H1 2025

Retail Investment Update

From Rags to Riches

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RETAIL INVESTMENT AT A GLANCE

Retail Warehousing

- Investment volumes reached £1.48bn in H1, a 78% increase year-on-year and the highest H1 total since 2022.
- Volumes were driven by a large number of deals completing in Q1, many of which were a hangover from Q4 2024 (in itself a bumper quarter.) However, activity is increasingly being constrained by limited stock availability, despite ongoing investor demand, much like the other retail sub-sectors.

Foodstores

- Significant demand from investors particularly for prime stock, with particular focus on top tier covenants and unencumbered sites. Stock with these characteristics remains few and far between, with only two truly core trades in H1 2025.
- H1 2025 volumes were subdued at £310m – down 56% on H1 2024 and 75% on H1 2023. That said, we expect activity to pick up in H2, driven primarily by several sale-and-leaseback portfolios currently in the market.

High Street

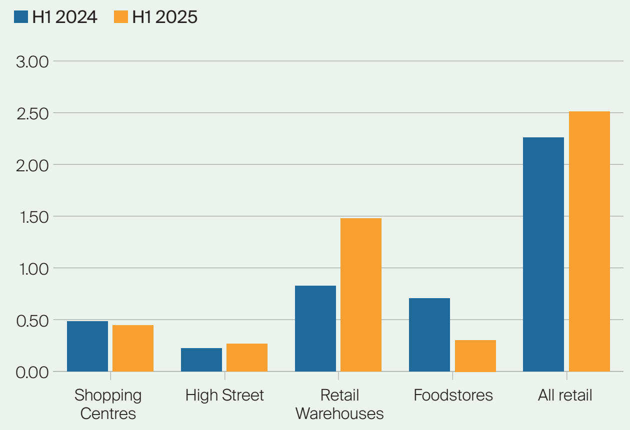
- Prime yields have compressed 50bps over the past 12 months, now standing at 6.50%. Competitive bidding remains for best-in-class assets applying further downward pressure on yields.
- Transaction volumes are still modest at £275m. Whilst 19% above H1 2024, they remain 39% down on the 10 year average, largely due to a lack of larger lot sizes. Institutions have returned for core stock, in the few cases where large enough lots have been marketed.

Shopping Centres

- Buyer depth has improved significantly for prime sales, leading to stronger liquidity where sales have reached the market. Prime yields have compressed by 75bps year-on-year.
- Despite improving pricing, and vastly improved availability of debt financing, vendors are holding stock longer, which has dampened deal volumes. Just £450m traded in H1 – an 8% fall from the same period last year.

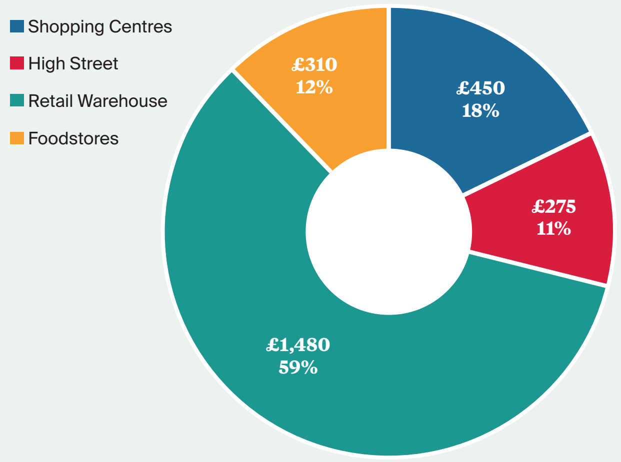
H1 2024 vs H1 2025 Transaction Volumes

Value of transactions, £bn



Source: Knight Frank Research

H1 2025 Transaction Volumes (£m)

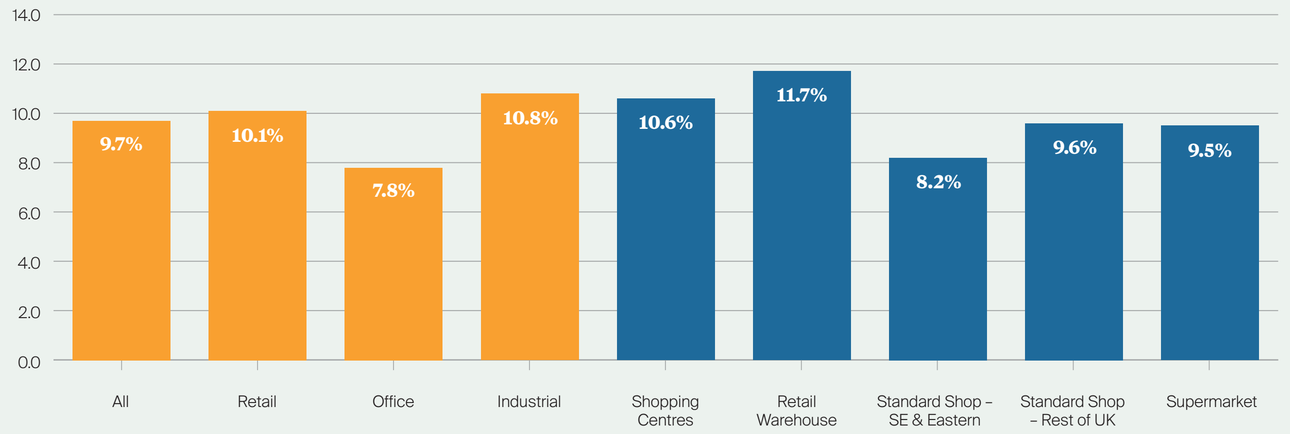


Source: Knight Frank Research

Total retail investment volumes in H1 2025 stood at £2.51bn, in line with H1 2024 but significantly below the 10-year average of £3.65bn. This subdued performance is not due to a lack of demand – rather, the market is constrained by a shortage of stock across ALL subsectors. As pricing strengthens and rental growth continues, we anticipate more disposals from owners looking to profit from these recent gains.

Total Returns – Annual Forecast

2025 (f)



Source: Realfore

REVIEW OF THE YEAR

Occupational

- Year to date (Jan-May) retail sales are up +2.4% with volumes up +1.4% year-on-year. April figures at +6.2% value and +5.3% volume growth was a return to pre-covid era growth, largely driven by summer sales brought forward by better UK weather.
- Rents rose by 2.3% in H1 across all subsectors – the first time we have witnessed rental growth across the board in the retail subsectors since 2014. Forecasts suggest a further 1.6% uplift across 2025, with the retail park subsector leading the way.
- Retailers are increasingly investing in physical stores, with notable examples including M&S's large format relocations in Bath, Birmingham, Bristol, Leeds and Liverpool, Primark's continued store expansion programme and new entrants Sephora, Harvey Norman and Sostrene Grene's European store roll outs. Most well-managed schemes now have a list of occupiers in discussions to take space suggesting the occupier market is in a healthy state.
- The vacancy rate is steadily falling in most markets, sitting at 13.7% as of H1 2025 (retail and leisure). However, macroeconomic pressures – including business rates reform, national insurance changes, and minimum wage increases – present headwinds.
- Fortunately, historic rent rebasing and portfolio right-sizing have left many retailers better positioned to weather these challenges. Some in more squeezed sectors, including Poundland and River Island, have recently launched restructurings where a more aggressive approach is needed to correct business decline.
- Despite this, the vast majority of retailers are exhibiting little to no financial risk in what is a much quieter market for occupier distress and restructurings. Buyers can now take a more confident approach to underwriting acquisitions when faced with an altogether more stable trading picture (and therefore income profile).

Investment

- Retail is once again regarded as a credible and investable asset class, underpinned by a significantly improved occupational backdrop. This renewed resilience and positive momentum is prompting many owners to retain assets rather than bring them to market. For those considering a sale, ongoing macroeconomic uncertainty has resulted in delayed decision-making and a more cautious approach.
- This undersupply is building at a time when we are tracking a significant and varied buyer pool for all of the retail subsectors, leading to competitive bidding and ensuring pricing is either consolidating or sharpening across all retail sectors.

Key Transactions - 2024

Property	Sector	Purchaser	Vendor	Price	NIY %
Lakeside Retail Park, West Thurrock	Retail Warehouse	Goldentree AM	Landsec	£114.0m	6.81%
County Oak Retail Park, Crawley & Solihull Retail Park, Solihull	Retail Warehouse	Realty	Delancey*	£157.25m	6.45%
Lion Retail Park, Woking	Retail Warehouse	Aberdeen Investments	British Land*	£40.5m	5.24%
Aldi, Uxbridge	Foodstore	DTZ Investors	L&G*	£16.0m	4.17%
Sainsburys, Wantage	Foodstore	CBRE Capital Advisors*	La Salle IM	£38.1m	4.50%
Waitrose, Greenwich	Foodstore	AFH	L&G	16.5m	6.00%
20-26 Buchanan Street, Glasgow	High Street	Remake	Redevco	£12.16m	6.75%
13-13a, 114-123 Bancroft and 3-4 Portmill Lane, Hitchin	High Street	AEW	CBRE IM	£10m	9.31%
Tower Bridge Quarter, London	High Street	Private Investor	Milton Group*	£12.9m	6.82%
Brent Cross Shopping Centre (60%), Brent Cross	Shopping Centre	Hammerson	Aberdeen Investments	£200m	8.60%
Festival Place, Basingstoke	Shopping Centre	MDSR	Lenders	£99.10m	10.50%
St Enoch Centre, Glasgow	Shopping Centre	Praxis	Lenders	£55.0m	10.00%

*Advised by Knight Frank

- Retail delivered a +7.8% total return in 2024, almost matching industrial's +7.9% and beating the MSCI All Property Index for the third consecutive year.

- Retail forecasts remain robust, with total returns projected at approximately 10.1% for 2025 and 8.4% pa over 2025 to 2028. Retail warehousing is expected to outperform as it has done since 2021, delivering returns of 11.7% in 2025 and 9.5% over 2025 to 2028. Income remains the key driver for the retail sector, with a projected income return of 5.7% – outperforming the all property average of 5.2% for income return and total return of 9.7%.

- In our six-part *Retail Renaissance 2025* series, we unpack the critical lessons retail has learned - and what other real estate sectors can take from its reinvention.

Retail Warehousing

- The top-performing asset class in 2024 (+11.8% total return), underpinned by 5.2% capital growth and a 6.3% income return.

- Strong demand persists due to low vacancy (<4%) and continued occupier appetite for out-of-town formats, placing upwards pressure on rents. The demand for and take up of larger units has been particularly telling; reletting of former Homebase stores have often set meaningful increases in rental tones across the country and most out of town Wilko stores have been readily relet to better capitalised occupiers.

- £1.48bn was transacted in H1 2025 – a 78% year-on-year rise. Q1 alone accounted for £782m, reflecting the completion of deals initiated in Q4 2024. Notable transactions include Aberdeen Investments' acquisition of Lion Retail Park, Woking from British Land (advised by Knight Frank) for £40.5m / 5.24% NIY.

- A number of larger lot size investments and portfolios traded during the period suggesting buyer demand for aggregating retail warehousing platforms remains unabated. In one such transaction, Realty acquired schemes in Solihull and Crawley from Delancey (advised by Knight Frank) at £157.25m / 6.45% NIY.

- Near-term volumes in Q3 are expected to remain subdued, primarily due to ongoing stock constraints. However, as we move into Q4 and beyond, an increase in available stock is anticipated, driven by early adopters beginning to recycle capital and take profits. As a result, year-end investment volumes are projected to be broadly in line with 2024 levels (£2.4bn).

- Demand is being driven by a diverse range of capital, including UK institutions, French SCPIs and active REITs such as Realty.

Foodstores

- Grocery retailing is increasingly viewed as critical public infrastructure, particularly amid growing attention on UK food security. As such, buyer types remain incredibly diverse with a range of core capital investors retaining active requirements for the sector.

- Following a record-breaking 2023 and strong early 2024, volumes dropped in H2 2024 and have since remained muted in H1 2025 (£310m across 18 deals). This is 56% below H1 2024 volumes.

- Sale-and-leaseback activity is expected to lift H2 2025 volumes, although the overall deal count may remain low due to the reluctance of landlords to sell.

- The market remains two-tiered, with pricing diverging based on covenant strength between the publicly listed and private equity-owned groups. Operational improvements at Morrisons are starting to drive re-pricing and further divergence still is emerging between the non-listed operators.

- Prime stock is scarce, especially for Tesco and Sainsbury's occupied assets. There were only two truly core foodstore trades in H1 2025, with Knight Frank involved in both. The acquisition of Sainsbury's, Wantage on behalf of CBRE Capital Advisors (4.50% NIY) and the disposal of Aldi, Uxbridge on behalf of Legal & General (4.17% NIY), with both offering new 25 year index linked leases.

High Street

- Prime high street yields have compressed 50 bps since H1 2024 to 6.50% NIY. We expect further compression over H2 as prime assets that are of sufficient scale are hotly sought after. Higher income return, driven by elevated entry yields, along with the potential for rental growth creates a compelling investment case.

- Transaction volumes currently stand at £275m. Whilst 19% above H1 2024, they remain 39% down on the 10 year average. Few large lots have been marketed, for fear amongst sellers of liquidity issues for bigger tickets. However, there are starting to be signs that this fear is unfounded.

- Hanningtons, Brighton (q. £57m / 7.49% NIY) is under offer following competitive bidding. Further, the marketing of Metro Centre, Brixton (q. £18.5m / 6.24% NIY) is understood to have attracted eight bids with the top three parties being institutions.

- The buyer pool remains dominated by Private Investors but is growing. There is increasing demand for well let High Street shops from French SCPI buyers, with relatively high NIYs and established covenants often suiting their capital structures. Institutional demand is growing and is focussed on best-in-class larger blocks in major cities; however, the lack of institutional grade product, particularly larger lots, is limiting further activity in this regard.

Shopping Centres

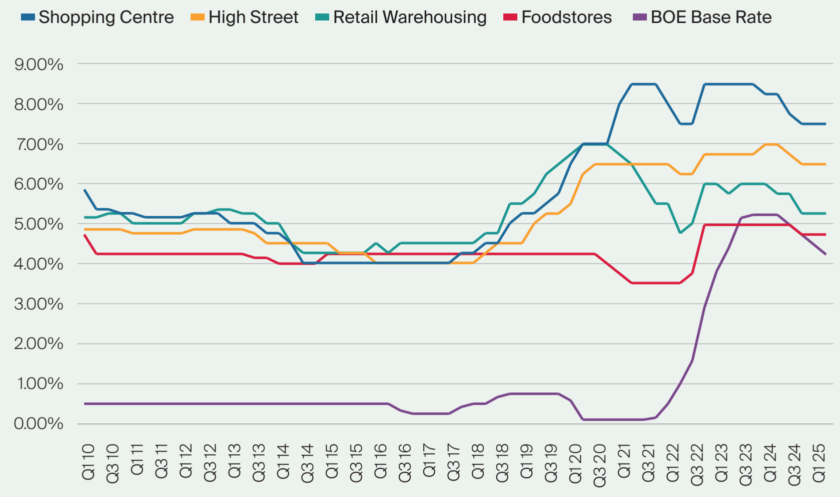
- Volumes, subdued at £450m in H1 2025, are not reflective of the renewed appetite for the shopping centre market. The prime arena is seeing the lion's share of this improved demand, evidenced by yields currently standing at 7.50% (reduced from 8.25% in H1 2024) but there is also good interest outside of this tightly controlled category.

- MDSR's recent acquisition of Festival Place, Basingstoke (£99.1m / 10.50% NIY) via a competitive process is symptomatic of such improvement, with the sale receiving limited investor interest and pricing at c.£70m when first market-tested in 2022.

- However, many owners are happy to continue to benefit from an improved occupational position, improved debt financing and a falling Base Rate – all of which are combining to generate further yield compression. Liquidity in the debt market is the strongest it has been for some time – clearing banks, insurers and debt funds (themselves fuelled by back-leverage) are routinely bidding down margins to less than 200bps (for prime stock), seeking exposure to the sector.

- Whilst slow to get going, the market has clicked into gear with availability of larger sales now materialising. The ongoing sales of The Lexicon, Bracknell

Prime Retail Yields & UK Base Rate 2010-2024



Source: Knight Frank Research

(q. £160m / 8.50% NIY) and a 50% share in Manchester Arndale (q. c.£235m / 7.25% NIY) have attracted significant buyer interest from a range of UK institutions, REITs, private equity investors, property companies and overseas groups.

- We do expect stock levels to increase as there remains a number of unwilling long-term owners/lenders now able to crystallise stronger pricing and facilitate disposals in this improving market.

Leisure

- Following Cineworld's restructuring, the leisure market has begun to demonstrate renewed stability. This has allowed investors to forecast more predictable and stabilised income streams with greater confidence. While National Insurance increases may exert some pressure on occupiers' profit margins, the income returns available in the leisure sector remain significantly more attractive compared to other real estate sectors.

- Improved accessibility and affordability of debt financing are enhancing liquidity within the sector, creating favourable conditions for opportunistic buyers. The recent marketing of Medway Valley Leisure Park, Rochester by Knight Frank (q. £25m / 9.64% NIY) has underscored the strong demand for best-in-class leisure parks with underlying alternative use values, with strong financing terms available.

- Having observed substantial yield compression in the out-of-town market, the leisure sector now presents a compelling counter-cyclical investment opportunity. It combines resilient income characteristics with the potential for attractive returns, making it a strategic play for investors seeking diversification and enhanced yield in the current economic environment. Could it be yet another example of fortune favouring the brave in the retail investment market?

REIT Share Price Tracker

	Landsec	British Land	Hammerson	NewRiver	Supermarket Income REIT	London Metric
Latest Share Price (p) 26/03/25	605.00	380.00	30.50	82.00	73.00	205.00
2025 Movement	1.4%	2.1%	3.4%	2.0%	2.7%	4.8%
EPRA NTA per share (p)*	874.00	567.00	37.00	102.00	88.00	199.20
Premium to NTA	-31%	-33%	-18%	-20%	-17%	3%

*Latest available published NAV per share

KNIGHT FRANK OUTLOOK

- Whilst the first half of 2025 has been overshadowed by a conveyer belt of global geopolitical and macro-economic setbacks, many owners and investors were able to look through the uncertainty to crystallise positive asset management and investment plans while others retrenched. Indeed, most trying to forecast the next window of stability have given up waiting for the dust to settle.

- We are expecting these clouds to clear as the year progresses and are readying for a busy Q4. With market fundamentals in all retail subsectors the most appealing they have been for some time (and increasingly attractive in the context of other more challenged sectors) we are monitoring a number of investors retaining plans to make strategic investments before year-end.

- We anticipate deal volumes returning to 10 year averages of c.£7 bn and the sector as a whole delivering remarkable risk-adjusted double-digit total returns – first movers could be rewarded in these turbulent times with *Retail's Renaissance* beginning to be well accepted.

KNIGHT FRANK DEALS

A selection of our recent transactions are shown below. Thank you to all of our clients who have worked with us this year.

Airport Retail Park, Coventry

Tenure: Retail Warehouse
Purchaser: NFU*
Vendor: London Metric
Price: £37.3m
NIY: 6.00%

West Swansea Retail Park, Swansea

Tenure: Retail Warehouse
Purchaser: Iroko Zen*
Vendor: Titan Investors Ltd
Price: £17.32m
NIY: 7.47%

County Oak Retail Park, Crawley & Solihull Retail Park, Solihull

Tenure: Retail Warehouse
Purchaser: Realty
Vendor: Delancey*
Price: £157.25m
NIY: 6.45%

Aldi, Uxbridge

Tenure: Foodstore
Purchaser: DTZ Investors
Vendor: L&G*
Price: £16.01m
NIY: 4.17%

Sainsburys, Wantage

Tenure: Foodstore
Purchaser: CBRE Capital Advisors*
Vendor: LaSalle IM
Price: £38.1m
NIY: 4.50%

Lidl, Canning Town

Tenure: Foodstore
Purchaser: Private Investor
Vendor: Developer*
Price: £5.4m
NIY: 6.08%

RETAIL INVESTMENT UPDATE

Tower Bridge Quarter, London

Tenure: High Street
Purchaser: Private Investor
Vendor: Milton Group*
Price: £12.9m
NIY: 6.82%

60-62 & 64 Buchanan Street, Glasgow

Tenure: High Street
Purchaser: Private Investor
Vendor: Greenridge*
Price: Confidential
NIY: Confidential

Beaumont Leys, Leicester

Tenure: Shopping Centre
Purchaser: Evolve Estates
Vendor: Cervidae*
Price: £16m
NIY: 10.60%

Lion Retail Park, Woking

Tenure: Retail Warehouse
Purchaser: Aberdeen Investments
Vendor: British Land*
Price: £40.5m
NIY: 5.24%

Warwickshire Shopping Park, Coventry

Tenure: Retail Warehouse
Purchaser: Sofidy*
Vendor: AEW
Price: £23.5m
NIY: 7.25%

Exchanged - Medway Valley Leisure Park, Rochester

Tenure: Leisure
Purchaser: UK Property Company
Vendor: M&G*
Price: q.£25.0m
NIY: q. 9.64%

"Knight Frank are highly active across all of the retail sub-sectors, with specialists focused on each market. Please do not hesitate to get in touch if we can assist with your retail investments."

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