H2 2025

Retail Investment Update

Retaining the Crown

knightfrank.co.uk/research

RETAIL INVESTMENT AT A GLANCE

Retail Warehousing

- Annual volumes are -26% below those of 2024 but broadly in line with the 10 year average. Quarterly data shows a strong start vs a slow end to the year.
- Activity at the Prime end of the market is more limited but Good Secondary, offering a more attractive income return, is highly sought-after.

Foodstores

- Wide and varied investor demand not fairly reflected in deal volumes, which sit -21% below the 10 year average.
- Dearth of openly marketed Foodstores (only five £10m+ stores in H2) but volumes boosted by renewed uptick in Sale & Leaseback activity.

High Street

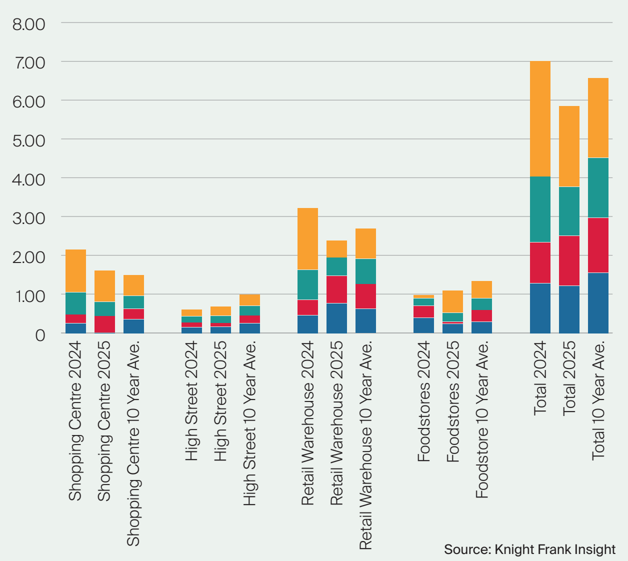
- Deal volumes picked up meaningfully in H2, with £420m transacted vs £280m in H1, a +50% increase, but volumes still well below the 10 year average (£700m vs £1bn).
- Increased availability and demand for larger lot sizes should improve volumes next year.

Shopping Centres

- MSCI's joint top performing asset class in the year to Q3 2025 at +10.2% – appetite is the strongest witnessed in almost a decade.
- Bumper November saw 1/3rd of annual deal volume transacted in a month, counteracting a slow start to 2025.

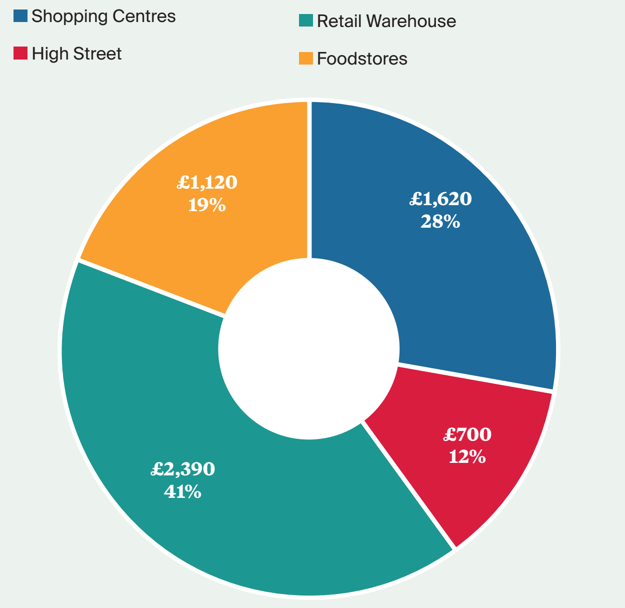
2024 vs 2025 Transaction Volumes

Value of transactions, £bn



Source: Knight Frank Insight

2025 Transaction Volumes (£m)

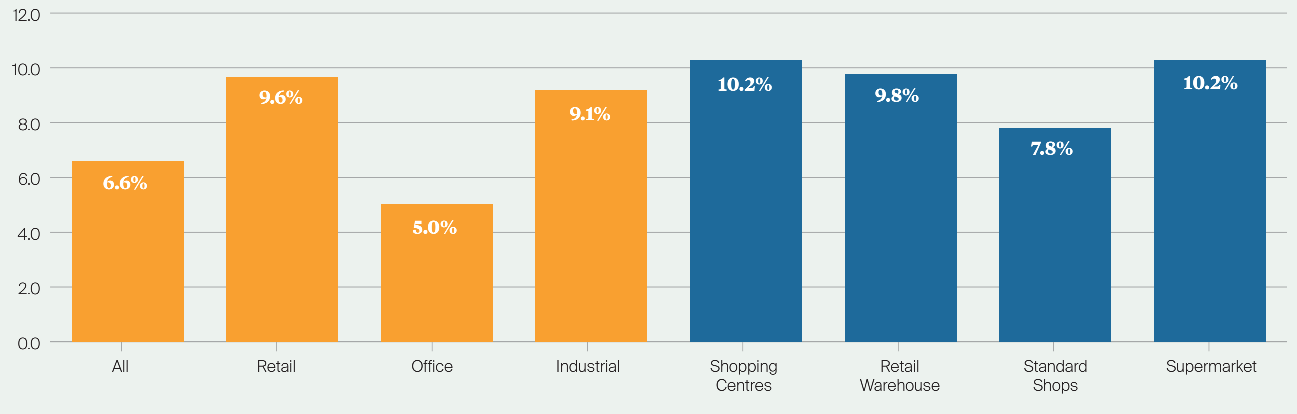


Source: Knight Frank Insight

Total retail investment volumes in 2025 are forecast to reach £5.83bn by year-end, down -17% on 2024 and -8% on the 10 year average. Generally, this underperformance is supply-driven, caused in particular by a shortage of large-scale Shopping Centre availability/activity in the first half and a significant slowdown in Retail Warehousing activity in the second half.

Total Returns

2025 (f)



Source: Knight Frank Insight

REVIEW OF THE YEAR

Occupational

- Retail occupier markets are in better shape now than they have been in over a decade. There is currently a virtuous circle of limited occupier distress, declining vacancy rates, measured but sustainable rental growth and renewed investment in physical space by a number of key retail operators.

Occupier Distress

- The Centre for Retail Research has reported that 54 businesses 'failed' in the first 10 months of 2025, an apparent uptick on just 34 'failures' in 2024. However, the number of 'stores affected' (2025 YTD: 3,080) was only half that of last year (2024: 7,537), reflecting the fact the distress has been disproportionately concentrated amongst small players, independents and non-store operators (e.g. online pure-plays).
- The largest corporate 'failures' in 2025 were Claire's Accessories (306 stores), Bodycare (150) and Poundland (805). However, all three businesses will live on in a streamlined form. Claire's became the latest retail acquisition for private equity firm Modella Capital. All Bodycare's stores were initially closed as part of the administration, before an investment group fronted by former Molton Brown and The Body Shop CEO Charles Denton acquired the brand and intellectual property. Poundland was sold to Gordon Brothers for £1 and plans are afoot to reduce the estate to 650 – 700 sites.

Vacancy Rates

- While occupier demand is far from rampant, most retailers continue to acquire selectively, either through new sites or strategic relocations. The gap between store closures and new store openings continues to narrow and is now close to equilibrium.
- Retail vacancy rates continue to trend down, albeit slowly (c.-10bps per quarter). In Q3 2025, the national vacancy rate stood at 13.5%, the lowest level since COVID in 2020. By the end of 2026, vacancy rates could even be at pre-COVID levels of c.12.4%. Vacancy rates remain highest in Shopping Centres (Q3 2025: 16.5% but disproportionately weighted to Secondary schemes) but are improving at the fastest rate (-120bps Y-o-Y), followed by High Street (13.5%, -50bps). Vacancy rates on Retail Parks (6.1%) are at their lowest level since Q2 2018. The direction of travel across all core Retail channels remains positive.

Rental Growth

- Improving occupier dynamics are also evident in rental performance. According to MSCI, All Retail rents are on course to grow by c.+3.2% in 2025, which would represent the strongest annual growth since 2006. This growth is being spearheaded by High Street shops (+6.9%), but growth is also creditable (and sustainable) across Shopping Centres and Retail Warehouses (both +2.9%).

Key Transactions – 2025

Property	Sector	Purchaser	Vendor	Price	NIY %
Manchester Fort, Manchester	Retail Warehouse	PGIM	Nuveen	£90.5m	7.23%
Maybrook Retail Park, Stratford-upon-Avon	Retail Warehouse	Nuveen	L&G	£10m	5.75%
Bexhill Retail Park, Bexhill	Retail Warehouse	Realty	Landsec	£69.575m	6.77%
Waitrose, Peterborough	Foodstore	Private Investor*	LaSalle IM	£14.6m	5.69%
Tesco Extra, Fratton, Portsmouth	Foodstore	Royal London	ICG	£40.3m	5.85%
Tesco Extra, Bracknell	Foodstore	Private Investor	Aberdeen	£50.15m	6.15%
43 & 44-46 Cornmark Street, Oxford	High Street	DTZ Investors	Private Overseas	£9.8m	6.25%
Metro Centre, Brixton	High Street	Places for London	CBREIM	£19.35m	5.95%
Northern Quarter, Colindale	High Street	London & Cambridge	Royal London	£15.3m	8.15%
Bullring & Grand Central, Birmingham (50%)	Shopping Centre	Hammerson	CPP Investments	£319m	7.10%
Braehead Shopping Centre, Glasgow	Shopping Centre	Frasers	SGS	£220m	9.50%
The Lexicon, Bracknell	Shopping Centre	Realty	L&G & Schroders JV	£140m	9.00%

*Advised by Knight Frank

Autumn Budget

- The 2025 Autumn Budget threw up some fresh challenges. From April the minimum wage will increase from £12.21 to £12.71. Pitched as a boost to the retail sector, increases in the minimum wage are actually a major cost headache for Retail and hospitality operators. The latest rise represents an annual increase of +4.1%, lower than the average of c.+6.0% over the last 10 years, but still higher than inflation.

- Although the High Street was singled out as a 'winner' from the latest business rate revaluations, the devil is in the detail, and the notion of higher value properties (>£500k RV) subsidising their lower value (<£51k) counterparts is not all it seems. Larger properties will indeed be saddled with higher business rates, but so too may many smaller properties, the removal of the 40% relief they previously enjoyed more than outweighing any favourable benefit afforded by a discount to the multiplier.

Structural Change

- There are growing signs to suggest that structural change in retail may finally be playing out. Online penetration is flatlining at c.28% on an annualised basis. Online is no longer growing exponentially, but it is an established channel within the wider Retail ecosystem. Online and physical stores continue to enjoy a symbiotic relationship and the notion of them being competing forces needs to be put to bed once and for all.

- Importantly, the pendulum of investment is swinging back towards physical stores. For much of the last decade, retailers have invested heavily (and disproportionately) in online, ramping up their multi-channel capability at the expense of their stores. With online now at scale, key retailers (e.g. Marks & Spencer, John Lewis) are increasingly re-channelling investment into the store estate. By doubling down and re-investing in stores (existing as much as new sites), they are underlining their ongoing commitment to bricks and mortar retailing.

- 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.

Investment

- There is growing belief amongst investors that Retail has turned the corner and is now a holistically investable sector. Total Return data justifies this thinking, with Retail delivering +9.2% to Q3 2025 (annualised YTD), the highest of the traditional sectors (Industrial +9.1%, Offices +3.2%, All Property +6.6%). Shopping Centres and Foodstores lead the way, both with Total Returns of +10.2%. Furthermore, all Retail rents are projected to have grown by +3.5% in 2025.

- Deal volumes show an uptick in activity in Q4 2025 in all but Out of Town. Core money (the mainstay of Prime Out of Town) has been waiting on the sidelines, with a number of assets remaining available, unsold. Whereas the In Town market – historically appealing to a more opportunistic buyer pool – has seen yields under downwards pressure, growing investor demand and institutional buyer activity.

- With a number of "big tickets" available/having recently been agreed, we expect volumes in H1 2026 to be superior to that witnessed this year.

- Retail forecasts remain robust, with total returns projected at approximately +9.5% for 2026 and +8.4% pa over 2026 to 2029. Risk adjusted income remains the key driver for the Retail sector, with a projected Income Return of +5.7% – outperforming the All Property average of +5.0% (over 2026-2029).

Retail Warehousing

- Occupationally, the Retail Warehouse market is the darling of the Retail sector. Vacancy rates are 2/3rds lower than their In Town counterparts (consensus being around 5% vs 15% In Town) and continued occupier appetite for Out of Town formats is placing upwards pressure on rents.

- It was largely insulated from occupier fall-out in Q3, with failing operators (Claire's, Poundland, Bodycare) mostly in-town players and ready solutions for the few units affecting retail parks. Occupational demand remains strong, to the point of bringing the lack of a development pipeline into question. Retail Warehouse rental growth of +0.7% in Q3 took the annualised figure to +2.9%, the highest rate of growth since Q4 2006.

- While annual figures are broadly in line with the 10 year average, volumes are down -26% on 2024. Out of Town saw a material reduction in deal volumes in the second half (and Q4 in particular), counteracting the high volumes seen in the first half, much of which was carry over from Q4 2024.

- Prime Yields stand at 5.25% NIY, 175 bps keener than their 2020 peak (7.00% NIY). Having recovered far more rapidly than In Town markets, pricing has now come under far greater scrutiny given continued macro-economic uncertainty. Activity at the Prime end of the market has particularly slowed, with core investors cautiously watching the Autumn Budget (and any potential fallout) and a significant reduction in available capital amongst these investors, driven by the restructuring and consolidation of LGPS mandates.

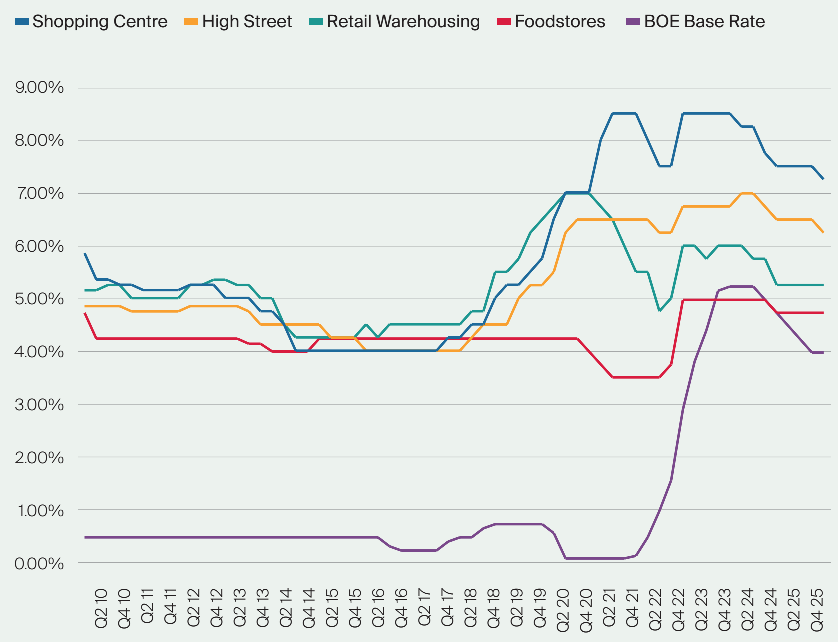
- The Good Secondary market, the hunting ground of British Land, Realty and Redevco remains highly liquid and active requirements continue to broaden. Ashtrom (one of Israel's largest construction and real estate companies) have recently agreed Ares' £100m Team Valley, Gateshead and PGIM were a surprise buyer of Manchester Fort for £90.5m in July.

Foodstores

- Foodstores (along with Shopping Centres) have this year outpaced Out of Town, becoming MSCI's top performing asset classes in the year to Q3 2025 at +10.2%.

- The depth and breadth of investor demand is not fairly reflected in deal volumes, which remain somewhat disappointing at £1.12bn. While up +13% on 2024, volumes remain -21% below the 10 year average. This is undoubtedly driven by a lack of openly marketed investments, with only five £10m+ supermarkets formally advertised in H2.

Prime Retail Yields & UK Base Rate 2010-2025



Source: Knight Frank Insight

- Volumes have been boosted by a resurgence of Sale & Leaseback activity, with ASDA, Morrisons and Lidl all looking to release capital from their store estates. These large portfolios in the second half led to 72% of transactions being in H2 by deal volume, versus 54% by number of transactions.

- The buyer pool remains incredibly diverse. Supermarket Income REIT were most acquisitive over H2, but were joined by Institutions (DTZ Investors, Knight Frank Investment Management and Royal London), US income funds (Blue Owl, ICG, WP Carey) and Private Investors, most notably an Overseas Private acquiring Tesco Extra, Bracknell for £50.15m.

- The average net initial yield paid over the year (and also over H1 and H2 when considered independently) was 6.15%, despite Prime Yields being estimated at 4.75% NIY. This demonstrates how few prime, long-dated income deals have been available (with none marketed in H2), plus the pricing divergence between the publicly-listed and private equity-owned chains.

- While trading with a relative pricing discount, the Morrisons and ASDA covenants remain liquid. Lodge Quai recently sold the two Morrisons stores it acquired in February 2024 for a 15% profit (before costs) and DTZ Investors, SUPR and a SUPR/Blue Owl JV have acquired ASDA Sale & Leaseback portfolios.

High Street

- After a long period of absence, competitive bidding and the use of Zone As to analyse rents is commonplace once more on the High Street. Of course, this does not apply unilaterally, but in Prime Centres, Regional Cities and the best Good Secondary towns, there is a discernible rental tone (occasionally genuine evidence of rental growth) and multiple bidders emerging.

- 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 continues to be strongest for <£3m lots and these assets still form the bulk of stock being marketed. However, recent sales processes for larger investments have attracted compelling pricing, such as DTZ Investors' acquisition of 43-46 Cornmarket Street, Oxford (£9.8m / 6.25% NIY) and Metro Centre, Brixton selling to Places for London (£19.35m / 5.95% NIY). Strategic investors are noting the relative value available for larger High Street assets, giving sellers greater confidence to go to market, which should lead to greater deal volumes going forwards.

- High Street investments have offered early-moving investors the strongest rental growth through 2025 (projected at +6.9%), where the absence of onerous service charges and typically lower business rates has fed directly into rental improvements.

- Prime High Street yields are slowly improving, having compressed -25bps in H2 2025, now standing at -75bps keener than their 2024 peak.

- While the High Street remains the domain of the Private Investor, the growth of the French SCPI funds is worthy of highlighting. These vehicles typically seek yields of 7.00%+ with 5+ year secure income, something readily available on the High Street given yields have only recently begun to correct downwards.

Shopping Centres

- Shopping Centres (along with Foodstores) have this year outpaced Out of Town, becoming MSCI's top performing asset classes in the year to Q3 2025 at +10.2%.

REIT Share Price Tracker

	Landsec	British Land	Hammerson	NewRiver	Supermarket Income REIT	London Metric
Latest Share Price (p) 15/12/2025	585.50	383.00	310.6	66.8	79.1	182.10
H2 2025 Movement	-7.6%	3.7%	2.2%	-10.3%	-8.9%	-10.9%
EPRA NTA per share (p)*	863.00	598.00	381.00	104.00	87.10	199.50
Premium to NTA	-32%	-36%	-18%	-36%	-9%	-9%

*Latest available published NAV per share

- While transaction volumes may imply otherwise, appetite for Prime centres is the strongest witnessed in almost a decade. Prime yields hardened -25bps over H2, standing at 7.25% NIY – a -125bps improvement from their 2023 peak. Our recent experience marketing Merry Hill demonstrates this enthusiasm, having identified over £3bn of capital for Super Regional Centres. The centre is under offer ahead of the £270m / 9.00% NIY guiding terms.

- Having suffered from a lack of stock early in the year, annual volumes are down -25% on 2024 but remain in line with the 10 year average. However, the direction of travel is positive with H1 2025 vs H2 2025 showing a dramatic uptick in activity of +162% (£450m vs £1.18bn).

- November was a bumper month with over £550m of shopping centres sold, including several bellwether deals. Braehead Shopping Centre was Frasers' latest and largest Shopping Centre purchase (£220m / 9.50% NIY), and we witnessed Realty Income Corporation's first foray into the UK Shopping Centre market with their purchase of The Lexicon, Bracknell (£140m / 9.00% NIY).

- This remarkable turnaround in the sector is largely focussed on Prime centres, where occupational demand, investor and lender appetite and centre performance is strongest. Away from these top assets, liquidity is still reasonable so long as centres are appropriately sized and leased for their shopper catchments.

- Debt markets have recovered well with lender appetite originating from clearing banks, insurers and debt funds (themselves fuelled by back-leverage). Where cashflows are stable, margins of 200-250 bps are available. Further downwards pressure on yields will likely be driven by further reduction in the cost of debt, itself reliant on improvements in the macro-economic picture.

KNIGHT FRANK OUTLOOK

2026 Macro-economics – fiscal headroom, but low economic growth

The Autumn Budget was not as ferocious as feared, placating both bond markets and Labour backbenchers to boot... but it is unlikely to ignite the economy.

- A deceleration in GDP growth is an inevitability. A sluggish +0.1% Q-o-Q increase in Q3 2025 is likely to restrict GDP growth to +1.4% this year, reducing to +0.9% in 2026 and +1.3% in 2027. The Autumn Budget may have allayed some immediate macro-economic concerns but still represents a tightening of fiscal policy and the lagged impact of past interest rates hikes continues to weigh heavily.

- A nuanced picture on inflation. The direction of travel on CPI is generally down, but not to within the government target of <2%. From 3.6% in October, CPI is likely to fall to 2.8% in 2026 on an annualised basis (2025: 3.4%). However, within this, Shop Price Inflation (particularly grocery) is likely to remain stubbornly high at >3%. Following a -25bps cut in December, two further reductions in Bank Rates are likely during 2026, leaving the year-end figure at 3.25%.

- Many of the 'corporate-unfriendly' measures of the 2025 Autumn Budget are still washing through. With many companies still scaling back on recruitment, the unemployment rate is likely to continue creeping up, ending 2026 at 5.1% versus 4.8% at 2025 year-end. Coupled with a general drive to reduce labour costs in response to the increase in employers' NI contributions, real household income growth is forecast to slow to just +0.5% in 2026 and 2027, from +1.7% in 2025.

- Private consumption will remain subdued at just +1.0% in 2026 (2025: +0.9%), but within these wider consumer spending figures, retail sales are likely to outperform. Retail sales values are forecast to grow by +2.5% in 2026, below both long term (30 year) and 10 year averages of +3.5%. Retail sales volumes will remain in growth territory (c.+1.0%) for the second successive year. With sticky inflation in food, grocery volume growth will be challenged.

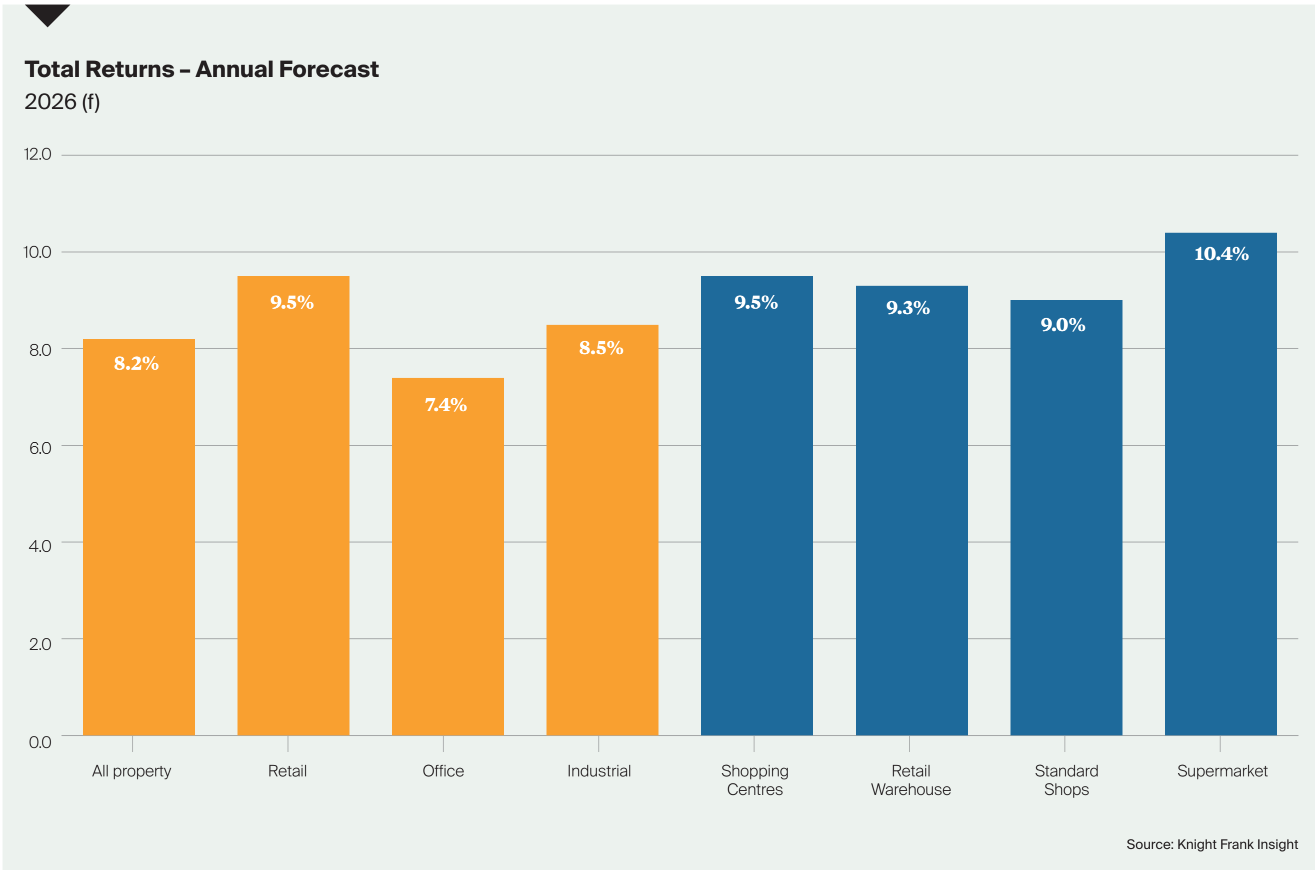
Property Prospects – Retail remains the leader of the pack

Much more than a one-trick pony – all Retail sub-sectors are showing strong performance, not just Retail Warehousing.

- A slight change at the top of the table – Foodstores and Shopping Centres are now supplanting Retail Warehousing as the top performing asset classes, not just in Retail but across all real estate. Standard Shops are lagging slightly, but even that gap is closing as all Retail sub-sectors home in on double-digit annual returns.

- All Retail property is forecast to achieve total returns of 9.5% in 2026, on top of a projected return of 9.6% this year. In both cases, this is above all property (2025: 6.6%, 2026: 8.2%). Foodstores are projected to achieve the highest total returns (2025: 10.2%, 2026: 10.4%), followed by Shopping Centres (2025: 10.2%, 2026: 9.5%). Having been the trailblazer the last few years, Retail Warehousing will still achieve highly respectable returns (2025: 9.8%, 2026: 9.3%).

- High income return has long been Retail's established calling card, but this is increasingly being supported by decent capital growth. All retail is forecast to see capital growth of +3.4% in 2026, a slight acceleration on the +3.3% projected in 2025.



All Retail sub-sectors are forecast to enjoy capital growth of between +3% and +4% in 2026, with Standard Shops likely to be the best performing Retail asset class on this measure.

- Reflecting Retail's defensive qualities and a more stabilised occupier market, the sector is forecast to maintain market-leading levels of income return in 2026 (5.8% vs 4.9% for All Property). Income returns will remain highest in Shopping Centres (6.8%), followed by Foodstores (6.5%) and Retail Warehousing (6.1%). Standard Shops remain a slight laggard (4.6%) but are skewed by large Central London assets.

- A sustained return to rental growth is arguably the best news story of all for the Retail sector. All Retail rents are projected to have grown by +3.5% in 2025, spearheaded by Standard Shops (+6.9%) and Retail Warehousing (+3.0%), the latter achieving their highest level of annualised growth since 2006. Retail rental growth is forecast to ease to around +3% next year, reflecting subdued macro-economic conditions.

Longer Term Prospects – rebased and set fair

The Retail Renaissance continues – rebased resilience in the face of macro-economic mediocrity.

- While maybe lower on the Richter scale than its previous year, the 2025 Autumn Budget nevertheless presents a raft of new challenges for the Retail sector, namely a further rise in the minimum wage and largely unhelpful tweaks to the business rate system (a higher multiplier for properties with a rateable value >£500k, a lower multiplier for lower value properties (<£51k RV) cancelled out by the removal of 40% relief).

- Retail's fundamental rebase and reset will see it in good stead to ride out a period of challenged macro-economics and low growth generally. Online growth has largely plateaued and most retailers are at scale with their multi-channel infrastructure and capabilities. The positive by-product of this will be investment redirected towards their physical estates. Retailers are already reinvesting more in their physical footprint (as much through refurbishment as new sites), a trend that is likely to accelerate going forward.

- Rebased property metrics also provide a solid platform for further rental and capital value growth, underpinned by industry-leading income returns. Retail property's quiet outperformance of other asset classes will continue apace. This is not going unnoticed by savvy property investors and this will increasingly filter through to investment volumes.

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.

Wickes, Sittingbourne

Subsector: Retail Warehouse
Purchaser: Private Investor
Vendor: Newcore*
Price: £7.4m
NIY: 5.89%

West Swansea Retail Park, Swansea

Subsector: Retail Warehouse
Purchaser: Smyths
Vendor: AEW*
Price: £5.3m
NIY: 7.73%

Waterfront Retail Park, Greenock

Subsector: Retail Warehouse
Purchaser: Frasers
Vendor: Revcap*
Price: £11.274m
NIY: 8.43%

Sprucefield Retail Park, Lisburn

Subsector: Retail Warehouse
Purchaser: Realty
Vendor: New River Retail/
PIMCO*
Price: £48.9m
NIY: 7.10%

Waitrose, Peterborough

Subsector: Foodstore
Purchaser: Private Investor*
Vendor: LaSalle IM
Price: £14.594m
NIY: 5.69%

Aurantius Portfolio

Subsector: Foodstore
Purchaser: Supermarket Income REIT
Vendor: Sainsbury's*
Price: £15.32m
NIY: 6.17%

Colebrook Court, Chelsea

Subsector: High Street
Purchaser: Private Developer*
Vendor: Private Investor
Price: £9.5m
NIY: 4.20%

1-3 The Square & 4-28 Richmond Hill, Bournemouth

Subsector: High Street
Purchaser: Iroko Zen*
Vendor: CBREIM
Price: £10.8m
NIY: 8.95%

Oxenford House, Oxford

Subsector: High Street
Purchaser: Criterion Capital*
Vendor: Croudace
Price: £6.75m
NIY: -

Merry Hill, Brierley Hill (Under Offer)

Subsector: Shopping Centre
Purchaser: Confidential
Vendor: Consortium of Lenders*
Price: q.£270m
NIY: q.9.00%

Centre MK, Milton Keynes (50%)

Subsector: Shopping Centre
Purchaser: Royal London*
Vendor: Australian Super
Price: £142m
NIY: 9.25%

135-153 Argyle Street, Glasgow

Subsector: High Street
Purchaser: Remake
Vendor: Praxis*
Price: £9.0m
NIY: 7.08%

"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."

CONTACTS

Charlie Barke
charlie.barke@knightfrank.com

Dominic Walton
dominic.walton@knightfrank.com

Alastair Bird
alastair.bird@knightfrank.com

David Willis
david.willis@knightfrank.com

Will Lund
will.lund@knightfrank.com

Daniel Serfontein
daniel.serfontein@knightfrank.com

Sam Waterworth
sam.waterworth@knightfrank.com

Freddie MacColl
freddie.maccoll@knightfrank.com

Alex Jimenez
alex.jimenez@knightfrank.com

Ross Needham
ross.needham@knightfrank.com

Josh Roberts
josh.roberts@knightfrank.com

Hollie Barden
hollie.barden@knightfrank.com

Volkan Denli
volkan.denli@knightfrank.com

Agatha Eyston
agatha.eyston@knightfrank.com

David Legat
david.legat@knightfrank.com

Paul Modu
paul.modu@knightfrank.com

Stephen Springham
stephen.springham@knightfrank.com

Confidential Considered Advice

Knight Frank Research Reports are available at knightfrank.com/research

Knight Frank

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.