



## Top Five

- The softness in world trade through the year has been largely due to the reversal of early tariff front-running. The latest data show that world trade has not collapsed in the wake of renewed tariffs, albeit that an underlying slowdown remains in prospect. With inflationary pressures easing, monetary policy is set to loosen across the developed world, including in the US.
- After a weak start to the year, Central London office take-up recovered in Q2, up 28% on Q1 and marginally higher than a year earlier. But that left the four-quarter mean around the level it has been since the end of 2023 and below the pre-pandemic average. Around 6.8m sq. ft. of London office space has been or is planned to complete in 2025 with 5.8m sq. ft. more in 2026, though the pipeline is less full beyond.
- Regional office take-up was 1.6m sq. ft. in Q2, a sharp decrease on Q1. But overall H1 demand was its strongest since 2019 and ahead of the 10-year average. Cities significantly outperforming included Bristol, Manchester and Newcastle. Despite solid take-up, availability in the Big Nine has increased further over the past three months to exceed the highest levels in almost a decade.
- Retail vacancy across the Prime West End saw an increase in Q2, but remains exceptionally tight compared with the long-term average. This limited supply is translating into strong rental growth. Logistics take-up totalled 6.7m sq. ft. in Q2, the highest level in a year. But recent underlying activity is more in line with pre-pandemic occupier demand than the elevated rates between 2020-22. And solid demand has not prevented a steady rise in availability.
- Outside Central London, office investment remained weak in Q2, standing at roughly half its trend levels at just £600m. By contrast, shopping centre activity rebounded in Q2 and was 24% above the five-year quarterly average. Figures may improve in Q3 too, with several centres under offer and with the potential sale of the Intu stake in the Manchester Arndale.

## 1. Economic Overview

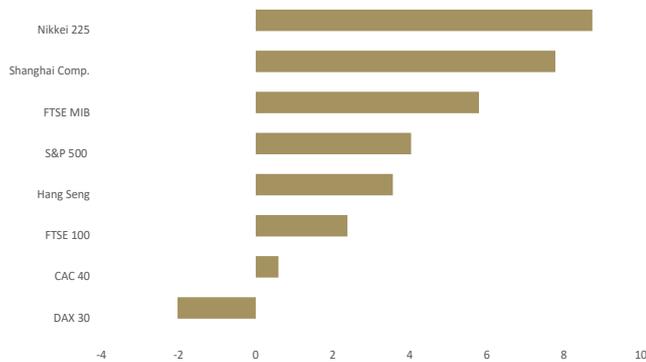
The softness in world trade through this year has been largely due to the reversal of early tariff front-running. But the latest data show that world trade has not collapsed in the wake of renewed tariffs, albeit that an underlying slowdown remains in prospect. In fact, PMIs suggest that the outlook for global industry has improved somewhat. Surveys indicate easing price pressures at least outside the US. Subdued inflation should allow most central banks to continue cutting interest rates in the coming quarters.

US GDP growth rebounded strongly in Q2, driven primarily by a large, positive swing in net trade and reversal in inventory growth as pre-tariff stockpiling unwound. Employment growth is slowing, but weaker labour force growth with the migration crackdown means any rise in the unemployment rate should be limited. With investment and consumer spending holding up, GDP growth will slow to 2.0% this year and stay close to this over the medium term, which would be relatively weak by US standards.

A lower-than-expected pass-through of tariffs to consumer goods prices means core CPI inflation is likely to rebound to just above 3% y/y later this year. In the absence of sizeable tariff-induced price pressures and given mounting internal and external pressure, the Fed is now likely to lower interest rates this year in line with other Central Banks, though risks to rates and inflation remain more firmly on the upside in the US.

Equities have recovered further in recent trading, as the uncertainty over tariffs eased with the conclusion of several important trade agreements (see Chart 1). The strongest price increases were generally seen in Asian markets (excepting Hong Kong), with the US market also buoyant and driven by IT gains and bullish AI sentiment. Despite the conclusion of US trade deals, the UK and core eurozone were more sluggish over the summer, in part a reflection of faltering economic sentiment.

Chart 1: Change in Selected Major Equity Market Indices over the Last 40 Trading Days to 15/09/25 (%)



Source: LSEG

Euro-zone GDP expanded at a decent pace in H1, averaging 0.3% q/q around potential, but that was partly due to temporary tariff front-running effects. Survey evidence suggests that the momentum from exports will continue (as long as US tariffs remains close to the agreed 15%), but low confidence and slowing income growth are likely to weigh on consumption, as labour markets loosen.

And while higher defence and infrastructure spending in Germany will support euro-zone GDP growth later this year and into 2026, the boost will not spread Continentwide as previously hoped. So the euro-area economy is likely to grow quite slowly in the coming years. With headline inflation likely to undershoot the 2% target in 2026, markets expect the ECB to keep its deposit rate broadly stable, but the risks are now skewed to the downside.

An unexpectedly strong 0.3% q/q gain in UK GDP during Q2 was encouraging, but likely to be a temporary burst rather than heralding a fundamentally stronger economy, as highlighted by soft recent monthly data. While households appeared to rein in their spending in Q2, decent income growth should mean consumer spending is a relative bright spot for the economy. And the UK is not heavily exposed to tariff effects, especially after the recent trade deal, though slowing global demand will weigh on exports. All of this points to a continuation of the anaemic recent growth environment, with GDP increasing at sub-1.5% y/y rates ahead.

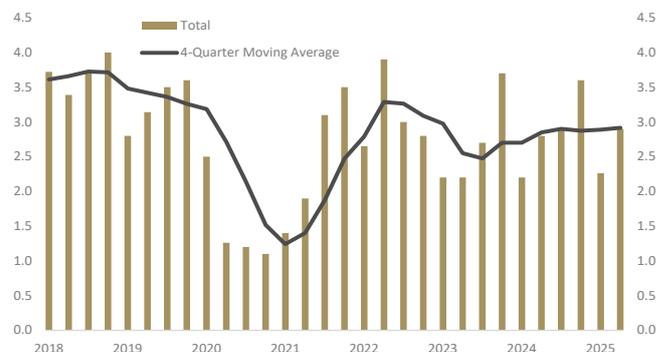
Despite an unexpectedly bad inflation figure in June, weakness in wage growth and subdued underlying price pressures are still likely to allow inflation to ease back to its 2% target next year. So the Bank of England will have the room to cut interest rates further from their current 4.25%, with a trough of 3.5% still priced into the financial markets. Nonetheless, with gilt levels elevated and gloom about the need to tighten further ahead of the forthcoming Budget, the government's fiscal woes are unlikely to disappear.

## 2. London

### 2.1 Occupational Market

After a weak start to the year, Central London office take-up recovered somewhat in Q2 2025. CBRE reported 2.9m sq. ft. of space was taken in Q2 2025, up 28% on Q1 and marginally higher activity than a year earlier. (See Chart 2.) But that only left the four-quarter average at 2.9m sq. ft., around the level it has been since the end of 2023 and well down from an average of around 3.5m sq. ft. between 2017 to 2019.

Chart 2: Central London Office Take-Up (M. Sq. Ft.)



Source: CBRE

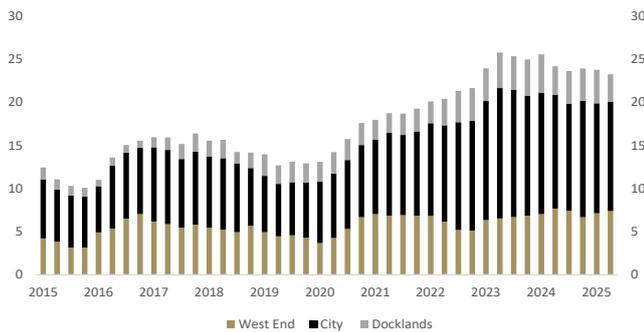
Bigger deals were more significant in Q2. There were five leases over 100,000 sq. ft. signed in Q2, the highest amount since Q3 2018. Three of these involved banking and financial occupiers, with the sector accounting for 40% of total take-up. Other active sectors in Q2 were TMT and professional services, each about 10% of the office total.

The largest deal of Q2 was a pre-let of 398,200 sq. ft. to Squarepoint Capital at 65 Gresham Street, EC2. Indeed, four of the five largest deals of the quarter were pre-lets, with such activity twice the long-term average and accounting for a third of take-up. Otherwise, second-hand and new space accounted for around 50% and 20% of demand, respectively.

Looking ahead, demand is unlikely to accelerate, with under offers in Central London decreasing by 14% during Q2 to stand well below the long-term average level (at 3.0m sq. ft. against 3.4m sq. ft.). That in part reflected the relatively strong take-up in Q2 which removed several of the bigger under-offer buildings. The largest office still under offer in Q2 was 1 Hanover Street, W1 at 124,000 sq. ft.

On supply, Central London availability dipped from 23.8m sq. ft. to 23.3m sq. ft. in Q2. That reflected a sharp fall in the Docklands total, as West End supply was broadly flat and in the City availability rose. The bigger picture is that availability is declining from its 2023 peaks, but only at a fairly slow rate (see Chart 3).

Chart 3: Central London Availability (M. Sq. Ft.)



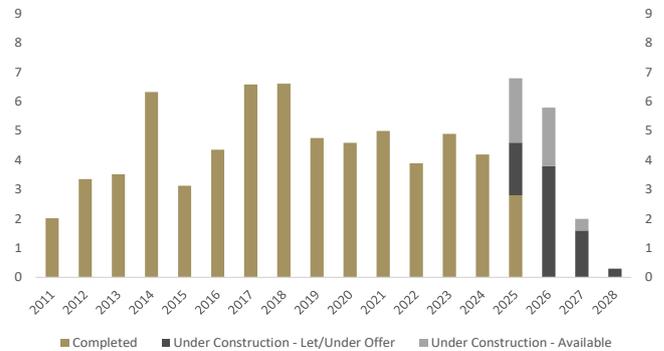
Source: Knight Frank

That in part reflects the full London office pipeline, with delays pushing out completion dates. According to CBRE, 6.8m sq. ft. of London office space has been or is planned to complete in 2025 (a reduction on previous estimates) and 5.8m sq. ft. in 2026 (see Chart 4). The pipeline is thinner beyond 2026, but we expect developers may eventually fill this gap given the high demand for prime space and lower interest rates. Refurbishment activity is also likely to be solid, with ESG requirements a growing priority.

National retail sales have been uneven in recent months. Following a 2.8% m/m drop in May (since revised to -1%), they rebounded by 0.5% m/m in June and another 0.6% m/m in July, both slightly weaker than expected. Overall, underlying trends appear weak.

Savills reported that retail vacancy across the Prime West End (Oxford, Regent and Bond Street) saw a 22bps increase in Q2 to 2.0%. Despite this, it remained exceptionally tight compared with a long-term average of 7.4% and is now almost half of the 3.7% reported a year ago. Limited supply is translating into strong rental growth, with rents across the core West End (including Soho and Covent Garden) rising +6.8% y/y in Q2, with markets such as Cheapside showing even more vigorous growth.

Chart 4: Central London Development Pipeline (M. Sq. Ft.)



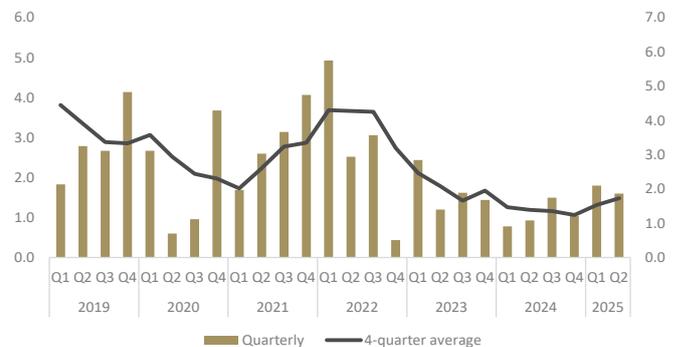
Source: CBRE

## 2.2 Investment Market

Lambert Smith Hampton reported that within a soft national picture, investment in offices has been a bright spot in 2025. The resilience in the sector has been underpinned by Central London, which accounted for 73% of the sector's Q2 total, albeit that the £1.6bn transacted was still slightly below historic norms (see Chart 5). Uncertainty about tariffs and interest rate cuts mean volumes will struggle to revive much this year, though a gradual recovery should be in prospect further ahead.

The biggest deals in Central London during Q2 were two £300m-plus purchases, State Street Global Advisors' £333m forward purchase of 100 New Bridge Street and Crosstree Real Estate's £330m acquisition of the Argyll's serviced-office portfolio. Including these there were five deals over £100m in Q2, three in the West End and the rest in the City.

Chart 5: Central London Office Investment (£bn)



Source: Lambert Smith Hampton

Despite the improvement in the capital's offices, overall volumes in Greater London slipped by 37% on Q1 to £2.4bn in Q2, reflecting subdued activity in other sectors according to LSH. In Q2, overall retail volumes of £1.6bn were down on Q1, but it has been the most resilient of the main sectors against long-term trend, albeit that this is in part a reflection of the deep slump in the sector around the pandemic. Shopping centre volume rebounded from a moribund Q1 to £412m in Q2, 24% above the five-year quarterly average, with close to half of this was accounted for by Hammerson's £200m purchase of a 59% stake in Brent Cross shopping centre from Aberdeen.

UK hotel investment rose by 20% q-on-q to £440m in Q2, though activity remained well down on the levels of 2024. The acquisition of a proposed Six Senses London for approximately £180 million by Gruppo Statuto was the stand-out deal. Large-scale multifamily transactions were notably thin on the ground in Q2. Cheyne Capital's £210m acquisition of City Link House, Croydon was the most notable transaction in the emerging co-living segment.

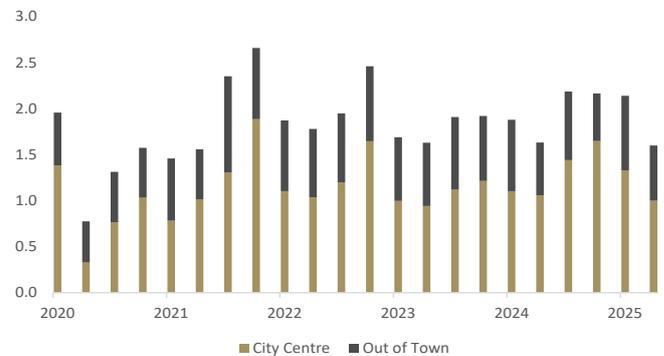
## 3. Rest of UK

### 3.1 Occupational Market

Regional office take-up was 1.6m sq. ft. in Q2, a 25% decrease on the first quarter according to Avison Young (see Chart 6). But boosted by a strong Q1, H1 take-up stood at 3.7m sq. ft., the strongest half year since 2019 and 6% ahead of the 10-year average. Cities significantly outperforming the 10-year H1 average included Bristol, Manchester and Newcastle. Indeed, these cities saw the largest deals in Q2, the largest of which was at 100A Bristol Business Park where Rolls Royce took an 87,600 sq. ft. sublease.

The regional out-of-town market continues to gain momentum. There is a lack of quality space in city centres, notably big floor plates, and occupiers with larger requirements have been forced to look elsewhere. So far this year, six of the 10 largest deals have been outside the city cores, compared with last year where all top 10 deals took place in CBD locations.

Chart 6: Big 9 Office Take-up (M. Sq. Ft.)

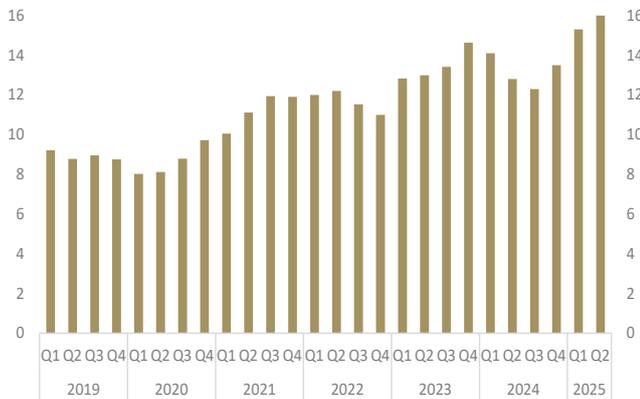


Source: Avison Young

Office occupier activity across the South East was weaker in Q2, with overall take-up at 787,337 sq. ft, 6% below the five-year quarterly average. Nonetheless, thanks to a strong start to the year, H1 leasing reached 1.9m sq. ft, well above H1 2024 and the highest first-half total since 2008. The largest deal in Q2 was the 73,000 sq. ft. leased by the Premier League's media operations at One Olympia, with occupancy due for the 2026-27 season. This transaction helped the TMT account for over a quarter of total take-up during the quarter, the most active sector.

Despite solid take-up, availability in the Big Nine cities has increased further over the past three months to exceed 16m sq. ft. in Q2, the highest level in almost a decade. (See Chart 7.) The vacancy rate has now risen above 10%, up from a low of just 6% at the start of the pandemic. A similar trend is evident in the South East, where availability inched up to 20.9m sq. ft. across the M25, M4 and M3 markets in Q1, about 11% above the 5-year average.

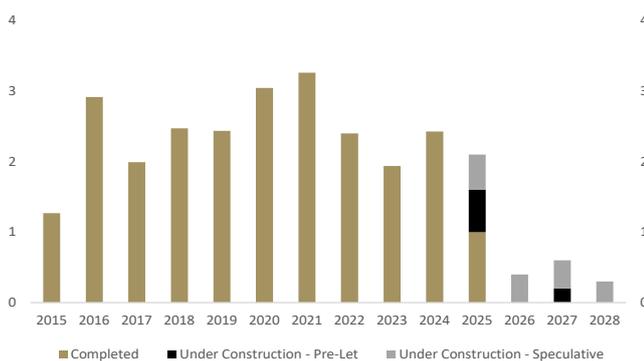
Chart 7: Big Nine Office Availability (M. Sq. Ft.)



Source: Avison Young

According to Avison Young, regional office completions, which totalled 2.5m sq. ft. in 2024, will be around 2m sq. ft. in 2025. (See Chart 8.) But beyond, the pipeline looks thinner. Less than 500,000 sq. ft. is due to complete in 2026, all of it speculative, with similar expectations for each of the following two years. That implies that if demand holds up at current levels there will be supply shortages in the future, particularly for already-scarce prime CBD space.

Chart 8: Regional Development Pipeline (M. Sq. Ft.)



Source: Avison Young

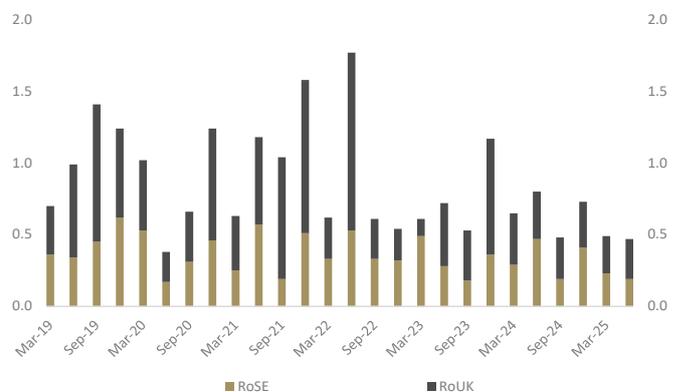
CBRE reported logistics take-up totalled 6.7m sq. ft. in Q2, up from 5.0m sq. ft. in Q1 and the highest level in a year. Nonetheless, recent underlying activity is more in line with pre-pandemic occupier demand, of about 5m sq. ft. a quarter, than the elevated rates between 2020-22. The South West had the highest share of take-up for the quarter at 23%, but, on a 12-month rolling basis, the East Midlands was top at 21.0%.

Solid demand has not prevented a steady rise in availability. Indeed, at 45m sq. ft. in Q2, available space is up 40% over the past two years. Regional markets have seen some of the sharpest increases in supply of late, notably the East Midlands, which was up 2% in Q2 to 14.1m sq. ft, and has the UK's highest vacancy rate at 8.7%. The region also has by far the fullest supply pipeline, albeit that the majority of this is pre-committed, not speculative.

### 3.2 Investment Market

Outside Central London, office investment remained weak in Q2 at just £600m, standing at roughly half its trend level, which was in part a reflection of limited available prime stock. (See Chart 9.) That total was bolstered by two sizeable deals, Pontegadea's £75m purchase of Capital Square in Edinburgh and Melford Capital Partners' £75m acquisition of 101 Embankment in Manchester according to LSH.

Chart 9: Regional Office Investment (£bn)



Source: Lambert Smith Hampton

CBRE reported that logistics take-up recovered in Q1 to 5.0m sq. ft., up from 4.3m sq. ft. in Q4 2024. That is in line with the level of occupier demand seen just before the pandemic in 2019, when take-up totalled 4.7m sq. ft. in Q1 of that year. In contrast to last year, take-up in Q1 was concentrated in the South West, which accounted for over half of all demand.

The rise in take-up in Q1 failed to prevent a further pick-up in logistics availability which increased to 44.4m sq. ft., up from just 16.5m sq. ft. in Q1 2022. CBRE attribute that increase to secondary markets as occupiers have consolidated into prime assets. The continued demand for prime space helps explain why the pipeline has now expanded for three consecutive quarters from 18.9m sq. ft. in Q2 2024 to 26.3m sq. ft. in Q1 2025.

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