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MID YEAR REAL ESTATE UPDATE 2025

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MID YEAR REAL ESTATE TRENDS 2025

Summary

The UK real estate market entered the second half of 2025 in stronger shape than it began the year. Political stability following a year of the current government, a series of major infrastructure and housing commitments, improved trade relations with key global partners, and a sharp rise in defence spending have all contributed to improved sentiment. While global and domestic challenges persist — notably cost inflation, geopolitical risks, and a slower-than-expected growth rate — the policy environment is now providing a platform for greater confidence and gradual recovery.

Retail parks and prime urban retail locations are showing renewed strength, supported by falling vacancy rates and steady rental growth. Logistics continues to be one of the most resilient sectors, with sustained demand from occupiers and investors, although availability remains constrained. Offices remain a market of two halves, with prime sustainable buildings outperforming while older stock faces mounting obsolescence pressures. The housing and wider living sector is underpinned by chronic undersupply, with demand outstripping delivery across affordable, private rental, and student housing. Taken together, these trends point to cautious optimism, with conditions improving for 2026.





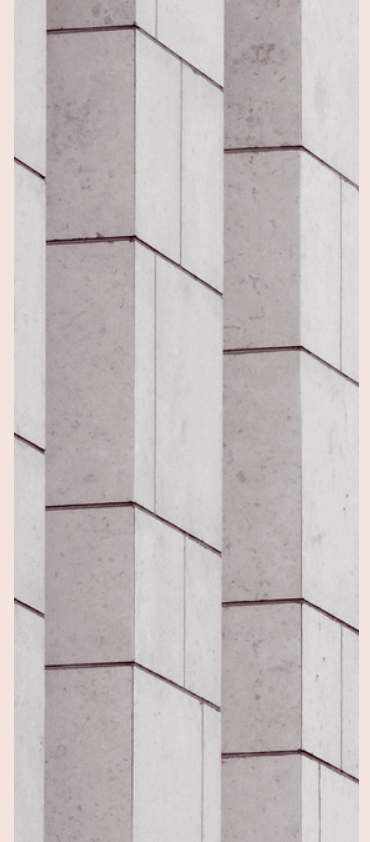
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Economic & Policy Backdrop

Economic growth forecasts for 2025 have been cut to 0.7%, down from 1.1% in 2024. Global conditions are weighing on confidence, with uncertainty over US tariffs and unrest in the Middle East both influencing trade and investment flows. Trade deals with the US, India, and the EU are expected to improve medium-term commerce.

The June spending review confirmed significant investment in energy, transport, housing, and a 10-year infrastructure plan. Spending power is being devolved to regional authorities to drive local growth. Defence spending has been substantially increased, with new investment in national security and manufacturing capacity. This will create demand for specialist facilities and bring additional economic activity to regional supply chains.

The price of oil at 70 dollars a barrel has led to a slowdown and less ambitious goals on major infrastructure projects in the UAE, including NEOM. This may have knock-on effects for UK-based contractors and suppliers involved in Gulf megaprojects. Inflation is easing and interest rates are more stable, providing a better base for investment decisions.





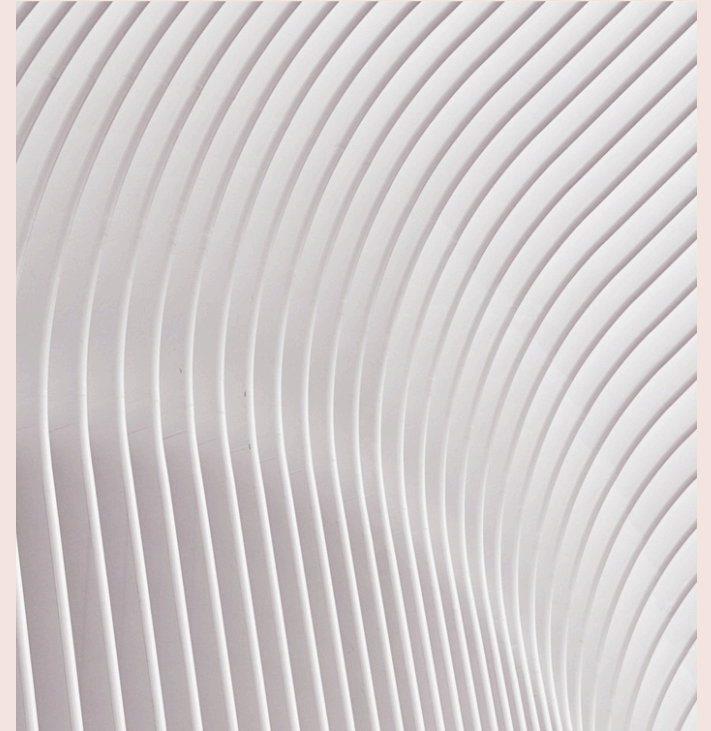
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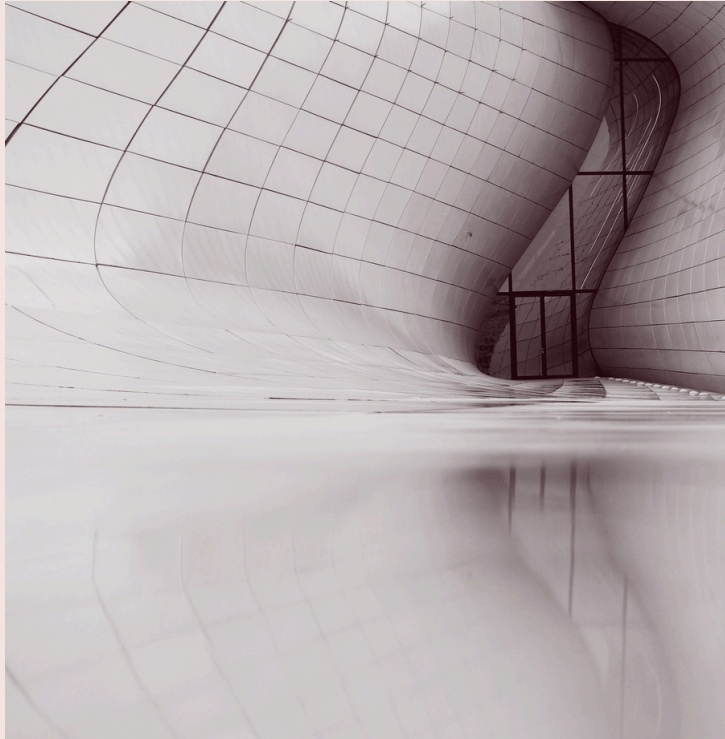
Retail

Prime retail is recovering. Vacancy rates are falling, and rents are forecast to grow by 2.4% a year over the next five years. Retail parks are in demand, offering low vacancy, competitive yields, and strong occupier interest. Operators are investing in experiential formats to differentiate their offer. Technology, including AI and robotics, is being used to improve efficiency and customer engagement. Operating costs and cybersecurity risks remain pressure points, but the sector is adapting and positioning for steady growth.

Industrial & Logistics

Logistics demand remains strong, with 4 million sq ft under offer at mid-year. The occupier base is expanding beyond traditional logistics to include data centres, advanced manufacturing, clean energy, and defence. The uplift in defence spending is expected to create more demand for high-security, specialist production and logistics facilities. Speculative development remains limited. Retrofitting existing stock to meet sustainability standards, particularly the 2030 EPC 'B' requirement, is a key challenge. Urban logistics is constrained by limited supply, offering opportunities for redevelopment and value-add strategies.





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Offices

The market is divided between strong demand for prime sustainable offices and weak demand for older, inefficient stock. Regional markets are set to benefit from civil service relocations, infrastructure upgrades, and investment in green energy and technology. Central markets are holding prime rents, but secondary space faces rising vacancy unless refurbished. Retrofit is becoming the main delivery route for new supply, with 42% of 2025 completions coming from refurbishments. Interest rate cuts expected later in the year could help stabilise yields and encourage selective investment.

Living Sector

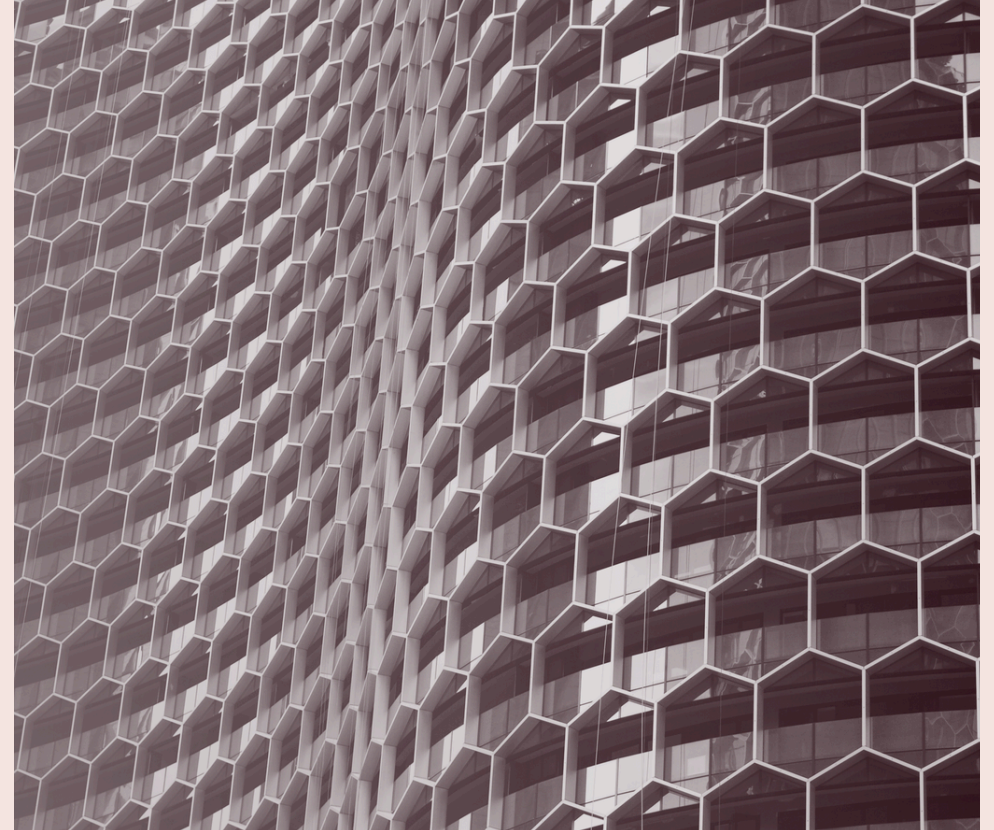
Housing undersupply continues to underpin the sector. The Affordable Homes Programme, backed by £39 billion, and a 10-year social rent settlement are expected to improve viability for new delivery and attract private capital. BTR remains strong, particularly in regional single-family rental, which offers faster absorption and stable returns. Student housing remains in short supply, supporting rental growth and high occupancy. Investor appetite for operational residential assets is robust, with a focus on quality, location, and ESG compliance.



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Outlook

The rest of 2025 should see gradual improvement, supported by falling interest rates, policy momentum, and targeted infrastructure spending. Opportunities are strongest in retail parks, modern logistics facilities, prime regional offices, and high-quality residential assets. Risks include geopolitical instability, construction cost inflation, and delays in planning. Secondary assets that fail to meet occupier needs or sustainability standards will face accelerating obsolescence.





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