

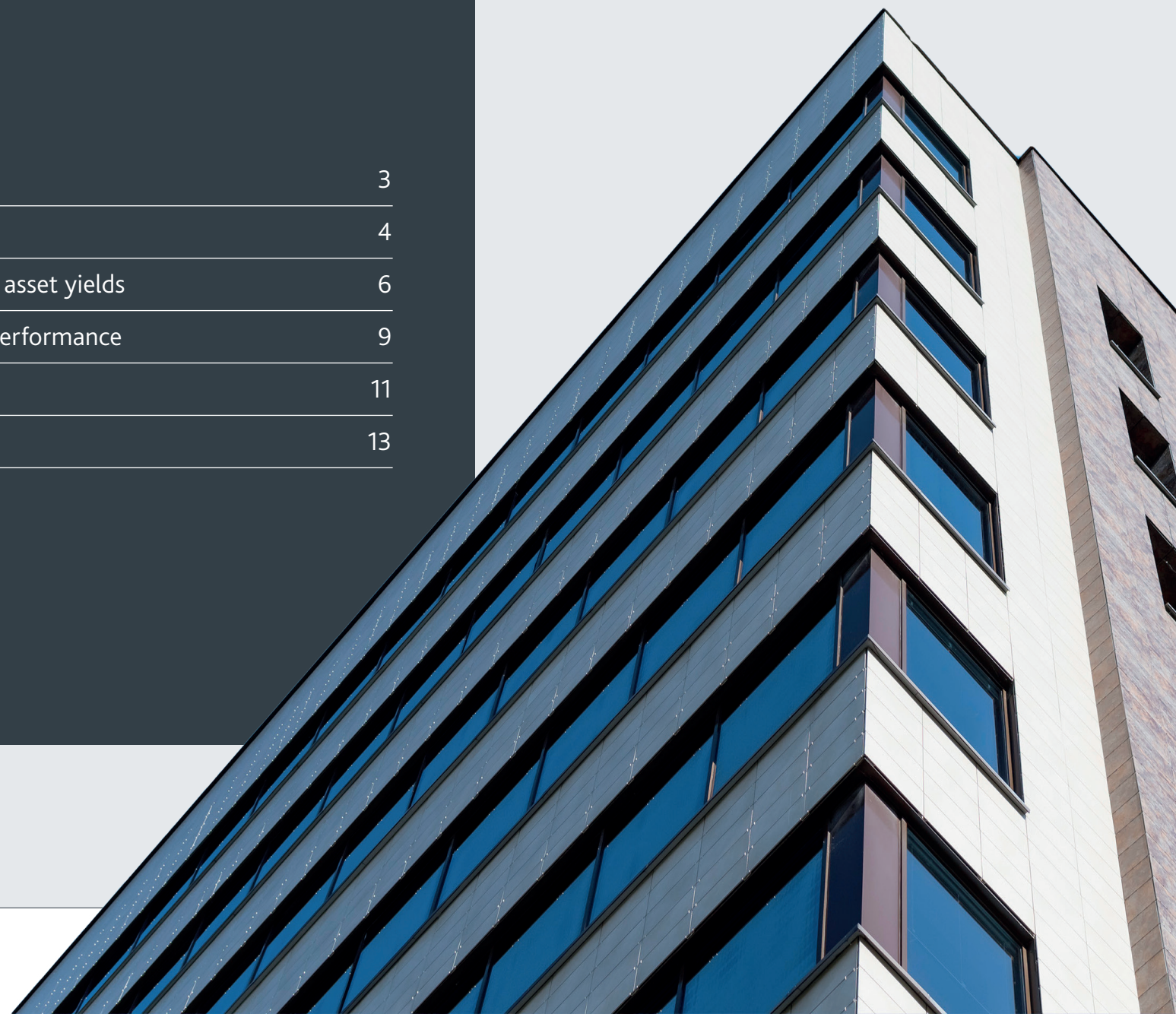
Commercial property examiner

Q2 | 2025



Contents

1. Key takeaways	3
2. The UK economy	4
3. Stock markets, interest rates & asset yields	6
4. Commercial property market performance	9
5. Investment in property	11
6. Outlook & house view	13



1. Key takeaways

The downside risks to the outlook for the UK are dominant. The uncertainty surrounding trade policy has been heightened by an extension to the original 90-day reprieve on global Tariffs implemented by US Presidential Trump that will now expire on 1st August. Longer-term solutions are also required on other global events, mainly to end conflicts in the Middle East and Ukraine, primarily from a humanitarian point of view, but also to address energy supply security. World leaders also have to consider how to work together to reduce the frequency of extreme climate events.

Financial markets around the world are once again pushing higher. The FTSE REIT index outperformed the wider all share market by 4.7 percentage points in Q2, suggesting that investors in public real estate markets finally expect the performance of the underlying direct real estate market to improve. Direct real estate investors, however, remain uncertain about pricing levels as All Property investment volumes decreased by -48% in the first quarter of 2025 compared with Q4 2024.

In Q2, the commercial real estate market continued its gradual slowdown. All Property UK total returns, as recorded by the MSCI Monthly Index, slipped by 27 bps to 1.7% from 2.0% in Q1. On an annual basis, total returns were broadly similar, at 8.6% to the end of June, compared to 8.5% in the 12 months to the end of March.

A likely further 75 basis points reduction in the UK Base Rate by the end of Q1 next year will reduce borrowing costs for real estate investors. But the steepening of the yield curve and increase in longer-dated yields is likely to be supported by quantitative tightening. Higher risk-free rates will put a collar on the scope for any re-rating of property yields. This quarter we have again downgraded our 2025 All Property total return forecast to 7.0% but have maintained our projection of 8.0% on a three year annualised basis reflecting our expectation for improved performance through 2026 and 2027.

2. The UK economy

- Escalating trade barriers, policy uncertainty, and geopolitical tensions add to the risks surrounding the macro economic background.
- Expectations for annual GDP growth remain in the 1.0 – 1.25% range this year and next, but increase to 2.0% by 2028.

The World Bank recognises that the global economy has encountered another significant obstacle characterised by heightened trade tensions. In its latest edition of "Global Economic Prospects" it ranks this alongside Covid 19 and the resulting global recession. Global economic growth is projected to decline to 2.3% in 2025, with a slowdown effecting most economies. This would represent the lowest rate of global growth since 2008, excluding outright global recessions.

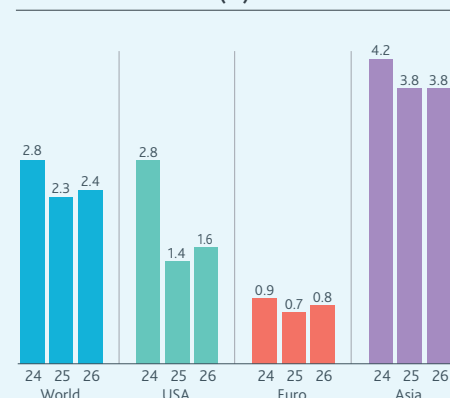
Downside risks to the outlook predominate, including the escalation of trade barriers and persistent policy uncertainty. Donald Trump's 90-day reprieve from his "Liberation Day" reciprocal tariffs which was due to expire on 9th July, were extended to the start of August, and now there are increasing discussions taking place.

Geopolitical tensions are rising. Russia continues its assault on Ukraine and January's

ceasefire between Israel and Hamas lasted 42 days. In June, Israel and subsequently the USA launched airstrikes on Iran which retaliated with reciprocal attacks until a ceasefire was agreed. Despite temporary surges, the price of oil has fallen by 15% from \$80 a barrel in early January. At the same time, the frequency of extreme climate events continues to increase. This year has again seen devastating wildfires in California, flash floods in Texas and record temperatures across Europe, Africa and Asia. Any upside outcomes will depend on major economies successfully concluding far reaching and long-lasting agreements that address these issues.

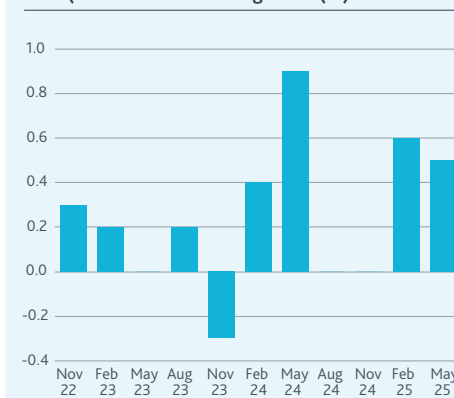
The rate of annual UK economic growth has been increasing since Q1 2024 but the most recent monthly estimate of GDP released by the Office for National Statistics (ONS) indicates that the UK economy has slowed since February. As President Trump announced a blanket 10% tariff on all imports from the UK and a higher 25% tariff on imports of steel and aluminium, and cars and car parts, UK exports to the US fell by £2 billion in April; the worst month on month decline since records began. UK exports to the US rebounded by £0.3 billion in May. However, UK vehicle production dropped 33% year-on-year, with US-bound auto exports declining 55%.

G7 2025 GDP forecasts (%)



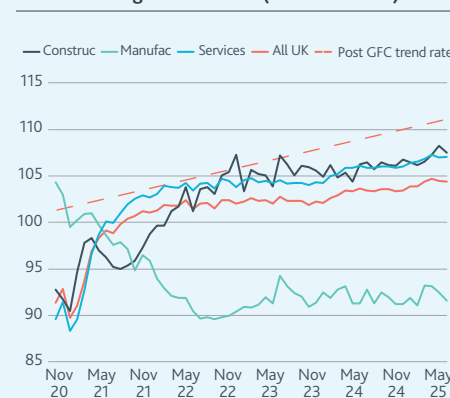
Source: World Bank, June 2025

GVA (3 month on 3 month growth (%))



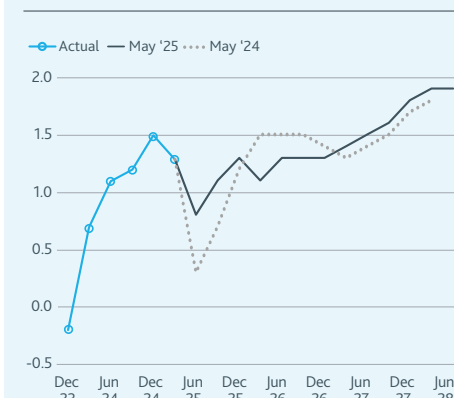
Source: ONS, July 2025

UK economic growth indices (Feb 2020=100)



Source: ONS, July 2025

Actual GDP index and MPC forecasts



Source: ONS & Bank of England, May 2025

UK GDP is estimated to have grown by 0.5% in the three months to May 2025, compared with the three months to February 2025, largely driven by growth in the services sector in this period. Total economic output is 4.4% above its pre-pandemic level, but it is -6.0% below its potential level if output had continued at its post-GFC trend rate during Covid and its aftermath. Manufacturing is -8.4% below its February 2020 level and will struggle further despite the “Economic Prosperity Deal” between the UK and USA which maintains a 10% baseline tariff compared to a pre-2025 effective tariff rate of 2%.

The current stance of monetary policy remains restrictive according to May’s Monetary Policy report from the Bank of England. It recognises that the policy of maintaining Bank Rate at the level deemed necessary to control inflation has restricted growth. The latest market-implied path for interest rates underpinning the current MPC forecasts indicate that a reduction in base rates from 4.25% to 3.75% can be expected by the end of the year, followed by a further quarter point cut Q1 2026. However, this is expected to have a broadly neutral impact on GDP growth over much of the forecast period.

Global trade policy changes are likely to slow UK GDP growth as demand weakens across

the board. US consumers may switch from buying imported UK goods to domestically produced products, reducing UK growth. Furthermore, financial market developments, such as the appreciation of the sterling exchange rate, will also act as a drag on growth. The MPC’s May forecasts indicate that year-on-year GDP growth is expected to remain in the 1.0 – 1.25% range this year and next but increase gradually thereafter to 2.0% by the middle of 2028.

Alternative data suggests that the UK economy is showing some resilience. The UK S&P Global Composite PMI reached 52.0 in June 2025, up from 50.3 in May, marking the second straight month above the 50.0 growth threshold. Output grew at the fastest pace since September 2024, though the rate of expansion remained modest. New business increased for the first time in seven months, despite continued weakness in export sales. Business optimism for the year ahead eased slightly from May, indicating cautious sentiment. However, at the same time, firms noted increased business uncertainty and low customer confidence. Respondents remain concerned regarding the impact from the rise in employers’ National Insurance contributions and from US tariffs. The consequences of the latter include supply chain disruption, cost increases and lower demand from US clients.



3. Inflation and prices

- Annual CPI inflation growth rose to 3.6% in June, above the MPC's 2% target.
- CPI inflation is projected to fall to around 2% in the medium term due to weak growth and lower import prices.

Despite the MPC's restrictive monetary policy, annual CPI inflation growth remains stubbornly above the MPC's 2% target. CPI rose by 3.6% in the 12 months to June, up from 2.6% in the 12 months to March, and the highest rate since January 2024.

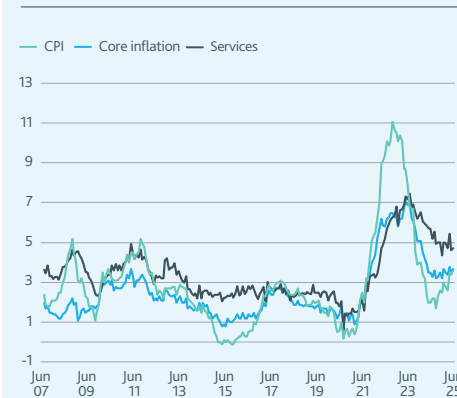
Core inflation excluding energy, food, alcohol and tobacco has increased from 3.4% in March to 3.7% in June and continues above its post-GFC average of 2.7%. Service sector CPI inflation, however, has for the moment stabilised at 4.7%, the same rate as at the end of March, although it briefly rose to 5.5% in April. The annual rate of growth in employee earnings across the country eased in Q1 2025. Pay excluding bonuses increased by 4.8% in the three months to March compared to the previous year, a reduction from 5.4% recorded in December. Real regular pay growth increased modestly to 2.0% in the year to February from 1.9% in November.

The Bank's forecast outlook for inflation anticipates an increase in CPI to 3.5%, but in

the medium term reflects the downward pressure on inflation from the weak outlook for growth and the weaker contribution from import prices. CPI inflation is projected to fall back gradually from 3.5% in Q3 2025 to around the 2% target in the medium term reflecting the continuing restrictive stance of monetary policy and the growing margin of slack in the economy. June's increase in CPI seems to have been anticipated and it is unlikely to postpone an expected cut to Base Rate in August and a further reduction by the end of the year.

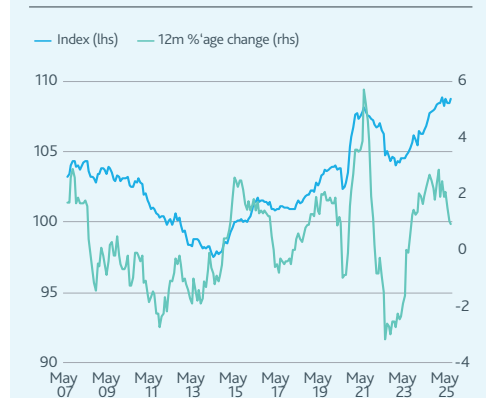
The overall impact of trade developments on the UK is currently thought to be disinflationary rather than inflationary. Increased trade restrictions will slow global economic growth and consequently lower energy prices. UK non-energy import prices are also projected to be lower over the forecast period than previously expected as reduced US demand for imports in response to higher tariffs is expected to reduce global export prices. The recent appreciation in sterling also weighs on UK import prices over the forecast period, which drags further on inflation.

CPI inflation (%pa)



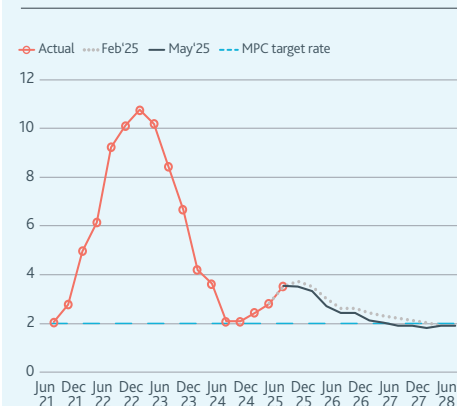
Source: ONS, July 2025

Real pay index, sa (May 2005=100)



Source: ONS, July 2025

Annual CPI and MPC forecasts Feb'25



Source: ONS & Bank of England, July 2025



4. Stock markets, interest rates & asset yields

- Stock markets rebounded in Q2 as investors recalled lessons from the first Trump administration and began to parse recent extreme policy announcements.
- The yield curve has risen at the longer end increasing the risk-free rate used to value risky assets. This trend is unlikely to be quickly reversed.

In Q1, global equity prices fell sharply following news that tariffs in excess of 10% would be placed on most of the United States' biggest trading partners, before recovering somewhat following the announcement of a 90-day pause to these measures for all countries except China.

World financial markets in Q2 remained nonplussed by the fluid nature of White House announcements on trade policy. The MSCI World Index, with large and mid-cap representation across 23 developed markets, grew by 5.6% in USD terms in Q2 having fallen -6.0% in Q1. On a hedged GBP basis, the index rose 9.7% as the dollar weakened further against the pound. The World Index is down -0.7% in H1 in USD terms, but up 5.3% on a hedged GBP basis.

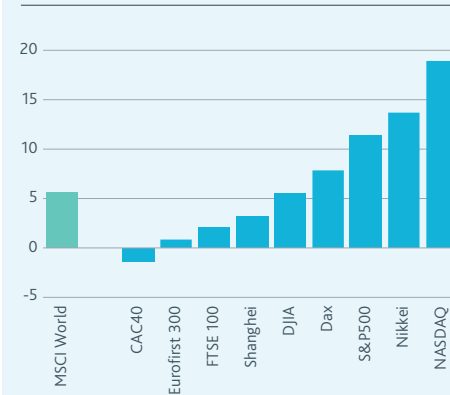
However, US shares advanced in Q2, driven by tech and communication sectors, particularly AI-related stocks. Robust Q1 corporate earnings also contributed to the gains, while

healthcare and energy sectors underperformed. The Nasdaq increased 18.9% in Q2, the S&P 500 rose 11.4%, and the Dow Jones Industrial Average gained 5.6%.

Tech stocks recovered in Q2. Cloud computing and AI businesses gained favour as investors reassessed China's DeepSeek. Despite concerns about DeepSeek's low cost model reducing demand for high-end AI semiconductors, investors viewed competition as reducing development costs and accelerating AI adoption and demand. Further postponement of 50%+ tariffs on chips from outside the US has allowed semiconductor manufacturers to prioritise orders and relocate manufacturing to the US, Japan, and India. Expansion plans in Arizona and Texas have been accelerated, and subsidies under former President Biden's CHIPS and Science Act have boosted cash flows. Nvidia's share price rose 45.8% in Q2, and in July, it became the first company to reach a market valuation of \$4 trillion.

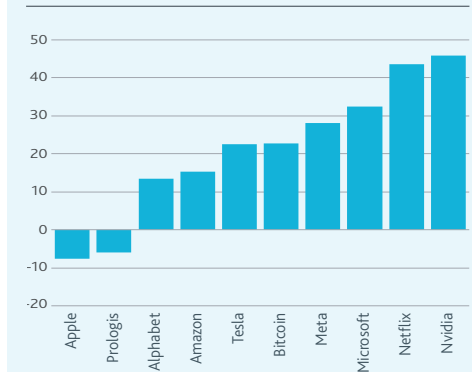
Apple's share price fell 7.6% in Q2. Soft iPhone demand impacted revenue growth. Most iPhones are now built in India but that has not stopped repeated warnings of a 50% tariff on iPhones manufactured outside the US. Moving production to the US is impractical due to infrastructure and skilled labour requirements but a 50% tariff would increase the cost of an iPhone 16 from \$829 to \$1,249.

World stock markets in Q2 2025 (%age growth)



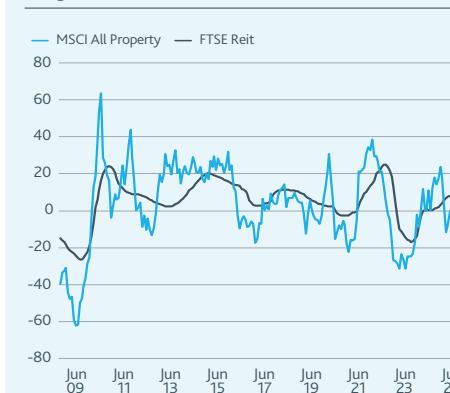
Source: Yahoo Finance, July 2025

Tech & other selected stocks in Q2 2025 (%age growth)



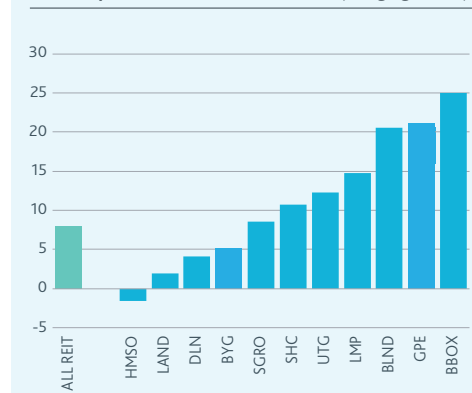
Source: Yahoo Finance, July 2025

Long term 12m total returns



Source: Yahoo Finance & MSCI, July 2025

UK Reit price movement in Q2 2025 (%age growth)



Source: Yahoo Finance, July 2025

¹"Trump always chickens out".

The progress of Eurozone shares in Q2 was more sedate. The broad-based Eurofirst 300 index gained just 0.8%. Germany's DAX rose by 7.9%, but France's CAC 40 decreased -1.4%. Industrial and Real Estate stocks led the markets higher. Defence stocks also performed well as the NATO countries, recognising the threat posed by Russia and President Trump's sceptical attitude towards the alliance, agreed to lift defence spending.

The UK's FTSE 100 rose by 2.1% in Q2. Top performing sectors included industrials, telecommunications, utilities and real estate, while energy and healthcare shares did not perform as well.

However, investors in Prologis were disappointed by a -6.0% fall in share price in Q2. The impetus towards onshoring and reshoring seems to have increased the demand for logistics real estate in the short term, but the medium-term outlook is more subdued. The largest logistics and warehouse real estate company in the world published one of its regular market insights in May noting that many of its occupiers had been accelerating imports to manage their tariff exposure. Space utilisation has improved, and leasing pipeline volumes also increased. However, tariffs have resulted in the scrutiny of long-term supply chain investments, with capital expenditure and real estate decisions delayed until policies become clearer.

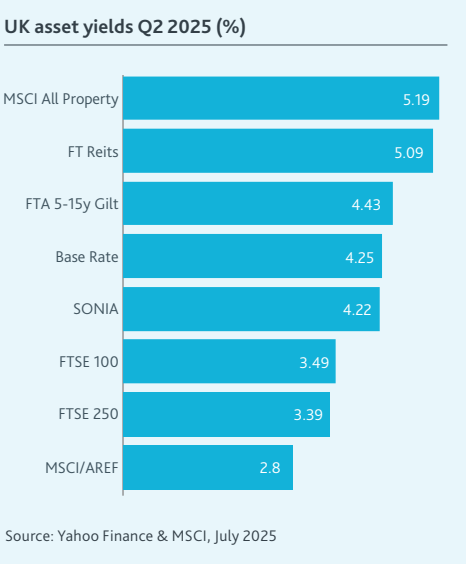
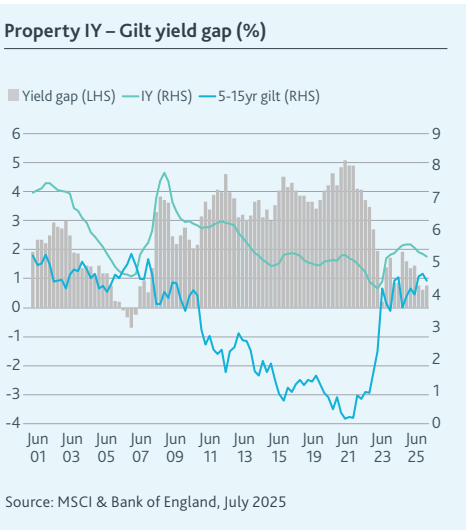
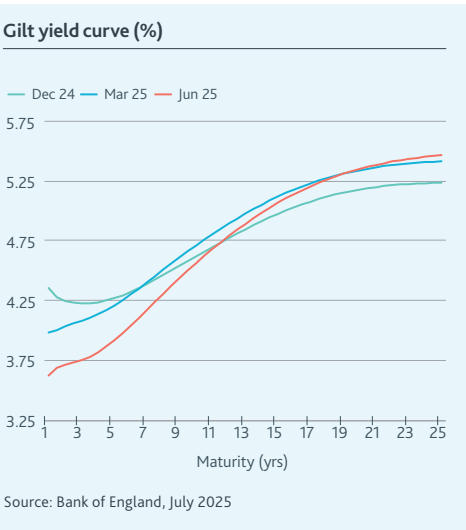
Two further longer-term real estate trends have been noted by Prologis. Firstly, rising development costs have widened the gap between market rents and replacement cost

rents, disincentivising speculative construction starts. This will put upward pressure on rents when conditions normalise. In the meantime, under-construction pipeline levels are 25% lower than 2019 and expected to stay historically low through 2026.

Secondly, e-commerce remains a structural driver of demand for logistics assets, with its growth necessitating an additional 50 to 75 million square feet per year in the US by 2030. However, the situation in the US may not be directly comparable to the UK due to the geographical scale, which adds great logistical complexity in the US. E-commerce currently represents 16% of US retail sales and is forecast to grow to 20% by 2028. In contrast, UK consumers have more readily adopted online grocery shopping, leading to UK e-commerce reaching 38% of retail sales during the third Covid lockdown in February 2021, although this has since fallen back and settled at around 27%.

The performance of the **FTSE REIT index** improved in Q2 suggesting that investors finally expect the future performance of the direct market for real estate assets to improve. In Q2 the index outperformed the wider all share market by 4.7 percentage points shaking off concerns over high borrowing costs, weak underlying growth, and rising gilt yields.

Hammerson advertises itself as the owner of the ten largest retail and leisure city destinations across the UK, Ireland and France and has £2.66 billion of assets under management. In 2025 the company continued its program of consolidation



by acquiring 95% of the units in ABRDN's UK Shopping Centre Trust at a 16% discount to book value, taking its holding of North London's Brent Cross Shopping Centre to 97%. However, its share price fell -1.6% in Q2 as negative market sentiment to retail property continues.

Great Portland Estates' share price rose 21.2% in Q2 as the outlook for grade A Central London, and in particular, West End offices improved. In June, the business announced 17 new leases and renewals signed since the start of April, generating a net annual rent of £20.6 million with market lettings on average 6.7% ahead of March 2025 ERV.

Treasury markets are concerned about the sustainability of US debt. The recently approved Reconciliation Bill is expected to increase the budget deficit and further raise the national debt. Moody's credit rating agency has cut the sovereign rating to Aa1 due to the increased burden of financing the budget deficit. U.S. Treasury yields have risen due to investor concerns about the outlook for the fiscal deficit. The 10-year yield is between 4.34% and 4.42%, while the 30-year approached 4.96% as bond prices fell. Fixed-income managers warn that long-term yields may rise further due to the deficit and future bond issuance.

In response, yield curves across major government bond markets steepened, with longer-dated bonds experiencing higher yields. At the shorter end of the curve, UK gilt yields dipped by 30-35bps during Q2. But despite further concerns over the fiscal outlook as Government

backbenchers forced the Cabinet to re-consider benefit cuts yields for longer UK maturities have risen, but only by 15 bps.

The yield on the 5-15 year gilt index hardened by 22 bps in Q2 to reach 4.43%. This is reflected in the total return performance on the FTSE Actuaries 5-15 year gilt index in Q2 of 2.9%. Over the last 12 months, the gilt index has provided a total return of 2.8% as yields have increased by 24 bps since June 2024. The yield on the index was below 0.25% during Covid, so the dislocation experienced by assets such as CRE valued relative to Gilts has been extreme.

Quantitative easing (QE) was introduced to stimulate the economy after the GFC, involving the purchase of government bonds to lower interest rates. At its peak, the Bank of England's gilt holdings under QE reached approximately £875 billion. Gilt yields fell by about 100 basis points in response to the first QE program of £200 billion although it is likely that subsequent QE program announcements had a less significant impact on the yield curve.

The Bank of England (MPC) voted to reduce the amount of government bonds it holds in September 2022. This move known as quantitative tightening (QT) tightens monetary policy by reducing liquidity. The impact of the first sale of £80 billion is estimated to be a 20bp increase in 10-year yields. Further sales of up to £280 billion are planned up to the end of September 2025, the impact of which could be significant for gilt yields.



5. Commercial property market performance

- Macro economic headwinds have slowed the recovery in the UK's commercial real estate markets.
- Yields have stabilised but market rental growth rates are slipping.

Risk free rates tightened by 22 bps in Q2, and the All Property initial yield itself also hardened by just 7 bps. Consequently, the property initial/gilt yield gap increased by 15 bps to 0.76%. Judging by recent market history, UK CRE once again looks to be priced above fair value. However, throughout the recent downturn, market rental value growth particularly in the dominant industrial sector has proved resilient, which may justify a narrower risk premium.

In Q2 the UK commercial real estate market continued its gradual slowdown. All Property total returns, as recorded by the MSCI Monthly Index, decreased by 27 bps to 1.7% from 2.0% in Q1. Capital values climbed by 0.3% after a rise of 0.6% three months earlier. Property equivalent yields hardened by two basis points and made no material contribution to changes in valuations. The pace of all property market rental value growth slowed to 0.7% in Q2 from 0.9% in Q1. First quarter income returns amounted to 1.4%.

Over the course of the second quarter, retail rental growth decreased slightly to 0.4% from 0.5% in Q1 and office rental growth decreased to 0.7% from 0.8%. Industrial rental value growth decreased to 0.9% from 1.1% a quarter earlier. Market rental value growth was positive for all retail segments including South East and

Rest of UK shops as well as shopping centres and retail warehouses.

In the last three months, retail equivalent yields have softened by 7 bps. The office sector re-rated by 5 bps in Q2 but office values continue to drift down further. Industrial equivalent yields remained stable over the course of the quarter.

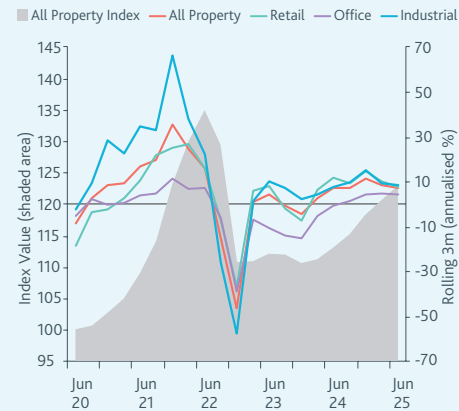
On an annual basis, All Property total returns increased slightly to 8.6% from 8.5% in the year to June. All Property capital growth continued to improve on annual basis in Q2, increasing to 2.6% in June from 2.5% in March. Property equivalent yields have softened by just 2 bps in the 12 months to June and made a negligible contribution to any change in valuations over the course of the last 12 months. All Property rental values increased year-on-year by 3.4% and income return amounted to 5.8%.

In the last 12 months, Retail equivalent yields have hardened by 4 bps. The Office sector de-rated by 11 bps and Industrial equivalent yields decreased by 6 bps y-o-y.

The recovery stage in the current cycle remains disappointing compared to the vigorous bounce in capital growth enjoyed after previous downturns in both 1991-92 and 2008-09. Four reductions in Bank Rate in the second half of last year and the first quarter of the current year have not created any market impetus. It is to be hoped that the three further cuts implicit in the MPC's latest forecasts finally give investors the confidence to return to the market.

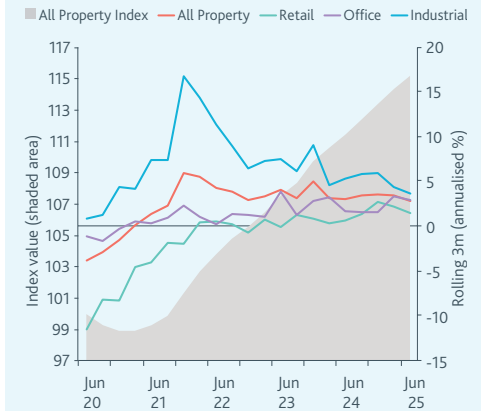
The tables on the next page include further performance data for UK commercial real estate in Q2 2025.

Total returns (%) by sector



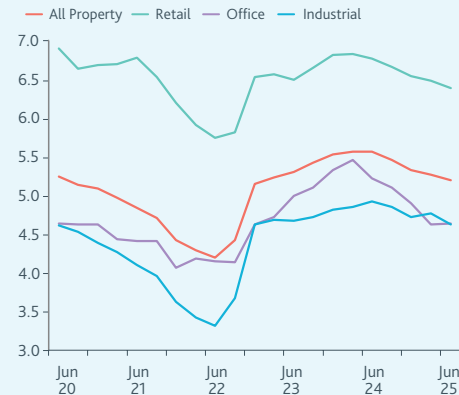
Source: MSCI, July 2025

MRV growth (%) by sector



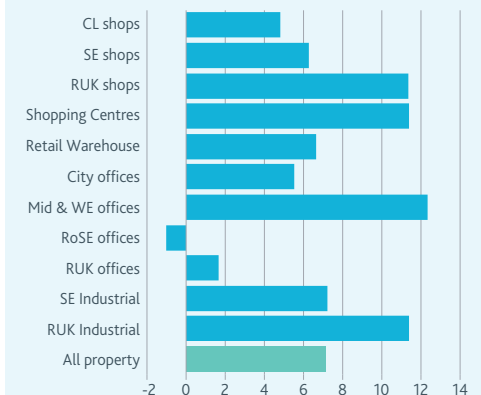
Source: MSCI, July 2025

Initial yield (%) by sector



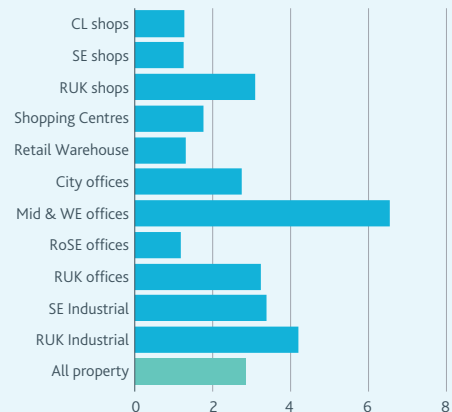
Source: MSCI, July 2025

Total returns (%) by segment – Q2 2025 annualised



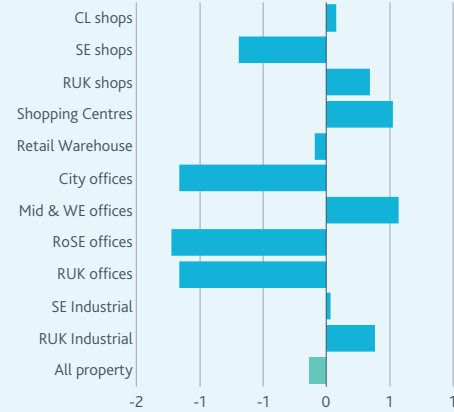
Source: MSCI, July 2025

MRV growth (%) by segment Q2 2025 annualised



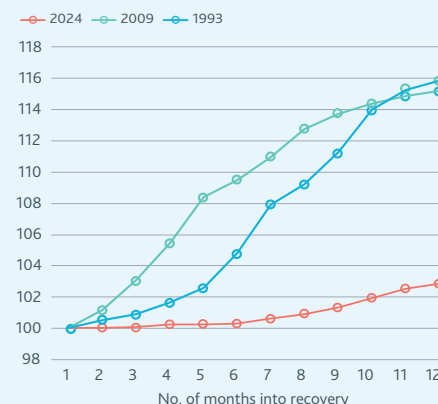
Source: MSCI, July 2025

Yield impact (%) – Q2 2025



Source: MSCI, July 2025

The pace of recovery from market downturn by month, CRE capital growth



Source: MSCI & APR, July 2025

Total returns (%)

	Jun	3m	6m	12m
All Property	0.6	1.7	3.8	8.6
Retail	0.6	1.8	4.3	10.3
Office	0.4	1.0	2.1	3.6
Industrial	0.7	2.1	4.3	10.6
Annualised				
All Property	7.1	7.2	7.7	8.6
Retail	7.7	7.6	8.7	10.3
Office	4.3	4.1	4.3	3.6
Industrial	9.1	8.6	8.9	10.6

Source: MSCI & APR, July 2025

Capital growth (%)

	Jun	3m	6m	12m
All Property	0.1	0.3	0.9	2.6
Retail	0.1	0.1	0.8	3.0
Office	-0.1	-0.4	-0.5	-1.8
Industrial	0.3	0.9	1.8	5.3
Annualised				
All Property	1.3	1.3	1.8	2.6
Retail	0.6	0.5	1.5	3.0
Office	-1.2	-1.4	-1.1	-1.8
Industrial	4.1	3.5	3.7	5.3

Source: MSCI & APR, July 2025

Income return (%)

	Jun	3m	6m	12m
All Property	0.5	1.4	2.9	5.8
Retail	0.6	1.7	3.5	7.2
Office	0.5	1.4	2.7	5.5
Industrial	0.4	1.2	2.5	5.0
Annualised				
All Property	5.7	5.8	5.8	5.8
Retail	7.0	7.0	7.1	7.2
Office	5.5	5.6	5.5	5.5
Industrial	4.8	5.0	5.0	5.0

Source: MSCI & APR, July 2025

ERV growth (%)

	Jun	3m	6m	12m
All Property	0.3	0.7	1.6	3.4
Retail	0.2	0.4	0.9	2.0
Office	0.4	0.7	1.6	2.4
Industrial	0.3	0.9	2.0	5.0
Annualised				
All Property	3.1	2.8	3.2	3.4
Retail	2.0	1.5	1.9	2.0
Office	4.4	3.0	3.2	2.4
Industrial	3.4	3.7	4.1	5.0

Source: MSCI & APR, July 2025

Net initial yield (%)

	Jun	3m	6m	12m
All Property	5.2	5.3	5.3	5.6
Retail	6.4	6.5	6.5	6.8
Office	4.6	4.6	4.9	5.2
Industrial	4.6	4.8	4.7	4.9

Source: MSCI & APR, July 2025

6. Investment in property

- There are some signs that liquidity is returning to the central London office market.
- Investment volumes across all other segments of the market remain below average.

Investor sentiment remains changeable. All Property investment volumes, represented by the current value of investment transactions adjusted for capital growth, increased by 35% in Q4 2024 compared to Q3 but then decreased by -48% in the first quarter of 2025. First quarter transaction volumes were -43% below their long run average.

Preliminary estimates suggest that investment volumes in Q2 decreased by a further -8% and were -47% below the long run average. As usual the latest numbers for Q2 are likely to be revised in the coming months. Cumulative UK investment volumes so far recorded in Q1 and Q2 this year are currently lower than in either 2023 or 2024.

Retail made up 46% (by number) of investment transactions in Q1 2025; offices represented a further 19% and industrials made up the remaining 35%. In the 12 months ending June 2025, the retail sector accounted for 46% of transactions. Offices

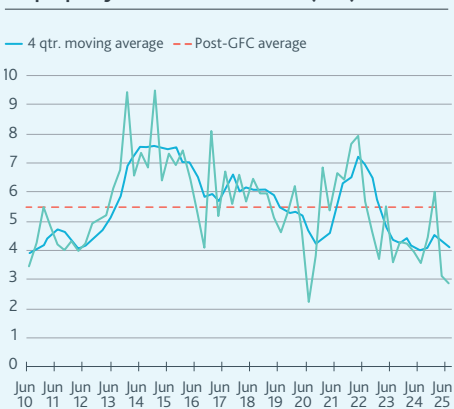
represented 19% of transaction numbers and industrials a further 34%. The volume of Shopping Centre and Retail Park investment transactions has remained consistent throughout the last 12 months although there was a temporary spike in Retail Park volumes in Q4 2024.

Investment volumes, represented by the current value of investment transactions adjusted for capital growth, in the UK's key central London office market increased by 13% in the last quarter of 2024 but were nevertheless -45% below their long run average. The recovery was short lived and investment volumes decreased by -11% in the first quarter of 2025 and were 51% below their long run average.

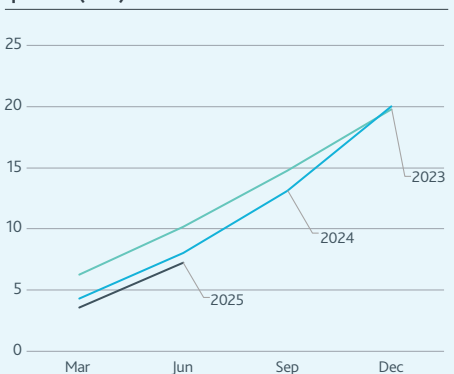
The improvement in liquidity promised at the end of last year has been restricted by the destabilising impact of US trade policy on the global economy. In May, Mark Preston, CEO of Grosvenor Group, said that Trump's global tariff trade war is damaging to all countries, including the US, and will eventually be corrected. However, he added that the trade war had not affected Grosvenor's business.

However, preliminary estimates for Q2 indicate that there has been a marginal improvement in investment market liquidity in the central London office market in Q2 as

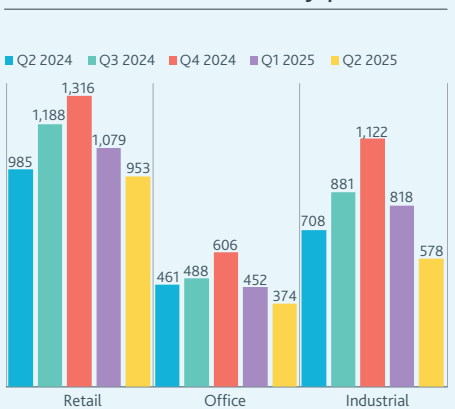
All property investment volumes (£bn)



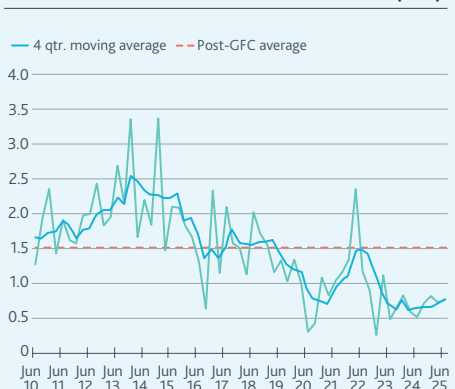
Cumulative UK investment volumes by quarter (£bn)



UK investment transaction nos. by quarter



Central London office investment volumes (£bn)

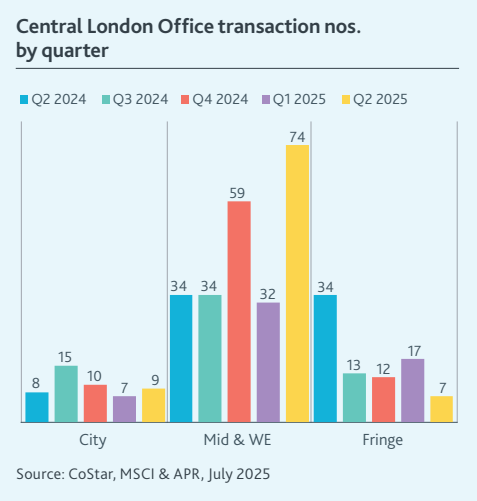


transaction volumes improved by 5%. Cumulative investment volumes so far recorded in Q1 and Q2 this year for central London offices are currently higher than those achieved last year and are approaching the levels achieved in 2023.

Midtown and West End made up 57% (by number) of Central London office investment transactions in Q1 2025; City offices represented 13% and Fringe offices made another 30%.

Total investment volumes for the 12 months ending June 2025 indicate that Midtown and West End accounted for 69% of transactions; the City 14%; and the Fringe markets of Docklands, Southbank and City fringe 17%.

Overall, the data suggests that for central London office investment, a slight recovery is underway.



7. Outlook & House view

- Cluttons has downgraded its outlook for 2025 for the second consecutive quarter to 7.0% from 8.0%.
- Performance is set to strengthen in 2026 and 2027 as borrowing costs come down and lenders appetite to expand their loan portfolios increases.

The implications of US trade policy for the global economy, financial markets and UK commercial real estate continues to evolve. So far tariffs have not caused any sudden deterioration in the US or global economies. However, forecasters' confidence in a recovery of the UK's commercial property market weakened in Q2. Consequently, May's Investment Property Forum (IPF) consensus forecasts for total returns in 2025 were decreased to 7.9% from 9.0% in February. The IPF outlook for 2026 deteriorated to 8.4% from 8.7%.

The IPF's average annualised total return forecast over the three years to 2027 is 8.2%, and 7.7% for the five years ending 2029. Total return expectations for 2025 worsened across all segments in May's survey except Shopping Centres which was MSCI's best performing market segment in the year to June.

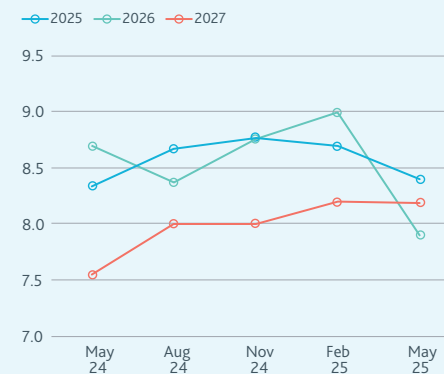
The range of forecasts for 2025 expanded in May, with the highest prediction at 11.9% and

the lowest at 5.8%, a range of 6.1%, compared to a range of 2.6% in February, underlining the uncertainty in the wider economic landscape. The range of forecasts for 2026 narrows to 3.3% for next year, ranging from 6.3% to 9.6%, suggesting hopes that much of the uncertainty over the economic and financial outlook will have been removed by the end of next year.

The cost of UK borrowing will continue to fall, with more base rate cuts coming this year and next. Lending rates are likely to fall to 6.0% or 250 bps over SONIA and many lenders are actively seeking to deploy debt capital into UK real estate particularly the living sectors, residential development, and prime logistics. However, lending transaction volumes remain low due to pricing uncertainty and a reluctance from investors to commit equity in the face of the current macro-economic uncertainties.

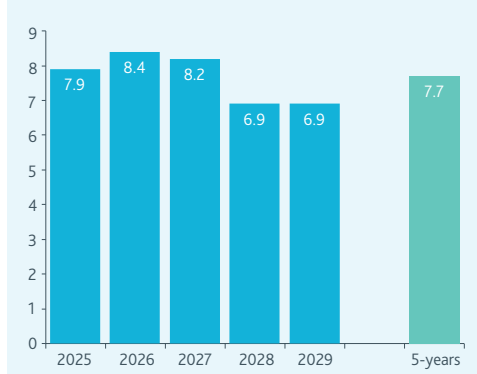
We continue to think that despite anticipated reductions to Base Rate and borrowing costs, weak economic growth combined with a troublesome inflationary outlook and increasing risk free rates have created strong headwinds that will in all likelihood limit the recovery in commercial property values in 2025. Since the start of the year the UK's commercial real estate markets have exhibited a phlegmatic

IPF Consensus forecast evolution (%)



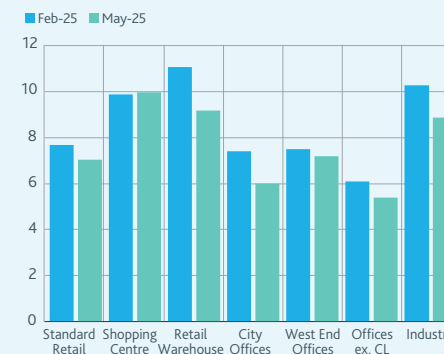
Source: IPF, May 2025

IPF All Property consensus forecasts y-by-y (%)



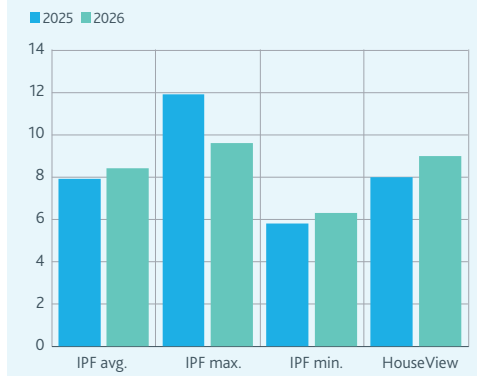
Source: IPF, May 2025

IPF 2025 total return forecasts by sector Feb 25 v May 25 (%)



Source: IPF, May 2025

UK commercial total return forecast range (%)



Source: IPF, APR & Cluttons, May & July 2025

approach, as investors wait to see the final resting place in the chaotic evolution of US trade policy. Property yields have remained broadly static for a year and there is little prospect of any tightening until the gilt yield curve flattens at the long end. Our analysis above suggests that this is unlikely to happen in the short term.

The central forecast from the House View model is revised on a quarterly basis to reflect the changing macro-economic outlook and the current performance of commercial real estate.

Our forecasts in Q1 were downgraded to reflect the prevailing economic uncertainties and a reluctance by investors to commit capital until these uncertainties have been removed. This quarter we have again downgraded our 2025. All Property total return forecast to 7.0% from 8.0% but have maintained our projection of 8.0% on a three year annualised basis reflecting our expectation for improved performance through 2026 and 2027. The UK's commercial real estate market has produced an annualised average return since 1980 of 8.1% and a real inflation adjusted return of 3.9%.

Upwards-only Rent Reviews

The Government has proposed a ban on upwards-only rent reviews in new leases adding to the uncertainty facing the UK's commercial real estate market. The industry has been critical of the proposal, and there is a risk that the move will weigh on investor sentiment.

Upwards-only rent reviews are a key factor in why business leases are attractive to investors and lenders, with a stable guaranteed cash flow over the lifetime of a lease.

Abolishing this long-established, upwards-only rent review could undermine the business lease as a secure investment and lending model and impact how commercial property is valued.

But the reality is more nuanced. The days of the institutional 25-year lease with five yearly upwards-only rent reviews are long gone. Many leases, especially of more secondary assets are let for three or five years or ten years with a five-year break. The average lease length including breaks across All Property Types is now less than 7 years.

The ban is likely to affect longer leases on trophy assets, but upwards-only rent reviews to market rental value could be replaced by indexation.

However, higher inflation rates seen in recent years cast a different light on this proposal.

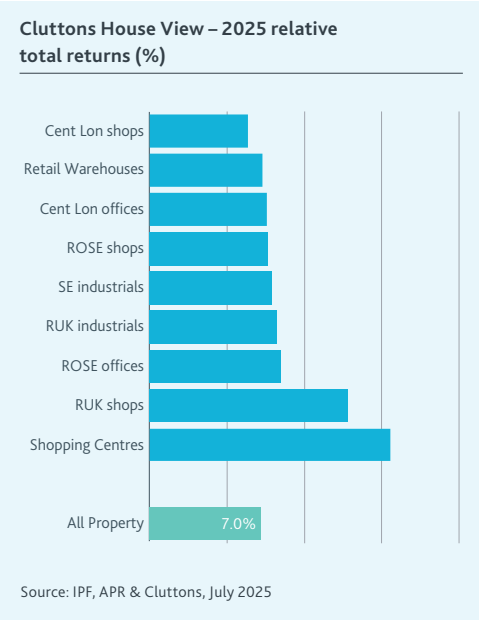
Clutton's Lease Advisory Team says:

"Abolishing upwards-only rent reviews will be of benefit for some tenants and will certainly make open market rent reviews more interesting to negotiate. Making a blanket change across all sectors to well established commercial terms will likely cause wider knock-on effects in the market.

We have seen increased reliance on index-linked reviews, particularly in the industrial and logistics sector and whilst it won't be valid to include an upwards-only mechanism, in reality it is uncommon for the RPI or CPI to decrease over a long period of time. Therefore, we would anticipate landlords exploring fixed uplifts or index-linked reviews during lease terms.

Shorter leases, outside the act, may also become more common.

This unexpected proposal and lack of consultation has shocked the market and we would welcome the Government to share the data and information they used to build a case for this move. A blunt implement such as this change may not be the best way to support tenants."

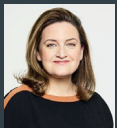


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