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MARKETBEAT

ECONOMY & HOUSING

JUNE 2025

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SPENDING REVIEW

On June 11th, the Chancellor of the Exchequer delivered the Government's Comprehensive Spending Review, setting out departmental budgets to 2028/9 and capital investment plans to 2029/30. With not much additional finance to be spread across all budgets, the big winners in terms of capital allocation were healthcare and defence. Nevertheless, the review was one of the tightest we have seen outside of the Austerity years.

However, there were notable positive commitments to housing and infrastructure in particular and a further pledge to the Government's own property estate relocation - with 50% of civil servants outside London by 2030, and a disposal of surplus estate.

One of the most noteworthy elements of the Review was the commitment of £39 billion – a near doubling - to the Affordable Homes Programme (AHP) for ten years. This is the largest commitment to social and affordable housing in decade and is done in conjunction with a 10-year rent settlement from 2026 set at CPI+1%, which aims to set certainty for landlords and tenants alike, as well as a consultation on rent convergence.

Additionally, there has been £2.5 billion in low-interest loans for RPs to boost supply capacity, £1 billion for land remediation, and £4.8 billion in financial transactions to support social housing development, as well as a change in borrowing rules that creates an additional £10 billion for Homes England. Separately, there was a commitment of £13.2 billion over the Spending Review period to the Warm Homes Plan while since the Review, there has been a further announcement of a £16 billion-backed National Housing Bank, which will aim to provide a range of debt and equity to enable housebuilding and regeneration sites.

With the National Industrial Strategy pushed back, and the Infrastructure Strategy due later this month, there is likely to be much more flavour added in the coming weeks and months. However, the largest commitments were to regional transport projects including the Transpennine Route upgrade and the delivery of the East West Rail, the flooding programme and Sizewell C. Of the sizeable commitment to Defence spending, £7 billion was allocated towards improving military accommodation.

Daryl Perry
Head of UK Research & Insight
daryl.perry@cushwake.com

KEY TAKEAWAYS

- Whilst the 90 day pause on retaliatory tariffs is due to come an end in July, there has been a partial de-escalation between China and the US.
- On 11th June, the Chancellor announced the Comprehensive Spending Review including a significant increase in Health and Defence in particular.
- There has been a significant escalation in hostility in the Middle East, with direct attacks between Israel and Iran.
- After the surge in sales activity due to SDLT changes, there has been a reduction in transactions.
- On 19th June, the MPC decided to hold Interest Rates at 4.25%.

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ECONOMIC INDICATORS

	YOY Change	Monthly Change
102.3 MONTHLY GDP	▲	▼
50.3 UK COMPOSITE PMI	▼	▲
-20 CONSUMER CONFIDENCE	▼	▲
4.6% UNEMPLOYMENT RATE	▲	▬
4.0% CPIH	▲	▬
3.7% 5 YEAR SONIA*	▲	▼
4.6% 10 YEAR GILTS*	▲	▲

** Notably volatile at present*

Source: ONS, Moody's, Bank of England, GfK, S&P, FTSE Russel

ECONOMIC OVERVIEW

GDP for April fell by 0.3%. This was after growth of 0.2% in March and 0.5% in February. Despite the monthly contractions, it still means that GDP is up 0.7% in the three months to April, compared to the three months to January. While this growth has been driven by services growth, it is worth noting that during the course of April, services output felly by 0.4% and was the largest contributor to the fall in GDP for the month. Production output also fell by 0.6% during April, after a fall of 0.7% in March.

90 DAY PAUSE TO END

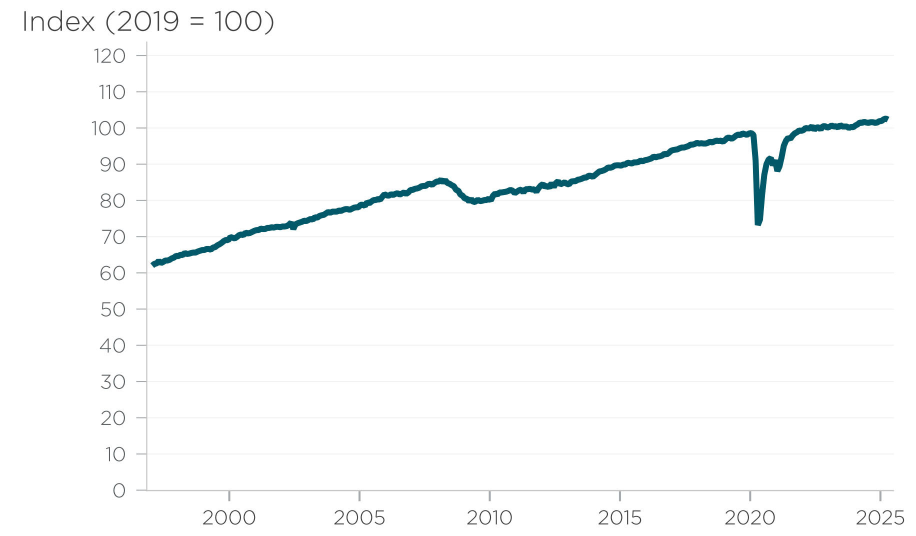
On June 17th, the US and the UK formally implemented elements of the Economic Prosperity deal at the G7 in Canada. The agreement establishes a preferential treatment for the automobile and aerospace sectors for export to the US; as well as a mutual reciprocal agreement on agriculture.

The previous agreement on eliminating tariffs on steel and aluminium was not fully included at this time. However, the UK is exempt from the higher 50% global steel tariff, announced on June 4th. For context, the UK exported £370 million to the US in 2024, 7% of total steel exports.

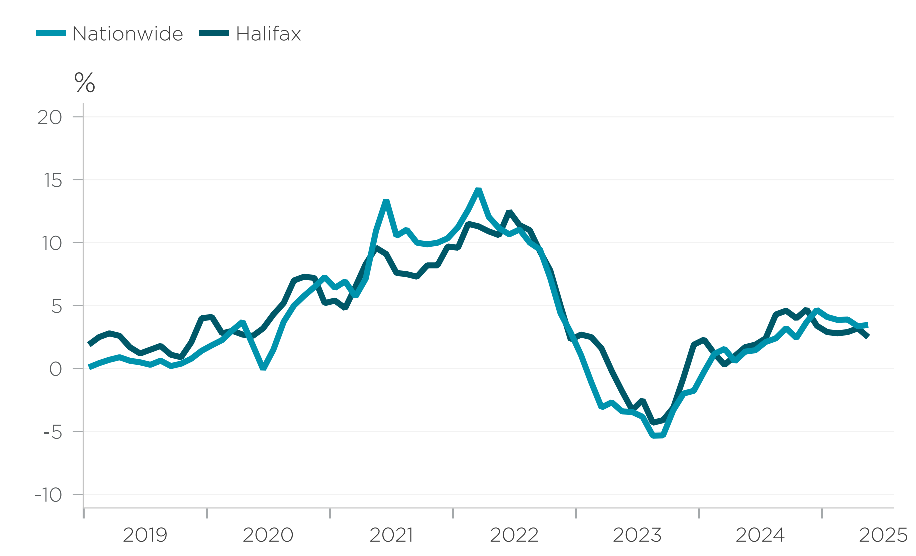
In what is better news for global trade, there has been some de-escalation on trade between the US and China, with US tariffs on China reducing to 55% - with 10% baseline, 20% fentanyl related, and 25% Section 301; Chinese tariffs reduced to 10%. This agreement was in conjunction with an agreement for China to resume rare exports to the US.

The 90-day pause in the US' broadest reciprocal tariffs comes to an end on July 8th, with the US government due to set out terms.

MONTHLY GDP



UK ANNUAL HOUSE PRICE INFLATION



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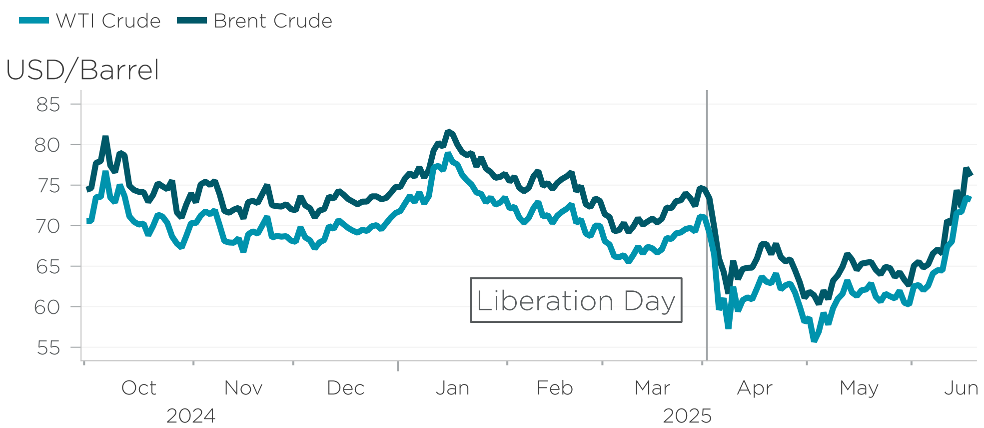
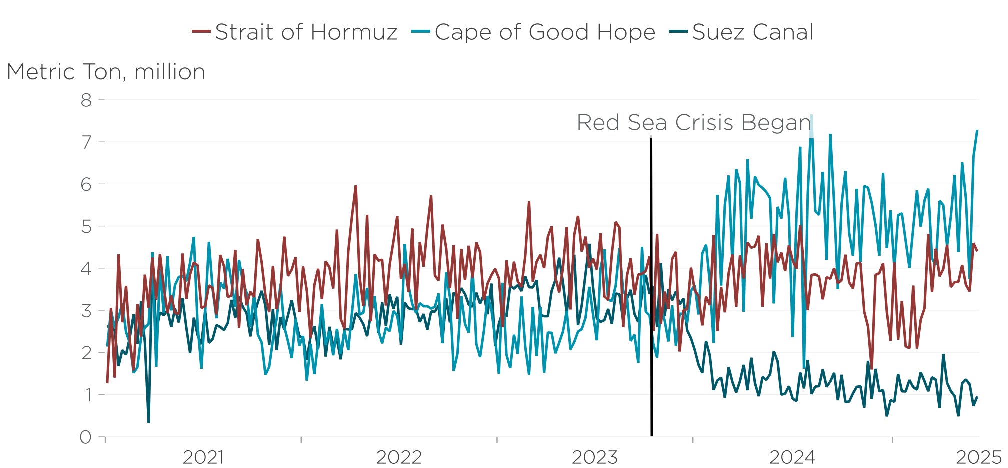
WTI/BRENT



GOLD BULLION

SHIPPING TRANSIT VOLUMES



IRAN-ISRAEL ESCALATION

The past few weeks have seen the most direct military confrontation between Israel and Iran in modern history. On June 13th, Israel launched 'Operation Rising Lion' which targeted over 200 Iranian nuclear infrastructure sites as well as military leadership. Iran responded by firing ballistic missiles and drones at Israeli targets. Since then, there has been continued bombing from both countries, and proxy forces – notably including attacks on the South Pars field and oil storage tanks, and the Arak Heavy Water reactor.

ENERGY

The increase in hostility initially saw a spike in oil prices last seen at the onset of the Russia-Ukraine conflict. Brent crude is currently~$77 a barrel, up 22% from the beginning of June but still much lower than the highs of $150 in 2008, and even than the levels they were before the attacks of October 7th. Prior to the recent escalation, Brent crude had been ~$67 a barrel.

Iran is a relatively small exporter in itself, currently exporting ~2% of global supply. Nevertheless, disruptions to supply would have an upward impact on pricing. Furthermore, with 25%-30% of seaborne oil and ~20% of LNG flows going through the Strait of Hormuz, any disruption to these flows would drive prices up further, with ING suggesting this could push prices up in excess of $120, and as high as $150 a barrel, driving up inflationary risk.

Insurance for shipping going through the Strait has doubled. Maritime transportation costs have increased significantly, with tanker freight rates from the Gulf to China seeing the sharpest one-day spike this year – at 24%.

The increase in oil prices has had a positive impact on energy equities, with the EURO STOXX 600 Energy Index gaining 8% in the month-to-date, with BP seeing a 9% increase, and TotalEnergies increasing 7%, while more broadly, equity markets have thus far shown resilience – including the Tel Aviv 35 Index - while there has been volatility within the defence sector.

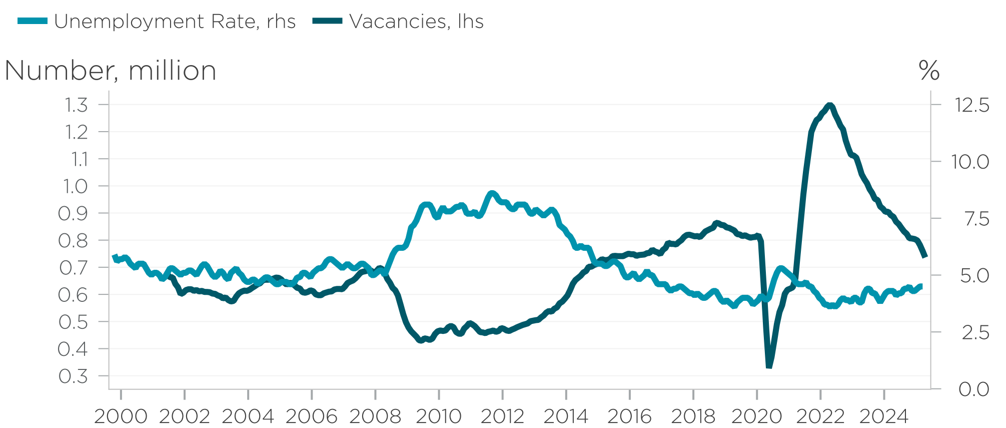
VOLATILITY

Nevertheless, once again gold has surged to ~$3,400 per ounce, reflecting wider concerns about escalation, and the volatility Index (VIX) has risen to ~22 – albeit well below recent highs.

While it is unclear at present how the conflict plays out, any further intensification would likely further increase oil prices. If this were to be in the region of $130-$150 a barrel as outlined above, this could potentially lift inflation by in excess of 2 percentage points by end-2025 posing a question for the Bank of England and other advanced economy central banks in the short term as to how to react. Furthermore, this would have a negative impact on equities.

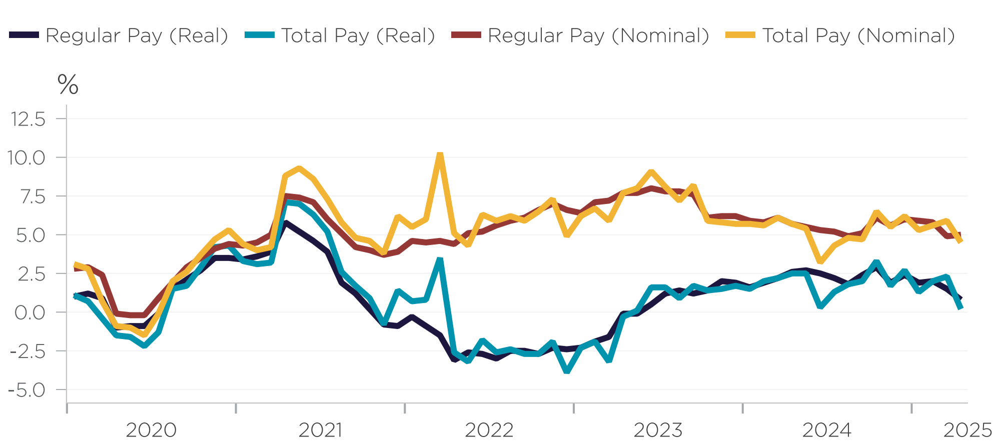
Source: ICE, Oxford Economics, Haver Analytics, Macrobond, Cushman & Wakefield

UNEMPLOYMENT & JOB VACANCIES



ILO REDUNDANCY RATE

PAY IN REAL & NOMINAL TERMS



EMPLOYMENT

As has become a mandatory preface - labour market data provided by the ONS remains unreliable due to the small sample sizes. The requisite improvements have not yet been made. Piecing together the narrative amongst different data points is more challenging than usual. The ONS have published an update on the Labour Force Survey quality here for those interested.

The number of estimated payrolled employees has once again fallen quite starkly. After falling by 47,000 between February and March – a reduction of 0.2%, April saw a further fall of 55,000. Recent falls means that there were 115,000 less people in work in April 2025 than there were a year previous. The UK unemployment rate is now at 4.6%, its highest rate since July 2021.

The economic inactivity rate has come down slightly to 21.3%, below estimates a year previous.

The number of job vacancies once again decreased– falling by 63,000, or 8% in the three months to May. There are currently 736,00 vacancies, which equates to 150,000, or 17%, less than there were a year ago, with each sector, and business size band seeing a fall year-on-year. Until recently, vacancies were still running higher than pre-pandemic levels. This is no longer the case. There are 59,000 less vacancies in the job market than there were immediately prior to the pandemic.

Due to the lagging nature of the data, information on redundancies is unlikely to give a true indication of the current health of the economy. Nevertheless, the data that runs to April saw the number of redundancies decrease from 3.8 to 3.5 per 1,000 employees.

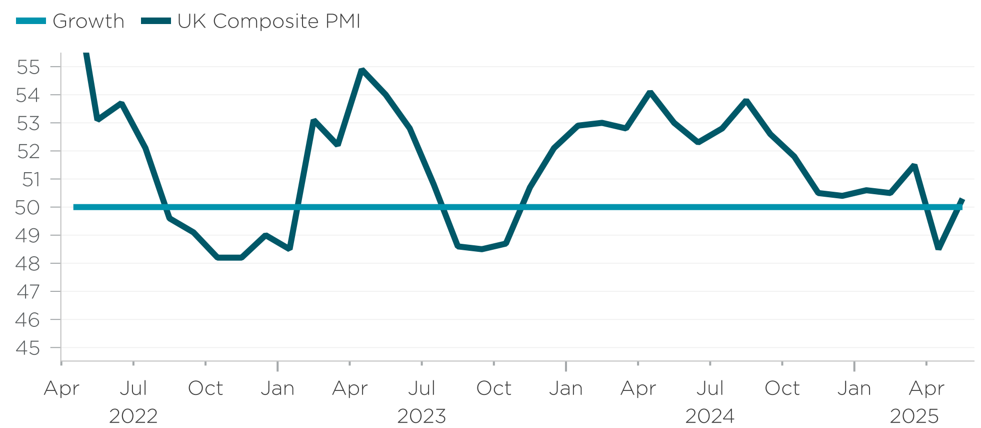
EARNINGS

In the three months to April, regular pay increases had fallen from 5.6% to 5.2%, with total earnings (including bonuses) increasing by 5.3%. Annual growth in real terms using CPIH grew 1.4% for regular pay, and 1.5% for total pay. While growth has slowed, pay growth remains well above the levels that the Bank of England would see as a sign of disinflation across the economy.

Public sector wage growth increased slightly, from 5.4% to 5.5%. However, private sector wage growth fell notably from 5.5% to 5.1% and was last lowest in February 2022. For context, private sector pay remains well above any levels seen between the GFC and the Pandemic. The Wholesaling, retailing, hotels and restaurants sector continue to see the largest annual regular growth rates – increasing to 7.7%, while construction fell from 6.4% to 5.9%. Financial and business services wages growth is the lowest at 3.2%.

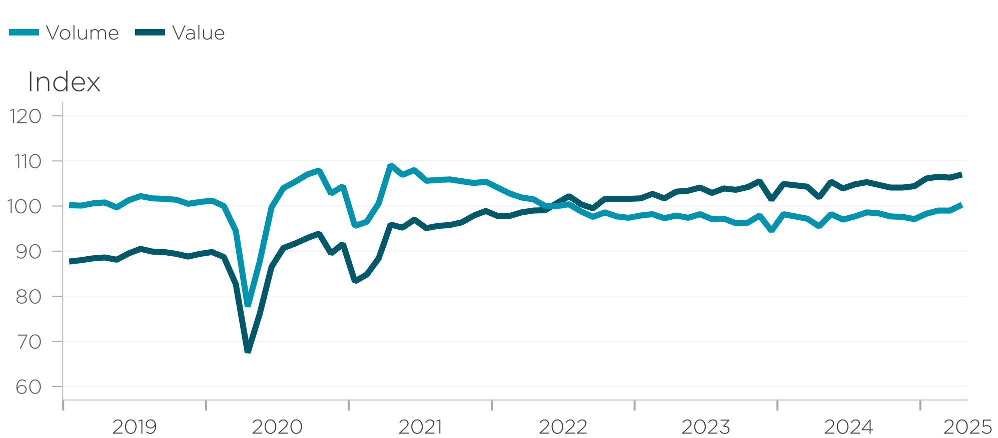
Source: ONS, Macrobond, Cushman & Wakefield

UK COMPOSITE PMI



CONSUMER CONFIDENCE

RETAIL SALES AND VOLUME INDICES



BUSINESS DEMAND

After taking a significant hit in April, when PMI fell to 48.5, May saw a rebound to 50.3 – up from a preliminary estimate of 49.4. This represents a return to an expansionary economic environment, after the previous month had seen the largest contraction since October 2022. Manufacturing PMI increased to 46.4, up from 45.4 the month previous, but still in contractionary territory for the eighth successive month. Production and new business remains muted. The Services PMI registered 50.9, which marked a return to growth after falling to 49 a month previous. This was driven by an increase in business optimism after the negativity of the previous month. However, new orders remain low, with service providers cited a reluctance to commit to new spending.

BUSINESS FAILURES

There were 2,053 company insolvencies in April, 3% higher than March, but 5% lower than the same month in 2024. On a seasonally adjusted basis, the number of compulsory liquidations was the highest number recorded since 2014. In 2024, there had been 23,872 company insolvencies, down from the record 25,128 in 2023, but still high in historical context. The change was mainly driven by CVLs which were 8% lower than those record highs. The number of compulsory liquidations was up 14% on levels seen in 2023, and their highest since 2014. Essentially one in 191 companies entered insolvency during 2024.

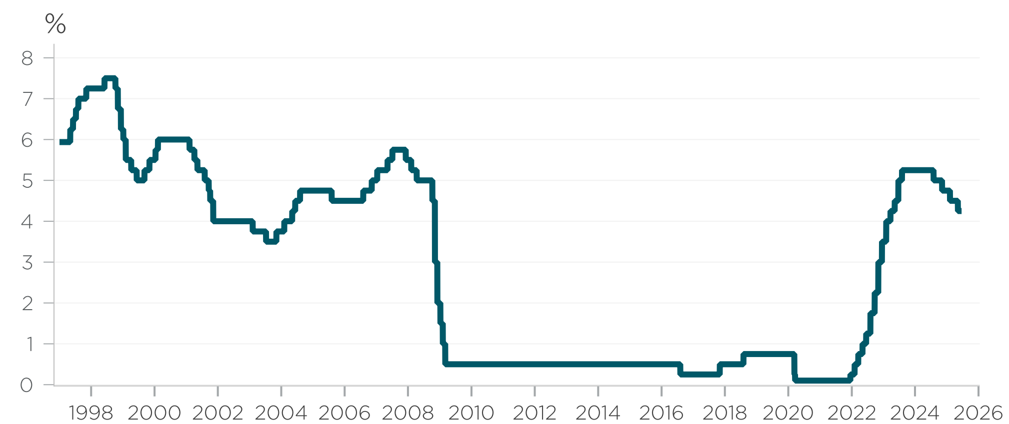
CONSUMER DEMAND

Consumer confidence in May increased by three points from -23 to -20. This was driven by an increase in all measures of consumer confidence. The largest increase was with regards to how people see their own personal financial situation over the next year. By this measure, confidence increased five points from -3 to 2. The savings index decreased by two points from 30 to 28.

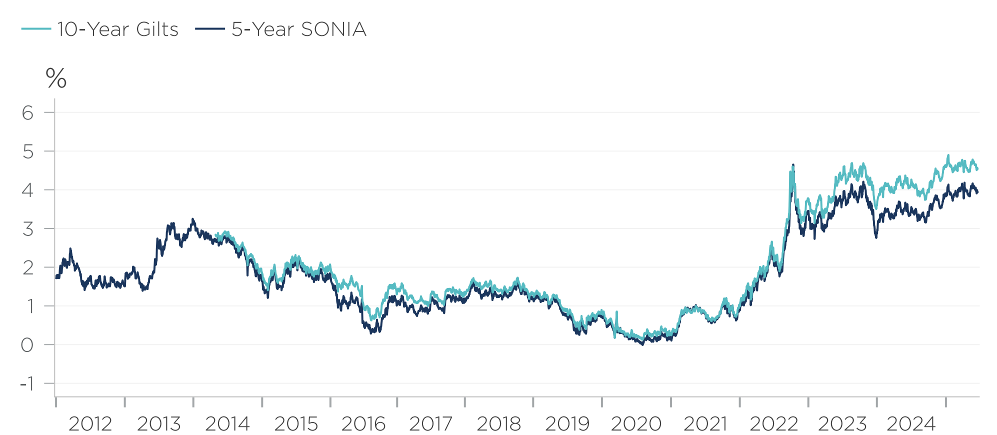
Retail sales volumes for April 2025 rose for the fourth consecutive month – by 1.2%, after an increase of 0.1% (revised down from 0.4%) in the month previous – this time driven by the good weather and increased food sales. Supermarkets saw the biggest increase at 3.9%, having seen the biggest monthly fall in March, followed by department stores. In all, retail sales volumes are up 5% over the year to April and are now at their highest levels since July 2022.

Source: ONS, Gfk, S&P Global, Macrobond, Cushman & Wakefield

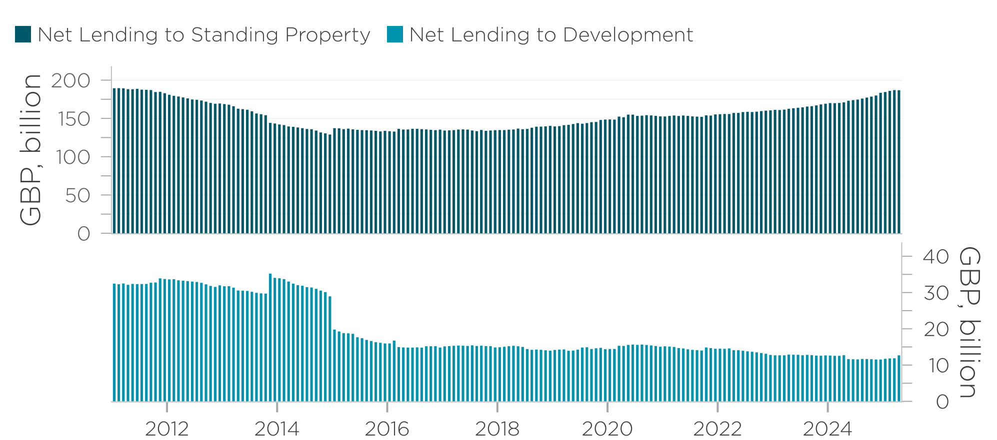
INTEREST RATES



5 YEAR SONIA & 10 YEAR GILTS



LENDING TO COMMERCIAL PROPERTY



INFLATION

According to the official release for April, CPI rose by 3.5% in the 12 months to April 2025, up from 2.6% in the 12 months to March. CPIH rose by 4.1%, up from 3.4% in the month previous. After the release, the ONS has announced that an error was made with regards to calculations on vehicle excise duty. While the ONS policy is not to revise in such an instance, it is worth noting that this would bring CPIH down to 4.0%, and CPI down to 3.4%.

Since then, CPI for May has come in at 3.4%, with CPIH at 4.0% - putting both measures in line with the revised April releases. However, Core CPI was slightly down from 3.8% in April to 3.5% May. For May, the largest downward contributions came from transport, whereas upward contributions came from food, and furniture and household goods.

Headline inflation is likely to have upward pressure in the next number of months, in particular if oil prices remain elevated.

MONETARY POLICY

On 19th June, the MPC, as expected held interest rates at 4.25%. This continued the cut-hold-cut pattern that we had seen from the Bank of England. The MPC had cut interest rates in the last meeting from 4.5% to 4.25%. The fact that three members voted to cut to 4% was probably a bit of a surprise, with the notes highlighting the increased slack in the labour market.

The next question is to whether there will be a further cut in August. The MPC will be partly reassured by the easing of pay growth, The Bank's central forecasts suggest that inflation will drop back after September, but there is now upside risk on inflation, particularly with regard to further escalation in the Middle East.

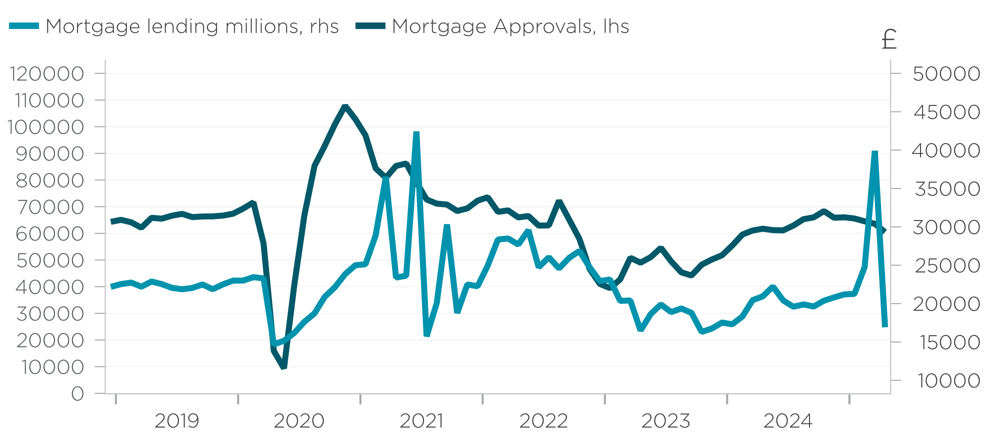
Nevertheless, with economic forecasts suggesting muted growth, and a weakening labour market (and pay now coming off), there is still a likelihood that we see a further cut in August.

We have seen bouts of bond volatility so far this year, making pricing risk difficult. Firstly, in January, then again in April. At present, 10-year gilts are running at ~4.5%.

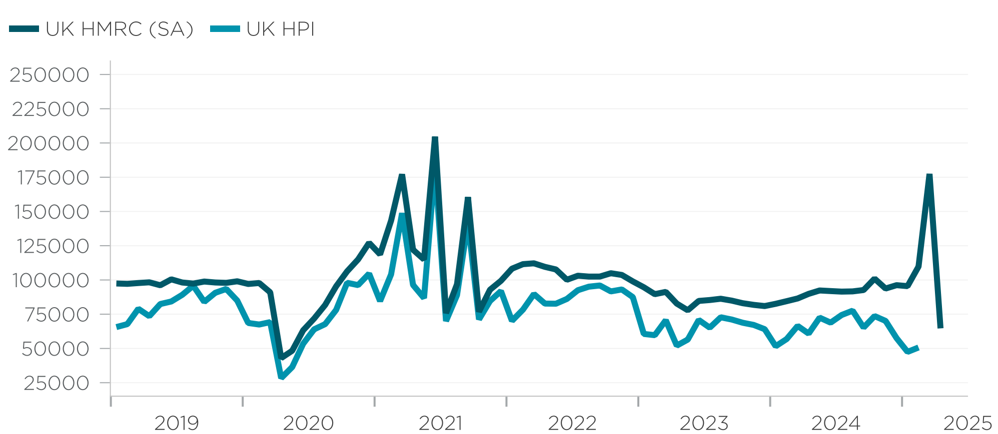
The 5-year SONIA at the time of writing was running at ~3.7%.

Source: Bank of England, FTSE Russel, , Macrobond, Cushman & Wakefield

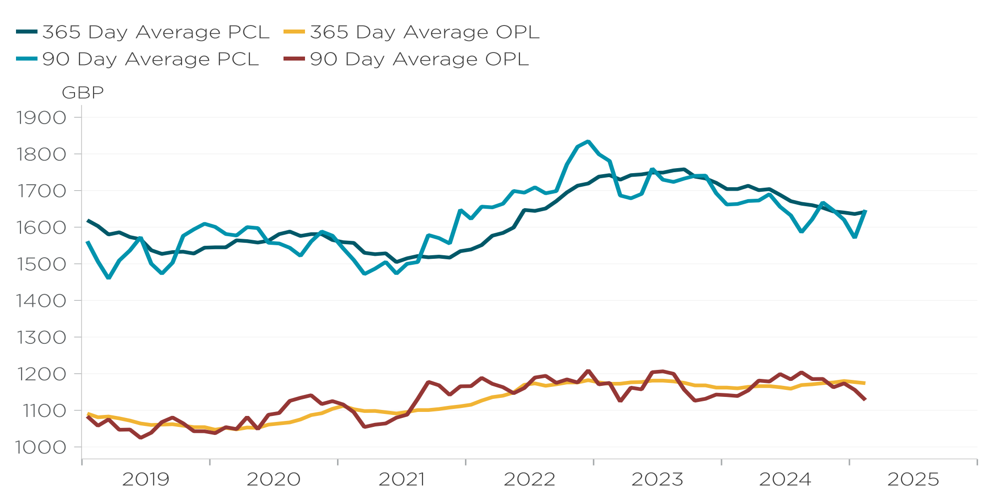
UK MONTHLY MORTGAGE APPROVAL & LENDING



UK MONTHLY TRANSACTION VOLUMES



CENTRAL LONDON CAPITAL VALUES



MORTGAGE APPROVALS

Residential property transactions surged in March as buyers rushed to complete to avoid the increased stamp duty payable. Even after the SDLT holiday ended, mortgage approvals show the market is holding firm. Despite wider economic uncertainty, underlying conditions for potential home buyers in the UK remain supportive.

Mortgage approvals are a leading indicator of housing demand. In April, there was a slight fall in demand with 60,463 mortgages approved – 4.9% below the previous month and 2.1% below a year ago.

SALES & PRICING

An estimated 64,680 transactions were completed in April, reflecting a 63.5% decline from March and a 28.0% fall year-on-year. This sharp drop largely reflects the distortion caused by the end of the stamp duty holiday, which brought forward a significant volume of activity into March.

House prices were up 0.5% month-on-month in May 2025, according to Nationwide, with year-on-year growth increasing marginally to 3.5%. Lower mortgage rates are supporting more house sales against a backdrop of modest house price inflation. According to Zoopla, more sellers are listing their homes for sale, with a 13% rise on last year, increasing buyer choice and in turn tempering house price growth.

On a regional level, in Q1 2025, Northern Ireland experienced the highest level of house price growth (13.5%) followed by the North West (5.9%) and the West Midlands (5.8%). The lowest levels of growth were in London (1.9%), East Anglia (2.1%) and East Midlands (2.5%).

PRIME LONDON CAPITAL VALUES

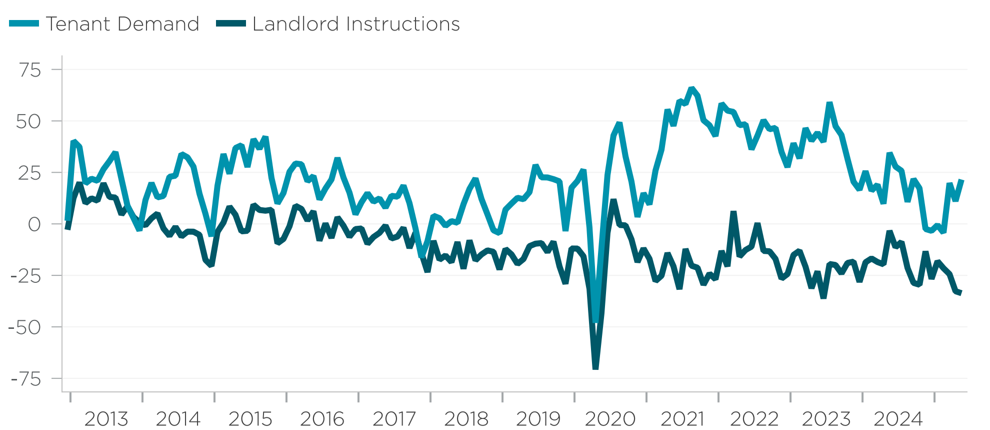
The Prime London market has recently seen declines in capital values due to broader economic and geopolitical uncertainties. Tax policies on non-doms, second homes, and private equity signal a tighter environment for wealth management and property ownership. As a result, London's property market may see shifts in buyer behaviour and continued price sensitivity at the prime end of the market.

As of May 2025, 365 day average values in PCL are £1,634 psf, 0.4% below last month and 4.1% below last year. 90 day average values in PCL for May 2025 were £1,660 psf, 1.5% below April 2025. Achieved discounts to asking prices (365 day average) in PCL for April 2025 was at -4.9%, in line with the previous month.

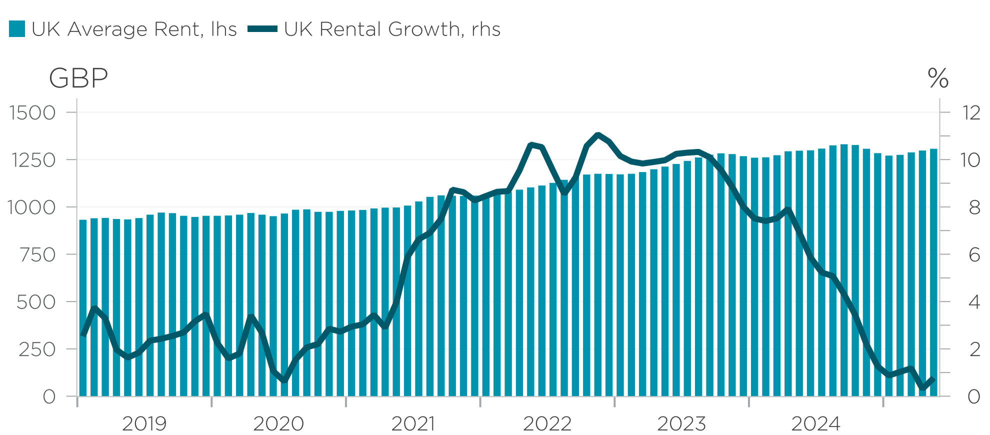
As of May 2025, 365 day average values in OPL are £1,168 psf, 0.6% above last month and 0.2% above last year. 90 day average values in OPL for May 2025 were £1,164 psf, 4.0% above April 2025. In OPL, discounts remained at -2.9% in May 2025.

Source: HMRC, LonRes, Macrobond, Cushman & Wakefield

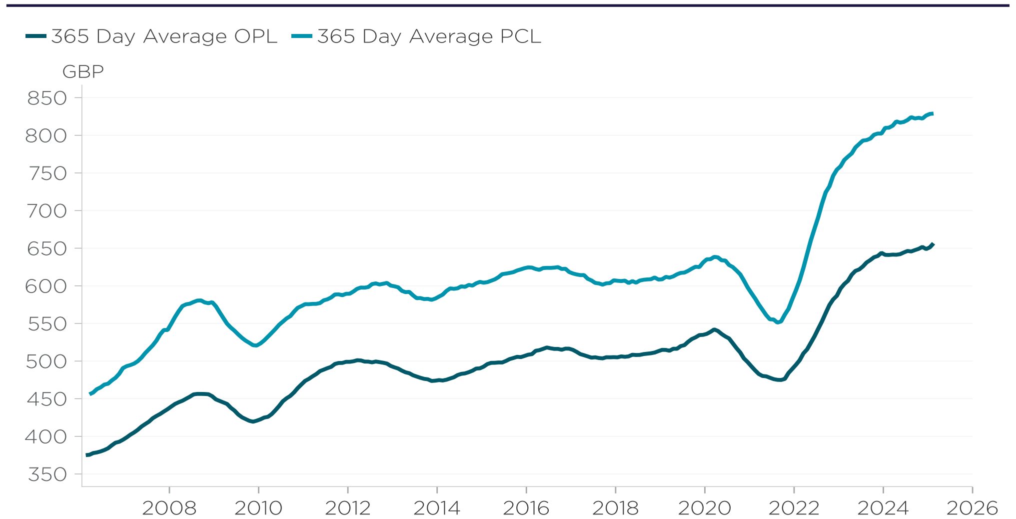
UK LANDLORD INSTRUCTIONS VS TENANT DEMAND



UK ANNUAL RENTS



UK LONDON RENTS



SUPPLY & DEMAND

The gap between supply and demand in the rental market has narrowed but is expected to remain a defining characteristic throughout 2025. Though rental growth has slowed, supply is unlikely to improve, and this is expected to place steady upward pressure on rental costs. Affordability constraints in high-rent areas, however, are likely to temper the pace of rental inflation.

From a regulatory standpoint, the Renters' Rights Bill introduces some uncertainty for 2025, with its impact expected to unfold gradually. Meanwhile, stricter energy performance standards and higher purchase taxes for private landlords are likely to constrain supply, reinforcing the critical role of BTR in meeting housing demand. Additionally, the UK government's plan to ban new leasehold flats in England and Wales in favour of a commonhold system aims to give homeowners greater control, though the transition for existing leaseholds remains unclear.

The RICS residential survey for April 2025 showed a net balance of 11% of respondents reporting an increase in tenant demand slightly down from the previous month. Alongside this, the decline in new landlord instructions remains an enduring feature of the market, with the latest monthly net balance falling to -33% from -24% the previous month.

RENTAL VALUES

After the initial upswing in rental values at the start of the year, we have seen the rate of growth return to falling. UK annual rental growth grew in May 2025 improving to 0.8% from 0.3% in April. In May 2025 the average UK rent was £1,307 pcm, 0.8% above the same time last year and 0.7% above last month.

In May 2025 annual rental growth varied across the UK, with the greatest rental growth being in Northern Ireland (7.0%), followed by Wales (4.6%), and the East of England (4.2%). Greater London (-2.3%), Scotland (-0.3%) and the North East (-0.3%) experienced the lowest levels of annual rental growth, and were the only 3 regions to experience negative annual growth.

PRIME LONDON RENTAL VALUES

365 day average rental values in May 2025 show rents in PCL are 0.7% above the previous month and 3.0% above last year. Median monthly rental values are more volatile. One bed flats in May 2025 let for £692 pw, in line with last month but 7.1% above the same time last year. Two bed flats let for £1068 pw, 2.6% below the previous month and 10.2% above the previous year.

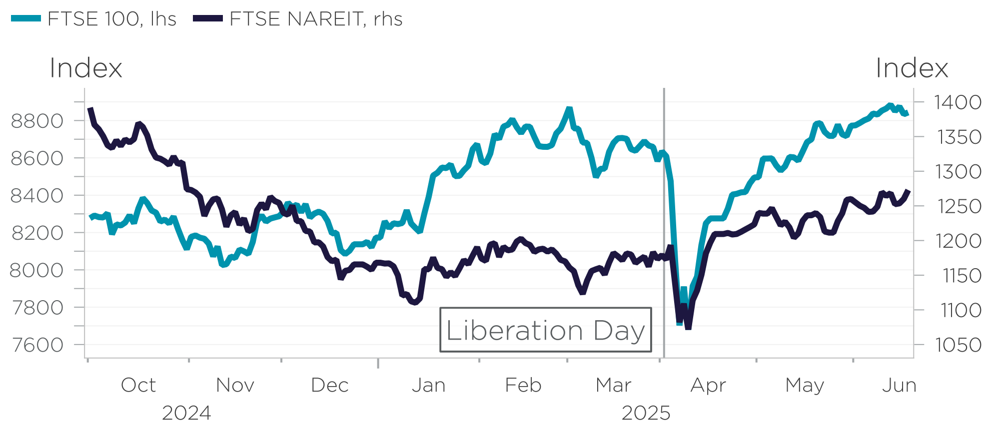
365 day average rental values in May 2025 show OPL rents are 0.8% above last month and 3.6% above last year. In OPL median weekly rents for one bed flats let for £575 pw, 0.2% below last month and 3.8% above last year. Two bed flats let for £848 pw, 8.0% above last month and 13.1% above last year.

Source: RICS, Homelet, LonRes, Macrobond, Cushman & Wakefield

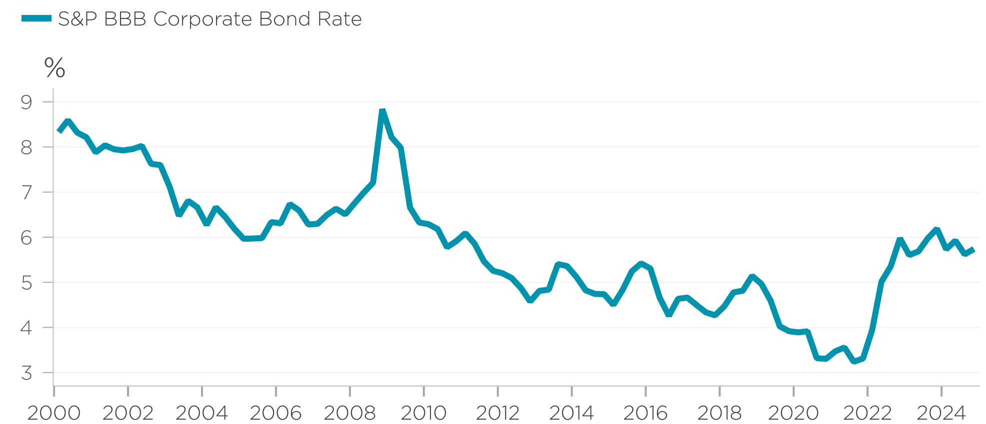
ADDITIONAL KEY CHARTS

Source: FTSE Russell, Federal Reserve, CBOE, ONS, Bank of England, LonRes, Economic Policy Uncertainty, Nationwide, Macrobond, Cushman & Wakefield

FTSE 100, FTSE NAREIT

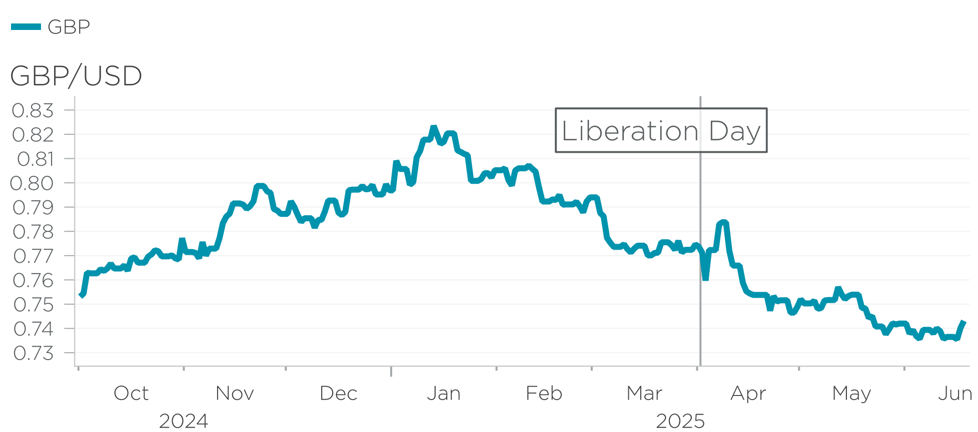


CORPORATE BBB BONDS



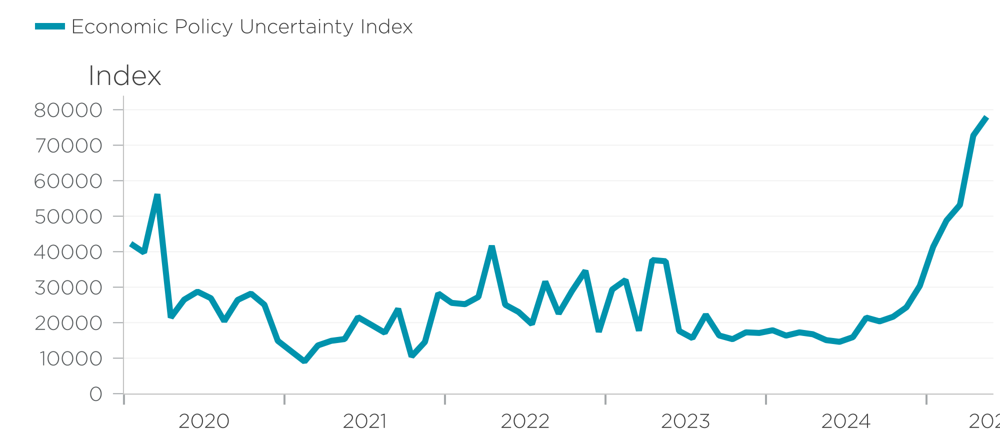
UK EARNINGS GROWTH

GBP USD SPOT RATES

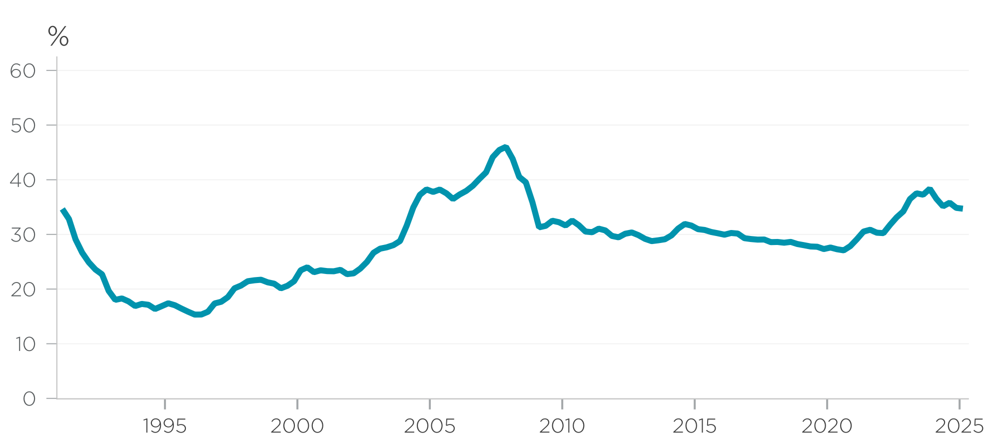


VIX INDEX

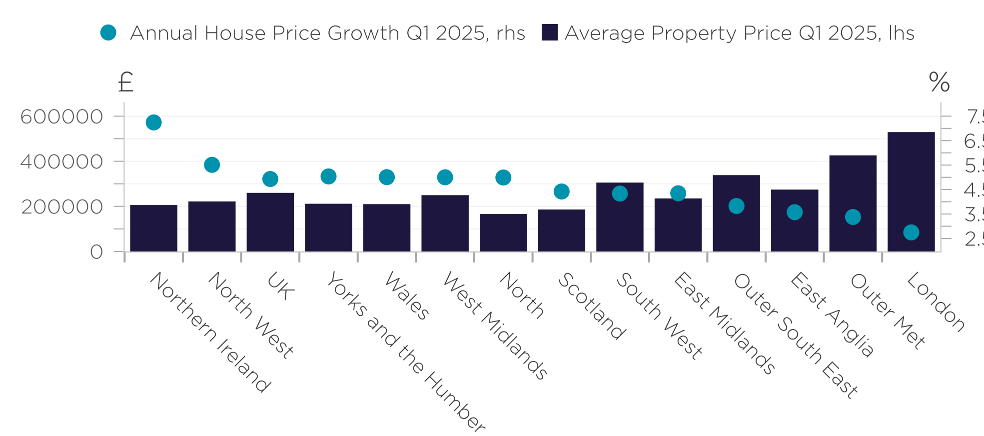
GLOBAL ECONOMIC POLICY UNCERTAINTY INDEX



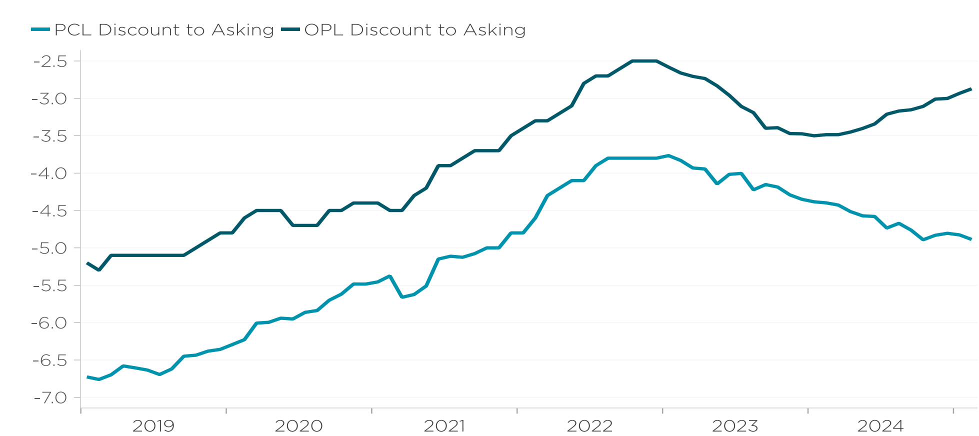
FTB MORTGAGE AS % OF TAKE HOME PAY



REGIONAL HOUSE PRICE GROWTH



CENTRAL LONDON RESI CAPITAL VALUE DISCOUNTS TO ASKING



MARKETBEAT

ECONOMY & HOUSING

JUNE 2025

JASON WINFIELD
Head of UK Capital Markets
jason.winfield@cushwake.com

TOM NUTTALL
Head of UK Valuation & Advisory
tom.nuttall@cushwake.com

JONATHAN STICKELLS
Head of Specialist Markets Valuation & Advisory
jonathan.stickells@cushwake.com

DARYL PERRY
Head of UK Research & Insight
daryl.perry@cushwake.com