

2025 CRE Outlook

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Your Views

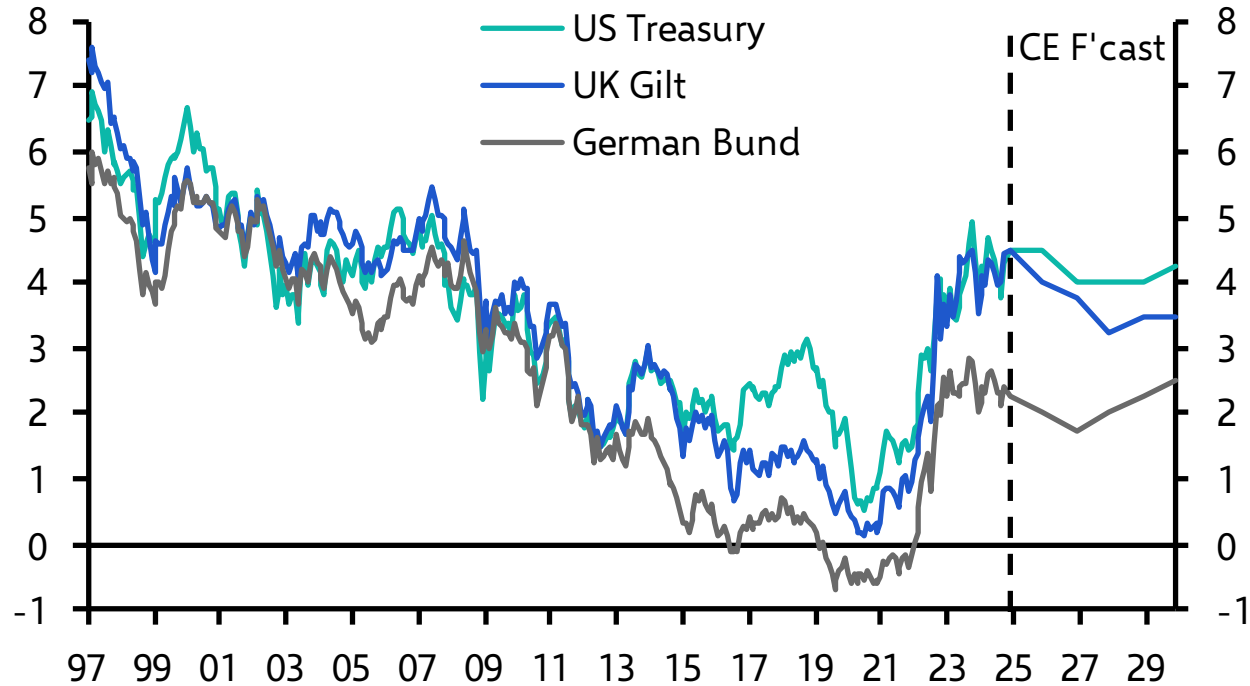
- Go to www.menti.com and enter the code: 1994 9308
- Or scan this QR code:



Agenda

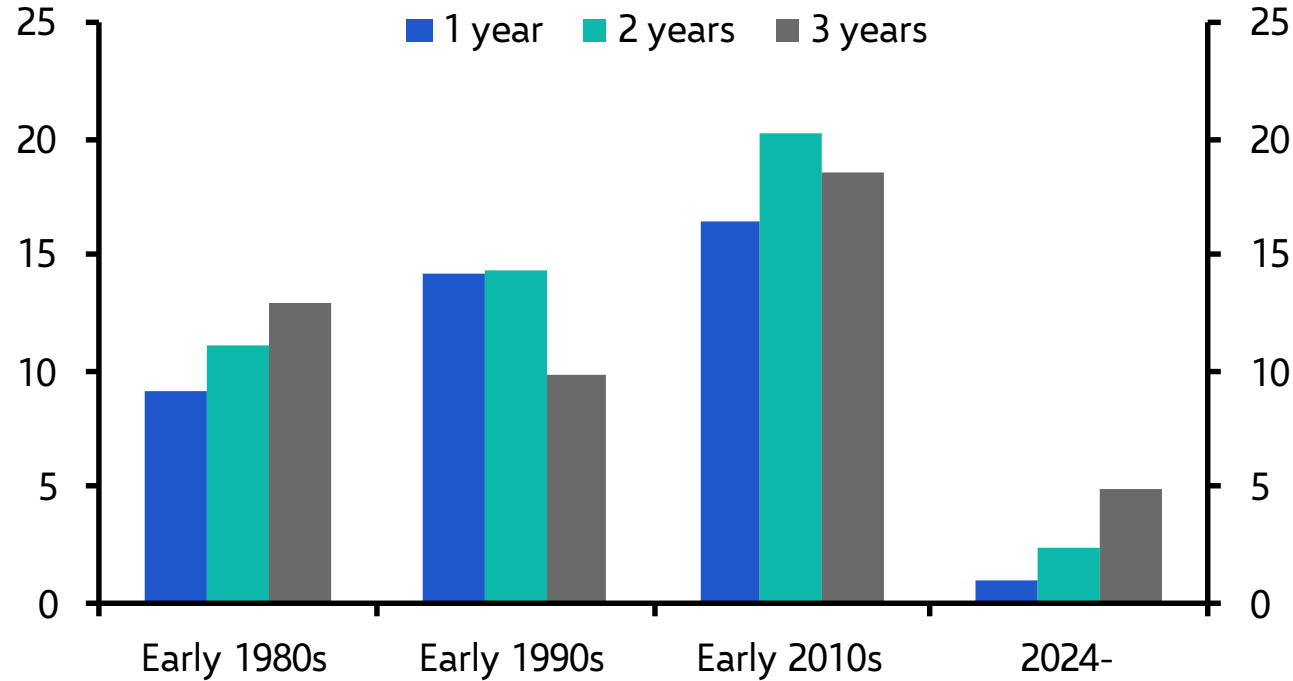
- Why we think the downturn is over and the market primed for recovery.
- How this recovery compares to previous recoveries.
- Which will be the winning and losing countries?
- What sectors will lead (and lag) the recovery in this cycle?
- Discussion.

10-Year Government Bond Yields (%)

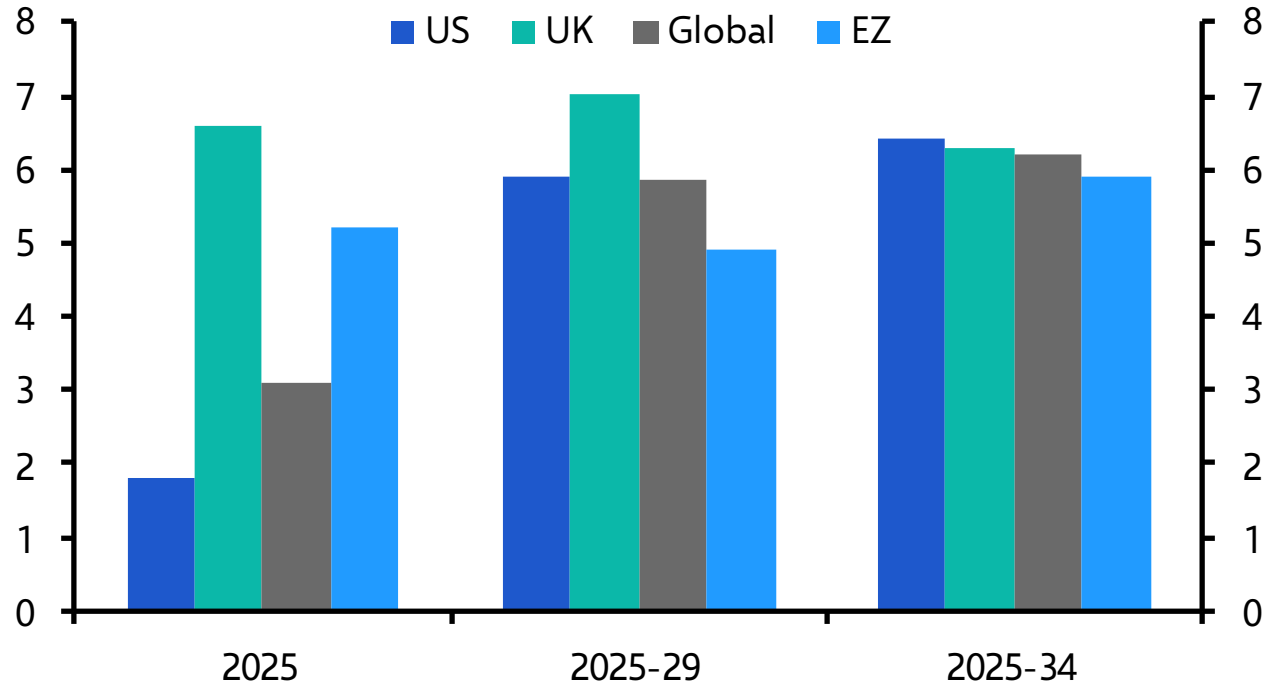


Sources: LSEG, Capital Economics

UK All-Property Capital Values (% Cumulative)

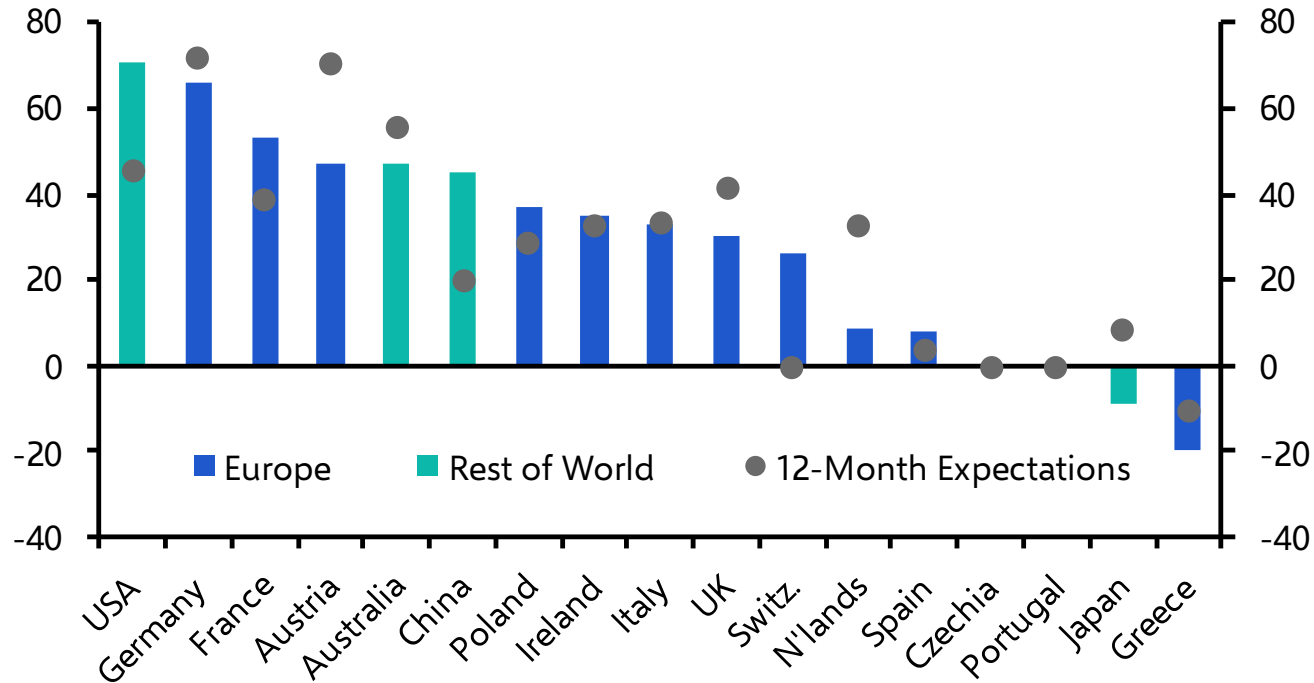


MSCI-based All-Property Forecasts (% p.a.)



Source: Capital Economics

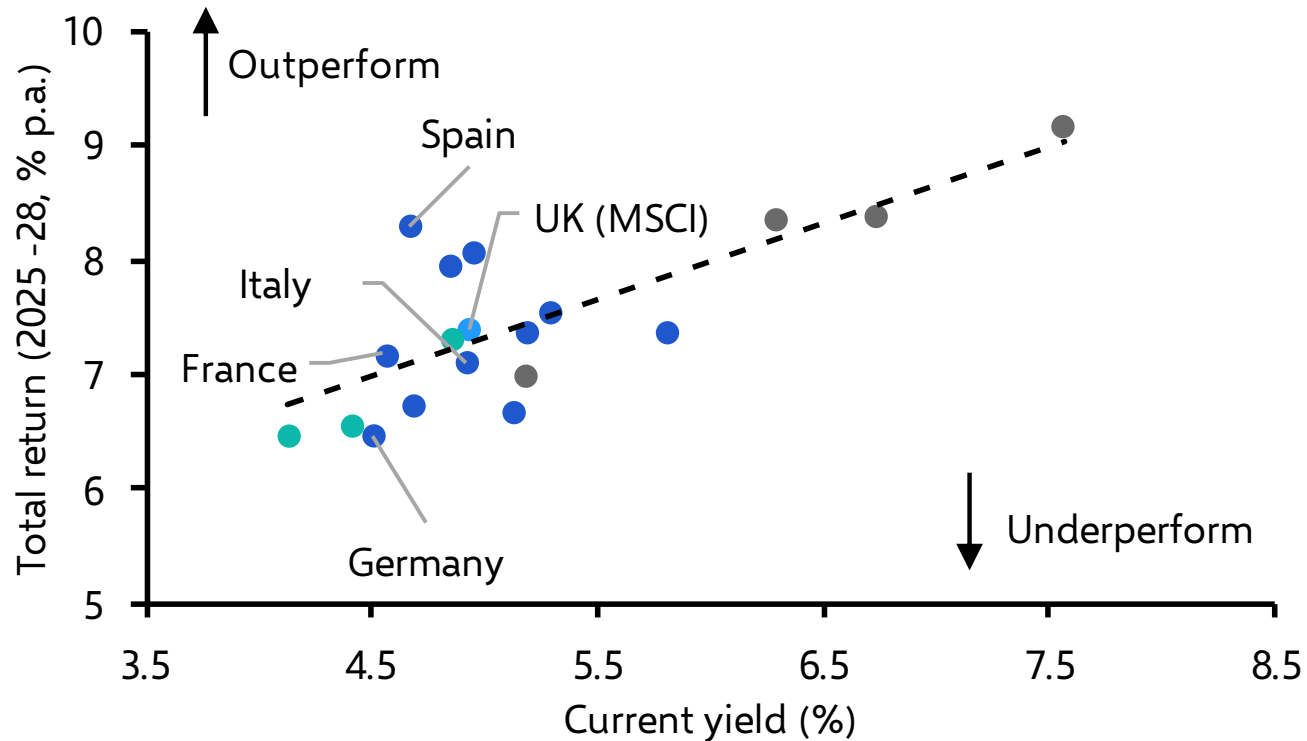
Change in Forced Asset Sales in Last 12 Mths (% Net Bal.)



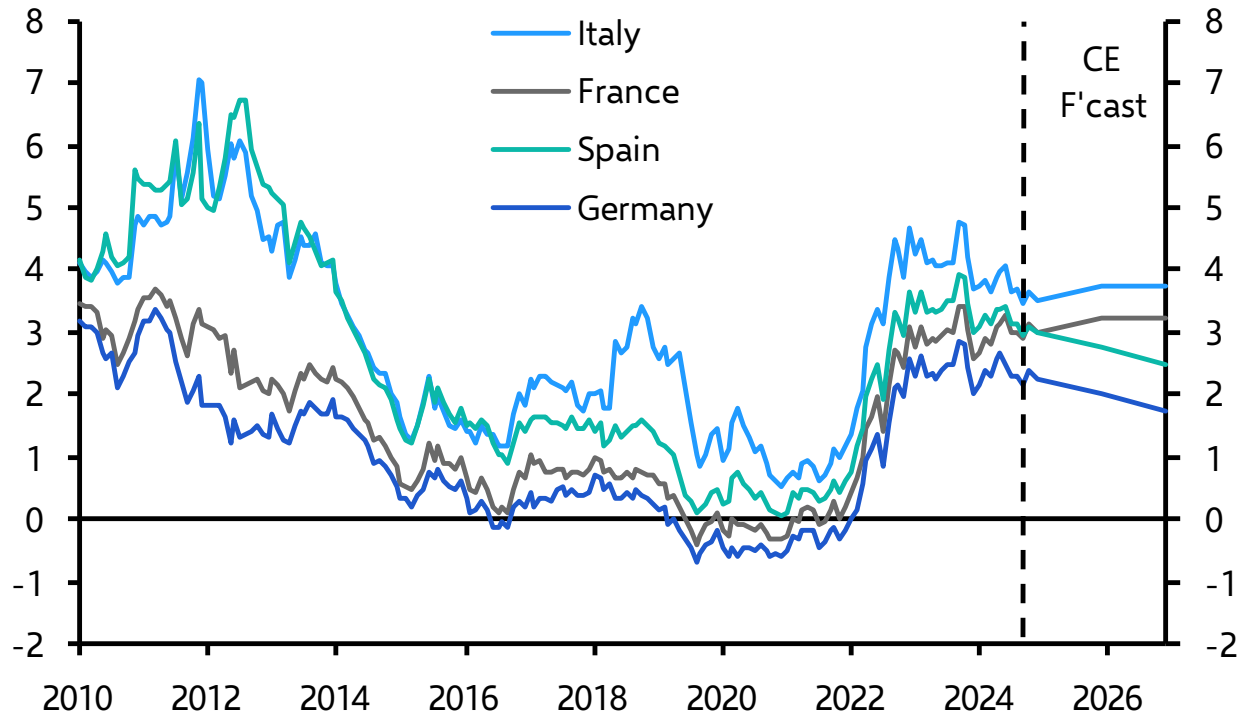
Global Overview Summary

- Interest rates have peaked.
- Commercial property pricing has reached a floor and is set for recovery.
- But the recovery will be a weak one by past standards.
- The UK will lead again in 2025 but will eventually be caught up with.
- More forced sales than expected would pose a downside risk to the recovery.

All-Property Total Returns and Yields



10-Year Government Bond Yields (%)

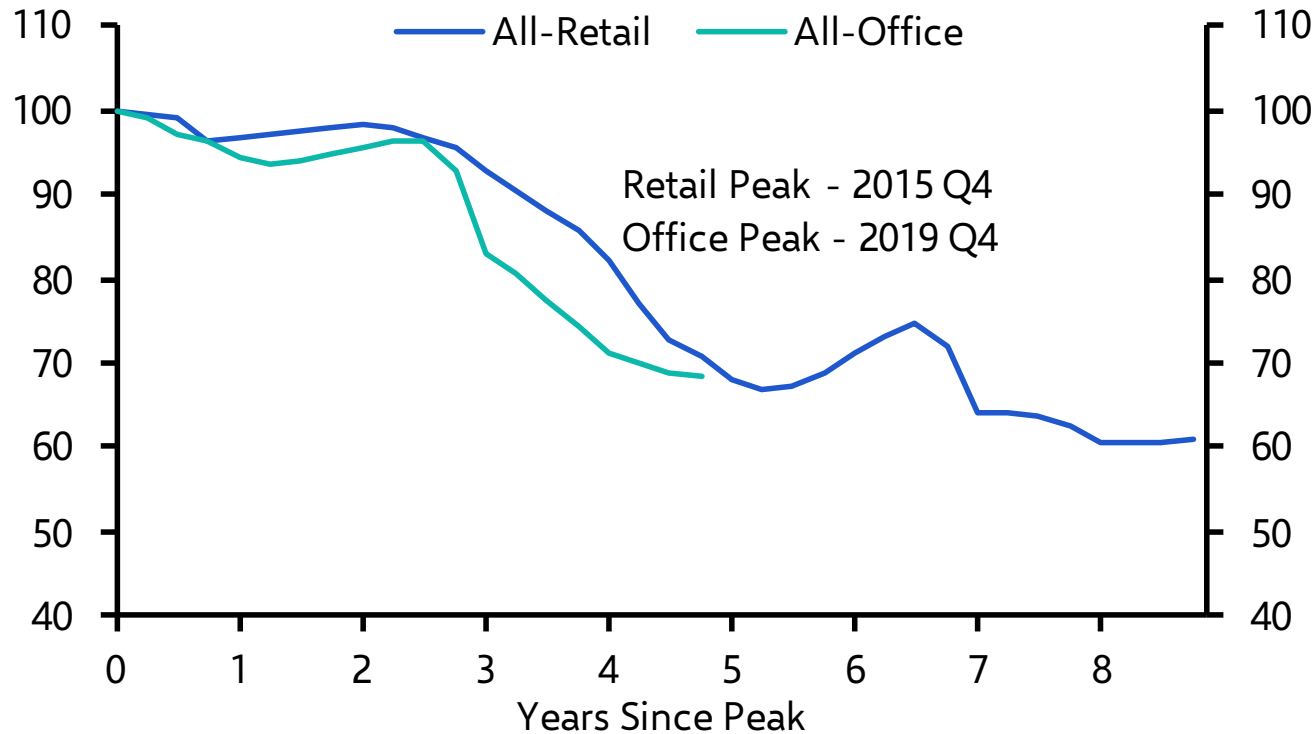


Sources: LSEG, Capital Economics

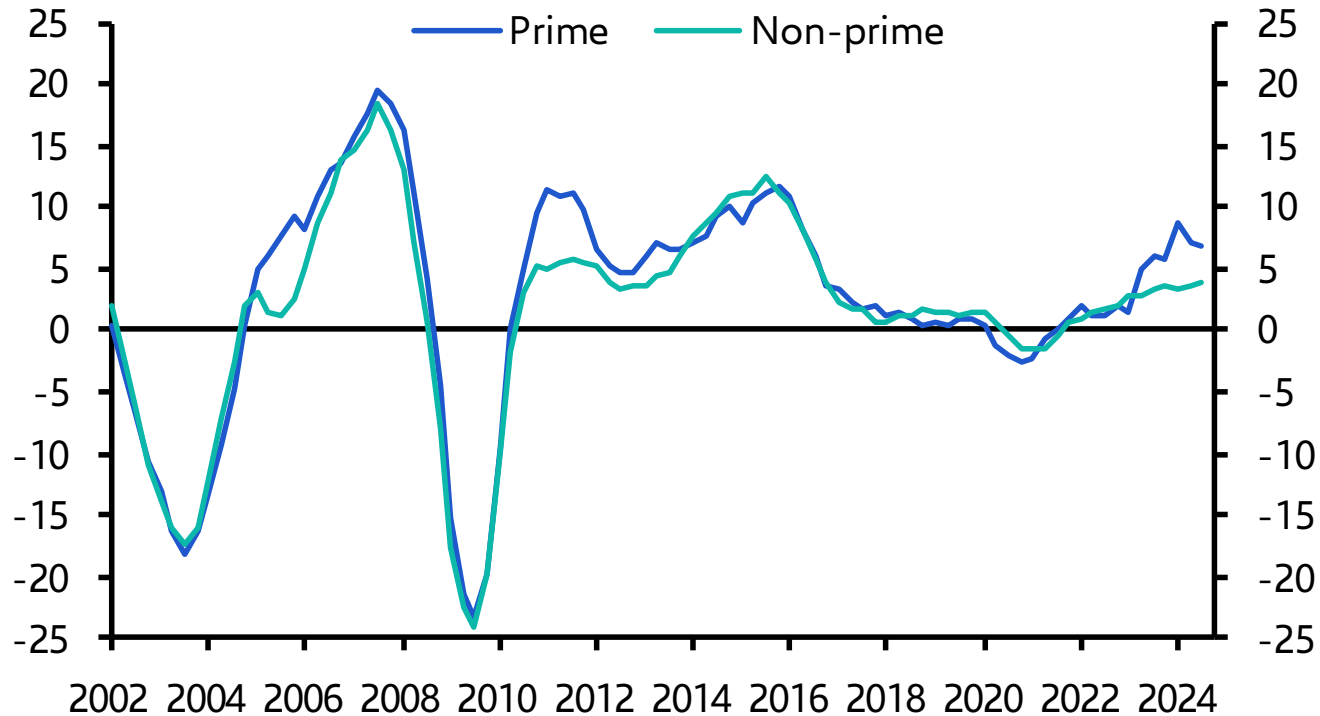
Office Outlook Still Challenging

- Remote work represents a structural hit to demand.
- Employment growth has been slow.
- ESG and the risk of stranded assets.
- Capital values have therefore seen a relatively large fall.

UK Capital Values (Index, Respective Peaks = 100)

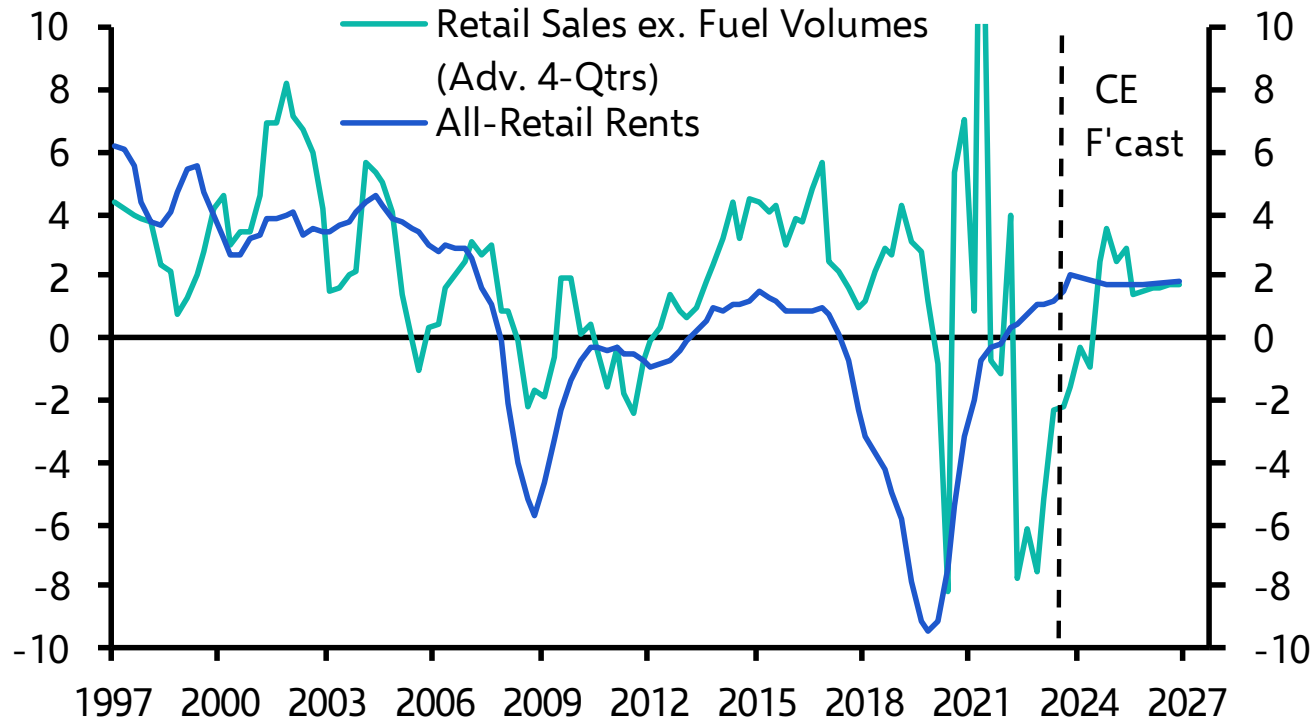


Central London Office Rental Growth (% y/y)



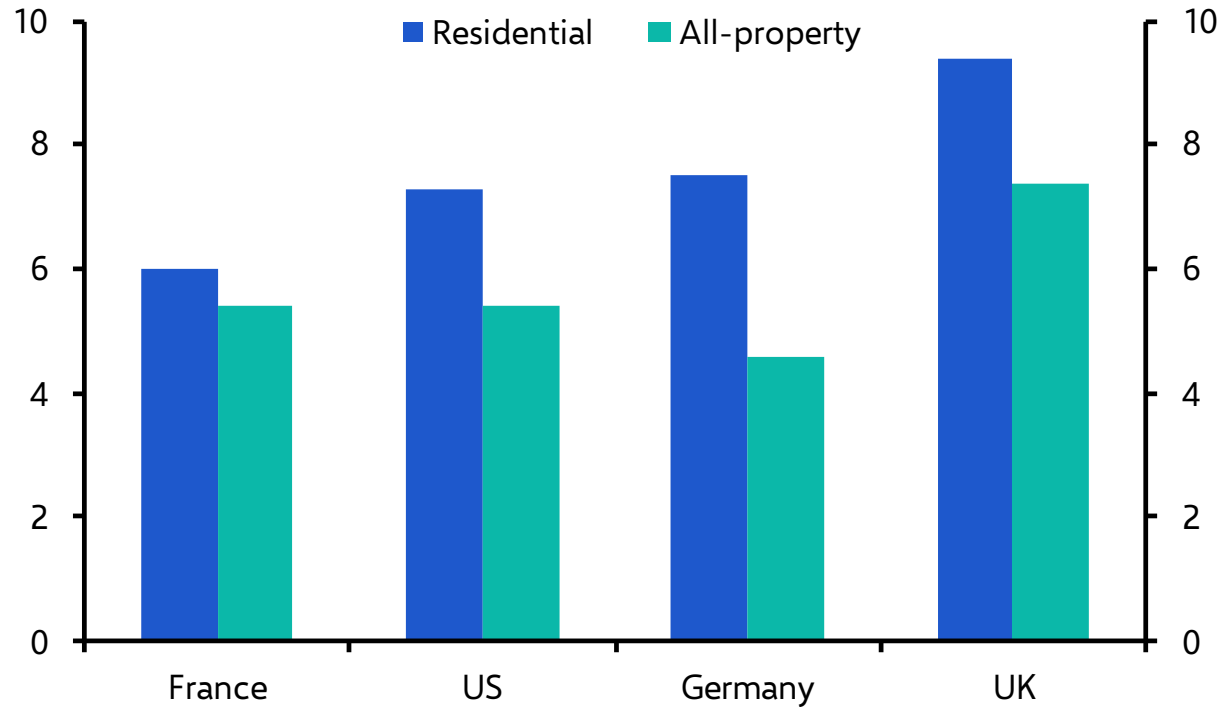
Sources: MSCI, Capital Economics

Retail Sales & All-Retail Rents (% y/y)



Sources: ONS, MSCI, Capital Economics

Residential and All-Property Returns (2025-28, % p.a.)



Source: Capital Economics

Conclusions

- Commercial property is primed for recovery.
- However, the higher interest rate environment means this will be the weakest property recovery since at least 1980.
- We expect Germany to underperform over the coming years, while Spain outperforms. The UK will sit roughly in the middle.
- Offices will fare poorly as their structural adjustment continues.
- Retail and residential stand out as winners, albeit for very different reasons.

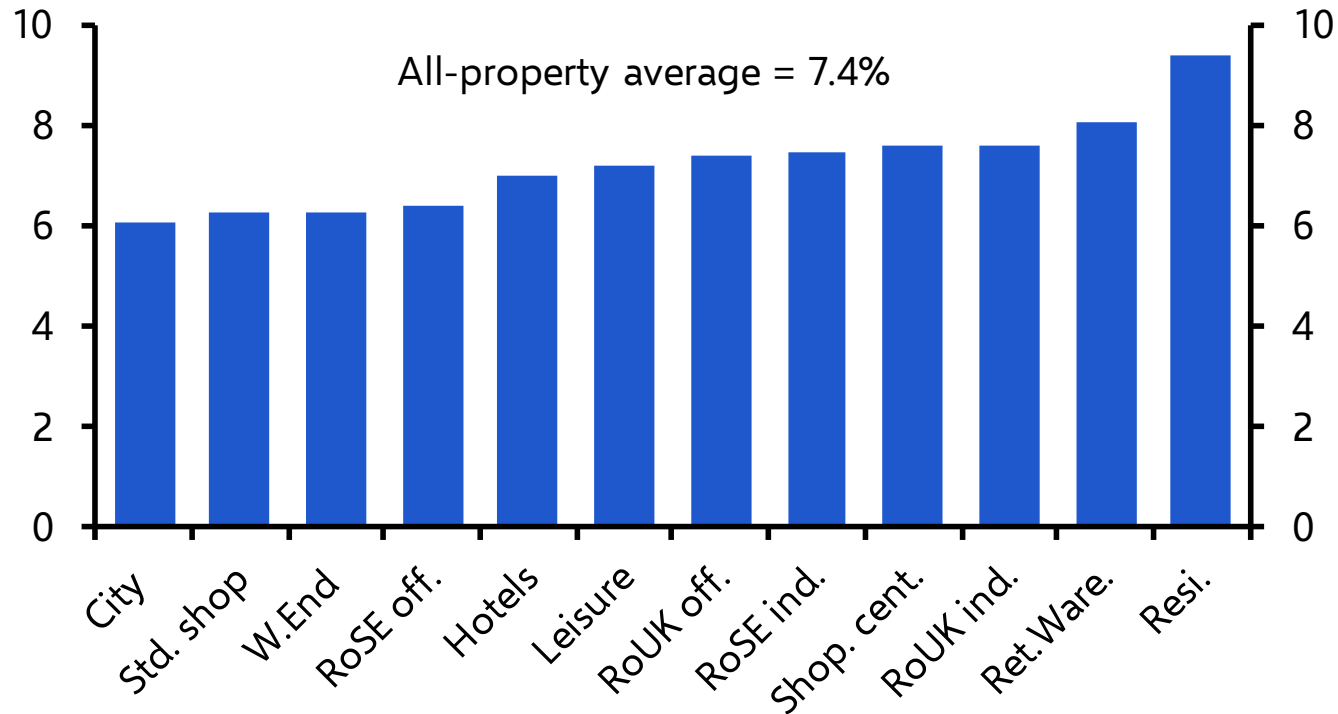
Additional Material



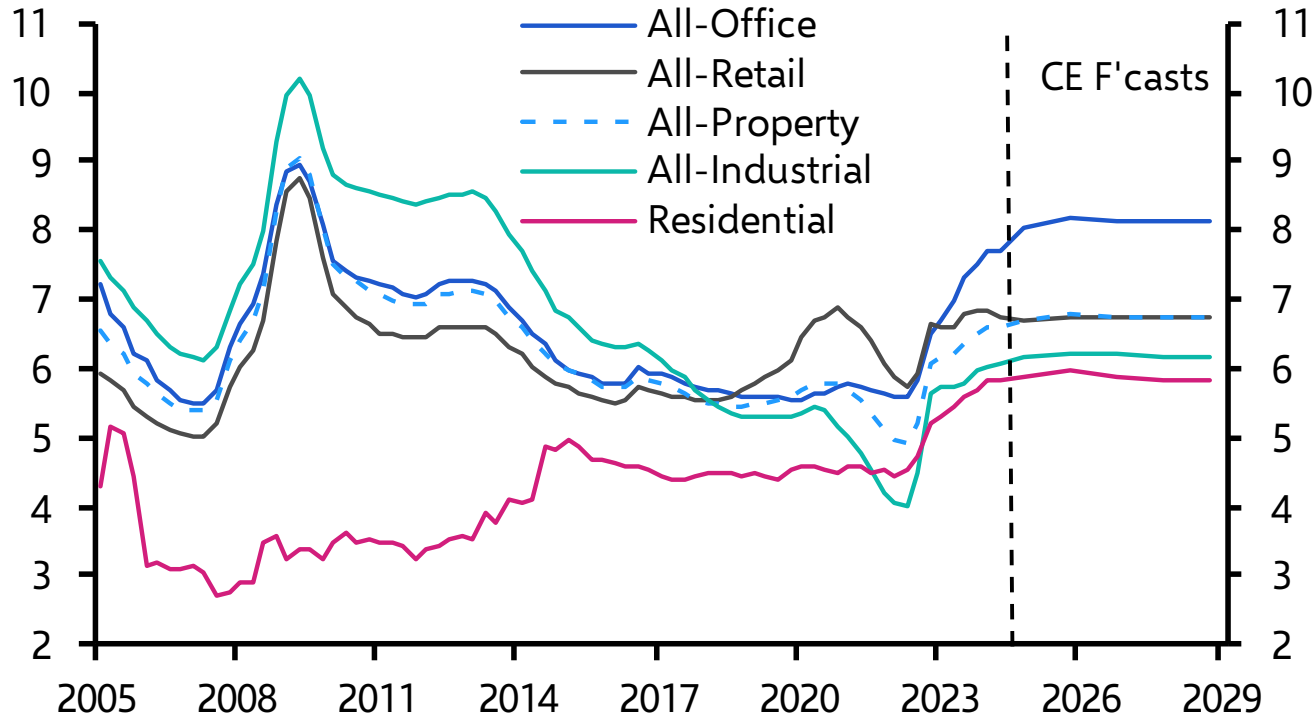
UK



UK Total Return Forecasts 2025-28 (% p.a.)

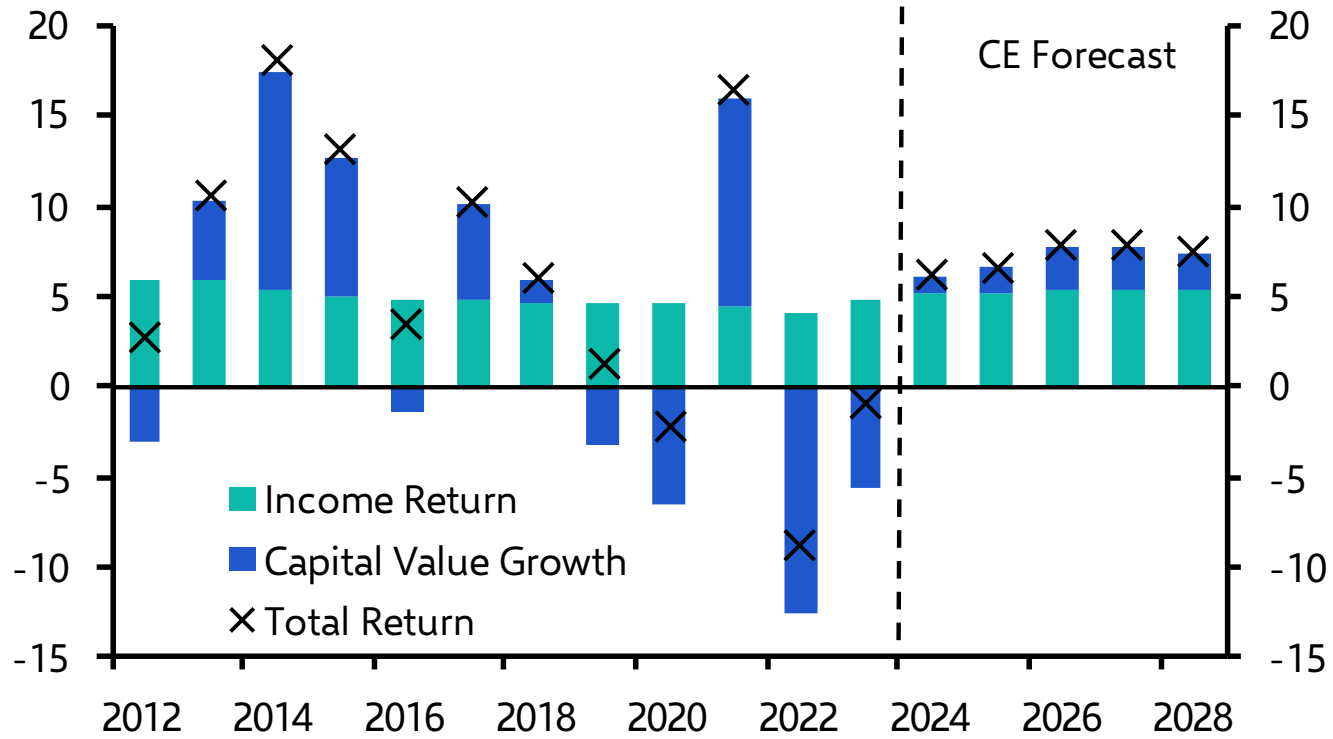


UK Equivalent Yields by Sector



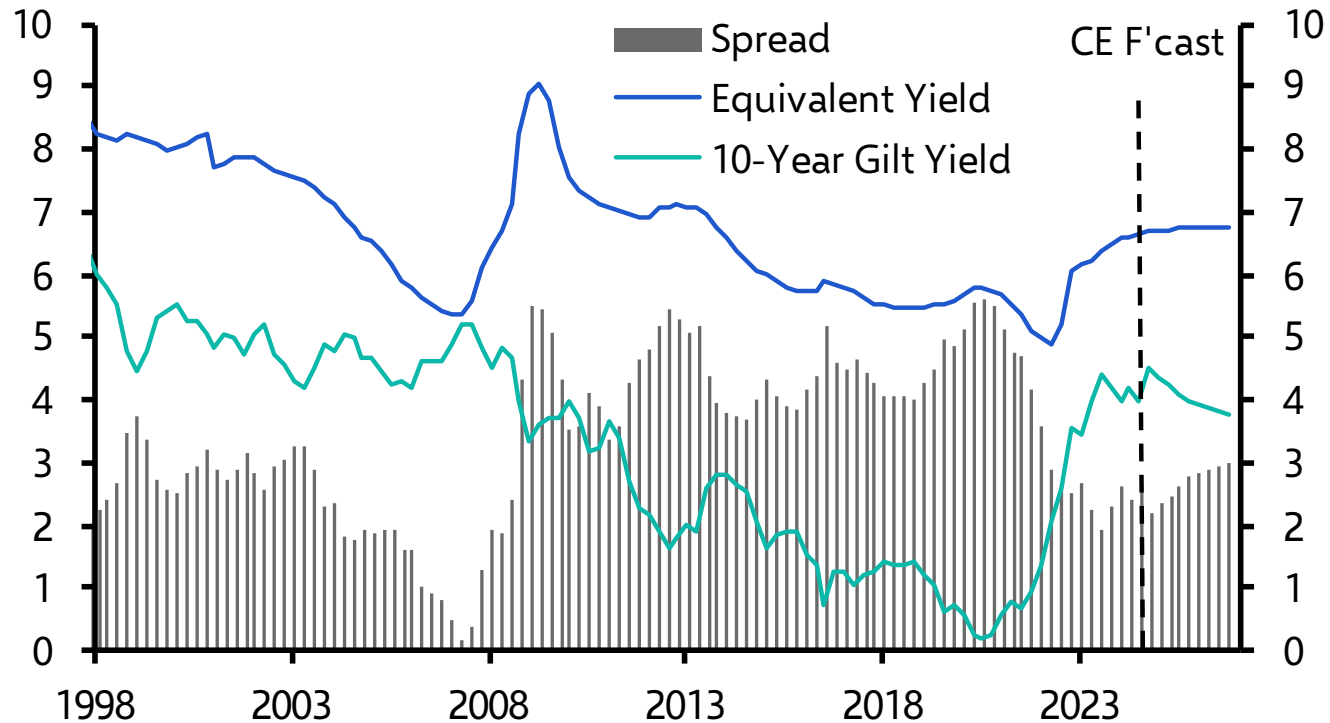
Sources: MSCI, Capital Economics

UK All-Property Total Returns Breakdown (% y/y)

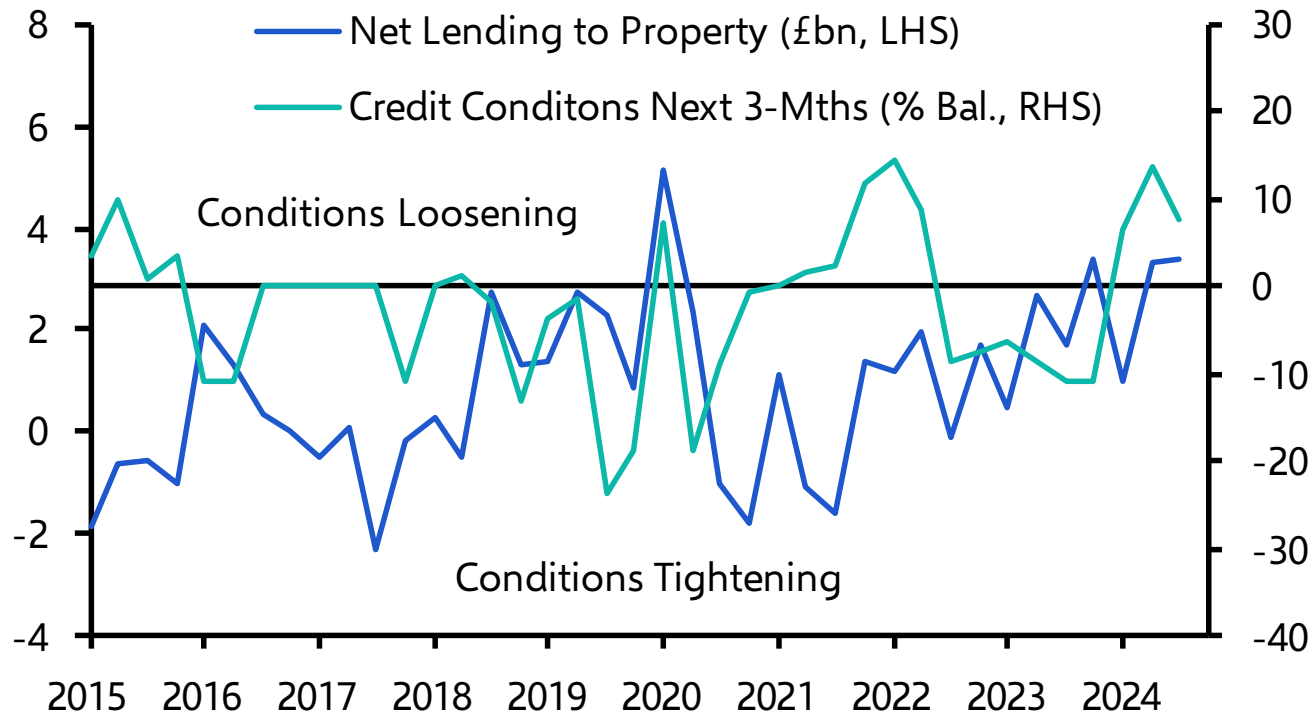


Sources: MSCI, Capital Economics

All-Property Equivalent Yield & 10-Year Gilt Yield (%)

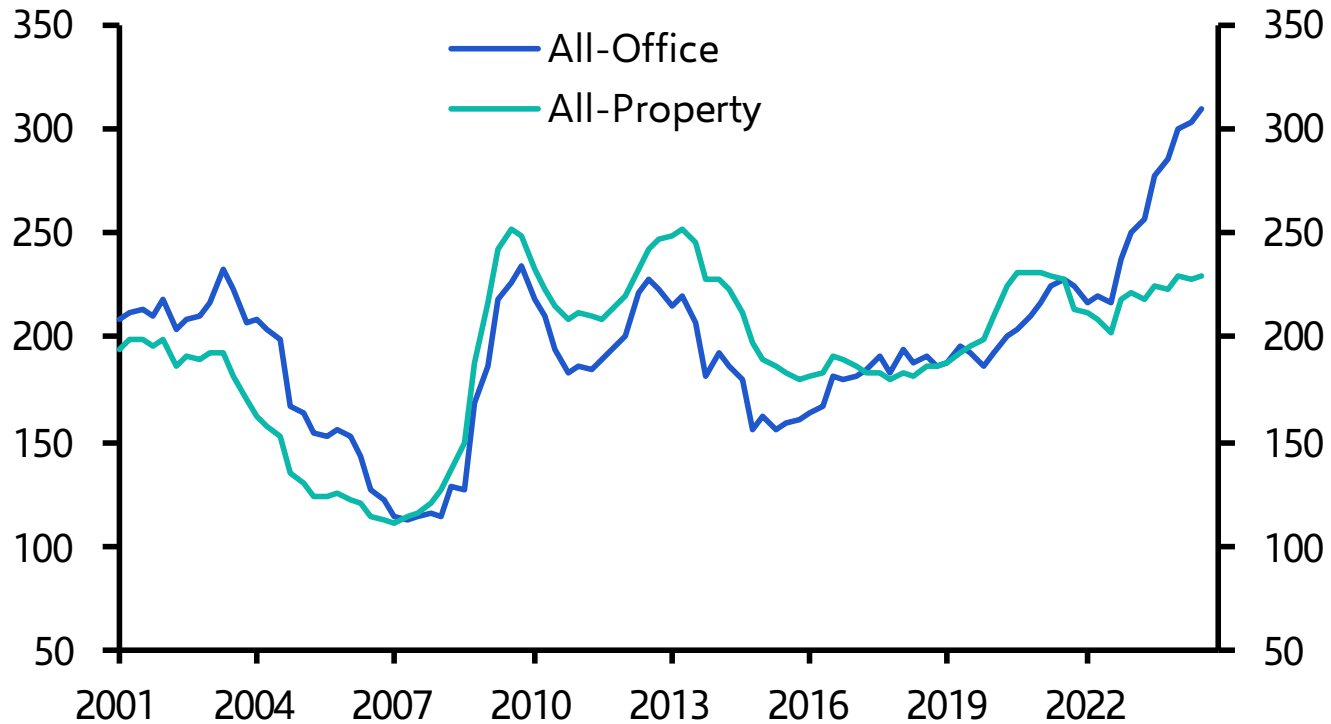


Commercial Real Estate Net Lending & Credit Conditions



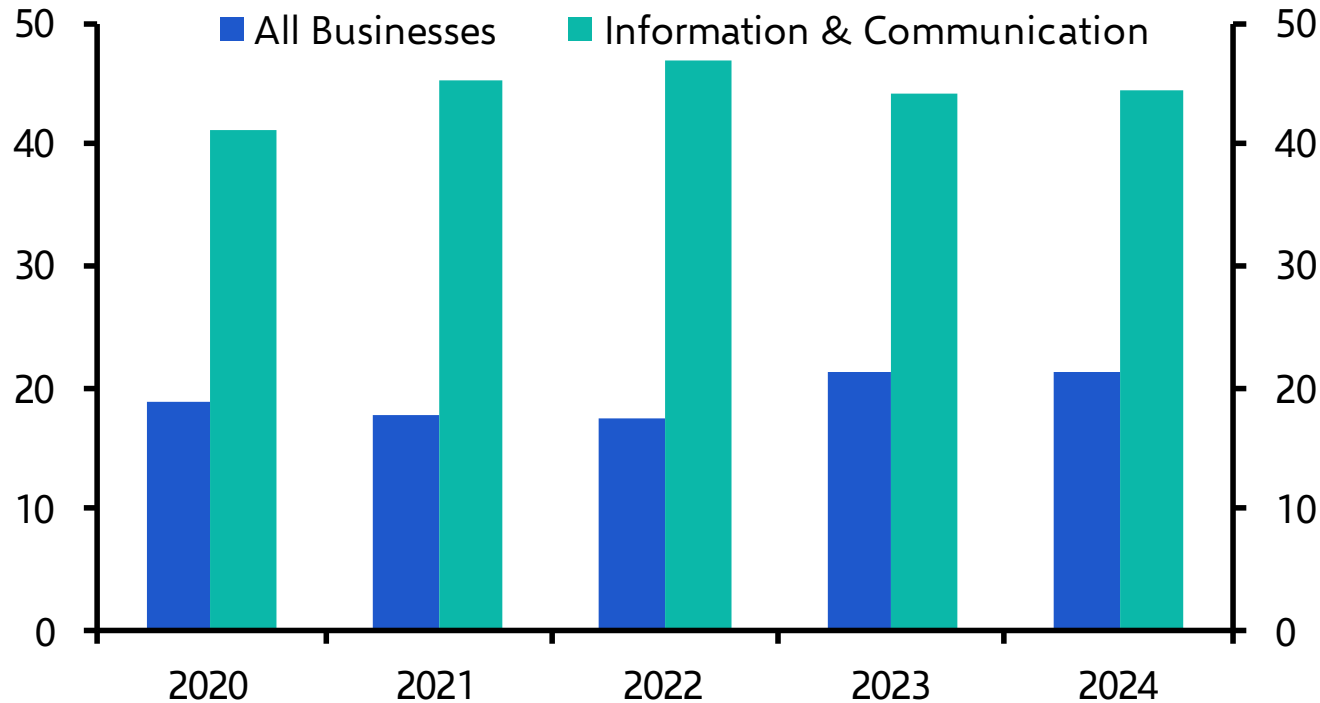
Source: Bank of England

UK Prime/Non-Prime Equivalent Yield Spread (bps)



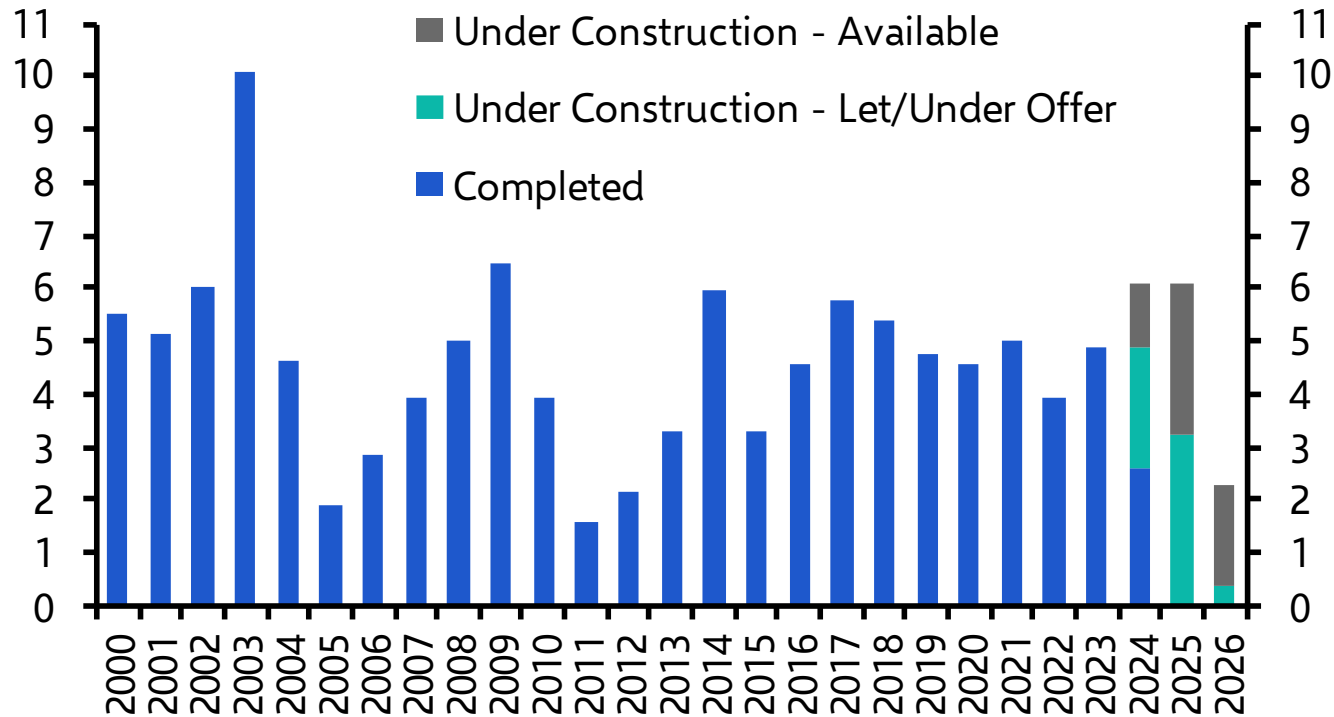
Sources: MSCI, Capital Economics

Share of Businesses Using Remote Work Permanently (%)



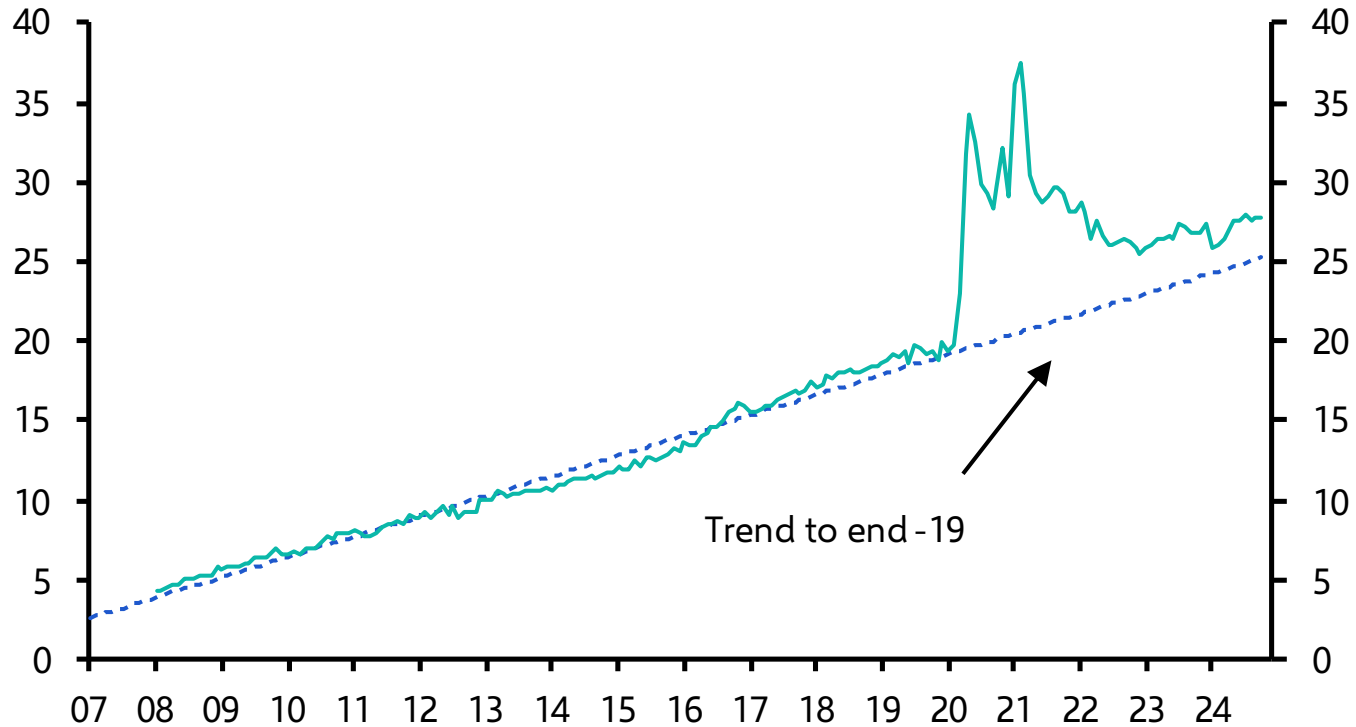
Source: ONS

Central London Development Pipeline (M. Sq. Ft.)



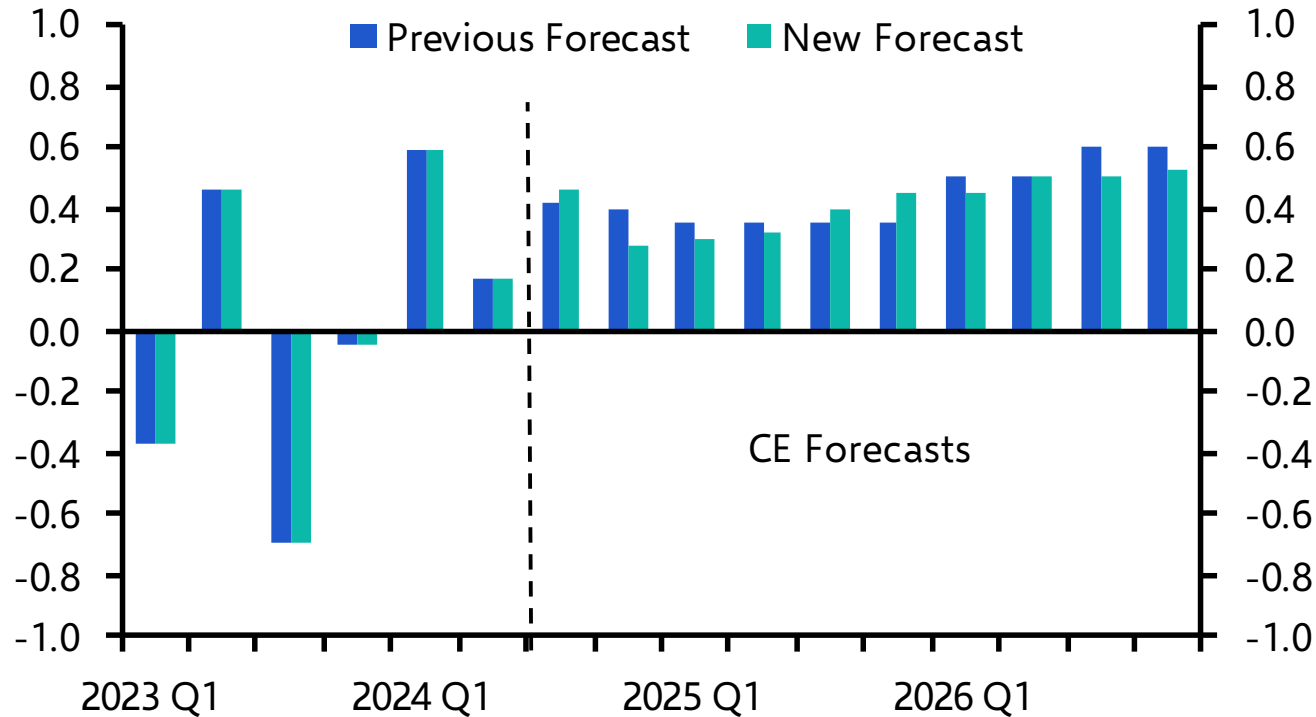
Source: CBRE

Online Share of Retail Sales (%)

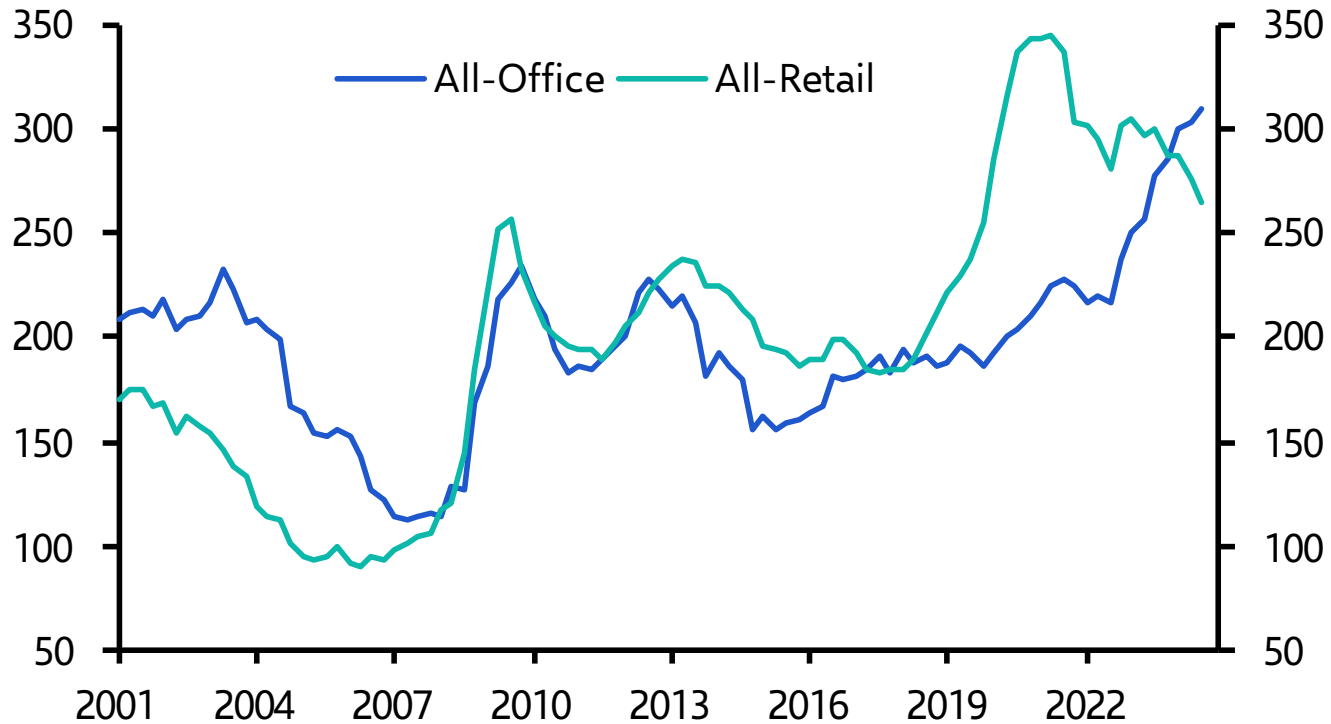


Sources: ONS, Capital Economics

UK Consumption Growth (% q/q)

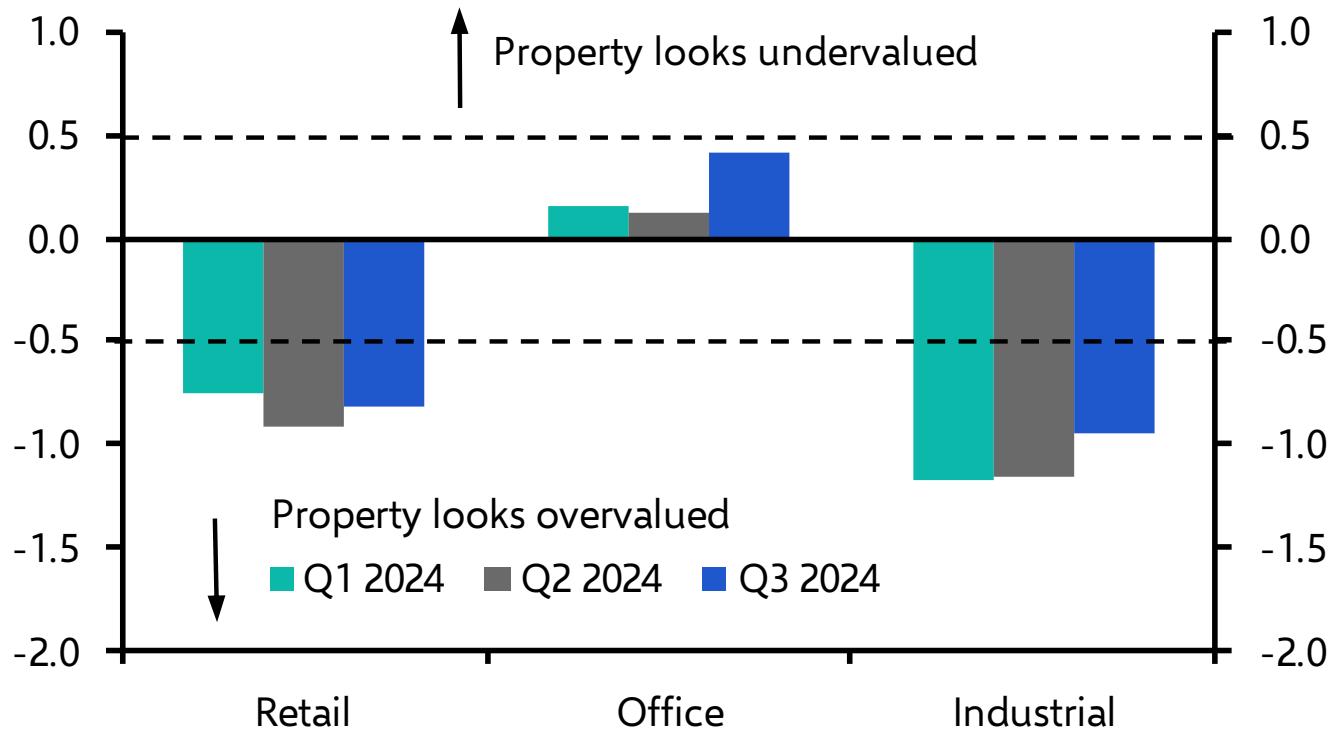


UK Prime / Non-Prime Equivalent Yield Spread (bps)



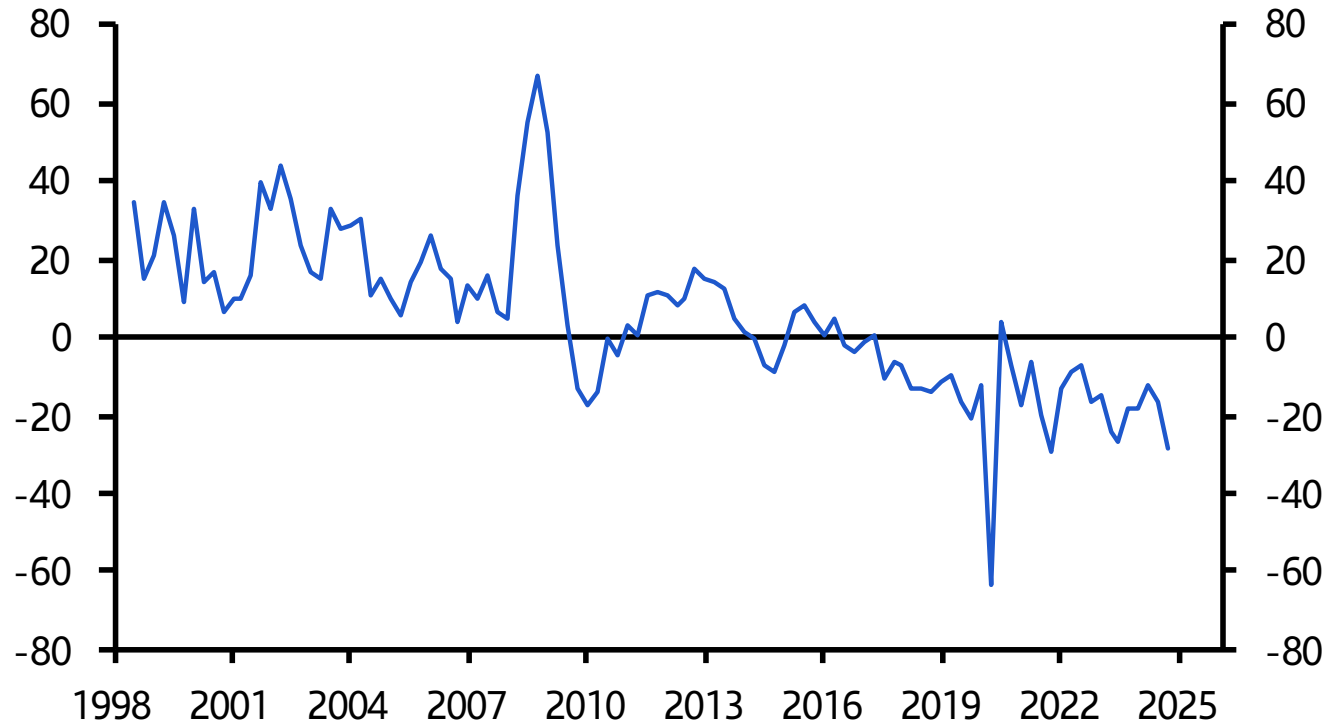
Sources: MSCI, Capital Economics

Sector Valuation Scores



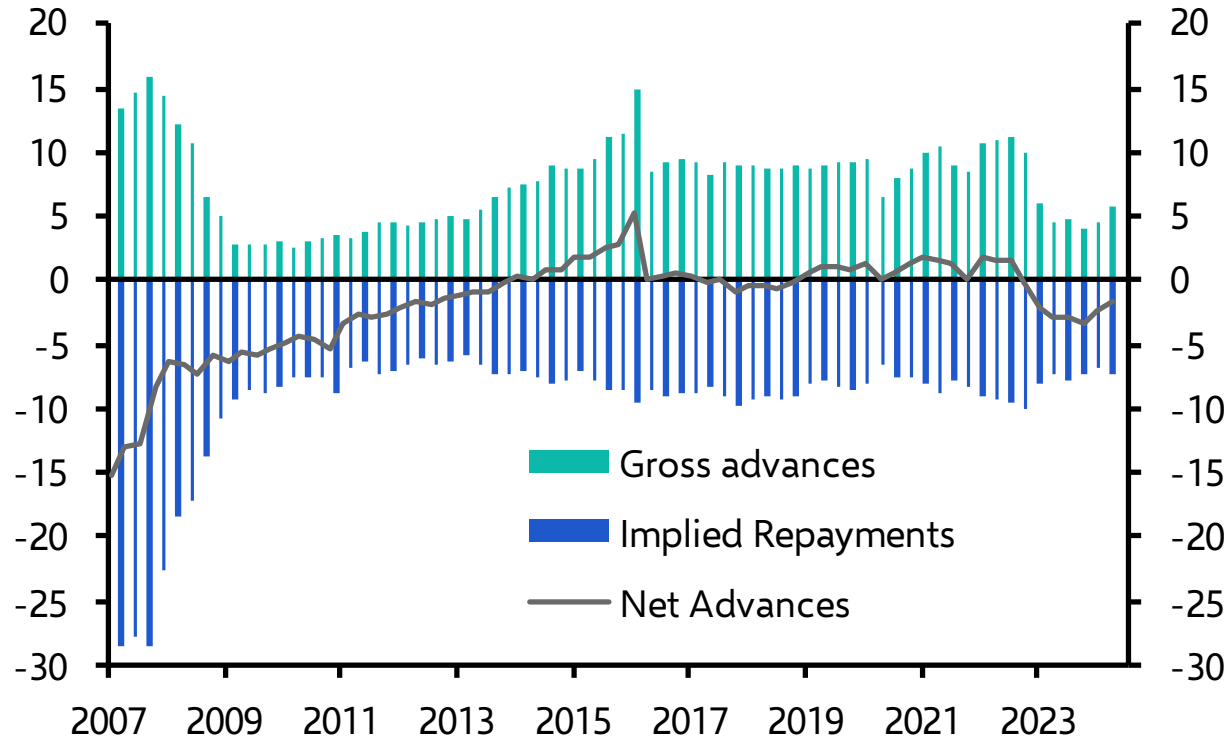
Source: Capital Economics

RICS Landlord Instructions (% Bal.)



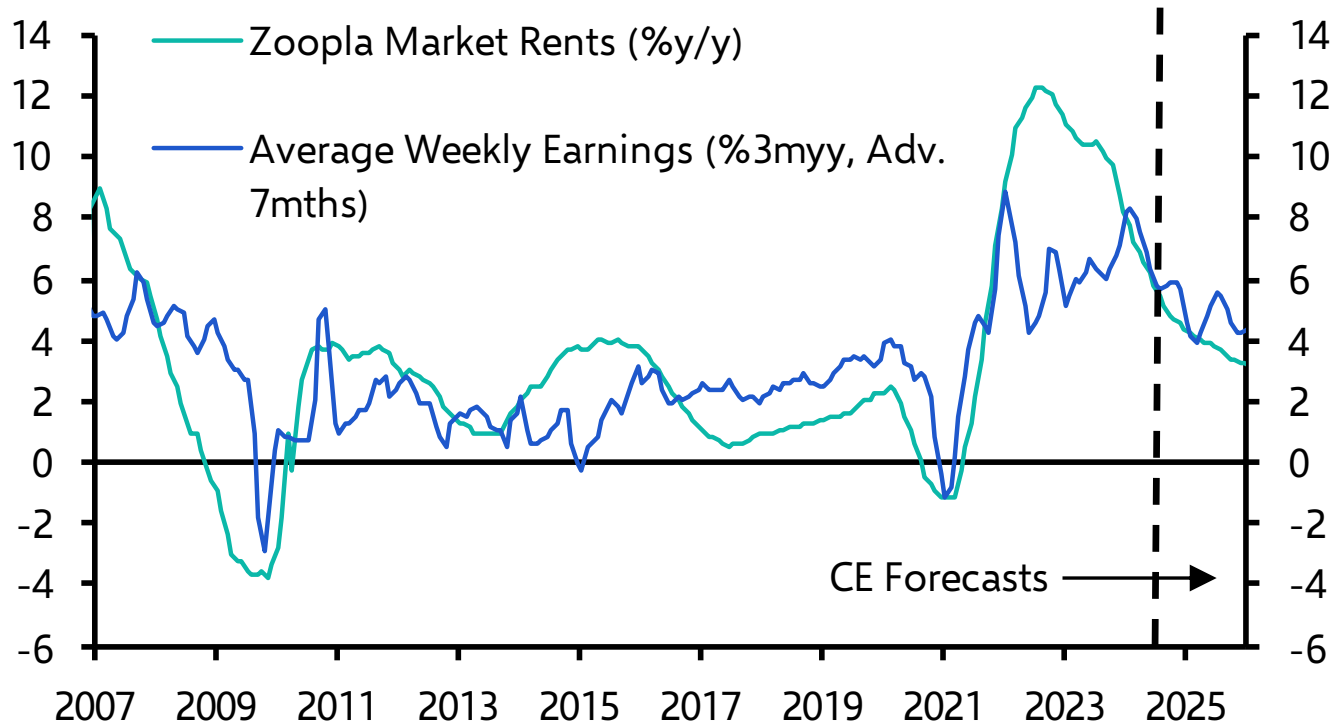
Source: RICS

Unregulated (i.e. BTL) Mortgage Lending (£bn)



Sources: Bank of England, Capital Economics

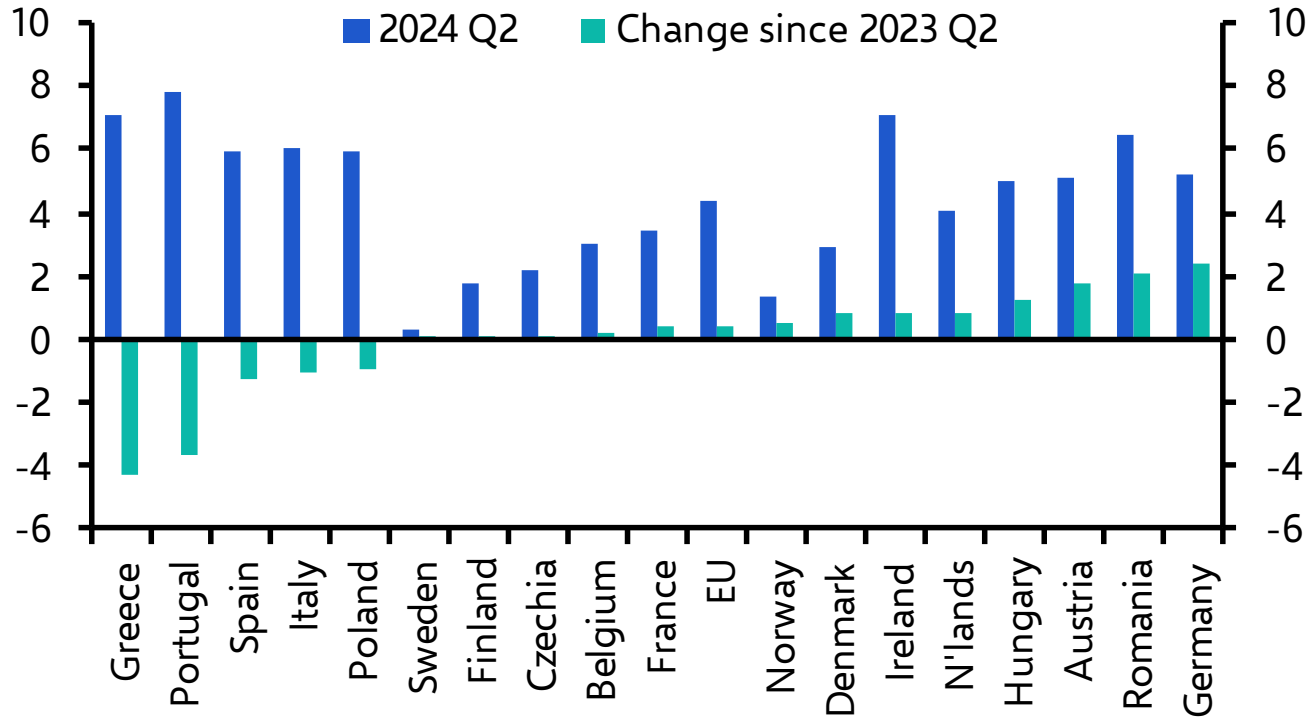
Average Weekly Earnings & Private Market Rent



Europe

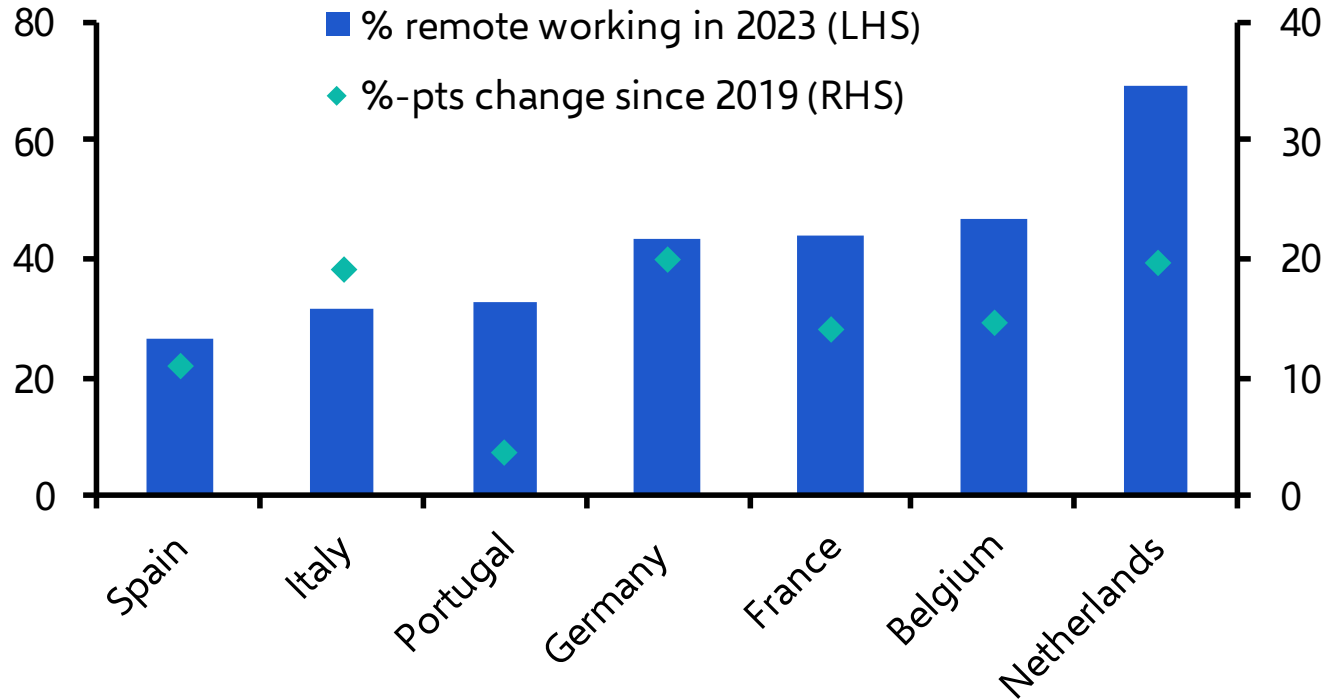


NPL Ratio on Commercial Lending (%)



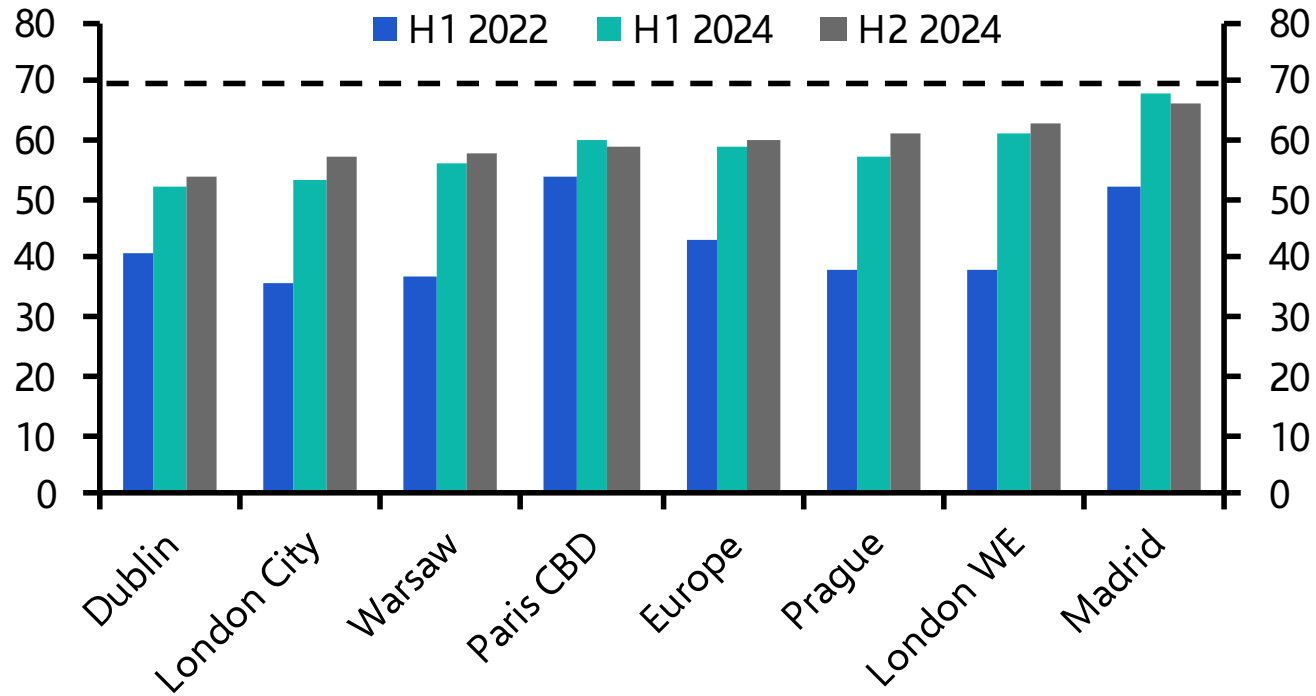
Source: EBA

Share of WFH in Office Based Sectors (%)



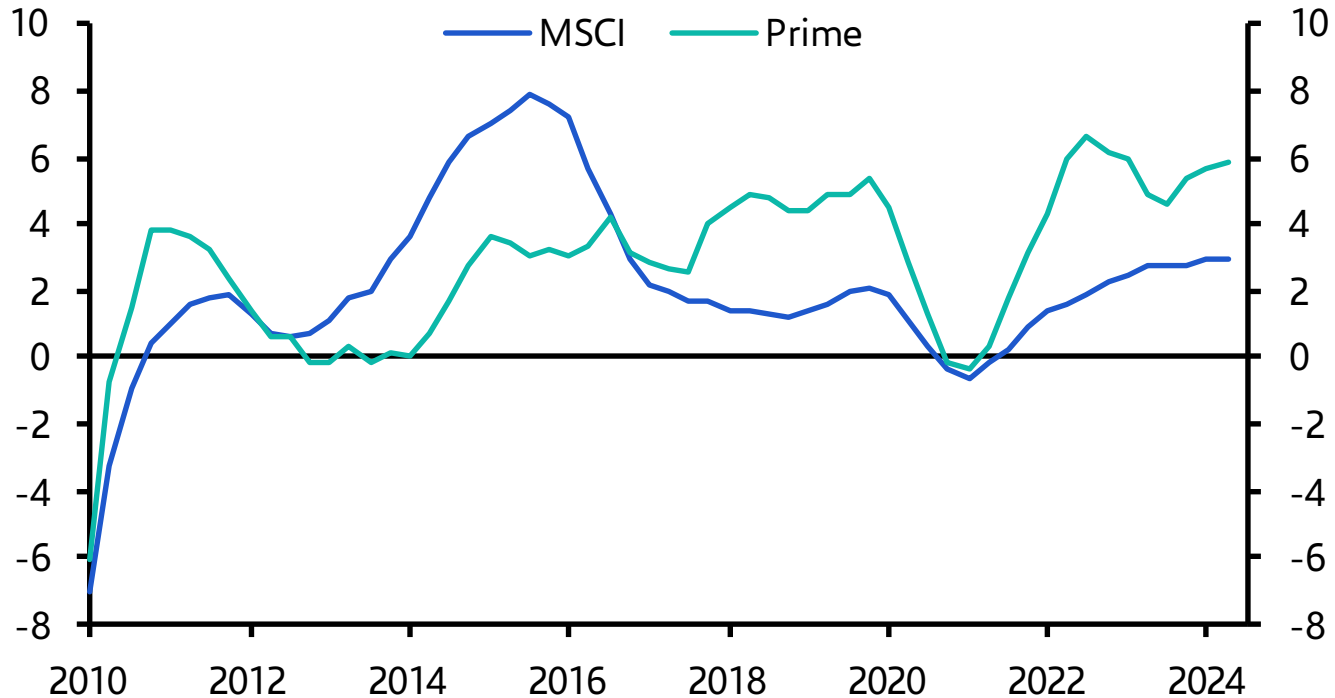
Sources: Eurostat, Capital Economics

Europe Office Occupancy Rates (%)



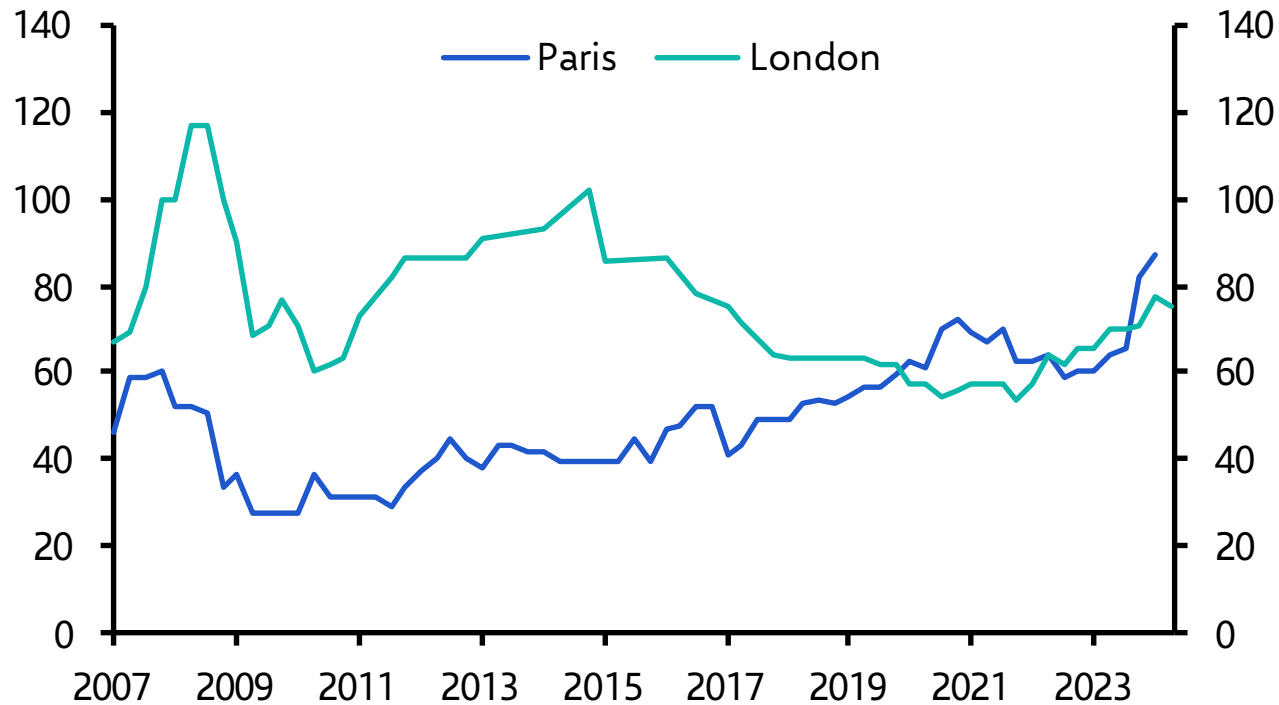
Source: Savills

Europe Prime vs Average Office Rental Value Growth (% y/y)



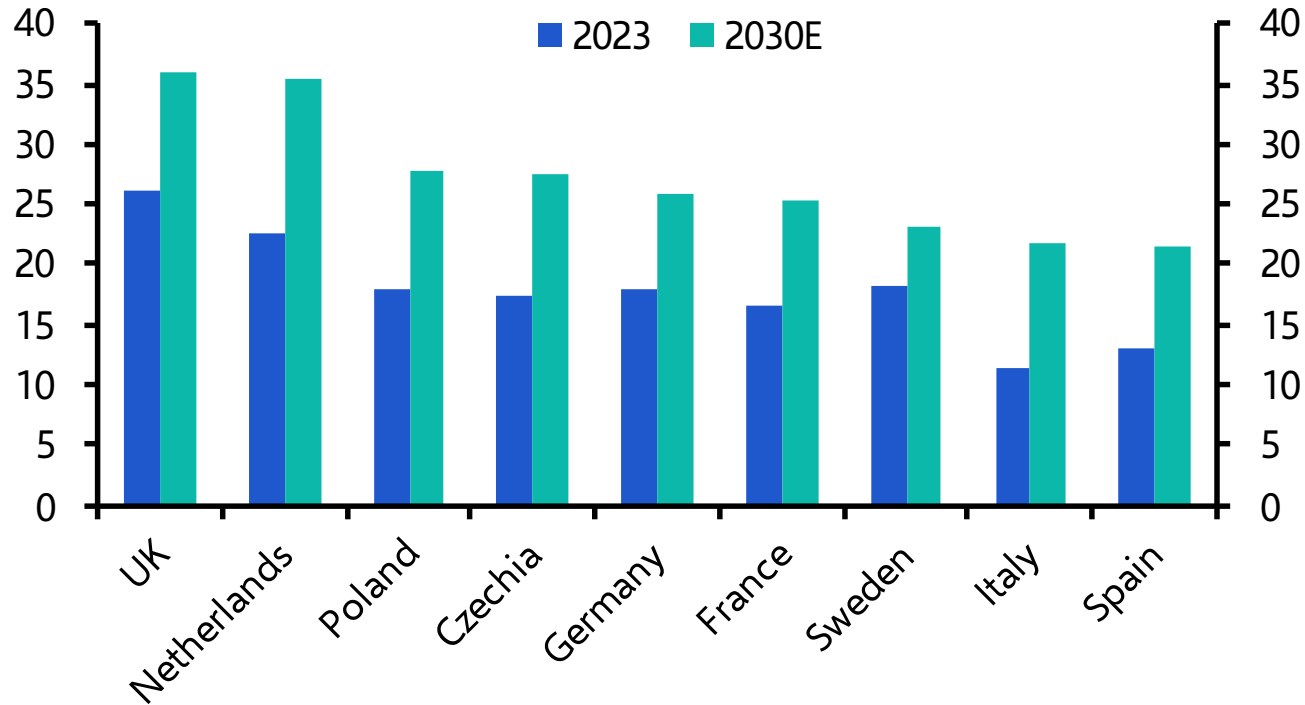
Sources: MSCI, Capital Economics

CBD Rent Premium* (Average %)



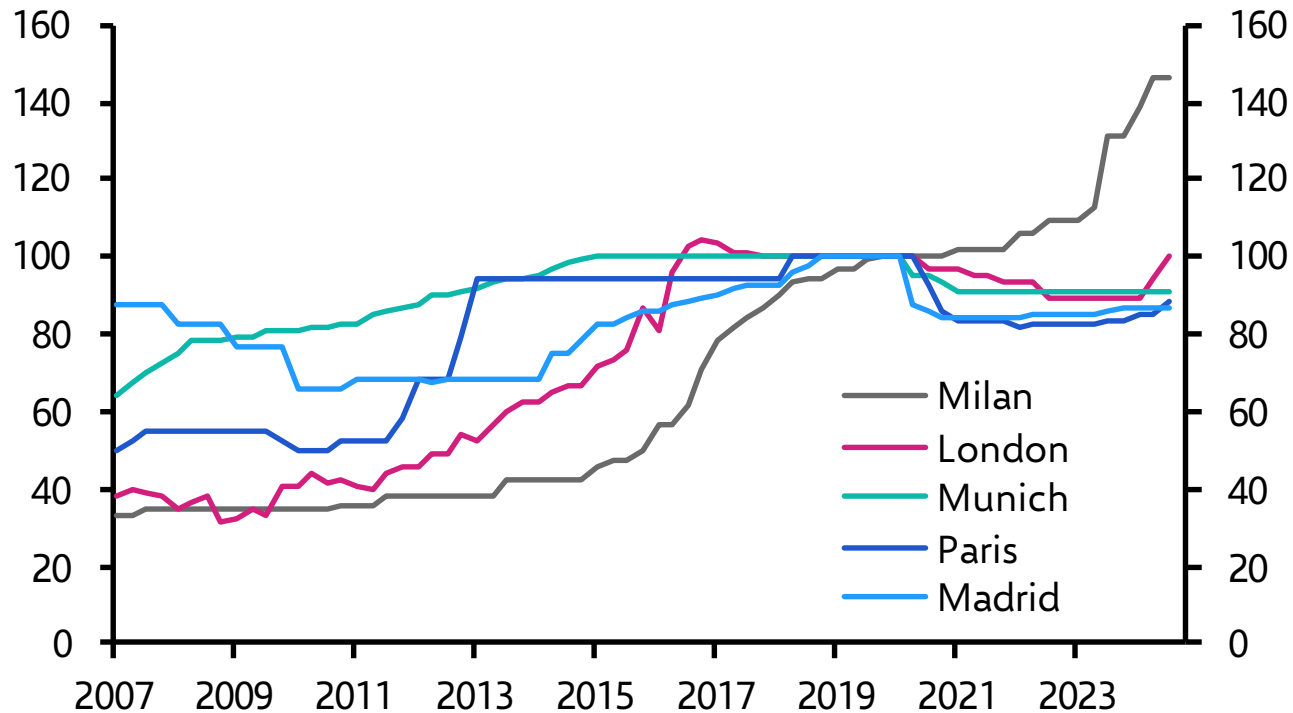
Sources: Various Agents, CE *over next most expensive submarket

Online Retail Shares (%)



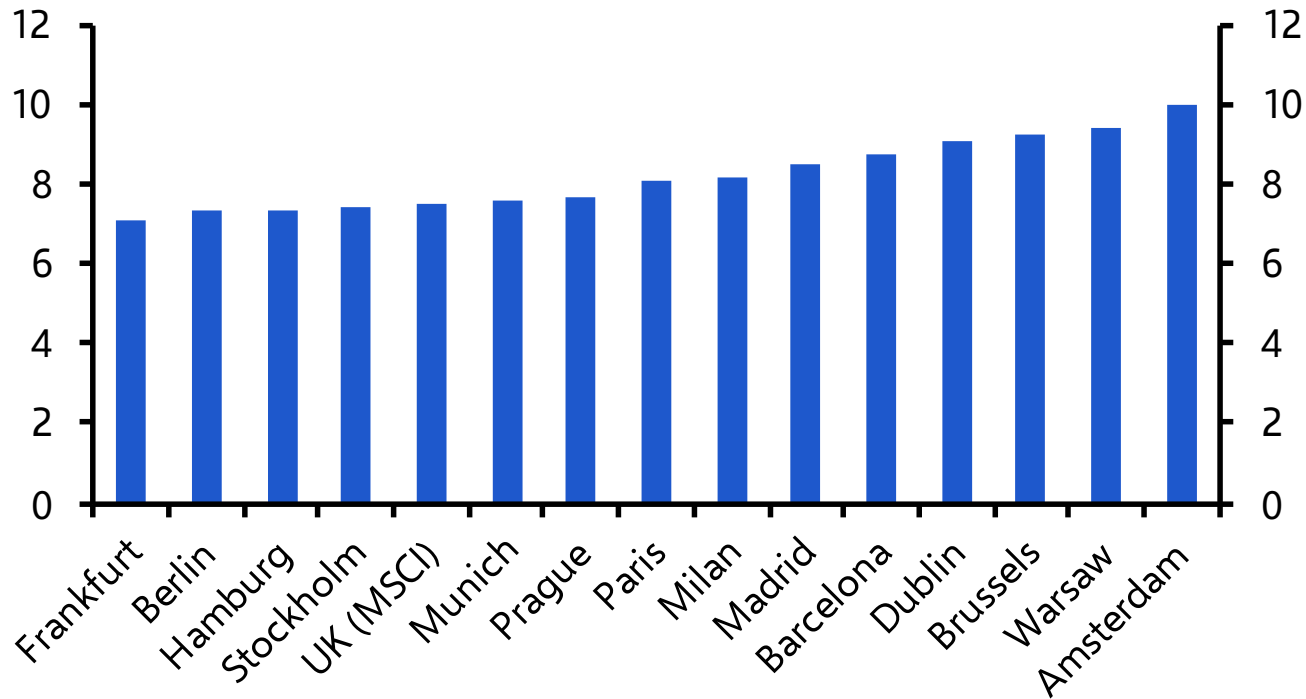
Source: Garbe

Prime High Street Rents (2019 Q4 = 100)

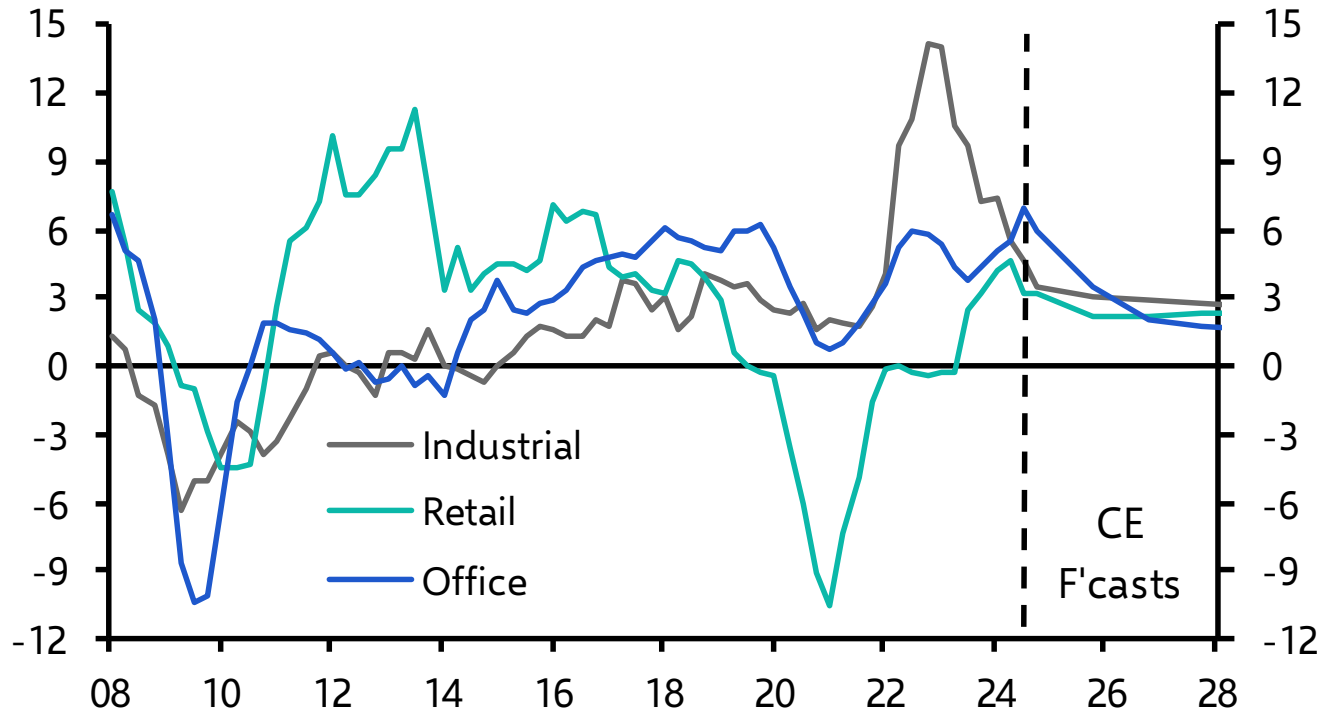


Sources: Various Agents, Capital Economics

Industrial Returns (2025-28, % p.a.)

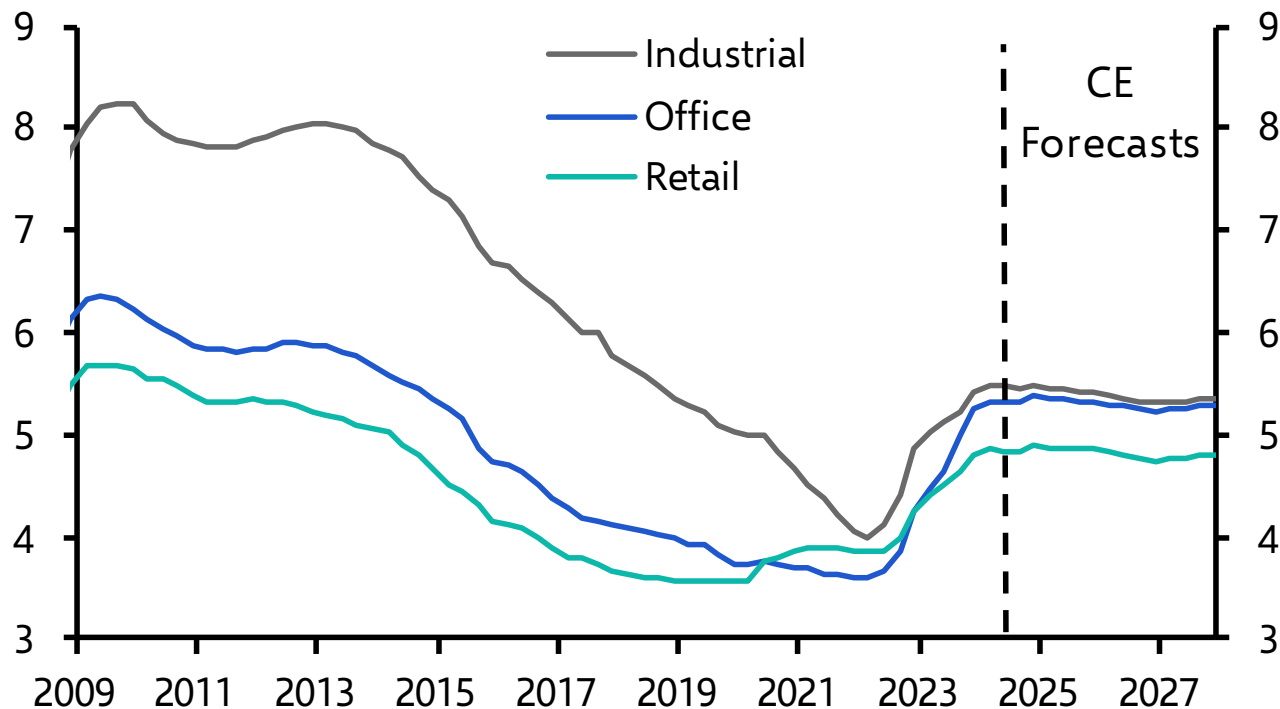


Euro-zone Prime Rental Growth (% y/y)



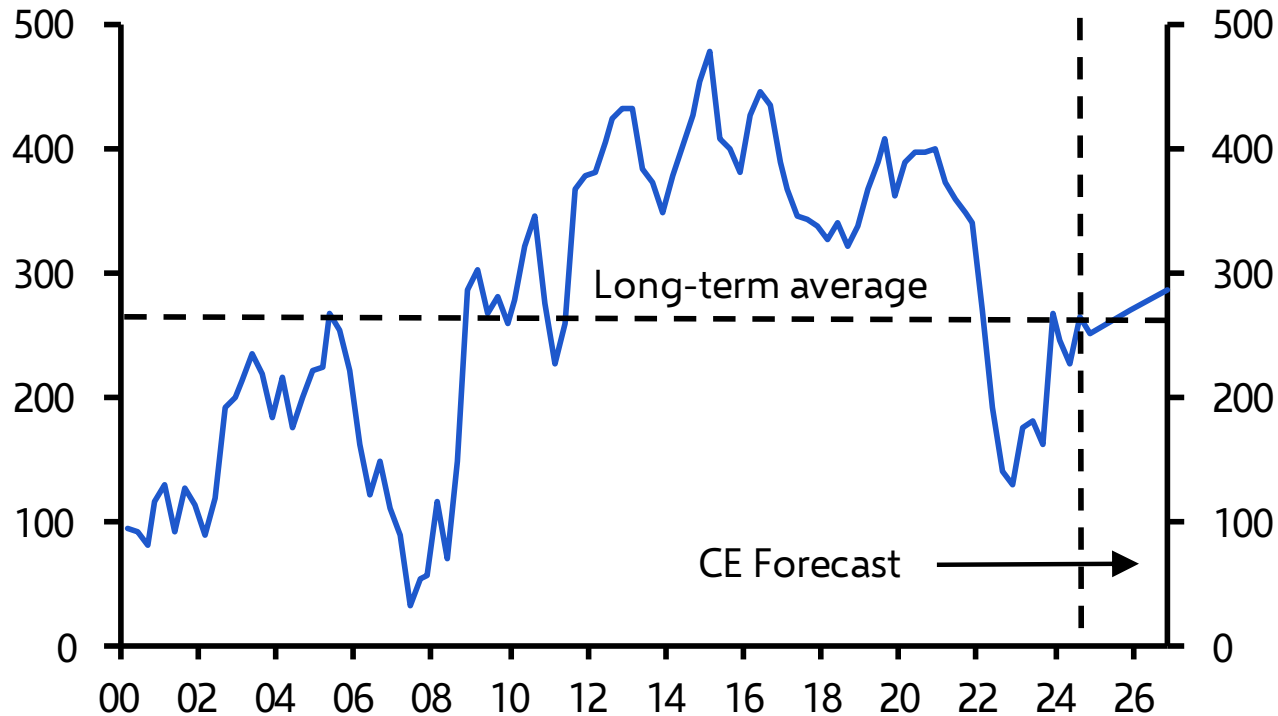
Source: Capital Economics

Euro-zone Prime Yields (%)



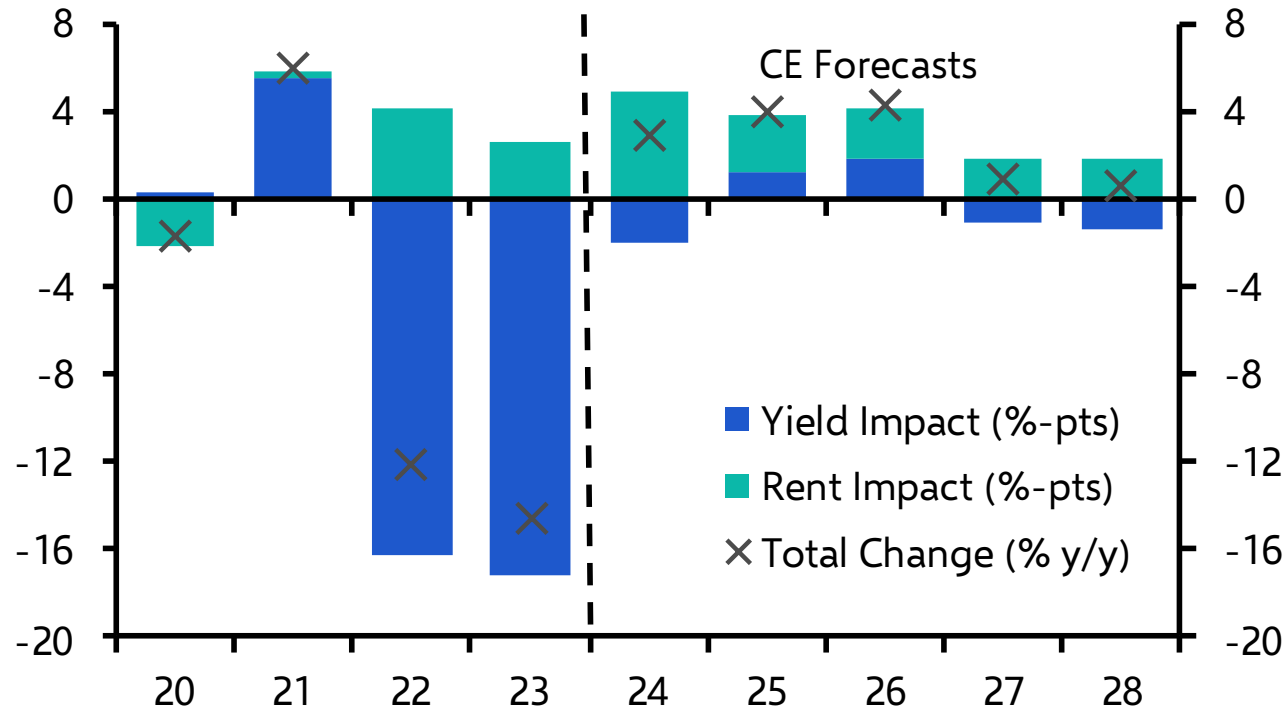
Source: Capital Economics

Euro-zone All-Property to Bund Yield Spread (Bps)



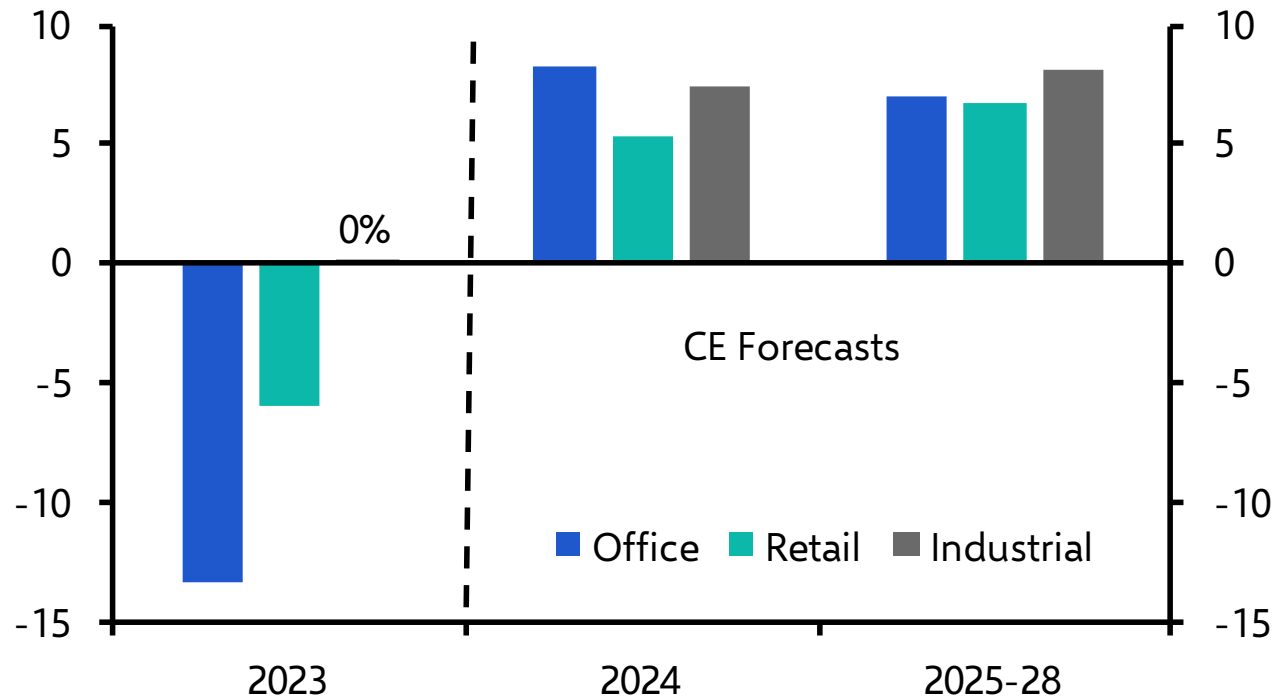
Sources: LSEG, Capital Economics

Contributions to EZ All-Property Capital Value Growth



Source: Capital Economics

Euro-zone Total Returns by Sector (% p.a.)



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