



WATLING 

PROPERTY MARKET REVIEW

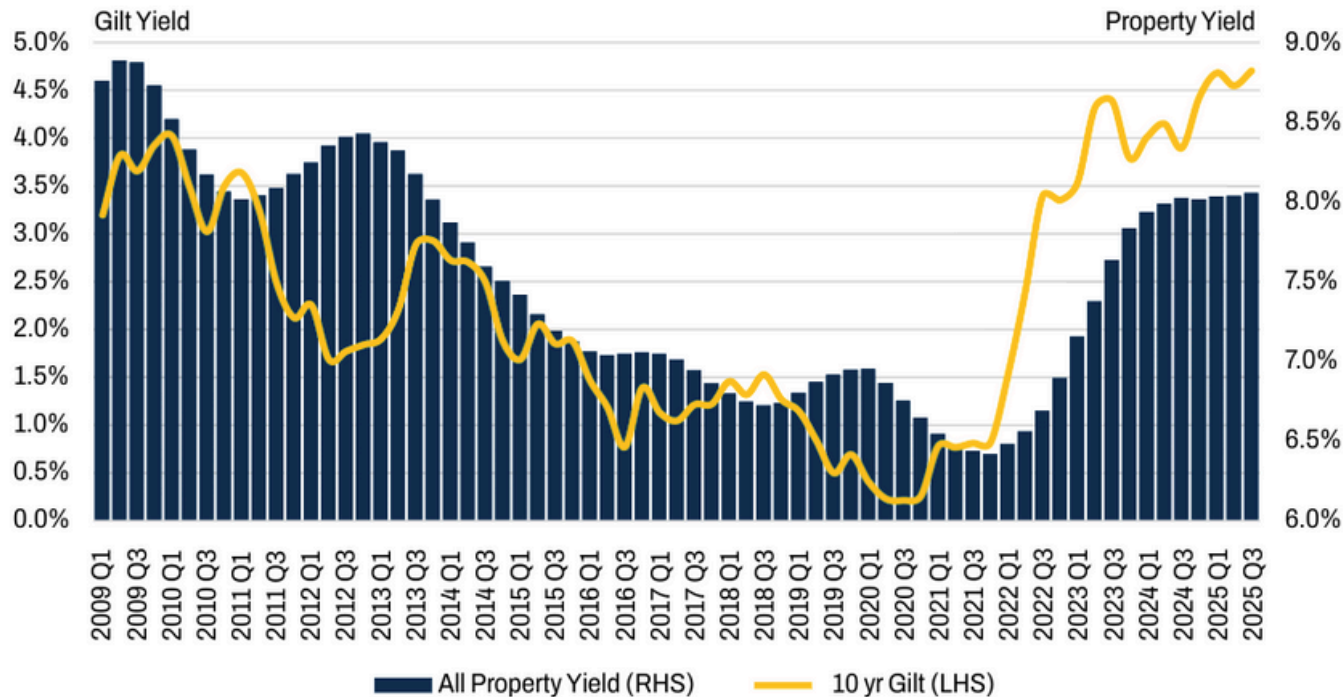
Focused for Insolvency Practitioners and Business Support professionals dealing with Real Estate assets across the UK

Q3 2025

MARKET OVERVIEW

Low level of activity obscures pricing in a market dominated by lack of confidence

All Property Yield vs UK 10 yr Gilt



Source: DMO, CoStar, Watling Real Estate

- Rising gilt yields have put upward pressure on real estate in recent years, compounding investor concerns over the prospects for the underlying market, particularly in the office sector. 10-year Gilt yields are around their highest for 20 years, at levels last seen at the height of the financial crisis in 2007/8.
- Property yields have been rising since the end of the Covid pandemic, when surging inflation and rapid increases in interest rates hit real estate values hard. Market averages conceal the sharp differentiation between “prime” properties and “the rest”, particularly in the office and retail sectors where poorer quality secondary and tertiary properties are now seeing little or no demand from occupiers or investors.
- The apparent stability in yields over the last 18 months is more a reflection of inertia rather than genuine equilibrium, with transaction levels remaining low. With limited true distress apparent amongst owners of prime properties, they are unwilling to sell at prices investors are prepared to pay - with buyers currently lacking the confidence to increase their bids.

WATLING VIEW

In contrast to the glorious weather that the UK experienced this summer, the economic and real estate climate has been distinctly cool. The inertia that has characterised the commercial property market for the last year or so seems likely to persist for a while yet, although we still believe the preconditions for a revival are largely in place.

Occupier demand is improving across many areas of the market, with rents at least stable and generally improving for most better quality properties. This is despite the relatively weak state of the economy, which has continued to slow since the start of the year.

Above all, investors are lacking in confidence. This undoubtedly stems from the uncertainty which is dominating the global geopolitical environment. The conflicts in Ukraine and the Middle East continue to escalate and trade tensions remain elevated. In the UK, concerns over government spending are impacting sterling and pushing up gilt yields. Businesses are under pressure from increases in National Insurance and the minimum wage, and the Budget – which will not take place until late November – is expected to bring further tax increases for companies and consumers alike. Inflation remains high and is still rising; the Bank of England will be cautious about further cuts this year.

Once it starts to turn, investor sentiment will improve very quickly. At some point transaction levels and values will pick up sharply, but for now it seems more likely that the current slowdown will last through the autumn at least, with yields remaining under upward pressure.

0.2%

UK GDP growth in the 3 months to July

3.8%

Inflation rate, year to July (highest since January 2024)

4.0%

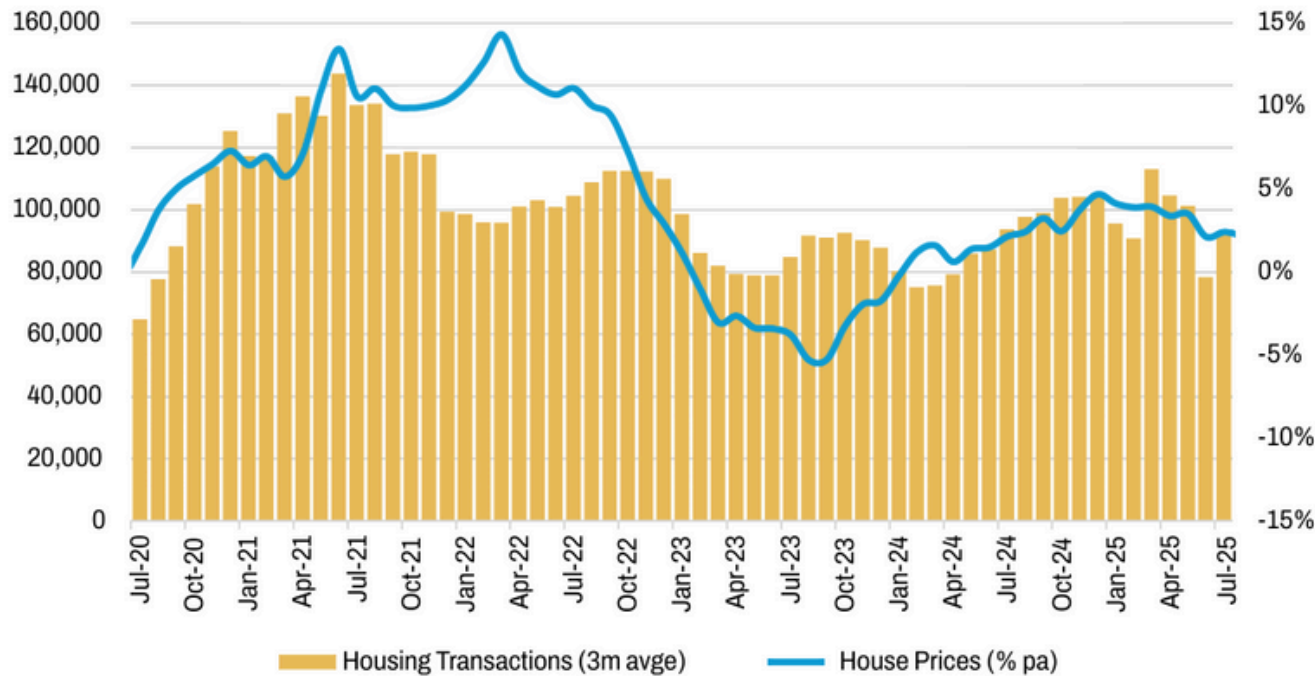
BoE Interest Rate (since August 2025; Sept unchanged)

RESIDENTIAL

Activity and growth slowed over the summer as buyers battle a climate of uncertainty

WATLING VIEW

UK House Prices and Residential Transaction Volumes



Sources: ONS, Nationwide HPI

- ▶ Understanding activity this year has been complicated by the Stamp Duty increases introduced in April. March saw the highest monthly level of transactions since 2006, followed by a lull before activity picked up a little in July.
- ▶ House price growth remains in positive territory on an annual basis, but the monthly figures have been volatile since the start of this year. Rises of around 0.5% one month have typically been followed by similar or larger declines the next. Overall, house prices fell by 0.4% in the 3 months to the start of September, according to Nationwide.
- ▶ The average interest rate on outstanding fixed rate mortgages is currently around 3.8%, almost double the level at the start of the decade. The average variable rate has risen from 2.5% to just below 6% over the same period. Whilst variable rates should trend downwards as interest rates continue to fall, financing costs continue to impact market activity.

The residential market continues to mirror the broader trends in the economy, characterized by a degree of volatility in an uncertain environment. After the March surge in activity to beat the Stamp Duty increases, transaction volumes slowed over the summer. There is no shortage of properties on the market, but buyers remain cautious. Prices remain in positive territory, but the rate of growth has slowed.

With two interest rate cuts already this year and widespread expectations they have further to fall, mortgage rates are well below their peak. Affordability has improved, but purchasers are still nervous given that inflation remains uncomfortably high, interest rate cuts are far from guaranteed and household budgets are generally under pressure. The lacklustre performance of the UK economy coupled with wider geopolitical upheavals have created a climate of uncertainty which is dampening sentiment and activity.

Activity looks set to remain subdued for the remainder of the year, but the preconditions for a more sustained recovery are in place for when confidence improves. There is undoubted demand in the market waiting to be unleashed, and mortgage approvals have started to pick up. Income growth has been outstripping house prices for a while, which with further falls in mortgage rates will start to drive buyer activity. However, residential development remains highly challenging, and the recovery we anticipate may not arrive quickly enough to help many of the developers struggling with scheme viability.

2.1%

House price growth in the year to August according to Nationwide

4.98%

Average 2-year fixed mortgage rate in August, down from 5.52% in February

5%

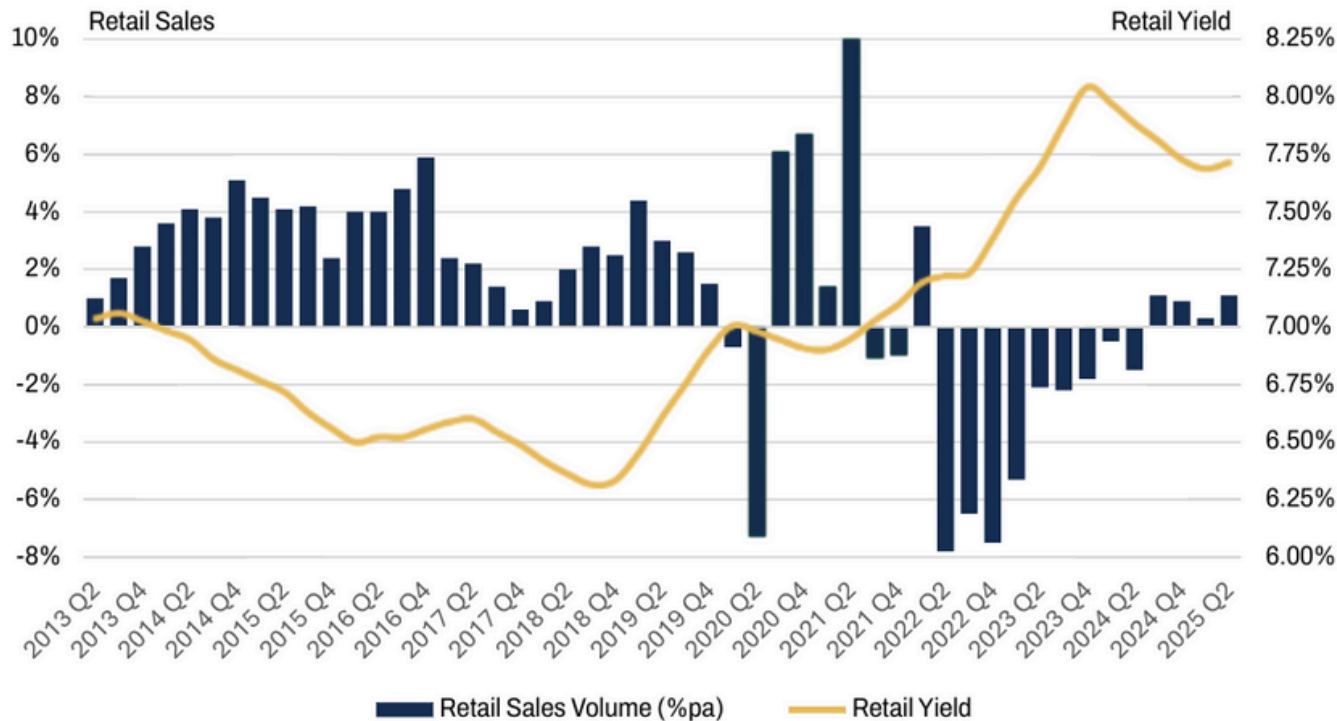
Increase in mortgage approvals in July vs 2024

RETAIL

Solid performance in core locations suggests opportunities could emerge

WATLING VIEW

Retail Property Yield and UK Retail Sales Volumes



Source: CoStar

The retail sector has been under pressure from numerous well documented challenges in recent years, but in many areas the market is seeing something of a resurgence. Numerous fashion, fast food and particularly convenience foodstores are expanding rapidly. Strong market towns, larger cities, regional shopping centres and the better out-of-town locations are seeing healthy demand. In some locations, high street units coming available are going to “best bids” and rents are under upward pressure.

That said, the difference between the best and the rest has never been greater. The definition of prime locations has tightened, and even larger cities are seeing activity concentrate into a handful of strong shopping centres at the expense of the surrounding high streets. Secondary pitches and smaller towns that lack “character” appeal are seeing virtually no demand, with few alternative uses appearing viable. The food and beverage sector is under particular pressure, with consumer spending under pressure at the same time as wage costs are rising due to the increases in minimum wages and National Insurance.

High interest rates, inflation and the fear of tax increases continue to worry consumers. But whilst more distress within the sector appears likely, so too is a recovery at the boundary of current prime locations. As and when the economy improves and spending picks up, the opportunities to create value in the better secondary pitches will increase.

14.5%

UK insolvencies in 2025 that came from the wholesale and retail sector (second only to construction at 16%)

0.8%

Retail sector total return in June, the highest in any sector, according to CBRE. Continuing the 2025 theme of capital and rental growth

0.6%

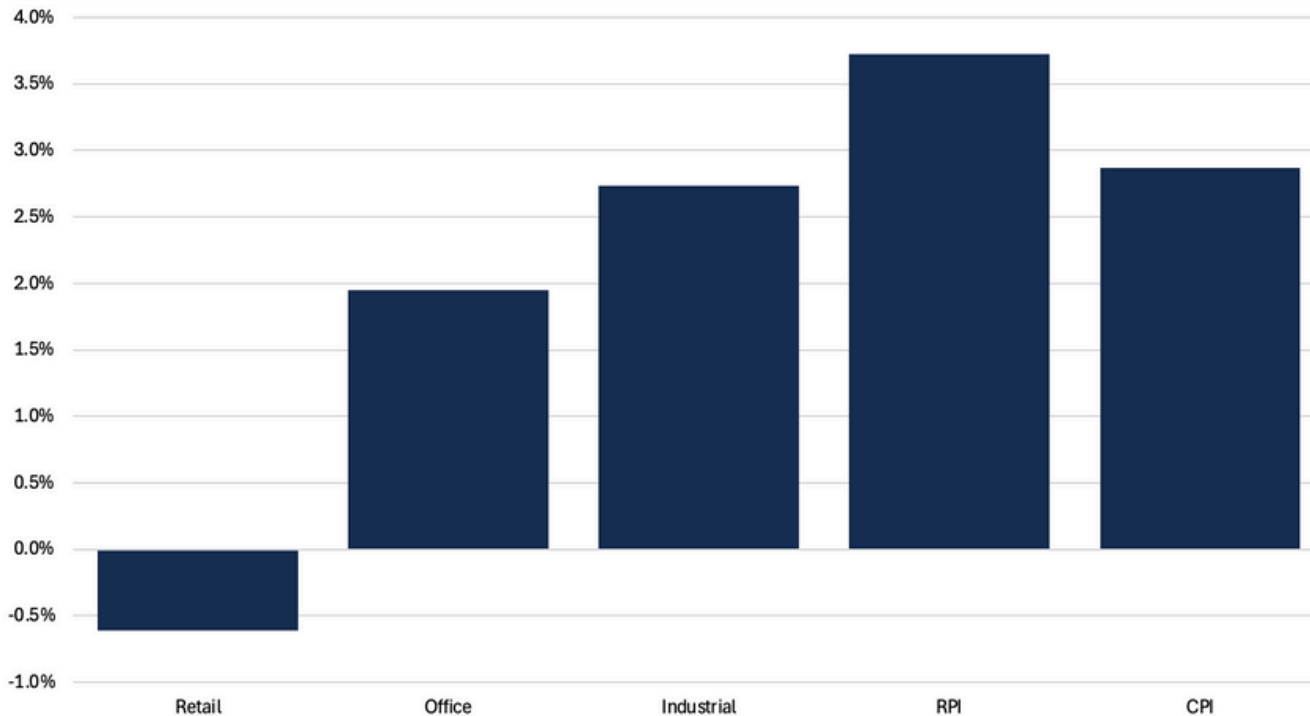
Non-food store sales growth in July, driven by good weather and the Women’s Euros

- ▶ Despite the impact of online retail, yields recovered through the last decade as the economy picked up, driven in part by the ultra-low interest rate environment that followed the Financial Crisis.
- ▶ Yields began to rise sharply after the onset of the Covid pandemic, with the majority of the bounce back in sales volumes due to online activity. The subsequent rise in inflation and interest rates drove up bond yields, which put upward pressure on retail yields at a time when sales volumes saw a protracted decline.
- ▶ Despite the recovery since the start of 2024, overall sales volumes remain below pre-pandemic levels. The recent falls in retail yields partly reflects the low level of transactions, but those which have been sold are generally the better quality properties where occupier demand is strong, trading is healthy and rents are moving upwards. This is encouraging investors back into the sector, but only very selectively.

RENT REVIEW REFORM

The proposed abolition of upward only rent review lease clauses may have unintended consequences

Market Rental Growth and Inflation, 20 Year Average



Source: MSCI, Carter Jonas Research

- ▶ A shift to more widespread use of indexation of rents to the Retail (RPI) or Consumer (CPI) Price Index would be a likely impact of a ban on upward only rent reviews.
- ▶ Whilst still meaning that rents could fall over any given period of years, the evidence of the last 20 years is that tenants with indexed rents would see higher rental increases across the market as a whole.
- ▶ In the absence of “cap & collar” clauses, indexed rents would have been even higher in the inflationary period we have seen over the last five years, when CPI and RPI averaged 4.6% and 6.2% respectively, well above market rental growth.
- ▶ However, evidence from Ireland was that alternative review clauses were less widely adopted than anticipated, with the majority of the market simply adjusting to the new “upward and downward” market reviews.

WATLING VIEW

The Government’s Bill proposing a ban on upward only rent reviews has triggered an outpouring of concern about the potential impact on the market. It is intended to help retailers and small businesses, but the biggest impacts are likely to be felt elsewhere.

Last year, half of all new leases signed in the MSCI portfolio – which is skewed towards larger institutional properties – were for less than five years. Shorter leases, more frequent break clauses and alternative rental structures such as indexation are already a feature of the market. We would expect to see a further increase in these different structures should a ban on UORR clauses come into effect. Fixed rental uplifts would still be permitted, although it is unclear exactly whether “cap & collar” terms would be allowed to limit any decrease.

Evidence from Ireland, where a similar ban was introduced in 2010, suggests that after a period of adjustment, during which there will be a 2-tier market and upward pressure on yields, the market will find a new equilibrium with little major disruption. Development finance for larger schemes, where longer lease lengths are more common, could become more expensive. Lenders will need a greater focus on the risk associated with market cycles if a borrower’s income is more vulnerable to a reduction, with tighter ICRs and lower LTVs a possible result.

The biggest impact could come from the way the Bill was introduced without any warning or consultation, raising fears about what other surprises this Government may be prepared to spring on the property sector.

45%

Proportion of MSCI retail and office leases signed in 2024 that were longer than 5 years

24%

Percentage of logistics leases signed from 2021-2023 with “hybrid” reviews to the greater of market rent or indexation

April 2026

Business Rate revaluation, with rises in rates expected for the vast majority of occupiers adding further cost pressures



WATLING 

LONDON

80 Coleman Street, London EC2R 5BJ

BIRMINGHAM

75/77 Colmore Row, Birmingham, B3 2AP

LEEDS

One, The Embankment, Neville Street, Leeds, LS1 4DW

MANCHESTER

Tootal Buildings, 56 Oxford Street, Manchester, M1 6EU

BRISTOL

17-19 Berkeley Square, Bristol, BS8 1HB

WATLING.COM

Watling Real Estate Limited registered in England and Wales number 12274226. Registered office, 80 Coleman Street, London EC2R 5BJ. Regulated by the RICS.

This brochure has been prepared by Watling for general information purposes only. Whilst Watling endeavours to ensure that the information in this brochure is correct it does not warrant completeness or accuracy. You should not rely on it without seeking professional advice. Watling assumes no responsibility for errors or omissions in this publication or other documents which are referenced by or linked to this brochure. To the maximum extent permitted by law and without limitation Watling excludes all representations, warranties and conditions relating to this brochure and the use of this brochure. All intellectual property rights are reserved and prior written permission is required from Watling to reproduce material contained in this brochure.