Quilter Property review

May 2025

8 minute read

Our monthly property market review is intended to provide background to recent developments in property markets as well as to give an indication of how some key issues could impact in the future.

We are not responsible or authorised to provide advice on investment decisions concerning property, only for the provision of mortgage advice.

Improving rate outlook boosts UK forecasts

Knight Frank has raised its house price forecasts amid signs of a more supportive interest rate environment.

The revision follows the Bank of England's recent rate cut to 4.25% and growing expectations of further reductions this year. Even if those cuts don't materialise, Knight Frank says cheaper fixed-rate mortgages will underpin demand in the months ahead. The estate agent expects UK residential property prices to rise 3.5% in 2025, up from a previous estimate of 2.5%, with five-year growth projected at 22.8%. Greater London's outlook has also been upgraded, reflecting stronger prospects as mortgage rates edge down.

However, forecasts for prime Central London were downgraded, with prices expected to remain flat this year due to political uncertainty and the government's decision to scrap the non-dom regime. While Central London prices fell 1.6% over the past year, outer London saw a 1.2% rise. Rental forecasts remain broadly unchanged.

Stamp Duty deadline boosts March sales

March saw the fifth highest number of transactions in any month of the last decade, according to Savill's latest UK Market Update.

UK housing market activity surged in March ahead of Stamp Duty changes, with HMRC recording over 164,000 transactions, 66% above the pre-pandemic average. However, demand has since cooled. According to Nationwide, annual growth in house prices is expected to slow to 3.4%. The slowdown reflects a more cautious mood among buyers. A recent survey found 37% of buyers expect mortgage rates to rise, compared to just 16% anticipating a fall.

Despite this, mortgage rates have dropped for many borrowers, with sub-4% deals returning for low loan-to-value purchases. The Bank of England's latest rate cut has given lenders room to compete, while softened stress testing rules may boost borrowing power. Still, limited housing supply may keep prices elevated.

Buy-to-let investors look north as cost pressures reshape the market

Buy-to-let investors are currently favouring the midlands and north of England, as mortgage and Stamp Duty costs make the south less attractive.

Hamptons research shows a record 39% of buy-to-let purchases took place in these regions from January to April 2025, up from 34% in 2022 and 24% in 2007. This comes despite a broader slowdown in landlord activity, with investors accounting for only 10% of home purchases nationwide so far this year.

The north benefits from lower property prices and stronger rental yields. The average landlord with property in the midlands and north spent £150,480 on an investment property, saving nearly £142,000 compared with average purchases in the south. In North-East England, new buy-to-lets are delivering 9.3% gross yields, well above the national average of 7.1%. If current trends continue, most buy-to-let activity could shift north by 2033. However, this may hit tax receipts and worsen rental shortages in pricier southern regions.

West End investment rebounds

London's West End commercial property market saw a robust start to 2025, with Savills reporting £1.71bn in investment volumes across 24 transactions in Q1.

Three large deals dominated, accounting for over £1.1bn. March saw nearly half the total, boosted by Norges Bank Investment Management's £570m acquisition of a 25% stake in Shaftesbury Capital's Covent Garden portfolio. Despite transaction numbers still falling short of long-term averages, Q1 turnover was 15% above the ten-year average and 40% above the five-year.

Other significant March deals included GPE's £56m purchase of One Chapel Place, JD.com's acquisition of 20 Greycoat Place and a rapid private sale of 17 Albemarle Street for £15.1m. Domestic investors were the most active buyers, while UK sellers led disposals. Savills notes rising demand in areas with improving rents. Prime West End yields fell to 3.75%, suggesting a gradual recovery despite ongoing economic uncertainty, according to Savills.

Signs of recovery in UK commercial property

UK commercial property is showing early signs of recovery, according to the latest Royal Institution of Chartered Surveyors' (RICS) survey, although broader sentiment remains cautious.

Modest gains in office and industrial demand helped push overall occupier demand into marginally positive territory in Q1 2025, although retail continues to underperform. Prime offices and industrial spaces should see rental and capital value growth this year, while weaker outlooks persist for secondary retail and office stock. Data centres, multifamily housing and life sciences assets are expected to outperform.

However, rising National Insurance costs are adding pressure on occupiers and uncertainty from US tariffs has weighed on market confidence. Central London is forecast to lead on prime office rents, while Scotland and Northern Ireland could see the strongest gains in prime industrial. RICS cautions that while sentiment is improving in places, domestic and international policy challenges make the longer-term outlook uncertain.

Big Six regional office markets buoyed by strong demand

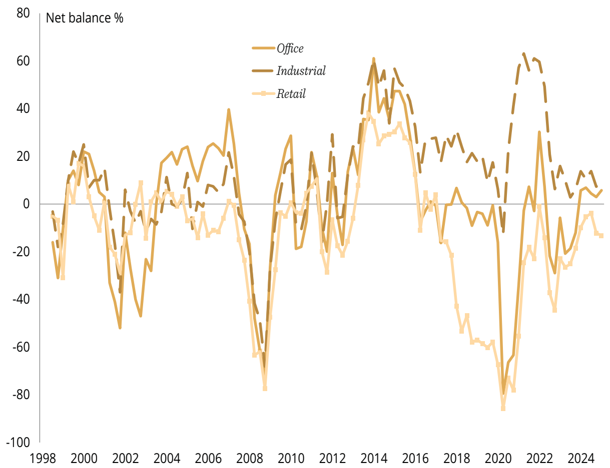
Investor confidence in UK regional office markets remains high, with strong demand focused on city centre assets in the Big Six cities.

According to Colliers' Regional Offices Snapshot, occupier appetite and rental growth are driving activity, with business parks and older stock being targeted for redevelopment. Manchester led the way, accounting for 35% of Big Six take-up over the past year. Transactions totalled nearly 320,000 sq. ft in the first quarter, 14% above the ten-year average. City centre availability has declined for five consecutive quarters, with Grade A vacancy falling to 2.2%.

Leeds started the year strongly, with deal volumes up 53% on Q4 2024. Although Grade A take-up was slightly below average, key lettings at Aire Park supported strong absorption. Encouragingly, demand from financial, tech and media sectors rebounded. Bristol had a slower Q1, with city centre take-up 27% below last year and 40% below the five-year Q1 average.

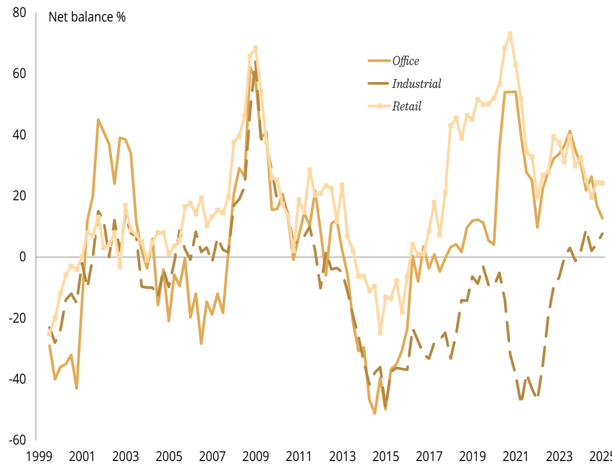
Commercial property outlook

Occupier demand – broken down by sector



- A headline net balance of +1% was reported for overall tenant demand in Q1, which compares with zero in Q4 2024
- Both the office and industrial sectors saw a small uplift in tenant demand, returning net balances of +6% and +9% respectively
- Occupier demand fell across the retail sector with a net balance reading of -13%.

Availability – broken down by sector



- Availability of leasable space rose across all mainstream sectors over Q1
- Growth of space available in the industrial sector was described as *'modest'*
- The pick-up of available space was *'more prominent'* for the retail sector.

All details are correct at the time of writing (21 May 2025)

Source: RICS, UK Commercial Property Monitor, Q1 2025