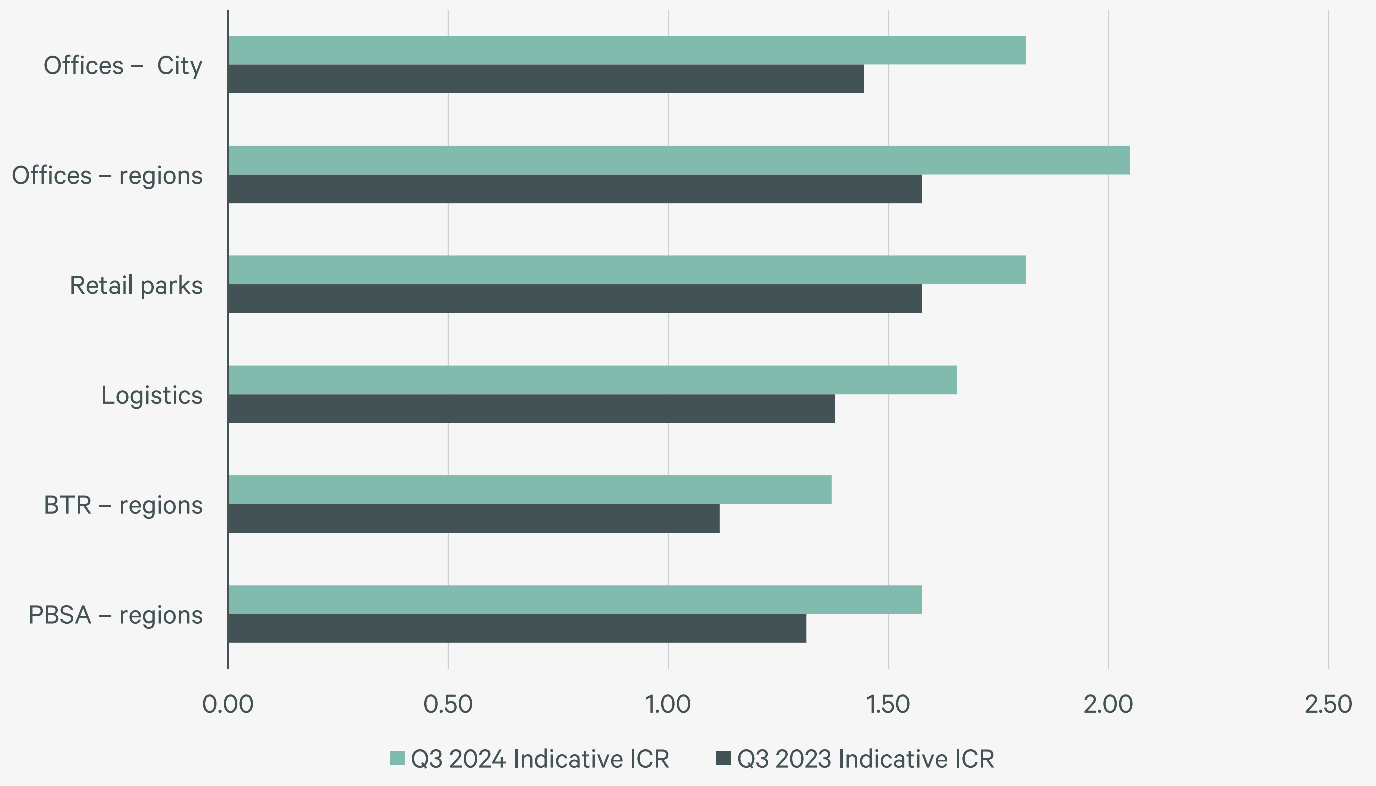
While demand for debt was dominated by refinancing requirements over the last year, we anticipate a more even balance between acquisition financing and refinancing in 2025.

This reflects our belief that improving total returns for real estate assets will create more situations where leverage is accretive in investment acquisitions. However, since a return to ultra-low interest rates is unlikely, the affordability of debt will remain in focus as investors determine how to finance potential acquisitions in the year ahead.

We have seen a material reduction in debt costs over the last 12-18 months. This reflects a fall in short-term and long-term interest rate benchmarks, and the effects on loan margins from increased competition among lenders for high-quality assets and sponsors. When allied with the impact of repricing in the real estate market, this has led to an improvement in the ability of investors to service new loan agreements. Figure 4 illustrates how interest cover ratios have shifted in the last 12 months based on movements in interest rates and prime property yields.

Challenges will remain for refinancing loans that were created in a lower interest rate environment and some distress could emerge where falls in asset value have been especially pronounced. Nonetheless, we continue to believe that distress will be limited based on our experience of lenders and borrowers working together to resolve funding gaps. Further cuts in interest rates will ease the resolution of these situations and help sustain recovery in the real estate market over the next 12 months.

Figure 4: Interest cover ratios for lending have improved as yields have risen and interest rates have fallen



Source: CBRE Research
Note: These interest cover ratios assume a senior loan at 55% loan-to-value ratio with a margin of 180bps in each case but note that LTVs and margins vary across these property types in practice.

03

Sustainability

Key takeaways

01 Following the Labour electoral victory, we expect 2025 to see a raft of sustainability-related policy and legislation introduced; the real estate sector can anticipate announcements on EPC/MEES regulations, as well as the Future Homes Standard.

02 In the UK, the FCA intends to adopt the IFRS' ISSB standards for mandatory non-financial (ESG) reporting. From the EU, the Corporate Sustainability Reporting Directive (CSRD) will impact cross-border portfolios for investors and occupiers alike.

03 We expect a greater focus on both transition and physical climate risks in transactions, budgets, and valuations. It is essential to accurately determine the cost of mitigating extreme weather risk as well as climate-related regulatory and market implications.

04 With fast approaching public net zero carbon dates, occupiers, landlords, investors, and lenders will need to have greater alignment on sustainability objectives, presenting opportunities for collaboration.

05 To date, our Building Regulations and Future Homes and Buildings Standards have not sought to tackle embodied carbon emissions of construction and refurbishment, but we anticipate there will be an increased focus as a result of COP29.

WHAT WILL THE LABOUR GOVERNMENT DO TO DECARBONISE THE BUILT ENVIRONMENT?

Following the PM's pledge during COP29 that the UK Government will increase its climate ambition by targeting an 81% reduction in national carbon emissions by 2035, it's likely that the built environment, which contributes to up to 40% of UK emissions, will be the focus of policy-makers' attention.

For existing assets, the Department of Energy Security and Net Zero has acknowledged the need to clarify the trajectory of Minimum Energy Efficiency Standards (MEES) for both commercial and domestic buildings, promising it will publish a full response to the outstanding consultations in 2025. The previous Government's proposals were to make it unlawful to let or continue to let commercial property with an Energy Performance Certificate (EPC) rating below C by 2027, with an equivalent date for homes of 2030. Regardless of the precise dates at which such standards are required, occupiers and landlords should be tracking EPCs of assets across their portfolios and plan works and negotiations accordingly to ensure compliance at the earliest date possible. It's also worth highlighting that EPCs themselves are likely to be consulted on in 2025 as part of the EPC Action Plan to ensure that they are more accurate, reliable, and trusted by relevant market stakeholders.

The Government is also committed to improving the energy efficiency and reducing the carbon emissions of new homes and commercial buildings. The Future Homes and Buildings Standards were initially planned by the Conservative party, and due to be introduced in 2025. For both new homes and commercial buildings, the proposed standards would deliver higher levels of energy efficiency, increased provision for renewable energy generation, and low carbon heating solutions or electrification. While Labour have previously signalled their intent to follow these plans, they have yet to formally commit, and the standards are still subject to legislation being laid before Parliament. Furthermore, the Autumn Budget confirmed the Carbon Border Adjustment Mechanism (CBAM) will cover steel and cement imports which could impact construction costs.

INCREASING DISCLOSURE REQUIREMENTS

In the UK, the Financial Conduct Authority (FCA) has indicated its adoption of the International Financial Reporting Standards' (IFRS) sustainability disclosure standards. Real estate investors can expect to align their IFRS reporting with the Task Force on Climate-Related Financial Disclosures (TCFD), providing a comprehensive view of how climate risks are managed in financial performance. In implementing IFRS disclosures, property owners should also take account of the Sustainability Accounting Standards Board (SASB) Real Estate Sector Guidance and the IFRS-adopted Transition Plan Taskforce (TPT) guidance. From the EU, the CSRD will drive further transparency and impact cross border portfolios for investors and occupiers alike. The ongoing evolution of non-financial (ESG) reporting will mean a continued focus on third party verified 'audit quality data' as well as clarity on climate change-related cost transition and adaptation implications.

PHYSICAL AND TRANSITION RISKS

With 2024 expected to become the warmest year on record, following a decade of unprecedented high temperatures, it seems likely that this warming trend will continue into 2025. Global average temperatures are gradually approaching a 1.5°C increase compared to pre-industrial levels. This means that extreme weather events and their physical damage to buildings are set to increase in both number and severity. So, we expect physical climate risks and the associated costs of adapting assets to make them more resilient to become even more scrutinised in market transactions, alongside the continued focus on net zero carbon transition costs. Occupiers will be increasingly cognisant of the risk to business continuity and wellbeing of site users. The UKGBC plan to publish a UK-wide Climate Resilience Roadmap for buildings in 2025, and the Environment Agency will be updating flood risk maps to incorporate future projections. Following the publication of the UK Net Zero Carbon Buildings Standard in September 2024, the pilot application of this will commence early in 2025 and will likely heighten the demand for transparency on asset performance against underlying targets through increasingly detailed due diligence insights, portfolio analysis, and asset valuations.

NEARING NET ZERO PUBLIC TARGETS

There is an increasing urgency, particularly for occupiers, to meet their publicly-set Science Based Targets for 2030. These targets should be integrated in all stages of a transaction, with CapEx aligned with the portfolio strategy to inform real estate decisions. This presents an opportunity to demonstrate the sector's capabilities, where the mantra of 'radical collaboration' can present significant opportunities, while also raising significant expectations. Achieving successful outcomes will require greater alignment on sustainability objectives between occupiers, landlords, investors, and lenders. With the Better Buildings Partnership's latest revision to the Green Lease toolkit gaining significant traction in the industry, we expect to see the negotiation of more green lease clauses by both landlords and tenants. Additionally, there will be a continued emphasis by occupiers on market-leading certifications such as BREEAM, NABERS, and the WELL Building Standard.

GROWING FOCUS ON EMBODIED AND WHOLE LIFE CARBON

As COP29 in Azerbaijan concludes, it is important to recognise the growing global momentum to tackle the embodied emissions associated with the manufacture, transportation, and assembly of construction products and materials.

Following the official launch of a Buildings Breakthrough at COP28, 70 countries around the world signed up to the Declaration de Chaillot in Paris on 7th March 2024 – committing them to a range of actions towards a common goal of "near-zero emission and resilient buildings to be the new normal by 2030". As a signatory, the UK will need to take action on these building specific priorities, many of which focus on addressing the whole life carbon (WLC) emissions across the entire lifecycle of buildings. To date our Building Regulations and Future Homes and Buildings Standards have not sought to tackle embodied carbon emissions of construction and refurbishment, but we anticipate that WCL assessments will soon become a pre-requisite to secure planning permission for buildings of a certain floor area or size. The EU has already mandated that starting January 2028, all new buildings with floor areas above 1,000m2 will be required to undergo a WLC assessment. By 2030, this will apply to all new buildings.

We anticipate that this will result in a greater focus on renovation and repurposing existing buildings over constructing new ones. Additionally, there will be a need to evaluate the WLC implications of operational decarbonisation works, alongside their expected return on investment for all existing assets under management.

04

Office

Key takeaways

01 Continued growth in take-up is expected in 2025 due to a combination of factors, including the market having right-sized, forecast improvement in the macroeconomy, and projected increases in office-based employment.

02 The expansion of the flexible office market will continue in the large UK cities, attracting an increasingly varied range of occupiers.

03 Prime rental growth is expected in 2025 in all markets tracked by CBRE as supply-side constraints continue. This is due to recent low levels of development starts as construction costs and the cost of debt has remained high.

04 As interest rates continue to come down, we predict the full cost of debt for prime stabilised office assets to fall in 2025, which will have a positive impact on investment volumes.

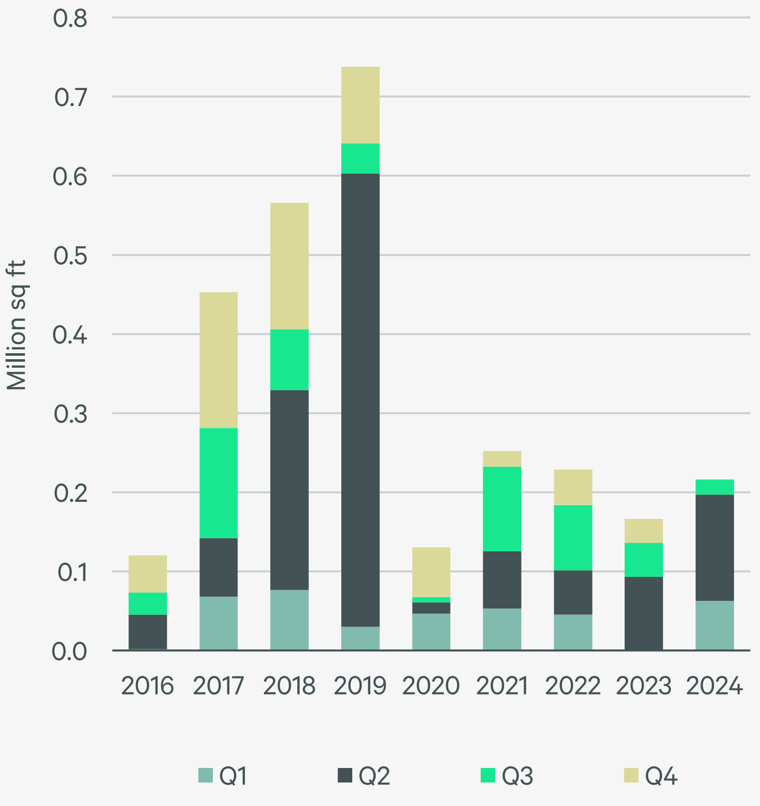
05 Liquidity for larger lot sizes, along with greater price discovery is expected in 2025. This is likely to translate into an increase in sales of stabilised assets in the regions. We also anticipate foreign buyers to return to the Central London market.

CONTINUED GROWTH IN OFFICE LEASING EXPECTED IN 2025

Office-based employment growth in the UK paused in 2024, following a substantial increase in 2023. Despite this, take-up marginally increased over the year. This partly reflects occupiers planning for future growth. In addition, some occupiers are continuing to evolve their hybrid working strategies, with an element of ongoing space right-sizing. While some occupiers have downsized, over the past three years, the number of Central London occupiers moving into larger premises has been twice as high as the number of occupiers moving into smaller premises. On top of this, since the last lockdown in the UK, a third of take-up has been from new entrants to the Central London market.

We have seen 20% of deals involve occupiers shrinking their office footprint in Central London throughout this period. However, we predict that most companies that wanted to downsize post-pandemic have already done so, therefore we feel the market has right-sized going into 2025. Moreover, our forecasts suggest a return to growth in 2025 for office-based employment in the UK office markets tracked by CBRE. This, coupled with the general improvement in the macroeconomic backdrop, is expected to drive increased take-up in 2025.

Figure 5: Major UK regional cities, flex office operator take-up 2012 – 2024 Q3



Source: CBRE Research

FLEX MARKET TO GROW AND DIVERSIFY

There has been an increase in take-up from serviced office operators in the major regional cities, making 2024 likely the strongest year since 2019 for operator take-up. We expect growth to continue in 2025. Manchester is currently the largest market outside of London, with 1.2m sq ft of flex office space.

As the scope of flexible workspaces is evolving, a wider range of occupiers view it as a viable option. Traditionally, the Tech, Media and Telecoms sector has driven flex office demand. However, in 2024, there was an uptick in demand from the financial and professional services and business sectors. We expect the pool of occupiers to diversify further moving into 2025, with demand driven by several factors including reductions in capital expenditure, solving for uncertain demand, and providing space for temporarily displaced teams.

PRIME RENTAL GROWTH WILL CONTINUE IN 2025

Grade A office supply remains constrained across the UK. Moreover, high construction costs, coupled with the lower availability and higher cost of debt has led to a relatively low level of development starts in 2024. This will lead to fewer development completions in 2026 and beyond, further limiting the choice for occupiers looking at development stock.

As a result, we expect the recent pressure on prime rents to continue. We forecast prime rental growth in all markets in 2025, of c.6%. The City is expected to outperform all other markets in Central London and the rest of the UK at c.8% rental growth in 2025. Locational factors like accessibility to public transport and amenities will continue to influence which buildings experience exceptional rental growth.

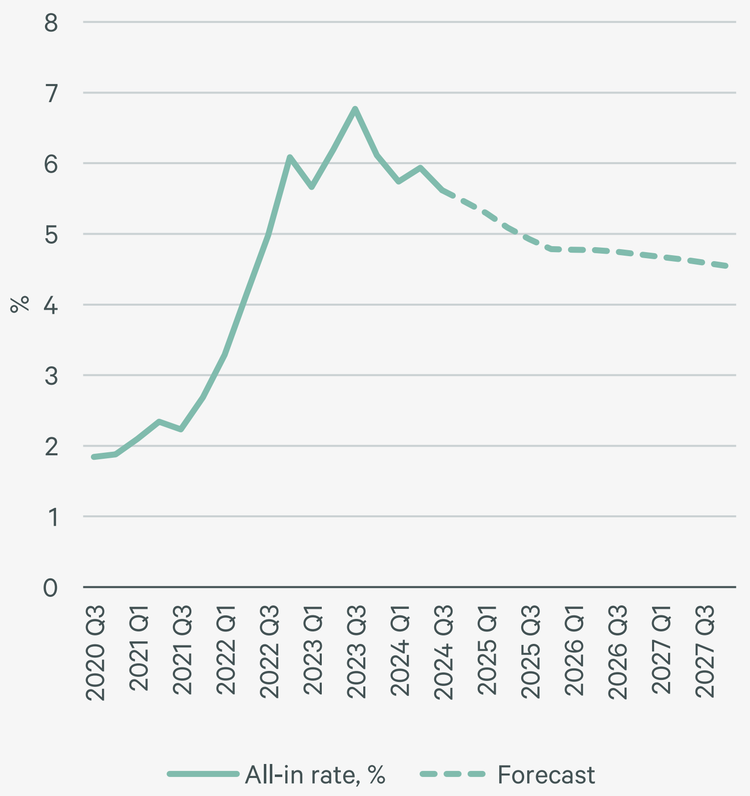
OPERATING ENVIRONMENT BECOMES INCREASINGLY FAVOURABLE FOR INVESTORS

Investment volumes remained relatively muted throughout 2024, albeit around 10% higher than in 2023, totalling approximately £10.5bn for the full year. The continued low levels of activity throughout the year largely reflected the high-interest rate environment. For example, the indicative all-in cost of debt for prime stabilised office assets averaged 5.8% in 2024, rising from 2.1% at the end of 2020.

However, the costs of debt started to edge down, following the BoE's first rate cut in August. And this, with the expectation of further cuts, boosted activity slightly. This trend will continue throughout 2025 as the BoE continue to cut interest rates. We expect the full cost of debt for prime stabilised office assets to fall from the current level of 5.62% to 4.79% by the end of 2025.

UK office yields have remained largely stable throughout 2024 and will remain so until 2025, when they are expected to start slowly compressing in most UK office markets in anticipation of further interest rate cuts.

Figure 6: All-in cost of debt (%), prime stabilised UK office assets



Source: CBRE Research

LARGE LOT SIZES AND OVERSEAS INVESTORS RETURNING TO THE MARKET

In the second half of 2024 we started to see a return of larger lot-size deals transact. In the Central London market, we saw the first deal of the year over £150m transact in September, the purchase of Atlantic House, EC1. In October, 90 High Holborn was acquired, making it the second deal to transact above this level in 2024 in Central London. In Leeds, Ashtrom Properties purchased Central Square for £78m, the largest deal to transact in the market since Q1 2022. We expect this trend to continue in 2025, with several larger lot-size deals currently in hand and in the market across the UK. This will boost the average lot size and, in turn, the overall volumes in 2025.

With an increase in liquidity and greater price discovery in 2025, there will be several developer and property companies looking to sell stabilised assets in the regions, who had been holding back sales in 2023 and 2024. We expect to see a mixture of European funds, domestic funds, and well-capitalised global family offices to form the buyer pool in 2025.

Central London usually anticipates foreign buyers to dominate the market. However, in 2024, the majority of investors have been domestic (58%). This is likely to prove an outlier. We expect the share of foreign investment to increase again, returning to the long-term trend level.

05

Industrial & Logistics

Key takeaways

01 With a stable economic backdrop, we expect occupier activity in 2025 to remain consistent with the levels seen this year. The retail sector will likely be particularly active with upgrading assets to enhance operations.

02 Given steady occupier demand and reductions to the development pipeline, the UK vacancy rate will continue to stabilise throughout 2025.

03 Prime rents will continue to grow, albeit at a more modest pace than seen in recent years, however incentive packages may grow given the amount of available stock in the market.

04 The trend of flight to quality assets is expected to continue as caution surrounding assets' obsolescence grows.

05 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 regions.

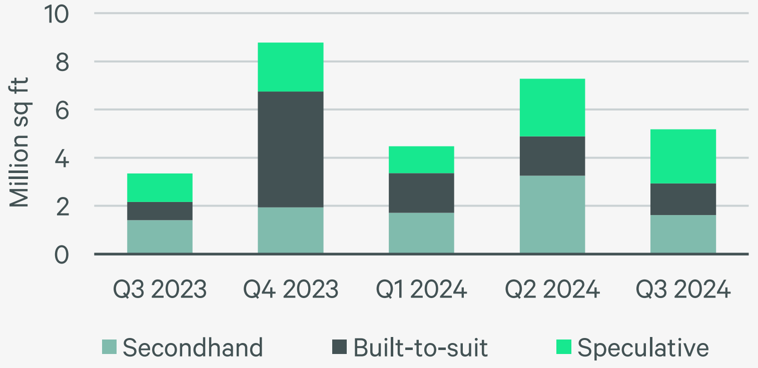
OCCUPIER DEMAND BACK TO BUSINESS AS USUAL

There has been a pick up in occupier activity in 2024. While the average deal size has remained broadly consistent with last year at 260,000 sq ft, total take-up is around 20% higher. The average quarterly take-up is now consistent with the pre-pandemic trend. However, deals are continuing to take longer to complete.

3PLs continue to account for the largest share of take-up, with demand predominantly driven by operators expanding their multi-user networks as opposed to larger dedicated contract wins. This is reflective of occupiers looking to outsource to cheaper and more flexible supply chain solutions with aims to reduce costs. Retailers have accounted for a greater share of take-up this year. Activity within this sector is expected to continue into 2025, with many considering automation and tech enhancements to deliver a best-in-class omnichannel service to consumers alongside business cost savings. After significant expansion during the pandemic, we have seen online retailer activity slow in recent years. In the year ahead, we anticipate a slight pick up in activity from this occupier group.

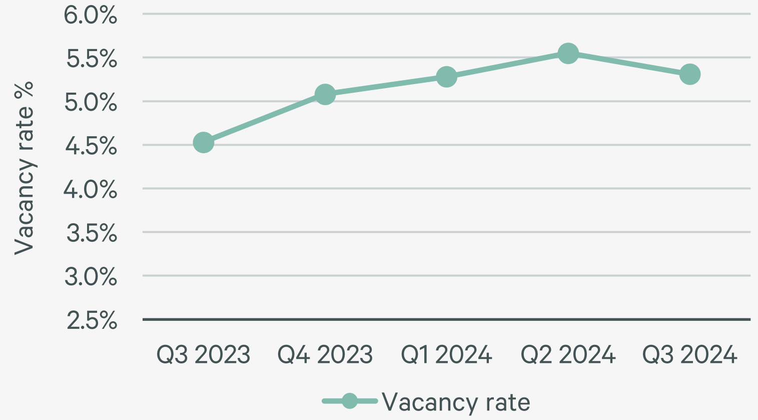
The amount of space under offer currently exceeds 14m sq ft, indicating a robust pipeline of take-up in the coming quarters. Based on our predictions of a stable economic backdrop, we expect that occupier activity in 2025 will be broadly consistent with this year.

Figure 7: UK logistics take-up



Source: CBRE Research

Figure 8: UK logistics vacancy rate



Source: CBRE Research

VACANCY RATE EXPECTED TO STABILISE, PROVIDED DEVELOPMENT ACTIVITY DOES NOT SURGE

Throughout 2024, the UK logistics vacancy rate has returned to levels seen at the start of the year, standing at 5.3%, indicating the market has begun to stabilise. However, this trend is not consistent across the regions. The North West vacancy rate is now below levels a year ago, whereas the current East Midlands vacancy rate is the highest on record. This is partly driven by variances in recent completion levels. While the North West has seen one of the lowest levels of new stock, the East Midlands has seen the second highest stock rise year to date.

Looking ahead at potential future supply, the space currently under construction increased throughout 2024 and currently stands at 25.5m sq ft. However, 53% of the space under construction is assigned as BTS units, with 5 XXL developments accounting for 60% of this. The amount of speculative space under construction is 14% below the same time last year. Given that the development pipeline has reduced and occupier activity is expected to remain consistent with the levels seen this year, we anticipate that the UK vacancy rate will continue to stabilise throughout 2025 and perhaps even see compression in some regions.

RENTS WILL CONTINUE TO GROW, BUT AT MODERATED LEVELS

Year to date, the UK's prime rent* has grown by 2%. During this period, the strongest rental growth has been in the Yorkshire & North East at +6.1%, followed by Scotland at +5.7%. However, alongside this rental growth, there has been an increasing use of incentive packages, typically in the form of rent-free terms. This is particularly prevalent in newly completed speculative developments, where incentives will impact the development profits but ultimately protect valuations.

Assuming vacancy rates stabilise at around 5%, we anticipate that further prime rental growth will be achieved in 2025, albeit at moderated levels of around 2%. Prime assets will continue to become increasingly attractive, with growing caution surrounding asset obsolescence. In our latest European Logistics Occupier Survey, four in ten occupiers stated that between 25-45% of their current portfolio would be obsolete by 2030 if no significant investment to upgrade was made. Properties that can adapt to occupiers' evolving requirements, through features such as power availability, sustainability credentials, unit heights, and flooring specifications, will be best positioned to sustain rental growth in the year ahead.

*weighted by capital value

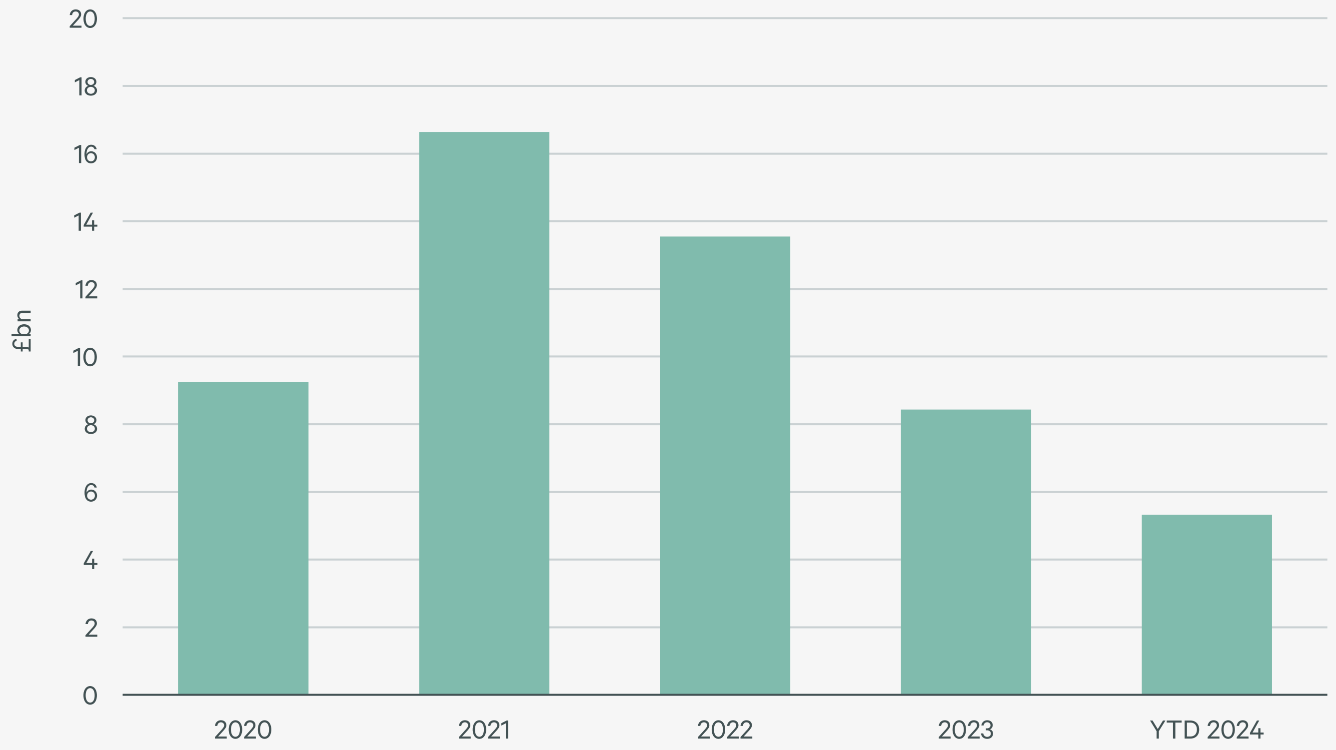
INVESTOR SENTIMENT SEES GROWING POSITIVITY, AND ACTIVITY WILL BUILD THROUGHOUT THE YEAR

Investment activity has remained subdued year to date, down 25% year-on-year. While certain assets are achieving good levels of demand such as multi-lets, there have been fewer larger lot sizes coming to market.

However, following the first BoE base rate cut in August, and growing evidence of a relatively stable occupier market, investor sentiment has been on an improving trajectory. Throughout the year there has been a rotating allocation of funding from institutions, which is expected to continue throughout 2025. With further base rate cuts anticipated, we're likely to see more core plus investors in the market – with many now raising capital. Considering this, we expect an increase in investment volumes in 2025, and along with heightened demand for larger lot sizes.

In terms of pricing, we have started to see some evidence of yield compression, most notably in the South East. In 2025, this is expected to become more consistent across the regions due to increasing investor activity. During this period of pricing transition, we anticipate due-diligence processes will likely become more aggressive.

Figure 9: UK logistics investment volumes



Source: CBRE Research

06

Data Centres

Key takeaways

01 Take-up of colocation data centre space in London is expected to reach an all-time high of 171MW in 2025 given strong demand from hyperscalers and providers of AI/high-performance computing services.

02 The London vacancy rate will decline to 8.8% as providers struggle to keep pace with the demand for data centre space.

03 London’s data centre supply is expected to grow by 17% in 2025, as new facilities meant for hyperscalers and AI providers are expected to open. Hyperscalers are looking to expand their footprint in the capital and need data centre space to do so.

04 Despite the lack of suitable capacity in London, demand for space suitable to house equipment designated for AI purposes will grow.

05 Hyperscalers and their data centre developer partners are looking further afield for powered land that will meet their growing needs for capacity.

STRONG DATA CENTRE GROWTH EXPECTED

The growth of the colocation data centre market in the UK is expected to continue unabated in 2025 despite the considerable challenges in delivering new facilities in London.

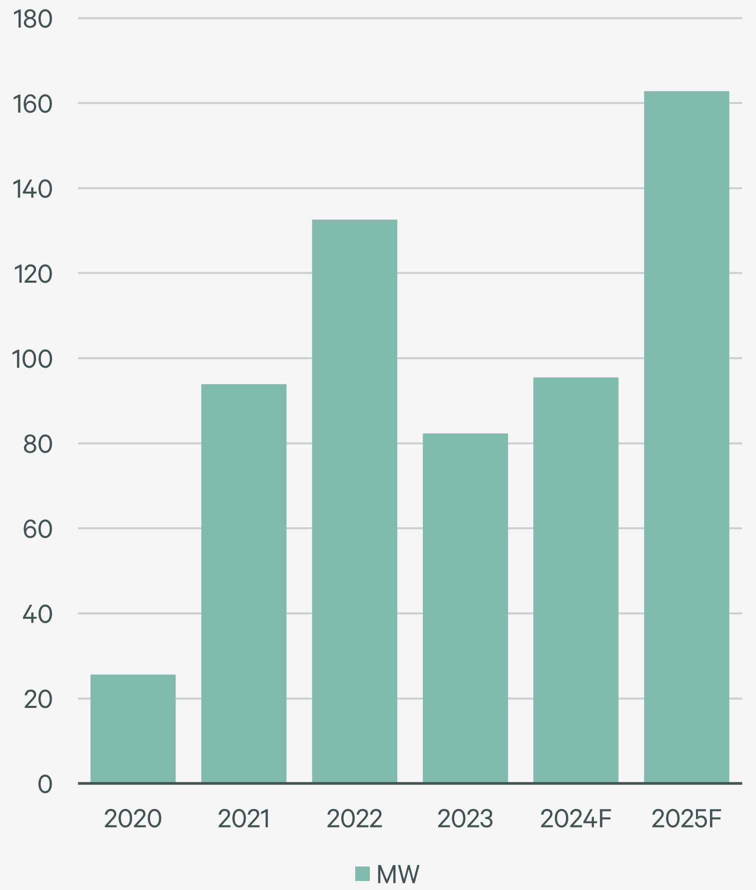
London is expected to account for most of the UK's supply growth, which is unsurprising, given the capital city represents about 80% of the country's colocation data centre market.

In 2025, London's data centre supply is expected to grow by 17%, as new facilities meant for hyperscalers and AI providers are expected to open. Hyperscalers are looking to expand their footprint in the capital and need data centre space to do so.

Investors continue to show strong interest in London due to its selling points, such as skilled labour, the ability to serve leading organisations, and excellent connectivity. Data centre providers are finding themselves restricted by a lack of available power and land in London's western corridor.

London remains Europe's largest data centre market when total supply is considered.

Figure 10: London new supply (MW) 2019 – 2025F



Source: CBRE Research

However, due to its size and the noted lack of available resource, the market is less likely to grow at the same rate as the largest of European metro markets, namely Frankfurt (26%) and Paris (18%), next year.

Providers looking to meet the demand for space in Slough, for example, will struggle to do so as new sources of power are not expected for years. With strong demand and a shortage of space, availability is expected to decline for the fourth consecutive year in 2025. Consequently, the vacancy rate in London is likely to remain below 10%, which is unusually low by historical standards.

Development is expected to accelerate in select smaller UK markets. For example, Kao Data started construction on a 40MW data centre in Manchester in October.

Hyperscalers and their data centre developer partners are looking further afield for powered land that will meet their growing needs. Microsoft announced in February that it had acquired land in the North East of England where there has been little data centre activity of consequence. In addition, data centre developer QTS is under offer on the Britishvolt-owned site in Cambois.

07 Retail

Key takeaways

01 Modest sales growth is anticipated in 2025, driven by an increase in real household income and further base rate cuts.

02 The UK online penetration will continue to grow organically but retailers' introduction of online return fees may temper this growth. Physical retail will remain a core component of occupiers' business strategies.

03 Prime space will become increasingly scarce in the year ahead, resulting in continued rental growth in the most attractive locations. Retailers may also start to explore secondary locations.

04 Retail Parks are expected to lead investment in the sector in 2025, but the growing positive sentiment surrounding Shopping Centres is likely to deliver increased activity. Strong demand for prime Central London assets will be maintained.

05 Retailers will continue to display confidence in bricks-and-mortar retail through strategic investment acquisitions.

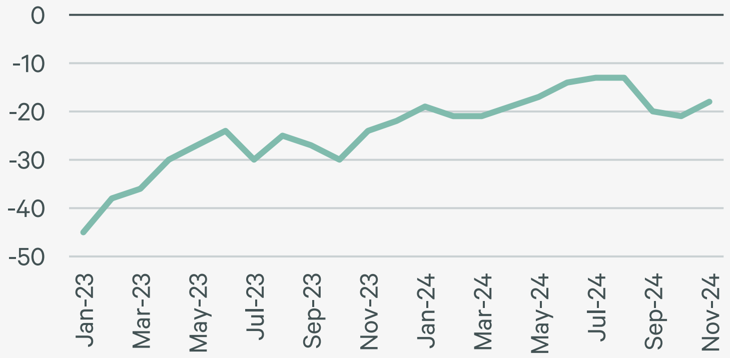
MODERATE GROWTH IN SALES IS EXPECTED

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. Additional base rate cuts should also help stimulate consumer spending.

However, performance will remain nuanced across product categories. Despite improving macroeconomic conditions, discount retailers are expected to continue to perform well as consumers remain focused on value for money. This said, after a few years of cautious spending on high-cost items like household goods, we anticipate sales in this sector to pick up due to the improving housing market. Sales growth will be further supported by the increasing offering of 'Buy Now, Pay Later' services by retailers.

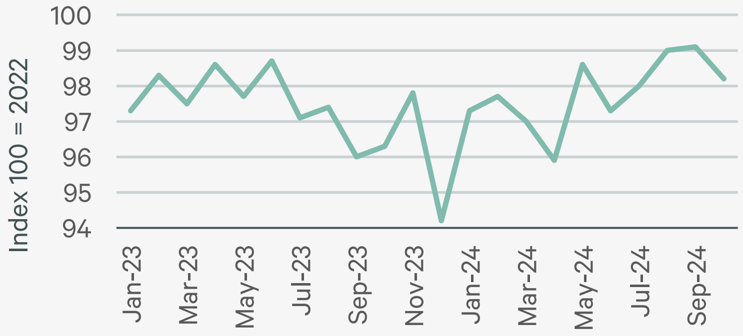
The Health & Beauty sector is also predicted to see continued success in 2025. Third party beauty retailers will remain popular as they continue to flex their product offerings according to consumer demand. Although some of the major sportswear occupiers have begun to report a slowdown in sales performance after a strong few years, we anticipate the sector will continue to outperform the wider clothing market in the year ahead.

Figure 11: UK consumer confidence



Source: CBRE Research, GfK

Figure 12 UK retail sales volumes excl. fuel (Index 2022 = 100)



Source: CBRE Research, ONS

ONLINE PENETRATION CONTINUES TO SEE ORGANIC GROWTH

The UK online penetration has grown modestly throughout the year. According to the latest ONS results, 27.7% of all retail sales in the UK occurred online, up from 25.8% in January. Looking to 2025, online penetrations are expected to see continued organic growth, driven by underlying demographic trends.

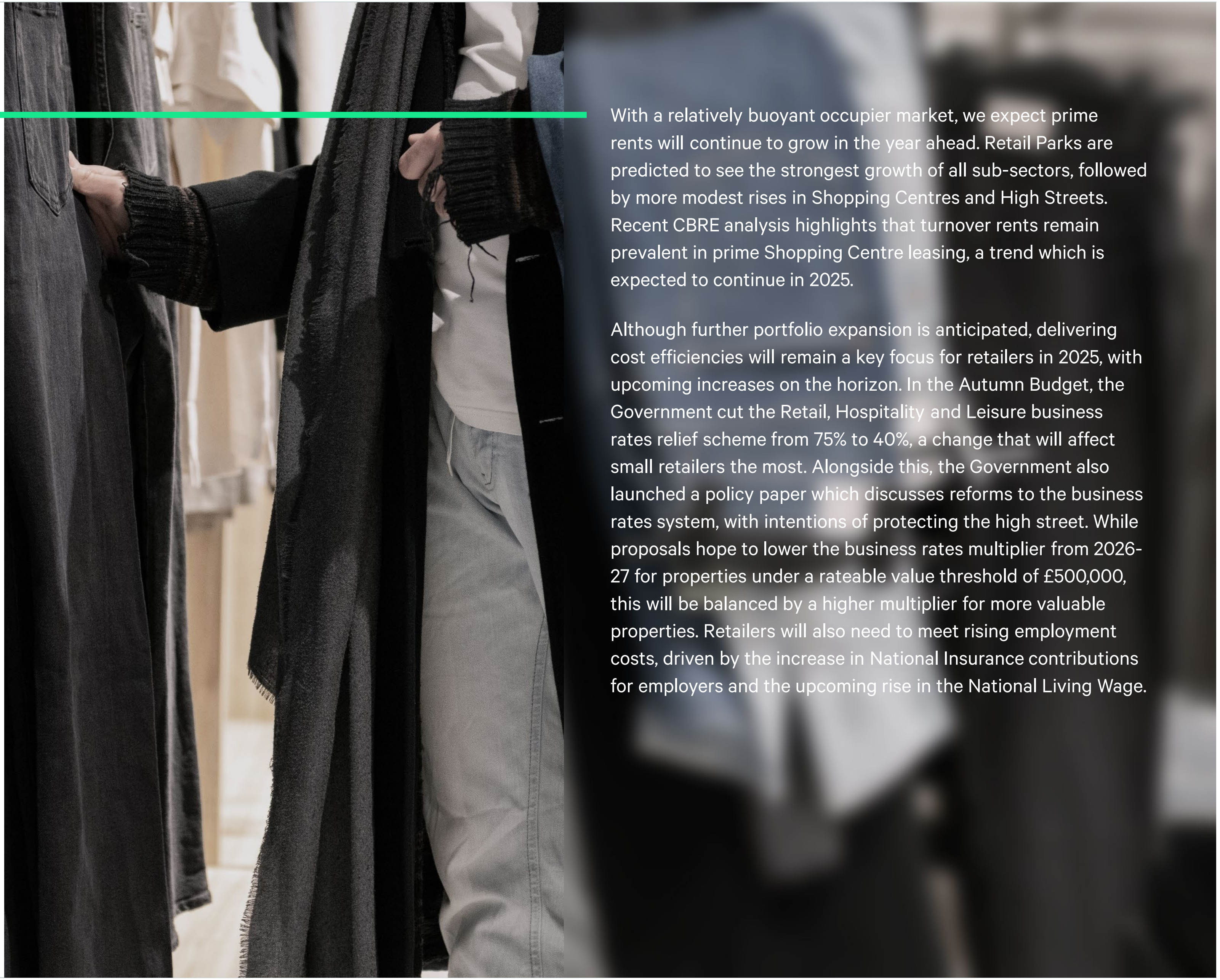
However, several retailers introduced return fees to mitigate the costs of 'serial returners', which now account for 11% of shoppers, according to Retail Economics. This could dampen online sales growth – particularly in the fast fashion sector. Such initiatives are expected to further enhance the appeal of Retail Park locations. Their convenience, coupled with free parking, position them as ideal hubs for click-and-collect and free in-store returns for consumers.

VACANCY RATES MAY SEE SOME COMPRESSION AS PRIME LOCATIONS REMAIN IN DEMAND

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. This sub-sector has seen a growing breadth of occupier demand. For example, traditional high-street retailers such as Mango, Rituals, Primark, and Flannels have all recently opted for Retail Park space, as well as new U.S. fast-food market entrants such as Popeyes, Wendy's, and Wingstop. And in CBRE's 2024 European Retail Occupier Survey, 45% of retailers stated that Retail Parks were their preferred sub-sector for future store locations. Even with the release of stock earlier this year, driven by the Carpetright and Homebase administrations, demand continues to outstrip supply in many locations. As such, we expect Retail Park vacancy rates will continue to remain under pressure in 2025.

While average in-town vacancy rates for High Streets and Shopping Centres remain elevated, prime locations are maintaining their appeal. Many prime Shopping Centres are now nearing full occupancy. Alongside business-as-usual portfolio expansion, these assets continue to see occupiers – in particular, fashion and sportswear brands – upsizing units to deliver best-in-class experiences. They also continue to attract large space users such as multi-experience leisure operators, which offer a range of activities that can be adapted dependent on evolving consumer trends. Prime in-town vacancy rates are expected to remain tight in the year ahead. Given the scarcity of available of space, we may see some retailers start to explore secondary locations in 2025.



With a relatively buoyant occupier market, we expect prime rents will continue to grow in the year ahead. Retail Parks are predicted to see the strongest growth of all sub-sectors, followed by more modest rises in Shopping Centres and High Streets. Recent CBRE analysis highlights that turnover rents remain prevalent in prime Shopping Centre leasing, a trend which is expected to continue in 2025.

Although further portfolio expansion is anticipated, delivering cost efficiencies will remain a key focus for retailers in 2025, with upcoming increases on the horizon. In the Autumn Budget, the Government cut the Retail, Hospitality and Leisure business rates relief scheme from 75% to 40%, a change that will affect small retailers the most. Alongside this, the Government also launched a policy paper which discusses reforms to the business rates system, with intentions of protecting the high street. While proposals hope to lower the business rates multiplier from 2026-27 for properties under a rateable value threshold of £500,000, this will be balanced by a higher multiplier for more valuable properties. Retailers will also need to meet rising employment costs, driven by the increase in National Insurance contributions for employers and the upcoming rise in the National Living Wage.

IMPROVING INVESTOR SENTIMENT FOR SHOPPING CENTRES AND PERSISTENT STRONG DEMAND FOR RETAIL PARKS

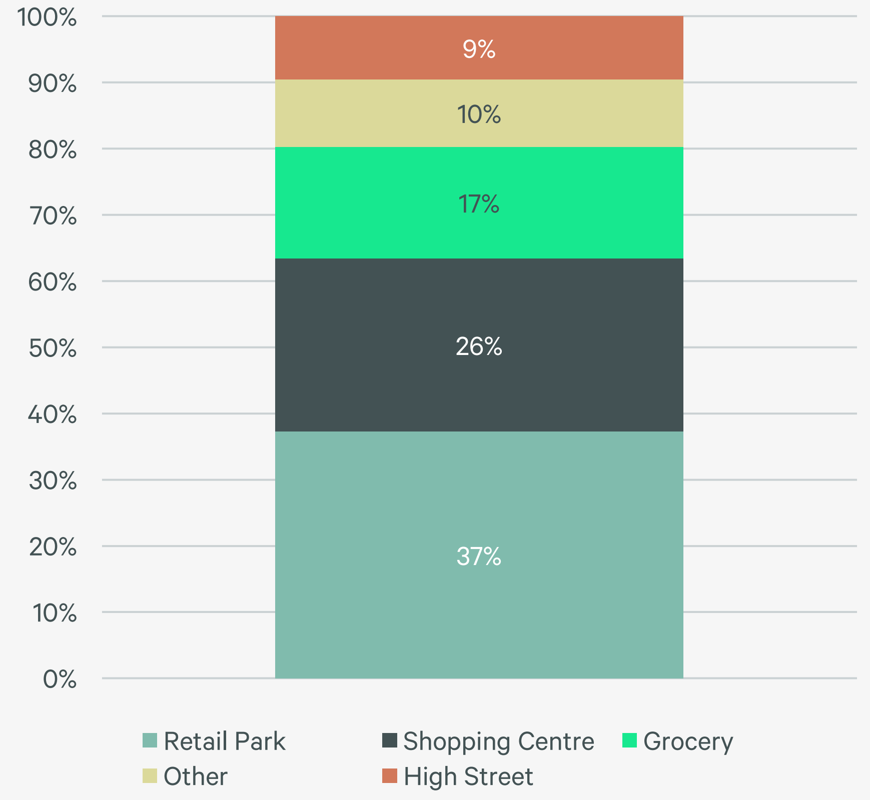
Of all the retail sub-sectors, Retail Parks continue to deliver the strongest investment activity. Outside of the core buyer groups such as UK institutions and REITs, retailers have become an emerging buyer group this year. Several retailers are now purchasing freehold investments to help support store openings, and in some cases, build investment portfolios outside of the company's own requirements. Throughout the year, the prime Retail Park yield has compressed by 75bps, driven by competitive bidding. In 2025, we expect Retail Parks will remain the favoured retail sub-sector for many investors. Improved pricing is likely to act as a trigger for sales, particularly from the large portfolios that were acquired at the bottom of the market a few years ago.

Year to date, Shopping Centres investment volumes have risen year-on-year, characterised by a deeper pool of buyers and revitalised sentiment. Many of this year's largest transactions have been led by investors extending their joint venture position, such as M&G increasing its stake of Cribbs Causeway to 100%. As with Retail Parks, we have also seen retailers venturing into the Shopping Centre investment market, demonstrating their continued confidence in bricks-and-mortar retail. In 2025, following improving sentiment and further pricing evidence, we anticipate more Shopping Centre stock is likely to come to market.

Investor sentiment has remained positive towards the Grocery sector throughout 2024. While year-to-date transaction volumes are understandably lower than the record levels set in 2023 – fuelled by sale-and-leaseback transactions, the full-year total is expected to approach the sector's 10-year average. In 2025 the sector will continue to garner attention from a range of investors.

High Streets continue to account for the smallest share of retail investment, partly driven by the limited availability of larger lots. However, Central London assets remain a core focus for many investors. With strong occupational demand, full-year investment volumes remain on track to exceed those of last year. Next year, demand for prime Central London assets is expected to continue as the occupational market maintains its strength and the cost of capital reduces. In our Luxury Real Estate 2024 report, we also predict that the own-to-occupy trend will continue in luxury locations such as Bond Street, driven by the desire to secure a long-term presence in key locations. Outside of London, we may also see increased high street investment activity in core cathedral cities.

Figure 13: UK retail investment profile (2024 YTD)



Source: CBRE Research

08

Living

Residential Sales

Key takeaways

01

The outlook for residential sales has improved significantly. The market has been buoyed by lower mortgage rates and mortgage approvals have been at their highest levels in 18 months. In addition, the reversion to the old Stamp Duty rates in April next year will cause a spike in sales volumes in Q1 2025, especially amongst first-time buyers in London. These factors should convert to higher sales volumes in the first part of 2025.

02

We expect a further decline in mortgage rates throughout 2025. This will improve buyer affordability and is key to the continued recovery of sales volumes and house prices. 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.

03

Developers are still facing a range of market challenges, including higher financing costs and skills shortages. Constructions costs remain high, but inflation appears to have subsided, which will help development viability.

04

The Labour Government has taken action to remedy the planning system, but there is a long way to go before this translates into a substantial increase in housing delivery. The planning pipeline is continuing to contract, with the rolling annual number of permissions granted at its lowest level in ten years. As a result, housing supply will fall significantly short of target in 2025.

POSITIVE OUTLOOK AS MORTGAGE MARKET IMPROVES

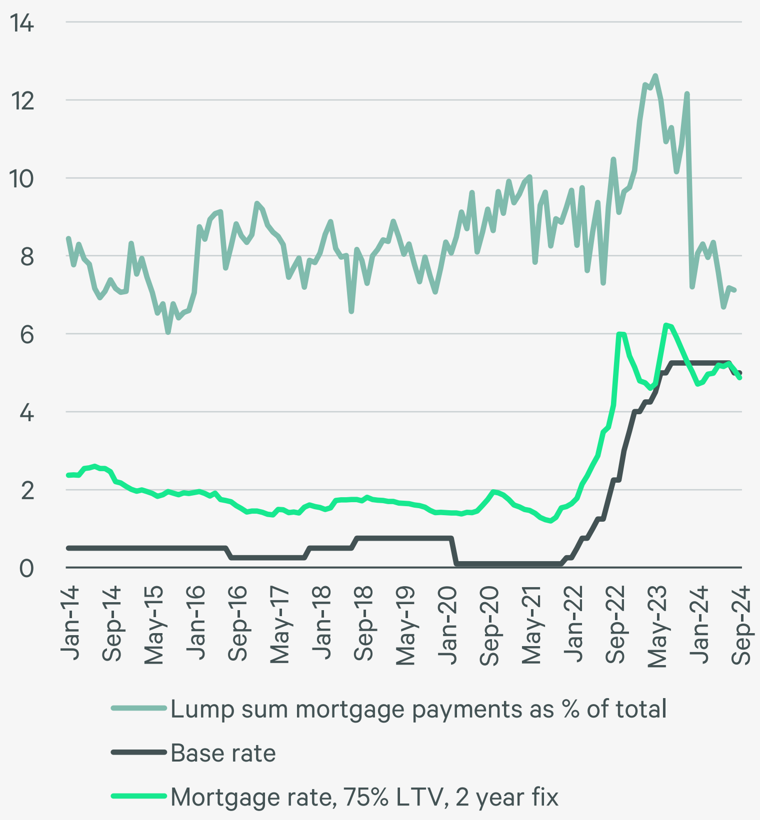
Sentiment across the housing market gradually improved throughout 2024, particularly in the second half of the year as mortgage rates began to fall. This is starting to feed through to activity, with mortgage approvals reaching their highest level for 18 months and sales are up marginally compared with 2023.

The consistent fall in average mortgage rates since June has improved buyers' budgets and is giving both buyers and sellers more confidence and certainty to transact. As a result, both sales and price expectations have returned to positive territory, after almost three years of negative readings. This points to an optimistic outlook for the housing market in 2025.

Trends in lump-sum mortgage payments also provides further evidence of positive market sentiment. When homeowners are uncertain about the future path of interest rates, they tend to make more lump-sum payments (to minimise the impact of any potential rate rises). The proportion of lump-sum mortgage payments was significantly above average through 2023, peaking at 13% in May 2023. As the market is perceived to be more stable, overpayments have now returned to their long-run average.

We expect mortgage rates to fall further in 2025. We forecast the average interest rate on a 75% loan-to-value mortgage fixed for two years, will reach 3.4% by Q4 2025. This is 120bps lower than current pricing. These more preferential rates will boost activity through 2025.

Figure 14: Proportion of lump sum mortgage payments (as % of total mortgage payments) and interest rates (%)



Source: UK Finance

Still, there are headwinds. For example, the Mortgage Guarantee Scheme ends in June next year. However, it has only accounted for 2% of all mortgage approvals since its introduction in April 2021. Hence, while it will support sales in a small part in the first half of 2025, its removal won't be a significant impact.

The current higher nil-rate Stamp Duty threshold levels will revert to the previous levels in April 2025. This could lead to a surge in activity in the first quarter of the year. The surge would be concentrated to first-time buyers in London who will face a considerably higher Stamp Duty bill from next April.

Still, on balance, improving mortgage affordability will continue to fuel a recovery in sales activity. It will also mean loan-to-income ratios will increase throughout next year, which, combined with robust wage growth, will drive house price growth.

For these reasons, in 2025 we expect UK house sales to return to their long-run average of 1.2 million, and for UK house prices to increase by 3.5%.

NEW HOUSEBUILDING TARGET, BUT CONTINUED SHORTFALL

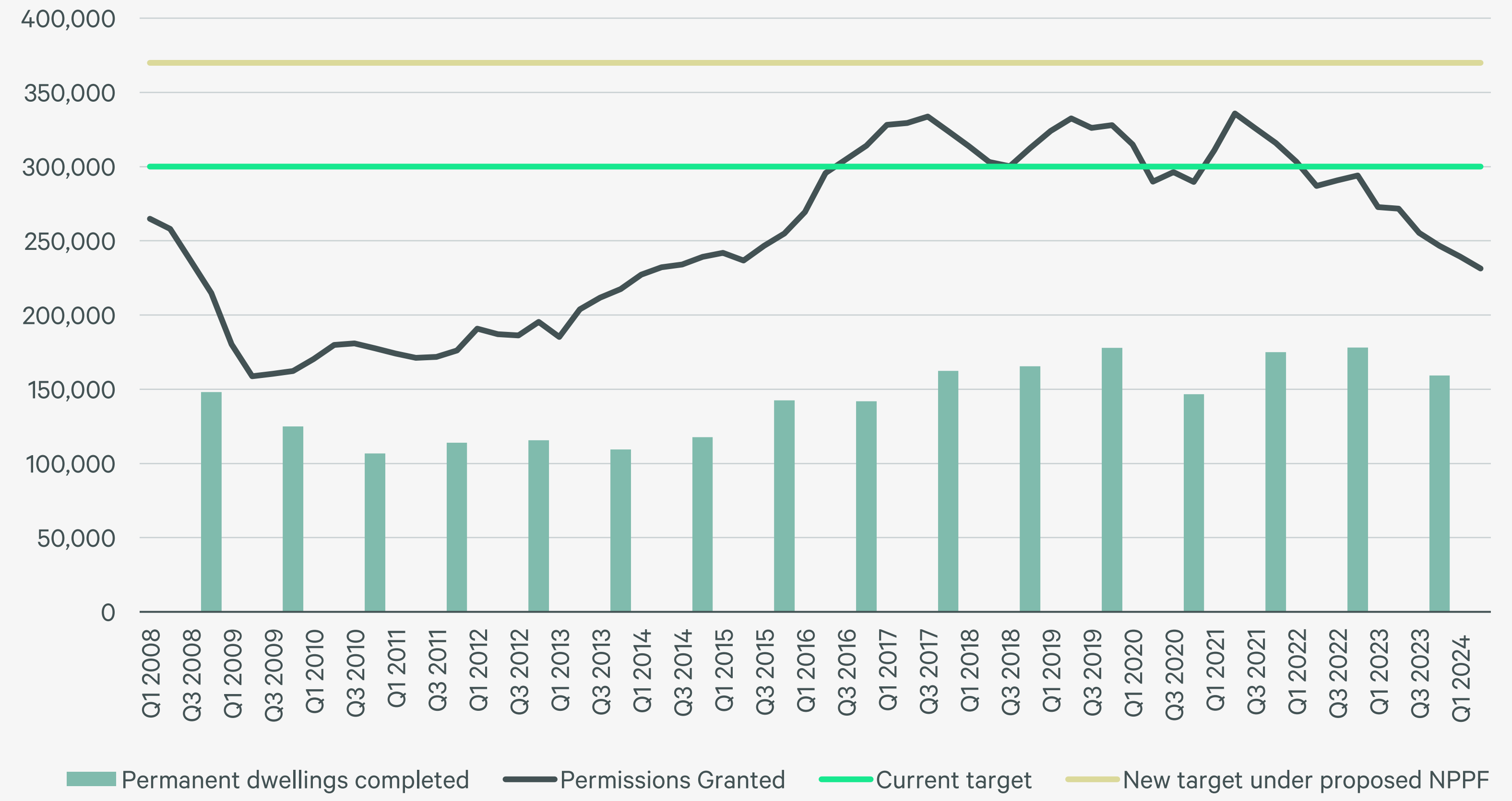
Labour's consultation to reform the National Planning Policy Framework (NPPF) demonstrated swift action to tackle one of the most widely-acknowledged barriers to housebuilding.

The proposed reforms include an updated nationwide housebuilding target of 370,000 homes per annum, up from the current target of 300,000. However, this level of housebuilding in the UK has been unachievable since 1969. Moreover, the number of permissions granted have been on a consistent downward trend since 2021, and recently reached the lowest level in ten years.

While the reforms to the NPPF are positive signs that the Government is trying to facilitate the creation of new stock, it won't have an immediate impact on housebuilding. Supply will also be hindered by the broader challenges that housebuilders will continue to face in 2025. Namely, a higher cost of debt and labour shortages. Positively, however, construction cost inflation has stabilised, with a projected range of between 2.0% - 3.5% in 2025, according to Turner & Townsend's International Construction Market Survey. This will improve development viability in some instances.

Overall, housebuilding will remain muted in 2025. Based on our analysis of planning permissions there could be only 124,000 new homes built in 2025; a third of Labour's new target.

Figure 15: Permissions granted, net additional dwellings and housing targets



Source: ONS, Home Builders Federation

Build-to-Rent (BTR)

Key takeaways

01

Demand for rental accommodation will remain strong in 2025. However, supply challenges remain, compounded by the Renters' Rights Bill and the additional 2% Stamp Duty surcharge on second homes. Furthermore, the new energy efficiency regulations are a positive step to improving the quality of homes in the sector, but it may lead to some landlords selling their stock. This will further exacerbate the supply and demand imbalance.

02

The BTR pipeline has also fallen recently as developers face a combination of challenges including higher financing costs, prohibitive planning environments, and building safety legislation. Assuming the 50,000 homes currently being built complete throughout 2025, would bring the total completed BTR stock to approximately 170,000 homes. But this does not plug the gap left by private landlords leaving the sector.

03

As a result, the demand and supply imbalance will persist in 2025, and will continue to underpin rental inflation. However, rental growth will be tempered by constrained tenant affordability and the lower rate of headline inflation feeding through to tenancy agreements. As such, we forecast the pace of rental growth to decline in 2025 to 2.3% at the headline level, though BTR rental growth is expected to outperform this.

04

The improving economy and stable political backdrop will boost BTR investor appetite in 2025. Falling interest rates and lower construction cost inflation will also encourage pent-up capital to be deployed. More stabilised assets and portfolios will also come to the market next year which will further underpin investment volumes.

05

BTR yields are now broadly stable after expanding throughout the tightening cycle. This is providing greater pricing certainty to investors. As the BoE reduces the base rate, thereby lowering the risk-free rate, yields across the sector are expected to contract in 2025.

SUPPLY WILL SHRINK BUT RENT INFLATION WILL SLOW

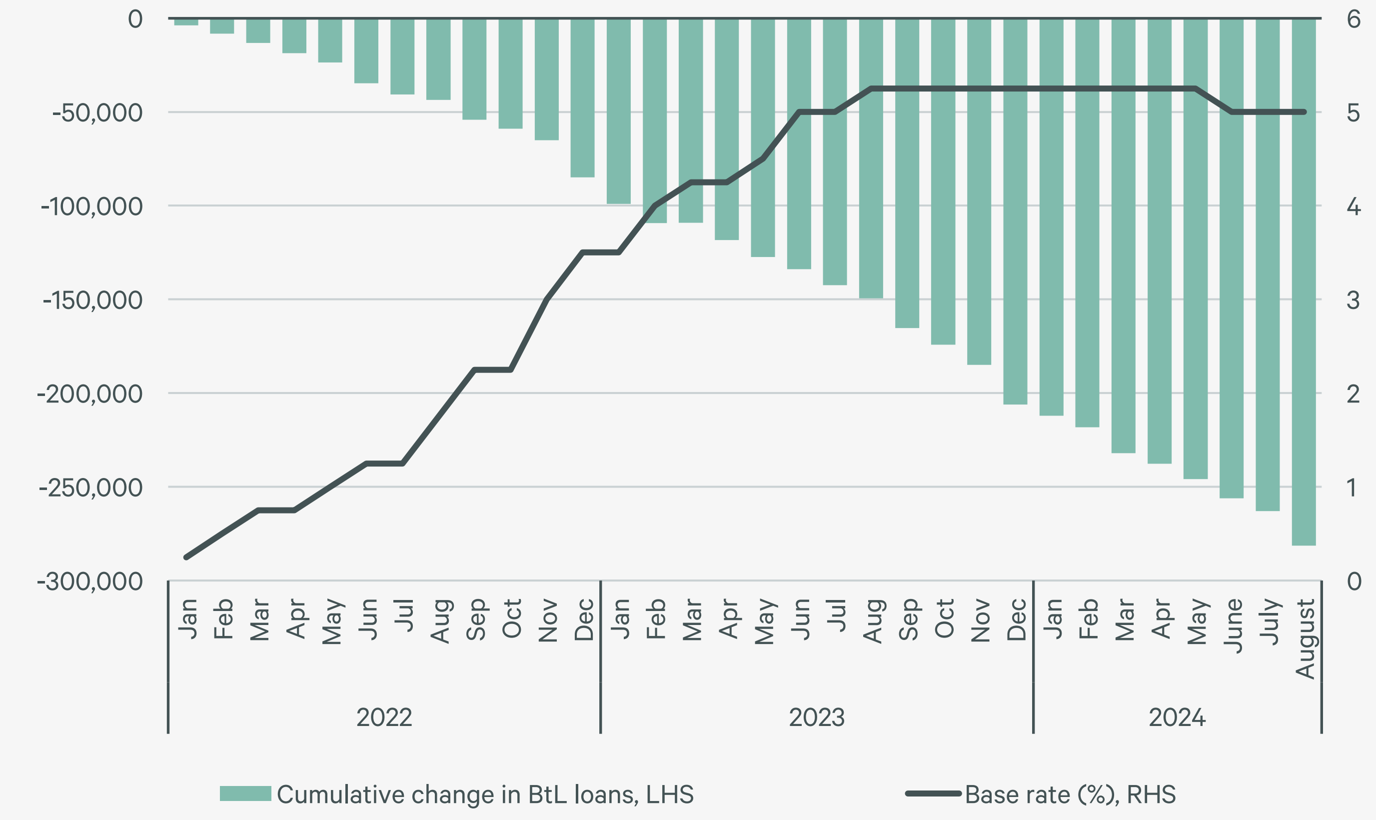
Landlord instructions have continued to decline consistently, according to the Royal Institute of Chartered Surveyors (RICS). This is causing a persistent shortage of rental properties which has contributed to annual rental growth reaching an all-time high in 2024. However, this has resulted in affordability becoming stretched for tenants, which, combined with lower headline inflation, has meant the pace of rental growth has begun to slow. This trend will continue in 2025, with headline rental inflation forecast to slow to 2.3%. However, the results of CBRE's Multifamily Index indicate that the BTR sector could outperform this.

From next year, new energy efficiency regulations (which will require rental properties to have a minimum Energy Performance Rating of C or higher) may compound the supply issue. We estimate that this could result in around one million PRS homes becoming unlettable by 2030. Furthermore, the Renters' Rights Bill will introduce new measures to improve the PRS and rights of tenants. However, the extra financial and/or administrative burden could lead to some landlords leaving the market in 2025. Lastly, the additional 2% Stamp Duty surcharge on second homes will deter landlords from entering the market or expanding their portfolios.

BTR supply will continue to be constrained in 2025 and won't bridge this supply gap. Since the start of 2022 there has been an estimated net loss of 280,000 buy-to-let homes. To date, only 120,000 BTR homes have been built, which highlights that rental supply is not being replaced quickly enough. Furthermore, the BTR pipeline has fallen year-on-year, as developers face higher financing costs, prohibitive planning environments, and labour costs. The implications of the Building Safety Act, particularly Gateway Two, provides further challenges. This points to a further slowdown in BTR completions in 2025.

All these factors combined means the acute supply and demand imbalance in the rental market will persist next year.

Figure 16: Net reduction in outstanding buy-to-let loans and Bank of England base rate



Source: UK Finance, Bank of England, CBRE Research

STRONG INVESTOR APPETITE HEADING INTO 2025

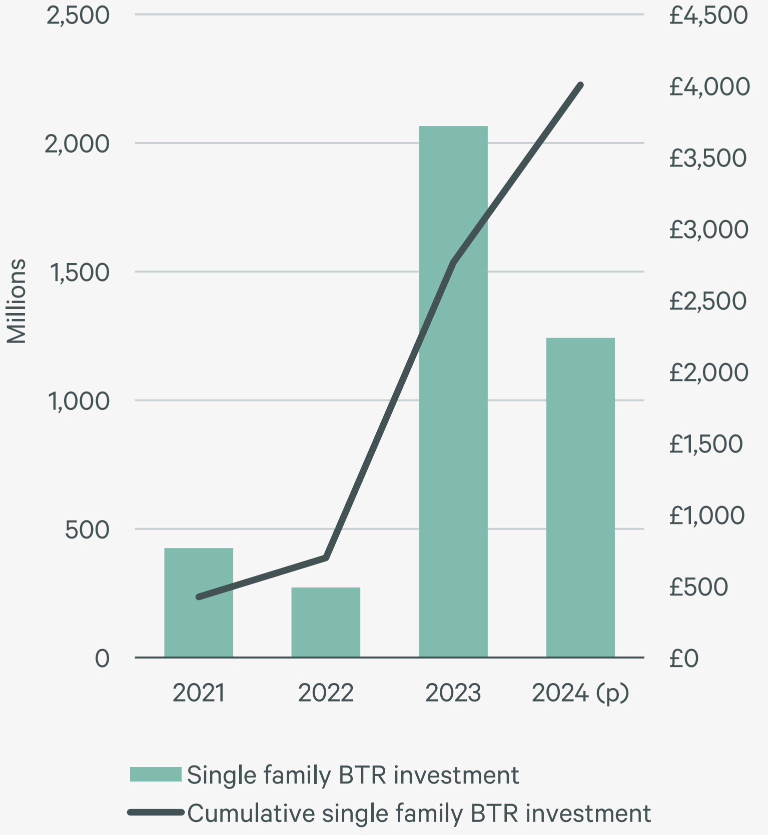
BTR investment has been lower than originally anticipated in 2024, as investors continued to face a range of challenges common across the Living sector. However, falling interest rates, a stable political backdrop, and strong fundamentals means sentiment has turned more positive as we head into 2025. There is already more investor activity in London, for example, with some transactions set to finalise in early 2025. We estimate approximately £1.4bn of deals under offer at the time of writing.

As we move into next year, there is a wall of capital waiting to be deployed. And with around £4.2bn of opportunities on the market, we expect investment volumes in the BTR market to grow in 2025, particularly as interest rates fall.

Specifically, Single Family Housing (SFH) BTR will remain in high demand. Investment into the sector was up around 20% in 2024. This contrasts with multifamily BTR, where volumes were down 10%, and approximately 40% of the current under offer pipeline is for SFH.

SFH investors are currently limited to a relatively small pool of institutional funds, but the number of new entrants is likely to expand in 2025. This was most recently illustrated with the announcement that CPP Investments and Kennedy Wilson have formed a joint venture to create a £1bn SFH portfolio across the UK.

Figure 17: Single-Family Build-to-Rent Investment, UK (£ millions)



Source: CBRE; Note: (p) = projected

It's also likely that more stabilised SFH portfolios will trade in 2025. This was recently evidenced, by the acquisition of the Gatehouse/Sigma portfolio by Lloyds Living.

The recognition from housebuilders that single-family can assist with the overall delivery on development sites will also help to underpin investment in 2025. The sector offers 'additionality' to housebuilders and helps to drive absorption and placemaking on larger sites. One challenge, however, is the improving sales market for single family homes. This could mean housebuilders retrench in 2025, or demand more competitive pricing, resulting in yield compression on forward-funding transactions.

There may also be further consolidation across the BTR market in 2025, as it continues to mature. Sustainability also remains at the forefront of investors' minds. Institutional investors favour future-proofed energy efficient homes that have the potential to qualify as 'Zero Bills', which is a major draw for tenants.

Overall, the outlook for the BTR market is optimistic for 2025. The improving macro-environment, coupled with broad political support for the sector, will buoy investor confidence. In addition, a strong return outlook, greater pricing certainty, and potential yield contraction will underpin investment into the sector in 2025.

Affordable Housing

Key takeaways

01 The sector's strong fundamentals, coupled with the improving interest rate environment and Government support, will translate into a robust level of activity in the affordable housing sector in 2025.

02 Traditional Registered Providers (RPs) will need to continue focussing on their existing portfolios. As such, they will be constrained in delivering new supply, and investment will be weighted to for-profit providers.

03 The social rent settlement confirmed in the Autumn Budget is positive. However, a longer-term settlement, giving more certainty over cashflows, would have encouraged further investment by both RPs and investors. Other measures, including increasing funding for the Affordable Homes Programme, will further support housing delivery across the sector in 2025.

04 The continued challenges throughout 2025 are likely to drive further mergers and acquisitions across the sector. Stock rationalisations will also remain prominent, particularly in a higher interest rate environment as providers seek to achieve operational efficiencies and raise capital.

05 There is broad support for the sector and political recognition of the need to bolster affordable supply. Private capital is expected to continue to deploy capital into the delivery of new affordable homes.

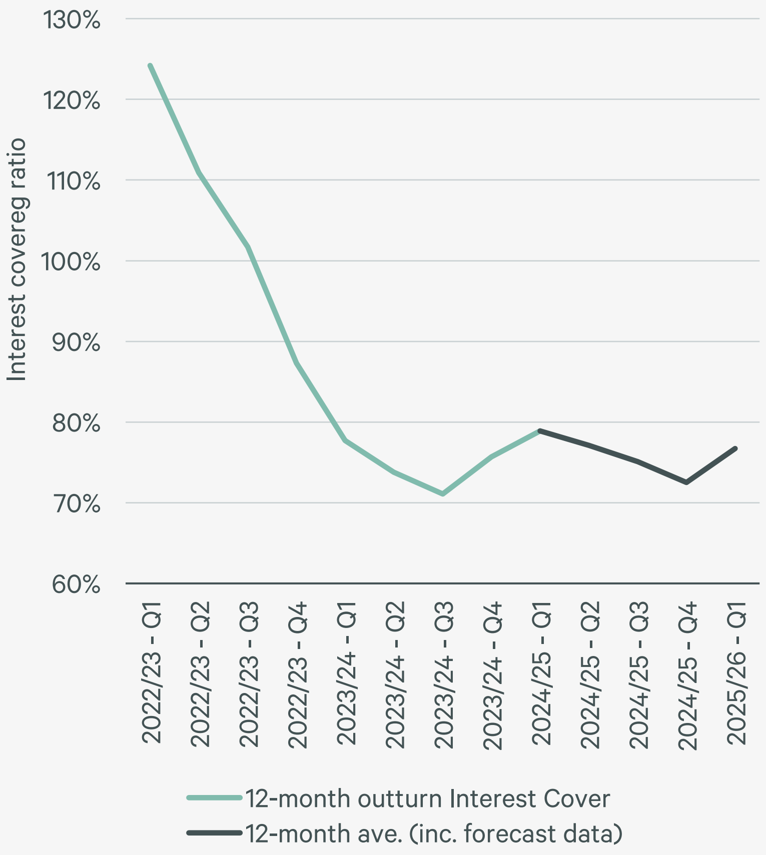
INVESTMENT CONCENTRATED TO FOR-PROFIT PROVIDERS

Investment appetite for affordable housing in the UK will remain healthy in 2025. However, it will continue to be driven by the for-profit RPs that are not financially burdened by legacy stock and hence can continue to expand their portfolios. The Regulator for Social Housing has recorded a notable increase in for-profit activity within the sector, with five providers accounting for almost 10% of total development spend in the year to June 2024. This will continue into 2025.

The confirmation that social rents can increase above inflation for the next five years will also encourage further investment into the sector. This will support business planning and investment into new homes by providing certainty over cash flows to RPs and councils.

In contrast, many traditional RPs will need to continue retrofitting and upgrading their existing portfolios, which is increasingly costly. In its latest survey, the Regulator of Social Housing noted that the 12-month (actual and forecast) spend on capital works was at a record high. In the year to June, a total of £8.2bn was spent on repairs and maintenance, with £9.3bn forecast over the next 12 months into 2025.

Figure 18: Interest cover from operating expenses



Source: Regulator of Social Housing

Traditional providers will also continue to be impacted by other market forces and regulation. A combination of refinancing at higher rates, a new set of consumer standards, and energy efficiency regulation, will contribute to a higher-cost base for many traditional RPs. The combination of these costs has had a notable impact on providers' finances, with interest coverage from operating cashflows falling dramatically. This will unfortunately continue to hamper the overall number of homes which can be delivered by many RPs into 2025.

Any spending on new development will also remain concentrated to a small number of providers. For example, the Regulator of Social Housing noted that the forecast investment (of £16.2bn) was up 6% quarter-on-quarter in June 2024. However, this was almost entirely attributable to one provider who submitted data for the first time, accounting for almost 95% of the overall increase. As a result, there were 3,790 Affordable Home Ownership homes completed in Q2 2024, the lowest level since September 2020.

STOCK RATIONALISATION TO REMAIN PROMINENT

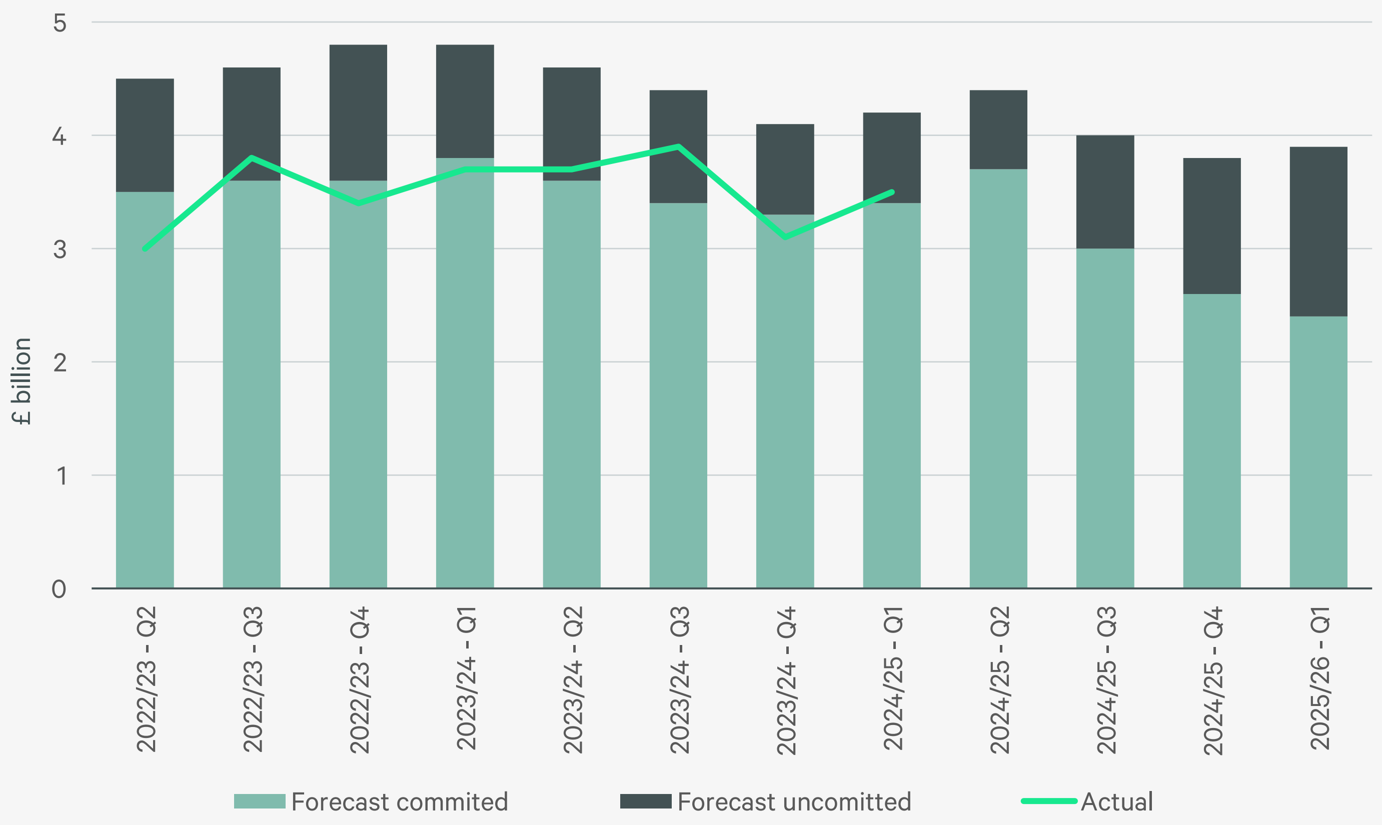
As a result of these continued challenges, further mergers and acquisitions across the sector are likely in 2025. In addition, with interest coverage ratios falling, many providers will have to consider the sale of existing assets to bridge the cash shortfall, which averaged £217m per quarter in the year to June 2024. This will mean the stock rationalisation market will also be very active in 2025, with both for-profit and not-for-profit providers focused on this segment.

It's likely that new solutions to affordable housebuilding will continue to materialise in 2025. This could be in the form of investors partnering with RPs to either fund new development or provide capital to acquire existing stock to expand portfolios.

Nevertheless, there is cause for optimism across the sector. Firstly, in recognition of the cost burden on RPs, Lloyds and Barclays will be providing £1bn of funding to accelerate the retrofitting of social housing across the UK. In addition, a further £1bn will be made available to fund new council homes. This will be released over the next 18 months and throughout 2025, which could significantly bolster the supply of affordable homes. Specifically, the recent Budget was positive for the sector, with a significant top-up for the Affordable Homes Programme among other measures.

While the affordable housing sector will continue to face challenges into 2025, there is broad support for the sector. The outlook for investment into the sector in 2025 remains optimistic, particularly as private capital continues to deploy capital into the delivery of new affordable homes. However, despite the political recognition of the need to bolster affordable supply, we are unlikely to see any impact materialise in 2025.

Figure 19: Payments to acquire and develop affordable housing



Source: UK Finance, Bank of England, CBRE Research

Purpose-Built Student Accommodation (PBSA)

Key takeaways

01

The continued growth of the student age population, along with a forecast recovery in non-EU students will drive strong demand for PBSA next year. Upcoming caps on student numbers in some countries will also create additional demand to study in the UK. The increase in tuition fees confirmed in the Budget should not have a significant impact on the overall demand for university places.

02

The supply of PBSA will continue to be constrained by several factors, resulting in an estimated shortfall of 620,000 beds across the UK in 2025. The current pipeline is also concentrated in towns and cities with a Russell Group University.

03

Occupancy is expected to remain strong in 2025, but some markets with higher supply will be more price sensitive. Overall, rent growth is expected to remain robust and in-line with the long-run average.

04

Investment is expected to pick up in 2025, driven by a range of factors including falling interest rates and broad political support for the PBSA sector. Asset management opportunities will also remain favourable, and as forward-funding remains unviable, joint ventures will be more common in 2025.

SUPPLY AND DEMAND IMBALANCE TO WORSEN

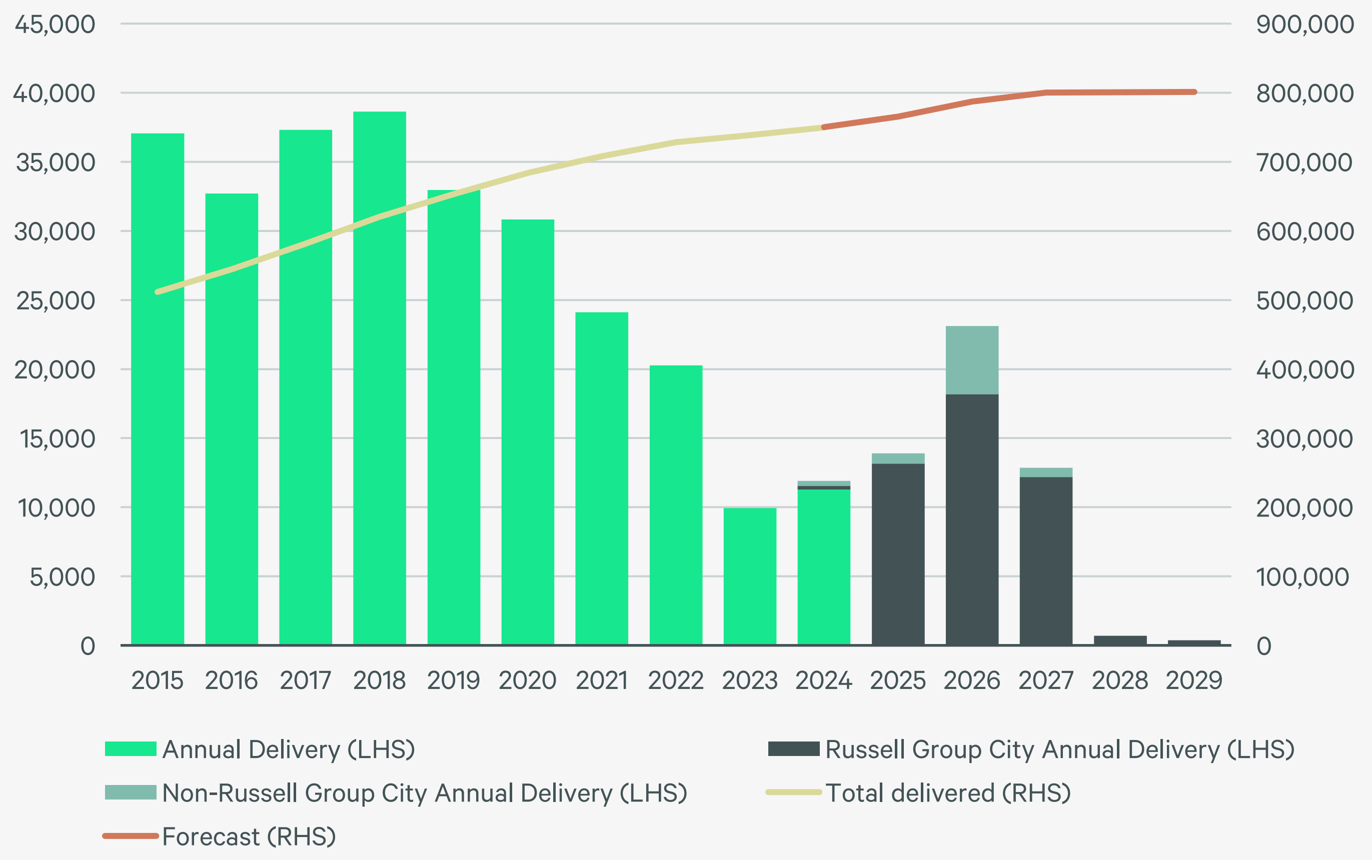
Demand for PBSA will remain strong in 2025, with the population of 18-year-olds forecast to continue rising to 2030. Demand from non-EU students is also likely to recover, as Labour reaffirmed its welcoming stance towards international students and confirmed that post-study visas will remain in place. In addition, upcoming caps on international students in Canada and Australia will further enhance the UK's appeal as a study destination.

In contrast, PBSA supply will continue to be constrained and there will be an estimated shortfall of c.620,000 student beds across the UK in 2025. Currently, only 50,000 beds are forecast to be delivered over the next five years. And this is concentrated in cities that host a Russell Group university, which are typically in higher demand from international students.

Viability will also remain challenging, with higher build costs, building safety requirements, sustainability measures, and increasingly challenging planning environments all negatively impacting development. The falling supply across the wider PRS will also result in a continued loss of Homes for Multiple Occupation (HMO) for students. This lack of HMO supply is likely to be further compounded by the additional surcharge on second properties announced in the Budget.

As a result of the anticipated increase in demand and greater constraints on supply, the supply and demand imbalance for PBSA is expected to worsen in several UK markets in 2025.

Figure 20: UK PBSA beds, actual and forecast



Source: CBRE, UK Local Authority Planning Portals

INVESTOR DEMAND TO REMAIN STRONG

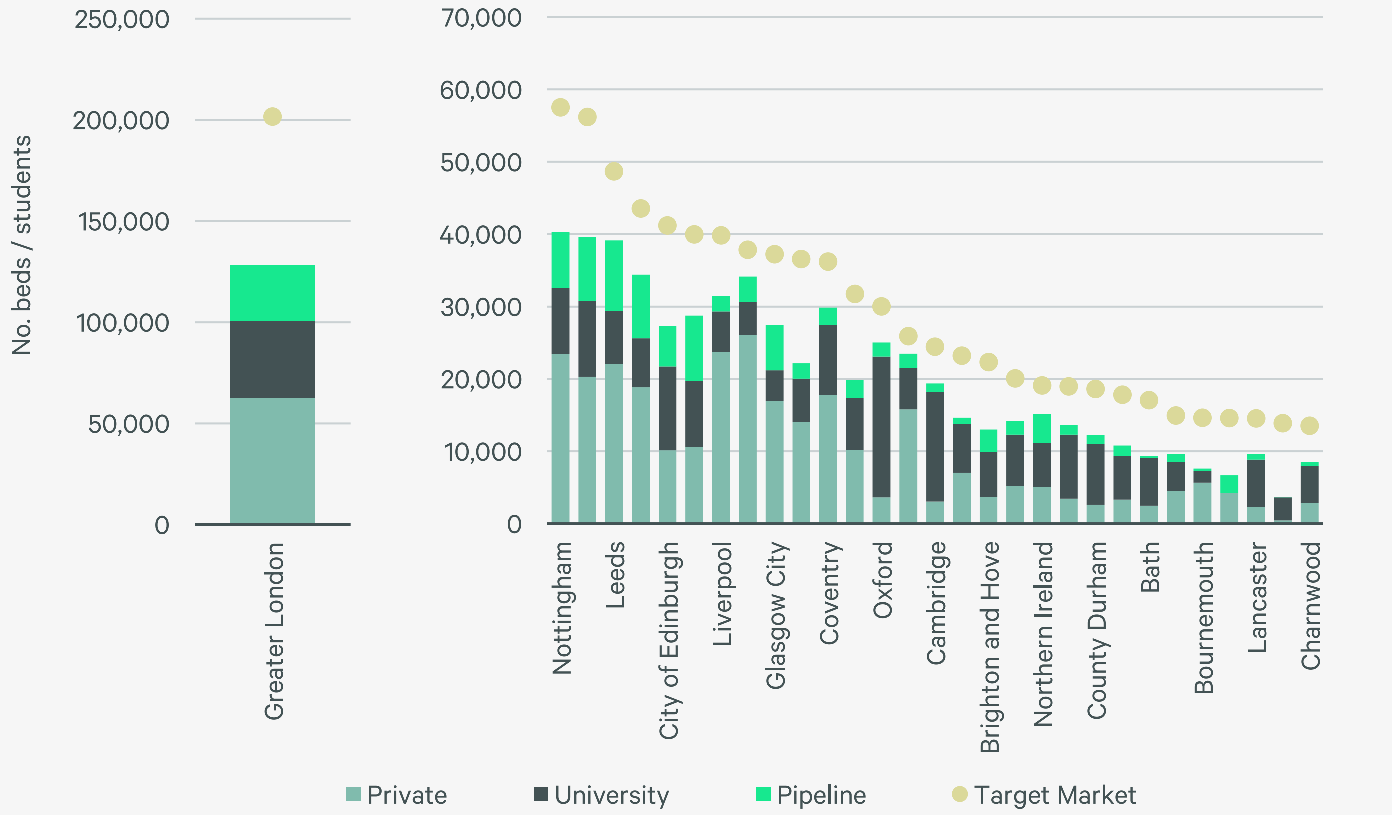
Occupancy for the 2024/25 academic year has remained strong, with major entities reporting positive results. For example, Unite recorded an occupancy rate of 97.5% in its Q3 trading update. Albeit 57% of its portfolio is nominated.

Occupancy is anticipated to remain strong at a national level, although rents will remain sensitive in some markets where a significant number of beds have been delivered at similar price points. Overall, rent growth at the headline level is forecast to start returning to the long-run average. Unite, for example, is guiding growth of 4-5% for 2025/26. However, there is likely to be a wider variance of growth rates across different markets depending on the supply and demand balance, delivery pipeline and planning environment.

Investment activity is expected to pick up in 2025, supported by the improving macro-environment and falling interest rates. The combination of strong domestic and international demand, shrinking HMO stock, and a limited development pipeline will also drive continued investment into the sector in 2025. In addition, Labour has articulated its support for the Higher Education sector, which will also boost investor sentiment.

Demand will be strongest for best-in-class, sustainable assets with limited safety issues. Asset management opportunities will also remain favourable as they offer lower risk but robust returns. As forward-funding becomes increasingly unviable, joint ventures will become more commonplace for investors wanting higher returns. There will also be opportunities for the private sector to partner with universities to replace ageing stock. However, the requirement for an increased level of due diligence will continue to delay transactions, especially as building safety regulations continue to be a point of focus.

Figure 21: PBSA demand and pipeline



Source: HESA Student Records 2021/22, Student Crowd, CBRE

09

Operational Real Estate

Senior Living

Key takeaways

01

With the gradual recovery in the wider residential market and liquidity starting to improve as interest rates started to fall in late 2024, sales velocity for new schemes started to pick up following a subdued first six months of 2024. We expect to see a continuing uptick in reservations and sales through 2025.

02

There remains strong demand for established, well-operated schemes, with re-sales performing well in 2025 and expansion of operators offering rental options.

03

In 2025, a number of new schemes will reach practical completion, boosting choice for older people with approximately 3,700 units added to the supply. We are seeing an increase in planning applications as confidence increases after overcoming as the sector moves out of the challenging construction and debt conditions of the past three years.

04

A core focus for the Labour Government is preventative care and delivering 1.5 million housing units. The senior living sector can play a vital part in providing age-appropriate housing solutions that incorporate necessary support.

SENIOR LIVING WILL PLAY A KEY ROLE IN HOUSING AND CARE POLICIES

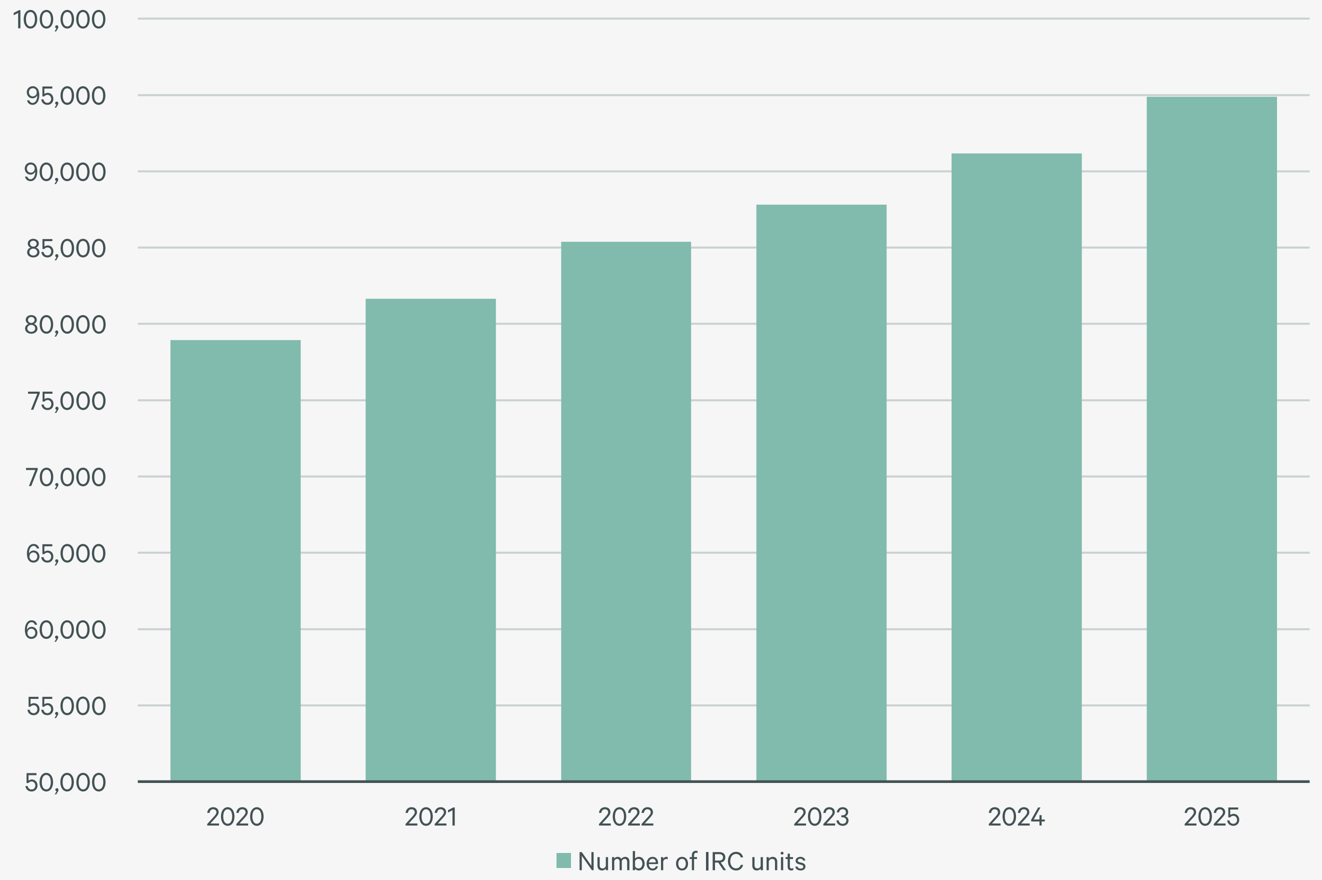
While liquidity issues have meant a slightly slower recovery in the senior living sector compared with the wider residential market, operators reported an increase in reservations and sales over the second half of 2024. We expect this recovery to continue into 2025, especially as further reductions in interest rates will have a positive knock-on effect across the wider housing market. Re-sales within established villages have continued to perform well both in terms of completions and price growth. This emphasises the importance of the overall community in senior living schemes rather than simply the real estate.

A number of operators will be completing on long-awaited schemes across the country, further enhancing the supply within the sector. While the focus remains on the sales model, a number of these schemes will be offering a mix of tenure options including sales, rental and rent before you buy, allowing their customers greater flexibility.

There has been a scarcity of investment opportunities in the sector, partly attributed to a lack of significant, scalable platforms to invest into. Institutional capital continues to flow into the residential and healthcare markets, drawn by sectors linked to demographic demand and assets with strong ESG credentials. Given the stage of growth the sector is currently at, we expect 2025 will see the first transactions in the sector of mature villages establishing a 'proof of concept' for the long income retirement villages generate, which investors have been seeking to help de-risk deployment decisions and encourage greater activity.

As part of its commitment to rescue the NHS, the Labour Government has highlighted the importance of preventative care. Integrated Retirement Communities (IRCs) will provide a pivotal role in enabling more options for preventative care by providing age-appropriate housing within dedicated communities with on-site care provision where needed.

Figure 22: Integrated Retirement Communities (IRC)



Source: EAC Housing Standard

Hotels

Key takeaways

01

Hotels will continue to perform well however, RevPAR growth will primarily be driven by occupancy as corporate demand increases, rather than by rate increases.

02

2025 will see an active investment market, with single asset transactions accounting for the majority of the volume, rather than large portfolios seen in 2024 and as result will see a marginal decline in investment volumes overall.

03

Investor sentiment will improve with investment yields to shift inwards as hotels continue to be an attractive market sector.

04

Stabilising inflation, multiple base rate cuts, and an accretive debt market is expected to enable hotel operators to drive profitability and offset other continued cost pressures.

THE RETURN OF TOURISM HAS BOOSTED HOTEL DEMAND

Tourism numbers have exceeded pre-COVID levels in both London and the provinces this year, with Heathrow passenger numbers significantly ahead of 2019 levels. This has been a welcome boost for the sector In 2025, we expect to see continued growth in inbound tourism stays. This will be true particularly in London, which will continue to cement its reputation as a global destination for business, entertainment, and events. Furthermore, a shift from the traditional two-week holidays to shorter, more frequent trips abroad is expected going forward, this will further help to drive demand in the hotel sector.

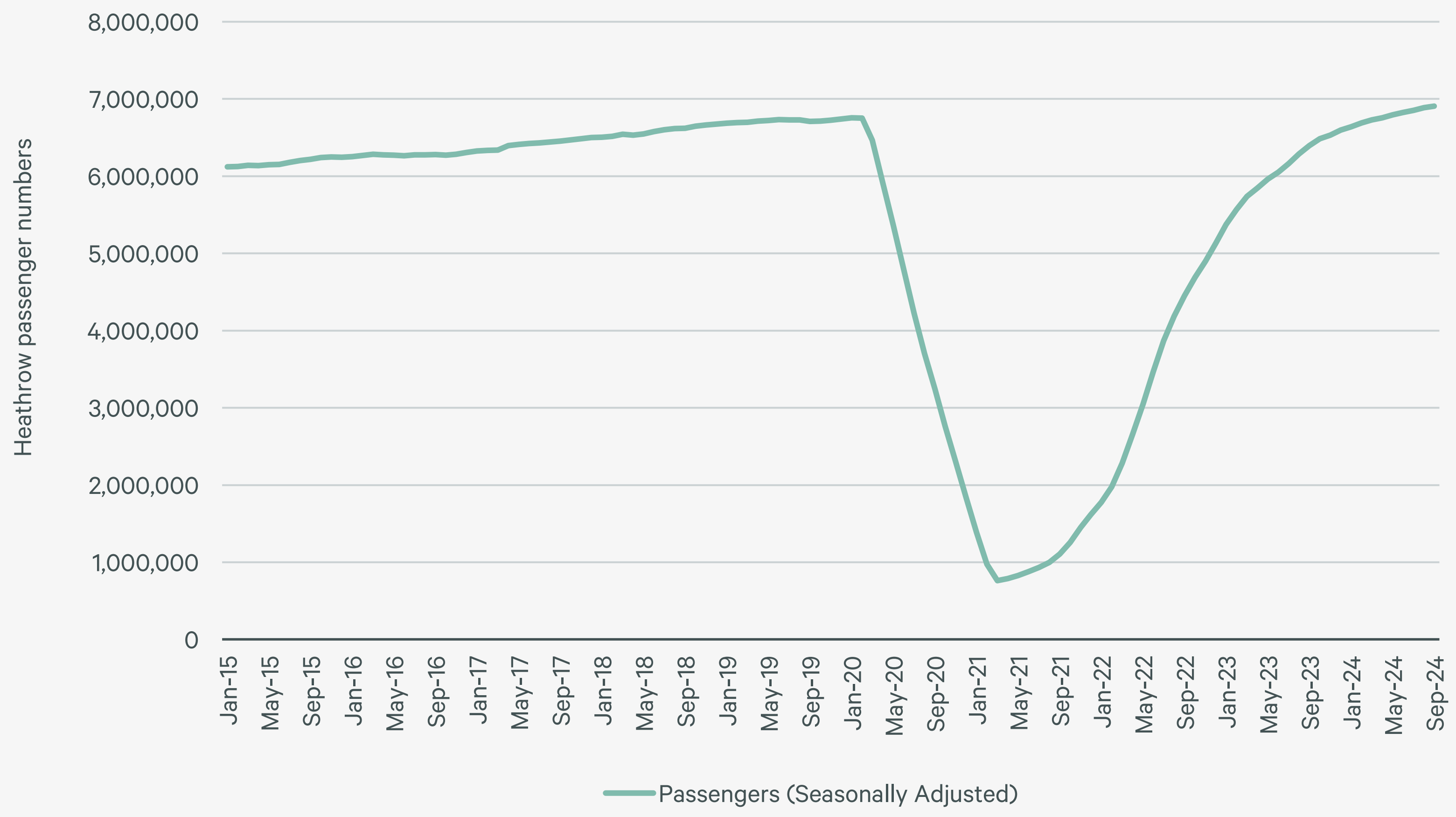
ALLEVIATING COST PRESSURES

The hotel sector has been significantly impacted by inflationary cost increases, particularly in utilities, food and beverage, and payroll, resulting in operational cost pressures across the industry over the past three years. Still, UK headline inflation is now broadly at it target 2% rate for the first time in three and a half years, so hotel operators will start to see cost pressure alleviate within certain departments. However, proactive revenue management and stringent cost control will still be required to offset other continued inflationary and operational challenges.

REVPAR GROWTH TO CONTINUE

Despite record high RevPAR levels achieved in 2024; growth is still expected throughout 2025 at in excess of 3.0%. This will be primarily driven by occupancy both in the London and provincial hotel markets, bolstered by increasing demand from the corporate segment, a trend that is already being seen.

Figure 23: Heathrow passenger statistics

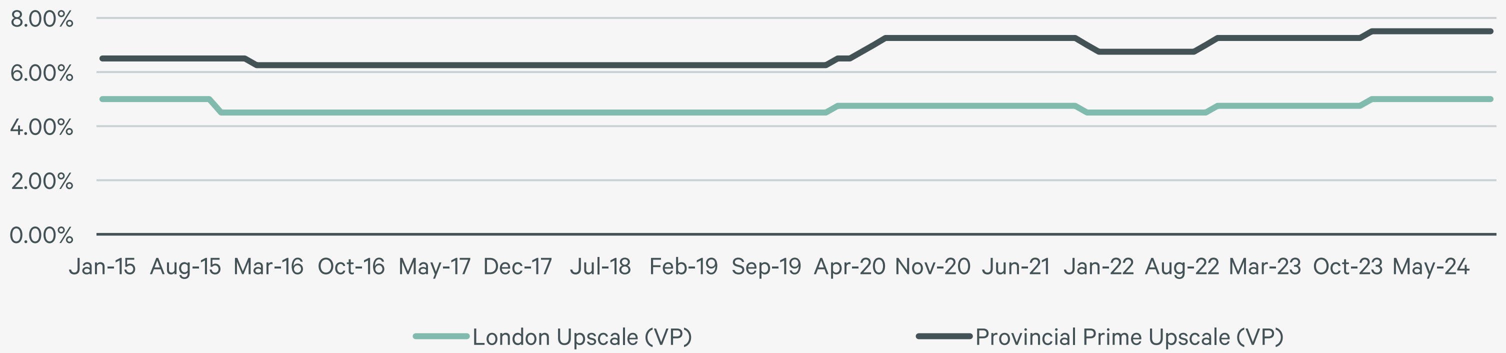


Source: Heathrow Airport, CBRE 2024

STRONG 2024 PROVIDES THE BACKDROP FOR INCREASED TRANSACTION ACTIVITY IN 2025

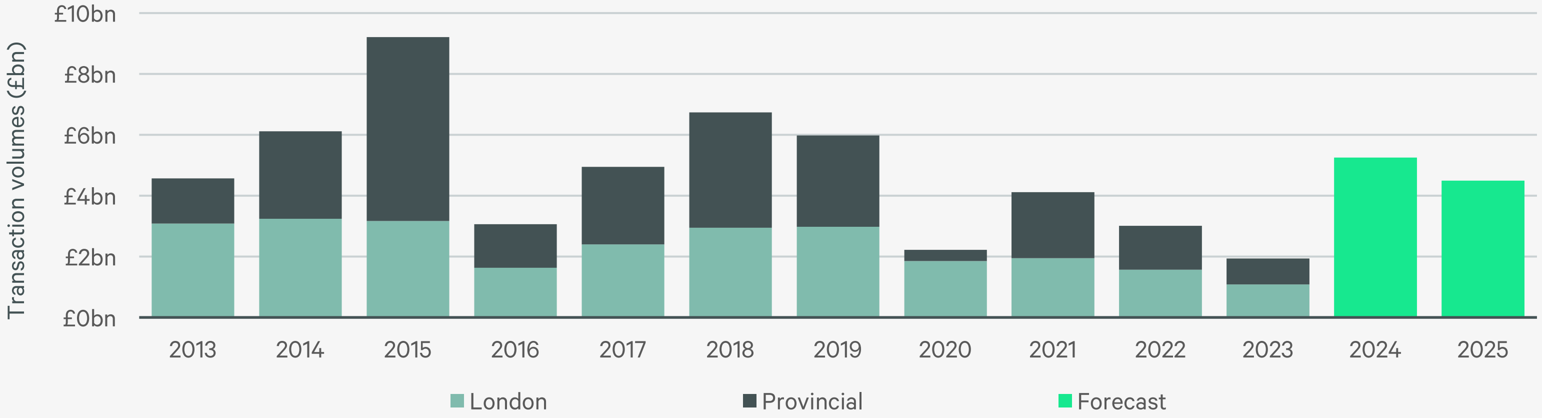
Uncertainty in the economic and investment landscape has led to reduced transaction volumes and extended hold periods over the past three years. Still, interest rate cuts in the second half of 2024, and the prospect of further cuts in 2025, has boosted investor sentiment within the hotels market. This is coupled with a less volatile debt market, reduced buyer-seller pricing disparity, and stable yield trends. Given this backdrop, we expect a fluid and active investment market throughout the year as demand for hotel real estate continues to be at the forefront of investors' strategies. However, the market in 2024 was dominated by an unusually high number of large portfolio transactions. We do not expect this trend to continue, so with a resurgence of single asset transactions and fewer portfolio deals in 2025, there will be a marginal decline in overall investment volumes in 2025.

Figure 24: UK hotel prime yields



Source: CBRE 2024

Figure 25: UK hotel investment volume



Source: CBRE 2024

Healthcare

Key takeaways

01

Operational performance will continue to strengthen for many healthcare providers as staffing costs are managed and both demand and revenue growth remain robust. While care worker vacancies remain low, the influx of international care staff has slowed following visa changes, and the best operators continue to invest in domestic recruitment, training, and retention to ensure care quality and maintain profitability.

02

Investment activity will increase as economic conditions continue to improve and buyer and seller pricing expectations align. Healthcare will be a focus for real estate investors due to its resilient inflationary characteristics and robust returns. The prime healthcare market will be increasingly competitive into H1 2025, while value-add investors are targeting the mid-market to access higher returns through operational performance and active asset management.

03

New sources of capital focussing on operational real estate have been key to driving healthcare investment activity within a new interest rate environment. At the core returns end of the spectrum, liability-matching insurance capital has enhanced pricing across the capital stack, and we expect this to be a key driver of investment activity in 2025. Global strategic investors including PE, wealth managers, and REITs are focussing on larger scale, operational platforms.

04

We expect increasing pricing tension into H1 2025, driven by competition from different pools of capital across the risk spectrum for limited stock. Specialist investment management platforms, with the ability to draw funding from various sources, will create competitive tensions for longstanding investors considering options.

INVESTMENT OPPORTUNITIES FROM INCREASING PUBLIC/PRIVATE INTEGRATION

PRIVATE ACUTE HOSPITALS

We expect operational activity to continue to increase as the NHS works more closely with the private sector to reduce waiting lists. This reflects wider Government plans with the Health and Care Act 2022, establishing a legislative framework that supports better integration as a long-term solution.

There has been considerable investment into the private acute hospital sector in 2024. Notable deals include Song Capital's £631m refinancing of MPT's UK hospital portfolio in Q2, and Assura's £500m acquisition of Northwest Healthcare's portfolio of 14 UK hospitals in Q3. We anticipate increased investor demand in 2025 against the backdrop of rising patient demand and improving operational performance.

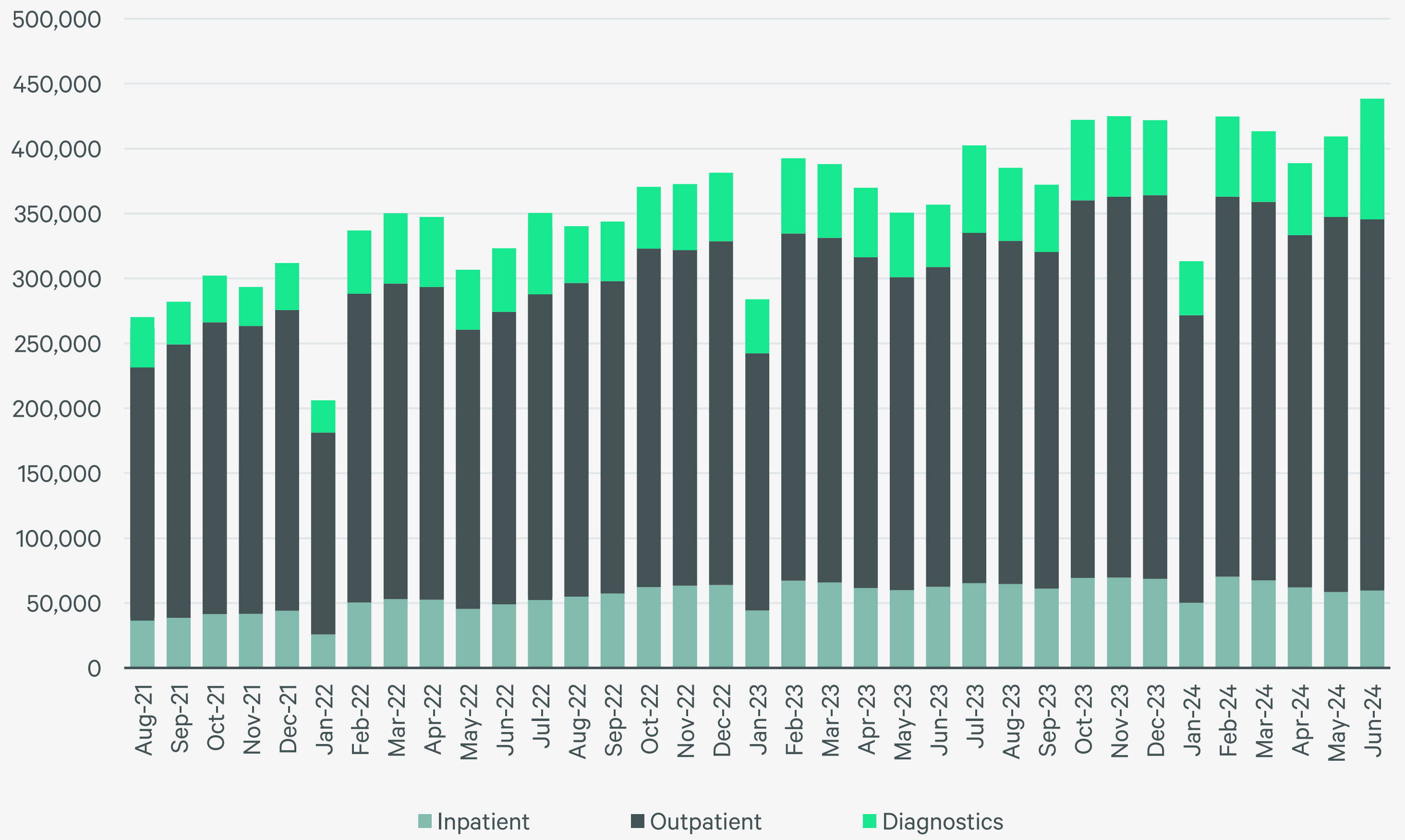
The long-term structural trend from inpatient to outpatient care will drive demand for specialist diagnostic and post-acute rehabilitation services. These require specialist real estate which may create new investment opportunities in the medium to long term.

PRIMARY CARE

Primary care investment activity returned in 2024 with Assura and USS announcing a £250m joint venture in Q2, demonstrating the growing demand from institutional investors for healthcare assets. We have also seen new interest from global private equity investors, with primary care being a key part of delivering healthcare services. We expect this increasing demand to continue in 2025, maintaining the current level of investment activity.

Relatively slow rental growth and high construction costs have created a barrier to new developments in the primary care market. However, we expect upwards pressure on rental levels as third party investors seek to improve and increase primary care capacity in line with NHS sustainability targets.

Figure 26: Elective activity by independent sector providers



Source: NHS Digital

INCREASING INVESTOR DEMAND ACROSS THE QUALITY SPECTRUM

ELDERLY CARE HOME OPERATIONAL MARKET

Many providers are reporting that operational performance of elderly care homes is improving due to strong fee growth and better managed staff costs. We expect this trend to continue in 2025, particularly for operators with a focus on staff recruitment, retention, and training.

Increases to employers' National Insurance contributions in April 2025 will impact staff costs across all operational sectors. We expect private pay-focussed operators will be able to protect margins through fee increases. Historically, local authorities have increased fees in line with the growth in the national minimum wage and we expect to see continued Government support for homes with local authority funded residents. Although operators more reliant on state-funded residents could be more exposed to the risks of residual cost pressures and staffing shortages.

Immigration policy changes in early 2024 restricted care workers from bringing dependents when they migrate to the UK. This slowed the influx of overseas care staff and represents a potential ongoing risk to sustaining strong operational performance. Despite this, the adult social care vacancy rate across the UK now sits below pre-COVID levels.

Figure 27: Adult social care staff vacancy rate

Source: Skills for Care

ELDERLY CARE HOME INVESTMENT MARKET

The outlook for elderly care investment is positive with a wider range of investors, with access to new sources of capital, engaging in opportunities across the quality spectrum.

Investment activity will continue to increase as economic conditions improve and as more investors are drawn to the robust demand and real estate dynamics of the sector, and the proven hedge against inflation to offer sustainable long-term cashflows. 2024 has seen robust capital markets activity across all aspects of elderly care investment from real estate to platform opportunities, with particular interest from strategic global investors.

The premium market will remain competitive as the flight to quality continues across the healthcare sector. We also expect increased demand for mid-market opportunities where there is the potential to drive value through CapEx and enhancing care offerings. The rationale for mid-market investment includes significant demand, slowed care home development activity in locations with lower relative affluence, and a high number of experienced providers. Experienced providers can ensure high-quality care and, through their experience and expertise, mitigate operational risks.

INVESTOR DEMAND DRIVEN BY SUSTAINED GOVERNMENT INVESTMENT INTO SPECIALIST CARE SERVICES

SPECIALIST CARE HOMES

Specialist care services are traditionally more staff intensive, and profits have been slower than elderly care to return to pre-COVID levels. However, there are positive signs of potential EBITDA growth in H2 2025 as operators report lower reliance on agency staff, which is driving staff cost improvements.

Investment activity slowed in 2024 as a result of these operational challenges. Volumes are expected to start to recover in 2025 as the wider economy improves and operational performance strengthens. The demand fundamentals of the sector remain overwhelmingly positive for investors, and sustained investment in the sector by the Government will continue to be a key part of social care commitments going forward. Improved asset quality across the supported living will help this grow as an alternative to 24/7 specialist residential care.

Reflecting broader operational real estate market trends, we anticipate a continuation of new capital sources using newly-evolving, shorter-term commercial ground rent structures. We expect to see this structure applied across the specialist care sector, especially for properties providing learning disability services.

In line with broader net lease healthcare market activity, investment management platforms are creating competitive tensions for longstanding investors in the specialist supported living sector. For example, Atrato Partners have recently taken over the mandate to manage Triple Point REIT with the opportunity to grow share price and restore confidence in the sector.

Leisure, Food & Beverage

Key takeaways

01

Pubs will continue to face a challenging cost environment and the ability to continue to 'take price' without losing too much volume will be critical. Many of the private equity owners are coming to the end of their investment cycle and so we expect increased transactional activity in the coming year.

02

Trading across the pubs sector has stabilised following years of disruption. This has created an improved environment for operators and investors, who can now act with greater certainty in 2025 including refinancing, sales and acquisitions. We anticipate an increasing number of sales and refinancings, as well as further administrations or processes to come.

03

With the exception of cinemas, urban leisure has been trading well and leading the recovery. However, the low box office and operator distress in the cinema sector has suppressed investor demand. Resolutions to these issues and improved box office performance are key to regaining investor confidence.

04

The Health & Fitness sector will continue to experience strong growth, particularly in the premium or budget areas rather than the mid-market.

BUSINESSES STABILISE, BUT FACE A SQUEEZE ON DISCRETIONARY SPEND

Throughout 2024, consumer demand for leisure has remained weak. Looking forward we expect consumers will remain cautious due to continuing concerns around inflation and the cost of living. However, the leisure sector will be a key beneficiary as discretionary spend continues to grow. In particular, spending on eating out and recreational and cultural services is forecast to rise 4.9% and 5.4%, respectively, largely due to improving personal finances.

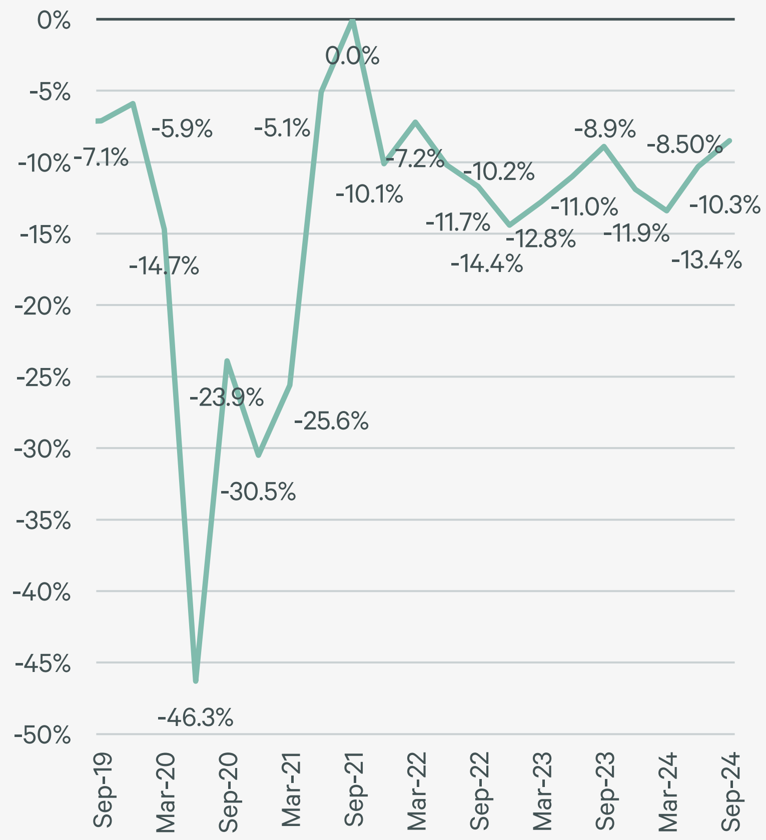
CONSUMERS ARE RETURNING TO THE CINEMA

There are tentative signs of an upturn in the box office, and we expect this to continue into 2025. We assume that by 2026, Gross Box Office Revenue (GBOR) will have recovered to c.80-90% from the market peaks of 2018/2019. This is positive news for a sector which has had a mixed year.

Cineworld recently secured court approval for a restructuring plan which permitted rent cuts on many of its cinemas. Some landlords will look to forfeit some of the category B & C sites with very limited challenges expected for category A sites. Nevertheless, the process is expected to complete in Q1 2025, with other cinema operators planning to absorb some of Cineworld's assets. Odeon and Vue both refinanced in H1 2024, which will provide greater stability in the sector, with all operators predicting a return to profit by 2025.

From an investment point of view, experiential leisure has led the market recovery amongst the leisure sector. Bowling operator Tenpin was acquired by American PE firm Trive for £300m in January 2024, underpinning the confidence in the sector.

Figure 28: Leisure spending intentions, Q3 2024



Source: Deloitte Consumer Tracker

PUBS STILL OPERATING IN A CHALLENGING ENVIRONMENT

Faced with higher prices, consumers are increasingly favouring 'special occasion' rather than regular visits and looking for special offers and 'deals'. As a result, operators have up until now been able to match inflation with price rises, but this is becoming more challenging.

There has been more corporate activity in 2024 compared with 2023, due to owners wanting to crystalise lifetime earnings, and the end of an investment cycle with willing buyers. Notable deals include Wear Inns being bought by Punch out of Administration; Lovely Pubs bought by Fullers as founders looked to crystalise created value, and Amber Taverns bought by Epiris as the previous private-equity owner came to the end of its investment cycle. We believe there are several more deals in the offering.

On the investment side, high yields and low demand continues (particularly in the UK provinces), reflecting higher interest rates and concerns over the long-term viabiity of some pubs.

SIGNS OF RECOVERY FOR HOLIDAY PARKS

Real estate transactions across secondary assets continue to be strong, driven by family trusts and HNWIs. The larger leisure park market is starting to see signs of recovery, as prime assets are coming back onto the market. Yield prices have bottomed out, and further yield compression is precited for 2025 and beyond, driven by the strong tenant performance within the schemes.

Self Storage

Key takeaways

01 Self storage will continue to demonstrate robust operational performance, driven by growth in both consumer and business awareness levels and improving economic conditions.

02 Investor appetite remains strong, and the larger platforms continue with a long-term consolidation play.

03 Development costs have mostly stabilised, and we expect supply to increase with the growth ambitions of many players in the sector, combined with the amount of equity targeting this segment.

04 The availability of debt has deepened significantly over the last five years due to operational performance, and in response to the amount of equity focussed on the sector.

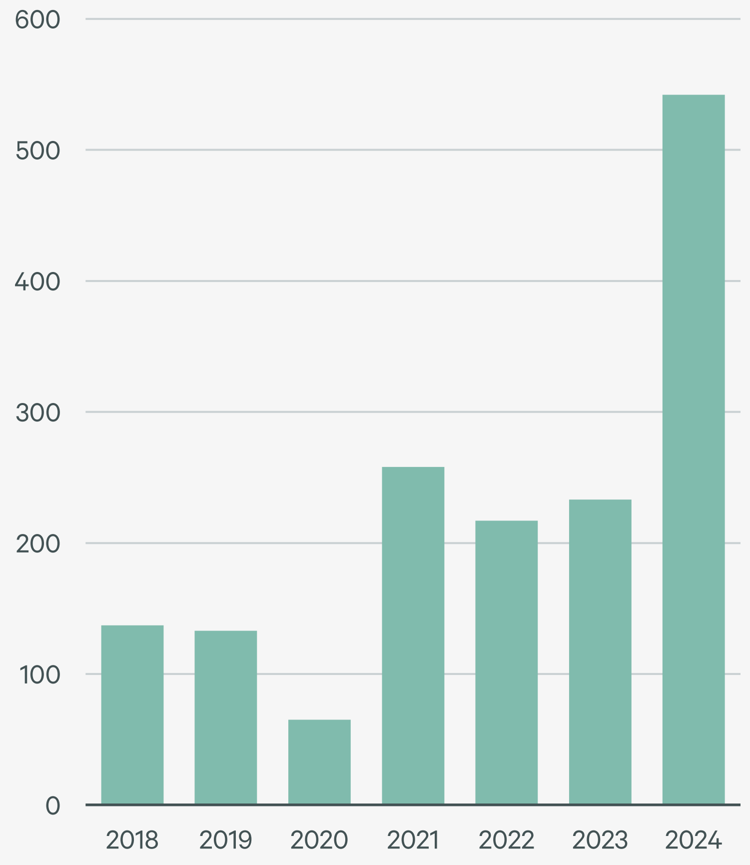
DEVELOPMENT AND DIVERSIFICATION

Operators have a positive outlook on trading conditions and, as a result, the segment is generating strong interest from a broad range of investors. Investors are seeking to gain exposure to management platforms and freehold backed businesses.

Operators and investors are focussed on freehold properties and will consider either new build developments or conversion projects. New builds provide opportunities to deliver high-quality schemes with strong environmental credentials. This helps future-proof the product and will appeal to the keenest sources of capital at a future point of sale. Growth is being constrained by the difficulty in finding freehold opportunities for development and conversion, and complications and delays in the planning process. The stabilisation in construction costs and availability of development debt will assist in the delivery of new projects.

We will continue to see ongoing growth in the container storage sector, smaller remotely managed facilities in city centre locations, and garage-style drive-up facilities which offer larger sizes and require fewer customer numbers to run at optimal capacity.

Figure 29: Self storage investment volumes (£m)



Source: CBRE

INVESTMENT MARKET OUTLOOK

The outlook for self storage investment remains optimistic with operational performance driving investor focus. However, the market is constrained by the lack of opportunities to invest in the UK at scale. We expect some private equity backed platforms to come to the market in the short-term. Freehold tenure, asset quality, and environmental credentials will be significant factors. The most attractive pricing is expected to be commanded by strategic platform deals, scalable businesses, and those with tangible secured development pipelines.

Availability of debt finance and improving debt costs will support the sector going into 2025.

Roadside & Automotive

Key takeaways

01

More than 1.2 million electric vehicles are now registered in the UK. The UK's Zero-Emission Vehicle Mandate requires manufacturers to gradually increase the percentage of new zero emission vehicles they produce each year. 80% of new cars sold in the UK will be zero emission by 2030 and 100% of new cars will be zero emission by 2035.

02

Fuel margins across petrol filling stations (PFS) remain healthy, and demand remains particularly strong for PFS. This is underpinned by a strong convenience retail offering and a plot size that is sufficiently large enough to adapt to future fuels.

03

Throughout 2024, car showroom yields have compressed, and, on average, dealers have reported reduced levels of profitability in the occupier market. Nevertheless, investment transaction volumes are now increasing, and we expect this trend to increase further in 2025.

04

The car parks sector is being driven by eight megatrends: population growth in cities, city as an experience, mobility landscape, autonomous vehicles, off-street shift, digitalisation, increased outsourcing, and energy transition.

EVS ARE THE DRIVING FORCE IN THE ROADSIDE & AUTOMOTIVE SECTOR

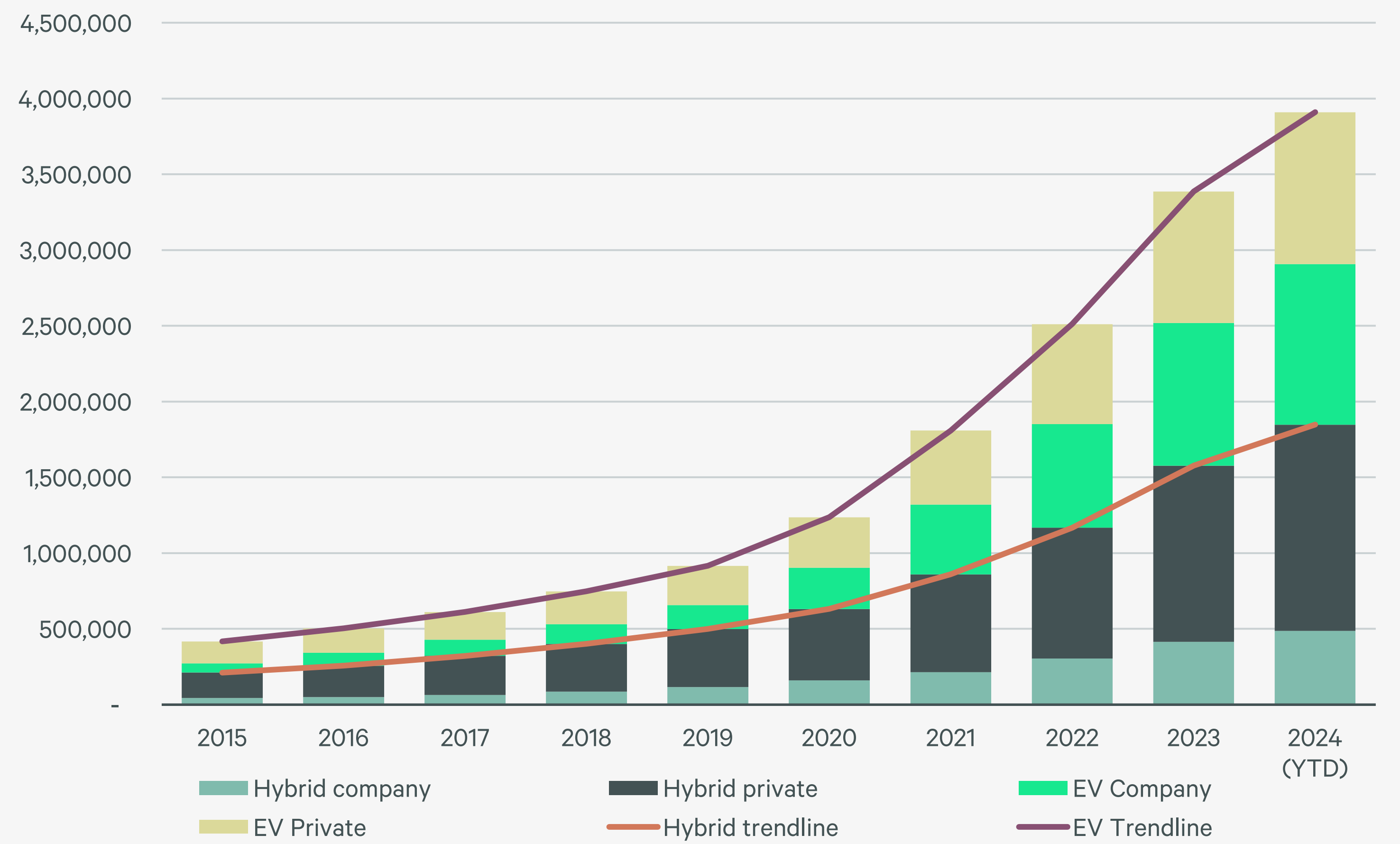
The UK has recently experienced a surge in demand for electric vehicles (EVs), as the sector is evolving from niche to norm. This has largely been driven by Government incentives and growing customer awareness surrounding air pollution.

Electric vehicles currently make up 9.5% of all vehicles on the road, up from just 3% in 2020. And this share will increase as demand for EVs is outpacing that for cars with a traditional internal combustion engine. In contrast, petrol vehicle registrations increased by less than 1% YoY, and diesel vehicles fell by nearly 2% YoY.

Currently, the split of EVs on the road is broadly equal, but EVs are likely to outpace hybrids in 2025 and consolidate as the main driving force in the R&A sector.

The EV supply market as a real estate asset class is also a point of interest. EV charging sites are fast becoming an asset class in their own right with the EV market projected to generate US$34.0bn (£26.2bn) in revenue this year and grow to US$51.3bn (£39.6bn) by 2029, according to Statista. There are more than 70,000 public EV charging points across more than 35,000 locations in the UK, increasing by over 40% compared to 2023. This growth is founded on the success of the EV sector and the belief that this is one of the fastest growing real estate asset classes. This is reflected in stable investment yields for EV Hubs at 5.50%-6.00%, which will remain true in 2025.

Figure 30: Number of electric vehicles (including BEV and PHEV) and hybrid vehicles in the UK



Source: GOV.UK

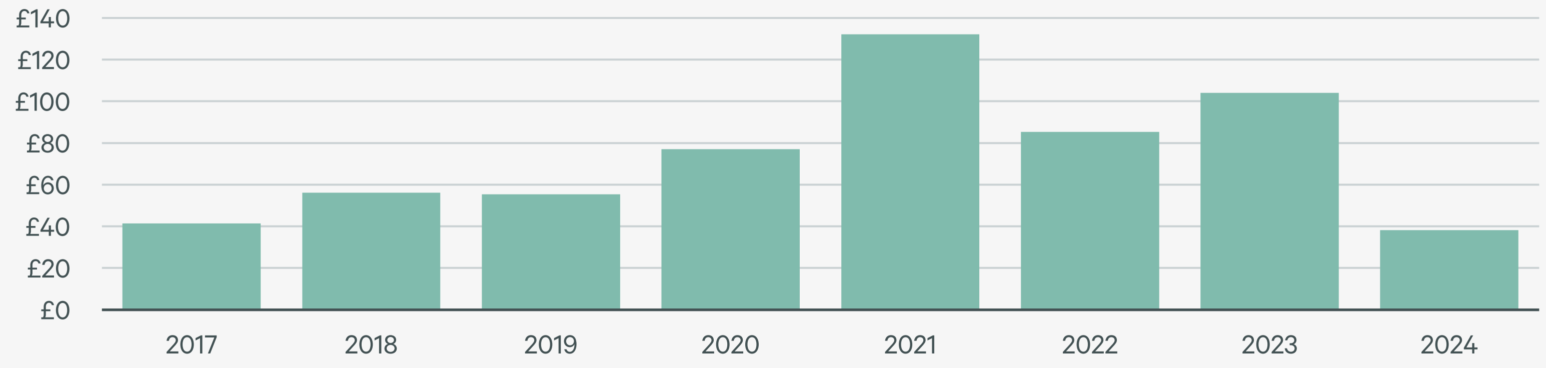
INVESTOR INTEREST REMAINS STRONG FOR PETROL FILLING STATIONS

2025 brings a renewed sense of optimism with a growth in real income and stabilising inflation. Investor appetite in the petrol filling stations (PFS) sector remains strong. Continued growth in convenience retail, and healthy fuel margins, will have a positive impact on the rental value of PFS going forward. This trend generates opportunities for rental growth and attractive reversionary yields. The small lot sizes in the PFS investment market remove barriers to entry and continue to attract private investors, retailers, and property companies.

In the last 12 months, average net initial yields (NIY) have broadly been stable. We expect yields to gradually move throughout 2025 as investment transaction volumes across the wider market increase.

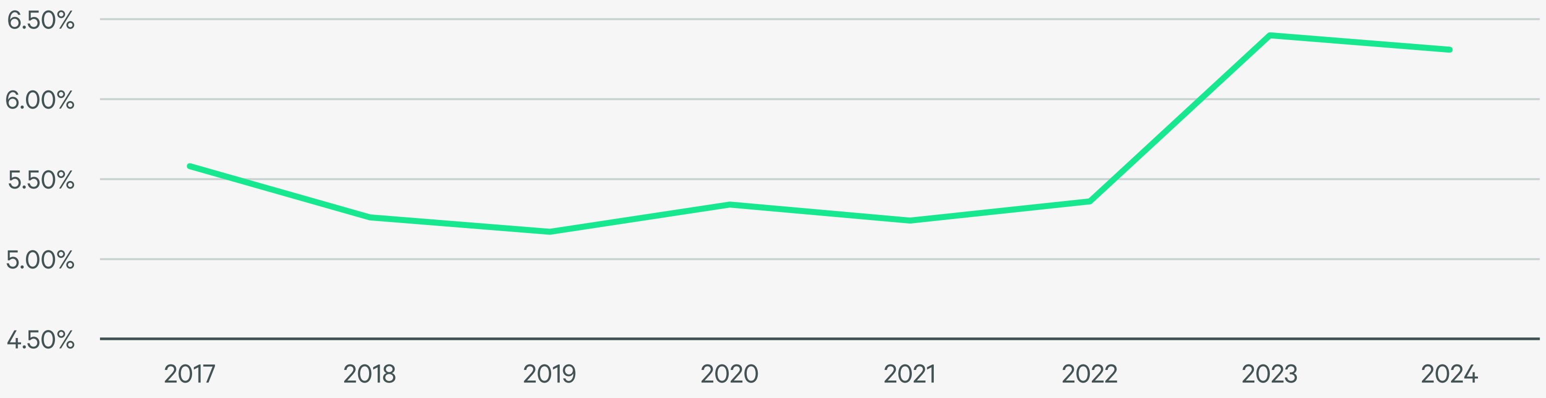
The Government continues to pursue a ban on the sale of Internal Combustion Engine (ICE) vehicles by 2035. Nevertheless, demand remains high for PFS with strong covenants and sufficient space on the forecourt to be able to adapt to future fuels.

Figure 31: Petrol filling station transaction volumes (millions £), UK



Source: CBRE

Figure 32: Petrol filling station yields (%)



Source: CBRE

CAR SHOWROOMS ADAPT TO CHANGING LANDSCAPE

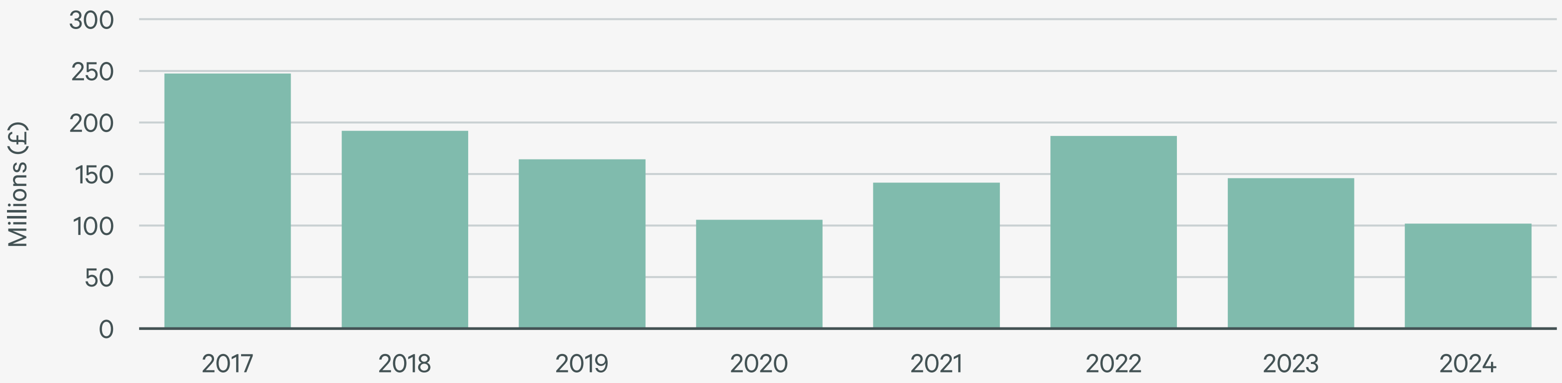
Investment activity improved in the second half of 2024, and transactional volumes are expected to equal, or marginally exceed, volumes recorded in 2023. The average lease terms available have increased, with manufacturer covenant availability matching 2023. Throughout 2024, average yields have compressed by 130bps, and we expect further yield compression at the start of 2025 with higher quality stock coming to the market.

Dealership groups have reported reduced levels of operating profit compared with the previous 12 months. This has partially been driven by an increase in wage costs and the impact of the agency model.

EVs account for 26% of new cars and 2-3% of used cars sold in 2024 (YTD). These growth rates are expected to accelerate in 2025, forging the long-term resilience of the dealership market. Car dealerships will continue to integrate EVs into their showrooms, and there will be a particular focus on the used car market as price tags continue to stabilise.

Car showroom investments will remain an attractive proposition for a range of investors. Dealerships often have a strong roadside presence, with high underlying land values for alternative use. Good plot sizes, low site density, and good visibility, all point towards a sound reversionary position. We expect investor demand to increase throughout 2025.

Figure 33: Car showroom investment volumes (millions £), UK



Source: CBRE

Figure 34: Transaction analysis (%), UK

Source: CBRE

10

Life Sciences

Key takeaways

01 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 The Government outlined life sciences as a focus sector in the Autumn Budget and has made funding commitments that, although modest in size, show positive intent.

03 Approximately 2,389,000 sq ft of new lab space is set to enter the market in 2025 to help alleviate the supply/demand imbalance and strengthen existing ecosystems.

04 The life sciences real estate investor market is anticipated to pick up in 2025, with potential opportunities emerging as a number of life science developments near completion.

SECTOR FUNDING ON A POSITIVE TRAJECTORY

2024 has proven to be a year of significant volatility globally with geopolitical and economic uncertainty impacting. High inflation and a turbulent political landscape – including the shift to a new Government – have created a challenging environment for businesses operating in the life sciences sector. The impact was also felt in venture capital (VC) funding, with many investors hesitant to commit to the life sciences sector during the first half of the year.

However, following the general election result, VC activity in the market has picked up, with an estimated £3.7bn expected to be directed towards the sector by year-end (Figure 35). This positive movement is predicted to continue into 2025, fuelling the demand for lab and office space. However, there is still a supply and demand imbalance of lab space, so we expect a steady increase in headline rents across the main life sciences clusters (Figure 36).

Figure 35: UK life sciences venture capital (£m)

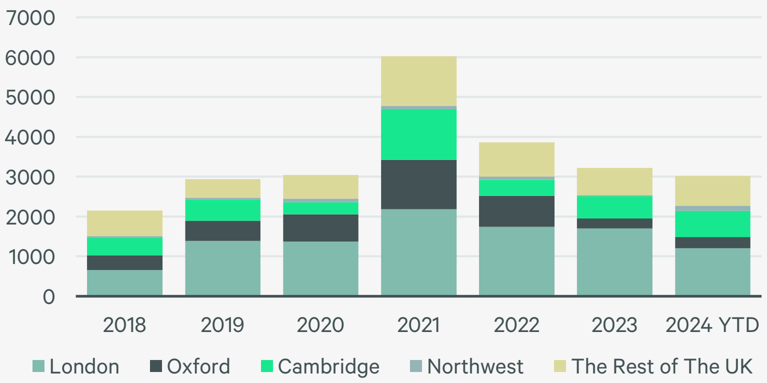
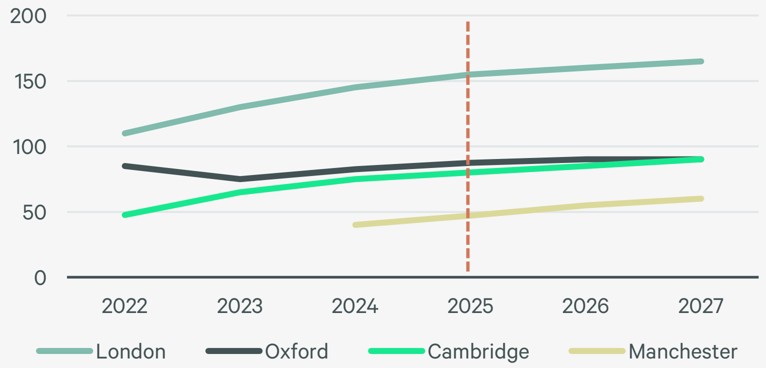


Figure 36: UK life science headline lab rents (£ per sq ft)



Source: CBRE Research

Source: Pitchbook & CBRE Research (28/10/2024)

The Government has highlighted life sciences as a strategic priority, making commitments in the Autumn Budget. Funding increases for the National Institute for Health Research (NIHR) and the £520m Life Sciences Innovative Manufacturing Fund show positive intent. In addition, the Chancellor has confirmed the Government will continue its associate membership to Horizon Europe, the EU's €95bn funding programme for research and innovation, in 2025. Although these sector commitments are very welcome, they are still relatively modest investments.

The Mansion House Compact is progressing to unlock additional funding channels by 2030 for young science and tech companies. Many of the leading pension firms are already developing new funds or vehicles to increase investment into early-stage companies and, it is expected that further progress will be made throughout 2025.

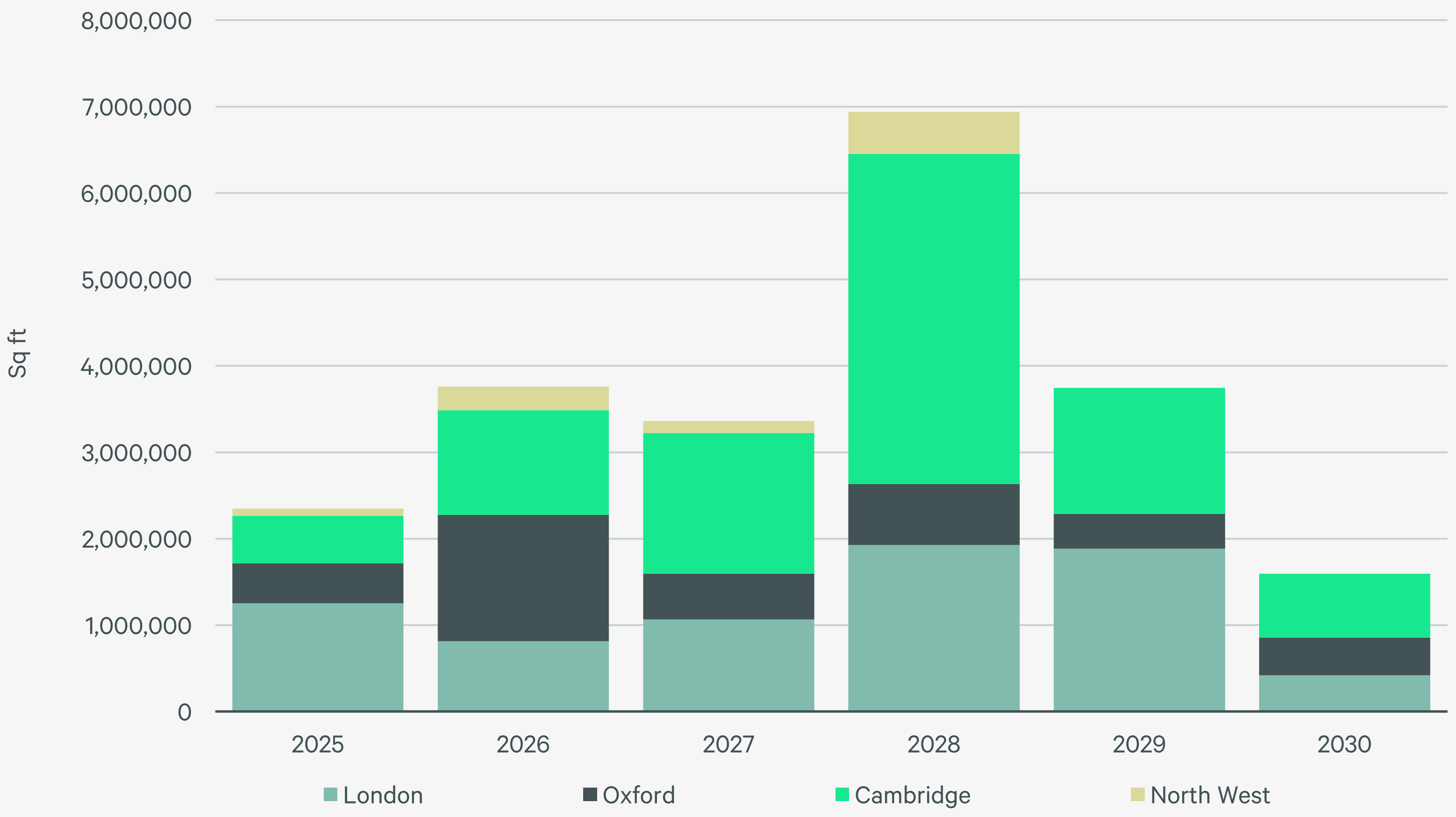
LAB SUPPLY INCREASING

The lab development pipeline will start to deliver new space in 2025, with an estimated 2,389,000 sq ft of life sciences stock coming to market across the Golden Triangle and Manchester. This increase is distributed across key hubs: Oxford with 462,000 sq ft, Cambridge with 548,000 sq ft, London with 1,254,000 sq ft, and the North West with 83,000 sq ft (Figure 37). This pipeline represents a 34% expansion of the current commercial stock.

This incoming supply is a mix of purpose-built lab facilities and retrofitted office spaces, with each segment catering to different needs and expectations within the market. Purpose-built labs, with advanced specifications and tailored fit-outs, are likely to command premium rents and attract top-tier tenants. Meanwhile, retrofitted office spaces provide a valuable, flexible solution, though they may be viewed as secondary locations due to differences in fit-out standards and configuration. This distinction could contribute to a two-tier leasing market, with occupiers weighing location, amenities, and technical specifications versus leasing costs.

The life sciences real estate investment market has experienced a relatively subdued 2024 due to broader economic uncertainty. However, we anticipate a shift in 2025 as several life sciences developments near completion or transition from active construction. This is likely to bring opportunities for new investors, including those from the Middle East and Asia.

Figure 37: UK Life sciences development pipeline



Source: CBRE Research

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