REPORT

RICS Property Investment Forum

May 2025

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Introduction

The RICS Property Investment Forum (PIF) convenes up to four times a year. It was originally set up in response to the global financial crisis, but its purpose has evolved to inform and brief RICS' senior management on key areas affecting the UK property investment market, and seek the organisation's leadership and support in responding to the challenges and opportunities ahead to sustain a liquid, transparent and efficient market in the UK.

Input to these debates is provided by a range of industry leaders, supplemented by sector specialists determined by the topic under discussion, including RICS' chief economist, researchers, valuers, advisers, local and global asset allocators, developers, occupiers and accounting advisers. The debate draws on the views of senior market participants such as capital providers – whether debt or equity, local or global, public or private markets – investors with risk appetites from core to opportunistic, investment advisers and occupiers.

The output of this forum regularly informs RICS' meetings with government and the wider sector. It has effected change in the marketplace – such as the recommendation to RICS' Standards and Regulations Board for an independent valuation review, which the board supported.

The May 2025 meeting focused on economic volatility in the first months of Donald Trump's second term as US president and its potential impact on the UK real-estate market.

The discussion was structured around four short presentations by industry leaders on the UK's macroeconomic outlook; credit market sentiment and pricing; the perspective of real-estate fund managers; and capital flows into the sector. A lot of detail was reviewed and debated, and this report summarises the outputs from our speakers as well as the subsequent discussion.

John Gellatly, chair

Executive summary

- The outlook for UK commercial property remains highly uncertain and volatile.
- At the start of 2025, investor sentiment towards the US was relatively strong, with real-estate allocations towards that market being maintained.
- The scale and breadth of the US tariffs have, however, changed the sentiment towards assets there, as well as the outlook for global inflation and interest rate policy.
- There are indications that this will lead to a reallocation of investment activity away from the US to other markets, especially the UK and Europe.
- The extent to which these potential flows may be directed into the UK and continental Europe is unclear. UK economic growth, in the shape of occupier demand, remains comparatively weak relative to the Eurozone, while financing costs remain relatively high.
- The abundance of credit provision globally along with the continued low level of transactional activity has, however, had the benefit of beginning to tighten spreads.
- Should US interest rates and Treasury yields remain relatively high, this could keep UK rates higher than otherwise would prevail.
- There is already evidence of increased investment activity being directed towards European assets, as evidenced by recent announcements from Canadian pension funds, and this should translate into increased transactional activity, which has continued to run at relatively low levels.
- The uncertainty extends beyond macro policy into the regulatory environment. Deregulation could arguably have a positive near-term impact in the real-estate sector, but the lack of cooperation between national agencies globally leads to longer-term risk and could result in localised systems of regulation that may bring more friction and cost. For example, there has already been regulatory divergence around Basel 3 prudent valuation material, which has the potential to confuse the lending process in real estate across Europe.
- The easing of near-term climate regulation and governments' associated environmental commitments could make costs lower in the short term but lead to a more disorderly and costly transition in the longer term.

RICS sentiment survey update

The feedback received for the UK Commercial Property Monitor Q1 2025 points to a flat commercial real-estate picture in the first quarter of the year compared with the last of 2024, with roughly two-thirds of 500–600 responses completed before President Trump's announcement of his package of tariffs on so-called Liberation Day, 2 April.

Notably, the investment enquiries metric edged back very marginally into positive territory, in net balance terms, for the first time since 2022; however, the actual net balance reading was plus 4%, well within any margin of error.

Many survey respondents mentioned the three Ts – Trump, tariffs and trade – but UK domestic concerns such as the hike in national insurance and business rates were widely referenced too.

The polarisation in the commercial property market between the best in class and the rest is perceived as being likely to continue to widen, with 12-month office rent and capital value expectations rising for prime space, but remaining negative for secondary commercial space.

Data centres, multi-family and life sciences continue to be the preferred property sectors, according to the responses received this quarter.

Although the spread between equivalent yields and bonds is narrower than it has been, the survey results show that most contributors believe that the commercial real-estate market, in aggregate, offers 'fair value'.

In terms of housing, new buyer enquiries and sales expectations fell in the residential survey, but this was driven more by the expiry of the stamp duty break, which ran from September 2022 to March 2025.

There has been a rally at the shorter end-of-yield curve, pointing to better-value mortgage products supporting the market in the face of a more challenging macroeconomic context.

It is hard to be overly negative in terms of activity or pricing in the housing market at present. And while the labour market may have deteriorated slightly, it's not had a material impact in terms of the shift that would typically be required for a major adjustment in the residential sector.

Our inference from the residential survey is that the market will perhaps soften slightly in the near term, but a significant decline in activity is not expected.

Simon Rubinsohn, chief economist, RICS

Macroeconomics

- There has been considerable volatility in capital markets since President Trump's inauguration and the associated prospect of tariffs; but even before that there had already been a notable shift in investors' interest in commercial property from the US to continental Europe, on both a relative returns and a risk-adjusted returns basis, as the former's macroeconomic outlook had deteriorated. This trend has continued following the proposed trade tariffs.
- There has been a lot of foreign policy change during the first quarter of 2025, as well as dramatic changes in the perception of risk and where different countries' risk-free rates stand, with the cost of rearming and geopolitics coming increasingly to the fore.
- The biggest impact of tariffs, from a UK commercial property perspective, has been a lack of investment due to uncertainty, caution and a universal decline in sentiment, even in those UK services not directly affected by tariffs.
- The tariffs will likely see a reduction in global trade and affect the logistics sector, potentially leading to decreased demand, although this may be offset by an increased stockpiling of goods that could in turn result in a shift in trade flows. In the retail sector, tariffs could lead to the dumping of cheap goods, increasing online sales, but they could also see an increase in the margins of offline retailers.
- In the context of the risk-free rate, UK gilt yields are high relative to other countries, with investor caution over the state of the public spending budgets and what is arguably an overreliance on index-linked instruments relative to other countries.
- The UK's debt-to-GDP ratio has gone up more than almost any other country in the past 20 years, which weighs on market pricing. Some improvement in this measure was expected with the new UK government, but that has clearly not happened.
- Real-estate investors over the past decade have become used to a 300–400-basis-point premium to gilts, but this has now shrunk to around 100 basis points. GDP growth is anaemic, partially as a result of high debt levels, so growth is not generally compensating for the lack of spread.

Credit markets

- Market sentiment immediately following the UK general election last summer was positive, but the pre-budget slump lasted until the end of 2024, followed by gilt yields spiking at 5% – close to that on the ten-year yield. This killed sentiment going into 2025, and was followed up by the announcement of possible US trade tariffs.
- Market sentiment is generally negative at present, but is expected to shift once the US trade tariff issue has been clarified.
- UK lending bank loan books are largely in good shape due to prudent lending in this cycle. The appetite for new lending is also improving, which is having a positive impact on pricing.
- Competition for the best property deals is fierce and there are early signs of credit risk increasing, albeit from a low base. The narrow band of prime real estate is now starting to expand, and so investors will need to look more widely for returns.
- Non-bank funders are split between the haves and have-nots, due to difficulties in fundraising as liquidity has shrunk. Few real-estate investors sold assets in 2023 and 2024, so there is less finance to reallocate in the market.
- The early signs for 2025 are that equity sentiment and investment is beginning to improve. There is more competition than there was in 2024. Lending margins are beginning to tighten, margins of less than 2% are becoming more common and non-bank lenders could find capital-raising easier than in 2024.
- Potential base rate reductions in 2025–26 are expected to increase market confidence and activity. The latest Bank of England Credit Conditions Survey showed that banks eased commercial lending conditions in the first quarter of 2025 for the fifth quarter in a row.

Real-estate equity trends

- The UK real-estate market was perceived to be ahead of its European counterparts until the budget in 2024 and Germany's recent fiscal changes as it looks to reflate and rearm. The relative ranking now looks to be reversing.
- From a cyclical standpoint, the UK's operating fundamentals are solid. Rents are still going up despite anaemic GDP growth, but faster growth is required, which should lead to improved occupier demand.
- UK investment yield rates have risen from 4% to 5.5%–6%, but much of that valuation hit has been substantially if not completely offset by the increased net income, which is encouraging the view that the UK is at the bottom of the current real-estate equity cycle.
- Sectors such as build to rent and purpose-built student accommodation have seen substantial inflation-related rental growth, and this higher income is being capitalised off higher yields, providing some valuation adjustment compensation.
- This context is starting to attract incremental capital as base entry prices for investors are more attractive.
- The current UK economic cycle most closely resembles what was experienced in the early 1990s when capital and interest rates were on a par with each other and there wasn't a positive spread to gilts.
- The early-cycle performers tend to be those sectors with strong growth in operating cash flow. In the current environment, investors will be looking at such rent growth markets, whether in Europe or the UK.
- If a market has strong operating fundamentals, investors will be able to justify the relatively low entry cap rate as long as they have positive financing and interest coverage.
- Ultimately, investors are now more confident that they can put up to 60% loan-to-value (LTV) financing in place.
- As real-estate investors and lenders become more comfortable with putting this level of financing in place it should result in increased transactional activity, because the vast majority of what needs to be bought, sold or refinanced has this kind of LTV profile.

- There is a positive outlook for those sectors with strong operating cash flows at the quality or prime end of the market, and where financing is easier. For those sectors without such attributes, the outlook is bleaker.
- Real-estate investors are increasingly moving away from cyclical markets, such as retail and offices, and instead focusing on growth niche markets, including data centres, healthcare and life sciences, as well as other alternatives with strong growth potential.
- This change is due to operating cash-flow growth. The faster that market players can increase cash flow, service their debt, refinance themselves and demonstrate operating cash-flow growth to investors, the faster they can sell assets, recycle capital and start again.
- The high-risk equity end of the business world is now increasingly focusing on growth equity investing and less on what was previously called opportunistic investing. Investments are being made in businesses rather than just buildings.
- There will be a lot more development of new high-quality assets, more corporate transactions and more operating cash-flow risk to create assets that will be the next generation of what financial institutions want to purchase.

Capital flow and investor sentiment

- Investors are pivoting away from the US and showing renewed interest in the UK and Europe due to the possible introduction of tariffs.
- For example, three large Canadian pension funds have paused their US activities and are redirecting investments towards the UK and Europe.
- Nordic investors, which are small in number but large in terms of capital investment, are also pausing US investments and looking for growth opportunities in Europe, motivated as well by public spending plans in Germany.
- This provides an opportunity for potential growth in European markets. Notably, southern Europe has been booming over the past 18 months, with Spain's economy growing and Italy attracting notable investment. Alongside Germany's spending plans, the US trade war will have ripple effects for other European markets.
- The UK's lack of growth appears to be holding investors back, but there are signs of capital returning. There have been significant investments from Middle Eastern and Asian investors, including a major investment from the largest Korean pension fund, NPS, partnering with real-estate investment management firm Long Harbour for a single-family housing strategy in the UK.
- These are good bellwether investments because large investors tend to follow each other, as illustrated by Asian investors entering the UK market.
- Core capital hasn't come back into the UK real-estate market as it has been largely redirected into infrastructure. This is because there has been little growth in the real-estate markets compared with infrastructure, given – for example – the energy transition and the digital data centre boom.
- Fundraising in the private real-estate funds market was flat in 2023/24. This marked a 50% fall in market activity compared with 2021/22. Capital-raising from Europe in this period was £29bn, which marks a 50% fall in annual investment on the period 2015–20. Notably, however, Asian markets are starting to boom, and that will be a net contributor to the European market. Investment from the APEC economies of the Asia–Pacific region in the UK has risen by 80% since 2023.

- The UK's real-estate secondaries market has been booming over the past two to three years. All of the major market players have announced fundraising and are poised to benefit from the illiquidity of other fund managers.
- From an investor perspective there is a lot of capital available, but it is concentrated among a small number of market players due to mergers between some notable investors, such as UK pension funds. These investors are looking to carry out larger deals, so their approach to the market is changing.
- There have been some notable changes in the sectors on which investors are focusing. Logistics, data centres, healthcare and life sciences are becoming more stable elements of portfolios. Investors are also moving from passive ownership models towards more operator-based ones.

Delivering confidence

We are RICS. As a member-led chartered professional body working in the public interest, we uphold the highest technical and ethical standards.

We inspire professionalism, advance knowledge and support our members across global markets to make an effective contribution for the benefit of society. We independently regulate our members in the management of land, real estate, construction and infrastructure. Our work with others supports their professional practice and pioneers a natural and built environment that is sustainable, resilient and inclusive for all.

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