



Top Five

- The latest indicators suggest that global GDP growth slowed in Q4 2025. But there were also some more upbeat signs. Business surveys perked up in January, the AI buildout continues to buoy world trade, and lower interest rates are supporting stronger credit growth and consumption in developed economies.
- Central London office take-up improved sharply at the end of last year. In 2025 as a whole, however, activity was almost identical to the previous year at 11 m sq. ft. and so broadly in line with recent historical averages. Overall, Central London vacancy dropped to 8.6 %, a rate last seen in mid-2022.
- Improving sentiment in the capital drove Q4's rebound in purchases to £2.4bn, the highest since Q1 2023, underpinned by four deals over £200m. But for Central London offices, the year as a whole still disappointed, with just under £7bn transacted, better than the record lows of 2024, but still shy of longer term average performance.
- There was a continued softness in regional activity in Q4, with only around 1m sq. ft. taken up across the Big Five markets. That put demand below the long-term average and behind 2025's outturn. But availability appears to be declining and the pipeline is limited. Meanwhile, tighter supply supported healthy prime rent growth last year, estimated at +5.5% y/y regionally.
- The surge in office transactions in London was mirrored in the South East, where Q4 volumes of £1.2bn were the highest in 10 years. However, this was thanks largely to a single deal, Ellison Institute of Technology's investment in Oxford Science Park. In contrast, UK regions were subdued, with Q4 volumes around half their normal levels.

1. Economic Overview

US tariffs have not had the big adverse effect on the global economy that many had feared at the start of last year. In fact, trade has been remarkably resilient, as supply chains have adapted quickly and tariff rates globally have remained relatively low.

Nonetheless, the latest data suggest that global GDP growth slowed in Q4. But there were also some more upbeat signs. Business surveys perked up in January, the AI buildout continues to buoy world trade, and lower interest rates are supporting stronger credit growth and consumption in developed economies.

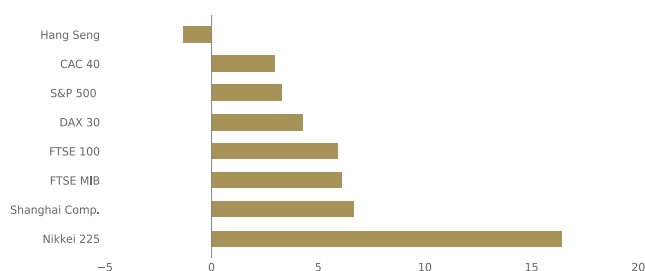
Moreover, while economic activity in China weakened in December, its labour market looks to be on the mend coming into 2026. In contrast, labour demand in most advanced economies continued to cool. This should bear down on wage growth and ultimately services inflation, paving the way for more interest rate cuts, aside in Japan where higher inflation is still likely to bring rises.

In the US, a large boost from net trade means GDP is on track to expand by as much as 5% annualised in Q4 2025. But the strength in AI-related business investment and solid consumer spending are expected to maintain activity at rates well above other developed markets in future. This is despite concerns about labour markets given tariff uncertainty and the immigration crackdown.

Although the US economy is running hot and the labour market is tight, progress in reducing core inflation is expected later this year, as housing costs moderate and robust productivity growth constrains pay pressures. A relatively sanguine inflation outlook justifies the Warsh-led Fed cutting interest rates by at least another 25bp. But this may mark a floor in the policy rate, given low unemployment and healthy activity.

Equities have maintained their strong momentum into 2026, driven by buoyant earnings and the global monetary easing. (See Chart 1.) The biggest increases in the last 40 days were in Asia (Japan and China), as well as the weakest with the Hang Seng. Elsewhere, the UK has enjoyed a strong start to the year, with US and European bourses not that far behind. Early 2026 trading has been volatile, however, with lingering concerns about an AI sell-off tempering market exuberance at times.

Chart 1: Change in Selected Major Equity Market Indices over the 40 Trading Days to 10/2/26 (%)



Source: LSEG

Europe's economy ended last year on a reasonably strong note with GDP in the euro-zone (excluding Ireland) expanding by nearly 0.4% on the quarter. But we expect activity to be fairly sluggish ahead, averaging only about 1% p.a., as the larger core economies struggle. Germany's defence-related fiscal stimulus should provide only a temporary and fairly modest boost and we do not think it will do much to raise growth elsewhere.

Meanwhile, inflation is expected to undershoot the 2% target in 2026 as energy prices fall and wage growth slows further, so the balance of risks is tilted towards further rate cuts by the ECB. We have pencilled in two falls in the second half of 2026, taking the deposit rate from 2% currently to 1.5%, though markets are more cautious.

The UK data published since the start of this year suggest both economic activity and price pressures have strengthened. But soft overseas demand, the past rises in interest rates and higher taxes mean that growth is expected to slow to 1.0% in 2026 as a whole. Notably, household caution and slower income growth mean a pick-up in consumer spending growth is unlikely.

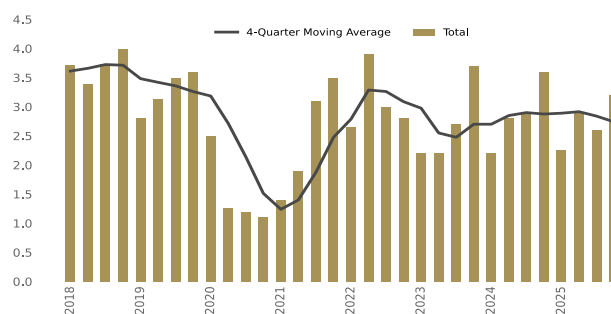
But the recent weakening in the labour market is expected to lead to slower wage growth. This and the smaller rises in regulated prices mean CPI inflation is likely to fall below the 2.0% target during this year and stay there. That should allow the Bank of England to cut interest rates from 3.75% now towards 3.00%, with markets expecting a low of around 3.25%.

2. London

2.1 Occupational Market

Central London office take-up improved sharply at the end of last year. CBRE reported 3.2m sq. ft. of space was let between October and December, up 23% on a year before. (See Chart 2.) In 2025 as a whole, however, activity was almost identical to the previous year at 11.3 m sq. ft. and so broadly in line with recent historical averages. According to Knight Frank, demand was driven by a pick-up in City and Docklands activity, with the West End stable.

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



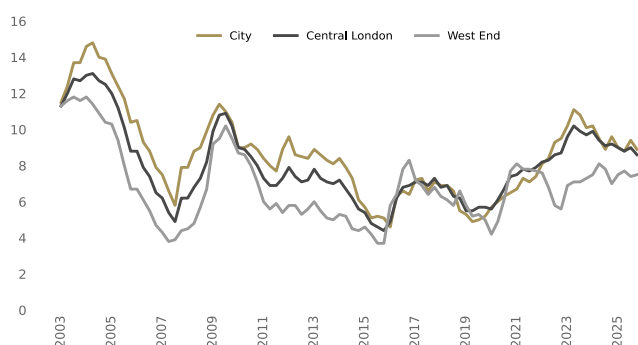
Source: CBRE

One factor helping to lift demand in Q4 was the revival of larger deals, with six transactions recorded over 100,000 sq. ft., of which Visa's 300,000 sq. ft. letting at One Canada Square was the most significant. Second-hand space as usual dominated overall take-up, with 60% of the total. But there was a notable rise in the share of pre-letting too after a soft patch mid-year. Traditional occupiers in banking and finance, and business services were most active last year in London.

Under-offers decreased slightly in Q4, though remaining around their historic averages. That decline in part reflected the signing of several big deals last quarter. There remain a dozen sizeable properties (of more than 50,000 sq. ft.) under offer with the majority of these either new or pre-lets, suggesting that occupiers continue to demand top quality space.

There was a sharp drop in availability in 2025 Q4 on Knight Frank figures. Central London totals dropped from 23.8 m sq. ft. to 23.0 m sq. ft. in Q4, almost a 4% fall. The quarterly figure marked a three-year low, albeit that levels remain well above their pre-pandemic mean. The decline in Q4 reflected reductions in the City and Docklands space, as West End supply increased. Overall, Central London vacancy dropped to 8.6 % in Q4, a rate last seen in mid-2022. (See Chart 3.)

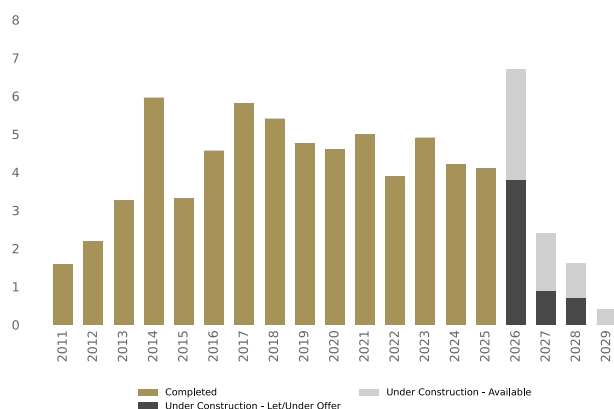
Chart 3: Central London Office Vacancy (% of stock)



Source: Knight Frank

CBRE reported development completions in 2025 were just over 4m sq. ft. That was less than previously expected and in line with the previous year's outturn. Expectation for 2026 remain strong at 6-7m sq. ft., which would be one of the highest annual totals on record if realised. (See Chart 4.) But the pipeline after this year is thin, falling to a sub-par 1-2m sq. ft. a year on average. Nonetheless, longer term visibility remains low, and given the strong demand for prime space and easing interest rates, developers are likely to step in to boost these totals closer to the time.

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



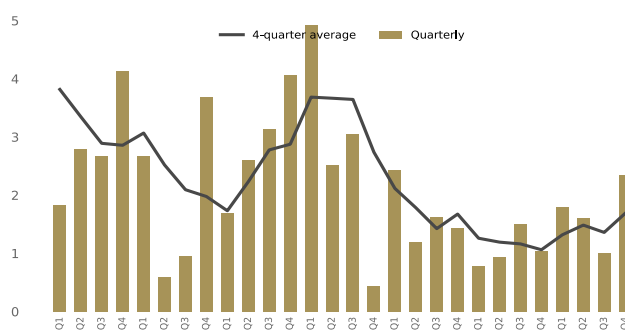
Source: CBRE

2.2 Investment Market

After a couple of poor quarters, UK investment leapt at the end of 2025. Lambert Smith Hampton (LSH) reported a record £21.6bn transacted in Q4, though an exceptional portfolio deal of care homes alone accounted for £5bn of that. And even after this late surge, purchases in the year as a whole only matched those in 2024, which was not a vintage year.

Nationwide, office transactions doubled in Q4 to hit a three year high of just under £4b, with London (at £2.4b) the major contributor. A resurgence of large-scale transactions was an important feature across the UK, though at £10.0bn, the annual total was still the second lowest on record.

Chart 5: Central London Office Investment (£bn)



Source: Lambert Smith Hampton

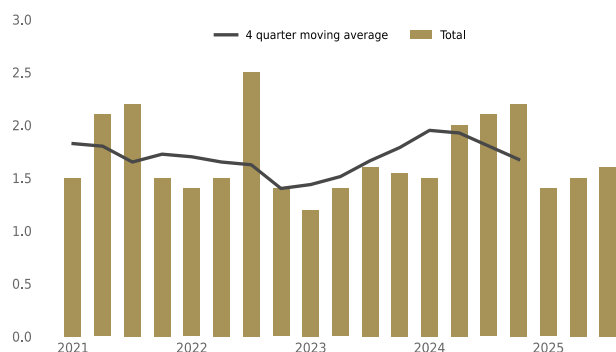
Improving sentiment in the capital drove Q4's rebound in purchases to £2.4bn, the highest since Q1 2023. (see Chart 5.) This was underpinned by four deals over £200m, the largest of which was Hayfin/Capreon's £340m acquisition of 70 St Mary Axe in EC3. But for Central London offices, the year as a whole still disappointed, with just under £7bn transacted, much better than the record lows of 2024, but still shy of longer term average performance.

3. Rest of UK

3.1 Occupational Market

Full regional office data for end-2025 are still emerging. Early evidence for the Big Five (Birmingham, Bristol, Edinburgh, Leeds and Manchester) from Cushman & Wakefield indicated a continued softness of activity in Q4, with only around 1m sq. ft. across taken up. (See Chart 6.) That put demand in these markets below the long-term average and behind 2025's outturn.

Chart 6: Big 5 and South East Office Take-up (M. Sq. Ft.)



Source: Cushman and Wakefield

There were some bright spots regionally, most notably in Bristol where activity exceeded its five-year average. Meanwhile, the most significant deal in Q4 was in Edinburgh with Royal London acquiring 70,000 sq. ft. on Thistle Street.

Availability appears to be declining in regional markets, despite relatively weak demand. Indeed, a lack of grade stock has long been regarded a problem and one that may worsen given the limited supply pipeline. Tight markets also helped support healthy prime rental growth last year (estimated at +5.5% y/y regionally), with Leeds especially buoyant (+15% y/y).

In the South East, occupier activity dipped, with 665,350 sq. ft. leased during Q4 2025 according to Knight Frank. Although that was below the five-year quarterly average, leasing volumes reached 3.4m sq. ft. in the year as a whole, up around 8% on 2024 and the strongest since 2019. Activity was led by financial and business services, which accounted for 26% of total take-up, followed by TMT at 23%. The top transaction was the 155,524 sq. ft. let to GCAP (a BAE, Leonardo and JAIEC JV) at Green Park, Reading.

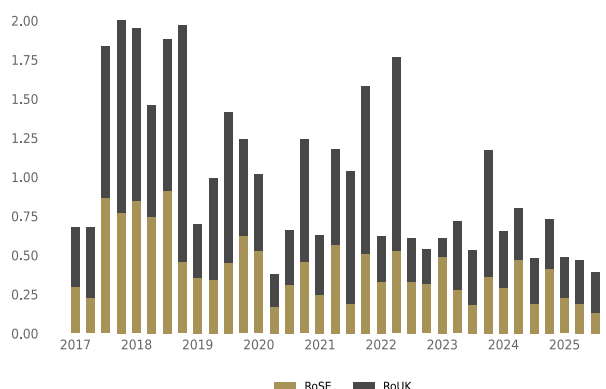
Availability continued to tighten through 2025. The South East total decreased to 16.2m sq. ft. in Q4, compared with 16.5m sq. ft. at the start of the year, albeit still well above long-term averages. The contraction in supply was most evident in the prime segment. As a result of reduced supply and healthy demand, vacancy also moved lower, reaching 10.2% in Q4, with grade A vacancy at 6.6%. Overall, prime rents were steady across the year.

The office development pipeline remains limited in the South East. By Q4 2025, 1.8m sq. ft. was under construction, with completion scheduled for the next 2-3 years. About a quarter of this is already pre-let, though it is not evenly distributed. Currently, for instance, Cambridge and West London account for about 60% of the speculative total under construction.

Outside the office sector, CBRE reported UK logistics take-up was down sharply in Q4 to total 4.3m sq. ft. in Q4. But the whole-year total was still 25.6m sq. ft., 22% up on 2024. Despite the acceleration, underlying activity is still closer to pre-pandemic levels than the elevated rates seen from 2020-22. Regionally, the East Midlands has seen the highest share of take-up on a 12-month rolling basis, at 21.8%, followed by the South West and the West Midlands.

3.2 Investment Market

Chart 7: Rest of UK and Rest of South East Office Investment



Source: Lambert Smith Hampton

Industrial investment rebounded to £3.7bn in Q4, a three-year high. Despite the end-year rally, total annual volumes of £8.4bn were only in line with the previous year and below the five-year average. Activity was fuelled by record portfolio sales, including Sixth Street's £345m acquisition of the C6 Industrial, which helped fuel record South East multi-let purchases. By contrast, regional buys of £358m were below average, despite RLAM snapping up Fradley Park in Lichfield for £197m, the largest institutional purchase in five years.

Retail transactions rose strongly to £2.3bn in Q4, around a third up above their five-year averages. This was supported by supermarket sale-and-leasebacks and a few major shopping centre transactions. The latter included Frasers Group purchase of Braehead, Glasgow, for £218m and Swindon Designer Outlet for £145m. In the South East, Realty Income's acquired the Lexicon, Bracknell for £150m and Hammerson took the remaining 50% stake in The Oracle, Reading for £105m.

For more information:

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