

Savills unveils 2025 cross-sector UK forecasts

8 months ago



[Savills](#) has raised its outlook for the average total return for UK real estate in its 2025 cross-sector outlook, forecasting an average return of 7.4%, compared to 6.8% for 2024.

In its annual cross-sector forecasts, the international real estate advisor says that while income will continue to make up the bulk of property performance, from 2025 onwards a burgeoning recovery in capital value growth in most sectors will help boost investor returns.

Residential buy-to-let in the North West remains Savills top performer for annualised returns, as it did in its 2024 forecasts, but central London and regional offices have moved up its table as it says that positivity in the sector is being driven by the restrained supply of prime space in most cities and the expectation of yield hardening. In total, 12 UK property sub-sectors are forecast to see annualised returns of over 8% between 2025-2029, an increase from eight sectors for the years 2024-2028.

Savills says that while expectations of further interest rate cuts should herald the beginning of a return to more normal levels of transactional activity in many markets, the policy announcements in the Budget will have asymmetric effects in 2025. It says that retail, leisure and agricultural businesses are likely to feel the biggest impacts and, in the residential sector, the treatment of 'non-doms' will impact the prime central London residential market.

James Gulliford, Savills Joint Head of UK investment, comments: "The 40-year high of inflation has passed, and most forecasters are predicting around 100 basis points of base rate cuts from now until the end of 2025. Both of these are good news for land and property occupiers and landlords, and should bring increased levels of transactional activity in many markets. However, the new Government stuck its policy

flag in the ground with the Budget, and while higher taxes to support public spending were never going to be a surprise, the details of this have been enough to cool some of our forward views a little. Overall, however, our outlook for 2025 and beyond is more positive than it was 12 months ago with more income and capital value growth on offer in most sectors. ”

Commercial property: The foundations of the commercial real estate recovery are in place, with office and retail the immediate surprise winners

In commercial property, Savills says that a growing economy should result in business expansion, leading to rising demand for shops, offices, factories and warehouses, although the impact of National Insurance changes on companies’ bottom lines will be felt in the leasing markets. It has therefore revised its take-up forecasts downwards slightly to reflect a more cautious corporate environment in 2025. However, it says that with the undersupply of prime space in core locations, it does not expect to see development viability improving dramatically in 2025, therefore prime rental growth levels are likely to be sustained at their recent high levels and continue to drive total returns over the next five years. This lack of development activity will also contribute to prime office yields finally hardening in 2025: according to Savills, some investors will remain cautious, either because of legacy issues or concerns about the impact of agile working, but the lure of rental growth and yield hardening will be too much to ignore for others.

Savills says that it predicts that 2025 will also see more institutional interest in retail than over the previous decade, motivated both by the cycle and consumer confidence. Prime shopping centres, retail warehouse parks, and substantial high street parades are all expected to be popular buys next year.

Savills top investment picks in the commercial sector in 2025:

- *Undersupplied or late-developing logistics markets:* There remain areas of undersupply across the country particularly in the larger size ranges which may be suitable for speculative development. For standing assets, we expect stronger rental growth in markets which continue to have limited supply and pipeline in certain size bands.
- *Good offices in core locations:* In offices there’s no substitute for a great location, and the undersupply in these locations will potentially mean A+ rental growth on B+ assets. These will be quicker and less costly to deliver into a period of undersupply.
- *Prime retail streets and schemes:* The return of real income growth and the high income returns that retail offers will combine to make retail property an alluring prospect for investors who are comfortable with asset management.

Residential property: The housing market is in the early stages of recovery but a variety of new policies make sustaining it in 2025 uncertain

Savills says the recovery in residential markets began in 2024, but that sustaining it depends heavily on continued cuts in interest rates to bring more buyers (particularly second and third-time home buyers) back to the market.

With inflation hovering around the Bank of England’s target of 2%, how quickly and how far the bank base rate is reduced will determine the ability and appetite of lenders to loosen their purse strings, according to Savills. Fundamentally it expects to see the range of buyers and their purchasing power gradually increase over the next five years, albeit stamp duty surcharges and regulatory reform are likely to constrain activity

among private buy to let investors. Consequently, Savills predicts overall house price growth of between 20% to 25% over that period, with 4% pencilled in for 2024.

Savills top investment picks in the residential sector in 2025:

- *Family houses in educational super towns:* Given the expected drive to find good, affordable education at a time when VAT on school fees is likely to shape where more affluent families put down their roots, Savills expects to see strong demand for family homes near outstanding state schools.
- *Multifamily in core cities:* Despite more regulation and taxation for public landlords, the living sector continues to attract significant interest from institutional investors. With debt costs coming down, a significant pipeline of consents and renewed government support through the PRS debt guarantee scheme, multifamily is likely to make a resurgence.
- *100 - 250-unit development sites in areas of higher housing targets:* Likely to be the sweet spot for developers seeking to rebuild their pipelines as the market improves, from 2025 there will be a window of opportunity to bring forward land for residential developments of this scale in the 55% of local authorities that will face higher housing targets but don't have an up-to-date Local Plan.

Rural property: battered and bruised, but land and land management will remain key to the Government targets on food production, environmental recovery, development, and economic growth, supporting investment

Savills says that despite the impact of the Budget and poor weather conditions this year, land as an asset class remains a good investment opportunity, given its role in helping the Government meet its various manifesto commitments, plus offers a reliable hedge against inflation. It also remains a more favourable asset class for tax treatment compared to some other sectors, as selling farmland and generating cash will have worse inheritance tax (IHT) treatment under both current and post 6 April 2026 IHT rules.

While Savills says that the assumption is that the benefit of investing in land due to the tax reliefs has recently diminished, ultimately, it will take a material change in supply and demand dynamics to significantly impact pricing, and this may take some time to materialise. Given the diverse range of demands on land, it anticipates continuing to see a variety of purchaser types in the land market, some with reasons for investing beyond just tax benefits. Additionally, regional variations in supply and demand will continue to affect pricing. Savills forecasts that farmland values are likely to remain stable over the next five years as businesses plan and adapt, the Government shows leadership in its direction of travel, and confidence and stability increases in the rural sector.

Savills top investment picks in the rural sector in 2025:

- *Prime arable land with a resilient water supply:* Food production will continue to be an important output from land and, as climate change challenges continue, the focus is on land with a secure, sustainable and resilient water supply
- *Land with environmental opportunities:* Environmental protection and recovery is at the heart of Government commitments and targets – specifically those stated in the Environment Act 2021. The Environmental Land Management scheme provides financial incentivisation for land managers in England, and more opportunities will be unlocked from the private markets.

Savills full 2025 cross-sector outlook report will be available from 7 January 2025. [Click here to register for the webinar.](#)