

MARKETBEAT INVESTMENT

FEBRUARY 2026

ALIVE LATE 25? KICKING INTO 26?

After a quiet Q3, the final quarter of the year was relatively buoyant, with £17.5 billion transacted. This brought total investment volumes for the year to a healthy £58 billion, up 5% on 2024, but 13% down on the total measured during 2022. On a rolling annual basis, volumes are running just 1.2% down on the ten-year average.

UK commercial real estate performance continued to show resilience in the third quarter, with the MSCI UK Quarterly Property Index delivering a total return of 1.5% for Q4 2025, and bringing 12 month total returns to 6%. Retail was the standout performer on both a 3- and 12- month basis, delivering total returns of 2% and 8.4% respectively. Shopping centres, in particular, posted quarterly returns of 2.7% and annual returns of 10%.

Other strongly performing subsectors include Supermarkets at 9.8%, Rest of UK Industrial at 9.4%. The Healthcare sector, after a stellar year in terms of volumes, saw returns of 6.8%. Offices finished the year at 3.5%, with all subsectors positive, apart from Rest of South East offices which saw a marginal negative return of just -0.2%.

In a wider context, direct real estate at 6% performed in line with bonds, outperforming Debt Funds (4.5%), but falling short of the 9.9% delivered by Global Infrastructure and the 25.8% delivered by Equities, after a strong end to the year.

At the prime end of the market, yields remain stable, as they have done for the majority of the latter part of the year. In fact, during the entirety of 2025, only ten of our markets saw any movement whatsoever.

For more information, including on the razor-thin interest rate decision see our *Economy and Housing Marketbeat*.



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KEY TAKEAWAYS



After a quiet Q3, Q4 saw a busy end to the year with £17.5 billion transacted. 2025 investment volumes ended up at £58 billion, 5% up on the total for 2024.



Total Returns for the MSCI Quarterly Index totalled 1.5% for Q4. This brought 12-month Total Returns to 6%. The star performing sector for the year was Retail at 8.4%, with Shopping Centres the best-performing subsector at 10%



According to our Prime Yield coverage, there were no movers during the month. During the course of 2025, there were 10 movers – 6 inward and 4 outward.



The MPC voted narrowly to hold the base rate at 3.75%.



There are increasing signs of increased core capital allocated towards the market.



Chris Bennett

Head of London Offices Capital Markets

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CENTRAL LONDON OFFICES

Market Trends – The final quarter of the year saw £3.31 billion transact across the Central London office market. This was 95% above the previous quarter and took volumes for the year to £9.76 billion, up 61% on 2024 and 1% above the 5-year annual average. Activity in the City market rebounded in Q4, with £1.89 billion trading – the highest volume since Q3 2022 and the first time the City has taken a higher proportion to the West End since Q3 2023. UK investors continued to be acquisitive, transacting just over £1 billion in Q4, but were overtaken by North American investors, who purchased £1.05 billion. However, for the year, it was domestic investors that were most active, taking a 36% market share.

Dynamics – 2025 saw liquidity for larger lot sizes return to the market, with 21 deals over £100 million completing, compared with 11 in 2024. We are currently tracking 11 deals over £100m that are under offer or have exchanged since the start of 2026, suggesting continued improvements in larger lot size liquidity. There has also been evidence of UK pension funds being active, targeting sub-£100 million core/core+ assets.

Outlook – Prime office yields were held stable across Central London in Q4, at 5.50% in the City and 3.75% in the West End. However, further base rate cuts during the first half of the year are expected and could improve investment confidence, leading to further compression of pricing throughout 2026. Some of the assets on the market right now are also providing initial indications of core money coming back to Central London.

BAROMETER DEAL



70 St Mary Axe, EC3

Yield – 6.85% gearing

Price – £333 million

Status – Sold (December 2025)

Comments – Long Leasehold, purchased by Hayfin Capital Management & Capreon. Multi-let building, with rent reflecting £65-£70 psf and 8.8 year WAULT.



Andrew Meikle

Head of National Capital Markets

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REGIONAL OFFICES

Market Trends – Investment volumes across the regional office markets reached £695.7 million in Q4 2025, marking a sharp 57% increase on the previous quarter, though remaining 26% below the five-year quarterly average. Despite volumes growing throughout the year, volumes across the regional office markets totalled £1,861.7 million, representing the lowest annual total since 2012.

Dynamics – Much of the capital currently active in the regional office market remains highly opportunistic, with investors targeting core-plus assets underpinned by value-add returns, modest leverage and improving debt market conditions as rates and margins ease. Activity has been led by a small number of repeat buyers, notably Melford Capital, alongside continued demand from French SCPIs for income-secure assets with future refurbishment potential. While some UK core capital is beginning to re-emerge, activity remains selective, reflecting a limited supply of assets that meet increasingly exacting definitions of prime quality.

Outlook – A modest uptick in investment activity to close 2025 suggests sentiment is beginning to stabilise. Limited high-quality supply of vacant space and a constrained development pipeline will continue to drive a growing number of investors with higher returns seeking partial repositioning opportunities. The buyer market for core best in class assets has been relatively dormant but is now showing early signs of recovery, in particular from institutions.

BAROMETER DEAL



4 Angel Square, Manchester

Yield – 6.9%

Pricing – £113 million

Status – Under Offer

Comments – BNY Mellon is under offer to acquire the 200,000 sq ft building it solely occupies on a 15-year lease from Federated Hermes.



Rory MacGregor

Head of Science & Innovation

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LIFE SCIENCES

Market Trends – In Q4 2025, investment volumes in the Golden Triangle life sciences real estate market reached £985.0 million across three transactions, representing a more than sevenfold increase on Q3 2025 and one of the highest quarterly totals on record. Activity was largely underpinned by the Ellison Institute of Technology’s £890m investment into The Oxford Science Park, expanding its laboratory and office presence to an area of over 2 million sq ft.

Dynamics – The anticipated development pipeline, alongside a period of muted occupier take-up, has prompted a more selective approach from investors. This has driven a growing polarisation in appetite between prime and non-prime assets, with the definition of “prime” becoming increasingly focused on factors such as microlocation, tenant quality, and the maturity of the surrounding life sciences ecosystem.

Outlook – While the elevated level of investment in Q4 provides a positive close to what was otherwise a challenging year, expectations for a marked improvement in investor appetite across the Golden Triangle in 2026 remain cautious. Further rate cuts and government focus could help to further stimulate interest in the sector, but these tailwinds could be tempered by geopolitical and macroeconomic uncertainty, a challenging VC environment and heightened vacancy rates in markets across the Golden Triangle.

BAROMETER DEAL



The Oxford Science Park, Oxford

Yield – Conf.

Capital Value – Conf

Status – Sold

Comments – The Ellison Institute of Technology extended its presence to over 2 million sq ft at The Oxford Science Park with this investment.



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LOGISTICS & INDUSTRIAL

Market trends – Investment activity for Logistics and Industrial Property continued to improve throughout 2025, rising consistently from £1.1bn during Q1 to reach a total volume to £3.3bn during Q4. Despite sustained improvement throughout the year, a total volume of £8.0bn resulted in a contraction in annual investment volumes of 9%, narrowly falling shy of the £8.8bn recorded during 2024.

Dynamics – 2025 remained a tough year for investors, with a persisting gap between purchaser and vendor expectations. Just 20 single asset deals with a lot size in excess of £50m transacted throughout the year. However, investor appetite for the sector persists with several investors having recently undertaken successful fund raises, which has continued to bolster the significant amount of capital wanting to deploy into UK Industrial and Logistics. Whilst core money continues to circle the sector, attracted by strong and improving fundamentals, 2025 saw significant activity from value add and opportunistic investors. 2025 also saw a surge in portfolio activity, which accounted for almost 50% of total investment volumes.

Outlook – Both the volume of space under offer and the quantum of available stock points to muted volumes persisting during Q1 2026. However, a positive occupational market and a normalisation in both economic and financial market conditions should support greater liquidity throughout the year. Despite persisting challenges, the overall outlook remains positive and will likely drive investors to become increasingly agile in their acquisition strategies.

BAROMETER DEAL



Sainsburys, Charlton

Yield – 4.95%

Pricing – c. £125 million

Status – Completed

Comments- Purchased by DWS from Bridges

RETAIL & LEISURE

Market trends – Strong asset level performance set to a backdrop of limited prime investment availability summarises market conditions. Investment activity remains muted having fallen to £5.3 billion from £7bn during 2024, a contraction of 24% and 8% below the pre-pandemic average. Investors looking to deploy within the sector continue to grapple with an absence of accessible opportunities.

Dynamics – Market fundamentals continue to support improving levels of shopping centre investment despite muted volumes. Shopping centre investment volumes rose during the final quarter of 2025, with circa £700m trading, an improvement of 91% on the Q3 volume. Out of town investment remains in line with the 10-year average, with persisting interest in schemes anchored by a strong food retailer. Foodstore volumes remain healthy, although largely reliant on the pipeline of sale and leaseback opportunities from major supermarkets. Realty continue to dominate the buyside, accounting or the lion's share of activity. The Leisure market continues to see low levels of liquidity, despite a compelling income growth story. General perception remains focused on income risk, with caution once again shown to cinema anchored schemes.

Outlook - Limited investment grade supply may continue to limit volumes for prime investment grade assets. The best core assets will have good liquidity and pricing is expected to improve across all sub markets. Interest rate cuts will fuel both liquidity and pricing over the course of the year. The August interest rate cut will continue to support occupier market conditions and reduce lending costs, encouraging liquidity.

BAROMETER DEAL



The Oracle, Reading (50% Stake)

Yield – 7.5%

Pricing - £104.5 million

Status – Completed

Comments – Hammerson Purchase from Adia

HOTELS

Market trends - Volumes for 2025 are c.£5.2bn, compared to £6.3bn the previous year. The principle difference is the lack of larger hotel portfolios and platforms transacted, nonetheless, volumes remained in line with the 10 year average, with both London and the regions seeing an even split in interest.

Dynamics - The investor pool for Hotels remains large, with both special buyers and traditional capital choosing the sector. There has been a variety of properties come through the market, with W Leicester Square trading in December at 4.65% and the Staybridge Suites portfolio in the northern regions which traded at a 9% yield, fulfilling the appetite for value add products. There has also been continued interest in Office to Hotel conversions, with Ibex House and Peninsular House in London both going to Hotel buyers.

Outlook – There is appetite in the market for assets across the range and we will continue to see strong trading in 2026. We expect to see more Office to Hotel conversions continuing to come through to market this year. Given the current economic climate, there is some wariness surrounding growing operating costs and stabilizing revenue, but sentiment remains strong, with already c.£615m transacting in January.

BAROMETER DEAL



Staybridge Suites Portfolio

Yield – 9%

Price – £19.2 million

Status – Sold

Comments – Multiple Hotels in the north of England



Peter Farnes

Head of Healthcare Investment
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HEALTHCARE

Market Trends – Trends have continued from the previous quarters with the market being dominated by Specialists and US Capital. There has been record investment with 2025 investment reaching £10.25bn, a 225% increase over 2024. This was primarily driven by US Capital, accounting for 90% of investment volumes, consolidating a lot of assets under management contracts and platform style consolidation. Even outside of landmark deals the market has been buoyant with £1.5bn in mid-market transactions on smaller portfolios and single assets.

Dynamics – The US investors and specialists continue to occupy the market, with nearly all assets being sold to US REITS or Foreign Specialist investors. There is still appetite and desire from domestic investors to take space within the market, they are just looking for the right assets.

Outlook – The market has had a strong year, driven by platform and large-scale portfolio acquisitions. Activity is likely to settle down following the record year seen previously, with more mid-market transactions coming through and less of the massive portfolio deals we have seen in 2025. That is not to say there will not be any of these deals, just comparatively less.

BAROMETER DEAL



Hamberley Care Homes
Yield – N/a
Price – £210 million
Status – Refinance

Comments – Song Capital provided a £210 million long-term refinancing with Hamberley Care Homes. Hamberley is backed by Patron Capital and operates 22 luxury care homes. The financing is secured against 11 of Hamberley’s freehold properties



James Dunne

Head of Living
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BUILD TO RENT

Market Trends – In Q4 2025 £2.2bn was invested in the BTR sector, the strongest quarter on record. Overall, in 2025 there was a total £5.2bn invested into the BTR market, the strongest year on record. In total 48% of deals in 2025 were SFH, the highest proportion on record. The acquisition of PRS REIT for £1.1bn very much boosted these figures. Despite strong investment volumes, the BTR market was still challenging in 2025, with limited operational stock and a tough development market holding back investors despite strong appetite.

Dynamics –As we enter 2026, market sentiment has improved, supported by rate cut expectations, improved lending conditions, clarity around several key regulations, and a clear commitment from the government to accelerate housing delivery. Value for money will be an overarching theme in 2026 with investors focusing on ‘affordable’ rental products, offering renters value for money.

Outlook – Overall, we are increasingly optimistic about the BTR market heading into 2026, as macro headwinds continue to ease, investor demand remains strong, and the long-term requirement for well-managed, high-quality rental housing is clear.

BAROMETER DEAL



PRS REIT
Yield – TBC
Price – £1.1 billion
Status – Sold

Comments – LGPS money being a key investor in UK residential for PRS REIT. Entire portfolio of c.5,400 homes sold.



Russell Hefferan

Head of Student Investment
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PBSA

Market Trends – There were approx. £950m of transactions in Q4 2025, below typical quarterly volumes of around £1.7bn. Total PBSA investment in 2025 reached £3.7bn, also below the five-year average of £4.7bn. Deal activity was lower than anticipated, reflecting challenging market conditions and several large transactions that did not complete in time and have now rolled into 2026.

Dynamics – Value add investors continue to be some of the most active buyers, targeting older operational assets, lease up stories, and refurbishment, repositioning and operational turnaround opportunities. By contrast, Core and Core Plus Capital remains highly selective. Institutions are willing to deploy, but many are focused on JVs, forward funds, and development partnerships rather than acquiring standing investments in the upper market. The occupancy story remains mixed, but the direction of travel is positive overall. Affordability remains a key driver of performance, with a widening of spread between premium and affordable assets. Some cities have experienced voids, however, the majority of schemes are still performing well, and we continue to track a large number of assets operating at 95% plus occupancy.

Outlook– The outlook remains positive, with early data for the academic year 26-27 showing positive news. UCAS applications are up significantly for UK 18 year olds and internationals (particularly from China). The structural drivers for the PBSA market remain strong and there is a clear shortage of PBSA supply, however the market is nuanced and varies asset to asset and location to location.

BAROMETER DEAL



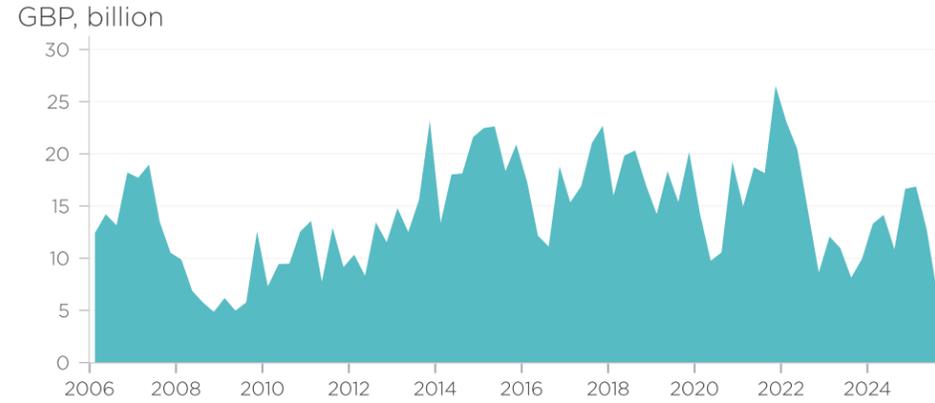
Upper Brook Street, Manchester
Yield – 5.5%
Price - £160 million
Status – Sold

Comments – Forward Fund, purchased by L&G, 737 beds
Image Source: McLaren

MARKET STATISTICS

Source: MSCI, Chatham Financial, Bank of England, Macrobond, Cushman & Wakefield

QUARTERLY INVESTMENT VOLUMES (BILLIONS)



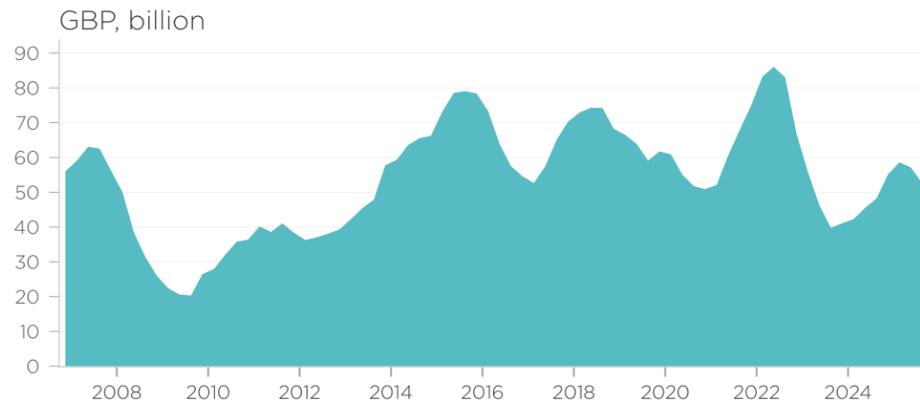
TOTAL RETURNS (%)



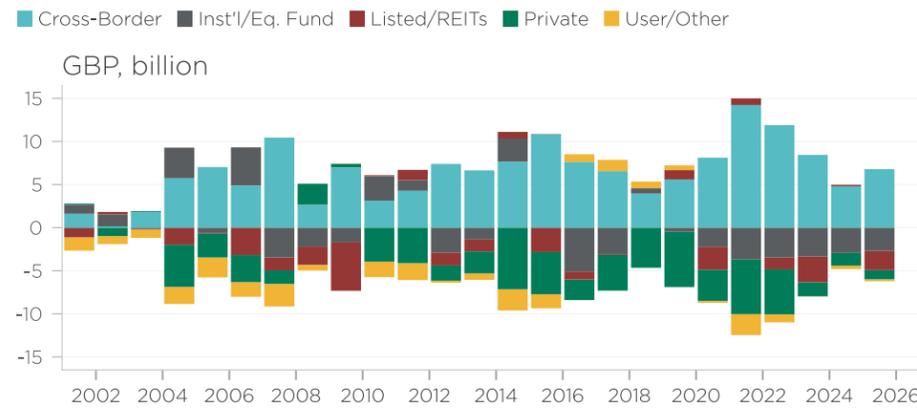
10 YEAR GILTS, 5 YEAR SONIA



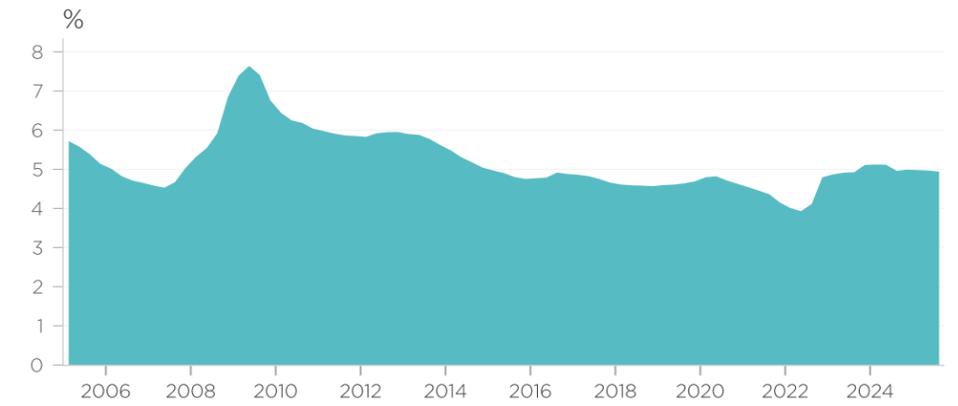
ROLLING ANNUAL INVESTMENT VOLUME (BILLIONS)



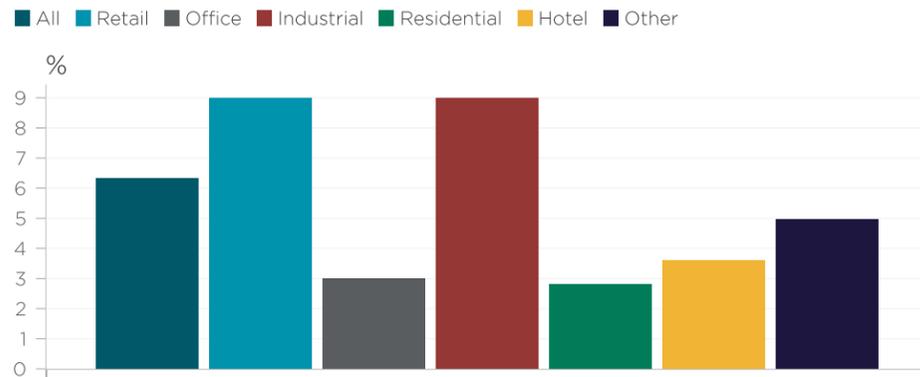
SOURCES OF CAPITAL



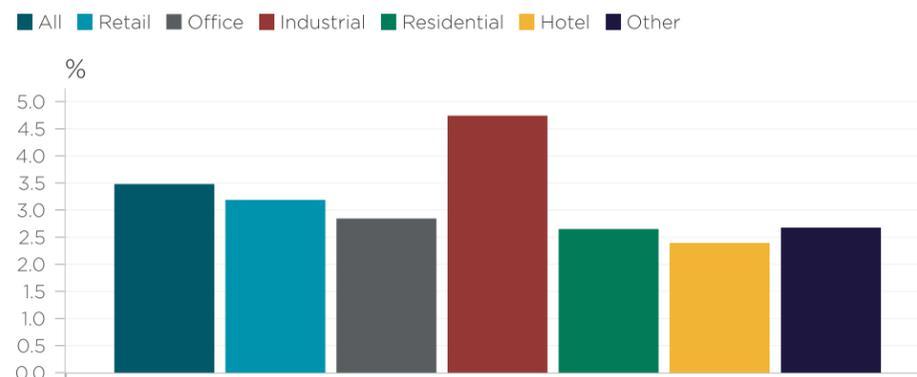
NET INITIAL YIELDS



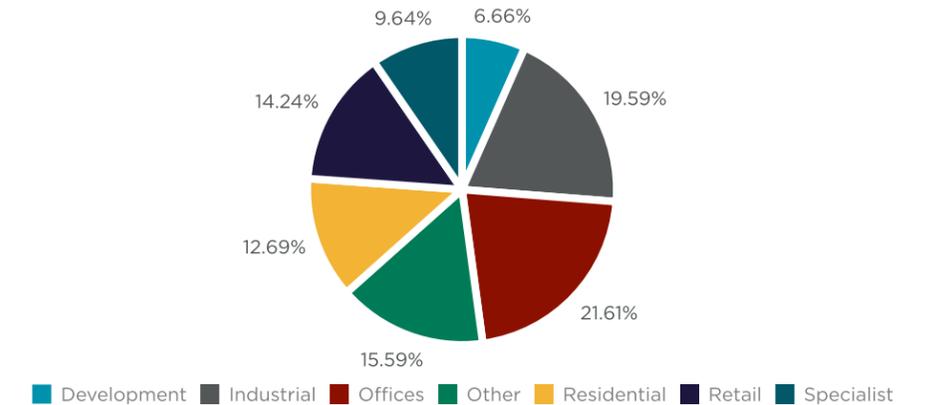
ANNUAL TOTAL RETURN BY SECTOR



ANNUAL AVERAGE RENTAL GROWTH BY SECTOR



ANNUAL INVESTMENT VOLUMES BY SECTOR



YIELD SCHEDULE

Sector	Previous Year	Previous Quarter	Previous month	Present	Annual Change (bps)	Quarterly Change (bps)	Monthly Change (bps)	Outlook
Sector	February 25	Q4 25	January 26	February 26		Q-to-Q		
Town Centre Retail								
Prime Retail Centres	6.75%	6.50%	6.50%	6.50%	-25 bps	0 bps	0 bps	Stable
Secondary Retail Centres	10.00%	10.00%	10.00%	10.00%	0 bps	0 bps	0 bps	Stable
Prime London - West End	3.00%	3.00%	3.00%	3.00%	0 bps	0 bps	0 bps	Stable
Shopping Centres								
Regional	7.75%	7.75%	7.75%	7.75%	0 bps	0 bps	0 bps	Inwards
Sub-Regional	11.00%	11.00%	11.00%	11.00%	0 bps	0 bps	0 bps	Inwards
Local	12.00%	12.00%	12.00%	12.00%	0 bps	0 bps	0 bps	Inwards
Retail Warehouses (Greater London and SE in brackets)								
Prime Open A1 Retail Park	5.25%	5.00%	5.00%	5.00%	-25 bps	-25 bps	0 bps	Stable
Prime Bulky Park								
Prime Supermarkets (RPI linked)	4.85%	4.65%	4.65%	4.65%	-20 bps	0 bps	0 bps	Stable
Prime Solus (Bulky)								
Prime Leisure Parks	8.25%	8.50%	8.50%	8.50%	25 bps	0 bps	0 bps	Outwards
Multi-Let Industrial								
Prime Greater London	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Stable
Prime South East	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Stable
Prime Regional	5.25%	5.25%	5.25%	5.25%	0 bps	0 bps	0 bps	Stable
Distribution Warehousing								
Prime Long Income	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Stable
Prime Medium Income	5.50%	5.50%	5.50%	5.50%	0 bps	0 bps	0 bps	Stable
Prime Short Income	5.75%	5.75%	5.75%	5.75%	0 bps	0 bps	0 bps	Stable
In Town Offices								
Greater London	6.75%	6.75%	6.75%	6.75%	0 bps	0 bps	0 bps	Stable
Prime City Offices	5.75%	5.50%	5.50%	5.50%	-25 bps	0 bps	0 bps	Stable
Prime West End Offices	4.00%	3.75%	3.75%	3.75%	-25 bps	0 bps	0 bps	Stable
Prime M25	7.00%	7.00%	7.00%	7.00%	0 bps	0 bps	0 bps	Stable
Prime Regional	6.50%	6.50%	6.50%	6.50%	0 bps	0 bps	0 bps	Stable
Out of Town Offices								
Prime South East	8.00%	8.00%	8.00%	8.00%	0 bps	0 bps	0 bps	Stable
Prime Regional	9.00%	9.00%	9.00%	9.00%	0 bps	0 bps	0 bps	Stable

Sector	Previous Year	Previous Quarter	Previous month	Present	Annual Change (bps)	Quarterly Change (bps)	Monthly Change (bps)	Outlook
Sector	February 25	Q4 25	January 26	February 26		Q-to-Q		
Co-living								
Greater London	4.50%	4.50%	4.50%	4.50%	0 bps	0 bps	0 bps	Stable
Prime Regional	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Stable
Build to Rent								
Prime London	4.00%	4.25%	4.25%	4.25%	25 bps	25 bps	0 bps	Stable
Greater London	4.50%	4.50%	4.50%	4.50%	0 bps	0 bps	0 bps	Stable
Prime Regional	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Stable
Hotels								
Prime London Fixed Income	4.25%	4.25%	4.25%	4.25%	0 bps	0 bps	0 bps	Stable
Prime Regional Fixed Income	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Stable
Prime London Trading	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Stable
Prime Regional Trading	8.00%	8.00%	8.00%	8.00%	0 bps	0 bps	0 bps	Stable
Life Sciences								
Golden Triangle	5.00%	5.00%	5.00%	5.00%	0 bps	0 bps	0 bps	Stable
Regional Centres	6.25%	6.50%	6.50%	6.50%	25 bps	0 bps	0 bps	Stable
Care Homes								
Prime	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Stable
Prime SPV	5.75%	5.75%	5.75%	5.75%	0 bps	0 bps	0 bps	Stable
Medical								
Prime	4.50%	4.50%	4.50%	4.50%	0 bps	0 bps	0 bps	Stable
Secondary	5.75%	5.75%	5.75%	5.75%	0 bps	0 bps	0 bps	Stable
Student Accommodation								
Prime London	4.00%	4.25%	4.25%	4.25%	25 bps	0 bps	0 bps	Stable
Greater London	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Stable
Super Prime Regional	5.25%	5.25%	5.25%	5.25%	0 bps	0 bps	0 bps	Stable
Prime Regional	5.50%	5.50%	5.50%	5.50%	0 bps	0 bps	0 bps	Stable
Self Storage								
Primary	4.75%	4.75%	4.75%	4.75%	0 bps	0 bps	0 bps	Stable
Secondary	6.00%	6.00%	6.00%	6.00%	0 bps	0 bps	0 bps	Stable
Tertiary	7.00%	7.00%	7.00%	7.00%	0 bps	0 bps	0 bps	Stable



MARKETBEAT INVESTMENT

FEBRUARY 2026

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Better never settles

