Riverside CAPITAL

THE PROPERTY INVESTMENT PEOPLE

Quarterly Review: Q3 2025

Top Five

- The global economy has remained resilient in the face of tariff headwinds over recent months. There have also been some signs of improvement in advanced economies recently, albeit patchy. With inflationary pressures easing globally, monetary policy is set to loosen across the developed world into next year.
- Central London office take-up stumbled in Q3, with a dearth of larger lettings. Not surprisingly given subdued activity, availability increased also and stands well above its 10-year average. Around 7m sq. ft. of new London office space is expected to complete this year, with a further 6m sq. ft. or so due in 2026 after which new supply is expected to be much weaker.
- Central London's dominance within office investment was sustained in Q3, albeit that the £1bn transacted was well down on Q2 and below the historic trend. Overall deal volumes in Greater London held up better than the office figures, but were down on a year ago and trail historical benchmarks, albeit with hotel and leisure investment a bright spot.
- Regional office take-up was marginally up in Q3, while in the South East occupier activity stalled – but the bigger picture was that demand in both was below par. As a result, availability remains elevated. Nonetheless, the pipeline in regional markets is expected to reduce from next year and concerns about supply shortages will persist, particularly for quality CBD space.
- Outside of Central London, regional office investment remained notably weak in Q3 and activity in the South East saw one of its softest quarters on record. Within a generally tepid environment, there were some bright areas including shopping centres and multi-let industrials.

1. Economic Overview

The global economy has remained relatively resilient in the face of headwinds over recent months. Tariffs are having a limited adverse impact on global activity so far, with export orders softer, but not collapsing. A continued lack of retaliation to US measures and some re-routing of US-China trade are likely to mean that world demand will slow further, but does not slump.

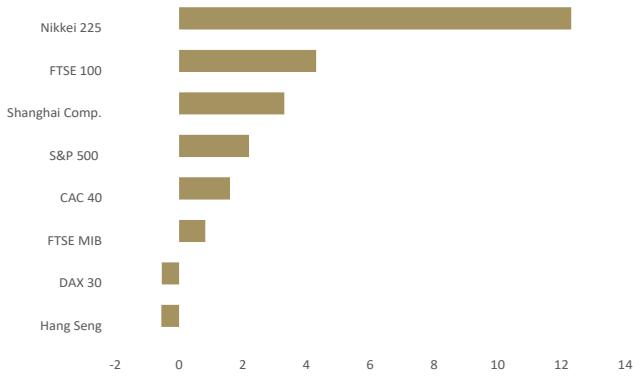
And there have also been some signs of improvement in advanced economies recently, with the composite PMIs rising in Q3 compared to Q2. Admittedly, the weakness of labour markets is a concern. But overall activity appears to be holding up, supported by recent falls in policy rates and despite the widespread increase in long-term government bond yields.

In the US, immigration curbs are set to hit labour supply even as tariff uncertainty eases, but solid consumer demand and the buoyancy of AI investment is more than offsetting this drag. GDP of around 2% y/y forecast for this year will be below par, but activity should improve a little in 2025-26 as trade headwinds and policy ease.

A lower-than-expected pass-through of tariffs to consumer goods prices means there are still upside risks to core US inflation, which is expected to remain well above its 2% y/y target next year. Because of this, the Fed will remain cautious in easing monetary policy further. Cuts of only 75bps over the next 12 months are likely, which is less than markets are currently pricing in.

Equities have generally maintained their strong momentum into Q4, albeit that worries about an AI bubble have led to some reversals in recent weeks (see Chart 1). The strongest price increases in the last 40 days or so were in Japan and the UK (FTSE 100), with the US market also buoyant as IT stocks continued to dominate. Growth concerns seem to be undermining European bourses by contrast, with core euro-zone indices among the most sluggish.

Chart 1: Chart 1: Change in Selected Major Equity Market Indices over the Last 40 Trading Days



Source: LSEG

After a good start, euro-zone GDP slowed across the mid-year. Surveys of demand have improved of late, but labour markets also seem to be loosening in most economies. Higher defence and infrastructure spending in Germany will help support euro-zone GDP into 2026, but this boost is not set to be mirrored in other countries as once hoped. Overall, euro-zone growth is unlikely to be much above 1% y/y this year with little prospect of any improvement in 2026-27.

Declines in headline inflation and looser labour conditions are bringing slower wage growth across Europe. This is why services inflation is set to decline next year, pulling the core rate down below the 2% y/y target. Markets expect the ECB to keep its deposit rate broadly stable, but the risks are now skewed to the downside and further cuts cannot be ruled out.

UK GDP slowed during Q3 and the early evidence suggests that it will remain soft in Q4. Meanwhile, the Budget, delivered in late November, has been dominating sentiment, following news that middle-England and consumers will bear the brunt of the £30 of tax rises needed to fund policy U-turns and OBR forecast downgrades. As a result, GDP growth is expected to slow next year from 1.5% y/y to about 1% y/y, sustaining the recent anaemic growth environment.

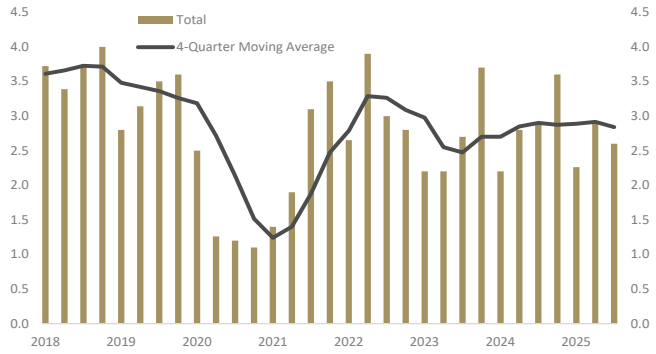
September's downside inflation surprise has made it more likely that rates will fall back towards the 2.0% target during 2026, with the Budget also likely to have a marginally deflationary impact overall. That means the Bank of England should have the room to cut interest rates further from their current 4%, potentially below the trough of 3.5% currently priced into financial markets.

2. London

2.1 Occupational Market

Central London office take-up slipped back in Q3, part reversing a spring bounce. CBRE reported 2.6 m sq. ft. of space was let, down 10% on both Q2 levels and on the same quarter a year earlier, though year-to-date the total is still slightly ahead of 2024. (See Chart 2.) And the impact was broadly spread, with take-up faltering in both City and West End markets during Q3 according to Knight Frank.

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



Source: CBRE

Recent figures suggest that underlying quarterly demand in the capital has probably topped out at just under 3 m sq. ft. since the start of last year. That represents a slight improvement on the most recent trough, but is still well down on pre-COVID norms (of around 3.5 m sq. ft. a quarter).

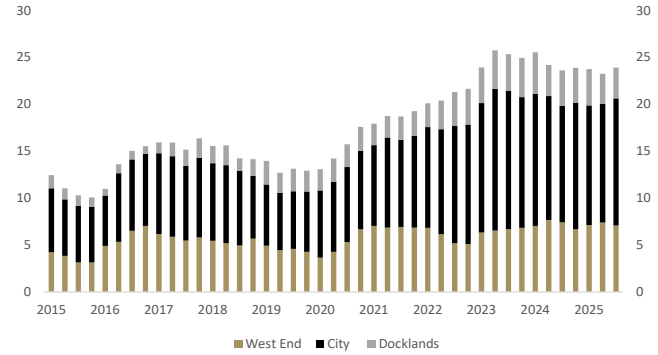
There was a dearth of larger letting deals during Q3, with just one – HSBC's acquisition of 40 Bank Street – exceeding 200,000 sq. ft. and only six others over 50,000 sq. ft. Second-hand space supported overall take-up, at almost 80% of the total. After a surge of pre-letting in Q2, this source of demand accounted for just a 4% share in the summer quarter. Financials were the most active sector in Q3, lifted by the HSBC acquisition.

Under-offers were slightly more encouraging in Q3, rising by 10% according to CBRE. But they still lagged their historic averages. This suggests that in spite of several 100,000 sq. ft.-plus properties being currently under offer, including One Exchange Square at over 300,000 sq. ft., it remains unlikely that demand will rebound in Q4.

Central London availability increased to 23.8 m sq. ft. in Q3, reversing Q2's improvement and remaining well above the 10-year average of around 18 m sq. ft. a quarter. (See Chart 3.) That rise mostly reflected an increase in the City total, as West End supply edged down.

The broader trend is that availability has declined from its 2023 peaks, but that progress seems to have ground to a halt in recent quarters. As a result, Central London vacancy rose to 9.0 % in Q3 from 8.8 % in the previous 3 months according to Knight Frank.

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



Source: Knight Frank

CBRE reported development completions were 0.9m sq. ft. in Q3, bringing the year-to-date total to 4.3m sq. ft. Around 7m sq. ft. of London office space is planned to complete by year's end, with a further 5.8m sq. ft. expected in 2026. (See Chart 4.) The pipeline falls away beyond, but developers are likely to move to fill some of this gap, given the high demand for prime space and gradually easing interest rates. Refurbishment activity is also likely to be solid, given ESG priorities.

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

Source: CBRE

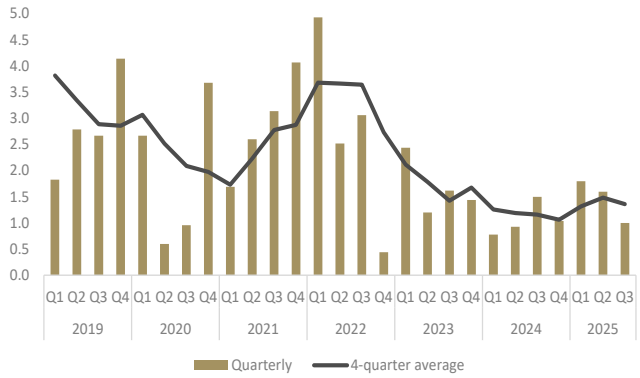
2.2 Investment Market

Lambert Smith Hampton (LSH) reported that within a tepid national picture, a lack of larger transactions held back office investment in Q3. Despite a healthy number of deals, office volumes slumped to £1.5bn, down a third on Q2, to record one of the softest outturns since the end of the pandemic. And it could have been even worse without the almost £700m of overseas cash, roughly 40% of the total inflows despite an uncertain global environment.

Central London's dominance within the office total was sustained, albeit that the £1bn transacted was well down on Q2 and below the historic trend. (See Chart 5.) The only deal in the capital over £100m was Delancey and Aware Super's £140m acquisition of Finsbury Circus House, EC2. Otherwise, there were few large scale transactions.

Nonetheless, LSH see the prospect of an upturn during Q4, with a dozen £100m-plus assets reportedly under offer, almost as many as have sold year-to-date, with Nuveen's 70 St Mary Axe, EC3 the most significant.

Chart 5: Central London Office Investment (£bn)



Source: Lambert Smith Hampton

Overall volumes in Greater London held up better than the office figures, rising to £2.6bn in Q3, but were still down on a year ago and trail historical benchmarks. More encouraging, UK hotel and leisure investment rose to £916m in Q3, twice Q2's outturn. Single-asset deals dominated, with large-scale transactions fairly scant as in most other sectors. One of the biggest deals of the quarter was Arora Group/Deva Capital's purchase of the Novotel London West, Hammersmith, for £160m.

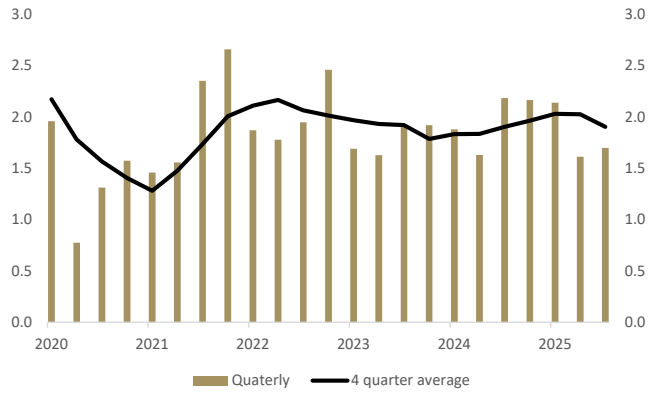
3. Rest of UK

3.1 Occupational Market

According to Avison Young, regional office take-up was 1.7m sq. ft. in Q3 - a marginal increase on Q2 but still below trend (estimated at 2.0m sq. ft.). (See Chart 6.) Cities outperforming the 10-year H1 take-up average included Bristol, Newcastle and Liverpool. By a margin, the largest deal in Q3 was in Bristol, where Hargreaves Landsdown took over 90,000 sq. ft. in the Welcome Building.

Occupier preference for prime, centrally located offices with good amenity and transport connectivity was demonstrated by city centre locations accounting for 66% of Q3 demand. Previously, regional out-of-town markets had been gaining momentum. But that shift was largely due to a lack of quality space in CBDs and fundamentals may be reasserting.

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



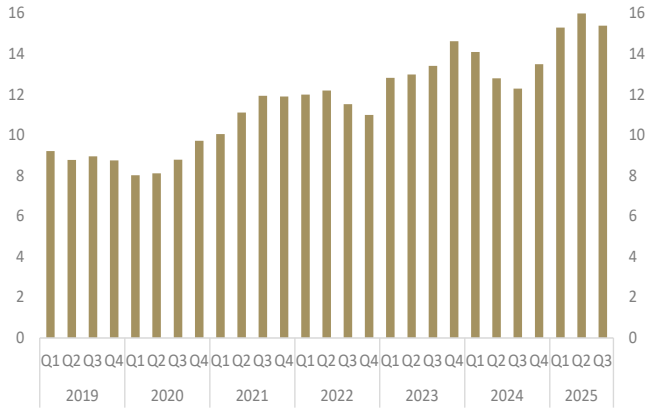
Source: Avison Young

Office occupier activity across the South East was weaker in Q3 according to CBRE. Take-up was 520,700 sq. ft. across the region (in units of over 10,000 sq. ft.), a 13% fall on Q2 and below the five-year quarterly average. Nonetheless, the trend in the year so far was similar to the same point in 2024. Under-offers increased in Q3, though remained sub-par compared with the recent past.

Most of the largest leasing deals in the quarter took place in the Thames Valley market, which accounted for the majority of South East take-up. The biggest transaction was IndigoScott's 58,900 sq. ft. acquisition at Farrier's Yard & The Forge, Hammersmith.

Availability in the Big Nine cities decreased to 15.4m sq. ft. in Q3, down from last quarter's 10-year high. (See Chart 7.) Vacancy in the Big Nine regional cities dropped marginally too, but was still close to 10% of estimated stock. And this dip was caused primarily by a decrease in Grade A availability, where vacancy is estimated to be extremely tight at just 2%.

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



Source: Avison Young

Meanwhile, CBRE reported South East availability remained broadly unchanged at 16.9m sq. ft. in Q3. This was above the five-year quarterly average of 16.0m sq. ft., with three-quarters of this second-hand space. Overall availability appears to be drifting gently upwards again after declining from a historic peak at the start of last year.

According to Avison Young, regional office completions will be around 2m sq. ft. this year. But next year they expect less than 700,000 sq. ft. to be delivered, far below the annual 2m sq. ft. seen on average since 2020. That has not removed concerns that even demand at current (relatively subdued) levels may bring supply shortages in the future, particularly for prime CBD space.

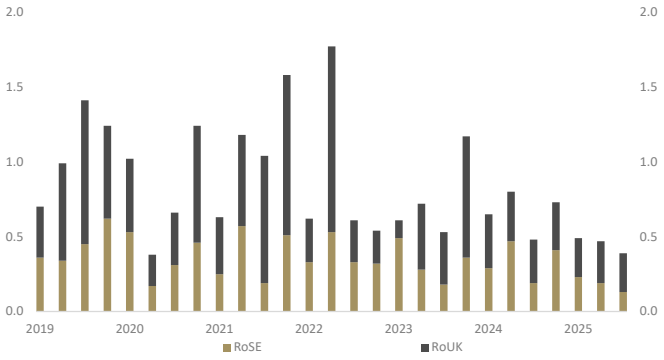
There was one development completion in the South East during Q3 2025 according to CBRE, with 10,100 sq. ft. of refurbished space delivered at 22 The Quadrant, Richmond. There is currently 1.7m sq. ft. of under construction or being extensively refurbished across 17 schemes in the region, of which about one third is already pre-let.

CBRE reported logistics take-up totalled 8.3m sq. ft. in Q3, sharply up from 6.7m sq. ft. in Q2 and the highest since late 2023. Despite the acceleration, underlying activity is still closer to pre-pandemic levels than the elevated rates seen between 2020-22. Regionally, the South West had the highest share of take-up at 23% in the year to date, with the East Midlands not far behind at 22%.

3.2 Investment Market

Outside of Central London, office investment remained notably weak in Q3 at £525m, well below recent averages. (See Chart 8.) The two most significant deals were in regional markets - Princes Group's £57m purchase of the Royal Liver Building, Liverpool and BauMont's £54m acquisition of Quartermile One, Edinburgh. Activity in the South East showed one of its weakest quarters on record.

Chart 8: Regional Office Investment (£bn)



Source: Lambert Smith Hampton

In Q3, industrial investment volumes rose sharply to hit £1.8bn, though this was still below the five-year average according to LSH. Multi-lets drove the recovery within industrial, with South East and regional volumes of £1.2bn in Q3, more than double the previous quarter. Overseas interest remained healthy too and was behind Q3's largest transaction, Indurent's (Blackstone) £150m purchase of an urban logistics portfolio from Chancerygate and Bridges Fund Management.

UK retail volumes of £1.1bn were not only down on Q2, but slumped to a two-year low, ending hopes of a sustained sector revival. Shopping centre activity slipped to £336m in Q3, but was in line with recent averages, with most of this accounted for by a £319m purchase by Hammerson of a stake in the Bullring and Grand Central, Birmingham from CPPIB.

Aside shopping centres, investment in other retail sub-sectors was below par in Q3, with retail warehouse volumes of £343m about half their recent levels. The sector's standout deal, and the largest retail purchase by an overseas buyer, was PGIM's £90.5m acquisition of Manchester Fort from Nuveen.

For more information:

Please contact Sarah White;

sw@rivercap.co.uk