

UK Real Estate Navigator



Q2 2025

A quarterly review of the UK commercial real estate market

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The headlines

Our experts share the headlines from their UK CRE sectors this quarter

Economy	Global outlook improves, however uncertainty remains. UK economy sees a gradual return to a more stable environment.
Capital markets	The UK was the most invested market for overseas capital in Q2 2025 for All Property.
Offices	UK Cities: Leasing hits its highest first-half total in three years, underpinned by professional services and tech demand and intensifying competition for prime space. After a sluggish start to 2025, the investment market shows signs of revival.
	South East: Leasing activity saw its strongest H1 period since 2008, underpinned by larger requirements and sustained demand for best-quality space. Despite a dip in investment volumes, investor confidence is evident at the 'prime' end of the market.
	London: City & Southbank investment activity creeps up, and large best-in-class office deals drive take-up. A dip in investment activity in the West End, but assets under offer provide promise, and strong leasing activity is boosted by prime pre-let deals. Docklands & Stratford have the strongest quarter of leasing activity since the pandemic.
Industrial	Portfolio deals drive investment for Q2, but stock scarcity limits deal count. Occupier demand strengthens, but supply constraints for larger stock loom despite vacancy volatility.
Retail	A host of additional cost pressures for retailers, erratic consumer demand and subdued investment.
Data centres	Government support for the industry continues to develop through AI action plans, a 'UK Compute Roadmap', and continued overruling of local planning objections.
Healthcare	Overseas capital takes the majority of volumes in the second quarter. Strong operations still rely on the foundation of future-proofed assets.
Life Sciences	VC remains resilient, though increasingly focused on fewer players. AI continues to reshape the innovation landscape and attract global investment. Q2 take-up softened across the Golden Triangle, yet H1 ranked among the strongest on record as development pipelines expand.

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Economic update

Global and UK economy

CONTACT: [VICTORIA ORMOND, CFA](#)

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Global economy

Global outlook improves, however uncertainty remains

GLOBAL OUTLOOK: SOME POSITIVE MOMENTUM, UNCERTAINTY REMAINS

With uncertainty weighing heavily on the global economic outlook in the first quarter of 2025, largely driven by shifting US policy and the looming threat of tariffs, some clarity began to emerge in the second quarter.

That said, this clarity is a double-edged sword, with many countries signing trade deals that concede to tariff agreements at levels lower than initially announced, yet still well above those in place a year earlier.

Consequently, the global economic outlook has continued to be volatile, further dampened by persistent geopolitical tensions, stubborn inflation and rising sovereign debt burdens. Indeed, global public debt in 2024 surpassed £100tn, and the latest IMF projections suggest that public debt could reach 100% of global GDP by the end of the decade.

Encouragingly, in its July 2025 World Economic Outlook Update, the IMF revised up its global growth forecast to 3.0% for 2025 and 3.1% for 2026, up from the April outlook of 2.8% and 3.0%, respectively. This modest upward revision reflects several supporting factors: front-loading of exports ahead of higher tariffs, a lower effective US tariff rate, improved financial conditions aided by a weaker dollar, and fiscal stimulus in some major economies.

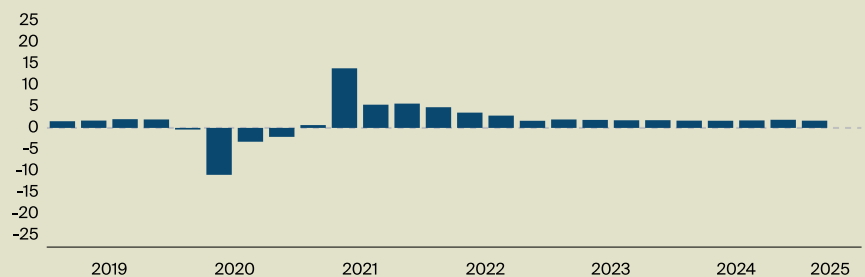
The IMF cautioned that the underlying outlook remains fragile, with risks still tilted to the downside, thanks to lingering policy uncertainty, geopolitical strain, and supply-side shocks.

GLOBAL SERVICES PMI CONTINUES TO BE EXPANSIONARY

The Global Services PMI was 53.4 in July, continuing its long running period in expansionary territory (figure above 50). Meanwhile, the Global Manufacturing PMI continues to be volatile at 49.7 in July and 50.4 in June.

Gross Domestic Product

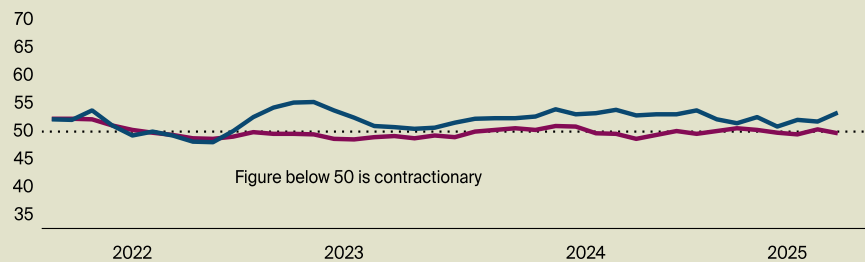
Quarterly OECD countries GDP growth, % change year-on-year, seasonally adjusted



Source: Knight Frank Insight, Macrobond, OECD

Business Activity Index

— Manufacturing PMI — Services PMI

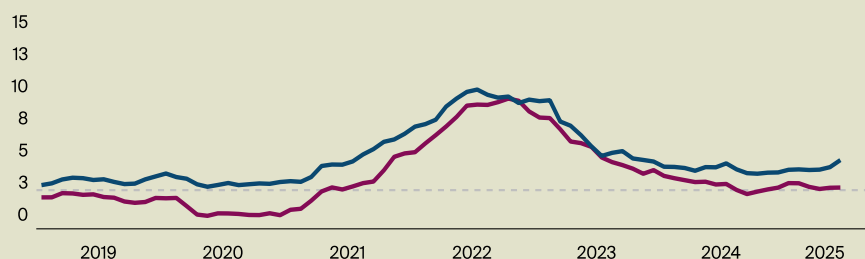


Source: Knight Frank Insight, Macrobond, S&P Global /CIPS

Inflation

%

— Advanced Economies CPI — Emerging & Developing Economies CPI



Source: Knight Frank Insight, Macrobond, World Bank

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UK economy

Gradual return to a more stable environment

UK GDP: GRADUAL MOMENTUM BUILDING INTO 2025

The UK economy expanded by +0.7% in Q1 2025, its fastest pace in a year and a sharp pick up from +0.1% in Q4 2024. By comparison, the Euro Area expanded +0.3%, while the US economy contracted -0.1% over the same period.

In its July 2025 update, the IMF raised its UK growth forecast by +10bps to 1.2% in 2025, with GDP growth expected to rise to +1.4% in 2026. The upward revision reflects improved trade terms following the UK's early agreement with the US, part of a broader wave of bilateral deals also struck by the EU, China, and Japan to avoid the most punitive tariffs previously threatened by the Trump administration. As a result, the UK is now projected to be the third fastest-growing economy in the G7, trailing only the US and Canada, and is expected to outpace all major European economies this year.

BUSINESS ACTIVITY PICKS UP

The UK Services PMI eased to 51.8 in July, down from 52.8 in June, though it remained in expansionary territory for a third consecutive month. Meanwhile, the Manufacturing PMI edged up to 48.0 from 47.7.

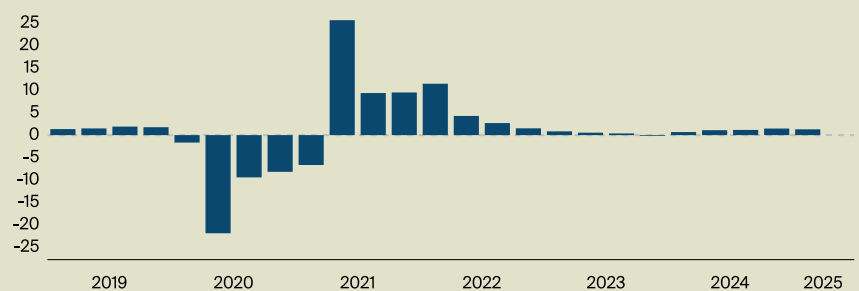
BoE CUTS RATES BUT PROJECTS SLOWER INFLATION PATH TO TARGET

The BoE appears committed to a gradual easing path as it contends with emerging softness in the labour market. In August, the BoE delivered its fifth consecutive quarter-point cut, lowering the benchmark rate from 4.25% to 4.00%. Markets continue to anticipate at least one further reduction this year, with rates expected to reach 3.75% by year-end.

Inflation, however, came in higher than expected, with CPI climbing to 3.6% in June 2025, its highest level in 17 months. The BoE now anticipates headline inflation will edge up to around 4.0% by September, up from its previous forecast of 3.7%, before gradually easing back to the 2% target by Q2 2027.

Gross Domestic Product

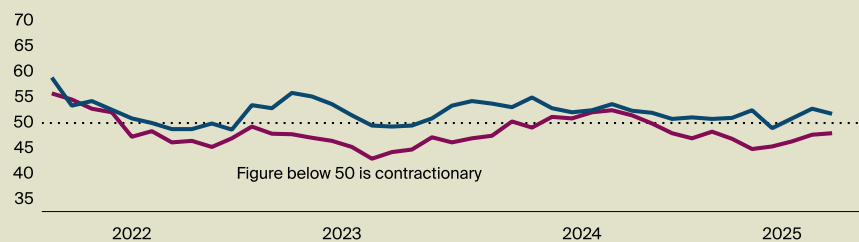
Quarterly UK GDP growth, % change year-on-year, constant prices, seasonally adjusted



Source: Knight Frank Insight, Macrobond, ONS

Business Activity Index

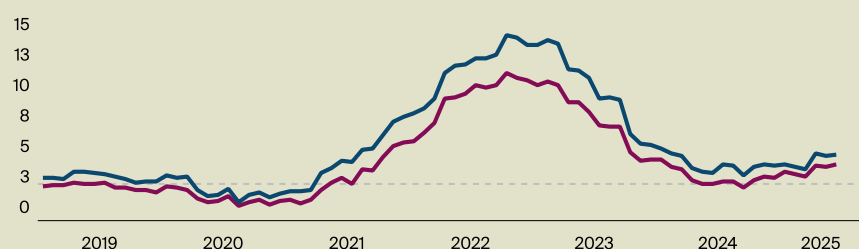
— Manufacturing PMI — Services PMI



Source: Knight Frank Insight, Macrobond, S&P Global /CIPS

Inflation

%
— CPI — RPI



Source: Knight Frank Insight, Macrobond, ONS

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UK commercial real estate

CONTACT: [VICTORIA ORMOND, CFA](#)



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Capital markets

The UK was the most invested market for overseas capital in Q2 2025 for All Property

Q2 2025: RECOVERY IN MOTION

The UK CRE market entered Q2 with cautious optimism, supported by stabilising fundamentals and improving investor sentiment. The UK retained its position as the second most invested market globally, behind only the US, and the top location for cross-border capital in Q2 2025.

UK CRE investment totalled £10.8bn this quarter. This was +15% up on investment in Q1, yet a -10% contraction on Q2 2024. Logistics (£3.5bn) was the most invested sector, followed by Offices (£2.7bn), Retail (£2.2bn), the Living Sectors (£1.9bn) and Hotels (£0.4bn). Logistics (+71%), Retail (+24%), Offices (+6%) and Living (+2%) all recorded an increase in investment quarter-on-quarter in Q2 2025. Cross-border investment into the UK moderated slightly, totalling £4.9bn, a -9% decline from Q1, yet still accounting for a significant 46% share of total UK CRE volumes. Despite this, momentum from key buyer types has strengthened in H1 2025, following a cautious approach throughout last year. Pension fund investment surged +433% in H1 2025 year-on-year, and Sovereign Wealth Fund up +277%, signalling renewed conviction from long-term capital.

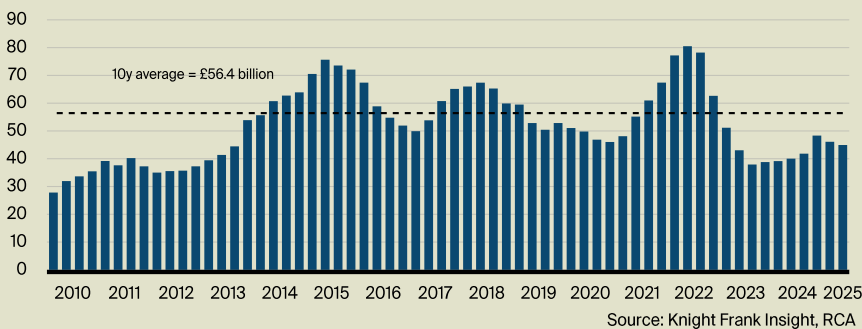
LEVERAGING RELATIVE STABILITY

H1 2025 data signals a measured but meaningful recovery in UK CRE volumes, reinforcing the market's gradual return to form. Amid a backdrop of relative stability, bolstered by a secured tariff agreement, the UK continues to offer a compelling environment for international capital. Investor sentiment is steadily improving, underpinned by early signs of capital growth and a return to positive real returns. The re-emergence of long-term institutional capital marks a significant shift in market tone. Oil-backed sovereign wealth funds are expected to diversify more actively into real estate, aiming to stabilise returns amid renewed volatility in oil prices.

UK quarterly investment volumes

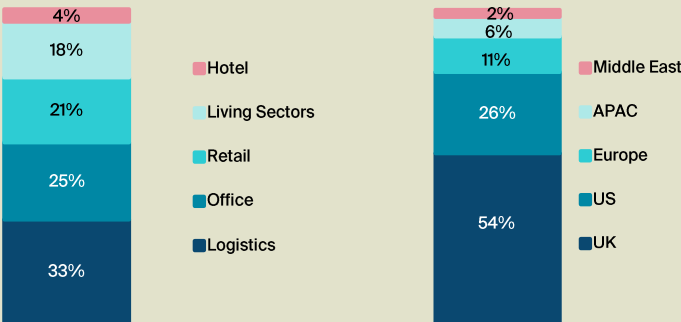
Quarterly investment volumes, rolling average

--- 10y Long Term Average ■ Investment Volumes (Rolling Annual, £bn)



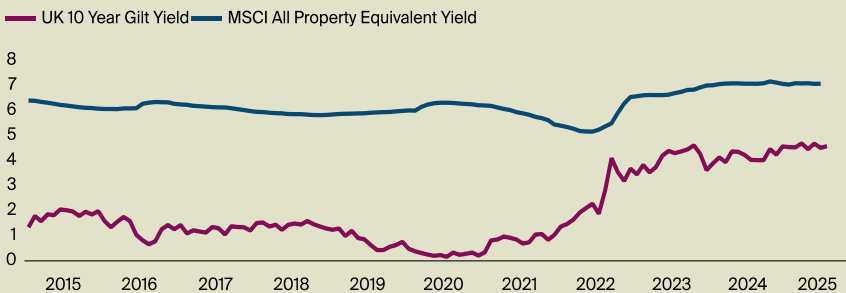
Investment volume breakdown

% of Q2 2025 volume



Property equivalent yield and UK 10 year gilt yield

%



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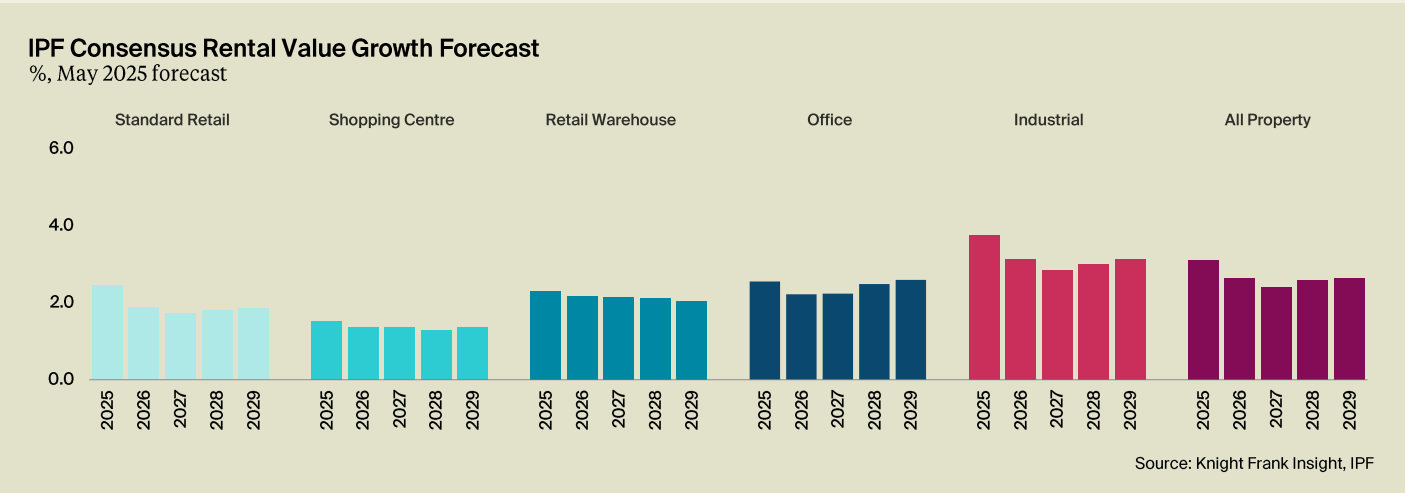
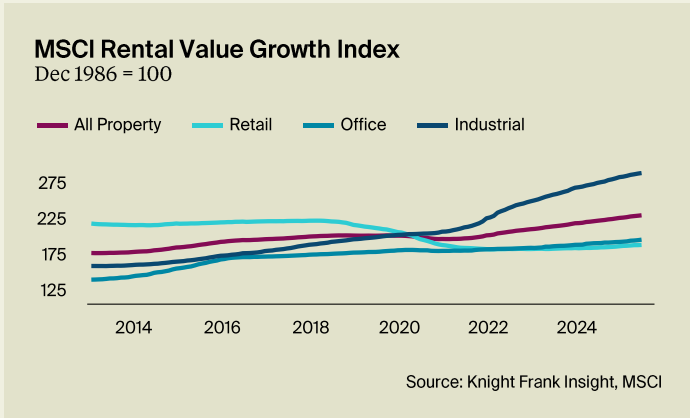
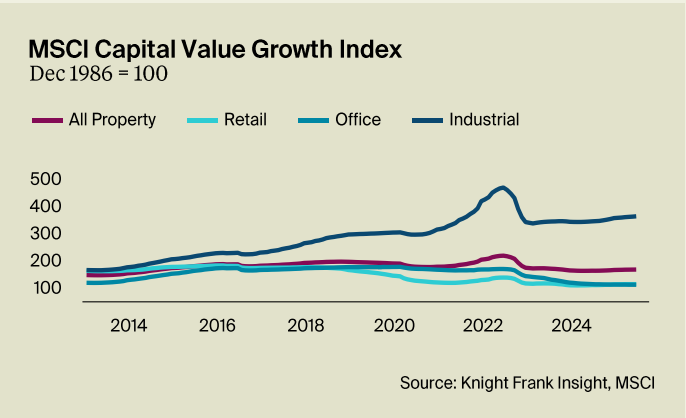
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Capital markets

The IPF forecasts the Industrial sector to deliver the strongest capital and rental value growth in 2025



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Offices

City & Southbank, West End, Docklands & Stratford, South East & UK Cities

CONTACT: LONDON – [SHABAB QADAR](#), SOUTH EAST & UK CITIES – [DARREN MANSFIELD](#)



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City & Southbank offices

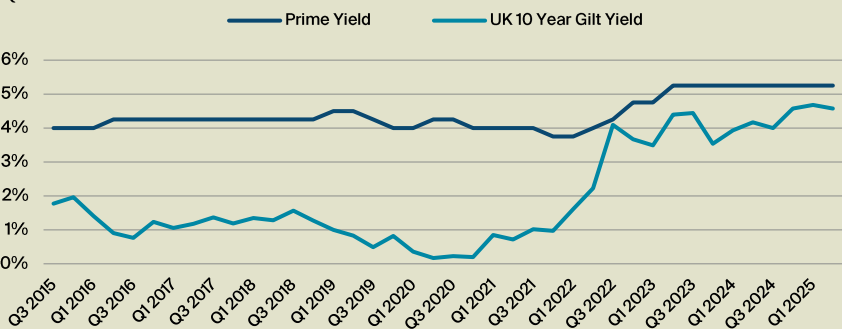
Investment activity creeping up

INVESTMENT MOMENTUM MOUNTING

Investment volumes in Q2 increased by 14.7% on Q1, reaching £1.1bn. Whilst that means two consecutive quarterly increases, investment activity in Q2 remains 36.9% below the long-term average. Larger lot size transactions dominated quarterly investment activity, with transactions exceeding £100m accounting for £0.75bn (67.5%) of Q2 turnover, although this was still 37.4% below the long-term quarterly average of £1.2bn. North American investors were the most active, representing 35.6% of Q2 investment volumes, closely followed by UK investors who accounted for a further 30.7%. Value-add opportunities were the most popular asset type, with 51.4% of Q2 investment volumes. Core plus was the next most popular, attracting an additional 30.3% of turnover, with the remaining 18.3% targeting low-risk core assets.

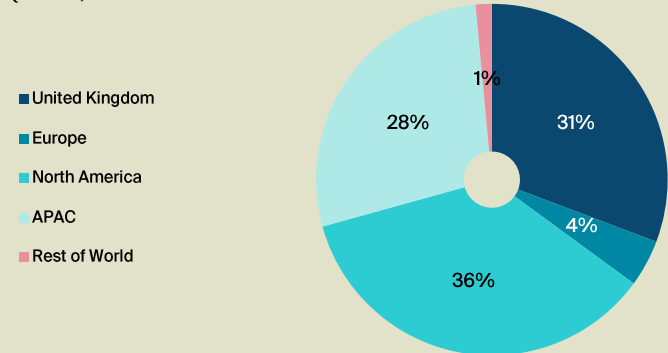
The immediate outlook is more promising, with just under £1bn under offer across the City & Southbank market, a 78.0% quarterly uplift. Prime yields held steady at 5.25%. Investor confidence is slowly returning, and whilst both economic and geopolitical uncertainty remain, London offers strong safe-haven qualities.

City & Southbank: Prime yield and UK 10 year gilt yield
Q2 2025



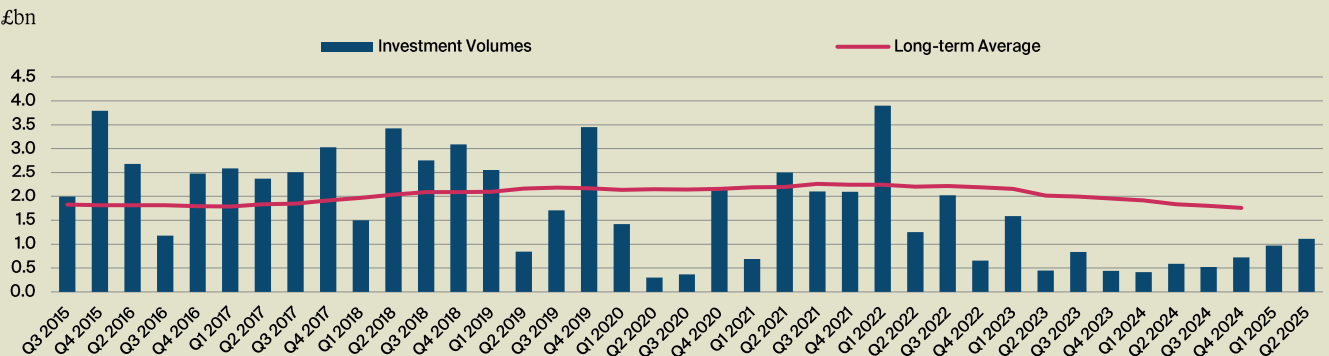
Source: Knight Frank Insight

City & Southbank: Investment volumes by nationality
Q2 2025, % of total investment



Source: Knight Frank Insight

City & Southbank: Investment volumes relative to trend



Source: Knight Frank Insight

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City & Southbank offices

Large best-in-class office deals drive take-up

QUALITY & QUANTITY

Q2 take-up reached 2.1m sq ft, a 40.9% increase on the previous quarter and a 34.2% outperformance against the long-term quarterly average of 1.6m sq ft. This strong performance was driven by a return of larger transactions, with four transactions signed in excess of 100,000 sq ft during the quarter, equating to 46.6% of total take-up.

The financial sector accounted for 37.0% of Q2 leasing volumes, followed by manufacturing and corporates, which accounted for a further 15.1%. The next most active sector was the technology, media and telecoms sector, which represented 12.8% of Q2 leasing volumes.

The second half of 2025 could prove slightly more challenging as the volume of space under offer fell from 2.0m sq ft to 1.4m sq ft in the City and from 300,000 sq ft to just under 180,000 sq ft in the Southbank.

Active demand for requirements targeting the City & Southbank market also fell by 11.9% over the quarter to 4.49m sq ft, which means active demand has now returned broadly in line with the long-term average. Several large requirements are poised to go under offer shortly, but Q3 take-up could fall short of the strong performance seen in Q2.

MARGINAL FALL IN SUPPLY

Overall availability has fallen by 0.9% during Q2 to stand at 12.6m sq ft. It is now 4.2% below the level seen in Q2 2024,

but 30.5% ahead of the long-term average. This has resulted in vacancy rates moving downwards from 9.0% to 8.8%, with the vacancy rate of new and refurbished space holding steady at 4.9%.

In the City, the overall vacancy rate dropped from 8.5% to 8.1%, driven by a reduction in the availability of second-hand Grade A space, perhaps signalling that whilst demand is typically targeting best-in-class space, there is a growing market for more cost-effective space. In the Southbank, the overall vacancy rate increased from 11.2% to 12.6%, which was 5.4ppts above the long-term average, driven by the inclusion of speculative space coming to market.

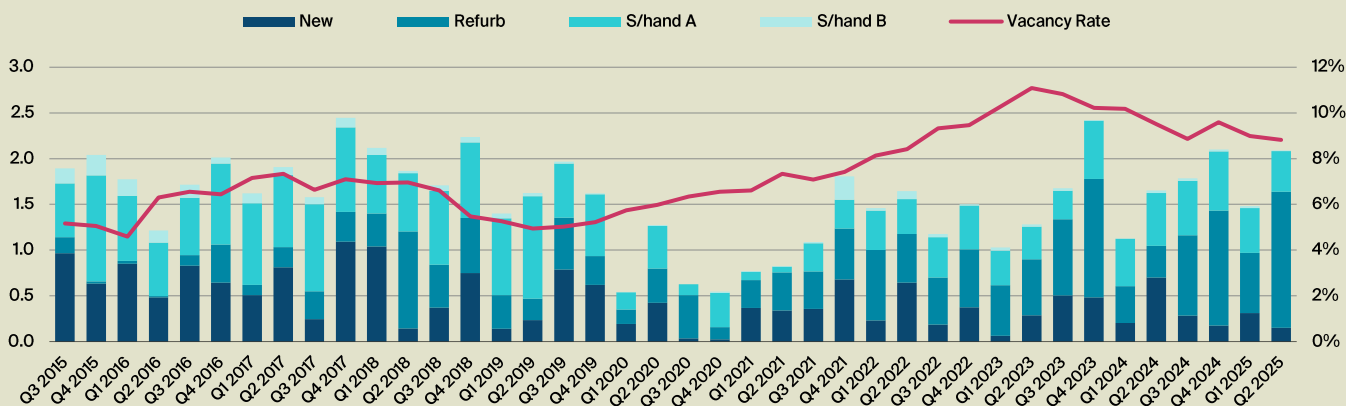
PRIME RENTS REMAIN STABLE

Prime rents were held at the same level as the previous quarter, but upward pressure on prime rents remains. City Core rents remain at £100 per sq ft, a 14.3% increase from 12 months ago. Incentive packages also remain stable at 24-27 months on a 10-year term. Southbank Core prime rents remained stable at £90.00 per sq ft, reflecting a 9.1% increase over the last 12 months.

Our prime rent forecasts remain unchanged from Q1. Between 2025 and 2029, annual average growth in the City Core is projected at 5.8%, with 3.5% annual average growth anticipated in the Southbank.

City & Southbank: Take-up by quality and vacancy rate

M sq ft (LHS), % of stock (RHS)



Source: Knight Frank Insight

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West End offices

A dip in investment activity in Q2, but assets under offer provide promise

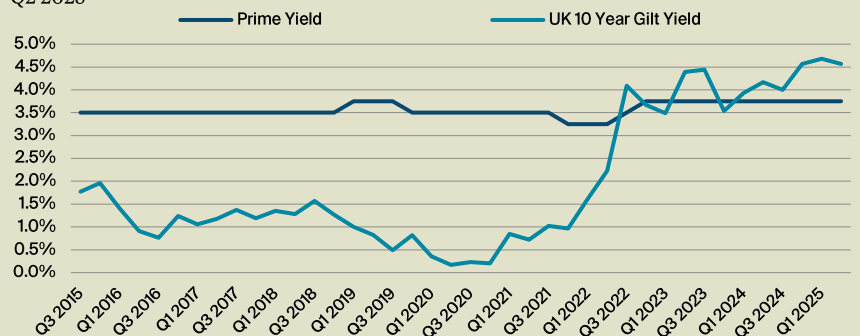
CORE PLUS ATTRACTS INVESTORS

After seeing an above-average start to the year, Q2 investment in the West End market faltered, falling to £0.9bn. This reflects a 43.5% decline quarter-on-quarter and a 28.5% shortfall compared to the long-term quarterly average. Most investment was directed at larger lot sizes, with total investment volumes for transactions exceeding £100m reaching £0.47bn and accounting for 52.6% of Q2 turnover. The trend is also evident over the last four quarters, where investment in deals above £100m accounts for 47.8% of activity. Core plus assets accounted for 60.7% of Q2 turnover, with the remaining 39.3% targeting value-add opportunities. Whilst there was a lack of core investment in the West in Q2, it has accounted for £1.5bn of investment over the last 12 months, equating to 33.5% of total investment volumes over the same period. The value of assets available at the end of Q2 rose by 62.0% to £2.3bn, with 48.0% of this stock being either core or core plus assets. Also adding to a more positive horizon for the remainder of 2025 is the £1.0bn of assets under offer, a 31.9% increase on the previous quarter.

This positive outlook is further supported by continued stability in prime yields, which have remained at 3.75% for the tenth consecutive quarter.

West End: Prime Yield and UK 10 Year Gilt Yield

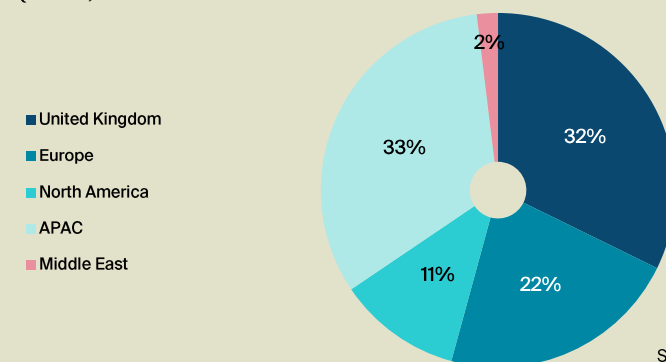
Q2 2025



Source: Knight Frank Insight

West End: Investment volumes by nationality

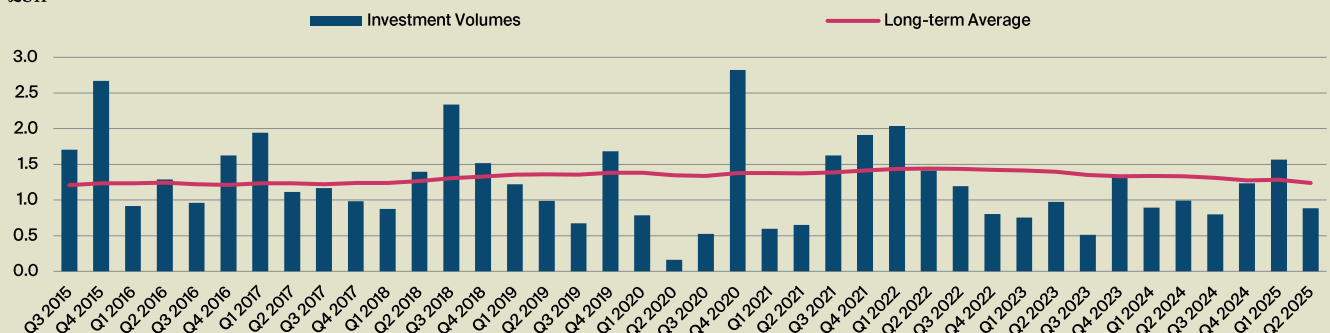
Q2 2025, % of total investment



Source: Knight Frank Insight

West End: Investment volumes relative to trend

£bn



Source: Knight Frank Insight

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West End offices

Strong leasing activity boosted by prime pre-let deals

TAKE-UP STRENGTHENS IN Q2

Q2 take-up in the West End reached 1.1m sq ft, a 19.2% increase on Q1 and broadly in line with the long-term quarterly average. Unlike the previous quarter, larger transactions returned, acting as the main catalyst for the uplift in take-up. In Q2, five deals signed in excess of 60,000 sq ft, representing 36.5% of total leasing volumes. Take-up of new and refurbished space reached 851,551 sq ft, representing 79.3% of total take-up in Q2, a record high proportion for the market. This is further evidence of continued occupier preference for best-in-class office space and is a dramatic shift from the 10-year average of 45.5%.

ALL SECTORS ACTIVE IN THE WEST END

Take-up was relatively evenly distributed across occupier sectors, with both the financial and professional sectors accounting for 27.4% of quarterly leasing activity. The next most active sector was the technology, media and telecoms sector which accounted for a further 15.1% of Q2 take-up. The sector with the highest outperformance against the long-term average as the professional sector, significantly boosted by McDermott Will and Emery's pre-let at 7 Brook Street, W1, meaning Q2 take-up from professional firms was 157.6% above the long-term quarterly average.

H2 PROSPECTS LOOK RELATIVELY STRONG

At the end of Q2, there was 908,967 sq ft under offer in the

West End, a 4.3% increase on the previous quarter. Q2 saw one unit under offer in excess of 100,000 sq ft, with a further unit over 50,000 sq ft under offer at the end of the quarter. Active demand fell by 5.7% to 1.9m sq ft, with the financial sector representing the largest share (29.7%). Active demand is now 17.3% down year-on-year and 8.5% below the long-term average.

SUPPLY GROWTH CONCENTRATED, NOT WIDESPREAD

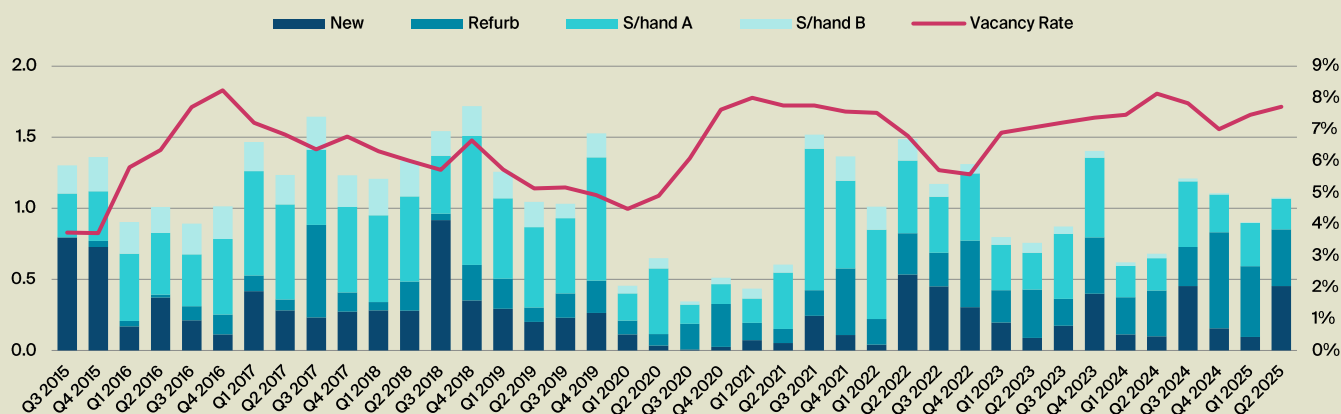
Overall availability increased by 3.8% to 7.4m sq ft, 24.9% ahead of the long-term market average. This resulted in the vacancy rate increasing from 7.5% to 7.7% in Q2, with the vacancy rate of new and refurbished space climbing from 5.4% to 5.7%. Development activity remains subdued. The total volume of space under construction at the end of Q2 was 6.2m sq ft, of which 2.2m sq ft (40.1%) is already committed. When comparing historic levels of new and refurbished take-up to the under-construction pipeline as well as schemes deemed 'most likely', there is a projected undersupply of nearly 1.2m sq ft by the end of 2028.

PRIME RENTS CONTINUE TO CLIMB

Prime rents in the West End Core jumped by 9.0% over the quarter to £182.50 per sq ft, reflecting several transactions that have signed at that level. Elsewhere, prime rents in Marylebone moved from £105.00 per sq ft to £110.00 per sq ft after consistent levels of leasing activity at this level.

West End: Take-up by quality and vacancy rate

M sq ft, % of stock (RHS)



Source: Knight Frank Insight

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Docklands & Stratford offices

Strongest quarter of leasing activity since the pandemic

UPTICK IN TAKE-UP DRIVEN BY BANKS AND BOOKS

Nine leasing transactions signed during Q2, totalling 370,316 sq ft. This is a 121.0% increase quarter-on-quarter and nearly double the long-term quarterly average, with an average transaction size of 41,146 sq ft.

Leasing activity was boosted by deals in the largest size bands, with one transaction between 80,000-100,000 sq ft and another above 100,000 sq ft – a dynamic that has been missing from the Docklands and Stratford market for some time. In fact, 78.8% of Q2 take-up was for transactions above 40,000 sq ft, demonstrating the market's continued appeal to occupiers of scale. The largest transaction signed in Q2 was JPMorgan Chase's acquisition at 1 Cabot Square, E14, where they secured 148,473 sq ft on a sublease on confidential terms. The two next largest transactions reflect a trend that has been gathering momentum over recent years – the commitment of educational occupiers to space in the Docklands and Stratford market to establish or extend their London footprint. Arden University acquired 94,172 sq ft at The Turing Building, E20, across the ground-6th floors, whilst The Elizabeth School of London further expanded their presence at HX1 & HX2, Harbour Exchange, E14, by committing to an additional 49,213 sq ft on the 9th and 10th floors.

AVAILABILITY FALLS BUT REMAINS ABOVE TREND

Overall availability across the Docklands and Stratford

market fell by 17.2% during Q2 to 3.2m sq ft, which translates to a vacancy rate of 12.6%. This means that availability has fallen by 6.3% year-on-year, but remains 21.3% ahead of the long-term average.

At the end of the quarter, 57.7% of available space was new or refurbished, equating to just under 1.9m sq ft. Given demand dynamics, the availability of second-hand space fell by 26.7% over the quarter, meaning that second-hand availability is 4.6% below the long-term average level.

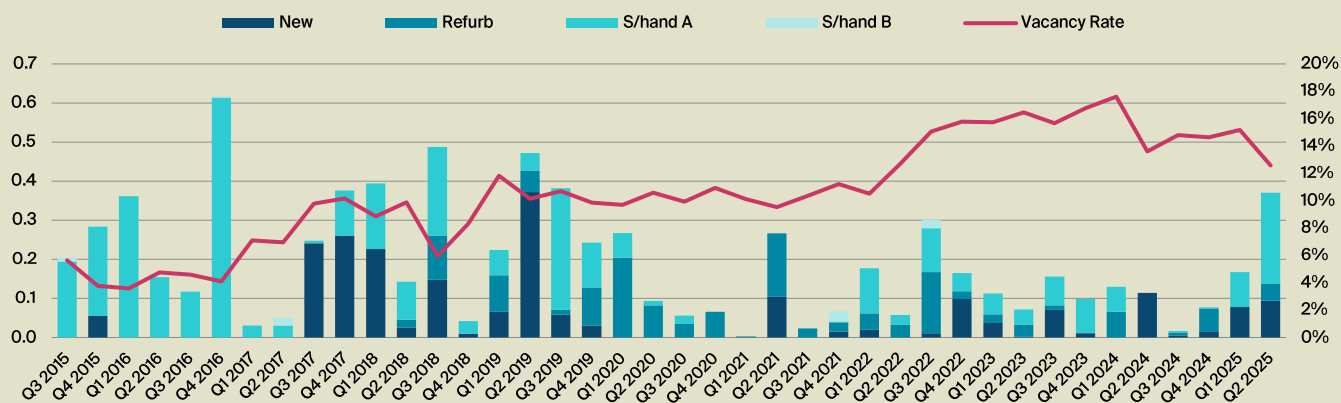
In Canary Wharf, the vacancy rate dropped from 13.7% to 11.2% and is now just 0.7 ppt above the long-term trend. This was driven by significant absorption of second-hand space, with second-hand vacancy falling from 8.0% to 5.9% in Q2.

At the end of Q2, there was 718,338 sq ft of space under construction in the Docklands & Stratford market, across two schemes. 17 Columbus Courtyard, E14, is expected to reach practical completion in 2026 Q4, delivering 178,338 sq ft of speculative space. One North Quay, E14 is scheduled to complete by the end of 2027, providing 540,000 sq ft of speculative space.

Prime rents are unchanged in both Docklands and Stratford markets. In Canary Wharf, prime rents are £57.50 per sq ft, and in Stratford they are £48.50 per sq ft. Rent-free periods also remain unchanged at 27-30 months on a standard 10-year lease.

Docklands & Stratford: Take-up by quality and vacancy rate

M sq ft, % of stock (RHS)



Source: Knight Frank Insight

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South East offices

Despite a dip in investment volumes, a rising deal count, alongside a significant pipeline of assets under offer and being marketed, indicates investor confidence at the ‘prime’ end of the market

VOLUMES REMAIN LOW, BUT MARKET ACTIVITY IS IMPROVING

Investment volumes in Q2 totalled £230m across 26 transactions, with smaller-sized acquisitions once again driving activity. The headline deal was STR Capital’s £32.5m purchase of Lotus Park in Staines, which also represents the largest transaction completed in 2025 so far.

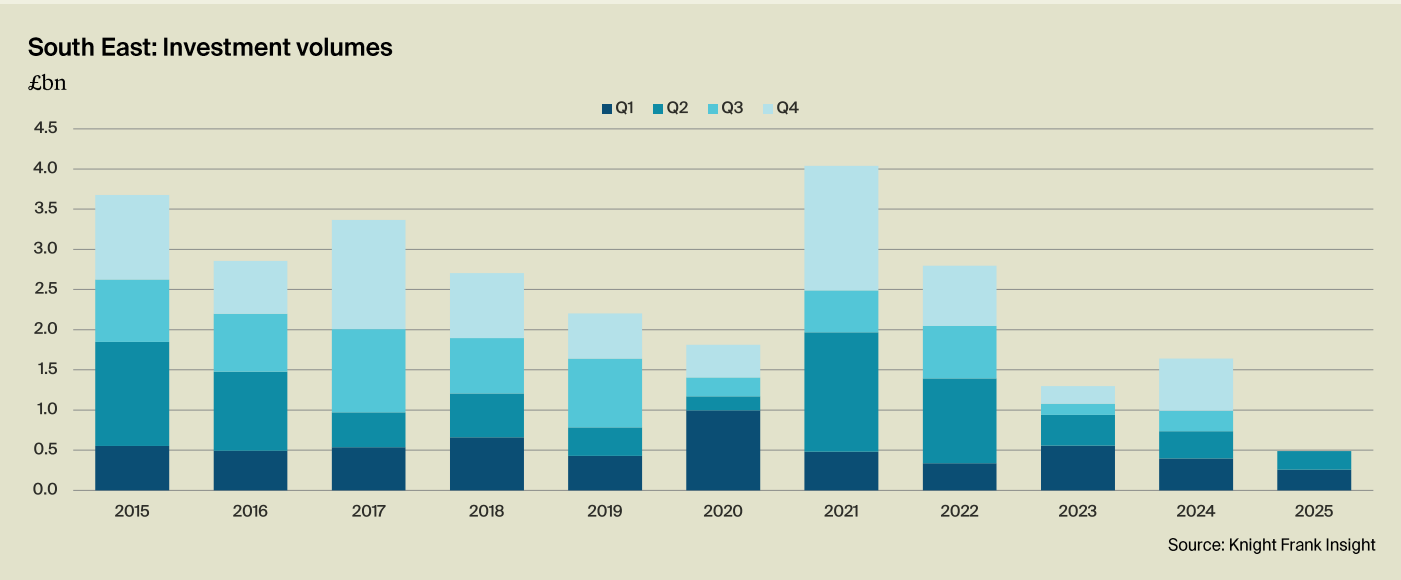
IMPROVEMENT IN H2 2025?

Despite the low volumes of H1, the South East office investment market showed encouraging signs of renewed momentum at mid-year, with close to £300m worth of assets either under offer or recently exchanged by the quarter end. This uptick in transactional progress reflects a gradual re-engagement of buyers, aided by improving confidence in pricing. Available stock climbed to £800m, underlining a notable increase in choice for investors. Importantly, the scale of available opportunities suggests that vendor expectations are becoming increasingly aligned with prevailing market conditions, creating the potential for stronger deal flow in the months ahead. If this alignment continues, the market is likely to see improved liquidity and a more competitive bidding for well-located, quality assets.

MARKET EXPECTATIONS BEGINNING TO ALIGN

Prime office pricing held steady in Q2, with yields remaining at 7.00%. After a period of significant repricing, investor interest is beginning to return, particularly where asset values have adjusted to reflect current macroeconomic conditions. As buyer and seller expectations continue to converge, more properties are coming to market at realistic price points, helping to unlock previously delayed capital.

This shift is supporting renewed activity, especially in core South East locations, where long-term market fundamentals remain strong.



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South East offices

Leasing activity saw its strongest H1 period since 2008, underpinned by larger requirements and sustained demand for best-quality space

TAKE-UP RISES TO A 17-YEAR HIGH IN H1

Occupier activity across the South East and Greater London remained resilient in Q2, although overall take-up, at 787,337 sq ft, was 6% below the five-year quarterly average. Nonetheless, thanks to a strong start to the year, H1 leasing volumes reached 1.9m sq ft, the highest first half total since 2008. A standout feature of H1 2025 has been the elevated deal count. A total of 172 transactions were completed, 46% above the five-year H1 average of 117. This increase reflects renewed confidence in the market, following a period when many occupiers paused decisions regarding space requirements.

BUSINESS PARKS SECURE LARGER REQUIREMENTS

While caution remains the prevailing approach for many firms, occupier activity in 2025 suggests a steady increase in those entering the market with clearer space requirements. This shift has resulted in more decisive leasing, especially in larger scale transactions. In H1, four deals over 50,000 sq ft were completed, signalling sustained demand for substantial floorplates. Notably, three of the year's largest transactions occurred on business parks, pushing total take-up in this segment close to 1m sq ft, representing 54% of all take-up across the South East. Over a rolling 12-month period, out-of-town locations have proven particularly active, accounting for six of the seven transactions above 50,000 sq ft. This highlights their continued appeal to

occupiers seeking scale, flexibility, and accessibility.

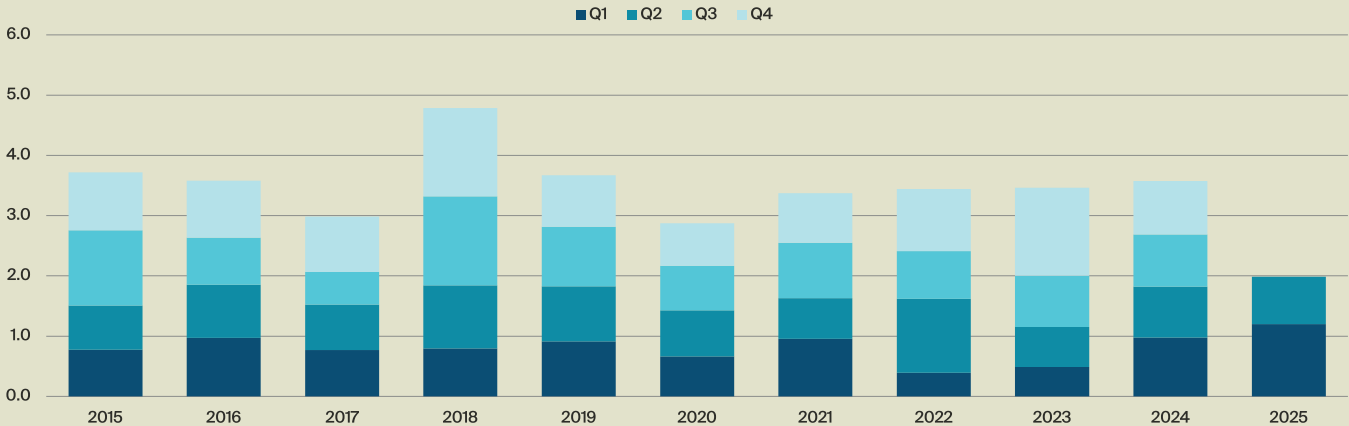
TMT SET TO DRIVE FUTURE ACTIVITY

The largest deal in Q2 was secured by the Premier League's new in-house media operation, Premier League Studios, which leased 73,000 sq ft at One Olympia, with occupancy beginning in the 2026/27 season. This transaction helped the TMT sector account for 27% of total take-up in the South East during the quarter.

In the first half of the year, TMT occupiers leased 21.8% of total space across the region, the highest share of any sector. With technology-related employment in the South East forecast to grow by nearly 1.8% per year through to 2030, well above the national average, the region is expected to remain at the forefront of the UK's next wave of innovation and digital transformation. This outlook aligns with the UK Government's [Invest 2025](#) strategy, which prioritises support for high growth industries including tech, media, and digital infrastructure. The initiative aims to scale regional innovation, accelerate investment into emerging technologies, and build a future-ready digital workforce, all of which are expected to reinforce the South East's role as a key contributor to the UK's global tech leadership.

South East: Occupier take-up

M sq ft



Source: Knight Frank Insight

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UK Cities offices

After a sluggish start to 2025, the investment market is showing signs of revival, with major deals completing, rising stock levels, and renewed buyer-seller alignment.

INVESTMENT MARKET TURNING POINT?

The investment market struggled to gain momentum in the first half of 2025, with transaction volumes totalling £373.5m across the main regional cities. This figure is 25% lower than at the same point in 2024, and 48% below the five-year H1 average.

Nevertheless, there were signs of improving activity, with nearly £350m of assets either under offer or recently exchanged by the end of the quarter. At the same time, available stock approached £400m, indicating that vendor and buyer expectations are becoming increasingly aligned with current market conditions.

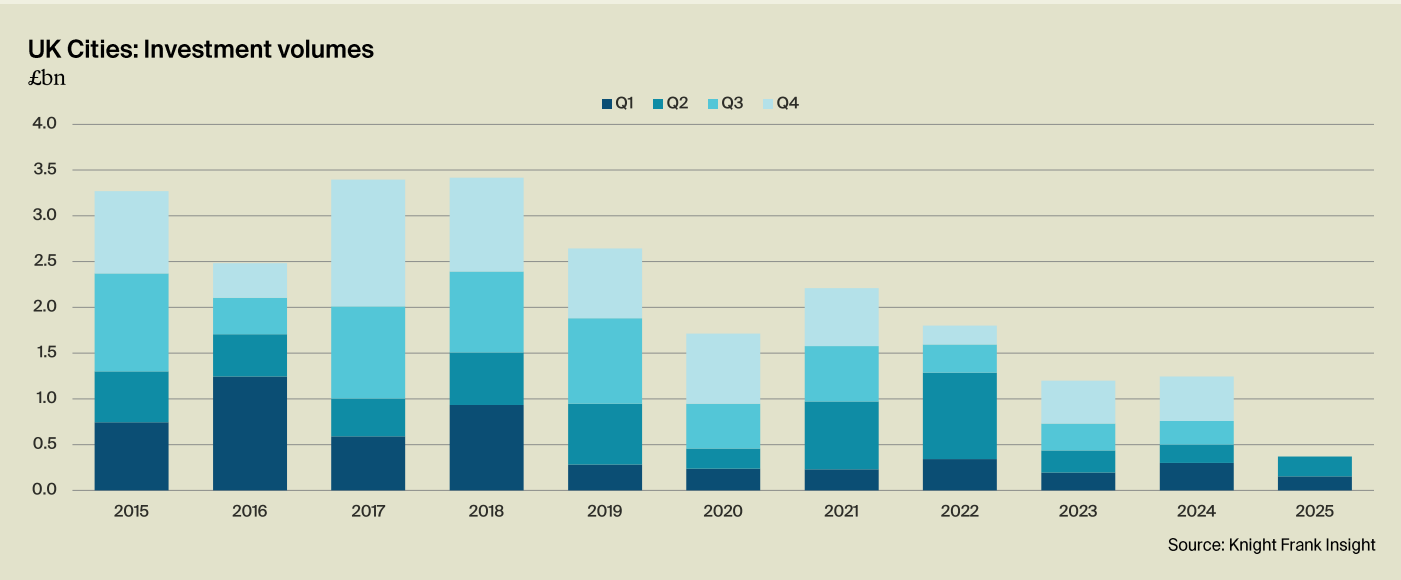
THE BEGINNING OF YIELD CONTRACTION?

After a period of substantial value adjustment, investors are starting to re-engage, particularly where pricing now reflects current macroeconomic realities. The recent decrease in UK interest rates has further supported sentiment, making acquisitions more attractive and helping to narrow the gap between buyer and seller expectations. As alignment improves, more assets will come to market at achievable price points, releasing capital that had been held back.

Q2 SEES LARGEST REGIONAL OFFICE DEAL OF 2025 SO FAR

The second quarter saw the first two transactions of 2025, exceeding £25m. In Manchester, Guernsey-based Melford Capital acquired 101 Embankment from M&G for £74m, marking the largest regional office deal completed this year.

In Birmingham, a private investor purchased Baskerville House from Federated Hermes for an undisclosed sum. These completions highlight growing liquidity at the upper end of the market.



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UK Cities offices

Regional office leasing hit its highest first-half total in three years, underpinned by professional services and tech demand and intensifying competition for prime space

REGIONAL LEASING HITS THREE-YEAR HIGH

During the first six months of 2025, leasing activity sustained momentum, with take-up reaching 2.5m sq ft across the ten regional cities tracked. This figure is 7% higher when compared to the same period in 2024 and 7% above the five-year average for the first half of the year. It also marks the strongest H1 performance recorded since 2022.

A total of 493 deals were completed in H1 2025, a 5% decrease from the 519 recorded in H1 2024 and 2% below the five-year average for the period. Despite the lower volume, the average deal size rose from 4,455 sq ft to 5,022 sq ft, indicating strengthening occupier confidence in taking on larger spaces.

PROFESSIONAL SERVICES AND TECH SECTORS UNDERPIN DEMAND

In H1 2025, the professional services and technology, media, and telecommunications (TMT) sectors were the most active, accounting for 19% and 18% of total space leased, respectively. The same pattern is reflected in deal volumes, with professional services completing 92 transactions and TMT completing 93. Together, these sectors represented 38% of all deals, underlining their dominant role in driving leasing activity during the period.

TOP FIRMS GROW REGIONAL FOOTPRINT IN H1 2025

Several leading firms have expanded their footprint in 2025, with multiple companies securing space in more than

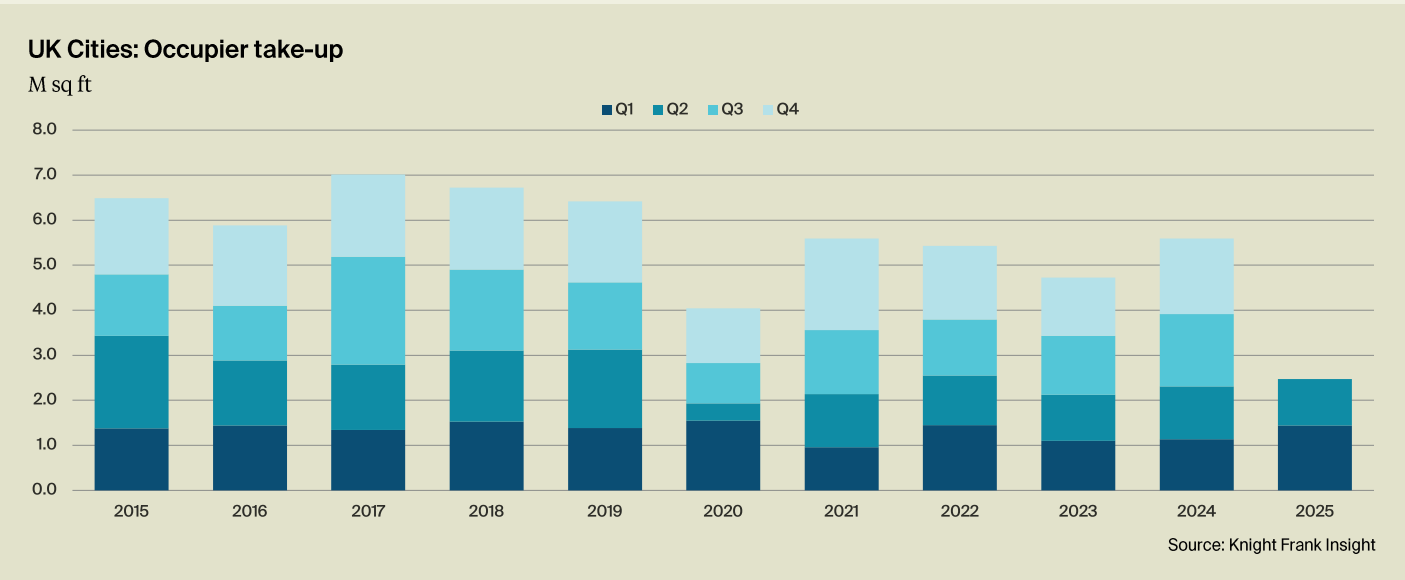
one UK city. For example, legal firm Addleshaw Goddard leased 29,079 sq ft at 24–25 St Andrew Square, Edinburgh, and 11,648 sq ft at 151–155 St Vincent Street, Glasgow, both in Q2. Likewise, flexible workspace provider International Workplace Group (IWG) took 13,519 sq ft at One Sovereign Key, Leeds, and 11,743 sq ft at 40 Queen’s Square, Bristol.

In total, ten companies completed transactions in more than one city during H1 2025, highlighting the increasing importance of establishing a presence beyond the capital and across multiple regional markets.

MARKET DIVERGENCE CONTINUES

During H1 2025, new and grade A space accounted for 55% of total office take-up across the UK’s 10 regional cities, underscoring sustained demand for high-quality accommodation. Competition for this limited segment of the market is intensifying, with vacancy at just 3.1% of total office stock.

Looking ahead, 2.1m sq ft of new and comprehensively refurbished space is under construction across the regional cities, with completion timelines extending to the end of 2027. Close to one-third of this space has already been pre-let, offering limited availability for occupiers targeting prime space.



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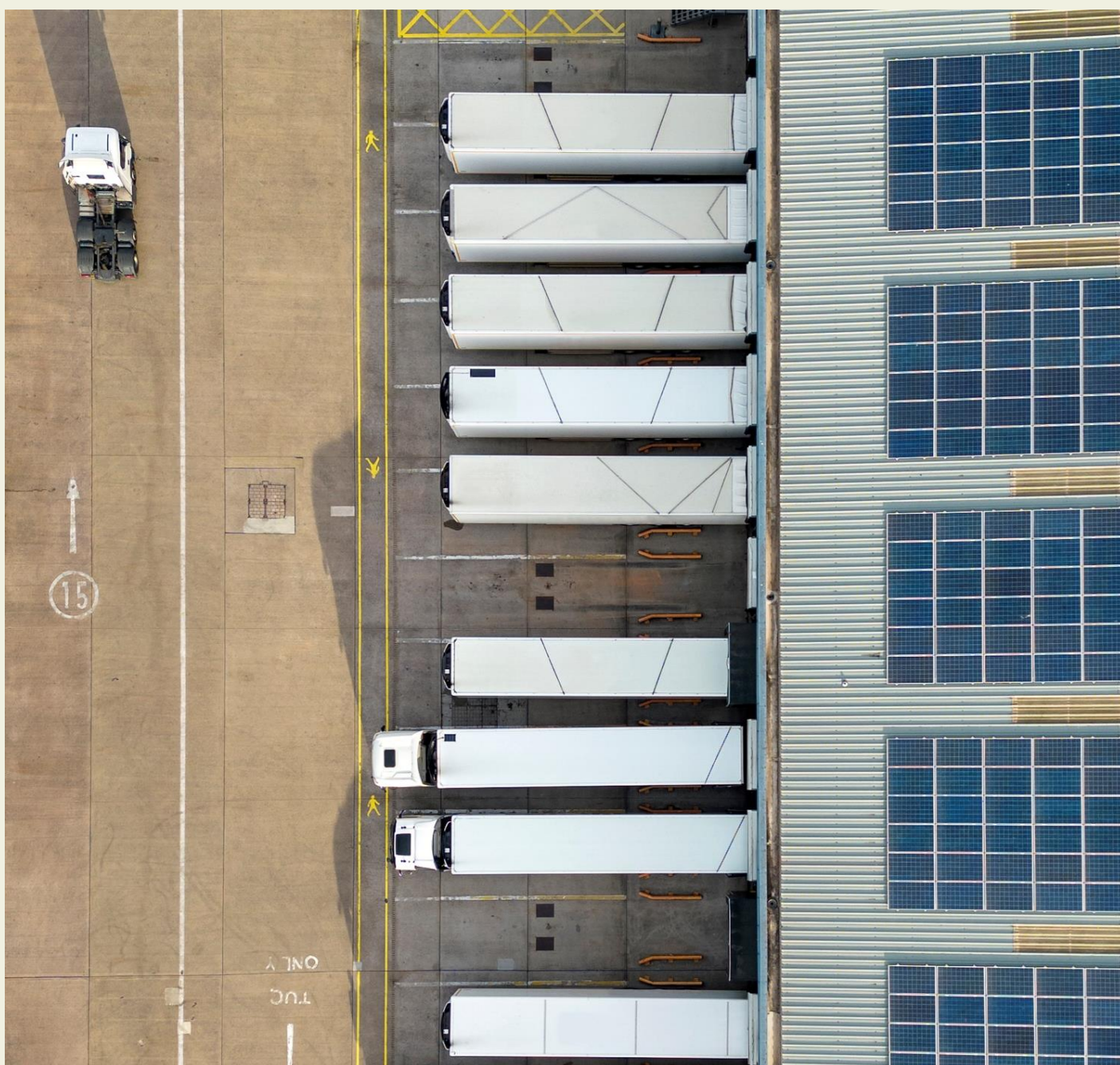
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Industrial & distribution

Investment and occupational markets

CONTACT: [CLAIRE WILLIAMS](#) & [DEIRDRE O'REILLY](#)



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Industrial & distribution

Portfolio deals drive investment for Q2, but stock scarcity limits deal count

PORFOLIOS BOOST Q2 INVESTMENT

Just under £2bn was invested in the UK industrial investment market in Q2. While this marks a 3.9% decline on Q2 2024, volumes increased from the £1.7bn recorded in Q1. Investment in Q2 was buoyed by several national portfolio transactions, offsetting weaker volumes in the single-asset market. Portfolios accounted for approximately 55% of Q2 investment and 37% in H1 2025. H1 2025 investment totalled £3.6bn, representing a 3.4% improvement on H1 2024 and stood 7.4% above the long-term H1 average. Sentiment during Q2 remained relatively stable against a backdrop of uncertainty and volatility, though this is beginning to ease. However, the number of transactions remains lower compared to previous years. The slower pace of activity reflects a limited supply of investable stock rather than a lack of appetite, though availability showed signs of improvement in Q2 2025.

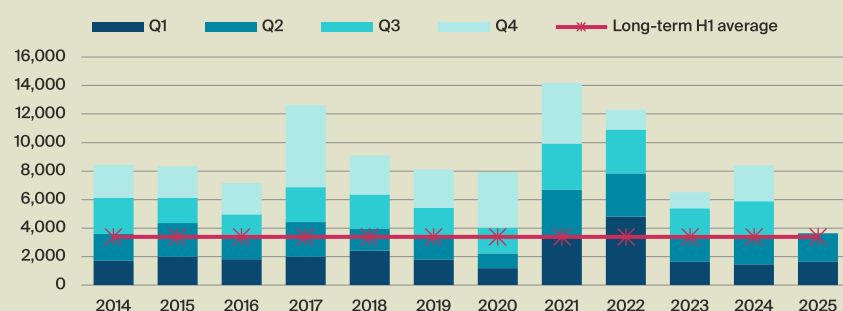
RISING MARKET SHARE FOR REITS AND INSTITUTIONAL CAPITAL

Investment so far this year reflects a shift in the buyer landscape. Propelled by portfolio transactions, Listed Property Companies/REITs have captured a 24% share of YTD investment, up sharply from 12% in 2024, 5% in 2023 and 6% in 2022. REITs had previously been exposed to tighter capital conditions and pricing uncertainty. Institutional investors have also increased their market share to 24%, their highest level since 2019. In contrast, cross-border investors pulled back to 42% - their lowest since 2019 - though they remain the largest buyer group.

MARGINAL YIELD COMPRESSION

The UK industrial equivalent yield edged down to 6.21% in June, from 6.23% in March and 6.27% in June 2024, reflecting a marginal compression trend, but broader market volatility has tempered the recovery in property values. Lower government bond yields have widened the yield spread, which should help support investor sentiment in the near term amid continued monetary easing.

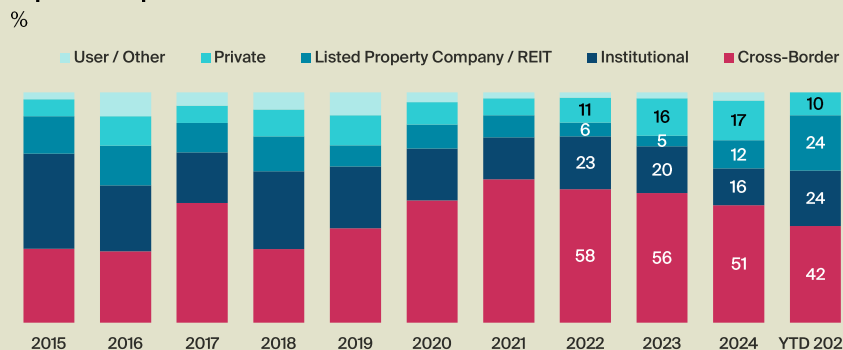
Investment volumes
£m



*Data reporting change from 2020 onwards

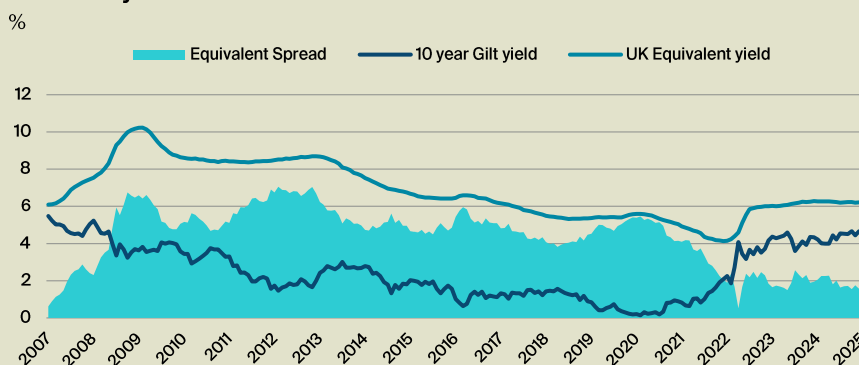
Source: Knight Frank Insight, RCA

Capital composition



Source: Knight Frank Insight, RCA

Industrial yields



Source: Knight Frank Insight, Macrobond, MSCI

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Industrial & distribution

Demand strengthens, but supply constraints for larger stock loom despite vacancy volatility

BIG-BOX BOUNCE-BACK

Q2 2025 brought renewed momentum to the logistics occupier market, with just over 10m sq ft of space committed (units 50,000 sq ft+), a 25% uplift from Q1 and the strongest quarter for take-up recorded since Q3 2022. H1 2025 volumes totalled 18m sq ft, on par with H1 2024 and 5.9% ahead of the five-year pre-pandemic H1 average (17m sq ft). For the second quarter running, Yorkshire and the South West were the standout performers regionally, driven by a resurgent demand for big-box units and a string of major lettings to 3PL providers. Notably, GXO Logistics signed 1 Panattoni Park in Avonmouth, the UK's largest-ever speculative warehouse, to service an Amazon contract.

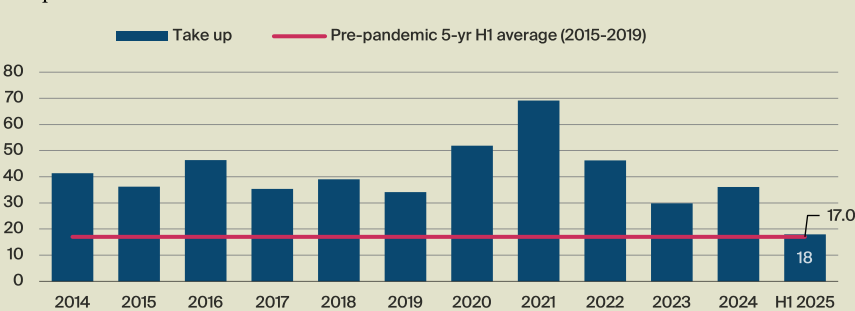
SPECULATIVE PIPELINE SHRINKS TO MULTI-YEAR LOW

Supply resumed growth in Q2, pushing the vacancy rate to 7.7%, held at 7.3% the two quarters prior. Although nationwide vacancy has risen, declines were recorded in five of the nine regions. The speculative pipeline is now at its lowest for several years, with space under construction down -19% in Q2 and -37% annually. Supply is focused on <250,000 sq ft units, comprising 87% of the existing available stock and 85% of the units under construction (by count), leaving a shortfall of larger prime stock.

COOLING IN PRIME RENTAL GROWTH

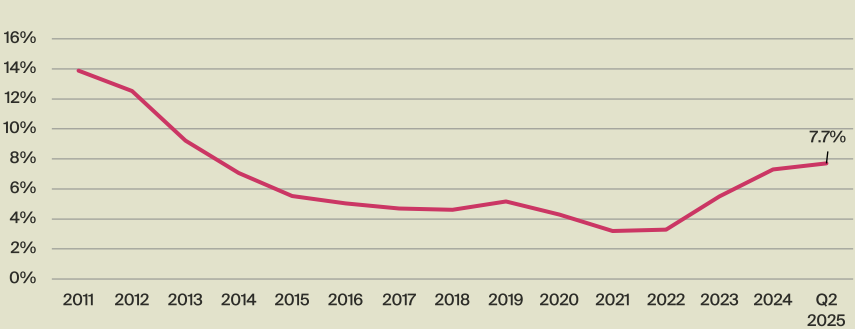
While rents continue to rise, the pace of growth has been decelerating. Knight Frank's UK Prime Industrial Rent Index shows prime 50,000 sq ft+ rents rose by 1.6% in Q2 2025. Annually, rents are 5.1% higher but slowing from +7.8% (year to Q2 2024) and +8.0% (year to Q2 2023). New headlines continue to be set in submarkets with limited prime stock. However, in areas such as London, where rental growth has been particularly sharp in recent years, elevated supply is resulting in the first signs of headline rent declines. London is expected to trail some regional markets in rental growth this year and next.

Take-up (units over 50,000 sq ft)
M sq ft



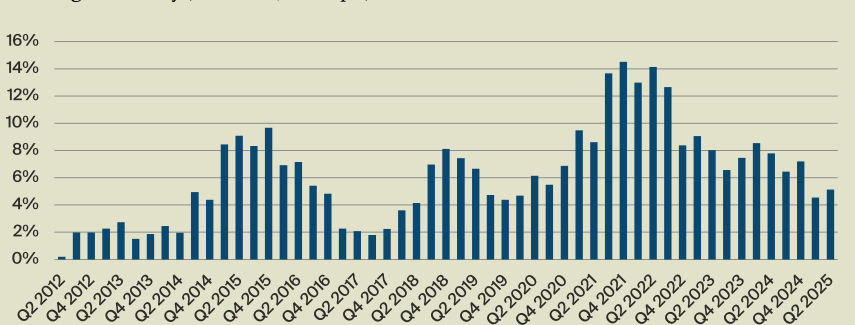
Source: Knight Frank Insight

Vacancy rate (units over 50,000 sq ft)
%



Source: Knight Frank Insight

Annual prime rental value growth
% change annually (units >50,000 sq ft)



Source: Knight Frank Insight

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Retail & leisure

Retail, high street, shopping centres, out-of-town, leisure, foodstores and Central London

CONTACT: [EMMA BARNSTABLE](#)



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Retail

A host of additional cost pressures for retailers, erratic consumer demand and subdued investment

A QUARTER OF THREE MONTHS

Retail sales values in Q2 grew +3.2% year-on-year, with volumes ahead by +1.9%. In both cases, this marked a positive acceleration on Q1 (vals +2.1%, vols +1.1%). Implied shop price inflation remained at very manageable levels (+1.3%). These quarterly figures belie highly erratic monthly performance. April was remarkably strong (vals +6.1%, vols +5.2%), May hugely disappointing (+0.0%, -1.2%), June somewhere between the two (+3.5%, +1.8%). The weather was a very influential factor over the quarter, providing a boost in April and June. While there is still no clear nor consistent direction of travel, there is also no discernible evidence of any consumer downturn.

AUTUMN BUDGET KICKS IN

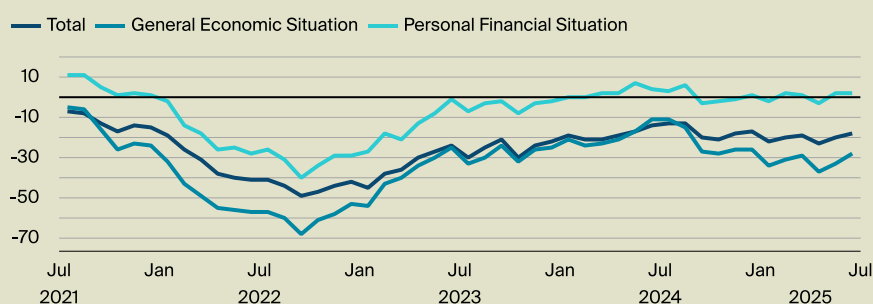
Many of the 'retail-unfriendly' measures announced in the Autumn Budget (higher NI contributions, minimum wage rises, reduced business rates relief) came into full effect in April. Although challenging, retailers at least had a few months to prepare and try to militate against significant new pressures on the bottom line. The microscope still fell heavily on an apparent uptick in retailer distress in Q2, with considerable restructuring at major players such as Poundland and River Island, plus the sale of WH Smith's non-travel business fanning the flames of another crisis on the high street. But, a slowly declining vacancy rate and annualised rental growth (+2.0%) present an alternative view to any perceived malaise.

INVESTMENT ACTIVITY IN CHECK

Retail investment volumes totalled £1.3bn in Q2, a marginal (+4.5%) increase on Q1 (£1.2bn). This took total volumes in H1 2025 to £2.51bn, in line with H1 2024, but significantly below the 10-year average of £3.65bn. Retail investment markets remain constrained by a lack of stock, in turn driven more by ongoing geopolitical uncertainty than negative sentiment.

Consumer confidence

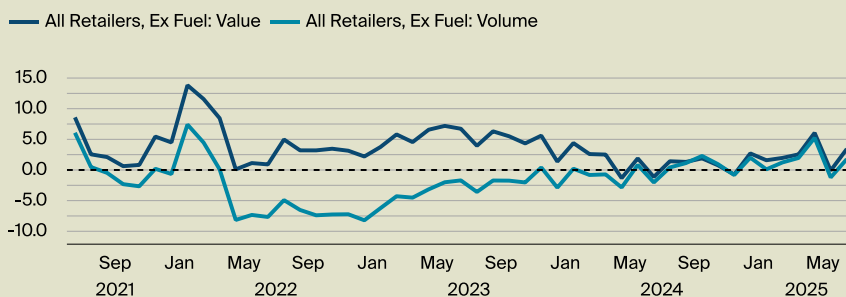
Confidence over the next 12 months



Source: GfK

ONS retail sales

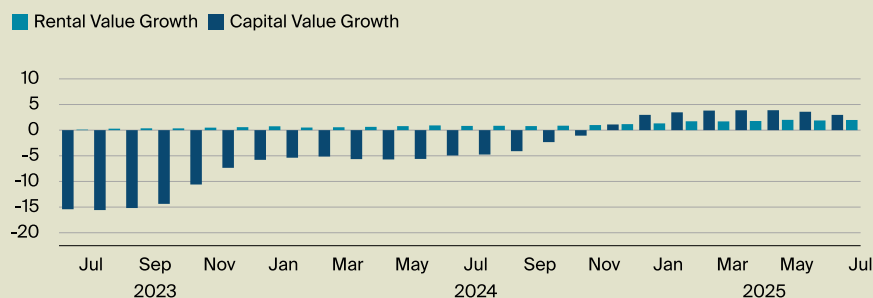
Monthly year-on-year change, %



Source: ONS

All retail – rental/capital value growth

Rolling 12 month % change



Source: MSCI

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High street retail

A rise in media doom-mongering not reflected on the ground

ERRATIC FOOTFALL AND DEMAND

High street footfall fluctuated across the quarter, but patterns were broadly consistent with other retail channels. Due to the timing of Easter, high street footfall surged +5.3% in April, before coming down to earth with a bump in May and June (-2.5% and -3.0% respectively). This largely mirrored retail sales patterns in April and May (+6.1%, +0.0%) but decoupled on the downside to June (+3.5%). Consumer demand remained strong for a number of core high street categories, including Clothing, Jewellery & Watches and Specialist Foodstores, but others were more challenged e.g. Footwear, Cosmetics and Chemists.

DEATH OF THE HIGH STREET? - AGAIN

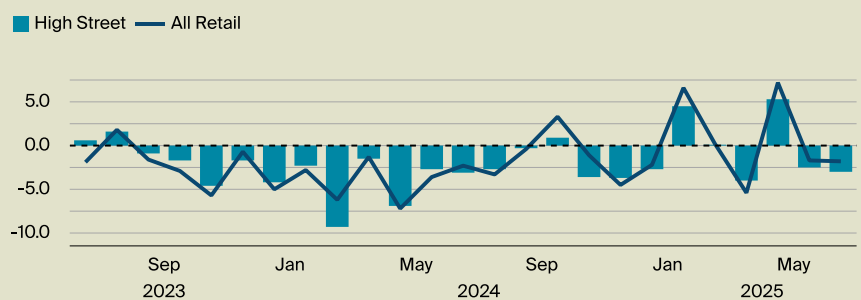
Whiffs of retail occupier distress have inevitably led some media channels to dust off the 'death of the high street' narrative once again. Poundland and River Island are both undertaking restructuring programmes which will ultimately lead to some store closures, while the sale of WH Smith's high street business to little-known Modella Capital fed into this narrative. But against this backdrop, high street vacancy rates continued to improve, declining by -40bps year-on-year and -10bps quarter-on-quarter, to end Q2 at 13.6%.

POSITIVE MOVEMENT ON PRICING

H1 investment volumes were a disappointing £275m. Although +19% higher than H1 2024, they remain -39% down on the 10-year average, largely due to a lack of larger lot sizes. The buyer pool remains dominated by Private Investors, but is growing, and Institutions and French SCPI buyers are actively targeting core stock; mainly best-in-class, larger blocks in major cities. As this stock is limited, competitive bidding is commonplace e.g. Hanningtons, Brighton (q. £57m / 7.49% NIY), Metro Centre, Brixton (q. £18.5m / 6.24% NIY) and prime yields have compressed over the past 12 months by -50bps to 6.50%.

High street footfall

Monthly year-on-year change, %, vs. 2019 levels

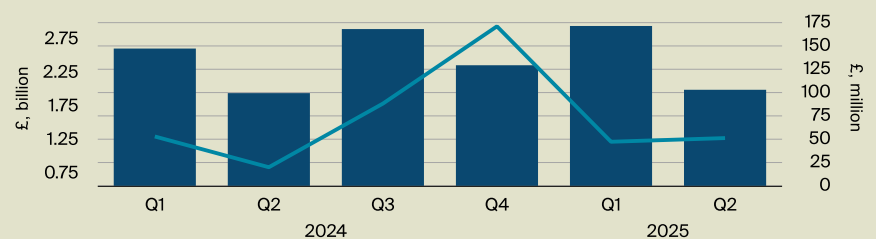


*March 2021 – March 2023 figures are compared to 2019 levels

Source: BRC / Springboard

High street investment volumes

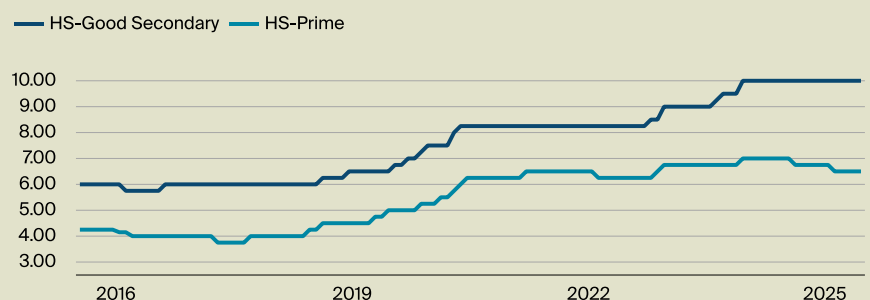
High Street, rhs; Total Retail, lhs



Source: Knight Frank Insight

High street yields

%



Source: Knight Frank

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Shopping centres

Muted H1 despite stronger liquidity and availability of debt, but larger lot sizes to come in H2

OVERDUE RECOVERY IN FASHION

Footfall and retail sales were broadly in sync for two months of the quarter. In April, retail sales surged +6.1% and shopping centre footfall was up +5.6% year-on-year. This was followed by a sharp downturn in May (flat retail sales, SC footfall down -2.3%), before the metrics diverged in June (retail sales +3.5%, SC footfall -1.6%). One of the key positives in Q2 was a recovery in Clothing demand (vals +4.7%, vols +3.6%) after an extended period in the doldrums. Demand was also strong from other key shopping centre categories such as Jewellery & Watches (+7.7%, +3.6%), but was far softer for Footwear (-4.9%, -3.2%) and Cosmetics (-5.5%, -6.1%).

RENTAL GROWTH TURNS POSITIVE

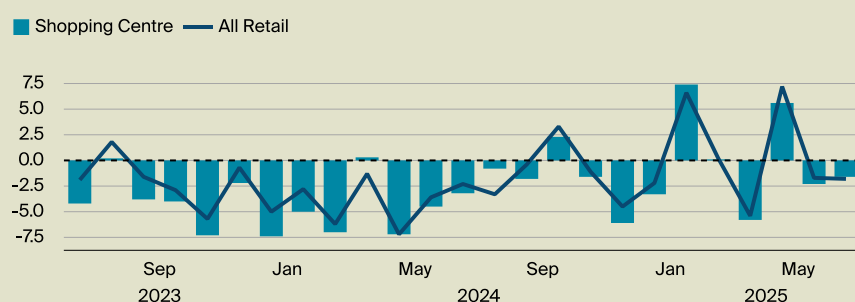
Shopping centre vacancy rates improved by -70bps year-on-year, but ticked up +10bps quarter-on-quarter, and remain stubbornly high at 16.9%. On a more positive front, an acceleration in rental growth (Q2: +0.8% vs Q1: +0.6%) also bears testament to greater stability generally within occupier markets and the net effects of rent rebasing to more affordable levels. Rental growth at OOT shopping centres (regional malls, by proxy) was higher still at +1.6% in Q2, with less prime town centre assets more pedestrian at +0.2%.

HOPE SPRINGS ETERNAL FOR H2

Just £450m traded in H1, an -8% decline on the same period last year. This figure was dominated by two key deals (Brent Cross £200m, Festival Place, Basingstoke £99m). But lower volumes are not reflective of renewed appetite on the back of improving debt financing and keener pricing (prime yields have compressed by -75bps year-on-year). Larger lot sizes (e.g. The Lexicon in Bracknell, 50% stake in Arndale Manchester) are already materialising early in H2 and stock availability is likely to improve significantly before the year-end.

Shopping centre footfall

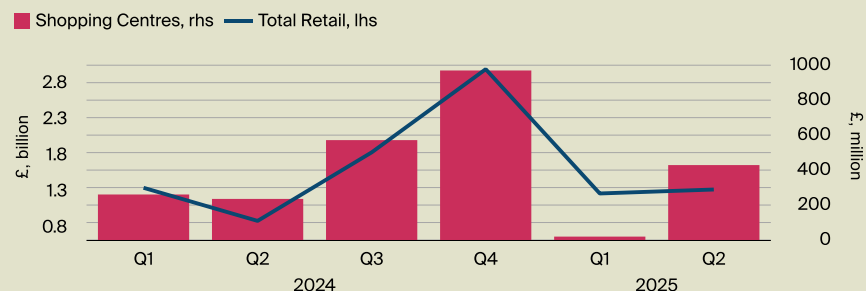
Monthly year-on-year change, %, vs. 2019 levels



*March 2021 – March 2023 figures are compared to 2019 levels

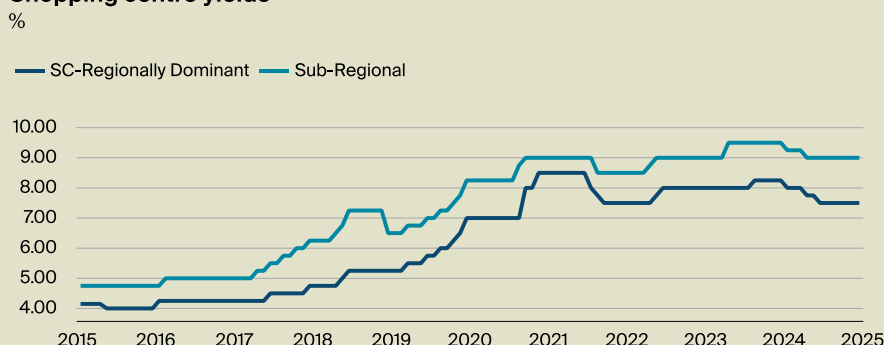
Source: BRC / Springboard

Shopping centre investment volumes



Source: Knight Frank Insight

Shopping centre yields



Source: Knight Frank

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Out-of-town

Match fit occupationally and still delivering on performance, but lack of stock constrains investment

CONSUMER DEMAND HOLDS STEADY

Non-food retail sales values grew +3.5% in Q2, but this masked a very variable demand profile across the core OOT categories. Electricals (+15.1%) and Carpets (+10.7%) were the two standout categories, although the former remained deflationary over the quarter (-2.9%). Demand was also decent for Furniture (+3.7%), DIY (+2.8%) and Sports Equipment & Toys (+2.5%), but soft in both Garden Centres (-1.2%), despite the weather, and PCs & Telecomms (-3.4%). Although non-food as a whole moved from deflationary (-0.1%) to inflationary territory (+0.1%) in Q2, there is limited evidence of significant price hikes to date.

BREADTH AND DEPTH IN DEMAND

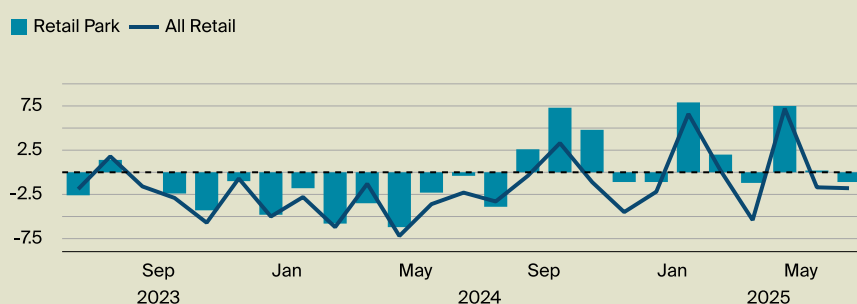
Strong occupational demand is driving a sustained downwards trend on RWH vacancy. H2 2024 saw a temporary uptick in vacancy on the back of the failures of Homebase and Carpetright, but this space is being rapidly reabsorbed. Trevor Wood data shows that headline vacancy has improved by -40bps to 6.0% in the first half of 2025. A total of 166 operators took RWH space in H1 2025, reflecting both the breadth and depth of demand. Accounting for space earmarked for development, TW Associates estimate that as little as 3.8% of space is currently available to let.

OOT THE MAINSTAY OF INVESTMENT

Investment volumes reached £1.48bn in H1 2025, a +78% increase year-on-year and the highest H1 total since 2022. However, Q1 was stronger than Q2, with many of the transactions in the first quarter hangover deals from the bumper period of Q4 2024. RWH accounted for 59% of all retail investment volumes in H1. Ongoing outperformance (Q2 total returns of +1.6% and rental growth of +0.7%) is actually proving something of a constraint on investment markets. Undoubtedly a reflection more of global geo-political uncertainty than weak sentiment, would-be sellers are reaping the returns, rather than opting to sell.

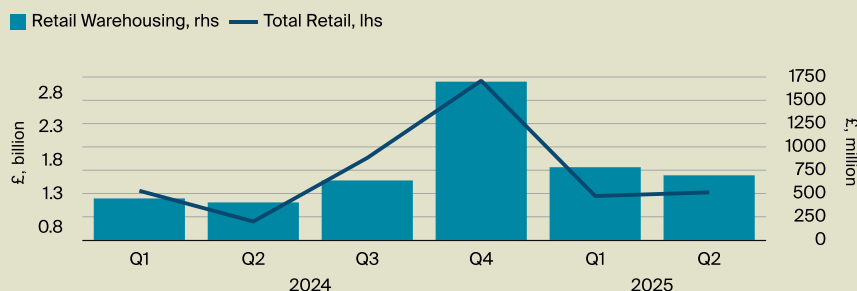
Retail park footfall

Monthly year-on-year change, %, vs. 2019 levels



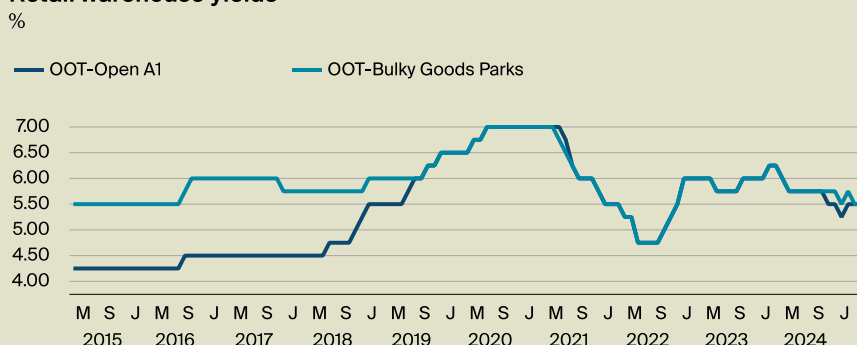
Source: BRC / Springboard

Retail warehousing investment volumes



Source: Knight Frank Insight

Retail warehouse yields



Source: Knight Frank

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Leisure

Hospitality spend holds up, but mounting costs for operators

LEISURE OUT OF KILTER WITH RETAIL

Hospitality and leisure spending continued to grow overall in Q2 2025, according to Barclaycard data (April +6.7%, May +3.3%, June +2.1%). The mini boom in April was consistent with the spike seen in retail sales, but Hospitality & Leisure did not suffer the same dip as Retail (+0.0%) in May. Conversely, June saw a deceleration in demand, whereas Retail saw a recovery (+3.5%). Within this, Eating & Drinking witnessed variable monthly performance (+6.6%, +2.0%, -0.5%) with a discernible drop-off in demand in Restaurants & Cafes (+0.9%), Bars, Pubs & Clubs (-1.0%) and Takeaways & Fast Food (-2.1%) in the final month of the quarter.

HOSPITALITY HARD HIT BY BUDGET

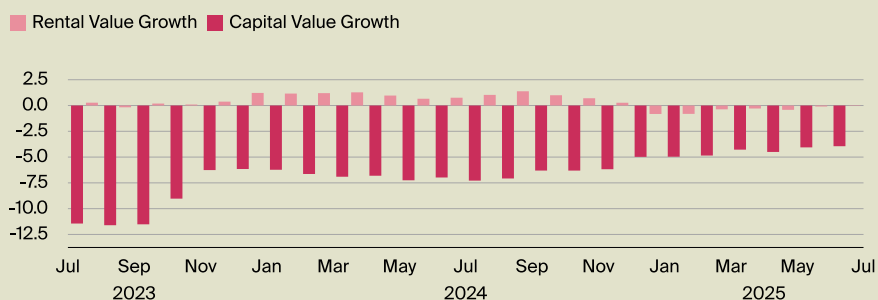
UK Hospitality has estimated that measures announced in the Autumn Budget would saddle the industry with £3.4bn of extra costs from April. A survey across its membership revealed one third of hospitality businesses are now operating at a loss, an 11ppt increase on the last quarter. The Hospitality Market Monitor from CGA by NIQ and AlixPartners revealed 98,746 licensed sites operating at the end of June, 374 fewer than at the start of the year. This equates to 62 net closures per month, or two per day. In the context of the overall size of the market, the number of licensed premises fell by -0.4% in the first six months of 2025.

FEWER BUT BIGGER TICKET DEALS

Some £39m was transacted across three deals in Q2, marginally below the five-quarter average (£41m), according to RCA. The deals were the 46,000 sq ft Picturehouse Cinema on London's Fulham Road, plus two Nuffield Health & Fitness Clubs in Sutton and Birmingham, the latter one of the 21 properties acquired by LondonMetric through the takeover of Highcroft. With limited liquidity and comparable evidence, leisure yields continue to hold firm, with Prime leisure parks at 8.00% and Good Secondary stock at 9.00%.

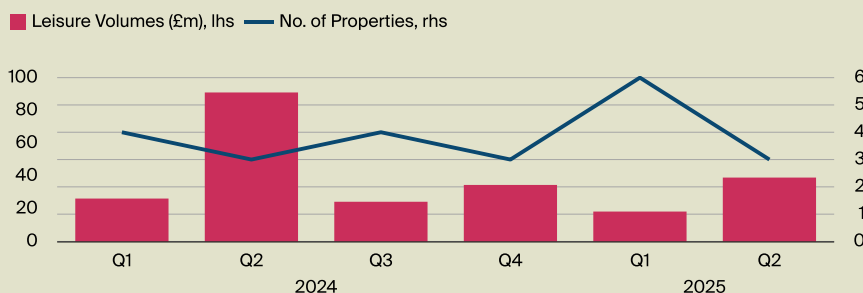
Leisure – rental / capital value growth

Rolling 12 month % change



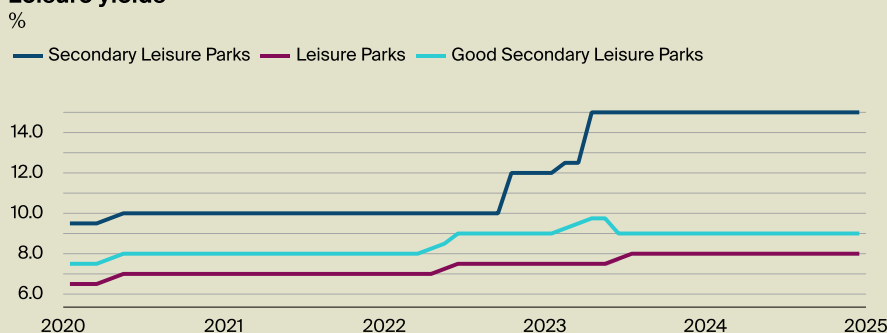
Source: MSCI

Leisure investment volumes



Source: RCA

Leisure yields



Source: Knight Frank

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Foodstores

Spectre of rising inflation becomes a reality, investment volumes to be bolstered by H2 sale-leasebacks

INFLATION NOT STYMYING DEMAND

Slightly contradictory reads on grocery demand from various data sources. The ONS reported that grocery sales values grew +3.1% in Q2, but volumes were down (-0.2%), at odds with the messaging from the foodstore operators themselves. The latest figures from Worldpanel by Numerator (formerly Kantar Worldpanel) suggest a higher rate of headline growth (+5.4%) and a modicum of volume growth (+0.2%). Either way, grocery inflation is high and rising - Worldpanel by Numerator suggest that 5.2% is the highest level since January 2024.

RECORD SHARE FOR DISCOUNTERS

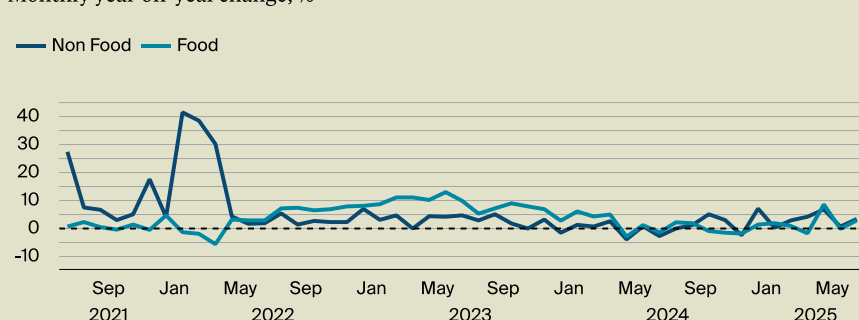
Rising inflation plays into the hands of the discounters, and this, coupled with ongoing physical expansion, has seen Lidl achieve its highest-ever market share of 8.3%. This is just 0.1 ppt lower than Morrison's and could soon see it leapfrog the Yorkshire-based player to become the UK's 5th largest grocer. Other operators to gain market share in the latest (12 weeks to 13 July 2025) Worldpanel figures were Tesco (27.7% to 28.3%), Sainsbury's (15.0% to 15.1%), Aldi (10.7% to 10.9%) and Ocado (1.8% to 2.0%).

LULL BEFORE INVESTMENT STORM?

Investment activity remains muted YTD despite significant investor demand. H1 2025 volumes were highly subdued at just £310m, down -56% on H1 2024. This encompassed 18 deals, but only two of these were truly core foodstore trades (Sainsbury's Wantage and Aldi Uxbridge, respectively NIY 4.50% and 4.17%). The market remains two-tiered, with pricing diverging based on covenant strength between the publicly-listed (Tesco, Sainsbury's) and private-equity owned (Asda, Morrison's) operators. Foodstore investment volumes are likely to pick up considerably in H2 2025 as Asda and Morrison's undertake sale-and-leasebacks of portfolios of stores, as both seek to raise capital.

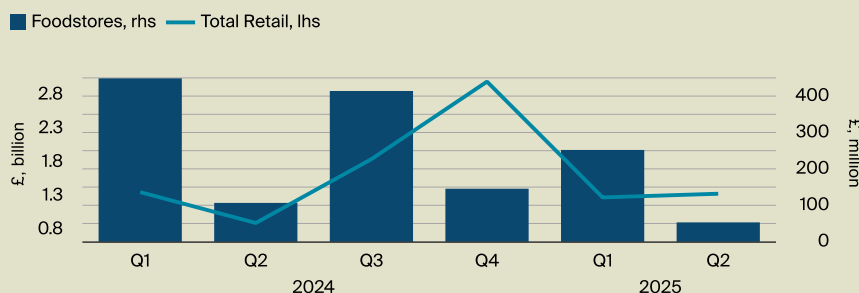
Food vs. non-food retail sales

Monthly year-on-year change, %



Source: ONS

Foodstore investment volumes



Source: Knight Frank

Foodstore yields



Source: Knight Frank

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Central London

Pedestrianisation of Oxford Street to go ahead, but current WE performance metrics underwhelm

FOOTFALL FAILS TO CONVERT

There is a widening gulf between footfall and spending trends in the West End. Footfall staged a strong recovery in Q2 (Apr: +5.2%, May: +3.2%, Jun: +1.7%), with a surge in international visitors (+18.2%, +18.7%, +11.0%) more than offsetting declines in domestic traffic (-0.7%, -3.3%, -2.3%). But, critically, the rise in footfall did not filter through to spending growth (-0.7%, -1.6%, -4.2%), with ATVs (Average Transaction Values) down considerably. This divergence once again underlines the lack of correlation between footfall and actual demand, whilst also underscoring the ongoing importance of domestic trade to Central London retail.

A LULL IN OCCUPIER DEMAND

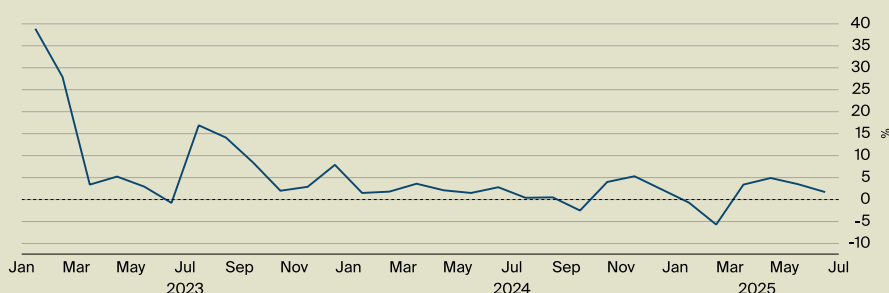
The news that Sadiq Khan has finally given the green light to the proposed pedestrianisation of Oxford Street overarched some relatively weak short-term metrics. EGI listed just 14 retail & leisure lettings in the core Central London markets in Q2, well below the 38 reported in Q1 and the 35 long-term quarterly average. The highest-profile new letting was Kim Kardashian's shapewear brand Skims, signing a 10-year lease on the 12,000 sq ft former Ted Baker store on Regent Street (due to open in Summer 2026). There was a single new letting on Oxford Street, a 2,788 sq ft lease renewal to Sunglass Hut.

AN INVESTMENT SPIKE?

A dip in occupier demand, but a spike in investor interest. According to RCA, retail investment volumes in Central London were £602m in Q2, almost double the £310m reported in Q1. But this uptick largely represents a wash-through of Norges Bank Investment Management's (NBIM's) acquisition of a 25% stake in Shaftesbury Capital's Covent Garden estate for £570m. The deal values the entire Covent Garden estate at £2.7 billion, with Shaftesbury retaining the remaining 75% ownership and management control.

West End footfall

% change year-on-year

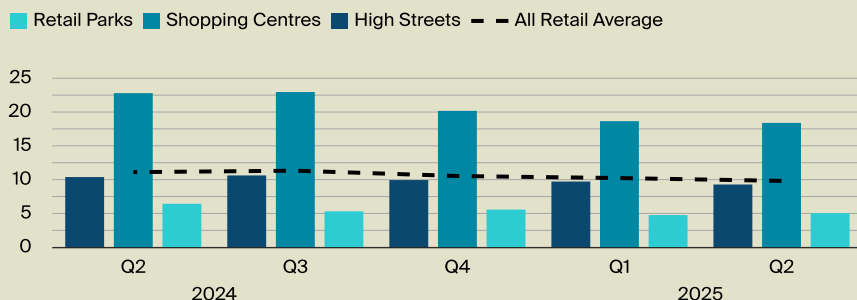


Source: New West End Company

Vacancy rates*

% units

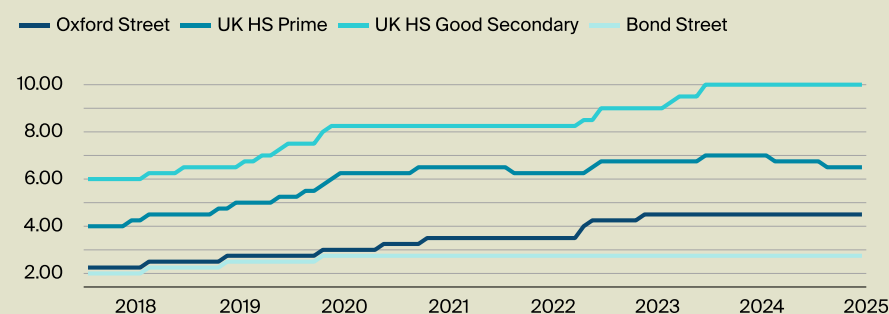
*Greater London



Source: Local Data Company

Yields

%



Source: Knight Frank

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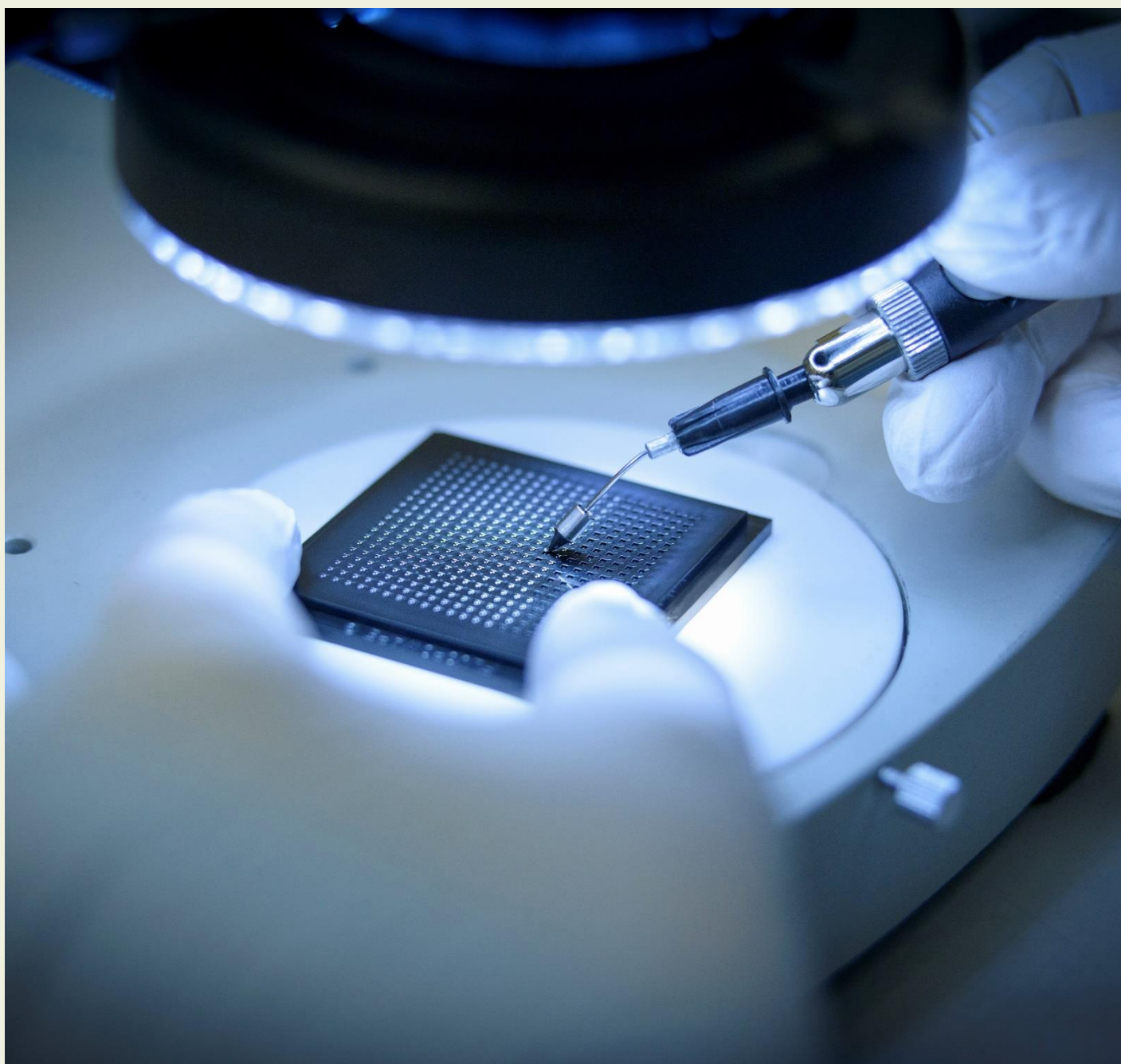
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Specialist sectors

Data centres, healthcare & life sciences

CONTACT: DATA CENTRES – [DARREN MANSFIELD](#), HEALTHCARE – [RYAN RICHARDS](#),
LIFE SCIENCES – [JENNIFER TOWNSEND](#)

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Data centres

Government support for the industry continues to develop through AI action plans, a 'UK Compute Roadmap', and continued overruling of local planning objections

GOVERNMENT SUPPORT FOR THE SECTOR CONTINUES TO GROW

Government support for the UK's data centre and AI sector has continued to grow through the establishment of AI growth zones and further overruling of local planning objections.

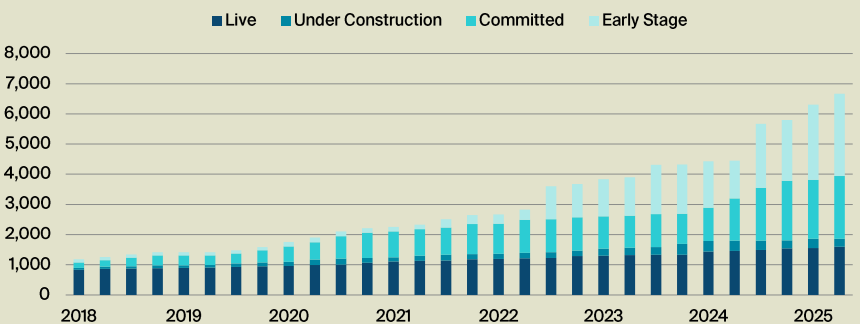
UK Secretary of State, Angela Rayner, has overturned local councillors in two key projects – a 96MW site in Abbots Langley, and a 775,000 sq. ft. project in Slough – demonstrating continued support for the market, which Labour designated recently as 'critical national infrastructure'. These decisions were followed by the 'UK Compute Roadmap' in mid-July, in which the UK government stated the country's need to deploy 'at least' 6GW of AI-capable data centre capacity by 2030 to remain competitive. This represents a real estate requirement of six million sq. ft. and a c.£70 billion capital investment. The government has set sights on Teesside as a second AI centre hub, following the first AI growth zone in Oxfordshire announced in January. The Ministry of Defence has also put out tenders for £180 million in AI and Edge computing services contracts.

LONDON IS NO LONGER THE ONLY VIABLE DEPLOYMENT LOCATION

With the prospect of AI-capable infrastructure in the UK, the ability for developers to shift some focus away from London, where land and power availability continue to play a significant role, has been growing.

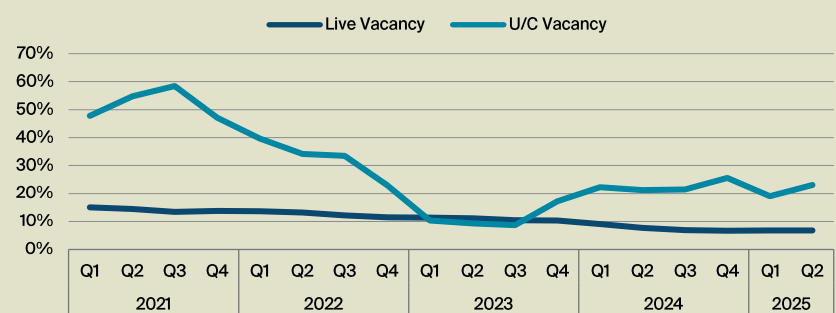
Vantage Data Centers has announced its intention to develop a second campus in Wales, development at which could total 120MW, requiring a £12 billion investment. Apatura is set to develop a new campus outside Falkirk, Scotland, whilst Eclipse and Carlton Power are seeking to develop a major energy park in Manchester, where a 1.4GW private grid connection has been secured. Alternative investment company SWI Group has also announced a 330MW data centre campus in Cambridgeshire.

Market capacity breakdown
MW



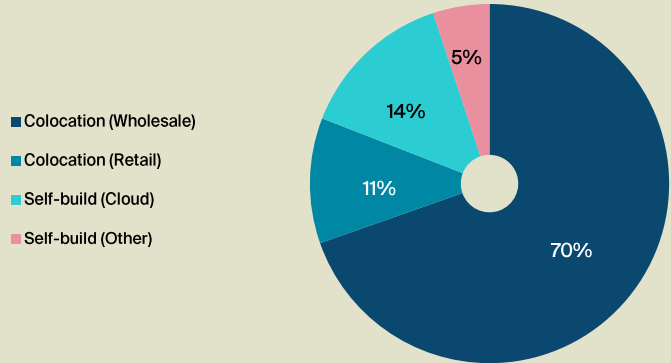
Source: Knight Frank

Live & under construction vacancy
% of capacity unoccupied



Source: Knight Frank

Market composition
% of market



Source: Knight Frank

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Healthcare

Overseas capital takes the majority of volumes in the second quarter

MAINTAINING MOMENTUM

Strong transaction volumes in the second quarter have boosted what seemed to be a slow start to 2025.

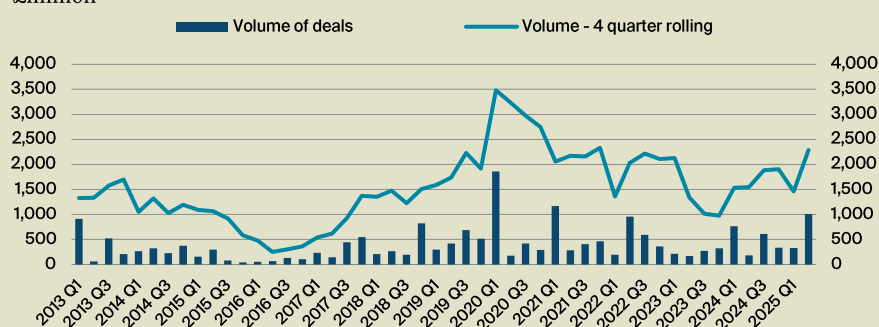
Major portfolio deals, such as Omega's purchase of the FSHC homes and Care Trust's acquisition of Care REIT, mean we have seen just over £1bn in volumes, heavily led by North American capital. This is significant, particularly due to the flow and composition of capital, and signals the intentions of large, overseas investors who are seeing the opportunity to acquire quality care assets at substantial scale. Meanwhile, the UK domiciled elderly care REITs still seem to be watching from the sidelines.

Still, the proposed merger of Aedifica and Cofinimmo, to create what would be the world's 4th largest healthcare REIT, suggests that there will be some competition for these assets. Further potential of M&A in the REIT space suggests that it is not purely elderly care attracting attention - the ongoing Assura/PHP saga would see a substantial movement in primary care and hospitals.

Overall, there is positive sentiment with respect to healthcare capital markets. Yields across the board have remained stable, and lender appetite for the sector remains positive. Growing M&A and portfolio deals, with H1 volumes sitting at c.1.3bn, mean we could see another big year for healthcare.

Despite ongoing demand and interest from a growing pool of investors, the question remains as to whether this large capital deployment can continue based on there being scalable institutional-grade assets willing to transact on the sell-side.

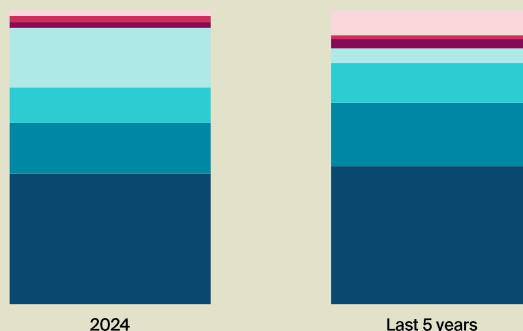
Recorded healthcare property transactions
£million



Source: Knight Frank Insight

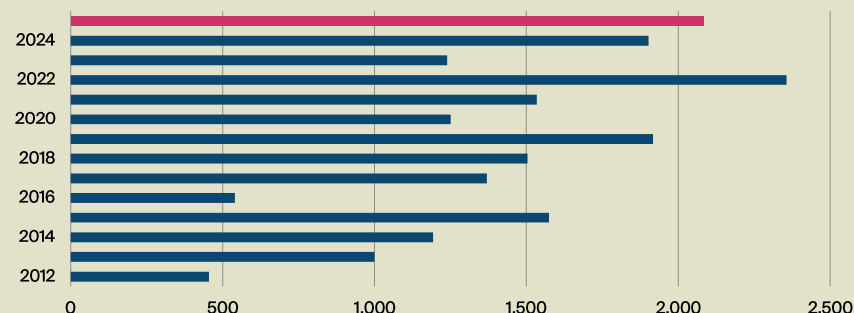
Healthcare property transactions by buyer type

- Undisclosed
- Banks
- Private Investor
- Occupier
- Institutional
- Private property co.
- REITs & listed
- Overseas



Source: Knight Frank Insight

Anticipated transaction volume*



*Large portfolio transactions not included in initial predictions

Source: Knight Frank Insight

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Healthcare

Strong operations still rely on the foundation of future-proofed assets

LAGGING SUPPLY MUST ALSO ADAPT TO EMERGING TRENDS

Since our last analysis, supply increased by just 86 beds. This modest growth reflects a mix of period adjustments and more detailed analysis, with outright new beds separated from those that were simply reopened. It highlights that we still have significant ground to cover in addressing any future bed shortfall.

More strikingly, while bed supply has risen only 2.9% over the past decade, the over-65 population has grown by around 20.7% in the same period, underscoring the stagnation in supply growth. The past five years have seen a continuation of the trend toward higher de-registrations, largely driven by the closure of smaller, older facilities that are gradually being replaced by newer, larger, purpose-built homes. It's also worth noting that improvements in our data sources and coverage have helped ensure that the number of beds lost is accurately captured in the analysis.

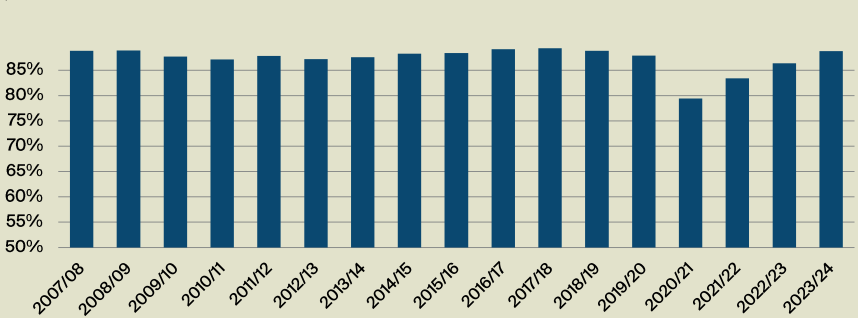
Beyond this, we are seeing a change in care home design. Future proof or fit for purpose does not only mean full wet room and ESG credentials, but also digital and innovation ready space, as more providers look to adopt technology within their operations.

STRONG TRADING PERFORMANCE SUPPORTS POSITIVE SECTOR SENTIMENT

Our trading performance dataset, which covers approximately 100,000 beds, (representing one-fifth of the total market and around 70% of the corporate sector) highlights that staffing costs as a percentage of income fell to 56.7%, down from 60% in the previous year's analysis.

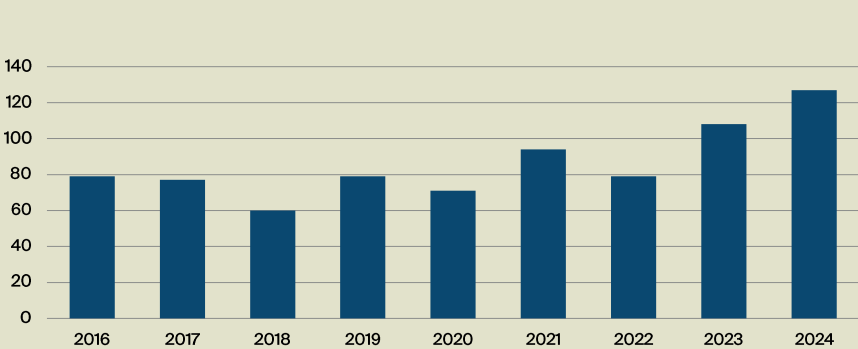
Meanwhile, the all-care average fee has grown by around 7% year-on-year, now standing at £1,170 per week. This, coupled with occupancy rates trending at 88.8%, has driven an overall improvement in operator EBITDARs, which are currently averaging 25.9%, up from 25.2% previously.

Occupancy %



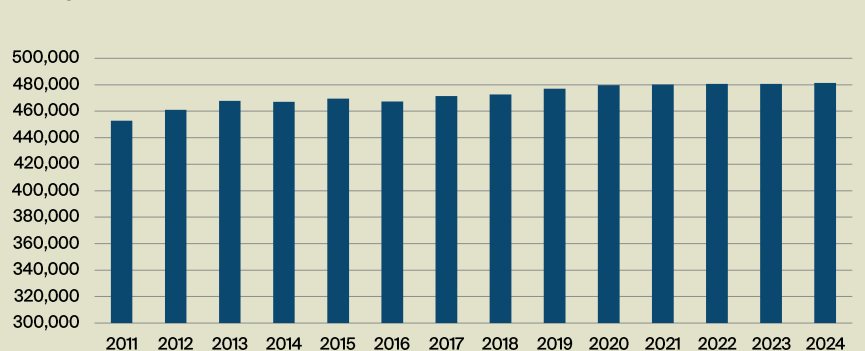
Source: Knight Frank Insight

New UK care homes completed



Source: Knight Frank Insight

Elderly Care Home Beds



Source: Knight Frank Insight

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Life sciences

VC remains resilient in UK life sciences, though increasingly focused on fewer players. AI continues to reshape the innovation landscape and attract global investment into the UK tech economy

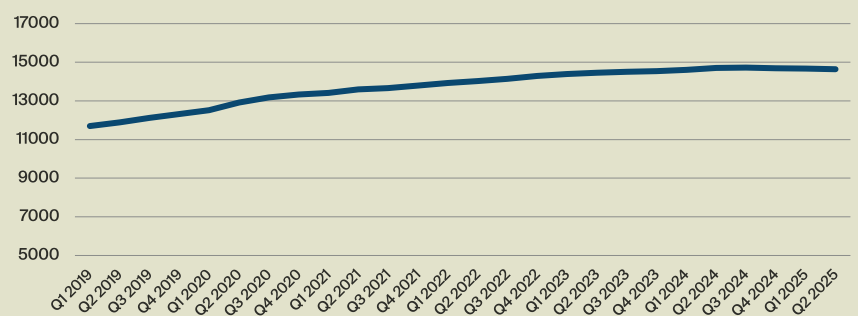
GOVERNMENT POLICY RAMPS UP

The quarter presents a nuanced picture for UK life sciences. Venture capital into UK life sciences reached £578.21 million across 123 deals, down nearly 50% on Q1, but the drop is less stark than it appears. Q1 was inflated by outliers like Isomorphic Labs and Verdivo Bio, which together accounted for nearly £800 million of funding. Adjust for those, and Q2 holds firm. In fact, this marks the strongest first half since 2021, pointing to investor confidence, albeit with a more concentrated deployment of capital. However, market conditions continue to temper the sector's near-term momentum, with new company formations at their lowest level in a decade and hiring demand easing for the fourth consecutive quarter.

Meanwhile, the AI surge shows no sign of slowing, with a record 1,400 new companies formed in H1. International players are taking note, with several choosing the UK as a base for R&D expansion and investment in physical space.

Government backing for science and innovation is gaining momentum. The [Invest 2035](#) strategy sets out a long-term framework for growth, including a commitment to £22.6 billion in annual public R&D investment by 2029–30. It also introduces scaled support for 10–20 high-growth life sciences firms, alongside efforts to deepen collaboration with major industry players. Reforms are advancing across key pinch points from clinical trials and manufacturing to commercialisation and talent attraction. Meanwhile, up to £25 billion in domestic pension capital could be mobilised through the Mansion House Accord, offering a potential lifeline for late-stage growth funding.

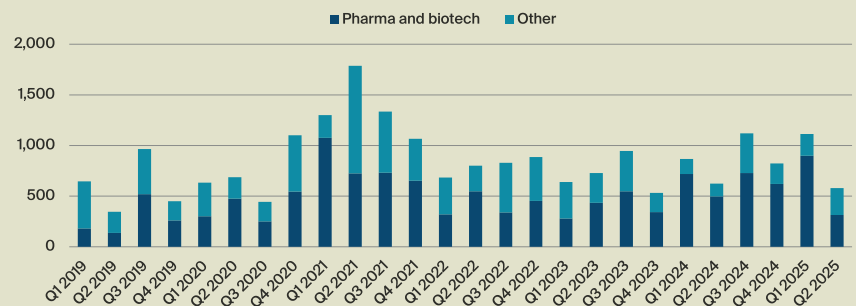
Number of active UK life sciences companies



Source: Knight Frank Insight, Beauhurst

UK life sciences venture capital funding

VC funding into UK life sciences companies, £m

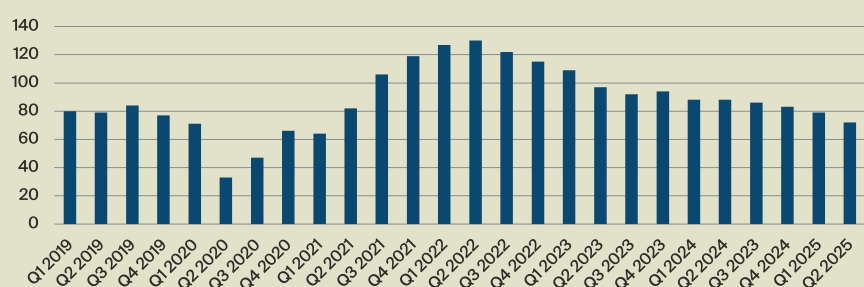


HQ only. Completed deals and full transactions only. Covers: Biopharma, MedTech and Digital health. Data as at 10/07/2025. The data in PitchBook is continuously updated to reflect the most current information. As a result, historical data may change over time.

Source: Knight Frank Insight, PitchBook

Vacancies – professional, scientific and tech, thousands

Vacancies, thousands



Source: Knight Frank Insight, ONS

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Life sciences

Q2 take-up softened across the Golden Triangle, yet H1 ranked among the strongest on record as development pipelines expand.

H1 TAKE-UP HITS THIRD-HIGHEST LEVEL ON RECORD

Life sciences take-up fell to 132,542 sq ft across ten deals, down 40% on Q1 and 18% below the five-year quarterly average.

H1 2025 take-up totalled 351,995 sq ft, making it the third-strongest first half on record. With 28 deals completed, it also ranked third by transaction count.

Life sciences take-up in Oxford totalled 30,259 sq ft across five transactions in Q2 2025, with an average deal size of around 6,000 sq ft. Transactions included Amber Therapeutics, a fast-growing MedTech firm recently listed among Europe's top 25 start-ups to watch, which secured 7,000 sq ft at Harwell's Tech Foundry. The company has raised £80 million to date.

In Cambridge, life sciences take-up reached 25,057 sq ft in Q2 2025 across three deals, reflecting an 11.78% decline year-on-year and an 80.85% fall compared to the previous quarter. However, this sharp drop follows an outlier quarter in Q1, which included a single transaction of c.100,000 sq ft. Deal activity was slightly below the quarterly average of four transactions (2019–2024).

Life sciences take-up in London reached 77,226 sq ft in Q2 2025 across two transactions, driven primarily by LifeArc's pre-let of 70,000 sq ft at Kova KX in King's Cross, a landmark scheme by AshbyCapital and Native Land.

LAB SUPPLY BUILDS AS INVESTOR ACTIVITY REMAINS SUBDUED

On the capital markets side, investor activity remains subdued. With few suitable buildings coming to market, many landlords are concentrating on progressing development pipelines or repurposing existing stock.

A total of 3.29m sq ft of space is currently under construction across the Golden Triangle, with completion expected between now and the end of 2027.

Total availability of lab space rose from 1.08m sq ft in Q1 2025 to 1.39m sq ft, a 29% increase quarter-on-quarter.

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William Matthews
Partner, Department Head
Commercial Insight
william.matthews@knightfrank.com
+44 20 3909 6842