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RESEARCH

A new Framework for Institutional Investment into UK Towns and Cities: Tiers, Risks, and Opportunities in Retail and Office Markets

FULL REPORT

COMMISSIONED BY THE IPF RESEARCH PROGRAMME

A new Framework for Institutional Investment into UK Towns and Cities

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A new Framework for Institutional Investment into UK Towns and Cities

Report

IPF Research Programme

April 2026

A new Framework for Institutional Investment into UK Towns and Cities

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A new Framework for Institutional Investment into UK Towns and Cities

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FOREWORD

Many UK town and city economies are struggling, with one notable symptom being persistently high retail and office vacancy. The Levelling Up agenda that successive governments have pushed in various guises was promoted to address inequality and spur regeneration, but it is not clear where the money will come from to fund fresh forward-thinking investment and extensive regeneration in homes and transport to turn targeted locations into viable, attractive places in which to live, work, and shop—while providing resilient investment opportunities for the long term.

A traditional source of investment has been UK Defined Benefit pension schemes, but they are withdrawing from UK real estate and there is no obvious replacement in the short term.

The government's new Industrial Strategy which it published in June 2025, and its 10-year infrastructure plan, place strong emphasis on UK regional development, but the questions this research project seeks to answer are:

- How can retail and office assets in UK town and city centres attract more capital?
- How might the different institutional investors choose between towns and cities, including quantitative and qualitative evidence?
- How might the approach of domestic investors differ to their international peers, including by risk profile?
- What are the implications of this categorisation?

This research has focused on the equity side; research on the availability of debt is only touched upon.

Ahead of the report's publication, the IPF invited leading participants in the UK institutional real estate market to a round table discussion to explore the future role of institutional investment in these economies. The following section outlines the key areas of discussion during the session.

THE FUTURE ROLE OF INSTITUTIONAL INVESTMENT IN THE UK'S TOWNS AND CITIES: A DISCUSSION

This section provides a summary of the key areas of discussion from an IPF round table event held to explore the future role of institution investment in the UK's towns and cities. Participants in the discussion are acknowledged at the end of this report.

What are the drivers for investment?

Geographical location

There was broad debate over whether all towns and cities can attract future institutional investment. Many participants argued that scarce capital should be concentrated on established locations such as core regional hubs and locations within the London orbit, where economic fundamentals are strongest. Growth in these centres can generate a “satellite effect”, supporting neighbouring towns through expanded employment, infrastructure investment and housing demand.

As these hubs grow, rising housing costs and pressure on services can prompt public and private sector support for development in surrounding towns. Regeneration in these locations is often residential led, with value supported by complementary commercial uses and community amenities as part of wider placemaking strategies.

Views diverged more sharply on isolated locations. Some investors consider these markets unlikely to attract institutional capital without significant subsidy, while others—particularly long-income strategies - have invested on the basis of secure, predictable income flows and limited residual value. Approaches vary between prioritising regeneration impact and requiring underlying real estate fundamentals to be viable.

The further a location sits from a major urban centre, the greater the reliance on government support, whether through occupancy, grants or risk-sharing. A key issue is whether growth in these areas reflects genuine market demand or continued public intervention.

Combined authority frameworks may help, but only with meaningful central government support for employment growth and business attraction. Targeting locations with strong growth potential but historically low investment could support more balanced regional development. Emerging partnership models, including closer collaboration between local authorities and SME developers, demonstrate how aligned public-private approaches can deliver effective regeneration.

Real estate sectors

Several real estate sectors face structural headwinds regardless of geographical location. High street retail and many office assets increasingly appear unsuited to long term institutional ownership and may be better aligned with private capital with different risk and return expectations. Investment is further constrained by uncertainty over future EPC requirements for commercial buildings, complicating funding, compliance and forward planning.

Role of government

Central government has a critical role to play in supporting the strengthening of regional centres to allow them to function as genuine economic hubs. Persistent weaknesses in transport infrastructure, planning capacity and regional coordination continue to deter investment beyond the largest cities and must be addressed to support future growth. Central government could further support regional economies through funding mechanisms such as bridging loans or preferential lending. Given finite resources, support should be targeted at viable locations and projects capable of delivering long term value and catalysing private sector investment, which in practice tends to favour stronger towns and cities.

THE FUTURE ROLE OF INSTITUTIONAL INVESTMENT IN THE UK'S TOWNS AND CITIES: A DISCUSSION

There are some specific examples of central government initiatives supporting the economic growth of more regional economies.

CASE STUDY: Future High Streets Fund. The Fund is a UK government initiative that was launched in 2018. It aims to support improvements to transport access, pedestrian flow, new housing/office spaces, and the conversion of vacant retail units to renew and reshape town centres. Over £830 million has been allocated to 72 locations, with £107 million allocated to support the regeneration of heritage high streets.

Homes England, the UK government's housing and regeneration agency, supports regional growth through a range of initiatives, including the National Housing Bank, a government backed vehicle with £16 billion of financial capacity, supplemented by a further £6 billion this parliament. Crucially, the Bank is intended to deploy debt, equity and guarantees on terms aligned more closely to the cost of government borrowing, with the aim of improving scheme viability rather than simply increasing the quantum of capital available. Its focus is therefore on de-risking large and complex sites, supporting major regeneration programmes and accelerating delivery in priority locations where development would otherwise struggle to proceed. Alongside this, Homes England has entered a long term partnership with Capital & Centric and Swiss Life Asset Managers to support the delivery of more than 2,250 homes in under invested areas, illustrating how public capital can be used to crowd in private investment, provided the pricing and risk allocation genuinely address viability constraints.

Local government leadership is equally important in translating ambition into delivery. Active and credible councils or mayors can provide reassurance, continuity and coordination for investors, but outcomes depend on access to capital, sufficient autonomy and a planning system that enables progress. Where leadership is effective, the impact can be significant, as demonstrated by Greater Manchester's recent £1 billion " Good Growth Fund" programme to support 30 new projects aimed at boosting the regional economy. This initiative is partly funded by the Greater Manchester Pension Fund.

Devolution

Devolution is often presented as a solution to regional growth, but current UK arrangements do not go far enough. While devolved structures can improve local decision making, their impact depends on the quality of leadership, the availability of resources and the scale of powers granted. UK city regions continue to lack the fiscal autonomy seen internationally, constraining regeneration. Since the event, the Chancellor announced that control of some national tax revenues will be given to regional mayors to spend on local priorities.

In practice, devolution remains uneven, with combined authorities at different stages of maturity. As combined authorities grow in influence, they must ensure their spatial development plans are carried through by local authorities, where local politics can otherwise risk unravelling strategic intent. Even where leadership is strong, such as in Greater Manchester, progress has depended as much on local capital and political alignment as on devolved powers. London, despite its scale, similarly lacks sufficient autonomy.

THE FUTURE ROLE OF INSTITUTIONAL INVESTMENT IN THE UK'S TOWNS AND CITIES: A DISCUSSION

Lessons from overseas

The uneven prosperity of towns and city centres is not unique to the UK, but the divergence is more pronounced than in many advanced economies. Countries such as the US, China and Germany support a far larger pool of investable cities, whereas the UK market is dominated by London, with a sharp drop off beyond Manchester.

This imbalance is reinforced by the UK's governance model. Reduced local authority powers and fiscal autonomy have limited regional leadership, in contrast to countries such as France, where stronger planning systems and infrastructure enable investment to flow into smaller markets. As a result, regional inequality is more entrenched and the investment market less deep outside the largest centres.

How can investors support these economies?

Several cities demonstrate how transformative well located development can be, driven by institutional investment. Cardiff and Newcastle have benefited from major schemes adjacent to transport nodes and universities, with Cardiff's progress supported by the presence of the BBC, Legal & General's regional HQ, new BtR and wider government intervention. Sunderland and Salford also illustrate how targeted investment can reshape local economies; Salford, in particular, now stands on its own merits as part of Greater Manchester's expanding metropolitan area and home to MediaCityUK (BBC/ITV). Bristol offers a similar trajectory. In each case, the resulting real estate markets and local demographics have matured to the point where assets are capable of standing independently without ongoing subsidy.

Examples of more local, active stewardship are emerging including Legal & General Investment Management (LGIM)'s transformation of the local high street in Poole, Dorset (see case study).

CASE STUDY: Poole. LGIM has transformed Poole town centre through significant investment in The Dolphin Centre, a local shopping centre, along with the creation of Kingland, a new location for local entrepreneurs. This hands-on approach has revitalised the high street by leasing to local independent businesses on shorter, more flexible terms, accepting greater short-term income risk in order to stimulate economic activity and create new commercial opportunities.

Ultimately, for direct real estate investment to be successful, institutional investors need confidence that there will be a viable exit route. Limited liquidity constrains exits in weaker markets, increasing risk and reducing institutional appetite even when a secure income is in place.

THE FUTURE ROLE OF INSTITUTIONAL INVESTMENT IN THE UK'S TOWNS AND CITIES: A DISCUSSION

Potential investment solutions

Given the current headwinds, traditional routes into these tertiary locations are unlikely to attract new investors, making alternative approaches essential.

Long income funds have historically provided a route for investors to access these locations, unlocking regeneration opportunities and delivering secure income streams at a low cost of capital. As defined benefit (DB) pension capital has receded, new sources of investment have stepped in, but the model now requires a different structure given proposed changes to upward-only rent reviews and indexation. It offers a clear way to compete against other private assets.

Innovative financing solutions offer a valuable route for attracting new sources of capital. Property Linked Finance, championed by the Green Finance Institute, provides a route to affordable, long term funding for environmental upgrades by attaching the finance to the property rather than the owner. This creates a scalable way to encourage capital into regional markets and accelerate the retrofit of buildings, while generating long dated, stable income streams for investors. By investing at scale, the relative risk premium associated with regional or tertiary locations can be effectively managed. The initiative is still in its early stages, but the model has strong potential and will benefit from continued support from government and the banking sector to reach maturity. However, to achieve real scale it would benefit from input from private partnerships.

Private investors, which may include individuals, family offices and private equity firms, have distinct risk appetites and investment goals compared to institutional capital. They offer a potential source of funding for regeneration and investment into tertiary locations and will take on projects that institutional capital would not consider. An example is Music Venue Properties (see Case Study).

CASE STUDY: Music Venue Properties (MVP). Over the past two decades, 35% of the UK's music venues have closed. MVP is addressing this decline by acquiring the freeholds of grassroots music venues and leasing them back to existing operators on affordable terms. This approach is creating a growing, UKwide portfolio of protected cultural assets while strengthening the longterm viability of each location. The organisation has attracted a diverse mix of investors - including corporates, local authorities, and crowdfunding participants - and is now seeking to further institutionalise its model to appeal to LGPS investors.

Innovative fund structures could offer a way forward. A vehicle that spreads risk across multiple regions by pooling the best retail assets in several locations may offer a more resilient and attractive proposition for investors. By diversifying across similar high quality assets nationwide, the model would balance local risks while still capturing targeted regeneration upside.

A cyclical recovery may lift some regional markets, and as the upswing deepens investors often move beyond core locations in search of yield. However, this shift typically stops short of the smallest centres, which continue to struggle to attract capital.

THE FUTURE ROLE OF INSTITUTIONAL INVESTMENT IN THE UK'S TOWNS AND CITIES: A DISCUSSION

Conclusions

Many UK towns and cities face significant oversupply, particularly in secondary offices and high street or suburban retail, much of which requires repurposing to support regeneration. At the same time, the DB benefit pension funds and the rise of cross border capital - focused on the largest cities - have reduced institutional interest in regional markets, where smaller lot sizes limit liquidity and constrain the ability to refurbish and upgrade assets.

This situation prompts a broader reassessment of which markets are genuinely suitable for institutional capital. In many locations, the conditions that once supported institutional investment no longer exist. Alternative investment structures may be necessary, and in some areas institutional involvement may not be viable at all. Instead, attracting private property companies and other non institutional investors will be critical, rather than opining on ways to re-introduce institutional money. These groups often have different liquidity needs and may be better placed to take on the risks associated with complex repositioning projects - provided planning processes are improved and local authorities create a more supportive environment. However, risks require compensation and it is uncertain whether current yields are sufficient.

Institutional investors are likely to remain focused on core cities, where market depth, liquidity and economic fundamentals are strongest. The challenge for both public and private stakeholders in these locations is to ensure that investment in core cities generates spill over benefits for surrounding satellite hubs.

Expanding the number of UK cities that can function as true core markets - comparable to those in Germany or the US - will require a deep structural change in governance and economic strategy and capital deployment.

Local authorities and regional leaders need greater autonomy and enhanced revenue raising powers if they are to drive meaningful regeneration; the recent announcement of more tax revenue control for regional majors is a positive step. Economic growth is fundamental to the long term sustainability of any regeneration effort; public sector funding alone cannot create a durable market. The further a location sits from a major urban centre, the more likely it is to require government or public sector support, and the more probable that partnerships will involve local SME developers rather than institutional capital.

Finally, the importance of upfront infrastructure cannot be overstated. Successful regeneration depends on early investment in transport, utilities, digital connectivity, education and public realm - without which much private capital will remain hesitant. Investment strategies that align infrastructure, economic development and real estate delivery have the potential to reshape regional markets, but only if supported by coherent policy, empowered local leadership and a clear long term vision.

EXECUTIVE SUMMARY

This IPF-commissioned research explores how institutional capital can be better directed into UK towns and cities, particularly in the retail and office sectors. These sectors are vital to town centre vitality but have seen declining investment due to structural economic shifts, changing work habits, and investor preferences.

The key points coming out of this research are:

Institutional investment into UK towns and cities is declining and unevenly distributed. Investment in retail and office sectors has fallen due to structural economic changes, hybrid working, and evolving investor preferences. London remains dominant, but regional investment growth is concentrated in only a few major cities. Retail investment has seen a sharper decline than office investment but is now showing signs of recovery. Office investment remains subdued, with investors waiting for further price corrections. The research highlights that many regional assets may become stranded due to low rental values and high retrofitting costs, especially in weaker clusters.

Market size and liquidity are the biggest drivers of investment decisions. Most investors prioritise liquid markets when choosing where to invest, and this is typically linked to a market's size. Demand for liquid assets often overrides the long-term benefits of a diversified portfolio that regional investment provides. This has led to a bifurcation of regional office and retail investment.

Structural and qualitative factors both shape investment decisions. Beyond financial metrics, investor choices are influenced by local governance, planning regimes, connectivity, reputation, ESG standards, and economic dynamics. Qualitative “place appeal” factors, such as local politics or city reputation, can sometimes outweigh weaker quantitative fundamentals.

Structural barriers are constraining regional investment. Challenges include investor concentration in liquid markets, higher debt costs, regulatory uncertainty, declining defined benefit (DB) pension capital, and high retrofitting costs. Many regional assets risk becoming “stranded” without significant price adjustment or intervention.

Towns and cities can be grouped into distinct investment clusters according to specific risk–return profiles. The research categorises UK towns and cities into clusters. These clusters help explain historic investment behaviour and guide future strategy. However, the report cautions against viewing them as a hierarchy or progression path—many towns lack the scale or fundamentals in office and retail markets to shift clusters easily.

EXECUTIVE SUMMARY

Using a data-driven cluster analysis, the UK's largest towns and cities have been categorised into four distinct clusters for both office and retail markets:

- **Office Clusters:**
 - *Core Office:* Large, diverse economies with high liquidity and accessibility (e.g., Manchester, Birmingham).
 - *Office Satellites:* Affluent, smaller cities with high-quality assets and strong connectivity (e.g., Oxford, Cambridge).
 - *Sub-regional Office:* Mid-sized cities with moderate growth and liquidity.
 - *Local Office:* Smaller, less affluent areas with low liquidity and weaker economic fundamentals.
- **Retail Clusters:**
 - *Core Retail:* Major retail hubs with strong consumer demand and cultural appeal.
 - *Affluent Retail:* Affluent towns with high retail spending but lower liquidity.
 - *Provincial Retail:* Mid-tier towns with moderate retail activity.
 - *Local Retail:* Smaller towns with limited retail appeal and low investment activity.

These clusters can help investors assess risk and return profiles across locations and might also explain historic investment decisions.

Further polarisation of investment is likely: The patterns of investment identified are likely to persist without significant changes to the barriers outlined above. Money will continue to flow to the most liquid cities, with the best economic prospects, and with the best assets.

Future regeneration will require coordinated public and private action: While new vehicles like long-term asset funds (LTAFs) and impact investing could attract fresh capital, they are unlikely to scale quickly. Unlocking investment in lagging towns will require targeted central government support—through infrastructure funding, planning reform, and fiscal incentives—as well as coordination with both local government and the private sector.

1. INTRODUCTION

This research project seeks to explore and understand commercial real estate (CRE) investment in UK towns and cities, with a focus on recent trends in investment in office and retail markets and the factors that may determine investment into different types of places in the UK in the future. The research was concentrated on retail and office markets as these have formed the largest asset allocations in towns and cities. Active retail and office investment markets are an essential ingredient for town centre viability and vitality, yet these two sectors have been suffering from a decline in investor interest over the past five to 10 years or so as structural changes have taken hold in the economy.

The research sought to examine four aspects of the investment market.

- 1) What do different types of investors want, and what are the trends in investment volumes and investor profile?
- 2) How might property investors classify towns in a way that attracts institutional investor interest?
- 3) What was and is the investor profile for these sectors; and by location, how has this changed and is likely to change?
- 4) What are the implications of the above going forward, for investors as well as the towns and cities.
 - a. What barriers need to be overcome to encourage meaningful investment into less favoured areas?
 - b. Where will the investment come from to fund fresh forward-thinking investment, or extensive redevelopment?
 - c. How can UK towns and cities attract some of this capital?

The research is intended to consider novel approaches and is not based on an in-depth literature study. However, references to relevant studies are made throughout this report where appropriate.

Our Approach

The research first looks at historic CRE investment using MSCI data, often based on the RCA transactions database rather than the MSCI Index. In Section 3, we use a range of data sources across key themes that together determine the likely attractiveness of an area for CRE investment in office and retail, to cluster the UK's major towns and cities into four distinct types per sector. The typologies align to the level of risk and the expected reward that investors might require from investment in these different types of areas separately for office and retail. We also break down the investor profile according to the cluster and provide a view on how this changed over time.

Alongside the quantitative analysis, there are more qualitative factors that will come into consideration, and sometimes over-ride an otherwise data-driven conclusion or decision. These "locational factors" will often be subjective and informed by bias and prejudice; but they are equally valid in consideration of investor behaviour. These factors are presented in the Section 4 of the report.

Finally, we explore changes to the institutional investor market and how those might affect location investment decisions between London and other cities and towns, and decisions across the clusters that we have identified. To inform this view, we have spoken to investors and facilitators to gain their perspectives on the future of real estate investment in retail and office markets in UK towns and cities as well as asking for their views on our analysis.

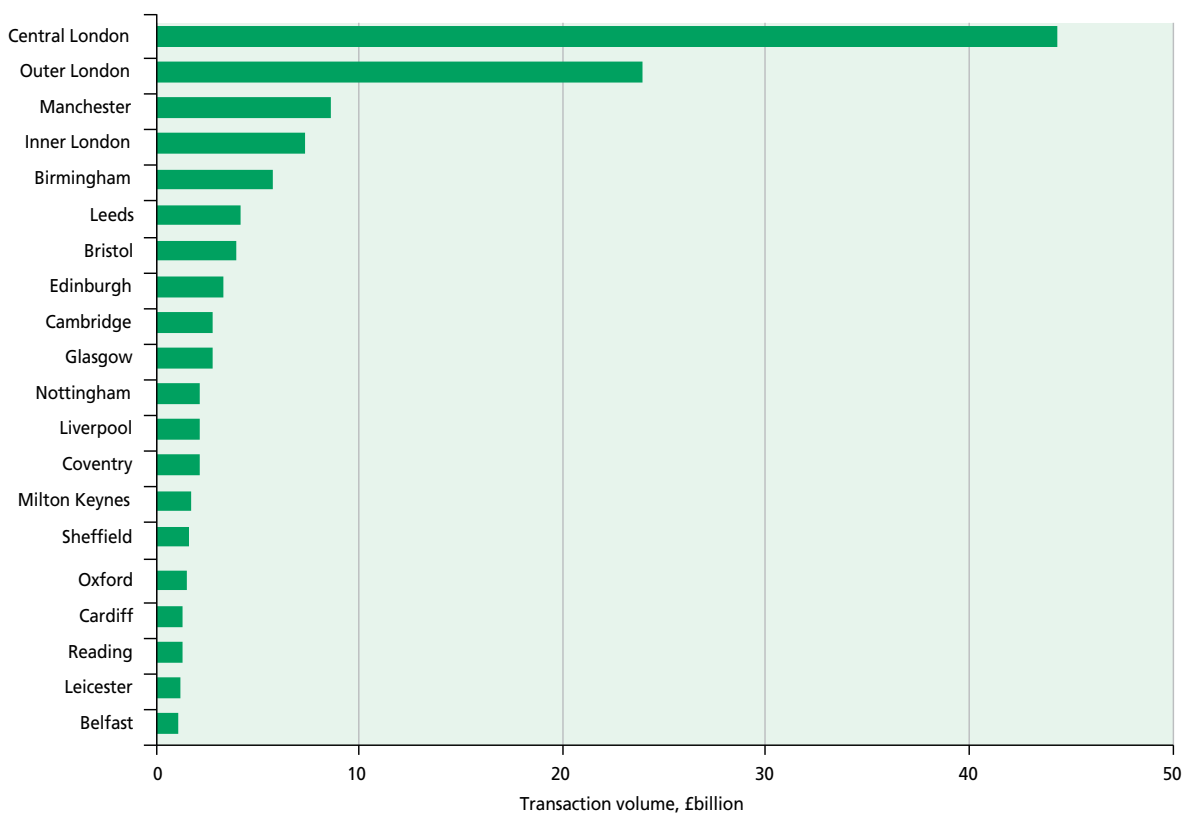
2. PROPERTY INVESTMENT TRENDS

2.1 London Dominates UK Property

London is the primary and dominant real estate investment market in the UK, attracting a disproportionate number of large-scale transactions. This has left investment in even the largest of second-tier cities, such as Manchester, Birmingham, and Leeds, dwarfed by comparison. In London, the primary market continues to be in Central London. Between 2020 and 2023, Central London recorded large-scale property investment, defined as all transactions over a £1 million threshold, totalling £44 billion across all property types.¹

Research by Daams, Mayer, and McCann for The Productivity Institute in 2024 details how real estate investment has focused more on London to the detriment of the regions, which it blames on an increasingly London-centric, top-down banking regime.² They demonstrate that since the 2008 global financial crisis (GFC), financial markets underwent a profound regime shift which partitioned the UK into fundamentally different capital market pricing regimes. Their research found that city centres in second tier and third tier cities have borne the brunt of adverse capital shocks. Our research reaches similar conclusions, albeit not focused on the banking sector and the financial ecosystem, but the real estate investors themselves.

Fig. 1. Large-scale real estate investment in the UK's largest markets, 2020–2023



Source: MSCI

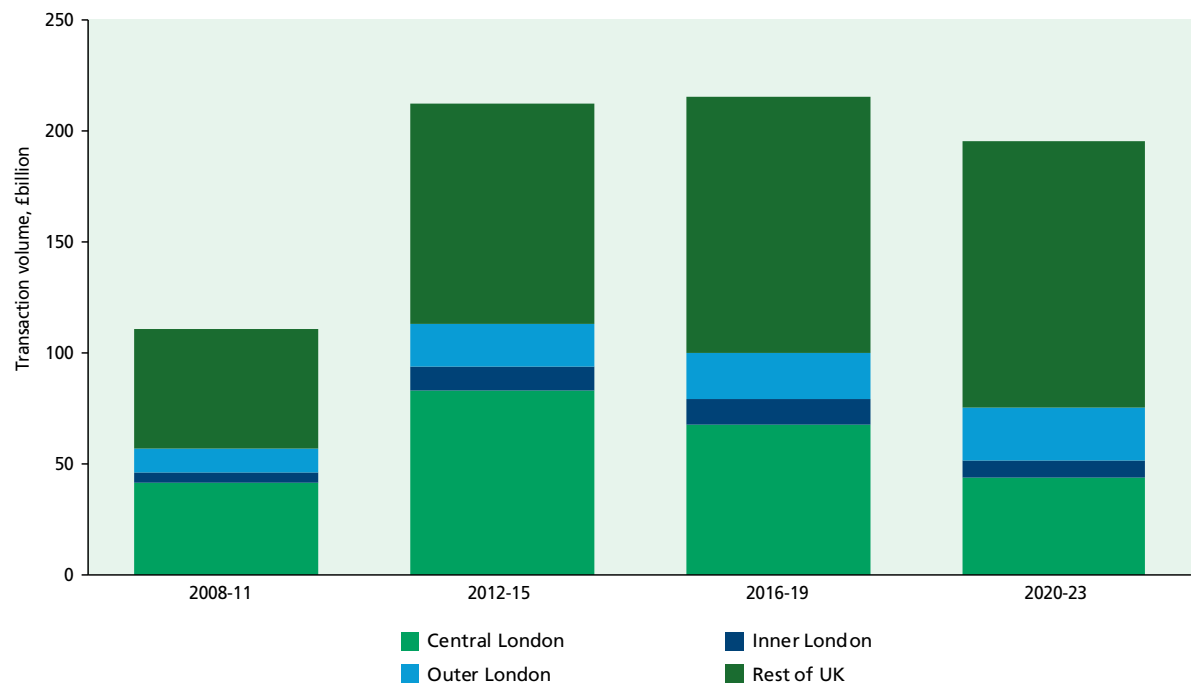
1. Data used in analysis is from MSCI-RCA.

2. Michiel Daams, Colin Mayer, and Philip McCann. 'REGIONS, CITIES AND FINANCE: THE ROLE OF CAPITAL SHOCKS AND BANKING REFORMS IN SHAPING THE UK GEOGRAPHY OF PROSPERITY'. The Productivity Institute, Productivity Insights Paper No. 041, November 2024

2. PROPERTY INVESTMENT TRENDS

However, indications are that regional markets are becoming increasingly attractive to real estate investors and London's dominance has been reducing over recent years. Between 2012 and 2015, the rest of the UK accounted for 47% of large real estate transaction volumes. By 2020–2023, this had grown to 61% of the national total. A major reason why investment outside London has gained its overall share is that many locations outside of London have led the strong growth in residential apartment investment. Another reason is that the London market has contracted over the most recent four-year period. Investment volumes in London fell by 25% between 2016–2019 and 2020–2023, compared to 4% growth in the rest of the UK. This includes sharper declines in both office and retail sectors than other parts of the country. This partly reflects a shift in the attractiveness of such assets in the capital following the changes in working habits following the Covid-19 pandemic.

Fig. 2. Real estate investment in London and rest of the UK, 2008–2023

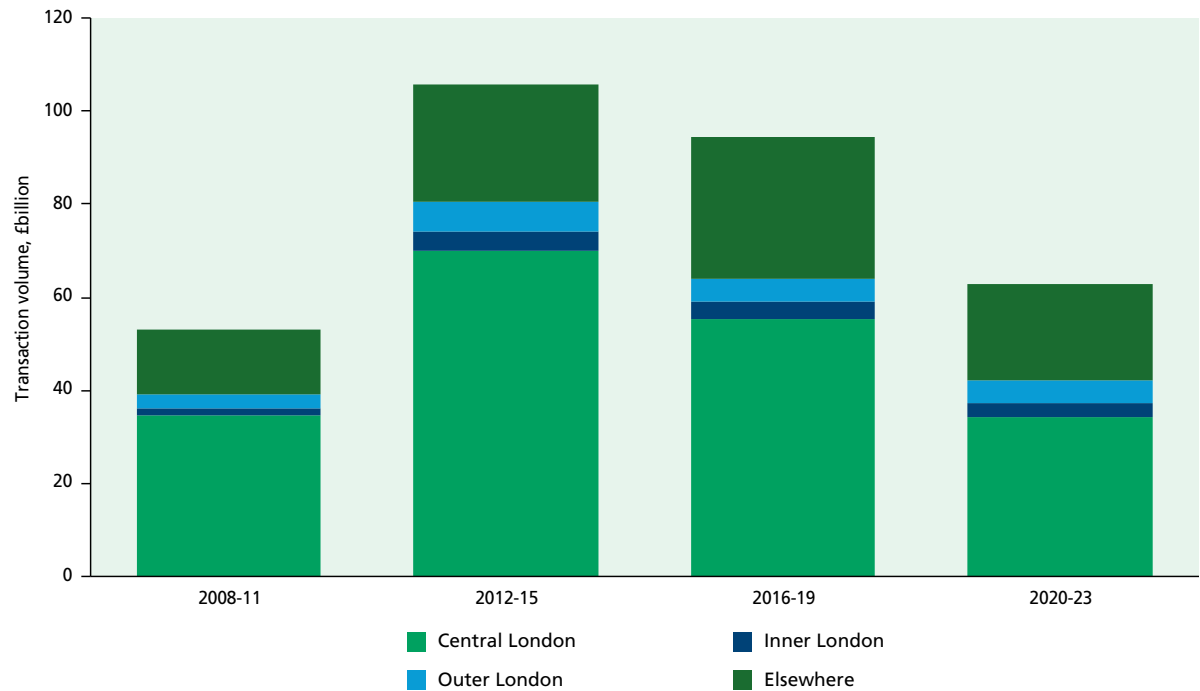


Source: MSCI

London's real estate dominance is even more apparent in the office sector. In 2023, office transaction volumes hit £5.6 billion in Central London, with another £1.5 billion elsewhere in the capital. This compares to £2.7 billion in total across the next 30 largest UK markets. This pattern has been the case over much of the past 15 years. Activity in Central London has accounted for over half of the UK's large-scale office transactions.

2. PROPERTY INVESTMENT TRENDS

Fig. 3. Office investment in London and rest of the UK, 2008–2023

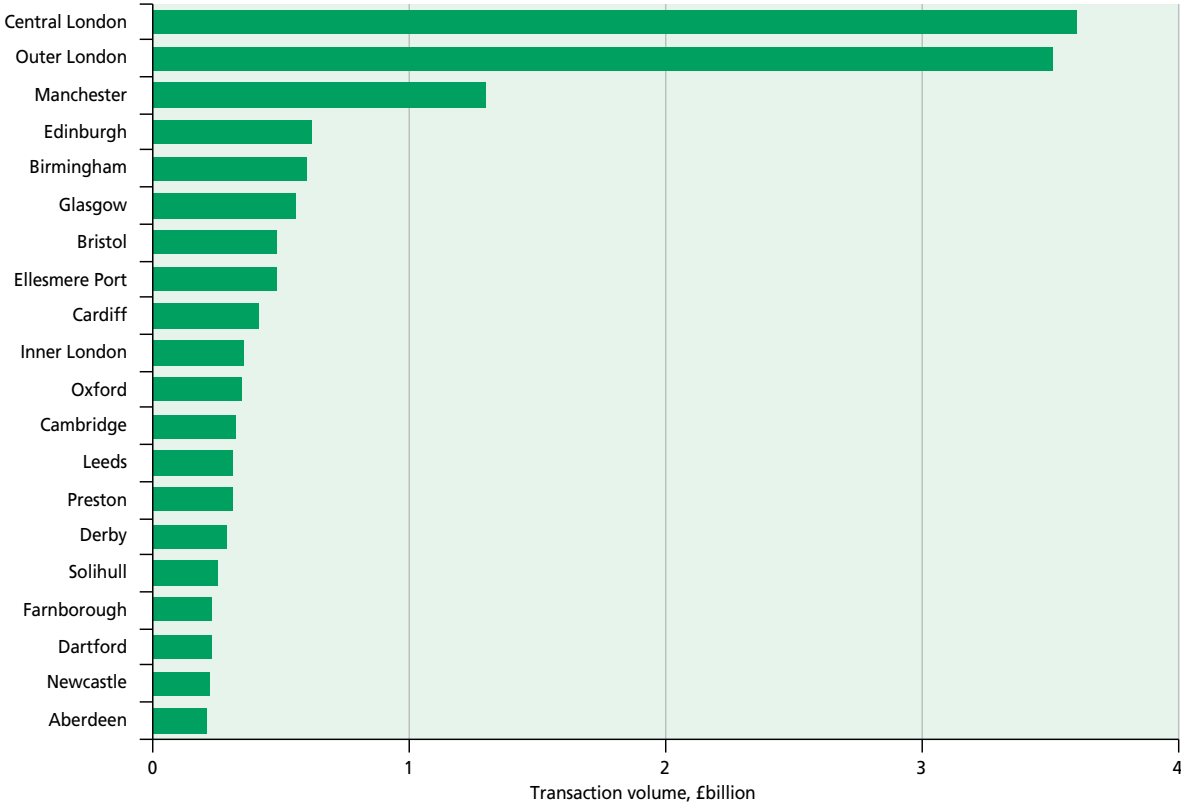


Source: MSCI

Investment in retail properties is not as skewed towards London as for offices. While the office sector in general is more concentrated in the capital and large cities, retail investment is more evenly distributed. In 2023, retail transaction volumes hit £936.9 million in Central London—reflecting both the level of asset turnover and the value of retail assets in core shopping destinations—with another £920.7 million elsewhere in the capital. This compares to £2.4 billion in total across the next 30 largest UK markets. The capital remains a large market, and one of the primary shopping destinations in Europe. Both Edinburgh and Cardiff also saw notable activity. Central London has accounted for roughly 10% of the UK's retail transaction volumes over the past 15 years, compared to between 50% and 70% of office investment.

2. PROPERTY INVESTMENT TRENDS

Fig. 4. Retail investment in largest UK markets, 2020–2023



Source: MSCI.

3. CATEGORISING TOWNS AND CITIES

3.1 Local Area Cluster Analysis

Investment decisions will be driven by a range of factors, but the trends analysis undertaken here highlights that some markets, such as London, attract a disproportionate amount of real estate investments, relative to the size of both its economy and share of population. To understand how institutional investors may assess opportunities across the UK in the future, we have established a data-based typology of major urban areas to categorise towns and cities as future investment prospects. Using statistically driven cluster analysis, we have classified areas into one of several distinct groups.

The primary aim of this analysis is to better understand future investment decision making in UK towns and cities, with a focus on those with sufficiently large CRE markets to attract institutional investors. The analysis has therefore been narrowed to the UK's major built-up areas with a population of at least 75,000 people.

Indicators for the analysis were drawn from a long list of candidate variables covering six key themes.

- Real estate: scale, liquidity, and quality of local market.
- Economy: structure and underlying strength of local economy.
- Human capital: skills and attributes of population.
- Quality of life: attractiveness and amenities of local area.
- Accessibility: connectivity and travelability for residents.
- Environment: natural and environmental characteristics.

The models were structured to produce meaningful clusters in a statistically robust framework, while also covering important indicators. There was no explicit weighting of factors used, but due to the number of factors included around liquidity, market size, economic growth, and accessibility, these factors were most influential. These themes mirror factors found most important in past research.³ Liquidity refers to the ability to transact in and out of an asset, sector or location easily, and enables an investor to know the market price better due to more data points. Exit strategies are a key consideration for investors generally, and form part of their strategy.

To address differences in the nature of retail and office markets, separate models were built for each sector, with cluster results shown separately for office and retail.

This research did not cover the availability and pricing of debt across the whole of the UK. It is another important factor that would impact decision making. If the cost of debt is higher in the regions, this would likely have a negative impact on investment volumes. Further research is recommended.

Further details of the cluster analysis methodology are presented in Appendix 1.

3. PwC & Urban Land Institute, 'Emerging Trends in Real Estate Europe – Charting new horizons,' see fig. 4-1, p.49, 2025

3. CATEGORISING TOWNS AND CITIES

3.2 Office Cluster Typology

The office model groups data at local authority level into one of four distinct clusters. Each cluster can be interpreted as representing a different type of investment opportunity within the office sector. Key features of each office cluster are described in Fig. 5 and the towns and cities in each cluster are shown in Fig. 6.

Fig. 5. Office cluster descriptions and key statistics

Core Office—10 areas including Manchester, Birmingham, Glasgow, Cardiff, and Leeds.

Large cities which act as key regional markets. They typically have lots of office floorspace in larger office buildings. The liquidity of the office real estate market is also high. Business creation rates are above average, reflecting their more diverse economies and strong historic economic growth. Residents in these areas tend to be wealthier and more educated on average. Accessibility is good, with low local travel times within each city.

The cluster accounts for 8% of the UK population, 10% of jobs, and 10% of national GVA.

Office Satellites—21 areas including Milton Keynes, Oxford, Cambridge, Bath, and Watford.

Smaller areas but with proportionally high business populations. There is less overall office space than in the *Core Office* but quality tends to be higher. The liquidity of the office real estate market is medium. Both GVA per capita and retail spending are both high, reflecting the relative wealth of local residents. These areas also tend to have many amenities.

Residents here have higher education levels and employment in office-based sectors is above average. Many of these areas are clustered in the South of England with good connectivity to London.

The cluster accounts for 6% of the UK population, 7% of jobs, and 8% of national GVA.

Sub-regional Office—33 areas including Sheffield, Dundee, Peterborough, York, and Swindon.

Less central markets with fewer high-growth businesses and lower rates of business creation. Offices are typically smaller and lower quality than in *Core Office*, and liquidity of the office market is also lower. Historic economic growth in these places has been weaker on average than in *Core Office* and *Office Satellites*. Meanwhile, quality of life is lower, and residents have smaller disposable incomes. Local accessibility is moderate but travel times to airports are longer than average.

The cluster accounts for 11% of the UK population, 10% of jobs, and 9% of national GVA.

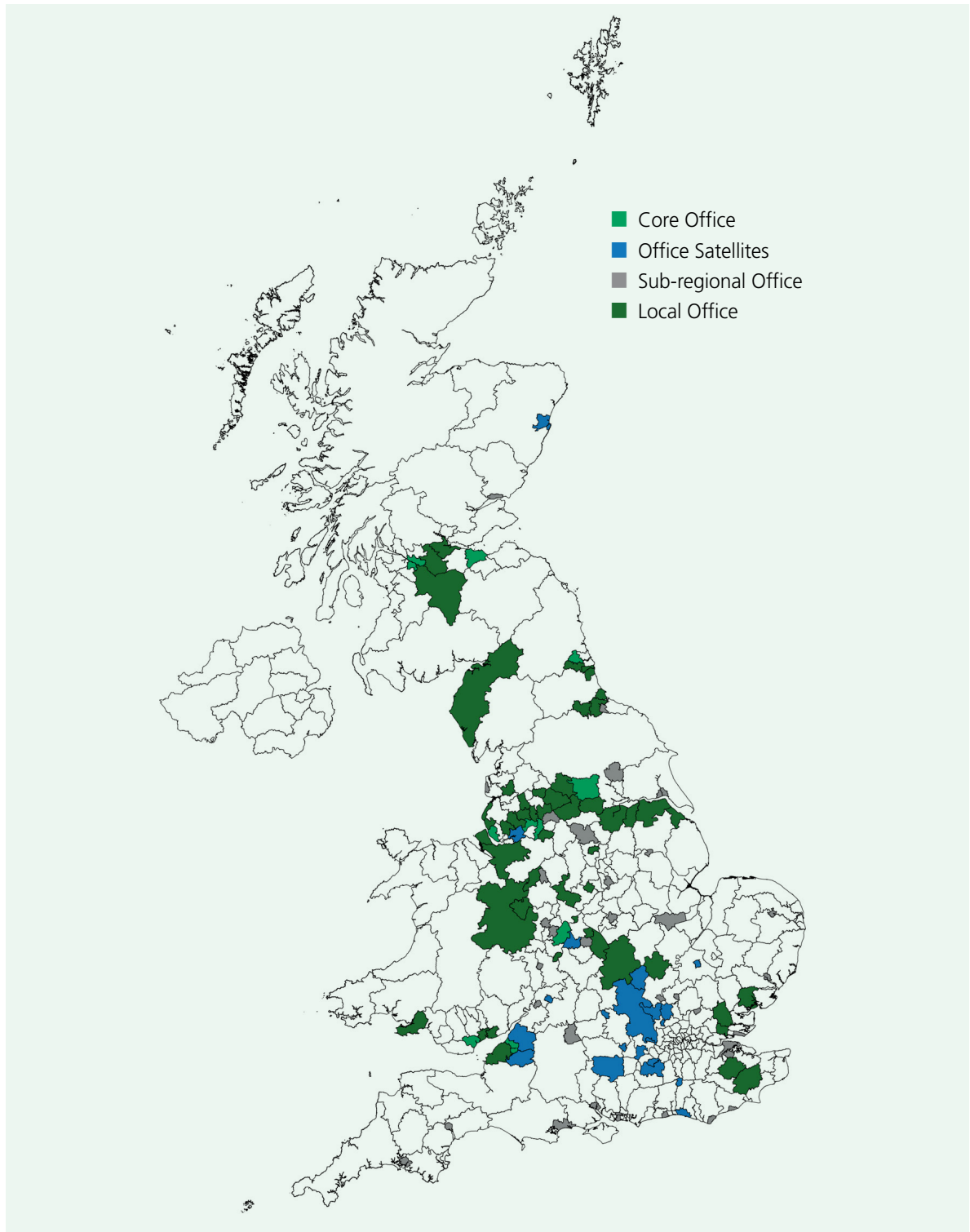
Local Office—48 areas including Bradford, Swansea, Derby, Sunderland, and Colchester.

Areas with the smallest office markets and the average office building is half the size of those in *Core Office*. The liquidity of the office market is also low. Rates of business creation are relatively weak and average GVA per capita is the lowest of all clusters. Access to green space is better than elsewhere yet gigabit access is less good. Local travel times tend to be longer than areas in other clusters.

The cluster accounts for 16% of the UK population, 14% of jobs, and 12% of national GVA.

3. CATEGORISING TOWNS AND CITIES

Fig. 6. Distribution of office clusters



Source: Oxford Economics

3. CATEGORISING TOWNS AND CITIES

3.3 Retail Cluster Typology

Similarly, the retail model groups data at local authority level into one of four distinct clusters. Each cluster can be interpreted as representing a different type of investment opportunity within the retail sector. Key features of the retail clusters are described in Fig. 7 and the towns and cities in each retail cluster are shown in Fig. 8.

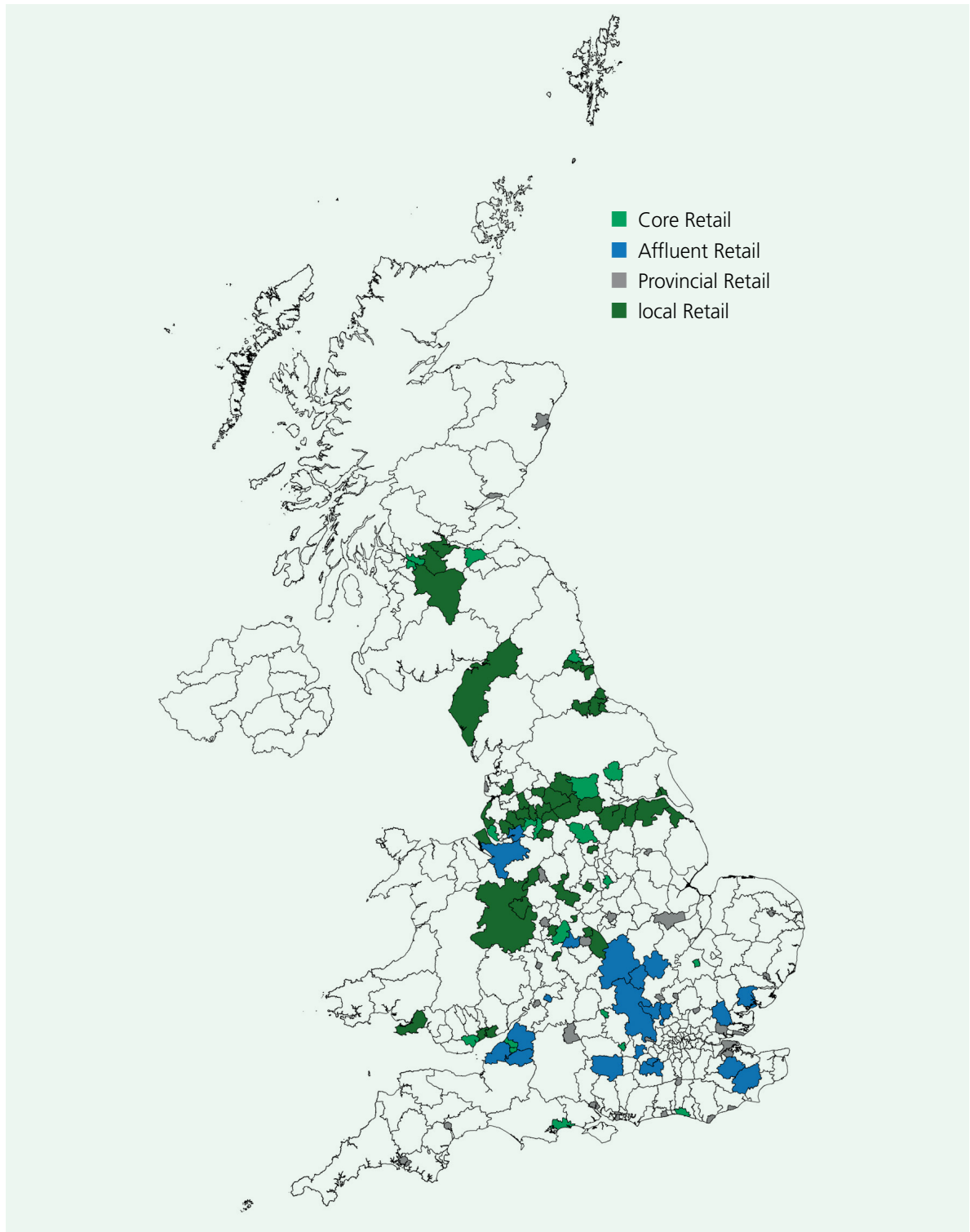
Fig. 7. Retail cluster descriptions and key statistics

<p>Core Retail—18 areas including Manchester, Birmingham, Glasgow, Bristol, and Liverpool.</p> <p>Large cities which can attract shoppers from a wide area, with a significant amount of retail assets in both city centres and retail parks. The liquidity of the retail real estate market is high. Residents in these areas tend to be wealthier and more educated than average. Economic growth here has been historically very strong. Accessibility is good, with low local travel times. Cultural assets are plentiful, which acts as a draw to tourists and visitors.</p> <p>The cluster accounts for 12% of the UK population, 14% of jobs, and 14% of national GVA.</p>	<p>Affluent Retail—22 areas including Watford, Basingstoke, Bath, Solihull, and Guildford.</p> <p>Smaller towns and cities but with high business creation rates. Less retail floorspace available than in larger cities but this is of a higher quality on average and units tend to be larger. Market liquidity is lower than in <i>Core Retail</i>. Retail spending is high here. Urban accessibility is relatively weak as these areas include more rural districts. However, average travel time to London is high for most.</p> <p>The cluster accounts for 7% of the UK population, 8% of jobs, and 8% of national GVA.</p>
<p>Provincial Retail—29 areas including Leicester, Coventry, Luton, Ipswich, and Hastings.</p> <p>Less prominent markets in which retail spending and incomes are lower than in larger towns and cities. Retail units tend to be larger which is likely an indication of more out-of-town opportunities. Retail asset liquidity also averages higher than in <i>Affluent Retail</i>. Historic economic growth has been relatively weak and disposable incomes are low. Town centre accessibility is relatively good.</p> <p>The cluster accounts for 8% of the UK population, 8% of jobs, and 8% of national GVA.</p>	<p>Local Retail—43 areas including Bradford, Kirklees, Swansea, Wigan, and Bury.</p> <p>Typically, smaller places with less obvious appeal to shoppers from outside the area. Retail units are smaller here than in other clusters, and there are fewer amenities to attract tourists. Liquidity rates in the retail markets are low. Business creation and the population of high-growth businesses are both lower than average. GVA per capita is below average while education levels lag larger and wealthier towns and cities. Accessibility is relatively poor.</p> <p>The cluster accounts for 14% of the UK population, 12% of jobs, and 10% of national GVA.</p>

Source: Oxford Economics

3. CATEGORISING TOWNS AND CITIES

Fig. 8. Distribution of retail clusters

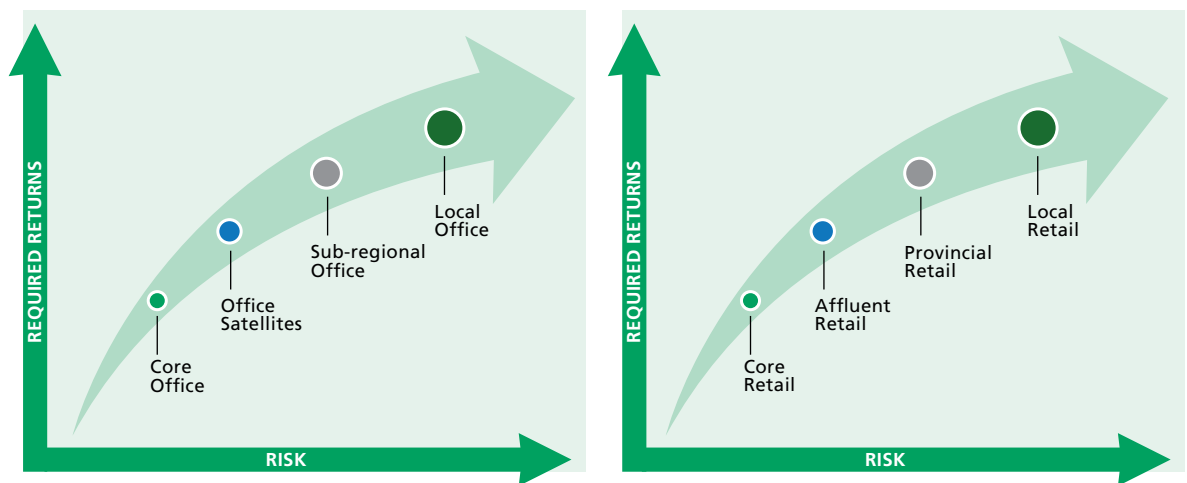


3. CATEGORISING TOWNS AND CITIES

3.4 Clusters and Risk

There is a general trade-off between the level of risk and the required returns to make an investment worthwhile. In theory, each of the clusters identified for both office and retail sits on the risk-return curve, with the larger and better performing markets towards the bottom of the curve, and the smaller, less affluent, and less diverse areas at the top of the curve. In reality there is a continuum on the curve, with the four groups being overlapping “blobs” rather than neatly segregated dots.

Fig. 9. Office and retail clusters—risk vs required return



Source: Oxford Economics

However, it is important to note that there is no implied hierarchy in the clusters. The clusters do not imply that there is a dynamic pathway along which a town or city moves from one cluster to another. While examples of areas close to the threshold between clusters exist, there is no ranking within clusters that indicates “progression”. Instead, each of the clusters contains towns and cities that share certain characteristics, particularly with respect to their office and retail markets. There are multiple other factors that will influence their attractiveness to investors over time. For example, the factors that need to change to turn a traditional, manufacturing-based city into a more successful, services-based city are not the same that will assist it in becoming a member of *Affluent Retail*. They have inherently different socio-economic profiles.

Furthermore, an area in *Local Office* cannot join *Core Office*, certainly not in the medium term. Scale plays a big part (small towns will never become regional hubs), but in many cases the underlying factors that place it into its cluster are also not easily changed. Moreover, it is unhelpful to think that there is a systematic mechanism by which an area may move from one cluster to another.

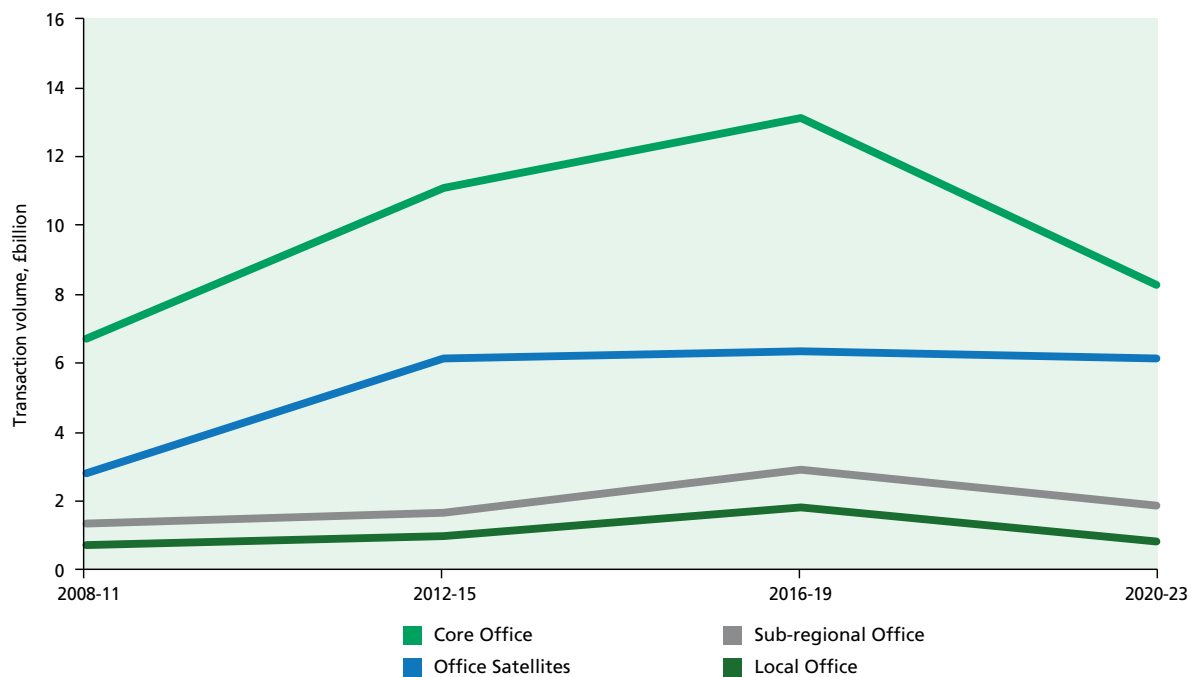
3. CATEGORISING TOWNS AND CITIES

3.5 Historic Real Estate Trends by Cluster

3.5.1 Investment trends in office assets

Outside of London, *Core Office* have dominated office real estate investment over the past 15 years. In the four years to 2023, this cluster of 10 large cities attracted £8.3 billion in large-scale office transactions according to MSCI-RCA. Large-scale investment relates to any transactions of £1 million or above. *Office Satellites* followed with £6.2 billion of office transactions. By contrast, office investment in *Local Office* stood at just £0.8 billion over the same four years, despite the larger number of areas included in this cluster, and them accounting for c.26% of office floorspace across the markets in our analysis.

Fig. 10. Total office transactions by cluster, 2008–2023

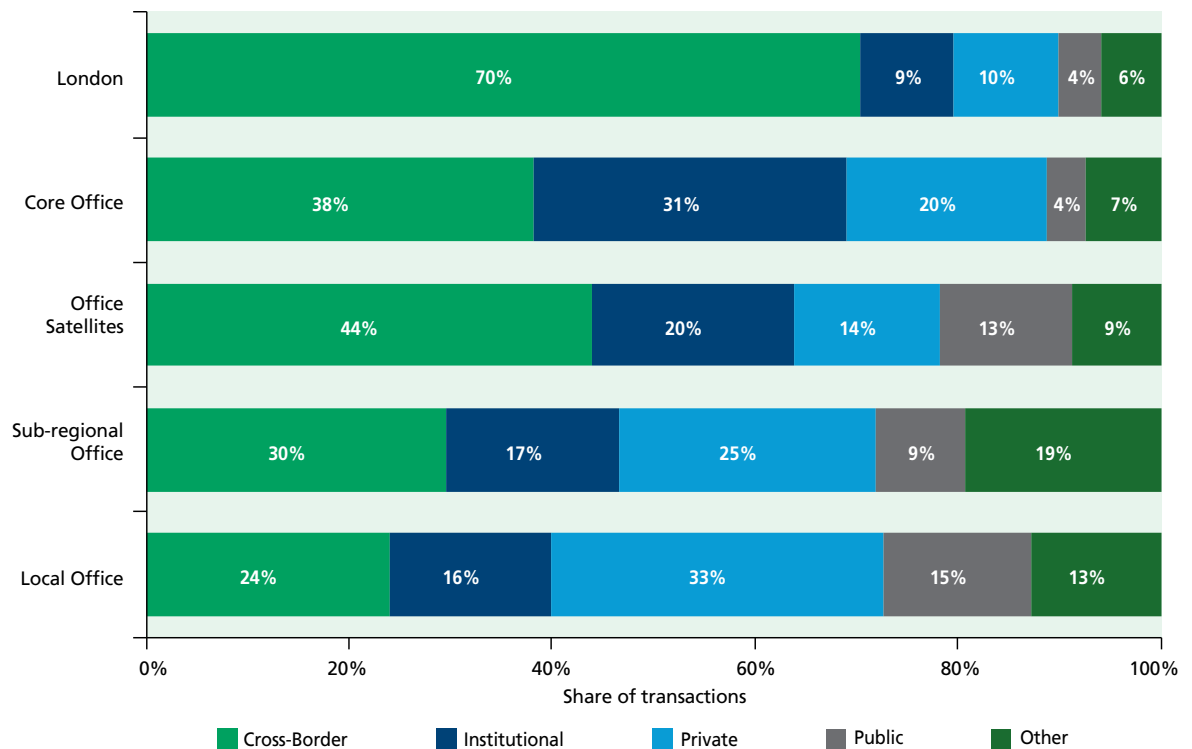


Source: MSCI, Oxford Economics

Investor profiles also vary between clusters. We analysed transaction data from MSCI-RCA. Cross-border and institutional investors account for a larger share of transaction volumes in *Core Office* and *Office Satellites* for office investment. In the period 2020–2023, nearly one-third of transactions in offices in the *Core Office* were from institutional investors, compared to just 16% of transaction volumes in *Local Office*. Cross-border spending plays a greater role in *Office Satellites*; a pattern that has been apparent since the GFC. By contrast, private investors account for a larger share of transactions volumes in *Local Office* and Sub-regional Office.

3. CATEGORISING TOWNS AND CITIES

Fig. 11. Office cluster investor composition, 2020–2023

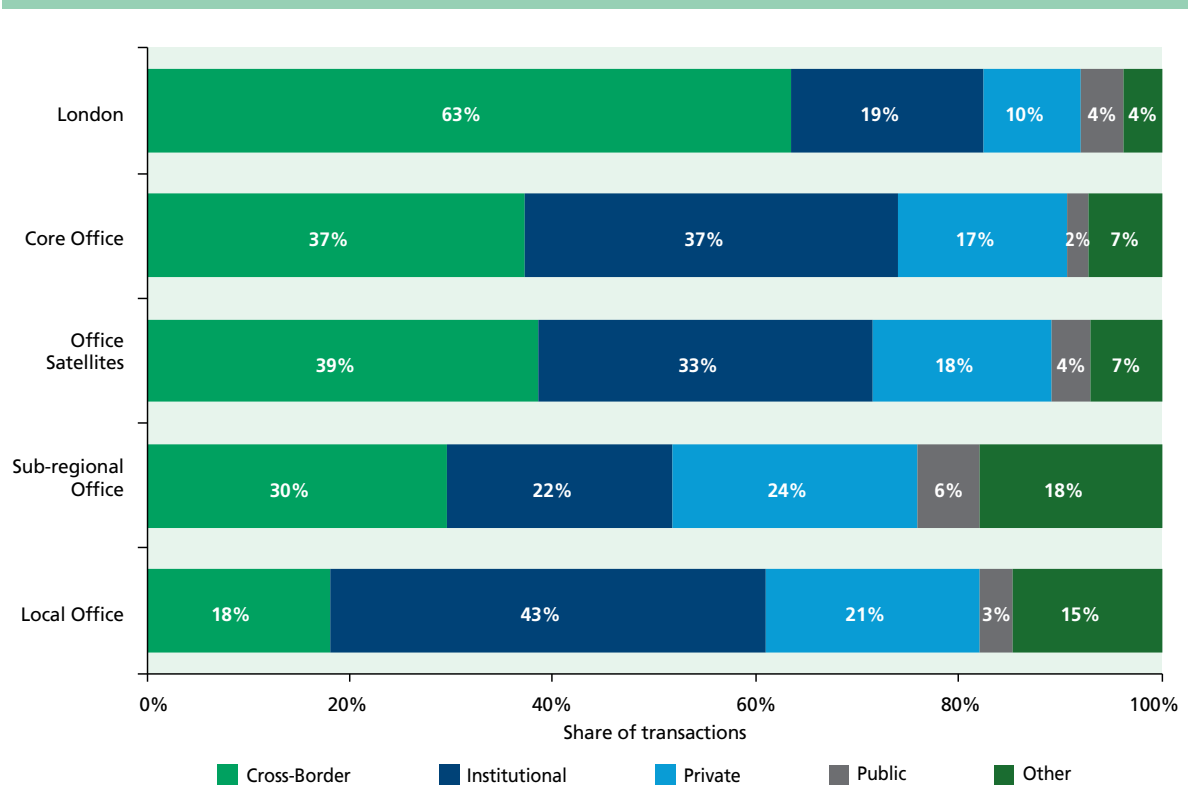


Source: MSCI, Oxford Economics

However, the composition of investments has shifted over time. Comparing the latest 2020–2023 period with 2008–2011 highlights a declining share for institutional investors. In 2008–2011 transactions from institutions accounted for one third of investments in *Office Satellites*, compared to just 20% in the latest period. Among *Local Office*, the share has dropped from 43% to 16% while in London it halved from 19% to just 9% of total. Meanwhile, the proportion of transactions attributed to cross-border investors has increased among *Local Office*, from 18% to 24%. But the most notable change overtime has been the relative rise of private investors, especially in the smaller and less affluent markets, in which their share has risen by 12 pts.

3. CATEGORISING TOWNS AND CITIES

Fig. 12. Office cluster investor composition, 2008–2011



Source: MSCI, Oxford Economics

Please note that investors are classified according to the location of their Head Office, which might be abroad, whilst the money they invest might in part be from UK investors. The reverse is also possible, that UK-based investment managers invest money sources from overseas investors. As an indication, one overseas investment manager reports that 45.7% of the capital invested into UK real estate over a six-year period between 2019–2024 originated from the UK, versus 54.3% from overseas capital

“ We will continue to have a split between core and regional markets, they appeal to different investors with different strategies. It is hard to synchronise regional investor behaviour. Regional investors are a disparate group of investors with different strategies. ”

Senior Fund Manager

“ Trying to compare the way both large and small investors compare pricing and their approach is futile. These are completely separate markets, with different priorities and paradigms. ”

Senior Fund Manager

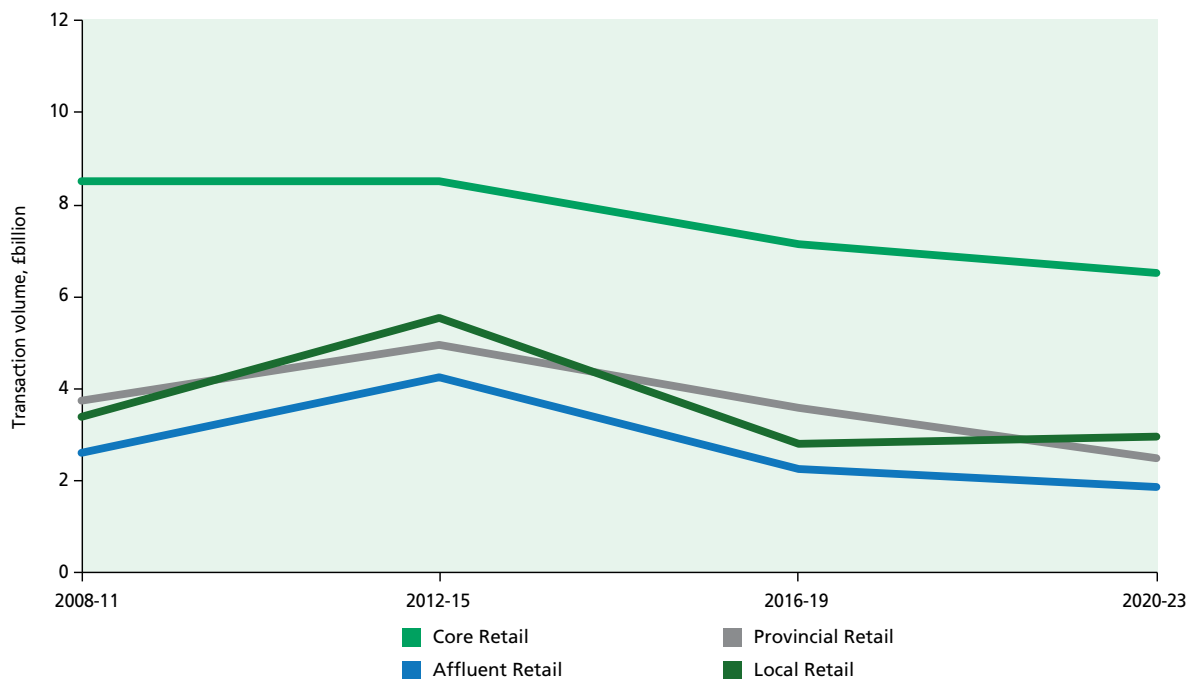
3. CATEGORISING TOWNS AND CITIES

The investment profile for the different types of investor differs. Large defined benefit (DB) pension funds or insurance companies typically invest in larger lot sizes, and might not invest less than £50 million per asset, for example. Their investment universe is global, across asset classes. There are investors that target smaller lot sizes and higher returns, such as Private Equity funds, Family Offices, and local investors, whether individuals or property companies. The smaller investment opportunities typically found in smaller towns and cities are more likely to attract these types of investors.

3.5.2 Investment trends in retail assets

Over the past 15 years, the *Core Retail* have attracted significantly more investment into their retail assets than the other three clusters, although investment volumes have been declining as a whole since 2015. Between 2020 and 2023, the volume of transactions over the £1 million threshold amounted to £6.5 billion. The volume of high-value transactions in *Affluent Retail* have been lowest over the recent history and totalled just £1.9 billion over the four years to 2023, despite having good liquidity, quality assets, and a good economic basis, perhaps as there is less retail floorspace available in these towns.

Fig. 13. Total retail transactions by cluster, 2008–2023

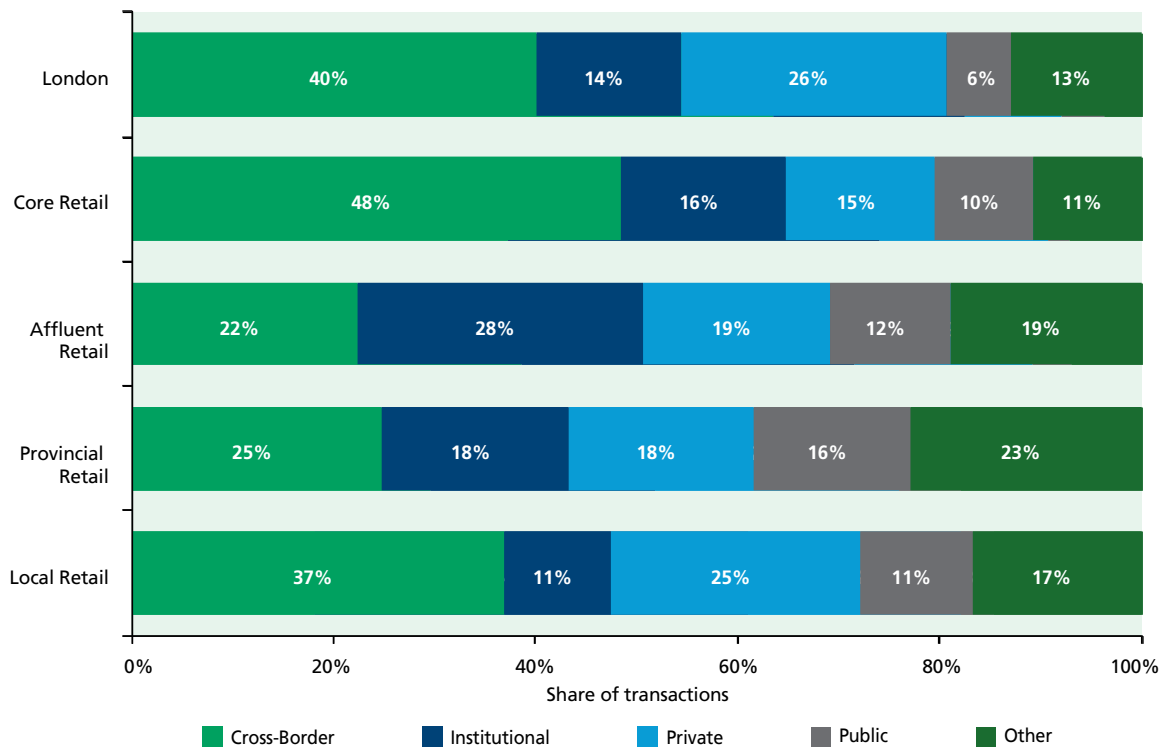


Source: MSCI, Oxford Economics

Notably, institutional investment accounts for a much larger share of total transactions in *Affluent Retail* than in other clusters. This is largely due to the typically higher quality of stock, typically larger units and lower market liquidity. Between 2020 and 2023, they comprised 28% of investment volumes in *Affluent Retail*, compared to 16% for *Core Retail*. Instead, investment funnelled via cross-border operators—with some of the money invested actually coming from local investors—made up nearly half of retail investments in the cluster of larger cities. Private investments are relatively more important in *Local Retail*, making up 25% of transaction volumes, than in the other clusters.

3. CATEGORISING TOWNS AND CITIES

Fig. 14. Retail cluster investor composition, 2020–2023

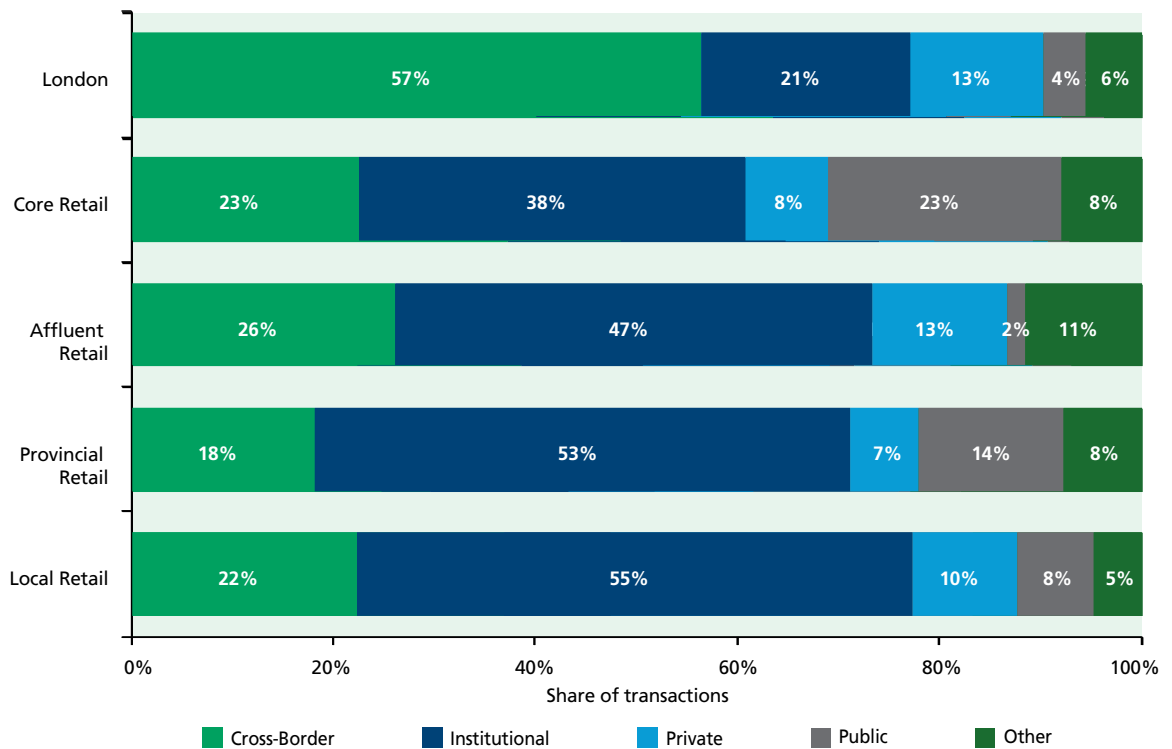


Source: MSCI, Oxford Economics

The retail investment landscape has changed a lot since 2008, much more so than in the office space. Institutional investors previously dominated the sector, accounting for over half of all investments in *Provincial Retail* and *Local Retail* between 2008 and 2011, and 38% among *Core Retail*. The proportion of spend coming via cross-border investors has risen over the same time frame, especially for *Core Retail* in which their share had doubled by 2020–2023. Meanwhile, the share of investment from private sources has also grown over time, doubling its share in almost every cluster whilst UK institutional investors reduced their activity.

3. CATEGORISING TOWNS AND CITIES

Fig. 15. Retail cluster investor composition, 2008–2011



Source: MSCI, Oxford Economics

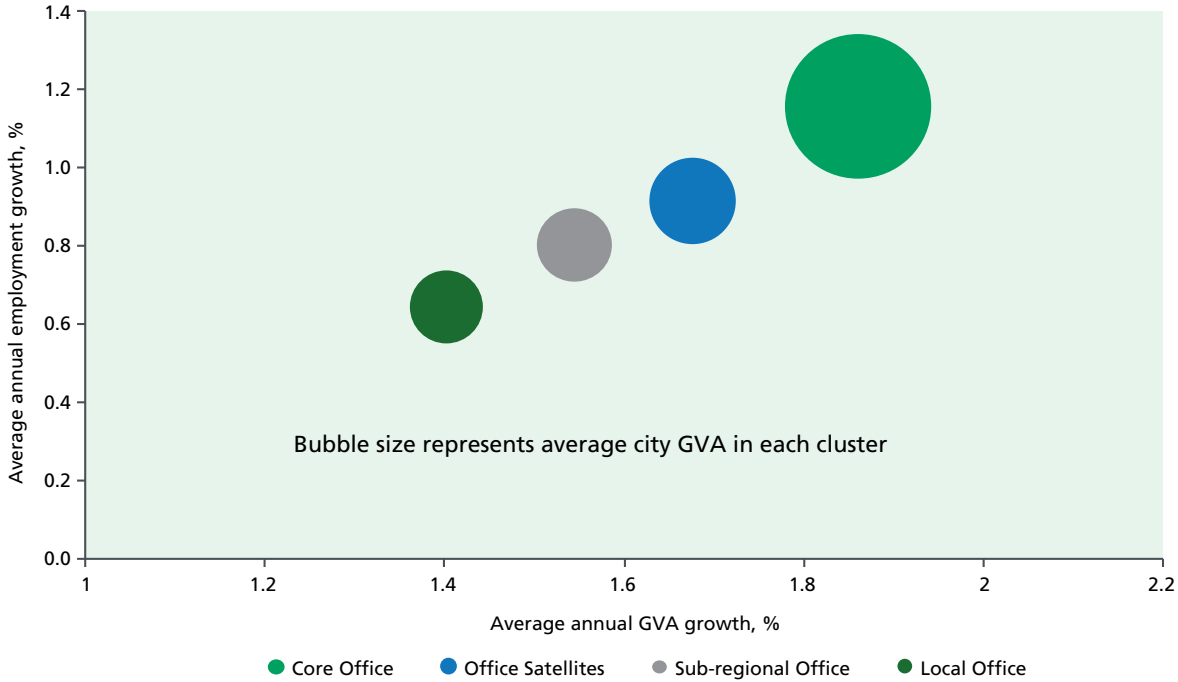
3.6 Growth Prospects By Cluster

3.6.1 Office Cluster Growth Prospects

Our approach to clustering excluded any forward-looking indicators. However, a hierarchy in growth prospects exists between the different clusters. Growth prospects over the medium and long term show a clear trend across the four groups. Both employment and GVA are forecast to grow the fastest in *Core Office*, followed by *Office Satellites*, *Sub-regional Office*, and finally *Local Office*. We forecast GVA across the 10 *Core Office* markets to grow by an average of 1.9% per year between 2025 and 2035. Employment is expected to rise by 1.2% per year over the same period. This compares to average annual growth of 1.4% (GVA) and 0.6% (employment) in *Local Office*. This trend is compounded by the *Core Office* cluster including the largest economies in the UK, outside of London. The economic scale of *Core Office*, combined with more economic diversity and business creation, represents a higher number of potential investment opportunities.

3. CATEGORISING TOWNS AND CITIES

Fig. 16. GVA and employment growth, office clusters, 2025–2035

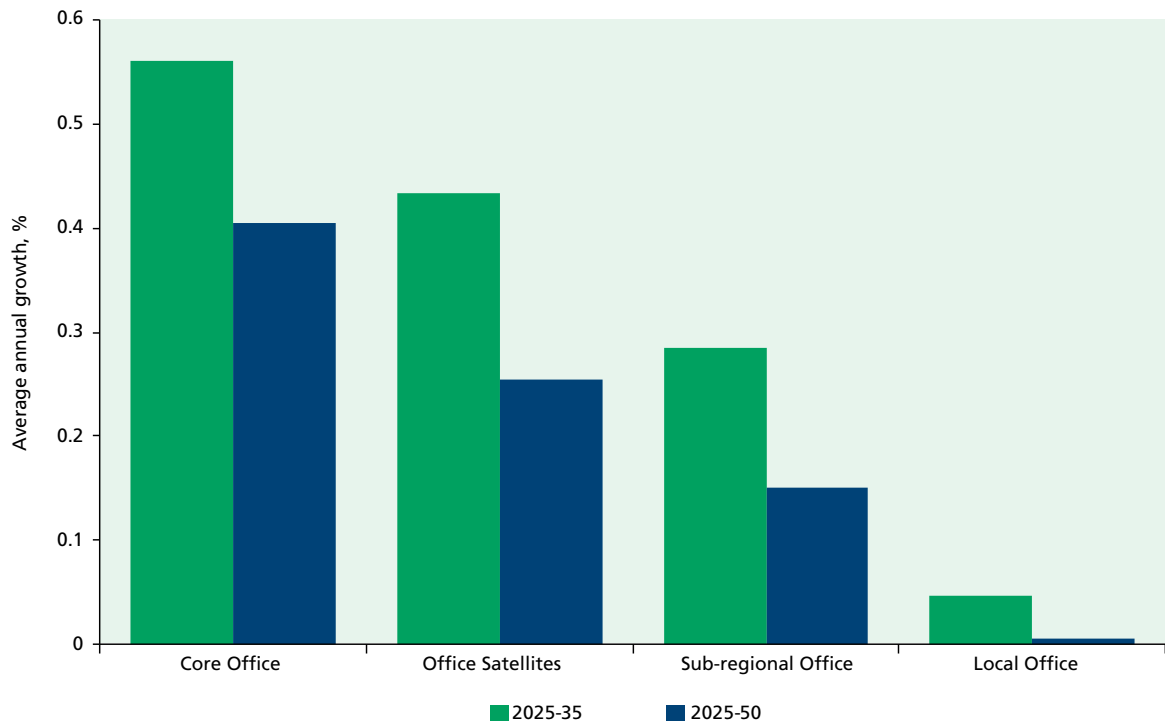


Source: MSCI, Oxford Economics

The working age population is a key component of a local area’s economic base and the expected demand for office space over the long term. The working age population in the *Core Office* is expected to grow by an average of 0.6% per year over the next 10 years. In *Local Office*, the annual growth is forecast to be less than 0.1% per year on average. A similar trend in relative population growth is expected to persist over the long-term through to 2050. Similarly, employment in office-based sectors is also forecast to be strongest in the *Core Office* cluster, with an average annual growth of 1.5% between 2025 and 2035, and weakest in *Local Office* (with 1.1% annual growth). Such trends are a key indicator of where the demand for office space is likely to remain strongest.

3. CATEGORISING TOWNS AND CITIES

Fig. 17. Working age population growth, office clusters, 2025–2050



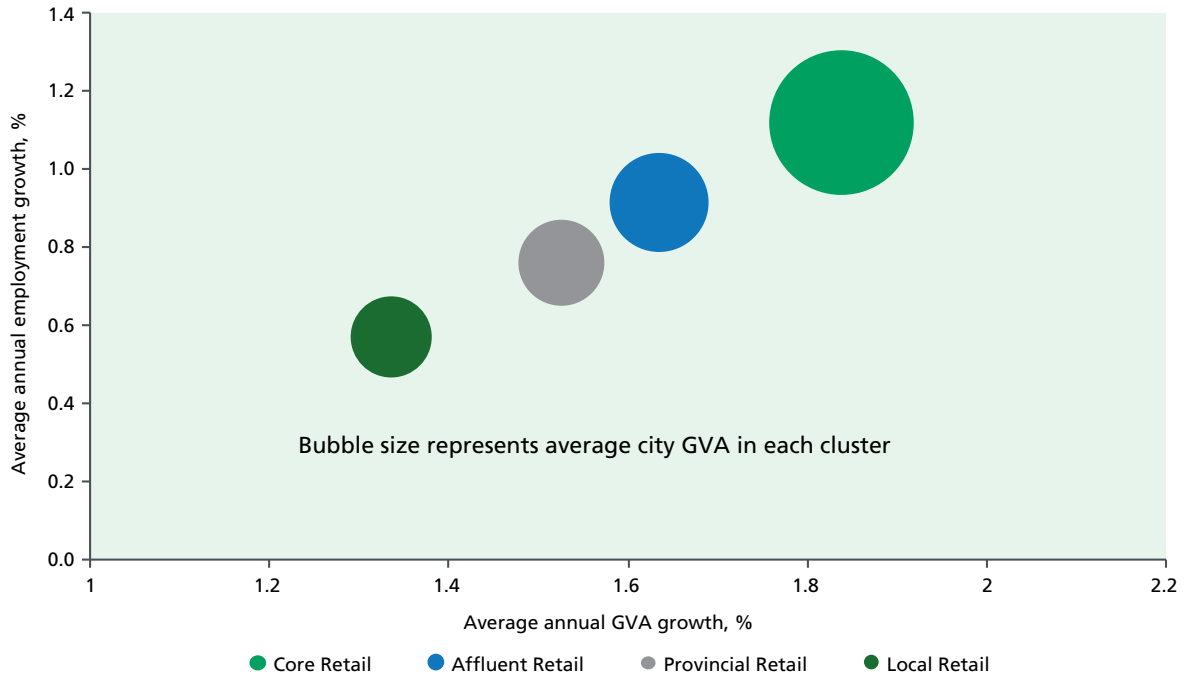
Source: MSCI, Oxford Economics

3.6.2 Retail cluster growth prospects

Similarly, for retail, the growth prospects for the clusters fit a general pattern of expected performance. Larger cities, most of which comprise the *Core Retail* cluster, are forecast to see the fastest pace of GVA and job growth over the next 10 years, at 1.8% and 1.1% per year respectively. This will be followed by *Affluent Retail* and *Provincial Retail*.

3. CATEGORISING TOWNS AND CITIES

Fig. 18. GVA and employment growth, retail clusters, 2025–2035



Source: MSCI, Oxford Economics

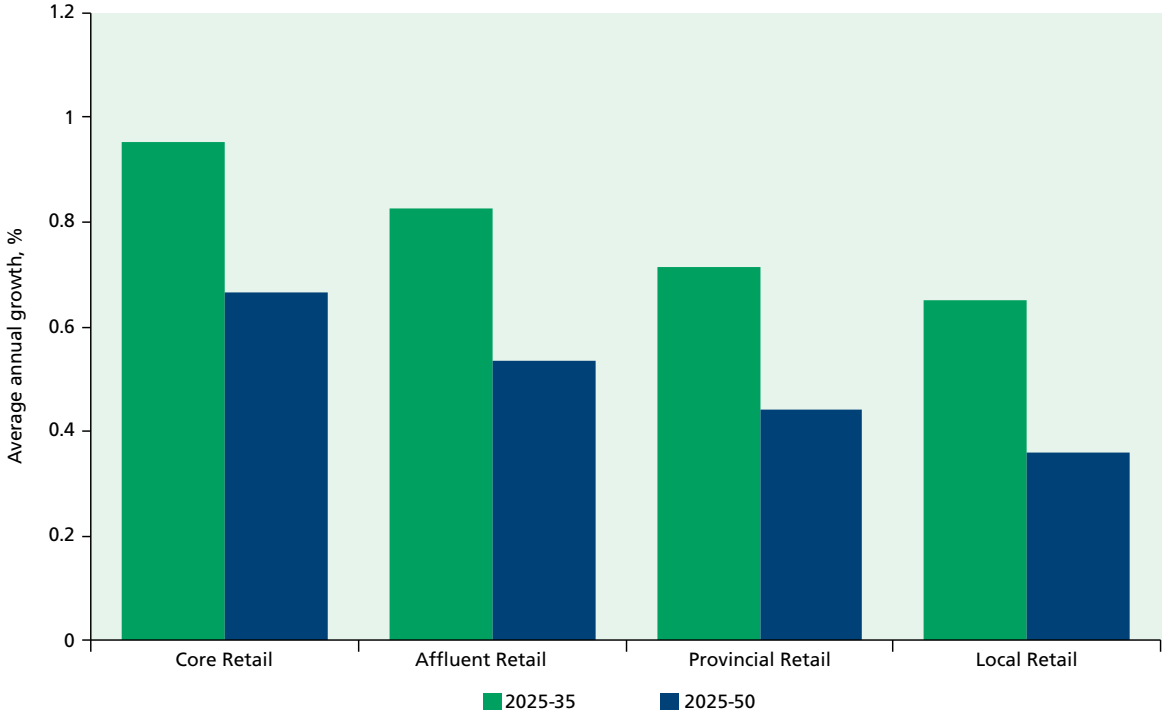
Importantly for the retail sector, employment within the retail and wholesale trades is expected to follow the same cluster trend. Larger and wealthier urban areas should see more expansion in retail, with important consequences for the demand for retail space. This will be driven by both local and visitor demand.

While *Core Retail* are projected to have the highest rate of population growth over the next 10 years these cities also act as destinations for visitors. Shoppers are attracted to big cities with a large number of retail options, as well as smaller, heritage locations which offer unique shopping opportunities. Many of these places sit within the *Affluent Retail* cluster.

There is a rationality in these investment trends here in so far as more successful centres attract more investment in a positive cycle of improvement. Of course, the contrary is also true, in so far as towns and cities struggling to grow fail to attract growth (except in an opportunistic manner) and so face the prospect of a negative cycle with existing investors retreating or new investors not being attracted.

3. CATEGORISING TOWNS AND CITIES

Fig. 19. Retail and wholesale employment growth, retail clusters, 2025–2050



Source: MSCI, Oxford Economics

4. LOCATIONAL FACTORS

4.1 Overview

When investors make asset allocation decisions, they will take more qualitative factors into consideration as well as the quantitative analysis they routinely undertake to assess opportunities. Sometimes these will override an otherwise data-driven conclusion or decision; other times they might be deployed to reinforce a decision.

Either way, decisions are influenced by behavioural characteristics such as perceptions, bias, and prejudice, as well as commercial considerations, such as business models or judgements around local and national politics. In these senses, such qualitative factors are equally as valid in consideration of investor decisions as the quantitative analysis. Fig. 20 summarises these factors and the following paragraphs summarise their main features.

Fig. 20. Qualitative locational factors

Political & Regulatory Environment	Place-specific Appeal
Government policy	Prestige & reputation
Government initiatives	Local amenities & lifestyle offering
Local politics	Transport connectivity
Planning	
Operations	Economy
Environment, social, governance	Market cycle and economy
Peer activity	Development economics
Supply chain	Leasing profile
Partnering	Occupier trends
Level of competition	

Source: Oxford Economics

4.2 Political and Regulatory Environment

This category represents the governance framework within which investors make allocation decisions in specific towns and cities. This broad category encompasses three dimensions that individually and together determine the attractiveness or otherwise of investing in an area: government policy that includes overarching visions as well as rules and guidance on specific issues; local politics that includes party ideology, mayoral influence, council reputation, and political instability; and planning such as a Local Plan that facilitates development through clear policies, flexible land use, and an active regeneration agenda.

4.2.1 Government policies

Government policy includes national planning guidance, such as the National Planning Policy Framework (NPPF), strategic visions such as the Industrial Strategy, and fiscal initiatives such as tax allowances. The NPPF emphasises the need to achieve sustainable development and build a strong competitive economy. This includes setting out a clear economic vision and strategy which positively and proactively encourages sustainable economic growth; and identifying strategic sites, for local and inward investment to match the strategy.

4. LOCATIONAL FACTORS

The Industrial Strategy identifies eight key growth sectors.⁴ Analysis by Centre for Cities finds that the locations of these industries in the UK are closely correlated (except for Defence) and are more likely to be found in cities in what it calls “the Greater South East”.⁵ However, the majority of firms in each of the eight sectors are located in urban locations, where businesses have access to workers, infrastructure, and ideas.

These policies include plans that will help change the economic profile of an area. For example, “levelling up”, new transport infrastructure, freeports, etc. New roads can bring improved accessibility and an opportunity to introduce new activities and assets. Airport expansion can be another key driver. Mayoral development corporations (MDC) are statutory bodies set up by metro mayors in England to deliver regeneration schemes. Each MDC operates over a defined geography and has general powers set out in the Localism Act 2011 to “do anything it considers appropriate”.

4.2.2 Local politics

The political colour of the local majority party, the impact of mayors, and the reputation of a local authority can all affect investor decision making. Some local authorities are known to be resistant to development, or prescriptive in what kind of development they wish to see. The local political situation can also frustrate development with narrow majorities leading to extended debate and point scoring. This can be a disincentive to investment.

4.2.3 Planning

Planning refers to the quality of the Local Plan, ease of gaining planning consent, and land use flexibility. Relevant factors will include whether there is an active regeneration agenda or if the local authority is pro-growth. Some Local Plans are very dated and rely on market dynamics that have been superseded. A Local Plan will set a “tone” for an area, but impending changes could affect levels of investor interest.

Within that, placemaking offers the council an opportunity to create a new district or quarter that will have the potential to change the nature of the market. In smaller cities in particular, there is sometimes the opportunity to make a step change to the local commercial market via the development of a new district, or the improvement of an existing one. This opportunity can be attractive to long-term investors.

The ability or inability for an investor to control a larger area, whether part of a large estate or when owning a single building, affects how much they can improve the area the building sits on. The availability of a Business Improvement District (BID) might help, but not every investor finds that very effective and they come with a cost attached to them.

4.3 Place-Specific Appeal

This category represents the unique attributes and attractiveness of different markets. This broad category encompasses three pillars which make local areas more or less attractive to an investor: prestige and reputation includes the historical and economic reputation of an area; local amenities & lifestyle offering that includes the general liveability of a place; and transport connectivity that allows easy access for workers and residents.

4. The eight are: advanced manufacturing; clean energy industries; creative industries; defence; digital and technologies; financial services; life sciences; and professional and business services.

5. Centre for Cities, ‘[Eight sectors, one story. The geography of the Industrial Strategy](#)’, June 2025

4. LOCATIONAL FACTORS

4.3.1 Prestige and reputation

Over time, every town and city in the UK develops a distinct reputation—shaped by its history, economy, cultural assets, and collective perceptions—that can significantly influence how it is perceived both locally and nationally. Some towns and cities have negative reputations, for example, relating to an industrial history or a reputation for a poorly performing economy (e.g., Blackpool for its high rates of deprivation). Others have very positive reputations, for example, from having an established cache (e.g., Bath for its heritage or Cambridge for its academic institutions).

4.3.2 Local amenities & lifestyle offering

In terms of community services and lifestyle benefits, a rounded assessment of quality and level of sufficient accessibility of school places, healthcare provision, retail, green spaces, and cultural venues—without there being too many empty units detracting from the town centre—can be key to assessing long-term value. Such factors are becoming more important rather than less.

4.3.3 Transport connectivity

Proximity to transport hubs, tram systems, motorway junctions, or mainline rail termini can influence future value growth. These are relatively simple to assess either from direct experience or from a snap review of local information. It is important to stress the dual importance of local access and national access for different activities. It is possible to compare the accessibility of UK cities with its peers across Europe, and the UK cities rank below the European average.

4.4 Operations

This category represents the operational environment in which real estate investment decisions are made. This category encompasses five dimensions that each affect the reality of investing in a certain area or type of building: environment, social, governance that includes energy efficiency, climate risks, and ethical considerations of certain asset types; peer activity that reflects what other investors are doing in the area; supply chains impacting the reality of owning or managing an asset; partnering and collaborating with other local actors; and investment climate that includes the growth of out-of-town retail.

4.4.1 Environment, social, and governance (ESG)

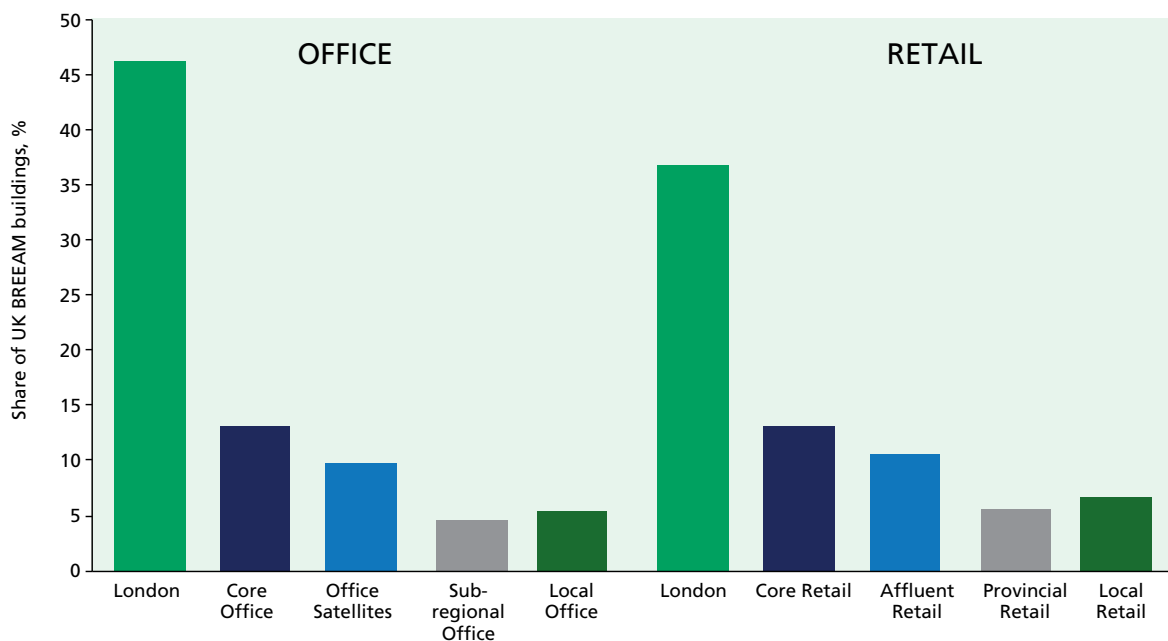
There is today a very sharp focus on real estate with low flood risk, high EPC ratings, green certifications or energy-efficient systems. While the existing ratings matter little for a redevelopment opportunity, they can be deal-breakers for an existing investment property. Investors today are far more likely to question whether they were doing “the right thing” and how they should manage reputational risk or make our asset more resilient and future-proofed than they were in the past. Pressure can come top down (investor capital, regulation), bottom up (staff, tenants, community), and from peer pressure (from competitors or purely from ethical considerations). Flood risk can be linked back to the political and regulatory environment, where mitigants ought to be put in place.

Ethical investing considerations, such as contributing to affordable housing or urban regeneration, may influence portfolio strategies, entailing checks on whether developments are adding social value and where investment is most impactful. Many investors have full-time staff assessing social value or impact. This has moved beyond a box-ticking exercise and is becoming more ingrained within real estate and has seen growth despite the headwind coming from the US at the moment.

4. LOCATIONAL FACTORS

Our analysis of BREEAM certified office and retail buildings by cluster, shows that Core Office and Core Retail have larger proportions of the UK totals in each market and the highest number of BREEAM buildings across the four clusters in each market. However, together, these two clusters account for around one-third of the UK total in each market, with London accounting for close to half of the office total (49%) and over one-third (37%) of retail buildings.

Fig. 21. BREEAM rated buildings by office and retail cluster



Source: Oxford Economics

Our research found that money invested via cross-border companies was often less active in regional office and retail, with the exception of retail investment in Local Retail that in 2020–2023 saw 37% of investment via companies with headquarters outside of the UK. This money, whether overseas or UK-based in origin, might have been attracted by the fact the cluster had more better-quality assets, with our analysis showing more BREEAM rated assets than in the third cluster for office (Sub-regional Office) and retail (Provincial Retail). Further research behind the reasons for this is needed, but the fact there are more towns and cities in the fourth cluster and thus more assets could be an explanation.

4.4.2 Peer activity

The behaviour of peer investors, particularly institutional ones, can create “herd movements” into or out of specific sectors or locations. A recent example of this is the life sciences sector where many investors have been happy to invest when offices have been out of favour. Higher or lower overall investor activity can reflect on the confidence of individual decisions.

4. LOCATIONAL FACTORS

4.4.3 Supply chains

Even in a relatively small geography such as the UK there are sharp regional differences in supply chains. An investor might have extensive and mature supply chain relationships in, for example Bristol and Swansea, but struggle in Liverpool and Leeds. Investors will therefore assess whether they can access expertise with builders, letting agents, asset managers, and facilities services providers. Investment into regional markets beyond the Core Office requires a local operating partner that knows the local market well, which might be harder to source. Buying in the regions creates additional complexities in asset and property management, requiring visits to the assets on a regular cycle, raising costs.

4.4.4 Partnering

Where there are large regeneration opportunities in the larger metropolitan cities, it will often be necessary to partner or collaborate with a local authority and local politicians. Such relationships can take years to develop, and the quality of such relationships might make an opportunity more, or less, attractive.

4.4.5 Investment climate

Out-of-town or edge-of-town retail can, of course, be a viable investment in its own right, and these assets can be of sufficient size for institutional investors. However, there is also the case that out-of-town retail can hollow out town centres, rendering them unattractive to inhabitants and investors alike. In many cities, retail as a sector suffers from too much stock, and high levels of vacancy have a negative impact on the attractiveness of a city or town as a whole.

Retail has seen a shedding of superfluous stock and a rebasing of rents, whilst in the office market rebalancing still has much further to go, is the feeling in the market. At the time of writing, summer 2025, investment in retail is recovering from a low base in the UK. Once the supply of good office assets has declined sufficiently, rents and values will have to rise once more. Institutional investors need to see there is a recovery before re-entering the office investment market. Getting the right building of a minimum asset size at the right location with liquidity in the market will remain important, however.

4.5 Economy

This category represents the economic environment in which investment decisions are made. This broad category encompasses three dimensions that each impact the viability or attractiveness of investing in an area: market cycle & development economics that includes the local market cycle, localised trends and specialisations, and improvement plans; leasing profile that covers occupier demand, types of tenants, and the presence of rent review; and occupier trends such as hybrid working and co-working spaces.

4.5.1 Market cycle & development economics

Perceptions of where the local/regional market cycle is heading (growth, decline, or flat line) can influence entry timing and pricing strategy. Investors will know whether they are making short-term or long-term plays and will wish to understand locally specific economic “micro” trends, as areas within a city—like Manchester’s Northern Quarter or Glasgow’s Merchant City—may experience localised trends in popularity, influencing the desirability of investment. Similarly, development and refurbishment viability will be a key determinant in investor considerations, and this will have local nuance. This will apply both to a development opportunity and a standing investment.

4. LOCATIONAL FACTORS

Employment might also be significant in terms, for example, of whether there is potential for atypical growth in jobs like a tech cluster (Oxford), media cluster (Salford), or engineering cluster (Motorsport Valley). There are several sector-based clusters where investment is supported by a critical mass of economic activity.

A 2018 speech by Andy Haldane, then chief economist of the Bank of England, which focused on improving the UK's low productivity growth, talked about the implications of the dominance of London, without there being other dominant UK cities of sufficient size, density, or liquidity like their European peers.⁶ This is something various investors, interviewed for this report, agreed with.

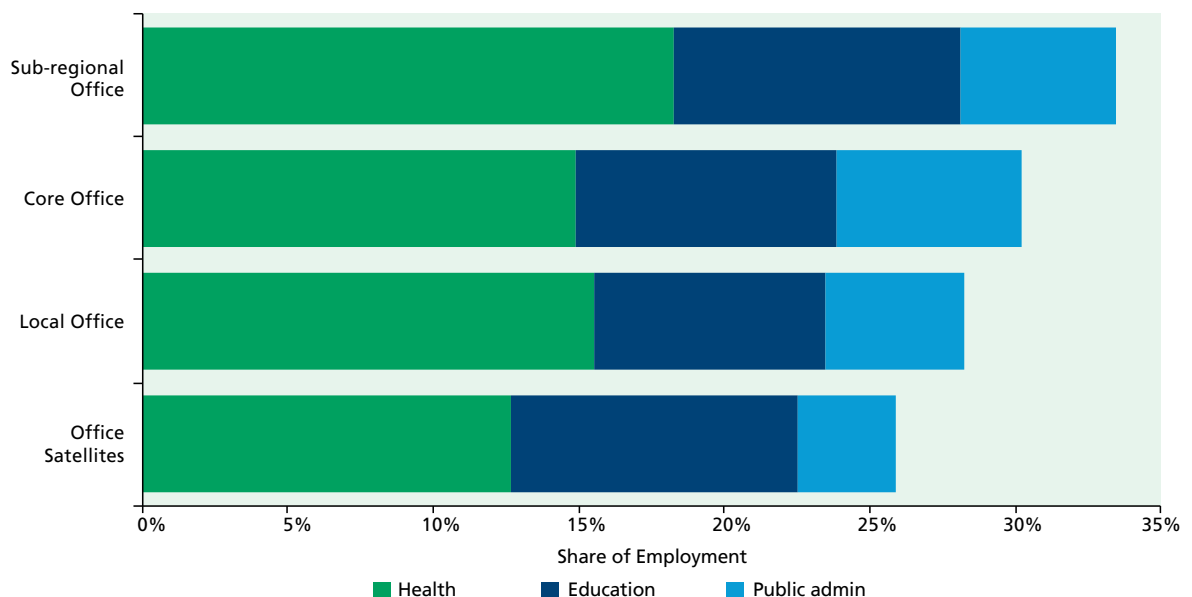
One UK-based fund manager suggested that Manchester should be actively supported by the government to become such a “spoke” to counteract London's dominance. However, another investor felt that an overarching, national economic improvement plan was required, rather than, for example, pushing infrastructure investment for its own sake instead of as part of a wider, well-considered holistic plan.

4.5.2 Leasing profile

In a standing investment, the quality of tenants and quality of income will be critical considerations. Voids and low-quality covenants will deter some investors, especially with anything more than short-term commitments. In a development situation, the investor will wish to understand the profile of leasing over recent years, and the potential to target a broad and deep pool of appropriate occupiers.

For this research, we analysed income risk through Income Analytics, but this found that across the cluster type income risk (the risk of default and length of vacancy) does not vary significantly. For offices, in the towns where there are fewer large businesses with good covenant strength, there tends to be more employment related to the government—including healthcare-related—with strong covenants.

Fig. 22. Public sector employment by sub-sector by office cluster



Source: Oxford Economics

6. Andy Haldane, “The UK's Productivity Problem: Hub No Spokes”, Academy of Social Sciences annual lecture, 2018

4. LOCATIONAL FACTORS

Indeed, analysis of public sector employment as proportion of total employment within the office clusters, shows that the health sector accounts for a larger share of employment in *Sub-regional Office* and *Local Office* than in *Core Office* and *Office Satellites*. In our interviews, it was noted by several interviewees that for bond-like deals, investors tended to “buy the building”—a good quality asset with an attractive lease in place—irrespective of the location across the clusters, with perhaps a 25bps–50bps risk premium for additional illiquidity outside the “Big Six” cities. Investors in such cases fundamentally bought secure income, irrespective of the asset type or location.

“ Outside of the Big Six investors ‘buy the building’. People think in IRRs and in NIY, not about a risk premium for illiquidity of a location. In the “Big Six” office markets you get yields of 7%-7.5%, but a long income asset in Bath with 15–20 year leases will also be in the 7%. If not long-let, in tier-1 you get 7.5% NIY, in tier-2 9%+ NIY, in the rest it’s double digits. ”

UK Regional Offices Capital Markets Professional at a Chartered Surveyor

No risk premium is attached to illiquid, weaker locations, as this is dealt with via break assumptions and structural void assumptions. Adding in a location risk premium in the discount rate would lead to double counting and is considered too-blunt an instrument by valuers.

Note that in the current market there is lots of disparity between the winning bidder and the runner-up in transactions, but this disparity does not show in average pricing.

The removal of upward-only rent reviews (UORR) for new leases would impact such bond-like investments into the future, becoming even more scarce, implying less investment into such assets in the future. However, the number of long-let leases on strong covenants are less and less common as a whole, as illustrated by the MSCI UK lease events report. In 2022, 50.4% of leases were for five years or less, and only 4.5% leases were for 21 years or more. How many of those have upward-only rent review clauses is not known.

4.5.3 Occupier trends

Occupier trends such as hybrid working and densification tend to be national in character rather than local, so less influential on specific investment decisions. However, while there is evidence that hybrid working has altered the patterns of spending in city centres—with analysis by Centre for Cities showing workers doing a smaller share of their spending in city centres in 2024 than they did in 2019—this has not necessarily benefitted local high streets, with the largest impacts on grocery spend benefitting suburban supermarkets.⁷ Hybrid working also affects the popularity and demand for co-working office spaces as some companies downsize or seek flexible options.

While this may be a broad tendency, it is often possible to identify local trends in terms of sector breakdown and activity profile, allowing the investor to consider targeting certain cities.

7. Centre for Cities, [‘The impact of hybrid working on the high street’](#), March 2025

5. CHANGING INVESTOR PROFILES

5.1 Overview and Backdrop

In this chapter we consider a range of implications for both investors as well as the retail and office markets in the UK's towns and cities. These include:

- Where the investment will come from to fund fresh forward-thinking investment or extensive redevelopment.
- What barriers need to be overcome to encourage meaningful investment into less favoured areas.
- How UK towns and cities can attract some of this capital.

We need to explore relevant structural trends impacting the investment market, enabling a deeper understanding of what investors want and need. Long-term impacts are various including, amongst others: the impact of the GFC, Brexit, and DB pensions maturing on the economy; regulation; ingrained risk aversion and a focus on ESG; changes to liquidity; increased debt costs; and changing investor composition. There have been a multitude of separate impacts leading to polarisation and bifurcation in the market. Many factors are interlinked.

5.2 Evolving Investor Demographics

There have been some notable shifts in the profile of real estate investors over time. This matters as different investors have different investment strategies. The share of cross-border investors in UK real estate has grown from 15% in 2003 to 40% 20 years later. These investors have taken market share from UK insurance and pension funds (which have fallen from 31% to 11%) and UK private companies (down from 18% to 12%) over the same 20-year period.⁸ This growing dominance of foreign capital can also be seen as a risk, as capital flows can reverse.

However, across real estate, less cross-border money has been going into the regions, and has, since the GFC, been increasingly gravitating towards London and its hinterlands as a "safe haven". The GFC triggered a flight to safety, not only in the UK but also the rest of Europe and the US. The areas benefitting from such capital inflows also benefitted from higher subsequent growth, whilst those areas suffering outflows suffered declining growth. Access, or lack of it, to bank lending and wider investment is at the heart of this.

5.2.1 Money currently invested in real estate

The MSCI Index gives an indication of where institutional investment is held within the UK, although this index is not fully representative of the whole real estate investment market.⁹ The index does still provide an indication of investment preferences by institutional capital. Looking at the 2025 MSCI Key Centres annual spreadsheet, there was lack of any data for the "weaker" clusters. There might be some investments in some locations, but too few to be able to report on by MSCI.

For office markets, the MSCI Key Centres report covers eight out of 10 *Core Office* locations, 11 out of 21 for *Office Satellites*, two out of 33 for *Sub-regional Office*, and one out of 48 for *Local Office*. For Unit Shops within the MSCI Key Centres report, we found data for 15 out of 18 *Core Retail*, four out of 22 *Affluent Retail*, four out of 29 *Provincial Retail*, and none for *Local Retail*.

8. Investment Property Forum, 'The Size & Structure of the UK Property Market Year-end 2023', Fig. 4.1, March 2025

9. Cross-border investors and small investment and private equity companies, including HNWLs and Family Offices, are often missing from this index.

5. CHANGING INVESTOR PROFILES

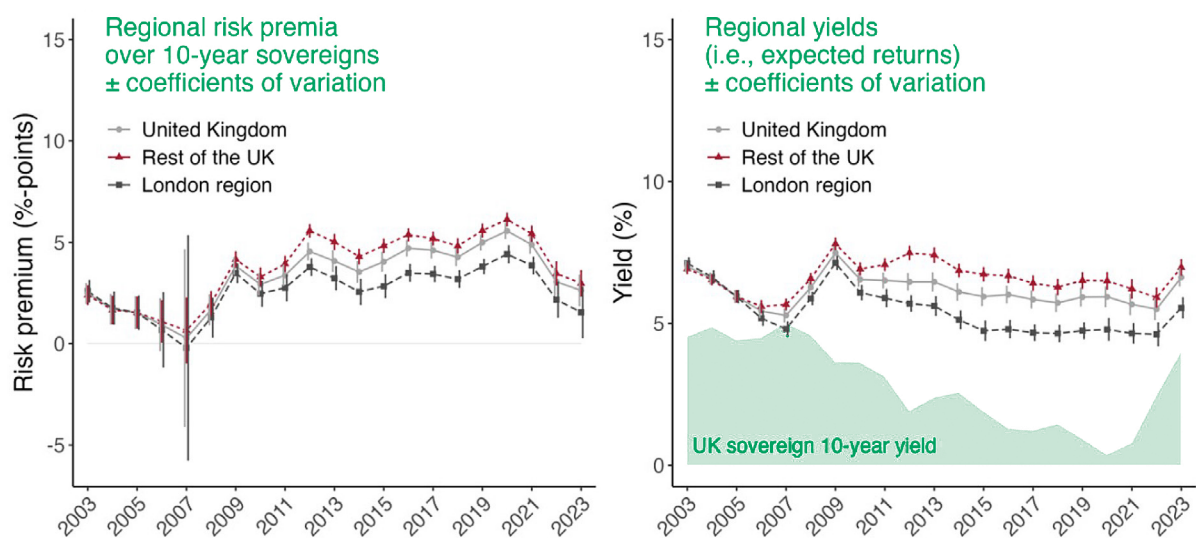
Research for The Productivity Institute mentioned earlier found a growing dominance of London and fundamentally different capital market pricing regimes for London versus the tier-2 and tier-3 cities in the UK regions across all asset types since the GFC. This divide has deepened since the Brexit vote in 2016.¹⁰

The report calculated mean risk premia for individual investment transactions over 2003–2023 by location, based on former US Federal Reserve chairman Ben Bernanke’s “external finance premium” looking at the difference between perceived risks priced in by capital market investors and the official yields on gilts and central bank discount rates.¹¹ They used MSCI-RCA investment transaction data on 12,681 transactions in the secondary market—investment into established assets—to calculate average yields and risk premia for every UK region and city over the period 2003–2023. This data allowed them to directly observe the individual investment yields and could calculate the capital asset pricing model (CAPM) risk premia.

This analysis showed London had lost its investment pricing advantages with respect to continental Europe since 2016. This loss of pricing advantage negatively impacted how much cross-border capital gravitated toward the UK.

In addition, since the GFC there has been some divergence between the investment markets in London and the rest of the UK. While risk premia across the UK were broadly similar in 2007, the regional premia have risen more than that for the capital over the last 15 years. Risk premia for the regions rose more than for London since 2016, which implies that regional investments would need to offer stronger forecast growth, with a higher hurdle to investment for the regions in general.

Fig. 23. London and the rest of the UK risk premia and investment yields



Source: The Productivity Institute, 2024

10. Michiel Daams, Colin Mayer, and Philip McCann. ‘Regions, cities and finance: The role of capital shocks and banking reforms in shaping the UK geography of prosperity’, The Productivity Institute, Productivity Insights Paper No. 041, November 2024

11. Ben Bernanke, ‘The financial accelerator and the credit channel.’ Bank of International Settlements, 2007

5. CHANGING INVESTOR PROFILES

Regarding regional UK cities, the authors argue that *“rejuvenating the growth trajectories of these cities [] requires fundamental reforms to the UK banking and financial system towards a more decentralised system”* presumably assuming Brexit is unlikely to reverse in the near to intermediate future.¹²

The authors also argue that most of the UK’s second and third tier cities *“have central business districts which are very small in comparison to OECD comparator cities [], and display no real agglomeration economies of scale or density”* and that, as a result, these UK cities underperform economically. This impacts the office and retail markets in those towns with smaller central business districts, and curtails the growth opportunities for them, as investment and economic growth are correlated.

“ The value of real estate assets is driven by the performance of urban economies down to the neighbourhood and street level. There is also reverse causality in which real estate markets transmit a differential growth impetus to cities and regions. ”

Richard Barkham, Economist, on LinkedIn, 2024

5.2.2 UK DB pension funds

The decline in investment into UK real estate by the UK DB pension funds has disproportionately impacted the regions. DB pension funds frequently offer patient capital and traditionally invested in the UK regions. The magnitude of DB pension fund investment decline is large and is well-illustrated by data from The Purple Book 2024 by the Pensions Protection Fund (PPF).¹³ These showed that the PPF protected 7,751 DB funds in 2006, covering 14 million members, with 28% of total holdings invested in bonds. This declined to 4,974 schemes protected by the PPF in 2024, covering 8.8 million members, with 70% of total holdings invested in bonds. A dual impact of fewer DB funds and less investment into illiquid assets has meant a decline in real estate investment by this important investor category for the UK’s regions.

Increasing numbers of DB funds are reaching maturity and/or heading for “buy-out”, whilst defined contribution (DC) pension funds are not able to replace the demand at scale anytime soon for a variety of reasons that goes beyond the remit of this report. Long-term asset funds (LTAFs) were created to enable DC pension funds to invest in illiquid assets including real estate, and we will explore LTAFs later in this chapter at 5.3.2.

This void creates an opportunity for other investors to fill. However, if this does not happen in sufficient numbers, it will likely result in lower demand and thus falls in asset value in the least liquid and in-demand places, for the smaller assets, or for the least attractive buildings, particularly for clusters outside of *Core Office* and *Core Retail*. For office clusters, institutional investment has traditionally been low in *Sub-regional Office* and *Local Office*, so *Office Satellites* might be relatively more affected by this decline. This is also the case for retail clusters.

12. Regions, cities and finance: The role of capital shocks and banking reforms in shaping the UK geography of prosperity. Productivity Insights Paper No. 041, The Productivity Institute (2024)

13. Pension Protection Fund, *‘The Purple Book 2024’*, 2024

5. CHANGING INVESTOR PROFILES

5.2.3 Regulation, policy, and fiduciary duty

Other trends, such as increased regulation, including Basel II and the “slotting regime”—a regulatory capital procedure to determine the risk weighting for a bank’s specialised lending exposures—impact the way institutional investors treat risk and how and what they invest in. For example, insurance companies increasingly favour credit rather than equity investment and look for lower risk yet long-term investments.

Government policy also impacts demand in a structural way, including at the regional level. An example is the current pressures for Local Government Pension Schemes (LGPS), the one type of DB pension schemes that remain actively growing and investing, to pool even more. This could lead to a greater concentration of investment into more liquid markets and away from the regional focus as some LGPS have done in the past. The government also promotes 10% of capital investing into private equity in all its forms.

Fiduciary duty—to find the best investment opportunity on a risk-return basis—for an increasingly centralised team in an increasingly globalised world could likely detract money away from investing into the UK regions if the non-mandatory guidance were to be followed.

In 2022, the previous government encouraged local authorities to set a target of 5% of total money invested to be allocated for local investment as part of their Levelling Up drive, which was implemented by the Greater Manchester Pension Fund. It is not currently a legal requirement and has not been widely acted upon by LGPS schemes. Greater take-up could stimulate more regional investment, but there has been no mass move towards this.

Whilst we have gained a better feel for what investor types invest where, a clearer understanding of how investment strategy differs by investor type is also required to answer where money is (or is not) likely to come from for investment into the UK regional office and retail markets.

5.3 Investment Strategy

5.3.1 Stratification by investor type

Investors are often categorised on an overlapping risk-return continuum. This continuum moves from the lowest-risk and lowest-expected return “core” investment strategy to a slightly raised risk-return profile at “core+”. For both strategies, returns are primarily generated from secure income, often from larger assets. Following that is a moderate risk-return expectation profile of a “value-add” strategy, requiring more active asset management. Here there often is a mix of secure income and income risk as well as capital growth, or in less liquid and less favourable locations offering higher returns. The highest expected risk-return strategy represents an “opportunistic” investment strategy, which often equates to taking lots of income risk and is aimed at large capital growth gains, for example with (re)developments, repositioning of assets, or investing in illiquid sectors and locations.

“ Large core investors have strategies for large shiny buildings, not high streets in tertiary towns, and the latter do not even appeal to impact funds. In these markets you have much smaller investors. ”

Fund Manager

5. CHANGING INVESTOR PROFILES

Traditional institutional investors such as insurance companies and pension funds have generally invested more towards the “core”, low risk end, while local pension money, especially from LGPS, has been invested in regional investments which can be considered less liquid and thus higher up the risk curve.

Public sector money has also been directed towards regional investments higher up the risk curve. Local authorities borrowed money at low finance costs to invest in local real estate investments, hoping to fill budget deficits. This loan provision was intended to support their delivery of housing, local infrastructure, service delivery, and local regeneration, yet many councils are now at risk of bankruptcy due to real estate investments turning sour. Public sector investment into commercial real estate has been reduced, amongst others by limiting the use of PWLB lending for commercial investment.

Cross-border capital is made up of investors across the risk-return strategy continuum. Cross-border investors, such as large sovereign wealth funds and institutional-type money, often steer towards the lower, safer end of the risk-return spectrum, and larger assets. They are more likely to invest in London and Manchester—and perhaps Edinburgh—which are seen as the most liquid and have city names familiar to overseas investors. Interviewees stressed that if a city name was not familiar abroad, investment committees were unlikely to recommend investing in such locations. The tourism appeal of a town helps in this respect.

At the other end of the spectrum, the opportunistic foreign investors, such as US-based private equity funds, some family offices, or (ultra) high net worth investors, demand a higher return in exchange for accepting greater risks. This higher return can be found in select opportunities in London or the regions. However, investment into regional office or retail markets tend not to be part of an overarching strategy to buy office or retail assets, beyond grasping individual opportunities consistently. Investing locally requires working with a local partner, and sourcing the right partner can form a barrier that would need to be overcome.

Local Office and *Local Retail* attract the least amount of investment despite being more numerous in number. These towns and cities have a higher share of private capital invested in them, perhaps as they are much more numerous. Besides money coming from opportunistic private equity funds, investment may also come from smaller, local wealthy businesspeople. They know the area well and are also unlikely to compare local opportunities on a risk-return basis with cities like London or Manchester. An interviewee also suggested that family offices were active in the regions via a local partner.

5.3.2 Long-term asset funds

The LTAF, an open-ended FCA authorised fund structure, was recently created in the UK to provide wider investor choice to support long-term economic growth. LTAFs were created especially with DC pension schemes in mind, but they also attract capital from other sources. Over time, LTAFs could grow to become influential and focus on larger investment or development schemes where there is a compelling business case. For now, there is little evidence of this, with just 11 funds up and running and much of the investment going to other illiquid asset classes.

Real estate sits in the same bucket as other private markets such as infrastructure, competing for investment allocation. In addition, there is competition within the real estate universe. The most attractive investment propositions, offering superior risk-adjusted returns and an exit route, win. This could result from a market correction and/or an improvement, for example of accessibility through new transport infrastructure, or a large regeneration scheme. Opportunities would need to be sizeable and offer a clear long-term growth trajectory.

5. CHANGING INVESTOR PROFILES

Fiduciary duties can partially be overridden by UK government mandating that investment should remain within the UK for a certain amount of the portfolio for LTAFs and LGPS pools. However, even with such directives, money will move to sectors and regions deemed most attractive. Governments would need to tread with caution to partially override the fiduciary duty of these funds.

The DC market still has a focus on keeping management costs low whilst at the same time having to deal with very small pension pots per saver—and thus relatively high administration costs per saver—but now a cost-to-value approach enables access to the more expensive but higher returning private markets.¹⁴ However, the cost-constrained DC investor market still exists.

A further constraint is that LTAFs themselves are not fully liquid until a secondary trading mechanism for LTAFs arises at scale, limiting their attractiveness to all investors.

The growth of LTAFs depends on effective regulation, alignment with local and national priorities, and the ability to balance financial returns with broader social and environmental goals. With the DC and Master Trust pension funds still very immature and relatively small, investment at scale in illiquid real estate assets is unlikely, let alone in the smaller, less liquid, lower growth regional towns. Our conclusion is that for the next five to 10 years LTAFs are not likely to be a major source of investment for UK's regional retail and office markets, whereas LGPS pension funds are a more likely candidate due to government pressure and their local links.

5.3.3 Impact capital

Another source of hoped-for capital for underperforming towns and cities is impact investment. This group of investors has seen growth that is likely to increase. Better Society Capital's annual survey in 2011 recorded £830 million of impact capital invested, growing to £7.9 billion in 2021 and £9.4 billion in 2022.¹⁵ The Impact Investing Institute reported that the UK impact investing market has grown to £76.8 billion in assets under management (AUM) as of end-2023, up from £7.5 billion at the start of 2021.¹⁶

Neither of these sources split out how much is invested in the real estate sector, but anecdotal evidence supports growth in this sector.

Impact investing concentrates on investing in certain types of assets, like affordable housing, but also in areas with lower growth, such as those suffering from multiple deprivation. This supply of capital could perhaps be a future source of much needed regeneration capital for struggling local areas.

5.4 The Challenge of Future-Proofing all Commercial Assets

The cost of retrofitting, whether to make an asset appeal to current occupiers because of demand for modern amenities, or relating to sustainability, can be prohibitive in locations where the cost of doing this cannot be recouped. Capital expenditure (CapEx) on retrofitting and refurbishment or redevelopment might not stack up against relatively low regional rental values.

14. The proliferation of small, deferred pension pots is a growing concern, with an estimated average of £1,000 per pot within Master Trusts, [according to the Small Pots Working Group Report](#), December 2020

15. Better Society Capital, [Impact Report 2024](#)

16. The Impact Investing Institute, 'The UK impact investing market: size, scope and potential', 2024

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“ Refurb costs are catastrophic, for offices. It was £50-80/sq ft but is now £200-300/sq ft due to cost price inflation. You need to be able to buy it cheap enough. It will let when brought up to standard, but the question remains who will buy it at the other end. ”

UK Regional Offices Capital Markets Professional at a Chartered Surveyor

For retail, alternative uses permitted under Use Class E are now easier to achieve after the change to the Use Class system. For offices, Permitted Development Rights promote easier change-of-use to residential, but conversion costs can be high, and physical building attributes and the location, amongst other factors, might not make it suitable for conversion. The asset would have to be fully vacant too. Assets that can be converted to another use will need to be cherry-picked.

In interviews for this research, there were discussions about whether assets in the regions that were less desirable and in areas commanding lower rental values might become stranded. Many agreed that stranded assets could well end up losing all value, upon which they might then present a buying opportunity and spark investor interest. However, this would require a steep price adjustment.

Some interviewees were more sanguine about CapEx costs related to Minimum Energy Efficiency Standards (MEES)-regulation and minimum EPC-standards for rental properties. They thought that the government might relax its sustainability demands for commercial and residential assets. This is because the government cannot risk large swathes of commercial real estate assets becoming stranded. Also, many asset owners might simply claim exemptions regarding the EPC minimum standards. It was also felt that, in the regions, many occupiers tend to be happy to occupy an asset that is not the best quality nor has a high EPC rating. Retailers are most concerned with the carbon footprint of their supply chain, whilst a very small percentage of their carbon footprint comes from their store presence. Larger corporate occupiers or ESG-conscious occupiers do care and might be prepared to pay a higher rental premium.

The opinions on the impact of the retrofitting challenge vary from an investor predicting another banking mini-crisis with banks avoiding asking for the keys back as assets become worthless, to there being very little impact as the government will “pretend and extend” the EPC deadlines so exemptions will be commonplace.

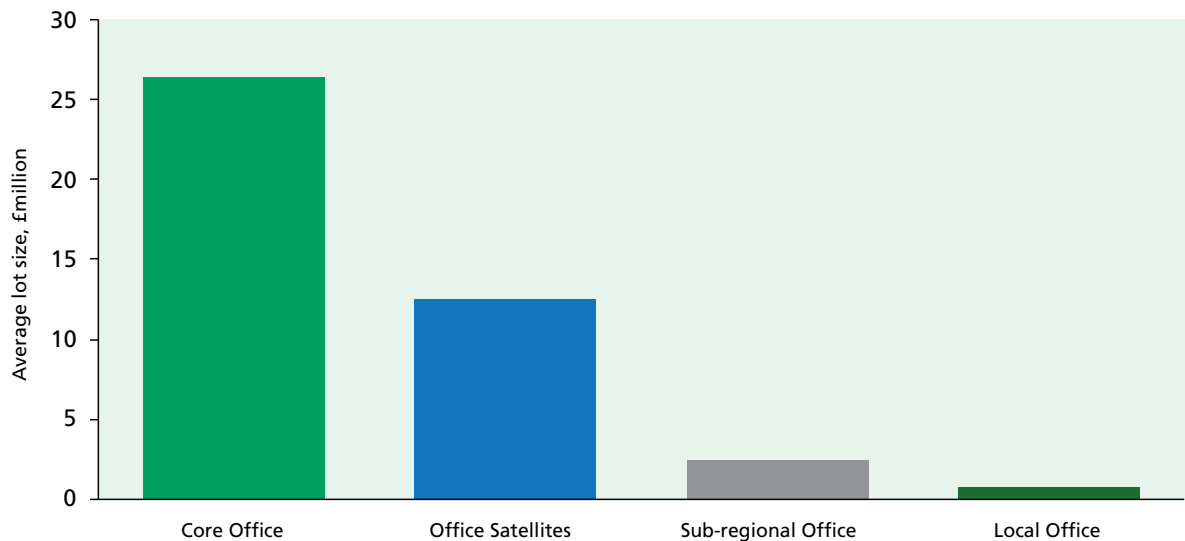
5.5 Increased Polarisation

Many interviews referred to bifurcation—a split in the market between the best and the rest—and polarisation—whereby there is a divergence in performance between different sectors and areas.

Open-ended real estate funds traditionally might have invested in the UK regional office and retail markets beyond the “Big Six” markets. The growth of cross-border investment into the UK, coupled with the decline of open-ended funds due to the decline of DB pension fund money invested via such vehicles, means a greater reliance on cross-border investors and a less regionally diversified investment portfolio for retail and office assets.

5. CHANGING INVESTOR PROFILES

Fig. 24. Average lot size by office cluster



Source: MSCI

Note that £1 million was the lowest transaction size included in this analysis. Average lot size includes years with no transactions and therefore can be less than £1 million.

Regarding the attractiveness of towns, several interviewees felt that underperforming towns would find only incidental opportunistic investment largely depending on transaction liquidity, market size, transport accessibility, and economic growth, whilst the most successful towns would continue to see the greatest influx of investment unless the government intervened successfully. Figure 24 shows a stark difference between the average lot sizes for offices in different clusters, with *Sub-regional Office* and *Local Office* appearing to offer little opportunity of the scale institutional investors would require. Large investors requiring sizeable investments would thus likely be limited to *Core Office* and perhaps *Office Satellites*.

Some investors were actively planning to invest into UK regional retail or office markets, citing a less crowded market and the chance for outsized returns, but at the cost of lower transaction liquidity. They were gambling on exit liquidity having improved by the time they hoped to sell their investment, assuming a market correction would have taken place by then, leading to an improving market at the time of exit. Markets tend to overshoot on the way down as well as the way up, giving the opportunity of cyclical plays, although difficult to time well.

A government intervention could take various forms according to interviewees:

- A continuation and more effective implementation of a form of “levelling-up” programme, even if the aim was to “bribe their local constituents for their vote”.
- A structured national infrastructure plan, with quality infrastructure often seen as a game-changer for reversing town fortunes.
- Effective mayoral devolution.
- Tax breaks, mentioned by one investor, although this was not generally supported.

5. CHANGING INVESTOR PROFILES

No interviewee felt that subsidies would be effective. Generally, the expectation was of a lack of government funds to instigate any initiatives that required government funding, like infrastructure. Those investors putting their hope into a form of “levelling-up” programme were perhaps hopeful that a future government could be more effective in its implementation.¹⁷

5.5.1 Diversification of risk and return

Regional real estate markets often provide higher yields and lower competition compared to prime London real estate. Spreading investments across various regions to diversify risk is a valid investment strategy. Within retail, a regional investment strategy exists, but retail real estate investment trusts (REIT) following this strategy have been hollowed out, with retail REIT investment in decline. For office assets, no regional portfolio diversification strategy exists in the UK—just opportunistic investment approaches.

One might have expected that investment into the four clusters, which in a way represents investment on a risk-return continuum, showed an increase in required returns as one went up the risk-return continuum. Our interviews suggest that is not the case, and a brief analysis using the MSCI Key Centres report, although limited in the coverage of cities, also support this.

Whereas there is an increase in required return outside of the top *Core Retail* or *Core Office*, there does not appear to be a full appreciation of the difference in liquidity and growth prospects. For retail, investors want to see a thriving high street with little vacancy and economic growth prospects. For long income office assets, investors referred to them “buying the building”, with a 25bps-50bps higher yield anywhere outside of the “Big Six”. Further research into this would be very interesting, as it suggests inefficient market pricing.

The 2024 research by Daams, Mayer, and McCann shows that the interregional risk-premia and investment yield spreads between London and the rest of the UK in late 2023 were in the order of 150bps–250bps for tier-2 and tier-3 cities, or on an international basis 250-300 bps.

5.5.2 Availability of debt

Regional real estate markets do typically have sufficient debt available according to the investors we have spoken to and any that is available comes at a price. Debt is available for the safest of retail and office investments via UK retail banks. Other assets require non-bank lending which comes at an additional margin cost. The higher level of debt cost since 2022 squeezed asset pricing in the UK market after inflation started to take hold. Investors expect a higher level of bank debt costs going forward. With an additional higher margin for regional assets, asset values in the regions will have to be lower than in Central London, as well as offer the right asset characteristics including asset size to be an attractive investment proposition. It would be an interesting question to research how much lower values would have to be.

5.5.3 Availability of an investment ecosystem

A whole ecosystem surrounds the investors to enable the investment to take place. Smaller, more remote towns and cities will not have a lot of service providers, and it is harder to fully know the local area. Investment through locally based investors is then often a route in from outside investors. Yet interviewees commented that there was no ecosystem of local private property companies or local investors, so there was little opportunity to upscale investment in third and fourth tier clusters.

17. Relevant commentary from Thomas Pope in the Local Government Chronicle article “Gove’s levelling up difficulties are a lesson for next government”, June 2024 was that “The levelling up agenda has not been entirely unsuccessful”.

5. CHANGING INVESTOR PROFILES

“Operational efficiency is expected to be a key driver of real estate returns in this cycle, according to leading private equity firms. This trend could prompt both public and private capital to focus on funding scalable platforms, which can help unlock liquidity in smaller markets and assets. As liquidity improves, fresh indirect institutional capital could fuel further platform growth. Not an easy route for the “local” markets to attract investment but not impossible either.”

Robert Stassen, Capital Markets Analyst (independent)

6. CONCLUSIONS AND FINDINGS

Our research has found that London continues to dominate office and retail investment, dwarfing flows into other UK cities and major towns. We used a data-driven approach to categorise UK towns and cities into different types, or clusters, according to characteristics that are likely to determine their relative attractiveness for investors. Overlaying projections of future economic and demographic growth on to the clusters shows a clear typology with the typically larger and more affluent economies expected to return stronger rates of growth in the future. It should be emphasised that the clusters do not comprise a 'scale' on which specific towns can move up or down. They simply reflect the attractiveness of the towns, in their own terms, to investors in the office and retail markets.

As part of the set of interviews held with market practitioners, we asked for feedback on whether the way in which we had clustered towns was relevant to property practitioners, and whether the qualitative overlay was in fact relevant and of interest.

The feedback was supportive, although several investors felt the *Core Office* group of cities should be split into a super core group, leaving cities like Newcastle-Upon-Tyne, Liverpool, Cardiff, and Salford out of core regional office markets, and instead focusing purely on liquidity.

The feedback also confirmed that the biggest driver for most investors when considering investment is often around liquidity and market size, as they are inextricably linked, and thus also market transparency. Investors that already had their own investment strategy model to help them select the most preferred cities felt wedded to their own models. The property sector is often typified as conservative when it comes to change, and change comes gradual.

Our interviews and data analysis made clear that the largest investors were more interested in the most liquid locations with good long-term market fundamentals such as economic growth prospects, and large enough assets.

Investor demand for liquidity overrides the likely benefit of portfolio diversification offered through investment into the UK regions. The largest, most liquid cities will likely remain attractive to large institutional investors. There is no trend visible of substantial investment into the least liquid towns and cities. Continued polarisation and bifurcation of the regional office and retail investment market and by type of investor is predicted.

In addition to a range of objective and commercial factors, we also know that investor decision making is strongly influenced by behavioural characteristics such as perceptions, bias, and prejudice. Simply having a negative perception of a particular location can be enough to deter any more detailed analysis of an opportunity. By definition, these factors are not measurable in any way, but understanding them can guide local government, as the lead local agency, in seeking to improve the attractiveness of their locales.

In the absence of a structural, long-term holistic programme involving various government departments, the private sector, and local government with access to enough funding and investment, ingrained systemic inequalities cannot be solved simply by private agency. Over the last few decades, action to address regional disparities has been short term and not fully joined up. Sufficient funding has not been available, and this is likely to be the case for the foreseeable future.

6. CONCLUSIONS AND FINDINGS

Return requirements are higher in the regions due to the higher risk and illiquidity, alongside the higher cost of debt. This means there is often a search for opportunistic returns, unless investors find bond-like deals on the best buildings let on longer leases with strong covenants where there is a more modest risk premium demanded. There is interest in the other parts of the risk-return spectrum, but this came out less prominently in our interviews with market participants. LGPS funds, smaller local private investors, opportunistic private equity investors, and impact investors might play a larger role in investing in the least liquid towns. Impact investors and LTAFs might be able to play a bigger role when they grow.

Other barriers to investment into office and retail are planning, the cost of debt, insufficient levels of transport infrastructure, and low levels of tenant demand reducing rental levels, causing surplus stock. Redevelopment and change of use struggle to be viable routes for many underperforming assets.

Many investors are focusing on “the best” rather than “the rest”. Retail has already had a strong price adjustment and parts of this sector are seen as a buying opportunity. Pricing in the office sector still has further to go, in our opinion, with structural change in this sector starting only since 2020.

The first research question that this report tries to answer is what the implications are going forward, for investors as well as the retail and office markets in UK’s towns and cities. Our analysis highlights a decline in the number of large-scale, patient-capital investors, with no imminent replacement at scale visible. The third and fourth tier clusters are likely to be least invested in. Opportunistic, smaller and local players and vehicles will keep their essential role in investment into regional retail and offices.

The question of where the investment will come from to fund fresh forward-thinking investment, or extensive redevelopment remains unanswered. In due course, LTAFs and Impact Investors might have a role to play here if there is no (local) government vehicle, but they will still search out the best opportunities and are likely to be incidental in nature.

The most important question this report tried to answer is how UK towns and cities can attract capital. The answer is by offering the right characteristics, such as a large, prosperous business environment and CBD, a good catchment area with good connectivity and amenities, large lot-size assets, in a liquid, well-traded market offering an exit route. These characteristics are hard to change in the short term and can only be transformed by a multi-faceted and long-term strategic joined up approach.

In conclusion, a further polarisation of investment is likely, with money going to the most liquid cities with the best economic growth prospects and positive locational characteristics, and assets that are or can be the best in the market. Opportunities in a less-crowded market gives rise to outsized returns, but the complexities behind ingrained regional disparities and economic fortunes are difficult to unpick by real estate investors alone.

This report and its analysis make bleak reading for the towns and cities in the third and fourth clusters, or low-quality assets, with no “quick fix” available, and absent long-term strategic initiatives of real substance. We invite suggestions for strategies to attract capital for regeneration of these markets in a meaningful, structural and long-term manner, offering long-term growth.

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7.1 Local Area Cluster Analysis

Investment decisions will be driven by a range of factors, but the trends analysis highlights that some markets, such as London, attract a disproportionate amount of real estate investments. To understand how institutional investors may assess opportunities across the county, the first step is to explore how real estate investors may categorise towns and cities as future investment prospects. To do this we have established a data-based typology of major urban areas, with regard to their potential real estate investment attractiveness. Using statistically driven cluster analysis we have classified areas into one of several distinct groups.

7.1.1 Model parameters

The primary aim of this analysis is to better understand future investment decision making in UK's towns and cities. To keep the focus on significant town and city centres, the analysis has been narrowed to major built-up areas, with a population of at least 75,000 people. By excluding smaller towns, which have limited real estate investment opportunities, the risk of lots of small areas skewing results is avoided.

Data availability and compatibility are limited at a granular city level. This is especially the case when drawing data from multiple sources, covering different characteristics of a local area. To avoid these issues, and to increase the scope of data at our disposal, we mapped built-up areas over the size threshold to their corresponding local authority. This ensures greater consistency in coverage both across time and between data providers to give more coherent results. Areas in Northern Ireland were excluded for similar data reasons.

7.1.2 Modelling approach

Indicators have been drawn from a long list of candidate variables covering six key themes:

- Real estate: scale, liquidity, and quality of local market.
- Economy: structure and underlying strength of local economy.
- Human capital: skills and attributes of population.
- Quality of life: attractiveness and amenities of local area.
- Accessibility: connectivity and travelability for residents.
- Environment: natural and environmental characteristics.

Through a process of multiple model iterations, different variables, and combinations thereof were tested. This process was primarily data-driven but also included assessment of which variables were most important to capture. Modelling was structured to produce meaningful clusters in a statistically robust framework, while also covering important indicators.

Importantly, the remit of our analysis covers both retail and office real estate markets. To address differences in the nature of these two markets, separate models were built for each. Cluster results are therefore shown separately for office and retail.

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Each indicator in a clustering model is given equal weight. However, we have purposely chosen to prioritise indicators that address aspects of a town's character that are likely to matter the most to investors. Aspects of the real estate market—such as the size and quality, broader economy, scale and business population and accessibility, and local travel times—are covered in more detail due to their greater importance. There is significant overlap between the two as the underlying characteristics of a place are key to both markets. The full list of indicators included in each model are listed here.

Fig. 25. Office clustering model indicators

Indicator	Theme
GVA per capita	Economy
Economic polarity	Economy
Historic GVA growth	Economy
Business births	Economy
High-growth business population	Economy
Retail spending per capita	Economy
Household disposable income	Economy
Employment in service sectors	Economy
Employment in office-based sectors	Economy
Working age population	Human capital
Foreign-born population	Human capital
Population with degree qualifications	Human capital
Student enrolment	Human capital
Deprivation rate	Quality of life
Cultural sites per capita	Quality of life
Arts and entertainment sector scale	Quality of life
Housing costs as share of income	Quality of life
Gigabit availability	Quality of life
Visitor appeal	Quality of life
Car travel time to airport	Accessibility
Car travel time to town centre	Accessibility
Public transport time to town centre	Accessibility
Travel time to London	Accessibility
Greenhouse gas emissions per capita	Environment
Green space provision	Environment
Office market liquidity score	Real estate
Office floorspace (market size)	Real estate
High quality office space share	Real estate
Average office size	Real estate
Property default risk score	Real estate

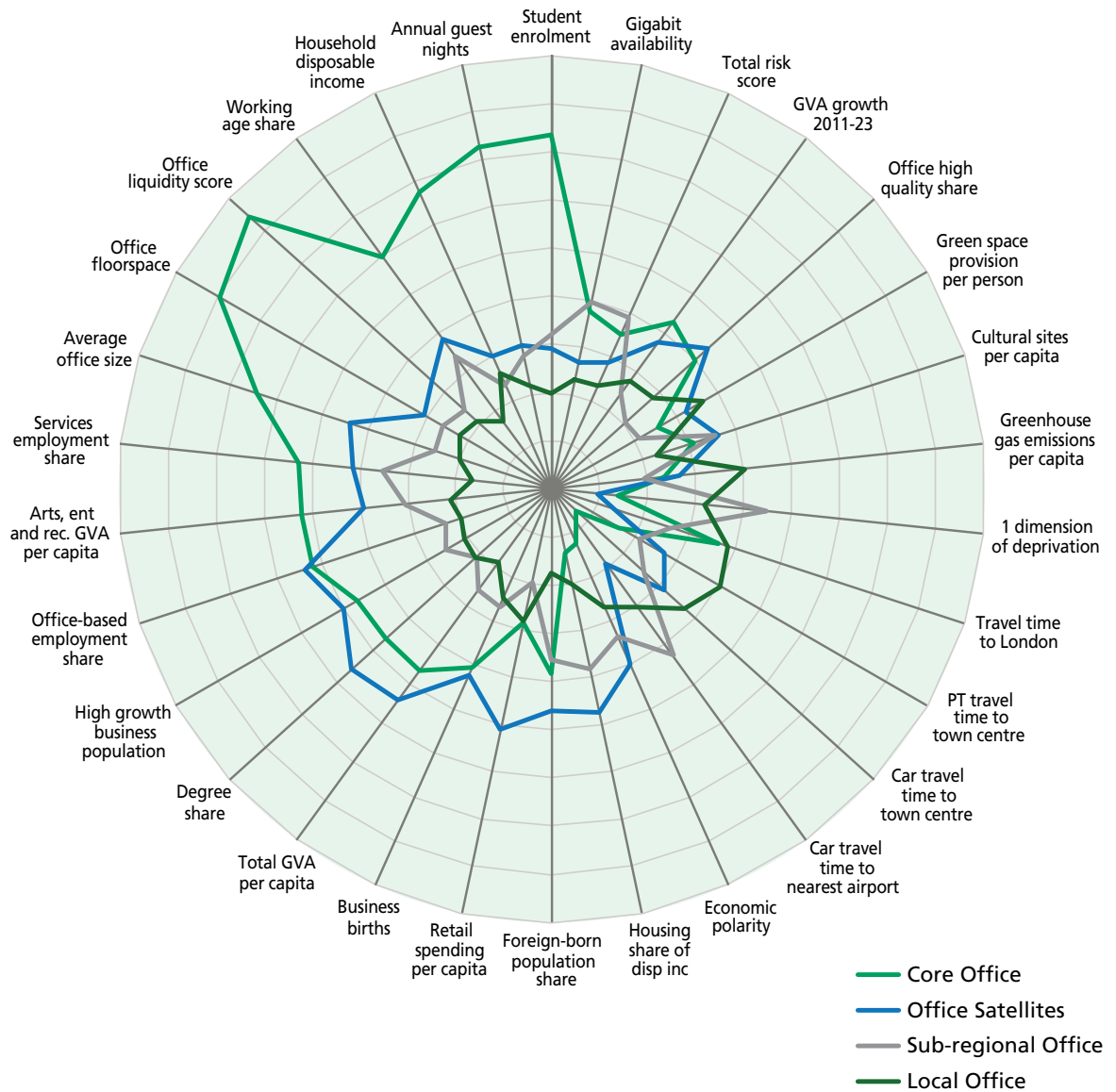
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Fig. 26. Retail clustering model indicators

Indicator	Theme
GVA per capita	Economy
Economic polarity	Economy
Historic GVA growth	Economy
Business births	Economy
High-growth business population	Economy
Retail spending per capita	Economy
Household disposable income	Economy
Employment in service sectors	Economy
Employment in wholesale and retail sectors	Economy
Working age population	Human capital
Foreign-born population	Human capital
Population with degree qualifications	Human capital
Deprivation rate	Quality of life
Cultural sites per capita	Quality of life
Arts and entertainment sector scale	Quality of life
Housing costs as share of income	Quality of life
Gigabit availability	Quality of life
Visitor appeal	Quality of life
Car travel time to airport	Accessibility
Car travel time to town centre	Accessibility
Public transport time to town centre	Accessibility
Travel time to London	Accessibility
Greenhouse gas emissions per capita	Environment
Green space provision	Environment
Retail market liquidity score	Real estate
Retail floorspace (market size)	Real estate
High quality retail space share	Real estate
Average retail unit size	Real estate
Property default risk score	Real estate

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Fig. 27. Average office cluster performance by indicator

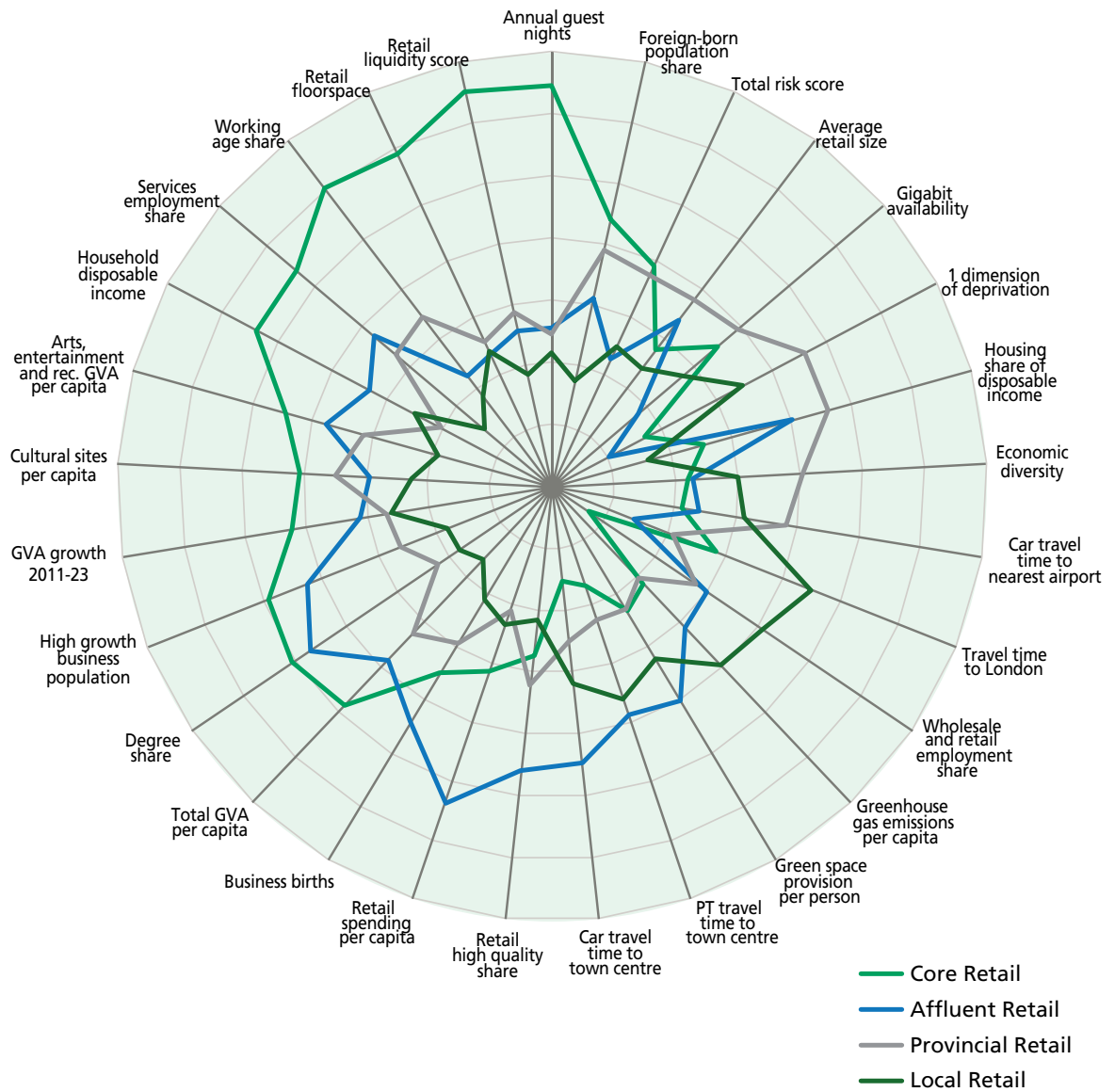


Source: Oxford Economics

The chart above indicates how each cluster scores on average for each of the indicators in the cluster model. Values are standardised to enable comparison between different indicators. Higher scores are shown as further from the centre. For example, areas in *Core Office* have a higher average liquidity score and higher student enrolment. However, they score lowest for airport travel times and economic polarity, which are positive attributes. *Office Satellites* have the highest foreign-born population share and retail spending per capita. By contrast, *Local Office* score the below average for most indicators.

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Fig. 28. Average retail cluster performance by indicator



Source: Oxford Economics

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Fig. 29. Office markets by cluster

Local Office	Sub-regional Office	Office Satellites	Core Office
Ashford	Blackpool	Aberdeen	Birmingham
Basildon	Bournemouth	Aylesbury	Bristol
Bedford	Coventry	Basingstoke	Cardiff
Blackburn	Dundee	Bath	Edinburgh
Bolton	Eastbourne	Bracknell	Glasgow
Bradford	Exeter	Brighton and Hove	Leeds
Burnley	Gloucester	Cambridge	Liverpool
Burton upon Trent	Harlow	Cheltenham	Manchester
Bury	Hastings	Crawley	Newcastle upon Tyne
Carlisle	Hull	Guildford	Salford
Chelmsford	Ipswich	Hemel Hempstead	
Chester	Leicester	Kingswood	
Chesterfield	Lincoln	Milton Keynes	
Coatbridge	Luton	Oxford	
Colchester	Medway	Reading	
Darlington	Middlesbrough	Slough	
Derby	Norwich	Solihull	
Doncaster	Nottingham	St Albans	
East Kilbride	Oldham	Warrington	
Falkirk	Peterborough	Watford	
Gateshead	Plymouth	Woking	
Grimsby	Portsmouth		
Halifax	Sandwell		
Hartlepool	Sheffield		
Huddersfield	Southampton		
Maidstone	Southend		
Newcastle-under-Lyme	Stevenage		
Newport	Stoke-on-Trent		
Northampton	Swindon		
Nuneaton	Wolverhampton		
Preston	Worcester		
Redditch	Worthing		
Rochdale	York		
Rugby			
Scunthorpe			
Sefton			
Shrewsbury			
St. Helens			
Stockport			
Stockton-on-Tees			
Sunderland			
Swansea			
Tamworth			
Telford			
Wakefield			

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Fig. 30. Retail markets by cluster

Local Retail	Provincial Retail	Affluent Retail	Core Retail
Blackburn	Aberdeen	Ashford	Birmingham
Bolton	Basildon	Aylesbury	Bournemouth
Bradford	Blackpool	Basingstoke	Brighton and Hove
Burnley	Coventry	Bath	Bristol
Burton upon Trent	Crawley	Bedford	Cambridge
Bury	Dundee	Bracknell	Cardiff
Carlisle	Eastbourne	Chelmsford	Edinburgh
Chesterfield	Exeter	Cheltenham	Glasgow
Coatbridge	Gloucester	Chester	Leeds
Darlington	Harlow	Colchester	Liverpool
Derby	Hastings	Guildford	Manchester
Doncaster	Ipswich	Hemel Hempstead	Newcastle upon Tyne
East Kilbride	Leicester	Kingswood	Nottingham
Falkirk	Lincoln	Maidstone	Oxford
Gateshead	Luton	Milton Keynes	Reading
Grimsby	Medway	Northampton	Salford
Halifax	Norwich	Solihull	Sheffield
Hartlepool	Peterborough	St Albans	York
Huddersfield	Plymouth	Warrington	
Hull	Portsmouth	Watford	
Middlesbrough	Slough	Weston-Super-Mare	
Newcastle-under-Lyme	Southampton	Woking	
Newport	Southend		
Nuneaton	Stevenage		
Oldham	Stoke-on-Trent		
Preston	Swindon		
Redditch	Wolverhampton		
Rochdale	Worcester		
Rugby	Worthing		
Sandwell			
Scunthorpe			
Sefton			
Shrewsbury			
St. Helens			
Stockport			
Stockton-on-Tees			
Sunderland			
Swansea			
Tamworth			
Telford			
Wakefield			
Wigan			

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7.2 Property Default Risk

As part of the cluster analysis, we developed a property default risk score for each area in the model. This was based upon data from Income Analytics which provided a metric for default risk for different sectors of the economy. This showed the average likelihood of a company operating in a given sector defaulting. A unique local area default risk score was calculated for each area by weighting these risk factors by the sectoral composition of the local economy. An area with a higher proportion of economic activity in sectors more exposed to default risk would therefore be given a higher property default risk score.

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