



CLUTTONS

UK Commercial Market Update April 2025



UK Economic Indicators

- Having reduced the Bank Rate from 4.75% to 4.5% at its February meeting, the Bank of England Monetary Policy Committee (MPC) voted to maintain **Bank Rate** at 4.5% at its latest meeting on 20 March 2025. Further cuts to the base rate are likely this year, with latest consensus forecasts implying the most likely outcome is a base rate reduction of 50 to 75 basis points by Q4 2025.
- Although the rate of inflation fell in February, this is likely to prove temporary, with **Consumer price inflation** (CPI) forecast to rise further above target in the coming months (and a probable peak of around 3.7% in Q3). The numbers remain elevated compared to the headline 2.0% target rate.
- **Gilt yields** remain volatile against a background of rapidly evolving global concerns. 10 years gilt yield are now at 4.7%, down from a January peak close to 5%, but markedly higher than the circa 4% seen at this time last year. The five-year swap rate has dipped back below 4%, in line with its level 12 months ago. This indicates market confidence that the path of base rate remains firmly downwards.

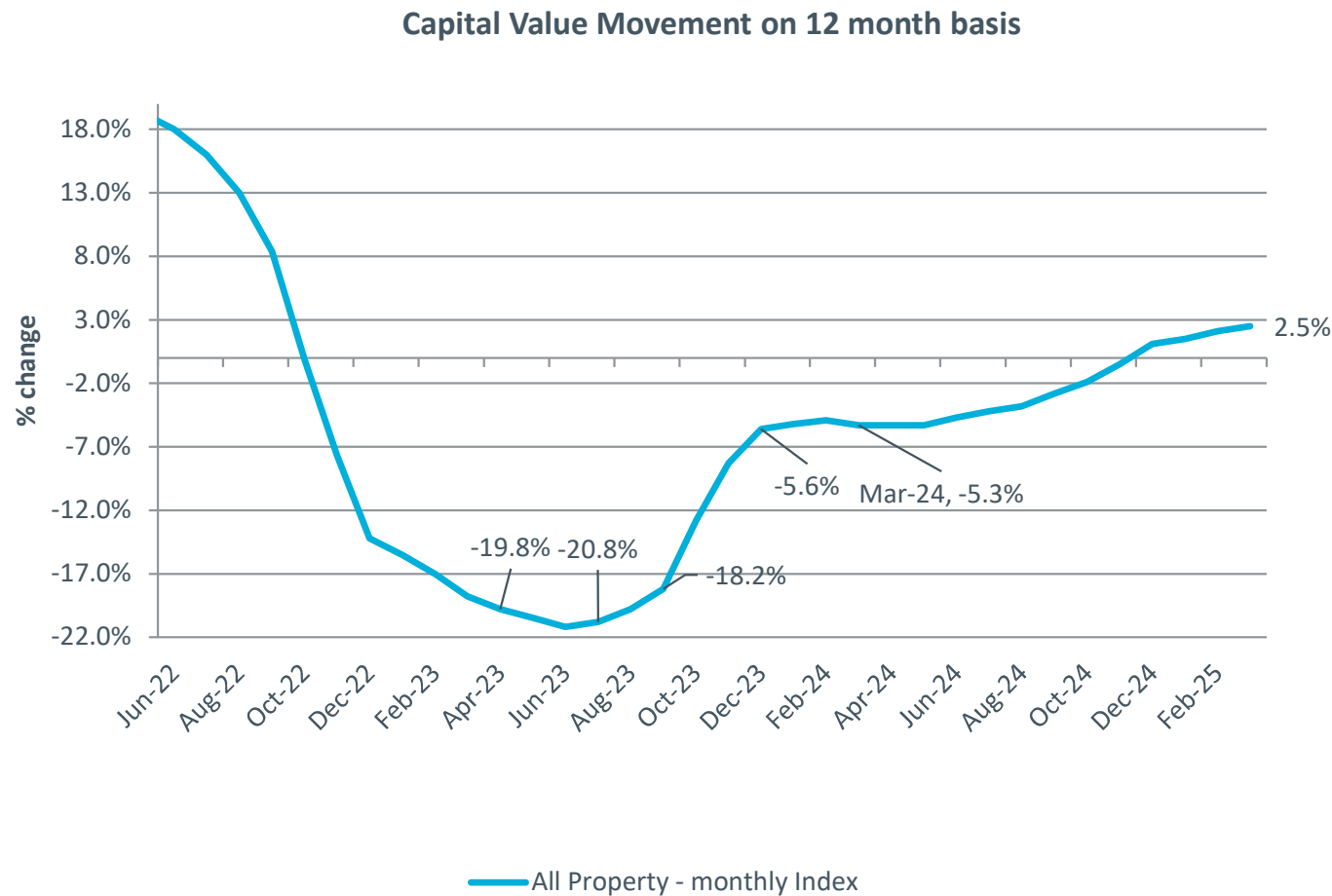
FINANCIAL	Mar-24	Sep-24	Mar-25
BANK OF ENGLAND BASE RATE	5.25	5.00	4.50
10 YEAR GILTS	4.11	3.91	4.68
30 YEAR GILTS	4.55	4.44	5.22
INFLATION - RPI	4.9	3.6	3.6
INFLATION - CPI	3.2	1.7	3.0

UK Commercial Market Outlook

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- According to MSCI, average commercial property values edged upwards by 0.3% in March, taking the cumulative recovery to 2.5% since last April. Nonetheless, average values are still 23.2% below their June 2022 peak, despite rental values increasing by 10.2% over the same period.
- All Property capital values rose by 2.5% over the last 12 months (to March 2025) as Retail capital values improved by 3.9%. Office capital values continued to fall by -3.1% while Industrial values showed the strongest performance at 5.1%.
- Retail Parks have been the strongest performing sub-sector over the last 12 months, with capital growth of 6.6%. After many years of decline shopping centre values have edged higher year-on-year (2.9%), as have supermarkets (1.7%). Shop values are still down -1.9% year-on-year but have shown possible signs of stabilisation in recent months.
- Capital values in the office sector are down by 3.1% year-on-year on average, but the rate of decline has moderated quite materially. In the most recent three-month period, office values in parts of the outer South East (+1%) and the West End of London (+0.6%) have edged upwards.
- London continues to attract the lion's share of cross-border funds flowing into the country, thanks to its scale and liquidity. London investment volumes averaged £11.4 billion in 2024, with foreign buyers behind 39% of activity.
- While the South East remains the preferred region for investment outside London, owing to its dynamic economy and proximity to the capital, changing investor preferences have allowed other regions to catch up. Spending across the UK's other regions in 2024 amounted to £17.3 billion.
- Tariffs have increased the downside risks to our outlook for the rest of 2025. With the exception of some industrial assets, commercial property in the UK is not directly impacted by the higher tariffs announced by President Trump. We think the UK will outperform the euro-zone over the next few years and this is reinforced by the lower exposure to tariffs there.

UK Market performance



TOTAL RETURN
(12m to Mar 2025)

- **+8.5%**

CAPITAL GROWTH (12m to Mar 2025)

■ **+2.5%**

RENTAL GROWTH (12m to Mar 2025)

- **+3.4%**

INCOME RETURN (12m to Mar 2025)

■ **+5.9%**

Source: MSCI Monthly Index

UK Property Investment Yields

RETAIL	Mar-24	Sep-24	Mar-25	Trending	Comments
PRIME SHOPS	7.00+	6.75	6.50	Stable	Improving demand for best let, quality assets. Some prime deals for smaller lots at 6.00-6.25%.
SECONDARY SHOPS	8.50-9.00	8.00-10.00	7.50-9.50	Stronger	
RETAIL WAREHOUSE	Mar-24	Sep-24	Mar-25	Trending	Comments
PRIME PARKS (Open A1/food store)	6.00	5.75	5.25	Stronger	
PRIME - SOLUS (15yrs/10yrs)	6.00-6.25 / 6.50-6.75	6.00 / 6.50	6.00 / 6.50	Stable	
SECONDARY - SOLUS	7.50-8.00	7.50-7.75	7.50-7.75	Stable	Several Homebases bought by Discount supermarkets or B&M/Home Bargains etc
SUPERMARKET	Mar-24	Sep-24	Mar-25	Trending	Comments
SUPERMARKETS - RPI 5 yearly RRs (15 yrs)	5.25-5.50	5.25-5.50	5.00-5.25	Stronger	
SUPERMARKETS - OMRV RRs (15 yrs)	6.00-6.50	6.00-6.50	5.75-6.25	Stronger	Higher yields for Morrisons & Asda
INDUSTRIAL	Mar-24	Sep-24	Mar-25	Trending	Comments
PRIME DISTRIBUTION SHEDS -OMRV	5.25-5.50	5.25-5.50	5.25	Stronger	5 yrly Indexed income -25bp. Annual index -50 bp keener;
SECONDARY DISTRIBUTION SHEDS	6.00	6.00-6.25	6.00-6.25	Stable	Investors keen on short income & refurbishment
PRIME INDUSTRIAL WITHIN M25	4.75-5.00	4.75-5.00	4.75	Stronger	Capital chasing best assets. Outlook remains positive
PRIME INDUSTRIAL SOUTH EAST	5.00-5.25	5.00-5.25	5.00	Stable	
PRIME INDUSTRIAL REGIONAL	5.50-6.00	5.50-6.00	5.25-5.75	Stable	
SECONDARY INDUSTRIAL ESTATE	6.50-7.25	6.50-7.25	6.50-7.25	Stable	
OFFICES	Mar-24	Sep-24	Mar-25	Trending	Comments
CITY OF LONDON PRIME	5.50-5.75	5.50-5.75	5.25-5.50	Stable	Higher yields say 5.75% for lots >£50m
CITY FRINGE (e.g. Old Street, Clerkenwell)	6.00-6.50	6.00-6.50	6.00-6.50	Stable	
WEST END PRIME (e.g. Mayfair/St James's)	4.00-4.25	4.00-4.25	4.00-4.25	Stable	Higher yields for Soho/Fitzrovia
M25/THAMES VALLEY PRIME	7.25-7.50	7.50	7.50-8.00	Weaker	For 10 yrs income. . Virtually a hypothetical yield. Add +100bp for multi-let;
M25/THAMES VALLEY SECONDARY	11-15.00	9.00-15.00	9.00-15.00	Weaker	
REGIONAL OFFICES PRIME	6.50-7.00	6.75-7.00	7.00-7.25	Stable	Add +100bp for multi-let with AWULT 5 years.
REGIONAL OFFICES SECONDARY	11.00+	11.00+	11.00+	Weaker	

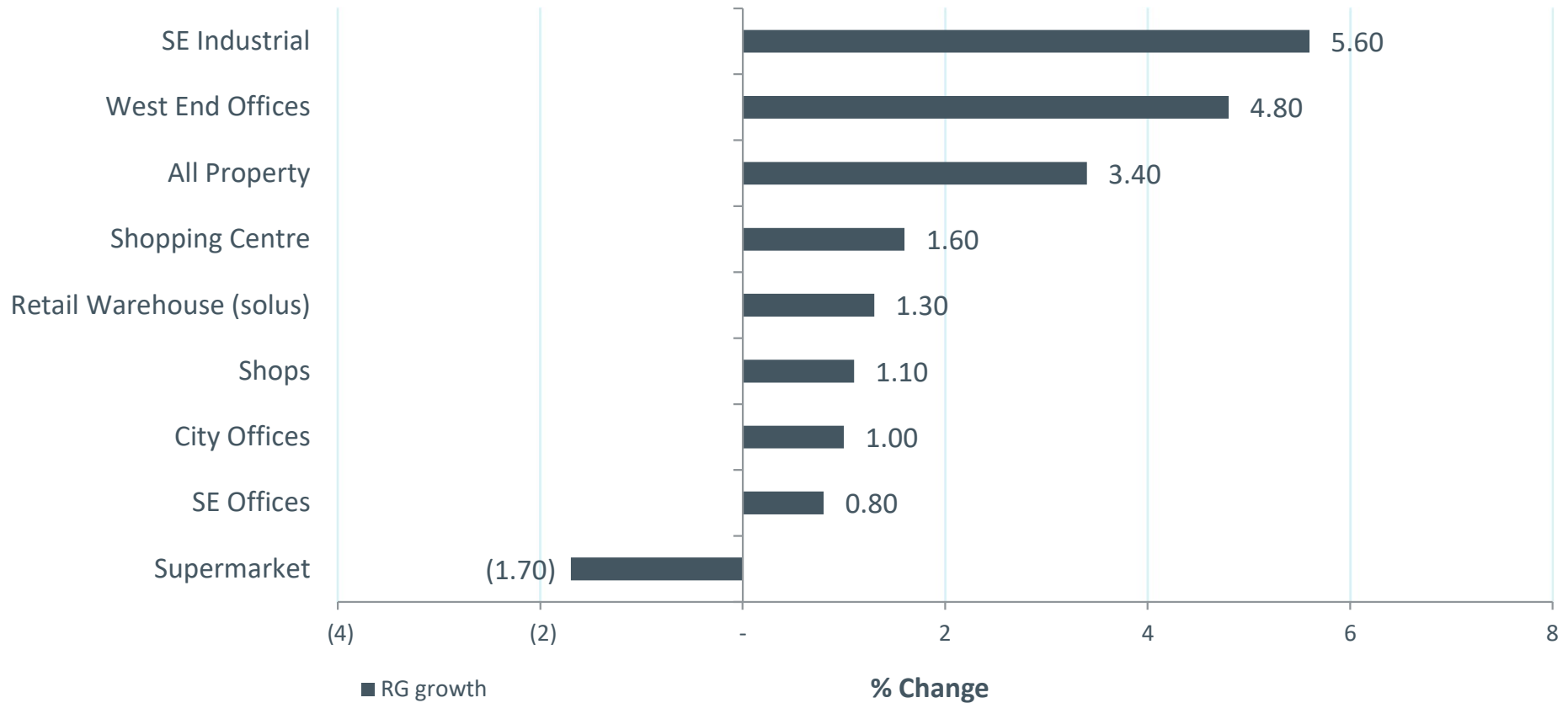
This is an indicative yield guide as at 5 March 2025

Prime yields refer to an equivalent yield for a "best in class" (i.e. well specified, well located and rack rented) property, let to a financially strong tenant(s)

UK Sector performance 2025 – rental growth (12m)

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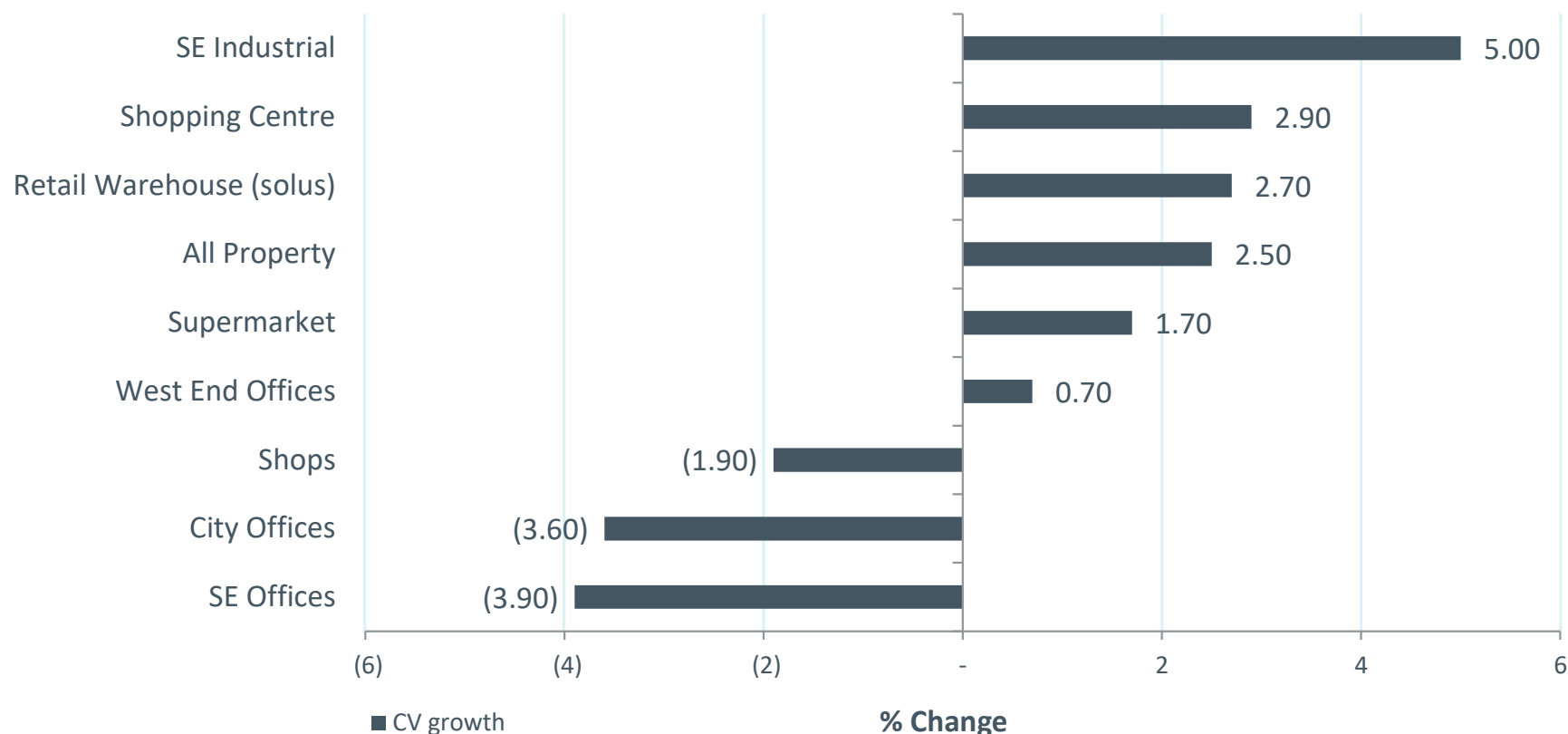
MSCI UK Monthly - Rental Growth 12m to March 2025



Source: MSCI Monthly Index

UK Sector performance 2025 – capital growth (12m) ⁷

MSCI UK Monthly - Capital Growth 12m to March 2025



According to MSCI, Retail Warehouses have been the strongest performing sub-sector over the last 12 months, with capital growth of 5.7%. The recovery in Industrial values picked up pace towards the end of 2024, and annual growth of SE Industrials reached 5.0% in March. Capital values in the office sector are down by -3.1% year-on-year on average, but with wide variations across the UK.

Source: MSCI Monthly Index

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