UK Real Estate Navigator

Q4 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

Capital markets	UK increasingly viewed as a relative safe-haven in a shifting environment.
Data centres	Strong development appetite persists, yet grid bottlenecks risk undermining the UK's ability to scale AI-ready capacity at pace.
Economy	Global economy proves cautiously resilient, whilst pockets of positivity emerge in the UK.
Healthcare	UK healthcare closes 2025 at record transaction levels. Bed supply sees minimal growth, despite strong investment activity and demand drivers.
Industrial	A positive final quarter, with Q4 activity boosting 2025 investment volumes above the long-term average, pushing annual take-up volumes ahead of the pre-pandemic average, and continued rental growth.
Life sciences	The life sciences sector paradox: EIT's £890mn Oxford Investment, diversification of demand, investment in replenishing pipelines and supportive government policy set against slowing company creation, cautious hiring and more selective capital deployment.
Offices	UK Cities: Regional office leasing continues to prove brisk, driven by sustained demand from Financial and Professional services. Investment activity is beginning to strengthen, with benchmark deals emerging, more stock coming to market, and growing alignment between buyers and sellers.
	South East: Leasing activity continues to build momentum, supported by larger requirements and sustained demand for premium space. Investment activity is steadily improving, underpinned by an expanding pipeline of assets now being brought to market.
	London: Renewed momentum in investment markets, as both City & Southbank and West End see strong rises in investment volumes. Meanwhile, a mixed result for leasing markets: rising take-up in City & Southbank, the third quarter of above trend take-up for Docklands & Stratford, and a dip in take-up in West End after a robust H1.
Retail	The much-anticipated Autumn Budget failed to provide much cheer for the retail sector, but has thus far been less destabilising than feared.

Economic update

Global and UK economy

CONTACT: VICTORIA ORMOND, CFA, KHADIJA HUSSAIN

Global economy

Cautious resilience

BALANCING GROWTH AND RISK

Global economic conditions remained highly uncertain through the first half of 2025, with shifting US policy direction and the prospect of new tariffs weighing on market sentiment. While negotiations later in the year softened some of the more restrictive proposals, the broader backdrop continued to be defined by geopolitical tensions, stubborn inflationary pressures and rising sovereign debt levels. Global public debt exceeded $100tn in 2024, and IMF projections suggest it could reach around 100% of global GDP by 2029 - the highest level since the post-war era - highlighting the limited fiscal headroom available in many economies.

As 2026 begins, the environment remains fluid. Uncertainty has picked up again in the opening weeks of the year, with renewed geopolitical tensions - including developments in Venezuela and the Greenland crisis - reinforcing the sense of elevated global risk and reminding markets how quickly sentiment can shift.

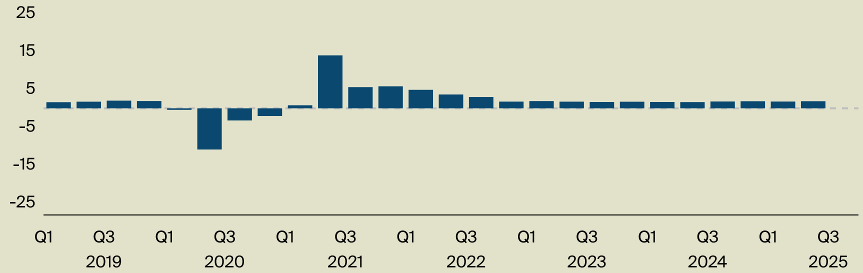
Even so, global growth has proven more resilient than many had anticipated. The IMF's January 2026 World Economic Outlook Update revised its 2026 global growth forecast slightly higher to +3.3%, while maintaining +3.2% for 2027. Risks remain tilted to the downside, with concerns around trade fragmentation and the potential for an AI bubble, posing meaningful challenges to the global outlook.

GLOBAL SERVICES PMI CONTINUES TO BE EXPANSIONARY

The Global Services PMI rose to 52.7 in January, extending its sustained period in expansionary territory (figure above 50). Meanwhile, the Global Manufacturing PMI edged up to 50.9, marking its sixth consecutive month of expansion.

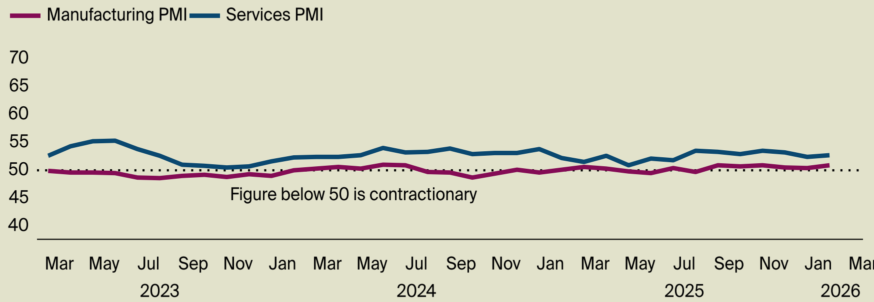
Gross Domestic Product

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



Source: Knight Frank Insight, Macrobond, OECD

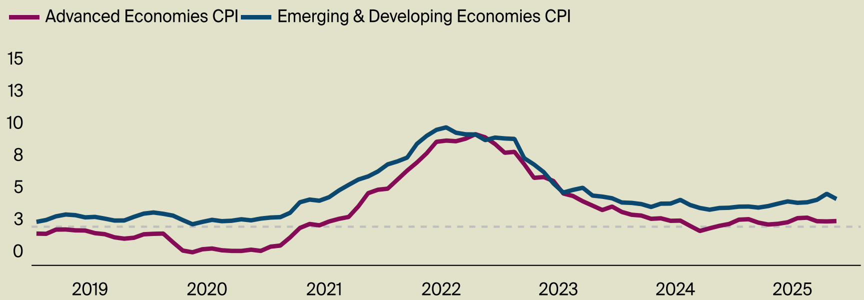
Business Activity Index



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

Inflation

%



Source: Knight Frank Insight, Macrobond, World Bank

UK economy

Pockets of positivity emerge

A TURNING POINT FOR THE UK

The UK economy surprised to the upside in early 2025, demonstrating resilience in the face of global headwinds. GDP rose by +0.7% in Q1, followed by growth of +0.2% in Q2, and +0.1% in Q3. On a monthly basis, UK GDP rose by +0.3% in November, reversing the -0.1% decline recorded in October.

Looking ahead, relative growth resilience is becoming increasingly important in the current global landscape. The UK appears well positioned, with the IMF forecasting it to be the fastest-growing G7 economy in Europe this year and next, with growth of +1.3% this year and +1.5% in 2027. Rising AI investment is also expected to provide additional support to economic activity.

The outlook for 2026 is broadly encouraging, with the UK macroeconomic environment entering its first year of stability in close to half a decade. Business optimism has risen to a 17-month high, inflation is expected to return to target this year, and the prospect of further interest rate cuts should provide additional support to investment and confidence.

BUSINESS ACTIVITY PICKS UP

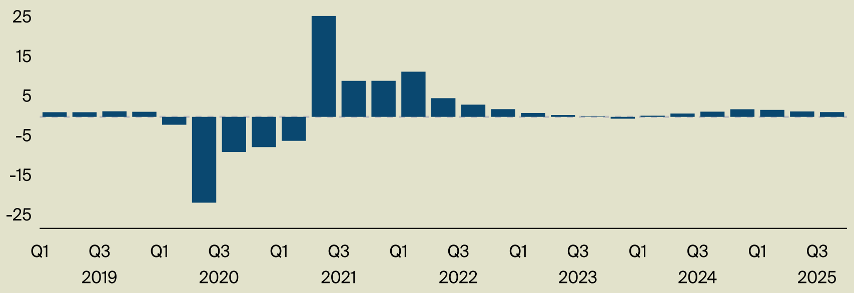
The services PMI edged up to 54.0 in January 2026 from 51.4 in the month prior, extending nine months of expansion. Meanwhile, the manufacturing PMI moved up to 51.8 from 50.6, a 16-month high.

INFLATION SET TO RETURN TO TARGET

UK inflation rose to 3.4% in December, although the increase is expected to prove temporary. The latest Bank of England forecasts indicate that inflation should return to the 2% target in the Spring, supported in part by measures announced in Chancellor Reeves' Budget, including energy bill reductions and a rail fare freeze.

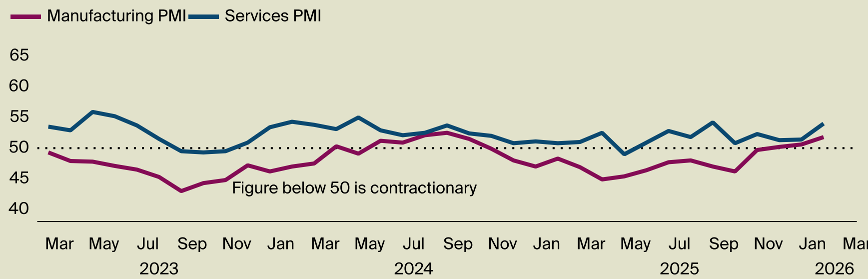
Gross Domestic Product

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



Source: Knight Frank Insight, Macrobond, ONS

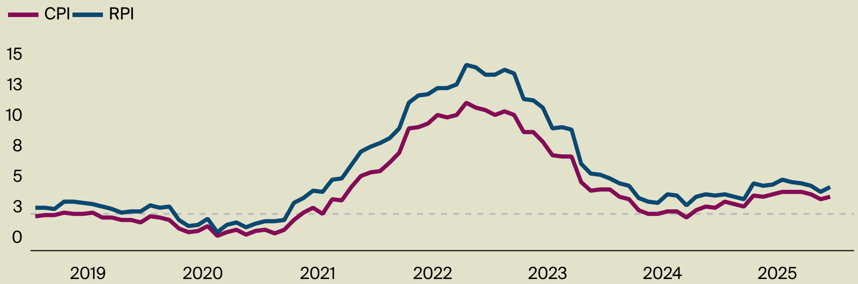
Business Activity Index



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

Inflation

%



Source: Knight Frank Insight, Macrobond, ONS

Capital markets

UK commercial real estate

CONTACT: VICTORIA ORMOND, CFA, KHADIJA HUSSAIN

Capital markets

UK increasingly viewed as a relative safe-haven in a shifting environment

RECOVERY IN MOTION IN 2025

UK commercial real estate investment volumes reached £51.3bn in 2025, a +5% year-on-year increase and the strongest annual volume in two years. Activity gathered pace toward the end of the year, with Q4 marking a clear step up in momentum. Investment totalled £19.4bn in Q4 2025, up +82% on Q3 and +28% higher than Q4 2024. Offices (£5.9bn) were the most invested sector, followed by Logistics (£4.8bn), Retail (£2.8bn), Seniors Housing & Care (£2.2bn), the Living Sectors (£2.0bn), Hotels (£1.6bn) and Data Centres (£0.05bn).

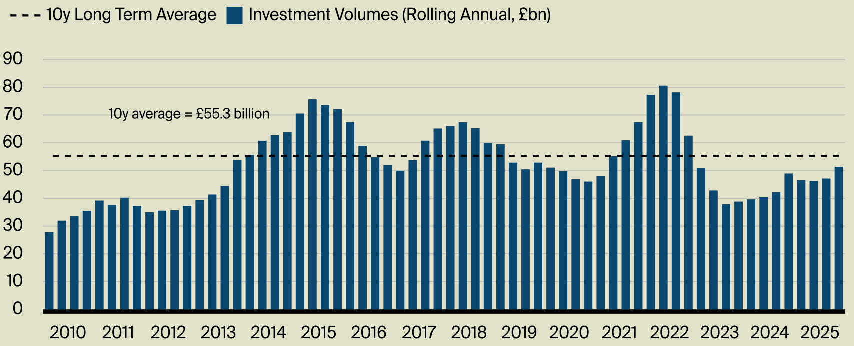
Cross-border investment also strengthened, reaching £6.6bn in Q4, up +11% on Q3 and accounting for 35% of total UK CRE volumes. The UK remained the 2nd most invested market globally and the leading destination for cross-border capital, supported in part by a sharp fall in Canadian acquisitions of US property, which dropped to their lowest level since 2010. Against a backdrop of global uncertainty, the UK property market is increasingly viewed as a relative safe-haven for international capital, with London also ranking as the leading global metro for cross-border All-Property investment for the 6th consecutive year.

WHERE WILL ACTIVITY HAPPEN?

The trend of limited stock coming to market is likely to persist through 2026, but as conditions continue to stabilise, confidence will gradually return. These are arguably the most favourable conditions for CRE investment in several years, supported by improving fundamentals across multiple sectors. Opportunities will not be confined to pure sector allocations; instead, they will emerge selectively, driven by individual asset dynamics and where opportunity arises out of shifting sentiment and demographics.

UK quarterly investment volumes

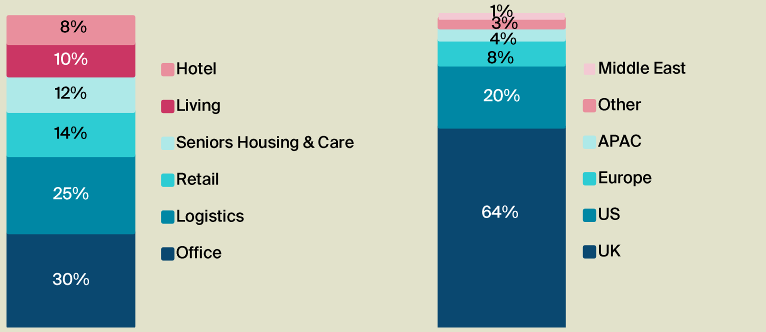
Quarterly investment volumes, rolling average



Source: Knight Frank Insight, RCA

Investment volume breakdown

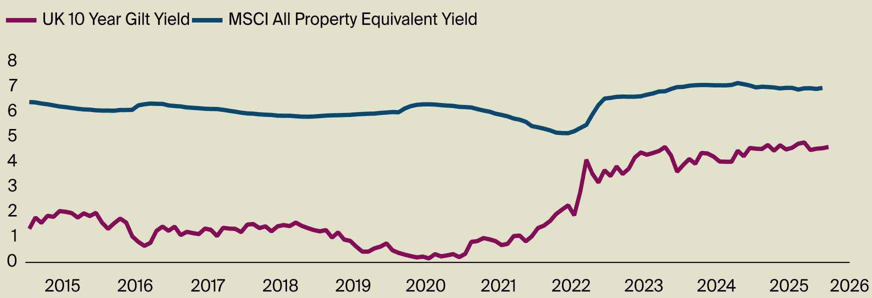
% of Q4 2025 volume



Source: Knight Frank Insight, RCA

Property equivalent yield and UK 10 year gilt yield

%

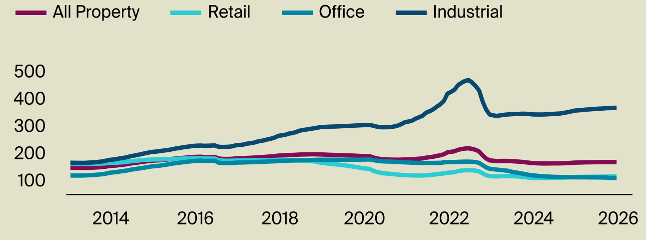


Source: Knight Frank Insight, Macrobond, MSCI

Capital markets

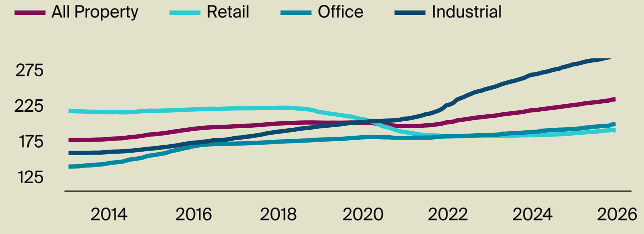
The IPF forecasts the Industrial sector to deliver the strongest capital and rental value growth in 2026

MSCI Capital Value Growth Index
Dec 1986 = 100



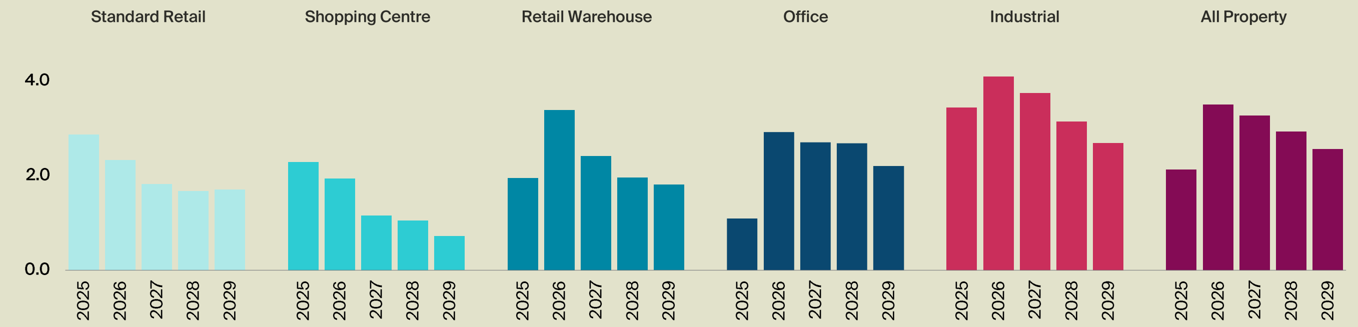
Source: Knight Frank Insight, MSCI

MSCI Rental Value Growth Index
Dec 1986 = 100



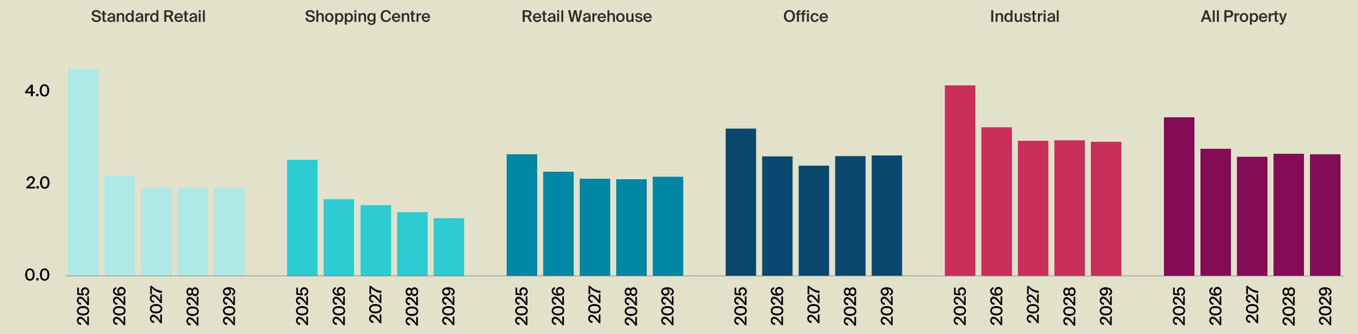
Source: Knight Frank Insight, MSCI

IPF Consensus Capital Value Growth Forecast
%, November 2025 forecast



Source: Knight Frank Insight, IPF

IPF Consensus Rental Value Growth Forecast
%, November 2025 forecast



Source: Knight Frank Insight, 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

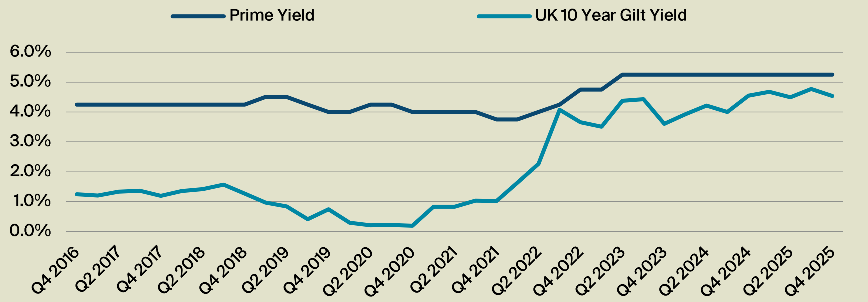
Strong rise in quarterly turnover

BOUNCE BACK IN LARGER LOTS

London's investment market regained momentum in Q4, with transaction volumes rising to £1.8bn, the strongest quarterly total since Q3 2022. This rebound represents a 350% quarter-on-quarter increase and pushes activity 7% above the long-term average. A key driver of this uptick was the return of larger lot-size transactions; deals over £100m accounted for almost three quarters (71.6%) of all activity. The headline transaction was the sale of 70 St Mary Axe, EC3, for £331m, reflecting a net initial yield of 5.58%.

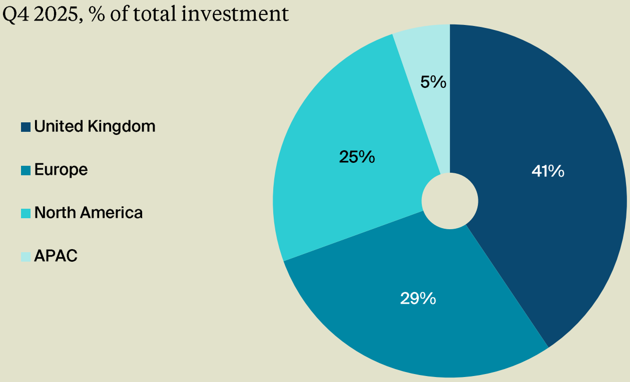
Domestic buyers were the most active group, representing 40.6% of Q4 volumes. European and North American investors remained important contributors as well, each accounting for around a quarter of activity (28.9% and 25.3% respectively). While the value of assets under offer fell by 32.8% to £1.2bn, this decline should be viewed in context. Much of the pipeline was converted into completed deals during the quarter. This does not indicate waning interest; rather, it reflects a period of elevated deal execution. Market pricing remains stable, with prime yields holding at 5.25%, against a backdrop of shifting interest rate expectations and broader macroeconomic turbulence.

City & Southbank: Prime yield and UK 10 year gilt yield
Q4 2025, % per annum



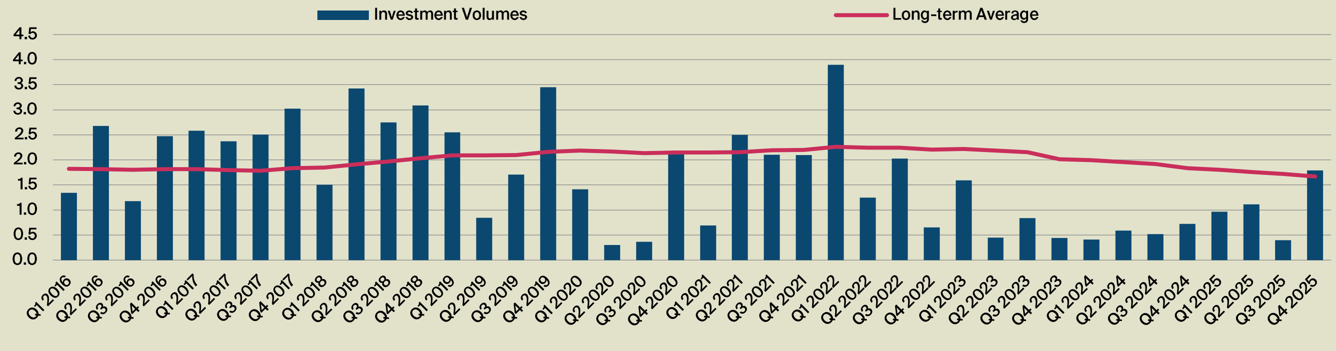
Source: Knight Frank Insight

City & Southbank: Investment volumes by nationality
Q4 2025, % of total investment



Source: Knight Frank Insight

City & Southbank: Investment volumes relative to trend
£bn



Source: Knight Frank Insight

City & Southbank offices

Rising take-up accompanied with falling availability

LARGER DEALS SIGNAL IMPROVING CONFINDENCE
Take-up across the City & Southbank market rose to over 2.0m sq ft in Q4, a 28.9% increase over the quarter and 30.2% above the long-term average. Moreover, at the end of the quarter there was just over 2m sq ft of space under offer. Leasing of new and refurbished space drove the overall rise in volumes with a quarterly increase of 65.6% to 1.3m sq ft, some 36.7% above long-term average and representing 63.4% of take-up.

The two largest transactions signed in Q4 were both pre-lets at One Exchange Square, EC2. The first was by Gibson, Dunn & Crutcher LLP signing 152,128 sq ft and the second was FTI Consulting's letting of 102,828 sq ft across the lower three floors. The building is expected to complete in the Q1 2026. The third largest was a second hand letting of 101,707 sq ft letting to the London Stock Exchange Group at St. Martins Court, EC4M, and demonstrating the leasing potential of good quality second hand stock. During Q4, there were five transactions above 60,000 sq ft, a quarterly rise of 126.3% in this size band and accounting for 26.4% of all floorspace leased. There was also a significant rise in mid-size lettings (20-60,000 sq ft), which rose by 25.7% and represented just below 30% of take-up.

SUPPLY DECREASES
Availability in the City & Southbank market fell by 5.2% in Q4 to 12.8m sq ft, and is almost 650,000 sq ft lower than in Q4 2024. Accordingly, the vacancy rate has fallen by 0.5 percentage points during Q4, and by 0.7 over the last 12 months to 8.9%, though remains 1.3 percentage points above the long-term average. However, if all the under offer space completes the vacancy rate falls to 7.7%.

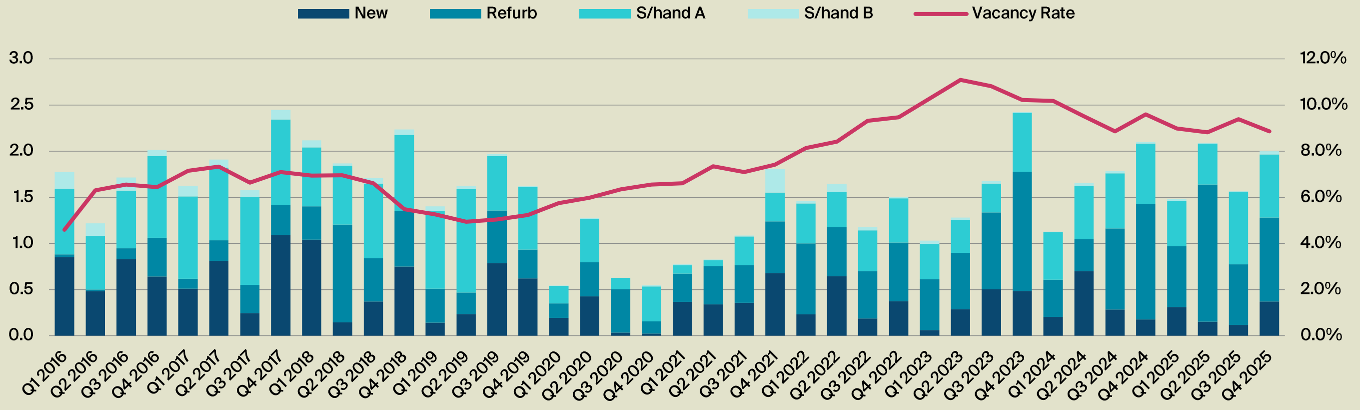
Furthermore, there is a marked contrast in availability between the City and Southbank. The former has a vacancy rate in line with the long-term average, whereas in the latter it is 6.1 percentage points above the long-term average.

Development completions in Q4 totalled 0.65m sq ft, 39.1% of which was already pre-let. At the end of Q4, the under-construction pipeline increased by 0.2% to 8.5m sq ft. Of this, 2.1m sq ft (24.4%) is already pre-let.

PRIME RENTS INCREASE IN THE CORE
Prime rents were moved on in the City Core from £100 to £102.50 per sq ft, while prime rents in all other City & Southbank submarkets remained stable. Incentive packages also remain unchanged at 24-27 months on a ten-year term.

Our forecasts for the next five years rank the City Core with the strongest potential for prime rental growth at an annual average of 4.8%, followed by Midtown at 4.0%, Clerkenwell/Farringdon at 3.5%, and Southbank Core at 3.1%.

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



Source: Knight Frank Insight

West End offices

Investment volumes rise to above long-term average

RETURN OF INVESTMENT IN LARGER LOT SIZES

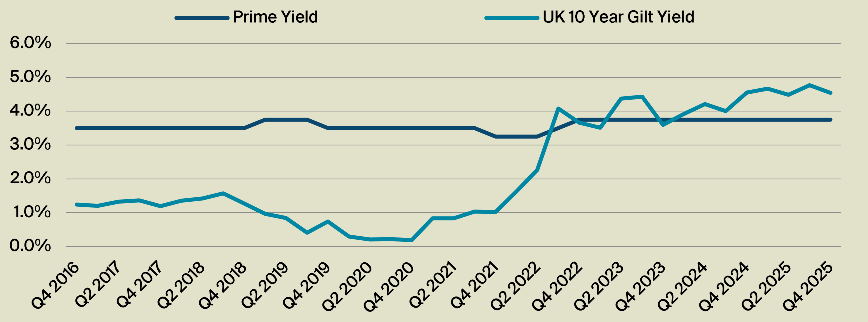
Total volumes rose in Q4 by 24.8% to £1.5bn, signalling a rebound amid improving conditions, 22.3% above the long-term quarterly average.

Transactions were led by investment in larger lot sizes, with those valued over £100m accounting for 46.2% of all Q4 turnover. Assets with a core risk profile represented 46.6% of acquisitions, a sign of the investment market normalising.

The largest transaction of the quarter was RLAM's acquisition of 1 Newman Street, W1, for £250m reflecting a net initial yield of 4.48% and capital value of £2,052 per sq ft.

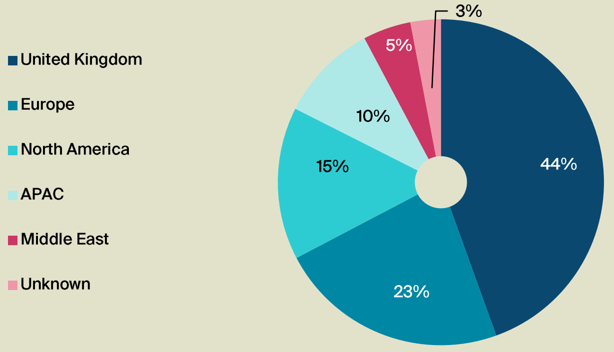
Institutions were the most active investor group during Q4, accounting for almost 30% of acquisitions. They were followed by private equity at 25.7%, and private investors at 24.1%. Investors from the United Kingdom were the most active during Q4, comprising 44% of all transactions, followed by Europe with 22.8% and North America at 15.1%. Going into 2026, there is £1.9bn of assets under offer, a 52.5% increase on the previous quarter, with continued stability in prime yields at 3.75%.

West End: Prime yield and UK 10 year gilt yield
Q4 2025, % per annum



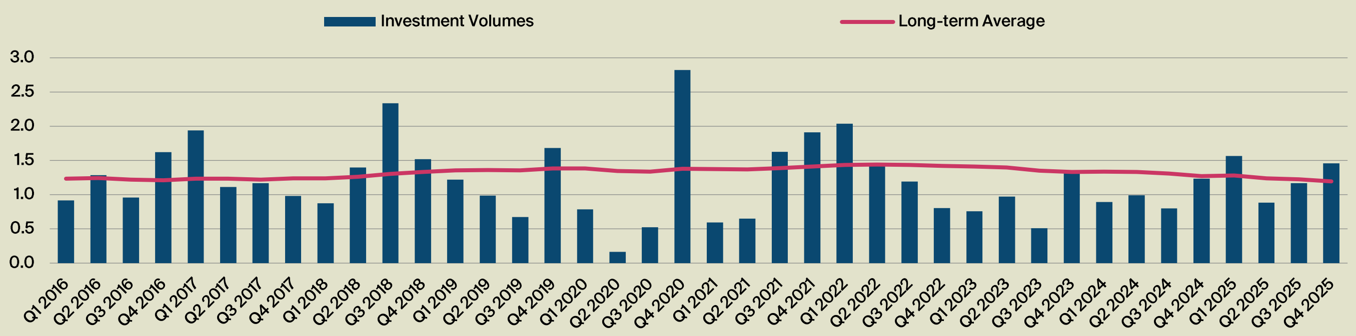
Source: Knight Frank Insight

West End: Investment volumes by nationality
Q4 2025, % of total investment



Source: Knight Frank Insight

West End: Investment volumes relative to trend
£bn



Source: Knight Frank Insight

West End offices

Take-up dips after a robust H1

TAKE-UP REMAINS BELOW TREND

Q4 take-up in the West End reached 845,689 sq ft, almost in line with the previous quarter and 18.6% below the long-term quarterly average. Outside of a singular large transaction over 100,000 sq ft, smaller deals continued to dominate, with deals below 40,000 sq ft accounting for 80.4% of space let. As is typical for the West End market, the majority of letting activity was focused on smaller units, with the sub-5,000 sq ft size band accounting for 21.6% of take-up, or 66.6% of the number of deals.

Take-up of new and refurbished space reached 531,932 sq ft, making up 62.9% of total take-up in Q4. This represents an increase from the proportion seen in the previous quarter and reinforces the clear occupier preference for best-in-class space, with 67.9% of take-up in the last 12 months targeting new or refurbished space.

DEALS OUTSIDE THE CORE DRIVE TAKE-UP

The largest transaction signed in Q4 was Ares Management's pre-let at 1 Hanover Street, W1 (123,968 sq ft), a building that should reach practical completion in early 2027.

Of the ten largest transactions signed, just two were in Mayfair or St James's, highlighting occupiers exploring different submarkets where vacancy rates are more accommodating. Financial occupiers accounted for over a third of all take-up, although this is inflated by the Ares Management transaction.

OUTLOOK SHOWS STEADY END TO 2025

At the end of Q4, there was 752,332 sq ft under offer in the West End, which is a 16.9% contraction over the quarter. A quarter of the floor space under offer is within the West End Core, spread across 32 buildings. Active demand remained stable over the quarter at 1.96m sq ft, with the financial sector representing the largest share (24.8%). Active demand remains 5.4% below the long-term trend. These two indicators would suggest that take-up in the short to medium term may continue to fall just short of trend.

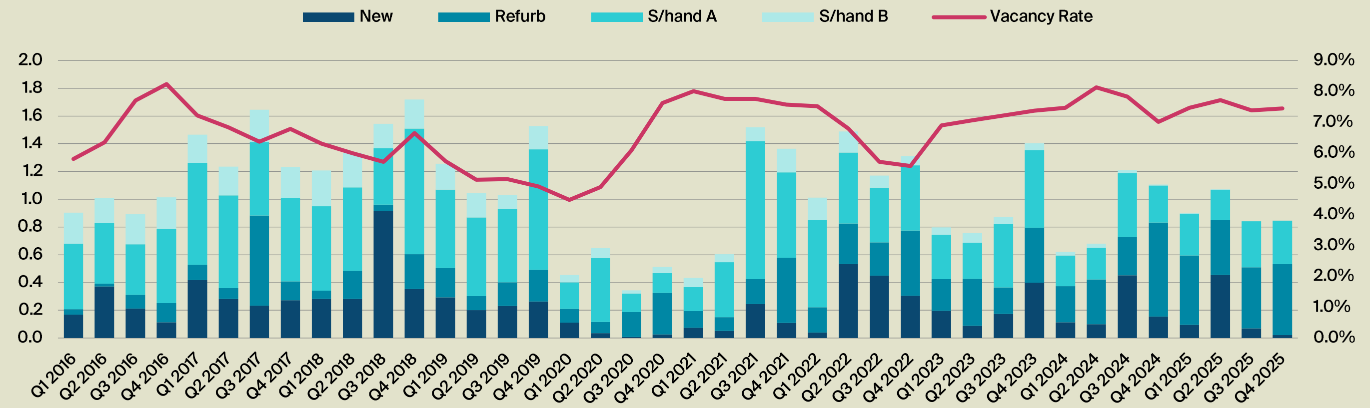
AVAILABILITY TIGHTENS IN LINE WITH FUTURE SUPPLY

Overall availability increased by 2.3% to 7.3m sq ft, 18.5% ahead of the long-term market average. This resulted in the overall vacancy rate remaining at 7.4% and the vacancy rate of new and refurbished space increasing from 5.4% to 5.5%. Future supply remains limited with the development pipeline dropping by 11.7% to 5.8m sq ft, of which 2.0m sq ft (34.8%) is already committed. There is a projected undersupply of nearly 3.6m sq ft by the end of 2030.

PRIME RENTS RISE DUE TO KEY TRANSACTIONS

Prime rents in the West End Core have increased to £185.00 per sq ft, reflecting a £2.50 increase from the previous quarter. The West End Core is expected to see prime rents grow at an annual average rate of 4.2% until the end of 2030.

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



Source: Knight Frank Insight

Docklands & Stratford offices

Third consecutive quarter of above-trend take-up

TAKE-UP REMAINS ELEVATED

Thirteen leasing transactions signed during Q4, totalling 443,231 sq ft, a 46.8% increase on the previous quarter. Quarterly leasing volumes remain 133.9% above the long-term quarterly average, with an average transaction size of 34,095 sq ft.

Visa's 300,000 sq ft acquisition at 1 Canada Sq, E14, was the largest transaction signed during the quarter, which significantly impacted the proportion of new and refurbished take-up, which accounted for 99.5% of Q4 new and refurbished activity. Visa's transaction accounted for 67.7% of total take-up in Q4. The next largest deal was AXA Insurance UK PLC's 20,487 sq ft acquisition of the 10th floor at 1 Stratford Place, E20.

Transactions between 5,000-20,000 sq ft were the most common during the quarter, with ten transactions within the size bracket. Over the last 12 months take-up has amounted to 1.3m sq ft, 74.5% of which is of a new and refurbished quality, further demonstrating a shift from second-hand stock. The financial sector accounted for 58.4% of leasing volumes during 2025, although the education sector also featured strongly. Encouragingly, there is 453,086 sq ft of space under offer, across ten buildings in the Docklands and Stratford market, signalling positive momentum in the near-term.

AVAILABILITY DECREASES FOLLOWING STRONG TAKE-UP

Overall availability across the Docklands and Stratford market decreased by 11.2% during Q4 to 2.9m sq ft, which translates to a vacancy rate of 11.4%. This means that availability has fallen by 22.1% year-on-year, with the vacancy rate just 40bps ahead of trend.

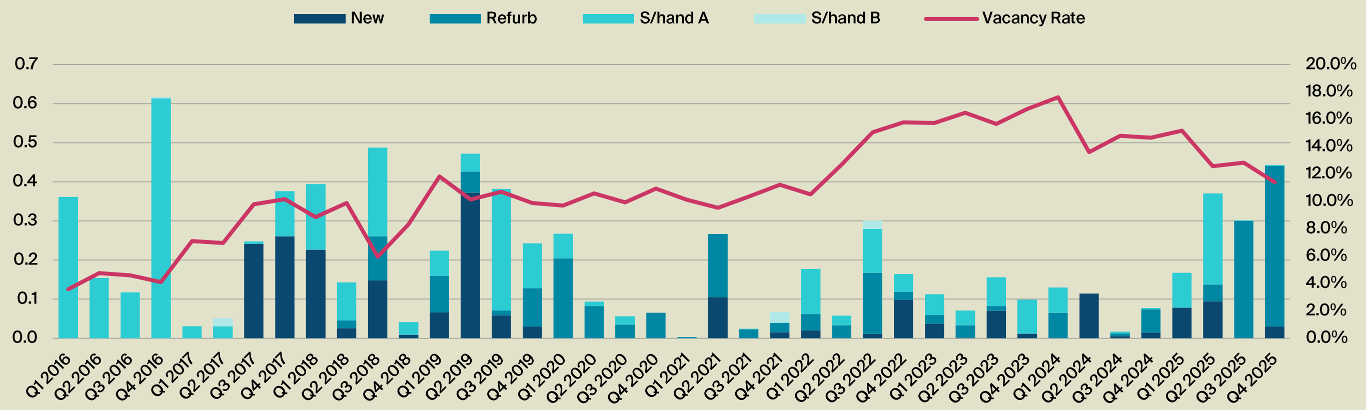
At the end of the quarter, 59.4% of available space was new or refurbished space, equating to 1.8m sq ft, marginally down (7.0%) over the quarter. Second-hand supply decreased by 16.6% to 1.2m sq ft. 55.3% of available space is for units of 100,000 sq ft or more. In Canary Wharf, the vacancy rate decreased from 11.4% to 9.7% and is now 1.1% percentage points below the long-term trend.

At the end of Q4 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 Q4 2026, 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.

There was no investment activity recorded in the Docklands and Stratford market during Q4, and there are currently no assets under offer. Prime yields remain stable at 7.50%.

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



Source: Knight Frank Insight

South East offices

Investment volumes are steadily improving, underpinned by an expanding pipeline of assets now being brought to market

INVESTMENT VOLUMES IMPROVING
Investment volumes across the South East and Greater London registered further improvement in the final quarter, with £425m of assets traded, marking the highest quarterly total recorded in 12 months.

This meant that over the year, volumes stood at £1.3bn, 25% lower than in 2024 but on par with the total from 2023. Notably, 112 deals were completed during 2025, 15% higher than the ten-year average and just one fewer than in 2024. Looking ahead, a further £430m of assets were under offer at the end of the year, with an additional £500m currently being actively marketed.

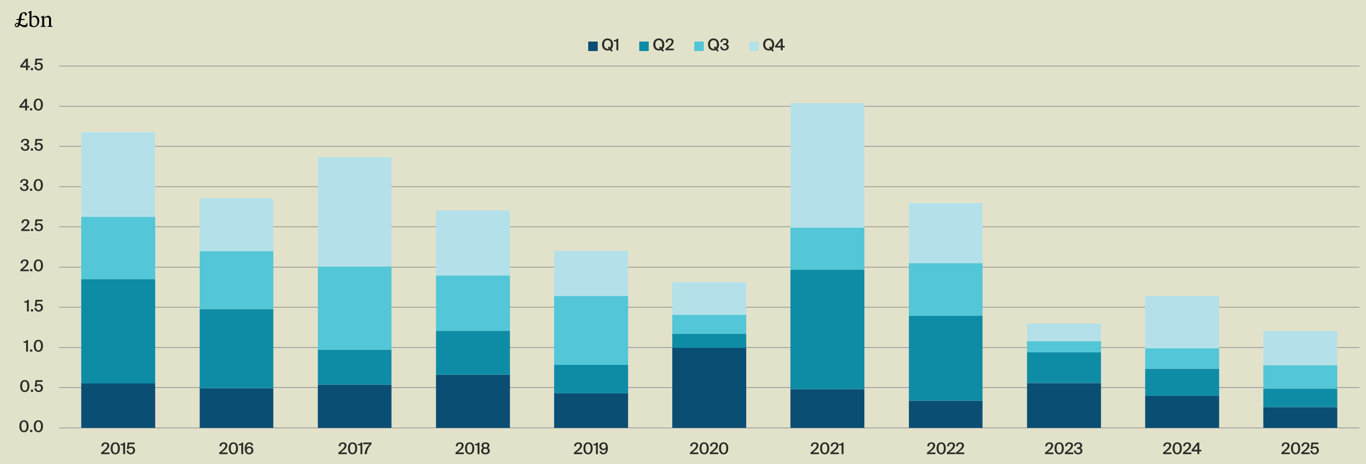
The key transaction of the final quarter was also the year's highest-value transaction. This was Fraser's sale of Chineham Park in Basingstoke for £90m to Centerbridge Partners and Anglesea Capital. The only other deal in 2025 exceeding £50m was Iroko Zen's £58m acquisition of One Lyric Square in Hammersmith.

SMALLER AVERAGE DEAL SIZES
Average deal size, though, was down to £11m, the lowest since 2009. During the year, only two deals were completed at over £50m, and 12 at over £25m, five fewer than in 2024.

PRIVATE EQUITY AND PROPERTY COMPANIES DOMINATE
In 2025, the market was dominated by private equity and property companies, mainly from the UK. Combined, these two buyer types accounted for 76% of investment volumes. We anticipate this dynamic will shift over the next 12 months, as both overseas and UK institutional investors seek alternative sources of value amid global market volatility. In this environment, UK commercial real estate is increasingly viewed as offering stability and attractive long-term cash flows.

Prime office yields in the South East remained at 7.00% in Q4, reflecting a notable spread relative to London benchmarks. The disparity is particularly evident when compared with yields of 5.25% in the City and 3.75% in the West End, highlighting attractive opportunities for investors seeking value outside the capital. With the cost of debt declining and a broader buyer base, liquidity is expected to grow, slowly improving pricing

South East: Investment volumes



Source: Knight Frank Insight

South East offices

Leasing activity continues to build momentum, supported by larger requirements and sustained demand for premium space

POSITIVE CLOSE FOR 2025

The South East office market closed the year positively, with 665,350 sq ft leased during the final quarter. Although this was 15% below the five-year quarterly average, this meant that leasing volumes reached 3.4m sq ft, up 8% on 2024 and reflecting the strongest performance since 2019.

Significantly, 356 deals were completed over the past 12 months - the highest total during a year in our records.

Occupier activity in 2025 was led by the Financial and Business Services (FSB) sector, which accounted for 26% of total take-up, followed by the TMT sector at 23%.

Active demand across the market at year-end totalled 3.95m sq ft, with Financial and Business Services requirements again accounting for 26% of this pipeline, underlining the sector's sustained influence on future leasing activity.

Grade A accommodation accounted for 79% of all take-up in 2025, underscoring the continued flight to quality and the strength of demand for modern, efficient and amenity-rich buildings.

SUSTAINED DEMAND FOR PREMIUM SPACE

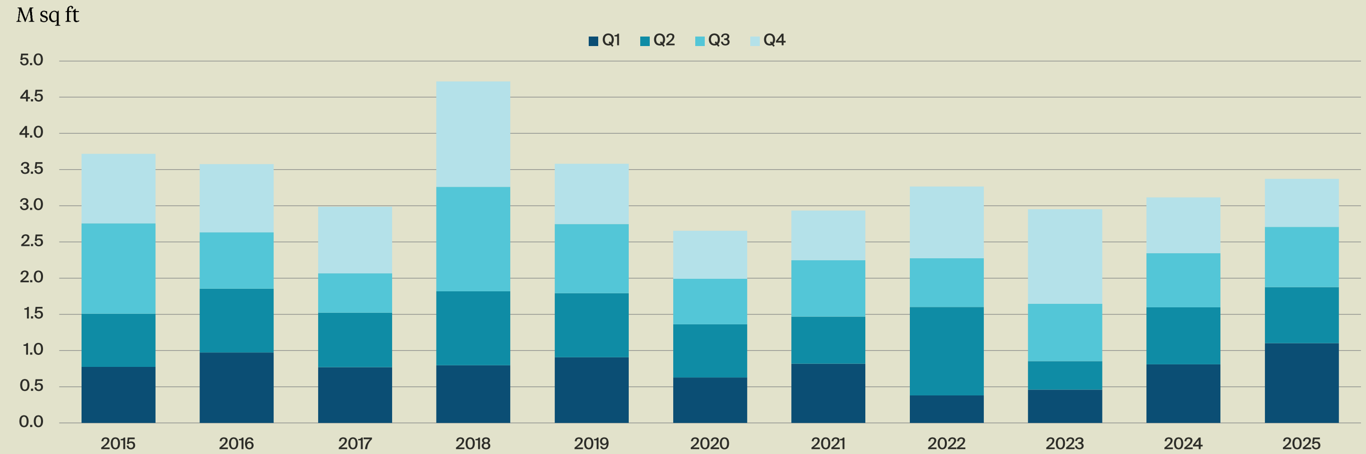
Availability continued to tighten across the market during Q4 2025. Total availability decreased to 16.2m sq ft, compared with 16.5m sq ft at the start of the year. The contraction in supply was most evident in the prime segment. New and Grade A availability fell to 10.42m sq ft, a 3.3% reduction over the past twelve months.

Vacancy levels also moved lower. Overall vacancy reached 10.2% in Q4 2025, improving from 10.5 % in Q4 2024. Grade A vacancy decreased from 7.1% to 6.6% over the same period, highlighting continued demand for modern and efficient buildings and growing competition for premium space.

The development pipeline remained limited. At Q4 2025, 1.8m sq ft was under construction, with completion scheduled for the next 24-36months. Notably, Cambridge and West London account for 61% of the total speculative construction currently underway.

Headline rents continued to rise across much of the market in 2025, with 40% of markets in the South East registering an uplift. Across the leading markets, Cambridge and Oxford registered the highest rental growth at 27% and 16%, respectively, highlighting occupiers' willingness to pay top rents for the best space.

South East: Occupier take-up



Source: Knight Frank Insight

UK Cities offices

Investment activity is beginning to strengthen, with benchmark deals emerging, more stock coming to market, and growing alignment between buyers and sellers

STRENGTHENING INVESTMENT ACTIVTY

Office investment volumes across the UK regional cities strengthened further in the final quarter, with £291m transacted, marking the highest quarterly total in the past 12 months. This lifted full-year activity to £915m, around 28% below 2024 levels.

A total of 86 deals were completed in 2025, slightly above the 2024 total and just short of the five-year annual average. Average deal size fell to £11m, the lowest level since 2012. Only three transactions exceeded £50m during the year, and six traded above £25m, which is six fewer than in 2024.

Moving forward, momentum is expected to build into 2026, with approximately £740m of assets under offer at year-end and a further £1bn currently being marketed.

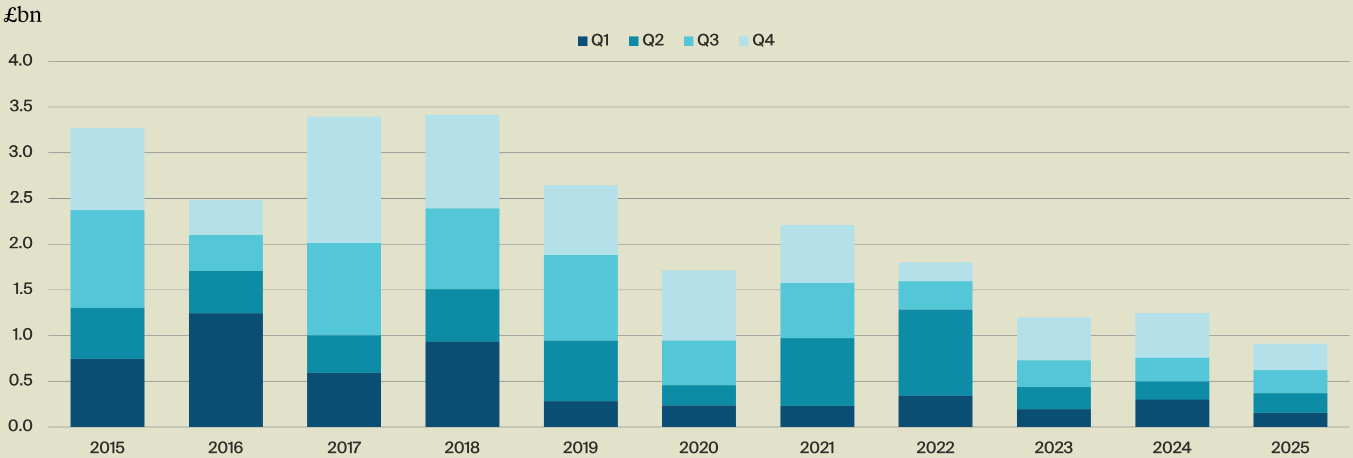
The standout transaction of the final quarter was CBRE IM's sale of 201 Deansgate for £30m to Corum XL. The 81,000 sq ft building serves as the headquarters of online trading platform Interactive Investor, which occupies 31,000 sq ft, alongside tenants including AIG and Exchange Chambers. In the same quarter, Corum XL also acquired Henry Duncan House, the headquarters of TBS Bank, in Edinburgh for £18.9m. Across the year as a whole, Manchester recorded the largest regional office deal, with Melford Capital purchasing 101 Embankment for £74m in Q2.

The buyer pool in 2025 remained notably narrow. Private equity investors and UK-based property companies were the most active participants, together accounting for around 70% of total investment volumes. Over the next 12 months, this base is expected to broaden as overseas capital and UK institutional investors return to the market, attracted by the relative value and long-term, income-secure returns offered by regional office assets.

PRIME YIELDS REMAIN STABLE

Prime office yields across the UK regional cities remained stable in 2025, ranging from 6.50% in Edinburgh to 10.00% in Aberdeen. These levels represent a substantial premium to London benchmarks, where yields stand at around 5.25% in the City and 3.75% in the West End, highlighting the strong relative value available outside the capital. With borrowing costs easing and a wider pool of active capital returning, liquidity is expected to improve through 2026.

UK Cities: Investment volumes



Source: Knight Frank Insight

UK Cities offices

Regional office leasing continues to outperform long-term trends, driven by sustained demand from Financial and Professional services, with TMT demand rising.

STRONG FINISH FOR 2025 LEASING ACTIVITY

Office markets across the UK Cities ended the year on a positive note, with 1.4m sq ft leased during Q4, the strongest quarterly performance of 2025. This brought total annual take-up to 5.0m sq ft, only slightly below 2024 levels and broadly in line with the 5-year average.

Market activity remained robust throughout the year. More than 1,000 deals were completed in 2025, including 45 transactions above 20,000 sq ft, significantly higher than the long-term average of 40 per year.

The Financial and Professional services led demand, accounting for 52% of total take-up, followed closely by the TMT sector at 17%, highlighting continued appetite from finance, corporate services and technology-led businesses.

Active demand remained healthy, with 3.9m sq ft of live requirements at year-end. Financial and Professional Services accounted for the largest share at 43%, underscoring their continued influence on future leasing activity. Technology occupiers also remained active, accounting for 12% of current requirements.

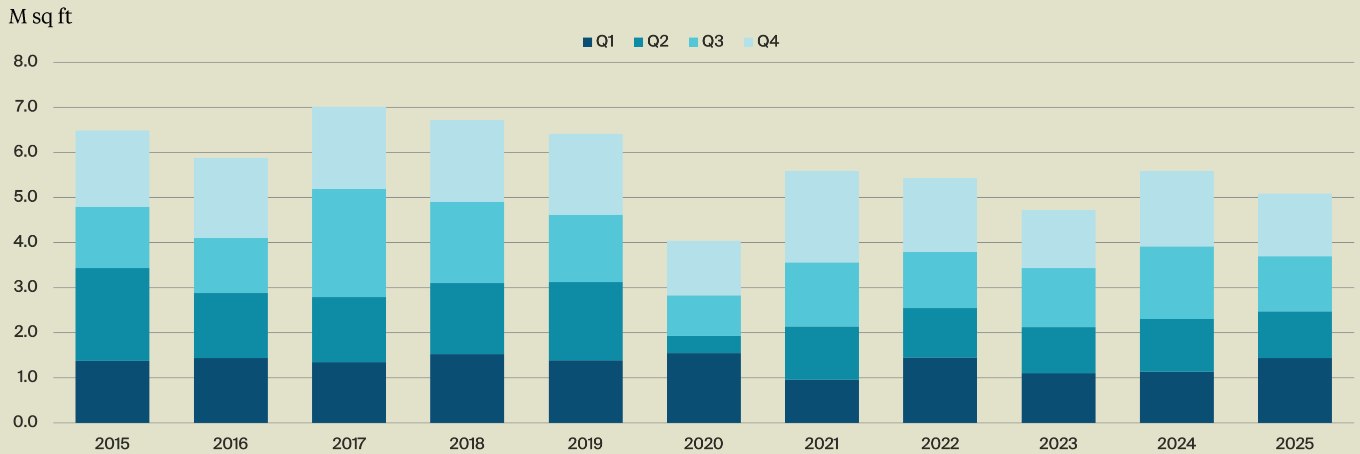
The flight to quality persisted. Grade A space accounted for 61% of all take-up in 2025, reflecting occupiers' preference for high-quality, modern and amenity-rich offices.

Supply conditions were broadly stable, with new and Grade A availability holding at 4.1m sq ft in Q4. However, vacancy edged up. Overall vacancy reached 14.1% in Q4 2025, compared with 13.6% a year earlier. Grade A vacancy also rose slightly, from 3.0% to 3.4%, reflecting continued competition for premium space.

The development pipeline remained constrained. At the end of 2025, only 1.7m sq ft was under construction, scheduled for delivery over the next 36 months. Completions during the year were limited, with just 1m sq ft of speculative space delivered across 16 schemes.

Prime rents continued to rise, with eight of the ten tracked cities recording year-on-year growth. The average regional prime rent now stands at £41 per sq ft, up 3% annually. The strongest increases were recorded in Leeds (18%), Glasgow (7%) and Birmingham (7%).

UK Cities: Occupier take-up



Source: Knight Frank Insight

Industrial & distribution

Investment and occupational markets

CONTACT: CLAIRE WILLIAMS

Industrial & distribution

Q4 investment total boosts 2025 volumes significantly above long-term average, REIT demand continues to rise, and yield spreads soften through Q4

PORTFOLIOS CONTINUE TO DOMINATE INVESTMENT

The UK industrial investment market recorded £4.75bn of transactions in Q4 2025, up 146% quarter-on-quarter. This brings the 2025 total to £10.5bn, which sits 27% higher year-on-year and 11% above the 10-year average. The increase in annual investment was largely driven by portfolio transactions, which totalled £5.3bn. Portfolio transactions accounted for 65% of Q4 activity and 50% of 2025 investment. Despite strong reported activity levels, market sentiment remains measured. The pool of capital targeting core and core-plus strategies has stayed subdued, while uncertainty around the UK's economic outlook - driven by modest growth, persistent inflation and rising unemployment - has weighed on investor confidence.

REIT ACTIVITY CONTINUES TO RESHAPE THE INVESTOR LANDSCAPE

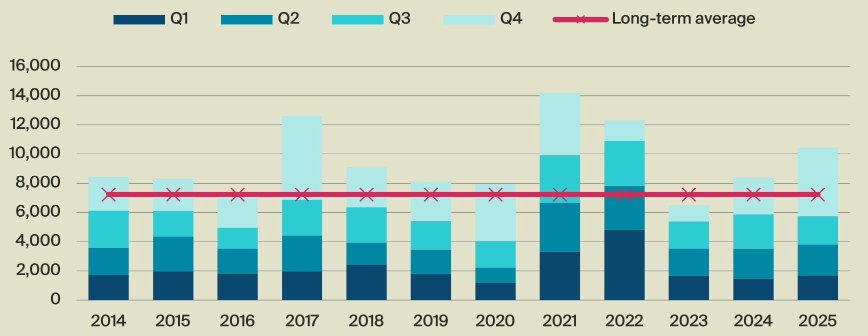
Investment in 2025 has seen the buyer landscape shift towards Listed Property Companies and REITs, now accounting for 21% of total investment, a significant increase from the 13% recorded in 2024. Much of this activity occurred through corporate M&A, particularly within the listed (REIT) segment, due to them being traded at a discount to NAV. Although cross-border investment continues to dominate, representing 46% of total investment, it has continued its downward trend through 2025, as seen over the past four years.

YIELD GAP SOFTENS OVER THE QUARTER BUT REMAINS STABLE Y/Y

The spread between the 10-year gilt and prime distribution/warehousing yields softened to 71bps in December, up from 48bps recorded in September; however, year-on-year the spread has only softened 1bps. The current level remains significantly below the 10-year average spread of 257bps.

Investment volumes

£m

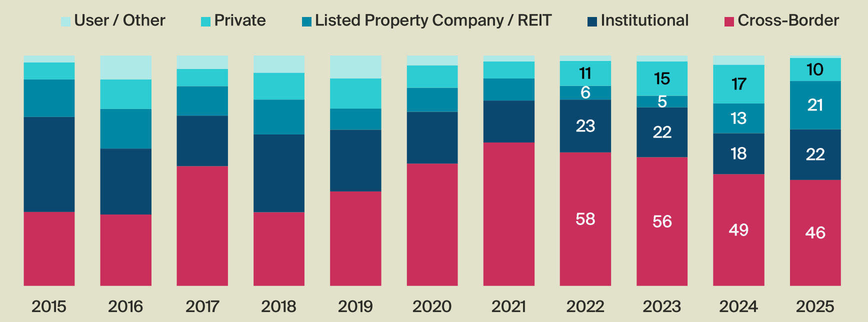


*Data reporting change from 2020 onwards

Source: Knight Frank Insight, RCA

Capital composition

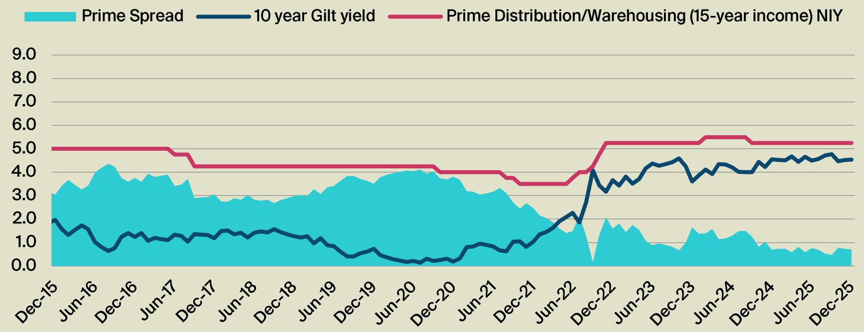
%



Source: Knight Frank Insight, RCA

Industrial yields

%



Source: Knight Frank Insight, Macrobond

Industrial & distribution

Q4 take-up volumes push the annual total ahead of the 10-year pre-pandemic average, vacancy rates start to stabilise, and a strong final quarter for rental growth

UK INDUSTRIAL TAKE-UP GAINS MOMENTUM

Take-up in the UK industrial and logistics market totalled just under 9m sq ft in Q4 (units over 50,000 sq ft), bringing 2025 volumes to 40.8m sq ft. Annual volumes are up 12.5% on the total recorded in 2024 and remain 19% above the 10-year pre-pandemic average. Regional performance varied significantly; the South West recorded a standout 2025, with take-up reaching 6.9m sq ft, its strongest year on record. London & the South East, West Yorkshire, and South Yorkshire also saw year-on-year increases in take-up, while the Midlands and the North West saw levels fall year-on-year. Distribution firms dominated take-up in Q4, accounting for 54% of the total volume.

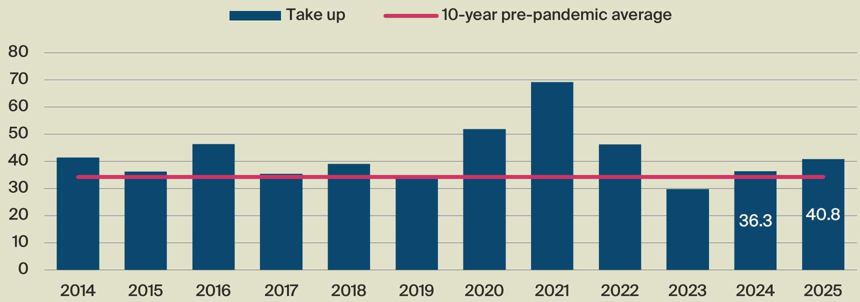
DEVELOPMENT PIPELINE REMAINS ANCHORED TO Q3 LOWS

The final quarter of 2025 saw the UK vacancy rate tighten to 7.5%, down from 7.8% in Q3. However, the UK vacancy rate is up 20bps year-on-year - with five of the nine regions recording increases. Exceptionally strong levels of take-up in the South West saw their vacancy rate fall 170 bps in 2025 to 6.2%. The speculative pipeline has remained subdued, and although space under construction is marginally up 2% quarter-on-quarter, it remains 40% lower year-on-year. Supply remains concentrated in smaller units, with those under 250,000 sq ft comprising 87% of the number of units available.

SLIGHT UPTICK IN RENTAL GROWTH AT THE END OF 2025

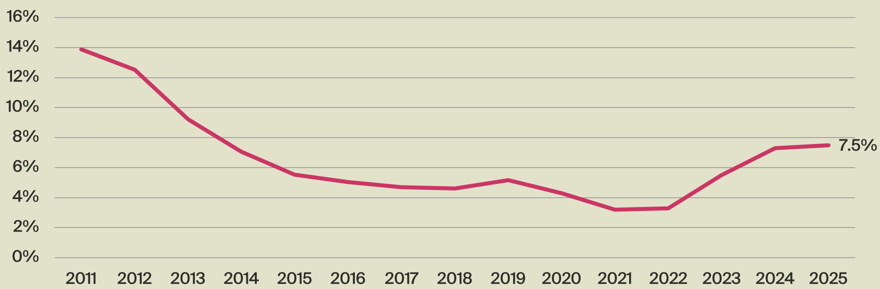
Rents continued to rise in Q4, though growth slowed. Annual growth for 2025 ended on a more positive note, standing at 4.7% in the year to December, up from 4.6% in September. However, this total is down from 5.5% in December 2024 (MSCI monthly index). Rental growth is expected to slow through 2026, with a 2.89% forecast for the year, before reaccelerating in 2027–2029.

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



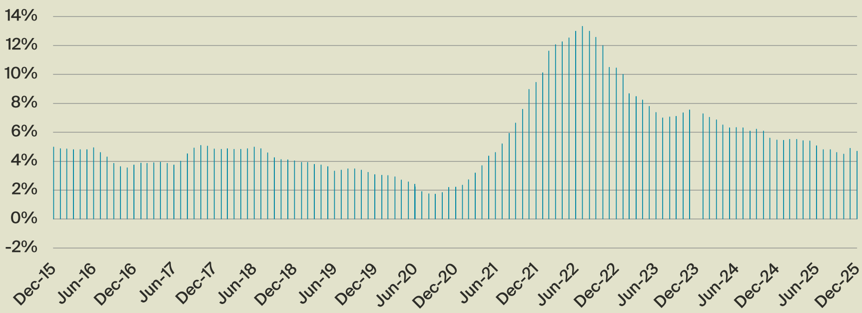
Source: Knight Frank Insight

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



Source: Knight Frank Insight

Average annual market rental growth
% change annually



Source: Knight Frank Insight, MSCI

Retail & leisure

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

CONTACT: STEPHEN SPRINGHAM

Retail

The much-anticipated Autumn Budget failed to provide much cheer for the retail sector, but has thus far been less destabilising than feared

STORM IN A TEACUP?

The Autumn Budget in November was less dramatic than feared, but still contained retail-unfriendly elements, notably another rise in the National Minimum Wage, while the Business Rate revaluations proved a total minefield. But the widely-anticipated negative consumer reaction to the Budget did not materialise. Consumer confidence actually held up (improved even), and retail sales showed more than decent growth across the quarter (Q4 year-on-year values +4.8%, volumes +3.0%).

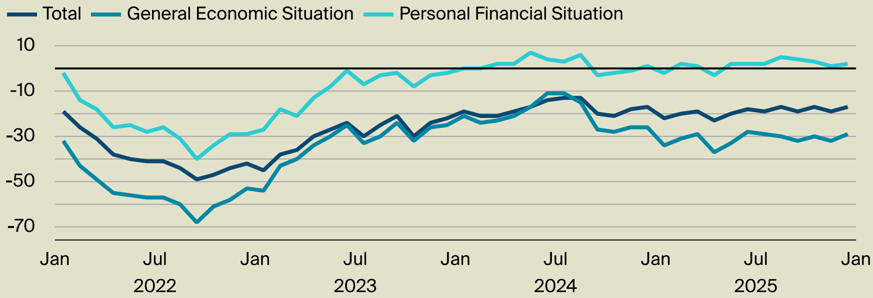
A GENERALLY STRONG CHRISTMAS

The fact that consumer demand held up over Q4 was largely echoed in most retailers' post-Christmas trading statements. In Food, Tesco, Sainsbury's and M&S all reported strong like-for-like growth, while Aldi and Lidl both reported record performance, albeit as much through new store openings as like-for-like improvement. A more mixed picture on the Non-Food side, with Argos, JD Sports, Pets at Home and B&M Bargains amongst those retailers to report disappointing festive trading. However, there was also some evidence of occupier distress in the immediate aftermath of Christmas (e.g. LK Bennett, Russell & Bromley, The Original Factory Shop and Claire's).

FLURRY OF SHOPPING CENTRE DEALS

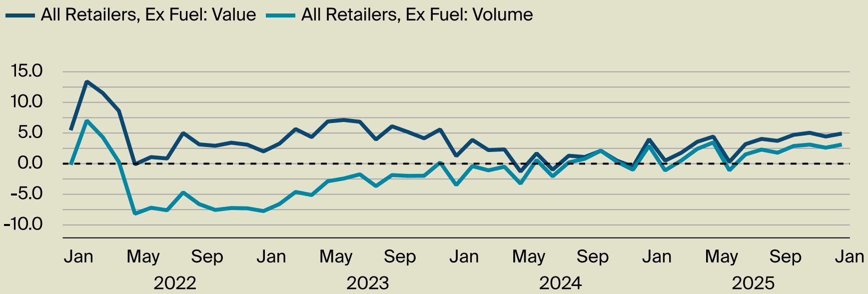
Total retail investment volumes were £2.16bn in Q4, a significant upswing on the £1.21bn reported in Q3. This owed much to a flurry of shopping centre deals (Silverburn and Braehead in Glasgow, The Lexicon Bracknell, The Rock Bury and 50% of The Oracle Reading). Total volumes for the year stood at c. £5.83bn, a -17% decline on 2024 and -8% down on the 10-year average. This shortfall was largely supply-driven and masked contrasting directions of travel between OOT and in-town retail sub-sectors. The former had a strong H1 and softer H2, whilst momentum built considerably at the latter as the year unfolded.

Consumer confidence
Confidence over the next 12 months



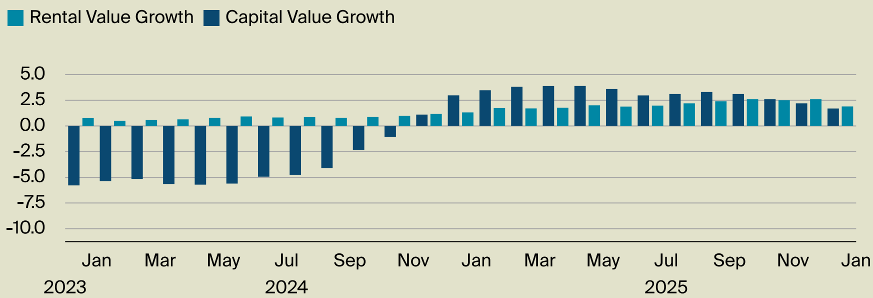
Source: Gfk

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

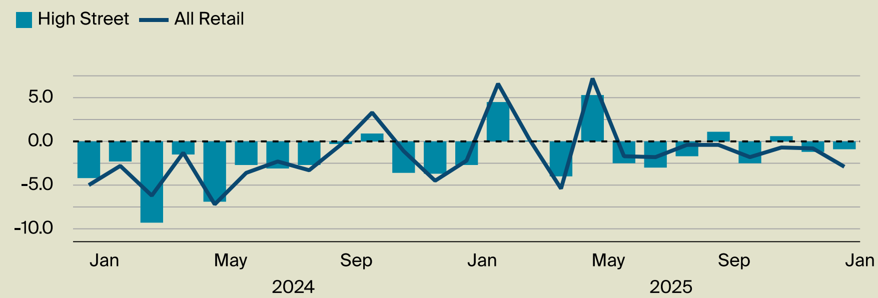
Weak footfall, but strong sales. Sound Christmas trading, but subsequent fall-out in the New Year

WEAK FOOTFALL, DECENT SALES
High street footfall again proved a weak barometer of underlying performance. Footfall was up +0.6% in October, but slipped back by -1.2% in November and by -0.9% in December. Contrast this with monthly increases in actual retail spending in Non-Food categories (Oct: +4.2%, Nov. +4.9%, Dec. +2.9%). Consumer demand remained strong for a number of core high street categories, including Books (Q4 sales year-on-year +20.8%), Clothing (+9.1%), Footwear (+8.2%) Jewellery & Watches (+5.7%) and Charity Shops (+13.8%), but others were more challenged e.g. Chemists (-11.2%), Cosmetics (-13.1%) and Textiles (-34.5%).

POST-XMAS OCCUPIER FALLOUT
After a quiet Q4, the post-Christmas period has seen a spike in occupier distress. Luxury operators LK Bennett (nine stores, 13 concessions) and Russell & Bromley (35) both entered administration but were acquired by Gordon Brothers and Next respectively. Having been bought by Modella Capital as recently as last year, The Original Factory Shop (122) and Claire's (156) have since re-entered administration and are potentially facing liquidation. This has also raised fears over Modella's other ownerships, particularly TG Jones (formerly WH Smith). Despite this unrest, high street vacancy rates continued to improve, declining by -40bps year-on-year and by -10bps quarter-on-quarter, to end Q4 at 13.4%.

INVESTMENT GAINS MOMENTUM
Deal volumes picked up meaningfully in H2 with £420m transacted vs £280m in H1, a +50% increase and up +24% on H2 2024. Investor appetite and pricing continue to be strongest for <£3m lots and these assets still form the bulk of stock being marketed. Prime high street yields are slowly improving, having compressed -25bps in H2 2025 to 6.50%. This is -75bps keener than their 2024 peak.

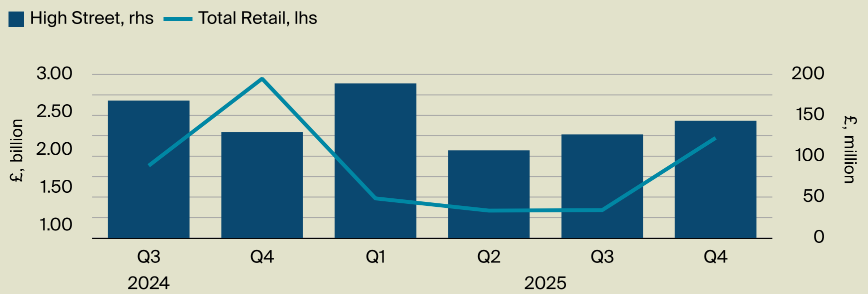
High street footfall
Monthly year-on-year change, %, vs. 2019 levels



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

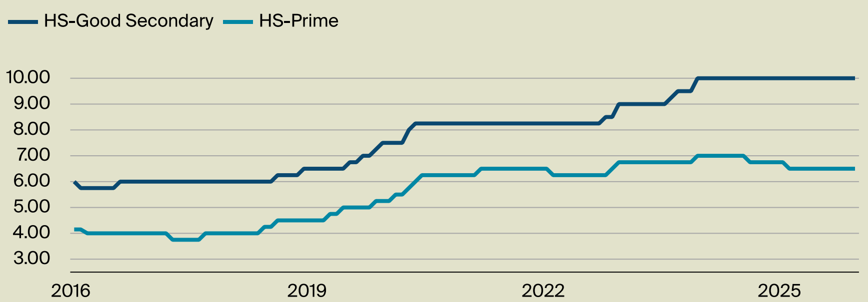
Source: BRC / Springboard

High street investment volumes



Source: Knight Frank Insight

High street yields
%



Source: Knight Frank

Shopping centres

A bumper November for investment deals - a precursor for increased activity in 2026

FALTERING FOOTFALL

As ever, shopping centre footfall and retail sales diverged significantly over the quarter, the former weak (Oct: -0.9%, Nov: -1.3%, Dec: -5.1%), the latter strong (Oct: +5.0%, Nov: +4.4%, Dec: +4.9%). The key positive for shopping centres remains strong and accelerating demand for one of its main constituent categories, Clothing. Fashion sales values surged +9.1% in Q4 year-on-year, with volumes ahead by +8.1%.

TOPPING RWH IN PERFORMANCE

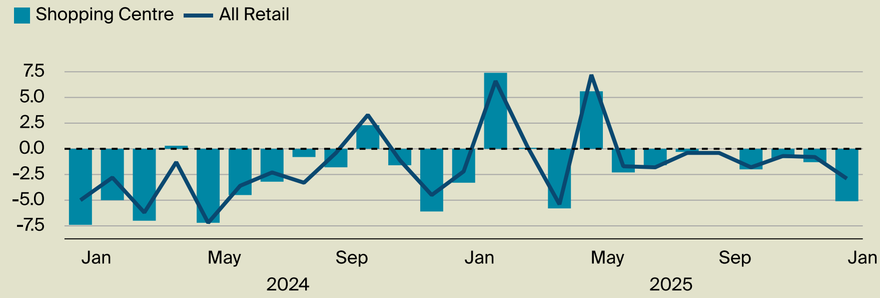
Shopping centre rents increased +0.3% in Q4, taking the annualised figure to +2.8%. A more stabilised occupier base was also manifest in vacancy rates, which improved by -90bps year-on-year, and by -20bps quarter-on-quarter to 16.3%, approaching pre-COVID levels. Shopping Centres have also displaced Retail Warehouses as the top performing retail asset class. Shopping Centres achieved a total return of +2.1% in Q4, taking annualised total returns into double digits (+10.0%).

A BUMPER NOVEMBER

A topsy-turvy year in terms of investment volumes. A desperately slow start to the year (with just two deals completed in Q1) culminated in a bumper November, which saw one-third of annual deal volumes transacted in a single month (£550m). This included bellweather deals such as Braehead in Glasgow (Frasers' latest and largest at £220m / 9.50% NIY) and The Lexicon in Bracknell (Realty Income's first foray into UK shopping centres, £140m / 9.00% NIY). With a number of other key schemes (e.g. Merry Hill) under offer and awaiting completion and others (e.g. MetroCentre) being primed for sale, 2026 should witness a marked acceleration in investment volumes. Prime shopping centre yields hardened by -25bps over H2 2025, standing at 7.25% NIY (a -125bps improvement on their 2023 peak).

Shopping centre footfall

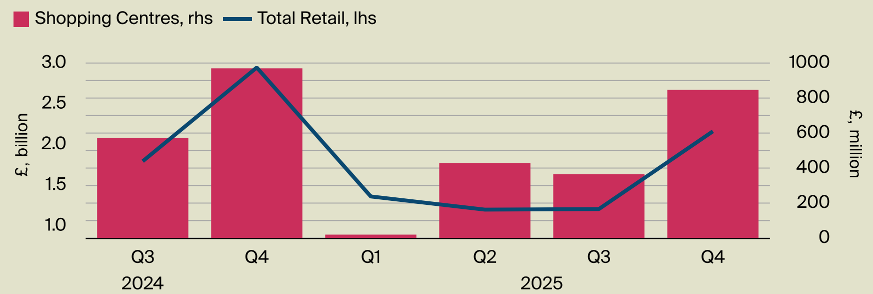
Monthly year-on-year change, %, vs. 2019 levels



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

Source: BRC / Springboard

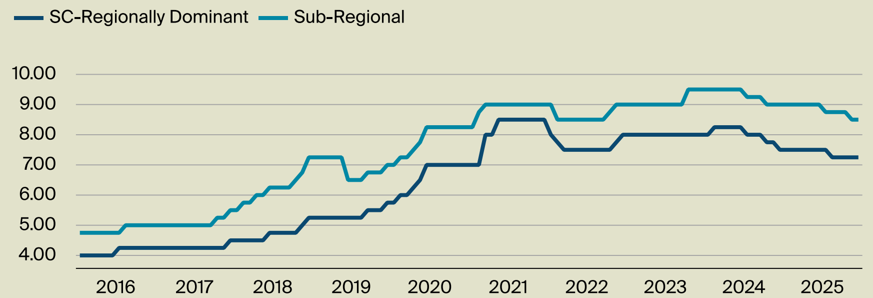
Shopping centre investment volumes



Source: Knight Frank Insight

Shopping centre yields

%



Source: Knight Frank

Out-of-town

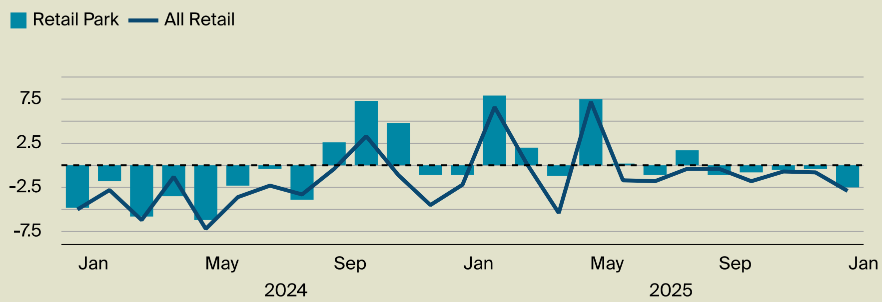
An investment year of two halves

MIXED TRADING PICTURE
Similar disconnect between OOT footfall and actual retail sales. RWH footfall was down slightly in Oct. (-0.5%) and Nov. (-0.4%) but tailed off sharply in Dec. (-2.5%). Conversely, non-food retail sales grew +3.7% across the quarter, although there were significant variances between core OOT segments. Furniture (+9.9%), Electricals (+6.6%) and Garden Centres & Petstores (+6.8%) were the top performing categories, but demand was weak for Sports & Toys (-4.6%) and Carpets (-12.8%). A number of OOT retailers (e.g. JD, Dunelm, B&M, Pets at Home) also reported disappointing Christmas trading.

A ROBUST OCCUPATIONAL MARKET
The post-Christmas occupier distress (The Original Factory Shop, Claire's, LK Bennett, Russell & Bromley) does not affect the OOT market as none of these operators have a significant presence on retail parks. RWH vacancy rates improved by a further -10bps quarter-on-quarter and by –50bps year-on-year. The Q4 figure of 6.0% is the lowest since Q2 2018 (5.6%). Further RWH rental growth of +0.8% in Q3 saw the annualised figure maintained at +2.9%, the highest rate of growth since Q4 2006.

STRONG H1, SOFT H2
A slight uptick in volumes in Q4, but generally a fairly subdued end to the year from a RWH investment perspective. Investment volumes reached £577m in Q4 2025. While this was up +17% quarter-on-quarter, it was only around one-third of the £1.7bn reported in the corresponding quarter in 2024. A relative lack of stock and increased pricing scrutiny conspired to constrain volumes in the second half of the year. Activity at the Prime end of the market was particularly muted. Offering a more attractive income return, Good Secondary remained far more liquid,

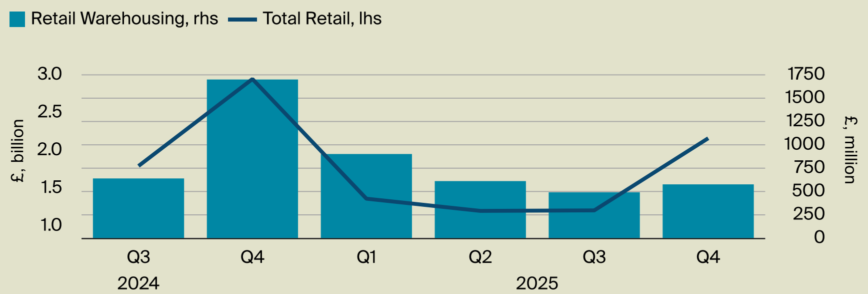
Retail park footfall
Monthly year-on-year change, %, vs. 2019 levels



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

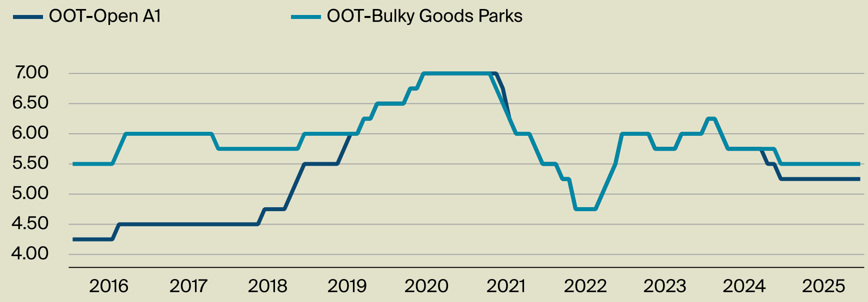
Source: BRC / Springboard

Retail warehousing investment volumes



Source: Knight Frank

Retail warehouse yields
%



Source: Knight Frank

Leisure

A highly vociferous response to Autumn Budget measures from industry bodies and leisure operators

SPENDING HOLDS UP

The Leisure sector stands to be disproportionately affected by measures announced in the Autumn Budget. However, there was limited evidence to suggest any collateral damage to leisure-based consumer demand, either in anticipation or in response to the Budget. According to Barclaycard, spending on Hospitality & Leisure held up well during Q4, even showing accelerating growth (Oct: +1.5%, Nov. +2.5%, Dec. +2.6%). In each case, this was above overall spending growth, which averaged monthly growth of just +0.7% across Q4 (vs. +2.2% for Hospitality & Leisure).

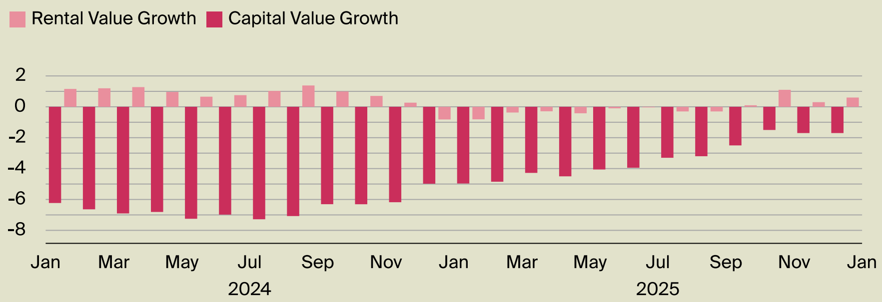
BUDGET RESPONSE

Industry bodies such as UK Hospitality were fiercely critical of the Autumn Budget, citing a “toxic cocktail” of rising Living Wage Costs (£12.71/hr), increased employer NICs and insufficient business rates relief (only a 5p multiplier reduction). The body predicted the loss of 100,000 jobs following the Budget, on top of the 89,000 lost in the nine months prior. Industry lobbying did yield some concessions, but only for eligible pubs and live music venues, which will now receive an additional 15% business rates relief, with bills frozen in real terms for the two years thereafter. Many pubs nevertheless still maintain that the level of relief is insufficient, while operators from other hospitality sectors continue to lobby for similar concessions ahead of the revaluations taking force from April 2026.

UPTICK IN RENTAL GROWTH

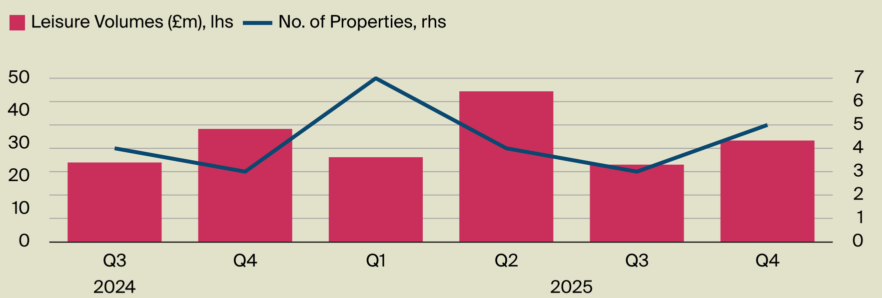
Having flatlined for most of the year, Leisure rents grew by +2.3% in Q4, according to MSCI. The sector achieved total returns of +1.7% in Q4, taking annual returns to just +4.9%. Question marks over tenant covenant strength continue to weigh heavily on investment markets.

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



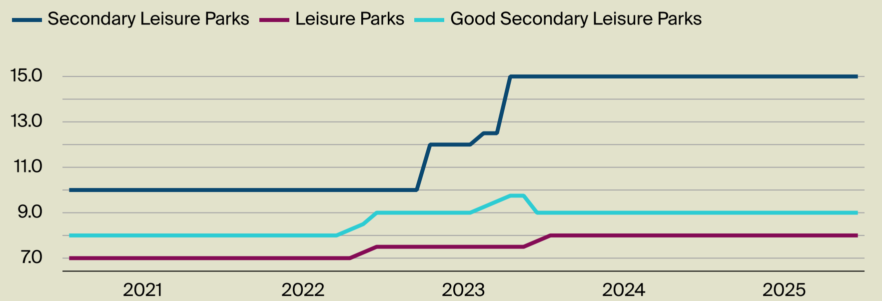
Source: MSCI

Leisure investment volumes



Source: RCA

Leisure yields
%



Source: Knight Frank

Foodstores

A big correction in the ONS data provides a more accurate picture of strong consumer demand

DEMAND FIGURES UPGRADED

Suspiciously weak grocery retail sales figures were subject to significant upwards revision by the ONS in December. The updated figures showed that foodstore retail sales values grew by +4.9% year-on-year in Q4 and more positively still, volumes were also up (+1.1%) and had been in positive growth territory for most of the year. This provided a more consistent picture with what the major grocery retailers had been reporting and a more accurate reflection of strong grocery demand on the ground. However, grocery inflation remains high at 3.8% and is proving stickier than wider CPI (Dec. 3.4%).

BULLISH XMAS REPORTING

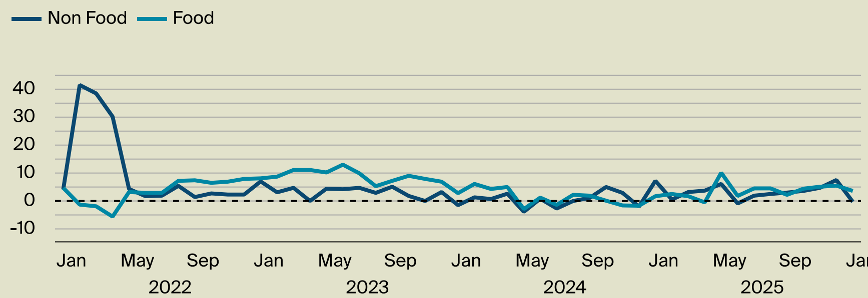
Data from Wordpanel showed that take-home sales at the grocers reached a record £13.8bn (+3.8%) in the four weeks to 28 Dec. Tesco (+3.2% like-for-like), Sainsbury's (grocery +5.4% like-for-like), M&S Food (+5.6% like-for-like), Lidl (+10% total) and Aldi (+3% total) all gained market share, as did Ocado. Asda and the Coop were the two market underperformers and lost share. There was significant evidence of consumers trading up as much as down, with premium own-label lines surpassing the £1bn milestone for the first time and premium products finding their way into 92% of shopping baskets.

DEARTH OF STOCK

Investment volumes were a disappointing £1.12bn in 2025. Although up +13% on 2024, this was -21% below the 10 year average. This was undoubtedly driven by a lack of openly-marketed investments, with only five £10m+ supermarkets formally advertised in H2. This was counter-balanced slightly by a resurgence in sale & leaseback activity, with Asda, Morrison's and Lidl all looking to release capital from their respective store estates. Portfolios made up 72% of volumes in H2.

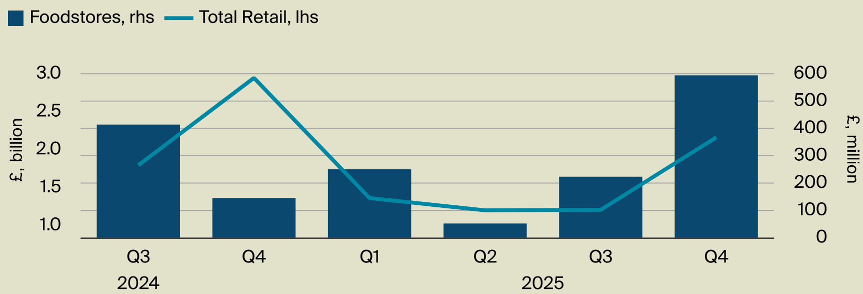
Food vs. non-food retail sales

Monthly year-on-year change, %



Source: ONS

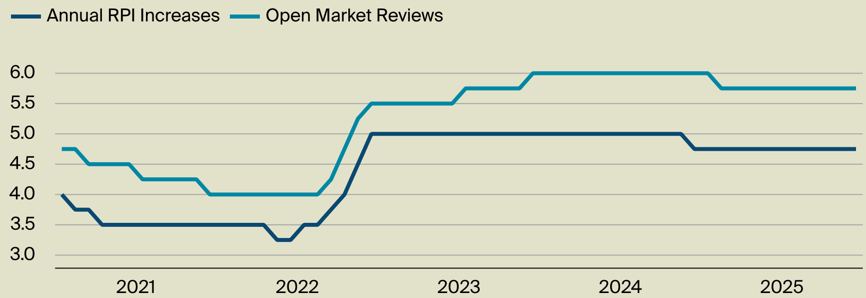
Foodstore investment volumes



Source: Knight Frank

Foodstore yields

%



Source: Knight Frank

Central London

The anticipated Christmas spending uplift fails to materialise, despite a great footfall showing

BODIES THERE, SPEND ELUSIVE

The New West End Company's (NWEC) earlier prediction that Christmas spend would be up +1.3% indeed proved very optimistic. Footfall was strong (Oct. +2.3%, Nov. +3.1%, Dec. +2.5%, particularly from overseas visitors, but this did not translate into growth in the number of transactions (Oct. -1.4%, Nov. +2.8%, Dec. -0.8%). Average Transaction Values (ATV) were also down (Oct. -0.3%, Nov. -2.2%, Dec. -5.0%), meaning that spending levels were significantly weaker (Oct. -1.7%, Nov. +0.6%, Dec. -5.7%). In essence, consumers were out in force, but bought fewer items and ultimately spent less.

PATCHY OCCUPIER DEMAND

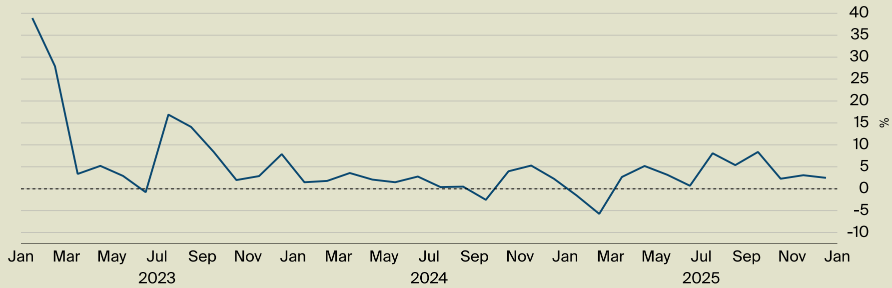
CoStar lists 79 new retail leases signed in Q4 for Central London (Westminster and the City), totalling 171,200 sq ft of space. High profile lettings included two units on Carnaby Street - a 1,400 sq ft store at #26 to French outerwear brand K-Way and a 1,300 sq ft unit at #43 to Kiehl's. On Regent Street, sportswear brand On signed up for a 2,000 sq ft flagship store at #169-173. Royal London Asset Management (RLAM) has since completed two pre-lets on Bond Street to US-based luxury and performance wear brand Peter Millar (#111/117) and a new flagship for Dunhill (#128-129).

ONGOING RENTAL GROWTH

Central London retail rents continue to rise on both a prime zone A and underlying basis. Prime zone As on Bond Street are at a record high of £2,600/sq ft, while Oxford Street is back to pre-COVID levels of £800/sq ft+. Underlying Central London retail rents grew by a further +1.3% in Q4, taking the rolling annualised figure to +9.1%. Having corrected relatively mildly in response to COVID, prime yields remain steadfastly low on Bond Street at 2.75%. On Oxford Street, they stand at 4.50%.

West End footfall

% change year-on-year

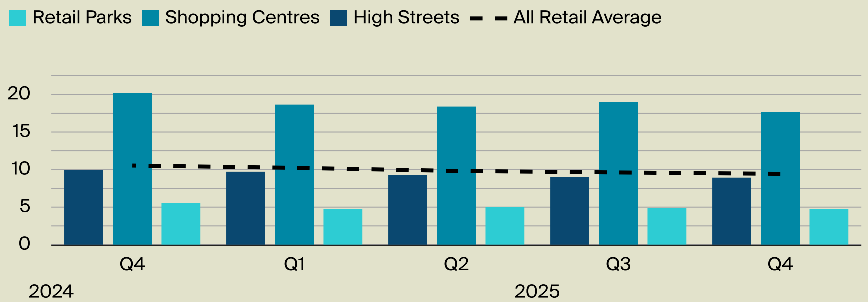


Source: New West End Company

Vacancy rates*

% units

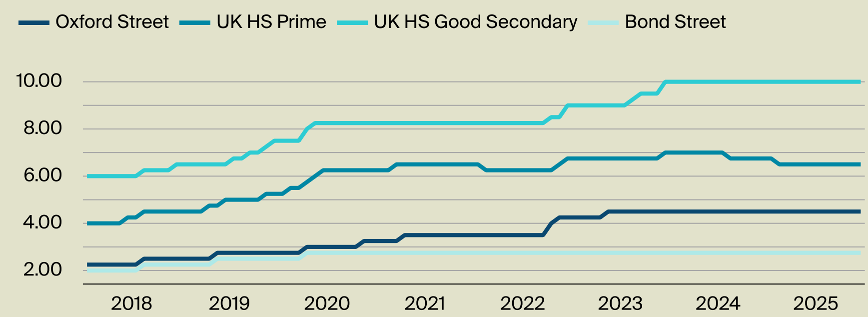
*Greater London



Source: Local Data Company

Yields

%

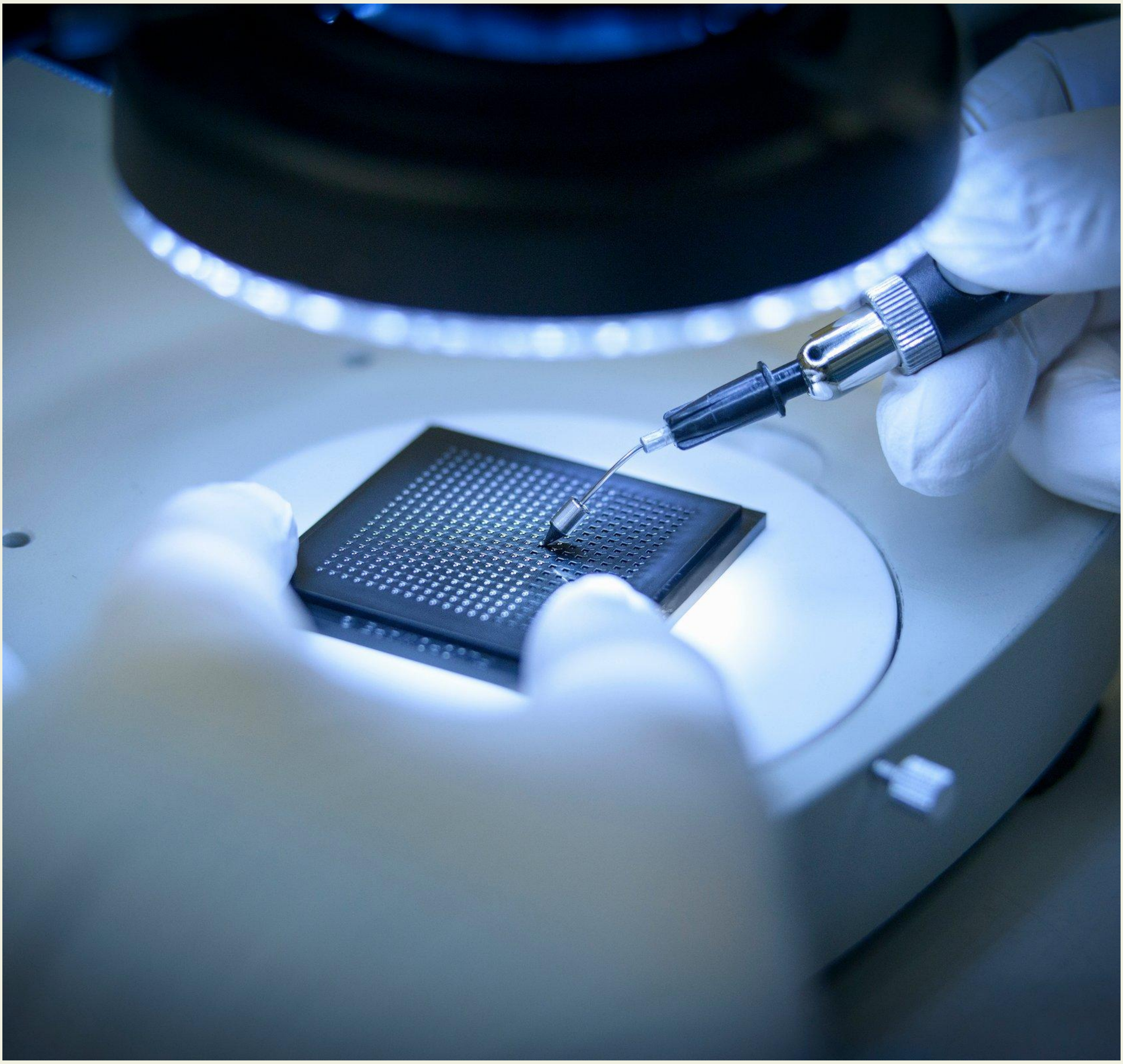


Source: Knight Frank

Specialist sectors

Data centres, healthcare & life sciences

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



Data centres

Strong development appetite persists, yet grid bottlenecks risk undermining the UK's ability to scale AI-ready capacity at pace

PIPELINE VOLUMES ACCELERATE

The final quarter of 2025 saw a further 1.7 GW added to the UK's pipeline, bringing total development volumes to 9.7 GW. This trajectory is expected to continue, with forecasts indicating the deployment of c.1.0 GW of new capacity over the next two years through both campus expansions and new developments.

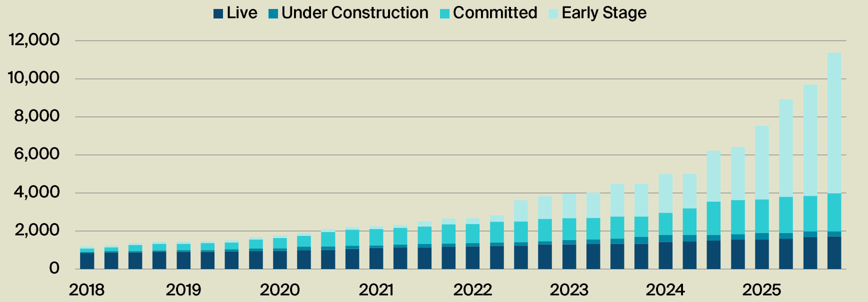
From 2027 onwards, growth is set to accelerate, with 2027 alone projected to see a 34% increase in live IT capacity. This reflects post-pandemic project announcements finally progressing, alongside additional deployment enabled as key network reinforcement works, including upgrades at substations such as Iver B, are completed.

THREE NEW AI GROWTH ZONES ANNOUNCED

The UK Government has continued to scale its AI Growth Zone (AIGZ) initiative, announcing three new zones since November 2025 in North Wales, South Wales and Scotland, expanding beyond the earlier announced locations in Oxfordshire and the North East. Further expansion is expected this year, with rumoured zones in Northern Lincolnshire, Teesside, and parts of Cumbria. A major incentive for locating in an AIGZ will come into effect from April next year, when qualifying data centres will benefit from reduced electricity costs between £14 and £24/MWh, depending on the location.

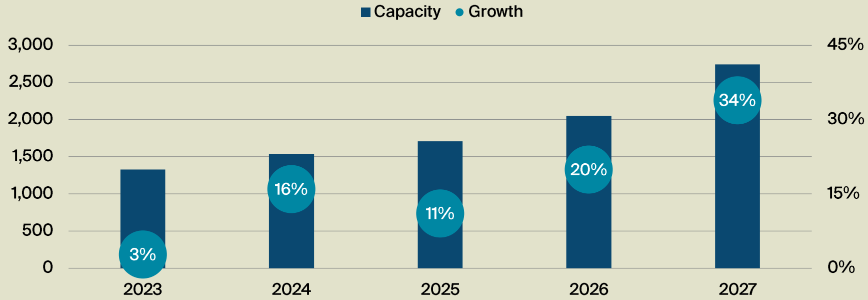
Despite strong policy momentum, development remains bottlenecked by grid access. NESO's update on the connections reform introduces tighter rules and deadlines to speed up connections, but the new queue still stands at 382GW, down from c.738GW, yet still well above Ofgem's post-reform expectations. With Ofgem having forecast a 296GW queue (or 352GW even in its least-ambitious scenario), the reforms have fallen short of their intended impact.

Supply Volumes
MW



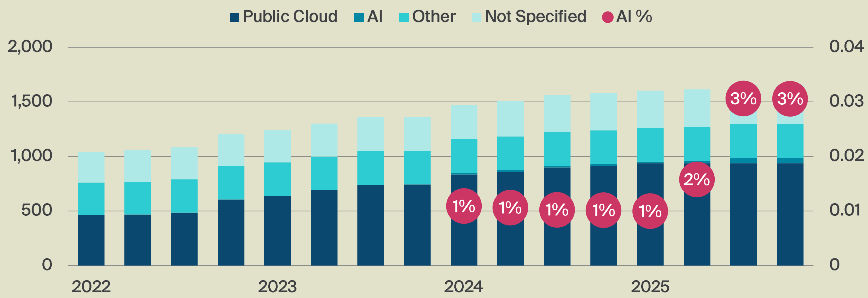
Source: Knight Frank Insight

Live IT Forecasts
MW



Source: Knight Frank Insight

Aggregate Lease Agreements
MW



Source: Knight Frank Insight

Healthcare

UK healthcare closes 2025 at record transaction levels

NORTH AMERICAN REITS DOMINATE

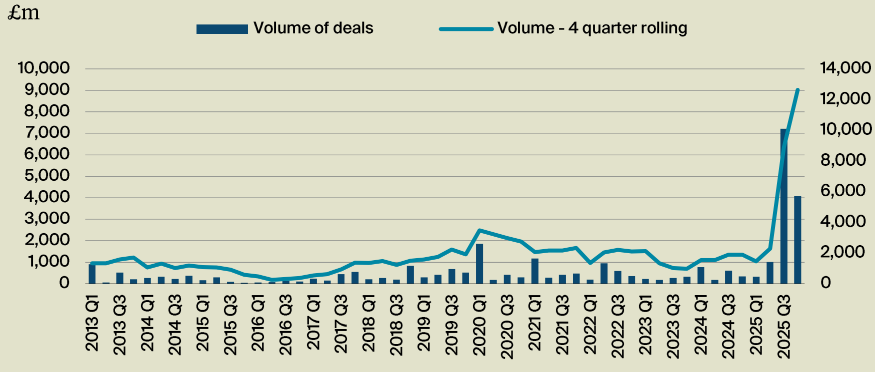
2025 saw healthcare transaction volumes finish at a record high of £12.6bn. This level presents as just over five times the historic five-year average.

Despite other major deals taking place, such as PHP's acquisition of Assura, healthcare investment was heavily dominated by the North American REITs with the likes of Omega's purchase of the FSHC homes and Care Trust's acquisition of Care REIT setting a precedent in the first half of the year. The second half of the year built heavily upon this momentum, with sizeable deals including Graham Care and Select Healthcare, before Welltower's run of acquisitions, which included £6.4bn spent on Barchester and HC-One collectively, as well as further acquisitions of Aria Care and Danforth.

Following on from such a mammoth year for transactions, the ongoing questions of where the next buying opportunity will emerge and whether investors can match 2025's bullishness remain unanswered. There is also the question of the new normal in terms of deal structures. Beyond this, M&A continues its comeback, with the proposed merger between Aedifica and Cofinimmo to create what would be Europe's largest and the world's 4th largest healthcare REIT, at c.€12bn in AUM, finally receiving the go ahead. This, alongside CareTrust's acquisition of Care REIT, and the closing of the PHP/Assura merger, highlights what seems to finally be the beginning of European healthcare markets consolidating.

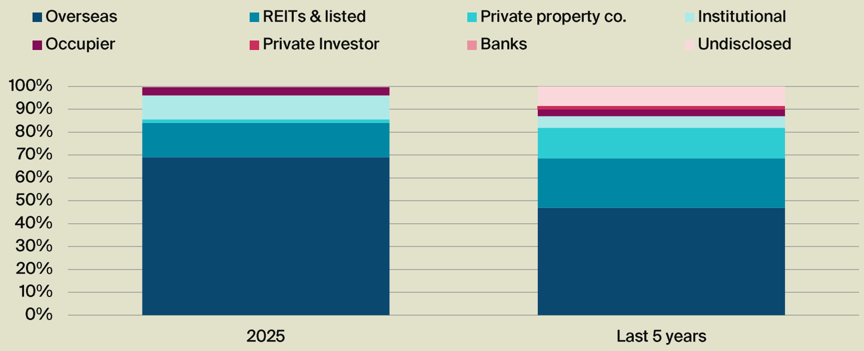
Overall, there is a strong sentiment with respect to healthcare capital markets. Yields across the board have remained stable, and lender appetite for the sector remains positive. Healthcare continues to present as an attractive asset class with evident rewards for investors who can tap into the operational nature of the sector.

Recorded healthcare property transactions



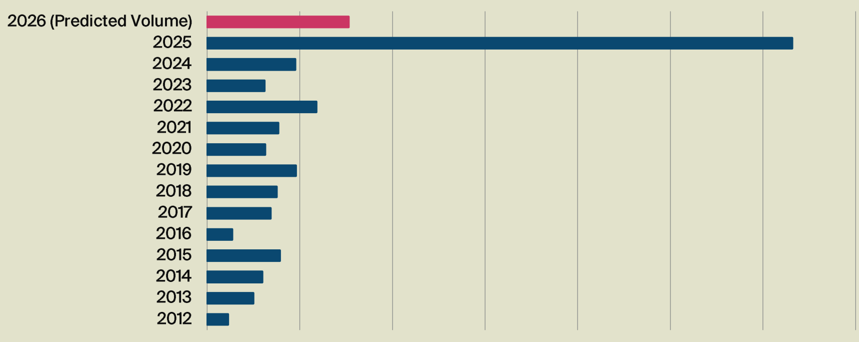
Source: Knight Frank Insight

Healthcare property transactions by buyer type



Source: Knight Frank Insight

Anticipated transaction volume*



*Large portfolio transactions not included in initial predictions

Source: Knight Frank Insight

Healthcare

Bed supply seeing minimal growth, despite strong investment activity and demand drivers

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STAGNANT SUPPLY

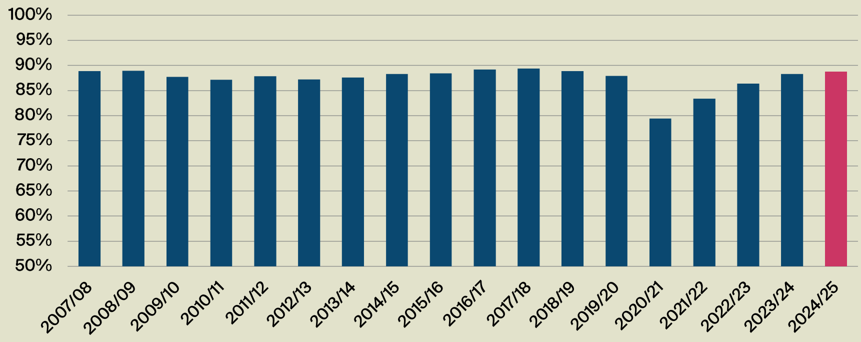
Despite the strong investment figures seen last year, 2025 reported only 44 new schemes had been completed, producing a net gain of 136 beds when considered in line with home closures. Comparatively, in 2024, despite the delivery of 117 schemes, we only saw a very modest net bed gain.

We have seen over the past few years a continuation of the trend of greater home de-registrations, largely driven by the closure of smaller facilities that are gradually being replaced by larger, purpose-built, and future-proofed homes, with a reported average newly completed home size of 67 beds. By separating purely new beds from those that were simply reopened, the minimal supply growth becomes even clearer. Again, it is no secret that more needs to be done to unlock further bed supply as we move closer to capacity and eventual deficit, with a key statistic being the +2.3% growth in bed supply over the past decade.

FUNDAMENTALS AS STRONG AS EVER

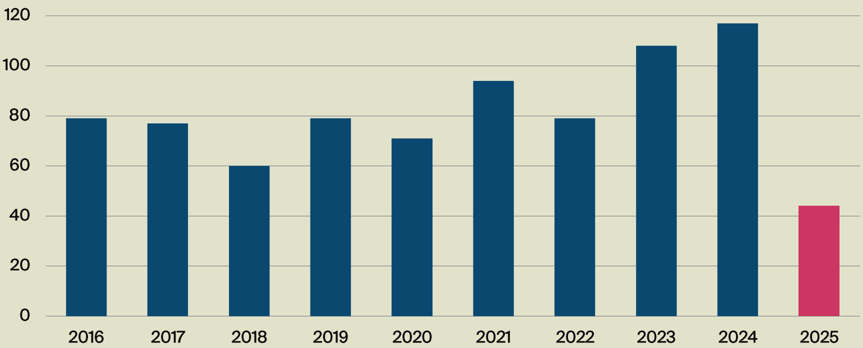
Leading into our most recent trading performance analysis, covering around one-fifth of the UK elderly care market, we have seen further improvements in occupancy, along with continued growth in average weekly fees, as in previous years. 2025 saw staffing costs as a percentage of income fall to 55.3% from 56.7%, as well as the all-care average fee grow by around 10% year-on-year, now standing at £1,298 per week. We expect this trend to continue as the cost of care continues to rise. Occupancy rates are expected to remain strong, which, coupled with the above, should lead to an overall improvement in operator EBITDARMs, currently averaging 30.1%. The sector may benefit from what appears to be a significant consolidation exercise by investors, as greater platform efficiency drives further improvements in financial KPIs.

Occupancy



Source: Knight Frank Insight

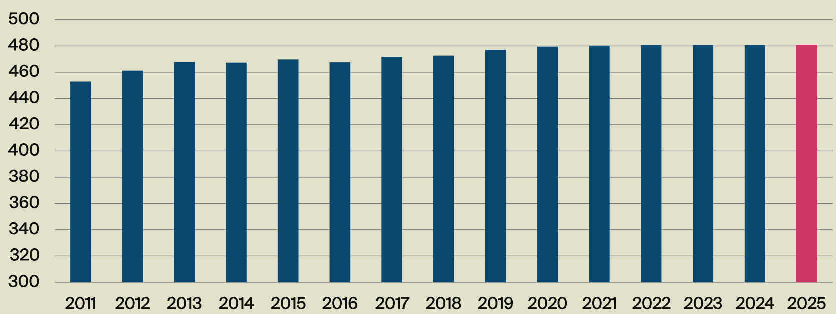
New UK care homes completed



Source: Knight Frank Insight

Elderly Care Home Beds

Thousands



Source: Knight Frank Insight

Life sciences

Company creation slowed, hiring remained cautious and capital focused on fewer deals. Sentiment is improving as AI, adjacent sectors, patent expiries and government policy shape demand

SLOW FORMATION, CAUTIOUS HIRING, SENTIMENT STARTS TO SHIFT

In 2025, VC funding for the UK life sciences sector reached a total of £3bn. Q4 investment amounted to £631.3m, representing a 24.3% increase compared to Q3, but a 23.2% decline when measured against the same period in 2024. The volume of capital invested in 2025 was significantly influenced by Q1 activity, which saw a handful of larger deals taking place. The total number of active UK life sciences companies fell slightly quarter-on-quarter (-0.1%), but still reached a record total of 15,436 active companies at year-end. However, growth has clearly slowed as company cessations increased and company formations declined throughout 2025. Location wise, the North West beat the South East and the East of England for the number of life sciences companies formed in 2025, with a total of 108.

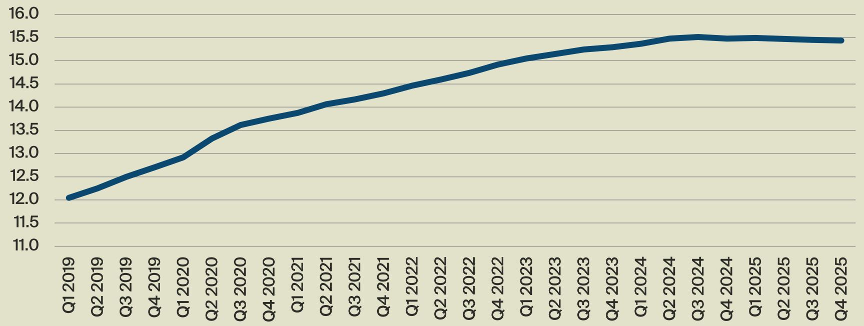
There are early signs of improved sentiment in the global Biotech sector. According to a recent global Biopharma sentiment survey, respondents express greater optimism regarding business prospects, hiring, and financial performance in the coming year. Should this positive sentiment translate into actions, it may result in increased expansion-related real estate activity. Concurrently, during Q4, several prominent investors released more favourable sector outlooks, and US Biotech stocks experienced a rally.

WHAT WE ARE WATCHING IN 2026

Patent expiries will continue to drive external innovation, restructuring, partnerships and M&A. A broadening of life sciences into adjacent fields like AI-enabled and computational science, synthetic biology, robotics and advanced engineering R&D and quantum will shape demand and regulatory, pricing and geopolitical complexity will keep flexibility and optionality at the heart of real estate strategy.

Number of active UK life sciences companies

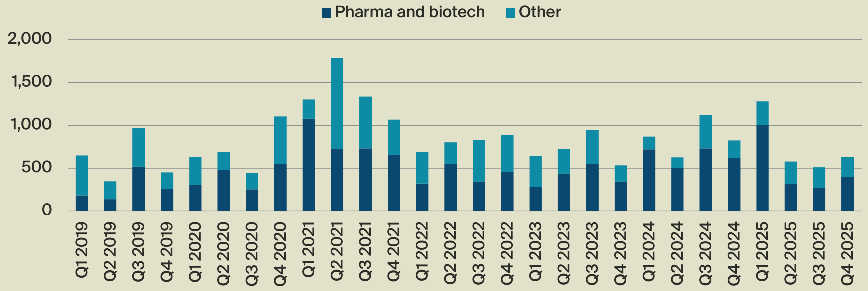
Thousands



Source: Knight Frank Insight, Beauhurst

UK life sciences venture capital funding

VC funding into UK life sciences companies, £m

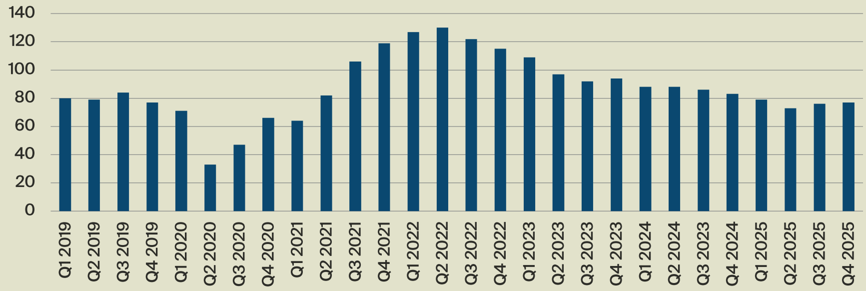


HQ only. Completed deals and full transactions only. Covers: Biopharma, MedTech and Digital health. Data as at 09/10/2025. The data in PitchBook is continuously updated to reflect the most current information. As a result, historical data may change over time.

Source: Knight Frank Insight, PitchBook

Vacancies: professional, scientific and tech

Thousands



Source: Knight Frank Insight, ONS

Life sciences

A handful of large transactions push up take-up, while most activity remained small. EIT's £890mn Oxford investment and robust development activity provide evidence of sector confidence

ONE MAJOR DEAL SIGNALS CONFIDENCE IN UK LIFE SCIENCES, WHILE THE SUPPLY OF LAB SPACE CONTINUES TO GROW

Life sciences capital markets were quiet in Q4, with only one investment deal completed, partly due to limited opportunities in the Golden Triangle. However, the one deal was a huge vote of confidence in UK science and innovation and underscored the role of philanthropy in growing the sector: The Ellison Institute of Technology (EIT) announced the acquisition of its new expanded site at Oxford Science Park for £890m.

On the supply side, development activity is robust, with 3.65m sq ft under construction and due for completion between now and the end of 2028, some of which is already pre-let. 1.65m sq ft will be delivered this year alone. This is contributing to a balancing of supply-demand dynamics.

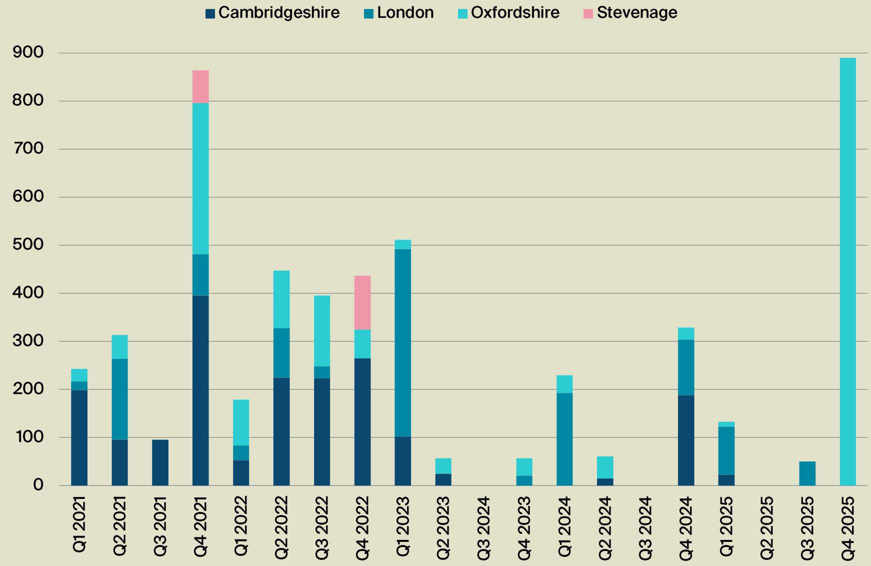
LARGE DEALS LIFT LEASING VOLUMES

Leasing volumes rose sharply year-on-year to total 1.03m sq ft in 2025, although this was largely due to the EIT investment in Oxford. Other large deals included ARM taking 95,709 sq ft in Cambridge and LifeArc's 70,000 sq ft pre-let in London.

Activity remains polarised between a handful of larger transactions and a longer tail of smaller requirements. 2025 Golden Triangle life sciences leasing activity has been predominantly derived from smaller occupiers, with only 17 transactions over 10,000 sq ft. Under offers stand at over 200,000 sq ft as at the end of Q4 2025, signalling momentum for the year ahead.

Investment volumes, Golden Triangle

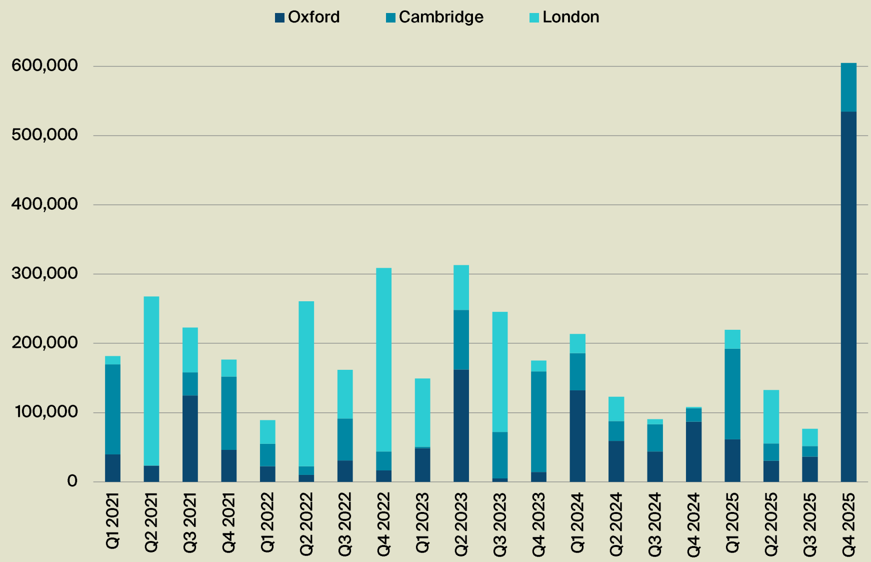
£m



Source: Knight Frank Insight

Life sciences leasing volumes, Golden Triangle

Take-up, sq ft



Source: Knight Frank Insight

Key contacts

Offices

Retail

Logistics & Industrial

Healthcare

Life Sciences

Data Centres

Student Property

Automotive

Capital Markets

Valuation & Advisory

Debt Advisory

Restructuring & Recovery

William Matthews
Partner, Department Head
Commercial Insight
william.matthews@knightfrank.com