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Overseas Investors Expand Their Share as UK Commercial Real Estate Value Falls Below £1 Trillion

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The UK commercial real estate market has experienced a notable contraction in recent years, with its total value declining from £1.114 trillion in 2020 to £949 billion at the close of 2023, according to the Investment Property Forum's (IPF) latest Size & Structure of the UK Property Market report. Despite this downturn in commercial property, the overall UK real estate market remains robust, with combined residential and commercial property valued at approximately £9.3 trillion.

The report, produced by the Cambridge Real Estate Centre, highlights significant sectoral shifts and evolving ownership patterns. The retail sector has shown the weakest growth over the past two decades, just 14%, lagging behind general inflation. Office values increased by 55%, but when adjusted for inflation, they have effectively declined in real terms. In contrast, the industrial and logistics sector has exhibited remarkable growth of 157%, underscoring its pivotal role amid expanding e-commerce and supply chain demands. Other commercial properties, such as hotels and leisure assets, have more than doubled in value over the same period.

A central finding of the report is the growing prominence of overseas investors in UK commercial real estate. Foreign ownership has surged from 14% in 2003 to 40% in 2023. This increase is broadly based, encompassing sovereign wealth funds from Norway, Singapore, China, Kuwait, and Qatar, alongside international private equity funds and real estate investment trusts (REITs). Collectively, overseas investors hold an estimated £64 billion in UK commercial property.

While London offices dominated overseas investment during the 2010s, recent years have seen a diversification across sectors and regions. Notably, residential assets, including build-to-rent and student accommodation, and industrial properties outside London have attracted significant international capital. Several of the City of London's skyscrapers are now owned by overseas-listed companies, which are also expanding investments into healthcare, data centers, and alternative sectors.

Conversely, UK institutional investors have reduced their direct exposure to commercial property. Insurance companies' ownership has declined from 20% in 2003 to 6% in 2023, and defined benefit pension funds have curtailed direct investments from £43 billion to £32 billion over the last three years. Nevertheless, UK institutions continue to play a critical role through indirect investment vehicles and lending, with commercial real estate financing exceeding £140 billion.

Institutional investment in residential property is steadily increasing, now accounting for approximately 16% of the combined invested stock. This growth is supported by expanding build-to-rent schemes and student housing, responding to evolving demographic and housing market dynamics.

As the UK commercial real estate market adapts to higher interest rates and changing investor preferences, the increasing role of overseas capital and sectoral realignment signal

a transformative phase. The IPF report offers valuable insights for investors, policymakers, and industry stakeholders navigating this evolving landscape.