UK Real Estate Navigator

Q4 2024

A quarterly review of the UK commercial real estate market

knightfrank.com/research

Economic update

Global and UK economy

CONTACT: VICTORIA ORMOND, CFA

Global economy

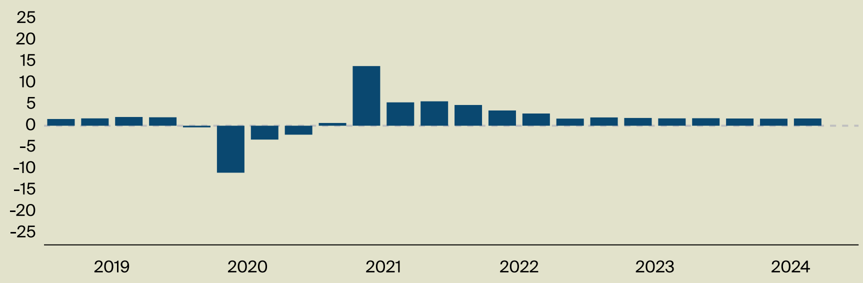
Easing inflation and rates, but moderating growth ahead

GLOBAL OUTLOOK: GROWTH MODEST AMID VOLATILITY
While the arrival of 2025 sparked renewed optimism for the global economy, the start of the year served as a sharp reminder of the ongoing volatility that continues to shape sentiment. Global bond markets saw a significant rise as concerns about persistent inflation, global trade disputes, and broader geopolitical issues remain at the forefront. Despite this, the global economy is maintaining stability, though slightly moderating from earlier expectations. The IMF's Global GDP growth for the third quarter of 2024 was 0.1% lower than anticipated. Global growth is projected at 3.3% for both 2025 and 2026, below the 3.7% average seen between 2000 and 2019. The 2025 forecast remains largely unchanged from the October Outlook, primarily due to an upward revision for the United States, compensating for downward revisions in other major economies. The IMF has raised its US GDP forecast to 2.7% in 2025, a 0.5% increase from the previous estimates. Meanwhile, the Euro Area's GDP forecast for 2025 has revised down by 0.2% to 1.0%, following weaker-than-expected momentum at the end of 2024.

GLOBAL BUSINESS REMAINS ROBUST
The Global Services PMI rose to 53.8 in December, up from 53.1 in the month prior, remaining in expansionary territory (figure above 50) for the 24th successive month. Meanwhile, the Global Manufacturing PMI moderated slightly to 49.6 in December, but picked up expansionary territory of 50.1 in January 2025.

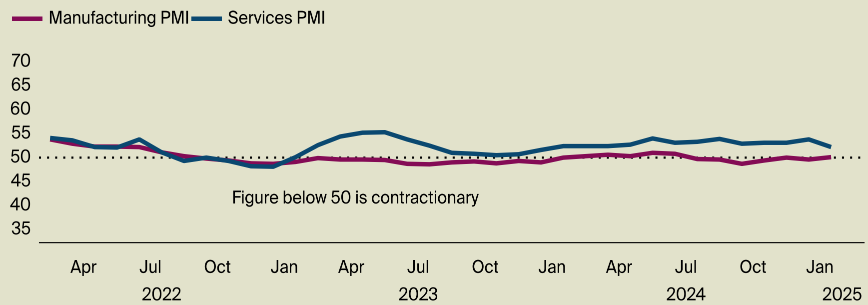
INFLATION MODERATES, RISKS PERSIST
Global headline inflation is expected to keep moderating, though risks remain as inflation stays persistent. In January 2025, Euro Area inflation rose to 2.5%, while US inflation increased to 2.9% in December. The IMF projects inflation will decline to 4.2% in 2025 and 3.5% in 2026, aligning with target expectations.

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



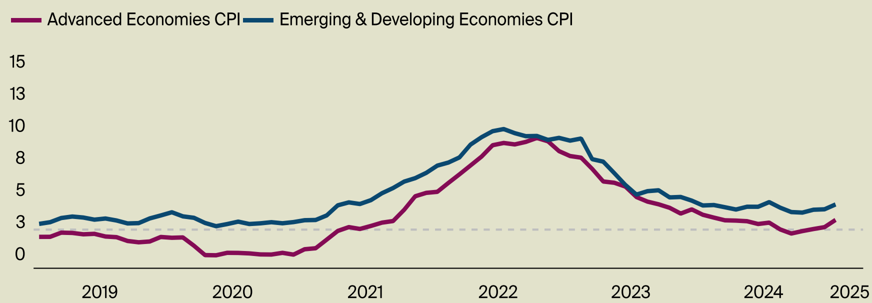
Source: Knight Frank Research, Macrobond, OECD

Business Activity Index



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

Inflation
%



Source: Knight Frank Research, Macrobond, World Bank

UK economy

The UK's growth outlook has been upgraded

UK GDP: NEAR-TERM GROWTH TO RISE

The UK economy exceeded expectations in the first half of 2024, with GDP expanding by +0.8% in Q1 and +0.4% in Q2, demonstrating resilience despite global headwinds. However, momentum softened in Q3, with growth temporarily stalling. The Q4 GDP result surprised to the upside, with moderate growth of +0.1%, as the economy showed signs of stagnating following the impact from higher taxes and global uncertainty. In its January 2025 update, the IMF raised the UK's 2025 growth outlook by +10bps to +1.6%, positioning it as the third fastest-growing G7 economy, trailing only the US and Canada. For 2026, the IMF anticipate slightly weaker growth, with GDP forecast to grow by +1.5%.

The UK unemployment rate rose to 4.4% in the three months to November 2024, up slightly from the previous three-month period, but well below the long-term average of 6.7%.

BUSINESS ACTIVITY IMPROVES

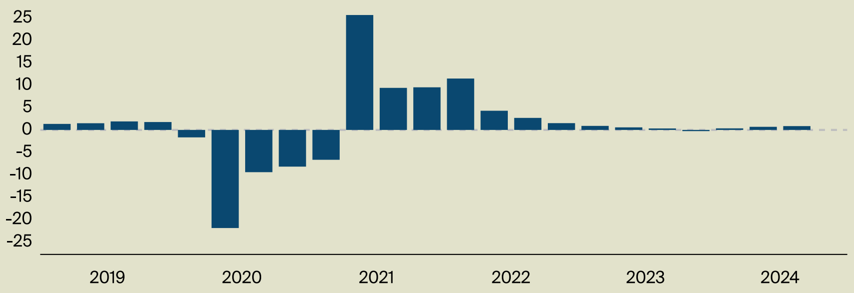
The UK Services PMI fell to 50.8 in January, from 51.2 in the month prior, although remaining in expansionary territory for the 15th consecutive month. Meanwhile, the UK Manufacturing PMI rose to 48.3 in January, up from December's 11-month low of 47.0.

UK INFLATION SET TO STAY ELEVATED IN 2025

UK inflation eased in December for the first time in three months, dropping to 2.5%, and aligning with the Bank of England's (BoE) forecasts. Looking ahead, Oxford Economics expects UK inflation to drift up further to a peak of 3.3% in Q3 2025, driven by base effects in core goods prices, before gradually declining below the BoE's 2% target by 2030. Markets widely anticipate further rate reductions going into 2025 and 2026; however, expectations for the BoE's trajectory remain divided. Capital Economics forecast four 25bps rate cuts, bringing rates to 3.75% by Q4 2025. In contrast, money markets are currently pricing in 75bps of cuts, leaving the UK base rate at 4.00% by year-end.

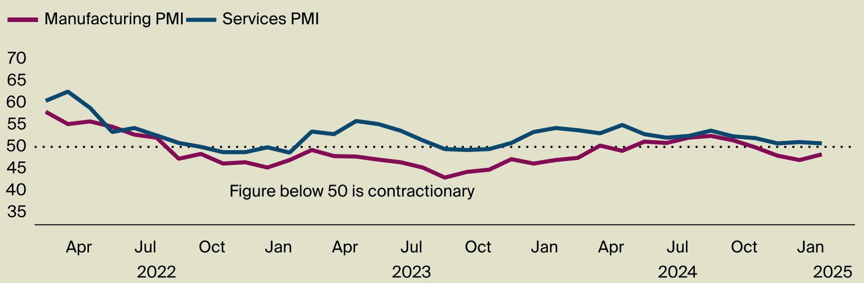
Gross Domestic Product

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



Source: Knight Frank Research, Macrobond, ONS

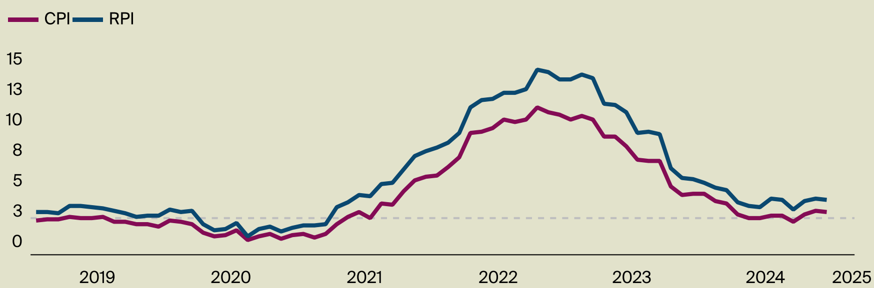
Business Activity Index



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

Inflation

%



Source: Knight Frank Research, Macrobond, ONS

Capital markets

UK commercial real estate

CONTACT: VICTORIA ORMOND, CFA

Capital markets

London led as the top metro for overseas capital in 2024 for All Property for the 5th consecutive year

RESILIENCE AND RECOVERY IN 2024

UK commercial real estate (CRE) has shown signs of improvement in 2024, with preliminary numbers suggesting investment totalled £14.0bn in Q4 2024. This was +44% up on investment in Q3 2024, and a +68% expansion on Q4 2023. £46.6bn was invested in UK CRE in 2024, up +21% on investment in 2023, although -18% below the 10-year average. Industrial continues to be heavily targeted by investors, recording the highest investment in 2024 (£11.1bn). This was followed by Offices (£9.6bn), Retail (£9.0bn), Apartment (£8.4bn), Hotels (£6.9bn) and Senior Housing & Care (£1.5bn). All CRE sectors recorded positive investment growth quarter-on-quarter in Q4 2024, led by Hotels (+66%), the Living Sectors (+65%), and Retail (+51%).

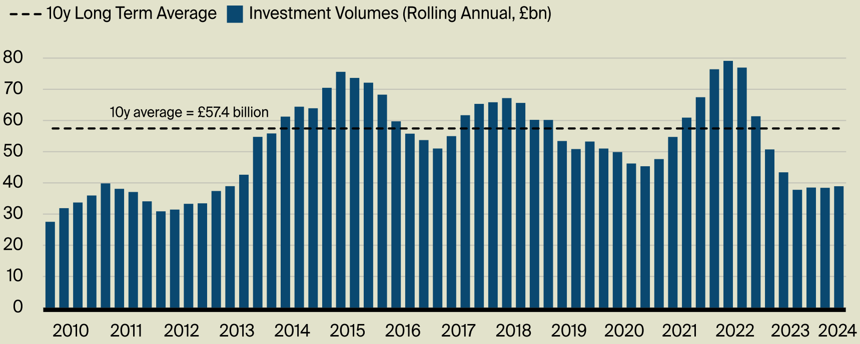
Cross-border capital was more active in the UK in Q4, with overseas investment up +59% quarter-on-quarter to £6.3bn and contributing to 45% of UK CRE volumes in Q4 2024. Industrial also received the most investment from cross-border sources in Q4, with £1.9bn invested. The UK was the top destination for cross-border capital and the second most invested market globally in 2024, behind the US. London also ranked as the leading global metro for cross-border All Property investments for the fifth consecutive year.

POCKETS OF POSITIVITY FOR 2025

Despite last year's challenges, a significant pool of capital remains ready for deployment. Expected interest rate cuts in the first half of 2025 and declining swap rates should create a more favourable investment climate, boosting confidence and market activity. Debt origination is already rising, and global CRE pricing is stabilising, signalling a potential recovery with increased capital flows. We continue to see private capital playing a key role in the recovery, leveraging diverse funding sources and being less debt accretive, allowing these buyers to act more opportunistically in the market.

UK quarterly investment volumes

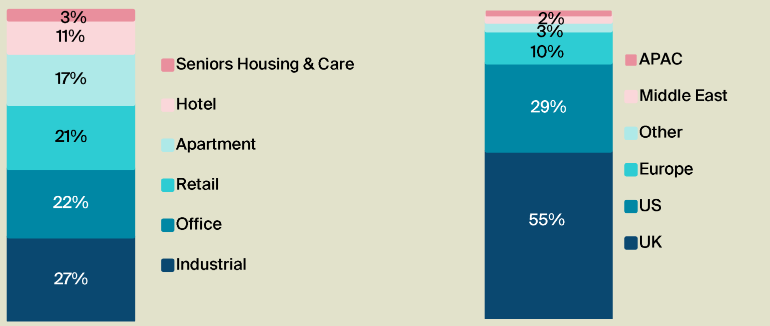
Quarterly investment volumes, rolling average



Source: Knight Frank Research, RCA

Investment volume breakdown

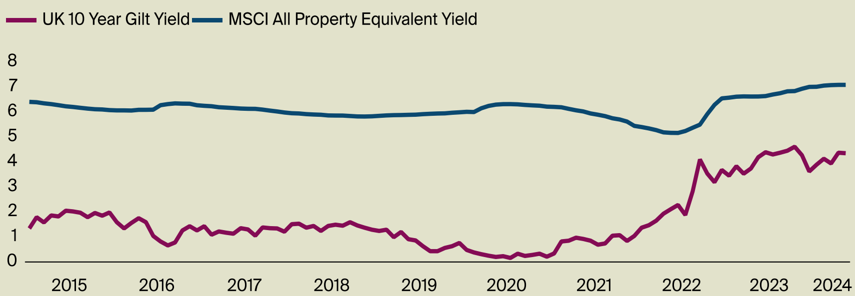
% of Q4 2024 volume



Source: Knight Frank Research, RCA

Property Equivalent Yield and UK 10 Year Gilt Yield

%

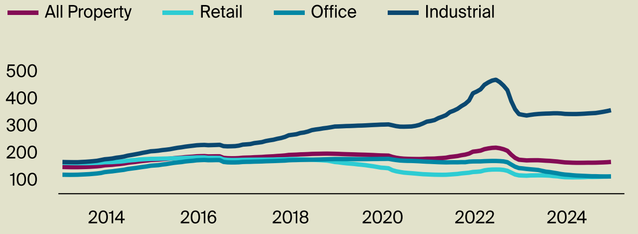


Source: Knight Frank Research, Macrobond, MSCI

Capital markets

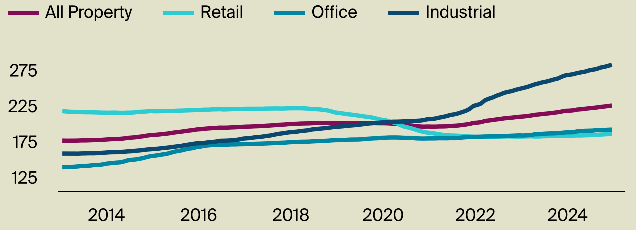
The IPF forecasts the Industrial sector to deliver the strongest capital and rental value growth in 2025

MSCI Capital Value Growth Index
Dec 1986 = 100



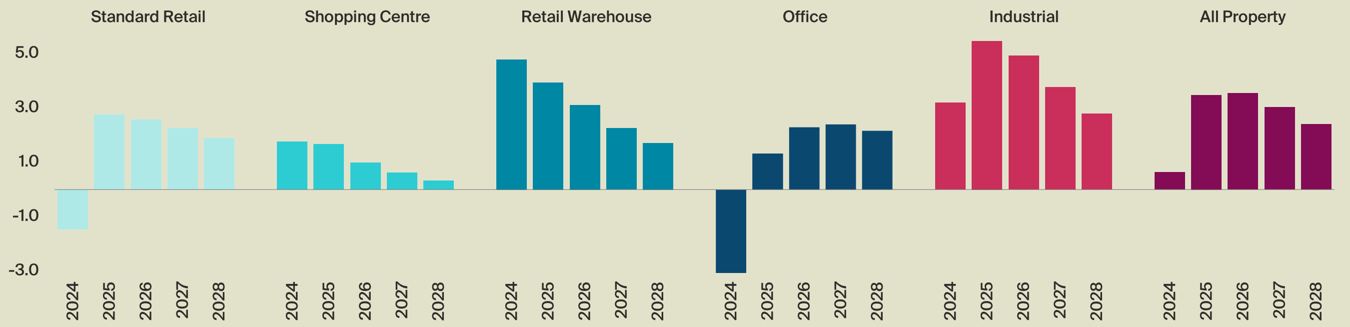
Source: Knight Frank Research, MSCI

MSCI Rental Value Growth Index
Dec 1986 = 100



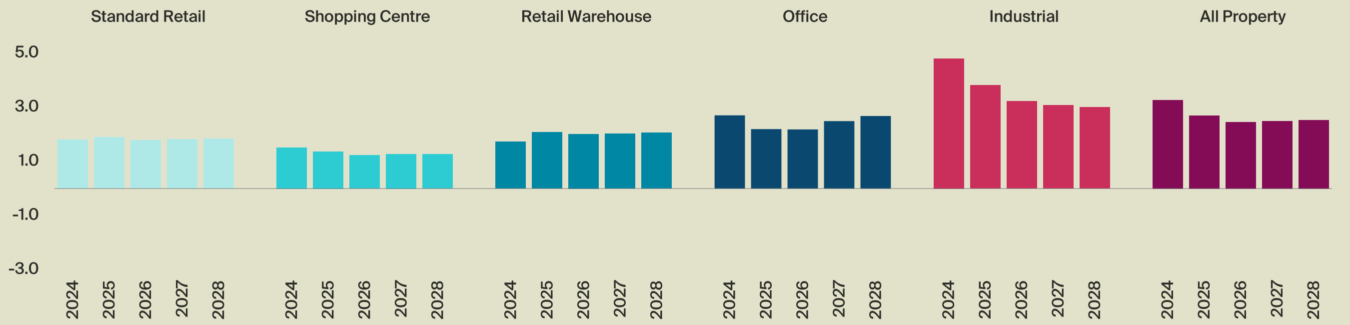
Source: Knight Frank Research, MSCI

IPF Consensus Capital Value Growth Forecast
%, November 2024 forecast



Source: Knight Frank Research, IPF

IPF Consensus Rental Value Growth Forecast
%, November 2024 forecast

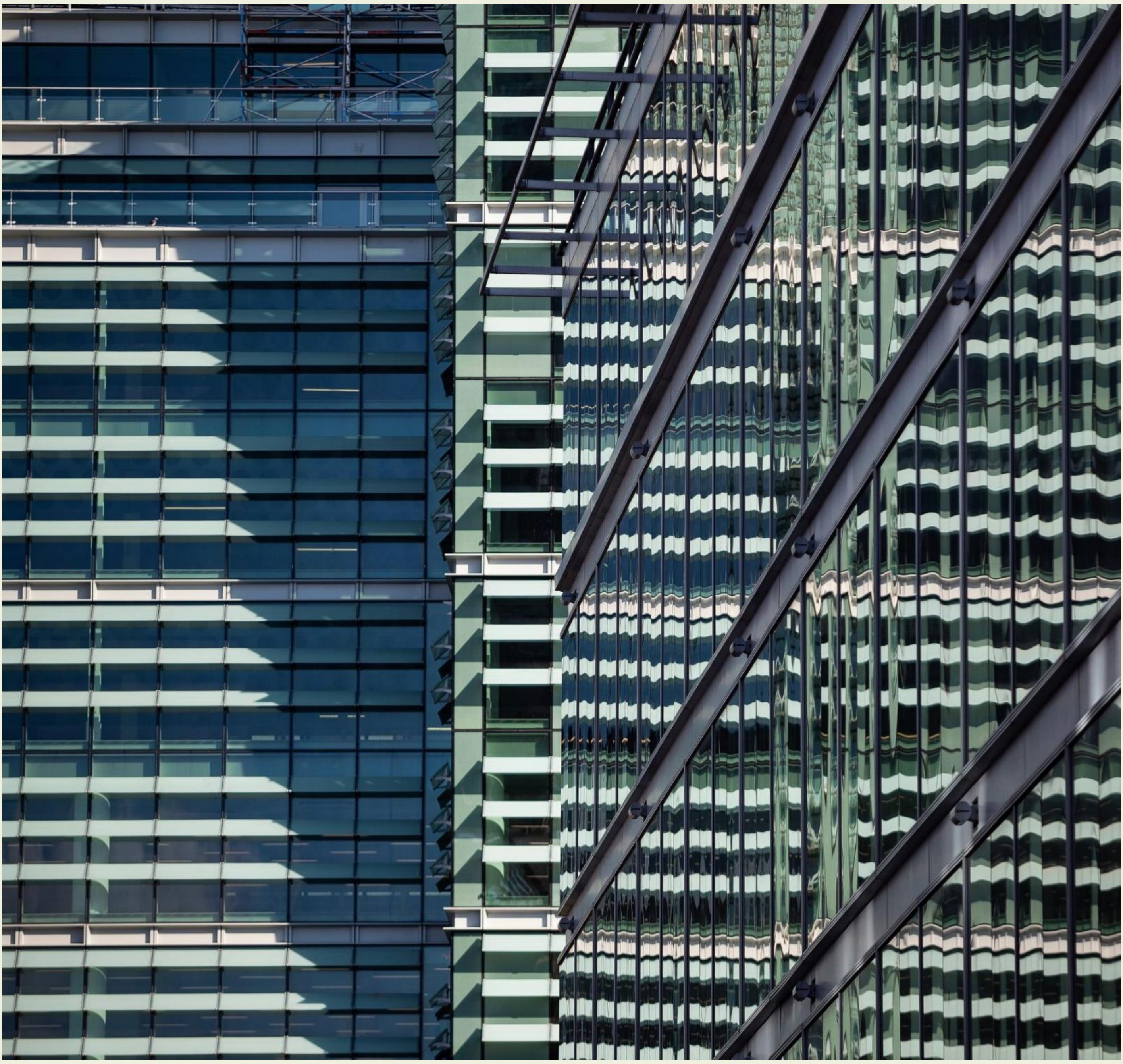


Source: Knight Frank Research, IPF

Offices

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

CONTACT: LONDON – SHABAB QADAR, SOUTH EAST & UK CITIES – DARREN MANSFIELD



City & Southbank offices

Investment volumes increased, but still short of long-term average

INCREASED ACTIVITY IN CORE ASSETS

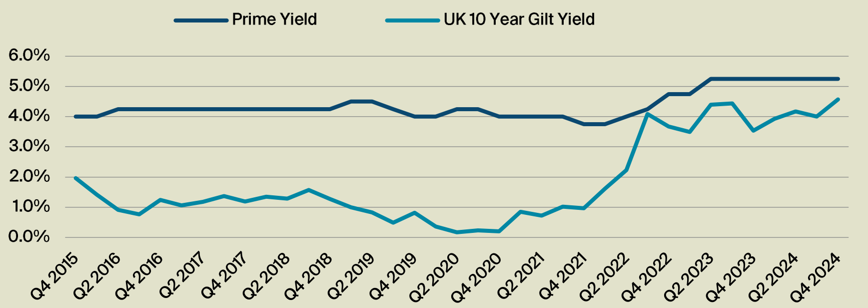
The City & Southbank recorded transaction volumes of £0.7bn across 23 deals, marking a quarterly increase of 39.8%. However, despite this growth, investment volumes remained 60.5% lower than the long-term quarterly average of £1.8bn. This brought the total investment volumes for 2024 to £2.3bn, which is 70.8% below the long-term annual trend of £7.7bn.

While investments remain concentrated in value-add assets, core assets investments surged by 216.7% during the quarter to £0.2bn. Nevertheless, core investment remains subdued compared with historic levels as appetite for larger lots has been affected by low levels of institutional investment.

During the quarter, UK investors were the most active participants in the market, acquiring £0.3bn in office assets, which accounted for 36.8% of total transaction volumes. The largest deal of the quarter was made by private equity investor Polus Capital, which acquired 90 High Holborn, WC1V, for £180m. This transaction reflects a net initial yield of 6.60%.

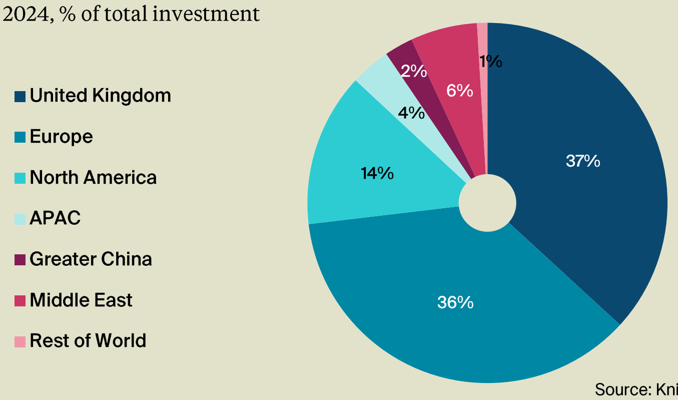
Prime yields have remained stable at 5.25% for the seventh consecutive quarter, and the value of assets under offer has increased to £0.9bn.

City & Southbank: Prime Yield and UK 10 Year Gilt Yield
% per annum



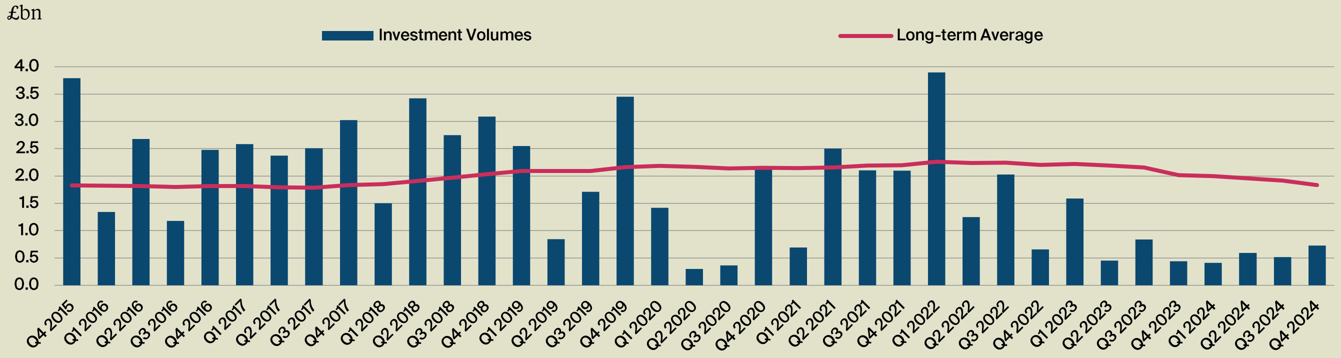
Source: Knight Frank Research

City & Southbank: Investment volumes by nationality
Q4 2024, % of total investment



Source: Knight Frank Research

City & Southbank: Investment volumes relative to trend
£bn



Source: Knight Frank Research

City & Southbank offices

Third consecutive quarter of above trend take-up

GROWING LEASING MOMENTUM

The City & Southbank market has sustained strong leasing momentum for a third consecutive quarter, with take-up rising by 17.7% to 2.1m sq ft. This figure is 33.9% above the long-term quarterly average of 1.6m sq ft. Take-up exceeded the long-term average in the City Core, Clerkenwell/Farringdon, and Southbank Core. However, lettings were 50.3% below the long-term average in Aldgate/Whitechapel. This quarterly performance increased total take-up to 6.7m sq ft for 2024, representing a 4.0% rise from the 6.4m sq ft recorded in 2023 and 5.0% above the long-term annual average.

The increase in take-up during Q4 can be partly attributed to a rise in the number of deals, which grew from 187 in the previous quarter to 220. This marks the highest deal count since the end of 2014. Nearly half of the lettings, or 44.3%, fell within the 0-20,000 sq ft range, while larger lettings exceeding 60,000 sq ft accounted for 20.3% of all activity.

The demand for higher-quality spaces remains a key feature of the market. In the last quarter, new and refurbished spaces accounted for 1.4m sq ft, representing a 23.2% increase compared to Q3 and making up 68.1% of all lettings. This is the third-highest level since 2004.

AVAILABILITY UP DUE TO SPECULATIVE PIPELINE

Availability has increased by 8.5%, reaching 13.5m sq ft. Consequently, the vacancy rate has risen from 8.9% to 9.6%, which is 2.4 percentage points above the long-term quarterly average. This rise in availability is mainly due to 1.9m sq ft of speculative developments expected to be completed by the end of Q2 2025. One notable project is 76 Southbank, SE1, which will contribute 349,580 sq ft of speculative space within the next six months.

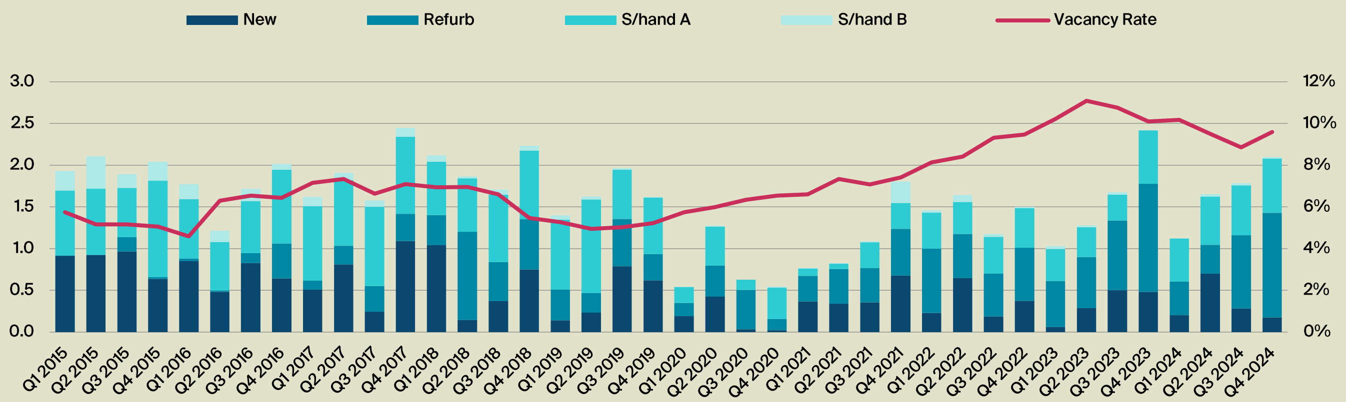
Developments under-construction rose by 9.3% last quarter, reaching a total of 10.0m sq ft. This increase was primarily due to construction delays and an increase in the number of projects under construction, which reached 54 in Q4—a 10.2% rise from the previous quarter. Our analysis of the planning pipeline suggests 2.7m sq ft of schemes which could be built between 2025-28.

Based on historical take-up levels of new and refurbished space in the City & Southbank, the total pipeline indicates an anticipated undersupply of 5.2m sq ft by 2028.

PRIME RENTS RISE IN TWO SUBMARKETS

In Q4, prime rents increased in two City submarkets: the City Core and Midtown. In the City Core, rents rose by £5.00, reaching £95.00 per sq ft, while in Midtown, rents increased by £3.00 to £85.00 per sq ft. Rent-free periods remain unchanged for a standard ten-year lease at 24-27 months.

City & Southbank: Take-up by quality and vacancy rate
M sq ft (LHS), % of stock (RHS)



Source: Knight Frank Research

West End offices

Investment turnover increases but still below long-term average

LARGER LOT SIZE DEALS PROVIDE BOOST

In Q4 2024, the West End achieved a turnover of £1.2bn across 35 deals, marking a 54.2% increase from the previous quarter, and only slightly below the long-term average of 3.2%. This strong performance in Q4 contributed to a total annual investment volume of £3.9bn for 2024, which is 25.4% lower than the long-term annual average of £5.3bn.

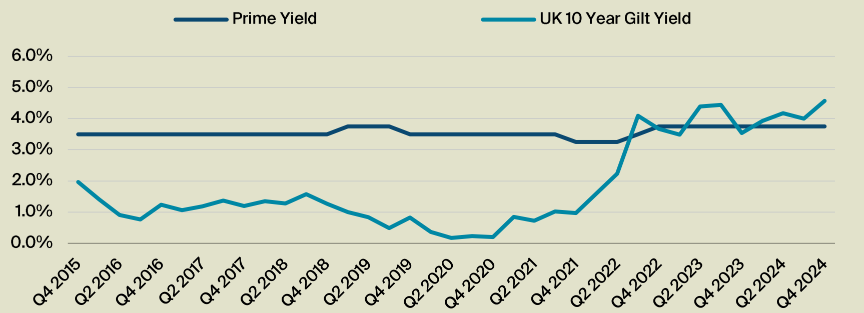
The increase in investment volumes during Q4 2024 was primarily driven by transactions involving larger lot sizes. Deals valued at over £100m totalled £0.4bn, significantly recovering from the £0.1bn recorded in Q3 2024.

Investments have remained concentrated in value-added assets, representing 58.8% of all transactions. This trend highlights a sustained risk appetite for the right types of assets and the resilience of leasing fundamentals.

The value of assets under offer has increased to £1.0bn, up from £0.8bn at the end of Q3.

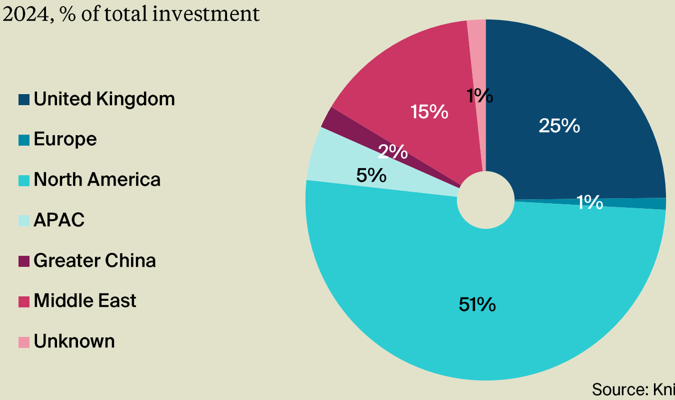
There is continued stability in prime yields, which have remained at 3.75% for the ninth consecutive quarter.

West End: Prime Yield and UK 10 Year Gilt Yield
% per annum



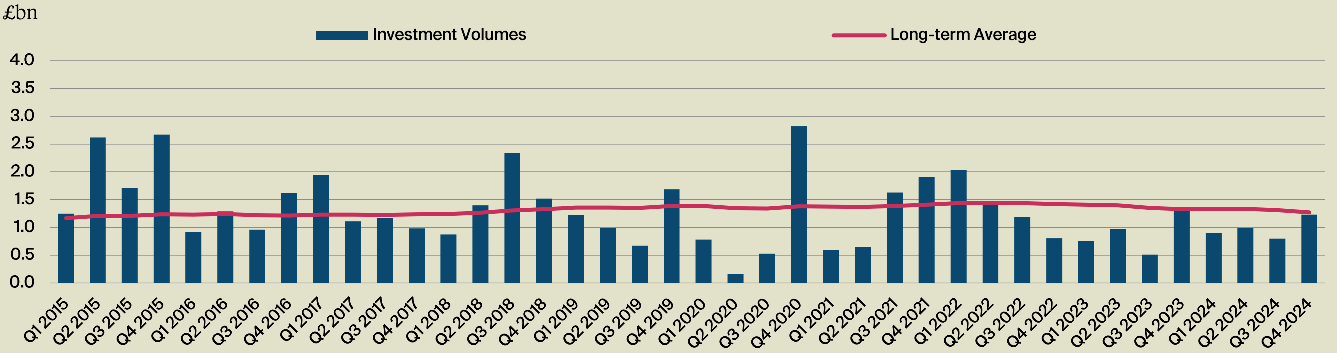
Source: Knight Frank Research

West End: Investment volumes by nationality
Q4 2024, % of total investment



Source: Knight Frank Research

West End: Investment volumes relative to trend
£bn



Source: Knight Frank Research

West End offices

Take-up down on Q3 but remains above trend

ABOVE TREND TAKE-UP

Leasing activity in the West End continues to demonstrate resilience, with Q4 take-up totalling 1.1m sq ft. Although this reflects an 8.6% decrease from the previous quarter, it remains 3.8% above the long-term quarterly average. Take-up exceeded the long-term quarterly average across six submarkets: Marylebone (8.6%), Knightsbridge/Chelsea (11.2%), Soho (17.3%), Victoria (17.9%), Fitzrovia (65.9%) and Bloomsbury (155.4%). This quarterly performance brought total take-up to 3.6m sq ft for 2024, reflecting a modest decline of 5.6% from the 3.8m sq ft recorded in 2023 while underscoring the relative stability in leasing activity throughout the year.

A shift in deal composition primarily drove the lower Q4 take-up. Although the number of lettings increased to 186—the highest quarterly total since Q4 2022—activity in the larger size bands contracted. Of the 186 deals, only three exceeded 40,000 sq ft, with none surpassing 100,000 sq ft. In contrast, Q3 recorded four deals above 40,000 sq ft and two exceeding 100,000 sq ft. Consequently, the average deal size in Q4 decreased by 24.8%, falling to 5,948 sq ft.

The demand for better-quality space remains a central feature of the market. New and refurbished take-up accounted for 831,237 sq ft in the last quarter, which is 83.4% above the long-term quarterly average and accounts for 75.1% of all transactions. This is well above the London average of 50.9%.

TIGHTENING AVAILABILITY OF BEST QUALITY SPACE

Availability has declined for a second consecutive quarter, falling by 10.0% to 6.7m sq ft. This was partially driven by several withdrawals, including 202,111 sq ft of secondhand space removed from the market for redevelopment. The vacancy rate now stands at 7.0%. While this is 0.6pp above the long-term quarterly average, it is the lowest vacancy rate in eight quarters. The availability of new and refurbished space stands at 4.6m sq ft, representing an 11.9% decline from the previous quarter and accounting for 69.1% of total availability.

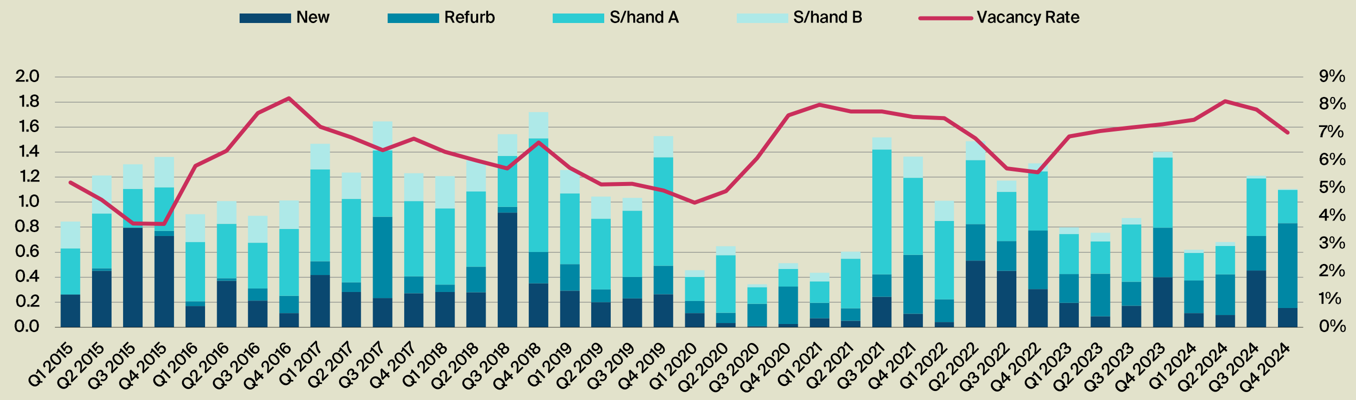
DEVELOPMENT PIPELINE FALLS SHORT OF DEMAND

The under-construction development pipeline decreased to 6.7m sq ft, following 506,213 sq ft of completions in Q4. Currently, 31.0% of the under-construction pipeline is pre-leased, and an additional 31,210 sq ft is under offer. Potential schemes considered 'most likely' to be built based on Knight Frank's viability score could increase the speculative pipeline by a modest 235,610 sq ft and extend the delivery timeframe to 2028. Accordingly, we expect an undersupply of 1.9m sq ft between 2025-28.

PRIME RENTS RISE IN TWO SUBMARKETS

Following several key lettings we have raised prime rents in the West End Core and Bloomsbury. In the former, the headline rent increased from £150.00 to £160.00 per sq ft, and in the latter, it increased from £77.50 to £82.50 per sq ft. Rent-free periods remain unchanged at 24-27 months on a standard 10-year lease.

West End: Take-up by quality and vacancy rate
M sq ft, % of stock (RHS)



Source: Knight Frank Research

Docklands & Stratford offices

Take-up increased in final quarter of 2024, but annual activity remains subdued

EDUCATION SECTOR DOMINATES IN Q4

In Q4, the Docklands and Stratford market saw a take-up of 77,065 sq ft across six leasing transactions. Although this marks an increase in leasing activity compared to Q3, the total annual take-up for 2024 reached only 0.3m sq ft, which is 58.2% below the long-term annual average.

The number of transactions signed in Q4 remained low, however, the majority of demand was for new and refurbished office spaces, which accounted for 96.1% of leasing activity in the final quarter of 2024. Throughout the year, the take-up of new and refurbished spaces totalled 0.3m sq ft, representing 78.7% of all transactions.

The largest transaction in Q4 involved UCL's acquisition of 44,544 sq ft on the 48th and 49th floors at 1 Canada Square, at a rent of £60.00 per sq ft. This expands the UCL School of Management's footprint in the building to 67,261 sq ft. The second largest letting in Q4 was signed by Study Group Ltd, which acquired 10,604 sq ft at the Type Building, part of the Sugar House Island development, at a rent of £39.50 per sq ft. The third largest letting was to the University of Wales, expanding their existing footprint within 1 Westferry Circus by 10,000 sq ft, at a rent of £32.50 per sq ft.

This means that, notably, the top three leasing deals by size in Q4 were all from the education sector, highlighting the appeal of the Docklands & Stratford market to educational institutions and the ongoing transition of these locations into mixed-use destinations.

TOTAL AVAILABILITY RISES

Overall availability in the Docklands & Stratford market decreased during the final quarter of 2024 to 3.7m sq ft, resulting in a vacancy rate of 14.6%. While this represents a modest decline compared to the previous quarter, it marks a reduction of 0.5m sq ft compared to the end of 2023, when the overall vacancy rate was 16.6%. However, the vacancy rate remains above the long-term quarterly average of 10.3%. By the end of 2024, 54.3% of available space in the market was new or refurbished space, equating to a vacancy rate of 8.0%.

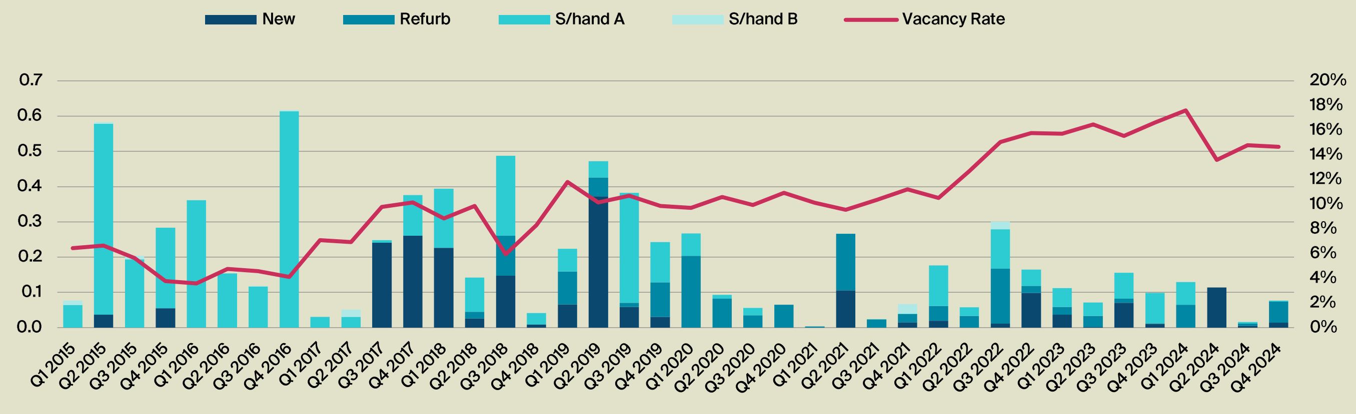
At the end of Q4, space under construction stood at 718,338 sq ft, comprising two schemes: 17 Columbus Courtyard, E14, expected to reach practical completion in Q4 2026, delivering 178,338 sq ft of speculative space, and One North Quay, E14, scheduled to complete by the end of 2027, providing 540,000 sq ft of speculative space.

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

NO INVESTMENT ACTIVITY

There was no investment activity recorded in Q4, and there were no transactions under offer heading into 2025. The volume of assets for sale, however, reached £0.3bn which represented an increase of 194.8% quarter-on-quarter. Prime yields in the Docklands & Stratford remained stable at 7.50%.

Docklands & Stratford: Take-up by quality and vacancy rate
M sq ft, % of stock (RHS)



Source: Knight Frank Research

South East offices

Investment volumes registered their highest quarterly total for two years, supported by deals involving the life sciences sector and asset repurposing opportunities

INVESTMENT ACTIVITY IMPROVES IN THE FINAL QUARTER

Investment activity improved in Q4, with volumes increasing by 154% to £648m, marking the highest quarterly total in two years. A total of 28 deals were completed in Q4, the highest number since Q2 2022.

This meant that investment volumes for the year reached £1.64bn, representing a 25% rise from 2023 but still 39% below the 10-year annual average. Nonetheless, deal numbers did register improvement over the year, with 102 transactions completed in 2024, a 12% rise from the previous year and 6% above the 10-year average.

LIFE SCIENCES AND REPURPOSING LEAD MARKET INTEREST

Of the South East markets, Cambridge registered the highest investment volumes in 2024, with £192m transacted across four deals during the year. The largest was Danaher's acquisition of the Cambridge Biomedical Campus for £125m in Q4 2025 from the Tesco Pension Fund; Danaher, which also acquired Abcam, is the current occupier. Q4 also featured the notable sale of Cody Technology Park in Farnborough, which Qinetiq sold to XLB for £112m. Meanwhile, Reading recorded the highest number of transactions, with six deals completed. The largest was the acquisition of the former Wood Plc offices at Shinfield Park by Fiera and Wenbridge in Q3 for £20.5m, with plans for repurposing the site for logistics use.

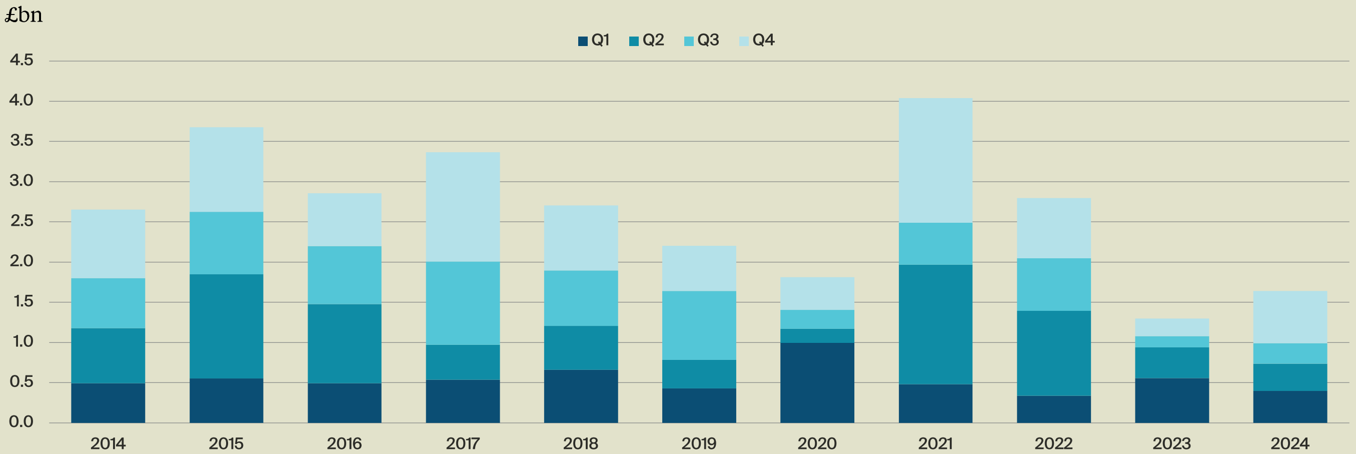
LARGER LOT SIZES REMAIN LIMITED

In 2024, there were three transactions exceeding £100m, an increase when compared to just one in 2023. The average deal size for the year rose to £16.1m, up from £14.4m in 2023, though it remained below the long-term average of £27.8m, reflecting a shift in market dynamics and lack of liquidity at the top end of the market.

PRICING STABILISES FOR THE BEST QUALITY

Prime yields held steady at 7.00% throughout 2024, reflecting stability in the top end of the market. Even so, the average weighted Net Initial Yield (NIY) for the year stood at 8.90%, the highest since 2012 and reflective of the challenging market conditions for anything not considered Prime. Office pricing is expected to remain under pressure in the short term as debt costs, economic uncertainties, and evolving tenant demands influence investor sentiment.

South East: Investment volumes



Source: Knight Frank Research

South East offices

The leasing market recorded its highest annual total in five years, fuelled by activity within the momentum markets for new & grade A space

TAKE-UP SHOWS A YEAR-ON-YEAR RISE

In Q4 2024, take-up reached 888,049 sq ft, a 2.6% increase from the third quarter. During Q4, 115 deals were completed, making it the busiest quarter of the year. Considered for all of 2024, 3.63m sq ft was transacted, representing a 4.9% increase from 2023 and the highest annual total since 2019. A total of 347 deals were completed in 2024, 31% above the 10-year average. Notably, 10 deals exceeding 50,000 sq ft were completed. This is the highest total for this size range since 2021.

MOMENTUM WITH CORE MARKETS

The 'Momentum' South East Markets accounted for 70% of total activity in 2024, with 2.5m sq ft of take-up. In terms of take-up, Oxford led as the top-performing market, recording 572,500 sq ft, a 12% increase compared to 2023. Reading also saw robust growth, leasing 503,000 sq ft across 41 deals, a 13% rise from 2023 and 27% above the 10-year average. However, the most significant year-on-year increase was in West London, where take-up rose to 458,500 sq ft. This total is 11% above the 10-year annual average but, coming off a low base, marked a 159% year-on-year increase.

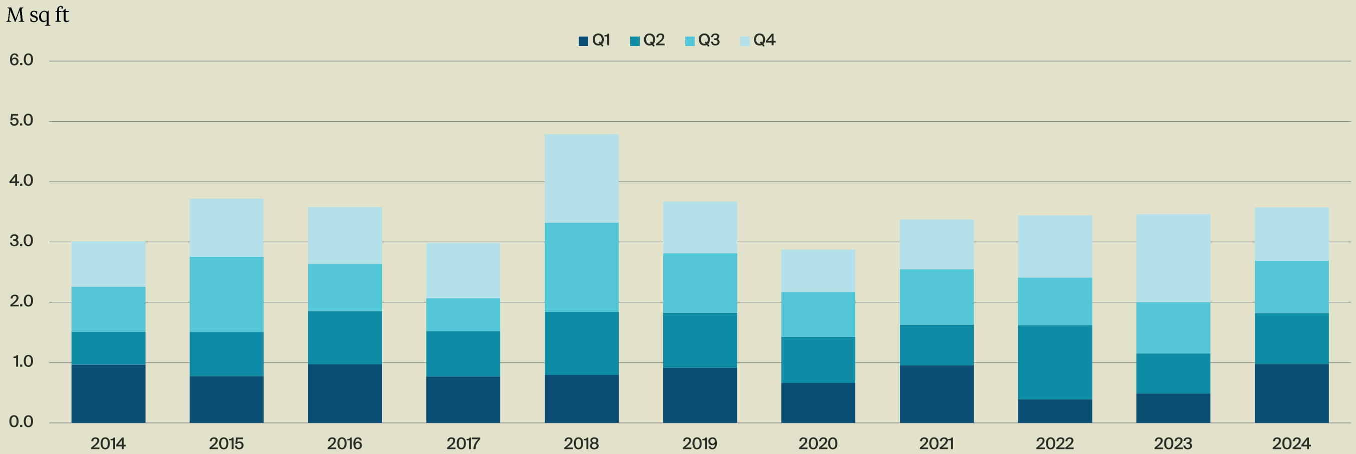
COMPETITION FOR SPACE INTENSIFIES

The competition for the best quality office space intensified in 2024, as businesses continued to target modern and sustainable environments that meet evolving workforce needs. New and Grade A space dominated the market activity, accounting for 80% of the total take-up for the year. Notably, 18 deals were concluded while construction was still underway in 2024, the highest number in our records.

CONSTRUCTION REMAINS MUTED

Overall vacancy in the South East increased slightly in 2024, rising to 8.8% from 8.1% in Q4 2023. By year-end, 1.6m sq ft of pure speculative office space was under construction, with delivery timelines extending to the end of 2027. West London accounted for 44% of this space, while Cambridge accounted for 26%. Excluding these two markets, only 500,000 sq ft of pure speculative office space is under construction across the broader South East markets. In addition, a further 2.2m sq ft of office space with laboratory capabilities is scheduled for completion before 2028. This highlights the growing demand for specialised and flexible facilities.

South East: Occupier take-up



Source: Knight Frank Research

UK Cities offices

An uptick in activity, driven by a strong Q4 performance and yield compression, signifies the return of cautious optimism within the investment market

CAUTIOUS INVESTOR OPTIMISM FOR YEAR-END

Against a backdrop of economic and political turbulence, structural uncertainty and an elevated cost of debt, investment activity wavered in 2024. Office investment volumes finalised at £1.24bn, 4% ahead of the previous year but 24% below the 5-year annual average.

However, investment volumes reached £482.13bn across the regional markets in Q4, representing 40% of the annual investment total. This figure reflects a 4% increase quarter-on-quarter and is 19% above the 5-year quarterly average.

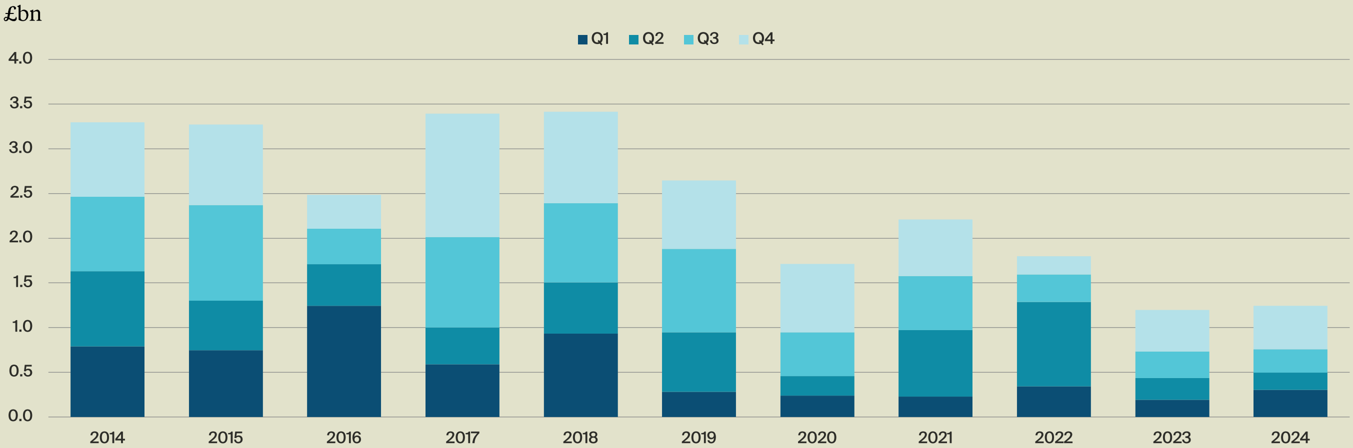
LOW LIQUIDITY FOR LARGER LOT SIZES

Throughout 2024, one deal completed above £100m, down from two in 2023 and the five-year average of three. As such, the average deal size fell from £15.6m in 2023 to £14.1m this year, despite volumes seeing an uptick. The absence of institutional investors across the regional office markets has meant that fewer high value assets have transacted, as those that are active do not have that level of capital to spend. Instead, private money has underpinned investment volumes over the past 12 months, as pricing has reached a level that presents opportunity for asset repositioning and value-add investments.

YIELD COMPRESSION HAS BEGUN, BUT WILL IT CONTINUE?

Prime yields held steady throughout 2024, with a 25bps compression at year-end, bringing the headline yield to 6.50%. This inward shift reflects the slight improvement in sentiment at the top end of the market. However, polarisation between prime and secondary assets continues, with the latter challenged by capital expenditure concerns and weakened leasing potential. Pricing is expected to remain under pressure in the short term, with debt costs, in particular, expected to remain elevated until the second half of 2025.

UK Cities: Investment volumes



Source: Knight Frank Research

Knight Frank

ECONOMIC UPDATE | CAPITAL MARKETS | OFFICES | INDUSTRIAL & DISTRIBUTION | RETAIL & LEISURE | SPECIALIST SECTORS | CONTACTS

UK Cities offices

Occupier demand surges to pre-pandemic levels, whilst limited availability of best-quality space and a thin pipeline of future stock create a 4m sq ft shortfall over the next three years

THE STRONGEST OCCUPIER MARKET SINCE 2019

Leasing volumes registered improvement in each quarter of 2024, reaching 1.6m sq ft across the UK cities in Q4 2024, this highest quarterly total for two years. Consequently, in 2024, annual take-up reached 5.6m sq ft, reflecting a year-on-year increase of 18% and a total 10% above the 5-year annual average. Significantly, leasing activity in 2024 was the highest since 2019.

Throughout 2024, 1,045 leasing transactions were completed across the regional cities tracked. This total is 3% less than recorded in the previous year but is 5% above the 5-year annual average.

PROFESSIONAL SERVICES MOST ACTIVE

The professional services sector continued to underpin occupier demand during 2024, with many leading firms seeking additional presence outside of London and the sector employing stricter return-to-office mandates. During 2024, companies derived from this sector accounted for more than a quarter of total take-up across the UK cities and 27% of deals done.

However, during Q4, the Finance, Banking, and Insurance sectors supported leasing volumes, accounting for 34% of space leased. A significant proportion (77%) of this was due to a duo of lettings involving Lloyds Banking Group as part of a consolidation effort in Edinburgh and Cardiff. Notably, these two lettings accounted for 24% of quarterly take-up across the regional cities and were the largest leasing deals to transact.

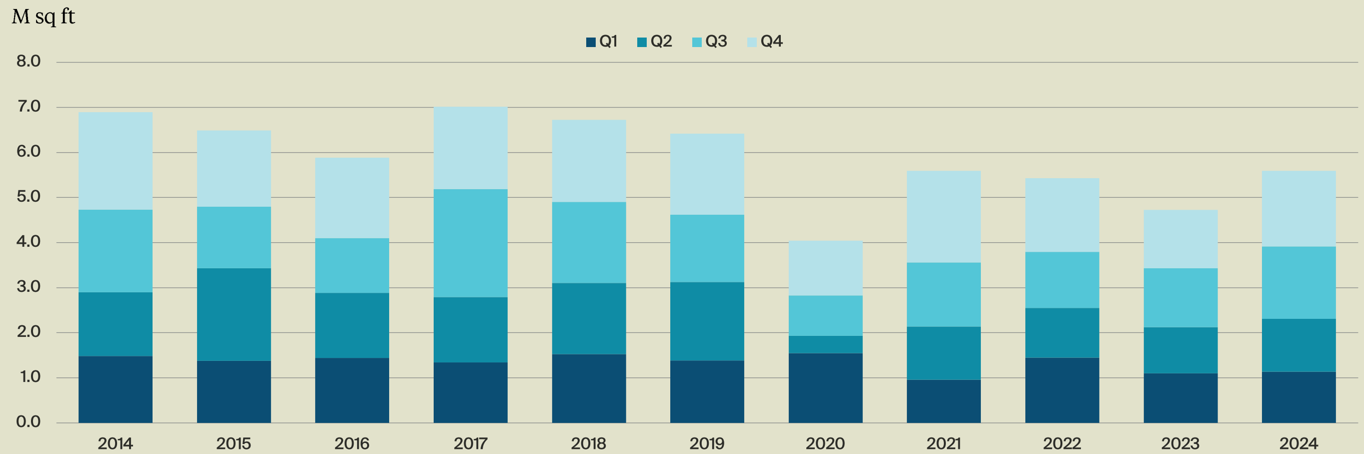
A FLIGHT TO QUALITY CONTINUES TO DRIVE RENTAL GROWTH

With occupiers targeting best quality, it is of little surprise that grade A space accounted for more than half of total take-up across the regional markets. Competition for space has intensified at the top end of the market and fuelled prime rental growth, averaging 5.3% across the UK cities. Notably, eight out of the ten cities tracked registered a rental uplift in 2024.

THE RACE FOR SPACE IS ON

At the close of 2024, grade A availability stood at 3.7m sq ft. This is 6% above the level recorded 12 months ago and 12% above the five-year average. While the total market vacancy rate stood at 13% at year-end, when considering new and grade A space, this falls to just 3.5%. Looking ahead, a limited pipeline of office stock is under construction, with 1.9m sq ft of speculative space scheduled for delivery over the next three years. This means there is a 4m sq ft shortfall assuming consistent demand and no further additions to supply.

UK Cities: Occupier take-up

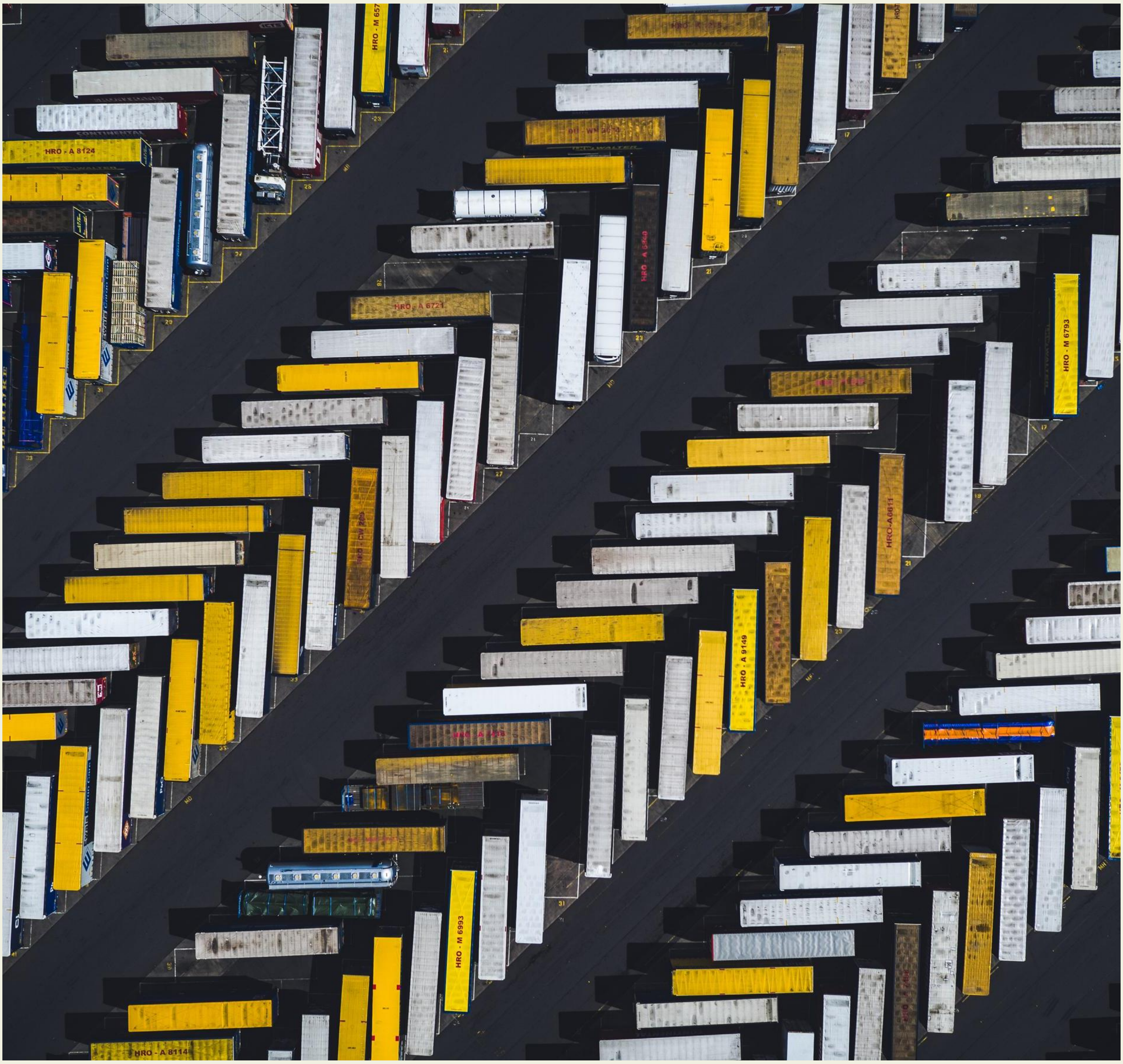


Source: Knight Frank Research

Industrial & distribution

Investment and occupational markets

CONTACT: CLAIRE WILLIAMS & DEIRDRE O'REILLY



Industrial & distribution

Positive final quarter for investment with busy transactional activity and sharpening yields

STRONG FINAL QUARTER BOOSTS ANNUAL INVESTMENT TOTAL

A total of £2.5bn was invested in the UK industrial market in Q4 2024, 7.2% higher than the previous quarter and significantly higher than the £1.1bn recorded in Q4 2023. This brings the total for 2024 to £8.4bn, up from £6.5bn recorded in 2023*.

After a weak start to the year, robust activity in the second half drove annual investment totals higher. The final quarter, in particular, was characterised by improved sentiment and busier transactional activity, with an expanding buyer pool and strong bidding on high-quality assets. As a result, Q4 marked the strongest quarter for investment since Q3 2022.

SHIFT IN BUYER COMPOSITION

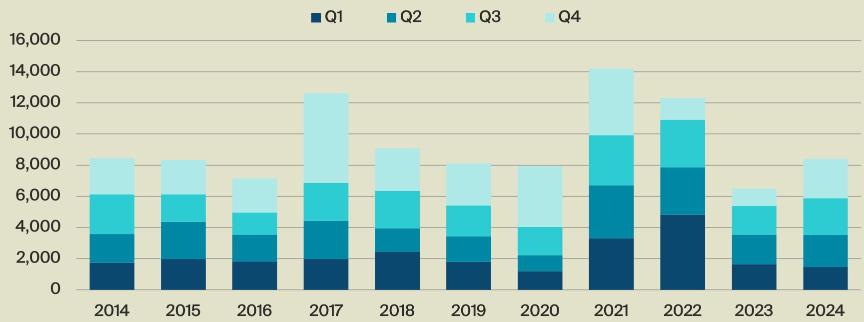
Over the past three years, private capital, REITs and listed property companies have been representing a growing share of the market. In 2024, private capital accounted for 17% of total investment, compared with just 7% in 2021. Meanwhile, cross-border and institutional investors' share of total acquisitions has been shrinking; cross-border investment accounted for 62% of the total in 2021, compared with 51% in 2024.

NEW CYCLE FOR PRIME PRICING

Prime distribution/warehousing yields with 15-year income on open market rent reviews sharpened by 25bps in Q4 2024, to 5.25%, marking the first compression in a new prime pricing cycle.

Meanwhile, the MSCI UK industrial equivalent yield also hardened for the third consecutive month in December 2024 to 6.22%, from 6.23% in November and 6.27% in September. Amid some volatility in the UK gilts market, the 10-year gilt yield softened to 4.55% at month-end. As a result, the spread between gilts and industrial equivalent yields tightened to 167bps—the narrowest premium over gilts since October 2023.

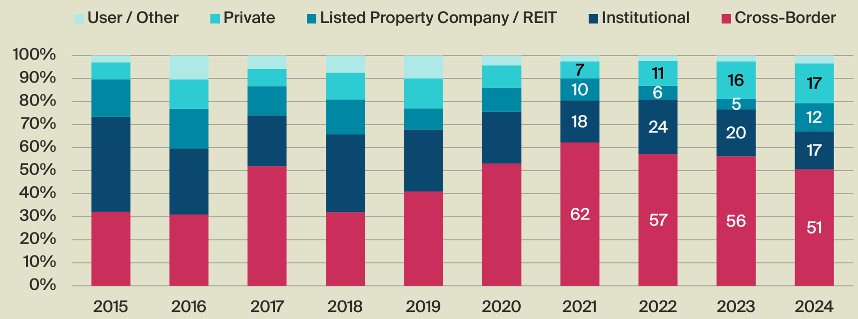
Investment volumes
£m



*Data reporting change from 2020 onwards

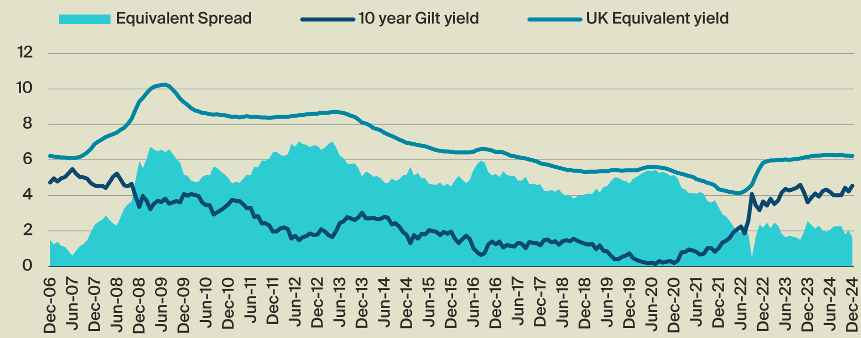
Source: Knight Frank Research, RCA

Capital composition
%



Source: Knight Frank Research, RCA

Industrial yields
%



Source: Knight Frank Research, Macrobond, MSCI

**Investment volumes reported may differ from previous reporting due to a change in methodology. This change has been implemented for current and historical data.*

Industrial & distribution

Occupier market in 2024 returned to pre-pandemic dynamics

RETURN TO PRE-COVID NORMS

UK industrial and logistics occupier statistics for 2024 point to a return to pre-pandemic market norms. In the final quarter, occupiers signed just over 8m sq ft of floor space, bringing the full-year total to 35.7m sq ft (units 50,000 sq ft+). Take-up for 2024 surpassed 2023 volumes by 19% and was 4.3% ahead of the ten-year pre-pandemic average of 34m sq ft.

Occupiers continue to prioritise new and modern space, though the return of second-hand stock is providing more choice. The share of take-up represented by second-hand space rose to 52% in 2024, up from 48% in 2023 and 32% in 2022. Of all second-hand space signed, 80% was grade A or B stock.

DECELERATION IN THE RETURN OF SECOND-HAND STOCK

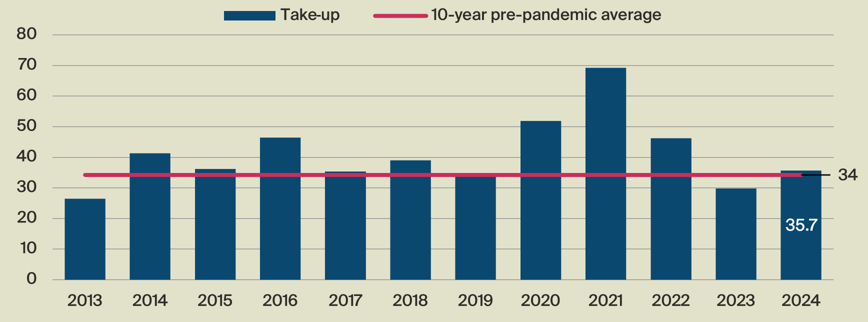
The vacancy rate edged up by 10bps in Q4 2024 to 7.3%. This compares with 5.5% recorded one year ago, though it remains below the 10-year pre-COVID average of 8.3%. 2024 saw supply levels increase, as new builds reached practical completion, and second-hand stock was released. However, the pace of second-hand space returning has decelerated for three consecutive quarters, with the final quarter recording a minimal +0.4% uplift.

SLOWING NEW STOCK DELIVERY MAY HEIGHTEN COMPETITION

Speculative space under construction was 10% lower in Q4, at 13.8m sq ft (units 50,000 sq ft+), with development activity halting in some regional markets. While the vacancy rate may increase further, slowing new stock delivery is expected to stabilise the vacancy rate during 2025, heighten competition, and drive further rental growth, particularly for prime stock.

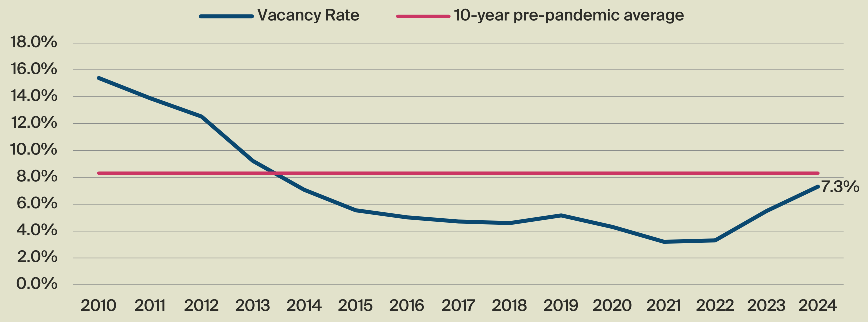
Monthly average rental growth accelerated in December to +0.60%, from +0.48% in November. However, annual market rental value growth moderated to +5.5% for the year to December 2024, from +7.6% recorded in the year to December 2023 (MSCI).

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



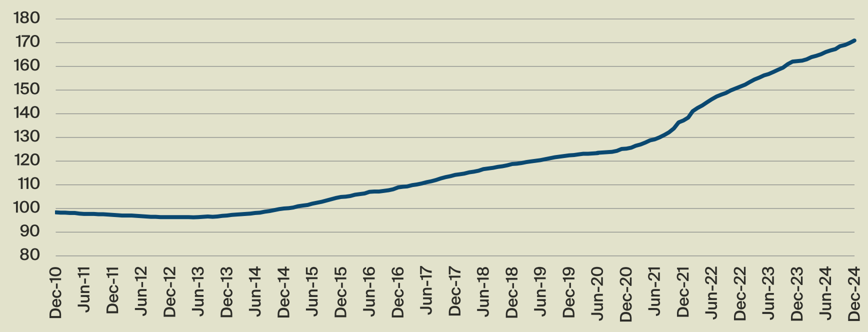
Source: Knight Frank Research

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



Source: Knight Frank Research

Average market rental growth
Jan 2010 = 100



Source: Knight Frank Research, MSCI

Retail & leisure

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

CONTACT: EMMA BARNSTABLE

Retail

Occupier stability finally translates into lower vacancy rates and rental growth

FESTIVE SALES BRING CHEER

Retail sales ended 2024 on a solid, if unspectacular, note, capping a year of fluctuating consumer demand. Shoppers spent a significant £144bn in Q4, driving year-on-year sales value and volume growth of +1.5% and +1.3%, respectively. December alone saw £60bn in sales, with year-on-year values rising +3.5% and volumes +2.9%. Household disposable income continued to rise as wage growth (+5.6%) outpaced inflation (CPI 2.5%), boosting spending power. Asda's Income Tracker reported six consecutive quarters of double-digit growth in real household spending power, reinforcing consumer resilience.

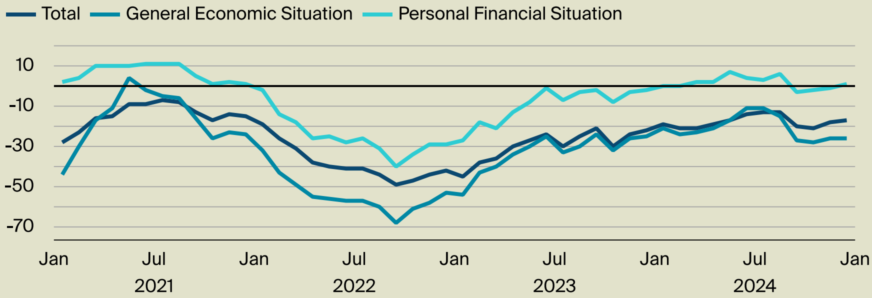
MARKET STABILITY TAKES HOLD

Strong festive trading saw many retailers report record sales, despite a weaker October and November. The prolonged stability in occupier markets finally triggered a shift in vacancy rates, which had remained at 14.0% since Q2 2023. By Q4, vacancies declined by -20bps to 13.8%, with the most notable improvements in Shopping Centres (-50bps decline). All Retail rents also strengthened, surpassing +1% year-on-year growth in November (+1.2%) for the first time since 2016, marking a key milestone for rental recovery.

RETURN TO CAPITAL GROWTH

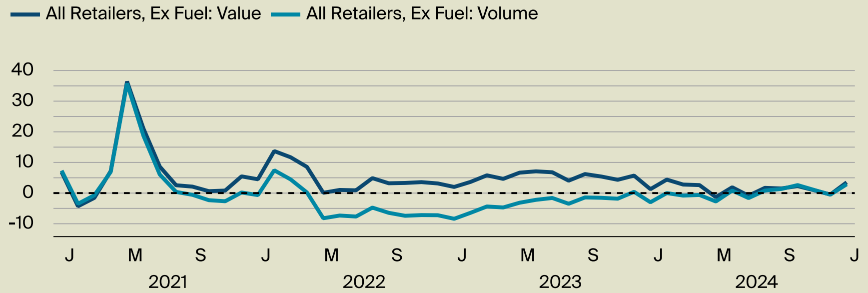
Investment volumes surged in Q4, reaching £2.9bn, the highest level in many years and the strongest quarter of 2024. Retail Warehousing dominated activity, accounting for 58% of total deal volume, while Shopping Centres made up 33%. Both sectors saw an uptick compared to the previous quarter, as transactions completed ahead of the festive period. Q4 also marked a turning point for capital values, which returned to solid positive growth (+2.0% year-on-year), outperforming the All Property average (+0.4%).

Consumer confidence
Confidence over the next 12 months



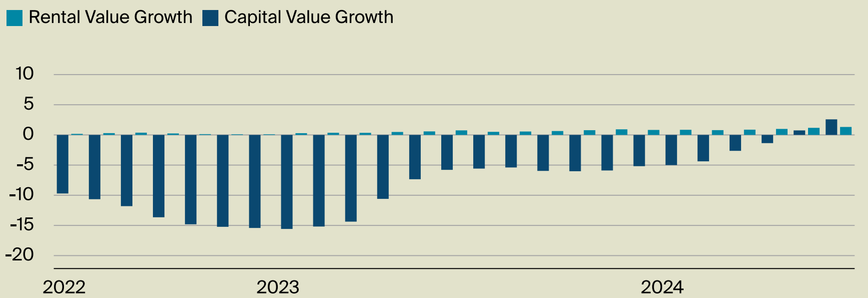
Source: Gfk

ONS retail sales
Monthly year-on-year change, %



Source: ONS

All retail – rental/capital value growth
Rolling 12 month % change



Source: MSCI

High street retail

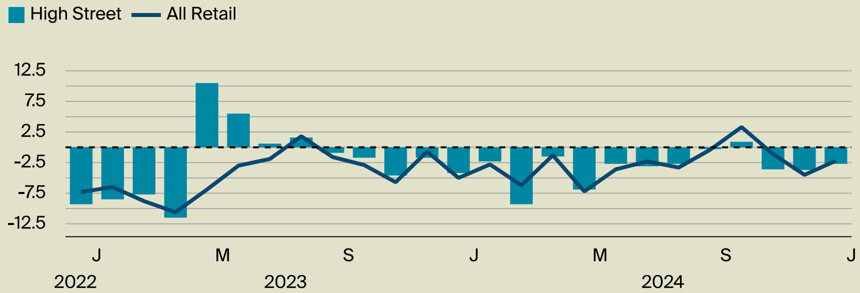
Vacancy rates finally improve as leading retailers reaffirm commitment to physical bricks & mortar

CONSUMER DEMAND VOLATILE
Retail sales were volatile across Q4, rising +1.0% in October, dipping -0.5% in November, and rebounding +3.5% in December. Despite Non-Food sales values rising +3.8% overall, the increase was deflationary, with volume growth outpacing at +4.3%, suggesting retailers discounted to drive demand. The BRC Shop Price Index saw deflation deepen to -1.0% in December, though some high street categories held strong without heavy discounting. Categories with solid value and volume growth included Books (+3.0% / +0.4%), Watches & Jewellery (+8.9% / +5.9%) and Cosmetics (+11.4% / +10.8%).

RETAILERS SEE FUTURE ON HIGH ST
Trading updates from key retailers highlighted robust occupational dynamics. Waterstones' annual profits quadrupled, supported by increased tourism and return to office, reinforcing its plan to expand its store network in 2025. Greggs achieved double-digit annual sales growth, with around 140 net new shops planned. Sosandar, a recent entrant to physical high street retail, reported strong in-store trading and announced plans to open more locations in top-tier high street destinations. Retail occupancy continued to improve, with unit vacancy falling by -20bps to 13.8%. Rents also accelerated +1.7% quarter-on-quarter (vs. +0.8% for All Retail)

LARGER LOT SIZES TRICKLE THROUGH
High street assets accounted for just 4% of total retail investment in Q4, reflecting the continued scarcity of large prime blocks available to meet investor demand. However, the quarter saw an increase in average lot sizes, with several transactions exceeding £15m. Notable deals included Meadow Partners' £40m acquisition of 185–205 Old Street, London, and L&G's ca. £24m sale of 19–31 Piccadilly, Manchester, to Forma Fund (advised by KF). Prime yields are holding at 6.75%, but at the sub £5m end, competition is driving yields below 6.5%, especially for prime-town assets, with private investors leading demand.

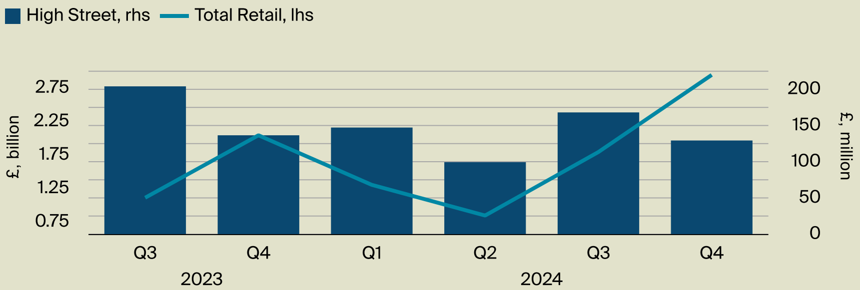
High street footfall
Monthly year-on-year change, %, vs. 2019 levels



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

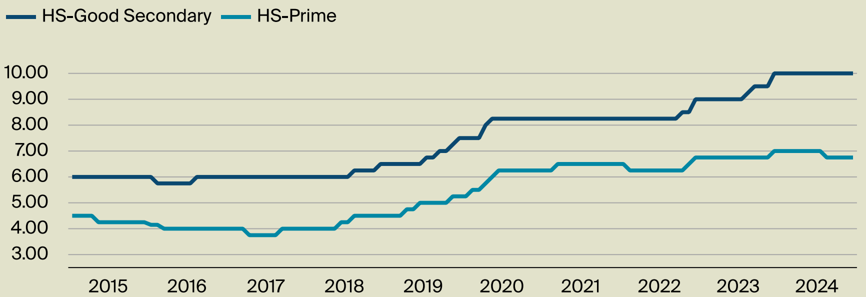
Source: BRC / Springboard

High street investment volumes



Source: Knight Frank

High street yields
%



Source: Knight Frank

Shopping centres

Yield compression gathers momentum as investor confidence strengthens

FESTIVE SALES BOUYANT

Shopper footfall did fluctuate across Q4 (Oct -1.6%, Nov -6.1%, Dec -3.3%), with consumer demand for select categories soft (e.g. Clothing -2.7% values / -4.0% volumes). Christmas itself was strong, with shoppers spending +3.5% more in December than last year and buying +2.9% more items. Non-Food sales grew +6.8%, with double-digit sales growth (and healthy levels of inflation) in many shopping centre categories including Cosmetics (+20.4%), Music & DVDs (+18.5%), and Books (+10.6%).

OPERATORS REMAIN PRAGMATIC

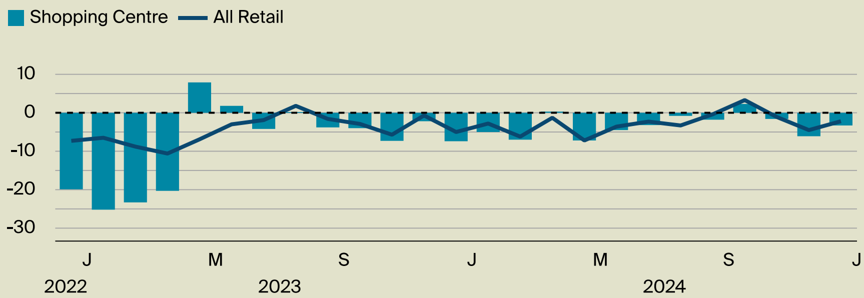
Retailers largely set aside Budget-related drama in favour of focusing on the lucrative Christmas trading period. Whilst increased cost pressures will undoubtedly affect already squeezed sections of the market, anchor tenants reported strong festive sales, with notable performances from Next: +6.0% (exceeding +3.5% forecasts, driven by consumers trading up within its pricing architecture), M&S: +5.6%, Superdrug: +5.1%, and Boots: +8.1% (destination and flagship stores performing 'particularly well'). Ongoing leasing activity and store expansions/upsizings contributed to a -50bps improvement in vacancy rates to 17.2%, down from 17.7% a year prior.

YIELD COMPRESSION UNDERWAY

Deal volumes reached £970m in Q4, the highest of the year, bringing total annual investment to £2.0bn. Several major prime deals saw the average lot size rise to £74m (up from £38m in Q2). Yields for Regionally Dominant schemes compressed by -25bps to 7.50%, with Landsec's acquisition of a 92% stake in Liverpool ONE setting the benchmark. Sub-Regional Schemes also saw -25bps compression, reaching 9.00%. Other key transactions included the sale of AustralianSuper's 50% stake in Centre:MK, Milton Keynes, to Royal London, Frasers Group's acquisition of Princesshay, Exeter, from Nuveen/The Crown Estate, and CUBE RE's purchase of Swan Walk, Horsham, out of receivership (all KF advised).

Shopping centre footfall

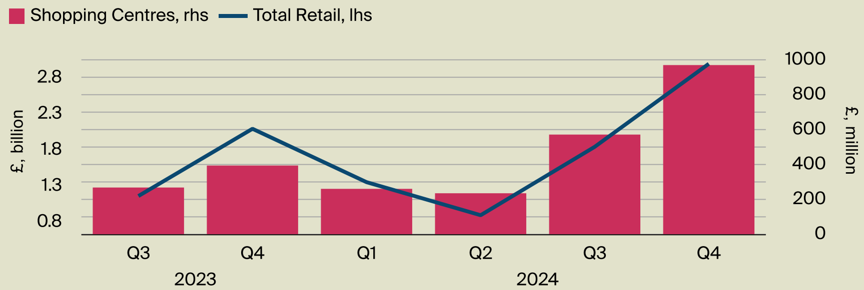
Monthly year-on-year change, %, vs. 2019 levels



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

Source: BRC / Springboard

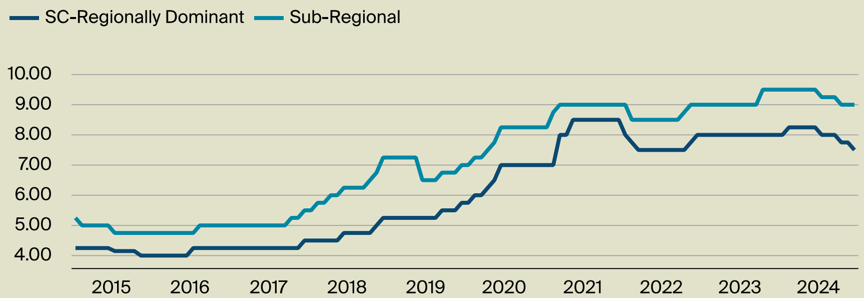
Shopping centre investment volumes



Source: Knight Frank

Shopping centre yields

%



Source: Knight Frank

Out-of-town

A standout quarter for investment, underscoring another exceptional year for retail warehousing

DISCOUNTING DRIVING DEMAND

Q4 retail sales grew by a modest +1.5% overall, with the ONS reporting Non-Food (+3.8%) sales to be stronger than Food (-0.8%). Demand for select out-of-town categories was soft: Furniture -6.5%/ Household Electricals -0.4%. Although some categories experienced growth, this was largely driven by discounting, with volume growth outpacing values (i.e. consumers bought more but spent less): Garden Centres & Pets (vols +9.5%/vals +5.0%); DIY (+5.9%/+5.2%), Sports Equipment & Games (+25.3%/+25.6%). Cosmetics (+10.8%/+11.4%) was one of the few categories that saw robust consumer demand, with values outpacing volumes.

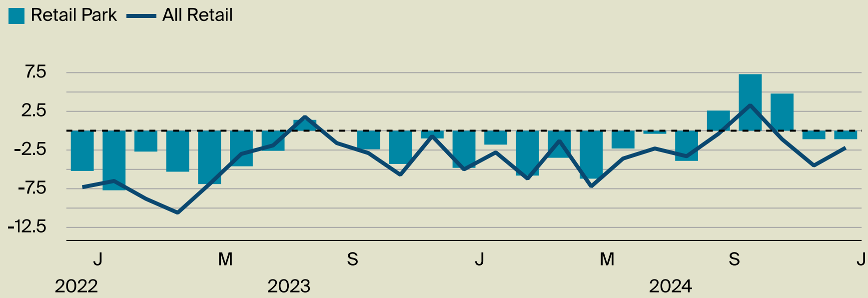
VACANCIES HIT NEW RECORD LOW

Despite volatility in consumer markets, key retailers reported solid Christmas trading: B&M (+2.8%, now on track to open 45 stores); Dunelm (+1.6%); Topps Tiles (+4.6%). Curry's reported 'strong' peak trading, prompting an upward revision of its profit outlook, while Superdrug highlighted retail parks as their best-performing locations. Ongoing preference for out-of-town locations has driven steady improvements in unit vacancies every quarter since 2021. In Q4, vacancies fell a further -30bps to 6.5%, now -180bps below pre-pandemic levels (8.3%).

BUMPER QUARTER FOR INVESTMENT

Q4 saw £1.7bn transacted, marking the strongest quarterly performance in recent years. Volumes were driven by major portfolio deals, including Redevco's £518m acquisition of 16 retail parks, British Land's c. £441m purchase of seven retail parks from Brookfield, and Starwood Capital's reported £674m acquisition of Columbia Threadneedle's BCPT. Yield compression gained momentum, though the gap between segments widened. Open A1 yields compressed -50bps to 5.25%, while Bulky Goods Parks saw -25bps tightening to 5.50%. Capital values rose +2.1% quarter-on-quarter, marking a fourth consecutive quarter of growth.

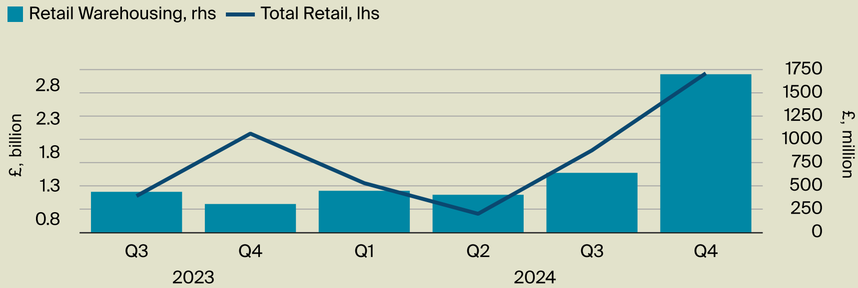
Retail park footfall
Monthly year-on-year change, %, vs. 2019 levels



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

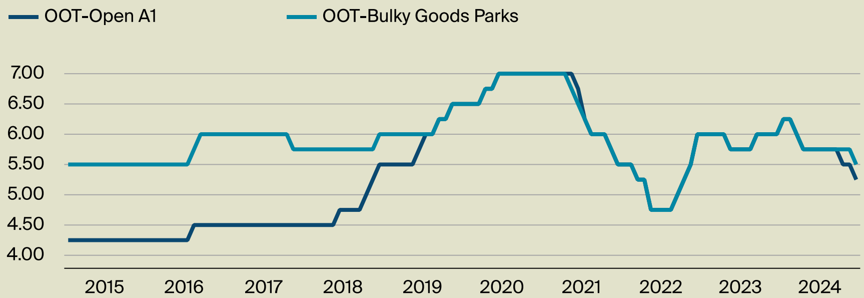
Source: BRC / Springboard

Retail warehousing investment volumes



Source: Knight Frank

Retail warehouse yields
%



Source: Knight Frank

Leisure

Number of outlets remains virtually unchanged from a year ago, indicating reassuring stability for the sector

CONSUMERS JUST WANT TO HAVE FUN

Consumer demand for hospitality and leisure remained strong in Q4 2024, despite 46% of Brits stating they wanted to cut discretionary spending. Barclaycard data show that hospitality & leisure spending (Oct +4.5%, Nov +4.7%, Dec +3.5) outpaced retail spending (Oct +0.7%, Nov -2.0%, Dec -0.2%). Restaurants, Cafés, and Bakeries saw growth in November (+2.1%) and December (+1.1%), as did Bars, Pubs, and Clubs (+3.5% / +1.3%). In contrast, Takeaway and Fast Food spending growth was weaker (-1.1% / +0.9%), suggesting consumers preferred socialising outside of the home.

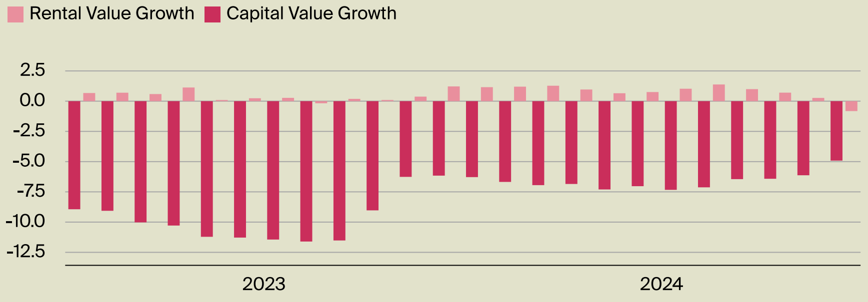
UNIT NUMBERS BROADLY FLAT

Despite strong consumer spending, operating conditions remained tough. The number of hospitality units declined by -0.7% quarter-on-quarter in Q4 but remained flat year-on-year. Restaurants (-2.3%) and Food-led Venues (-1.5%) saw the biggest contraction, whilst Bar Restaurants (+0.8%) and Bars (+0.2%) saw slight expansion. Weak rental growth turned negative in December -0.8%), after 15 months of anaemic rental growth averaging +0.8%. The sector ended 2024 with broadly the same number of sites as a year earlier, marking a period of stability after two years of contraction (2022 -4.5% / 2023 -2.9%).

DEAL VOLUMES ABOVE AVERAGE

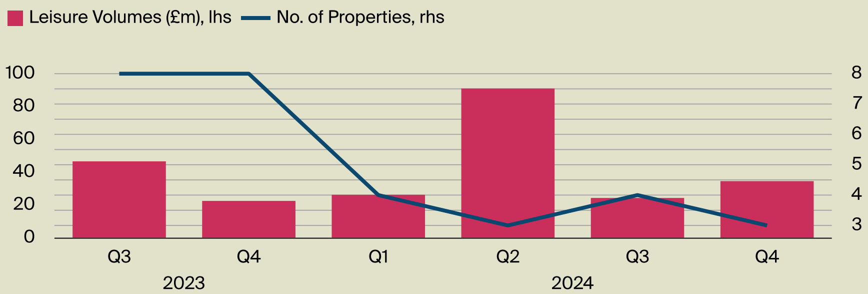
Deal volumes were solid in the final quarter of Q4, at £34.5m according to RCA, above the 5-year quarter average (£33.5m). This took total 2024 annual volumes to £175.8m, above the 5-year annual average (£114.7m). In terms of vendors, abrdn was the biggest disposer of leisure assets (£85.1m), whilst Tritax Big Box and LondonMetric were the biggest purchasers (combined £98.8m). TDR Capital remains the biggest holder of leisure assets with over £2bn in estimated holdings. Yields remained stable across the board: Leisure Parks 8.00% / Good Secondary Leisure Parks 9.00% / Secondary Leisure Parks 15.00%.

Leisure – rental / capital value growth
Rolling 12 month % change



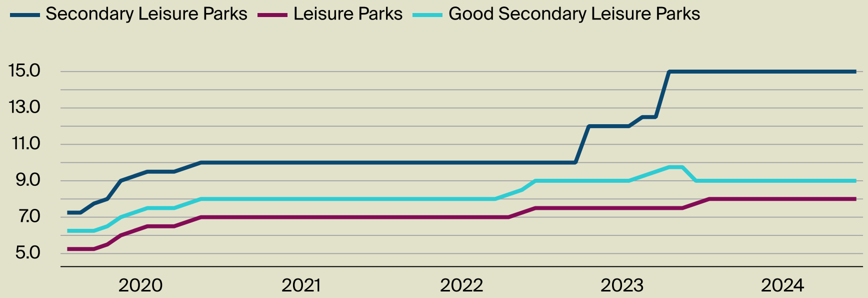
Source: MSCI

Leisure investment volumes



Source: RCA

Leisure yields
%



Source: Knight Frank

Foodstores

Household spending hit record highs, with December seeing busiest in-store activity in four years

RECORD CHRISTMAS SPENDING

Household spending on take-home groceries hit a record high this Christmas at £460 on average, according to Kantar. Overall take-home sales rose by +2.1% year-on-year in the four weeks to 29 December, equating to £13bn. The average household made 17 separate grocery trips in December, making it the busiest month since March 2020. Shoppers were willing to splash out more despite grocery inflation increasing to 3.7% (the highest level since March 2024). Premium own-label product sales grew +14.6%, with nine in 10 households acquiring at least one of these products in December.

OPERATORS FOCUSED ON GROWTH

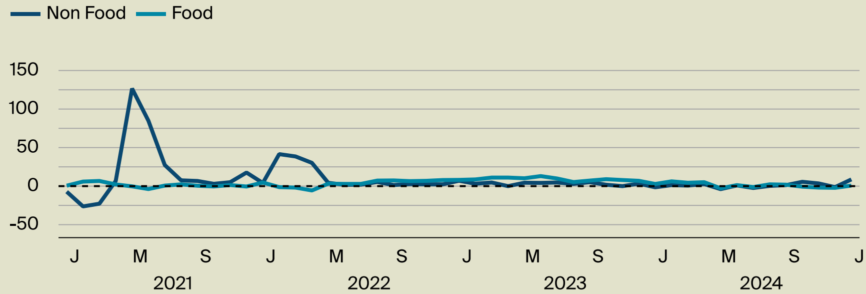
The major grocers reported both sales value and volume growth, though volume figures were largely unspecified. Tesco, the market leader, saw +3.8% sales growth, achieving the largest market share gain of any grocer (+0.8 percentage points to 28.5%). Sainsbury's reached its highest market share since December 2019 (16.0%), with +3.5% sales growth, outpacing the wider market. Morrisons posted a more modest +0.4% increase, with its turnaround gaining traction. Looking ahead, operators are focused on growth; some prioritising profitability and cost efficiency (Sainsbury's, Morrisons), whilst others are expanding their store footprint (Co-op 75 stores nationwide; Aldi nine stores within the M25).

OWNERS HOLD POPULAR ASSETS

Foodstore investment was relatively subdued in Q4, with £145m transacted, well below the five-quarter average of £475m. Volumes have declined as stock remains scarce, with most owners opting to hold onto these sought-after assets rather than sell. Key deals in the quarter included Supermarket Income REIT's £50m acquisition of Sainsbury's in Huddersfield and LondonMetric's £28m disposal of Asda in Halesowen. Yields for RPI-linked assets compressed by -25bps to 4.75%, while Open Market Reviewed yields remained stable at 6.00%.

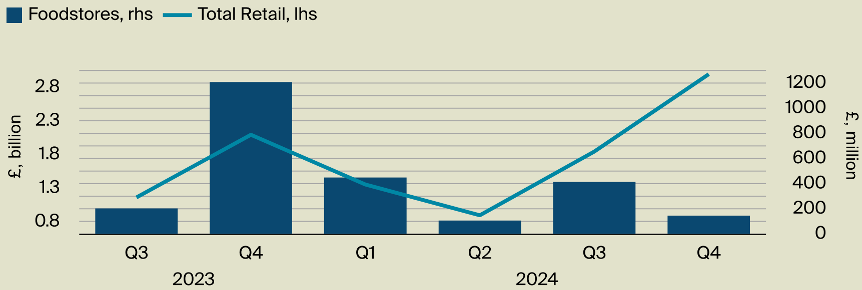
Food vs. non-food retail sales

Monthly year-on-year change, %



Source: ONS

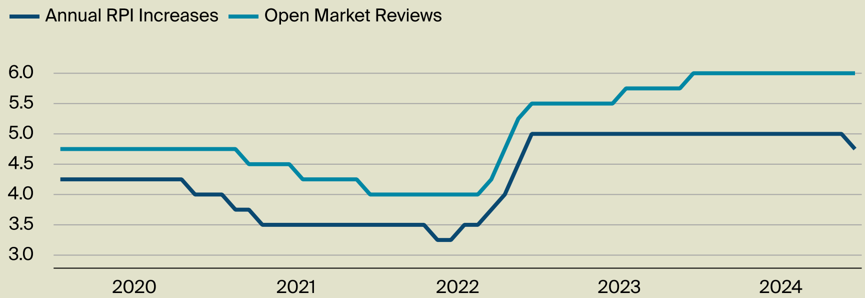
Foodstore investment volumes



Source: Knight Frank

Foodstore yields

%



Source: Knight Frank

Central London

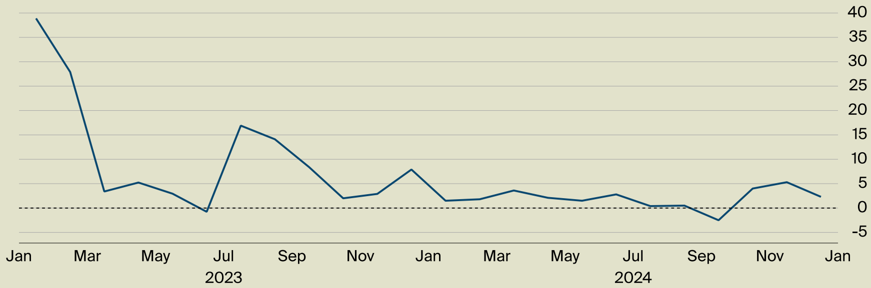
Low availability of prime retail space fuels intense competition among occupiers

SHOPPERS - JUST BROWSING?
Visitor numbers rose in the West End during Q4, with solid footfall growth (Oct +4.0%, Nov +5.3%, Dec +2.3%) after a weak Q3. However, spending lagged behind, fluctuating month-to-month (Oct +2.4%, Nov +0.5%, Dec 0.0%) as domestic spend shortfalls (Nov -0.8%, Dec -3.6%) outweighed solid international growth (Nov +4.5%, Dec +2.5%). Domestic shoppers still account for 64% of total spend. Year-to-date figures show total West End spend edged up just +0.5% year-on-year. While transactions dipped -0.2%, the +3.3% rise in average transaction value suggests shoppers bought less, but spent more per purchase in 2024.

REVIVAL ON PRIME PITCHES
Competition for prime retail space across the capital remains intense, with retailers eager to secure the best locations—or willing to wait for them. CoStar data on Oxford Street shows availability has plunged to 3% from 10%, a seven-year low, highlighting the scarcity of prime retail space. This trend is reflected in broader metrics, with Greater London's average unit vacancy rate improving -30bps quarter-on-quarter to 10.0%. Vacancy rates now sit just 90bps above pre-pandemic levels (Q2 2020: 9.1%).

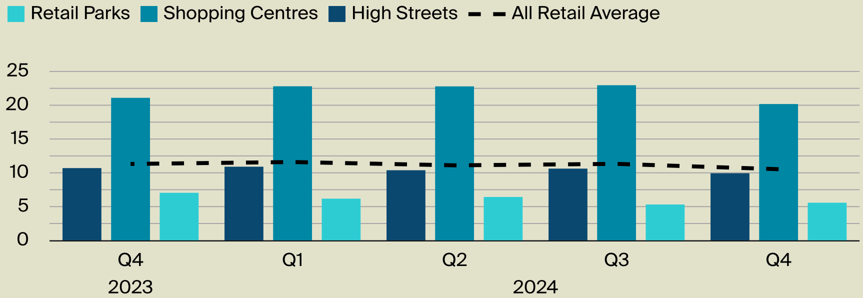
CROSS-BORDER CAPITAL DOMINATES
Q4 investment volumes reached £169m, bringing total annual transactions to £895m, slightly above the five-year average of £828m, according to RCA. Major deals included Global Holdings' £20m acquisition of 53–55 Frith Street and Meadow Partners' £40m purchase of 185–205 Old Street. Cross-border capital accounted for almost three quarters (74%) of investment purchases in 2024, the highest proportion since 2018, highlighting continued international investor interest in the UK retail market.

West End footfall
% change year-on-year



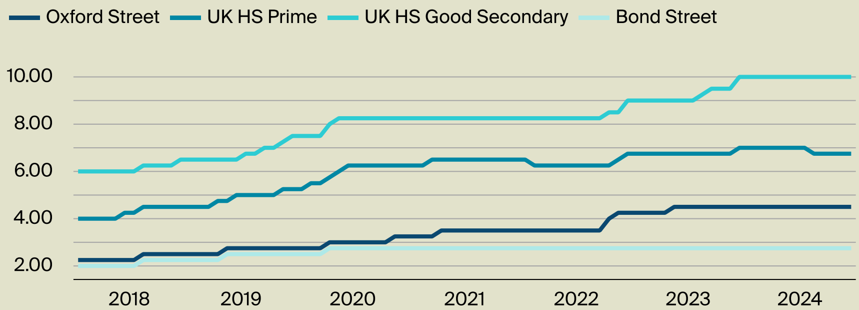
Source: New West End Company

Vacancy rates*
% units
*Greater London



Source: Local Data Company

Yields
%



Source: Knight Frank

Specialist sectors

Data centres, healthcare & life sciences

CONTACT: DATA CENTRES – DARREN MANSFIELD, HEALTHCARE – RYAN RICHARDS, LIFE SCIENCES – JENNIFER TOWNSEND

Data centres

Despite the government's pledge to accelerate data centre development, grid constraints may undermine these efforts, with power procurement remaining the industry's top challenge

£1.13BN INVESTED IN THE UK DATA CENTRE SECTOR IN 2024

The UK data centre sector witnessed £1.13bn in real estate transactions across 2024, 13.3% above average post-pandemic annual transaction volumes.

The largest transaction of 2024 was KKR's £315m acquisition of the International Trading Estate in London, purchased as a freehold data centre development opportunity. CBRE Investment Management acquired Cloud House & Cloud House West in the first quarter of 2024 for £48.6m, representing a 5.5% NIY. The site has been leased to Digital Realty on a 24-year term.

VACANCY FALLS TO AN ALL-TIME LOW

Vacancy rates for live IT capacity in the UK compressed further during the fourth quarter of 2024, bringing industry vacancy down to 6.25%.

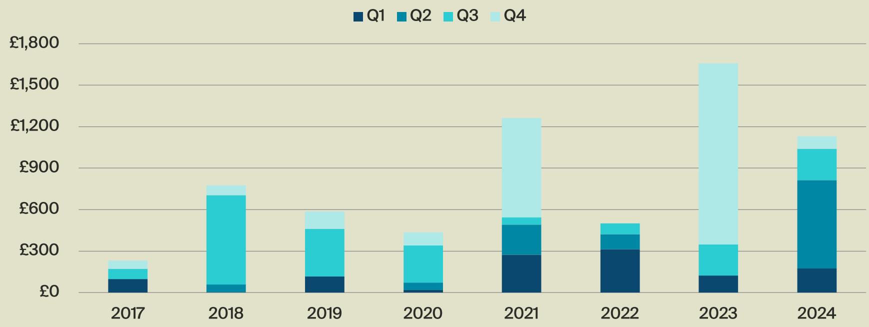
Construction pipelines continue to tighten, with 87.7% of upcoming projects being pre-let. At present, 35MW stands to come to market unleased, less than standard for a typical hyperscale data centre.

UK ENERGY INFRASTRUCTURE SHORTFALLS TRIGGERING 10+ YEAR LEAD TIMES FOR NEW PROJECTS

The volume of projects that have been unable to attain necessary power or planning permits is accelerating. Lead times in the UK, particularly in power constrained regions such as West London, have reached 10+ years. In West London, new applicants today are unlikely to receive bay connections until 2036.

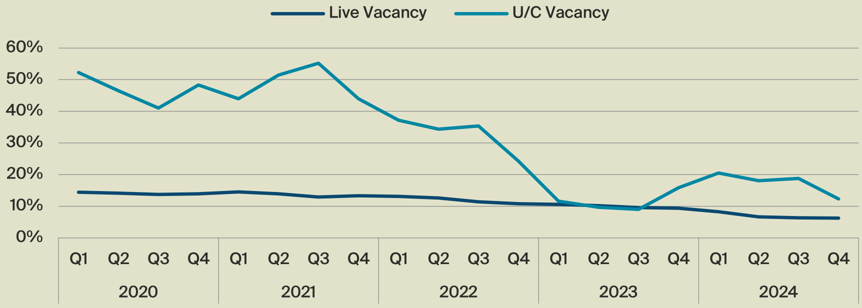
The government has pledged to prioritise data centre planning applications, with Keir Starmer stating, "If you're looking at where to build your data centres, we will speed up planning permission". In September 2024, data centres were classified as 'Critical National Infrastructure', recognising them as vital to national digital and economic infrastructure. However, any such pledges are likely to be futile without accelerated development of the nation's power transfer infrastructure.

Investment volumes
£m



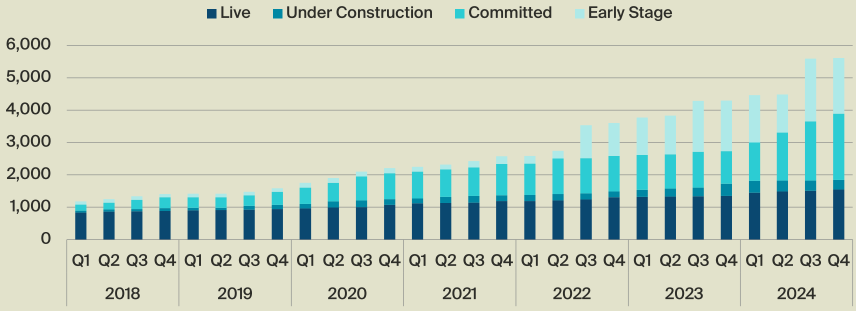
Source: Knight Frank Research, RCA

Vacancy rates
Live IT %



Source: Knight Frank Research

Supply volumes
MW



Source: Knight Frank Research, DC Byte

Healthcare

Cautiously optimistic

GONE BUT NOT FORGOTTEN

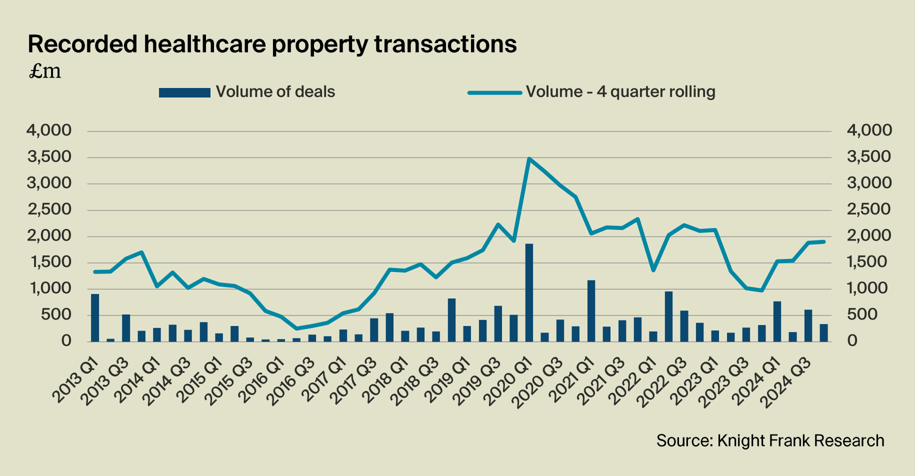
Transaction volumes for 2024 total just over £3bn, the highest that we have seen since 2022, with a significant portion attributed to WHOLECO deals and overseas capital.

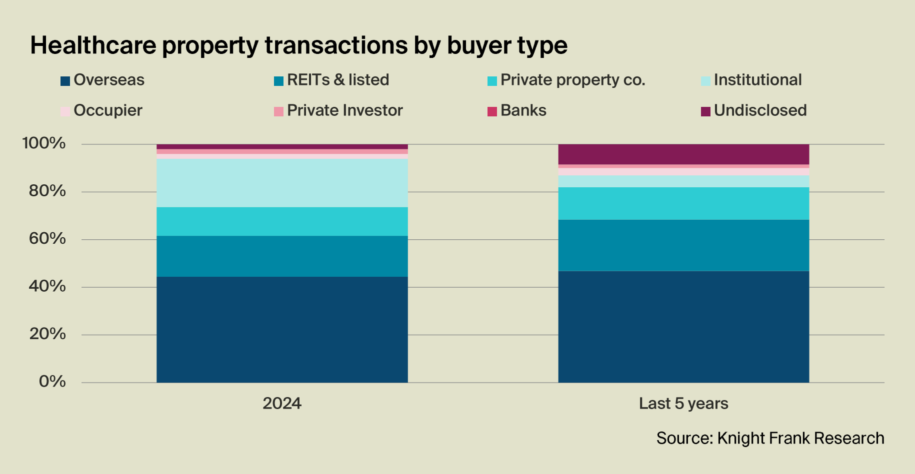
Deal structures have played a key role in this, as investors seek more substantial net operating income than that available via the conventional triple-net lease. As such, we have seen more deals recorded in the past year, contributing to a positive market sentiment - comparatively, 2023 finished with transaction volume levels of £1.2bn overall. However, there is still evidence of an element of caution being shown. Rates have not moderated as quickly as we had initially forecasted, and therefore there appears to be some market watching.

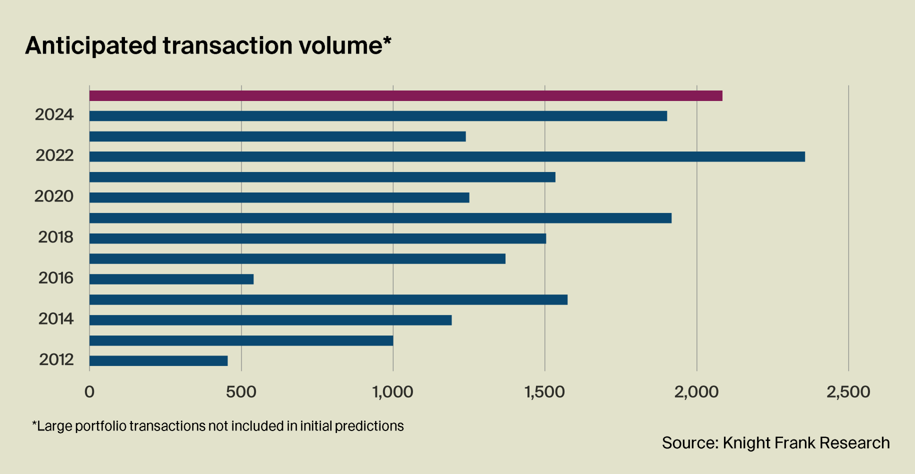
Last year saw the rebasing of the buyer composition in favour of overseas capital as well as the institution investors and private property companies. This is slightly more in line with the five-year averages than that of 2023.

We are optimistic regarding 2025's total volumes, however, it is worth noting that 2024 saw a large number of portfolio deals within reported volumes, and whilst this is positive, it may be difficult to maintain such momentum with a lack of institutional grade and scalable portfolios.

Key transactions for 2024 include Hartford Care, Signature Senior Living and Berkley Care, along with the acquisition of Care UK by Welltower for an undisclosed fee.







Healthcare

Operational performance still a key factor in attracting sector investment

OPERATIONAL KPIS LOOK PROMISING

Statistics from our 2024 Care Home Trading Performance Index – covering c. 100k beds, accounting for 70% of the corporate market and one-fifth of the total market – demonstrate strong and stable trading. All care average fees are up approximately 7% annually, sitting at £1170 per week, whilst occupancies are trending at 88.8%, on par or above pre-pandemic levels.

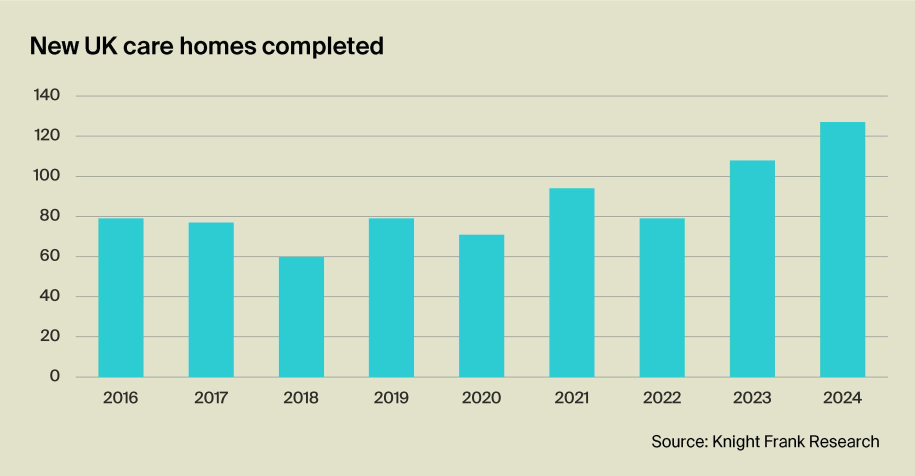
Staffing costs as a percentage of income have also seen improved percentages decreasing to 56.7%, from last year's 60%. Earnings Before Interest, Taxes, Depreciation, Amortization, Rent, and Management Fees (EBITDARM) of care operators, which is arguably one of the key factors in an investor's underwriting when determining a sustainable rent, have also improved. Presenting an average of 25.9% (up from 25.2% last year), likely a resulting factor of improved occupancies and fee growth boosting revenues.

BED SUPPLY REMAINS AN ISSUE

There has been a trend of greater deregistration's over the last five years, largely due to much of the deregistered stock consisting of smaller and older assets, naturally replaced by newer, larger, purpose-built homes. It is also important to note that improvements in the data pool and sources have maintained the level of beds captured among the losses.

2024 saw bed numbers grow by 519 beds. While the bed supply has grown by 3% over the last decade, the population of people over 65 has grown by around 16% over the same period.

Considering the minimal growth in supply numbers, it is more than clear that we need to build more homes to service our ageing population. The demographic shift is such that by 2050, we anticipate a shortfall of more than 200,000 beds.



Life sciences

UK life sciences VC funding reached its highest level since 2021 - despite challenges, public and private investments highlight optimism and reinforce the UK's leadership in science and innovation

SECOND BEST YEAR FOR UK LIFE SCIENCES VC FUNDING

UK life sciences venture capital funding, regarded as a key indicator of demand, closed the year at £3.25bn, achieving its second-highest level on record. However, fewer deals signal a shift toward targeted investments in proven concepts. Looking forward, pension fund reforms encouraging investment in high-potential life sciences ventures are an exciting development. The more UK pension funds can be involved, the greater the opportunity in the UK for mid-cap businesses to grow without moving wholesale to the US.

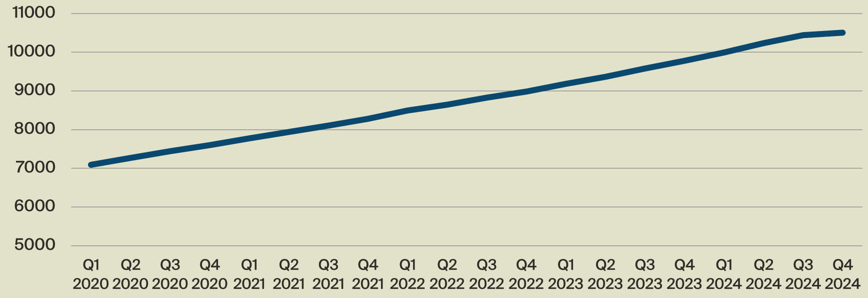
Additionally, ongoing sector trends—such as increased outsourcing, digital transformation, M&A, partnerships and corporate restructuring – are expected to create real estate demands. The latest 2024 financial results from major pharmaceutical companies, with a few exceptions, show growth in net sales and a generally positive outlook for 2025.

This quarter saw significant investments in the UK, including Eli Lilly's £279m investment and Ellison Institute of Technology, investing at least £100m in joint research programmes with the University of Oxford. The latest budget reaffirmed the government's commitment to life sciences, preserving record levels of public R&D investment and allocating £520m to a life sciences manufacturing fund, among other initiatives. However, concerns remain over limited higher education support, increased global competition, access to capital and the impact of rising national insurance costs.

Despite these challenges, the UK continues to lead in key areas of science and innovation. This advantage should be widely recognised and leveraged.

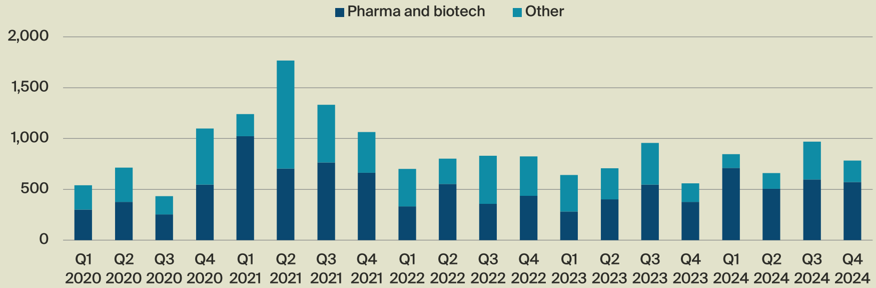
Following the end of the quarter, the government announced a series of major infrastructure projects, including the revival of plans to develop the Oxford-Cambridge growth corridor as well as further actions relating to pension fund reforms, regulation and trade.

Number of active UK life sciences companies



Source: Knight Frank Research, 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 05/01/2025. 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 Research, PitchBook

Vacancies for pharma and healthcare roles in the UK
Posted job adverts (posted on company websites)

Source: Knight Frank, GlobalData

Life sciences

Investment volumes remain consistent with 2023, while take-up declines due to a historically cautious funding and operating environment, along with fewer large-scale deals

OXFORD DOMINATES TAKE-UP

Life sciences take-up across the Golden Triangle (Oxford, Cambridge, and London) reached 539,747 sq ft in 2024, with 88,586 sq ft recorded in Q4. This marks a 38% decline from 2023 and a 2% quarter-on-quarter drop.

Annual take-up also fell 23% below the five-year average (2020–2024), reflecting a historically cautious funding and operating environment. However, as earlier noted, there are encouraging signs of recovery in funding levels. Oxford dominated activity, accounting for 72% of Q4 take-up and 59% for the entire year.

When analysing take-up, it's important to consider deal volumes, as one or two large deals can skew total square footage figures. For example, Cambridge experienced a 49% year-on-year decline in take-up by sq ft. but recorded the same number of deals in 2023 and 2024. Notably, 77% of deals in 2024 were under 10,000 sq ft, compared to 45% in 2023, indicating a trend towards smaller transactions. This reflects the composition of the sector, with SMEs making up 75% of all life sciences sites in the UK as of 2021/22.

Key deals in Q4 included Novo Nordisk acquiring c. 61,000 sq ft at The Oxford Science Park.

INVESTMENT VOLUMES ON PAR WITH 2023

Investment volumes for life sciences real estate across the Golden Triangle (Oxford, Cambridge and London) for the full year of 2024 were on par with 2023, reaching £622.53m compared to £624.92m. Q4 saw five deals totalling £332.12m.

Notable transactions this quarter included Danaher's £125m acquisition of an Abcam-occupied building on the Cambridge Biomedical Campus from Tesco Pension Fund and Imperial College's £115m purchase of Victoria Industrial Estate in North Acton from SEGRO. This acquisition will support the development of the WestTech Corridor, a new deep-tech innovation ecosystem in West London.

The supply-demand imbalance in the Golden Triangle appears to be stabilising for now, with over 4.35m sq ft currently under construction and set for completion between now and the end of 2027. However, market dynamics vary across regions, with London alone accounting for nearly 50% of this total.

Key contacts

Offices

Retail

Logistics & Industrial

Healthcare

Life Sciences

Data Centres

Student Property

Automotive

Capital Markets

Valuation & Advisory

Debt Advisory

Restructuring & Recovery

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