

MARKETBEAT INVESTMENT

MAY 2025

Better never settles

STEADY AS SHE GOES...

In terms of metrics, the first quarter was one of relative stability. We saw £13.4 billion transact. That means that rolling annual investment volumes remain at £55 billion – in line with where we were at the end of Q4. On a rolling basis, this is 29% up on last year, but on a quarterly basis just 1.7% up on the same period last year.

While there was widespread movement in the financial markets, as of the end of April, there was relatively little yield movement across prime markets, with stability remaining the case across 39 of our reported 45 markets over the last quarter. This leaves six markets where we have seen inward yield movement – with two in retail, three across offices and one in the living sector.

There was a very small reversion to negative yield impact across the MSCI Quarterly Index. However, capital values increased by 0.4% q-o-q, leaving quarterly total returns at 1.6%, while annual total returns were at 6.5%. All sub-sectors bar one (South East offices) are positive year-on-year. Shopping centres (10.7%) and retail warehouses (12.3%) continue to be the strongest performers, with industrial (9.2%) performing strongly.

...OR THE EYE OF A STORM?

This has all been against a backdrop of significant market volatility. As you'll pick up through our views across the sectors, there continues to be a 'wait and see' approach from investors on the trade and turmoil that we saw from the start of April. In a number of cases, this is playing out through a lack of investment stock coming to the market, and a variation of opinion on direction of pricing, as well as a polarisation across markets. Considering the volatility that we have seen, this is to be understood and may be for good measure, as we are starting to see an alleviation of the initial barriers laid out in early April.

For more information, we cover the impacts in more detail in our *Economy and Housing Marketbeat*.



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KEY TAKEAWAYS



Q1 investment volumes were at £13.4 billion, leaving a rolling annual investment volume of £55 billion, 29% up on this time last year.



MSCI Capital values increased by 0.4% q-o-q, and are up 1.5% y-o-y. This leaves annual total returns at 6.6%.



According to our Prime Yield coverage, there was no movement during the month, with six of our 45 markets registering some inward yield movement over the last three months.



On 8th May, the MPC voted to cut the base rate to 4.25%, with a hawkish short-term view on inflation, and the prospects for short-term GDP growth.



There remains significant market volatility, impacting investor sentiment.



Martin Lay
Head of London Offices Capital Markets
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CENTRAL LONDON OFFICES

Market Trends – With £2.56 billion transacting, Q1 2025 reported a 40% increase compared to the same period in 2024 and was 7% up versus the five-year quarterly average. However, just £900 million of assets have been brought forward in the City in the first quarter, meaning options for investors are limited. Yields remained stable at 5.75% for the City and 4.00% for the core West End for a fifth consecutive quarter.

Dynamics - Despite limited stock and transactional volumes, sentiment remains positive on net. Central London offices continue to generate demand across different sectors and profiles of buildings from a global audience, including American private equity firms, European and Israeli private investors, and Middle Eastern buyers. Short-income, value-add opportunities are also continuing to attract good interest.

Outlook – The outlook remains pegged on interest rate cuts later in the year. With positive indicators across the broader UK economy – despite international tariff-related turbulence – base rate cuts may release the handbrake on the market, offering greater confidence in pricing amongst prospective sellers and encouraging them to bring assets to market. In turn, this may potentially stoke an increase in volumes in the second half of the year.

BAROMETER DEAL



20 Manchester Square
Yield – 5.1% NIY
Price – c. £120m
Status – Sold
Comments – Brand new Grade A Office let to Lazard for 15 years. Purchased by Delancy



Jeremy Beckett
Head of National Offices Capital Markets
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REGIONAL OFFICES

Market Trends – Q1 investment volumes across the regional markets totalled £296.7 million, representing a 61.2% decline from the previous quarter and 70.0% below the five-year quarterly average. This marked the lowest quarterly total since 2012.

Dynamics – Investor focus in regional markets remains firmly on best-in-class assets, exemplified by the landmark sale of EQ in Bristol for £104 million, which completed in January after exchanging at the end of Q4. The composition of capital sources is also shifting, with overseas investors - particularly from Israel and French SCPIs - now dominating the market, while US private equity has scaled back its presence. This was further illustrated by French real estate fund Iroko Zen’s £27 million acquisition of the Brinell Building in Brighton.

Outlook – While anticipated rate cuts are expected to boost investor appetite, lower cost capital targeting prime deals is likely to remain opportunistic rather than allocated. Focus is expected to stay on the Big Six regional cities, particularly as supply continues to tighten and the development pipeline remains constrained in the near term. Edinburgh is likely to remain a key target for capital, with recent activity - such as Pontegadea’s reported £75 million acquisition of Capital Square - highlighting its ongoing market premium relative to other regional cities.

BAROMETER DEAL



Capital Square, Edinburgh, EH3
Yield – 5.80%, with inbuilt reversion expected.
Capital Value - £615 psf
Status – Sold
Comments - Bought by Pontegadea – their second acquisition in Edinburgh.



Rory MacGregor
Partner, Life Sciences
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LIFE SCIENCES

Market Trends – In Q1 2025, investment volumes in the Golden Triangle life sciences real estate market totalled £121.5 million across two transactions. While Q1 volumes reflect a 72% decline from the strong Q4 2024 finish, much of that activity was driven by deals agreed in earlier quarters and closed before year end.

Dynamics - The anticipated development pipeline, alongside a period of slower occupier take-up, has encouraged a more selective approach from investors toward new developments and secondary assets, as demand is expected to remain concentrated on best-in-class real estate. Even so, several significant lettings have contributed to a minor improvement in confidence in development, particularly within the core clusters where new build, best in class, assets are being delivered.

Outlook – With many investors holding substantial development pipelines, the short-to-medium-term focus is likely to remain on delivering these projects. This reflects a measured approach as investors navigate ongoing macroeconomic and geopolitical uncertainty, awaiting greater clarity on its direct impact on the life sciences real estate sector.

BAROMETER DEAL



270 Cambridge Science Park, Cambridge
Yield – 4.50%
Capital Value - £562.50 psf
Status – Sold
Comments – Brockton Everlast expanded Cambridge Science Park portfolio through this acquisition.



Ed Cornwell
International Partner, UK Logistics & Industrial Capital Markets
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LOGISTICS & INDUSTRIAL

Market trends – Investment during the first quarter totalled £1.2bn across 40 deals, marking a notable step change relative to the large volume - just shy of £4bn - that had been recorded during Q4. In the first quarter, just four portfolios transacted, and the largest 5 deals accounted for half of the total Q1 volume.

Dynamics – Following what had been a year in which purchaser-vendor aspirations had been more closely aligned, the opening months of 2025 and early Q2 has pointed to a widening in price expectations. This comes as a result of uncertainty around financial markets, and questions with regard to the outlook for the occupier market which have reduced the pool of willing vendors. Competition for the limited pool of prime assets remains healthy with bid levels still healthy and pointing to continued confidence in the market. The addition of North American private equity to the buyer pool has helped support competitive tension, following a slight reduction in activity from institutional capital in recent quarters.

Outlook – Some larger properties and portfolios are gradually being introduced to the market which should sustain activity through 2025. However, we do not anticipate any significant structural changes, continued resilience in the occupier market will help to retain investor interest in the sector.

BAROMETER DEAL



Bedford Commercial Park, Bedford
Yield – c. 5.6%
Pricing – c. £100 million
Status – Marketing
Comments – Modern asset fully let to low risk tenants



Marcus Wood
International Partner, UK Retail & Leisure Capital Markets
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RETAIL & LEISURE

Market trends – The retail investment market continues to see widespread positivity and consistent interest across all sub sectors. Investment volumes during 2025 so far remain modest, although this is largely a result of limited supply which in places is frustrating investors looking to deploy into the sector.

Dynamics – Transactions across the component sub-sectors remains mixed with some sub-sectors such as food-stores and shopping centres being impacted by limited levels of suitable supply. Despite this, the limited transactional evidence points to strong investor interest across both core and opportunistic markets. A handful of bellweather deals this year have helped to highlight the renewed interest in retail assets and a broadening of the buyer pool. The out of town market continues to see strong levels of activity, with Q1 volumes outperforming both last years Q1 value and the long term Q1 average. Institutional capital has become increasingly comfortable in this market, with major players such as Hines now actively acquiring well connected schemes at a relative pace.

Outlook - Much of the current pipeline remains for stock launched during late 2024, meaning limited new supply may continue to weigh on volumes. However, a number of notable assets remain under offer which will likely help sustain the consistent positive sentiment seen already.

BAROMETER DEAL



Sears Retail Park, Solihull
Yield – 5.91%
Pricing - £70.5 million
Status – Exchanged
Comments – Starwood under offer to UK Institution



Ed Fitch
Head of Hospitality UK&I
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HOTELS

Market trends - The first quarter of 2025 has been marred by uncertainty coming out of the US, but in spite of this, private equity investors remain interested in the sector. Momentum remains for larger deals (portfolios and key gateways), however local investors appear more hesitant to invest given the turbulent state of the economy.

Dynamics - There has been a steady flow of smaller individual assets coming to market as some larger portfolios rationalise non-core parts of their estate. Private owner-operators remain active and well-capitalised but cautious citing economic uncertainty and the impact of UK Government tax rises on operating costs.

Outlook – Investment volumes are likely to be constrained in the first half of the year by an ongoing mismatch between buyers and sellers, particularly in the regions. Major London opportunities remain scarce and may be expected to attract a deep pool of capital given perceived fundamentals.

BAROMETER DEAL



Confidential Portfolio, Various UK Locations
Yield – P&C
Size – C. 3,000 Beds
Status – Sold
Comments – Value-add Operating Platform



Peter Farnes
Head of Healthcare Investment
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HEALTHCARE

Market Trends – So far in 2025 we have volumes of £854 million on the year to date, the largest of which was the Four Seasons Care Home sale. To date, 75% of the transactions have been undertaken by Healthcare Specialists, which shows their conviction to the sector. 66% of all transactions to date have been deployed from US capital which is showing no signs of slowing down.

Dynamics – The market as it stands is polarised, with the specialist investors looking to buy the best quality stock, looking for those A* assets with yields under 6.25%. At the other end of the market, large US based investors are looking for those value-add properties at the above 10% yield range. This leaves the mid-market as an opportunity for capital to deploy at 6.5% to 9.5%. We are seeing a number of potential take-private transactions with KKR potentially buying Assura and the US Care Trust REIT potentially purchasing the Care REIT.

Outlook – We will see the appetite for prime assets continue in both care homes and hospitals, but pricing and scale will be key. It remains to be seen how the US investors will react in the long term.

BAROMETER DEAL



Sherwood Grange Care Home, Kingston
Yield – P&C
Price – £14.2 Million
Status – Sold
Comments – Large leased portfolio of secondary care homes now under offer.



James Dunne
Head of Living
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BUILD-TO-RENT

Market Trends – In Q1 2025, BTR investment reached £1.1 billion, representing an 11% year-on-year increase. Despite the combined impact of cost of debt and rising construction costs on viability, investors are actively exploring diversified entry strategies. Joint ventures, in particular, are becoming a more prominent feature of the market.

Dynamics – The sector continues to attract increasing volumes of capital, with a focus on core-plus and value-add strategies. Core capital remains largely sidelined, as macroeconomic uncertainty and a series of external shocks have delayed key investment decisions. There has been a noticeable rise in the availability of operational assets in regional markets, demonstrated by recent launches such as L&G’s York & Elder in Brighton and LGIM’s Whitmore Collection in Birmingham.

Outlook – Development remains the primary route to market for many investors. However, the pipeline of operational assets is expected to grow in 2025. While elevated debt costs have been a barrier for core capital, improvements in the debt environment are anticipated to support its gradual return to the sector.

BAROMETER DEAL



Equipment Works, London
Yield – TBC
Price - £126 million
Status – Sold
Comments - 257 Homes



James Woolley
Head of Student Accommodation
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PBSA

Market Trends – Approximately £850 million has been transacted so far this year—below long-term averages but ahead of activity levels seen after the mini-budget. Around £2.5 billion worth of assets are currently being marketed, including Apollo’s £600 million portfolio, Sanctuary’s £500 million offering, as well as portfolios from Brookfield and Fusion.

Dynamics – Liquidity has improved, with a broader mix of capital sources including UK pension funds, institutional investors, and international capital. However, transaction timelines remain extended due to due diligence challenges, particularly those linked to the Building Safety Act, fire compartmentation, and cladding concerns. The proposed Renters Reform Act also poses a potential headwind for student accommodation. Nevertheless, key transactions continue to progress, including Rose Thorne and Barings’ £101 million acquisition of Spring Mews in Vauxhall and M&G’s £135 million forward funding deal with HG in Stratford.

Outlook– The outlook for the PBSA sector is more optimistic than last year, underpinned by a stronger occupational market and more realistic rental growth assumptions. Increased stock availability and diverse capital sources continue to support momentum.

BAROMETER DEAL

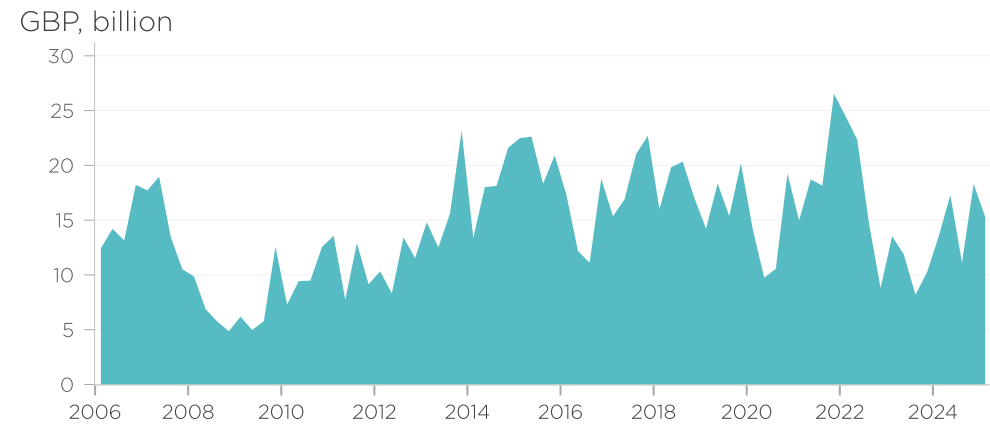


Project Wallace, Edinburgh & Glasgow
Yield – P&C
Price - £55.4 million
Status – Sold
Comments – Two-asset PBSA portfolio in Edinburgh (356 beds) and Glasgow (400 beds) in prime university locations.

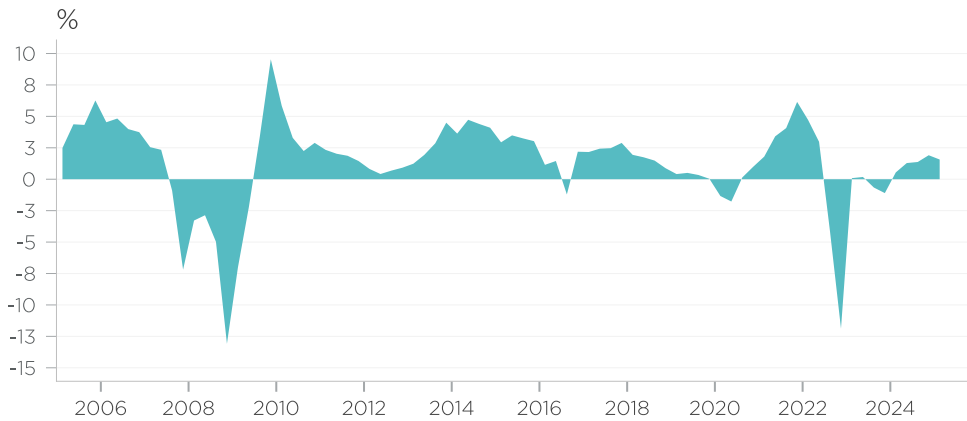
MARKET STATISTICS

Source: MSCI, Chatham Financial, Bank of England, Macrobond, Cushman & Wakefield

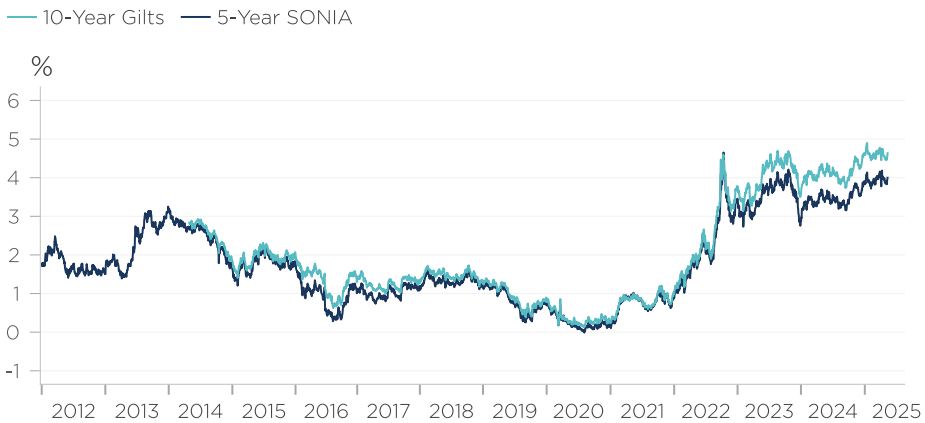
QUARTERLY INVESTMENT VOLUMES (BILLIONS)



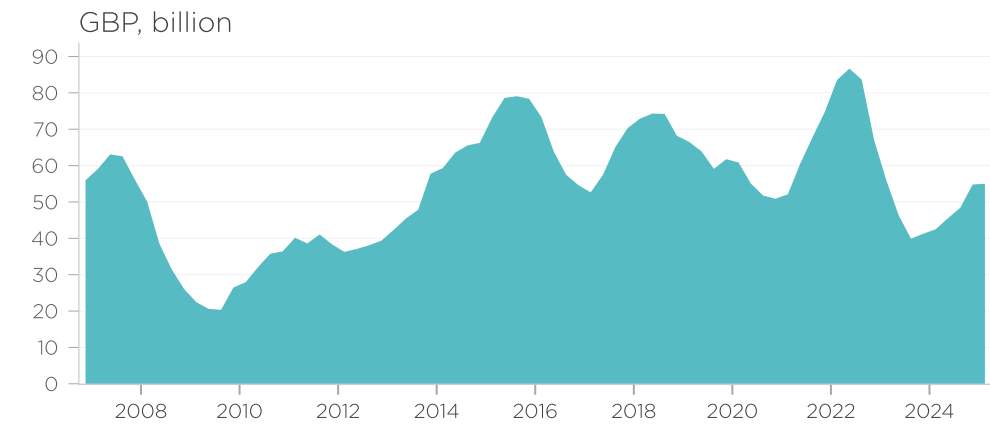
TOTAL RETURNS (%)



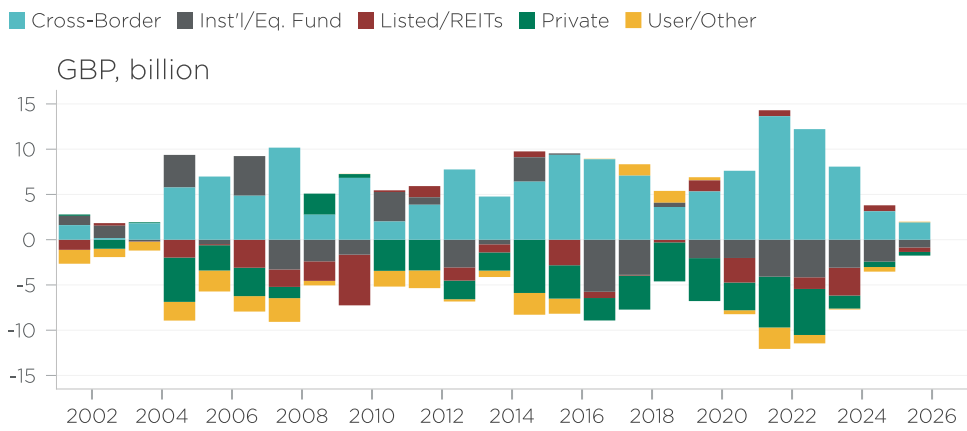
10 YEAR GILTS, 5 YEAR SONIA



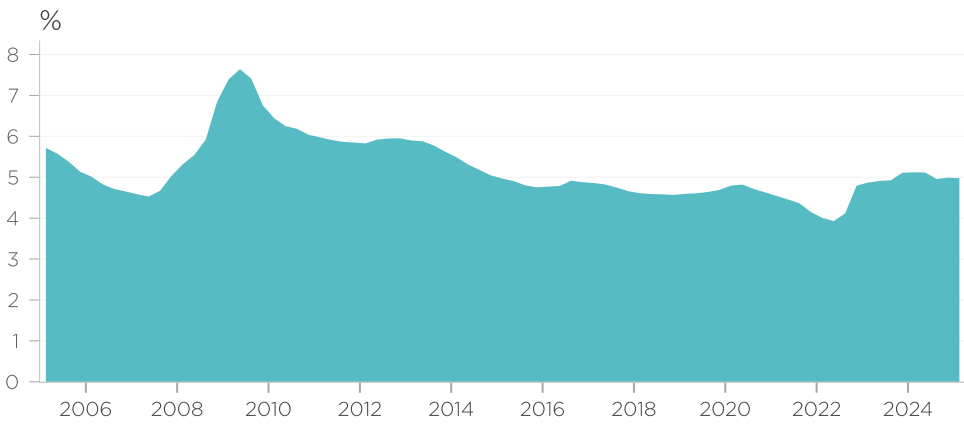
ROLLING ANNUAL INVESTMENT VOLUME (BILLIONS)



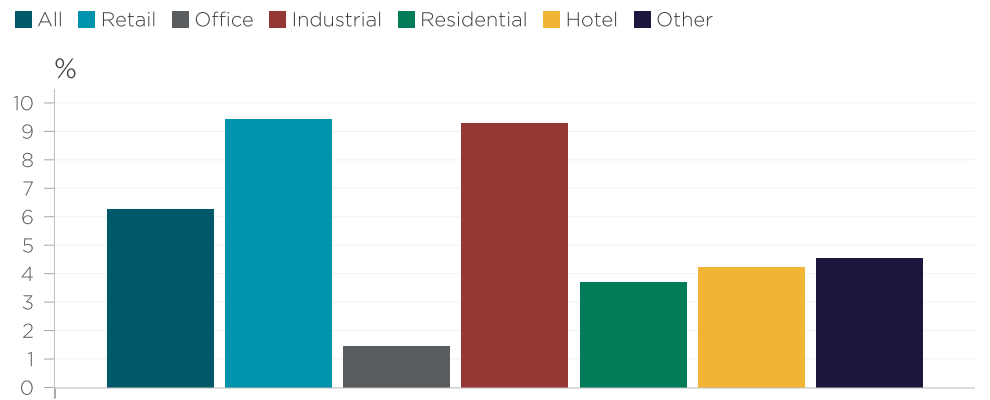
SOURCES OF CAPITAL



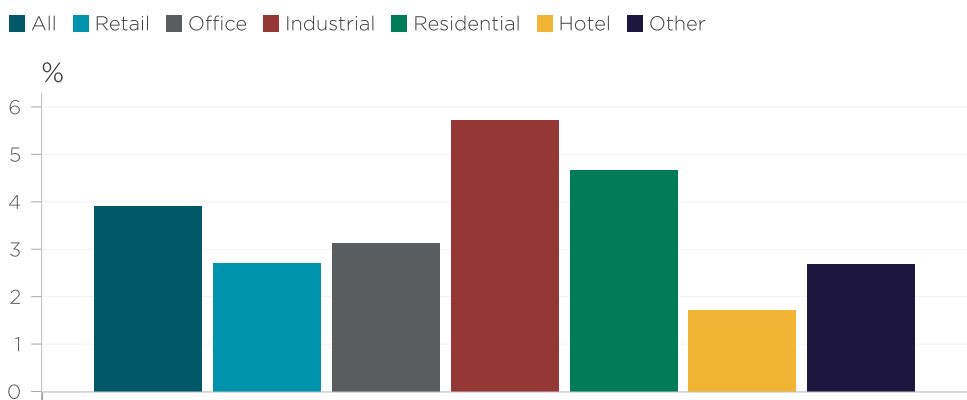
NET INITIAL YIELDS



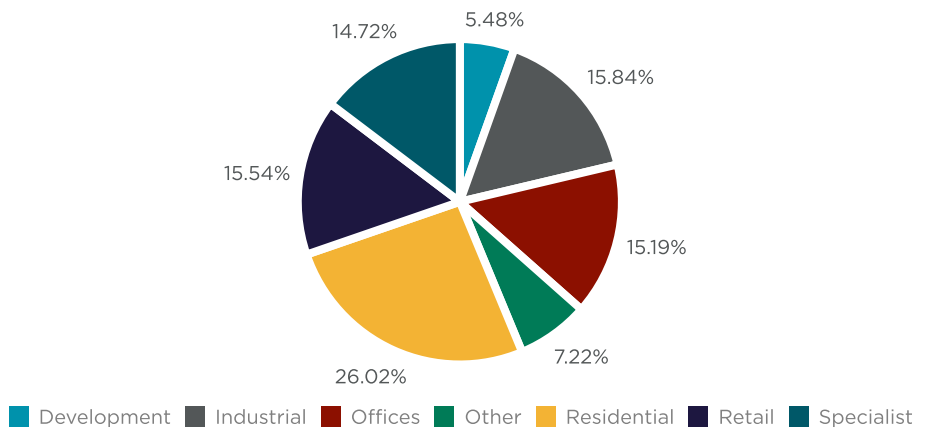
ANNUAL TOTAL RETURN BY SECTOR



ANNUAL AVERAGE RENTAL GROWTH BY SECTOR



ANNUAL INVESTMENT VOLUMES BY SECTOR



YIELD SCHEDULE

Sector	Previous Year	Previous Quarter	Previous month	Present	Annual Change (bps)	Quarterly Change (bps)	Monthly Change (bps)	
Sector	May 24	Q1 25	Apr 25	May 25		Q-to-Q		Outlook
Town Centre Retail								
Prime Retail Centres	7.00%	6.75%	6.75%	6.75%	-25 bps	0 bps	0 bps	Inwards
Secondary Retail Centres	10.50%	10.00%	10.00%	10.00%	-50 bps	0 bps	0 bps	Inwards
Prime London - West End	3.00%	3.00%	3.00%	3.00%	0 bps	0 bps	0 bps	Stable
Shopping Centres								
Regional	8.00%	7.75%	7.75%	7.75%	-25 bps	0 bps	0 bps	Inwards
Sub-Regional	11.00%	11.00%	11.00%	11.00%	0 bps	0 bps	0 bps	Inwards
Local	12.00%	12.00%	12.00%	12.00%	0 bps	0 bps	0 bps	Inwards
Retail Warehouses (Greater London and SE in brackets)								
Prime Open A1 Retail Park	5.75%	5.25%	5.25%	5.25%	-50 bps	0 bps	0 bps	Inwards
Prime Bulky Park	6.25%	5.75%	5.75%	5.75%	-50 bps	0 bps	0 bps	Inwards
Prime Supermarkets (RPI linked)	5.00%	4.75%	4.75%	4.75%	-25 bps	-10 bps	0 bps	Inwards
Prime Solus (Bulky)	6.50%	5.75%	5.75%	5.75%	-75 bps	-25 bps	0 bps	Inwards
Prime Leisure Parks	8.75%	8.25%	8.25%	8.25%	-50 bps	0 bps	0 bps	Inwards
Multi-Let Industrial								
Prime Greater London	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Inwards
Prime South East	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Inwards
Prime Regional	5.25%	5.25%	5.25%	5.25%	0 bps	0 bps	0 bps	Inwards
Distribution Warehousing								
Prime Long Income	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Inwards
Prime Medium Income	5.50%	5.50%	5.50%	5.50%	0 bps	0 bps	0 bps	Inwards
Prime Short Income	6.00%	5.75%	5.75%	5.75%	-25 bps	0 bps	0 bps	Inwards
In Town Offices								
Greater London	7.00%	6.75%	6.75%	6.75%	-25 bps	0 bps	0 bps	Stable
Prime City Offices	5.75%	5.75%	5.75%	5.75%	0 bps	0 bps	0 bps	Stable
Prime West End Offices	4.00%	4.00%	4.00%	4.00%	0 bps	0 bps	0 bps	Stable
Prime M25	7.25%	7.00%	7.00%	7.00%	-25 bps	0 bps	0 bps	Stable
Prime Regional	7.00%	6.50%	6.50%	6.50%	-50 bps	-25 bps	0 bps	Stable
Out of Town Offices								
Prime South East	8.25%	8.00%	8.00%	8.00%	-25 bps	-25 bps	0 bps	Stable
Prime Regional	9.25%	9.00%	9.00%	9.00%	-25 bps	-25 bps	0 bps	Stable

Sector	Previous Year	Previous Quarter	Previous month	Present	Annual Change (bps)	Quarterly Change (bps)	Monthly Change (bps)	
Sector	May 24	Q1 25	Apr 25	May 25		Q-to-Q		Outlook
Co-living								
Greater London	4.75%	4.50%	4.50%	4.50%	-25 bps	0 bps	0 bps	Stable
Prime Regional	5.75%	5.00%	5.00%	5.00%	-75 bps	-25 bps	0 bps	Stable
Build to Rent								
Prime London - West End	3.75%	4.00%	4.00%	4.00%	0 bps	0 bps	0 bps	Stable
Greater London	4.25%	4.50%	4.50%	4.50%	0 bps	0 bps	0 bps	Stable
Prime Regional	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Stable
Hotels								
Prime London Fixed Income	4.75%	4.25%	4.25%	4.25%	-50 bps	0 bps	0 bps	Stable
Prime Regional Fixed Income	5.50%	5.00%	5.00%	5.00%	-50 bps	0 bps	0 bps	Stable
Prime London Trading	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Stable
Prime Regional Tradting	8.00%	8.00%	8.00%	8.00%	0 bps	0 bps	0 bps	Stable
Life Sciences								
Golden Triangle	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Inwards
Regional Centres	6.25%	6.25%	6.25%	6.25%	0 bps	0 bps	0 bps	Stable
Care Homes								
Prime	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Stable
Prime SPV	5.75%	5.75%	5.75%	5.75%	0 bps	0 bps	0 bps	Stable
Medical								
Prime	4.50%	4.50%	4.50%	4.50%	0 bps	0 bps	0 bps	Stable
Secondary	5.75%	5.75%	5.75%	5.75%	0 bps	0 bps	0 bps	Stable
Student Accommodation								
Prime London	4.00%	4.00%	4.00%	4.00%	0 bps	0 bps	0 bps	Stable
Greater London	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Stable
Prime Regional	5.25%	5.25%	5.25%	5.25%	0 bps	0 bps	0 bps	Stable
Self Storage								
Primary	5.00%	4.75%	4.75%	4.75%	-25 bps	0 bps	0 bps	Stable
Secondary	6.00%	6.00%	6.00%	6.00%	0 bps	0 bps	0 bps	Stable
Tertiary	7.00%	7.00%	7.00%	7.00%	0 bps	0 bps	0 bps	Stable



MARKETBEAT INVESTMENT

MAY 2025

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